

F I E L D R E P O R T

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ASSISTANCE IN THE DEVELOPMENT OF A WATER
AND SANITATION POLICY FOR ECUADOR

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WASH Field Report No. 438
March 1994

**WATER AND
SANITATION for
HEALTH
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ASSISTANCE IN THE DEVELOPMENT OF A WATER AND SANITATION POLICY FOR ECUADOR

Prepared for the Bureau for
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by

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and
Elsa de Mena

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RELATED WASH REPORTS

Final Project Monitoring Report 1992-93: Water and Sanitation for Health and Ecuadorian Development (WASHED). WASH Field Report No. 428. November 1993. Prepared by Daniel B. Edwards and Mercedes Torres. (Available in English and Spanish.)

A Summary Report of the Integrated Cholera Control and Prevention Program for Machala, Ecuador. WASH Field Report No. 427. September 1993. Prepared by John Paul Chudy. (English only.)

Cost Recovery and Financial Management Improvement: Final Report for Machala, Ecuador. WASH Field Report No. 422. July 1993. Prepared by Jorge Alfredo Infante and Elsa de Mena. (Available in English and Spanish.)

Prefeasibility Study for Water Supply, Treatment, and Distribution for Machala, Ecuador. WASH Field Report No. 400. July 1993. Prepared by Elio F. Amiella, P.E. (Available in English and Spanish.)

Water Quality Assessment in Ecuador. WASH Field Report No. 390. February 1993. Prepared by John Paul Chudy, Elio Amiella, and Enrique Gil. (Available in English and Spanish.)

Project Monitoring Report 1991-92: Water and Sanitation for Health and Ecuadorian Development (WASHED). WASH Field Report No. 384. November 1992. Prepared by Daniel B. Edwards and Mercedes Torres. (Available in English and Spanish.)

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ACRONYMS

AME	Ecuadorian Association of Municipalities
BDE	State Bank of Ecuador [<i>Banco del Estado</i>]
BVE	Housing Bank of Ecuador [<i>Banco de la Vivienda</i>]
CAAM	Presidential Commission on the Environment
CARE	CARE International
CONADE	National Commission for Development
EMAP-Q	Quito Water and Sanitation Company
ETAPA	Cuenca Water, Sanitation and Telephone Company
FASBASE	Basic Health Project-World Bank
FISE	National Social Investment Fund
FONASA	National Fund for Water and Sanitation
GDO	General Development Office (of USAID/Ecuador)
GOE	Government of Ecuador
IDB	Inter-American Development Bank
IEOS	Ecuadorian Institute for Sanitary Works
INEN	Ecuadorian Institute for Normalization
INERHI	Ecuadorian Institute for Hydrological Resources
MIDUVI	Ministry of Urban Development and Housing
MOH	Ministry of Health
MSP	<i>Ministerio de Salud Publica</i>
OPS	Organización Panamericana de Salud (PAHO)
PAHO	Pan American Health Organization (OPS)
SSA	Subsecretary for Environmental Quality [<i>Subsecretaria de Saneamiento Ambiental</i>]
TA	Technical assistance
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

This report summarizes the work of a consultant team that provided technical assistance to the Subsecretary for Environmental Quality of the Government of Ecuador January 24 to February 4, 1994, through the auspices of USAID/Ecuador. The team was provided by the Water and Sanitation for Health (WASH) Project. The purpose of the activity was to assist the Subsecretary with the task of preparing for a workshop to formulate a national policy for the water and sanitation sector. The workshop took place February 1-2, 1994, in Quito.

Through interviews with principals of institutions working in the sector, the WASH team identified 25 issues which were used to stimulate discussion during the workshop's three components (overall policy, financial policy, and institutional organization). Following the workshop, the team was asked to provide some conclusions and recommendations to USAID to move the process along.

Two important observations can be made relevant to the workshop. First, following a deeper analysis of the workshop output, further work will be needed to resolve the differences so that a consensus on the final policy can be reached. Second, an action plan should be developed for transferring sector responsibilities to municipalities. This implies the definition of a transition period for the Ecuadorian Institute for Sanitary Works (IEOS) and elaboration of the steps needed to inform municipalities of the restructuring of the sector.

A number of recommendations are applicable to the Ministry of Urban Development and Housing, its Subsecretariat for Environmental Quality, and USAID/Ecuador.

Recommendations for the Ministry of Urban Development and Housing.

- Stay engaged with the National Commission for Development (CONADE) so that the sector policy is visible at the highest political levels.
- Move quickly to organize its structure, including operational elements such as an urban land use code which is relevant to implementation of the policy.
- Include the sectoral policy under the Presidential Commission for the Environment (CAAM) both to strengthen the environmental movement in the country and to secure the Ministry's leadership in the sector.

Recommendations for the Subsecretariat for Environmental Quality.

- Conduct an analysis of the workshop results and produce a report that summarizes results with respect to where participants agree and disagree on policy elements.
- Meet with relevant institutions one by one to resolve differences identified by the workshop results analysis; produce a final policy that meets with agreement among the various institutions.

- Convene a meeting of the top three entities involved in the sector (Subsecretary for Environment Quality, CONADE, and the State Bank of Ecuador or BDE) to finalize the document and to ratify agreements achieved through the shuttle diplomacy effort. Realize this goal by March 15, 1994.
- Conduct two follow-up workshops for: (1) municipalities, i.e., mayors and appointed staff, and (2) municipal enterprises responsible for delivering public services.
- Develop a transition action plan that defines how IEOS will disengage itself from direct project finance and construction work in rural areas and transfers that responsibility over to municipalities. This goal should be implemented over two years and be completed before August 1996.

Recommendations for USAID.

- Provide technical assistance to the Subsecretariat to help reach a consensus among the involved institutions. During the same consultancy, develop a scope of work for the restructuring transition plan for IEOS. (This is a one to two week effort, February-March 1994.)
- Provide technical assistance (TA) to the Subsecretariat to develop the restructuring transition plan for the Ecuadorian Institute for Sanitary Works (IEOS). This TA should involve a team of experts to look at technical, finance, and management issues at the municipal level. (Three to four weeks in March-April 1994.)
- Provide up to five units of TA during the implementation of the two-year transition plan to:
 - Develop a baseline of information about sector services in the country's 193 cantons and municipalities.
 - Develop a process to assist the municipalities in making decisions about providing service in their cantons.
 - Develop training programs (and manuals) for municipalities in financial management, tariff setting, investment planning, and operations and maintenance.
 - Develop an ownership plan for these new arrangements that clearly spells out the rules, centered around market concepts.
 - Assist the Subsecretariat in establishing a monitoring unit to make sure problem areas during the transition period are attended to.

