

WASH Field Report No. 443

WATER AND SANITATION FOR HEALTH PROJECT

WASH

ASSISTANCE IN DEVELOPING A WATER AND SANITATION
POLICY FOR ECUADOR

prepared under WASH Task No. 517 for

USAID/Ecuador and
Ecuador's Under-Secretariat of Environmental Sanitation (SSA)

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ACRONYMS

BDE Banco del Estado - Ecuador [State Bank]

CAAM	Comisión Asesora Ambiental - Ecuador	[Environmental Advisory Commission]
CARE	CARE International	
CONADE	Consejo Nacional de Desarrollo -- Ecuador	[National Development Council]
ETAPA	Empresa de Teléfonos, Agua Potable y Alcantarillado de Cuenca -- Ecuador	[Telephone, Water and Sewerage Authority -- Cuenca]
FISE	Fondo de Inversión Social del Ecuador	[Ecuadorian Social Investment Fund]
FONASA	Fondo Nacional de Saneamiento Ambiental	[National Environmental Sanitation Fund]
IEOS	Instituto Ecuatoriano de Obras Sanitarias	[Ecuadorian Sanitary Works Institute]
INEN	Instituto Ecuatoriano de Normalización	[Ecuadorian Standards Institute]
INERHI	Instituto Ecuatoriano de Recursos Hidráulicos	[Ecuadorian Water Resources Institute]
MIDUVI	Ministerio de Desarrollo Urbano y Vivienda	[Ministry of Housing and Urban Development]
MSP	Ministerio de Salud Pública	[Ministry of Public Health]
RHUDO	Regional Housing and Urban Development Office -- USAID	
SSA	Subsecretaría de Saneamiento Ambiental	[Under-Secretariat of Environmental Sanitation]
USAID	United States Agency for International Development	

EXECUTIVE SUMMARY

This report is a summary of the work done by a Project WASH team of consultants who provided technical assistance to Ecuador's Under-Secretariat of Environmental Sanitation from March 2 through 22, 1994, under the auspices of USAID/Ecuador.

The purpose was to help the Under-Secretariat (SSA) prepare two workshop-seminars (one to be held in Cuenca; the other in Machala) to study and analyze the Proposal for National Water and Environmental Sanitation Policy.

The WASH consultants interviewed different public-sector authorities and officials and private-sector representatives in eight Ecuadorian provinces; wrote a report on the interview

findings; and identified key points, which were then used to define the seminar agendas.

The Cuenca workshop-seminar was held on March 14 & 15, 1994. Participants were divided into three work groups for three workshops: General Policy, Fiscal and Financial Policy and Institutional Organization. The Machala workshop was held on March 17-18, 1994. Two work groups participated in a single workshop on the proposed policy's main topics.

Three papers were given at the beginning of each workshop: "Current Status of the Water and Sanitation Subsector and Subsector Policy", by Rafael Rivadeneira L., Under-Secretary of Environmental Sanitation; "Fiscal and Financial Policy", by José Avila M., SSA Advisor; and "Subsector Institutional Organization", by Fabián Yáñez Cossío, SSA Advisor.

At the end of each workshop, the groups presented their conclusions in plenary sessions. Some presentations included individual participant comments. The conclusions and comments are attached to the Report draft. The participants were very cooperative and their work will enrich the proposed policy's content.

This report's recommendations for the Ministry of Housing and Urban Development, the Under-Secretariat of Environmental Sanitation, and USAID report are basically along the same lines as those offered after the first high-level workshop-seminar held in Quito on February 1 & 2, 1994.

Recommendations for the Ministry of Housing and Urban Development

- The Ministry of Housing and Urban Development should maintain and strengthen its leadership in the sector. Seminar work groups gave the Ministry a vote of confidence by concluding that it is doing an adequate, appropriate job.
- The Ministry should continue its efforts to have the Environmental Advisory Commission (CAAM) adopt the National Water and Environmental Sanitation Policy as a goal, as it defines the subsector's policy for ecology and the environment.

Recommendations for the Under-Secretariat of Environmental Sanitation

- Carefully analyze the Cuenca and Machala seminar-workshop findings, noting points of agreement and disagreement among participants regarding the proposal.
- Based on these points, revise and update the proposal, including positive aspects detected during the workshops.

