

PW.ABP-559
83424

USAID/San Salvador
Municipal Development Strategy

June 1993

"If liberty and equality, as thought by some, are chiefly to be found in democracy, they will best be attained when all persons alike share in government to the utmost."

Aristotle

MUNICIPAL DEVELOPMENT STRATEGY PAPER

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction	1
II. The Country Setting	2
III. The Structure and Performance of Municipalities in El Salvador	3
IV. Summary of Recent Events in Municipal Development	13
V. The Salvadoran Vision for Municipal Development	14
VI. The Role of External Assistance	16
VII. Rationale for Supporting Municipal Development	19
VIII. Constraints to Achieving the Vision	21
IX. Objectives and Options for Municipal Development	28
X. Municipal Development Strategy	32
A. Strategy Formulation and Policy Reform	32
B. Institution Strengthening	36
C. Popular Participation	42
D. Donor Coordination	43

Annexes

Annex A Political-Administrative Division by Region

Annex B Municipal Profiles

Exhibit 1 Educational Profiles for Mayors and Council Members

Exhibit 2 Number of Municipalities with Numbers of Employees

Exhibit 3 Rational of Employees to Population Size

Annex C Political Environment for Decentralization

Annex D Stakeholder Analysis

MUNICIPAL DEVELOPMENT STRATEGY PAPER

I. Introduction

A.I.D.'s participation in municipal development in El Salvador evolved somewhat differently from efforts in most countries. Instead of addressing the needs of municipalities through the more common urban development and housing rubric, the Mission's initial work grew out of the Government of El Salvador's (GOES') need to promote political stability at the local level in the middle of a guerrilla insurgency. What emerged was 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 by the MEA program. Where the program has operated, infrastructure projects have been implemented efficiently and services have improved. The principal benefit, however, has been the successful implementation 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. As a political group, the mayors have gained strength and their position is now more highly respected in the political arena. Through the MEA experience, USAID has learned a great deal about the needs of municipalities in El Salvador. We are seeing a true synergy of program goals, where improved efficiency in the delivery of services at the local level and broadened citizen participation in government are mutually reinforcing.

Success has been due, in great part, to the large amounts of local currency made available for small infrastructure projects providing a focal point for community decision-making, a situation which will change considerably during the next five years. Now, if this exercise in grassroots democracy is to take hold, USAID must work to decrease and end local government dependence on external financing. 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.

Related to the chain of events in El Salvador is a resurgence of interest in municipal strengthening within the international development field. Lessons have been learned from past programming efforts and comprehensive program initiatives are being

initiated in all of the countries in Central America except El Salvador. Where past Mission efforts in Salvadoran municipal development have tended until now to respond to targets of opportunity as they emerged, this paper will outline a more programmatic approach to USAID's efforts at the municipal level.

The Strategy has a five to seven-year time frame and is geared to assisting the development of efficient municipalities offering participation in democratic processes of government, empowered to respond to the needs of their citizens. It lays the groundwork for significant policy dialogue and donor coordination in this area, proposes an action agenda for legislation and policy reforms, and provides direction to for the development of the FY 93 Municipal Development Project.

II. The Country Setting

El Salvador has the distinction of being the smallest nation on the hemispheric mainland. Its approximate 9,000 square miles of territory are by far the most densely populated in Central America. Although ranked among the three or four poorest countries of Latin America in terms of per capita income averages, the situation of the poor is best understood by looking at the skewed distribution of wealth in El Salvador. About 50 percent of the urban population is classified as poor with 20 percent living in extreme poverty, receiving incomes well below the national average of \$800 per year. Patterns of well-being with respect to health and nutrition reflect the traditional social structure and are characterized by very high birth rates and nutritional deficiencies.

In addition to the traditional strains on El Salvador's economy, the country is just emerging from the waste and devastation of a bitterly fought 12 year civil war. The social and economic costs of the conflict have been enormous. The high levels of resources diverted from fundamental social services to support the war, the continuous repair of damaged infrastructure, and a decade of decreased economic growth have all served to reduce government revenues destined to improving the economic well-being of the nation and the standard of living of the population. In early 1990, the U.S. Embassy estimated the value of damage due to the conflict to be approximately \$2 billion, including direct, indirect and economic costs through 1989.

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 El Salvador; rebuild damaged and destroyed infrastructure; initiate 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.

III. Structure and Performance of Municipalities in El Salvador

A. Municipal Jurisdictions and Basic Characteristics

El Salvador is divided into fourteen departments and, subsequently, into 262 municipalities. The distribution of municipalities by department is shown in Map 1. This political-administrative division of the country is also illustrated by region, as shown in Annex A. The Central region possesses 90 municipalities, including the nation's capital, which is by far the largest; the Oriental region holds 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 Administracion de Empresas (INCAE), it was determined that the largest municipalities, or those with a sufficient human resource base and financial potential, 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 1 shows the number of municipalities and the percentage of population contained in each municipal grouping.

TABLE 1

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.

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		

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 generally 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.

B. Major Actors at the Municipal Level

Mayors and Other Employees

The main actors in most municipal governments are the elected mayor and a hired municipal secretary (i.e., a municipal clerk). Selected by national political party leaders as part of a slate of nominees for the municipal council, mayors are under pressure to respond to national political agendas, undercutting their ability to mobilize the community in response to local problems. Moreover, pay is so low that most mayors derive the principal part of their earnings from another job, despite theoretically being full-time. 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. 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.

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 (see annex B, Exhibit 1).

Municipal Councils

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.

Public Participation

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 National Commission for Area Restoration (CONARA), for example, indicate that 570 *cabildos abiertos* were held during 1988-90, while the 1990 Impact Evaluation showed that the average attendance to 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 commonplace occurrence, where community members have chosen local community members 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. The *cabildo abierto* needs to be strengthened and expanded, as it provides an excellent base for community participation. 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, new mechanisms for participation with broader decision-making powers need to be identified. Particularly in the ex-conflictive zones, mechanisms with the potential for broadening participation should be supported.

C. Fiscal Condition of Municipalities

Municipal revenue in 1992 totalled an estimated 383.8 million colones 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.

TABLE 2

Municipal Revenue 1992
(Millions)

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 was transferred to municipalities by the GOES representing 3% of the coffee tax. Since the coffee tax was repealed in 1992, this transfer is no longer available to municipalities. SOURCE: SETEFE, ISDEM

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.

Municipalities receive revenues from three basic sources: government transfers and grants (MEA and the 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 cover even such costs as 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). 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. As with taxes, 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 1991 *Ley de Tributos*, which gives municipalities a two-year period during 1992 and 1993 to adjust their rate structures and charges without approval from the Assembly.

In general, the types of 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.

D. Level and Range of Municipal Services

The Departmental capital (or municipal seat) is usually located in the municipality's largest population center and is surrounded by smaller centers called *cantones* and a rural hinterland. Although municipalities are legally charged with

responsibility for both urban and rural areas, the traditional focus of attention and resources has been on the urban center of the municipal capital, where some 43% of the total population lives.

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 do 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 local services such as electricity, water supply and sewerage systems, primary schooling, and health services, where available, are largely provided by central government agencies.

The quality and degree of actual services provided varies greatly, and is 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. For example, the mere collection and sanitary disposal of household wastes is frequently not provided. Exceptions are found only in the larger centers, particularly as the urban population gets larger. Most services have been operating at a loss to the municipality.

One indicator of service levels might be the number of workers employed for each population size they serve. Annex B, Exhibit 2, shows the number of municipalities possessing specific ranges of employee numbers, by department. As summarized in Table 3 below, it is seen that at the low end of the scale, 117 municipalities have 5 or fewer employees, while 11 municipalities each have 100 or more workers.

TABLE 3
Number of Employees Hired by Municipality

<u>Number of Municipal Employees</u>	<u>Number of Municipalities</u>
1 to 5	117
6 to 10	74
11 to 20	24
21 to 50	27
51 to 100	9
over 100	11

The actual ratio of workers to population size is described in Annex B, Exhibit 3. Only six municipalities (2.3%) have one employee for every 400 residents. One hundred seventeen municipalities (44.7%) have one employee for every 800-1,500 residents. Another 105 municipalities (40%) have one employee to every 1,501-or-more residents.

Another indication of the level of municipal services are the subjective perceptions of mayors and residents. The previously mentioned 1991 Gallup Poll showed that the respondents believed the five most important functions of the municipalities were to: attend to the needs of the poorest in the community, pave streets, collect garbage, provide water, and clean public thoroughfares. Meanwhile, a representative group of mayors interviewed by INCAE in its diagnostic work stated that the most important needs of their constituents were: water and sewerage systems; environmental sanitation; secondary roads; markets; electricity; schools; and health posts.

Of the needs outlined above, the mayors felt they had authority only with regard to environmental sanitation, as it pertains to garbage collection and disposal, and regulation of municipal markets. In the remaining areas, they perceived they had little or no authority and that the authority they did have resided principally in their ability to mobilize the citizenry and participate in local logistical support for implementation of construction projects.

When asked what problems and obstacles their administrations faced in carrying out their perceived mandate, the same mayors noted: outdated tax and user fee structure; outdated service charges; lack of authority to update or increase the foregoing; exonerations from municipal taxes enjoyed by businesses and other institutions; lack of land use surveys (cadasters); and a low revenue base. In sum, only in their ability to organize the community and determine needs did the mayors feel any sort of autonomy. They felt totally limited by the lack of fiscal authority and believed their low revenue base was a major block to providing more and better services to their constituents.

E. Institutional Support for Municipal Development

Among the various institutions that support municipal governments, four are of fundamental importance: COMURES (Corporation of Municipalities of the Republic of El Salvador); ISDEM (Salvadoran Institute for Municipal Development); CONARA (National Commission for Area Restoration)/SRN (National Reconstruction Secretariat); and ISAM (Salvadoran Institute of Municipal Administration). Each of these institutions is briefly described below.

COMURES

During the first National Congress of Municipalities held in November 1940, COMURES was organized, with its statutes formally approved by executive decree on

August 29, 1941. All 262 municipalities are members. Its internal organization consists of a Board of Directors, a technical board, municipal congresses, delegations and commissions. In many ways, COMURES was established to act as a lobby for municipal government. Its major objectives are: (1) increasing the prestige of local governments; (2) improving intergovernmental relations, i.e. central-local; (3) strengthening municipal administration in general and establishing the career of municipal employment specifically; and (4) enhancing intermunicipal cooperation.