Chapter 1

INTRODUCTION

1.1 Overview

This report summarizes the work of a team that provided technical assistance to the Subsecretary for Environmental Quality [*Subsecretaría de Saneamiento Ambiental* or SSA] of the Government of Ecuador (GOE). The consultant team was provided by the Water and Sanitation for Health (WASH) Project at the request of USAID/Ecuador. The purpose of the activity was to assist the SSA (also known as the Ecuadorian Institute for Sanitary Works or IEOS)¹ with the task of preparing for a workshop on formulating a national water and sanitation policy. The workshop, which took place February 1-2, 1994, in Quito, Ecuador, brought together all the Ecuadorian institutions involved in the sector to discuss a draft policy which had been prepared by the SSA. The WASH team was composed of one American and one Ecuadorian professional. The consultancy was carried out from January 24 to February 4, 1994.

The WASH team's work consisted of interviewing representatives from some of the institutions invited to the workshop in order to identify issues related to the SSA's proposed policy paper. (See Appendix A for a list of interviewees and a list of participants at the workshop.) The draft policy had been circulated to most of the invited institutions prior to the workshop. Through the interview process, the WASH team was able to identify 25 issues that were used in the workshop as topics to guide discussion in work groups (see Appendix B). The issues helped stimulate discussion during the workshop's three components (overall policy, financial policy, and institutional organization).

1.2 Background

As one of its first activities upon assuming office in August 1992, the administration of President Sixto Durán Ballén prepared an agenda for development that included the need to improve the nation's performance in providing water and sanitation services to the public. The agenda cited the shortfall in coverage and noted some of the more commonly known causes for the shortfall, including weak institutions with overlapping responsibility, poorly defined tariff strategies, conflicting laws, complicated procedures for contracting by public entities, lack of a policy in financing water and sanitation projects, limited financial resources and poor planning for the use of available resources, and lack of overall regulation leading to the waste of resources. The agenda went on to note that as a consequence of the disarray in the sector,

¹ From 1965 to 1992, IEOS existed under the Ministry of Health. In August 1992, IEOS was shifted to the newly created Ministry of Urban Development and Housing (MIDUVI). The Subsecretary or SSA is responsible for the management of IEOS; thus in this paper the terms IEOS, SSA, and Subsecretariat are used interchangeably.

the public continues to experience a high incidence of diarrheal diseases and an environment that is increasingly contaminated. As a result, the administration set as one of its goals alleviating the problems cited above in order to achieve greater coverage of service by 1996, i.e., increasing access to potable water to 90 percent in urban areas and to 50 percent in rural areas and increasing excreta disposal services to 80 percent in urban areas and to 45 percent in rural areas.

Concurrent to the GOE's development agenda was the elaboration of the Pan American Health Organization's (PAHO) regional plan for investment in health and environment. The plan calls for securing resources from various sources that eventually will amount to US\$ 210 billion to be invested in the region over the next 11 years to improve conditions of health and environment. As a first step in developing the plan, PAHO, in close collaboration with the Agency for International Development's Bureau for Latin America and the Caribbean, the Inter-American Development Bank (IDB), and the World Bank, developed a methodology for assessing the water and sanitation sector. The purpose was to provide a common methodology so that major donors in the region would have comparable results when carrying out sector assessments.

The sector assessment methodology was field-tested in Ecuador in September 1993. The results provided a more in-depth diagnosis of the sector than the president's development agenda. Apart from citing some of the same institutional weaknesses noted in the development agenda, the study showed that overall coverage statistics in Ecuador are the lowest in Latin America—60 percent for potable water and only 40 percent for adequate excreta disposal. Poor coverage stems from varying causes including problems with financing, economic issues, politics, administrative weakness, and social concerns, the study found. In addition, the study cited a deterioration in water resources, poor quality of service and poor quality of water when service was provided, high levels of water loss in systems, lack of management, lack of policies and clear objectives, inconsistent and overlapping laws and regulations, lack of treatment and adequate disposal of sewage, lack of trained personnel, weakness in operating and maintaining water and sanitation systems, failure to comply with norms, a lack of information, and so on.

In addition to calling for greater investment in the sector, the study strongly recommended a number of institutional changes to improve service. Some of the more important ones included establishing a normative agency to plan, supervise, and regulate the sector; clearly defining the roles of institutions involved in the sector; deregulation; greater use of the private sector to gain efficiencies; decentralization; and strengthening of municipalities as principal providers of service.

1.3 Why Policy Is Important

The absence of a defining policy for the water and sanitation sector in Ecuador has produced the outcomes noted by the PAHO methodology field test and by the president's development agenda. In addition to little or no service to large numbers of Ecuadorians, the lack of a clear policy for the sector has produced excessive waste of resources. An environment of

overlapping responsibilities and unclear institutional roles has created a situation in which many of the players in the sector, IEOS, the State Bank (*Banco del Estado* or BDE), and the Social Investment Fund (FISE), for example, perform all phases of work from design and promotion of infrastructure projects to financing, construction, and training of local technicians. A policy that clearly defines institutional roles will lead to greater efficiencies in terms of resource use. More importantly, a well defined policy will motivate institutions—and the individuals associated with them—to generate net benefits for all Ecuadorians, rather than costs.

1.4 A National Policy for Ecuador

In 1993, under the auspices of the office of the vice president, Ecuador's National Commission for Development (CONADE) convened a working group of several organizations to develop a new national policy for the water and sanitation sector. The working group included the Ministry of Finance, SSA, BDE, CONADE, and the Ecuadorian Municipal Association (AME). The vice president requested that member institutions develop their own respective draft policies for the sector, keeping in mind the president's agenda for development.

The Government of Ecuador delegated to the SSA the responsibility of pulling the various drafts together into one document which in turn would be further developed by the working group. What resulted was the draft proposal for a national water and sanitation sector policy prepared by the SSA; this was the subject of the national water and sanitation policy workshop. The draft addressed most of the observations raised in both the agenda for development and in the PAHO/USAID/IDB sector assessment. The workshop was planned as the next step in seeing to it that the proposed policy was vetted in an open setting by all the institutions involved in the sector.

