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ACTIVITY REPORT

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Decentralization of Water Supply and
Sanitation Services
in El Salvador

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by

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and
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2. Gustavo Martinez and Roberto Arguello, options for institutional support for rural communities
3. Roberto Hart and Mauricio Silva, training of Municipal Officials
4. Carlos Linares, watershed management

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ACRONYMS

ANDA	<i>Administración Nacional de Acueductos y Alcantarillados</i> (National Water and Sewage Administration)
ARESA	<i>Agencia Reguladora de Agua y Alcantarillado</i> (Water and Sewage Regulatory Agency)
COMURES	<i>Corporación de Municipalidades de la República de El Salvador</i> (Association of Salvadoran Municipalities)
CONRA	<i>Consejo Nacional del Recurso Agua</i> (National Water Resources Council)
COSERHI	<i>Comisión Coordinadora para la Reforma Sectorial de los Recursos Hídricos</i> (Coordinating Committee for the Reform of the Water Resources Sector)
EHP	Environmental Health Project
FISDL	<i>Fondo de Inversión Social para el Desarrollo Local</i> (Social Investment Fund for Local Development)
FODES	<i>Fondo de Desarrollo Económico y Social</i> (Economic and Social Development Fund)
GSR	<i>Gerencia de Sistemas Rurales</i> (Rural Water Services Administration, ANDA)
GTZ	German Agency for Technical Assistance
IDB	Inter-American Development Bank
ISDEM	<i>Instituto Salvadoreño de Desarrollo Municipal</i> (Salvadoran Institute for Municipal Development)
JAIF	Joint Action Incentive Fund, USAID
MARN	Ministry of Environmental and Natural Resources
PAHO/WHO	Pan American Health Organization/World Health Organization
PLANSABAR	<i>Plan Nacional de Saneamiento Básico Rural</i> (National Basic Rural Sanitation Plan)
SACDEL	<i>Sistema de Asesoría y Capacitación para el Desarrollo Local</i> (Training and Advisory System for Local Development)
SIF	Social Investment Fund
SO	Strategic Objective
UCM	<i>Unidad Coordinadora de la Modernización</i> (Coordinating Unit on Modernization)
UNDP	United Nations Development Fund
USAID	U.S. Agency for International Development

WS&S

Water Supply and Sanitation

EXECUTIVE SUMMARY

In May 1998, USAID requested the Environmental Health Project (EHP) to carry out a regional activity on the decentralization of water and sanitation systems in Central America and the Dominican Republic. The activity was developed by the water team in USAID/Washington with funding from the Joint Action Incentive Fund (JAIF). The objectives of the regional activity were to a) provide technical assistance to selected USAID missions in Central America engaged in the decentralization of water supply and sanitation services, b) draw lessons learned from the efforts of USAID and others active in the region, and c) disseminate these experiences and lessons learned among Central American countries. The activity focused on El Salvador, Honduras, Nicaragua, Guatemala, and the Dominican Republic.

The activity included technical assistance to USAID missions in El Salvador and the Dominican Republic, the establishment of an internet-based decentralization network, a review of the status of decentralization in the five target countries, and a regional workshop held in Guatemala in April 1999. This report summarizes the technical assistance rendered to El Salvador.

The government of El Salvador is currently considering how to modernize its water and sanitation sector and the role that decentralization will play in that process. The Inter-American Development Bank (IDB), in particular, has provided support to the reform process. The IDB has approved a \$60 million loan contingent on the government's approval of a sector reorganization. EHP designed a technical assistance program to complement the IDB-supported reform program.

While the IDB-supported program initially focused on establishing a national regulatory authority for water resources and water supply and sanitation services, EHP concentrated on policy issues related to the commercial restructuring of service delivery and the creation of a participatory process in which municipal and national level stakeholders could be heard.

The EHP activity directly supported USAID/El Salvador's strategic objective (SO4) in integrated water resource management, which includes improved municipal management of water resources and water delivery systems.

Activities

The El Salvador activity had two principal goals:

- C Contribute to the national dialogue on the decentralization of water supply and sanitation services by addressing several key issues and constraints
- C Support USAID/El Salvador activities related to the decentralization of water supply and sanitation services

Five activities were carried out.

- C Study to identify management options supporting sustainable municipal water supply and sanitation systems
- C Study to identify options for institutional arrangements supporting community-managed rural water supply and sanitation systems
- C Three workshops for municipal officials in the commercial management of water supply services
- C Two workshops for municipal officials in watershed management and its role in the provision of water supply and sanitation services
- C National seminar to raise awareness and support for decentralization of water supply and sanitation services

Results

The five actions had the following results:

- C Identified and analyzed five options for managing municipal water supply and sanitation systems, including administration by the National Water and Sewage Administration (ANDA); the municipalities (either directly or indirectly); local organizations; nongovernmental organizations (NGOs); or private sector companies. The primary factor affecting the choice of options is the size of the municipalities. Municipal officials have a limited understanding of the available options, and as they were exposed to them, they increasingly realized the importance of separating the management of water supply services from direct municipal administration.