- Promote work sessions with the sector's main entities to analyze the conclusions and agreements reached during the workshop-seminars and ensure the entities' participation in implementing National Water and Environmental Sanitation Policy. The analysis should pay special attention to conclusions on the State Bank's role and private-sector participation.
- Sponsor work sessions to clearly define IEOS' role during and after the transition period, based on the workshop-seminar conclusions.
- Follow the Quito workshop recommendation to design an action plan for the transition period, keeping the following specific characteristics of municipalities in mind: size; technical, administrative and economic capacity; water and sanitation service requirements; community organization needs; and other relevant issues, such as the need for technical assistance, training, institutional development, financial resources, etc.

Recommendations for USAID

- The three recommendations in the Quito workshop-seminar report are still applicable as proposed.

Based on opinions expressed during the Cuenca and Machala workshops and on comments made by interviewees, the following recommendation can be added:

- Technical assistance to the Under-Secretariat of Environmental Sanitation should include analysis of private-sector operation of water systems through municipal concession programs. This technical assistance effort should develop a method to analyze technical, administrative and economic capacities of private-sector companies who might be involved, and define terms of reference for concession of service operations to private enterprise (two weeks). The following should also be defined: goals, strategies, participants, a model proposal, a model concession contract, an operations plan, an activities timetable, and supervisory bodies.

Chapter 1

INTRODUCTION

Policies for providing water and sanitation services and the decisions and actions of the subsector's entities are guided by State modernization policy and the national government Development Agenda. Political, economic, social, environmental and technological issues are taken into account as national water and sanitation policy is formulated.

The policies focus on potable water and its direct relation to adequate liquid/solid waste disposal and treatment and to environmental control. Consequently, any water supply project will deal with sewage disposal and treatment and measures to maintain water quality and protect water sources. Collecting and evacuating rain water will be dealt with according to people's needs.

According to the 1990 National Census, water services are available to 61% of Ecuadorians, and sewerage service to 53%. Urban areas have more access to these services (78% and 70%, respectively), while rural communities have less (39% and 31%, respectively).

Few water systems offer a steady supply; the great majority do not meet the demand, due to lack of capacity.

Water quality is generally poor, due to defects in water treatment, distribution systems or individual home connections. Even worse, sewage is not treated, but dumped directly into waterways.

Technical, commercial and financial management is deficient, with few exceptions. Water is wasted; financial loss results from faulty metering, billing and collecting procedures; rates are low; and subsidies (both federal and municipal) are indiscriminate -- all of which are economic drawbacks for service operations.

Additionally, numerous public and several private entities that are involved in water and sanitation activities do not coordinate efforts with the Under-Secretariat. Many of them have other main goals.

In Ecuador, a significant number of rural and peri-urban communities have participated in constructing and managing their own basic water and sanitation systems. However, outreach activities (e.g., promotion, sanitation education and training) are sporadic, which limits their success.

Lack of watershed protection measures is a potentially serious problem; solutions offered in some master water projects are only partially or sporadically implemented, if at all. Lack of foresight has meant that several big and medium-sized cities' systems have suffered from a decreasing supply, and have needed to construct extensive aqueducts to bring water from afar, or ration water supply.

A few private organizations have taken measures to protect small watersheds in rural systems. These are examples to be emulated.

Funds are scattered among the many public entities (in addition to municipalities) that implement basic water and sanitation services, to be used in their operating budgets or for investment purposes. Only some of these funds are administered by the Under-Secretariat of Environmental Sanitation, through the National Fund for Basic Rural Sanitation. Other monies are transferred from the Fund for Sectional Development, with two objectives: to cover municipal

public-service operating deficits, and to complement investment monies (granted by the Fund for Municipal Investments and administered by the State Bank [BDE]) to expand municipal systems and those of other public entities.

Thus, a congruent model has not been established for costs (of operating services, recovering investments and centralizing services) to be distributed among national and local taxes, service rates, and improvement taxes -- such a model would have divided the burden fairly over time among current and future customers.

To encourage national government policies for basic water and sanitation service provision, the Ministry of Housing and Urban Development, through its Under-Secretariat of Environmental Sanitation, has elaborated the Proposal for Water and Environmental Sanitation Policy. This is an integral part of the process to modernize and decentralize public agencies involved in the sector.