USAID/Ecuador, through its General Development Office for Health and the Regional Housing and Urban Development Office, collaborated with the SSA in preparation and support for the policy workshop. The assistance provided by the WASH team was requested by USAID on behalf of the SSA.

Chapter 2

SUMMARY OF THE SEMINAR ON NATIONAL WATER AND SANITATION POLICY

2.1 Purpose of the Seminar

In order to strengthen central government policies regarding provision of basic water and sanitation services, the Ministry of Housing and Urban Development, through the SSA, developed a set of water and environmental sanitation policies. These policies have been proposed for the process of modernization and decentralization of the public functions involved in the sector to promote a process of institutional strengthening and the rational use of financial resources and capabilities to assist in meeting the need for basic services for all citizens in the cities and rural communities of Ecuador.

The following discussion is a summary of observations made during the seminar held in Quito, February 1-2, 1994. The discussion follows the three-part structure of the policy developed by the SSA, i.e., general policies, financial policies, and institutional organization. Prior to the seminar, a set of key questions was prepared which guided the workgroup sessions. The discussion which follows summarizes the responses to those questions by the groups.

2.2 Policies of the Subsector

There were five key questions for this area; comments follow each one.

- (1) What should the basic principles of the water and environmental sanitation policy consist of?
 - The Central Government should assign top priority to the supply of clean water and sanitation.
 - The municipalities should be responsible for satisfying basic needs within the jurisdiction of their respective *cantones*.
 - Cost recovery for systems administration, operation, and maintenance is an essential principle, as is recovery of investment costs. However, this objective must be balanced by a realistic assessment of the capacity of the general public to pay. It is also important to differentiate between service delivery costs for urban and rural sectors.
 - Greater efficiency is needed in the consumption and production of services.
 - The design of water and sanitation programs should include as an aim environmental protection and conservation of natural resources. Provision of appropriate treatment of wastes must be included to protect the environment.

(2) What should the basic guidelines of a water and environmental sanitation policy include?
Agreement was reached on the following points:

- The municipalities will be responsible for providing water and sanitation services within their jurisdictions.
- Within these entities, internal coordination will be pursued, and all foreign assistance will likewise be coordinated.
- To promote the efficient use of water, consumption will be measured and appropriate fees applied.
- The concept of combining the provision of water and sewerage services in a single utility should be supported. This is a logical means for dealing with these complementary services in an integrated fashion.
- Water quality should be subject to parameters and standards.
- Even though total agreement was not reached on tariffs, a significant number of participants felt that household tariffs should be progressively scaled on the basis of consumption, without distinguishing between types of users (commercial, industrial, etc.). In situations where water is used in industrial processes, the fees should include such distinctions. Another viewpoint was that the fee should reflect actual costs (delineated in accordance with an appropriate methodology, for example marginal long-term cost), and that government subsidies should be transparent when provided.

(3) What actors should be involved, and what should their roles be?

- There was broad agreement that municipalities should be responsible for providing service within their respective *cantones*, and that they should assume responsibility for the implementation, operation, and maintenance of their own systems.
- There was agreement that the Banco del Estado (BDE) is the financial institution for the sector and that all municipalities, small, medium, or large, are potential borrowers of the bank. At the same time, it is suggested that the Ministry of Housing and Urban Development should not be given any functions involving financing.
- With respect to water quality:
 - Quality control is the responsibility of each service-providing entity (operator).
 - Oversight (to ensure that quality control is properly performed) is a function of the Ministry of Public Health.
- The proposed policy was amended on page 12. The normative authority ... (change to read as follows):

“... The normative authority with regard to water quality shall be the Ministry of Public Health.”

- SSA has funds for project implementation, but it is not actually an implementing agency. Its sphere of action involves establishing subsector policies and the normalization, development, and application of appropriate technologies. With respect to technical assistance for implementing organizations, it will play an important role in the area of interinstitutional coordination.
- The Ministry of Public Health will establish appropriate norms and basic principles regarding water quality and will be charged with monitoring functions.
- The municipalities themselves will be responsible for project implementation. With regard to the operation and maintenance of their systems and water production, they will be responsible for maintaining control over water quality.
- As an interim measure and taking into account the fact that SSA, the National Social Investment Fund (FISE), and other entities currently perform functions as project-implementing organizations, these responsibilities should be transferred to the municipalities to assist in their development. Such transfer should take place gradually over a period of one to two years. In the case of FISE, its efforts should be directed toward the poorest.

(4) What recommendations can be made for improving the efficiency of the subsector?

- The functions assigned to each institution should be carried out effectively, as failure to do so makes it necessary for other organizations to assume functions not assigned to them, which in turn leads to confusion and disorganization. (For example, the Ministry of Urban Development should be responsible for developing policies for rationalizing urban settlements and waste disposal.)
- It is essential that a flexible legal framework be strengthened to promote the development of the sector and an appropriate organizational framework.
- There is need to develop self-sufficiency of systems and decentralization of revenues, together with the decentralization of responsibilities in order to make sufficient resources available to meet basic needs.

(5) How should the subsector be constituted?

- There was not clear agreement on what concept to use to define smaller and poor municipalities. It appears that there is a need to investigate problems of consumption. Smaller or poor municipalities face significant problems in provision of water and sanitation services for all their citizens.

