

# **Case Study: El Salvador Post-Conflict Program in Democracy and Governance**

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# **1. Background and Project Scope**

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## **1.1 Introduction**

This case study was prepared for the Iraq Local Governance Project and the United States Agency for International Development (USAID).

This report summarizes progress achieved during RTI's implementation of the Municipal Development and Citizen Participation Project (MDCPP) in El Salvador following the 1992 Peace Accords that heralded a new era in the country's road to democratic governance.

## **1.2 Background**

The Peace Accords, which were signed in January 1992, marked the end of a 12-year civil war and the beginning of a unification process to build a society that grants equal opportunities for meaningful participation in the democratic process.

For a stable, lasting peace to take place in El Salvador, citizens had to develop greater confidence in the legitimacy and openness of the democratic system. At the same time, the government had to increase its responsiveness to citizens' needs. The keys to building this confidence were increasing citizens' participation in the government decision-making process and strengthening the government institutions that could respond effectively and efficiently to the needs of their constituents. To address these critical requirements, the government of El Salvador gradually moved toward a decentralization policy to develop more autonomous and participatory municipal governments.

The MDCPP (USAID Contract No. 519-0388) was approved for a six-year period on September 30, 1993. The specific purpose of this project was to enhance the participation of the Salvadoran population in the local democratic process and to improve the capacity of local governments to respond to constituents in selected municipalities.

The MDCPP carried forward the government's decentralization and municipal development efforts and consolidated them with various USAID efforts to sustain and institutionalize the benefits of municipal development.

## **1.3 Project Purpose and Components**

The MDCPP was designed to assist the government of El Salvador in strengthening municipalities through the post-conflict era by improving services through effective financial management and greater citizen participation in local governance. The key substantive areas

targeted in the MDCPP were municipal finance and management, citizen participation in local governance, and policy dialogue and reform, complemented by indigenous urban management training and technical assistance.

The MDCPP targeted actions that would:

- **Increase citizen participation**, especially in determining local priorities, setting the local agenda, and improving understanding of municipal governance.
- **Improve the revenue base of local governments** by providing technical assistance to increase own-source revenues, improving expenditure efficiency, and increasing the quality and coverage of municipal services.
- **Improve central-local fiscal transfers** by rationalizing and providing resources to supplement the scarce own-source revenue base.
- **Continue development of the institutional capacity of local governments** through the design, development, and delivery of training in administration, finance, and citizen participation.
- **Ensure adequate levels of investment in urban infrastructure** by capitalizing on the targets of opportunity that presented themselves throughout the life of the project.
- **Reform and formulate policy** by promoting dialogue on tax reforms, decentralization of services such as water and road maintenance enterprises, and transparency and accountability mechanisms at local levels.

## 2. Impact and Lessons Learned

The MDCPP was designed to influence policy reforms and develop local transformation processes relative to municipal strengthening and citizen participation, which were closely linked to the ongoing government policies. The project required and achieved broad collaboration with the pertinent El Salvador counterpart institutions, inter-institutional teams, working groups, and committees.

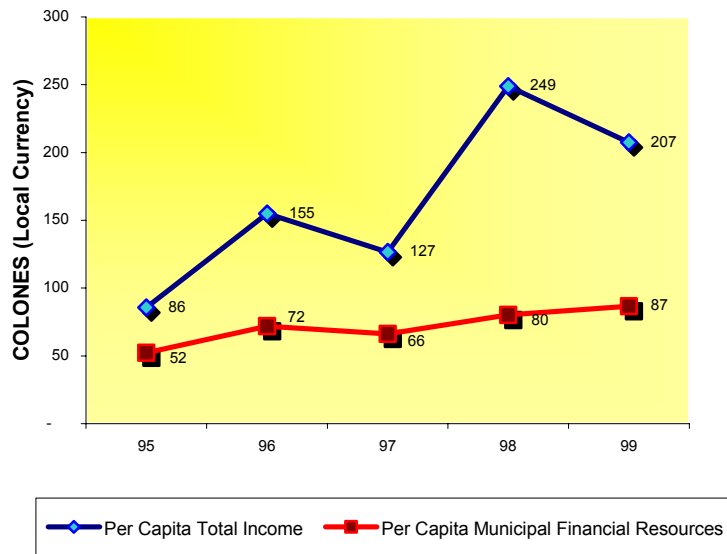
On the whole, the government has made some progress in its political agenda since 1992, when the key policy directions were established. This progress took time, due in part to consensus-building efforts. However, despite all of the policy development benefits achieved through the project's interventions, much remains to be done.

