

MEMORANDUM FOR THE L.A. CAPITAL ASSISTANCE EXECUTIVE COMMITTEE

FROM: USAID/Bolivia

SUBJECT: Bolivia - IRR - Community Development Loan (Second Loan)

1. The Borrower

The Borrower will be the Government of Bolivia. The National Community Development Service (NCDS) of the Ministry of Agriculture and Campesino Affairs will administer the loan.

2. Amount of Loan

Not to exceed \$3.0 million. Of this amount \$2.1 million will be used to finance local currency costs of self help projects and \$0.9 million will be used to purchase goods and services from the U.S. and eligible LDC countries (Code 941).

3. Project Description

The loan will provide financing for an ongoing program which provides and upgrades community infrastructure facilities in rural areas. AID financing of this objective was begun with Loan 511-L-038. While the selection of individual projects will be based on community felt needs, it is presently estimated that the proposed loan should allow the NCDS to complete approximately 1,636 agricultural, 640 engineering, 139 education and 36 health projects. The CD Program provides the only practicable means for the GOB to respond to the development needs of the rural sector of Bolivia, where 3/4 of the population reside. A secondary objective of the loan is to continue the slow, but steady, pace of developing local institutions, such as village committees which provide a mechanism where the traditional self-help spirit of the Bolivian campesino can effectively operate.

4. Total Cost and Financial Plan

The total cost of the project activities is expected to be about \$6.8 million over the three-year period. The proposed AID loan will be for \$3.0 million. The local communities will provide about \$2.6 million divided into local voluntary labor (35%)\*, local materials (25%), cash contribution

\*This figure is based on NCDS' calculations of the number of local labor manhours per project and the local prevailing wage rate.

(32%), and miscellaneous (8%). The GOB contribution will be \$1.2 million in operating expenses, including the salaries of 111 central office employees, 415 field employees, and 44 training center officials.

Sources and Uses of Financing

	<u>Foreign Exchange</u>	<u>Local Currency</u>	<u>Total</u>
Proposed AID loan	\$0.9 million	\$2.1 million	\$3.0 million
GOB Contribution		\$1.2 million	\$1.2 million
Local Contribution	_____	<u>\$2.6 million</u>	<u>\$2.6 million</u>
	\$0.9 million	\$5.9 million	\$6.8 million

5. Alternative Source of Financing

- (a) The IBRD was not in the past interested in this type of loan, and subsequent discussions have confirmed their lack of interest.
- (b) The IDB has in the past made a small loan to support a colonization (re-settlement) program. During the Intensive Review, we will ascertain their interest in a coordinated approach to Community Development.
- (c) AID controlled local currency is not available at this time.
- (d) The UN, through the World Food Program, may be interested in contributing commodities to NCDS for food for work projects. (The UN already has an adviser in training volunteers.) During the Intensive Review, we will investigate this possibility.
- (e) To the best of our knowledge, no other international donor has any interest in this program.

6. Section 611.

No problem is anticipated in meeting the requirements of Section 611. Based on previous experience, the NCDS has estimated the project costs for the local currency component, principally for materials. The dollar costs which are given in detail in their 3-year plan are mostly for vehicles and machinery. No other construction, engineering or cost estimates are directly involved, and the other paragraphs of Section 611 do not apply.

7. Background

The rural population of Bolivia is handicapped by interrelated developmental programs: illiteracy, diversity of languages, primitive production

practices, inadequate educational systems, poor communication and transportation, poor sanitation and health, economic insecurity and traditional isolation. The rural per capita income has been estimated at less than \$50 per year. Complicating the problems of the rural areas has been continued political turmoil. Bolivian governments have attempted to satisfy the more pressing demands of the urban and/or mining interests before attacking rural problems.

The Revolution of 1952 found Bolivia characterized by a feudalistic system of land tenure, two cultural worlds composed of a Spanish-speaking minority and a traditionally oriented campesino majority, locked in a system of class and caste with social and economic immobility. Although the Agrarian Reform gave him his land in 1952, the campesino remains essentially outside the nation-building process in Bolivia. Integration of the campesino into the social and economic development of the country has been a stated objective of several Bolivian governments. However, politics and the extremely limited resources available, have worked against attainment of this objective. The first step toward encouraging the integration process was the establishment of an effective institutional structure and operational process. In early 1965, the National Community Development Service (NCDS) was set up to formulate a plan of action for a community development program based on the concept of self-help. The community development program was set up with two basic objectives: (1) the establishment of local representative government through the creation or strengthening of local institutions, and (2) the establishment of an institutional structure which will allow the rural communities to communicate their needs, aspirations, and available resources for development to the central government.

With respect to the institutional objectives, it should be noted that the nature of community organization in Bolivia varies widely from region to region and even between neighboring communities. A rural community may include any or all of the following: a sindicato (a type of farmer's union), a corregidor (a local dispute settler), a jilacata (a traditional leader), an official de registro civil (a community vital statistics registrar), a comité de auxilio escolar (a PTA). The degrees of activity and interest of each of these officials in the community may vary greatly. The Village Level Workers, therefore, have concentrated their efforts on forming local project committees which may or may not include the above-listed officials. The community's needs and desires are transmitted through the interaction between these project committees and the NCDS structure. (The loan paper will review in depth the relationships between the local organizations and the program).

