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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

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AID-ILC/P-952

February 23, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Paraguay: Municipal Development Project

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,000,000 to the Government of Paraguay to be implemented by the Instituto de Desarrollo Municipal (IDM) to establish a fund to assist in financing the United States Dollar and local currency costs of equipment, material and services necessary to provide financial and technical assistance to municipalities throughout Paraguay.

Please advise us as early as possible but in no event later than close of business on Thursday, March 4, 1971, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:

Summary and Recommendations  
Project Analysis  
ANNEXES I-V

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PARAGUAY  
MUNICIPAL DEVELOPMENT  
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PARAGUAY - MUNICIPAL DEVELOPMENT

## PART I

SUMMARY AND RECOMMENDATIONS

1. BORROWER: The Borrower will be the Government of Paraguay which will create the Institute de Desarrollo Municipal (IDM).
2. LOAN: Not to exceed \$2,000,000 on concessional terms: repayable within forty (40) years including a ten (10) year grace period with an interest rate of two (2) per cent annum during the grace period and three (3) per cent annum thereafter.

3. COST OF THE PROJECT:

AID	\$2,000,000
GOP	<u>\$ 560,000</u>

Total \$2,560,000

4. PROJECT: The Project proposed for AID financing consists of the creation of a municipal institution capable of providing financing and technical assistance to the 156 municipalities throughout Paraguay. The loan will assist in the establishment of the Project by providing (a) up to \$1,550,000 for relending to municipalities, and (b) up to \$450,000 for training and technical assistance to IDM and the municipalities. The loan will be utilized for small public work projects such as municipal markets and slaughter houses, bus terminals, sanitary facilities, feeder road construction, small-scale electrification, irrigation and potable water systems.

A concessional loan is needed because neither the GOP nor the municipalities are able to raise sufficient revenues for these types of public works projects. This \$2.0 million loan will firmly establish IDM as a permanent institution and one that will be able to make long-range plans for the development of the rural Paraguayan communities. The amount of funds will be sufficient to permit IDM to operate as according to the principles outlined in this paper.

5. PURPOSE: The purpose of the project is to assist municipalities other than Asuncion to begin to develop infrastructure and a framework for self-sustaining growth. This will be accomplished by the creation of IDM which will administer a fund to aid rural communities and municipalities. IDM will make financing available in the form of subloans on a project by project basis and

will provide training and technical assistance. The urban areas in the interior of Paraguay will benefit from the Project.

6. FINANCIAL PLAN:

	<u>AID LOAN</u>		<u>GOP COUNTERPART</u>
	<u>Dollar Costs</u>	<u>Local Costs</u>	
Relending Capital	\$550,000	\$1,000,000	\$350,000
Operating Costs			160,000
Equipment			50,000
Technical Assistance and Training	375,000	75,000	
	\$925,000	\$1,075,000	\$560,000

7. OTHER SOURCES OF FUNDS: The nature of the Project precludes its financing by the Export-Import Bank. The IDB and IBRD have informed AID that they are not interested in financing the Project.
8. STATUTORY CRITERIA: All statutory criteria have been met. See Annex III.
9. VIEWS OF COUNTRY TEAM: The Country Team recommends that this Project be authorized. This project will fit the over-all aims of the AID effort to assist in the development of Paraguay. The IRR for this loan was approved by the CAEC on October 20, 1969. See Annex I-B.
10. RECOMMENDATIONS: On the basis of the conclusions of the Capital Assistance Committee that the Project is technically, economically and financially justified, it is recommended that a loan to the Instituto de Desarrollo Municipal for an amount not to exceed \$2,000,000 be authorized subject to the following terms and conditions:
- a. Interest and Repayment Terms. The Borrower shall repay the loan to AID in U.S. dollars within forty (40) years from the date of first disbursement under the loan, including a grace period not to exceed ten (10) years. The Borrower

shall pay to AID in U.S. dollars on the disbursed balance of the loan interest of two (2) percent per annum during the grace period and three (3) percent per annum thereafter.

b. Other Terms and Conditions.

1) Prior to the initial disbursement under the loan the Borrower must execute a contract with an organization or individuals acceptable to AID to provide technical assistance for the Project.

2) Prior to any disbursements for other than technical assistance the GOP must have:

i) Provided IDM with at least the equivalent of \$100,000 of permanent capital.

ii) Budgeted the funds necessary to meet IDM's operating costs during the first year.

3) Further disbursements of the loan for relending by IDM will depend on:

i) The GOP making its contribution of at least the equivalent of \$300,000 to IDM's permanent capital within a three year period.

ii) The continuation of adequate budgetary support by the GOP for IDM's operating costs.

11. CAPITAL ASSISTANCE COMMITTEE:

Michael A. Bander, Capital Development Officer: Chairman  
Julio Cesar Basualdo, Assistant to Capital Development Officer  
Edward T. Costello, Program Economist  
William B. Flaherty, Public Administration Officer  
Luis Gines Talavera, Public Administration Officer (Assistant)

Drafted by: Messrs. Cody, Bander, Costello Basualdo and Talavera

February 23, 1971

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## PART II

THE PROJECTA. PROJECT BACKGROUND1. Development of Local Government in Paraguay

Municipal government in Paraguay started with the foundation of the City of Asuncion in 1537. The political, administrative, judiciary and military functions of Paraguay were performed by the Gobernador, the appointed representative of the Spanish Crown.

This Gobernador had the right to appoint as his representative in cities and villages a public official known as the Teniente, who was in charge of local government affairs. Legislative power rested with the Cabildo, a type of city council. The Gobernador was the President of the Cabildo. Two members were the ordinary Mayors elected popularly every year on the first day of January. Other Regidores - city councilmen - were also members of the Cabildo. They also had specific governmental duties. For example, the Alguacil Mayor was in charge of the police force and jail as well as carrying out judicial orders. The Cabildo also appointed auxiliary public officials to govern the city.

This system of government lasted for 245 years until 1782 when the Regimen de las Intendencias was created by the Central Government in Spain. In Paraguay, the Intendencia has the same boundaries as the old Province of Paraguay. The Intendente was the central authority and lived in Asuncion. He appointed Sub-Delegados in villages and main regions to take care of regional government affairs.

The last Gobernador-Intendente was overthrown in May 1811 when Paraguay gained independence. The old Cabildo was replaced by a Congress consisting exclusively of Paraguayan citizens as the main governing body. The Cabildo was maintained to govern Asuncion but its duties were then made more specific. The Cabildo system is the forefather of Government in Paraguay. The Cabildo was the center of the community government. After independence, the various Paraguayan governments followed the earlier colonial form - the Cabildo - of governing the cities and towns.

In 1927, the Government enacted Paraguay's first modern legislation dealing with local government. Today the municipalities are governed by Law 222 enacted in 1954. This legislation encompasses the entire sphere of municipal activity. It gives the central

government, through the Ministry of Interior, primary responsibility for the administration of local government. Practice, if not Law 222 itself, has made the municipalities dependent on the central government.

In 1964, Organizacion Paraguaya de Cooperacion Inter-municipal (OPACI) was organized to promote cooperation between the municipalities. This organization has become the main lobbying force for additional financial support for the municipalities from the central government. Since OPACI is itself without funds, it operates in a limited sphere. However, it has organized a series of seminars on municipal administration and organization during the past five years and has been the force behind the central government's acceptance of the idea of an institute for municipal development.

## 2. The Structure of Local Government in Paraguay 1/

In order to be classified as a municipality, a community must have a population of not less than 3,000 inhabitants and have sufficient financial capacity to generate funds for municipal expenses. Presently there are 156 municipalities in Paraguay which are divided into two categories depending on the size of population. New municipalities can be created by the Congress.

Thirty-seven larger municipalities are classified as first-category ones. These are administered by a popularly elected Junta Municipal and an Intendente who is appointed by the Executive Power.

The Intendente is the chief of the executive department of the municipality. He has responsibility for the administration of the municipality, including the policies and regulations established by the Junta Municipal. He can veto any action of the Junta Municipal. Moreover, he is the central government's representative at the local level. Since he is appointed by the President, he represents the municipality in all matters with the Executive Power. His relations with the Ministry of Interior are of extreme importance to the development of the municipality. In most cases, the development of a larger municipality is a reflection of the abilities of its Intendente.

The smaller 119 municipalities come under the second category. They are governed by a popularly elected Junta Municipal

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1/ Asuncion, the capital of Paraguay and its largest city, for purposes of this paper is not considered. Asuncion will not participate in the Project discussed herein except to a limited extent in the training aspects.

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but the President of the Junta has the responsibility of the first category towns Intendentes. Also, first category municipalities have a larger junta. The Junta Municipal is the governing body of the municipality it serves. It establishes policy with regard to the various governmental functions including municipal taxes, public works, health, education and social services. In practice, nearly all the leadership in these matters comes from the central government rather than the municipalities. It is the central government which for the most part builds the public works and provides education and health facilities. Nearly all decisions - including all tax decisions - must be approved by the Ministry of Interior.

Each municipality is in a department of which there are 16 in Paraguay. The administrator of the department is the Delegado who is appointed by the Executive Power. He exercises no power over the municipalities within his department, but acts as a liaison between the central government and the communities.

The Ministry of Interior, through the Office of Directorate of Municipalities, controls the activities of each municipality. The Ministry, with its limited budget, is unable to give the municipalities any financial support, but its inspectors attempt to see that the national municipal law is followed.

### 3. Financing of Local Government

Traditionally, the municipalities have received little financial support from the central government. The GOP is required by law to return to each municipality 30% of the Impuesto Inmobiliario collected in that municipality. However, in practice, the GOP policy is to return no more than 16% of this impuesto. Generally, because of poor tax collection, this is a meager amount in relation to the total budget of each municipality. Often in the past when the GOP has had financial difficulties it did not distribute any of this supposed regular source of income to the municipalities. Even in the best of times, municipalities out of favor with the central government are denied their share of this tax.

The main source of revenue for the municipalities is local taxes. The bulk of these taxes is raised from patentes on commercial activities, and vehicles. For a more detailed breakdown on the sources of municipal revenue see page 17.

ing adequate sources of revenue is complicated by the fact that the municipalities are poor tax collectors. Their poor record of tax collection is due to poor administration and outmoded tax structures which are in urgent need of reform. This weakness is compounded by the lack of trained municipal officials and employees and lack of a proper tax collection system. At present there is no major training program to improve municipal administration or tax collection. In recognition of the problems, OPACI, in conjunction with the In-Service Training Center of the National University and USAID, offers an annual program of week-end seminars which attempt to focus on municipal problems. These seminars only constitute a small beginning in solving the large administrative problems of Paraguayan municipalities.

Most of the financial resources of the municipalities are used to pay the salaries and personal expenses of the local officials. There are virtually no revenues for investments in municipal improvements. Any improvements are necessarily spread over a long period because of antiquated methods of planning financial needs and anticipated revenue. The planning process is basically the yearly budget submission which is at best a rough estimate of expected funds. Each municipality must submit its yearly budget to the Ministry of Interior. The municipalities, however, receive no help from the central government in putting together their respective budgets. The municipalities are forgotten entities in the planning process.

#### 4. Basic Deficiencies in Local Government

The development of strong local government is hampered by many factors, but the two most obvious deficiencies are the lack of trained manpower and inadequate financial resources. The lack of trained personnel is at the heart of the deficiencies of the municipalities. The municipalities are administered by officials who have received little training in the art of municipal government. These officials, for example, have little understanding of tax collection or administration, budgeting, and planning. With the exception of an occasional seminar offered by OPACI and the In-Service Training Center, there is no training of municipal officials. The desire of these officials to receive instruction in these matters is reflected in the high attendance at the OPACI seminars. However, these seminars are organized with meager funds and do not provide any continuity of training. The limited training program only illustrates the pressing need for a well planned training program for municipal officials.

The lack of financial resources can be traced to two traditional factors: (1) GOP history of concentrating revenues in Asuncion and (2) limited capacity of municipalities to utilize the small taxing power that they possess. There is little concept of sharing resources between the central government and the municipalities. Thus, nearly all monies raised by the central government are spent in Asuncion. On the other hand, the municipalities lack sufficient know-how to utilize their independent taxing power. While municipalities are handicapped by the lack of industry and business activity, they are more often stymied because of inadequate tax records or failure to initiate a rational method of collection.

Generally all Paraguayan municipalities suffer from weak internal administration. This can be traced to the fact that the municipalities must look to the central government for approval of nearly every activity that is undertaken. The role of central government, on paper, appears to be moderate, but in practice the central government, through the Ministry of Interior, controls municipal activity. This tends to weaken the internal administration of the municipalities. The lack of strong leadership from the central government to support the rural municipalities financially also has hurt the development of stronger municipal administration.

##### 5. Assistance Available to Paraguayan Municipalities

Although municipalities have taxing authority, it is generally used only to support the salaries of its elected and appointed officials and other imperative items. See Annex II-J for Representative Budgets of Municipalities. Municipalities have practically no financial resources for development. The limited funds allocated to them by the central government are generally inadequate for any type of development project. The smaller municipalities are without hope of receiving support from the central government unless they have some strong political connection. The limited assistance that is made available is given sporadically and without any planning.

As a result, the rural municipalities have remained virtually stagnant. They can barely meet their minimum needs. Important public works such as health centers, primary schools, markets, and roads are neglected in all but a few of the larger municipalities. In a few rare instances the Central Bank has made a loan to a larger municipality for some public work. Since 1964 there have been 16 such loans. The amount of these loans has averaged less than \$2,000,000 (\$16,000) and they have been for short periods. Generally, these loans have been used to pave city streets, to light streets and to improve markets.

