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MUNICIPAL DEVELOPMENT INSTITUTIONS IN LATIN AMERICA

Interim Report

Presented to

Office of Development Programs
Bureau of Latin America
Agency for International Development

Prepared by

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January 1975

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Mr. Arthur D. Silver
Office of Development Programs
Bureau for Latin America
Agency for International Development
Washington, D.C. 20523

Ref: Indefinite Quantity Contract AID/cm/otr-C-73-199
Work Order No. 6

Dear Mr. Silver:

In accordance with our discussion yesterday and the terms of the above cited Work Order, we are presenting herewith our interim report on Municipal Development Institutions in Latin America, assessing the Instituto de Fomento Municipal of Guatemala and comparing it with our prior study, IFAM After Two Years (Reference: IQC AID/csd-3376, Work Order No. 5).

This report contains two of the planned three chapters of our study. Chapter One is our assessment of INFOM, based on our field work in Guatemala during November and December 1974. Chapter Two discusses common themes which emerge in comparing INFOM with IFAM, the Instituto de Fomento y Asesoría Municipal of Costa Rica. As we have agreed, Chapter Three will be written following our planned visits to the MDI's in the Dominican Republic and Venezuela, now scheduled for February and March 1975, and will discuss general policy and programming issues for AID's consideration in its assistance to rural municipal development.

We have been fortunate thus far in our work, encountering a genuine interest in our evaluation and complete cooperation in carrying it out, in the MDI's and the USAID's in both Guatemala and Costa Rica. We appreciate the time and complete access which all have provided--without it our work would have been less comprehensive and satisfactory.

Sincerely,

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Study Director

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TABLE OF CONTENTS

	Page
General Introduction	i
Chapter I - INFOM: The Second Case	
Approach to and Summary of the Study of INFOM	1
Section I - Municipal Government and INFOM Described	5
Introduction	5
A. The Municipal System	5
B. INFOM: 1957-74	9
1. Founding and Charter	9
2. Management and Organization	10
3. Personnel	12
4. Physical Environment	15
5. Municipal Project Process and Activity	16
6. Budget Levels	21
7. Planning	23
Section II - Analysis of INFOM as a Development Agent	27
Introduction	27
A. Municipalities in Guatemalan Development	27
1. Municipal Role and Attitudes	27
2. Municipal Finances and Administration	29
3. Physical Conditions - Basic Services	32
B. INFOM and the Municipalities	34
1. Project Lending Process and Activities	34
2. Institutional Development	53
C. Institutional Capacity of INFOM	57
D. AID Relationship	69
E. INFOM in Transition	73
Section III - Recommendations	76
A. Strategy and Policy	76
B. Organization and Procedures	79
C. Legal Matters	84
D. Financial Matters	86
E. AID Support	88

TABLE OF CONTENTS (cont.)

	Page
Chapter II - INFOM and IFAM Compared	
Introduction	91
Section I - Comparison of Country Characteristics and Municipal Systems	92
A. National Characteristics	92
B. Municipal Systems	94
Section II - Municipal Development Institutions Compared	96
A. Charters and Goals	96
B. Strategies and Policies	98
C. Impact on Municipalities	100
D. Institutional Capacity and Viability	103
E. AID Relationships	108
Appendices	
A. Municipalities Visited	111
B. Principal Interviews	112

LIST OF EXHIBITS

Exhibits		Page
I-1	INFOM Organization - 1968	11
I-2	INFOM Organization - 1974	13
I-3	Professional Personnel Distribution of INFOM	14
I-4	Simplified Project Preparation Process	17
I-5	Budgets of INFOM 1972-74	22
II-1	Basic Needs of Guatemalan Municipalities	33
II-2	INFOM Project Lending Activity 1970-74	38
II-3	Regional Distribution of INFOM Loans to Municipalities 1970-74	40
II-4	Credit Assistance to Municipalities with INFOM and Foreign Aid Funds - Budgeted and Actual - 1970-74	60
II-5	AID Project Expectations and Evaluation Findings	70
III-1	Proposed Organizational Model for INFOM	81
Two-1	Comparative National and Municipal Data - Costa Rica and Guatemala	93
Two-2	Institutional Comparisons -- IFAM-INFOM	97

MUNICIPAL DEVELOPMENT INSTITUTIONS IN LATIN AMERICA

General Introduction

In April 1973, Checchi and Company began a series of activities spanning two years which serve as the basis for this report. The work has been directed at a variety of purposes and clients, but the unifying theme has been to provide the Latin America Bureau of the Agency for International Development with an assessment of municipal development in the region, of AID's involvement in municipal development institutions (MDI's), and recommendations for future support for such agencies.

