

AGENCY FOR INTERNATIONAL DEVELOPMENT
**PROJECT IDENTIFICATION DOCUMENT
 FACESHEET (PID)**

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete
 Revision No.

DOCUMENT CODE
 1

2. COUNTRY/ENTITY
 El Salvador

3. PROJECT NUMBER
 519-0242

4. BUREAU/OFFICE
 L AC/DR
 A. Symbol L AC
 B. Code 05

5. PROJECT TITLE (maximum 48 characters)
 Local Government Strengthening

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION
 A. Initial FY 87
 B. Final FY 89
 C. PACD 91

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)
 FUNDING SOURCE LIFE OF PROJECT
 A. AID \$10,000
 B. Other U.S. 1.
 2.
 C. Host Country 5,450
 D. Other Donor(s)
 TOTAL \$15,450

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. 1ST FY 87		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SDA	701	721		1,350		5,350	
(2) EHR	664	721		1,000		4,650	
(3)							
(4)							
TOTALS				2,350		10,000	

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

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
 A. Code ER
 B. Amount 10,000

12. PROJECT PURPOSE (maximum 480 characters)
 To improve the capacity of local government in El Salvador to effectively manage and deliver basic services.

15. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT
 Staff: Public Administration Specialist (Contract) Team Leader/Coordinator (USAID)
 Organizational Development/Training Spec. (Contract)
 Municipal Finance Specialist (Contract)
 Anthropologist/Social Scientist (Contract)
 Funds: Economist (Contract)
 PD&S Funds Required: \$123,500

14. ORIGINATING OFFICE CLEARANCE
 Signature: Priscilla Del Bosque
 Title: A/PRJ, Priscilla del Bosque
 Date Signed: MM DD YY 06/02/87
 15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR ADDW DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY 06/10/87

16. PROJECT DOCUMENT ACTION TAKEN
 S = Suspended CA = Conditionally Approved
 A = Approved DD = Decision Deferred
 D = Disapproved

17. COMMENTS
 18. ACTION APPROVED
 Signature: B. Schantz
 Title: Director, USAID/El Salvador
 19. ACTION REFERENCE
 20. ACTION DATE
 MM DD YY 06/03/87

LOCAL GOVERNMENT STRENGTHENING PROJECT

(519-0242)

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Executive Summary

The proposed Local Government Strengthening Project (519-0242) provides continued support to strengthen the basic institutional framework of a democratic society, focussing on the capacity of local government to develop and administer appropriate local public services and to lobby for the needs and preferences of the citizenry before the central government. Over the past five years, USAID support has assisted the people and leaders of El Salvador to build a foundation to ensure that the citizenry are afforded all the rights, privileges, and guarantees on which a democratic society is based, systematically strengthening the institutions and processes basic to an effective democratic government. The accomplishments over these years include the establishment of an electoral registry which has helped to ensure an electoral process with integrity, a stronger and more efficient judicial system which seeks to provide equal protection to all citizens under the law, and the expansion and strengthening of institutions which are representative of the various economic, social, and political interests within the country. Concurrent with these efforts, USAID has utilized small amounts of funding to encourage and support steps of the Salvadoran Government to broaden the participation of people in their own governance and development by giving local government greater autonomy and responsibility. The USAID's policy dialogue over the past two years has emphasized this transfer of responsibility to local government where reasonable, and the recent enactment of a new Municipal Code which establishes a legal and procedural framework for greater local government autonomy is a significant step by the Government towards this objective. This Project will carry forward the process by enabling local governments to make effective and rational use of their new powers and be responsive to the needs of the population, within the context of a geographically small country.

The project goal is to strengthen the democratic process in El Salvador by devolving more authority to local municipal government. The project purpose is to improve the capacity of local government in El Salvador to effectively manage and deliver basic services. This will be accomplished by (1) upgrading the managerial and technical capabilities of local government, and (2) supporting the establishment of a municipal development institute to provide financial and technical assistance to enable local governments to better plan and deliver an appropriate range of services.

The estimated life-of-project funding for the proposed project is \$15.45 million (\$10 million A.I.D. grant, \$5.45 million GOES counterpart). Of the A.I.D. funding, about 45% is for training and technical assistance directly related to municipal service delivery, 30% is for direct financial assistance for municipal projects, 20% is for administrative and operational support for the establishment of the Salvadoran municipal development institute (Instituto Salvadoreno de Desarrollo Municipal, ISDEM) and the strengthening of the national and departmental level associations of mayors, and 5% is for other costs. A summary of the AID and GOES inputs by fiscal year follows.

	FY 1987	FY 1988	FY 1989	TOTAL
AID	2,350	3,900	3,750	10,000
GOES	1,100	1,675	2,675	5,450

The Project Committee recommends Mission approval for the Mission project team to proceed in developing the Project Paper. AID/W has delegated PID approval authority to the Mission, per State 154984.

The USAID program has also emphasized the decentralization of authority within government agencies such as Health and Education, as well as the transfer of central government responsibilities to local government as appropriate. AID encouragement for municipal reform, both in the policy dialogue process and through financial support for the Planning Group on Municipal Reform, has resulted in a number of positive measures by the GOES, including passage of the enabling legislation for ISDEM and the preparation of two additional legislative proposals to increase the financial autonomy of local government. With the legislative framework now in place, attention needs to be focussed on enabling local government to carry out its broadened responsibilities for public service delivery. To stop short now, and not provide the technical and financial assistance needed to enable local government to assume its new role, would jeopardize the real devolution of authority, retard the democratic process in El Salvador, and be inconsistent with our stated policy of strengthening the institutions that form the basis of democracy.