2.3 Fiscal and Financial Policy

The comments reflect the responses given by each work group to three key questions:

- (1) What should the policy for the subsector be? How should service implementation organizations and central government organizations involved in the subsector be financed?
 - In regard to supply and demand for services, in the long run, the policy should aim at financial self-sufficiency of the sector [...] by the application of user fees to recover costs of investments and operations and maintenance, as well as debt service.
 - The policy should try to unlink the telephone fee, which is billed along with the water fee. Combining these two fees tends to distort the market and fails to communicate clearly to the consumer the true cost of water and wastewater services.
 - The fee for solid waste collection, which is based on the fee for electricity, should be the subject of a more detailed study.
 - It would be advisable to establish subsidies by directing them toward investments, based on an analysis of how much can be recovered and how much support is required from the government, and not on *a priori* considerations of poor municipalities.
 - There was agreement that the fiscal-type policy of resorting to a number of different forms of taxation should be eliminated. Rather, efforts should be made to achieve the financial self-sustainability of the sector on the basis of fees, together with lines of credit for financing projects and subsidies for low-income sectors. This consensus differs from the proposal set forth in the document.
 - Related to the preceding point, there was a suggestion that the sector not depend on tax revenues and that service fees not be converted into taxes. The group did not agree with the proposal for the sector to depend largely on national and international financing and contributions.
 - There should not exist both a credit window and a subsidy window within BDE. These windows should be seen as complementary in nature, so credit should not be handled in one institution and subsidies in another.
 - BDE grants credit in accordance with the payment capacity of the institutions and studies the possibility of providing subsidies. As a result, direct subsidies or financing provided by the State lead to confusion regarding the functions fulfilled by the various sector organizations.
 - All systems should cover operating and maintenance costs.
 - Fees applied in the industrial sector should not be transformed into a subsidy for the rest, because this would be equivalent to levying a tax.

- The proposition with the greatest consensus was for leaving fiscal considerations to one side and pursuing financial self-sufficiency.
 - Rural areas should be served through the municipalities, as subsector implementing entities, financed by FISE and with BDE as the financial entity.
 - Financing through FISE should be viewed as a temporary solution. In the future it could be incorporated into the BDE as a source of financing for the rural areas. Resources should definitely be channeled through the institutions established for that purpose.
 - All individuals should pay for the services they receive.
 - In poorer areas, fees covering only operation and maintenance should be paid.
- (2) What should the financial policy of the subsector be in regard to supply and demand for services?
- Service priorities should be based on assessments.
 - Priorities should be based on technical studies, with priority given first to projects requiring rehabilitation and maintenance and subsequently to construction of new systems.
 - The SSA should create the appropriate coordinating mechanisms for protecting the environment, in conjunction with all institutions having responsibilities in this regard. Adequate coordination should be provided by the CAAM for use of international loans as well as for any technical assistance provided by consultants.
- (3) What modifications could be suggested to streamline operations?
- Credits, currently administered by BDE, FISE, and FONASA, as well as any other lines of credit, should be channeled and regularized in a single financial entity, i.e., the Banco del Estado.
 - The Ministry of Health has an oversight function with regard to water quality.
 - The SSA should be the normative and controlling institution for the subsector.

2.4 Institutional Policy

The comments below respond to four key questions:

- (1) On what policies should the institutional organization of the subsector be based?
- Normative regulation
 - Implementation

- Construction and operation and maintenance
 - Financing
 - Control
 - Support actions
 - A clear and simple definition of roles and of political and technical competence.
- (2) What should the responsibilities of the institutions comprising the water and sanitation subsector be?
- There was agreement on those set forth in the proposal, after eliminating financing from the Ministry of Housing and Urban Development, financing from FISE and investment from AME. In addition, ANEMAPA should be added in the area of advisory services, information, and training.
 - Oversight of water quality and the power to establish sanctions for noncompliance with specific provisions should lie with the Ministry of Public Health.
 - The representative from the Ministry of Health explained that there is debate over which institution should have normative authority with regard to water quality, although his group eventually leaned toward the idea that the Ministry of Health should be the authority in this area.
 - The group recommends that authority for planning and management of water and sanitation services not be given to the SSA as planning is a function of the entire sector, and management is a function of the operating agencies and associations. However, the SSA should be granted normative authority with regard to services as well as the development of appropriate technologies.
- (3) What should the objectives of the SSA be?
- Appropriate functions of the SSA are development of norms; control and technological aspects of research, advisory services, and information and training in the areas of clean water, sanitary disposal of waste water, excreta, and solid waste; and environmental monitoring of the water, air, liquid, and gaseous waste.
 - The SSA should promote coordination with other institutions and municipalities in matters involving the environment, through the CAAM.
 - There was a difference of opinion with regard to this question, with some suggesting that responsibility for the institutional system and sector policy should rest with the Ministry of Housing and Urban Development, through the SSA, whereas others felt that this responsibility should be located at the level of the President. In addition, it was pointed out that, in the initial paragraphs of the document (on page 13), the responsibility assigned to the SSA for **developing financial and credit policy should be eliminated**, as this attribute corresponds to the sector as a whole.

(4) How will the SSA be linked to potential national environmental policies?

- Linkages will be established through the CAAM. The SSA will provide information for the water and sanitation sector by establishing an information system that will collect data from all of the institutions involved in the sector.
- It is suggested that the SSA, like all of the other institutions, should be included in national environmental policy, following the initiative taken by the CAAM and the environmental management guidelines being developed in Ecuador.
- There is agreement on the fact that there already exists a committee responsible for environmental concerns, and that policies in the water and sanitation sector should be guided accordingly.
- There should be follow-up to this workshop. Participants insisted that a program or mechanism be established for follow-up meetings of this group periodically.

Chapter 3

CONCLUSIONS AND RECOMMENDATIONS

3.1 General Conclusions

The assistance of the WASH team was helpful in focussing attention on keeping the policymaking process open. When the team first met with the Subsecretary for Environmental Quality during the first week of the consultancy, the workshop was described as a forum for introducing the sector policy, and that following the workshop the goal was to obtain presidential approval of the policy within ten days time. By the end of the week of interviews, the position had changed to one of viewing the workshop as a forum for open dialogue during which the invited institutional representatives could provide comment and make input into the development of the policy. By the end of the workshop, the position had shifted to recognition that additional follow-up work with other institutions would be needed to arrive at a final policy. (Appendix C describes the workshop planning process.)

Apart from identifying issues that interviewees felt were important elements of the policy, the WASH team served as interlocutors between the Subsecretary and interested parties to advance the process. To many of the interviewees, the publication of the draft policy proposal prepared by the Subsecretary was a surprise. Some of those who were members of the CONADE working group believed that more collaborative work within the group should have taken place on the draft document before its introduction to wider circles. The WASH team helped clarify the understanding that the draft policy was a proposal for further discussion and that the workshop itself was the forum in which this would take place. As a result, the process was made more politically acceptable across the spectrum of institutions invited to participate in the event.