The statutes of COMURES mandate an annual plenary congress of municipalities to be held for the purpose of fomenting municipal coordination. Whereas this organization remained inactive for many years, there have been five consecutive annual congresses since 1987. During 1987-88, COMURES was active in sponsoring training activities and in publishing a monthly newsletter. Recently, COMURES has managed to improve its relationship with ISDEM and assert a new degree of independence. The mayors feel now, for the first time, that they have an Association prepared to represent municipal concerns to the central government on a politically non-partisan basis. The turn-around has been due to aggressive, dynamic, and pluralist leadership on the COMURES Board and at the level of Executive Director.

ISDEM

ISDEM was created by Legislative Decree No. 616 on March 4, 1987 as an autonomous public authority specializing in municipal administration. Its basic purpose is to help municipalities improve their ability to carry out their basic functions and responsibilities. It provides technical, administrative, financial and planning assistance to local governments. The institution's general manager is in charge of day-to-day operations and is appointed by and responsible to a Board of Directors whose membership includes five mayors (the Mayor of San Salvador and four elected by their peers in their regions) and representatives of the central government appointed by the Ministers of Planning, Public Works and Interior. Because of the structure of the Board of Directors, the institution inevitably becomes an instrument of the political party in power, as well as a central government agency rather than an institution of the municipalities.

In providing technical assistance and training to municipalities, ISDEM's principal diagnostic tool is a local adaptation of Research Triangle Institute's Municipal Management Assessment (called locally the *Diagnóstico Financiero y de Gestión Municipal*, DFGM). This tool analyzes both how resources and revenues are managed and the extent to which services can be and are provided from the standpoints of cost recovery and efficiency. In follow-up, ISDEM provides training programs for municipal officials and employees and stimulates intermunicipal cooperation through information sharing and promotion of frequent intermunicipal meetings.

ISDEM also provides short, medium and long-term credits for the financing of studies, purchase of equipment, and investments in municipal service provision. It also has the legal mandate for distribution of the Socio-Economic Development Fund (Fund) to municipalities, currently 25 million colones per year (\$2.9 million). Previously it also had the authority to distribute 3% of the now-defunct coffee export tax.

The functions of ISDEM are implemented through the organization's operations, administration, finance, planning and legal subdivisions. There also exist five regional representatives who, together with the training unit, provide the Institute's direct contacts with its clients. Lack of sufficient and qualified personnel at the departmental and regional level has been a severe limitation in successfully carrying out its institutional mandate. In 1991 ISDEM hired 20 additional municipal-level advisors and has now overcome this weakness.

SRN (CONARA)

The National Commission for Area Restoration was created in 1983 as a semi-autonomous institution under the Ministry of Planning. The General Coordinator of CONARA is a presidential appointee.

As noted earlier, CONARA decentralized its operations in 1986, in conjunction with the development of the new MEA strategy, which relies exclusively on a bottom-up approach to the identification and implementation of basic infrastructure projects. It put 260 employees in the field, working out of five regional and fourteen departmental offices, to work directly with mayors. In 1990, CONARA was responsible for the promotion of over 400 open town meetings, with an attendance of more than 80,000 community members. It disbursed \$33 million to 242 communities for the implementation of 2,000 projects (typically schools, water systems, farm-to-market roads and community buildings). Currently, with the return of the exiled mayors, it has extended its work into all municipalities. As a result of the Peace Accords, CONARA has been subsumed under the National Reconstruction Secretariat (SRN) which was created by executive decree to coordinate implementation of the National Plan for Reconstruction. After completion of the National Plan for Reconstruction, the SRN is expected to dissolve.

ISAM

The Salvadoran Association for the Promotion of Social and Administrative Sciences (ASCIA) is a legally constituted public utility corporation whose statutes were approved by the Ministry of Interior on March 5, 1977. In August 1979 ASCIA established ISAM as a private institution whose purpose was to help strengthen local governmental administration, autonomy and citizen involvement. ISAM has focussed on organizing community participation and improving municipal administration in response

to requests from municipalities in El Salvador and other Central American countries. It is funded by the Konrad Adenauer Foundation of Germany.

ISAM also has a department of publications which has issued a number of publications and studies on municipal (and national) issues, most notably a compendium of municipal data and statistics organized by department into 14 volumes spanning the period from 1986 to 1988.

IV. Summary of Recent Events in Municipal Development

The municipalities of El Salvador did not begin to receive any significant attention until the 1980's, when they began to be used 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. 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 reorganization of CONARA, the development of COMURES, culminating with the birth of ISDEM in 1987. Also, in 1986 the National Assembly passed a new Municipal Code which was designed to increase the autonomy of municipalities. Specifically, the Code:

- ▶ eliminates the authority of the Ministry of the Interior to control operations of municipalities;
- ▶ authorizes municipalities to draw up and approve their own budgets and disburse their own funds;
- ▶ confers power on the municipalities to establish and modify rates for local user fees, subject to the guidelines of a new *Ley de Tributos*;
- ▶ mandates increased citizen participation in municipal affairs through obligatory open town meetings (*cabildos abiertos*);
- ▶ provides for the chartering of community associations by local government in support of development activities; and
- ▶ mandates municipal supervision, promotion, or coordination over virtually every aspect of local public life.

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, gives the municipalities authority to establish or modify user fees and service charges without the National Assembly's approval, during the next two years. In a sense, the law provides for a two-year window on the normal approval requirements.

V. The Salvadoran Vision for Municipal Development

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 war eliminated. Two of the most important challenges are the need for 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. The present Administration, with a Cabinet composed of many businessmen and industrialists, has been shocked by the low level of public services which the Ministries are able to deliver and the proportion of government funds expended on operational costs as compared to public investment. They are seeking a more effective way to meet the increasing demand for the basic services which provide at least a minimally acceptable quality of life.

The processes of municipal development and decentralization of public services are taking place in a larger framework which the GOES refers to as the "Modernization of the State." Given low levels of taxation and 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, the GOES sees decentralization as its best option to meet the needs of its citizenry.

The view of the Salvadoran Government on what purposes a municipality should serve has been slowly coalescing over the past two to three years: First, in a series of meetings and workshops held in mid-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

February of 1993, President Cristiani informally approved the establishment of a High-level Committee for Municipal Development and Decentralization; in April that Committee was formalized and membership officially sworn in. The first task of the two Committees was to fully define the national vision of a municipality.

In March of 1993, the Technical Committee convened a workshop at the request of the High-level Committee to finalize the strategic approach and agree upon specific tasks necessary to complete an Action Plan for Decentralization by September 1993. As a result of that workshop, and previous analyses, the Technical Committee recommended that the following areas be given priority consideration by the GCES for potential transfer to selected municipalities, subject, of course, to acceptance by municipal authorities: water systems and basic sanitation; primary school supervision including the hiring and firing of teachers; maintenance and improvement of rural roads; basic preventive health care; low-income housing; natural resource conservation and reforestation; selective construction of public works, plus maintenance and improvement to education and health infrastructure. Four main areas were set out for analysis: authorities for and institutional aspects of decentralization; finances and resource generation; improved mechanisms for participation in democratic processes; and improvements in municipal management and administration. 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.

Thus far, the vision that has emerged, while still lacking full agreement on how it is to be accomplished, is a municipality with the following characteristics:

- ▶ Local government will offer as broad a range of public services as is consistent with its ability to finance and administer, and which promotes the fullest participation possible for its constituents through democratic processes. (Because of differences in revenue base, population and human resources, communities' abilities to provide services will range across a wide spectrum from only the most basic public services in some cases to a full range of modern public services in those municipalities with greater resources).
- ▶ The municipality will have improved administration and management; financial controls; a capacity to plan, execute and monitor its public service and investment program; and financial authority to establish, collect and utilize local revenues.
- ▶ The municipality will encourage open town meetings, referenda, community associations, private sector groups, and other community organizations as channels of citizen participation in local government dialogue and municipal decision-making. The public will look to local government as the first provider of public services and as the primary point where the community can seek solutions to local problems.

Although opinions on various aspects of decentralization and municipal development still vary among political parties, and from one figure in the Administration to the next, there are several areas of common agreement:

- ▶ Municipalities must begin to manage an expanded range of public service delivery as soon as they are able to do so.
- ▶ The municipalities will require administrative autonomy, and the maximum degree of financial autonomy possible, in order to carry out a greatly increased range of activities.
- ▶ Municipalities must expand their revenue base and, to the greatest degree possible, reduce dependence upon central government revenue transfers to finance public services.
- ▶ Popular participation in decision-making on local government affairs must be further enhanced and the mechanisms for participation must be increased and improved.
- ▶ Local government responsiveness to its constituents must be substantially improved.

VI. The Role of External Assistance

A. U.S. Government Assistance

Municipalities in Action Program - As noted earlier, CONARA started the MEA program in 1986. It was a modest program, supported by ESF-generated local currency, which provided grants to municipalities and associated rural communities to finance a carefully qualified list of small physical infrastructure works throughout the less conflictive areas of El Salvador. The traditional *cabildo abierto* meeting was used to identify worthy projects and possible implementation problems, and the mayors received unprecedented control over funding resources. The program proved to be extraordinarily successful, popular, and an exemplary use of scarce resources.

In November 1988, an experiment was initiated in Chalatenango to intensify the MEA approach in the form of a special regional project in an area of the country which had suffered not only from the insurgency, but also from prior central government neglect. The thrust was to replicate the MEA procedures of project selection and implementation, but with larger amounts of funding, and at the same time to involve the ministries and other public sector service agencies for larger infrastructure projects. The national-level agencies complemented local municipal efforts with credit and technical assistance. On completion of three successive phases of the special approach in

Chalatenango, the same model was initiated in 1989 in the department of Morazan, with an initial coverage of 18 municipalities.

To date it is estimated that about \$100 million of ESF-generated local currency has been spent in support of the MEA program. What has been "bought" with this money is impressive. Approximately 8,200 projects in basic infrastructure valued at \$10,000 to \$12,000 each have been implemented throughout El Salvador. Beyond the physical infrastructure achievements, however, are the changes in beneficiary attitudes at the local level. The 1990 Special Programs Impact Evaluation of MEA in Chalatenango and Morazan found that there was a substantial increase in community participation, appreciation for the infrastructure built and its employment and income effects, an emerging sense of local control over the community's own affairs, and growing evidence that citizens believe they can hold local and national officials accountable for their actions and decisions. The results of this evaluation, as well as other informal site visits, strongly suggest that the seeds of grass-roots democracy have not only been planted, but indeed can grow in El Salvador.