- C Identified three options for providing backup support to community-managed systems after the systems are in operation, including support by autonomous organizations such as municipal companies, private companies, or NGOs; support from ANDA's regional offices; and support from a national regulatory agency specializing in rural water supply and sanitation that would contract with other organizations to provide support.
- C Improved understanding of municipal officials about the commercial management of water and sanitation services. A total of 119 persons attended three workshops, including 87 municipal officials from 62 municipalities.
- C Improved understanding of municipal officials about watershed management and its role in the provision of water supply and sanitation services. Seventy-nine participants attended two municipal level workshops in eastern and western El Salvador.
- C Increased awareness of key stakeholders about decentralization through participation in a national seminar. Forty-seven people attended a one and one-half day workshop at the national seminar and 13 high-level decision makers attended a one-half day event.

Conclusions and Recommendations

The consultant team arrived at the following conclusions and recommendations:

- C Continued efforts are needed to structure a participatory process that involves key stakeholders in the debate about decentralization. Before the EHP activity, very little open debate had taken place. USAID is especially well placed to facilitate this process.
- C The timing is right to engage on the issue of decentralization of water and sanitation services. The recently elected government has made decentralization one of its priorities and is currently debating the shape of its policy. Continued support at this time is recommended.
- C The basic principle of the IDB reform project that separates strategic planning and regulatory functions from operations should be respected. ANDA currently plays both the role of regulator and operator, which is an inherent conflict of interest.
- C The willingness of local governments to accept responsibility for the delivery of services should be encouraged. Local governments are realistic in not wanting to provide direct services, but would rather establish separate companies or contract for services. The reform effort will require an increased level of municipal participation and a strong partnership between the central government, municipalities, and the private sector.
- C A broad consensus exists that supports a model for rural water supply and sanitation that places primary responsibility for management on the community. There is also agreement that rural communities require some ongoing support and that ANDA has not been able to provide it.

1 INTRODUCTION

1.1 Background

In May 1998, USAID requested the Environmental Health Project (EHP) to carry out a regional activity on the decentralization of water supply and sanitation systems in Central America and the Dominican Republic. The activity was developed

by the water team in USAID/Washington with funding from the Joint Action Incentive Fund (JAIF). The objectives of the regional activity were to a) provide technical assistance to selected USAID missions in Central America engaged in decentralization of water supply and sanitation services, b) draw lessons learned from the efforts of USAID and others active in the region, and c)

disseminate these experiences and lessons learned among Central American countries. The activity focused on El Salvador, Honduras, Nicaragua, Guatemala, and the Dominican Republic.

The activity included technical assistance to USAID missions in El Salvador and the Dominican Republic, the establishment of an internet-based decentralization network, a review of the status of decentralization in the five target countries, and a regional workshop held in Guatemala in April 1999. This report summarizes the technical assistance given to El Salvador. The first section briefly describes the origin of this activity, the current decentralization situation in El Salvador, and an overview of EHP's scope of work. The second section of the report provides an overview of the five activities. The third section summarizes the results achieved. The fourth section includes conclusions and recommendations for the future.

In June 1998, a three-person team from EHP developed a scope of work for technical assistance to El Salvador. The team reviewed USAID efforts in decentralization and other activities by the Government of El Salvador and other donors. The Inter-American Development Bank (IDB) has been the lead donor agency in modernizing the water and sanitation sector and has approved a \$60 million loan contingent on the government's approval of a sector reorganization. The team interviewed officials at the National Modernization Commission, IDB, the National Water and Sewage Administration (ANDA), CARE, Association of Salvadoran Municipalities (COMURES), United Nations Development Fund, and several mayors. As a result of the visit, the team concluded that the most useful technical assistance would be to focus on national policy related to the decentralization of water supply and sanitation and to coordinate closely with the work of the IDB-funded reform project.

This activity was designed to support USAID/El Salvador's strategic objective (SO4), which focuses on increasing the provision of safe drinking water to rural households. The approach is to treat water from an integrated resource management perspective, which uses the watershed as a geographic unit for problem analysis and activity implementation. The activity directly supports two intermediate results (IR), improved municipal management of water resources (IR 4.4) and improved performance of water delivery systems (IR 4.2), but also contributes substantially to improved quality of water sources (IR 4.1) and

more effective citizen action to address water issues (IR 4.3).

1.2 Current Decentralization in El Salvador

The national debate on decentralization of water supply and sanitation services currently taking place in El Salvador has been influenced by a variety of factors. First, there is widespread agreement that the centralized provision of services has not worked well, especially for those outside San Salvador, and that reform is necessary. Second, access to safe drinking water and sanitation services in rural areas is very low, and diarrheal disease rates are high. Third, municipalities increasingly demand a role in providing basic services. Fourth, there are increasing environmental concerns caused by contamination of surface water supplies, poor agricultural and industrial practices that threaten groundwater supplies, and conflict over water uses and water rights. Increased local attention to these issues is seen as a way to address environmental problems. Fifth, the country has or is currently restructuring other previously state-controlled services such as energy generation and distribution, telecommunications, ports, and the financial sector.

Currently ANDA is responsible for water and sanitation services throughout the country. In practice, ANDA operates systems in 181 of the 262 municipalities in the country. Of the systems not managed by ANDA, 76 municipalities directly operate their own systems, one (San Julián) has established a municipally owned water company, one is managed by a nongovernmental organization (NGO), and three are managed by community-based organizations. USAID has also been instrumental in establishing a mixed capital company (TETRALOGIA), with the potential to attract private and public investment, to provide services to six municipalities in the Department of Usulután. A concession contract with ANDA has been drafted but has not yet been signed.