1.1 Background Information

The first workshop-seminar (held in Quito on February 1 & 2, 1994) to present the Proposal for National Water and Sanitation Policy produced important findings. It also showed that the sector's restructuring process is just beginning and requires further analysis, with additional consultations. Therefore, the Under-Secretariat of Environmental Sanitation designed two more workshop-seminars, asking USAID for technical assistance and financial support.

A second workshop-seminar was held in Cuenca on March 14 & 15, 1994. Thirty-four participants attended, representing a number of different institutions.

The third workshop-seminar was held in Machala, with 32 participants, mostly municipal delegates and IEOS provincial directors.

The WASH consultants conducted interviews before the workshop, using a list supplied by the Under-Secretariat of Environmental Sanitation.

The interviews and the consultancy in general were programmed in a planning workshop.

1.2 Planning Workshop

Before the consultancy activities began, a planning workshop was held on March 2, 1994 to plan how to:

- Interview public servants (selected beforehand by the Under-Secretariat of Environmental Sanitation) on the Proposal for National Water and Environmental Sanitation Policy; promote analysis and discussion of the proposal;

determine how the interviewees perceived the proposal; and identify key points.

- Systematize interview findings to propose agendas for the Cuenca and Machala workshop-seminars.

The interviews were scheduled over the following week and a half.

Chapter 2

INTERVIEWS

With just a few schedule changes, almost all the interviews planned were conducted. Thirty-nine people (including government authorities, municipal officials and representatives from water companies, international and national NGOs, and private enterprise) were interviewed in the following provinces: Imbabura, Pichincha, Cotopaxi, Tungurahua, Azuay, El Oro and Guayas.

2.1 Methodology

In general, the consultants began by commenting on the contents of the Proposal for National Water and Environmental Sanitation Policy, and encouraging the interviewees to participate. Interviewees' comments, opinions and suggestions were later condensed in a document turned in to the Under-Secretariat of Environmental Sanitation, USAID and the workshop-seminar facilitator, Alfonso Palacios. The consultants and Mr. Palacios analyzed the document in detail and selected interview findings that could be agenda topics for the seminars, especially for the work groups.

During the seminars, an ongoing evaluation of the topics' impact value determined that they were pertinent, clear and interesting to the participants. Only one of the questions which were based on interview findings and formulated for group work was apparently not sufficiently concise.

Chapter 3

INTERVIEW FINDINGS

All interviews were conducted within a framework of collaborating and sharing. The WASH consultants presented different topics based on the national policy proposal and encouraged dialogue on the document, allowing the interviewees to share their experiences regarding the topics under analysis, and to freely express their ideas, suggestions, opinions, etc., with an eye to improving the seminar agendas and the policy document itself.

3.1 Comments

Even though many interviewees had not received a copy of the policy proposal, or had not studied it, comments made during the

interviews were valuable and can be grouped into the same three main components of the proposal:

- General Policy
- Fiscal and Financial Policy
- Institutional Organization

Based on this, the seminar-workshop agendas were set with topics of discussion to orient group work.

The interviewees agreed on several points, among which were:

- a) Broad-based support for decentralization
- b) The need for institutional-development mechanisms to adequately prepare municipalities, particularly small ones, to take over decentralized responsibilities.
- c) Cost recovery is essential. However, rate-setting should be carefully studied in the case of small communities with limited ability to pay.
- d) Sewer disposal problems should receive more attention in the national policy proposal.
- e) Private-sector participation is necessary at all stages: planning, operations, maintenance, administration, construction, and service provision by direct contract or concession.

Chapter 4

IDENTIFYING KEY AREAS FOR SEMINAR GROUP WORK

Based on the interview findings, key areas needing more analysis were identified as topics for group work during the workshop-seminars.

1. Decentralization
2. Institutional coordination
3. IEOS' role within national policy
4. Technical assistance to municipalities during the transition period
5. Environmental problems of pollution and environmental control
6. Recovery of investment, operational, and other costs

7. Urgent need to speed up financing procedures, especially in the BDE
8. Private-sector participation in implementing National Water and Environmental Sanitation Policy, through service concessions.

The seminar moderator and Under-Secretariat of Environmental Sanitation advisors helped to analyze these points, which were then used as the basis for setting group work discussion agendas.