### 2.1 Impact of the Municipal Development and Citizen Participation Project

The MDCPP demonstrated the following seven key impacts:

- 1. Increased local resources for urban services.** The revenues of local governments increased by an average annual rate of over 30 percent in *real per capita terms* during the MDCPP.

This was the result of greatly increased local revenue collections, reductions in late payments, and increased grants from the central government. The MDCPP advisors assisted in the areas of local tax policy reform and grant allocation formulas for the Fondo de Desarrollo Económico y Social (FODES). The annual per capita growth is shown in the adjoining graph.



- 2. Increased decentralization of selected urban services.** Over the last few years of the MDCPP, the government of El Salvador made dramatic advances in giving local governments greater control over their spending decisions. First, pilot enterprises for water and solid waste were being devolved. Second, there was growing interest in creating micro-regional enterprises in services such as water and rural road maintenance. These activities are having an impact on

local economic development. Third, a greater share of central-local grants is being channeled directly to local governments through 6 percent FODES transfers<sup>1</sup> for local investments.

- 3. Increased involvement of the community in local governance.** The MDCPP supported the development and incorporation of the community in participating in local governance, identifying and developing a local agenda, and defining needs for local services. Mechanisms for participatory planning included budget hearings, radio talk shows, determination of local needs, and project identification. The participatory strategic planning process is being replicated nationwide and is a condition for financing and funding infrastructure projects.
- 4. Improved financial management of local governments.** The MDCPP played a leading role in developing financial management tools such as methodologies to complete cost analyses, update cadastres, handle collections, and issue municipal certificates. The project also supported the integration of financial management systems and supplied training for local governments. Other financial management tools that were implemented include an automated billing and collection system and a commercial accounting package for municipal services such as water and solid waste.
- 5. Improved training for urban managers.** The MDCPP team led the formulation and design of key training courses for top management of local governments and municipal enterprises. As a result of increased attention to the training deficits at the local level, local governments now take advantage of an array of training programs, including distance learning and university-based research and training.
- 6. Improved methods for infrastructure programming.** The MDCPP played a key technical design role in developing and pilot testing community participation methodologies for infrastructure programming, tailored for small and medium-sized cities.
- 7. Increased capacity for policy analysis and formulation.** The systems created by the MDCPP for national policy analysis are the project's legacy for future policy work in the sector.

## 2.2 Lessons Learned

### 2.2.1 Key Condition for Success: Commitment

The overriding lesson from the MDCPP is that successful implementation depends on the commitment of the national and local governments to the institutional political agendas.

The MDCPP was fortunate that the government of El Salvador and COMURES, the national association of municipalities, maintained a consistent goal of decentralization and community participation since the signing of the Peace Accords in 1992. Moreover, the key actors in the government's municipal arena have remained largely the same over the life of the MDCPP,

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<sup>1</sup> FODES intergovernmental transfers are designed to aid local economic development.

adding continuity and contributing to stable working relations in the sector. A further indicator of widespread commitment is the demand for project assistance in all 28 targeted municipalities.

### **2.2.2 Long-Term Commitment by Foreign Donors**

Technical assistance in the El Salvador municipal sector requires long-term support, because it involves major reform across several institutions and two different, geographically dispersed levels of government. USAID has demonstrated long-term commitment to work in the sector and a dedication to specific policy reforms.

### **2.2.3 Local Democratic Development and Citizen Participation**

Key lessons include:

- Change in individual, group, and institutional attitudes and patterns of behavior were a slow and lengthy process. It is relatively easy, from a technical point of view, to build a water system or to provide the mechanics of a garbage system. It is far more difficult to involve the community in prioritizing needs and in making key decisions leading to construction, to convince mayors and council members to charge full cost-recovery fees for the service, and, in general, to do all the things that lead to sustainable services and effective organizations.
- Mayors and other council members did not initially tend to want to further involve the community in key policy decisions. Most mayors had been involved in community participatory decisionmaking only to the extent of holding the *cabildos abiertos* (public hearings) mandated for the municipality to become eligible for Municipalities in Action (MEA) funds. Other transparency and accountability mechanisms (see Section 2.1) eventually convinced mayors that it was to their benefit to hold open budget hearings; to render accounts regarding the execution of the budget, its destination, and the use of the funds; to carry out radio talk shows; and generally to involve the community in determining local needs.