The substance of the proposed policy is to move the water and sanitation sector in Ecuador from being subsidized to being more commercial. The two-day workshop demonstrated that virtually all of the organizations represented believe this change is necessary if service delivery is to be extended to those presently not reached and improved qualitatively for those currently served. The Ministry of Urban Development and Housing, through the Subsecretariat for Environmental Quality, provided important leadership in putting the draft policy together and in organizing the workshop. The workshop forum provided opportunity for people's positive involvement in the change efforts included in the draft policy.

The two-day workshop revealed that there is a good deal of agreement among the invited institutions on elements of the proposed policy. There are also a number of elements that remain in disagreement or have to be further clarified. An analysis of the workshop results, especially the output from the working groups, will have to be carried out to determine a complete list of agreements and disagreements. However, a few examples of each can be made before such an analysis is completed.

General agreement seemed to be expressed on the following issues:

- A basic set of principles should be elaborated which captures the thrust of the policy.
- Municipalities should be responsible for providing water and sanitation services to populations throughout their cantons.
- SSA should limit its role to normative, regulatory, and supervisory responsibilities.
- IEOS should define a transition period during which the municipalities would be assisted in assuming responsibility for water and sanitation services.
- The Ministry of Urban Development should assume responsibility of developing policies regarding urban land use, i.e., zoning codes.
- The State Bank (BDE) should be the sole public entity responsible for financing projects in the sector.
- Financial self-sufficiency should be central to program implementation. Tariffs should cover marginal costs in terms of operations, maintenance, and investment. Cost recovery should not depend on taxes or duties.²
- In every system, tariffs should cover operations and maintenance. In poor communities, investment costs can be subsidized.

General disagreement, or the need to further resolve conflicting elements, seemed to be expressed for the following issues:

- That BDE assume responsibility for FONASA (National Fund for Environmental Sanitation) which is currently within IEOS, and FISE (Social Investment Fund) which currently operates independently in the design, construction, and financing of rural and peri-urban systems in areas of extreme poverty.
- That the Ministry of Health assume responsibility for overseeing the control of water quality and sanitation services. Some propose that this function be placed in the Ministry of Health, while others argue that the Ministry of Health lacks the laboratory infrastructure to carry out the work.
- That the Ministry of Urban Development and Housing (MIDUVI), through the Subsecretary for Environmental Quality, exclude itself from being involved in defining finance and credit policy for the sector.
- That the Housing Bank (BVE) limit its future actions to financing housing projects and not water and sanitation infrastructure projects.

² As the process of moving this national policy forward continues, it will be necessary to clarify to all principals, e.g., Subsecretary for Environmental Quality, Banco del Estado, etc., that notwithstanding this general sentiment, sources of revenue other than user fees for targeted purposes will probably be needed in some instances as is the case in most of the world.

Some aspects of the policy require further definition and a more clear articulation of what is explicitly entailed in the proposed change. For example:

- Current accounting practices are a barrier to implementing the proposed policy. Accepted accounting practices set by the national treasury (*Controlaria*) require that municipalities provide only a basic revenue and expenses accounting, which in most cases does not reflect total costs. In other words, a municipal water department is not required to demonstrate what its total costs are in terms of investment, operations, and maintenance. Rather, it need show only what it has taken in and what it has expended. This system is inadequate for a decentralized approach in which municipalities are expected to obtain and to manage credit for investment purposes and to levy fees to cover operations, maintenance, and investment costs. Quito's and Cuenca's potable water companies have introduced improved accounting systems, and these experiences could be transferred to the other municipalities in the country. A change in accounting procedures should be developed and explained in careful detail as part of the transition period during which the new policy is being implemented.
- Details about cost recovery and tariff setting need to be carefully thought out and articulated during the transition process. There is general agreement that taxes or duties should not be relied on to meet costs, yet sources other than tariffs may have to be considered in some instances.

While the above list is not exhaustive, it nonetheless suggests two important observations. First, that following a deeper analysis of the workshop output, further work will be needed to resolve the differences so that a consensus on the final policy can be reached. Second, that an action plan be developed for transferring sector responsibilities to municipalities. This implies the definition of a transition period for IEOS and the elaboration of the steps needed to inform municipalities of the restructuring of the sector.

3.2 Recommendations

A number of recommendations are applicable to the Ministry of Urban Development and Housing and its Subsecretariat for Environmental Quality and to USAID.

3.2.1 Recommendations for the Ministry of Urban Development and Housing

While large bureaucracies do not guarantee that the development process will be successful, strong bureaucracies are required. The new ministry must continue to provide leadership in the sector and to move quickly to structure its organization. Specific recommendations include the following:

- The Ministry must stay engaged with CONADE so that the sector policy retains visibility at the highest political levels, which will ensure political acceptability among affected groups.
- The Ministry must move quickly to organize its ministerial structure including operational elements such as definition of urban land use codes which are relevant to implementation of the policy.
- The Ministry should move to include the sectoral policy under the Commission for the Environment (CAAM) both to strengthen the environmental movement in the country and to secure the Ministry's leadership in the sector.

3.2.2 Recommendations for the Subsecretariat for Environmental Quality

The responsibility for keeping the policy development process moving lies with the Subsecretary. Specific workshop follow-up recommendations for the Subsecretary include the following actions:

- Conduct an analysis of the workshop results, especially the work group products, and produce a report that summarizes results with respect to where participants agree and disagree on policy elements.
- Initiate a shuttle diplomacy effort to meet with relevant institutions one by one to resolve differences identified by the workshop results analysis; produce a final policy that meets with agreement among the various institutions. (To be completed by February 28, 1994.)
- Convene a meeting of the top three entities involved in the sector (SSA, CONADE, BDE) to finalize the document and to ratify agreements achieved through the shuttle diplomacy effort. (To be completed by March 15, 1994.)
- Conduct two follow-up workshops patterned after the February 1-2 workshop directed at (1) municipal and provincial officials and (2) municipal enterprises responsible for delivering water and sanitation services. These events will serve the dual purpose of introducing the policy to local authorities and to municipal enterprises and eliciting their input, as well as to sound them out on the implications of devolving responsibility for water and sanitation to the municipal level.
- Develop a transition action plan which defines how IEOS will disengage itself from direct project finance and construction work in rural areas; and transfer that responsibility over to municipalities. The transition period should be planned to culminate with the current administration, i.e., before August 1996. The transition period should begin with the approval of the final policy and completion of the two follow-up workshops. The first year should be a preparation period, at the end of which the new structure will actually go into effect for stronger municipalities. The preparation period should define the specifics of the transition period and of the implementation of policy itself and include such elements as: (a) the details of how IEOS will perform its new role as a normative agency that, in

addition to regulating the sector, will provide technical assistance and community promotion services to municipalities to help design, seek financing for, build, and operate water and sanitation systems; (b) articulating approaches for delivery of services to rural areas, e.g., flexible approaches such as regional enterprises based on social, economic, or watershed considerations, and (c) definition of how financing, accounting, and cost recovery elements will be developed and transferred to municipalities. During the second year, the new structure will begin to be extended to weaker municipalities as the rules for the new structure become more familiar to everyone involved.