Chapter 5

SECOND WORKSHOP-SEMINAR TO PRESENT THE PROPOSAL FOR NATIONAL WATER AND ENVIRONMENTAL SANITATION POLICY CUENCA, MARCH 14 & 15, 1994

5.1 Goal

To promote national government policies for water and sanitation service provision, the Ministry of Housing and Urban Development, through its Under-Secretariat of Environmental Sanitation, has elaborated a Proposal for National Water and Environmental Sanitation Policy. It is an integral part of the process to modernize and decentralize public entities involved in the sector and promote institution-building and rational use of financial resources to efficiently meet urban and rural communities' needs for adequate basic services.

The National Water and Environmental Sanitation Policy Proposal was presented during the second workshop-seminar designed for this purpose. It was held in Cuenca on March 14 & 15, 1994 for representatives of water companies, private enterprise, non-governmental organizations and IEOS provincial directors.

5.2 Workshop-Seminar

Three work groups were organized to analyze and comment on the proposal in three simultaneous workshops:

- | | |
|------------|-----------------------------|
| Workshop 1 | General Policy |
| Workshop 2 | Fiscal and Financial Policy |
| Workshop 3 | Institutional Organization |

Work group comments and opinions were presented in plenary sessions following the workshops. Some important conclusions are:

5.2.1 Political Issues

The work groups did not have uniform, convergent opinions. The following can be noted:

- Federal government institutions should provide leadership in the sector's policy and assume responsibilities in the following areas: planning (ongoing), coordination, institution-building, environmental protection, supervision, regulation, training and technical and administrative assistance.
- Subnational governments are responsible for implementing policy; local governments for operations and maintenance.
- Private-sector participation is fundamental at all stages. The private-sector should provide new research technologies, and could also operate and maintain systems.
- Only one group had an answer as to how to implement the process. Their opinion was that structure should be determined by the municipality's size.
- Functions should be separated: the national government should set standards and regulate/supervise; subnational government should handle financial aspects.

5.2.2 Economic Issues

Responses were less clear in this area. One opinion was that prices should be set before projects are implemented. Durability, continuity and evaluation of services were also identified as important economic issues.

5.2.3 Social Issues

The Ministry's role is appropriate, and IEOS' role should be to coordinate efforts, set standards, regulate/supervise, and provide technical assistance. Governments should take the initiative in institutional coordination efforts, which should respect other institutions' goals.

5.2.4 Environmental Protection Issues

Criteria are more uniform in this area: all development projects should include environmental protection studies; environmental protection and management policy for watersheds should be elaborated; forest laws should be obeyed.

5.2.5 Priorities

Priorities set in the proposal are appropriate. However, service rehabilitation should be added to section 1.b).

5.2.6 Municipal Issues

Policies proposed for municipalities are appropriate except the one indicating that rates would be set by city ordinance. An ordinance would make it difficult or impossible to obtain the services of private enterprise.

A concern expressed in this area is that investment recovery could be a permanent problem for projects in communities with medium or low ability to pay. Additionally, the opinion was expressed that CONADE should not approve budgets and that municipalities should be completely autonomous.

5.2.7 Fiscal Policy

All three groups agreed with the principles elaborated in the National Water and Environmental Sanitation Policy.

5.2.8 Credit Policy

There was consensus among all three groups that the State Bank (BDE) should not be the only source of credit, the only intermediary for loans, nor the only institution to handle funds. Solvent private enterprises and other national and international sources of credit should be considered in national policy.

Additionally, the BDE should have only credit-related functions and should hand over all technical activities to executing entities.

5.2.9 Investment Refinancing

Procedures should be transparent and handled expeditiously.

Policy for differential modernization rates is not made clear in the proposed national policy, and therefore needs to be clarified.

5.2.10 Subsector Organization

The proposal for standard-setting entities is appropriate.

The State Bank (BDE) is not the only regulatory entity for the subsector's financial matters.

IEOS should consolidate the sector, unify technical specifications for construction, and be in charge of training in general and inter-institutional coordination.

5.2.11 Private-Sector Participation

Private-sector participation in all project stages should be fostered and strengthened. Current bureaucratic obstacles should be eliminated to allow for effective private-institution participation in all areas, through direct contracts or service concessions.

5.2.12 IEOS Responsibilities

IEOS should provide technical-administrative and technical support for: project solutions; research into possible alternatives; and application of appropriate design and construction technologies.

Moreover, support for municipalities, especially small ones, should be increased.

5.2.13 Others

Activity areas should be defined for regional agencies, provincial councils, NGOs, the Ministry of Social Welfare, CARE and other organizations involved in the sector.