The rural water supply division of ANDA has been responsible for the provision of water supply to rural communities since 1996, but this division has not yet developed the capability nor does it have the resources to carry out its mandate. The Social Investment Fund (SIF) and other donors, including USAID, have provided much of the funding for construction of rural water and sanitation systems. There is broad agreement that rural systems should be managed by the

communities, and most newly constructed systems have community water boards to manage them. Despite significant investments by the Government of El Salvador (GOES), USAID, IDB, and others in rural water supply and sanitation systems in the past decade, little attention has been given to the institutional support needed to ensure the sustainability of these systems, either by ANDA, which is legally responsible for providing these services, or by external support agencies. (For instance, the IDB loan document for water reform is quiet on this issue.) No agency monitors the operation of rural systems, and the communities have no institution to turn to when they need help.

The reform programs were initiated during the administration of President Calderon Sol (1993-1999), and were sponsored by the Presidential Commission for Modernization of the Public Sector. In 1995, the Coordinating Commission for the Reform of the Water Resources Sector (COSERHI) was established, which in turn set up the Coordinating Unit on Modernization (UCM) to provide technical support. With IDB financial and technical support, two reform proposals have been developed. The first proposes the creation of a National Water Resources Council (CONRA), to act as the policy making body and national authority on water resources. CONRA would prepare a Water Law in collaboration with the Ministry of Environment and Natural Resources. The second proposes the establishment of the Water and Sewage Regulatory Authority (ARESA), which would establish standards, award concession contracts to provide services, arbitrate conflicts, and create a framework for tariff approvals. The establishment of CONRA and ARESA would clearly separate the planning and regulatory functions from operations, which is currently not the case. To date neither CONRA nor ARESA has been approved.

The third component of the water sector reform project is the commercial restructuring of the water supply and sanitation subsector, including “support for planning and establishment of independent, commercially viable companies to provide water and sanitation services.” Since there was already substantial momentum to establish CONRA and ARESA, EHP decided to focus its efforts on this third component.

The newly elected administration has also demonstrated great interest in the decentralization of water supply and sanitation services. During the campaign, decentralization of WS&S services was one of its four priorities. The incoming

government, due to take office on June 1, 1999, is currently developing its policy on decentralization of water and sanitation services.

1.3 EHP Scope of Work

The activity focused on the national policy issues under discussion as a result of the IDB-sponsored reform program. The EHP activity had two principal goals:

- C Contribute to the national dialogue on the decentralization of water supply and sanitation services by addressing several key issues and constraints
- C Support USAID/El Salvador activities related to the decentralization of water supply and sanitation services

The activity focused on management options for municipal and rural water supply and sanitation. Its specific objectives were to

- C Identify and discuss management options to support sustainable municipal water supply and sanitation systems
- C Identify and discuss options for institutional arrangements to support sustainable rural water supply and sanitation systems
- C Improve municipal officials’ understanding of management of the commercial water supply services
- C Improve municipal officials’ understanding of watershed management and its role in the provision of water supply and sanitation services
- C Disseminate findings to national and local decision makers and stakeholders to raise awareness of and support for decentralization of water supply and sanitation services

Five tasks were designed to correspond to each of the five objectives.

- C Identification of management options for municipal water supply and sanitation
- C Identification of options for institutional arrangements for rural water supply and sanitation
- C Training of mayors and others in managing water supply companies
- C Training of mayors and others in watershed management

C Organization of a national seminar on decentralization

To carry out this work, a team of international and Salvadoran consultants was assembled. For each activity except for the training of mayors and

others in watershed management, a consultant from another Latin American country was paired with a local consultant. The blend of outside and local experience proved very effective. All activities were coordinated by an in-country team leader.

2

OVERVIEW OF ACTIVITIES

2.1 Options for Managing Municipal Water Supply and Sanitation Services

One of the key issues to be decided is the management of municipal systems. The IDB reform project highlights this as an issue to be addressed after planning and regulatory agencies are established. Numerous ideas have been put forward, including various forms of privatization. Officials with long experience in the water and sanitation sector argue that municipalities are not capable of managing the systems themselves. Others suggest that municipal management of water and sanitation services should be linked to efforts to strengthen local government and that local control and accountability are the best way to improve services. In fact, almost one-third of the municipalities in El Salvador already manage their water systems, and others are actively seeking to gain management control from ANDA. This activity examined a representative sample of the 78 municipalities managing their own systems to identify and analyze viable options for the management of water supply and sanitation services in the urban centers of municipalities. Five subtasks were carried out.

Review Experience

Seventy-eight municipalities manage their own water systems, and many others are seeking control of management. During the design of the activity, the team thought these examples represented a rich source of information about the management options having the greatest potential in El Salvador. The consultants selected 11 municipalities in four provinces or “departamentos” in which to conduct field research. These included TETRALOGIA, San Agustín, and Ereaguayquín, in the Department of Usulután; Nahulingo and San Julian, in the department of Sonsonate; Nueva Guadalupe and El Palón/Lolotique in the Department of San

Miguel; and Tacuba, San Francisco Menéndez, Jujutla, and Guaymango in the Department of Ahuachapán. The consultants interviewed mayors and other municipal officials in the selected cities about political and policy issues, coverage, level of services, types of organization, management issues, current infrastructure conditions, environmental concerns, economic and commercialization obstacles, and other topics.