3.2.3 Recommendations for USAID

Since its creation in 1965, USAID has been actively involved in the development of IEOS in the provision of both financial resources and technical assistance (TA). As IEOS begins a transition into its new role of being the normative and regulatory body for the water and sanitation sector, USAID should remain engaged to help see that the restructuring is successful. In this regard, several specific recommendations are applicable:

- Provide technical assistance to the Subsecretariat to help with the proposed shuttle diplomacy (see above) to ensure that the policy gets finalized with consensus among the involved institutions. During the same consultancy, develop a scope of work for further follow-up technical assistance to work with the Subsecretariat in the elaboration of the restructuring transition plan for IEOS. (To be completed in one to two weeks in February 1994.)
- Provide technical assistance to the Subsecretariat to develop the restructuring transition plan for IEOS. This TA should involve a team of experts to look at technical, finance, and management issues at the municipal level. Working with Subsecretariat professionals, the team should visit several municipalities reflecting the variations in municipal situations in terms of resources, capacity, and potential. (To be completed in three to four weeks in March-April 1994.)³
- Provide support to the Subsecretary in promoting and presenting the two follow-up workshops with local authorities and municipal enterprises.
- Provide up to five units of TA during the implementation of the two-year transition plan. The overall purpose of the TA would be to clearly define the transition and to provide parameters of flexibility that the program requires so that uncertain aspects of policy

³ The transition period does not mean that IEOS will disappear. What it does mean is that its role will change from financing and constructing water systems and turning them over to community water committees in rural areas to doing community promotion and working with the communities, through municipalities, to help them make decisions about obtaining water and sanitation service. As a regulatory agency, IEOS would implement the policy to see that municipalities provide water; as a technical assistance body, it would help communities create a firm (an enterprise) to provide these services. Essentially, its role changes from being patronal to normative and advisory.

implementation are adequately addressed, i.e., how to deliver service to the rural areas in instances where county seats (*cabeceras cantonales*) are small and lack resources. The TA should include these activities:

- Develop a baseline of information about sector services in the country's 193 cantons and municipalities, paying special attention to the 106 cantons under 5,000 population which may require flexible approaches to service delivery, e.g., regional enterprises.
- Develop an approach that explains how IEOS can assist municipalities in making decisions about providing service in their cantons, i.e., decisions about system type, where they can hire consulting services to help in designing a system, obtaining financing, and for extending the service to rural and peri-urban areas.
- Develop training programs (and manuals) for municipalities in financial management, tariff setting, investment planning, and operations and maintenance.
- Develop an ownership plan for these new arrangements that spells out the rules, centered around market concepts.
- Assist the Subsecretariat in the establishment of a monitoring unit to make sure problem areas during the transition period are attended to. Experience gained during the transition period by the monitoring unit will serve the Subsecretariat well in its larger normative and regulatory role in the future.

Continued technical assistance by USAID will ensure that the proposed sector policy is finalized with consensus among the various parties, and that the larger and more difficult task of devolving authority and responsibility to local levels is achieved.

Appendix A

LIST OF PARTICIPANTS WORKSHOP ON DEVELOPING A NATIONAL POLICY FOR WATER AND SANITATION SECTOR

Quito, February, 1 - 2, 1994

- | | |
|----------------------------|---|
| 1. Gerardo Nicolás | Asociación de Municipalidades del Ecuador |
| 2. Cornelio Pesántez | Instituto Ecuatoriano de Recursos Hidráulicos |
| 3. Gonzalo Navarrete * | Instituto Ecuatoriano de Recursos Hidráulicos |
| 4. Armando Vallejo | Comisión Asesora Ambiental (CAAM) |
| 5. Julio Roberto Jiménez * | Organización Panamericana de la Salud |
| 6. Luis Ambato | Subsecretaría de Saneamiento Ambiental,
IEOS |
| 7. Marcelo Piedra | CARE |
| 8. Hugo Ayala | Instituto Ecuatoriano de Normalización (INEN) |
| 9. Marcelo Buendía | Asociación de Municipalidades del Ecuador |
| 10. Renán Larrea | Agencia de los Estados Unidos Para el
Desarrollo Internacional |
| 11. Guillermo Tapia | Asociación de Municipalidades del Ecuador |
| 12. Esteban Starnfeld * | Banco del Estado |
| 13. Mónica Jácome | Banco del Estado |
| 14. Martín Costa * | Banco del Estado |
| 15. René Cordero | Banco del Estado |
| 16. William Yaeger | Agencia de los Estados Unidos para el
Desarrollo Internacional |
| 17. Adalid Arratia | Agencia de los Estados Unidos para el
Desarrollo Internacional |

18. Néstor Vega Moreno	Banco del Estado
19. Juan Ordóñez *	Subsecretario de Desarrollo Urbano y Vivienda
20. Alejandro Castro	ANEMAPA
21. Javier Maldonado	EMAP-Q
22. Diego Peñaherrera	FISE
23. Ulrick Kuenzel	GTZ
24. Víctor Arauz	Ministerio de Salud Pública
25. Michael Jordan	Director de USAID, enc.
26. Marcia Ortega de Baus	Ministerio de Bienestar Social
27. Ramiro Andrade	Subsecretaría de Saneamiento Ambiental, IEOS
28. Iván Sevilla	Subsecretaría de Saneamiento Ambiental, IEOS
29. Román Galindo	Ministerio de Finanzas
30. Vinicio Moreno	Subsecretaría de Saneamiento Ambiental, IEOS
31. Juan Merino	Consejo Nacional de Desarrollo
32. Luis Barreno	Consejo Nacional de Desarrollo
33. Agustín Rengel	ETAPA
34. Raúl Cadena	CARE
35. José Villacís	Subsecretaría de Saneamiento Ambiental
36. Jorge Mayorga *	FASBASE/Ministerio de Salud Pública
37. Ma. Carmen Araujo *	Banco del Estado
38. Diego Peña	Asociación de Municipalidades del Ecuador
39. Wilson Celleri	Congreso Nacional
40. Patricio Naveas *	BID
41. Alberto de Guzmán *	MIDUVI/USAID
42. Oswaldo Avilés	Subsecretaría de Saneamiento Ambiental, IEOS.