Chapter 6

THIRD WORKSHOP-SEMINAR TO PRESENT THE PROPOSAL FOR NATIONAL WATER AND ENVIRONMENTAL SANITATION POLICY MACHALA, MARCH 17 & 18, 1994

6.1 Goal

This workshop-seminar was held for town council presidents and members, mayors, BDE representatives and IEOS provincial directors and engineers, with the same overall goal as the Cuenca workshop-seminar

6.2 Workshop-Seminar

Workshop strategy for group work was a bit different. Two groups were organized, and both were assigned specific topics which they later presented in full-seminar sessions. The topics were:

Group 1: General Policy, Economic Issues, Social Issues

Group 2: Fiscal and Financial Policy, Institutional Organization

The WASH consultant's assistance during group work helped motivate the participants to make significant contributions. Among the groups' conclusions are:

6.2.1 General/Overall Policy and Political Issues

The sector's institutional roles must be clearly defined. Initially, IEOS should cover rural areas, while municipalities should be responsible for urban areas. In the future, municipalities should be fully responsible for all areas.

Regarding private-sector participation, municipalities should open the way for private initiative in rural areas as well, through direct contracts or concessions for basic water and sanitation services.

New laws must be made, or existing laws modified, to put the subsector's urban areas under municipal control and rural areas under IEOS control.

6.2.2 Economic Issues

Participants agree with the proposed national policy on service quality, quantity and costs.

6.2.3 Social Issues

IEOS should take the lead in subsector supervision of environmental sanitation; the Ministry of Housing and Urban development should coordinate governmental and non-governmental efforts in this area.

6.2.4 Priorities

No comment was made on the proposed priorities for loan concessions for pre-investment or investment projects.

6.2.6 Municipal Issues

Municipalities should move towards creating public enterprises to depoliticize management and decentralize efforts.

6.2.6 Fiscal Policy

Other foreign and municipal agencies should be allowed to invest; FONASA should not be the Ministry's only funding source for programming and implementation to develop the subsector. Mechanisms to protect the rural sector should be created to achieve better service coverage.

6.2.7 Credit Policy

The participants agreed with the proposed policy in this area.

6.2.8 Investment Refinancing

The participants also agreed with the proposed policy in this area.

6.2.9 Subsector Organization

The subsector consists of standard-setting, regulatory/supervisory, executing and finance entities. Coordination mechanisms should be established.

FISCAL AND FINANCIAL POLICY

A. General Aspects

This report summarizes steps taken to structure Ecuador's water and sanitation sector, formulate a clear policy and ensure better service in the future. In this spirit, it presents progress made in studies -- assessment, organizational analysis and pertinent recommendations -- which were achieved previous to this WASH technical assistance effort.

B. Formulation of Ecuador's National Policy

At Vice-President Albert Dahik's initiative, the National Development Council sponsored a work group to formulate a new National Water and Environmental Sanitation Policy. The work group consisted mainly of representatives from the Ministry of Finance, IEOS, the State Bank (BDE) and the Ecuadorian Municipalities Association (AME). Vice-President Dahik asked each participant to elaborate a policy document for discussion in terms of analysis, conclusions and recommendations regarding the Development Agenda.

Resulting from this initiative, the proposed policy presented by the Under-Secretariat of Environmental Sanitation should be a document open to discussion by all institutions involved in the sector. The intent is that criteria and viewpoints offered by representatives of the different entities will improve the document, within the framework of the overall State modernization policy.

C. Contributions and Criteria from the Workshops

1. Workshop No. 1 - General Subsector Policies

1.1 Political Issues

- Private-sector participation
- Democratic principles make private-sector participation in the subsector fundamental, at all stages: pre-investment; project design; system construction, operation and maintenance; and rate-billing by municipal concession contracts, etc.
- The private sector should participate through new research technologies. The role universities could play was emphasized.
- The document's treatment of private-sector initiative was criticized: while it states that private participation is desirable, the mention is brief, indicating doubt. It does not directly analyze or provide guidelines for private participation.

- Municipal and local governments should be classified as large, medium-sized and small, to determine organizational structure type and requirements for strengthening technical areas.
- There is consensus for the need to modernize the State General Comptroller's Office. Its role should be to orient management of public contracts to facilitate the process. There should be changes in its structure and capacity for delegation. It should be remembered that postponed opinions from the State General Comptroller's Office delay profits.

