

LOCAL ECONOMIC DEVELOPMENT IN CUENCA AND AMBATO

(TC-98-04-46)

EXECUTIVE SUMMARY

EXECUTING AGENCIES: ACUDIR and CORPOAMBATO

PROJECT NUMBER: TC-98-04-46

FINANCING:

Grant (III A)	
MIF:	US\$1,940,000
Local counterpart:	US\$1,060,000
Total:	US\$3,000,000

TERMS: The scheduled period for project execution is four years and the term for disbursement is four years and ten months.

OBJECTIVES: Decentralization is not limited to reallocating more resources to subnational levels and to transferring some responsibilities to the municipalities. Although such a transfer reinforces the traditional functions of local governments as suppliers of public services, decentralization also means that these local authorities will assume a leadership role in creating conditions conducive to developing local economies and to bringing low-income groups into this process.

Against this background, the purpose of the project is to establish new management practices in local government based on coordinated public and private efforts to foster economic development, in Cuenca and Ambato, by formally establishing this relationship and strengthening the position of semi-public corporations. The specific objectives of the project components are as follows: (i) to improve the capacity for coordinated strategic planning between the public sector and other social agents, by strengthening the ACUDIR and CORPOAMBATO Corporations; (ii) to build the foundations for a local economic information system; (iii) to train human resources, and help adapt the supply of training to the demands, of production; and (iv) to support the municipal modernization process and the private sector's participation in managing certain services.

DESCRIPTION:

The local development experience in Ambato and Cuenca may be strengthened by enhancing management capacity for specific local development projects, and by implementing certain specific initiatives. To this end, the project will be carried out in two phases: an initial phase of institutional strengthening, analysis and more detailed technical definition of the components; and a second phase to implement these components, which will be done only when the first phase has been satisfactorily completed.

1. **Strengthening of the local development corporations ACUDIR and CORPOAMBATO (US\$558,700).** The project provides for (i) training the team in charge of managing these corporations, including the transfer of practical experience; and (ii) implementing a strategic planning process. During the first 18 months of project execution, consultants will also provide initial support to the two corporations with a view to ensuring appropriate strengthening and facilitating proper execution of the activities.
2. **Local development information system (US\$418,100).** The project provides for implementation of a local information network consisting of various local entities, that can be linked up to data bases of interest to businesses in the country and overseas, and for standardize and improve the quality of local economic information. This system is oriented toward certain products: (i) information on small business development; (ii) economic and land-use information for local government; (iii) online links to various entities providing business services and training; (iv) preparing information to promote the region's image. A Web page will also be created for the information system to identify the area and facilitate user access to the information.
3. **Human resources training (US\$720,640).** This component breaks down into two subcomponents: (i) human resources development for the private sector, and (ii) municipal management training. In the business management component, the project will finance a needs diagnostic to identify actual training demand and the existing gap in the supply of these services under the project, will increase in the quantity of training directed toward three levels within companies (business owners, middle management and workers)

and will finance the following: (i) the development of new professional training plans, (ii) training of trainers, and (iii) the development of new course material. The municipal management training component will allocate resources to increasing the supply of training in local public management.

4. **Municipal modernization** (US\$734,000). This component will support the process of municipal modernization, addressing two aspects: reform of certain municipal management practices, and implementation of a process to have the private sector share in the management and improvement of certain municipal services. The project provides for advisory services to municipalities to improve their efficiency in municipal management, emphasizing factors that affect production and small company development. As part of the support for incorporating the private sector into the management of municipal services, the project will support the technical study and identify management alternatives for certain services (particularly the slaughterhouse, terminal and cemetery, in Cuenca, and the slaughterhouse, wholesale market and public parking in Ambato), as well as any specific actions of a regulatory nature linked to these services and/or involving human resources training, and increase community awareness. The corporations must include a mechanism in the bid process to allow them to at least partially recover other costs incurred in preparing the bids. In this way, the study and preparation of new concessions may be financed.

**RISKS AND
BENEFITS:**

The project benefits result from the private sector's participation in certain services, the modernization of municipal management and the introduction of sufficient regulation to improve the efficiency and quality of service. The project will also provide for the creation of a data base that will be useful to both the business sector and the municipality. The change in the local government culture resulting from incorporating the private sector in decision-making and implementing specific economic development projects set the stage for this joint work to be maintained over time and to be broadened to other more complex initiatives.

The project risks result from (i) the difficulty of maintaining public-private cooperation in local development initiatives; and (ii) the capacity for

proper implementation of the project. Any attempt to politicize these corporations would be the fastest way for them to fail. Hence, the project's emphasis on training human capital for which the local development corporations are responsible, and emphasizing its essentially technical nature and support for suitable management systems and linking project execution to satisfactory completion of phase one of the agency strengthening. Another significant risk of these initiatives is that they may exclude most of the existing fabric of microenterprises and small businesses at the local level. To this end, the corporations' technical team must engage in promotional activities and encourage inter-agency relations.