This project also reinforces and complements the Mission's portfolio of public sector service projects by strengthening intermediary institutions which can improve the delivery of public services, while at the same time multiplying the impact of these projects by utilizing community resources for the maintenance and support of public infrastructure. The proposed project would also build upon USAID support for the National Plan, which makes funding available to municipalities for community infrastructure improvement and productive projects, such as road paving and cooperative enterprises. Implementation experience identified the need for a training program for mayors in the responsibilities of local government and project development -- a need which has been addressed through two training programs for mayors. This project would expand this training to other municipal officials and employees, as well as other recognized local leaders.

GOES efforts to devolve greater authority to local government has received the support of other donors as well as A.I.D. The Inter-American Development Bank, the second largest donor to El Salvador, provided technical assistance to the GOES in 1985 to assist in the development of the new Municipal Code, which was enacted into law in 1986 and established a legal basis for municipal reform. Another recommendation of the IDB team was the creation of a municipal development institute to provide technical and financial assistance to municipalities, legislation for the establishment of the "Instituto Salvadoreño de Desarrollo Municipal" (ISDEM) was passed in March 1987. The IDB has indicated its commitment to capitalize a loan fund for municipal development as soon as the legal, procedural and operational framework for the institute has been established. This USAID project would provide the resources to ensure that ISDEM has the capability to provide training and technical assistance to municipal government and to administer the loan funds which would be made available through the IDB loan.

II. Project Description

A. Problems/Constraints

1. Inadequate Technical Knowledge and Financial Support

A principal problem confronting the Salvadoran government in advancing the democratic process and broadening the benefits of growth is the absence of strong and effective local level institutions, including local governments and

informal indigenous organizations. On March 1, 1986, a new Municipal Code was enacted by the Legislative Assembly, which established the general principle of economic, technical, and administrative autonomy for local government. For example, local government now has the authority to prepare cadasters (i.e., land registry) and tax property and businesses within limits which are being established by the central government, prior to passage of the new Municipal Code, the authority for the preparation of the cadaster and establishment of tax rates resided with the central government. Other important changes in local government authority, among many, include.

(1) the elimination of central government control over the use of funds appropriated for municipalities (i.e., revenue sharing). Prior to passage of the new Municipal Code, local governments had to obtain the approval of the Ministry of Interior to the use of these funds; and

(2) the placement of responsibility for town planning and the use of property within the municipality with local government. Building permits and rights of access (e.g., bus routes) are now regulated by the municipality, rather than the central government; and

(3) the transfer of responsibility for setting users fees for public services from the central government to local government, within limits which are being established in a new law.

Realization of these new authorities, however, will require performance well beyond the existing capabilities of local government, which was elected by voters who had no idea that local government would be responsible for the much broader range of services and functions now envisioned for it. As a result, the qualifications of individuals holding the office of mayor and filling other positions on the municipal council are far below those required for effective local government. For example, the average mayor ("alcalde") has a sixth grade education, and has received no formal training in the Municipal Code nor in local government affairs. Moreover, in most of the smaller municipalities, the pay is so low that mayors derive the principal part of their income from other jobs. Therefore, the "secretario municipal" (secretary), usually the only full-time employee of the municipality, becomes the de-facto town manager, running the day-to-day affairs of the municipality. These individuals, although experienced in municipal affairs, often lack the commitment to public service which is essential to effective local government. Training opportunities are limited, pay is low, and there is no job security for the secretaries who may be out of a job when a new municipal council takes office.

In addition, in more than half of the municipalities, the secretary and/or the mayor is also responsible for maintaining the financial records of the municipality due to the lack of municipal revenues to hire a treasurer. Needless to say, in most cases neither the mayor nor the secretary has the proper training to adequately carry out this responsibility. The municipal council, elected with the mayor as part of the Party slate, offers little support in this or other tasks as these individuals also have their own full-time occupations and were placed on the slate because of party affiliation and not for their commitment to public service.

One of the most common complaints of mayors is that although the new Municipal Code has given them more authority, they lack the funds and the institutional capacity to make any significant improvement in their towns. The typical municipal budget totals approximately \$10,000 per year, and is derived from a bewildering array of fees and an outmoded property tax structure. Per capita

income varies greatly among municipalities, with the largest municipality, San Salvador, having a per capita income of \$17.54 (C87.70) while the smaller municipalities have per capita incomes of as little as \$0.05 (C0.24). Attachment C to this PID illustrates differences in per capita income by population size.

Legislation to create a source of funding for municipal development is currently before the Legislative Assembly. As envisioned, this Fund for Social and Economic Development (FUND) would be established through an annual allocation equal to 2% of the national budget. These funds would be administered by the Salvadoran Municipal Development Institute (ISDEM) and allocated to the municipalities on a per capita basis, with the smaller municipalities receiving three to four times more per capita than the larger municipalities. Using the 1987 GOES budget, this transfer would total approximately C61,000,000, with each municipality receiving between \$1.00 and \$5.00 per person. The establishment of a loan fund to supplement the transfer from the national budget has also been proposed, and the Inter-American Development Bank has committed itself to providing the funding to capitalize a loan fund once ISDEM is operational.

The increased availability of funding to municipalities through the FUND is, however, only a partial response to the financial woes of the municipalities. Assistance must be given to the municipalities in establishing user fees and tax administration, in order to enable the municipalities to provide and maintain an acceptable level of public services. Mayors will also require technical assistance in financial management, carrying out a cadaster, establishing appropriate tax and user fee schedules, and the planning and implementation of municipal projects, such as road repair and maintenance, garbage collection, and repair and maintenance of water and sewage systems. The establishment of ISDEM, a technical and financial assistance agency for municipalities, is the GOES' response to this need. However, sufficient GOES resources cannot be made available within the near future to support ISDEM in view of the other demands upon these resources. Local governments, as the likely source of funds to sustain ISDEM services over the long term, are also not financially able to support the operational costs of ISDEM at this time. Interim support to establish and sustain these advisory services is, therefore, needed.