1.2 Economic Issues

- Rate policy should be clear, to encourage private-sector participation. Rates should not be set. Rules of play should be indicated before any project is begun, in order to attract mid- and long-term investment and capital.
- Application of appropriate rates is a factor in keeping any enterprise healthy. The importance of this cannot be over-emphasized. Rates should be free from political interference and applied by mechanisms that cannot be politically maneuvered. If rates are set by law or municipal ordinance, private initiative will not be able to participate.

2. Workshop No. 2 - Fiscal and Financial Policy

2.1 Priorities

- Order of priorities should be set by each institution.

The following recommendations were made:

- a) Institution-building: human development.
- b) Infrastructure projects: place high priority on projects that were begun but have been suspended, and on rehabilitating existing systems.
- c) Add that technical equipment is needed, not just for environmental control, but also for audit inspections and supervision.
- d) Another priority should be to analyze procurement of operation and maintenance equipment, to ensure the project's durability.

2.2 From Municipalities

- a) Are the proposed policies appropriate and viable?

- To achieve self-financing, rates should be set by municipal companies after cost analysis.
 - Doubts were expressed about setting rates by ordinance, as politics could become involved at any given time. Additionally, ordinances do not fit in with the concept of administration by concession.
 - To politicize municipalities will particularly affect rate-setting. Alternatively, the Municipal Regime Law, if it is applied with technical and financial autonomy, would provide an acceptable policy for rate-setting.
 - Some participants think that service should be provided even if self-financing is not achieved.
 - Participants also discussed the idea that industries' competitiveness and capacity to provide employment might be affected if they are burdened with very high rates. Additionally, since the cost of water affects their production costs, it would be passed on to consumers: in the long run, consumers would pay for any increases industry is charged for the cost of water.
- b) Consensus was that investment recovery is very difficult, something that not all projects will be able to achieve.
- Production cost recovery must be obligatory.
 - A study should be conducted to make investment cost recovery a possibility in the future.
 - CONADE should not approve municipal budgets; municipalities should be autonomous. At the same time, municipal companies should be restructured.
 - Some institutional problems could be solved with advisory assistance and training on public and business administration.
 - Community problems are caused by lack of training, insufficient coordination to attract community contributions, and low income levels that make state subsidies necessary.

2.3 Fiscal Policy

- a) Ministry of Finance/Social Development Fund
- b) National Environmental Sanitation Fund
- Participants agreed with the fiscal policy.
- There is some doubt as to how long FISE will last, as this institution was created by the current administration and

could disappear with the next. Therefore, it cannot be thought of as a permanent institution to handle funds.

2.4 Credit Policy

- Consensus was not achieved on the proposal that the State Bank (BDE) should be the only intermediary entity for foreign loans. Participants suggested that solvent private enterprises should be involved, and should deal with other national and international sources of credit.
- The State Bank should be an intermediary institution for financing, and should be the borrower only in loans to the federal government.
- The State Bank should only have credit-related functions; it should hand over all technical activities to executing entities.
- The State Bank should apply the same policy in all its operations. Any special consideration granted to a borrower should be through other governmental mechanisms.
- Participants asked for clarification of the policy for establishing differential modernization rates, as they generally found it to be unclear.
- Allocations are not transparent.
- Federal government's role is not clear.

2.5 Investment Refinancing

- Financing procedures should be transparent, and handled expeditiously.
- One group thought that loans should maintain their current value, plus a profit.

3. Workshop No. 3 - Organization of the Sector's Institutions

3.1 Organization of the Sector

- The proposal is adequate in terms of standard-setting entities. IEOS should train municipalities, the sector's executing entities.
- The State Bank should not be the only credit entity; there are other finance institutions.
- Technical construction specifications should be unified throughout the entire subsector, through IEOS.

- Municipalities should implement projects through private enterprise. A system of modules is recommended, as long as they are not too spread out.
- There are some municipalities and water companies with sufficient technical and operational capacity to handle external financing without going through the State Bank (BDE).

3.2 Private-Sector Participation

- The public sector should facilitate and attract private-sector interventions by eliminating unnecessary bureaucratic obstacles.