**SPECIAL
CONDITIONS:**

Prior to the first disbursement, it will be necessary (i) to select managers, technical staff and administrative personnel for the two corporations, to the Bank's satisfaction and (ii) to have identified sufficient physical sites.

Partial eligibility is anticipated for engaging the firm responsible for pre-selecting the technical personnel and for the first three months of the consulting services to support the corporations, for a total of US\$35,000.

Six months after the first disbursement, the following must be completed, to the Bank's satisfaction: (i) the final evaluation methodology for the first phase; and (ii) a specific regulation for executing the municipal modernization component.

Disbursements subsequent to the first phase will be subject to completion of the following: (i) fulfillment of the goals defined for the first phase, to be evaluated by an outside consultant engaged in cooperation with the MIF, and (ii) submission of an annual plan of activities, with the corresponding budget and a tentative timetable, to be approved by the Bank. The agreement between the municipality and the corporation approved by the Bank is a condition precedent to disbursement for component 4 (private sector participation in municipal services management).

I. BACKGROUND

A. Project eligibility criteria

- 1.1 Ecuador was declared eligible for all MIF facilities on September 7, 1994. The project is eligible insofar as it supports the creation of an environment conducive to the development of the private sector, particularly small companies, and facilitates new investments in production.

B. Reference framework

- 1.2 The development of decentralization in Ecuador, in large part supported by the Bank, and backed by the Law for the Distribution of 15% of the Central Budget to sector governments (March 1997) and by the Special State Decentralization and Social Participation Law (August 1997), gives municipal governments a more prominent role than in the past.
- 1.3 However, decentralization cannot be limited to transferring more resources to the sub-national level and certain responsibilities to the municipalities. Although such a transfer strengthens the traditional function of local governments as suppliers of public services, decentralization also implies that they will assume a leadership role in creating conditions favorable to local economic development and to their integration with marginal economic sectors.

C. Justification

- 1.4 International local development experience shows that some of the factors that contribute to the success of local government activities are:
 - a. The actual creation of a social consensus on a local development strategy, which requires the dissemination of information and participative strategic planning.
 - b. A collaborative relationship between the public and private sectors, in which the latter participates in managing and developing certain functions that have been traditionally public;
 - c. Human resources development and, to this end, an effective relationship between the supply of and demand for training;
- 1.5 The project represents a pilot initiative for supporting local development in two cities in Ecuador, Cuenca and Ambato. Both cities are a center for a significant proportion of small and mid-

sized industries in Ecuador 1/ and show favorable conditions for achieving success in local economic development initiatives. Specifically, both areas have a dynamic business class, municipal authorities committed to furthering decentralization, universities and training entities sensitive to local business development, and a financial system interested in assuming a role in local development. It is useful to note the high level of leadership taken on by the mayors who, supported by the city councils, have been making a significant effort to modernize management and improve public services, establishing a more business-like and less political operation. Lastly, the two cities are strategically important centers, but have different socioeconomic characteristics, thus diversifying the experiences, and making it easier to replicate the project 2/.

- 1.6 Project was prepared on the basis of various meetings that concluded with a logical framework workshop in each city, which included active participation by the leaders of local entities, private sector organizations, the municipality, universities and some financial institutions. As a result of this work it was possible: (i) to determine the level of institutional commitment; (ii) identify the strengths and weaknesses in each local and regional situation; (iii) analyze and reach agreement on priority initiatives for the project; and (iv) strengthen the collaborative process between the various local institutions which, as a result of the project preparation stage, founded the local development corporations CORPOAMBATO and ACUDIR in Ambato and Cuenca, respectively.
- 1.7 Nevertheless, certain limitations continue to exist (diagnostic assessment, Annex III, available in the technical files). The most important institutions in civil society have shortcomings that are reflected, for example, in operational weaknesses within the municipalities and in the difficulties faced by the business

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- 1/ Small companies (10-99 employees) in the Azuay, Cuenca region represent some 15% of the country's total, and in the Tungurahua region, 7%; in addition, the two regions are characterized by a broad handicrafts and microenterprise sector, overlooked in the official statistics.
 - 2/ Cuenca is an industrial and handicrafts center, with significant tourism and a well-known level of tradition and cultural development. Ambato is the country's largest agricultural center; every week it receives an itinerant population that almost doubles the city's own, causing serious problems for municipal management. Cuenca is the capital of Azuay Province, with a current population of 403,000, making it the third-largest city in Ecuador. Sixty-three percent of the population lives in the urban center. Ambato, the provincial capital of Tungurahua, in Ecuador's central Andean zone, has a population of over 272,000, 59% of which are in the urban center (Annex III).

chambers in defining an action strategy. In addition, decision-making with respect to both municipal management and production development suffers from the lack of an information system capable of identifying development capacity and opportunities at the local and provincial levels 3/. Third, there is a lack of qualified human resources, particularly in the management area.