2. Inadequate Information About and Participation in Development Project Planning and Implementation

The active participation of local government in the planning and carrying out of development projects is essential if national assistance programs are to be responsive to the varied and changing social, economic and political environment of the beneficiary communities. For example, mayors do not have any formal role in the departmental-level Commissions for Area Restoration (CODERAs), which have responsibility for assessing development needs and establishing priorities within the National Plan. Moreover, few of the national development programs have been designed to require participation by the beneficiaries in project implementation or project follow-up. The development impact of these programs could be multiplied several times if beneficiary communities were required to contribute to project costs.

Notwithstanding the lack of local government participation in development planning, however, one would expect that information on central government programs and resources to support municipal development would be relatively easy to disseminate given the good transportation and communication systems within the country, as well as the relative proximity of most areas to the

capital. In fact, however, few municipal councils (not to mention CODERAS) outside of the three major cities (San Salvador, Santa Ana, and San Miguel) have this type of information, they are also misinformed about the placement of responsibility for certain central government functions (e.g., placement of teachers). These are significant limitations to local government effectiveness.

The absence of vertical communication (i.e., between central and local government) is further compounded by the lack of communication and coordination among neighboring municipalities. The sharing of information on problems and various strategies, as well as resources (e.g., the loan of technicians employed by larger municipalities to those which cannot afford to pay for these services), could enable local government to resolve more of their own problems. In addition, these organizations can serve to stimulate communication across party lines at the local government level and reduce the politicization of public service delivery.

Under the leadership of the Mayor of San Salvador and the Planning Group on Municipal Reform, efforts have been made to re-activate the national Association of Mayors ("Corporacion de Municipalidades de El Salvador," CMES), which would partially fill this vacuum, as well as promote and protect the authority now held by local government. USAID has provided a small amount of grant funding (\$150,000) to support the operational costs of re-establishing CMES, which is (a) assisting CONARA carry out a training program for mayors in project design and aspects of the Municipal Code, and (b) planning and organizing the election of the mayors' representatives to the ISDEM Board of Directors. Continued financial support will be required for the operational costs of CMES until such time as the municipalities are able to financially support this Association through dues.

Through the mayors' training program, we have also encouraged the re-activation and/or formation of departmental councils of mayors to share information and meet regularly with the CODERAS. Follow-up meetings with mayors in each of the department capitals after the training course have had good participation, however, there is an obvious need for some limited assistance to encourage these departmental councils to plan and organize activities (e.g., the identification of common informational needs and scheduling of regular meetings with the CODERAS and representatives of the line ministries). Most departments had a functioning council of mayors in the 1970s. However, few currently meet on a regular basis and the benefits which might be derived through such an organization have yet to be realized. One notable exception is the creation of an association of urban municipalities in the metropolitan San Salvador area, which was organized following the October 1986 earthquake to plan and coordinate the reconstruction and urban development plans for the metropolitan area.

3. Inadequate Community Understanding of and Participation in Local Government

Another prerequisite for effective local government is community participation, which is based upon a commitment of the citizenry to make local government work, and a willingness to set priorities and participate in developing and carrying out municipal projects and supporting local government. The authors of the new Municipal Code clearly recognized the importance of active community participation for effective local government,

and included provisions in the Code requiring quarterly open citizens meetings. In addition, the new Code provides the framework for the establishment of community associations as vehicles for the community's participation in the identification, analysis and resolution of community problems and needs. However, only a small number of municipalities have developed the level of community organization required to realize effective community support and participation in local government affairs and municipal projects (e.g., contributing to municipal services through a fair system of taxation and community maintenance of public infrastructure). According to many mayors, the principal reason for the lack of community participation is a lack of understanding within the community of local government organization, functions, and responsibilities, and the responsibilities of citizens vis-a-vis local government.

B. Project Goal and Purpose

The project goal is to strengthen the democratic process in El Salvador by devolving more authority to local municipal government. As a result of the project, it is expected that communities will benefit from more and improved public services, including sanitation, roads, markets, and other services provided by the municipalities. The project will also result in more direct participation by the citizenry in the planning and implementation of national development programs, thereby improving the relevance of these programs to the needs and preferences of the citizenry. To be successful in these efforts, it is important that the current GOES administration continue its support for the transfer of appropriate public service delivery functions to local government, and that this policy be supported by the other major political parties. Other project assumptions include the receptivity of local government officials and communities to assuming greater responsibility for the development of their communities.

The purpose of the project is to improve the capacity of local government in El Salvador to effectively manage and deliver basic services. Attainment of the project purpose will result in the following indicators of progress at the end of the project.

1. Improved administrative and managerial practices in 200 municipalities.
2. Improved municipal financial policy and administration in 140 municipalities, with the revenue base of 50 municipalities increased by at least 10%.*
3. Increased citizen participation in identifying, analyzing and resolving local municipal service problems.
4. Training, technical advisory, and financial assistance programs for municipal services institutionalized in ISDEM.
5. National and departmental associations of mayors set up to provide effective liaison with GOES on policies, programs, and the allocation of national resources for municipal development.

* Approximately 140 municipalities have a population of at least 10,000, of these, approximately 50 have a population of over 25,000.

The first three indicators above will demonstrate that the training and technical assistance provided under the project were effective in establishing the basis for sustained municipal development. During the three year time frame of the project, it will not be possible to provide the same level of assistance to each of the 262 municipalities, and even if this were possible, it would not necessarily be the most cost-effective nor equitable strategy. Therefore, the Project Paper will analyze and categorize municipalities based on factors such as population size, urban and rural population, current and potential revenue levels, geographic location, and other factors which are important in determining an appropriate level of municipal services. This categorization, combined with an analysis of local government revenue sources, will be used to determine the level of assistance which will be provided to each municipality under the project. This analysis will use and build upon the findings of the 1985 study prepared by the Brazilian Institute for Municipal Administration (IBAM) and the 1986 survey of 25 municipalities conducted by the ISDEM Planning Group. Baseline data on which to measure progress in improving municipal administration and financial policy, including changes in revenues, will be collected in the process of preparing the Project Paper.

