

PD-ABP-110
94065

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY
EL SALVADOR

3. PROJECT NUMBER
519-0388

4. BUREAU/OFFICE

5. PROJECT TITLE (maximum 40 characters)

LAC

MUNICIPAL DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

7. ESTIMATED DATE OF OBLIGATION
(Under "B." below, enter 1, 2, 3, or 4)

MM DD YY
01 9 31 0 9 9

A. Initial FY 93 B. Quarter 4 C. Final FY 99

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1,000	400	1,400	2,500	1,500	4,000
(Grant)	(1,000)	(400)	(1,400)	(2,500)	(1,500)	(4,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country					1,630	1,630
Other Donor(s)						
TOTALS			1,400			5,630

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)						1,400		4,000	
(2)									
(3)									
(4)									
TOTALS						1,400		4,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

TO INCREASE AND ENHANCE THE PARTICIPATION OF THE SALVADORAN POPULACE IN THE LOCAL DEMOCRATIC PROCESS AND TO IMPROVE THE CAPACITY OF THE MUNICIPALITIES TO RESPOND TO THE NEEDS OF THEIR CONSTITUENTS.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
1 2 9 6 0 5 9 9

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment.)

Method of implementation and financing are hereby concurred with.

Thomas Clarkson
Thomas Clarkson, CONT

Office of the Controller
REVIEWED

10/5/93

17. APPROVED BY

Signature

Title Charles E. Costello
Director, USAID/El Salvador

Date Signed

MM DD YY

18. DATE DOCUMENT RECEIVED
EN ID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

A

**Municipal Development Project Paper
519-0388**

TABLE OF CONTENTS

	Page
I. Summary and Recommendations	1
II. Program Factors	4
A. Country Setting	4
B. The Municipal Sector in El Salvador	5
C. Relationship to other USAID Activities	12
D. Relationship to USAID Objectives	13
E. Other Donor Assistance	13
III. Project Description	15
A. Problem Statement and Constraints	15
B. USAID Municipal Sector Strategy	21
C. Project Goal, Purpose, and End-of-Project Status	22
D. Project Strategy	24
E. Project Components	26
IV. Implementation Arrangements	43
A. Instruments and Agencies	43
B. Management and Coordination	43
C. Implementation Schedule	44
D. Monitoring and Evaluation Plan	44
E. Covenants, Conditions Precedent and Negotiating Status	46
V. Project Analysis Summaries	47
A. Technical Analysis	47
B. Institutional Analysis	50
C. Beneficiary and Social Soundness Analysis	52
D. Economic Analysis	53

Annexes

- Annex I:** Logical Framework
- Annex II:** Financial, Audit and Procurement Plans
- Annex III:** Financial Analysis
- Annex IV:** Environmental Threshold Statement
- Annex V:** Statutory Checklist
- Annex VI:** Institutional Analysis
- Annex VII:** Economic Analysis
- Annex VIII:** Stakeholder Analysis
- Annex IX:** Implementation Plan
- Annex X:** Letter of Application

I. Summary and Recommendation

A. Summary

The January 1992 Peace Accords marked the end to a twelve-year civil war and the beginning of a process to unite Salvadorans in building a society which affords equitable opportunities for all to participate meaningfully in the democratic process. For a stable, lasting peace to take root in El Salvador, its citizens must develop greater confidence in the legitimacy and openness of the democratic system as well as increase the responsiveness of government to meet the needs of its citizens. Key to building this confidence is increasing citizen participation in the government decision-making process and strengthening those government institutions which are in the best position to respond effectively and efficiently to the needs of their constituents.

To address these critical issues, the Government of El Salvador (GOES) has been gradually moving toward developing more autonomous and participatory municipal governments capable of including citizens in the decision-making process and responding to their expressed needs. USAID has supported this effort since 1987 through the Municipalities in Action (MEA) Program where local currency made available for municipal-level infrastructure is linked to local resident participation in the identification of projects and resolution of implementation problems. While infrastructure projects have been implemented efficiently and services improved, the principal benefit of the MEA program has been the successful implementation of a process which promotes democratic participation at the local government level. For this experiment in grassroots democracy to take hold, municipal governments must generate and control their own resource base, and at the same time be strengthened to respond to their constituents on a sustained basis. If the municipal development process developed and implemented during the past several years cannot be institutionalized, El Salvador will lose an important opportunity to solidify a grass roots level base for a stable, democratic society and broad-based economic growth.

Since the signing of the Peace Accords, the movement toward decentralization and municipal autonomy has gathered momentum in response to both fiscal constraints on the central government as well as the need to increase popular participation and effective service delivery to mitigate many of these same factors which led to the civil war over a decade ago. In the most recent development, the Municipal Code has been reformed to give municipal governments permanent authority to set and adjust service fee rates, and the GOES is providing municipalities with the technical assistance necessary to realize those rates. The GOES is currently studying its options for decentralizing government services and increasing municipal revenues through a property tax, revenue-sharing, or other appropriate measures. A draft decentralization strategy is currently being reviewed within the government, with formal approval expected in September. The presentation of a municipal finance package is anticipated in November as conditionality in the 1993 ESF Program, with legislative approval anticipated by July 1994.

To assist the GOES in facilitating the decentralization process and in strengthening municipal governments, USAID proposes to finance the Municipal Development Project, a six-year, \$15 million grant to the GOES. Project activities will be initiated through a two-year \$4 million pilot phase and a decision to proceed with the full project will depend upon satisfactory progress during the pilot phase. The Project Goal is to promote enduring democratic institutions and practices in El Salvador. The Project Purpose is to enhance the participation of the Salvadoran populace in the local democratic process and to improve the capacity of the municipalities to respond to the needs of their constituents.

Assistance provided through the Projects' three components (see Table 1) will assist the GOES through the association of mayors, the Corporation of Municipalities of the republic of El Salvador (COMURES), to: 1) develop and implement reforms to create more autonomous and participatory municipal governments; 2) strengthen the technical, financial, and managerial capacity of municipal governments to provide for effective delivery of public services; and 3) encourage increased and enhanced participation and promote public awareness about local-level citizens' rights and responsibilities in a democracy.

Table 1

Municipal Development Project
Summary Budget
(\$000)

Component 1 - Policy Reform	850
Component 2 - Municipal Strengthening	11,200
Component 3 - Local Democratic Development	1,350
Management/Evaluation/Audit	1,600
TOTAL	15,000

Municipal Development Project
Pilot Phase
Summary Budget
(\$000)

Component 1 - Policy Reform	350
Component 2 - Municipal Strengthening	2,700
Component 3 - Local Democratic Development	400
Management/Evaluation/Audit	550
TOTAL	4,000

By the end of the Project, key policy reforms benefitting all municipalities will have been enacted and implemented devolving authority and responsibility for decision-making and control over financial resources to the municipal level, and increasing participation and political representation in the local democratic process. Selected municipalities will have been strengthened to facilitate greater citizen participation in local decision-making, and they will have developed a capacity to effectively provide public services devolved to them from the central government. They will also have improved their capacity to provide services for which they are currently responsible. As a result, citizens will have greater confidence in the municipal government as a forum for problem-solving as well a provider of effective public services. By the end of the Project, selected municipal governments will have improved their chances for sustainability through increased autonomy and control of resources, effective and efficient public service delivery, and increased legitimacy in the eyes of their constituents.

B. Recommendation

The Project Design Committee recommends approval of this Project Paper for a \$15,000,000, six-year grant to the Government of El Salvador, with the Project Authorization and project Agreement being limited to a twenty-seven month pilot phase. This will allow the Mission to retain maximum flexibility in view of the uncertainty surrounding key policy reforms. A decision to amend the Project Authorization and Project Agreement to proceed with the full Project will be based on progress during the pilot phase. The project will strengthen and improve the participation of the Salvadoran populace in democratic decision-making processes at the local level and empower and enable municipalities to respond to the expressed needs of their constituents. It is further recommended that the Mission continue to encourage, through the ESF Program, policy measures which support the autonomy of municipalities and the transfer of decision-making and budgetary authority and responsibility to the municipal level.

II. Program Factors

A. Country Setting

Peace in El Salvador has brought a new series of challenges to the nation which must be confronted if political stability is to be maintained and some of the basic social and political causes of the 12-year war eliminated. The government is aware that, among the many changes and reforms which must be undertaken, two of the most important are a general improvement in the quality of life of the average citizen and greatly increased opportunities for people to participate in decisions on government actions which affect their lives. Given the fiscal constraints limiting the central government's ability to meet the rising financial requirements of the country for basic public services, the evident lack of efficiency on the part of ministries and other centralized agencies to deliver services in adequate quantity or quality, and the lack of opportunity for citizens to have a voice in government decision-making, the GOES sees decentralization as its best option both to improve the quality of life of its citizens and to increase their participation in the democratic decision-making process.

Following the formal signing of the Peace Accord on January 16, 1992, the Government of El Salvador (GOES) presented a \$1.4 billion National Reconstruction Plan to the international donor community intended to: reintegrate the ex-combatants and their families into society; repatriate families and displaced persons back to their homes; rebuild damaged and destroyed infrastructure; continue democratic reforms; and reactivate the economy of the former conflictive zones. Implicit in the GOES plan is the understanding that peace cannot be implemented solely through meetings and actions taken in the capital city. Rather, if reconciliation and reconstruction are to be achieved permanently, the basis for democracy -- citizen participation, confidence in the rule of law, and productive economic activity -- must be firmly implanted at the local level.

Prior to the 1992 Peace Accord, municipalities in El Salvador were already playing a key development role in El Salvador. Beginning in 1986, municipalities were given the responsibility to reconstruct war-damaged infrastructure and to redress some of the fundamental grievances which fueled the insurgency: a lack of voice in local affairs and a lack of basic services in education, health, electricity, water, etc. USAID responded with the Municipalities in Action (MEA) program, where resource flows (ESF- and PL 480-generated local currencies) for municipal-level infrastructure improvement were linked to local resident participation in the identification of projects and resolution of implementation problems.

Significant progress has been achieved through the MEA program. Where the program has operated, throughout most of the country, infrastructure projects have been implemented efficiently and services have improved. The principal benefit, however, has been the successful development of a process which promotes democratic participation at the local government level. Residents have been introduced to the concept that they have a voice in determining what happens in their community, while the mayors themselves are beginning to learn the importance of being more responsive and accountable to their constituents.

Success has been due, in great part, to the large amounts of local currency made available through the National Reconstruction Secretariat (SRN) for small infrastructure projects, providing a focal point for community decision-making, a situation which will change considerably during the next four years as ESF funding phases out. If this exercise in grassroots democracy is to take hold, local resources must replace the umbilical cord of external financing. At the same time, it is essential to strengthen local government's ability to respond to their citizenry on a sustained basis. If the municipal development processes developed and implemented during the past several years cannot be institutionalized, El Salvador will lose important momentum in its quest for a stable, democratic society and broad-based economic growth.

B. The Municipal Sector in El Salvador

1. Municipal Jurisdictions and Basic Characteristics

El Salvador is divided into four regions, fourteen departments and 262 municipalities (see Map 1). The Central region contains 90 municipalities, including the nation's capital; the Oriental region has 87 municipalities; the Occidental region has 41; and the Para-Central region has 44. In a 1991 report on municipal development in El Salvador done by the Instituto Centroamericano de Administración de Empresas (INCAE), it was determined that the largest municipalities, or those with a sufficient human resource base and financial potential, about 60 in number, were relatively evenly distributed throughout the 14 departments along a fairly well developed primary and secondary road network. This spatial arrangement constitutes what INCAE refers to as "a comparatively healthy urban system." Based on this analysis, the GOES has classified municipalities into four categories for the purpose of allocating MEA funds. Table 2 shows the number of municipalities and the percentage of population in each municipal category.

In sum, the 60 municipalities in categories A, B, and C, together with San Salvador, represent 70% of the total population of El Salvador. They account for over 90% of locally-generated municipal revenue and probably a similar percentage of the country's economic potential. The smaller municipalities, i.e those with a population of under 20,000 residents, are 201 in total and of those, 161 have populations of under 10,000. In most cases, these smaller groups do not possess either the human resource base or the financial potential to provide their populations with the basic services for which they are responsible.

According to the 1986 Municipal Code, municipalities are asked to provide a minimal set of basic services: street cleaning; collection and disposal of garbage; cemeteries and funeral services; municipal police and a Civil Registry. Most municipal governments issue identity cards; register births, deaths and marriages; provide a public cemetery; and perform some level of street maintenance. As population size increases, so does the level of complexity in service delivery. Additional services may include a municipal market, a slaughterhouse, some level of collection and disposal of refuse, and inspection and regulation of food sales. Important services such as electricity, water supply and sewerage systems, primary schooling, and health services, where available, are largely provided by central government agencies.

MAPA NO. 1

DIVISION POLITICO-ADMINISTRATIVA

DEPARTAMENTO	No. MUNICIPIOS	DEPARTAMENTO	No. MUNIC.
1) Ahuachapán	12	10) San Vicente	13
2) Santa Ana	13	11) Usulután	23
3) Sonsonate	16	12) Morazán	26
4) Chalatenango	33	13) San Miguel	20
5) La Libertad	22	14) La Unión	18
6) San Salvador	19		
7) Cuscatlán	16	TOTAL NACIONAL	262
8) La Paz	22		
9) Cabañas	9		

The quality and degree of actual services provided vary greatly, and are not well documented. While there is no "typical" municipality, it has been noted in various studies that the service level of the smallest municipalities is woefully low. In addition, most services that are being provided are operating at a loss to the municipality.

Table 2

Municipal Populations by Category 1992

Category	Population Range	Number of Municipalities	Total Population	% of Total Population
A	80,000 +	9	1,282,857	25.4%
B	40-80,000	16	904,401	17.9%
C	20-40,000	35	937,061	18.6%
D	less than 20,000	201	1,501,036	29.7%
San Salvador	-	1	422,570	8.4%
Totals	-	262	5,047,925	100.0%

SOURCE: Ministerio de Economía, "Censos Nacionales V de Población y IV de Vivienda," Resultados Preliminares, Febrero, de 1993.

2. Fiscal Condition of Municipalities

Municipal revenue in 1992 totalled an estimated ¢ 383.8 million or about \$45 million (see Table 2). While there have been notable increases in municipal revenues during the last five years, overall percentages have remained relatively static at 2.5% of central government revenues. In 1992, MEA resources accounted for 52% of total municipal revenues, locally generated revenues accounted for 41%, and central government transfers accounted for only 7%. The smallest 201 municipalities (category D, representing 30% of the population) receive 75% of all transfers due to the formula-based allocations of MEA resources and the Socio-Economic Development Fund which favor the smallest municipalities. For those 201 municipalities, dependence on MEA resources is particularly acute, accounting for 84% of their total municipal revenue.

Looking at local-revenue generation from a distribution and equity perspective, it is seen that the 60 largest municipalities (categories A, B, C) together with San Salvador generate 90% of all local revenue in El Salvador. Furthermore, the population living in the 10 largest, more urban municipalities (Category A and San Salvador, representing 34% of the population)

generate 69% of all local municipal revenues. This variance reflects a distinct urban bias in the municipal tax and service system, where the revenue-raising capacity of a municipality can be attributed primarily to the size of its urban (as opposed to rural) population.