Perform Case Studies

Brief case studies were prepared for each of the selected municipalities. The case studies described the current management model, identified management costs and commercialization issues, identified constraints to better performance, and discussed any actions currently planned or being taken to improve services.

Identify Management Options

Based on a review of the case studies, the consultants identified the potential management options applicable to El Salvador. Options included municipally owned companies, public companies not owned by municipalities, private operating companies, concession contracts, and other private sector alternatives.

Analyze Options

The team then analyzed the political, environmental, legal, regulatory, institutional, and financial constraints of the most promising options and organized a short workshop, to which 10 experts from public, private, and local organizations were invited to comment on the options identified.

Prepare Final Report

A report describing the options, their development, and their advantages and disadvantages was prepared in October 1998. The consultants did not make

firm recommendations in the report since the purpose of the activity was to generate options for discussion, not suggest the “best” model.

2.2 Options for Institutional Support for Rural Communities

Although broad agreement exists about the importance of establishing community-managed water and sanitation systems, little thinking has been done on how to provide support in operations and maintenance, financial management, community organization, and hygiene education. Rural communities receive adequate support during project implementation in water system management, the formation of water committees, the levying and collection of tariffs, and basic operations and maintenance. Unfortunately, when the system requires major repairs, many rural communities have only one practical recourse: the municipality. ANDA has not responded in these cases due to lack of resources and capacity. However, most municipalities are already overextended, underfunded, and understaffed and cannot take on this additional burden, even when considering the 6% of national revenues allocated to municipalities, which have not been allocated in full due to bureaucratic and politically motivated delays. At the outset of the project, it was unclear which institutional arrangements could provide support to rural communities facing situations beyond their capabilities. The objective of this activity was, therefore, to identify options for institutional arrangements to support community-managed rural systems and evaluate their applicability in El Salvador.

Review Documentation and Conduct Interviews

Although there is insufficient data on the sustainability of rural water supply and sanitation systems, the team reviewed some important recent efforts. In an IDB-funded effort, CARE compared the operation and management of 16 completed rural systems (four implemented by ANDA, four by the National Basic Rural Sanitation Plan [PLANSABAR], four by NGOs, and four by private means). In a second study not yet final, CARE reviewed the operation and management of 48 completed USAID-funded rural systems. These two studies provided a foundation for understanding the performance of rural water

systems several years after their inception. Other data were made available from ANDA and other organizations, such as the European Union, UNICEF, and GTZ, which are active in the rural water supply sector. The team conducted interviews with all relevant actors, including CARE, Project Concern, PAHO/WHO, and others.

Assess Experience

The consultants assessed current efforts to provide institutional support for rural water supply systems. This activity included field visits to rural communities and meetings with the various organizations involved in rural water supply. The team visited five rural systems a) “Cantón Valle del Señor,” Quezaltepeque, in the Department of La Libertad; b) La Pandadura, Tacuba, in the Department of Ahuachapán; and c) el Nanzal and El Nisperal, in Santa Elena, Department of Usulután. The purpose of this activity was to assess how current rural water supply and sanitation systems are working to determine the type of institutional arrangement needed to provide ongoing support. The criteria for assessment included political aspects, finances, community organization, technical abilities, and operations and maintenance.

Identify Options

Once the consultants assessed the support needs for rural water supply, they identified potential options for institutional arrangements in the public and private sector. The options developed had to provide ongoing support to ensure that the systems functioned adequately while allowing the community to retain primary responsibility for system management.

Analyze and Refine Options

The applicability of the identified options was assessed in a workshop with 14 rural water experts from public and private sector institutions, including UCM, ANDA’s Rural Water Division (GSR), the Social Investment Fund for Local Development (FISDL); CARE/El Salvador; USAID/El Salvador; and the Salvadoran Institute for Municipal Development (ISDEM). The consultant team further refined the options with input from the experts at the workshop.

Prepare Final Report

The consultants prepared the final report which described the options, their development, and advantages and disadvantages of each. No firm recommendations were made because the purpose of this activity was to generate options for consideration, not suggest the “best” model.

2.3 Training of Municipal Officials

Salvadoran mayors and city managers have a very limited understanding of what it takes to run a water and sanitation company like a business. The mayors are primarily interested in operating and managing water supply and sanitation systems to provide better services to constituents and do not consider the business aspects of running a water company. Some mayors see the provision of water and sewer services as a potential source of revenue for other municipal functions. Local government officials have received training from ISDEM, Association of Salvadoran Municipalities (COMURES), and municipal development NGOs in general management and administration, but have had little or no specific training in the commercial management of water supply and wastewater services. The goal of this task was to improve municipal officials’ understanding of commercial management of water and sanitation systems.

Design Training Workshop

The team designed and organized three two-day workshops. A total of 119 persons attended the three workshops, including 87 municipal officials representing 62 municipalities. In addition, NGO, donors, and central government representatives participated. Workshop materials covering the basic commercial and operational aspects of managing a private water supply company were developed in non-technical language and distributed to workshop participants. The workshops included sessions on technical and financial topics, basic environmental issues, and the importance of public participation. The organization of the workshops (logistics, invitations, etc.) was subcontracted to SACDEL, a local NGO.