43. Eduardo Pauta	Ministerio de Desarrollo Urbano y Vivienda
44. Néstor Vega Jiménez	Ministerio de Desarrollo Urbano y Vivienda
45. Luis Felipe Castro	Subsecretaría de Saneamiento Ambiental, IEOS.
46. Raúl Paredes	Subsecretaría de Saneamiento Ambiental

* Participants interviewed prior to the workshop by the WASH team.

OTHER INTERVIEWS

Ing. Rafael Ribadeneira Dr. Fabian Yanez Econ. José Avila	Subsecretaría de Saneamiento Ambiental
Ing. Carlos Menara	BID
Arq. Luis Rueda	CONADE
Ing. Pataricio Ribadeneira	EMAAP-Q
Ing. Luis Carrera de la Torre	CAAM

Appendix B

ISSUES IDENTIFIED THROUGH INTERVIEWS

TALLER No. 1: POLITICAS DEL SUBSECTOR

1. Que se elabore los principios básicos de la política, como:
 - Protección de la salud pública
 - Que garantice el acceso de los servicios de agua potable y saneamiento para toda persona, "sin exclusión"
 - Que en la formulación de la política, que alientan de una estrategia flexible y de largo plazo.
2. Necesidad de considerar la política del subsector para estudiar y racionalizar el marco legal en el que se tome en cuenta los principios de descentralización, desregulación, participación de empresas privadas, autogestionarias y libre competencia.
3. Es clara la percepción de que a los municipios les corresponde la responsabilidad de provisión del servicio de agua potable y saneamiento ambiental. A la política Le corresponde "convertir esta percepción en realidad".
4. Dado que los respectivos municipios tienen la responsabilidad de atender los requerimientos de agua potable y alcantarillado en sus jurisdicciones, que son los cantones de su representación, tienen que incluir las zonas peri-urbanas, las cuales históricamente no han sido bien atendidas por las empresas municipales, ni por las otras agencias que trabajan en zonas rurales.
5. Que el Ministerio de Salud vigile todo el sector de salud ambiental, la calidad de agua, la salud ocupacional, e higiene alimentaria.
6. La política debe poner énfasis sobre la unificación de la gestión de agua y alcantarillado dentro de una sola empresa.
7. La política debe enfatizar sobre el tratamiento de aguas servidas especialmente las que luego son usadas para el riego, así como la coordinación de las instituciones involucradas en estos servicios. Ya se ha identificado el problema, pero se necesita un plan de acción, y la identificación de un esquema de financiamiento.
8. La política tiene que dirigirse más al aspecto de saneamiento básico, lo cual se menciona pero no se profundiza adecuadamente.

TALLER 2: POLITICA FISCAL Y FINANCIERA

9. Las áreas rurales marginales deben ser atendidas también por sus municipios, conforme lo indica la Ley de Régimen Municipal, para lo cual podría recibir las asignaciones gubernamentales previstas en el Plan Social a través de la entidad financiera del Estado que es el BEDE.
10. Las tarifas deberían fijarse teniendo como objetivo la autosuficiencia financiera de las entidades y la prestación de un servicio eficiente, tendiendo a la aplicación del costo marginal de largo plazo. Para ello, las tarifas que se fijen deberían producir ingresos suficientes para cubrir la totalidad de los gastos de explotación de los servicios, incluyendo los de operación, mantenimiento y la recuperación de la inversión. No debería haber subsidios del Gobierno Nacional a las tarifas, sino subsidios directos a los usuarios de bajos ingresos, que se compruebe que no tiene recursos suficientes para pagar el costo real de los servicios. Se debería estudiar un esquema que auspicie la libre competencia, dejando libertad a cada jurisdicción, para que refleje su propia realidad.
11. Existe también la percepción clara de que hay un potencial de pago, aún en las áreas más deprimidas, al menos para cubrir operación y mantenimiento de los sistemas, evitando un subsidio total, cuando la población tiene servicio en red.
12. La política debe enfatizar sobre el tratamiento de aguas servidas especialmente las que luego son usadas para el riego así como la coordinación de las instituciones involucradas en estos servicios. Ya se ha identificado el problema, pero se necesita un plan de acción y la identificación de un esquema de financiamiento.
13. Tratar de garantizar el acceso de los servicios de agua potable y saneamiento para toda persona, "sin exclusión" no es razonable, ni posible en términos económicos.
14. La asignación de los recursos para la inversión debería ser canalizada en su totalidad por el Banco del Estado, y no sólo los de créditos. En este sentido el BEDE debería administrar también los recursos del FONASA, dejando a la Subsecretaría de Saneamiento Ambiental exclusivamente con su rol de fijador de políticas, normativo y controlador. El Banco de la Vivienda, por su parte, debería limitarse a financiar viviendas y no obras de infraestructura sanitaria.
15. Que el Ministerio de Salud vigile todo el sector de salud ambiental, la calidad de agua, la salud ocupacional e higiene alimentaria.

TALLER No. 3 : POLITICA INSTITUCIONAL

16. Necesidad de organizar el sector, definiendo la entidad normativa y reguladora y las entidades ejecutoras, y la de concentrar el manejo financiero de los diferentes proyectos del sector.
17. Dado que los respectivos municipios tienen la responsabilidad de atender los requerimientos de agua potable y alcantarillado en sus jurisdicciones, que son los cantones

de su representación, tienen que incluir las zonas peri-urbanas y rurales marginales, las cuales históricamente no han sido bien atendidas por municipios o empresas municipales, ni por otras agencias que trabajan en estas zonas; para lo cual, podría recibir las asignaciones gubernamentales previstas en FISE a través del BEDE. La necesidad de definir con claridad la responsabilidad institucional para la dotación de servicio de agua y saneamiento básico, entre las áreas rurales y urbanas.