Table 3

Municipal Revenue 1992
(Millions of Colones)

Category	Number of Municipalities	MEA	Socio-Economic Development Fund	Est. Local Revenue	Total Revenue	Local Revenue as % of Total
A	9	¢ 5.2	¢ 2.1	¢24.3	¢ 31.6	76.9%
B	16	¢ 12.5	¢ 2.9	¢19.8	¢ 35.2	56.3%
C	35	¢ 27.4	¢ 4.6	¢13.1	¢ 45.1	29.0%
D	201	¢157.0	¢14.0	¢15.0	¢186.0	8.1%
San Salvador		0	¢ 1.4	¢84.5	¢ 85.9	98.4%
Total	262	¢202.1	¢25.0	¢156.7	¢383.8	40.8%

Note: In 1991, ¢6.7 million representing three per cent of the coffee tax, was transferred to municipalities by the GOES. Since the coffee tax was repealed in 1992, this transfer is no longer available to municipalities. SOURCE: SETEFE, ISDEM

Municipalities receive revenues from three basic sources: government transfers and grants (MEA and the GOES Socio-Economic Development Fund); user fees and service charges; and taxation. Aside from the local currencies generated from U.S. assistance, municipalities receive very little in government funds, 7% of the total municipal revenues in 1992. The Socio-Economic Development Fund, which is administered by the Salvadoran Institute for Municipal Development (ISDEM), the official GOES agency working with Municipal Development, totals ¢25 million annually (about \$2.9 million at current rates) and is allocated using a formula which endeavors to favor the smaller municipalities with a factor which is inversely proportional to population size. This central transfer, however, does not even cover a minimally adequate staff, such as a mayor, secretary, treasurer/accountant and typist.

User fees and service charges are generally applied to a variety of public services (e.g., public lighting, street cleaning, markets, slaughterhouses, cemeteries, garbage collection, sewage disposal, public parking and issuance of public documents). Municipalities may set rates and

establish payment and collection policies, subject to Legislative Assembly approval. The one departure from this rule is contained in the recently amended *Ley de Tributos*, which gives municipalities the permanent authority to set and adjust service fee rates without approval from the Assembly. In contrast to many countries, however, two important public services (water and electricity) remain primarily in the domain of the central government in El Salvador.

Activities subject to municipal taxation include organized professional, commercial, industrial and agricultural activities. Tax bases vary widely among municipalities, as do the various classifications of taxable activities. The taxation of property, to the extent it occurs, is accomplished through the central government patrimony (or net worth) tax which counts property assets, among other things, in the taxable base.

3. Municipal Governance

The main actors in most municipal governments are the elected mayor and a hired municipal secretary (i.e., a municipal clerk). In the majority of municipalities, the only municipal employees other than the secretary are a few part-time laborers. Larger municipalities add a treasurer, a director of the municipal register, and sometimes an accountant. Virtually all employees are poorly paid, have no job security, and usually have received no job-specific training.

With regard to the educational level of this human resource base, data gathered over the past three years indicates that only 48% of mayors and council members have an education beyond the sixth grade, with an average slightly over seventh grade, while that of municipal employees is slightly higher, with 60% having post-primary education. Until recently, mayors received no systematic training regarding their responsibilities, resources and management skills. As a result, the secretary, who tends to have worked in municipalities for a long time, frequently plays the key role in local government, serving as the day-to-day manager of municipal affairs. Moreover, pay is so low that most mayors derive the principal part of their earnings from another job, despite theoretically being full-time. Surprisingly, although there is no guarantee of job security, many of the existing secretaries have been long-time municipal employees, sometimes moving from one jurisdiction to another.

The Municipal Code of 1986 establishes the municipal council, with from two to ten members, depending on the population of the municipality. Due to both the Municipal and Electoral Codes, these councils are represented by a single political party, with no provision for multi-partisan participation.

According to the Municipal Code, the council is the ultimate authority with regard to municipal affairs, with the power to remove and replace the mayor for cause. The members of the council, known as *consejales* or *regidores*, are elected on the same party slate as the mayor and, once elected, divide themselves into commissions that oversee the various municipal activities. The qualifications of these individuals are as disparate as those of mayors, although in some cases, at least some members of the party slate have been selected on the basis of technical skills

necessary to carry out council functions. For example, selection of the *síndico*, the council member responsible for all legal and financial dealings of the municipality, is usually based on the individual's knowledge of financial and legal matters.

4. Citizen Participation in Municipal Decision-making

The Municipal Code also gives the residents of municipalities a formal voice in local government. It decrees a minimum of four open town meetings (*cabildos abiertos*) per year, as well as the use of public referenda (*consultas populares*). The mandate of the *cabildo abierto* is to serve as a forum for discussion of, and a tool for solution to, issues and problems raised by either citizens or the Municipal Council. So far, the MEA program has used these open town meetings as a means of identifying and selecting community improvement projects to be financed with local currency resources. Although town meetings are not held every three months, they are being conducted with increasing frequency, and with growing attendance. The records of the SRN, for example, indicate that 570 *cabildos abiertos* were held during 1988-90, while the 1990 Impact Evaluation showed that the average attendance at these meetings increased from 143 participants in 1988 to 255 in 1990.

The use of the *cabildos abiertos* by the MEA program has made a noticeable impact on the attitude of townspeople. Not only have the meetings promoted a sense of community participation, but they have also provided opportunities to hold municipal and national ministry and service agency officials accountable.

In some ways the *cabildo abierto* is becoming an exercise in representative democracy, as contrasted with direct democracy. What appears to be happening is that a great deal of discussion in smaller neighborhood groups is preceding the open town meeting. Community associations and other ad hoc groups debate community needs and settle on the priority preferences to be voiced at the town meeting. The actual public presentation of a petition may be by the representative of the smaller group or, on occasion, by a member of a community board of directors (*junta directiva*). This type of board is a common occurrence, where community members have selected a few individuals from their ranks to intercede on their behalf with (usually local) authorities.

The open town meeting is not yet a perfect democratic mechanism. But the *cabildo abierto* does provide a new voice to people who have been traditionally disenfranchised and stimulates their involvement in municipal activities. While the *cabildo* has proven to be an excellent mechanism for identification and selection of infrastructure projects, it needs to be broadened to provide a forum for citizen participation in all aspects of problem-solving and decision-making at the municipal level. In addition, alternative mechanisms for participation with broader decision-making powers need to be identified.

5. The Growing Salvadoran Consensus on Decentralization and Municipal Development

In the past ten years, a number of initiatives have been taken which collectively contribute to a more open climate for municipal development in this country, beginning in 1983 with a new constitution which protects the autonomy of mayors. The watershed year for municipal development in El Salvador was 1986 with the initiation of MEA, the renaissance of the Corporation of Municipalities of the Republic of El Salvador (COMURES), and culminating with the birth of the Salvadoran Institute of Municipal Development (ISDEM) in 1987. COMURES is a non-profit organization established under an Executive Agreement. Its purpose is to defend and promote municipal autonomy and authority and to introduce participative democratic principles into municipal government. ISDEM was established to provide technical and financial assistance to municipalities and to coordinate the plans and programs of the national government with those of the municipalities.

In 1986 the National Assembly passed a new Municipal Code which was designed to increase the autonomy of municipalities. Following this legislation, the GOES formally endorsed decentralization in its Five-year Plan, 1989-1994, as part of its policy framework for economic and social development. Specifically, it articulates the need to decentralize public sector institutions and to strengthen municipal governments in order to promote democratic decision-making. The Plan further states the importance of fomenting "bottom-up" development, where the loyalty and responsiveness of municipal officials are to the communities they serve, rather than to central authority.

Another milestone was reached in 1991 when the new *Ley de Tributos* was passed. This legislation, initiated by ISDEM, gave the municipalities authority to establish or modify user fees and service charges without the National Assembly's approval through 1993. In the most recent and significant development, legislation has been passed into law in July 1993 to extend indefinitely the two-year window allowed under the *Ley de Tributos* in 1991. This legislation, in effect, gives municipalities permanent authority to set and adjust service fee rates.

The view of the Salvadoran Government on decentralization and municipal development has been slowly coalescing over the past two to three years: First, in a series of meetings and workshops held since 1991 in which municipal representatives, central government authorities, Ministers, mayors and other interested parties agreed upon the elements of a strategy for municipal development and decentralization. In October of 1992, a Technical Committee was formed by the municipalities and central government to complete the strategy and elaborate an Action Plan for its implementation. In April of 1993, President Cristiani formally approved the establishment of a High-level Committee to manage the decentralization process, composed of key senior policy-makers with municipal development responsibilities. Together, these two Committees form the *Comité Técnico de Descentralización y Desarrollo Municipal* (CDM). In July, the Technical Committee submitted a draft strategy to the High-level Committee for their review and approval, after which an Action Plan for Decentralization will be prepared by the Technical Committee and approved by the CDM by September 1993. Upon completion of the

Action Plan, it will be submitted to the Congress of Mayors for approval and then an effort will be made to gain its endorsement by all of the Presidential candidates in the 1994 election.

C. Relationship to Other USAID Activities

In urgent response to the Peace Accords signed on January 16, 1991, USAID presented to AID/Washington a basic funding package of \$250 million in support of El Salvador's National Reconstruction Plan (NRP). The purpose of the Project is to support implementation of the Salvadoran Peace Accords and the NRP by assisting the reintegration of ex-combatants, the economic and social reactivation of the formerly conflictive zones, and the democratic reintegration of their population. The Peace and National Recovery Project is of particular significance in that the MEA Program was chosen as the primary means to deliver post-war assistance in the former conflictive areas. Over a five-year period, a total of approximately \$70 million is anticipated for small-scale infrastructure projects identified and implemented by the 115 municipalities in the former conflictive areas.

As mentioned earlier, the Municipal Development Project will build upon the experience of the past seven years of the MEA Program to institutionalize and sustain its benefits. In addition, the MEA Program will be fully integrated into the Project, serving to support NRP by consolidating and focusing USAID municipal development activities, thereby increasing their impact. It is anticipated that half of the municipalities selected for intensive assistance will come from the formerly conflictive zones covered by NRP.

In addition to the MEA program, the Project will also coordinate closely with other USAID projects that have been promoting decentralization and municipal development. Of particular importance to the Project is the Caribbean and Latin America Scholarship Program (CLASP). Through CLASP, USAID sent 150 mayors to the United States in 1991 for training in municipal management. In 1994 CLASP will be sending another 150 mayors to the United States for six weeks of training focusing on democratic processes such as increasing citizens' and community organizations' participation in municipal decision-making, conflict resolution, and leadership training. Short-term training and observational travel funded under the Municipal Development Project will build upon and be complementary to the CLASP Program.

The Municipal Development Project will coordinate with other USAID projects which have been working with the GOES to promote decentralization. USAID has been working with the National Administration for Water and Sewage Systems (ANDA) through the Public Services Improvement Project (519-0320) to help ANDA adopt a more limited role as regulator, encouraging other entities, including municipalities and non-governmental organizations (NGOs), to take responsibility for providing and managing water services. ANDA will be moving technical staff to regional offices in order to provide assistance in these areas. The Municipal Development Project will be providing technical assistance to selected municipalities to increase their capacity to design, manage, and maintain municipal water systems.

USAID has been assisting the Ministry of Health through the Health Systems Support Project (APSISA, 519-0308) with measures to become more effective and efficient in delivering health services through decentralization. While wholesale decentralization is not advisable given the economies of scale of bulk pharmaceutical and medical supply procurement, the regionalization of supervision, monitoring, planning, budgeting, and logistical support will improve efficiency through a quicker and more appropriate response to local needs.

Under the Strengthening Achievement in Basic Education Project (SABE, 519-0357) the Ministry of Education has decentralized teacher training to the regional level and is planning to do the same in the area of finance. In 1992, the Ministry of Education (MOE) transferred ₡4.6 million through the SRN to the municipalities for the purpose of rehabilitating schools in the former conflictive zones. This year the MOE has requested that another ₡4 million be transferred.

Finally, For FY 1994, USAID will provide grants of \$350,000 each to the National Democratic Institute and the International Republican Institute to strengthen participative democracy in selected municipalities. This will be accomplished by training municipal leadership in coping with devolution of authority from the central government; planning municipal budgets; and the validating of municipal decisions through *cabildos abiertos* and other means.

D. Relationship to USAID Objectives

The A.I.D. Economic Assistance Strategy for Central America has as its first objective the development of stable democratic societies. Explicit in the Central American Strategy is the promotion of more responsive locally-elected governments which provide greater opportunities for citizens to participate in, and more directly influence, the development process. This is accomplished by strengthening elected local and municipal governments through decentralization of authority and control over human and financial resources. The Municipal Development Project is specifically responsive to this policy directive.

The objectives of the Project are to improve and expand the participation of the Salvadoran populace in democratic decision-making processes at the local government level and to empower and enable municipalities to respond to the expressed needs of their constituents. These objectives support the overall A.I.D. aim of supporting the evolution of stable, participatory, democratic societies, and the Latin American and Caribbean Bureau aim of strengthening civilian government institutions and strengthening public participation in the democratic process.

The Project directly addresses the El Salvador Mission's Strategic Objective No. 3: Enduring Democratic Institutions and Practices, and its first Program Outcome, to strengthen citizen participation in the decision-making process.

E. Other Donor Assistance

Other than USAID, the most significant donor in El Salvador with regard to municipal development is the German bilateral aid agency (GTZ). The GTZ has spent \$2 million for

municipal development through December 1992, providing technical assistance to ISDEM and the municipalities. Much of this technical assistance has been provided directly to ISDEM professionals, but the GTZ also collaborates with ISDEM in developing a model for "micro regions" where services and resources are coordinated among the smallest, least viable municipal units. The GTZ also provided TA for the drafting of the *Ley de Tributos*.

The GTZ committed an additional \$3.2 million for municipal development in January 1993 for a three-year period. Under this program the GTZ will continue to provide instruction to ISDEM's Training Division to enable them to respond more effectively to the training requirements of the municipalities. The GTZ hopes to strengthen ISDEM's capacity in research, curriculum development, and teaching techniques. ISDEM staff will be trained to teach core courses in municipal administration, budgeting, financial control, etc. The GTZ assistance will also place new emphasis on those areas of technical assistance and training which will be needed as a result of planned decentralization of selected public services, especially the management and operation of community water supply and sanitation, rural road improvement and maintenance, and construction and maintenance of primary schools.

The USAID Municipal Development Project Design Committee has been coordinating the design of the Project closely with the GTZ and has reviewed and discussed with the GTZ their Operational Plan for ISDEM for 1993-1995. There are several areas where the Project will be able to utilize ISDEM capabilities by the end of the GTZ Project in 1995. These include a training capacity in the areas of municipal management and administration, municipal finance with an emphasis on tax management systems, cadaster systems and urban planning.

Other donors include UNICEF which has committed \$4.5 million over the next three years to provide improved services and basic infrastructure in education, health, and municipal administration to some 38 municipalities. The municipalities selected were among those most affected by the war and are limited to the Departments of Usulután, Cabañas, and San Vicente.

The Spanish Government is negotiating to make available a concessional loan of \$35 million for the purchase of heavy equipment for improvement and maintenance of roads by municipalities. Each municipal government receives the loan directly and, in most cases, municipalities will share the use of the machinery and the cost of loan repayment, equipment operation, and maintenance.