In the mid-sixties the IDB, UN and AID began some limited efforts to assist the program. (The loan paper will review the past experience in this area). In July 1968, AID authorized Loan 511-L-038 for \$1.7 million for Agrarian Reform and Community Development. After a series of political and organizational difficulties were resolved, the Loan was signed in August 1970 for

\$915,000 for community development without the agrarian reform component. After some difficulties with meeting the Conditions Precedent, disbursements began in July, 1971 and loan funds should be exhausted by June 1972. Partially in response to USAID Audit Report No. 68-11, dated April 19, 1968, the NCDS has also strengthened its accounting, personnel and documentation procedures so as to carry out its responsibilities more effectively. The recommendations of that report have now been effectively implemented.

The program gained in effectiveness over the past 5 years and has rapidly gathered momentum with the disbursements of Loan 511-L-038. Over 900 projects have been completed at a total cost of over 19 million pesos, with about 6 million pesos provided by external assistance. The program is now the most effective Bolivian vehicle for directly assisting the campesino to promote his own economic and social development. Without this program, three-quarters of the Bolivian population would have received little or no direct attention from the Central Government.

### 8. The Loan in the Mission Program

The GOB and the Mission consider this a high priority program. One of the principal US objectives is to encourage economic growth in the hopes of contributing to increasing political stability in Bolivia. In predominantly agrarian Bolivia, the participation of the rural sector - the campesino - in the developmental process is essential to further substantial economic growth. In addition, it is a US objective to help Bolivia develop local and national institutions with the capability of training some of the human resources necessary for socio-economic development.

The Loan will help meet both these objectives by encouraging the campesino to help himself and slowly modernize his community with his government's help. The development of community committees which can organize and direct local projects is a step in the process of building local institutions. Continued AID support of NCDS, with its leadership and campesino training, reinforces the development of a Bolivian institution which responds to the representative needs of the rural majority. Over time, through socio-economic development aided by this CD process, the rural sector may assume a political role in Bolivia corresponding to its numerical strength.

The overall U.S. developmental strategy emphasizes agriculture and the private sector. The 3-year CD plan was coordinated with the Ministries of Agriculture, Planning and Finance and shifts program direction to concentrate on economic development activities, especially agriculture. The proposed loan thus clearly fits into U.S. strategy. (This decision represents a desire to downgrade slightly the past priority on rural schools and health posts and to increasingly emphasize infrastructure and agricultural projects leading to increased income in the rural areas.)

9. Impact of the Proposed Loan. The \$6.8 million CD program discussed herein will make an important contribution to Bolivia's development, but it can only begin to satisfy the massive needs of the rural sector. The GOB fully recognizes the long-term importance of this program. However, political pressures and heavy demands for basic services from urban areas preclude the GOB from using more of its scarce resources in the widely dispersed rural communities. Through CD, however, GOB Ministries are required to focus attention on the rural areas. For example, a CD school project is initiated only when the Ministry of Education formally agrees to provide a teacher for that school. The Ministry usually follows through on their commitment.

This proposed loan should allow NCDS to complete approximately 1,636 agricultural, 640 engineering, 139 education and 36 health projects, in addition to innumerable training and technical assistance efforts. The establishment of sector priorities conforms with the revised priorities described above. The selection of individual community projects will continue to be based upon the community felt needs. However, in areas where the pattern of local organization and self-help has been established, NCDS personnel will work closely with the community to identify projects (e.g. irrigation, feeder roads, bridges) which will result in increased production and higher personal income.

10. Issue: Program Funding. Because of their own fiscal limitations, the GOB at this time is unable to contribute any more to the program than the administrative expenses which they currently provide. The communities, through cash, commodity and labor contributions, will continue to provide the bulk of the local costs. This procedure is in effect, a self-tax. Rather than channelling their limited cash resources, through the Central Government at a high inefficiency cost, the rural sector pays directly for those projects it deems necessary. While an attempt will be made to gradually increase the percentage of local contribution, including the GOB share, great expectations should not be encouraged.

In the short run, three-five years, there is a continuing need for external assistance to support this program. In accordance with general AID policy and the previous experience of this program, an attempt must be made in the intensive review to interest other donors, particularly the UN and IDB, in this program. In the long run, external assistance must be phased out as the GOB's fiscal situation improves.

11. Issue: Administrative Capability: By Bolivian standards the NCDS has developed a reasonable effective administrative apparatus. Earlier administrative difficulties which delayed initial disbursement of Loan 511-L-038 have been overcome. However, the Intensive Review will carefully look at the present administrative structure, concentrating on document flow, fiscal accounting system and personnel policy. (A pending AAG report which points out certain administrative problems, such as purchasing, will

be used as a basis for the investigation). The recent program evaluation pointed out a bottleneck in document processing. This could possibly be controlled by the basic electronic data processing capability which exists in La Paz. The fiscal accounting system now appears to be in good shape, but quarterly audit reports will be continued to assure proper accountability. Personnel policies have improved, but there is a continuing need to diminish politically influenced decisions in this agency.

12. Issue: Organizational Structure. The NCDS has recently adopted a new structure which is purported to be more effective and responsive to project needs. The Intensive Review should confirm the appropriateness of this new structure. In addition, the recent evaluation suggested the desirability of transferring the Program Auxiliar Rural de Rehabilitaciones (PARR) (which is responsible for emergency rural programs) to the NCDS. The Intensive Review should investigate the feasibility of that transfer.

13. Intensive Review. Intensive review will be carried out by the USAID/Bolivia staff with help from LA/DR, if available. The review should take approximately three months. Particular attention will be given to the issues raised above and those raised in the AID/W evaluation report.

#### Loan Committee

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#### Clearances:

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