- 1.8 The more dynamic an open market is, the more demands for training it generates, and training entities must overcome the traditional gap between the supply of general training unrelated to the logic of local development, and the demands of the business sector 4/. The process of private sector participation in the management of municipal services is embryonic and is still expressed in a political will.
- 1.9 The project intends to hold a pilot event to promote local development by introducing some new factors into decentralization support activities: participation by primary social agents in the process of defining local development strategy, institutionalization of dialogue between the public and private sectors, and inclusion of tasks involving the promotion of production and business development in the new municipal agenda.

D. Executing agencies

- 1.10 The executing institutions for the Agencia Cuenkana de Desarrollo e Integración Regional (ACUDIR) and the Corporación Civil CORPOAMBATO, entities of an efficient size that serve as intermediaries in promoting local development initiatives. Although the two companies were only recently created, the partners are companies with proven track records and the project will support their operating capacity. The two companies are now headed by the mayors of their respective cities, and managed by a board whose members are the participating entities (see paragraphs 2.4 to 2.6 and 4.4).
- 1.11 ACUDIR is a non-profit corporation established under private-law, that was created by various entities including the Chamber of Industries, the Cuenca Chamber of Commerce, the Municipality, the local financial sector and the universities of Cuenca, Azuay and the Salesian Polytechnic School, among others, with a view to

3/ The lack of information is such that land-use and urban development plans tend to be reviewed by the municipal entities in a great deal of ignorance as to existing business plans in the business sector.

4/ "Trainers, isolated in their schools, have an imperfect notion of the needs of companies. Working together, training entities and companies may use their comparative advantages to develop a good training system." Claudio de Moura Castro, Training Strategies for IDB, October 4, 1998, IDB, page 10.

promoting the economic and social development of the Canton of Cuenca, the Province of Azuay and southern Ecuador.

- 1.12 CORPOAMBATO is also a nonprofit entity, the result of an agreement with the municipality, the Chamber of Industry of Tungurahua, the Chamber of Commerce of Ambato, Catholic University of Ecuador (main Ambato campus), the Technical University of Ambato, and a representative from the local financial sector, with a view to promoting local and provincial economic development.

E. Consistency with the Bank's program

- 1.13 Among other programs, the IDB has financed the Municipal Development Lending Program (596/OC, 597/OC and 843/SF-EC) executed by Banco del Estado and it has approved technical corporation funding to assist with the development of a sustained public transit system in the city of Cuenca (ATN/JC-6364-EC). At the present time, the second stage of a municipal development credit program is being prepared, and funds are being allocated for concessions of municipal services to the private sector. In addition, the MIF program of services for microenterprise (ATN/ME-5612-EC) executed by the CFN is in progress. Also, there have also been contacts with other entities, particularly the World Bank, which is financing some concessions in other small municipalities in the country. This project falls within this context and, in promoting private sector participation in the management of some municipal services and heightening public awareness, will help create favorable conditions and a consensus for more complex privatization processes, such as those for infrastructure, water etc. This project may also provide useful information for a possible extension to other cities through the Bank's programs.

II. THE PROJECT

A. Objectives

- 2.1 The purpose of the project is to establish new management practices in local government based on public-private cooperation for local economic development, in Cuenca and Ambato, by formally establishing these relationships and strengthening the position of semi-public corporations.
- 2.2 In order to achieve this general objective, the following specific objectives have been established for the various project components:
 - a. To improve the capacity for cooperative strategic planning between the public sector and other social agents, by

strengthening ACUDIR and CORPOAMBATO. It is assumed that by the end of the project these corporations will be fully established, with leadership and operating capacity.

- b. To lay the foundations for a local economic data base system. The project will provide an effective channel for presenting and marketing the advantages of the city and the region, as well as the necessary data and information for facilitating decision-making by the municipality and the business sector.
- c. To train human resources, permitting the supply of training to be adapted to demand in the production sector. This will afford greater flexibility to the technical and professional training system, and establish specific products for the needs of the production system and small companies.
- d. To support the municipal modernization process and private sector participation in managing certain services. The project will extend the management of at least three services in each city to the private sector, and carry out specific reforms in the administrative system, particularly in streamlining procedures.