The Inter-American Development Bank (IDB) has no current projects directed specifically at strengthening municipal development; however, the IDB's loans to the *Fondo de Inversión Social* (FIS) do provide funding for infrastructure at the local and municipal level. The IDB recently approved a FIS II loan which will provide \$60 million for gravity-fed water systems, small electrification projects, construction of educational facilities, and environmental protection activities. Besides the FIS, a planned 1994 IDB loan would offer financing of approximately \$19 million for potable water systems in San Salvador and three or four additional intermediate-sized cities. The USAID Municipal Development Project will improve the management capacity

of participating municipalities to coordinate and manage municipal investment activities with those of other donors such as the IDB.

The World Bank, while not directly involved with municipal development in El Salvador, has been assisting the Ministry of Education (MOE) to test a new system to devolve more responsibility and authority to the community for primary education. Community Education Associations (ACEs) are created and sign contracts directly with the MOE. Funds are transferred to the ACEs who are responsible for the local hiring of teachers. By devolving authority to the community, it ensures that teachers are responsive to the supervision of the ACE, thereby providing better quality education.

While both the IDB and the World Bank are considering additional activities in the municipal development subsector, it is doubtful that they would get underway before early 1995.

III. Project Description

A. Problem Statement and Constraints

El Salvador's centralized system of government gives citizens little control over the decisions which affect their lives. At the same time the fiscal constraints limiting the central government's ability to meet the rising financial requirements of the country for basic public services, and the evident lack of efficiency on the part of ministries and other agencies to deliver services in adequate quantity or quality pose a considerable obstacle to development as well as a threat to the further implementation of the peace process. There is a growing consensus within the GOES that decentralization is the best option to meet the needs of its citizenry. However, the municipal governments lack the legal and policy framework, technical skills, and financial means to play a broader role in the country's democratic development, and the citizens of El Salvador lack the experience with democratic processes to allow them to meaningfully participate in local decision-making.

There are several constraints to achieving the level of decentralization and municipal autonomy envisioned by both the GOES and USAID. The first constraint is financial, and is a result of the current low revenues and the generally limited income potential of the majority of municipalities. The second constraint concerns legislative and policy changes that are necessary to fully support municipal development through local control of resources and processes. Serious human resource constraints that are most difficult to overcome in the short to medium term, concern the lack of knowledge of or experience in democratic processes and the low levels of education and the lack of managerial and administrative experience at the municipal level. A fourth constraint is attitudinal, based on years of dependency on the part of the populace and paternalism on the part of the central government. The final constraint is institutional, with respect to the lack of a strong, national level organization which can effectively represent the interests of local government rather than impose the will of the central government.

1. Financial Constraints

The most serious constraint to municipal development is financial. The major current sources of municipal financing are central government funds provided through the MEA program and the Socio-Economic Development Fund managed by ISDEM. In 1992, the total transfer for all 262 municipalities was ¢202 million and ¢25 million respectively, or 60% of total municipal revenues. As MEA funds decrease in the future, municipalities will need to find other sources of income as a replacement. MEA funds and other outside resources provide for almost 100% of the "investment budgets" of municipalities. Few municipalities use locally generated resources for capital improvements, choosing to use such local resources to cover administration and services. Municipalities will not achieve full autonomy unless they have their own sources of funding, not only for operational expenses, but for investment in new infrastructure, equipment, and other needed long-term investments.

Revenue from local sources is very low but, despite that, the present potential to generate local revenue is grossly underutilized. For example, until recently, user fees and charges on municipal services had not been increased in decades. Many of the tariffs had been established in the 1950's or 60's and had never been changed to reflect the cost of providing the service, which, of course, had increased enormously during the past 30 or 40 years. Worse yet, municipalities had no idea of the true costs of providing services.

This failure has been partially addressed by a provision in the *Ley de Tributos*, which transfers permanent authority to municipalities to change their user fees and services to cover costs, and up to 50% over costs, without having to submit those changes to the Legislative Assembly for approval. Many municipalities, with technical assistance from ISDEM, are taking advantage of this opportunity to analyze the costs of services and, in so far as possible, adjusting charges to cover costs. By December 1993, about 180 of the 262 municipalities will have made these adjustments.

Although municipalities are struggling to revise their fee and service charge structure and to analyze the real cost of providing services, revenues are inadequate to finance the services the local governments will be expected to provide. Compounding this is a lack of resources to set up systems for accurately assessing or effectively collecting taxes, fees or service charges, and a lack of incentives to seek payment from delinquent debtors. Consequently, arrearage in payments on fees, fines, local taxes and other charges are very large. In addition, few municipalities have taken full advantage of sources of revenues that are already available to them under existing laws. Examples include cost recovery from utility companies for infrastructure constructed by the municipality; fees for building inspections, permits, regulation of public transport, etc.; and fines for littering and other violations.

A property tax, which provides a large percentage of municipal revenue in many countries in the hemisphere, does not exist in El Salvador. There is a net worth or wealth tax (*Impuesto Patrimonial*) which includes property, but at present, it is collected and retained by the central government. Thus, this potential revenue is not now available to municipal governments, even

though the base of the tax may be in their communities. A recent study by the Research Triangle Institute (RTI) depicted a conservative scenario in which local property taxes in El Salvador would account for 30% of current revenues. The property tax together with current local revenue generations would almost equal all central government transfers and effectively eliminate the need for both MEA and central government transfers to all but the smallest municipalities (category D).

2. Legislative and Policy Constraints

With the July 1993 reform of the *Ley de Tributos*, a major constraint to municipal autonomy and local revenue generation has been mitigated. While this reform is a significant action, both in terms of increasing municipal autonomy and demonstrating government political will, it is not in and of itself a sufficient source of municipal revenue. Local revenue generation will have to come from a variety of sources if municipalities are to effectively meet the basic needs of their constituents, replace resources provided under the MEA program, and maximize municipal autonomy and revenue potential.

As mentioned earlier, the lack of a locally-administered property tax remains a major constraint to municipal autonomy and increased locally-generated revenues. While there is a certain amount of agreement among political parties regarding the necessity and importance of a property tax -- the GOES is currently discussing repealing the *Impuesto Patrimonial* and replacing it with a local property tax -- political posturing during an election year may preclude passage of legislation until after the March 1994 election.

While all municipalities are not currently in a position technically to implement a property tax, enabling legislation for a local property tax is required to allow those municipalities with the technical capacity to do so. Technical assistance provided under the Municipal Development Project and by the GTZ will position additional municipalities to take advantage of such legislation to further increase municipal autonomy.

The decentralization of public services will require legislative changes and will affect many central government agencies. The Project calls for decentralization on a pilot basis, which will simply require agreements between affected central government agencies and municipalities.

The Municipal Code contains some contradictions and duplications in the authorities given to municipal and central government agencies. These can be clarified fairly quickly and the language of the code amended. It is important, however, to have these authorities fully understood and acknowledged by all parties. Some overlapping and duplication of responsibilities and authorities will probably always remain between local and central government agencies as they do in other countries. Even as currently written, the Municipal Code is somewhat ambiguous and does permit considerable initiative on provision of public services by municipalities.

While increased participation in the decision-making process will not necessarily require a legislative change, to guarantee that the broadest cross-section of society is able to participate in the process, proportional political representation on Municipal Councils must be pursued. This will require amendments to the Electoral and Municipal Code. Currently, there are some influential elements in the governing party who continue to resist the broadening of representation on the Councils and they are supported in this stance by others in parties on the political right. Generally, however, all parties are in agreement that proportional representation should be phased in, although there are as many formulas for the process as there are political parties. To further improve local representation, other electoral reforms will be needed such lengthening mayoral terms beyond the current three year period and allowing for independent candidates.

Finally, El Salvador is one of the few countries in Latin America which does not have some form of substantial revenue-sharing. The Socio-Economic Development Fund referred to earlier provides only €25 million annually. While increases in locally-generated resources will generate considerable revenue for the larger municipalities, some form of legislatively-mandated central government transfer will have to be established to assist those poorest municipalities which do not have a sufficient potential human resource or revenue base.

3. Human Resources Constraints

The first human resource constraint is the lack of experience of both the average citizen and municipal officials in democratic processes and a lack of understanding of what is required in order to make democratic mechanisms function properly.

Aside from open town meetings promoted by the MEA program and the laws permitting a local referendum on specific items proposed by the mayor or through public support, almost none of the municipalities has direct experience with democratic institutions or the practice of democracy. Even the town meetings are not so much a forum for popular participation in government as they are an opportunity for a community to seek action on its basic infrastructure needs. Few community organizations or associations exist to involve themselves in the overall aspects of self-government. Most are dedicated to resolving an immediate problem of a very tangible nature, such as the provision of a service or construction of needed infrastructure.

The lack of existing channels or mechanisms through which the public can participate in self-government and decision-making is one of the principal problems which must be dealt with in the course of strengthening popular involvement in community action. At present, few associations, other than the ad-hoc ones cited, function. There is a dearth of organized interest groups and even a scarcity of PVOs or indigenous NGOs which have any real background in democratic practices. Many of these latter groups, PVOs and NGOs, practice the same sort of paternalism common to central government programs.

The second human resource constraint is the generally low levels of education and the lack of administrative experience of the mayors and other members of municipal government in managing anything but relatively small municipal programs.

The office of mayor has long been at the bottom of the hierarchy of positions in a political party in El Salvador. The mayors have been looked upon by members of the National Assembly as almost beneath notice, partially because of the lack of resources available to them, partly because of low educational levels, and partially because of their function as party hacks and organizers put in to garner votes for the party's Presidential and Congressional candidates at the local level. Only about one-half of the mayors in the 262 municipalities have more than a 7th grade education. The same holds true for members of the Municipal Council. This lack of education, and the low salaries paid by most communities, resulted in municipalities which rarely had a trained accountant or treasurer on the staff. In some 220 of the 262 municipalities, there were no city planners, engineers, financial analysts or other technically qualified personnel. Salaries for the mayors are also low, with an average monthly salary of 650 colones.

In general, this situation still prevails; however, signs of improvement are beginning to show as a result of the Municipalities in Action program. With the help of MEA resources for public works, the perception of the mayor's job is changing. There is more respect for the mayors at the local level, and even a considerable amount, albeit grudging, at the level of the Deputies in the Assembly. Municipal staffs are learning through "hands-on" experience in areas such as prioritizing project implementation, financial controls, purchasing and bidding. The difficult circumstances in municipal government are gradually improving as a direct result of the availability of funds for small infrastructure projects and the pressure from the public to provide services.

There is no civil service benefit or protection for municipal employees which would encourage continuity or retain experienced people. During most of the civil war, the mayors were considered the most visible figures of the Administration and, therefore, targets for the insurgents. Threats of exile, or worse, led to the selection of mayors who may not have been the most qualified, but who were certainly among the bravest. These persons carried out infrastructure projects often under threat of death. However, their lack of formal education and administrative experience is reflected in the vast majority of municipalities which have no coherent plan for development, low levels of management skills and little technical ability.

4. Attitudinal Constraints

In spite of growing interest and activity in self-government, the long tradition of a paternalistic central government is far from dead. The historical primacy of central government agencies in the provision of municipal services and the huge volume of centrally administered welfare and relief programs related to the war and the 1986 earthquake have combined to result in a disenfranchised citizenry. Until 1986, the Ministry of the Interior and its system of departmental governors closely supervised all aspects of municipal activity, including the approval of local budgets and subsequent expenditures already authorized in those budgets. Clearly, some

progress has been made since that time, as described earlier in this paper. Nevertheless, the old patterns of governing from the center are deeply entrenched and will require a concerted effort to break in order to form a new basis for national-local collaboration in the future.

Attitudinal constraints can be seen in the most basic of activities. Some participants in the *cabildos abiertos* see their role as presenting a request for assistance to the *patrón*, not as an exercise in community decision-making nor as a measure of self-help. While the community association infrastructure clearly has significant development potential, citizens, by and large, do not carry a sense of responsibility for going beyond the drafting of a request. Ways need to be found to instill a stronger self-help notion into local attitudes and actions, as well as a sensitivity to broader community concerns and priorities. The town meeting exercise, so successfully used in the MEA program, needs to be further analyzed to determine how it can enhance attitudes of empowerment. For example, the opening of municipal budget hearings has been attempted in a handful of municipalities. This process, allowing for a fuller understanding of the options available to a community, needs to be spread to other municipalities.

This same lack of experience in the practice of democracy gives rise to attitudinal problems at the national level which must be overcome. For example, there is a lack of conviction on the part of a number of politicians that democratic processes can really function in local governments given the educational level, cultural traits, and the lingering hatreds caused by the war. There is also a natural reluctance on the part of a party in office to surrender any degree of political power willingly, whether it will "further the democratic process" or not. It would be unrealistic to expect otherwise. Nevertheless, such changes must be sought, through democratic means, if the system is to be changed for the better.

5. Institutional Constraints

Institutional constraints are centered in the two principal organizations charged with supporting municipalities, COMURES and ISDEM, described earlier in Section III.E.

COMURES' performance as the Association of Municipalities has been steadily improving. The organization was successful in opening the positions on the Board of Directors to proportional political representation and in establishing a more collaborative and functional relationship with ISDEM. The mayors are beginning to develop more confidence in the Association's willingness to represent their opinions without regard to political affiliations and to stand firmly for the views of its members, political pressure from the Administration notwithstanding. The constraints are the lack of a clear, complete vision of the future requirements of the municipalities as they move towards decentralization, and a lack of understanding of how to use the organization as an effective lobby for the interests of the municipalities. The organization also lacks trained legal personnel to prepare legislation needed by the local governments for presentation to the Legislative Assembly, as well as qualified staff to address the organizational requirements of the mayors, municipal staff and municipal councils and define the types of training and technical assistance that they will need to carry out their expanded roles.

In the period prior to the initiation of the Project, USAID will be assisting COMURES to carry out its mandate and strengthen the institution so that it can more effectively represent municipal concerns and support Project activities. Technical assistance provided to COMURES will assist the institution with its strategic planning and vision including strategies to increase COMURES' chances for financial self-sufficiency by the end-of-Project. The technical assistance will also assist COMURES in designing strategies to improve their role as municipal advocates with the GOES and in particular with the Legislative Assembly.

A problem has existed between ISDEM and COMURES in the recent past as COMURES struggled to assert its independence as the representative body for the municipalities. The ISDEM attitude toward COMURES and toward the mayors has historically been highly paternalistic and authoritarian in style, and the institutions clashed as COMURES and the municipalities gained confidence and experience in operations under the MEA program. A much more positive *modus operandi* has developed between the two organizations recently and ISDEM has shown a growing respect for the abilities and the strength of COMURES. However, there are still traces of ISDEM's self image as the entity which should set the agenda for municipal development, including the definition of the training and technical assistance requirements of the municipalities.

Because of the structure of the Board of Directors which includes the Mayor of San Salvador, and its funding source which is the central government, ISDEM inevitably becomes a political instrument of the party in power. Although it is gradually improving, its paternalistic attitude still influences the planning and programming of activities in a directive way, rather than in a manner which responds to the expressed wishes of the mayors and the municipalities. ISDEM has also suffered from a lack of qualified field personnel, severely limiting its ability to provide technical assistance at the municipal level.

As COMURES and the municipalities gain experience and institutional maturity, the mayors should be setting the requirements for the training and technical assistance that they need and requesting that ISDEM respond to those requirements. This can be accomplished in a collaborative manner, but ISDEM should begin to see its role as supporting initiatives of the client municipalities, rather than as a central government agency dispensing favors to local governments.