Peace and National Recovery Project (519-0394) - 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 this 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. Over a five-year period, a total of approximately \$70 million is anticipated for small-scale infrastructure projects identified and implemented by municipalities.

Of particular significance to the Peace and National Recovery Project is that the Municipalities in Action program was chosen as the primary means to deliver post-war assistance in the former conflictive areas. The General Accounting Office (GAO) in early 1993 reviewed the MEA Program and its role in the National Reconstruction Plan and found that the MEA program "has mechanisms in place to provide for full citizen participation." The GAO also found that all segments of society, including the FMLN, "viewed MEA favorably as a means of delivering assistance and promoting democratic processes."

USAID Project Portfolio - In addition to the MEA program, USAID has been working with the GOES to promote decentralization through several USAID project interventions. One of the first areas identified by the GOES for decentralization is water and sanitation services. USAID has been working with ANDA (National Administration for Water and Sewage Systems) through the Public Services Improvement Project (519-0320) to help them adopt a more focused 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.

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, in 1991 and 1992 under the Central American Peace Scholarship Project (CAPS, 519-0337) and the Caribbean and Latin America Scholarship Program (CLASP II, 519-0361), 140 mayors were sent to the U.S. for training in management skills and democratic processes. All political parties were represented and 42 of the mayors were from ex-conflictive zones.

A.I.D. Regional Housing and Urban Development Office (RHUDO) - USAID has maintained a long-lived technical relationship with RHUDO/Central America for more than three years, and with the Local Government Regional Outreach (LOGROS) Project since its inception in 1992. The mission has regularly enlisted RHUDO'S expertise in addressing problems of the Salvadoran municipal sector. Most recently, through the LOGROS Project, RHUDO has provided technical assistance to the High-level and Technical Committees in their effort to develop a GOES decentralization and municipal development strategy.

USAID intends to utilize the training and technical assistance opportunities offered by RHUDO/LOGROS, both in its strategic approaches to municipal development as well as its regional horizontal approach to exposing Salvadorans to the decentralization processes of other countries. USAID, with technical assistance from LOGROS will soon initiate a pilot project that will assist the devolution of water authority to 5 to 7 municipalities for their management. This demonstration effort will generate valuable lessons regarding authority devolution that can be used by USAID and the GOES in future municipal development and decentralization activities. USAID will also work with LOGROS to determine the feasibility of utilizing Housing Guaranty resources potentially available under the LOGROS project for the financing of municipal infrastructure.

B. Other Donor Involvement

Other than USAID, the most significant donor in El Salvador with regard to municipal development is the German bilateral aid agency. 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 Spanish Government is negotiating to make available a soft 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 are sharing the use of the machinery and the cost of loan repayment, equipment operation, and maintenance.

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 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. A proposed FIS IV loan under consideration would provide another \$60 million for gravity-fed water systems, small electrification projects, construction of educational facilities, and environmental protection activities. 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 World Bank, while not directly involved with municipal development in El Salvador, has been assisting the Ministry of Education (MOE) through the *Proyecto Educación Infantil con Participación de la Comunidad* (EDUCO) 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.

Both the IDB and the World Bank are in the initial stages of developing activities in the municipal development subsector. The World Bank is scheduled to have a team in El Salvador in November 1993 to examine issues related to municipal development. It is doubtful that they would initiate any activities before mid-1994 or early 1995.

VII. Rationale for Supporting Municipal Development in El Salvador

Local government is the basic unit in a democracy. Thus, strengthening municipal government, participation, and decision-making at that level, contributes to the development of democracy, the socio-political stability of the nation-state, and the administrative and economic efficiency of meeting the basic needs of the people. Effective municipal governments, acting in accordance with the preferences of citizens as individuals and as members of grassroots organizations, are considered a cornerstone of democracy. Concomitantly, municipalities provide an essential service level for all the economic and social sectors of a country. Reliable local transportation of goods and persons, access to health and education resources, basic sanitary conditions, mechanisms for resolution of local disputes and equitable enforcement of the law are all elements of a developed society, and are achieved, in part, by responsive local institutions empowered to act for the common good.

Although the reasons for supporting municipal development may seem worthy from a development point of view, it has been noted by some that effective political support for decentralization is often not mobilized until extraordinary events occur which push political actors to reconsider their normal patterns of power and management. This conclusion can be related to the Salvadoran context. Coming out of a 12-year civil war, the Government of El Salvador is now focused on "winning the peace." It is essential that the GOES address in all its programs the fundamental conditions which initially gave rise to and fueled the devastating internal conflict. It is clear to many observers that reconstruction, reconciliation and lasting peace will not be achieved without concerted attention to the political, economic and social needs of the country's local communities.

As described in the introduction and background sections of this Paper, El Salvador's initial activities in the municipal development arena evolved out of a necessity to promote political stability at the local level. What has emerged is a decentralized,

grass-roots program which has successfully combined citizen participation with the identification and implementation of small infrastructure projects. Although the MEA program cannot be credited with achieving municipal development in El Salvador, it has proven that local problem-solving and citizen participation can work. Further, the MEA program has raised expectations among the citizenry in some significant ways. People are beginning to believe they do have a voice in local affairs and that government should be accountable for its acts. They also have become accustomed to the availability of funds for small, local infrastructure projects. In 1991, \$33.3 million went to the municipalities for small infrastructure, which is 71% of the total revenues that the municipalities receive if San Salvador is excluded. As noted earlier, ESF-generated financing will be available only through FY 1997, and at decreasing levels beginning in FY 1995. Leadership at the national and local levels alike must consider what they will do in the absence of those resources. In so doing, they need to determine how they can build on the successes of MEA and truly strengthen their municipalities so that they can play an important part in the nation's future.

There are a number of powerful arguments which can be made in support of USAID assistance to such a program of municipal development:

- ▶ Programs at the local level offer an opportunity to involve the citizenry more directly in the process of development, thus giving them a personal stake in the benefits of modernization and providing an opportunity to break the historical pattern of paternalism by both central and local government. Successful programs involving popular participation can help demonstrate that democracy can function at the local as well as the National level.
- ▶ Grass-roots democracy can be enhanced through municipal development, as already proven by the MEA program. Local government can be used as a training device through which citizens learn how to participate more meaningfully in governmental processes. These skills are more easily learned and applied at the local level, where inputs and outputs to the system are more readily identifiable and, in fact, influenced by local citizens.
- ▶ Strengthened local institutions and processes, empowered to solve their own problems, can help to decrease the high levels of alienation and polarization in Salvadoran society. At the municipal level, citizens of various persuasions and backgrounds can unite in non-partisan problem-solving and overcome long-standing political and social barriers to progress.
- ▶ Improved municipal management and administration can significantly increase local revenue resources. Local revenue generation, if efficiently performed, can increase the total size of the budgetary pie available for development and/or offset, at least partially, the future phaseout of USG-generated resources.

Capable municipal governments can identify and resolve many issues locally, reducing the demands made on already overtaxed central institutions.

VIII. Constraints to Achieving the Vision

The Salvadoran Government has shown that it has the political will to begin decentralization to municipalities which have sufficient potential to provide basic services to their communities. The will has been demonstrated by the inclusion of decentralization as an official goal in the Government Five-year Plan (Plan de Gobierno de 1989-1994), as well as in the reports of workshops and meetings of Government authorities in 1991, and in the creation of the High Level and Technical Committees mentioned earlier. But will alone is hardly enough. A number of obstacles must be overcome if the vision is to become a reality. Some of these will be relatively simple to address, a few will be difficult and time consuming to resolve, none is insurmountable.

There are several constraints to achieving the level of municipal development envisioned. 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 COMURES requiring technical assistance and training to enable them to carry out project responsibilities more effectively.

Financial Constraints

The most serious constraint to municipal development is financial. The tax base varies widely among municipalities and, even where there is a reasonably strong base, the power given to municipalities to levy taxes is limited. 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 allows municipalities to change their user fees and services to cover costs, and up to 50% over costs, during 1992 and 1993 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. However, while most municipalities have made adjustments to cover costs, not all have included a percentage over costs. Also, once rates are adjusted, they are set permanently and cannot be further adjusted except for inflation. For instance, future market fluctuations on key inputs for public services could not be taken into account once the rates have been adjusted. In addition, even the larger municipalities will have to change fees and charges after 1993 as new services are transferred to their responsibility. To have to seek Assembly approval in each case would be onerous and unnecessary. In order to maximize the potential revenue generation from this source, as well as to maximize municipal autonomy, this provision in the *Ley de Tributos* needs to be permanently extended.

Although municipalities are struggling to actualize their fee and service charge structure and to analyze the real cost of providing services, revenues are totally 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 tax 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. While there is a certain amount of agreement among political parties regarding the necessity and importance of a property tax, political posturing during an election year is likely to preclude passage of legislation until after the March 1994 election.

The other sources of municipal financing are central government funds, currently 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. 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 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.

Legislative and Policy Constraints

Reform of the *Ley de Tributos* and enabling legislation for a local property tax are the two legislative constraints which are critical for addressing the key financial constraints outline above. These legislative and policy constraints must be removed in order to replace resources provided under the MEA program, and maximize municipal autonomy and revenue potential.

The decentralization of public services will require adjustments in regulatory legislation, and possibly certain Presidential decrees, but the bureaucratic obstacles are not great once the Administration and the affected ministries agree on the services to be transferred.

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 would appear to permit considerable action 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 as the elimination of party slates 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 poorer municipalities which do not have a sufficient potential human resource or revenue base.

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.

Attitudinal Constraints

In spite of growing interest and activity on 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 earthquake have combined to result in an unempowered 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 take 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.

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 constraint is the lack of a clear, ample 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.

A problem has existed between the two organizations 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.

ISDEM, because of the structure of the Board of Directors which includes the Mayor of San Salvador, its funding source which is the central government, 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 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 municipalities, rather than as a central government agency dispensing favors to local governments.

These are the major constraints to reaching the vision of a municipality as seen by the GOES at this point. In the following section, we will examine the specific objectives of both the Government of El Salvador and the USAID, as well as what we would expect to achieve with a strategy to remove the constraints to achieving those objectives.