B. Project description

- 2.3 The project will provide support for two semi-public enterprises, ACUDIR in Cuenca and CORPOAMBATO in Ambato, as vehicles for establishing a strategy and promoting local development, thereby furthering a form of municipal government based on consensus and participation by social agents in the initiatives to be carried out. This plan will be strengthened by creating capacity to manage specific local development projects, and by performing certain specific initiatives. These companies are nonexclusive entities, with an organizational structure that can take in new companies and representatives of civil society, and they need to be proactive and to expand their consensual base. To this end, the project will be carried out in two phases: an initial phase of institutional strengthening, analysis and more detailed technical definition of the activities planned for other project components as well as a definition of a specific plan for executing it; and a second phase involving implementation of these aspects, which will be executed only when the first phase has been satisfactorily completed (for further details see Annex VIII in the project technical files).

- 1. Strengthening of the local development corporations ACUDIR and CORPOAMBATO

- 2.4 The project provides for (i) training for the technical team responsible for managing these corporations, including the transfer of practical experience; and (ii) implementing a strategic planning process.

- 2.5 Technical personnel will be trained by specialized consultants and/or leaders with similar experience, through internships in locations that have successfully experienced coordinated local development, both domestically and in the region, and/or the establishment of formal sister relations with these experiences. Technical assistance is also planned for the process of participative strategic planning at the local and regional levels, thereby increasing the inter-agency coordination of the various national levels of government and contributions by local participants. The corporations will receive administrative support for the bidding process and contracting of goods and services.
- 2.6 During the first 18 months of execution, a consultant will provide initial support to the two corporations with a view to ensuring their adequate strengthening and facilitating proper execution of the operation. This consultant will also coordinate the training of corporation personnel.

2. Local development information system

- 2.7 Through cooperation between public and private participants, the project will establish a local information network consisting of various local entities, that can be linked to data bases of interest to businesses in the country and overseas, and standardize and improve local economic information.
- 2.8 This information system is oriented toward providing some of the following products, depending upon the needs and priorities of each community: (i) improving the services available to local or regional companies in terms of information relevant to their development and supporting subcontracting and business collaboration (markets, regional supply, public procurement, etc.); (ii) offering local governments economic and land-use information (distribution of production, population, natural resources, production expansion plans); (iii) linking online to the various entities involved in providing business and training services, offering small companies access to these services; 5/ (iv) preparing information to promote the region's image to attract tourism and investors. The information system in any case will create a Web page that identifies the territory and facilitates user access to information, allowing queries to be redirected to the various points of the network, as a function of the demand for information. The Web site will also include all relevant

5/ These services will include an open register for training institutions which must be updated semi-annually with information on courses offered, their schedule, and service location. This record will serve as the basis for extending invitations to supply strengthening workshops and bids to obtain resources for training educators and improving curricula, among others.

information on the activities carried out by each corporation and the proposed plans and projects.

- 2.9 The corporations will be responsible for maintaining this information network. However, the technical consultant will allow for the transfer of knowledge and experiences with respect to the design of the information system, the linking of the various entities comprising the network, product design and easy user access. As the demand for information by the business sectors and the public grows, the corporations with advisory support will set prices for specialized information products offered, to make this system financially sustainable over the medium term.

3. Human resources training

- 2.10 This component breaks down into two subcomponents: (a) human resources development for the private sector, and (b) municipal management training.
- 2.11 The business management component will finance a needs diagnostic in each community to identify actual training demand in the primary production sectors (which should have been identified by both corporations during the initial phase through the strategic planning process; see paragraph 2.5) as well as the existing gap in the supply of these services. As a result of such diagnostics, it will be possible to define not only short term needs but medium- and long-term ones as well, based on the existing potential in the local economy.
- 2.12 The process of identifying demand and analyzing supply must be carried out in close coordination with the business associations, as well as the participation of training entities. To shepherd this process along, a subcommittee will be set up within each corporation, responsible for advising the consulting firm or firms that will be engaged to perform the diagnostics. As a final activity, a workshop involving these entities must be held for submission of the final report and the results of the diagnostics.
- 2.13 Based on the final diagnostic report and in response to short-term needs, the corporations will have resources for training assistance which will be available to the training institutions identified during the diagnostic process and which are registered (paragraph 2.8(5)). These entities will be able to access such resources upon submission of proposals to increase the supply of training. The following criteria will be used in awarding the funding: (i) short-term impact (potential demand, effects on regional development), (ii) available counterpart funds, (iii) the existence of technical advisory agreements between the supply institutions and the business chamber or municipalities, and (iv) the institution's experience and execution capacity. The proposals, which may be directed to the three levels within the company (senior management, middle management and staff) may have

the following objectives: (i) the development of new professional training plans, (ii) training of trainers, and (iii) the development of new course material.