B. USAID Municipal Development Strategy

The strategic objectives of USAID assistance to the Salvadoran municipal sector are to improve and expand the participation of the Salvadoran populace in democratic decision-making at the local government level, and to empower and enable municipalities to respond to the expressed needs of their constituents.

The USAID Municipal Development Strategy encompasses a policy-based, sector approach which will build upon the progress achieved to date and coordinate a variety of assistance instruments so as to expand and deepen the municipal development and decentralization process.

This strategy represents a balanced approach 1) to support reforms to legislation and policies constraining the devolution of authority and responsibility to the municipal level; and 2) to address the technical and decision-making inadequacies at the municipal level in order for local governments to best utilize their autonomy and to respond effectively and efficiently to the needs of their constituency.

Through the Municipal Development Project, USAID will intensify and consolidate its efforts in the municipal sector, while at the same time sustain and institutionalize the benefits accrued under the MEA program and other USAID project activities. The Municipal Development Project, supported by the MEA Program (both jointly programmed local currency and dollars under NRP), and combined with ESF policy reform conditionality, will form the basis of the policy-based, sector approach to support the decentralization process and strengthen the municipalities in El Salvador. Municipal Development Project resources will complement ESF policy dialogue efforts by providing the necessary technical assistance, training, and institutional support to develop, promote, and implement a comprehensive reform plan.

Conditionality included in the 1993 ESF Policy Reform Program builds upon the GOES momentum towards decentralization and municipal autonomy, and is specifically designed to support and complement the Municipal Development Project. USAID will continue to use future ESF Programs in tandem with the Policy Reform Component of the Project to pursue municipal autonomy and broadened political participation.

C. Project Goal, Purpose, and End-of-Project Status

The Goal of the Municipal Development Project is to promote enduring democratic institutions and practices in El Salvador. The Project Purpose is to enhance the participation of the Salvadoran populace in the local democratic process and to improve the capacity of municipalities to respond to the needs of their constituents.

End-of-Project Status (EOPS)

At the end of the six-year project, the Project Purpose will have been attained through achievement of the following conditions:

1. Increased self-sufficiency of municipal governments through local control of financial resources.
2. Greater municipal responsibility and authority for delivery of public services.
3. Increased efficiency and effectiveness of selected service delivery by municipalities.
4. Increased and enhanced citizen participation in the local democratic decision-making process.

5. Increased public confidence in municipal government to respond to the needs of its constituency.
6. An educated citizenry regarding local democratic development and their role in the process.

Although it is not reasonable to expect that all of the constraints to municipal development will be removed by the end of the six-year life of the Project, considerable and measurable progress toward achievement of the purpose will take place. Early in the life of the Project, the institutional contractor will assist COMURES in adopting the quantified targets to be used and in collecting the baseline data against which those targets will be measured.

To achieve the end-of-project status, the Project will finance technical assistance, training, and commodities to help selected municipalities and COMURES to accomplish the following major outputs:

- ▶ There will be private interest groups, citizens associations and local organizations with input into the municipal planning and budgeting process, as well as in implementation and oversight of municipal activities.
- ▶ The mayors and members of all of the participating city councils and staffs will be trained, to varying degrees, in municipal planning, leadership skills, personnel management, financial accountability, negotiation, administration and management, and democratic procedures and principles.
- ▶ The minimum basic services expected of a municipality by the Municipal Code will be improved. These services include: improved trash disposal; cleaner streets requiring a lower level of maintenance; and improved municipal markets including sanitation, revenue generation, and the contracting out of management.
- ▶ An expanded level of public services will be provided to citizens consistent with the management ability and revenues of the particular municipal government. These potential services will include: sanitary landfills and wastewater treatment facilities; a capital improvement program for investment in priority infrastructure using funds from local revenue capital budgets; updated cadastral systems for improved tax administration; the establishment of local public works departments; intermunicipal agreements providing for joint services in a variety of public works; and, quite possibly, operation of potable water systems providing a net revenue gain to the municipality.
- ▶ Larger municipalities (categories A, B and C) will have generated a sufficient, sustainable local revenue base through improvements in local service fee administration and collection, and a local property tax, so as to significantly reduce or eliminate altogether any dependence on central government transfers.

- ▶ There will be intermunicipal agreements to pool resources and share services where such structure is more efficient. This approach will be particularly encouraged among member municipalities which do not independently possess the human resources or the economic potential to manage the increased responsibility and authority devolved to the municipal level (category D municipalities).

In addition to the municipalities selected for intensive assistance, at the end-of-Project all the municipalities in El Salvador will have benefitted from the Project through the following outputs:

- ▶ Through training programs and a variety of dissemination techniques, the experience of the municipalities selected for intensive assistance will have affected significant improvements in management and public services in many other municipalities. Those municipalities which show the most initiative and interest in their development will be more likely to receive direct benefits from the project.
- ▶ Citizens of all municipalities will better understand their rights and their responsibilities in a democratic local government.
- ▶ Citizens of all municipalities will have a new attitude toward and increased confidence in municipal government.
- ▶ A self-sufficient association of municipalities, COMURES, will provide guidance and support to the mayors while becoming an effective voice for municipalities with the Legislative Assembly and with the central government.
- ▶ Multi-party representation on municipal councils will have been enacted into law or near enactment.
- ▶ A formula-based revenue sharing system will be implemented favoring those municipalities with the weakest revenue base (Category D).

D. Project Strategy

The Municipal Development Project carries forward the momentum of GOES efforts in decentralization and municipal development, while sustaining and institutionalizing the benefits accrued under the six-year MEA Program. The Project will strengthen the technical and management capacity of the municipalities, increase their legitimacy by enhancing citizen participation, and contribute to their sustainability by broadening and increasing the municipal resource base, and increasing the municipalities' control over those resources. As the cornerstone of the Mission's policy-based sector approach to municipal development, the Project will encourage and facilitate policy reforms at the central and municipal levels, and provide technical assistance and training to COMURES and to municipalities in support of these reforms.

Project activities focused on policy reforms will complement the ESF policy agenda by providing analysis necessary for strengthening public debate and consensus-building, as well as by providing the appropriate technical assistance necessary to implement reforms under the ESF Program. Jointly-programmed local currency and NRP funds supporting municipal development (MEA resources) will be closely coordinated with Project activities to ensure that all USAID municipal development resources are being used in the most effective manner to support the Project objectives. MEA resources for municipal-level infrastructure and other projects will provide critical financing to complement project-funded technical assistance and training as well as serve as an incentive to municipalities to implement local-level reforms.

The Project will consist of three mutually reinforcing components which deal with policy reform and formulation, municipal strengthening, and local democratic development. Strengthening democratic processes and increasing citizen participation will be at the foundation of all project activities.

The Project emphasizes the development of policies which transfer the authority to and strengthen the autonomy of local governments. Project-financed technical assistance will assist COMURES to prepare policy alternatives to expedite the transfer of decision-making and control of resources to the municipal level, and to build consensus around these policy positions. The Project is also designed to directly engage the GOES in project activities and policy dialogue. Working through the CDM, the Project will ensure that the GOES agenda for decentralization and municipal development remains on track, and that all appropriate actors in the GOES are fully integrated into the process. Successful decentralization and municipal development in El Salvador will require the consensus of myriad government agencies in El Salvador to support passage of the requisite legislation, and to ensure implementation of the strategy and legislation.

The Project will provide technical assistance and training for strengthening the technical, financial, and managerial capacity of municipalities, while educating both the municipal governments and their constituents about their rights and responsibilities in a more autonomous and participatory system. This assistance will be targeted not only toward new responsibilities as they devolve to the local level, but also towards those areas of responsibility and autonomy currently allowed, but underutilized, under the Municipal Code.

Ultimately, the municipality should be providing a variety of public services to its constituents on a sustainable basis, in a more direct, efficient form than the central government, and it will be able to respond much more rapidly and flexibly to local demands for services than could central government agencies. Project assistance will thus be used to mitigate the principal constraints outlined above, through the development of more autonomous, participative and responsive municipal governments.

Project Activities will be initiated through a two-year \$4 million Pilot Phase concentrating on priority policy reforms; institutional strengthening activities in four to five municipalities to implement policy reforms and generate local revenues; and local democratic development activities including a public education campaign. The progress of the Pilot Phase towards

achievement of the Project purpose will be the critical factor in the USAID determination to go forward with the full six-year, \$15 million Project.

E. Project Components

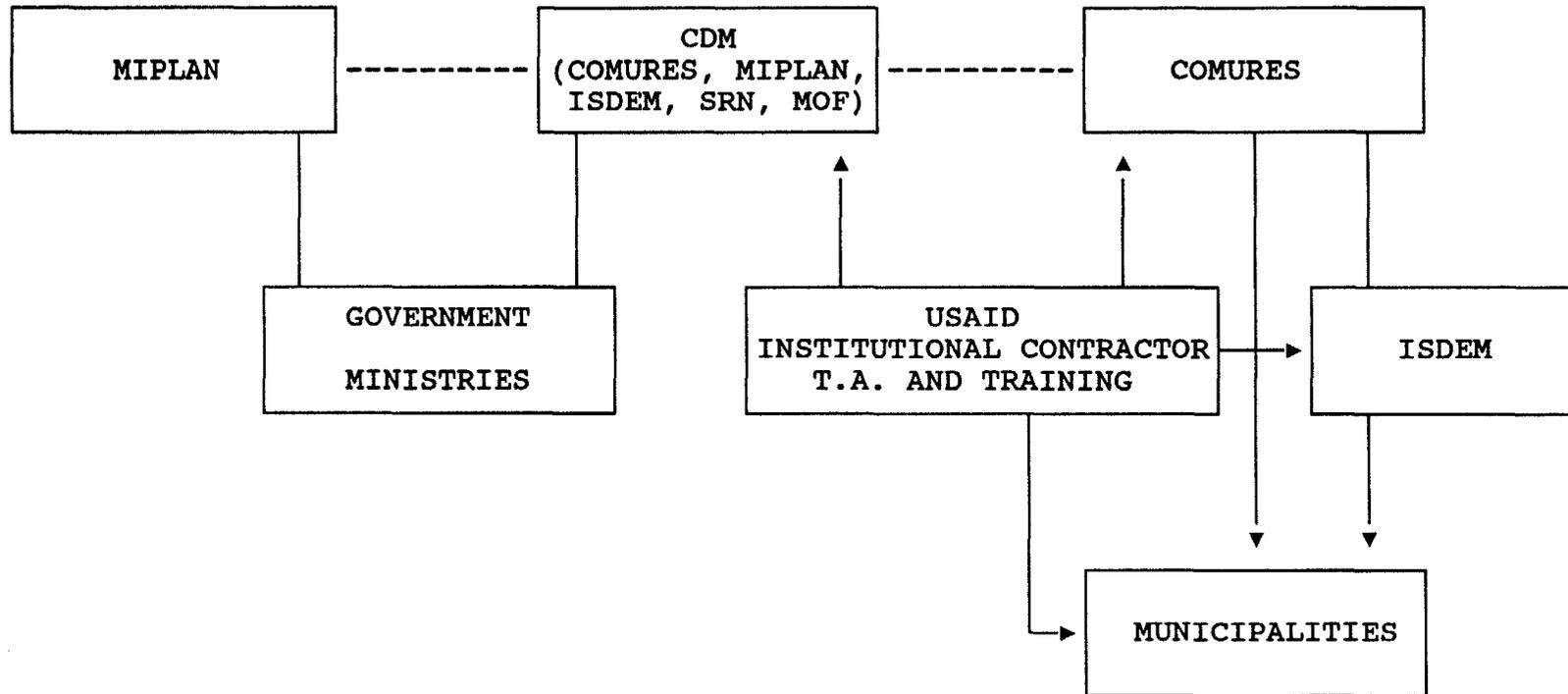
The Project is composed of three mutually-reinforcing components. The first component will support and facilitate GOES decentralization and the transfer of responsibility and authority to the municipal level by addressing legislative and policy constraints. The second component will support the technical, financial and managerial needs of municipalities to improve their current operations and to assume new responsibilities resulting from decentralization policies. The third component will be directed at increasing and enhancing citizen participation and promoting greater public awareness of both the rights and responsibilities in a system of increasing municipal autonomy. Increased participation and improved municipal operating capacities will generate a demand for additional responsibility and autonomy requiring the Project to support additional devolution to the municipal level.

COMURES and MIPLAN will be the major project counterparts. COMURES, in its role as representative of the mayors and municipalities, will be the principal implementing institution providing overall coordination for the Project. The Project will strengthen COMURES' capacity to plan and coordinate activities within the municipal sector as well as strengthen the institutional capacity of COMURES to increase its chances for financial self-sufficiency by the end-of-Project. MIPLAN, as the GOES representative, will insure GOES support and concurrence for activities and policy changes under the Project (see Figure 1 for Organizational Chart).

In addition to those responsibilities already mentioned, COMURES, in coordination with CDM to ensure GOES support, will take the lead role to coordinate all activities in each of the three components: developing and vetting policy alternatives; participating in the selection of the 15 municipalities to receive intensive assistance; monitoring project progress and impact; coordinating activities related to technical assistance and training; providing training to new mayors and other elected officials; and overseeing the civic awareness campaign.

The adoption and timely implementation of reforms will require far greater levels of coordination among GOES institutions than has been the case up to now. The CDM will be responsible for improving coordination among those institutions which have critical responsibilities in the design and implementation of a decentralization strategy and in the reform and implementation of policies necessary to facilitate decentralization and municipal development. These institutions include COMURES, MIPLAN, SRN, ISDEM, Ministry of Finance, and each of the appropriate central government agencies responsible for delivery of specific public services. The CDM is responsible for drafting a GOES decentralization strategy and action plan, and together with COMURES, building consensus for its approval and implementation. The CDM will be responsible for informing government ministries of the project findings and progress and for facilitating GOES actions necessary for Project success. For example, the CDM will be responsible for ensuring that appropriate central government services are decentralized to Project municipalities on a pilot basis.

Figure 1
Municipal Development Project
Organizational Chart



Component 1 -- Policy Reform and Formulation

The USAID policy reform agenda in the municipal sector will be addressed through a variety of instruments as part of an overall approach to removing legislative and policy constraints to municipal development. The Project will be the vehicle through which the Mission will consolidate and coordinate its wide variety of activities related to municipal development and decentralization to ensure the maximum impact and effectiveness of these activities. Through the ESF program and Project Component 1, USAID will encourage policy reforms related to decentralization and municipal development which will benefit all Salvadorans through devolution of authority and autonomy to the municipal level and through increased citizen participation and broadened political representation in the local decision-making process. Through the MEA Program and participation in the Municipal Development Project, municipal governments will be encouraged to reform current policies and practices and formulate new policies that contribute to more effective and participatory municipalities. Under Project Components 2 and 3, the Project will provide the technical assistance and training needed to implement policy reforms sought by the Project, the ESF Program, the MEA Program, and other activities across the Mission project portfolio.

The Project will also utilize the ROCAP/RHUDO Local Government Regional Outreach Strategy (LOGROS) Project, as appropriate, for short term training and observational travel for Mayors and members of the Legislative Assembly. This training will include seminars, conferences and observation trips within Central America and to the U.S. to familiarize participants with successful decentralization and municipal government programs.