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OPACI has attempted to assist the municipalities obtain development assistance. It has sponsored the idea of inter-municipal cooperatives. These cooperatives are the joint efforts of municipalities which are located near each other to purchase equipment and materials for the development and maintenance of earth roads. For example, in 1963 the first such cooperative was organized in the town of Eusebio Ayala (pop. 15,000). The cooperative constructed more than 200 kilometers of terraced roads linking all the communities in the area together. However, due to the lack of financial resources and management, as well as the varying sizes of the municipalities, the cooperative idea can only be applied in limited instances.

Some municipalities receive assistance from the Civil Action Program of the Army. This assistance generally consists of constructing, opening and maintaining roads and occasionally giving medical aid. The USAID Mission, through its Special Development Activity Project, has helped a number of small communities with funds, materials, and technical assistance to improve existing facilities. Peace Corps volunteers have been active in giving assistance to some of the smaller municipalities.

In summary, the municipalities have limited, if any, opportunities to receive development assistance. The central government has no program to render such assistance. The rural municipalities are remaining stagnant because needed public work projects are beyond the hope and the means of those living there.

## 6. Genesis of the Project

The problems of the municipalities have been foremost in the minds of the leaders of OPACI and those responsible for municipalities in the Ministry of Interior. The problems are not being solved because of inadequate financial support and technical ability. The most serious shortcoming is that there is no place the municipalities can obtain long term credit for public works projects.

In 1968 a group of Paraguayans made a tour of Central America to see how the problems of municipalities were being attacked in those countries. As a result of the tour OPACI, with the support of the Minister of Interior, began planning for a municipal development institution. These preliminary plans were forwarded to the President of Paraguay and received his support.

OPACI wanted to establish an institution which could provide financial and technical assistance to the municipalities in the interior of the country. The leaders of OPACI came to AID for assistance in developing the idea. USAID/Paraguay arranged for Albion Patterson and Arnoldo Johnston, two experts in community development, to work with OPACI, the In-Service Training Center and the Ministry of Interior.

After working closely with AID technicians and these consultants, those Paraguayan groups decided to create a lending institution with a strong technical assistance arm. With the help of Patterson and Johnston, draft legislation creating IDM was prepared.

## B. PROJECT DESCRIPTION

### 1. Summary

The Project will assist in the creation of the Institution de Desarrollo Municipal (IDM), an autonomous institution whose board of directors will include representatives of the GOP and the 156 municipalities of Paraguay. IDM will provide long-term, low-interest loans to municipalities and establish a program of research, education, and technical assistance in municipal administration, taxation, personnel management, public works construction and administration, purchasing, etc.

Up to \$2,000,000 of AID funds will be used to assist in the initial capitalization (\$1,550,000) and the required technical assistance and equipment (\$450,000) to establish IDM.

The GOP will provide IDM, over a four year period, initial capitalization of the equivalent of \$400,000 to be disbursed on a 5-1 basis paripassu with AID loan funds. Additionally, the GOP will assure IDM adequate contributions over a four year period will be \$560,000.

The GOP will provide IDM with its annual operating expenses. These funds will come from the portion of the Impuesto Inmobiliario that is currently being returned to the municipalities. Presently the GOP is obligated to return to each municipality 30% of the real estate taxes collected in that municipality. However, in practice the GOP, at best, returns to each municipality 16% of these collections. Since the GOP is often unwilling to make this source of revenue available to the municipalities because its officials feel that the monies are not properly used,

the GOP has decided to make these funds available to IDM. The responsible officials in the Ministry of Finance believe that with IDM's mobilization of interest in municipal development and the improvement in tax administration and collection, the GOP will be able to return to each municipality the 14% (remaining portion of 30%) that it is presently neglecting.

Seventy-five percent of the AID funds will be relent to municipalities. The Municipality of Asuncion will not participate in the relending part of the Project. At least 60 percent of the AID funds will be used in the larger municipalities outside the greater Asuncion area because of their importance with respect to growing population, government services, increasing public and private investment, roads, and significance as marketing centers.

IDM will provide technical assistance and training to the municipalities. The emphasis of IDM's training function will be to improve municipal administration and tax collection. Improvement in these vital areas will greatly help the municipalities take a larger role in their own development.

To assure that IDM can perform the mission set for it, the loan will finance technical experts who will work with IDM's staff. While the majority of the assistance will be staggered over the four year implementation period, there will be at least one expert permanently working with IDM. The technical assistance will include funds for participant training.

## 2. Role of the Project

The basic goal of IDM will be to promote the development of the cities and towns in the interior of Paraguay. These cities and towns are located in the rural areas. Rural life revolves around the municipalities of the interior which are the centers of government, commerce, and education and health services. The loan funds, whether they are used for relending or technical assistance, will be used to establish a viable agency to aid municipal development.

There is a need for long-term, low-interest credit to finance productive public investment at the municipal level. At present there is virtually no such credit available for the municipalities. The limited credit made available by the Central Bank has proven inadequate to promote development of the interior municipalities. From time to time the larger municipalities may have recourse to this source of credit. Loans by the Central Bank are granted more for political considerations than for development. It is only the larger municipalities, with an Intendente selected by

the President, that have ready access to this possible source of credit.

Presently municipal public work projects are for the most part funded either through special legislation at the central government level or with the limited funds available annually from municipal revenues in excess of current operating expenditures. Special legislation (i.e. pork barrel) can only be obtained by a few favored municipalities. In 1969 only one municipality received funds as a result of special legislation.

It is considered difficult, if not impossible, for a municipality to finance a public work project from its surplus operating revenue. For example, if a municipality undertakes a public work project, the construction will generally take several years to complete. Yet the municipality can not project what funds will be available in future years. Thus, there presently exists no satisfactory mechanism for financing public work programs at the municipal level.

In addition, the municipalities are receiving little technical assistance. High attendance at OPACI sponsored seminars on municipal administration indicated municipal interest. The Ministry of Interior has limited funds for assistance and depends on OPACI, which has no funds for such things, to sponsor these annual seminars. The USAID Mission has helped OPACI organize the seminars and has provided lecturers from the Public Administration Office. USAID/Paraguay is now cooperating with the Ministry of Interior to have OPACI receive some budget support from PL 480 funds.

3. Limits of AID Financing

AID funds will be disbursed over a four-year period in the following categories:

	<u>A.I.D. LOAN FUNDS</u>	
	<u>Dollar Costs</u>	<u>Local Costs</u>
Loan Capital	550,000	1,000,000
Technical Assistance	250,000	50,000
Scholarships	75,000	
Training Programs		75,000

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FINANCIAL SUMMARY

<u>A.I.D.</u>	<u>GOP</u>
\$2,000,000	\$400,000 (capitalization)
<hr/>	<hr/> 160,000 (annual operating expens
\$2,000,000	\$560,000

4. Course of Action

The creation of IDM has been approved in principle by all of the various GOP officials responsible for the affairs of Paraguay's municipalities. IDM has the endorsement of the President of Paraguay who has directed his cabinet members to support the idea. Annex II contains a proposed organizational outline of IDM and other materials dealing with its structure, staffing, estimated costs of operations and lending policy. This Annex was prepared by a committee from the Ministry of Interior and OPACI. The Minister in his letter requesting AID support states that the Paraguayan Congress will establish IDM during its next session which begins in April. See Annex IV-A. The draft legislation is being circulated among interested Congressional figures.

IDM is considered crucial to aiding local government in Paraguay. This institution will offer the rural municipalities an opportunity to obtain credit and technical assistance, both of which are not currently available. The proposed project will assist IDM in its initial stages with capitalization, technical assistance and equipment. This assistance will enable IDM to support the development needs of the rural municipalities, particularly the fast growing ones.

IDM will fill a void in the development process in Paraguay. There is no institution which provides long-term development assistance to the municipalities. Although the idea has been discussed for many years, the idea was only a vague hope until the possibility emerged that AID assistance might be used to assist in the capitalization or such an institution.

In addition to the resources made available under this loan, it is contemplated that the Inter-American Development Bank subsequently may be interested in using the facilities of IDM to process loans for some of its projects. The technical assistance arm of IDM will be made available to many international organizations.

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## 5. Operating Criteria and Lending Policy

The major functions of IDM are to:

a. Provide long-term financial assistance to municipalities, with loans repayable up to 10 years and at interest rates ranging between 6 and 10%. Rates of interest will be determined later by the technical experts and IDM.

b. Provide technical assistance to municipalities through a continuous program teaching the art of municipal administration.

c. Conduct research into the present system of municipal financing and tax administration and provide technical assistance to municipalities in establishing modern methods of tax collection and administration.

d. Provide legal assistance to municipalities so that they may take full advantage of the various laws favoring the municipalities.

e. Serve as agent for bulk purchase of materials and supplies for municipalities and agent for the processing of machinery and equipment bids.

The lending policy of IDM will emphasize economically viable projects which demonstrate reasonable return on investment. Priority will be given to projects which facilitate inter-municipal cooperation. Projects will include municipal markets, slaughterhouses, construction of feeder roads, public buildings with space for rental income, multi-purpose community centers, tourist facilities, production and distribution of electricity and water, bus terminals and useful public work projects.

*Not allowed by Law in Paraguay!*

Various projects will require coordination with other organizations of the central government. In the case of electrical systems, prior concurrence will be needed from Administracion Nacional de Electricidad (ANDE). Likewise projects dealing with water systems will need the concurrence of Corporacion de Obras Sanitarias (CORPOSANA).

Projects which are more socially oriented, such as a community center, health facilities, libraries, schools, etc., will not be approved unless the municipalities have a plan to amortize the cost.

These projects must not be used to replace budgetary funds that the GOP would normally provide. The GOP must also agree to equip and staff such projects before they can be considered.

In no case will IDM assume the responsibility for public works when they are the responsibility of other government agencies. For example, the Ministry of Education has responsibility to build schools and the Ministry of Public Health to build health centers. IDM will not compete with these ministries; rather it will coordinate its activities with the other development activities in each municipality. Any involvement in such projects will be at the incentive of the ministry and with the ministry in charge.

As part of lending arrangements, borrowing municipalities will agree to begin programs of improved tax collection and municipal administration. They will be required to participate in IDM's training programs. Various expenses involved in developing a loan project can be included in IDM's loans. These items can include the costs of feasibility studies, plans, and technical assistance rendered by IDM. IDM will emphasize the feasibility of each project. Each project will be prepared by the borrowing municipality and a staff member of IDM. The application for a specific project will stress its economic, financial, and administrative merits.

In order to assure self-help by the borrowing municipalities, no project will receive more than 85% of the local costs from IDM funds. The other 15% must come from other sources: either the municipalities or other public institutions.

Sixty percent of AID funds is earmarked for use by the 37 Category I municipalities. It is important to support the development of these fast growing urban centers as an alternative to more migration to Asuncion. See Annex II-K. These municipalities are in need of greater services not only for their respective inhabitants but also for the surrounding rural areas.

#### 6. IDM Training and Assistance Function

IDM will have a technical assistance arm. This portion of the institution's function will benefit every municipality in Paraguay. The emphasis of IDM's technical assistance function will be to provide guidance in improving municipal administration, including tax collection. IDM will offer seminars, courses, and study programs to those working with municipal activities. IDM will coordinate its activities with other local institutions, such as the In-Service Training Center and OPACI, which will continue to work in the area of municipal development.

IDM will establish close working relationships with the other national agencies in developing local and area programs, especially with the service agencies in charge of water, electricity, and housing. IDM will cooperate with the Ministry of Interior and the Ministry of Finance to implement a program of budgeting at the municipal level.

It is hoped that IDM will be able to organize a centralized purchasing office, so that the municipalities can make savings on the purchase of equipment, materials and supplies for municipal use. IDM will offer complete legal services to the municipalities. Very few municipalities can retain a lawyer. Yet utilization of the law is necessary to obtain favorable treatment from the various ministries which control a major part of the routine life in the interior of the country. Moreover, legal assistance will help municipal officials in the administration of their duties.

#### 7. Technical Assistance to IDM

Loan financed assistance will be provided to IDM itself in the form of advisors (\$300,000), participant training (\$75,000) and training (\$75,000). Costs of office equipment and transportation will be provided from funds contributed by the GOP. The details of the equipment and vehicles for transportation to be purchased are given in Annex II-E; also included in Annex II-H are the estimated costs of the participant training. The advisors will provide training to IDM's staff in project appraisal and loan operations. Throughout the four year implementation period, the advisors will assist IDM personnel carry out their training and advisory functions with the municipalities.

In order to assure that IDM accomplishes the goals set for it in both financing public work projects in the municipalities and providing training and technical assistance to local government, it is contemplated that the following advisors will be required and will be financed under the loan:

a. Project Analyst. He will work with the municipalities and the IDM staff in order to make IDM an effective and dynamic organization. Since Paraguay has limited personnel with experience in municipal development, this expert may become IDM's interim general manager (Executive Director) for the first 18 months of the Project. His objective will be to organize IDM so that leadership can pass to a Paraguayan within this time. He will be responsible for training IDM's staff and will be instrumental in charting the course of the Project.

b. Loan Operations Specialist. He will be preferably a civil engineer or a person with experience in design and construction of small public works. This person will work with the Department of Engineering (see Organizational Chart, Annex II-A, for a period up to two years. His task will be to establish policies and procedures for assuring that the public works projects in the municipalities are completed on schedule and in accordance with sound engineering and construction practices.

c. Municipal Administration Expert. He will be responsible for establishing IDM's training and technical assistance programs. This expert will work closely with the members of IDM's staff and local government officials. Since the training and technical assistance aspects of IDM's function will involve considerable effort, this person will work with IDM for a period up to four years.

d. Municipal Tax Expert. He will work with the municipal administration expert to assure that efforts are made to improve tax administration and collection on the local level. This expert will be under contract for one year.

e. Training Specialist. He will work with the municipal administration expert to assure that IDM establishes the necessary training programs for the improvement of local government. He will work with IDM for a period up to one year. However, it may be determined that the effort of a training specialist can be better utilized on a short-term basis in specific areas such as budgeting or planning.