- 2.14 In the municipal management training component, the project will allocate resources to increasing the supply of local public management training, which will take place through the temporary engagement of expert consultants charged with training of trainers.

4. Municipal modernization

- 2.15 This component will support the process of municipal modernization, addressing two aspects: reform of certain municipal management practices, and implementation of a process to have the private sector share in the management and improvement of certain municipal services.
- 2.16 The project will provide advisory services to the municipalities to improve the efficiency of municipal management, emphasizing the factors that affect production and small business development: administrative reform and streamlining of procedures, environmental management and land-use regulation. In order to better identify bottlenecks, the corporations will encourage specific workshops to be held involving the public and private sectors.
- 2.17 Private participation in the management of municipal services, especially in small municipalities, is new in the region, although there have been interesting experiences in Colombia and Chile, as well as other countries. The project is intended to introduce this form of organization into services where, because of limited business volume, the same community or local companies can assume leadership. This process will facilitate long-term relations between the private sector and a municipality, and a greater willingness on the part of the community to accept structural changes in the management of broad-based services, such as water, electricity, etc. The project is thereby linked to other initiatives and lines of financing from the IDB or other entities that support granting concessions for municipal public services to the private sector. In addition, these will be sources of financing for operations carried out under this project.
- 2.18 In designing the operation, some of the services considered appropriate for private sector involvement were analyzed and prioritized jointly with public and local private sector entities: the slaughterhouse, the terminal central office, and the cemetery, in Cuenca, and the slaughterhouse, wholesale market and public

parking in Ambato 6/ (see Annex VI in technical files). Nevertheless, the corporations will re-examine these priorities and/or expand them to include other appropriate services to be managed by small companies, such as billing, health services, and education. In each case the most appropriate forms of private sector participation must also be evaluated, such as the type of relationship - concession, lease, management contract; the type of company - private, mixed, community - organized either as cooperatives or in similar groupings or consortiums of small companies 7/.

- 2.19 The project will support the technical study and identification of management alternatives for certain services, the identification of any specific actions of a regulatory nature linked to these services and/or human resources training, and the heightening of community awareness. To this end, a consultant will be engaged in each city, to monitor the corporations in the process of selecting and contracting the private agents. In order to increase the participation of the private sector and to enrich outside outputs to each project, a workshop will be held in each city, with potential candidates interested in managing these municipal services. The consultant must also identify any shortcomings in the regulatory framework and training needs which may result from this process. The corporations will be supported in the organization of activities to further community participation in this process, such as holding a specific workshop on the periodic disclosure of information. This aspect may become a factor in determining the success or failure of the entire process 8/.
- 2.20 Corporations must include a mechanism in their bids that will permit at least partial recovery of the costs incurred. This will cover the financing of the study and the preparation of new concessions (Operating Guidelines, Annex IV).

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- 6/ In prioritizing these services, the following was taken into consideration: the firm decision by the municipality to bring the private sector into the management of certain services and the impact on development; the impact on public health; attractiveness to the private sector; and the ease of rapid conversion.
- 7/ For example, one might consider the case of terminals, the contracting of trash pickup services and façade maintenance as falling into this category.
- 8/ Raising the community's awareness on the issue of fees is a task that must be carried out by local institutions, particularly those represented in the corporations. Nevertheless, it is necessary to consider that only through a substantial improvement in services will it be possible to apply any real increase in fees.

III. COST AND FINANCING

- 3.1 The project will receive financing of US\$1,940,000 from the MIF and counterpart financing equivalent to US\$1,040,000; the funds are budgeted equally for Cuenca and Ambato. The justification for allocating the resources through the MIF window is outlined in Annex II. Execution of the first phase will require additional financing of US\$324,000 (US\$260,000 from the MIF) for each corporation.

Project budget (U.S. dollars)

	Small business s	Human resour.	Tech. assist.	Total MIF	Counter- part	Total
Management and overhead	43,890			43,890	318,800	362,690
Components				1,734,240	697,200	2,431,440
1. Institutional strengthening	421,650			421,650	137,050	558,700
2. Information system	280,230			280,230	137,870	418,100
3. Training		540,360		540,360	180,280	720,640
4. Municipal modernization			492,000	492,000	242,000	734,000
Audits and evaluations	96,000			96,000	24,000	120,000
Contingencies	65,870			65,870	20,000	85,870
Total	907,640	540,360	492,000	1,940,000	1,060,000	3,000,000