Several project contributions encouraged mayors and council members to further involve the community in municipal affairs:

- Cost analysis of services that provided solid information.
  - Overall financial analyses in an easy-to-understand format.
  - Analysis of benefits of the new mechanisms for participation and transparency that have been applied.
- The concept of a citizen advisory group<sup>2</sup> in general is now well received by Municipal Councils, although each council has its own approach to how quickly the process should move, and how open the council should be to input from citizens' groups. The advisory group needs to be organized around specific objectives to guarantee the motivation of the citizens involved, and to provide an opportunity for the council to see concrete benefits to working more closely with citizens.

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<sup>2</sup> This concept was new and therefore not a standard practice in El Salvador before the conflict.

## 2.2.4 Municipal Finance and Management

Key lessons learned from the project include:

- Mayors and council members initially did not tend to want to engage the community in dialogue regarding municipal finances. The outward communication of the municipal government to the community was more acceptable to the mayor and members of councils when they (and their key employees) better understood the issues and their own municipality's financial situation, which prepared them to engage in substantive dialogue with the citizenry.
- When members of city councils understand the costs of municipal services and the overall finances, they were more willing to set fees to recover costs.
- Most municipal services operated at substantial deficits. Mayors and council members were usually aware that the full cost was not being recovered in the delivery of services. However, they were usually surprised at the high levels of subsidy. This fact prompted a change of attitude.
- Own-source revenues have considerable potential for improvement, as such, and most of the municipalities were able to increase their own-source revenues by significant amounts. However, in lieu of additional tax reform and the rationalization of taxes, further increases would be marginal.
- Expenditure efficiency and cost savings, produced as a result of methodologies to determine the real cost of services, produced current account surpluses. These surpluses were instrumental in increasing municipal investment in maintenance and municipal infrastructure.
- The administrative measures of the cadastre, collection, and recovery of delinquent accounts would have been given limited attention in the collection of municipal income if reforms to the local taxes had not been implemented.
- Fully trained and experienced personnel are required within the municipality if the results are to be sustainable.

## 2.2.5 Enhanced Local Resource Mobilization

Local own-source revenues increased due to several types of technical assistance interventions. These interventions revamped and improved tax records and updated the tax rates and tax base. Although the results varied by municipality, there were significant increases across the board.

However, it also became apparent that some policy reform was urgently needed to broaden the taxing authority and revenue base for municipalities. Different options needed to be examined as municipalities in El Salvador have a very limited own-source revenue base.

To further improve the expenditure efficiency and effectiveness of services, the real priorities were to

- Introduce the multiyear planning, programming, and budgeting process and develop preparation guidelines, including design standards and unit-costing procedures. Require that

rehabilitation and replacement be shown separately from new facilities with projected budgets of maintenance activities. This was achieved.

- Formally support implementation of integrated financial management systems in municipalities. This was achieved.

### **2.2.6 Recovering the Cost of Services**

The project demonstrated that there was and is considerable potential for recovering the cost of services. This was achieved by developing a methodology to estimate the direct and indirect costs of providing a service and, in accordance with the present coverage, to determine different options to update the rates. Examples of cost-recovery were:

- The costs of the different municipal services were established and standards adopted for public lighting, urban street maintenance, water/wastewater treatment, and solid waste disposal. Revenues increased by over 22 percent.
- Efforts to reduce late payments and enforce fines for noncompliance resulted in a reduction of late payments and aging of receivables by 32 percent in the last year of the project.

In summary, several lessons were learned from the efforts to assist with management improvements at the local level are several. First, there are natural linkages among policy dialogue, technical assistance, and information activities and training outreach programs. USAID, through the MDCPP, has readily allowed its support to cross the lines among these linkages and has achieved a leadership role through its innovation and responsiveness. Second, the design of the MDCPP from the outset allowed the project to develop sector-wide initiatives that mobilized support and participation among multiple institutions at once. Third, the training and technical assistance in management have expanded the build-up of local professional expertise. This involvement will contribute to the long-term institutionalization of these efforts—a key objective for future sustainability.