LOAN FINANCED TECHNICAL ASSISTANCE

Project Analyst	\$ 40,000
Loan Operation Specialist	60,000
Municipal Administration Expert	100,000
Municipal Tax Expert	25,000
Training Specialist	<u>25,000</u>
Total	\$ 250,000
Local expenses (See Annex II-J)	<u>50,000</u>
COMPLETE ESTIMATED COST	<u><u>\$ 300,000</u></u>

As the Project develops it may be helpful to have the assistance of some Peace Corps volunteers. The Peace Corps has expressed interest in assisting in the Project. See Annex IV-C. It is contemplated that volunteers would work in areas of individual project development, engineering services and training. The volunteers would work in support of the loan financed technical assistance.

Staff members of IDM and selected local government officials will be granted opportunities to attend short or medium length courses in the U.S. and other countries in subjects dealing with the problems of municipalities. The aim of this participant training will be to develop more expertise in municipal affairs and administration. The participant training portion of the AID funds will be used for this purpose.

In order that the technical assistance advisors be able to provide adequate training programs for municipal leaders, \$75,000 has been reserved for that purpose from the total loan funds. It is estimated that approximately \$20,000 will be spent on training programs each project-year. The technical assistance advisors will determine the best use of these funds.

## C. PROJECT JUSTIFICATION AND ANALYSIS

### 1. Place of Project in Country Program

As set forth in the approved FY 1972 Country Analysis and Strategy Paper (CASP), a primary U.S. objective includes the broader participation of Paraguayans in the political and economic life of the country. As presently envisioned the structure and functioning of IDM is directed at militating against the predominance of Asuncion and central authority, in the economic and political life of Paraguay. Development of other municipalities will give the general populace more opportunity for participation in the economic and political process. This, of course, is a long run objective.

The project will also play an important role in meeting short-term U.S. objectives such as the expansion of production of primary agricultural products. Since the municipalities are the collection points for farm products, improved municipal facilities, including transportation and marketing facilities, will reduce the uncertainties and costs involved in marketing agricultural products. Better municipal facilities should, therefore, encourage agricultural production, especially of more perishable items.

Implicit in the above objectives is the furthering of Title IX goals in Paraguay: involvement of the population in the development effort. Improvements will take place in the communities through such concrete projects as markets and slaughter houses rather than in the form of far away infra-structure projects like an airport terminal building or an hydroelectric dam. The popularly elected officials of the junta municipal will help plan the projects for their municipalities. The technical experts of IDM will work with the juntas to encourage citizen participation in the project selection process. A greater proportion of the population will see how development affects their lives. Under such circumstances greater support of and participation in community efforts is anticipated and the resistance to paying taxes is expected to decline. Resistance by the municipalities to tax collection is due partially to the knowledge that taxes paid go to Asuncion and never return. As communities see these taxes at work, this tax resistance can be expected to decline.

## 2. Economic and Financial Considerations

### a) The Role of Municipalities in the Economy

Although there are no known in-depth studies of the role municipalities play in the overall economic picture of Paraguay, available data gives a rough idea of the economic importance of municipalities.

The population of Paraguay in 1968 was estimated at 2.2 million. Of this number about 411,500 lived in Asuncion, 390,400 lived in urban areas outside of Asuncion, and 1.4 million lived in rural areas. The potential number of people that could benefit directly from IDM would therefore be 17.4% of the total population, i.e. those living in interior urban areas. It can be assumed that most rural inhabitants considered in the market system rely upon municipalities as collection points for their marketable production and distribution points for their consumption of non-farm items. The generally used assumption that half of the rural population is in the market system and maintain regular contact with the municipalities means that the potential beneficiaries of the project represent almost half of the total population (i.e. 720,000 rural population and 390,400 urban).

The effect of municipal development as generated by IDM on exports and production is uncertain. Almost 32% of the 1969 GNP consisted of agricultural, livestock and forestry

products. Also, virtually all exports were either primary products (cotton, tobacco, coffee, logs, etc.) or processed primary products (meat, sawn, lumber, vegetable oils, etc.). Improving the efficiency and accessibility of collection points in the interior will reduce the costs of transportation and marketing and should allow Paraguayan products to be more competitive on world markets. For Paraguay, whose products must bear high river transportation costs to reach world markets, this is an important consideration. Municipal development, by lowering marketing costs, should promote, therefore, production and exports.

b) Financial Aspects of the Municipalities

The basic financial data for municipalities for 1968 and 1969 is shown in Table I. In order to indicate the predominance of the capital, the Asuncion data is shown separately. In 1968, Asuncion accounted for about two-thirds of total municipal revenues and expenditures. During the same year Asuncion accounted for about half of total urban population.

In relation to revenues, in 1968 the municipalities received virtually no shared revenue (the budgeted figures for 1969 will probably not be realized). Taxes on property represent a minor source of income for Asuncion (5%) while the interior municipalities receive no revenue from this source whatsoever. Sales, excise, and other taxes represent the major source of tax income for municipalities. Typically the most important source for the interior municipalities are business license fees, slaughter taxes, auto license fees and income for public lighting. The category of "other revenue" usually represents non-tax revenue received for services such as paving roads.

Expenditures of the interior municipalities consist almost exclusively of wages and salaries. The capital expenditures generally consist of the wages of workers engaged in public works. With the exception of public lighting expenses, equipment, supplies, and maintenance expenditures are very small.

Because of the pressure on available revenues and the lack of credit facilities, expenditures tend to equal revenues. Municipal finances are therefore generally in balance. This balance is, of course, at a level that provides only minimal services.

TABLE 1

## FINANCING OF MUNICIPALITIES - 1968

(Millions of \$s)

	Actual 1968			Budgeted 1969		
	Asuncion	All Other Municipalities	Total	Asuncion	All Other Municipalities	Total
<u>Revenues; Total</u>	<u>260.4</u>	<u>138.6</u>	<u>399.0</u>	<u>310.4</u>	<u>147.6</u>	<u>458.0</u>
Taxes on Property	14.5	-	14.5	18.0	-	18.0
Sales, Excise, and Other Taxes	120.4	86.7	207.1	127.1	79.7	206.8
Grants and Shared Taxes from:						
a - National Government	-	0.7	0.7	35.0	5.1	40.1
b - Regional Government	-	-	-	-	-	-
c - Local Government	-	-	-	-	-	-
Other Revenue	125.5	51.2	176.7	130.3	62.8	193.1
<u>Expenditures (Total)</u>	<u>253.2</u>	<u>142.7</u>	<u>395.9</u>	<u>300.0</u>	<u>143.5</u>	<u>443.5</u>
Education, Total	22.4	2.4	24.8	34.5	0.1	34.6
a - Current	(22.4)	(2.4)	(24.8)	(34.5)	(0.1)	(34.6)
b - Capital	-	-	-	-	-	-
Other - Total	230.8	139.8	370.6	265.3	140.9	406.2
Current	(165.3)	(92.1)	(257.4)	(210.2)	(95.7)	(305.9)
Capital	(65.5)	(47.7)	(113.2)	(55.1)	(45.2)	(100.3)
Grants and Shared Taxes to:						
National Government	-	0.5	0.5	0.2	2.5	2.7
Regional Government	-	-	-	-	-	-
Local Government	-	-	-	-	-	-
<u>Deficit(-) or Surplus(+)</u>	<u>+ 7.2</u>	<u>- 4.1</u>	<u>+ 3.1</u>	<u>+10.4</u>	<u>+ 4.1</u>	<u>+14.5</u>

Only the largest interior municipalities have public lighting; none potable water systems; none have sewer systems and few have paved roads. The municipal expenditure per person in Asuncion in 1968 was ¢615 (\$4.88); in the interior the comparable figure was ¢365 (\$2.90). In essence, the interior municipalities are pueblos which receive little or no help from the central government and are politically isolated from the capital.

c) Ability to Meet Obligations

As more fully described in Appendix B of the FY 1972, CFS, Paraguay's authorized external debt grew quickly during the 1960's reaching \$243.8 million by the end of the decade. Of this amount almost \$21 million has been repaid, and \$100 million has not yet been utilized, leaving the net amount for which Paraguay is liable at \$122 million. Principal and interest payments on this debt plus payments on suppliers credits and unrecorded debt are estimated at slightly over \$21.3 million for 1970. Of this amount an estimated \$3.9 million represents repayments in local currency. In 1970, the hard currency component will represent about 29% of registered export earnings. The deb-service ratio will remain roughly at this level through 1974 and could decline closer to 25% if exports grow steadily. If exports stagnate at their 1969 level, the ratio would rise to almost 35%. Although these ratios appear alarmingly high, there are several peculiarities of the Paraguayan system which tend to reduce the real debt service ratio.

In the first place, exports tend to be undervalued. The amount of this undervaluation is unknown, but could reach as much as 20%. Secondly, exporters are only required to turn over about 80% of export earnings to the Central Bank. Third, there is a considerable volume of unrecorded exports, ranging from cigarettes and whisky which are flown clandestinely to neighboring countries to cattle which are run across the border. The net effect is that movement which in other countries would be shown as exports never gets recorded in Paraguay. Rough estimates place the volume of unrecorded traffic at about the same level as recorded traffic. As a result, the comparison of debt service payments to recorded exports inflates the debt service ratio. Published import figures are also understated. A considerable volume of consumer goods enter the country directly and illegally from Argentina and Brazil; the value of goods which enter through legal channels tends to be under invoiced. As discussed below, these imports tend to be financed from the curb market.

The final factor which reduces the debt service pressure is the open and sizeable parallel exchange market. This market is fed primarily by tourism (currently estimated at \$15 million per year) and the unrecorded export earnings mentioned above. This source provides a considerable volume of foreign exchange to purchase imports, both recorded and unrecorded. Although legitimate importers can go to the Central Bank for exchange they often prefer to use the parallel market; it is more accessible and the exchange rate spread is not that great. As a result of these factors the foreign exchange which exporters must deposit in the Central Bank can be used to meet official and private debt service payments. The system, therefore, reduces itself to one in which debt service payments have priority over other uses of official holding of foreign exchange.

Although only preliminary figures are available for 1970, it appears that the balance of payments have strengthened considerably. Imports grew little in 1970 while exports are reported to have reached \$63 million, which is \$12 million more than in 1969. This increase of 23 percent makes 1970 exports the highest in Paraguay's history. Even if this rate of growth does not continue, the strengthening of reserves should enable Paraguay to meet her foreign currency obligations without undue difficulty.

In the past several years debt service payments have grown rapidly and the GOP has been able to meet them. This is due to both the peculiarities of the system mentioned above and the fact that the GOP places very high priority on meeting its international obligations. Best estimates are that hard currency debt service payments will tend to level off by 1973, at about \$20 million annually. Whatever pressure this will put on the balance of payments depends upon the growth of exports. However, even if exports stagnate the GOP should not experience undue difficulty in meeting these payments. On the other hand, soft currency payments are presently forecasted to rise through 1974 and probably thereafter as IDB loans (typically, local currency repayable) grow in importance. To meet these payments will require more careful GOP control over domestic expenditures together with actions to increase revenue. This is especially true of those GOP loans for infrastructure which have only long term benefits. For those directly productive projects, which generate the resources to meet debt service payments, this problem is no so serious. Enough of the projects to be financed by the proposed loan will be of this nature so that debt service payments will not be a problem. At this point a project by project cost-benefit analysis is not possible. This will be undertaken by IDM as projects are presented to it. Because of the availability

of foreign exchange, GOP attention to debt servicing, and proposed IDM financing of projects with quick productivity, the GOP should be able to meet the debt servicing obligations of the IDM project.

### 3. Civic and Social Considerations

The development of effective municipal institutions is a major aim of the project. While AID's agricultural efforts and construction projects undertaken within the past ten years have made important contributions to the development of Paraguay's interior, a major problem is development of human resources at the local government level.

The municipalities have always been plagued by a lack of trained manpower. The recent GOP educational development program, financed by an AID loan, will improve the education of rural dwellers. IDM will have the function of improving the quality of life in the municipalities of the interior. Hopefully, more activity in the smaller municipalities will stem the migration of newly trained residents to larger municipalities.

The training and technical assistance activities of the Project will develop needed civic skills. IDM will support training programs for local government officials and leaders. These officials will learn how to motivate more local, popular participation in the development process. In Paraguay, where there is no tradition of strong self-reliant local government, this encouragement of municipal governments to assume greater responsibilities for the provision of public services and the administration of revenues is a major step in municipal development.

In addition, the development process started by IDM should have a multiplier effect. There is not now any incentive for civic responsibility at the municipal level. Because the central government appears to neglect the municipalities, the residents do not see why they should invest in their communities. As they begin to see the evidence of IDM activity in basic public work projects, it is expected that the individual citizen's investment of both time and money will increase.