- 3.2 The MIF funds will be used to cover: (i) specialized consulting support for implementing the various project components; (ii) a portion of the management costs; (iii) the local consulting firm for the project and, partial cost, on a declining basis, of the manager and technical personnel of the corporations, such that upon completion of project execution these expenses are covered by the promoting entities; and (iv) project evaluation.
- 3.3 The counterpart funds will finance the following: (i) on an increasing basis, the costs of the corporations' managers and technical personnel; (ii) most administrative expenses; (iii) a large part of the corporations' equipment expenses; (iv) a portion of the consulting costs for the project components; and (v) audits (for details of the budget, see Annex VII in the technical files).
- 3.4 **Financial sustainability.** Generating relations of trust between the various local participants, and ongoing public-private cooperation, are essential for creating an institutional structure

for the local development corporations. Given the intangible nature of most of the intermediation services provided by these corporations, it is unreasonable to assume that providing the services will make them fully sustainable financially. Although some revenue may be received (information or other business services, paragraph 2.9) or expenses reimbursed (concessions), it falls to the municipalities, business chambers and local financial sector to maintain the operations of these entities in the medium and long run. Specifically the municipality, as it makes headway in the process of granting concessions to the private sector, may be able to free up funding for strengthening new economic development functions.

IV. PROJECT EXECUTION

A. Responsibilities

- 4.1 The project will be executed by the nonprofit entities CORPOAMBATO and ACUDIR, in Ambato and Cuenca respectively. To this end, equivalent contracts will be signed with both entities. Project execution is expected to take four years.
- 4.2 Under the plan, each corporation will have a technical team comprising a manager and two technicians, in addition to sufficient logistical and administrative support. Each manager will report to the board of directors of the corporation and will be responsible for the operational aspects of promotion, administration and execution of project activities. The two technicians will provide operational support to the manager, one of them being dedicated primarily to the training component, and the other to information.

B. Special aspects

- 4.3 For purposes of engaging the consultants to provide initial support for the establishment of the corporations, they will delegate to the Bank the task of carrying out an appropriate selection process. However, they will be responsible for this process and take part in it.
- 4.4 Given the innovative nature of the project and the need to adapt its execution to the rhythm of each local development initiative, it is suggested that an initial pre-operational phase be introduced, with a view to guaranteeing the conditions of public-private cooperation by the local actors, which are of fundamental importance for the success of the local development initiatives. The project's first phase, which will last approximately 12 months after the first disbursement, must ensure the complete establishment and strengthening of the corporations, significant progress in the design and specific definition of the other

components, and a definition of the work plan for the following three years (for timetable of the initial phase, see Annex VIII in technical files). The corporations must also demonstrate their actual operating capacity, through efficient organization and smooth relations between the various parties, and have adopted criteria and manuals for contracting goods and services, in accordance with the Bank's standard procedures or such others as are agreed on with the Bank.

- 4.5 Commencing in the second year, based on the results of the evaluations and the activity reports, the allocation of funds between the various activities may vary from the initial schedule, with the exception of operating costs for the corporations; the adjustment, however, may not exceed 10% of the amount originally established in the project. Training institutes that are members of the corporation will not be permitted to take part in the process of selecting proposals for improving the training supply.
- 4.6 The plan provides that the corporations be reimbursed for the cost of preparing the concessions based on their success. The funds thus acquired may be used for new operations involving other municipal services.
- 4.7 With respect to environmental sustainability, the integration of the private sector into the management of public services will take into consideration improvement in the areas of the environment, public health and human resources. Also, the introduction of the practice of strategic planning will include the sustainable development dimension and must be expanded to allow the participation of other social sectors.

C. Procurement of goods and services

- 4.8 In accordance with Bank policy, equipment and services may only be procured in MIF-eligible countries. Initially, the Bank's procedures for selecting consultants will be adopted, although they may be changed, with the Bank's consent, with a view to adapting them to the requirements of execution, given the public-private nature of the corporations. In addition, for purposes of contracting domestic consulting support, the corporation managers and technicians, a technical consultant will be engaged and a special procedure used for interviews and for evaluating candidate proposals (as described in Annex IV in the technical files).

D. Status of preparedness and disbursement conditions

- 4.9 During the analysis, the components of the evaluation methodologies and the Operating Regulations were agreed on, the bylaws of the two corporations approved, and a commitment received from the founding institutions of the corporations to finance the project counterpart funds and the operation of the corporations when the MIF support has ended.

- 4.10 Prior to the first disbursement, the corporation will be required: (i) to select, to the Bank's satisfaction, the corporation managers and technicians, and administrative personnel; (ii) to identify adequate physical sites. However, partial eligibility is anticipated for engaging the company responsible for preselecting the technical personnel and for the first three months of the consulting support to the corporations, for a total of US\$35,000. Six months after the first disbursement, the following must be completed to the Banks's satisfaction: (i) the final methodology for evaluation of the first phase; (ii) a specific regulation for execution of the concessions or other contracts with the private sector, which will include the necessary agreements between the corporations and municipalities and the effective implementation of adequate regulations prior to the letting of contracts for the management of any municipal service. The agreement between the municipality and the corporation, approved by the Bank, is a condition precedent to disbursement of the component for private sector participation in municipal services management.
- 4.11 Disbursements after the first phase will be subject to the following conditions: (i) fulfillment of the goals defined for the first phase, to be evaluated by an outside consultant hired by the Bank in conjunction with the MIF; and (ii) the submission of an annual work plan, with the corresponding budget and tentative timetable for approval by the Bank.