Conduct Pilot Workshop

The first workshop was held in San Salvador, September 16 and 17, 1998. This workshop was used to test materials and methodology and

provide feedback for the remaining workshops. Thirty-one people attended this workshop, the first of its kind in El Salvador. Sixteen of the attendees were representatives of 13 small municipalities, in close proximity to San Salvador. Following the pilot, the consultants revised the design of the workshop and its materials.

Conduct Two Additional Workshops

Two more workshops for 40 participants each were held for mayors, city managers, community leaders, and other stakeholders in the cities of Sonsonate and San Miguel. Special emphasis was given to mayors of the 72 municipalities that presently operate water systems, in addition to those municipalities receiving support from USAID S04 and S02 Teams. COMURES played a key role in identifying participants.

Prepare Report

In October 1998 the team prepared a final report that described the three workshops, including the agenda, participants, and lessons learned; assessed the impact of the workshop; and made recommendations for next steps.

2.4 Watershed Management Workshops

Mayors and city managers have very limited understanding of watershed management, and its role in the management and operation of their water supply and sanitation systems. ANDA has paid little attention to environmental issues when building these potable water systems. Many systems (as is the case in the TETRALOGIA area) have been built downstream of point and nonpoint pollution sources (leachate from garbage dumps, contamination from industrial plant discharges, etc.), but ANDA has taken no preventive or remedial actions. Municipalities that now manage or will be managing these systems do not understand the situation or have the resources to remedy it. Most ANDA wells produce contaminated water, which is indicated by the presence of fecal coliform, and requires chlorination before distribution to households. In addition, deforestation is a major problem in and around aquifer recharge areas. The project thus sought to improve local officials’ understanding of watershed management, including the preparation

of participatory watershed management plans and the use of municipal laws and regulations to improve water quality and protect watersheds. This task was implemented in close collaboration with USAID's PROMESA Project and the Ministry of Environment and Natural Resources (MARN).

Design Training Workshop and Prepare Materials

The team designed and organized two short workshops for local government officials, NGOs, and central government representatives. Two kinds of materials and presentations were prepared. The first focused on watershed management, and the second focused on the concepts, contents, and structure of "ordenanzas," a municipal legal instrument that can be used by municipalities to set local policy. Workshop materials were developed in non-technical language and distributed to participants at the workshops. They covered the definition of a watershed and its basic concepts, as well as how to prepare participatory watershed management plans and formulate ordenanzas or city laws for water quality and watershed conservation.

Conduct Workshops

The first workshop was held in the city of San Miguel, December 16 and 17, 1998. It was organized and conducted in conjunction with a team of experts from USAID's PROMESA Project and MARN. Sixty-three people attended this workshop, including representatives of 10 small priority municipalities from the eastern part of the country (three mayors). Other participants included Ministry personnel and technical staff from NGOs, ANDA, ISDEM, FISDL, the General Attorneys' Office, and the National Civil Police.

The second workshop was held in the city of Sonsonate, January 27, 1999. This workshop was attended by 16 people, including six representatives of small priority municipalities from the western part of the country (one mayor). Other participants included personnel from the Ministry of Environment and Natural Resources and the Ministry of Agriculture and technical staff from NGOs, UCM, and ANDA.

Preparation of Report

In February 1999 the team prepared a final report that described the workshop including the agenda, participants, and lessons learned; assessed the

workshop's impact, and made recommendations for next steps.

2.5 National Seminar on Decentralization

Given the Government of El Salvador stated intentions to reform the water supply and sanitation subsector and possibly decentralize decision-making authorities, the team recognized the need to inform local and central government officials and other stakeholders so they could contribute to this process. The principal purpose of convening a national level seminar workshop was to create a forum in which key stakeholders could discuss the viable management and institutional options for municipal and rural water supply and sanitation services in El Salvador. The goal was to increase participants' awareness of the issues and various options. The seminar's inputs came mainly from the results of the above mentioned Tasks 1 and 2.

Design Seminar

The seminar was divided into two stages. The first stage, which took place over a day and a half, was intended for local government officials and technical representatives of NGOs and central government agencies. The second stage, a two-hour event conducted the afternoon of the second day of the seminar, was intended for a smaller number of high-level decision makers from central and local government and international cooperation agencies. During the first stage of the event, the participants heard the consultants' presentations and worked in small groups to prepare recommendations for the high-level group. Materials produced earlier were distributed to participants at the seminar. The organization of the workshops (logistics, invitations, etc.) was subcontracted to SACDEL, a local NGO.

Prepare Synthesis of Results from Tasks 1 and 2

Team members, including consultants from tasks 1 and 2, synthesized the results of the activity work to date, including a summary of the proposed IDB-sponsored reform project and a synopsis of Tasks 1 and 2. These materials served as the point of departure for seminar discussions.

Conduct Seminar

The seminar was held in San Salvador, December 2 and 3, 1998. Forty-seven participants attended the first stage of the seminar, and 13 attended the high-level meeting. Nineteen of the 47 participants in the initial seminar were local government representatives, including four mayors and eight participants who had attended training in commercial management of water and sanitation companies. The rest were representatives of central government, international cooperation agencies, and NGOs and included COMURES, FISDL, MARN, ISDEM, and ANDA, among others.