The Project will encourage the development of local and intermediate institutions which help to advance the complex process of social, economic and political development. Moreover, while meeting the objectives of Title IX, the Project is in conformity with the objectives of the Inter-American Social Development Institute.

#### 4. Financial Soundness

The IDM loan will finance a number of sub-projects. One of the functions of IDM will be to evaluate the financial soundness of each project to insure that each project will produce a positive rate of return. More importantly, IDM will study alternative projects and community priorities and select those with the highest coefficient of community need. For example, if two projects both have positive rates of return the project with the lower rate of return but higher coefficient of community need might be chosen. One of the functions of the technical assistance section of IDM will be to help IDM make these kinds of decisions.

A more important question is the ability of the interior communities to raise the resources to support IDM. As stated earlier, a serious problem with the municipalities is that their tax money goes to the capital and seldom returns. If some of these funds could be retained by the municipalities, their ability to support the IDM would increase. For example, for the first 10 months of 1970 the tax collections by the office of Impuestos Internos (which collects a variety of internal taxes other than real estate, income and customs taxes) from the interior totalled ¢322 million. a/ The 1970 budget also indicates that an estimated ¢120 million in real estate taxes will be received from the 13 departments in eastern Paraguay. From these two sources alone close to ¢500 million annually is withdrawn from the interior, yet little if any returns. On the other hand, the 1969 budgets of all interior municipalities total only ¢147 million. By diverting about 30% of interior revenues to the municipalities would permit a doubling of municipalities revenues. One of the aims of the project will be to establish a more equitable distribution of tax revenue to the municipalities. As this is realized, the ability of the communities to support IDM will increase.

Probable cash flow and income and expense tables (See tables II and III) were prepared on the basis of the estimated annual budget of the IDM shown in Annex II-H and assumptions concerning lending activity. Because a new institution is being

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a/ The information source shows revenue from two sources: Capital and Campana. (i.e. Asuncion and the interior)

formed, disbursements of the loan will start low and require 4 years for completion. After the fourth year the major source of sub-loans will be retained as earnings. Although it is likely that IDM will avail itself of other sources of funds after Year 4 (i.e. other international lending organizations, private banks, etc.) these sources have not been considered due to their uncertain nature. The GOP contribution will total \$400,000 equivalent. Although this counterpart contribution is programmed to terminate in Year 5, it is conceivable that it could be extended. With these funds loans are programmed to grow from \$36 million in Year 1 to \$76 million in Year 4 and then level off at about \$55 million by Year 6. The income from these loans will rise rapidly reaching about \$65 million annually. In reaching these figures it was assumed that subloans would have 5 year repayment periods at an average interest rate of 9%.

Operations costs are shown in detail in Annex II-F. During the grace period interest is to be paid at the rate of 2% on the utilized amount of the AID loan. Other expenses will include a reserve fund which will be maintained at 10% of end-of-year loans outstanding. This reserve fund will be created from repayments made by the municipalities and will be used to cover bad debts.

Retained earnings are forecast to grow rapidly. In practice these will probably be used for lending purposes before Year 5. In such case the lending and income would rise accordingly.

After Year 10 annual amortization payments will amount to about \$12.6 million. It is anticipated that this amount will be derived from current earnings.

Probably the most crucial factor determining the financial soundness of the project is the ability of IDM to place loans at the rate shown in Table II. Expressed in dollars, the average annual level of lending for years 1 to 6 will be \$456 thousand (i.e. \$288,000 in Year 1 rising to \$608 thousand in Year 4). Given the need for municipal facilities and the number of municipalities involved it does not appear difficult to place this level of loans. These considerations together with the fact that IDM will have considerable technical assistance both to identify good projects and get them started leads to the belief that IDM will be able to make the loans indicated in Table II.

Since IDM is a new organization which will be giving credit to municipalities, institutions with little experience in financial and credit matters, a bad debt reserve of 10% of the amount of outstanding loans at the end of year will be established. This

conservative approach will insure that IDM will have sufficient ability to meet its obligation to AID. The lack of municipal finance experience on the part of a large number of the Paraguayan municipalities makes a 10% bad debt reserve sound, conservative financial planning.

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TABLE II  
 FUNDS AVAILABLE FOR LENDING  
 (Thousands of \$s.)

Year	1	2	3	4	5	6
Disb. on AID Loan (\$1.5 million or \$s.189 million)	30,000	40,000	55,000	64,000		
Retained Earnings	0	0	0	0	50,000	55,000
GOP Contribution:						
PL 480 (6.3 million per year)	6,300	6,300	6,300	6,300	-	-
Regular Sources (\$s.6.3 million)	-	<u>6,300</u>	<u>6,300</u>	<u>6,300</u>	<u>6,300</u>	-
Sub Total	36,300	52,600	67,600	76,600	56,300	55,000
Loans at start of year	-	29,040	70,570	117,295	162,776	180,891
Loans made during the year	<u>36,300</u>	<u>52,600</u>	<u>67,600</u>	<u>76,600</u>	<u>56,300</u>	<u>55,000</u>
Sub Total	36,300	81,640	138,170	193,895	219,076	235,891
Amortization <u>a/</u>	7,260	11,070	20,875	31,119	38,185	41,680
Loans outstanding at end of year (cum.)	29,040	70,570	117,295	162,776	180,891	194,211

a/ Starting in the second year amortization is calculated by taking 1/5 of "Loans at start of year" and 1/10 of "Loans made during year".

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TABLE III

ESTIMATED INCOME AND EXPENSE  
(Thousands of \$s.)

Year	1	2	3	4	5	6
<b>Income:</b>						
Shared tax from GOP	5,000	5,000	5,000	6,000	6,000	6,000
Repayments on loans:						
Interest (9% of year end total)	2,610	6,351	10,555	14,650	16,280	17,480
Amortization	7,260	11,070	20,875	31,119	38,185	41,680
<u>Total Income</u>	<u>14,870</u>	<u>22,421</u>	<u>36,430</u>	<u>51,769</u>	<u>60,465</u>	<u>65,160</u>
<b>Expenses:</b>						
Operating Costs	10,512	10,512	11,000	11,250	11,500	11,750
Loan repayment:						
Interest a/ (2% of utilized amount)	1,260	2,520	3,780	5,040	5,040	5,040
Amortization	-	-	-	-	-	-
<u>Total Expenses</u>	<u>11,772</u>	<u>13,032</u>	<u>14,780</u>	<u>16,290</u>	<u>16,540</u>	<u>16,790</u>
<u>Gross Profit:</u>	<u>3,098</u>	<u>9,389</u>	<u>21,650</u>	<u>35,479</u>	<u>43,925</u>	<u>48,370</u>
Other Items:						
Reserve Fund	2,904	4,153	4,673	4,547	1,813	1,331
Reserve Fund (cum)	(2,904)	(7,057)	(11,730)	(16,277)	(18,090)	(19,421)
Amortization of equipment	334	334	334	334	334	334
<u>Net Profit</u>	<u>- 140</u>	<u>4,902</u>	<u>16,643</u>	<u>30,598</u>	<u>41,778</u>	<u>46,705</u>
Retained earnings (cum)	- 140	4,762	21,405	52,003	93,781	90,486
Uses of retained earnings					50,000	55,000
Undistributed earnings					43,781	35,486

a/ Assumes AID loan will be equally disbursed over 4 year period even though amount for sub-loans is not equally disbursed.

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PROJECT EXECUTION

PART III

A. IMPLEMENTATION PLAN

The precise structure of IDM is still subject to final Executive and Legislative approval. However, no problems are expected since the GOP has been involved in the preparation of the legislation establishing IDM. The Ministry of Interior which is responsible for the municipalities, and the Ministry of Finance, which has fiscal responsibility for the GOP, concur in the draft legislation and the financial aspects of the Project. It is expected that the proposed legislation establishing IDM will be sent to Congress when it reconvenes in April.

It is thus expected that IDM will be legally established by June 1, 1971. After the appointment of IDM's Board of Directors, the GOP will make its initial contribution towards IDM's permanent capital and make available funds for its initial budget. Subsequent GOP contributions to IDM's capital will be made over a three-year period.

Once IDM is legally organized, the Board of Directors, with the assistance of USAID, will negotiate a contract with a firm or individuals to provide the technical assistance financed under the loan. The contract will include arrangements for an interim general manager to facilitate establishment of the internal organization and the training of Paraguayan staff members. Under the contract, or if necessary several contracts, technical assistance will be provided to IDM in the fields of lending procedures, training of local government officials and general administration of a municipal lending agency. Technical assistance will also be provided through IDM to the municipalities in the areas of general administration, tax collection and administration, accounting, purchasing, planning and personnel. A comprehensive, long-range training program will also be developed by IDM staff members with the help of the technical advisors.

A General Manager, selected by the Board of Directors and approved by USAID, will assume the operational direction of the institution. He will hire the initial staff, prepare operating guidelines and procedures, and, in general, prepare to open for business. AID loan funds will be released from time to time on the presentation of disbursing documents, but only after the annual \$100,000 GOP contribution has been made. All IDM loans over \$35,000 will require prior USAID approval. This limit may be raised if IDM's performance so warrants.

## B. AREAS OF RESPONSIBILITY

1. IDM. The primary responsibility for this project rests with Board of Directors of IDM. The Board with its General Manager will be the group most concerned with the success of the Project. It will be the responsibility of IDM to program and plan its sub-projects; administer and supervise the engineering of the sub-projects; carry out bidding, award contracts, monitor sub-projects execution, and establish a maintenance program for each sub-project.

IDM's responsibility in the area of technical assistance is to establish a comprehensive, long-range training program for the municipalities; to provide training in the areas of tax collection and administration, general municipal administration and fiscal administration, and to provide coordination with the other governmental departments which render assistance to the municipalities. A special responsibility of IDM will be to provide legal assistance to the municipalities.

2. USAID. It will be the responsibility of the Public Administration Office to monitor this Project, including establishing day-to-day coordination with IDM and its technical advisors. The Capital Development Office will coordinate USAID review of progress reports, advertisement of IFB's and the opening of Letters of Commitments. USAID has established a close working relationship with the Paraguayan officials and organizations principally responsible for the development of IDM, and this relationship is expected to continue during the life of the Project.

## C. EVALUATION

Since USAID is assisting in establishing a new development institution the daily contact between the organizers and the Mission personnel will be close and continuous. Already a sound working relationship has been established. In order to assure the success of the Project responsible staff members of both IDM and USAID will conduct an annual joint review of progress.

AID and the IDM will jointly establish goals for the institution on an annual and five year basis upon the inception of the Bank. These goals will be amplifications of the general project goals. (See below). The joint group will, for example, quantify yearly targets on numbers of multiple-use community centers to be built

yearly and miles of feeder roads. The yearly evaluation will be based on the IDM's ability to achieve stated goals and ability to correct impediments that arise in attempting to do its job.

Generally speaking, the annual review, besides considering yearly targets and problem areas in the implementation of the Project, will be directed toward accomplishing the goals of the Project. The goals of the Projects are namely:

1. Strengthening local government in Paraguay;
2. Establishing IDM as a Municipal Development Institution; and
3. Constructing rural municipal public works.

Thus, progress toward these goals will be the measurement by which USAID and IDM itself will evaluate the Project.

1. Criteria for Evaluating Project Goals

- a. Strengthening Local Government in Paraguay.

A key to strengthening local government lies in the addition of more trained manpower. A major function of IDM will be this training. Evaluation questions then becomes the following. What types of training programs were run? What types of skills were acquired? How many participated? How many were trained in country? How many men given more training through IDM are employed in local government? How many new positions in local government have been created? How many municipalities have participated in training programs?

In addition, IDM will work toward encouraging new legislation and legislative reform that will aid municipalities. It will have the function of providing technical assistance to the communities in the field of Public Administration. The evaluation will examine whether or not the IDM has performed these functions and if not, why not.

Local governments in Paraguay have tax authority but so far do not know how to use it to generate the funds needed for municipal development. Evaluation must address the questions of what training is given in the field of tax administration, what technical assistance and what legislative change. A simple quantitative measure of success or failure will be comparisons of tax revenues on a yearly basis. Correlations between tax revenues, legislative changes and training will also be computed.

b. Establishing IDM as a Municipal Development Institution

The three functions of IDM as a municipal development institution are to: 1) loan money for development projects to the municipalities; 2) provide technical assistance and manpower to the municipalities; and 3) when needed, provide legal assistance. The evaluation will address itself to these aims.

The technical assistance and legal assistance questions will be treated together. The evaluation will examine the type of staff employed by the IDM. How many experts does the IDM have? In what fields? How many man hours are spent in the field? How many IDM employees live in municipalities outside of Asuncion? What services are offered? What training programs are organized? What municipalities are serviced of the IDM?

c. Constructing Rural Municipal Public Works

The IDM will loan money to the municipalities to build feeder roads, slaughter houses, markets, bus terminals, multi-use public buildings. These goals are suitable for simple quantitative evaluations. How many kilometers of road in how many cities? How many multi-use buildings? etc.

In addition, the evaluation will focus on the meaning of such projects to the community. Surveys on a random basis in several communities will examine participation by the people in the community in the construction process, perception by the people of changes in the municipality and attribution of changes by the residents to the work of the IDM.