IX. Objectives and Options for Municipal Development

A. Objectives

The objectives of the proposed GOES and USAID municipal strengthening efforts 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 AID 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.

AID's Economic Assistance Strategy for Central America, 1991-2000, has as its first priority the development of stable democratic societies. Explicit in the Central American Strategy is the promotion of more locally-elected governments which provide greater opportunities for citizens to participate in, and more directly influence, the development process. This is accomplished through strengthening elected local and municipal governments through decentralization of authority and control over human and financial resources. The Municipal Development Strategy is specifically responsive to this policy directive. It also conforms directly to the Mission strategic objective of improving the competence and accountability of key democratic institutions. Further, as we have seen, the Government of El Salvador, in its Five Year Economic and Social Development Plan, has committed itself to decentralization of such public services as the municipalities can manage to absorb and to the promotion of increased public participation in local government affairs.

By 1999, we wish to see a new level of democracy at work in selected municipalities:

- ▶ 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 strengthened and 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.
- ▶ A new 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 upgrading infrastructure using funds from their own 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 showing a net revenue gain to the municipality.

- ▶ Larger municipalities (categories A and B) will have generated sufficient local revenues through improvements in local service fee administration and collection, and a local property tax, to make central government transfers redundant.
- ▶ 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 C and D municipalities).

By 1999, democratic development will be enhanced in all the municipalities:

- ▶ Through training programs and a variety of dissemination techniques, the experience of the municipalities selected for intensive assistance will have made 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.
- ▶ The 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 C and D).

Ultimately, the municipality should be providing a variety of public services to its constituents in a more direct, efficient form than did the central government and will be able to respond much more rapidly and flexibly to local demands for services than could the central government agencies. Most of the finances for the provision and expansion of services will come from locally generated revenues; the balance from a formula-based revenue sharing system with the central government.

Institutional mechanisms for service delivery will vary from the municipal government itself, to a mix of local and central government authorities, to services provided through contracts with the private sector.

B. Strategy Options

Drawing from this review of prior AID experience, the proposed USAID/El Salvador 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 best expand and deepen the municipal development and decentralization process. The approval and implementation of this strategy will represent the initiation of a second phase in USAID-supported municipal development activities, building upon and consolidating the achievements over the past six years under the MEA program, or what can be referred to as the first phase of USAID involvement in this sector. In developing this strategy, USAID also considered two other options, an *ad hoc* approach which would essentially continue the strategy which the Mission has pursued up until now and a more traditional project approach, both of which are described below.

Ad hoc Approach

While an *ad hoc* approach is generally considered in situations where a strategy is absent, it can also be an explicit approach to "implement" a strategy. As an approach its advantages include flexibility and the ability to respond to "targets of opportunity." Its disadvantages include its lack of comprehensiveness, difficulty in knowing what the outcome may be and when it might occur, and danger that even under a general overall strategy, *ad hoc* activities may have a tenuous relationship with each other, or at best lack the synergy found under a more comprehensive approach.

The current approach within the Mission can be characterized as being *ad hoc* in nature. That is not to say that there have not been accomplishments and progress made under the MEA program for instance; however, this *ad hoc* approach does not lend itself to a comprehensive or long-range perspective. In addition there is sufficient consensus in El Salvador with regard to municipal strengthening and decentralization (see Annex C, Political Environment Analysis) to accommodate a more comprehensive approach.

Traditional Project Approach

This approach would involve the development of a new Municipal Development project to concentrate essentially on the provision of technical assistance and training to a select group of municipalities without integrating its activities closely with related Mission activities (i.e., ESF-based policy reform measures, the MEA program, initiatives in support of grass-roots participatory democracy, other Mission activities supportive of decentralization, and closer coordination with other donors). In effect, this approach would strengthen the Mission's phase one municipal development program by adding needed assistance which has been missing to date, but it would fail to provide the consistent focus and coherence needed to address issues of overall impact and sustainability.

Conclusion

The following Municipal Development Strategy recognizes A.I.D.'s past experience with municipal development and the current state of decentralization throughout Latin America. Based on that experience it is clear that a balanced approach to municipal development is critical. The strategy will be a policy-based sector 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 constituencies.

X. Municipal Development Strategy

The proposed strategy represents a balanced approach to addressing the legislative and policy, financial, human resource, attitudinal and institutional constraints discussed in Section VIII above. It builds upon USAID's experience over the past six years and reflects the lessons learned under Agency municipal development projects in other Latin American countries. The strategy also reflects Mission experience in other sectors such as the administration of justice, tax reform and financial management, in which a policy-based, sector approach has successfully merged ESF cash transfer policy conditionality, project-funded technical assistance and training, local currency activities and close coordination with other donors to support major GOES development initiatives.

The Municipal Development Strategy is composed of four important elements: (a) strategy formulation and policy reform; (b) institution strengthening; (c) popular participation; and (d) other donor coordination. Each element is discussed in further detail below.

A. Strategy Formulation and Policy Reform

The success of the USAID strategy 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 D) who will play an important role as beneficiaries or as principal actors in strengthening municipal government.

As indicated earlier, the Salvadoran Government has taken a number of actions aimed at further defining their vision of what a municipality should be; completing a national strategy; and elaborating a plan for a municipal development program of 8 to 10 years duration. The High-Level Committee has invited AID and the GTZ to participate

in the effort as observers and, at appropriate points, will also include heads of the political parties and Deputies from the National Assembly. 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.

The timetable for completion of the plan is September 1993. This means that the GOES will be developing its strategy in a period parallel to the period that USAID will be designing its FY 1993 Municipal Development project to support the GOES program. Ongoing USAID support and the new project design must, therefore, be kept flexible enough to meet the needs of the GOES plan and must be based on a rolling strategy - continually adjusted, modified and refined as GOES thinking progresses.

The timing of the work of the High-level and the Technical Committees in developing a National Municipal Development Plan presents the USAID with a unique opportunity to provide guidance and technical assistance to the GOES process, while simultaneously receiving feed-back which can be used to design an AID project that will be truly supportive of GOES objectives.

It would be difficult to overstate the potential importance of USAID influence on the work of the High-level and Technical Committees over the next year. The High-level Committee has requested that the RHUDO Municipal Development Specialist and members of the USAID staff attend their planning meetings on a regular basis. This will provide an opening not only to influence the direction of the GOES strategy by providing experienced technical assistance, but also for establishing a joint GOES-AID action calendar for consensus-building activities, such as workshops and seminars, among the key Salvadoran institutions. In addition, it will allow the scheduling of analyses and training over the next year which would lay a solid base for activities once the GOES plan and the new USAID Municipal Development project are ready for initiation. RHUDC has offered to fund an international consultant to provide assistance to the High Level and Technical Committees in carrying out their planning assignment.

The Mission will be undertaking several additional initiatives in the coming months in an effort to sharpen the skills of some of the principal actors in municipal development to enable them to participate effectively with other, more experienced participants. Funding will be provided to INCAE (the Central American Business Administration Institute) for a series of workshops and seminars in political economy and government. The training is directed at those who will be participating, perhaps for the first time, in decision-making on public policy in El Salvador, namely members of the FMLN leadership, as well as leaders from other political parties. Among programs to be offered are current thinking regarding democratic government, political economy and administration, leadership and public administration; INCAE will also offer instruction specifically directed to decentralization and municipal development.

Training for civic leaders, mayors and other municipal authorities may also be offered by Freedom House, in coordination with the International Republican Institute (IRI) and the National Democratic Institute (NDI). Courses will be offered locally in budgeting, planning and administration.

Policy Agenda for Municipal Development

This strategy has identified a number of policy constraints which will be the subject of priority attention. Some of the constraints to accomplishment of the strategic objectives, particularly legislative and policy constraints, could be, and in fact are being addressed during the period prior to initiation of the GOES municipal development plan and parallel to the design of the USAID project. Other policy constraints will be addressed by the Municipal Development Project through policy dialogue and the consensus-building efforts of COMURES, future ESF conditionality, the leveraging of MEA resources, and coordination with other donors.

Enabling Legislation for a Local Property Tax

As part of the FY 1993 ESF Program conditionality, the GOES will draft and submit enabling legislation for a local property tax by the end of CY 1993. COMURES and ISDEM have contracted a team to draft property tax legislation. This draft law is expected to be completed by July, circulated to appropriate central ministries and the Legislative Assembly, and formally submitted to the Legislative Assembly by August 1993.

Political posturing may prevent this legislation from being passed in the Legislative Assembly prior to the next Presidential election; however, an effort will be made to foster consensus between the Administration and the Assembly on the benefits of such a tax. The findings and recommendations of the RTI study on the impact of a property tax on municipal revenues will be used as a means of educating and gathering support for the measure from the High-Level Committee and, in turn, from the Administration and the Legislative Assembly. Approval and passage of such a tax is expected before the end of CY 1994.

Permanent Municipal Revenue-Raising Authority

Currently the *Ley de Tributos* allows municipalities to increase rates on various user fees and local taxes through December 1993. While many municipalities have taken advantage of this opportunity, much more can be done. While many municipalities have more than doubled their income in the past year, their service fees are now set at a level to recover actual costs, but do not include a percentage above costs such as is permitted in the *Ley de Tributos*. In addition, service fees are not allowed to be adjusted once they are set except for inflation. The "window" needs to be set permanently allowing municipalities to set service fee rates to cover costs and up to 50 % over costs. This

extension of authority will allow municipalities to cover all operational costs as well as avoiding continual second-guessing by the Legislative Assembly, diluting decentralization and municipal authority. Conditionality requiring reform of the *Ley de Tributos* is included in the FY 1993 ESF Program.

Decentralization

A national strategy for decentralization and municipal development will be forthcoming in September 1993 based upon the findings of the High-Level and Technical Committees. The plan will include the devolution of appropriate centrally-administered services to the municipal level. 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 are also needed to clear up existing ambiguities and contradictions surrounding central government and municipal jurisdictions and authorities on the provision of public services.

Proportional 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.

Other Electoral Reforms

In order to improve democratization and local 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.

Restructuring of ISDEM

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 political 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, should not only reflect broader political participation, but it also should be weighted toward municipal officials instead of central government ministries.

Revenue Sharing

Even with a property tax and improvements in local revenue-raising capacity, there will be a need for some form of revenue-sharing or central government transfer to the poorest (category C and D) municipalities. The revenue transfers should be formula-based and away from negotiated, discretionary transfers which will allow 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.