D. Conclusions and Recommendations

The topics of interest, identified through the interviews conducted by the WASH consultants, played a significant role in orienting the design of the different workshops. Many interviewees had not yet received the policy document or even the invitation to the seminar. Similarly, most were unaware of progress in discussions on the proposed policy held in the Vice-President's Office. They were very interested in being able to contribute their experiences in neutral territory, away from federal government offices.

1. General Conclusions

Fundamentally, the workshops provided the opportunity to exchange ideas and analyze the need for local governments to fully assume their responsibilities to their communities, as they are involved in a decentralization process that can no longer be delayed.

Consequently, the need for institutional training (geared toward human development) to face the challenge of this new type of administration met with the clearest consensus. Another fundamental achievement was the open admission that private initiative is "desirable", and that this attitudinal change should be clearly stated in the policy.

Participants lacked information on some topics (e.g., the new policy for the President's Office to coordinate environmental control efforts). Additionally, the legal framework for subnational governance is not clear to participants. Thus, for example, certain of the groups' opinions on State Bank (BDE) administrative management disregarded the State's financial role, which has been established by law.

Participants are not clear on requirements to obtain financing. Though it may seem that the obstacles come from the fact that the State Bank is the sector's only credit institution, this is not accurate. The fact that there are many finance entities was offered as a solution. This solution, however, ignores indispensable requirements for a bank or financial institution to

finance a project: the entity must qualify for a loan and the project must be financially and economically feasible.

Some financial issues that had been identified as topics for discussion (e.g., the need for management accountability, financial reports for administration purposes, transparency in public administration as a means of control, etc.) were not analyzed. Perhaps the topics were not really of interest in the area of public administration, perhaps participants are unaware of a financial system's scope and importance, or perhaps they are not accustomed to including this information in the decision-making process. Whatever the reason, a serious lack of financial understanding became apparent, as did the pressing need to strengthen this area for the organizations involved in the sector.

Even though rate-setting policy was seen as fundamental for a business to be financially healthy, there were no comments on the concepts of "transparency" or "accountability" so that consumers perceive the price/service transaction to be fair.

2. Recommendations

The Cuenca workshop conclusions are different from earlier ones. The points of disagreement identified at the Quito workshop served as a focus for the Ministry of Housing and Urban Development and the Under-Secretariat of Environmental Sanitation to coordinate, analyze and initiate a political process to resolve the differences. This was undertaken with the awareness that much political will would be needed in the transition period for each entity to do its part to rationalize the water and sanitation sector.

In the workshop under analysis here, the crucial point seems to be the need to fully face the challenge of institution-building for local government and entities so that they can assume their role in the decentralization process. Consequently, technical assistance, training and efforts to create a positive attitude toward change should be priorities.

The process involves large-scale financial and human investment. Each case should be carefully evaluated, with future profitability in mind. Analysis of human resources is therefore the first step.

USAID, which has been actively involved with IEOS through technical and financial assistance activities, should continue supporting the institution during the transition period (under two years) so it can assume its new role as the water and sanitation sector's standard-setting, regulatory entity. This was also recommended in the Quito seminar.

Similarly, in the local government decentralization process, technical assistance to one or two appropriate entities could serve as pilot projects to showcase institutional development and self-reliance.

Chapter 8

CONCLUSIONS AND RECOMMENDATIONS

8.1 General Conclusions

During the interview phase, the WASH consultants acted as intermediaries between the Ministry of Housing and Urban Development's Under-Secretariat of Environmental Sanitation and the institutions and agencies invited to participate in two workshop-seminars to study and analyze the Proposal for National Water and Environmental Sanitation Policy.

Overall, the interviewees reacted positively to the policy proposal; some regretted not having received it early enough to study and analyze it in detail in order to be better prepared to participate effectively in the seminars. They all shared comments, experiences and suggestions which the consultants summarized in a report on the interviews, and which were the basis for the seminar and group work agendas.

The WASH consultants facilitated the Cuenca and Machala seminars, answering participants' questions and clarifying technical concepts of the proposed national policy.

8.2 Specific Conclusions

The interviews and the Cuenca and Machala seminar findings both indicate agreement with a good portion of the National Water and Environmental Sanitation policy. Small differences in participant's points of view on these parts do not invalidate the final result. There are also some areas of disagreement. All the groups' conclusions were presented in a democratic spirit, respecting the participants' criteria and searching for solutions to improve the national policy proposal.