Indicators four and five relate to the establishment and strengthening of the intermediary institution which will continue project benefits after the A.I.D. funding stops. As noted earlier, legislation has already been passed to establish ISDEM. During Project Paper preparation, the relationship and functions of ISDEM to existing agencies/programs for municipal development, e.g., the Ministry of Interior, the Ministry of Public Works, and CONARA will be clarified and the responsibilities of each clearly delineated. As the representative body for municipalities, CMES will play a key role in Project Paper preparation in sorting out the training, technical assistance, and financing roles and over the long term, in coordinating these programs. The rationale for consolidating responsibility for training, technical assistance, and financing in a new, semi-autonomous institution (ISDEM), while clear, may, however, meet with resistance from central government agencies.

C. Achievements/Outputs

The principal outputs required to achieve the project purpose are.

1. 2,500 individuals trained, including mayors, municipal officials and employees, and other local leaders, in the organization, functions and responsibilities of local government and community responsibilities vis-a-vis local government. This training will include the design and implementation of local government services and emphasize self-help solutions and the use of community resources.
2. Establishment of a grant and revolving loan fund for municipal projects, with loan criteria established which reduce the risk of de-capitalization while protecting municipal decision-making authority as regards priority projects.

3. Over 400 municipal development projects, designed and implemented by the municipalities.

4. Regular meetings of mayors on a national and departmental level to discuss problems and plan programs/strategies to strengthen and support local government.

As indicated, the major output of the project will be the establishment of a core of trained individuals -- mayors, members of the municipal council, local government staff, and local leaders -- supportive and capable of running local government affairs, including the design and implementation of municipal development projects. The training of local leaders who are outside of the formal local government structure is important in terms of facilitating community support for local government initiatives, as well as ensuring benefits are not lost with changes in elected officials and their staffs.

Training and technical assistance provided under the project through ISDEM will in the first instance be designed to help municipal officials and the community understand better the increased responsibility of local government and how to use the new powers to improve and expand municipal services. Needs identification and project development and implementation courses being given to mayors under the CAPS program and by CONARA and the Association of Mayors will be expanded to include other municipal officials, municipal employees, and local leaders. Additional training and technical assistance will be organized around key problems in traditional municipal services, such as sanitation, street maintenance, the operation of markets and slaughter houses, and the development of better local tax registries. As a general rule, all training and technical assistance will be action-oriented, and given in the field. Courses will be informal with a high-degree of interaction between session leaders and participants. Follow-up technical assistance will be provided during project implementation and at the conclusion of each project to assist communities evaluate the experience and make modifications in future projects. Line ministries will be involved as appropriate to assist in the training and technical assistance programs, thereby preventing an unnecessary duplication of capabilities and establishing lines of communication between local and central government. Equally important to the continuation of project benefits beyond the end of the project will be the establishment of the loan fund for municipal projects.

The project will provide the needed expertise and technical assistance to establish and consolidate training and technical assistance programs in ISDEM, as well as to establish procedures for the administration of the loan and grant funds for municipalities. In addition, project funds will be used to supplement the loan and grant funding that would be made available to assist the smaller and poorer municipalities establish basic public services. Emphasis will be placed on using these grant resources to undertake projects that will lead to the generation of additional revenues for the municipality, e.g., market construction. Finally, project resources will be used to support the operational costs of CMES, the formation of departmental councils of mayors and special seminars, involving mayors, municipal employees, policy makers and line ministries, to improve local government performance and identify and promote policy reforms as appropriate.

D. Inputs

The largest project input will be the provision of technical assistance to establish and institutionalize the training, technical and financial assistance programs for municipal development. USAID plans on entering into a contract with a firm with expertise in municipal development to assist in the establishment of ISDEM and the strengthening of the National Association of Mayors. Advisors will be needed in the organization, staffing, and financing of these organizations and their activities. The estimated cost of this technical assistance and the training activities is \$4.5 million. Project funds will also be used to provide administrative and operational support for ISDEM and the National Association of Mayors (\$2.0 million), and to provide funding for municipal projects (\$3.0 million), and other costs (\$0.5 million). Other costs include site visits to municipal development institutions in other countries in Latin America, training for ISDEM employees outside of El Salvador, a special training program for newly-elected mayors, and evaluation.

IV. Project Development Factors

A. Social Considerations

The direct beneficiaries of the project will be the individuals resident in the approximately 200 municipalities which are expected to benefit from the training, technical and financial assistance provided under the Project. These municipalities have an average annual income from taxes and fees for municipal services of C7.50 (\$1.50) per person, and represent approximately 60% of the total population of El Salvador. Accordingly, it is not surprising to find that the only regular public service provided in most municipalities is birth and death registration. The range of resources currently available to municipalities, including income from services and transfers from the national budget (i.e., the 3% share of the coffee export tax allocated to municipalities) are simply insufficient to provide the breadth of service expected of municipal government, such as sanitation, street maintenance, and operation of the town market.

In addition, for each of the past three years, public infrastructure valued at more than \$15 million has been lost through guerilla attacks. Losses due to the lack of repairs, whether because families have fled their towns or because the central government has been financially unable to provide services, are significant as well and greater in areas further away from the metropolitan San Salvador area and the departmental capitals. These poorer municipalities will be targetted for assistance under the project.