18. Caso de no existir experiencia en los organismos seccionales, el IEOS podría prestar la asistencia técnica respectiva. En este contexto se pretendería una transferencia de conocimientos y experiencias y la promoción de una participación comunitaria activa.
19. La necesidad de capacitar a los organismos ejecutores que son los municipios y las empresas municipales para la implementación exitosa de proyectos en las áreas rurales, de esta forma se incentivaría el pleno cumplimiento de sus obligaciones legales, evitando la "relación caótica de responsabilidades que existen actualmente".
20. Que el Ministerio de Salud vigile todo el sector de salud ambiental, la calidad de agua, la salud ocupacional e higiene alimentaria.
21. La protección de las cuencas tiene que ser tratada más profundamente en la política, tomando en cuenta que la asignación del recurso hídrico es el papel de INERHI, y que la conservación del medio ambiente es un aspecto también considerado en la política del Ministerio de Energía y del Ministerio de Desarrollo Urbano.
22. Otro problema es el de que cada institución está dando pautas para evaluación ambiental y además cada una de ellas elaborando sus propios manuales.
23. El IEOS o (Subsecretaría) debería elevar sus criterios al nivel de la Comisión Asesora Ambiental (CAAM) para que de allí salgan todas las políticas de saneamiento ambiental (el IEOS podría ser la base de información para estos efectos).
24. Expresar claramente que cuando se indica que la responsabilidad corresponde al municipio, quiere decir que se formará una empresa autónoma al nivel del municipio. La experiencia muestra que cuando los servicios de agua y saneamiento son administrados directamente desde estas entidades, entran en juego aspectos políticos, que repercuten en la calidad de servicio al consumidor.
25. La política debería referirse y aportar ideas respecto de políticas para el financiamiento, construcción, operación y mantenimiento de los alcantarillados lluvias.

Appendix C

INFORME DE PRESENTACIÓN

EL TRABAJO DE FACILITACIÓN DEL SEMINARIO SOBRE POLÍTICA NACIONAL DE AGUA POTABLE Y SANEAMIENTO

REUNION DE PREPARACIÓN DE LA ESTRATEGIA

Bajo la conducción de la señora Mercedes Torres se analizaron los aspectos más relevantes a considerarse dentro de la estrategia para lograr una discusión armónica en el campo de políticas del Sector de Agua y Saneamiento y alcanzar un documento aceptable como guía de las instituciones involucradas en su gestión.

Si bien no era necesario lograr un documento de conceso, la necesidad de armonizar criterios era fundamental para el éxito de lo que podría ser una primera fase, en el camino de corregir el desorden organizacional e iniciar avances en términos de resultados en la provisión de servicios aceptables de agua potable y saneamiento.

El apoyo de los consultores de WASH serviría para orientar en un diálogo democrático, sobre la base de entrevistas a los personeros de las Instituciones involucradas en el Sector. Sería por tanto necesario auscultar los puntos de vista de cada institución, advertir puntos de coincidencia y los desacuerdos fundamentales en caso de que los hubiera, para orientar al modelador del evento, hacia una conducción satisfactoria en términos de los objetivos del proyecto.

Fue además discutido el programa de actividades y el esquema de trabajo que debíamos desarrollar, el alcance del mismo y los informes requeridos como soporte y como documento final.

ENTREVISTAS REALIZADAS

Bajo la coordinación de la Subsecretaría de Saneamiento Ambiental, quien había realizado un escogitamiento de las instituciones más importantes para dar su opinión respecto de una política del sector, se realizaron las entrevistas, teniendo como punto de referencia el documento preparado por la Subsecretaría.

Esta labor permitió a los consultores advertir sobre ciertos problemas de coordinación y manejo de la estrategia por parte de la Subsecretaría, que podrían amenazar el éxito del evento, aspectos que fueron transmitidos a la Representación de AID, para analizar y reorientar la estrategia, sugiriendo tanto a la Subsecretaría como al Ministro de Desarrollo Urbano y Vivienda la necesidad de la representación del más alto nivel político en la persona del

Vicepresidente de la República, como respuesta a su iniciativa personal y por el respaldo que ésto significaba.

Las sugerencias permitieron presentar el documento como una "propuesta de la política del sector", planteada al mismo tiempo, como "respuesta a la iniciativa del Señor Vicepresidente de la República", con el objeto de que las opiniones de todas las entidades involucradas en el sector permitan "enriquecer" los planteamientos realizados en el documento. Como consecuencia se estaba iniciando un proceso democrático de discusión, que facilitaría la estructuración de un documento con alto grado de coincidencias. Este proceso estaba en concordancia con lo actuado respecto de la Ley de Presupuesto, la Ley del Mercado de Valores, la de Modernización del Estado, la de creación del Distrito Metropolitano, etc., en que los procesos tuvieron amplia discusión.

El consultor contratado por AID para la modelación del evento, tuvo oportunidad de analizar la información recogida por los consultores de WASH y estudiar las diferentes opiniones para formarse un cuadro de conjunto respecto de los criterios de las instituciones que participarían en el evento y planificar el desarrollo del mismo, el estilo de su participación y las motivaciones para un concurso positivo de todas las entidades del sector.

Se estima que la información fue apropiadamente transmitida y captada por el consultor Alfonso Palacios, el mismo que diseñó un esquema de introducción al taller y de participación de los diferentes personeros, que resultó en un alto grado de interés, franqueza y claridad de planteamientos, sin descartar diálogos técnicos que enriquecieron el evento.

DESARROLLO DEL EVENTO

La apertura del taller por parte del Ministro de Desarrollo Urbano y Vivienda marcó la pauta de lo que sería el espíritu de un concurso positivo de opiniones, cuando expresó con una actitud abierta, respecto del documento de políticas: **"Este documento inicial será susceptible de cambios, para lo cual se necesitará el concurso de los municipios, del Banco del Estado y de los profesionales especializados en el campo de la sanitaria."**

No obstante dejó marcada los lineamientos generales, especificando las características del sector y el por qué de la creación de su Ministerio y de la Subsecretaría: **"El reclamo frecuente ha sido la necesidad de agua potable, es por ello que en el programa de gobierno se ha creado el Ministerio de Desarrollo Urbano y Vivienda y el Instituto Ecuatoriano de Obras Sanitarias para precautelar el saneamiento, así como una política nacional para la administración de la vivienda."**