D. CONDITIONS AND CONVENANTS

In addition to the usual covenants and conditions, the Project committee recommends that the Loan Agreement contain the following:

1. Except for marine insurance and ocean shipping, goods and services financed under the loan shall have their source and origin in Paraguay and countries included in AID Geographic Code 941. Marine insurance financed under the loan shall have its source and origin in Paraguay or any country included in AID Geographic 941, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in AID Geographic Code 941.

2. Borrower shall covenant to provide at least the equivalent of \$400,000 in support of this Project and schedule its contributions in accordance with a plan, satisfactory to AID, during the first four years of IDM's existence. In addition, the Borrower shall covenant to provide adequate funds in its annual budget for IDM's annual operational expenses.

3. Prior to any disbursement or to the issuance of any letter of Commitment under the Loan for the purpose of financing the technical assistance aspects, including the purchase of necessary equipment for the Project Borrower shall submit, in form and substance satisfactory to AID, evidence that it has duly organized an Instituto de Desarrollo Municipal (IDM) with authority to make loans to the municipalities of Paraguay except Asuncion and is otherwise legally constituted to implement effectively this Project.

4. Prior to any disbursement or to the issuance of an letter of Commitment under the Loan for any purpose other than to finance the technical assistance aspects of the Loan, Borrower shall submit, in form and substance satisfactory to AID:

(i) Evidence that IDM has a governing body and has hired management, both satisfactory to AID, and has made staffing arrangements, including requisite technical skills, satisfactory to AID.

(ii) Evidence that the policies and procedures, both satisfactory to AID, governing the conduct of IDM's operations have been approved by IDM's governing body.

(iii) Evidence that Borrower has contributed at least the equivalent in local currency of \$100,000 to the capitalization of the Project. In addition Borrower shall pledge to contribute for IDM's annual operating expenses at least the equivalent in currency of \$40,000 or 16% of all land taxes collected by all Paraguayan municipalities except Asuncion, whichever is higher.

5. Unless AID shall otherwise agree in writing IDM shall not:

(i) Finance projects whole or in part from disbursement hereunder if such financing would cause its total assistance to any single municipality to exceed the equivalent of \$100,000 dollars.

(ii) Finance projects if such financing exceeds the equivalent of \$35,000.

(iii) Make loans for more than ten (10) years maturity or charge a rate of interest exceeding ten (10) percent on loans financed by AID funds per annum on the disbursed balance of sub-loans.

(iv) Make grants in whole or in part from the funds provided by AID to any municipality.

6. Unless AID otherwise agrees in writing AID, Borrower and IDM shall jointly hold a formal review and evaluation of the Project no later than twelve (12) months after execution of the Loan Agreement. Such reviews, unless otherwise agreed to in writing by AID, will be held annually.

#### E. IMPLEMENTATION SCHEDULE AND DISBURSEMENTS

- |   |                   |
|---|-------------------|
| 1. Authorization of Loan:   | February 28, 1971 |
| 2. Negotiation and Signing of Loan Agreement:   | June 1, 1971      |
| 3. Beginning of Loan-financed Technical Assistance to IDM:  | August 1, 1971    |
| 4. Terminal Date for Meeting Conditions Precedent to initial disbursement for Project operations: | December 31, 1971 |
| 5. Terminal Date for final disbursement:  | December 31, 1975 |

AID funds will be disbursed through Letters of Commitment to cover the foreign exchange costs of approved sub-loans and other dollar cost components of the loan. Local currency payments will be made for the most part as reimbursements for authorized expenditures made under the loan. They will be made directly to IDM by the USAID/Paraguay mission with local currency purchased with dollars. Monthly loan summaries, quarterly status reports and annual audited financial statements will be provided by IDM.

The loan can be disbursed within approximately four and a half years from the signing of the Loan Agreement.

The need of the municipalities and GOP interest in the Project combined with the loan-financed technical assistance present an excellent framework for avoiding delays in accomplishing goals of the loan within the schedule outlined above.

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE  
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Peter M. Cody, the principal officer of the Agency for International Development in Paraguay, having taken into account, among other things, the maintenance and utilization of projects do hereby certify that in my judgement Paraguay has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project, Municipal Development Project.

The Capital Assistance Paper certifies that the Statutory Criteria as applied to Paraguay have been met. This certification is based on, among other factors, a careful review of the financial assistance previously provided to Paraguay.

  
Peter M. Cody  
Director

Date: February 5, 1971

COPY

STATE 180044

Sent: October 23, 1969

Subject: MUNICIPAL DEVELOPMENT INSTITUTION

IRR reviewed October 20 and approved subject following comments and guidance:

A. Mission pursuing correct path in evaluating work this area other countries and alternate approaches.

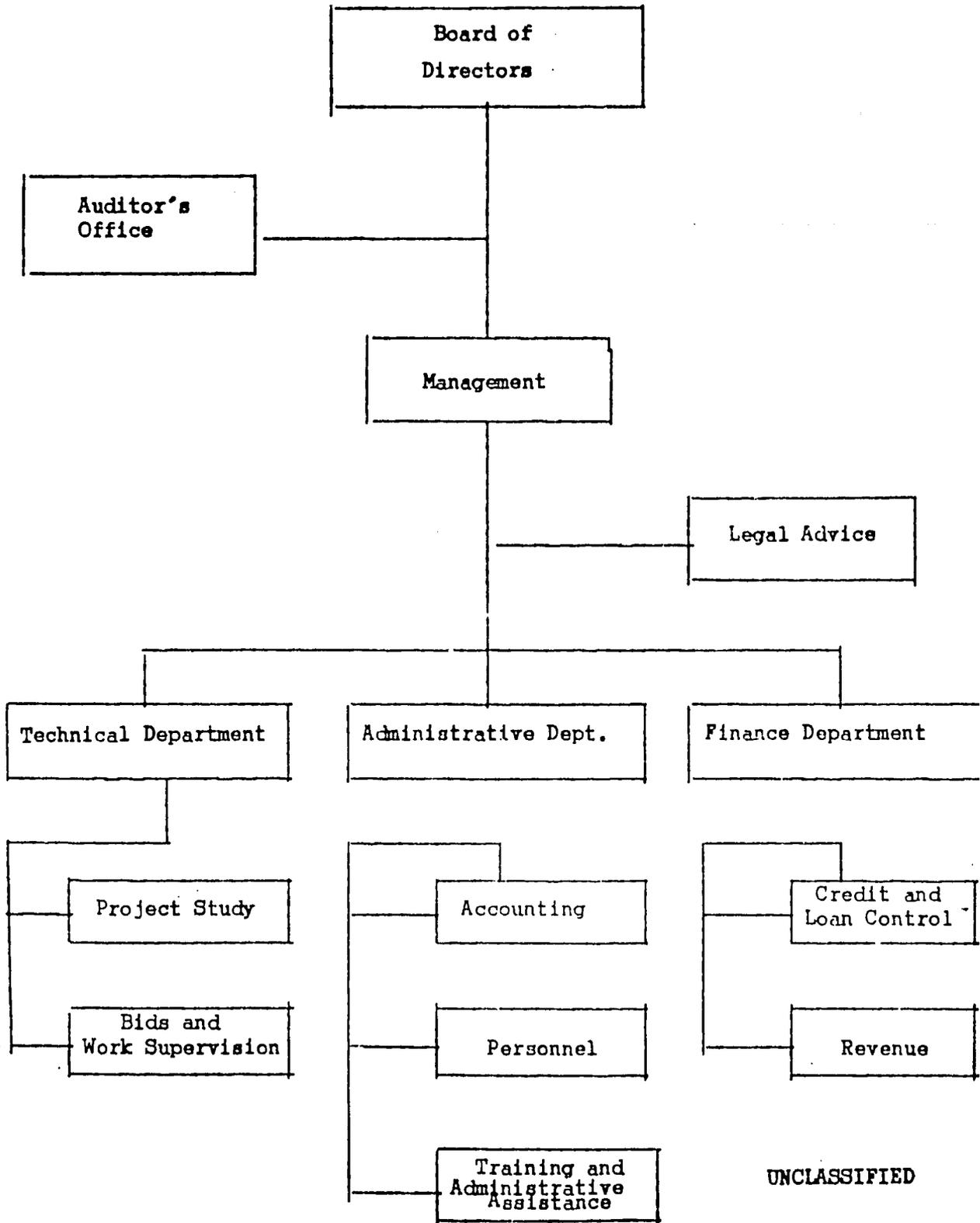
B. In view relatively early stage this project, CAEC views possibility project won't be ready for financing until FY 1971, although CAEC prepared consider project in FY 1970 if ready.

PROPOSED IDM STRUCTURE\*

- A) Organization Chart
- B) General Description of Duties of each Office  
or Department
- C) Summary of Personnel
- D) Salaries
- E) Equipment, including furniture and transportation
- F) Operational Costs
- G) Lending Policy

\* These planning documents were prepared by a joint committee composed by OPACI, the In-Service Training Center, Ministry of Interior and USAID/Paraguay.

IDM ORGANIZATION CHART



GENERAL DESCRIPTION OF THE DUTIES OF EACH OFFICE OR DEPARTMENT

I. Board-of Directors

The Board of Directors will be made up of three Directors and three alternates appointed as follows: one Director and his alternate, by the Executive Power; one Director and his alternate, by the Board of Directors of OPACI; one Director and his alternate, by the Central Bank of Paraguay.

II. Management

Management of the Institute will be performed by one person appointed by the Executive Power. The manager will be selected out of a list of candidates submitted by the IDM. Appointment to this position will be indefinite.

III. Audits

Audits of the Institute will be performed by an Auditor appointed by the Executive Power out of a list of candidates submitted by the IDM. Appointment will be indefinite.

IV. Legal Advice

Legal Advice will be handled by a lawyer who will be the Legal Adviser.

V. Departments

The assistance which the Institute will give the Municipalities will cover basically three major fields: technical, administrative and financial. Therefore, the Institute will have three departments which will be in charge of those functions respectively.

1. Technical Department

This department will be under a chief and it will be made up of the following sections: (i) project studies, and (ii) bids and construction supervision.

a. Project Studies Section: This Section will analyze the technical aspect of the projects presented to the Institute by the municipalities for financing and will plan and develop projects for the municipalities as their request.

b. Bids and Work Supervision Section: This Section will be in charge of preparing and implementing bids for municipal works to be financed by the Institute. It will also supervise the construction of such works.

## 2. Administrative Department

The Administrative Department will be under a chief who will have a degree either in economics or administration. If necessary, he will be acting manager, in the absence of the Manager. He will also be in charge of the personnel office. This department will be made up of the following sections: accounting, personnel and training and administrative assistance.

a. Accounting Section: This Section will be in charge of the following: (i) handling the Institute's accounting as well as organizing the present accounting system at the Municipalities to improve tax collections, municipal investments, and control of municipal funds; (ii) control of inventories and cash in hand; (iii) procurement and supply of materials and (iv) insurance of municipal properties.

b. Personnel Section: This Section will be in charge of the following: (i) selection and recruitment of personnel for the IDM and the municipalities; (ii) preparing a descriptive job and administrative manual for the municipalities; (iii) updating the records relating to personnel of the IDM and the municipalities to establish a retirement system for all municipal officials and employees.

c. Training and Administrative Assistance Section: This Section will be in charge of the following: (i) training of municipal and IDM personnel, and (ii) in coordination with the accounting section, reorganization of the municipalities' administrative structure. This section will have a group of regional instructors in charge of establishing administrative reforms in the municipalities and inform the Institute of the situation of these organizations.

## 3. Finance Department

This Department will be under a chief with a degree either in accounting or economics. It will have two sections: (i) credit and loan control and (ii) revenues.

a. Credit and Loan Control Section: This Section will examine loan requests of the municipalities and will also control loans granted.

b. Revenue Section: The Revenue Section will make studies related with municipal revenues such as: taxes, tariffs, and services, for the purpose of establishing a tax system that will make effective municipal economic independence. It will also carry out studies in relation with the taxes in favor of the IDM.