Prepare and Disseminate of Report—Seminar Proceedings

The team leader and the workshop facilitator prepared two complementary documents, the first a full report describing the methodology and organizational aspects of the seminar and the second a four-page brochure intended for broad distribution. The second document highlighted the key conclusions and recommendations of the seminar, which are included in Annex A of this report. After USAID approved distribution of the brochure, 200 copies of the four-page report were

sent to seminar and workshop participants and other relevant stakeholders in El Salvador.

2.6 Follow-on Assistance

In recognition of the timeliness of the issue of decentralization of water supply and sanitation services and the contribution made under the JAIF-funded activity, USAID/El Salvador provided additional funding to EHP to continue the activity during the January-June 1999 period. The objectives of the EHP assistance in this period were to continue to raise the level of understanding of municipalities, create an informed constituency of influential people from Congress and from the private sector, and develop materials that can be readily accessed by others. Specific activities planned include short workshops for municipalities, a conference for Congressional Deputies, a seminar for business leaders, preparation of materials, continued lobbying efforts with key actors, and participation in a commission established by the incoming government to develop a decentralization policy.

Appendix B lists the reports produced for each of the five tasks.

3

RESULTS

This activity has had very positive results in the analytical work that was done, in raising awareness about decentralization of WS&S services, and in fostering a participatory process to engage key stakeholders.

Management Options for Municipal Systems

Five potential management options to support sustainable municipal WS&S systems were identified. This set of options was selected based on a) the experience of small municipalities visited during field surveys¹; and b) the contents of a proposed water sector and legal reform package formulated by the Presidential Modernization Commission/COSERHI, with the technical support from IDB. The five options include management by:

- 6 ANDA's regional offices
- 6 Municipalities (either direct administration by municipalities, administration by a separate municipal company, or shared administration by the municipality and the municipal company)
- 6 Local organizations such as an association or cooperative
- 6 Non-profit organizations
- 6 Private for-profit companies under contract to the national government or municipalities

The study concluded that the size of the systems is the main factor in determining which options are viable. Fifty-one percent of the urban centers in the 262 municipalities have populations of less than 2,000 inhabitants, and 89% have populations under 10,000. Seventy percent of

ANDA's revenue comes from the 300,000 service connections in San Salvador, and 72% of the labor force works in the capital city. Only 13 municipalities exceed 20,000 in population. The team concluded that only in municipalities exceeding 20,000 is the private sector option likely. Not surprisingly, the study also concluded that the municipalities will need technical assistance to develop the capacity to implement municipally driven solutions.

Options for Institutional Arrangements for Rural Systems

Three options for institutional arrangements to support rural water supply and sanitation systems were identified. Two factors shaped the identification of these options. Rural communities can and are successfully operating large and complex rural water systems and should continue to do so. Second, it is clear that these communities need continued, systematic, and focused technical assistance to guarantee sustainability. It is unrealistic to expect that communities will be able to manage their systems successfully without any outside help, especially in the first few years of operation. Although the needs will vary by community, technical assistance will be needed in organization, commercialization, financial management, and operations and maintenance. The first option is support by autonomous organizations such as a municipal company, a private company working under contract, or an NGO. The second is support by regional offices of ANDA. This system is currently used, but has not been effective. The third is a newly created national regulatory agency specializing in rural water supply and sanitation that contracts with other organizations such as NGOs or private companies to provide support.

Awareness of Key Stakeholders about Decentralization

The national seminar contributed to raising key stakeholders' awareness about decentralization. A

¹ San Julián has the only USAID-supported municipal water and sanitation company in El Salvador. This water company is operating successfully, despite many limitations. A second successful water system is managed by a local NGO (Ereguayquín), and a third is being run by a grass-roots community water committee (Lolotique-El Palón)

recurring theme during the entire activity was the lack of information that had been disseminated about the reform process. Very few people were aware of the IDB-sponsored reform project or specifically CONRA and ARESA. At the workshop participants arrived at a surprising consensus on which options for the management of rural and municipal water supply and sanitation services seemed most viable. Most municipal participants favored autonomous municipal companies, not direct administration by municipalities. For rural water supply, most participants supported the creation of a specialized agency that would promote continued reliance on community management but provide support by contracting with private companies or NGOs. These findings were the result of an open, highly participatory forum in which a group of experts and local stakeholders delivered their recommendations to a high-level local decision makers and representatives of international cooperation agencies. The conclusions and recommendations were published and widely disseminated among key players at the central and local levels, politicians, private sector entrepreneurs, and members of congress.

Understanding by Municipal Officials of the Management of Water Supply Services

The understanding of municipal officials about the management of a WS&S company on a commercial basis was improved. The participants began the workshops with a limited understanding of the commercial management of water and sanitation services, especially the financial aspects. In almost all cases, tariffs were not based on financial analysis. Similarly, the participants had a limited understanding of the environmental aspects of water resources management. Participants were interested in learning more about the potential options for managing municipal systems. During the workshop, the consultant team recognized changes in points of view and levels of understanding in local government officials. Participants expressed both a high level of satisfaction with the workshops and an interest in and commitment to improving their operations. They indicated their willingness to become more involved in solving their water and sanitation needs through increased involvement in water reform

lobbying and local water supply and sanitation management.