The success of USAID in the municipal sector in El Salvador depends a great deal on the ability to generate a consensus of opinion on a national municipal development strategy and those priority policy reform measures necessary for implementing that strategy. This consensus-building effort must focus on the "Stakeholders" (for Stakeholders Analysis, see Annex VII) who will play an important role as beneficiaries or as principal actors in strengthening municipal government. As the principal Project implementing institution, COMURES, working closely with the CDM, will draw on Project assistance to analyze the policy framework governing municipal operations, and pursue legislative and policy level changes in favor of municipal autonomy. Using seminars, workshops, public education, and lobbying efforts, COMURES and the CDM will provide critical information necessary for making informed decisions about decentralization and municipal development. In addition, an education program in democratic processes will provide national-level policy-makers with information and training needed to broaden their perspective on local democratic development. COMURES will, of course, keep the mayors involved in the deliberations. This representation is ample enough to ensure that the plan for municipal development is based on a broad consensus of opinion.

During the Pilot Phase of the Project, COMURES will work to build consensus and to facilitate policy changes for greater municipal autonomy on two tracks. The first will be gaining consensus from the political parties on the GOES Decentralization and Municipal Development Strategy as outlined by the CDM. The second will be through consensus-building for the

municipal finance package proposal required by the 1993 ESF Program (see Municipal Finance below). The Pilot Phase of the Project will finance 5 person-months of expatriate and 4 person-months of local short term technical assistance to support the CDM in developing and refining a policy reform agenda and building consensus for that agenda and the municipal finance package among the stakeholders prior to the March 1994 elections. This technical assistance will be contracted directly by USAID, since the long-term institutional contractor will not be in place until after the elections.

Throughout the life-of-Project COMURES will review and analyze the policy framework for municipal development and decentralization. Building consensus for efforts to mitigate policy constraints will require a continuing round of conferences, workshops and educational programs which USAID will support as a part of the Project. The Project will work closely with the GTZ, the World Bank and the IDB to coordinate policy agendas and technical support for these reform measures.

The USAID policy agenda for reform leading to municipal autonomy is based upon three basic principles: 1) broadened citizen participation in government actions; 2) decreased municipal dependence on external sources of financing; and 3) greater efficiency in service delivery (and consequently, improvements in quality-of-life for citizens). Within this context, the Project approach is designed to affect a structural change in intergovernmental relations maximizing incentives to raise revenues in the municipalities thereby increasing municipal autonomy and local control over resources, while relying to the minimum extent possible on central government assistance. It is not enough to pursue a series of separate and sometimes disparate actions to increase municipal autonomy. Devolution of decision-making and resource management to the municipal level needs to be addressed by changing the way in which central and municipal governments relate to each other (see Section VI.A. Summary Technical Analysis for further explanation).

Within this policy context, the USAID Municipal Development Strategy has focused its attention on three policy areas critical to creating autonomous, sustainable municipalities: municipal finance, decentralization, and popular participation (see Table 4).

Table 4
USAID Municipal Sector Policy Agenda

Reform	Mechanism	Timeframe
<i>Municipal Finance</i>		
▶ Reform of the <i>Ley de Tributos</i>	FY93 ESF Program	Completed
▶ Municipal service fees updated	FY93 MEA Action Plan	Completed
▶ Municipal Incentive Fund (30% annual increase in service fees required)	FY93 MEA Action Plan	Completed
▶ MEA resources for municipal infrastructure projects restricted to clear cases where ownership is retained at the local level	Project Covenant	-
▶ Municipal tax package drafted	FY93 ESF Program	November 1993
▶ Enabling legislation for property tax	Proposed FY94 ESF Program	May 1994
▶ Local resource capital budgets (10% of total revenues) established in MEA municipalities	FY94 MEA Action Plan	Mid-1994
▶ Community contributions for capital investments in MEA municipalities	FY94 MEA Action Plan	Mid-1994
▶ Revenue-sharing legislation	Project T.A. & policy dialogue	2-3 years
<i>Decentralization</i>		
▶ Ministry of Finance formally included on CDM	Project Covenant	-
▶ GOES decentralization strategy approved and workplan for implementation developed	Project Covenant	-
▶ MIPLAN MOU with ANDA signed for decentralization of water systems for Project municipalities	Project Covenant	-
▶ Legislative Assembly Committee on Decentralization and Municipal Development created	Project policy dialogue	July 1993
▶ ISDEM reforms to create a more politically representative, demand-driven institution	Project T.A. & policy dialogue	1-2 years
▶ Enabling legislation for decentralization of water systems	Project T.A. & policy dialogue	March 1996
▶ Comprehensive decentralization legislation	Project T.A. & policy dialogue	2-3 years
<i>Popular Participation</i>		
▶ Open council meetings for Project municipalities	Project Covenant	-
▶ Open council meetings for MEA municipalities	FY94 MEA Action Plan	Mid-1994
▶ Municipal Code reform to require open council meetings	Project T.A. & policy dialogue	1-2 years
▶ Legislative reforms: lengthening of mayoral terms; authorization of independent mayoral candidates; staggering of local and national elections	Project policy dialogue	2-3 years
▶ Broadened political participation municipal councils	Project T.A. & policy dialogue	2-3 years

Municipal Finance

The sustainability of municipal governments in El Salvador is dependent, to a large degree, upon their authority and capability to raise and control their own revenues. As described in Section II.B.2., Fiscal Condition of Municipalities, municipalities have become dependent on external resources. Excluding San Salvador, local resources in 1992 accounted for 24% of total municipal revenues, MEA funds provided 68% of municipal finances, and central government transfers accounted for only 8% of the revenue resources. As local currency under the MEA Program is phased out, revenues from local sources and the central government will need to be increased. The USAID policy agenda is designed to correct the current imbalance by encouraging policies to contribute to municipal autonomy and local revenue generation and increasing central government contributions only to the poorest municipalities.

During discussions with the sector's principal institutions, both public and private, several policy reforms related to municipal finance were identified as being of the highest priority. The most important, and fundamental to municipal autonomy, is the permanent authority of municipalities to set and adjust service fee rates. As mentioned earlier, the July 1993 reform of the *Ley de Tributos* has given municipalities permanent authority to set and adjust service fee rates for cost and up to 50% above costs. This legislative reform was included as conditionality in the FY 1993 ESF Program.

Over the past year, many of the municipalities, with the assistance of ISDEM, have taken advantage of the *Ley de Tributos* to analyze the costs of services and, in so far as possible, adjust charges to cover costs. As of March 1993, 133 municipalities have adjusted their rates, and it is expected that by December 1993, 180 municipalities, including virtually all municipalities with populations greater than 20,000, will have made these adjustments. In many communities the results have been remarkable. Those 133 municipalities which have already adjusted their service fee rates have generated more revenues from this source for the first three months of 1993 than for all of 1992. USAID projects that for these municipalities, revenue generated from service fees for 1993 will be three to four times more than in 1992.

As another part of the FY 1993 ESF Program conditionality, COMURES and ISDEM will prepare a municipal finance package by November 1993 which will include a proposal for an enabling legislation for a local property tax. COMURES will mount a campaign to foster consensus between the Administration and the Assembly on the benefits of such a tax. Approval and passage of a municipal property tax is anticipated by the Summer of 1994, and should be included as a conditionality measure in the 1994 ESF Program. To support the implementation of a property tax in selected municipalities, the Project will provide technical assistance to Project municipalities in the area of tax administration and cadastral systems.

The relative importance of reform of the *Ley de Tributos* and the local property tax to overall municipal finance in El Salvador is demonstrated by two studies commissioned by USAID in support of the Project design. A case study analysis was conducted of municipalities in all

categories, A, B, C, and D, with projections of the potential revenue situation under several scenarios at the end-of-Project. This analysis, together with study of the potential revenues generated by a local property tax, demonstrate how a municipal property tax and increased locally-generated revenue could more than replace MEA funds in the larger (category A, B, and most C) municipalities. In these municipalities, by 1999 it is expected that local revenues generated through adjusted service fee rates, improved management practices promoted under the Project, and new sources of revenue available to municipalities under current laws, would account for *50 to 60 per cent* of total municipal revenues. A property tax would account for another *30 per cent* of total municipal revenues. The smaller municipalities (category D) would still require some sort of formula-based transfer from the central government to sustain the level of resources established by MEA.

The Project will encourage additional central government transfers to those municipalities in El Salvador which do not have a sufficient resource base to increase local revenues significantly. The revenue transfers should be formula-based and away from negotiated, discretionary transfers, allowing the municipalities: a) a basis for consistent, reasonably accurate estimates of revenue from that source; b) a structure that does not constitute a disincentive to local level revenue generation; and c) a system of transfers as free from political manipulation as is possible. The revenue sharing may involve an increase in the present Economic and Social Development Fund with a fixed formula as a basis for the annual transfer, it may involve a percentage of the value-added tax (IVA) collection, a percentage of total government revenues, or some other base, depending upon further analysis and central government receptivity.

Resources from the MEA Program (both local currency and MEA dollar resources available under NRP) will also be used to support the objectives of the project, particularly with respect to encouraging reforms in both central and municipal government policies and practices. For example, MEA resources for infrastructure projects will be restricted to clear cases where ownership is retained at the local level. For access to MEA resources in 1994 and in subsequent years, municipalities will be required to develop own-source revenues. Currently, access to MEA resources requires that municipalities have updated their service fee rates to cover costs. In addition, MEA resources available through the Municipal Incentive Fund require municipalities to show a 30% increase in service fees over the previous year. Future conditions for access to MEA resources will require that municipalities 1) establish a capital improvement program from locally-generated revenues, representing at least 10% of their total budget; and 2) provide community contributions, in-kind or cash, for capital investments. This leveraging process will contribute to more effective use of the remaining MEA resources, as well as contributing to the formulation of policies and practices necessary for sustainable municipal governments. Competition among communities to provide matching resources within a given municipality will stretch municipal resources to enable the completion of more projects as well as to increase the magnitude of local support and participation in such projects. Only the 44 municipalities where there were exiled mayors will be exempt from this conditionality.

Decentralization

The GOES, as represented by the CDM, is currently in the process of drafting and elaborating a national strategy for decentralization and municipal development. Based on that strategy, the CDM will draft an implementation plan which will include the devolution of appropriate centrally-administered services to the municipal level on a pilot basis. Legislative changes are not required for the pilot decentralization, simply agreements between MIPLAN, the affected central government agencies and the municipalities. For decentralization to be fully realized, legislative changes devolving authority to, and autonomy for, the municipalities will have to take place. Along with the transfer of service provision there will have to be a transfer of appropriate levels of funding. Changes to the Municipal Code will also be needed to clear up existing ambiguities and contradictions, as well as to reflect new changes surrounding central government and municipal jurisdictions and authorities on the provision of public services.

The Pilot Phase of the Municipal Development Project will focus on the decentralization of water systems to the municipal level. MIPLAN will sign a Memorandum of Understanding with ANDA to allow municipal management of water systems in municipalities on a pilot basis. The Project will work through COMURES and the CDM to obtain enabling legislation that would decentralize water systems for more effective and efficient delivery at the municipal level by December of 1995.

The Project, through policy dialogue and technical assistance, will encourage and facilitate the decentralization process. Observational travel will be provided for members of the Legislative Assembly and central government officials to visit other countries in Latin America which have had successful experiences with decentralization. This Assistance will be provided under the Project and through the ROCAP/RHUDO LOGROS Project. The Project will also provide technical assistance to selected municipalities to assist them in the transition from dependence on centrally provided services to self-management of public service delivery.

As part of the decentralization process, the central role of ISDEM will evolve from a paternalistic, top-down organization to one which is demand-driven and responsive to the needs of the mayors. Because of the structure of its Board of Directors (composed of the Mayor of El Salvador and representatives from key government ministries) and its central government funding source, ISDEM inevitably becomes a political instrument of the party in power. The paternalistic attitude which the institution has historically displayed toward municipalities, although it is gradually improving, still influences the planning and the programming in a directive way, rather than in a manner which responds to the expressed wishes of the mayors and the municipalities. ISDEM should be demand-driven and responsive to the needs of the mayors, and any restructuring, for example proportional representation on the Board of Directors, will not only reflect broader political participation, but it also should be weighted toward municipal officials instead of central government ministries.

Finally, the Municipal Development Project will be the focal point for coordinating all policy reform activities related to decentralization of public service delivery across the Mission's project portfolio (summarized in Section II.C.).

Popular Participation

Increasing citizen participation in the local decision-making process is at the heart of the Municipal Development Strategy and Project. The medium-term objective (2-3 years) in this area is the broadening of political representation on municipal councils. At present, municipal councils are made up totally of members of the political party of the elected mayor. There is no organized representation for opposition party members, even if the mayor has won only a small plurality of the votes. Moreover, it is the central party structure which determines who the party candidates are to be for local office, thus forging alliances between local officials and the national party structure rather than between the elected and the electorate. In such a system, the tendency for losers simply not to become involved in municipal affairs is strong, with obvious implications for participation and mobilizing broad support for municipal projects and functions. One such mechanism to affect this change is proportional representation on municipal councils which would require changes to the Electoral and Municipal Code.

In addition to proportional representation, changes in electoral practices should be made to overcome restrictions on voter choice and ultimately political representation through reforms such as authorizing independent candidates and staggering the elections of local and national officials so that municipal candidates can be identified based on local issues rather than national political policies. Consideration should also be given to extending the term of mayors for a period longer than the current three years.

In the current absence of legislation requiring proportional representation or other forms of broadened political representation, the Project will encourage and in some cases require other mechanisms which support enhanced participation. The most important of these mechanisms is the opening up of municipal council meetings. The Project will require that all municipalities selected for intensive assistance under the Project open to the public all council meetings that deal with budget issues and project prioritization and selection. This same criterion will be required for future access to MEA resources.

As municipalities begin to broaden access to municipal council meetings, Project resources will be used to bring in mayors from other municipalities to expose them to the process. Mayors from all municipalities will also be exposed to open town meetings through the CLASP and LOGROS Programs which will take mayors to the U.S. to observe open council meetings which are required by law. The objective of the Project in this area is to advocate for the reform of the Municipal Code to require all municipalities to open council meetings to the public. Additional reforms to the Municipal Code will be analyzed by COMURES and alternative legislation proposed. For example, the Municipal Code could be amended to allow citizen initiative in the use of the vastly underutilized *consultas populares*. The mechanism of *consultas populares* as outlined by the Municipal Code is ostensibly a mechanism for registering

public opinion that is binding on the actions of the council. The *consulta* has been rarely used in municipalities and is seriously flawed because by law the *consultas* are held only at the will of the council; citizens have no right to request a vote.

Component 2 -- Municipal strengthening

While benefits of the Project will extend to all 262 municipalities in varying degrees, the Project will work intensively with 15 municipalities (initially four to five municipalities in the Pilot Phase) to a) improve the mechanisms for popular participation in local government and develop new channels/mechanisms and an organizational basis for democratic decision-making; and b) develop the administrative, technical, and financial capacity to respond effectively to the needs of their constituents by providing improved, expanded public services and accelerating the economic and social development of their communities. These selected municipalities will be representative of the four categories of municipalities nationwide and serve as models for other municipalities.