Building consensus on these policy constraints will require a continuing round of conferences, workshops and educational programs which USAID will support as a part of its strategy. Some of the analyses and studies which these subjects require will necessitate technical assistance from the USAID, particularly in expanding democratic processes and strengthening civic education; work on multiparty political representation on city councils, studies on the devolution of responsibility for transfer of services, etc. USAID will work closely with the GTZ, the World Bank and the IDB to coordinate policy agendas and technical support for these reform measures.

B. Institution Strengthening

The strategy will require (a) intensive assistance to a selected group of municipalities (based upon economic potential and other criteria discussed below); (b) a more basic level of support to the rest of the municipalities through the MEA program, the Caribbean and Latin American Scholarship Program, and activities financed under the new Municipal Development project to share the results of assistance to the select group of municipalities; and (c) support to COMURES in order to strengthen the demand-driven nature of the GOES municipal development plan.

The provision of intensive assistance to a selected group of no more than fifteen municipalities will: 1) improve the mechanisms for popular participation in local government and develop new channels/mechanisms and an organizational basis for democratic decision-making; and 2) develop the administrative 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.

Improved Municipal Operations

Improving training in management skills and in administrative skills, combined with higher municipal revenues which will permit better salaries, should assure a higher quality of municipal leadership and staffing. Many of the mayors and other municipal officials have gradually developed new management skills as a result of their participation in the Municipalities in Action programs. This experience in managing small infrastructure projects, as well as a growing familiarity with the open town meetings, provides a reasonably good base upon which to build.

A preliminary analysis by the International City Managers Association (ICMA) has identified many areas where training needs are most apparent, not just for potential new services, but also for services currently being provided by the many of the municipalities:

Training needs for existing municipal services

- ▶ citizen participation
- ▶ budgeting
- ▶ cadastral systems
- ▶ tax collection and enforcement
- ▶ auditing
- ▶ new local revenue sources
- ▶ municipal environmental services
- ▶ municipal markets
- ▶ urban planning
- ▶ municipal management and organization
- ▶ personnel systems
- ▶ regional cooperation

Training needs for potential new services

- ▶ property tax administration
- ▶ potable water
- ▶ public works management
- ▶ education

Revenue Enhancement

Through the *Ley de Tributos*, most of the municipalities, with the help of ISDEM, are in the process of updating their user fee and service charge schedules in an attempt to cover costs of services and, if possible, generate a little surplus. In many communities the results have been remarkable. As of March 1993, 133 municipalities have adjusted their rates, and it is expected that by December 1993, 180 municipalities, including virtually all of the category A, B, and C municipalities will have made these adjustments. Those 133 municipalities which have already adjusted their service fee rates, have generated more revenues 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.

The recent analysis by (ICMA) found that the single largest factor in increasing local revenue generation is "improved municipal management and administration." Without improved management, municipalities will not be able to tap revenue sources that are already available to them under existing laws, much less be able to absorb the growing responsibilities under decentralization. Based on the experience of the USAID/Honduras Municipal Development Project, where municipalities receiving intensive assistance increased tax and fee collections by an average of 20 percent in the first year, it is expected that with improved cadastral systems, gradual expansion of taxpayer rolls, and improved tax administration, it should be possible to increase revenues from service fees and local taxes by some 40 to 50 percent.

The RTI and ICMA analyses 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 a property tax would account for about *30 per cent* of total municipal revenues. Local revenues generated through adjusted service fee rates, improved management practices, and new sources of revenue available to municipalities under current laws, would account for *50 to 60 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 strategy calls for maximizing incentives to raise revenue in the municipality as the first resort and relying to the minimum extent possible on central government assistance. Nevertheless, these transfers are unavoidable. Municipalities with a very small local revenue base will have to continue to seek assistance from the central government. In addition, communities cannot take on the additional service burden once borne by the central government budget without receiving some transfer of funds.

Whatever the source of financing for the transfer, the amount should be formula-based so that it does not become a political football, subject to the whims of

those in power and, therefore, an unreliable source of income for the recipients (as previously elaborated in the Policy Agenda, Section X.A.). Municipal governments should be able to estimate the amount to be received from the central government fairly accurately since it is an item in the budgeting process and a potential source of collateral or guarantee for municipal borrowing.

The feasibility of borrowing from commercial banking sources using other revenues as guarantees, if and when the proposal is determined to be economically sound, should be explored in each municipal assessment.

For the near future, at least until 1997, considerable funding will be available through the SRN for investment purposes. More effective use of MEA resources will serve to maximize the utilization of, and create incentives for, access to MEA resources as well as furthering the objectives of the Municipal Development Strategy. The Municipal assessments will look at those projects which could provide services on a cost recoverable basis or even generate a profit, and at other small scale income-generating municipal activities, as the first priorities for the use of MEA funds. Other possibilities include conditioning disbursement criteria according to policy changes at the municipal level such as cost recovery plans for MEA projects or a set-aside of a percentage of the annual budgets for capital investments.

As soon as technical assistance, training, and a program of revenue enhancement permit, municipalities will be encouraged to require their constituents to pay as much of the project or service cost as possible, allowing the community to decide first whether it wishes the project, and then how payment will be handled - through taxes, direct assessments, fees, quotas, contributions in labor, etc.

Selection Criteria

The 262 municipalities in El Salvador are ranged along a broad spectrum in terms of population, educational levels, state of municipal development, potential revenues, and service provision capability. Not all have strong potential sources of revenues or will be able to develop a service capacity much beyond the basic ones. Some estimates indicate that currently only 50 or 60 municipalities outside of the 19 which make up greater San Salvador may have any substantial income potential. This number could expand with time and infusions of training, assistance, and injections of capital for investment or income generating projects.

At the outset of the Municipal Development Project, the selection of a manageable number of municipalities (approximately 15) will be made through municipal assessments to determine which municipalities should be included, and to determine precisely the most appropriate set of activities for each municipality. Those selected will receive intensive training programs and technical assistance directed at improving

management systems, identifying and aggressively pursuing revenue sources, and setting up a series of channels for involving constituents in the process.

The target municipalities will include municipalities from all categories (A, B, C, and D and San Salvador). The recent ICMA case study analysis of municipal finance 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. It is probable that when cadastral records are completed, the rolls of taxpayers may expand substantially, producing significant new revenues.

San Salvador is a special case. The nation's capital city has financial and human resources that are unique in the country, and in many ways is not a relevant model for other municipalities. However, San Salvador is the most important municipality in the country, and some of its innovations, such as tax billing through the electric company, will have potentially broad applicability. Moreover, a major program providing assistance to mayors should not exclude the Mayor of San Salvador, whose participation and support will be important for implementation of the national plan and policy reform agenda.

The selection process, with the active participation of COMURES, will, in part, be done competitively, based upon findings on the characteristics of the community. The selection criteria should 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 (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 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.

Since the MEA program reaches virtually every municipality, the infrastructure projects and *cabildos abiertos* will form the basis for this training. Training and technical

assistance in project management and improved administration will also use the community projects as the vehicle around which instruction is organized. The MEA projects offer unique opportunities to apply training lessons in a direct and practical manner.

Municipalities with smaller populations, lower revenue bases, or less administrative/management capacity (and there are many in this category) may choose 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 computerizing 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 of roads and other public works.

In order for municipalities to develop the most appropriate forms of regional or intermunicipal agreements, technical assistance and training will be needed to help assure proper management, scheduling, maintenance, and provision for amortization so that equipment can be replaced. Like 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.

Support to COMURES

The Strategy calls for the vast bulk of assistance to go to the municipalities and not to the creation of larger bureaucracy at the central government level. COMURES, working with the mayors, will be the key institution in this demand-driven program. Just as the mayors will represent their constituents to COMURES, COMURES will represent the mayors to the executive and legislative branches of the government and to other institutions, national and international. COMURES is seen as the hub of GOES and USAID project activities which would seek, with the assistance of an international consulting firm, to identify a variety of sources of municipal training and technical assistance. Among these would be ISDEM, ISAM, private sector firms, consultants, professional societies, universities and others from both the public and private sectors.

COMURES will need some strengthening of its legal expertise in order to help generate consensus for legislation needed by the municipalities and its organizational or institutional "vision" must be better defined. It needs to be able to plan for the overall developmental needs of the municipalities and identify the type of technical assistance and training necessary to address those needs in the future. In addition, technical assistance will be provided to COMURES to assist with its organizational development, particularly in those areas which will be critical to its financial self-sufficiency, including membership expansion, fundraising, and other methods of increasing self-generated financial resources. There is no discernible need to greatly expand COMURES beyond its present size, particularly if it is assisted by an institutional contractor who would help structure and secure training and technical assistance.

Similarly, the strategy does not aim to expand the staff and operations of ISDEM, but to encourage it to use and improve its existing capacity to provide assistance and training, as one of several sources available to the municipalities. ISDEM will also work on analyzing and drafting legislation needed to strengthen municipal operations.

As discussed earlier, the High Level Committee must clarify and validate the roles of ISDEM and COMURES and incorporate the resulting policy position into the GOES Strategy. The two institutions should be helped in this process over the next year, and funds for technical assistance and workshops should be made available for this purpose.

The SRN's role through 1997 is seen as providing, through MEA and NRP, the bulk of the financing for municipal infrastructure projects and continued strengthening of the *cabildos abiertos* and municipal project management capacity. SRN coordination will be sought initially on policy matters through its representative on the High Level Commission. Where SRN is willing to participate in training and education programs and where the municipalities are willing to undertake investment programs which can lead to the expansion of services, the SRN will be asked to coordinate with ISDEM and COMURES. Upon expiration of the MEA program, assistance to the SRN will also be terminated.

Finally, in working with the GOES High Level and Technical Committees over the next several months, USAID will encourage the establishment of a permanent Commission or Committee in Municipal Development within the Government. Such an entity would form a vital official bridge between COMURES and the central government and, where necessary, act as spokesman for municipal interests to the Ministries and to the President. COMURES should, of course, maintain its own channels of communication to the various political party leaders in the National Assembly and, to the degree possible given its organizational charter, establish its presence as official spokesman, or lobbyist, for the municipalities.