Understanding by Municipal Officials of Watershed Management

The understanding of municipal officials about watershed management issues and the linkage to the provision of WS&S services was improved. The workshops were focused only on two regions where USAID is active, thus limiting the scope of this activity. One exercise in which local government officials worked with central government technical staff to prepare municipal regulations for water resource conservation was particularly useful. The types of municipal regulations prepared addressed solid waste disposal, contamination of rivers and other water bodies, sanitation, protection of aquifers, and use of chemicals on coffee plantations as a potential source of surface and ground water contamination. Ten draft "ordenanzas" were developed; the PROMESA project then presented these to the municipalities for formal consideration.

Impact on National Policy

During the recent presidential elections, one of Presidential Candidate Francisco Flores's campaign priorities was decentralization of services. The decentralization of water and sanitation services became a hotly debated issue in the campaign and received significant coverage in the media. As a result, USAID/El Salvador requested EHP to continue its efforts during the January to June 1999 period, with additional mission funding. The scope of work during this period encompassed dissemination of the findings from the JAIF-funded activity and the continued engagement of municipal and national officials. On March 7, 1999, Mr. Flores was elected, thus making the issue of decentralization one of the foci of his transition team. The EHP in-country team leader was asked to be a member of a seven person commission to develop the new government's policy on the decentralization of water and sanitation systems. The analytical work and findings of the EHP team over the past eight months and the relationships developed with key players in the country are contributing directly to the shape of the new policy.

4

CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

Six main conclusions can be drawn from this work.

- C** Those at the municipal and national levels possess relatively little knowledge about the COSERHI/IDB reform process and have had almost no opportunity to participate in discussions about the reform of this sector. Neither the IDB nor the government of El Salvador has organized any public forums aimed at broadening understanding of the issue or soliciting input. The JAIF-funded activity provided the first venue for an open discussion of this issue.
- C** As a result of the EHP activity, momentum has been created for further discussions. To date, the process has engaged approximately one-third of municipalities, key national level institutions, and donors active in the water and sanitation sector. However, much more remains to be done.
- C** Due to the March presidential elections, the timing is right for continued involvement in the issue of decentralization of water supply and sanitation. Decentralization was one of the four major issues in the campaign of the newly elected government. Following the elections, a commission was established to develop the new government's policy on the decentralization of water and sanitation systems. After the new government takes office and appointments are made, this policy is expected to be formally approved and acted upon. This process will provide a series of opportunities to influence the debate and the shape of decentralization policy.
- C** The process side of sectoral reform issues, including the participation of key stakeholders in this process has been neglected. USAID is well positioned to play the role of facilitator in these discussions. First, no one else currently engaged in this issue appears to have the disposition or skills to play this role. Second, USAID has great credibility in El Salvador because of its interest in the water sector and its long history of assistance to the country. Third, the JAIF activity has provided USAID

- C** with in-depth understanding of the issues and the key actors involved.
- C** A growing number of local governments are willing to accept responsibility for providing services. One-third of all Salvadoran municipalities currently manage their own water supply and sanitation systems (78 out of 262), the majority through direct municipal operation. In most cases, the service provided is not very good. The municipalities do this simply because ANDA does not. The JAIF activity created awareness of the pitfalls of direct administration and highlighted the successful, innovative experiences of municipalities and communities that operate their systems more efficiently, under a more business-like approach with financial autonomy and characteristics similar to a private company. Training workshops helped local officials realize the possibilities and encouraged them to take the discussion to their local communities.
- C** Workshop participants showed a surprising level of general awareness of the importance of environmental issues related to water and sanitation. This awareness has not yet been translated into action, however. At every meeting and workshop, participants raised the issue of environmental protection (reforestation), sanitation (solid wastes), and conservation of water resources. Watershed management workshops responded to this demand, focusing the materials and training exercises on how communities could develop watershed management plans and prepare ordenanzas or municipal laws and regulations for environmental protection. However, much more could be done. USAID's AGUA Project, scheduled to begin this year, will move this agenda forward by focusing on these and other environmental issues in 18 municipalities in three important watersheds in El Salvador.

4.2 Recommendations

- C** Continued involvement of the key stakeholders is fundamental to the acceptance and implementation of the policy ultimately agreed upon. In addition to ANDA's central role,

these efforts should include the municipalities, MARN, COMURES, key NGOs such as CARE, and donors involved in this sector. With the change in government, it is unclear who will be responsible for guiding the development of the decentralization policy, but whoever takes leadership should use an active public participation process.

C The basic principles of the IDB reform project, which separate strategic planning and regulatory functions from operations, should be respected. However, ANDA currently plays the role of both regulator and operator, which is an inherent conflict of interest. The efforts to establish an independent regulatory authority for water and sanitation services should be supported.

C The willingness of local governments to accept responsibility for the delivery of services should be encouraged. Local governments are realistic in not wanting to provide services directly, but rather establish or contract separate companies under their oversight.

Much more needs to be done to determine the most effective approaches to management of services. The EHP activity has identified options and provided a useful baseline for continued work in this area. Private sector participation is certainly an option, but realistically only in the 13 municipalities with a population of more than 20,000.