Municipality Selection and Assessment

COMURES, with the assistance of the institutional contractor, will manage the selection process, coordinated with the CDM to ensure GOES concurrence with municipalities selected for decentralized services. Municipalities selected will be presented to USAID for review and concurrence. Municipalities will be selected, in part competitively, based on the characteristics of the community. The selection criteria will include (a) demonstrated commitment by the mayor and municipal council to the goals of the Project, and political will to make changes necessary to improve municipal operations and improve citizen participation (this is the single most important criterion); (b) a track record of good performance on MEA projects, service fee increases, and public service improvements; (c) interest of the municipality in building its own financial base, and thereby strengthening municipal autonomy; (d) good track record with *cabildos abiertos* and demonstrated initiative with other forms of citizen involvement; and (e) willingness to take on responsibility for new decentralized services and to aggressively address unmet community needs. In addition, the municipalities should have a reasonably positive economic potential for growth and, to the extent possible, they should also be representative of other municipalities for maximum demonstration effect and replicability potential. The target municipalities should include those having mayors from as wide a cross-section of political parties as possible. Communities from the former conflictive zones should also be included, as much for political reasons as for their social and economic development potential.

Upon selection of the municipalities, assessments will be conducted in each municipality to define specific constraints and to reach agreement on the measures to be undertaken. The design of these assessments will be undertaken by COMURES and the institutional contractor simultaneously with the municipality selection process. Each assessment will review the current situation and areas of concern; identify the major opportunities which should be further analyzed and developed; and recommend activities to begin to address the constraints. The assessments will address economic, social, physical, financial and administrative issues, focusing on key

priority issues identified in the assessment design including, but not limited to, service and other deficiencies facing municipal residents and businesses; increased municipal finance from local resources; the extent of citizen participation in municipalities including the roles of NGOs and local community organizations; and other municipality-specific areas of concern. Each assessment will require approximately 2 person-months of local short-term assistance.

The key issues and problems identified for each municipality will be discussed with municipal officials, NGOs, community organizations, private sector leaders and all other interested parties at the municipal level. Based on the feedback received, the municipality with the assistance of COMURES and the Institutional Contractor will formulate a strategy to address the key issues and constraints identified.

The target municipalities will include municipalities from all categories (A, B, C and D). The recent case study analysis of municipal finance by the International City Managers Association (see Annex IV for complete report) has shown that while there are considerable differences between the income potentials of different categories of municipalities, category D municipalities should not be excluded outright. The case of Texistepeque (population 18,000) is a case in point. Through the work of its ambitious mayor, Texistepeque has increased its service fees 260 percent from 1992 to 1993. While tax delinquency was a major problem at 40 percent two years ago, delinquency has been cut to an almost negligible level. The municipality is about to receive computers through MEA to be used to update cadastral records. Updating of cadastral records will allow the municipality to substantially expand the taxpayer rolls, producing significant new revenues.

Intermunicipal Cooperation

The Project will assist some municipalities with smaller populations, lower revenue bases, or less administrative/management capacity (category D) to merge into associations or other groupings which will allow for the pooling of resources and possible sharing of services. Another option is contracted services, where one municipality provides services to adjoining municipalities for a fee. For example, the city of Sonsonate currently provides services including computerization of cadastral records, urban planning, and construction inspections for three other municipalities in its urban metropolitan area.

As decentralization proceeds, there will be a need for additional mechanisms for intermunicipal cooperation, since some of the municipalities may not be able to take over a service alone. For example, in Santiago de María, there will probably be a need to create a new regional water authority or a council of municipal governments, to manage the potable water system for eight municipalities in that area, all of which share the same water source. For other municipalities it may be useful to have intermunicipal agreements for sharing ownership and maintenance of major construction equipment such as graders and tractors. Having such equipment available to a cluster of small municipalities could result in a dramatic improvement in construction and maintenance of roads and other public works.

In order for municipalities to develop the most appropriate forms of regional or intermunicipal agreements, the Project will provide technical assistance and training to help assure proper management, scheduling, maintenance, and provision for amortization so that equipment can be replaced. Similar to the pilot effort with individual municipalities, the aim will be to develop models which best respond to a mix of technical assistance and training and are replicable.

Municipal Technical Assistance and Training Needs

A preliminary assessment of the needs of the municipalities in the areas of technical assistance and training was conducted in support of the Project design (see Section V., Technical Analysis Summary). Two key findings which form the basis for the Municipal Strengthening component evolved from the analysis: 1) municipalities have similar basic problems and require similar technical assistance to address those needs; and 2) the single most important factor in increasing local revenue sources and improving the equality of municipal services in all municipalities is improved management.

The Project will work intensively with 15 municipalities providing technical assistance and training directed at improving management systems, identifying and aggressively pursuing revenue resources, expanding and improving public service effectiveness and efficiency, and setting up a series of channels for involving constituents in the municipal decision-making process. While each of the municipalities is unique, and needs will vary from municipality to municipality, a basic menu of technical assistance needs do not seem to vary greatly between the larger and smaller municipalities. All have similar basic problems with budgeting formats, tax collection systems, low quality environmental services, street vendors, etc. The larger municipalities have more professional staff, and employees with higher education levels. Therefore, training programs and manuals will be adapted somewhat for the size of the municipality. As the decentralization process evolves in El Salvador, there will be the need to provide a wider variety of technical assistance and training approaches, to meet different needs. Intensive technical assistance will be provided to municipalities that are planning to take over potable water systems, or build major capital improvements such as water treatment plants.

Five broad areas identified for increasing and improving municipal development are: 1) Municipal management and finance including organization, budgeting, external auditing, personnel systems, and computer systems; 2) Tax administration and cadaster systems; 3) Water and environmental technology including solid waste management, wastewater, potable water, and associated engineering services; 4) Expanded service provision including urban planning, local economic development, privatization of public services, and regional cooperation; and 5) Increased and broadened citizen participation in the municipal decision-making process.

Short term technical assistance, both U.S. and local, will be made available to selected municipalities based on the findings of the municipal assessments conducted at the outset of the Project. U.S. and local short term assistance will be contracted by the institutional contractor under the guidance of COMURES.

The preliminary assessment found that the single most important factor in increasing local revenue sources and improving the equality of municipal services in all municipalities is improved management. Without improved management, municipalities will not be able to tap revenue sources that are already available to them under existing laws, nor be able to absorb well the growing responsibilities under decentralization. The Project will improve municipal management through a variety of mechanisms including: 1) Improved budget processes and formats to insure simplicity and transparency; capital improvement budgets will also be developed for investments in municipal infrastructure; 2) Annual audits, by an external auditor, to establish better financial controls and ensure transparency; 3) Continued modernization of the cadastral systems to enhance the tax base, including potential taxpayers who are not registered; 4) Introduction of new tax collection and billing techniques to eliminate delinquencies; 5) Management training for municipal officials; and 6) Promotion of the hiring of professional municipal administrators.

Institutional Strengthening of COMURES

The Project will provide technical assistance and training to COMURES to assist the institution with 1) carrying out its mandate to effectively represent municipal concerns; and 2) developing a strategic vision which will contribute to strengthening municipal development in El Salvador and to its own institutional sustainability. USAID has been providing an advisor to COMURES since August 1993 to assist in this capacity as well as to strengthen the institution in order to carry out responsibilities under the Project. The Project will subsequently provide an advisor to COMURES to continue with its institutional strengthening.

The Project will provide assistance to COMURES in their mission to be an effective advocate for municipal concerns with both the central government and the Legislative Assembly. Over time, COMURES' credibility will be measured by the effectiveness of its advocacy and lobbying efforts toward municipal reform. The Project will assist COMURES in this role through a variety of measures including the more subtle one-on-one discussions between Board members and *diputados*, small meetings between *diputados* and key mayors, information dissemination on municipal development both in El Salvador and in other countries, and adopting other appropriate lobbying techniques that have been used successfully in other countries. Short term training and observational travel will be provided for key COMURES staff and the Board of Directors.

The Project will assist COMURES in expanding their membership and in developing a program for assessing appropriate dues for members, both for the purpose of representing the mayors and municipalities to the fullest, as well as to provide financial resources to better serve municipal interests and to provide for the future sustainability of the organization. Of the 262 municipalities nationwide, 148 are now members of COMURES. Of these, 128 have authorized the discounting of COMURES' dues from their allocation under the Fund for the Economic and Social Development of Municipalities.

The Project will assist COMURES in making informed decisions with regard to expanding their membership beyond mayors. From its beginning, COMURES has considered itself a "federation." Currently it is a federation of departmental associations of mayors, but the opportunity exists for the institution to expand its membership base to include other affiliates such as *regidores*, municipal managers, and/or other groups of municipal employees. In this way COMURES will involve a greater number of people, broadening its popular support, building its political clout, and increasing its chances for institutional and financial self-sufficiency.

Current USAID technical assistance to COMURES will have assisted in developing a training capacity for new mayors. The Project will assist COMURES in developing training for other elected officials (*regidores*), elaborating methods for improving the decision-making process, particularly the roles and responsibilities of municipal leaders. This political and leadership training is seen as the purview of COMURES and is quite separate from the technical training which is the province of ISDEM and other institutions. However, as the principal voice for the mayors, COMURES will take the lead in developing a capacity to be able to define the training needs of municipalities and to set the training agenda to which other local and international institutions will respond.

The Contractor will assist COMURES in identifying outside assistance to strengthen the internal organization of COMURES to develop an institution that will, in the long term, become financially self-sufficient, independent of outside donor resources. Some of the areas that would be most useful in this regard include business management, membership services, strategic planning, improving the association's newsletter and development of other publications, and developing information and data services for municipalities.

In the short to medium term, COMURES will engage other international and bilateral donors for the purpose not only of diversifying COMURES' funding base, but also of soliciting other donor support for the municipal sector in El Salvador.

Dissemination of Project Experience and Benefits

Municipalities selected for intensive assistance will be representative of the majority of municipalities in El Salvador for the purpose of replicating and spreading the experience of the pilot municipalities. COMURES will take the lead in identifying priority training needs and areas for replication in Salvadoran municipalities. The Project will fund a training coordinator for COMURES to develop an information clearinghouse capacity for municipal development experience and to elaborate a training agenda to spread the knowledge and experience gained in the 15 selected municipalities.

ISDEM will participate in the training program to disseminate applicable experience to the broad array of municipalities in El Salvador. The GTZ will be assisting ISDEM through 1995 to further develop their training unit, particularly in the areas of municipal management, finance, cadasters and urban planning. ISDEM will be responsible for developing techniques and

designing programs to demonstrate the Project experience to other municipalities. Workshops and seminars will be developed for mayors and municipal officials to demonstrate the benefits of the Project. ISDEM will develop manuals based on their experience under the project, particularly in the areas of municipal management, finance, and cadastral development, as well as the broader lessons experienced in the municipalities targeted for intensive assistance under the Project.

Short term technical assistance will be provided to ISDEM to assist in the production of manuals, newsletters, brochures, videos, and other appropriate media to disseminate the project experience.

MEA Resources in Support of the Municipal Development Project

In addition to Project-funded technical assistance and training provided through the three components, the project will integrate local currency generated under the ESF Program and dollar resources made available under NRP for the MEA Program. Access to these resources will be designed to complement and support the objectives of the Project as described in Component 1, Policy Reform.

The Municipal Development Project will not provide resources for capital investment such as infrastructure. The Project will rely on the development of local resources and MEA funds for this purpose. The 15 Project pilot municipalities will also be targeted for priority assistance under the MEA Program. Should levels of ESF-generated local currency decline drastically, these 15 municipalities would be given priority to guarantee a minimal level of MEA resources to provide financing to complement technical assistance under the Project.

Component 3 -- Local Democratic Development

The exercise of civic responsibility in El Salvador has been constrained by a variety of factors including the civil war, a lack of confidence in the political system, and a lack of citizen awareness of their rights and responsibilities in a democratic political system. National institutions and national politics are perceived to have little effect on people's daily lives, particularly as one moves further away from the capital city.

The experience of the MEA program has successfully demonstrated to communities how to organize around issues, select priorities and use the structure in place for action-oriented results. Citizens now know how to approach their mayor, present their case, and press for their needs through *cabildos abiertos*. While the cabildo is the single most important democratic advance in local politics in the history of the country, it is virtually the only formal mechanism for registering popular sentiment and it provides a very limited forum for discussion of local issues.

Participation in democratic activities beyond the quarterly cabildos varies from municipality to municipality, based primarily on the initiative of each individual mayor. In Sonsonate and El Tránsito, for instance, mayors independently had decided to open some of their council meetings

to the public. They were motivated to do by the open meetings they had witnessed in the U.S. through the Central American Peace Scholarships (CAPS) Program. In Texistepeque, the municipal council has established a community advisory board made up of key members of the community, including educators, clergy, and the private sector. The council met regularly with this board and sought their advice on numerous matters. In several municipalities, mayors are rotating cabildos to different *cantones* of the municipality. Although this is not required by the Municipal Code, it provides a good mechanism for bringing in the traditionally marginalized rural population. The Project will increase participation in the democratic processes by building upon and replicating the experience of those municipalities that have initiated improved democratic processes as well as identifying new mechanisms for increasing and broadening participation.

One important mechanism for increasing and enhancing participation in municipal governance is improving and regularizing the relationship between the municipal council and the organized communities. Municipal organizations can be organized under the Municipal Code with *personería jurídica* (legal status) being facilitated by the municipal council. However, many municipal officials and citizens alike are confused about community associations -- how they function, how they were elected, and what their role is in the municipality.

As part of the municipal assessments to be conducted at the outset of the Project, a study of local level organizations will be undertaken in each of the 15 pilot municipalities. The study will have two purposes. First, it will identify all of the existing organizations in each of the selected municipalities to provide a newly-elected mayor and council members a description of these groups. The description will include information on their location, size, leadership, purpose, and history of recent activities. Second, it will help identify patterns of organizations that will give COMURES and ISDEM a clearer idea of the nature of grass-roots organizations in El Salvador.

The Project will provide training of municipal personnel (both elected and appointed) in the promotion of community development organizations. At one level, there is the formal process of registering these groups so they can function officially. COMURES will develop an easy-to-follow manual for use in each municipality, and COMURES promoters will be responsible for training municipal officials, possibly as a significant component of a given council meeting. This task can be completed in the vast majority of municipalities. Knowledge of procedures does not mean that all public officials will necessarily be sympathetic and supportive of the registration of community groups. Some officials may see such groups as a challenge to their authority. Dealing with this problem is a far more complex task, and the Project will limit, at least initially, technical assistance for this activity to the initial 15 municipalities.

Some municipalities have already opened selected council meetings to the public. This "transparency" will allow for improved citizen understanding and participation in the decision-making process and will minimize the impression that secret deals are being cut. In the absence of current legislation for proportional representation, open meetings is the most effective way to ensure as broad a representative base as possible. The Project will condition assistance to the

15 municipalities upon their agreement that council meetings be open to the public. While opening all council meetings may not be practical (sensitive administrative and personnel issues may be moved to closed sessions), all council meetings dealing with budgetary issues and project prioritization and selection issues will require a public meeting.

The Project will provide training to council members of the 15 participating municipalities in how to run an open council meeting. This training will provide formal rules and a framework for recognizing the publics' input and yet still retaining control of the meetings. COMURES will manage this task.