The Social Soundness Analysis in the Project Paper will discuss beneficiary status more fully. However, at this point, given the demographic characteristics of the Salvadoran population, it can be expected that a significant percentage of the beneficiary population will be not only poor, but female given the important role women play in Salvadoran society. Communities will benefit through improved and extended public services, including farm-to-market roads which will improve income, as well as social goods such as water and sanitation services. This, in turn, will enhance social stability.

B. Economic Considerations

There are three important economic issues that must be addressed in analyzing the merits of this Project. These concern the functions that can economically be undertaken by local governments, the organization of those functions, and the financing of those functions.

There are two contradictory points of view regarding the range of functions local government should carry out. One school holds that the scope and scale of local government authority should be relatively narrow in present day El Salvador. Given the relative ease of communication and transportation in this small country, some would argue that a higher degree of centralization and larger scale operations are more economical than separate initiatives on a municipal level. On the other hand, the highly centralized systems lead to inefficiencies because they do not take into account local needs and preferences, but instead establish a somewhat arbitrary set of priorities for development. Centrally-directed programs are also not designed to maximize community contributions to project costs, thereby many times resulting in a higher cost to the national government than necessary.

Once the scope and scale of local government authority is defined, decisions must be made on the organization of functions. For example, if sanitation should be a municipal function, should public employees be responsible, or should sanitation services be contracted out by the municipality? In a similar vein, would it be more cost-effective to regionalize certain municipal functions and/or services?

Finally, the Project Paper will also need to discuss the range of options available to municipalities in financing these functions, including revenue sharing, local taxation, service charges, and borrowing. Does the range of options available provide a sufficiently ample source of financing to enable municipalities to carry out all the functions envisioned for them? Based on an analysis of options contained in the Project Paper, the technical assistance team working with ISDEM will be able to assist each municipality develop a strategy and time frame for achieving an optimal mixture of the various resources in order to finance an appropriate level of municipal services.

C. Experience with Similar Projects

As stated earlier, this Project builds upon and enhances several USAID projects, but in particular our support for the GOES' National Plan - United to Rebuild. This AID-funded local currency project supports the strengthening of local government as the engine for the country's development, as well as the foundation for democracy. Administered through the Commission on National Area Restoration (CONARA), this program has established a mechanism that has enabled the central government to respond in a rapid manner to the pressing needs of municipalities. Under the program, a hierarchical structure, which begins with a community development committee which identifies needs and presents these to a municipal committee and in turn a departmental committee, has been established which routinely requests and obtains central government assistance for municipal projects, and when not available, provides direct funding to the municipalities. In CY 1986, a total of C14,000,000 (\$2,800,000) was provided through the CONARA Municipalities in Action Grant Program. Funding made available for CY 1987 is substantially higher

(C43,000,000 or \$8,600,000) based on an expansion of the Municipalities in Action Grant Program to non-conflictive areas (where a greater percentage of the population lives) and the assumption that the training programs already underway will facilitate project development.

D. Institutional Considerations

The key implementing entities for the proposed Project are the Salvadoran Institute for Municipal Development (ISDEM) and the National Association of Mayors (CMES). As noted earlier in this paper, legislation to create ISDEM has only recently been enacted. This legislation establishes ISDEM as a semi-autonomous public institution with a Board of Directors consisting of three representatives of the central government (representing the Ministries of Interior, Public Works and Planning), one representative nominated by the Metropolitan Council of San Salvador, and four regional representatives elected by the mayors within each of the four regions (Western, Central, Para-central, and Eastern). The election process is currently being organized by CMES, and will take place in May/June 1987. The basic objective of ISDEM is to provide training, technical assistance, financial support, and planning assistance to help enable local government more effectively develop and administer public services.

CMES was created in 1941 by legislative decree as a autonomous public institute for the purpose of promoting an effective means of communication and interchange of ideas between all the municipalities of El Salvador and to project a unified voice for all municipalities before the central government. After a few short years of operation, however, the municipal reform movement withered and CMES lost its sense of purpose and became simply a paper organization. The advent of the new Municipal Code and a new era of municipal reform has once again called to the forefront a need for a national association of mayors, and the Mayor of San Salvador and mayors of the 14 other Departmental capitals have taken the lead in re-activating CMES. A Mayors Congress, sponsored by CMES in March 1987, was well attended with approximately 175 mayors participating in the one-day conference. The new Board of Directors, which is composed of the mayors of the departmental capitals and the Mayor of San Salvador (who by virtue of his office serves as the President of the Board), was announced and elections were held for Board offices. Currently, 11 of the 14 mayors on this Board are affiliated with the PDC party, three were elected on the ARENA-PCN coalition ticket.

Given the early stages of development of both organizations, considerable effort will be devoted in the Project Paper design to assessing the proposed organizational structures, managerial capabilities, resource requirements, and the viability of these organizations in the socio-political environment of El Salvador.

E. A.I.D. Support Requirements/Staffing

The Project will be the second major USAID project designed to support and strengthen the democratic process in El Salvador, consolidating several ongoing USAID pilot initiatives into a single, integrated management unit. USAID is in the process of contracting an individual to assist the Office of Democratic Initiatives to oversee the ongoing mayors training program, the grant with CMES, and other local currency funded projects included in the ODI portfolio, such as support for strengthening the Legislative Assembly. This individual will serve as the eventual Project Manager, as well as participate in the project paper design. He/she will be assisted by an assistant Project Manager, a Salvadoran already contracted and currently overseeing the grant to CMES as well as other ODI activities designed to promote democratic institutions (e.g., a USAID grant for the development of a public policy institute).

These individuals will work closely with the existing Project Manager for the CONARA program who has daily contact with mayors and municipal officials through the Municipalities in Action Program. In addition, demands on other USAID offices, particularly the Projects office, will be considerable initially. However, these demands are all within the USAID's management capability.