The most significant areas of agreement for policy were:

- Broad support for decentralizing water and sanitation service provision as an important element in the state modernization process. However, the process of turning over administrative and economic responsibility to the municipalities should be carefully planned, given their current status. The process should be accompanied by a complete program for training all municipal human resources and by appropriate institutional development, along with the necessary economic support. Decentralization should be gradual, over a sufficiently flexible transition period.
- During the transition period, IEOS should continue to be responsible for meeting service requirements in rural, sparsely-populated, poor areas. It should simultaneously encourage training to prepare municipalities take over these responsibilities.

- IEOS should be responsible for setting the sector's standards for supervision, training, technical assistance, and appropriate technology research for rural and peri-urban areas.
- While the State Bank (BDE) should have only finance responsibilities, and should cease all its current technical activities, it should not be the sector's only finance entity.
- To finance the subsector's development, it should be open to other internal and external finance sources, including private initiative.
- Service rates should cover administrative, operating and maintenance costs. Investment payback through rates should be carefully studied; these costs may need to be somehow subsidized in communities with limited capacity to pay.
- The private sector should participate in all aspects of planning, design, construction, operation, maintenance and management, in both rural and urban areas, through direct contracts or service concession.
- FISE should not be a long-term finance source, as it may disappear at the end of this administration's term.

Points of disagreement are:

- Whether or not municipal enterprises should be formed to operate water services and should also manage the sewerage system, solid/liquid wastes and environmental control, and possibly have other responsibilities. Some think this would create unnecessary bureaucracy with limited technical and economic results, while others think it would be a positive step for the sector's development.
- Whether or not municipal capacity is sufficient to service marginal rural sectors, without IEOS participation.
- Some participants and interviewees think financial-policy subsidy mechanisms need to be more transparent, and suggest a more careful analysis.
- Several interviewees and seminar participants think that the section on investment refinancing (pg. 10, #5 in the proposal) needs to be made more explicit and transparent.

8.3 Recommendations

8.3.1 For the Ministry of Housing and Urban Development

- The Ministry of Housing and Urban Development should maintain and strengthen its leadership in the sector. Seminar work groups gave the Ministry a vote of

confidence by concluding that it is doing an adequate, appropriate job.

- The Ministry should continue its efforts to have the Environmental Advisory Commission (CAAM) adopt the National Water and Environmental Sanitation Policy as a goal, as it defines the subsector's policy for ecology and the environment.

8.3.2 For the Under-Secretariat of Environmental Sanitation

- Carefully analyze the Cuenca and Machala seminar-workshop findings, noting points of agreement and disagreement among participants regarding the proposal.
- Based on these points, revise and update the proposal, including positive aspects detected during the workshops.
- Promote work sessions with the sector's main entities to analyze the conclusions and agreements reached during the workshop-seminars and ensure the entities' participation in implementing National Water and Environmental Sanitation Policy. Analysis should pay special attention to conclusions on the State Bank's role and private-sector participation.
- Sponsor work sessions to clearly define IEOS' role during and after the transition period, based on the workshop-seminar conclusions.
- Follow the Quito workshop recommendation to design an action plan for the transition period, keeping the following specific characteristics of municipalities in mind: size; technical, administrative and economic capacity; water and sanitation service requirements; community organization needs; and other relevant issues, such as the need for technical assistance, training, institutional development, financial resources, etc.

8.3.3 For USAID

- The three recommendations in the Quito workshop-seminar report are still applicable as proposed.

Based on opinions expressed during the Cuenca and Machala workshops and on comments made by interviewees, the following recommendation can be added:

- Technical assistance to the Under-Secretariat of Environmental Sanitation should include analysis of private-sector operation of water systems through concession programs from municipalities. This technical

assistance effort should develop a method to analyze technical, administrative and economic capacities of private-sector companies who might be involved, and define terms of reference for concession of service operations to private enterprise (two weeks).

The following should also be defined: goals, strategies, participants, a model proposal, a model concession contract, an operations plan, an activities timetable, and supervisory bodies.

- Similarly, given that Ecuador's municipalities differ in terms of organization, human and financial resources, projects currently being implemented or planned, economic capacity, type of revenues, and limitations for contracting and obtaining loans, etc., technical assistance is recommended to conduct economic, fiscal and organizational analyses of the municipalities (divided into 3 or 4 representative groups) and produce specific programs that could be implemented as part of the technical assistance for institution-building (two weeks).