Public Awareness

Information plays a critical role in promoting increased citizen participation. While the Municipal Code gives citizens at the local level the means to access political decision-making through *cabildos abiertos* and *consultas populares*, few citizens are aware of these rights, and the associated responsibilities in exercising these rights. The Project will use a variety of means to increase citizen awareness of their rights and responsibilities. In the first year of the Project, a public awareness campaign, *Conozcamos nuestro Código Municipal*, will be developed by COMURES targeting NGOs and community organizations, based on a similar and successful earlier campaign to promote knowledge of the new Salvadoran constitution. A key aspect of this campaign will be the development of a comic book style pamphlet that will be distributed to leaders of community organizations. Access to and understanding of the Municipal Code is critical to enhancing the local democratic process. In many municipalities, mayors invoke the Municipal Code regularly in their arguments for or against particular issues and actions. Local groups must have their own copy of the code so that they know their rights and responsibilities.

The mass media such as radio, television, and newspapers are important tools for promoting civic awareness, as are alternative forms of media such as brochures, publications, and posters. Since TVs are not common in most homes, a series of radio programs will be utilized, given the wide radio audience in all sectors of the countryside. In addition, the Project will develop video tapes to be shown at *cabildos* in rural areas.

End-of-project status includes increased public confidence in municipal government to respond to the needs of its constituency, and an educated citizenry regarding local democratic development and their role in the process. Measurement of success in achieving these objectives is critical to overall Project success. Genuine progress on expanding participation in decision-making can only be measured by talking directly to Salvadoran citizens and determining what transformations have occurred and what the impact has been. Citizens should believe that their local governments are responsive, they should think of their municipal leaders as people to whom they can bring their local problems, and they should respect their decisions. Citizens should also have learned how to define community needs and problems, how to generate support for their solution, and how to present their demands successfully to the local government and the national government (where appropriate).

In order to measure these expected shifts in citizen attitudes and behaviors, the Project will develop a baseline data base in each of the 15 municipalities selected for inclusion in the Project. A survey will be conducted in each of the municipalities targeted for intensive assistance. This survey will be repeated approximately every year and a half throughout the life of the Project to determine changes in citizen attitudes and practices (see Section IV.A. for details).

The Project will coordinate with the Democratic and Electoral Processes Project to utilize, to the extent possible, NGOs selected by that project to incorporate municipal level concerns into their public awareness campaign.

IV. Implementation Arrangements

A. Instruments and Agencies

The Project will be obligated by means of a Handbook 3 bilateral grant agreement signed with the Minister of Planning (as the legal GOES representative) and COMURES which will be the principal counterpart and Project implementing institution. MIPLAN will be responsible for assuring GOES support for Project activities including the decentralization of selected public services to project pilot municipalities.

The CDM, as the GOES coordinator for decentralization and municipal development, will deepen that role under the Project. Annual action plans for Project-financed activities will be submitted by COMURES, upon consultation with the CDM, to USAID for review and concurrence. Support for COMURES and the CDM will be provided by a U.S. contractor selected under full and open competition by USAID. The procurement of goods and services will be handled primarily by the institutional contractor. The role of the institutional contractor will be one of support and guidance rather than final decision-making regarding the needs of the municipalities. The institutional contractor, in coordination with COMURES, will seek training and technical assistance from a variety of sources outside of their own organization including ISDEM, local and international private sector firms, consultants, universities, etc.

The mission's USPSC Project Manager and the evaluations and audits will be contracted directly by USAID with Project funds.

B. Management and Coordination

Mission coordination of the Project and the institutional contractor will be managed by a USPSC Project Manager supported by a FNPSC Assistant Project Manager and a FNPSC Administrative Assistant. A Project Implementation Committee will assist project management, drawing on personnel from the Offices of Projects, Development Planning and Programs, Democratic Initiatives, Infrastructure and Regional Development, Economics, Controller, and Contracts. Coordination of the various activities within the Project components will be monitored by COMURES with the support of the institutional contractor and the USAID Project Manager.

C. Implementation Schedule

Implementation of the early stages of the Project is linked to fulfillment of the conditions shown in Section IV.E. below. Project implementation assumes that the conditions will be fulfilled as scheduled, with delivery of the project assistance beginning thereafter. The Implementation Schedule and Benchmarks for Project progress are shown in Table 5. Project procurement is described in the Procurement Plan, Annex II, Table 15.

D. Monitoring and Evaluation Plan

The U.S.-based institutional contractor will assist COMURES in overall project monitoring. A Pilot Phase and final evaluation will be contracted and managed by USAID in coordination with the institutional contractor and COMURES. Section III.C., Project Goal and Purpose, establishes anticipated end-of-project results and important benchmarks or factors contributing to the achievement of results. Progress towards results and important benchmarks will also contribute to achieving the Mission's strategic objective, "Promote Enduring Democratic Institutions and Practices," and related program outputs as described in the USAID/El Salvador Program Objectives Document.

By July 1994, the institutional technical assistance contractor will have helped COMURES to establish a monitoring plan which includes baseline data, targets, frequency of planned measurement, source and responsible office for each indicator and output. This monitoring plan should be developed in coordination with the development/implementation of the IRD/RUD Management Information System. While information collected should be accessible at all times, two reporting requirements are paramount -- semi-annually for the Mission's Semi-annual Report (SAR) and annually for the Mission's Action Plan.

Two formal evaluations are scheduled: a Pilot Phase evaluation (November 1995) at the end of the second full year of project activities, and a final evaluation (August 1999) prior to the PACD. These evaluations will be performed by independent consultants who will review the data available from the technical assistance contractors's monitoring plan, the participating municipalities, COMURES, and other appropriate sources to confirm the validity of the information collected during the Project.

In order to measure changes in attitudes and behavior during the project, the public awareness component will utilize results from the CID/Gallup survey which periodically will survey the population as to their perception of the effectiveness of municipal governments. While the CID/Gallup Poll will serve to represent general public opinion towards municipal government, a survey of those municipalities targeted for intensive assistance will be taken four times during LOP. These surveys will gauge the changes of perception, attitudes and the degree of confidence of citizens in both Project-targeted municipalities, and the country generally (see Section V.A., Technical Analysis Summary for details).

The Pilot Phase evaluation will focus on overall implementation of the Project and progress toward meeting stated goal, purpose, and results. The evaluators will recommend corrective actions needed in the remaining life-of-Project. The evaluators will also consider whether the attribution of Project benefits to Project assistance is appropriately done. Specifically, the evaluators will review the progress made on the policy reform agenda, determine the success of project interventions in the municipalities targeted for intensive assistance, and review the progress-to-date for disseminating/replicating this experience to the broader array of municipalities. The final evaluation will be most concerned with a determination of success of municipal government effectiveness and responsiveness in meeting the needs of their constituents, both in the municipalities selected for intensive assistance and the broader range of municipalities in El Salvador, and identify measures which will help insure continuing progress after the Project has ended.

Table 5. Municipal Development Project
Benchmarks and Implementation Schedule

1993	
▶ September 30	Initial Obligation/Grant Agreement signed
▶ October 31	Initial CPs met
▶ November 30	RFP published for technical assistance contractor
▶ November 30	Municipal tax package developed (ESF conditionality)
1994	
▶ January 30	Priority technical assistance team for policy reform arrives
▶ January 30	Technical assistance contract awarded
▶ March 31	U.S. contractor staff arrives
▶ March 31	Selection of pilot municipalities for intensive assistance
▶ March 31	Baseline data collection begins
▶ May 31	Municipal tax package legislation enacted (ESF conditionality)
▶ April 30	Monitoring system design begins
▶ April 30	First public awareness survey begins
▶ April 30	Municipal assessments begin
▶ June 30	Public education campaign begins
▶ June 30	Intensive T.A. for pilot municipalities begins
1995	
▶ November 30	Pilot Phase evaluation completed
▶ December 31	Enabling legislation for decentralization of water systems enacted
▶ December 31	Project Authorization and Project Agreement amended to reflect full 6-year, \$15 million LOP if pilot phase is successful
▶ December 31	Selection of additional ten municipalities for intensive assistance
1996	
▶ January 30	Municipal assessments begin for ten additional Project municipalities
▶ March 31	Second public awareness survey completed
1997	
▶ December 31	Third public awareness survey completed
1999	
▶ May 30	Final public awareness survey completed
▶ August 31	Project evaluation completed
▶ September 30	PACD -- end-of-Project status achieved

E. Conditions Precedent, Covenants, and Negotiating Status

1. ESF Conditionality

The Mission will use conditionality contained in the FY 1993 and future year ESF Programs to reinforce the conditions included in the Project Agreement. These reforms are formally monitored as part of the ESF Program but are shown in the project implementation plan for coordination purposes. The GOES has met the condition for first disbursement under the FY 1993 ESF Program by enacting legislation to reform the *Ley de Tributos* to allow for permanent municipal authority to set and adjust service fees to include costs for services and up to an additional 50 percent. A condition for second disbursement is the preparation by COMURES and ISDEM of a municipal tax package which could include: 1) a legal basis for a system of revenue-sharing or central government transfers for municipalities; 2) a system to provide revenue to municipalities based on the revenues gained by central government public services; and 3) a municipal property or land tax. ESF conditionality stipulates that this package will be ready by November 1993, with subsequent submission to and approval by the Legislative Assembly scheduled for no later than June 1994 as part of the proposed FY 1994 ESF program.

2. Project Conditionality

The standard conditions precedent to disbursement apply regarding the provision of a legal opinion to USAID that the Project Agreement has been properly executed and that its terms are valid undertakings of the Government of El Salvador.

3. Covenants

The Project Agreement with COMURES and the GOES will contain general covenants to the effect that both parties will make good faith efforts to correct any implementation problems identified during the Project reviews or evaluations and to implement the recommendations arising from the work being performed under the Project.

In addition, COMURES and the GOES further covenant that:

- a. COMURES will prepare and submit, following consultation with the Commission on Decentralization and Municipal Development (CDM), in form and substance satisfactory to USAID, annual action plans throughout the life-of-project;
- b. The GOES will finance adequate operating expense budgets for the CDM and ISDEM over the life of the Project;
- c. ISDEM will make good faith efforts to disseminate and replicate Project lessons learned to the broader array of municipalities;

- d. The Ministry of Finance will be integrated into the decentralization and municipal development process as a full member of the CDM;
- e. The GOES will approve a Decentralization and Municipal Development Strategy and promptly initiate its implementation;
- f. GOES covenants to sign an MOU between MIPLAN and ANDA for the decentralization of water systems, on a pilot basis, for the Project municipalities;
- g. Access to MEA resources will be approved only for those infrastructure projects where clear ownership is retained at the municipal level.

4. Negotiating Status

Mission staff, assisted by contract experts, have met regularly with officials from COMURES, the Secretariat for National Reconstruction, the Ministry of Planning, ISDEM, and the CDM. These officials gave their views on the constraints which the Project should address and the shape of the possible solutions to these constraints. No difficulties are anticipated in signing the Project Agreement or in meeting Project conditionality. The ESF policy reform program, the MEA local currency program, and the MEA program under NRP will continue to support municipal sector reform and the objectives of the Project.

V. Project Analysis Summaries

A. Technical Analysis

The USAID policy agenda for municipal reform is based upon three basic principles: 1) broadened citizen participation in government actions; 2) decreased municipal dependence on external sources of financing; and 3) greater efficiency in service delivery (and consequently, improvements in quality-of-life for citizens). Within this context the USAID Project approach is designed to affect a structural change in intergovernmental relations maximizing incentives to raise revenues in the municipalities so as to increase municipal autonomy and local control over resources, while relying to the minimum extent possible on central government assistance.

For example, the issue of central government transfers as a source of municipal revenue: Most countries in Latin and Central America have legislated a percentage-based transfer of national budget resources (8% in Guatemala and 5% in Honduras) which undoubtedly has resulted in increased resources at the local level in those countries; however, this transfer provision does nothing to affect the structural relationship between the central and local levels. In most countries, these central funds have been used as a political football, highlighting their essential nature as continued instruments of central control. Furthermore, there is strong evidence of a substitution effect in countries which have instituted this form of government transfer. In

Guatemala for instance, the real value of locally collected resources declined 40 percent within four years after the initiation of their central transfer program.

Project credibility will rest upon the ability of Project-sponsored technical assistance to induce measurable change in public attitudes towards and confidence in municipal governments' ability to provide services and solve problems in the participating municipalities.

In order to measure these expected shifts in citizen attitudes and behaviors, the Project will develop a baseline data base in each of the 15 municipalities selected for inclusion in the project. A survey will be conducted in each of the municipalities targeted for intensive assistance. Interviews will take place before the project begins to operate in these municipalities so that the baseline is not "contaminated" with project inputs and thus artificially raised.

Surveys will be conducted four times over the life of the Project to determine progress towards life-of-project success and to allow implementors the opportunity to introduce mid-course corrections of project strategy and to test its impact. Periodic interviews will allow for feedback on experimentation within the project. For example, one type of publicity campaign (e.g., radio programs) could be undertaken in one subset of the municipalities and another type of campaign (e.g., distribution of educational comic books) could be undertaken in another subset. The results of the different mechanisms could then be compared to see which one was the more successful.

Another advantage of repeated surveys is that new items could be added each year. For example, if in a given area a new project has been undertaken by the municipalities, questions on the perception of that project could be included in the survey instrument. Seminars could then be held with the mayors and their council members to inform them of the results of the surveys to show them how well they are doing. The result should be to enhance the ability of the elected officials to receive feedback from the citizens of their municipality and to make efforts to improve their own performance.

Bibliography

The Project design is based on extensive study of the constraints to municipal development in El Salvador. USAID commissioned more than a dozen technical reports to collect and analyze data on municipal development and decentralization in El Salvador. The recommendations of many of these reports have been shared with the GOES. In addition, the project design has utilized the lessons learned from USAID and other donors in decentralization and municipal development efforts worldwide.

Three studies in particular were critical to the design of the Project: ICMA's "Recommendations for Improving Municipal Capabilities in El Salvador under the Municipal Development Project" and RTI's "El Salvador Property Tax Study" provided analysis, recommendations, and projections which contributed to the design of Components 1 and 2 of the Project; "Considerations for Increasing Participation in Local Democratic Government in El

Salvador" by Seligson and Cordova provided analysis and recommendations utilized in the design of Components 1 and 3. Copies of these reports are available in the Municipal Development Project files in the Office of Projects.