C. Popular Participation

Training in democratic practices and procedures will center around the activities being carried out under the MEA and NRP projects, starting with improvements in the *cabildo abierto*, broadening its activities beyond community infrastructure activities and expanding to identify new mechanisms and channels for participation. The opening up of town council meetings to the public, broadening political participation in the councils, creation of community advisory councils, open budget hearings, and full utilization of the *consultas populares* are but a few examples of new ways for enlisting broader sustained community participation.

Critical to the success of local democratic development is greater public awareness of both the rights and the responsibilities in a system of increasing municipal autonomy. A public education program is needed to provide a base for understanding the requirements for making democratic mechanisms function properly as well as for fostering citizens' attitudinal changes towards government. Training in democratic processes will also be provided to community leaders and the local NGO community. As community horizons are expanded through education, other opportunities for popular participation will be identified and encouraged.

A parallel effort to make democratic processes intelligible to those who have little or no first-hand knowledge of the system will be mounted with the leaders of political parties and with Deputies in the National Assembly. Many of these speak of the desirability of democracy at the "grass roots," but have no idea of how it works. Indeed, their actions often run counter to their expressed desires to "empower people at the local level." Workshops, seminars and small, informal meetings will be required to broaden the views of political opinion-molders and lawmakers on the subject of democratic government.

D. Other Donor Participation

Encouragement of other donor support in this sector will begin very early in the strategy elaboration process of the High Level Committee. AID and the GTZ are involved at the working level from the outset. As the GOES decentralization strategy takes form and is brought out for public discussion, donors such as the IDB, World Bank, Spain and Canada should be directly engaged in discussions. This should allow for collaborative decisions on what activities each donor might be interested in supporting as the design of the GOES program proceeds.

Donor coordination on the policy front is also critical, and USAID will discuss the policy agenda with the World Bank for any future Structural Adjustment Loan (SAL) negotiations. Discussions should also continue with the IDB to ensure that IDB-sponsored infrastructure activities are channeled through municipalities to the greatest extent feasible.

DIVISION POLITICA DE EL SALVADOR

REGIONES	DEPARTAMENTOS	MUNICIPIOS
1.- CENTRAL	1. SAN SALVADOR	19
	2. CUSCATLAN	16
	3. LA LIBERTAD	22
	4. CHALATENANGO	<u>33</u>
		90
2.- PARA-CENTRAL	5. LA PAZ	22
	6. SAN VICENTE	13
	7. CABANAS	<u>9</u>
		44
3.- OCCIDENTAL	8. SANTA ANA	13
	9. AHUACHAPAN	12
	10. SONSONATE	<u>16</u>
		41
4.- ORIENTAL	11. SAN NIGUEL	20
	12. LA UNION	18
	13. USulután	23
	14. MORAZAN	<u>26</u>
		87
TOTAL	4	14
		262

FUENTES:

Ley Orgánica del Instituto Salvadoreño de Desarrollo Municipal -ISDEM- Decreto 616 del 4 de marzo de 1987.
Prontuarios Municipales, Instituto Salvadoreño de Administración Municipal -ISAM- 1986.

Elaboración de INCAE.

44

PERFIL EDUCACIONAL DE MIEMBROS DE CONCEJOS EN 100
MUNICIPALIDADES.
(AÑO 1990)

CATEGORIA MUNICIPIO	TOTAL MUESTRA	MIEMBROS DE CONCEJOS CON EDUCACION			
		PRIM.	SECUND.	UNIV.	PROFES.
A	48	188	50	6	2
B	33	121	68	15	15
C	14	58	38	8	3
D	4	7	22	1	12
E	1	7	4	3	--
TOTALES	100	381	172	32	32

FUENTE: ENCUESTA DE PARTICIPANTES EN LOS TALLERES. INCAE,
SAN SALVADOR 1990.

PERFIL EDUCACIONAL DE EMPLEADOS MUNICIPALES EN 100
MUNICIPALIDADES
(AÑO 1990)

CATEGORIA DE MUNICIPIO	TOTAL MUESTRA	EMPLEADOS CON EDUCACION					TOTAL
		PRIM.	SECUND.	UNIV.	PROF.		
A	48	65	56	19	12	152	
B	33	139	155	20	50	384	
C	14	172	168	10	4	354	
D	4	61	118	19	38	234	
E	1	60	35	8	10	113	
TOTALES	100	497	532	76	112	1.217	

FUENTE: ENCUESTA DE PARTICIPANTES EN LOS TALLERES. INCAE,
SAN SALVADOR 1990.

PERFIL EDUCACIONAL DE 242 ALCALDES
(AÑO 1988)

EDUC. NO FORMAL NUMERO	FORMAL %	PRIMARIA		SECUNDARIA		UNIVERSIDAD	
		NUMERO	%	NUMERO	%	NUMERO	%
6	2.5	117	48.3	83	34.3	36	14.9

FUENTE: PROCESAMIENTO PROPIO DE DATOS DE INSCRIPCION EN
CURSO DE CAPACITACION PARA ALCALDES, COMURES JUNIO 1988.

15

ANNEX B

Exhibit 2

**EMPLEADOS MUNICIPALES POR DEPARTAMENTO
(AÑO 1987)**

DEPARTAMENTO	No. MUNIC.	RANGO EN NUMEROS DE EMPLEADOS					
		-DE 5	6-10	11-20	21-50	51-100	+100
AHUACHAPAN	12	3	6	1	1	-	1
SANTA ANA	13	5	2	2	1	2	1
SONSONATE	16	4	4	3	3	-	2
CHALATENANGO	33	26	5	1	1	-	-
LA LIBERTAD	22	4	11	1	3	2	1
SAN SALVADOR	19	1	2	5	5	3	3
CUSCATLAN	16	10	3	1	1	1	-
LA PAZ	22	12	5	3	1	-	1
CABANAS	9	4	3	-	2	-	-
SAN VICENTE	13	6	5	1	1	-	-
USULUTAN	23	8	8	1	5	-	1
MORAZAN	26	20	5	1	-	-	-
SAN MIGUEL	20	6	8	3	2	-	1
LA UNION	18	8	7	1	1	1	-
TOTALES	262	117	74	24	27	9	11

FUENTE: ELABORACION PROPIA CON INFORMACION REFERENCIAL DE ISAM.

46

**MUNICIPALIDADES DE EL SALVADOR POR DEPARTAMENTO Y CAPACIDAD
DE ATENCION DE HABITANTES POR RANGOS DE POBLACION.
(AÑO 1987)**

DEPARTAMENTO	No. MUNI- CIPIOS	RANGO DE POBLACION QUE CORRESPONDE A 1 EMPLEADO				
		HASTA 400	400 a 800	801 a 1,200	1,201 a 1,500	1,501 ó más Hab.
AHUACHAPAN	12	-	2	2	1	7
SANTA ANA	13	-	3	2	3	5
SONSONATE	16	1	2	6	2	5
CHALATENANGO	33	-	2	9	4	18
LA LIBERTAD	22	2	1	5	5	9
SAN SALVADOR	19	1	5	3	4	6
CUSCATLAN	16	-	3	2	3	8
LA PAZ	22	-	6	5	4	7
CABANAS	9	-	1	-	2	6
SAN VICENTE	13	-	1	2	6	4
USULUTAN	23	1	3	4	3	12
MORAZAN	26	-	3	4	12	7
SAN MIGUEL	20	1	1	3	4	11
LA UNION	18	-	1	3	14	-
TOTALES	262	6	34	50	67	105

FUENTE: INFORMACION SOBRE NUMERO DE EMPLEADOS, CUADRO 3,
INFORMACION SOBRE POBLACION, DIRECCION DE ESTADISTICA Y
CENSOS.

THE POLITICAL ENVIRONMENT
FOR DECENTRALIZATION

Background:

Political commitment to decentralization had been growing steadily in El Salvador until late 1991. The process was interrupted at that point by the intensification of activity surrounding the negotiations for peace. The Peace Treaty and concomitant timetable for reconstruction took obvious precedence over other activities and effectively stopped the considerable momentum which had built up for decentralization. It is only now being reactivated by the government.

By the time that the process was suspended, a great deal had already been accomplished toward building a consensus on the services and functions which could be placed in the hands of municipalities and on the legal and financial authorities which would be required to enable the local governments to successfully carry out these new responsibilities. Seminars and workshops involving Cabinet-level officials of the government, technicians, coordinators of the institutions involved in strengthening municipalities, mayors, and representatives of international agencies were successful in determining the degree of political will to decentralize, at least within the Administration and in the municipalities. In addition to establishing the fact that there was sufficient political will to initiate action, the meetings resulted in a definition of the principal elements which should be considered in a strategy and identified those public services which could be transferred from the Central Government to municipalities. The participants also examined the types and sources of financial resources available to support the transfers. Finally, an Executive Commission was established and charged with designing a strategy and an action plan which would allow the central government to transfer authority for management of a variety of public services to the municipalities.

The government entities which formed the Executive Commission tasked with the design of the strategy for decentralization were precisely those which, in early 1992, had to devote their total efforts to the organization, securing of financing, and the implementation of the National Reconstruction Plan--the Ministry of Planning and CONARA. Only now, in October 1992, are representatives of those two offices again meeting with the Association of Mayors (COMURES), and the Institute for Municipal Development (ISDEM), to reinitiate planning for decentralization.

Fortunately, the work accomplished in 1991 forms a solid point of departure for this renewed effort. A Technical Committee is being set up to complete the strategy and a 10-year plan for municipal development in El Salvador. Among other things, the strategy will focus in the short-term, (until the elections of 1994), on the legal, fiscal and administrative reforms necessary to support the future economic development of the municipalities and to improve the existing mechanisms for participative democracy and create new

ones. Some of the more likely possibilities are opening Municipal Council meetings to public participation, expanding the use of referenda on municipal issues, and developing community associations of interest groups. Decentralization of the management and operation of basic public services and revenue sharing schemes will be major elements of the strategy. On the basis of assurances given by President Cristiani at the October 1992 Congress of Mayors, it is expected that he will fully endorse a detailed proposal for a rapid devolution of autonomy to municipalities.

There is, then, to all appearances, very strong political support within the Administration (as contrasted with the ARENA party) for expanding the functions of local governments and creating greater opportunities for popular participation in decision-making at that level. The final test of this support will be the extent of Presidential commitment to the proposed strategy and, ultimately, to the approval of a Plan for Municipal Development within the next ten months.

