

PPIAF Assistance in El Salvador

PPIAF provided support for the formalization of small-scale private infrastructure provision in El Salvador from 2002 to 2006 by analyzing the competitive advantages of small-scale infrastructure providers in rural and peri-urban areas. In addition, PPIAF supported an infrastructure strategy report for El Salvador that provided a diagnosis of El Salvador's infrastructure stock, and provided recommendations for the role of private sector participation in improving access to infrastructure.

Technical Assistance for El Salvador's Infrastructure Strategy Report

Beginning in the mid-1990s, El Salvador undertook an aggressive post-civil war reform program aimed at rebuilding its economy. In 1996 electricity sector liberalization began with the unbundling of the national utility and, in 1998, the privatization of distribution and generation assets, which led to investments of approximately \$850 million in the sector. Telecommunications reform from 1998 attracted over \$2.3 billion in private sector investment in the fixed-line and mobile markets, and prices dropped as new entrants increased sector competition.

Following the 2001 earthquake, the government of El Salvador relied heavily on private investors to rebuild key infrastructure. However, the government accepted that further reforms and investments were necessary in order for the country to achieve higher growth rates and expedite its poverty alleviation objectives. In particular, the government needed to urgently address shortfalls in the provision of basic social and logistics infrastructure within severe fiscal constraints. It was in this context that the government approached PPIAF in 2004 to request an Infrastructure Strategy Report designed to provide a comprehensive diagnostic of El Salvador's infrastructure that would cover the electricity, telecommunications, transport, and water and sanitation sectors.

The [Infrastructure Strategy Report](#) provided a diagnosis of the major infrastructure sectors in El Salvador, which led to recommendations on how to address the country's significant infrastructure challenges. The report found that the expansion in access to piped water and electricity that El Salvador enjoyed through the 1990s had stagnated, with zero or negative growth from 2001 to 2004. Access to piped water grew from 47% in 1995 to 60% in 2001 but fell to 58% by 2004, while access to electricity reached 87% in 2001 and was still the same in 2004. This slowing and decline of infrastructure expansion since 2001 corresponded with a sharp decline in infrastructure financing.

The report noted that the poorest 20% were unable to afford full cost recovery payments for basic services. However, while subsidies for electricity, water, and gas had cost between \$100 million and \$200 million annually from 2001 to 2006, their effectiveness was dubious, and data suggested that the poor were not the primary beneficiaries. Thus the report identified that El Salvador faced the challenge of: i) identifying resources to meet expansion needs and, for the very poorest, service provision support; and ii) assuring that the institutions responsible for infrastructure were able to facilitate expansion to the poor and operate their services efficiently.

In the water sector, the report found that the national utility had effectively bankrupted itself trying to serve over 80% of the country's connected households charging a tariff that did not cover operations and maintenance costs, let alone depreciation and capital costs. This had led to a cycle of serious underinvestment in sewerage, wastewater treatment, and storm drainage. The report recommended: i) the creation of a Presidential Commission on Water Sector Reform for consensus building among major stakeholders at the central, local and non-governmental level to discuss the design of a new water and sanitation utility structure; ii) the passing of a new comprehensive Water and Sanitation Law to properly assign the functions of service provision, policy formulation and regulation; iii) the establishment of a viable financial structure for the sector, based on fair and sustainable tariffs, leading to; iv) the potential for large-scale private participation in the operations and/or investment of the new company/companies.

In logistics infrastructure, the report found that despite the rehabilitation of its primary road network, the development of its international airport, and the reform of its primary cargo port, El Salvador's businesses

still found it expensive to produce and difficult to ship their output, explaining the flat performance of Salvadoran exports. The report made several recommendations, including: i) updating the Law on Highways and Minor Roads (Ley de Carreteras y Caminos Vecinales) to reflect modern principles for coordination, planning, construction and maintenance of highways and roads; ii) adopting of a new strategy for road development that identified and developed key logistics corridors through the development of an integrated infrastructure investment program; iii) formulation of an overall strategy for the ports sector to establish complementary roles for both Acajutla and the new port at La Unión.

Overall, the report found that El Salvador's total infrastructure investment stood at approximately 1.5% of GDP per year, insufficient to expand service, to raise the competitiveness of El Salvador's logistics backbone, or to break the cycle of low investment and low growth. In order to achieve universal coverage of electricity, water and sanitation, and telecommunications, as well as improve road conditions, El Salvador would have to commit to an annual investment in infrastructure of approximately 2.9% of GDP. The report suggested that the private sector could cover approximately half of this figure and recommended: i) a re-evaluation of subsidies and publicly provided infrastructure services; ii) an increase in tariffs for services to users; and 3) gains from operational efficiency by means of public-private partnerships.

A dissemination workshop was held to disseminate the results of the Infrastructure Strategy Report to key stakeholders. The workshop was attended by the entire government Cabinet and obtained coverage in the local media. The report was finalized in 2006. However, at the time of the activity's closing, political developments in the country led to significant political uncertainty that prevented immediate outcomes.

Results of PPIAF's Support for El Salvador Infrastructure Strategy Report

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • El Salvador Recent Economic Developments in Infrastructure— Strategy Report, October 10, 2006
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Dissemination workshop for Infrastructure Strategy Report, 2006

Technical Assistance for Small-Scale Private Infrastructure Provision in El Salvador

In 2001 constitutional changes in El Salvador facilitated private sector participation in infrastructure at the national level, while other legislation supported decentralization to empower municipalities in service provision. Meanwhile, in the metropolitan area of San Salvador, 20% of residents relied on Small-Scale Infrastructure Providers (SSIPs) for their water and sanitation supply, demonstrating that SSIPs were a key provider of municipal infrastructure services, particularly to poor urban and rural families, delivering service faster and more efficiently than public sector providers.