C USAID should continue its involvement in water sector reform and the development of decentralization policy. The timing is opportune to continue dissemination of study findings and the workshop results. USAID should play the role of facilitator and bring together the key players. USAID can also play an important role in establishing the conditions for water sector reform and decentralization.

C Once the new government is in place and the thrust of the decentralization policy is decided, USAID might consider providing additional assistance to address issues that arise from the overall decision.

APPENDIX A: Recommendations from the National Seminar, December 2-3, 1998

These recommendations come from a group of experts, local government representatives, and other stakeholders from the public and private sector who met at the EHP-sponsored national seminar in San Salvador December 2 and 3, 1998. Participants expressed their opinions and provided recommendations on three issues: a) the proposed COSERHI/IDB sectoral reform project; b) management options for municipal water supply and sanitation and c) institutional arrangements for rural water supply and sanitation systems. The following summarizes the primary recommendations.

Sectoral Reform

- C** *Reform of the sector is necessary.* The experts arrived at complete consensus that sectoral reform is necessary given the current low level of service coverage, the deterioration of water resource quality and quantity, and the lack of rational use made of those resources. These reforms should be considered an integral part of modernization and of the state and the national efforts towards decentralization.
- C** *The proposed COSERHI/IDB water sector reform project should be broadly disseminated and openly discussed.* The government should ensure that mechanisms are in place for incorporating the recommendations resulting from these discussions. For these discussions to be effective and productive, more needs to be known about water supply and sanitation experiences throughout the country.
- C** *There is general agreement with the spirit of the reform proposal, which seeks to decentralize management and restructure institutional and legal entities.* However, close attention should be paid to a) watershed management for environmental protection; b) democratic and transparent election of CONRA and ARESA board members; c) the institutional and financial autonomy of water supply and sanitation companies; and d) resource allocation to guarantee technical assistance, human resource development, institutional strengthening, and financial sustainability.
- C** *The approval of tariffs and subsidies should be a transparent process.* The process should be based on technical, economic, and social criteria that ensure efficiency and equity. The tariffs should at least cover operation and maintenance costs and should be adjusted automatically on the basis of agreed upon criteria. The process of application and approval of tariffs should not be linked to political parties.

Management Options for Municipal Water Supply and Sanitation Systems

- C** *Central government management of water supply and sanitation systems should change to concession schemes to specialized entities and autonomous municipal water supply companies.* Given the failure of centralized operations, local and international experience shows that concessions to specialized entities and autonomous municipal water supply and sanitation companies can improve service delivery, promote local ownership, reduce political favoritism, increase citizen participation in decision making and management, and improve environmental protection and water conservation.
- C** *Appropriate conditions should be established for effective water decentralization.* These conditions include an adequate legal framework, political will on the part of central and local governments, technical assistance to improve local managerial capabilities, subsidies (in some cases), access to credit, and citizen participation.
- C** *The autonomy of water companies should be guaranteed.* Mayors should guarantee the autonomy of water supply and sanitation companies by having the political will to establish and charge tariffs that ensure the financial viability of the enterprises

Institutional Arrangements for Rural Water Supply and Sanitation Systems

C *Communities themselves should manage rural water supply and sanitation systems.* The participants agree that communities should manage rural water supply and sanitation services. Subsequent recommendations focus on mechanisms for supporting those processes.

C *Technical support is necessary for success.* Rural communities need support in the administration, operation, and maintenance of water supply services. This can be provided by private enterprise, NGOs, governmental organizations, or autonomous municipal enterprises.

C *Citizen participation is fundamental to good management.* A basic condition for sustainability and efficient management of water supply and sanitation systems is citizen participation.

C *The creation of an institution that specializes in assistance to rural water supply and sanitation is needed.* The creation of an institution specialized in assisting the rural WS&S systems is recommended. During the initial transition to decentralized services, this function could be assigned to an existing institution that has been strengthened to play this role. This is justified if a) the institution respects the role played by the communities; b) there is congruence between the reform project and decentralization; c) a need exists to facilitate the delivery of better services; and d) there are realistic and clearly defined mandates and responsibilities.

APPENDIX B: List of Reports Produced

The following reports provide detailed information on each of the five tasks carried out by EHP. They are available only in Spanish.

Linares, Carlos. Febrero 1999. *Talleres de Capacitacion de Alcaldes y Otros Funcionarios para el Manejo de Cuencas.*

Martinez, Gustavo y Roberto Arguello. Enero 1999. *Arreglos Institucionales para el Suministro de Agua Potable y Saneamiento a Nivel Rural.*

Moncada, Luis, Carlos Linares, y Magno Tulio. Noviembre 1998. *Opciones de Manejo para el Suministro de Agua Potable y Saneamiento a Nivel Municipal.*

Silva, Mauricio y Carlos Linares. Noviembre 1998. *Talleres de Capacitacion de Alcaldes y Otros Funcionarios para el Manejo de Empress de Agua Potable y Saneamiento.*

Silva, Mauricio y Carlos Linares. Enero 1999. *Seminario Taller Nacional: Alternativas Para el Manejo de Sistemas de Agua Potable y Saneamiento en El Salvador.*