Current Activities

One of the few key groups which was not involved in the consensus-building effort in 1991 was the National Legislative Assembly. The deputies of the Assembly must draft, propose, and approve or reject legislation critical to decentralization, for example, changes in the Municipal Code and the Electoral Code, new tax laws, and approvals of changes in transfers of central government revenues to municipalities. The views of the various opposition political parties, who were not represented in the earlier planning sessions in 1991, will be heard--and felt--in the debate on legislation required to implement decentralization.

In order to determine the extent of commitment of the political parties to the process, a survey of the views of each of the parties was conducted in September and October of 1992. The following paragraphs summarize the findings by topic, or component, of the decentralization process, i.e. services to be provided by the municipality, municipal autonomy, fiscal authority, financial resources, and increased popular participation. As will be seen, most of the political parties echo the central government in their support of these steps to dramatically expand the functions of local governments.

Decentralization of Service Delivery

Spokesmen for all of the political parties agreed with the need for administrative decentralization which would place, over time, the management of various public services in the hands of municipal authorities. Services agreed upon by the mayors and the ministries concerned are, thus far: the administration and operation of primary schools, maintenance of rural roads, environmental sanitation, control of industrial and commercial waste, management of watersheds used to supply water for irrigation, natural resource conservation, agricultural extension work, and certain types of municipal potable water systems. Of course, not all municipalities have the potential to carry out such a wide range of service delivery. A survey and analysis of the ability and willingness of each municipality to provide services is planned by the government for November and December of this year.

Autonomy and Political Support for Municipal Development

All of the political parties concur that municipal autonomy must follow any delegation of new responsibilities for service delivery. They are aware of a lack of clarity and outright contradictions on central versus local government authorities, particularly in the Municipal Code, and are prepared to revise legislation, in order to clarify responsibilities and eliminate overlapping authority. One example is a section of the Municipal Code which gives authority to the municipalities for twenty-eight different activities, then immediately states that none of these authorities will affect responsibilities legally ordained to other government entities. The result is a complete contradiction or duplication of authorities.

When the question of the political will to decentralize is raised, members of the Assembly point to their support of municipal autonomy in the new Ley de Tributos which enables the municipalities to modify or establish new rates for services and local user fees until January 1994 without referring the changes to the Assembly for approval. In addition, the expanded responsibilities granted to the municipalities in managing the financing and implementation of the CONARA municipalities in Action program are a further measure of political disposition to provide increased independence to the mayors and city councils. As the municipalities' abilities have grown, they have assumed an increasingly large role in management of all facets of the activity.

The ARENA party appears to be much less inclined than the other parties to permit full political and financial autonomy in the municipalities. Although both the Administration and ARENA recognize that decentralization is one of the few alternative approaches available to meet the demand for basic services, as will be seen in subsequent paragraphs, there are some influential figures in ARENA who would prefer to allow only administrative freedom to the municipalities while trying to maintain centralized control of financial resources.

Fiscal Authority and Financial Resources

In spite of the general acknowledgement that, within certain legal limits, municipalities have the right to set and collect their own fees and charges for local services, the parties differ on who should determine the use of those revenues. Several political parties (the Christian Democrats, the Convergencia and the UDN) believe that if legislation approving a property tax is passed, municipalities should collect, retain and use the revenues. These parties are prepared to seriously consider such a tax, but naturally want to know what the impact would be on central government revenue. A USAID-financed team of consultants is performing this analysis and the findings and recommendations should be ready by December 1992.

ARENA and the PCN do not agree with a local collection or retention of such tax revenues and argue that the central government should collect the property tax and redistribute it according to need through the Fondo de Desarrollo Económico y Social managed by ISDEM. Retention of this financial control by the central government would, of course, mean a continuation of substantial political control over local governments, limiting both their political and financial autonomy.

There is consideration being given to other methods of improving the financial condition of municipalities. In draft policy statements on strengthening municipal governments, both the Convergencia and the Christian Democratic parties have proposed that a percentage of the Value Added Tax (IVA) be transferred to the municipalities for their use. The Christian Democrats have recommended that a study be done on the feasibility of transferring up to 33% of the total IVA collected to municipal governments.

ARENA officials, on the other hand, speak of increasing the transfer to municipalities under the existing Fondo de Desarrollo Económico y Social from 25 million colones annually to around 40 or 50 million colones. They reject the idea of a percentage transfer, whether fixed or scaled to an economic index, in favor of an absolute amount which could be adjusted periodically.

Popular Participation

There is a considerable divergence of opinion among the political parties on the extent of popular participation presently offered in the Cabildos Abiertos and the forms that popular participation might take in the future. Parties, other than ARENA, feel that the cabildos abiertos are subject to manipulation by the mayor, are often used for partisan political purposes, and do not offer an opportunity for the expression of a broad range of local opinion. All of the parties believe that the cabildos must be expanded to provide a forum for public opinion and participation which goes beyond just infrastructure projects.

The broadening of political representation on the Municipal Councils is another point of rather vehement contention. Christian Democrats and the Convergencia are of the opinion that ARENA committed itself to such proportional political representation on the Councils in the Interpartidario which took place before the signing of the peace treaties, and therefore, there is a moral commitment on ARENA's part to support legislation for such a measure. There are extremely conservative elements within ARENA and the PCN who are strongly opposed to what they perceive as a giveaway of political power at the local level. There are others however, particularly those who represent the more conciliatory faction of ARENA, who acknowledge that, if there is to be true democratization along with decentralization, there must be broadened political representation on the Councils.

All of the parties spoke of the need to proceed slowly with proportional representation and to put it on a trial basis initially. Many spoke of the still-fresh hatreds remaining as a result of the war; others cited political immaturity and lack of familiarity with democratic processes which would block any cooperation among competing parties until the participants could be educated.

All agreed that such representation should be phased in. There are as many formulas for the process as there are political parties. Some recommended starting with only the three largest municipalities; others recommended starting in 75 municipalities in 1994, 75 more in 1998 and the remainder in the elections of 2002 to allow time for an intensive educational program in democratic practices.

Changes in the Electoral Code which would permit proportional representation are being debated in COPAZ and will go to the National Assembly from there. An educated guess at this point would be that proportional representation, with some sort of phasing-in formula, will be passed either in this session or the next, but not without a stiff battle against passage led by ARENA and the PCN.

Development of the Human Resource Base

The parties are unanimous in their support of an intense educational and training effort to teach the basics of democratic practices to people who have never participated in them before. Education of public officials as well as of the general citizenry is required, and it must be on a long-term basis. Again, the methods are a matter for deliberation. ARENA representatives would have the party educating its own members, with supplemental education provided by ISDEM, while the FMLN would prefer to see education done by PVOs, or NGO's, or apolitical organizations. Most of the parties would like to see the education programs in popular participation directed to everyone from the diputados on to the citizens at the level of cantones and caserios. The technical and administrative education of municipal authorities is, of course, accepted as an obvious prerequisite to decentralization of services.

The FMLN

The FMLN, while not yet formalized as a political party, is certainly a force to be reckoned with at the municipal level, perhaps even more than at the central government level. The intentions of the Frente in terms of local organization and popular participation are clear. Local political action and popular empowerment are fundamental to their philosophy and their tactics. The organization is strongly in favor of proportional, or other forms of broad political, representation on Municipal Councils and the creation of a much broader range of community associations and groupings which would allow greater citizen participation.

The FMLN also places the greatest emphasis on the need for education and training in democratic processes, emphasizing that neither the citizenry nor their elected officials have much, if any, experience in the practice of democracy.

Because the FMLN is not a legally constituted political party and does not have representatives in the National Assembly, the members have given little thought to the legislation and other actions which must be taken to secure administrative and financial autonomy for municipal governments. They will, however, include proposals for these practical steps in a detailed plan for action at the local level which they will offer as part of their political platform in the 1993-1994 campaign.

Conclusions

In summary, there is a very tangible commitment by the Central Government to the concept of decentralization, and an impressive amount of analysis, definition and consensus has been accomplished with the central government ministries and the municipalities. A serious effort involving COMURES, ISDEM,

CONARA and the Ministry of Planning is underway to develop a detailed proposal for municipal development and to submit it next year for Presidential approval.

The political parties are also committed, in differing degrees, to strengthening municipal functions, with ARENA showing signs of wanting to continue a fairly high degree of central control of sources of municipal financing, and thereby maintaining a good measure of political control as well. The Christian Democrats, Convergencia and UDN are prepared to press for the greatest degree of municipal autonomy compatible with local ability to manage such authority.

Following the 1994 Elections

Given the ARENA party's somewhat grudging support of many of the aspects of devolution, or political decentralization, as opposed to deconcentration, or administrative decentralization, the ARENA candidate, if elected to the presidency, could severely limit the extent of autonomy given to municipal authorities and slow down or block completely any progress toward proportional representation on Municipal Councils. To the degree possible, legislation on these key issues--a property tax collected and used locally and proportional representation--should be pressed for by proponents during the next year when party image will be most important--prior to and during the election campaign

If a party other than ARENA comes to power, there is a stronger possibility that political as well as administrative decentralization will take place, although all of the parties have some reservations about whether a local property tax can be collected and used efficiently by the municipalities or whether proportional representation can function in the tense and fragile conditions of peace which currently prevail. The opposition parties do, however, lean more strongly than ARENA toward local autonomy in all forms.

59

STAKEHOLDERS ANALYSIS

The definition of a "Stakeholder" in a project is "a group or an actor whose interest must be given specific and serious consideration for one of several reasons: first, if the group or actor is in a position to damage or weaken the authority or political support of the decision-maker; second, if a group's support provides a benefit, or strengthens an organization, or enhances the decision-makers authority; third, if a group is capable of influencing the direction or mix of an organization's activities." (1.)

Stakeholders are analyzed in terms of:

- a) The interests that they take in a particular issue, and
- b) The quantity and type of resources which they can mobilize to affect outcomes regarding that issue.

Under the three part definition of a stakeholder given here, the public, while certainly having a stake in decentralization and demobilization, is not considered a stakeholder for purposes of this analysis. Benjamin Crosby, the author of the AID Technical Note on Stakeholders Analysis says, "Consumers are often viewed as stakeholders in organizations charged with the delivery of public services. But since... most consumers are poor and have little, if any, capacity to mobilize, the decision maker can safely exclude them from the decisional calculus." In this case, the consumers, citizens and mayors are represented by the Association of Municipalities, COMURES. The Implementation Plan, of course, takes the citizens into consideration as key participants in municipal development.