The following studies and analyses have been utilized in support of the technical design of the Project:

- Calderon Rivera, Mario, "Decentralización en una epoca de crisis: el caso Colombiano," INCAE; USAID/Honduras, October, 1989.
- Campbell, Tim "Modes of Accountability in Local Governments of LAC," World Bank Dissemination Note, Washington, D.C., 1992.
- Campbell, Tim, George Peterson and Jose Brakarz, *Decentralization to Local Government in LAC: National Strategies and Local Response in Planning, Spending and Management*, Latin America and the Caribbean Technical Department, The World Bank, Washington, D.C., July, 1991.
- Castañeda, Tarsicio, *Combatting Poverty: Innovative Social Reforms in Chile during the 1980s*, San Francisco: International Center for Economic Growth, 1992.
- Comité Técnico de Descentralización y Desarrollo Municipal, "Documento Preliminar Propuesta de Estrategia de Descentralización y Desarrollo Municipal," Julio 1993.
- Cruz, Rafael de la, "La descentralización en Venezuela: un reto para la gestión del Estado: antecedentes y perspectivas," UNDP; Comisión Presidencial para la Reforma del Estado, Caracas, 1991.
- DEICO, "Estudio sobre la Legislación Municipal y de los componentes técnicos, financieros y administrativos que limitan el alcance de la autonomía de los gobiernos locales," 1991.
- DEICO, ISDEM, GTZ, "Anteproyecto de Ley General Tributario Municipal," 1990.
- Dillinger, William, *Urban Property Tax Reform: Guidelines and Recommendations*, Washington, D.C.: The World Bank, 1992.
- Gall, Pirie M., *Local Government Trends and Performance: Assessment of A.I.D.'s Involvement in Latin America*, Washington, D.C.: A.I.D., 1983.
- Gall, Pirie M., *Municipal Development Programs in Latin America: An Intercountry Evaluation*, New York: Praeger, 1976.
- Herrera, Enrique, "The Nature of Leadership Training and Its Effects on the El Salvador Municipal Leaders," 1992.
- International City Managers Association, "Recommendations for Improving Municipal Capabilities in El Salvador under the Municipal Development Project," Washington, D.C., 1992.
- INCAE, "Informe de las actividades del programa para el Desarrollo Local en El Salvador," 1991.
- ISAM, "Diagnostico y Plan de Accion de la recaudacion tributaria Municipal en El Salvador," 1991.
- ISAM, COMURES, Fundacion Alemana para el Desarrollo Internacional, "Organizacion y funciones de la Administracion municipal", 1987.
- Ministerio de Planificacion y Coordinacion del Desarrollo Economico y Social, "Plan de Desarrollo Economico y Social 1989-1994.
- PADCO, "Regional Municipal Sector Assessment for Central America, Final Report," Volume 1, Basic Analysis; Volume 2, Proposed Strategy, 1992.
- Peterson, George, "Strengthening Local Authorities," Urban Institute, Washington, D.C., June 1992.
- RHUDO/CA, "Temas: Un Desafío para la Democracia Centroamericana: Una Agenda Municipal," PADCO, Washington, D.C., July, 1992.
- RHUDO/CA, H. Jager, "Síntesis de la situación municipal en El Salvador y Propuestas para su fortalecimiento", 1992.
- RHUDO/CA, H. Jager, "La descentralización de la Administración Pública," Informe del Seminario, San Salvador, 1991.
- RHUDO/CA, H. Jager, "Resultados sobre el taller de obstáculos, soluciones y necesidades del sector municipal en El Salvador", 1991.
- RHUDO/CA, "Strategy for Municipal Development Activities in El Salvador," (Draft) November, 1991.

- Research Triangle Institute, "El Salvador Property Tax Study," Research Triangle Park, North Carolina, 1992.
- Research Triangle Institute, "Impact Evaluation: Special Programs in Chalatenango and the Eastern Region," Research Triangle Park, North Carolina, 1990
- Seligson, Mitchell and Ricardo Córdova, "Considerations for Increasing Participation in Local Democratic Government in El Salvador," 1993.
- Silverman, Jerry M. et al., *A.I.D. Assistance to Local Government: Experience and Issues*, Washington D.C.: A.I.D., 1983.
- UNDP, MIPLAN, Barron, M. and M. de Montalvo, "Estrategia de Decentralización Administrativa Territorial," (Resumen de la propuesta preliminar), 1992.
- USAID, "Objetivos y Metas para el Desarrollo Municipal de el Salvador," Resultados del Seminario-Taller, Mayo 30-31, 1991.
- USAID/El Salvador, "Municipal Development Strategy Paper," San Salvador, 1993.

B. Institutional Analysis

Among the various institutions that support municipal governments, three are of fundamental importance: the Corporation of Municipalities of the Republic of El Salvador (COMURES); the Salvadoran Institute for Municipal Development (ISDEM); and the National Reconstruction Secretariat (SRN, formerly CONARA, the National Commission for Area Restoration). Each of these institutions is briefly described below, and Annex __, the Institutional Analysis, provides a more in-depth analysis of these institutions and their ability to carry out projected tasks under the Project.

The Corporation of Municipalities of the Republic of El Salvador (COMURES) - COMURES is a non-profit organization, an association of mayors, whose purpose is to defend and promote municipal autonomy and authority and to introduce participative democratic principles into municipal government. The legitimacy of COMURES as an agent for democratic change is grounded in the fact that it is the sole representative of all mayors and municipalities in El Salvador. COMURES represents the municipalities before political, economic, and normative central government organisms in three main areas: as an association of mayors and municipalities, in policy and political matters affecting local governments, and in legal matters pertaining to municipalities.

Of the 262 municipalities nationwide, 148 are now members of COMURES. Of these, 128 have authorized the discounting of COMURES' dues from the amount corresponding to them under the Fund for the Economic and Social Development of Municipalities. The total received in dues payments in 1992 was ₡300,000. Local currency funds generated under the USAID ESF Program have been requested in the amount of ₡3 million for 1993, or 90% of the total budget of the Corporation. COMURES has mounted a concerted membership drive for 1993 and expects to add another 99 dues-paying members before the September Congress of Mayors. The potential for greatly increased support for COMURES by its members exists and will be realized over time, as those members are strengthened and revenues grow.

USAID has also been providing an advisor to COMURES since August 1993 to assist the institution with 1) carrying out its mandate and strengthening the institution so that it can more effectively represent municipal concerns; and 2) developing a strategic vision which will

contribute to strengthening municipal development in El Salvador and to its own institutional sustainability. The Project will maintain an advisor to COMURES to continue with its institutional strengthening.

The Salvadoran Institute for Municipal Development (ISDEM) - ISDEM was established as a specialized organization to provide technical and financial assistance to municipalities and to coordinate the plans and programs of the national government with those of the municipalities. The basic functions of ISDEM under the Organic Law are to train the municipalities to better carry out their technical, administrative, planning and financial duties and responsibilities.

ISDEM receives 5% of the amount transferred by the central government to the municipalities through the Fund for Economic and Social Development of Municipalities. At the current rate of transfer of ¢25 million annually, this amounts to about ¢1.25 million or \$144,000 for ISDEM in 1993. The GTZ is putting in about ¢6 million this year and AID has been requested to provide a similar amount. In addition to these contributions, UNICEF will be putting in about \$4.5 million over the next three years, directed exclusively to its project with 38 of the municipalities most affected by the conflict.

The SRN will make ¢18 million available through the MEA FFI *Fondo Fortalecimiento Institucional* (FFI) for technical assistance in developing methods to carry out cadasters, collecting tax arrearages or unpaid fees for services, training in certain types of administrative functions, and the purchase of equipment in support of these programs. ISDEM will be coordinating many of these inputs with the municipalities.

The Secretariat for National Reconstruction (SRN) - The SRN has assumed the ongoing functions of CONARA as Coordinator of Municipalities in Action (MEA) projects. The National Secretariat for Reconstruction reports directly to the President of the Republic, but receives guidance from the Ministry of Planning and the Secretariat for External Financing (SETEFE). The SRN operates with two types of Municipalities in Action activities: the regular, on-going MEA program, and the newer MEA National Reconstruction Program (NRP) composed of a range of activities agreed to under the Peace Accords, including small municipal infrastructure, in the municipalities most affected by the conflict.

The regular MEA program will be receiving some \$13 million in 1993 from USAID and similar amounts are expected in 1994 and 1995. Under MEA/NRP, a total of \$60 million has been planned for financing by AID. Some \$10 million were provided for 1992 and \$20 million are proposed for 1993 and 1994, dropping to perhaps \$5 million annually in 1995 and 1996.

In addition to financing for construction of small community or municipal infrastructure, MEA also provides a considerable pool of funds for technical assistance, equipment and training requirements of the municipalities (roughly \$2 million in 1993), through its FFI.

Committee for Decentralization and Municipal Development (CDM) - The CDM was established by Executive Decree in the Spring of 1993 for the purpose of formulating a GOES

strategy for decentralization and municipal development. The Committee is composed of representatives from COMURES, ISDEM, the SRN, and the Ministry of Planning (MIPLAN), each of which has a stake in decentralization and municipal development in El Salvador. The CDM has two committees, the first is a high-level committee composed of policy-making officials of the aforementioned institutions. The second committee is composed of technicians tasked with developing a strategy and elaborating an Action Plan for its implementation. In July 1993, a draft decentralization and municipal development plan was submitted to the high-level committee for review and validation.

C. Beneficiary and Social Soundness Analysis

1. Project Beneficiaries

The Project will benefit the citizens of El Salvador on two levels. First, the Project will directly benefit the municipal officials and citizens in the 15 municipalities targeted for intensive assistance (approximately 700,000 persons). Second, the population of all the municipalities in El Salvador will benefit by a more participatory, efficient, and responsive local government system achieved through: policy reforms designed to devolve authority and autonomy to the municipal governments; a public awareness program designed to educate citizens about their rights and responsibilities in a democratic municipal government; and a strengthened mayors' association with the capacity to assist all municipalities based on the experience of those municipalities receiving intensive assistance.

2. Socio-Cultural Feasibility

Until recently, local governments in El Salvador have been traditionally weak and very dependent on the central government for support. The Project will build on the successful experience to date of the MEA Program and recent initiatives of the GOES to strengthen municipal governments in general, and expand and enhance participation specifically. To date, the municipalities which have shown the most progress in terms of participation are those which have the most innovative elected officials. The Municipal Code specifies in some detail how local government is to be run, and a narrow interpretation of the code could lead to rigid, formulaic government. Those mayors who have had the most success with increasing participation, and to a certain extent raising local revenue, have used the code in an innovative way to fit local circumstances and preferences. Municipal government initiative is a criterion for selection for intensive Project assistance, thereby capitalizing on current success. The Project will also encourage other municipalities to take more initiative and become more innovative (see Potential Spread Effect below).

Available survey evidence shows quite clearly that levels of support for basic institutions of democracy in El Salvador are relatively low; however, a reanalysis of the data from the 1991 CID Gallup survey reveals that local government has a considerably higher level of recognition than the national government. Only 28 percent of those surveyed could name their national representative (Diputado) compared to 49 per cent who could name their mayor. Awareness

does not necessarily produce favorable evaluations; however, the same data shows that Salvadorans believe that there is less corruption in their own municipality than there is in other municipalities or at the national level. Only 17 percent of Salvadorans believe that there is "a lot" of corruption in their own municipality, compared to 22 percent at the national level and 24 percent in other municipalities. The data shows that awareness of local government, is in fact, associated with a more positive attitude toward it.

3. Potential Spread Effect

Benefits from the Project are explicitly targeted to all municipalities in El Salvador. In the policy reform and public awareness components, the Project has the potential for nationwide impact and coverage. While the municipal strengthening component focuses on 15 targeted municipalities, the Project will also disseminate that experience to other municipalities in El Salvador. The critical factor for maximizing the spread effect of the Project rests with the initiative and innovation of local elected officials, particularly mayors, and with constituents' ability to influence those officials. Those municipalities which show the most initiative and interest in the development of their municipality will be more likely to receive increased benefits from the project. For example, current legislation allowing permanent municipal authority for setting and adjusting service fee rates is dependent upon municipal government initiative to implement the law. By conditioning project-funded technical assistance in the targeted municipalities, and by leveraging local currency and NRP/MEA resources throughout the country, the Project will create incentives for municipalities to implement policy reforms as they are enacted.

D. Economic Analysis

There is considerable difficulty in undertaking an economic analysis for a project such as this, since many of the project's objectives cannot be quantified. The economic analysis only considers those tangible, economic benefits that are likely to result from project activities.

General improvement in citizen participation in local democratic processes is the single most important benefit that this project is designed to produce. While such participation may be very worthwhile in the sense that it raises the general level of welfare of the Salvadoran people, it is not tangible, nor does it easily lend itself to economic valuation.

Improvements in the legal framework, administrative capabilities, and responsiveness of municipalities to local citizenry will help municipal governments provide services to their constituencies that they either are not now receiving or are receiving but at sub-optimal levels, i.e., given the capacity to do so such services would be provided in greater number. Services such as improved street lighting, slaughterhouses, and issuance of public documents, could be expanded and done more effectively. While the provision of these services clearly would yield welfare benefits to local citizenries, these benefits cannot easily and accurately be calculated. Because most of these benefits are pure, or near pure, public goods, no market exists for them. Hence, determination of their economic value is extremely dicey.

Information from the MEA project indicate that, on average, municipalities have been able to generate savings of 44.8% on construction costs for: schools, health units, roads, community buildings, bridges, and other municipal infrastructure. Much of this savings is due to the fact that municipalities are able to get construction crews to sites more rapidly, hence their construction crews spend up to 40% more time on actual construction tasks. It is essentially the decentralized nature of municipality undertaken projects that generate these savings. To the extent that Project activities improve the ability of municipalities to finance and implement such projects, such savings result as quantifiable project benefits.

The economic analysis includes all Project costs over the period 1994-99, and anticipates benefits, in terms of savings in construction projects done at the local rather than national government level, over the period 1995-2014. Projections of Project costs are from Project Paper cost tables, while benefits are calculated based upon projections of likely spending on such construction projects, the amount of time it takes to strengthen the country's municipalities so they might fully generate these benefits, and the expectation that these benefits would continue at the savings levels experienced in the past few years.

Three scenarios are assumed in calculating project benefits over time. The expected scenario assumes: 1) by the year 2014 all municipalities would have been improved and been in position to implement construction projects and generate full savings, 2) full savings generated, on average, per construction project would come to 44.5% of the amount spent by the municipality on the project, and 3) spending on such projects would rise by 7% per year after 1999. The pessimistic scenario assumes 1) only 75% of the project's targets in municipal development (excluding San Salvador) would be reached by 2014, 2) average project savings would only come to 36.2% (one standard deviation below the expected value), and 3) spending on such projects would only grow by 5% p.a. after 1999. The optimistic scenario assumes 1) all the project's targets in municipal development would be reached by 2005, 2) the savings rate would actually be 52.8% (one standard deviation above expected), and 3) construction project spending would rise by 9% p.a. after 1999.

Using a real discount rate, i.e., all figures were deflated, of 5%, the economic analysis showed that under expected conditions there could be a very slight positive net present value generated by this project. Internal economic rates of return (IERR) were calculated for each scenario also. For the optimistic scenario an IERR of 12% resulted, for the expected scenario the IERR was only 6%, and for the pessimistic scenario it was only 3%.

Based on the expected scenario, this analysis indicates that a net economic benefit could be generated by the project in the neighborhood of \$820 thousand. This means that the quantifiable economic benefits that have been calculated come to slightly more than the resources to be spent. Slight disappointments in producing the expected economic benefits would quickly cause the Project to become economically infeasible. In such an instance, the non-quantifiable benefits would need to be considered, in and of themselves, in order for this project to be worthwhile.

Aside from indicating the Project's economic feasibility, the analysis also indicates three areas for particular attention. First, as many municipalities should be strengthened as rapidly and as thoroughly as possible. The sooner the project's benefits, in terms of municipal management of construction projects, can be spread over the country, given present cost estimates, the more the nation will be able to benefit from this type of savings. Second, to the extent that adequate revenue transfers are not forthcoming from the central government, it is imperative that local revenue sources be rapidly, and efficiently, developed and expanded. Only with adequate financing will the resource savings from local construction projects be realized. Third, it is not enough to ensure revenue sources for municipalities, the ability to manage funds and construction projects is essential to generating economic benefits from municipal development.