F. Estimated Costs and Methods of Funding

Grant funding for this project is proposed based on both macro-economic and project considerations. First, the nature of the Project is largely technical assistance and institutional support for semi-autonomous public agencies, and therefore loan funding is inappropriate. Secondly, given the already large foreign debt, to further burden the economy at this time with an additional debt of \$10 million would be counter productive to the USAID program goal of economic stabilization.

<u>PROPOSED BUDGET</u>			
<u>Project Element</u>	<u>AID Funding</u>	<u>GOES Funding</u>	<u>TOTAL</u>
Technical Assistance and Training	\$4,500,000	\$ 250,000	\$4,750,000
Administrative Support for ISDEM and the Association of Mayors	2,000,000	200,000	2,200,000
Small project grant fund	3,000,000	5,000,000	8,000,000
Other costs	<u>500,000</u>	<u> </u>	<u>500,000</u>
Total	10,000,000	5,450,000	15,450,000

The GOES contribution will be comprised of funds allocated from the national budget to the Fund for Economic and Social Development, PL 480 local currency generations, and contributions from the municipalities through the various participating institutions.

G. Project Design Strategy

The approach of the USAID to design of the Local Government Strengthening Project is experientially-based, utilizing lessons learned from pilot training and municipal development activities funded in FYs 1986 and 1987, as well as lessons learned from municipal development initiatives elsewhere in Latin America, especially the Costa Rican and Guatemalan experiences. During Project Paper preparation, the Project Paper design team, working with the major implementing agencies, will evaluate the effectiveness of the CONARA/CMES training program for mayors and the mayors' training conducted under the Central America Peace Scholarships (CAPS) program. Under the CAPS Program 100 mayors received four weeks of training in local government administration on two U.S. university campuses, returning to their municipalities in the latter part of 1986.

A second area of study will focus on expanding the needs assessment of 25 municipalities conducted by the ISDEM Planning Group and evaluating the small municipal grants program administered by CONARA. Members of the ISDEM Planning Group and CMES staff will participate in this work. Site visits to the municipal development institutes in other countries in Latin America are also planned in conjunction with development of the Project Paper, which will serve as the basis for formulating the institutional development strategy for ISDEM and policies and procedures for the administration of the loan and grant funds for municipalities.

Other detailed project paper analyses will be conducted in May and June. The following tables illustrate the tentative composition of the project paper design team and the project development schedule.

Design Personnel

Coordinator/Team Leader (USAID)	Ongoing
Public Administration Specialist (Contract)	6 weeks - 5/18-6/26
Organization Development/Training Specialist (Contract)	4 weeks - 5/25-6/19
Municipal Finance Analyst - Revenue sources and administration (Contract)	3 weeks - 5/17-6/5
Anthropologist (Contract)	3 weeks - 6/1-6/19
Economist (Contract)	3 weeks - 6/1-6/19

Project Development Schedule

Summary cable to AID/W	Jan. 27, 1987
PID Review and Approval by USAID	April 15, 1987
PIO/T for PP Team	April 24, 1987
PP Development	May-June 1987
PP Completed	June 30, 1987
PP Review and Authorization	July 17, 1987
Grant Agreement(s) signed	July 31, 1987

In the contracting of personnel for the design and implementation of the project, particular consideration will be given to involve minority-owned and other Gray Amendment organizations.

H. Recommended Environmental Threshold Decision

The Initial Environmental Examination shows a negative determination as the recommended threshold decision. See Annex II.

I. Issues

The issues described below, in addition to those mentioned elsewhere in this document, will be studied by the project paper design team and discussed in detail in analyses of the project paper.

Scope and Scale of Municipal Services

As noted in the economic considerations section of this paper, questions regarding the division of functions between central and local governments need to be considered, considering both the economics of various allocations as well as the availability of human resources to administer local government functions.

Municipal Finances

Additional research is needed to determine the most appropriate and viable mixture of financing sources for municipal services, and to develop a time-frame for realistically achieving a real increase in municipal finances. Related to this question are the loan criteria which will be developed for use of the funds administered by ISDEM. What limitations, if any, should be placed on the use of these funds?

Risk of Politicization

The municipal reform movement is largely the work of one faction within the Christian Democratic Party, based in San Salvador and having little participation or input from mayors of the 250 medium and small municipalities. Moreover, this Project, by its very nature, has a higher degree of risk in terms of the politicization of benefits. To what extent does CMES represent its constituency? What steps should be taken to ensure that CMES, as well as ISDEM, are truly representative and responsive institutions? What safeguards and checks need to be built into the project design to minimize the potential for politicizing benefits?

Narrative Summary

Objectively Verifiable Indicators

Means of Verification

Important Assumptions

Inputs:

Life of Project (\$000's)

- 1. Technical Assistance and Training
- 2. Admin Support for ISDEM and Assoc. of Mayors
- 3. Small project grant fund
- 4. Other costs
- TOTAL

A. I. D.	GOES
\$ 4,500	\$ 250
2,000	200
3,000	5,000
500	-
<u>\$10,000</u>	<u>\$5,450</u>

AID Controller records.
Ministry of Treasury records.
ISDEM and Association of
Mayors' records.

- 1. GOES disbursements and municipal government contributions made in timely manner.
- 2. AID funds made available as scheduled.