SUMMARY OF IDM PERSONNEL

I - Board of Directors ..... 3 Directors and  
3 Alternates

-II - Management ..... 1 Manager  
1 Typist-Secretary  
1 Typist  
1 Janitor  
1 Messenger  
1 Driver

III - Auditor's Office ..... 1 Auditor  
1 Typist

IV - Legal Advice ..... 1 Lawyer

V - Departments:

A. Technical Department ..... 1 Chief (Civil Engineer)

Sections:

a. Project Studies ..... 1 Chief (Civil Engineer)  
1 Draftsman

b. Bids and Work Supervision ..... 1 Chief (Civil Engineer)

B. Administrative Department ..... 1 Chief (Economist, Public  
Administration Field)  
1 Executive Secretary

Sections:

a. Accounting ..... 1 Chief (Certified Public  
Accountant)

b. Personnel ..... (Same as B)

c. Training and Administrative  
Assistance ..... 1 Chief (Economist, Public  
Administration Field)  
3 Regional Instructors

C. Finance Department

a. Credit and Loan Control ..... 1 Chief (Economist)

b. Revenue ..... 1 Chief (Economist)

Total Personnel of IDM ..... 25 persons

COST ESTIMATE OF FEES AND SALARIES OF THE MUNICIPAL DEVELOPMENT  
 INSTITUTE (IDM)

	<u>Total Monthly</u>	<u>Total Annually</u>
1) <u>Board of Directors:</u>		
3 Directors, \$7,500 per month per each Director	\$ 22,500	\$ 270,000
2) <u>Management:</u>		
1 Manager	55,000	660,000
1 Typist-Secretary	14,000	168,000
1 Typist	12,000	144,000
1 Janitor	8,000	96,000
1 Messenger	6,000	72,000
1 Driver	12,000	144,000
3) <u>Auditor's Office:</u>		
1 Auditor	30,000	360,000
1 Typist	12,000	144,000
4) <u>Legal Advice:</u>		
1 Lawyer	30,000	360,000
5) <u>Technical Department:</u>		
1 Chief (Civil Engineer)	30,000	360,000
2 Civil Engineers at \$25,000 each	50,000	600,000
1 Draftsman	18,000	216,000
6) <u>Administrative Department:</u>		
1 Chief Economist	30,000	360,000
1 Economist	25,000	300,000
1 Certified Public Accountant	25,000	300,000
1 Executive Secretary	20,000	240,000
3 Regional Instructors at \$18,000 each	54,000	648,000
7) <u>Finance Department:</u>		
2 Economists at \$30,000 each	<u>60,000</u>	<u>720,000</u>
25 persons	\$513,500	\$6,162,000

ESTIMATE ON FURNITURE AND OFFICE EQUIPMENT COST AND NEEDS OF THE  
 MUNICIPAL DEVELOPMENT INSTITUTE  
 (IDM)

I - FURNITURE

7 executive desks at ₱24,000 each	₱ 168,000	
6 desks for Chief of Sections at ₱28,000 each	168,000	
1 desk for Secretary	15,500	
3 small tables for typewriters at ₱5,500 each	16,500	
2 tables at ₱12,000 each	24,000	
1 table for the Board of Directors	55,000	
7 executive chairs at ₱14,000 each	98,000	
6 chairs for Chief of Sections at ₱6,500 each	39,000	
3 chairs for Secretaries at ₱5,500 each	16,500	
6 chairs for the Board at ₱16,000 each	96,000	
1 set of furniture for the Manager's room	45,000	
10 filing cabinets at ₱20,500 each	205,000	
1 table for the draftsman	25,000	
1 chair for the draftsman	9,500	₱ 981,000

II - OFFICE EQUIPMENT

3 typewriters at ₱69,800 each	₱ 209,400	
1 portable typewriter	30,000	
1 calculator	39,800	
1 adding machine	36,950	
1 mimeograph machine	183,500	
15 inkstands at ₱500 each	7,500	
12 rulers at ₱100 each	1,200	
1 set of drawing equipment	5,000	513,350

III - VEHICLES

2 jeeps at ₱500,000 each	₱ 1,000,000	
1 station wagon	750,000	
3 jeeps at ₱500,000 each *	1,500,000	₱3,250,000

TOTAL: ..... ₱4,744,350

SUMMARY

a) Furniture .....	₱ 981,000
b) Office Equipment .....	513,350
c) Vehicles .....	3,250,000
d) Contingencies .....	1,000,000

TOTAL:.... ₱5,744,350

\* Purchase may be delayed until IDM has begun its lending activities.

**ESTIMATE OF OPERATIONAL COST OF THE MUNICIPAL DEVELOPMENT  
INSTITUTE (IDM)**

Salaries and Fees	₱6,162,000
Supplies	500,000
Per Diem: a) Plant Personnel: 360 days at ₱1,000 each	360,000
b) Regional Instructors: 180 days each Instructor at ₱1,000 per day	540,000
Transportation	150,000
Representation Allowances	500,000
Gasoline for Vehicles	500,000
Office Rental	300,000
	<hr/>
	9,012,000
Contingencies	500,000
Insurance	1,000,000
	<hr/>
	TOTAL:..₱10,512,000

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LENDING POLICY OF THE MUNICIPAL DEVELOPMENT INSTITUTE (IDM)

1. Taking into consideration that all municipalities have deficits concerning public works and services, the IDM will establish priorities to grant loans to the municipalities, based mainly on projects which refer to community welfare works or redeemable investment. Considering the annual income and budget of the municipalities, it is estimated that they can repay loans for an amount up to 30% a year of their ordinary income established in their annual budgets. This means, for instance, that this amount multiplied by a 10 years term will raise a substantial amount for a municipality to build important public works. Small municipalities having a very small annual budget will be grouped together whenever it is possible to increase their credit capacity.

Priority will be given to revenue producing projects, including:

- a. Markets and slaughter-houses
- b. Bus terminals
- c. Electricity
- d. Water
- e. Roads
- f. Movies and theaters
- g. Tourist works of redeemable investment
- h. Urbanization works such as street paving, etc.

The IDM will coordinate projects such as water and electricity with the appropriate Government agencies in charge of these projects.

The IDM will also be able to finance certain projects which, though not redeemable or whose redeemability is very slow, are necessary to promote the development of certain regions and can be implemented with local development committees. In this area, priority will be given to projects which facilitate intermunicipality cooperation.

Non-redeemable investment projects include the following:

- a. Community Center
- b. Libraries
- c. Cultural Centers
- d. Sanitary Units

2. Division of Loan Portfolio

The 37 municipalities classified in Category I will receive approximately 60% of total lending resources and the remaining 119 Category II municipalities will receive 40% of total resources. The reason for these allocations is to support development of the larger municipalities. No municipalities will be

eligible to receive more than the equivalent of \$12,000,000 (approximately \$100,000).

3. Term Period and Interest on Loans

IDM will make short, medium and long term loans. No loan will exceed more than 10 years. Borrowers may be granted a grace period on repayment but it will not exceed two months for each year of loan. The interest to be charged on the loans will be no more than 10% per year, but not less than 6% per annum.

4. Special Clauses in the Contracts

Contracts entered between the IDM with the municipalities will include clauses committing the municipalities to improve their tax and administrative systems and to cooperate with the Institute whenever it is necessary.

5. Repayment Plan

Each municipality borrowing funds must present a plan for repayment. This plan must be reasonable and within the means of the municipality and the scope of the purpose of the loan.

6. Limit to Borrowing

No municipality can have more than \$100,000 outstanding.

7. Self-Help

Each project must show that the applicant can raise at least 15% of the total cost of the project from resources other than IDM.

8. Maintenance Provision

All projects financed by IDM shall have adequate provisions for maintenance.

SCHOLARSHIP AND TRAINING COSTS IN DOLLARS

1. The present average costs for training are shown below:

Per man year training in United States	\$ 8,200
Per man year in Central America	5,000
Per man year in Argentina	7,000
Per 30 day observation trip in United States, Puerto Rico, or Central America	1,400
Per man year in 3rd. Country	4,000

2. Present estimates for training needs over the first four years of the project are as follows:

2 man-years in United States (2-1 year scholarship)	16,400
2 man-years in United States (4-6 month study courses)	16,400
4 man-years in Central America (8-6 month work-study courses)	20,000
1 man-year in Argentina (2-6 month work-study courses)	7,000
8 observation trips (8-30 day trips)	11,200
1 man-year in 3rd. country	4,000

---

TOTAL: \$75,000

DISTRIBUTION OF TECHNICAL ASSISTANCE  
EXPENDITURES IN LOCAL CURRENCY

As presently planned, the 9.5-man years of technical assistance will be required. For the purposes of planning local expenses this figure has been increased to 10-man years. It is estimated that each loan financed will have local expenses of \$5,000 for a technical expert. The total expense for this part of the project is estimated at \$50,000 equivalent.

Per-man-year Expenses

(In U.S. dollars)

In-country travel	\$2,000
Per diem	1,000
TDY, conferences, etc.	1,000
Miscellaneous	<u>1,000</u>
Total:	\$5,000

REPRESENTATIVE BUDGETS OF MUNICIPALITIES

The Ministry of Interior classifies all municipalities except Asuncion into one of two categories. The classification is based on population, economic resources and potential growth. There are 37 municipalities in Category I and 119 in Category II.

Listed below are the annual budgets for the last five years of the Category I municipalities and of some representative Category II municipalities.

CATEGORY I

	<u>I n G u a r a n i e s</u>				
	1966	1967	1968	1969	1970
Areguá	1,375,000	1,308,500	1,375,500	1,308,500	1,146,500
Arroyos y Esteros	990,000	990,000	1,189,750	990,000	1,357,000
Caacupé	3,352,000	3,180,000	3,062,000	3,353,000	3,353,000
Caaguazú	4,500,000	5,365,000	4,217,000	4,089,000	4,284,000
Caazapá	1,171,000	1,323,000	1,085,000	1,305,220	1,085,000
Capiatá	1,446,500	1,787,000	1,987,000	2,388,500	2,341,000
Caraguatay	850,000	850,000	850,000	1,250,000	1,250,000
Carapeguá	970,000	970,000	970,000	970,000	970,000
Concepción	7,132,000	8,000,000	8,500,000	11,000,000	10,000,000
Coronel Bogado	787,800	789,700	813,000	863,000	845,000
Coronel Oviedo	5,376,000	-	7,870,000	7,595,000	7,142,000
Encarnación	20,014,200	-	19,138,075	16,575,000	17,435,000
Eusebio Ayala	1,200,000	1,000,000	1,500,000	4,237,000	2,460,845
Fernando de la Mora	3,983,500	4,712,850	4,712,850	5,525,000	6,000,000
Horqueta	953,500	1,067,800	1,133,700	1,196,000	1,221,000
Itá	2,674,000	-	2,674,000	2,670,000	3,354,544
Itauguá	1,565,000	1,880,500	2,103,000	1,828,500	1,428,000
Lambaré	2,675,000	2,700,000	3,768,000	3,200,495	3,105,000
Luque	5,779,000	5,314,552	6,854,000	5,693,000	6,890,000
Paraguarí	1,500,000	1,574,000	1,574,000	2,600,000	3,240,000
Pedro Juan Caballero	5,050,000	5,845,000	5,910,000	5,428,000	6,000,000
Pilar	2,490,000	2,963,000	3,886,500	4,113,600	1,355,000
Piribebuy	1,000,000	1,000,000	923,000	930,000	1,448,560
San Bernardino	2,481,960	2,583,000	2,303,000	2,809,557	3,364,781
San Estanislao	700,000	747,354	770,000	1,193,505	-
San Ignacio	1,277,000	1,379,000	1,379,000	1,362,500	1,362,500
San José de los Arroyos	872,500	895,000	908,000	950,000	981,000
San Juan Bautista(Mis.)	1,221,500	1,662,300	1,605,000	1,574,700	1,742,000
San Lorenzo	5,765,000	6,000,000	6,000,000	6,196,500	9,103,682
Villa Hayes	1,103,000	1,125,000	1,146,000	1,146,000	1,119,500
Villa del Rosario	950,000	1,086,000	1,086,000	1,073,000	1,096,000
Villa de San Pedro	2,821,000	2,225,000	2,203,000	1,796,000	1,958,200
Villarrica	10,119,178	-	9,872,000	8,609,000	12,282,000
Villeta	850,000	1,937,000	-	1,177,000	1,550,000
Yaguaron	1,600,000	1,383,000	1,510,000	1,994,500	2,052,060

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ANNEX II-J

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CATEGORY II

I n G u a r a n i e s

	1966	1967	1968	1969	1970
Ybycuí	987,000	897,000	788,600	1,161,000	1,390,000
Caapucú	446,700	446,700	446,700	571,000	534,900
Capitán Miranda	350,000	350,000	380,000	460,000	420,000
Cambyretá	380,160	380,160	394,160	420,000	440,390
Carmen del Paraná	499,900	499,900	492,000	449,000	449,200
Fuerte Olimpo	684,000	631,000	631,000	131,000	631,000
Guarambaré	570,500	541,000	532,000	541,000	541,000
Col. Independencia	412,177	414,444	-	474,950	474,950
Isla Pucú	488,000	457,500	447,000	1,030,000	1,114,000
Limpio	600,000	621,000	585,000	585,000	585,000
Quiindy	600,000	705,000	750,000	1,012,624	1,000,000
San Juan Nepomuceno	430,000	454,000	454,000	485,100	485,100
Tobatí	650,000	-	650,000	650,000	710,000

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PARAGUAYAN POPULATION GROWTH AND PROJECTIONS BY URBAN, RURAL  
 AND SHIFTS FROM RURAL TO URBAN, 1960 - 1965

Year	Urban <u>1/</u> Population (1000)	Rural Population (1000)	Rural-Urban <u>2/</u> Population (1000)	Total Population (1000)
1960	622.9	1,128.3	1.6	1,751.2
1961	642.6	1,158.8	1.8	1,801.4
1962	663.5	1,190.9	2.0	1,854.4
1963	685.5	1,224.5	2.1	1,910.0
1964	708.7	1,259.8	2.2	1,968.5
1965	733.3	1,296.7	2.5	2,030.0
1966	758.9	1,335.1	2.5	2,094.1
1967	786.2	1,375.0	2.7	2,161.2
1968	814.7	1,416.2	2.8	2,230.9
1969	845.1	1,460.4	3.1	2,305.5
1970	875.5	1,503.5	3.4	2,379.0
1971	908.4	1,550.8	3.4	2,459.2
1972	942.6	1,599.5	3.6	2,542.1
1973	978.1	1,649.7	3.7	2,627.8
1974	1,014.8	1,701.5	3.8	2,716.3
1975	1,052.9	1,754.9	3.9	2,807.8

1/ Urban in Paraguay includes all villages of whatever size. Defining rural as all less than 2,500 would eliminate 110 towns with a total population of 110,843 and set urban and rural at 29.7 and 70.3 percent respectively.

2/ Number of persons shifting from rural to urban.