The principal "stakeholders" in a program of decentralization and strengthening of municipal autonomy and capacity are:

1. The alcaldes or mayors, particularly through their association, COMURES.
2. MIPLAN, the Ministry of Planning.
3. The Director of ISDEM and Mayor of San Salvador
4. ISDEM, the Institute for Municipal Development.
5. The President of the Republic.
6. The members of the National Assembly representing the political parties.
7. The Line Ministries and Autonomous Agencies: Finance, Education, Public Works, Health, Interior, ANDA, MAG.
8. International donors.
9. CONARA and the Municipalities in Action Program.

The primary stakeholders, and beneficiaries of decentralization and municipal strengthening are the municipalities, represented by the mayors. The support of the municipalities for decentralization is obviously key since they will be expected to take on a greatly expanded range of public services, which implies an extremely heavy increase in workload and a totally new level of technical and managerial responsibility.

4

COMURES

The mayors are represented by their association, COMURES, which offers them a unified voice before the government. Almost all of the mayors are interested in offering a much broader range of services to their constituents than they are able to provide at present. However, they lack clear legal or executive authority to offer the services or to generate adequate revenues to finance them. COMURES is a strong advocate of decentralization if the decentralization is accompanied by the necessary administrative and financial autonomy. As the spokesman for 262 mayors, the Association can bring considerable pressure to bear on decision-makers. It is in a position to set the agenda for training and technical assistance, and has the opportunity to define and lobby for many of the legislative reforms and changes needed to advance decentralization. Much of the direction and pace of governmental action on decentralization will depend upon COMURES' ability to convince the Ministry of Planning and, through the Ministry, the President of the Republic and the Mayor of San Salvador, of the current and potential capacities of the municipalities to carry out their assigned functions under a decentralized system now and in the future.

MIPLAN

The second stakeholder in decentralization is the Ministry of Planning. This Ministry has been charged by the President with a plan for a general restructuring of the way in which the government now carries out its investment program and the manner in which it provides social services. The Ministry, reflecting the views of President Cristiani and most of his Cabinet, supports decentralization as one of the very few alternative approaches through which the government can hope to meet increasing demands for improved services and physical infrastructure at the local level.

MIPLAN officials are scheduled to meet in the near future with other involved Ministries to take action on which services can be transferred effectively to municipal authority. They will also survey the Mayors to determine which services the municipalities are able and willing to accept as their responsibility.

As coordinator and principal drafter of the Plan for Municipal Development, MIPLAN is obviously one of the key stakeholders in the process. As a government agency with a high degree of credibility with the President, its recommendations are likely to set the direction of decentralization for the next seven to ten years.

In addition to being charged with providing the President with a strategy and plan for decentralization of services, as will be seen below, MIPLAN will be under pressure from another quarter to design the strategy along certain ideological lines.

Dr. Armando Calderón Sol

Because he is a very strong potential ARENA candidate for the Presidency in 1994, Dr. Armando Calderón Sol, the Director of ISDEM and the Mayor of San Salvador, may have considerable influence over the way in which the High-level Committee drafts the Municipal Development Strategy. As pointed out in the Political Environment section of the USAID Strategy paper, Dr. Calderón Sol and some members of his party are not ardent supporters of decentralization. While they agree with the assumption of more public services by municipalities, they prefer to maintain political and financial control at a central level. In spite of this, they do recognize the need for expanded popular participation in local governments. If Mr. Calderón Sol's influence prevails, the MIPLAN strategy will support decentralization of services and administrative autonomy, but may be reluctant to recommend actions needed to establish financial autonomy for municipalities or proportional representation on Municipal Councils.

ISDEM

The view of ISDEM on decentralization is influenced by two critical factors or individuals: the President of the Republic and the Director of ISDEM. While ISDEM as municipal development institution would probably support decentralization and municipal autonomy, the fact that it must respond to the party in power colors its views measurably. The Director of ISDEM could play a determining role, in this case in establishing ISDEM's more centralist stance on the degree of municipal autonomy considered desirable. On the other hand ISDEM, as an agency of the government which reports to the President, must also take into consideration the somewhat broader view of the decentralization process which the President holds. MIPLAN and other members of the Committee drafting the Municipal Development Plan can also influence the centralist tendencies of the Director in a direction more supportive of municipal autonomy.

To the extent that other donors provide financial support to it and exert influence on its program content, ISDEM will be a major influence on the type and quality of technical training and education in democratic procedures which the municipalities and the citizenry will receive in the coming years.

Diputados and Political Parties

The persons standing to lose the most from an increase in the political and financial autonomy of the mayors and from broader political representation on the municipal councils are the party representatives in the Assembly - the deputies. Their power at the departmental and municipal levels is tenuous now and, as the mayors have become increasingly more independent as a result of having the resources and the responsibilities which they derive from the Municipalities in Action program, the diputados are acutely aware that power within the parties is shifting towards the mayors. Frictions have increased and deputies from almost every party have complained about "excessive independence, arrogance, and inflated feeling of authority" on the part of the mayors. The sense of new-found autonomy is heightened by the success of COMURES in giving the mayors an association which supports them and offers assistance and a sense of strength through unity with more than 200 colleagues.

In spite of this developing antagonism and the view which the deputies hold of the mayors as untrained, inexperienced, generally ignorant people, most deputies favor phased decentralization, including technical training for municipal employees, longer terms of office for mayors, some local revenue generating authority, and administrative autonomy. The many deputies will still seek the means to maintain party discipline at the municipal level, but will vote for much of the essential legislation necessary for decentralization. There are some however, especially in the PCN, who will vote against any further measure which might provide more independence to municipalities. But, since the Partido de Conciliación Nacional makes up only 5% of the votes in the Assembly, their objections will probably not change the course of events. The PDC, Convergencia, and some representatives of ARENA have spoken of a platform plank for municipal development and decentralization in the upcoming Presidential election campaign which will begin in the fall of next year.

It is vital to the success of any decentralization effort to have sufficient votes in the National Assembly to assure passage of critical legislation. Without adequate reforms and changes in the current laws, it will be impossible for the municipality to carry out its new functions properly or to finance its basic requirements.

The USAID Strategy will stress continuing discussion and informal educational efforts with key deputies on issues such as the impact of a property tax on municipal revenues, the need for clarification of authorities under the Electoral Code, and the benefits of broader representation on municipal councils. These continuing dialogues must be supported by clear, concise analyses, understandable to the deputies and requiring no more than a brief discussion to get the point across.

Line Ministries and Autonomous Agencies

Although the Ministries or autonomous agencies who will be devolving functions to the municipalities met with the mayors and Administration figures last year and agreed upon the services to be transferred to local governments, nothing has been done to further define or implement this step. The Ministry of Planning has proposed a "diagnostic" to make a final determination of which services can be transferred. There will be some natural resistance within the Ministries and autonomous agencies to shifting the bulk of their activities to municipal authority and implementation. This resistance will probably have to be overridden by a Presidential decision approving the Municipal Development Strategy and Plan. If the assumption of additional public services by the municipalities is gradual, as it must be, the resistance of the Ministries and autonomous agencies may be lessened, but considerable opposition can still be expected as these are forced to reduce their control, financing and personnel, and to transfer control and financial authority to municipalities.

International Donors

Both AID and the GTZ are assisting in the strengthening of local governments, stimulating the increase and improvement of resources in the municipalities and reinforcing and expanding democratic processes. GTZ provides financing and technical assistance to ISDEM and the municipalities for drafting new legislation, helping the municipalities update their fee and service charge structure and feasibility studies for municipal works. AID provides financing and technical assistance to the CONARA Municipalities in a pilot program for administration and construction of municipal infrastructure of all kinds.

Both organizations have been invited to participate in the drafting of the municipal development strategy and plan coordinated by the Ministry of Planning. The Regional Housing and Urban Development Office, RHUDO, has offered the services of a full-time consultant to the Ministry in this effort. USAID/El Salvador will also provide personnel to help the planners. The presence of these technicians should have a significant impact on the direction and content of the final product.

Actions to be Taken with Major Stakeholders

The close relationship of the Municipalities in Action Program to any effort to improve and strengthen local government will permit AID to further influence the direction of the activity in the design stages. Provision of specialized technical assistance for analysis of legislation required, support for policy reforms, aid to cadastral studies, suggestions on potential revenue-sharing plans, and training in establishing democratic institutions can have a great impact on the approach which the Government of El Salvador takes in developing local government.

Pre-electoral consultation with the principal presidential candidates and their staffs is another way in which USAID can make its views known, as is continuing consultation with the Ministry of Planning and the municipal development agencies, COMURES and ISDEM, during the design stage of the USAID municipal development project.

In addition to the work required with key institutions, the Mission must also pursue policy dialogue with the most important individual "stakeholder" - Dr. Calderón Sol; first, because of his position as one of the leading, perhaps the leading Presidential candidate and his resultant influence on the MIPLAN draft of the strategy and plan; secondly, because of his position as Chairman of the Board of ISDEM Board; thirdly, because he represents the more conservative wing of ARENA in terms of his attitude toward limited devolution of autonomy to municipal authorities.

Intensive dialogue and educational efforts must also continue with the Legislative Assembly to assist, wherever possible, in clarifying legislative needs in support of administrative and financial autonomy and in broadening the understanding of the members on the functioning of democratic institutions at all levels of government.

There is a natural rivalry between the current role of the diputado and that of the mayor and this friction will become more intense when mayors develop more independence, gain access to increased amounts of resources, and are able to make their influence felt much more, first in small cities and towns and then throughout the rural areas. A positive role must be encouraged for the diputados at the departamental and municipal level or the frictions between them and the mayors will continue to grow. If that is allowed to happen, legislation required for explaining municipal autonomy could become very difficult to obtain.

The most important point where the USAID must exert its influence is with the High-level and Technical Committees charged with drafting the municipal development strategy and plan. The tentative schedule calls for a plan to be ready for Presidential approval by August 1993. The appropriate technical assistance provided to those Committees can have a great deal of influence in determining the quality of the plan and the type of municipal strengthening and mechanisms for democratization which will be put into effect over the next decade. To have full effect, this influence must be exerted over the next 14 months, well prior to the next election. The program for decentralization will be pretty firmly fixed by the GOES during that period.