Narrative Summary

Objectively Verifiable Indicators

Means of Verification

Important Assumptions

Outputs:

1) 2,500 individuals trained, including mayors, municipal officials, and other local leaders in the organization, functions and responsibilities of local government and community responsibilities vis-a-vis local government.	1a) 2,500 persons trained, including 1500 municipal officials/employees and 1000 other local leaders. 1b) 90 technical training sessions (6 topics/year x 5 regions x 3 years) 1c) 1,200 technical consultations (2 topics/year x 200 munic. x 3 years)	Records of technical assistance firms.	Technical assistance personnel can be identified and line ministries will cooperate in the provision of technical assistance.
2) Loan and grant funds are established for financing municipal projects, with loan criteria established which reduce the risk of de-capitalization while protecting municipal decision-making authority as regards priority projects.	2a) By year 3, 2% of annual revenue of GOES provided to the fund for municipal development. 2b) Loan capital obtained from international donor. 2c) Repayments 95% up-to-date.	Ministry of Treasury Records. Loan agreements.	Legislation to establish the fund for municipal development with a 2% revenue sharing provision is enacted by the Assembly. International donor will capitalize the loan fund.
3) Municipal development projects designed and implemented by the municipalities.	3) Over 400 projects.	Reports of municipal development institute (ISDEM).	
4) Regular meetings of mayors on a departmental and national level to discuss problems and plan programs/strategies to strengthen and support the autonomy of municipal government.	4a) Two national Congresses per year. 4b) Annual departmental meetings in all 14 departments in year 2, with semi-annual meetings held during third year.	Reports of the National and Departmental Associations of Mayors of meetings.	Mayors recognize value of collaboration.

Narrative Summary

Project Purpose: To improve the capacity of local government in El Salvador to effectively manage and deliver basic services.

Objectively Verifiable Indicators

E.O.P.S:

1. Improved administrative and management practices in 200 municipalities.*
2. Improved municipal financial policy and administration in 140 municipalities, with the revenue base of 50 municipalities increased by at least 10%.*
3. Increased citizen participation in identifying, analyzing and resolving local municipal service problems.
4. Training, technical advisory, and financial assistance programs for municipal services institutionalized in ISDEM.
5. National and Departmental Councils (Associations) of Mayors set up to provide effective liaison with GOES on policies, programs, and the allocation of national resources for municipal development.

Means of Verification

Reports and special studies.
Municipal records.

Important Assumptions

- 1) Willingness exists among citizenry to participate in and financially support municipal service delivery systems.
- 2) Training and technical assistance will improve financial policy and administration of local municipal government.
- 3) The commitment of mayors' to service delivery outweighs ideological differences permitting coordinated action and cooperation to resolve municipal problems.

*Approximately 140 municipalities have a population of at least 10,000, with 50 of these having a population of over 25,000.

LOCAL GOVERNMENT STRENGTHENING

(519-0242)

LOGICAL FRAMEWORK MATRIX

Narrative Summary

Project Goal: To strengthen the democratic process in El Salvador by devolving more authority to local municipal government.

Objectively Verifiable Indicators

- 1) Increased and improved public service delivery.
- 2) Improved living conditions.
- 3) Increased participation of the citizenry in national assistance programs and policies.

Means of Verification

On-site visits to municipalities. Reports and special studies.

Important Assumptions

1. Current GOES administration continues its favorable support for the transfer of appropriate public service delivery functions to local governments.
2. Major political parties/leaders support increased municipal authority.
3. Local government willing to assume greater responsibility for public services.

INITIAL ENVIRONMENTAL EXAMINATION

I. BASIC PROJECT DATA

PROJECT LOCATION : El Salvador

PROJECT TITLE : Local Government Strengthening

PROJECT NUMBER: : 519-0242

FUNDING: : FY 87 \$3,000,000
: FY 88 \$3,250,000

LIFE OF PROJECT: : FY 87 - FY 90

TOTAL FUNDING: : \$10,000,000

IEE PREPARED BY: : C. Roberto Gavidia, PRJ
Engineer and Environmental
Coordinator, USAID/El Salvador

DATE PREPARED : February 26, 1987

ACTION RECOMMENDED: : Negative Determination

II. DESCRIPTION OF THE PROJECT

A.I.D. will, through this Project, assist the Government of El Salvador (GOES) in the development and strengthening of local governments to increase and improve the delivery of public services, provide for greater citizen participation in local government, and strengthening the role of local government in the development and implementation of national development policies and programs.

Encouraging the GOES to devolve greater authority to local government has and will continue to be a key element in our policy area, paralleling the continued support within El Salvador for Municipal Reform, has already shown dividends, including the promulgation of a new municipal code in March 1986, significant training efforts for mayors and municipal officials, the formation of a municipal reform planning unit, and a small municipal grant program funded with local currency. This Project will further the municipal reform process by enabling mayors and community leaders to understand and utilize the new authorities provided to local government under the municipal code, and strengthen the National Association of Mayors to promote and defend the municipal reform process, including the identification and resolution of legal and procedural impediments to greater municipal autonomy and effectiveness. The project will also seek to ensure that the Salvadoran Municipal Development Institute (ISDEM) will have the capacity to provide effective training and a wide range of technical assistance services to municipalities.

The purpose of the project is to improve the capacity of local government in El Salvador to effectively manage and deliver basic services. Accordingly, this Project is designed to: (1) improve the administrative practices and managerial capacity of local governments, i.e., mayors and their local staffs; (2) establish advisory and support mechanisms to provide qualified professional assistance and financial support to assist the municipalities in undertaking their new and expanded functions; (3) establish a forum for inter-municipal communication and coordination, which both promotes and defends the municipal reform process; and (4) strengthen community organizations and train community leaders so that they are better able to promote, endorse or veto projects, and equally important, to see that local officials do, in fact, administer projects in an effective manner. Consistent with the objective of devolving more authority and responsibility to the municipalities, project activities will focus on strengthening existing institutions whose goal is to foster the independence of the municipalities vis a vis the central government. The first project component will continue assistance to the GOES in establishing the legal and procedural framework to carry out its intention of providing more autonomy to the municipalities. In FY 1986 the Mission provided a grant to the office of the mayor of San Salvador to establish the procedural and policy framework for ISDEM. Under this component, continued support will be provided to the National Association of Municipalities to strengthen this organization so that it can effectively represent municipal governments, their issues, and systematically identify and address legal and policy questions inhibiting local autonomy and effectiveness. In addition, working through the National Association, support will be provided to strengthen urban and other regional associations of mayors, which will assume greater responsibility for development activities and liaison with line ministries as the GOES moves ahead in its decentralization plan. Training will be an important aspect of the National Association's work, including courses in understanding and using the authorities provided in the new municipal code, the role of ISDEM, and orientation courses for newly elected mayors following the 1988 elections.