However, despite the importance of SSIPs to infrastructure provision, they did not figure as part of the country's urban development strategy. El Salvador's Social Investment Fund, known as FIS-DL, was the key government institution on local development issues, channeling national budget allocations and international financial institution loans to exclusively publicly owned infrastructure to support municipal development in the country. Since changes in the policy and legal frameworks had opened the door for private entrepreneurs to take a bigger role in providing infrastructure services, FIS-DL was keen to develop models for formally supporting private participation in infrastructure.

Thus in 2001 FIS-DL approached PPIAF to request support for the development of a replicable program for engaging SSIPs in the provision of municipal infrastructure (water, sanitation, and electrical energy),

particularly in low-income communities. The overall objective of the activity was to assist FIS-DL in designing and mounting a new line of business within its municipal development program under which it would assist municipalities to open entry to SSIPs for service provision, including helping them to establish appropriate regulatory frameworks, the capacity to regulate, and a transparent system for inviting the participation of SSIPs in service delivery.

El Salvador had one of the lowest water-coverage rates in the region; only 57% of the population had household connections, well below the regional average of 75%, while poor rural areas were almost completely unattended with coverage as low as 2–5%. Within this context, SSIPs had sprung up to fill in the gap in water provision. SSIPs had proved to be responsive to the needs of the poor by using cheaper technology, reducing service standards, and permitting flexible payment schemes, thereby filling a gap in service provision to underserved rural and peri-urban areas. The majority of these SSIPs were making a profit and creating jobs opportunities for the local population.

The report found that municipal governments could delegate parts of service provision to SSIPs while concentrating on other priority areas. To do so, the report recommended that municipal governments should treat these organizations as valid service providers by giving them legal status and property rights, and by supervising the quality of their services and bringing them under an appropriate regulatory umbrella. This recognized that there were areas in municipal service provision where SSIPs benefitted from competitive advantages over public service providers, particularly by serving marginal urban communities, and peri-urban and rural areas where service provision had small or negligible economies of scale, such as street-sweeping, primary collection of solid waste, and micro-metering by Water Service Associations.

However, the report also noted that SSIPs suffered from a lack of access to capital financing, and a number of SSIPs had benefitted from initial seed capital provided by a national or international donor, without whom none of them could have started their businesses. Thus, the report also developed a contractual template (services agreement with definition of risks allocations among participants) for FIS-DL and municipalities designed to provide a replicable model for FIS-DL to help finance private sector participation in the water and sanitation services through support to local SSIPs.

A final workshop was held to stimulate interest in expanding private sector participation in the provision of water and sanitation services. The workshop had the double purpose of discussing the findings of the study and promoting the notion of SSIPs in the provision of public services. Over 300 private sector representatives, mayors, municipal officials, and NGOs attended the workshop.

Given that SSIPs were one of the least studied private sector groups, policy makers, politicians, and municipal authorities were unaware of the potential role and advantages of SSIPs in municipal service provision. Thus in 2005 a second PPIAF grant was requested for the publication and dissemination of the final PPIAF report in order to contribute to the scarce body of knowledge about these providers, document experiences in El Salvador, raise awareness, and guide policy makers in Latin America on options to expand private sector involvement in infrastructure provision and in helping the poor gain access to improved services. PPIAF funds were used for editing, graphic design, translation, and printing services in support of the publication of the PPIAF-funded report. The report was disseminated widely to key stakeholders in El Salvador and Latin America. Following the initial print run, an additional 100 copies were printed to meet demand.

Although many of the PPIAF recommendations appear to have not been implemented yet, aspects of the PPIAF assistance have been reflected in support provided by the Inter-American Development Bank and the World Bank in 2008 and 2010, which both emphasized the importance of decentralization to improve infrastructure provision in rural and peri-urban areas.

In 2008 the Inter-American Development Bank provided a \$70 million loan to finance social and economic infrastructure in multiple municipalities in El Salvador, focused specifically on improving access to infrastructure among low-income households. The project strengthened the management capacities of local public and private infrastructure providers, and strengthened FIS-DL's capacity to manage financial

support to these actors. In 2010 the World Bank provided an \$80 million loan to promote investment in key basic services areas identified and prioritized by communities via a municipal participatory planning process for local development, and to strengthen local government’s public financial management and capacity to improve service delivery in the medium and long term.

Results of PPIAF’s Support for Small-Scale Private Infrastructure Provision in El Salvador

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> Competitive advantages and potential of small independent providers for the delivery of public services, 2004 The role of small-scale providers in providing and expanding water provision and solid waste collection services in peri-urban and rural areas, 2006
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> Dissemination and consensus building working to promote SSIPs in the provision of public services, 2004
<i>Knowledge products disseminated</i>	<ul style="list-style-type: none"> Providing and Expanding Water Provision and Solid Waste Collection Services in Peri-urban and Rural Areas—The Role of Small-Scale Providers—The Case of El Salvador within a Regional Context, 2006

Category	Outcomes
Capacity and awareness building	
<i>Technical capacity enhanced</i>	<ul style="list-style-type: none"> The publication “Providing and Expanding Water Provision and Solid Waste Collection Services in Peri-urban and Rural Areas” provides recommendations in support of the role of small independent solid waste collectors and water providers as a viable alternative for the provision of municipal services and how to incorporate these private providers in municipal services schemes in peri-urban and rural areas of Latin America, 2006