V. MONITORING AND EVALUATION

- 5.1 The executing entities must submit semi-annual progress reports on the project activities, which will take into consideration the results of the various components and their contribution to fulfilling the objectives. Along with these reports, the executing agencies must submit to the Bank information on the environmental impact of the activities promoted by the project and progress achieved in reducing degradation of the local environment.
- 5.2 Given the innovative nature of the project, it is suggested that various outside evaluations be performed with a view to supporting the executing agencies in strengthening and ensuring the execution of the project, and collecting useful information for the design of new and similar operations. The evaluations will be contracted by the Bank, with support from the project team.
- 5.3 An initial evaluation will be carried out upon completion of the first phase of execution, to take place 12 months after the first disbursement. This first evaluation must concentrate on confirming the existence of the operating conditions for execution of the planned components, including the capacity of the corporation to take on the financial commitments for the project. This evaluation

will not necessarily be carried out simultaneously in Cuenca and Ambato, as one of them may request it before the other. After a favorable evaluation of this initial phase, the project will include three evaluations, to be carried out 12 and 24 months after completion of phase one and upon completion of the project.

- 5.4 The evaluations will take into consideration the following: (i) the functioning of the local development corporations and the services they provide; (ii) the results of the various project components; (iii) the extent to which the indicated objectives have been accomplished, and (iv) the degree of financial sustainability achieved. Criteria will also be used to evaluate the efficiency and effectiveness of the activities carried out.

VI. FEASIBILITY, BENEFITS AND RISKS

- 6.1 The creation of the local development corporations as a result of public-private cooperation by local participants will ensure project feasibility, through a practical and non-political operation of such corporations, which must coordinate and introduce a strategic vision into the business and municipal development programs and projects. The change of culture in local government as a result of incorporating the private sector into the decision-making process, and the implementation of specific economic development projects serves as a basis for sustaining this joint effort over time, and for broadening it to include new, more complex initiatives. In line with this objective, one might cite initiatives that are beginning to be undertaken through the restoration of the historic center of Cuenca and the border development initiative with Peru, both of which are under study by the Bank.
- 6.2 The project benefits are based on the participation of the private sector in certain services, the modernization of municipal management and the introduction of appropriate regulations to improve the efficiency and quality of these services, and help reduce the municipal fiscal deficit. In addition, the project will allow a data base to be created, for the business sector and the municipality. There will also be a supply of training that is better matched to the requirements of demand, and flexible enough to keep adapting to the needs of the market.
- 6.3 The project risks result from (i) the difficulty of maintaining public-private cooperation in local development initiatives, and (ii) the capacity to carry out the project properly. Any attempt to politicize these corporations would be the fastest way for them to fail. Hence the project's focus on training the human capital for which the local development corporations are responsible, emphasizing its essentially technical nature and on approving the

introduction of proper management systems and predicated project execution on satisfactory completion of an initial institutional strengthening phase. In addition, while execution of the project will yield specific benefits to the public and private sectors, it will be easier to maintain the operational nature and technical coordination of the corporations.

- 6.4 Another significant risk associated with these initiatives is that they exclude most of the existing fabric of microenterprises and small businesses at the local level, and their effect will be limited to the most dynamic and highly organized companies. To this end, the project will train the corporations' technical teams to engage in promotional activities and encourage inter-agency relations.

LOGICAL FRAMEWORK

PROJECT: LOCAL DEVELOPMENT AND SUPPORT FOR BUSINESS INITIATIVES

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
public-private cooperation for development in the cities of Ambato, through the corporations ACUDIR and CO.	ACUDIR and CORPOAMBATO development corporations working effectively in each city based on the cooperation of local participants.	<ul style="list-style-type: none"> – Evaluation reports – Final project report 	<ul style="list-style-type: none"> – Domestic political environment decentralization – Local political will to maintain private cooperation
to local business development, management practices in management based on public-private cooperation and modernization of municipal services and increasing the supply of services for all companies.	<ul style="list-style-type: none"> – Preparation and implementation of the participative strategic plan to expand cooperation among local participants. – Inter-agency coordination between various departmental levels of public administration – Information system in operation, which contributes to business development and to local strategic and operational planning. Web page created with information technology, business services, local fairs, etc. – Performance of training activities that meet the real demands of the local and regional business sector – Simplified and more efficient administrative processing among municipal services – Participation by the private sector in public services, through concessions, privatization or semi-public companies. 	<ul style="list-style-type: none"> – Strategic planning document and progress reports on its application – Number of institutions forming part of the local development corporations – Joint agreements and actions – Reports and evaluations of services provided. – Evaluation of training activities carried out and their impact – Evaluation reports – Contracts 	<ul style="list-style-type: none"> – Local political will to maintain private cooperation – Effective contributions by the private entities of ACUDIR and CORPO – Universities and training entities out the project activities – Legal regulations at the national and municipal levels to facilitate the private participation in public services