The second component will increase the capability of local government officials to effectively provide needed services, through the establishment, within ISDEM, of a technical advisory service. Under the FY 1986 Central American Peace Scholarship program, the USAID sent 100 local officials, mostly mayors, to the United States to visit local governments and to gain a better understanding of the role of a mayor in a democratic system, as well as effective administration and management techniques. In early FY 1987, the Mission initiated an in-country training program for an additional 170 mayors in project design and management, in order to ensure that all 262 of the mayors will have

received some basic training. This component is designed to build upon these earlier training initiatives, by providing technical assistance and funding to establish a problem-oriented, training and technical advisory service for local government within ISDEM. ISDEM will provide assistance to municipalities on topics such as revenue generation, management of resources, and service delivery approaches to common municipal problems, such as sanitation, public lighting, water, street maintenance, and cooperative municipal enterprise.

Technical assistance will also be provided under the project to develop the procedures and criteria ISDEM will use to administer the fund for municipal projects, and to assist municipalities in the administration of this project funding. The project will also provide funding to establish a small projects grant fund for the smaller and poorer municipalities, to be administered by ISDEM.

III. IMPACT IDENTIFICATION AND EVALUATION

Impact areas and sub-areas	Impact Identification and Evaluation <u>1/</u>
----------------------------	------------------------------------------------

A. Land Use

1. Changing the character of the land through:

- | | |
|----------------------------------|----------|
| a. Increasing the population | <u>N</u> |
| b. Extracting natural resources | <u>N</u> |
| c. Land cleaning | <u>N</u> |
| 2. Altering natural defenses | <u>N</u> |
| 3. Foreclosing important uses | <u>N</u> |
| 4. Jeopardizing man or his works | <u>N</u> |
| 5. Other factors | <u>N</u> |

1/ The following symbols have been used:

- | | |
|----------------------------------------|---------------------------------------|
| N No environmental impact | U <u>Unknown</u> environmental impact |
| L <u>Little</u> environmental impact | + <u>Beneficial</u> impact |
| M <u>Moderate</u> environmental impact | - <u>Negative</u> impact |
| H <u>High</u> environmental impact | |

B.	<u>WATER QUALITY</u>	
1.	Physical state of water	N
2.	Chemical and biological states	N
3.	Ecological balance	N
4.	Other factors	N
C.	<u>ATMOSPHERIC</u>	
1.	Air additives	N
2.	Air pollution	N
3.	Noise pollution	N
4.	Other factors	N
D.	<u>NATURAL RESOURCES</u>	
1.	Diversion, altered use of water	N
2.	Irreversible, Inefficient commitments	N
3.	Other factors	N
E.	<u>CULTURAL</u>	
1.	Altering physical symbols	N
2.	Dilution of cultural traditions	N
3.	Other factors	N
F.	<u>SOCIOECONOMIC</u>	
1.	Changes in economic/employment patterns	N
2.	Changes in population	N
3.	Changes in cultural patterns	N
4.	Other factors	N
G.	<u>HEALTH</u>	
1.	Changing a natural environment	N
2.	Eliminating an ecosystem element	N
H.	<u>GENERAL</u>	
1.	International impacts	N
2.	Controversial impacts	N
3.	Larger program impacts	N
4.	Other factors	N
I.	<u>OTHER POSSIBLE IMPACTS</u> (Not listed above)	
1.	Municipal services	H +

IV. SUMMARY OF BENEFITS AND CONCLUSIONS

A number of positive results should occur from the implementation of the Project. Following are some of these benefits:

1. Benefits

In general the citizenry of El Salvador will receive a higher quality of life. Each community will become stronger and will be able to effectively identify important needs, utilization of management resources, and service delivery approaches to common municipal problems, such as sanitation, public lighting, water, street construction and maintenance, and cooperative municipal enterprises.

The municipal administration will be improved greatly and in this manner, break away from the half-century of operation under an increasingly centralized and paternalistic national government.

V. RECOMMENDATION FOR THRESHOLD DECISION

USAID/El Salvador finds that this project is not a major action which will have a significant effect on the human environment, and therefore is an action for which an Environmental Impact Statement or an Environmental Assessment will not be required. A negative determination is recommended.

Robin L. Gomez
Director
USAID/El Salvador

Date

Attachment C

PER CAPITA INCOME OF MUNICIPALITIES BY POPULATION

Population Size	Total No. Municipalities	1985 Total Population	Total Income 1986 (Colones)	Per Capita Income (Colones)
0 - 5,000	33	124,229	1,332,777	10.73
5,001 - 10,000	73	502,882	3,997,720	7.95
10,001 - 25,000	84	1,384,308	8,571,807	6.19
25,001 - 50,000	30	1,066,527	9,167,245	8.60
50,001 - 100,000	15	1,065,492	17,022,334	15.98
101,000 - 300,000	3	507,083	10,463,500	20.63
Over 300,000	1	462,652	40,573,000	87.70
Total	239*	5,103,173		

Smallest per capita income.

San Jose Guayabal, La Paz

3,324

13,678

0.24

Largest per capita income.

San Salvador

462,652

40,573,000

87.70

*Financial data was not available for 23 municipalities, which have a total population of 263,895.

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