Source: Rural, urban and total population to 1965, and total population projections to 1975, Secretariat of Planning. Rural and urban projection 1965 to 1975 calculated as follows: 1960-1975: A .1 percent shift per year in population from rural to urban. 1966-1975: A .14 percent shift per year in population from rural to urban.

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ANNEX II-K

Page 2 of 2

ESTIMATED POPULATION BY URBAN AND RURAL 1950 - 1970

Location	1 9 5 0		1 9 6 0		1 9 7 0	
	Number (1000)	Percent	Number (1000)	Percent	Number (1000)	Percent
Paraguay	1,343.1	100.0	1,752.1	100.0	2,379.0	100.0
Total Urban	466.0	34.7	622.9	35.6	874.2	36.8
Asuncion	209.9	15.6	294.4	16.8	437.0	18.4
Other Urban	256.1	19.1	328.5	18.8	437.0	18.4
Rural	878.1	65.3	1,128.3	64.4	1,504.8	63.2

Source: Census of Population and Housing, by Esteban Lederman and Arnaldo Silvero, "La Planificación de los Recursos Humanos en el Paraguay", Revista Paraguaya de Sociología, No. 12, August 1968, page 20.

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AID 1240-2 (1-71)

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant Marine Act of 1936, as amended

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(1) The Government of Paraguay has made substantial progress in new programs designed to increase food production. During the period 1964 to 1969 production of wheat increased from 8,800 MT to 32,000 MT, soybeans from 10,000 MT to 22,000 MT, and rice from 20,000 MT to 27,100 MT. Further expansion of food production is planned.

(2) Recently the GOP enacted a new investment law (Ley No. 216, Nov. 9, 1970) which offers advantageous terms for foreign investors. A private Development Bank (COMDESA) created with AID assistance is now operating. The GOP has repeatedly encouraged foreign private investors and strongly supports AID's investment guarantee programs.

AID 1240-2

*(3) Increasing the public's role in the developmental process.*

(3) This project, the educational development program, and the recent creation of regional development committee in the principal cities outside Asuncion, will increase the public's role in the development process. The GOP provides land to colonists and technical assistance to small producers.

*(4) (a) Allocating available budgetary resources to development.*

(4)(a) Paraguay allocates substantial portion of its national budget to development.

*(b) Diverting such resources for unnecessary military expenditure (see also Item No. 16.) and intervention in affairs of other free and independent nations. (See also Item No. 14.)*

(4)(b) AID/W has reviewed the level of Paraguay's military expenditures and found it to be within acceptable limits. A considerable part of the Army's Engineer Command is devoted to construction of farm-to-market roads. There is no known intervention in the affairs of other countries.

*(5) Willing to contribute funds to the project or program.*

(5) The GOP is making a substantial contribution (\$400,000) to the project. It will also provide the project with its annual operating expenses.

*(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*

(6) The GOP has recently passed eight tax measures which, together with improved collection efforts increased tax revenues from \$6.7 billion in 1967 to \$8.5 billion in 1969. It is expected that the GOP will enact shortly a revised income tax law which will be broadly based.

*(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*

(7) Paraguay adheres to the principles of the Act of Bogota and the Charter of Punta del Este.

*(8) Attempting to repatriate capital invested in other countries by its own citizens.*

(8) Not applicable since Paraguay's investment in other countries is negligible.

*(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*

(9) A new Constitution was adopted in Nov. 1967, which, by providing a popularly elected bi-cameral legislature, increases popular participation in government. Paraguay is demonstrating a clear determination to take effective self-help measures as shown by recent increase in collection of various kinds of taxes, and contributions from its own sources toward agriculture and educational reform. The GOP has demonstrated its determination to implement CLAP and AID recommended self-help measures.

*B. Are above factors taken into account in the furnishing of the subject assistance?*

B. The above factors have been taken into account in the furnishing of subject assistance.

Treatment of U.S. Citizens

2. FAA § 620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*
  2. No such cases are known to exist in Paraguay.
  
3. FAA § 620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*
  3. Not applicable.

4. FAA § 620(o); Fishermen's Protective Act, §.5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

4. Not applicable to Paraguay as it is an inland country without any fishing activity in international waters.

a. *has any deduction required by Fishermen's Protective Act been made?*

Not applicable.

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

Not applicable

Relations with U.S. Government and Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*

5. Not applicable.

6. FAA § 620(j). *Has the country; permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*

6. There have been no incidents or damage by mob action against U.S. property in Paraguay. Adequate measures have been taken to prevent them.

7. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
7. Paraguay has signed a Specific Risk Guarantee Agreement with the U.S.
8. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
8. Paraguay is not in default on interest or principal on any AID loan.
9. FAA § 620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
9. Not applicable. Paraguay has consistently maintained diplomatic relations with the United States.
10. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
10. Paraguay is not delinquent on its U.N. obligations.
11. FAA § 620(a). *Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?*
11. According to the best information available, Paraguay allows none of the prescribed activities.

12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?
12. The Secretary of State has determined that Paraguay is not controlled by the communist movement.
13. FAA § 620(f). Is recipient country a Communist country?
13. No.
14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?
14. Paraguay is not in any way so involved.
15. FAA § 620(n), Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?
15. According to the best information available, no Paraguayan ships or aircraft transport cargoes to or from North Viet Nam.

Military Expenditures

16. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with PFC/MAS.)
16. Nineteen percent of Paraguay's budget for 1970 was allocated to the Ministry of Defense. An estimated \$1.2 million in foreign exchange resources were spent on military equipment in 1969 (no figures available for 1970). No funds were expended on sophisticated weapons systems. AID/W has determined that Paraguay is not devoting an unnecessary percentage of its budget for military purposes.

CONDITIONS OF THE LOANGeneral Soundness

17. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*
17. Loan terms are consistent with U.S. and Paraguayan laws. The lending terms of the loan are considered reasonable in comparison with other sources of financing available.
18. FAA § 251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*
18. The activity is concluded to be economically and technically sound. The application for this loan, plus detailed discussions before and after receipt of the application give sufficient information and assurance that the funds will be used in an economically and technically sound manner.

19. FAA § 251(b). *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*
19. It is concluded that Paraguay has the capacity to repay and that there is reasonable assurance of repayment.
20. FAA § 611(a)(1). *Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?*
20. There will be financial and technical assistance plans prior to the signing of the loan. A reasonable estimate of the cost to the U.S. of the activity to be financed has been obtained.
21. FAA § 611(a)(2). *If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?*
21. Congressional ratification of the loan is necessary. Legislation establishing IDM must be enacted. Based on the stated interest of the GOP and assurances from the Executive Branch, there is a reasonable basis to anticipate that legislative action will be taken in time to permit orderly accomplishment of loan purposes.
22. FAA § 611(e). *If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?*
22. See Annex I for Mission Director's Certification.
23. FAA § 251(b). *Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.*
23. Financing for this project is not available from other free-world sources, including private sources within the U.S.

Loan's Relationship to Achievement of Country and Regional Goals

24. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
26. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
- (a) The effect on democratic economic, political, and social institutions will be a direct one. Improved local government and the services rendered will create a positive environment help to bring about increased faith in the governmental process and broader citizen participation. (b) They will assist in increasing food needs by developing the municipalities of the interior as better collection points for marketable production. (c) A major objective of this loan is to improve the quality and quantity of local government officials in order that they can be better administrators in matters of general administration and tax collection. (d) The proposed public works to be financed by IDM, slaughter-houses, markets, roads, multi-use community centers, etc. will have a direct effect on improving health conditions. (e) Through improved local government and public works projects and with the technical and financial assistance of IDM, this loan will make a major contribution to increasing local industry, while improving local planning and public administration.
25. The project is not susceptible of execution as part of a regional project.
26. This project is consistent with Paraguay's development plan and AID's program. The project will made a significant contribution to improving life in rural areas of Paraguay.

27. FAA § 251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
27. Insofar as improvement in local government, including new public works and facilities, is essential to economic development, this project will contribute to the achievement of self-sustaining growth.
28. FAA § 281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*
28. The objective of this loan is to increase the role of local government and the participation of local communities in the development plans in the interior of Paraguay. The loan will assist in the creation of a Paraguayan institution which can give technical and financial assistance to rural municipalities. In this way local government improvement will be encouraged.
29. FAA § 281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*
29. The loan is a response to the recognition of the particular needs, desires and capacities of the municipalities in the interior of Paraguay. They will seek to mobilize local support and participation through the technical and financial assistance programs of IDM.

30. FAA § 601(a). *Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.*
30. The loan will make a substantial contribution to improve the efficiency of industry, agriculture, and commerce by upgrading the quality of local government in the interior of Paraguay. The various public works projects that will be financed by IDM will make substantial improvements in these and related fields.
31. FAA § 619. *If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?*
31. Not applicable.
32. FAA § 251(h). *Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.*
32. The loan is consistent with the finding and recommendation of CIAP in its 1970 review.
33. FAA § 251(g). *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*
33. The loan is not directly related to the development of cooperatives, however, it is believed that it should provide an indirect stimulus to formation of cooperatives.

34. FAA § 209; § 251(b)(8).  
*Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*

34. No direct relevance; however, the loan will promote regional development within Paraguay. Municipalities on the frontier will receive financial and technical assistance which should promote further economic integration.

Loan's Effect on U.S. and A.I.D Program

35. FAA § 251(b)(4); § 102.  
*Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.*

35. The bulk of the loan will be for local costs, although a substantial amount will be for foreign exchange costs in the United States or other countries of Latin America. The loan will have no adverse effect on the U.S. economy.

36. FAA § 601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

36. U.S. private trade and investment abroad will be indirectly encouraged through increased exports of agricultural products and by-products.

37. FAA § 601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*
37. Although untying policies open procurement of these services to other countries, it is anticipated that the GOI would prefer U.S. assistance.
38. FAA § 602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*
38. The bulk of the loan will be for local costs, however, AID regulations regarding U.S. small business will be complied with when applicable.
39. FAA § 620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*
39. Not applicable.
40. FAA § 621. *If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly available, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*
40. All technical assistance will be contracted from private individuals and firms.

41. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

41. Through the intermediary of IDM, an intermediate credit institution, all the loan funds will be used for purchases from private exporters.

Loan's Compliance with Specific Requirements

42. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

42. Yes

43. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

43. The loan agreement will require considering the utilization of excess property.

44. FAA § 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?

44. Commodities purchased with loan funds will have their source and origin in the United States or other countries as determined by the President.

45. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
45. No bulk commodity purchases are plan
46. FAA § 604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?
46. This provision will be included in the loan agreement.
47. FAA § 604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
47. Not applicable to this loan.
48. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?
48. Not applicable to this loan.
49. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that may be let on a competitive basis to maximum extent practicable?
49. Invitations for bids for construction work will be solicited by IDM.

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50. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
50. Not applicable.
51. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.
51. The GOP will contribute local currencies required for the project to the maximum extent possible. There are no U.S. owned foreign currencies available for this project.
52. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?
52. No such payment will be made under this loan.

53. App. B 106. *If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract is?*
53. All contractors and the terms of their contracts will be approved by USAID.
54. App. B 108. *Will any loan funds be used to pay U.N. assessments?*
54. The loan agreement will preclude such use of loan funds.
55. App. B 109. *Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).*
55. The loan agreement will reflect this requirement.
56. FAA B 630(i). *Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?*
56. Loan funds will not be used to finance non-U.S. manufactured motor vehicles. The loan agreement will preclude such use of loan funds.
57. App. C 401. *Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?*
57. Loan funds will not be used for publicity or propaganda purposes within the U.S.

58. FAA § 620(k). *If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?*
58. Not applicable to this loan.
59. FAA § 612(d). *Does the U.S. own excess foreign currency and, if so what arrangements have been made for its release?*
59. There is no U.S. owned excess foreign currency available for this project.
60. MMA § 901.b. *Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.*
60. This provision will be included in the loan agreement.

TRANSLATION

MINISTRY OF INTERIOR

Note No. 18

January 26, 1971

Mr. Peter M. Cody  
Director, U.S. A.I.D. Mission  
to Paraguay  
Asuncion, Paraguay

Dear Sir:

This is to submit through you a formal application to the Agency for International Development (A.I.D.) for financial assistance for municipal development in Paraguay.

We have been having discussions with USAID representatives during the last six months in relation to this problem and have reached the conclusion that the establishment of a Municipal Development Institute (IDM), would be the most expeditious way to improve living conditions in the interior communities of the country.

The assistance requested from A.I.D. would be used to finance the Municipal Development Institute project. This new organization will be created through an act of Congress in its next session, or possibly sooner, by a law from the Executive Body. The IDM will be authorized to grant loans to municipalities for implementation of public works. The IDM will provide necessary technical assistance to municipalities, especially in the administrative and accounting fields.

Since the IDM will be a new agency which would greatly benefit the people of Paraguay, and particularly those living in the interior of the country, the Government of Paraguay will contribute to the project an amount equivalent to \$400,000 for initial capitalization costs. The Government of Paraguay hereby requests from A.I.D. a loan in the amount of \$2,000,000 for IDM capitalization.

I have discussed the problem of financing with the Minister of Finance and he agreed that the Government of Paraguay would contribute to the project the above mentioned amount, through a combination of regular budget resources and PL 480 funds. The Minister of Finance has given assurance that the IDM will have sufficient financial assistance to meet its annual operations costs.

Translation

Ministry of Interior  
Letter to Mr. Peter M. Cody

In summary, the Government of Paraguay has given high priority to the improvement of living conditions in the municipalities of the interior of the country. The project that we intend to undertake is an ambitious one in terms of resources required, but it is rather modest if we consider the needs of these municipalities and those of the population in the interior of the country. We hope that with the financial assistance from A.I.D. we may be able to establish an Institute which will contribute substantially to the economic and social development of the country.