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>g of the local development of Cuenca and Ambato, CORPOAMBATO.</p> <p>system for local economic</p> <p>demand and supply of human training for business and improved municipal</p>	<p>1. — 1 Evaluation of consulting support</p> <p>— 2 courses/advisory services for personnel training for the corporations</p> <p>— 6 advisory assistance services for progress of the corporations</p> <p>— 2 strategic planning advisory assistance</p> <p>— 8 pre-feasibility studies of corporation issues</p> <p>2. — Information system implemented and functioning</p> <p>— 2 design and training advisory services</p> <p>— 2 studies on information use</p> <p>— Consulting records, Web page operating and updated</p> <p>— Topical reports</p> <p>3. — 2 demand and supply studies</p> <p>— 30 courses and/or advisory services for increasing the quantity of training for the business sector</p> <p>— 6 courses and/or advisory services for increasing the quantity of training for municipal management</p> <p>— 12 training institutes strengthened</p> <p>— 6 sector training plans</p> <p>— Evaluation and impact reports</p>	<p>— Specific activity reports</p> <p>— Study and advisory-services documents prepared</p> <p>— Project progress report</p> <p>— Evaluation reports</p>	<p>— The evaluation of the first phase project is positive and the second being carried out</p> <p>— Contributions made by the promoting entities ACUDIR and CORPOAMBATO by the participating institutions</p> <p>— The personnel of each Corporation approved both training and advisory services</p> <p>— Municipalities retain their interest modernizing themselves and supporting the private sector</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
participation by the private public services and in municipal contributing to municipal n.	4. — 2 integrated consultancies for participation by the private sector in public services — 6 contracts for participation by the private sector — 15 advisory services in matters of municipal management		
g of the corporations system ining and public management modernization services for participation by the or in services functioning audits	Budget execution	— Operating plan — Chart of accounts — Disbursements — Audited financial statements — Project reports — Evaluation reports	

ANNEX II

The following table distributes the funding for this project among the three MIF windows and justifies the allocations noted below:

Category	FOMIN Total	MIF Funding Facility	Justification
Administrative and General Expenditures	\$43,890	Small Enterprise Development Facility.	The over-arching purpose of the project involves enabling small- and medium-sized enterprise; hence, this administrative funding mainly supports this objective, which is that of the SEDF.
Institutional Strengthening	\$421,650	Small Enterprise Development Facility.	This funding mainly strengthens the public-private partnership, which is a development corporation whose main purpose is to enable small- and medium-sized enterprise, the main purpose of SEDF.
Information System	\$280,230	Small Enterprise Development Facility.	This funding benefits largely small- and medium-size enterprises, as provided by the SEDF.
Training	\$540,360	Human Resource Facility.	This funding goes for "training workers" - a prime purpose of the HRF.
Municipal modernization	\$492,000	Technical Cooperation Facility.	This funding goes for "governments and the privatization agencies" - the main purposes of the TCF.
Auditing and Evaluations	\$96,000	Small Enterprise Development Facility	Enabling SMEs is the overall purpose of the project.
Margin	\$65,870	Small Enterprise Development Facility,	Enabling SMEs is the overall purpose of the project.

Hence, the division of the project among these facilities is as follows:

\$907,530	Small Enterprise Development Facility
\$540,360	Human Resource Facility
\$492,000	Technical Cooperation Facility

PROPOSED RESOLUTION

ECUADOR. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE
LOCAL ECONOMIC DEVELOPMENT IN CUENCA AND AMBATO

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 agreement or agreements as may be necessary and to take such additional measures as may be pertinent for the execution of the project memorandum referred to in Document MIF/AT- , with respect to a technical cooperation for the local economic development in Cuenca and Ambato.
2. That up to the total amount of US\$1,940,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the following facilities of the Multilateral Investment Fund: (a) up to US\$907,640 from the technical cooperation resources of the Small Enterprise Development Facility; (b) up to US\$540,360 from the Human Resource Facility; and (c) up to US\$492,000 from the Technical Cooperation Facility.
3. That the above-mentioned total amount to be provided on a non-reimbursable basis.