/signed/ Sabino A. Montanaro  
Minister of Interior

TRANSLATION OF LETTER RECEIVED  
FROM MINISTRY OF FINANCE

No. 30

February 4, 1971

Mr. Peter M. Cody  
Director, USAID/Paraguay  
Asuncion, Paraguay

Sir,

I am pleased to refer to letter No. 18 dated January 26, 1971 from the Ministry of Interior.

In the above letter the Ministry of Interior requests a loan of \$2,000,000 (TWO MILLION DOLLARS) from the Agency for International Development for the establishment of an Institute for Municipal Development (IDM) which will make loans and provide technical assistance to Municipalities of the interior of the country.

As you are aware, the Government of Paraguay, within its development plans, gives high priority to the development of towns in the interior of the country. In support of this project the Government of Paraguay would be pleased to seek new resources for capitalization of the IDM to contribute with an amount equivalent to \$400,000 - divided into four equal portions, to be disbursed in a period of four years, plus an annual amount from GOP resources to help finance annual operations costs of the IDM. The partial contribution for capitalization of the IDM will be made from funds generated by PL 480, as available, and in agreement with the U.S. Government, and these will be supplemented with the new resources.

In view of the interest of the National Government in improving living conditions in the interior of the country, there are justifiable reasons for the establishment of a municipal institute able to provide efficient assistance to local municipalities and communities.

Sincerely,

/signed/ General D.I.M.(SR) Cesar Barrientos  
Minister of Finance

C O P Y

CUERPO DE PAZ  
Asuncion - Paraguay

Avenida España 341  
(entre Estados Unidos y Brasil)  
Telef. 24-775

Casill de Correo No. 402

29 January 1971

Mr. Peter M. Cody, Director  
US/AID  
Asuncion, Paraguay

Dear Mr. Cody:

Peace Corps/Paraguay is willing to provide Volunteer back-up to the Municipal Development Institute, as described in your preliminary loan paper.

Besides numerous Peace Corps Volunteers (65) located in the interior, usually in the municipalities mentioned in the loan paper, we would be interested in future PCV assignments supportive to the goals set for in the proposed loan. This could include technical skills such as engineers, craftsmen, community developers, and teachers.

Details of specific assignment can be worked out later with the IDM officials and/or the various municipalities.

/signed/ James F. Sherman, Director  
Peace Corps/Paraguay

TRANSLATION OF LETTER RECEIVED  
FROM MINISTRY OF FINANCE

ANNEX IV-D  
Page 1 of 2

No. 20

January 16, 1971

Mr. President  
Inter-American Committee on  
the Alliance for Progress (CIAP)  
De Carlos Sanz de Santamaria

Dear Sir:

I have the pleasure to direct myself to the President and, by his intercession, to the Members of this Committee, to make reference to the conclusions and recommendations of the final meetings of the CIAP sub-committee for Paraguay held in Washington October 13-16.

I am pleased to express to the President that, in the past year, in Note No. 107 dated March 25, in the name of the Government of Paraguay, I expressed the setting of the commitments assumed before this organization and the adoption of other parallel measures decided by the National Council of Economic Coordination.

We are able to state that the current general economic situation is reaching encouraging levels and that the year just ended showed that monetary reserves, like the figures for exports, registered considerable increases which with returns from tourism will allow us to improve our position on Balance of Payments.

As a result of the Parliament decision to approve the Income Tax, already approved by the Chamber of Deputies, and with modifications introduced in the Senate, the Nat'l Government will convene during the course of the first two weeks of February in the National Congress the pursuit of the study of the law and its corresponding approval.

At the same time, allow me to express to the President that the National Government will give special attention to the implementation of following measures:

- 1) Gradual reduction of the export exchange rate charge and especially the freeing of the new regulations on exports;
- 2) Regularization of the Temporary Acceptance and the Drawback;

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Page 2 of

TRANSLATION OF LETTER RECEIVED  
FROM MINISTRY OF FINANCE

- 3) Reduction of the 50% customs charge on products which are favorable to growth of tourism;
- 4) Limitation on free entry of imports;
- 5) Continuation of the process of improving the system of tax collections established in the previous year.
- 6) Analysis of the programs to increase the usefulness of public entities and neutralize as far as possible deficits found.
- 7) Creation of an Executive Secretariate to improve mechanisms pertaining to control of foreign indebtedness.
- 8) To terminate during the course of the first six months studies of projects of Laws on Administrative and Financial Organization and on the Public Treasury.

Confident that this note will be of interest to the President and the international financial institutions which have cooperated in our country, I am taking this opportunity to salute you with my most distinguished consideration.

Sincerely,

/signed/ General D.I.M.(SR) Cesar Barrientos  
Minister of Finance

(DRAFT)  
LOAN AUTHORIZATION

Provided From: Alliance for Progress Funds

PARAGUAY: Municipal Development Project

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Part I, Chapter 2, Title VI, Alliance for Progress to the Government of Paraguay ("Borrower"), to be implemented by Instituto de Desarrollo Municipal (IDM) of not to exceed two million United States dollars (\$2,000,000) to establish a fund ("Project") to assist in financing the United States Dollar and local currency costs of equipment material and services necessary to provide financial and technical assistance to municipalities throughout Paraguay. This loan shall be subject to the following terms and conditions:

Interest and Terms of Repayment

Borrower shall repay the loan to AID in United States dollars within forty (40) years from the date of the first disbursement under the loan, including a grace period not to exceed ten (10) years. Borrower shall pay to AID in United States dollars on the disbursed balance of the loan interest at the rate of 2% (two percent) per annum during the grace period and 3% (three percent) per annum thereafter.

2. Other Terms and Conditions

(a) Except for marine insurance and ocean shipping, goods and services financed under the loan shall have their source and origin in Paraguay and countries included in AID Geographic Code 941. Marine insurance financed under the loan shall have its source and origin in Paraguay or any country included in AID Geographic 941, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive

-2-

basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in AID Geographic Code 941.

(b) United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to AID.

(c) Borrower shall covenant to provide at least the equivalent of \$400,000 in support of this Project and according to a schedule satisfactory to AID. Borrower shall also covenant to provide adequate funds in its annual budget for IDM's annual operational expenses

(d) Prior to any disbursement or to the issuance of any Letter of Commitment under the Loan for the purpose of financing the technical assistance and purchase of equipment, Borrower shall submit, in form and substance satisfactory to AID, evidence that it has duly organized IDM in form and substance satisfactory to AID.

(e) Prior to any disbursement or to the issuance of any Letter of Commitment under the Loan for any purpose other than to finance the technical assistance, Borrower shall submit, in form and substance satisfactory to AID:

(i) Evidence that IDM's governing body has been appointed and has hired management, both satisfactory to AID, and has made staffing arrangements, including requisite technical skills, satisfactory to AID.

(ii) Evidence that the policies and procedures governing the conduct of IDM's operations have been approved by IDM's governing body and are satisfactory to AID.

(iii) Evidence that Borrower has contributed at least the equivalent in local currency of \$100,000 to the capitalization of the Project for the first four years. Not more than fifty percent of which shall be PL 480 counterpart. In addition, Borrower shall pledge to contribute for IDM's annual operating expenses at least the equivalent in currency of \$40,000 or 16% whichever is higher of all land taxes collected by all Paraguayan municipalities except Asuncion.

(f) Unless AID shall otherwise agree in writing IDM shall not:

-3-

(i) Finance projects in whole or in part from disbursement hereunder if such financing would cause its total assistance to any single municipality to exceed the equivalent of \$100,000 dollars.

(ii) Finance projects, if such financing exceeds the equivalent of \$35,000.

(iii) Make loans for more than ten (10) years maturity or charge a rate of interest exceeding the (10) ten percent on loans financed by AID funds per annum on the disbursed balance of sub-loans.

(iv) Make grants in whole or in part from the funds provided by AID to any municipality.

(g) Unless AID otherwise agrees in writing AID, Borrower and IDM shall jointly hold a formal review and evaluation of the Project no later than twelve (12) months after execution of the Loan Agreement. Such reviews, unless otherwise agreed to in writing by AID, will be held annually.

This loan will be subject to such other terms and conditions as AID may deem advisable.

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project:  
From FY 1977 to FY 1980  
Total U. S. Funding \$ 2,000,000  
Date Prepared: February 1977

Project Title & Number: MUNICIPAL DEVELOPMENT - AID Loan 526-L-022

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS																				
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1) To promote the socio-economic development of local communities in Paraguay.</p> <p><u>Sub Goal:</u> To strengthen the municipalities economically and politically and to modernize the administration of municipal governments.</p>	<p>Measures of Goal Achievement: (A-2) CY 74 75 1/</p> <p>Initiation of the following sub-projects: 23 street paving projects (160,000 sq.mts.); 12 market buildings; 7 slaughterhouses; 3 water supply systems. Increased revenues in at least 20% through instruction in municipal administration. General community development plans adopted by 3 municipalities.</p>	<p>(A-3)</p> <ol style="list-style-type: none"> <li>1. Review of IDM records and reports.</li> <li>2. Inspection of developing and completed projects.</li> <li>3. Checks of improved municipal administration procedures.</li> <li>4. Reports from outside consulting firms.</li> </ol>	<p>Assumptions for achieving goal targets: (A-4)</p> <ol style="list-style-type: none"> <li>1. Adequate political support.</li> <li>2. Local Municipalities will be receptive to recommended changes.</li> </ol>																				
<p>Project Purpose: (B-1) To establish an Institute for Municipal Development capable of providing administrative, technical and financial assistance to the 163 municipalities throughout Paraguay.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2)</p> <ol style="list-style-type: none"> <li>1. AID loan fully disbursed and IDM is effectively operating with rollover funds.</li> <li>2. IDM operates effectively without external technical assistance and continuously engaged in providing technical assistance to municipalities.</li> <li>3. IDM would have a solid financial base.</li> </ol>	<p>(B-3)</p> <ol style="list-style-type: none"> <li>1. Review of IDM financial records</li> <li>2. IDM progress reports</li> <li>3. IDM financial statements</li> </ol>	<p>Assumptions for achieving purpose: (B-4)</p> <ol style="list-style-type: none"> <li>1. Capable manpower is available.</li> <li>2. IDM able to enforce new policies developed by consultants.</li> <li>3. IDM will adopt procedures for reinvesting income on sub-loans in new loans.</li> </ol>																				
<p>Project Outputs: (C-1)</p> <ol style="list-style-type: none"> <li>1. Personnel trained <u>2/</u></li> <li>2. Internal courses for IDM staff</li> <li>3. Loan applications received (No./value)</li> <li>4. Procedural Manuals (prepared/used)</li> </ol>	<p>Magnitude of Outputs: (C-2)</p> <table border="1"> <thead> <tr> <th>CYs</th> <th>74</th> <th>75</th> <th>76</th> <th>77</th> </tr> </thead> <tbody> <tr> <td></td> <td>4</td> <td>3</td> <td>3</td> <td>-</td> </tr> <tr> <td></td> <td>25/500</td> <td>75/1500</td> <td>50/1000</td> <td>50/1000</td> </tr> <tr> <td></td> <td>20/20</td> <td>-</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	CYs	74	75	76	77		4	3	3	-		25/500	75/1500	50/1000	50/1000		20/20	-	-	-	<p>(C-3)</p> <ol style="list-style-type: none"> <li>1 - 4. IDM records</li> </ol>	<p>Assumptions for achieving outputs: (C-4)</p> <ol style="list-style-type: none"> <li>1. Qualified personnel available for training.</li> <li>2. Adequate courses are available.</li> <li>3. Incorporation of Training Unit in normal functions of IDM.</li> </ol>
CYs	74	75	76	77																			
	4	3	3	-																			
	25/500	75/1500	50/1000	50/1000																			
	20/20	-	-	-																			
<p>Project Inputs: (D-1)</p> <ol style="list-style-type: none"> <li>1. <u>AID</u> Technical Assistance Local training Sub loans <u>\$2,000,000</u></li> <li>2. <u>GOP</u> Regular Budget a. Operating costs b. Sub loans <u>\$ 600,000</u></li> </ol> <p><u>ICF</u> Real Estate Tax Alcoholic Beverages Tax</p>	<p>Implementation Target (Type and Quantity) (D-2)</p> <table border="1"> <tbody> <tr> <td>\$ 400,000</td> </tr> <tr> <td>50,000</td> </tr> <tr> <td>1,550,000</td> </tr> <tr> <td><u>\$2,000,000</u></td> </tr> <tr> <td>\$ 200,000</td> </tr> <tr> <td>400,000</td> </tr> <tr> <td><u>\$ 600,000</u></td> </tr> </tbody> </table>	\$ 400,000	50,000	1,550,000	<u>\$2,000,000</u>	\$ 200,000	400,000	<u>\$ 600,000</u>	<p>(D-3)</p> <ol style="list-style-type: none"> <li>1. USAID records</li> <li>2. Ministry of Finance and IDM budgets</li> </ol>	<p>Assumptions for providing inputs: (D-4)</p> <ol style="list-style-type: none"> <li>1. GOP able to meet planned level of inputs on a timely basis.</li> <li>2. Municipalities make timely legal contributions to IDM.</li> </ol>													
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Targets will be established annually by IDM and AID.

2/ Targets will be developed in June 1975.

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