USAID/Costa Rica and the Costa Rican Institute of Municipal Development and Assistance (IFAM) requested AID/W collaboration in early 1973 in contracting for an evaluation of the first two years of IFAM's program and activities. Checchi performed the work during April and May of 1973 under our Indefinite Quantity Contract (IQC) with the central evaluation office of AID. The funds were provided by USAID/CR, while the scope of work was largely developed in AID/W to provide a basis for the broader comparative study.[1] Checchi was contracted by USAID and IFAM for continuing evaluation and assistance in implementing the recommendations of the initial study. This has been carried out during intermittent visits to Costa Rica beginning in February 1973 and will terminate in February 1975.[2]

Our assessment of the Guatemalan Institute of Municipal Development (INFOM) was arranged in November 1974 under the IQC mechanism and AID/W funding. The final phase, planned for February and March 1975, is to include visits to the Dominican Republic and possibly Venezuela,

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[1]The report on this work is entitled IFAM After Two Years, June 1973, written by Pirie M. Gall and Jack C. Corbett, Checchi and Company.

[2]This work is covered in a series of memorandum reports to the management of IFAM, covering such matters as reorganization and regionalization; indicators of municipal development; planning and utilization of research in programming and evaluation; and integration of lending functions with technical assistance and training.

whose MDI's have been past recipients of AID resources. The principal analyst throughout this activity, Pirie M. Gall, has also visited Bolivia, and is familiar with the initial activities of the MDI which became operational there during early 1974, the National Urban Development Service (SENDU).

In our work we have adopted an institutional view of the MDI's, rather than an AID project view. We have assessed the agencies in terms of their overall programs and role in the development of their countries, rather than limiting our assessment to their use of AID resources and compliance with the terms of AID loans and grants. In the case of IFAM this distinction is less clear than in that of INFOM, since IFAM's first two years were effectively made possible by and defined to a great extent by the AID loan. INFOM was established and had carried on a wide range of activities several years before AID funds were injected. Thus, while we have studied the AID input and its effects, it has been done within a broader context.

We have also emphasized the relationship of the MDI's to the largest and most needy group of municipalities which are the small towns which function as rural centers. While recognizing the complex challenges associated with urbanization in the national and regional capitals, it is clear that those cities have relatively more financial and human resources to cope with their problems, while the smaller communities are generally those most in need of the funds and technical advice which the MDI's were organized to provide. We have therefore devoted the largest part of our attention to the problems of the MDI's in serving local governments which are closest to the dynamic of rural development.

This report is divided into three chapters, each prepared with a slightly different audience in mind. Chapter One is our report on INFOM, The Second Case, and will be of primary interest to INFOM and USAID/Guatemala. Chapter Two discusses comparative issues found in

IFAM and INFOM, and will be of interest to the two institutions, the USAID Missions in Costa Rica and Guatemala, and AID/W. Chapter Three, which will be presented in March following additional country visits, will consist of General Analysis and Recommendations on MDI's, and will be of primary interest to AID/W. The report can be divided into separate mini-reports for selective distribution and/or translation as appropriate.

CHAPTER ONE

INFOM: The Second Case

APPROACH TO THE STUDY OF INFOM AND SUMMARY OF RECOMMENDATIONS

Any scope of work, especially one prepared for inter-country comparison, undergoes modification when it is applied within the circumstances of a specific national setting, and our evaluation of INFOM bears this out. Our three-man team spent eight man-weeks in Guatemala, interviewed key INFOM personnel at length, reviewed numerous legal and program documents, visited nine municipalities distributed over the four points of the compass, and attended a national assembly of mayors. We interviewed national planners, USAID officials, consultants to INFOM, municipal officials, and local residents affected by INFOM-supported projects.

We had to be selective and in some cases limited in our gathering of information, due to time constraints. We drew up questionnaires to use in our sessions at the local level. The questionnaires were used as a guide to maintain uniformity in collecting information, rather than as true survey instruments. In many cases we learned in the field of important additional questions to ask, and found that some of our initial inquiries were not appropriate or fruitful. Thus, during the course of the study the focus of the study itself began to sharpen and shift. Questions about training received from INFOM were not useful because there had been none. Inquiries about local knowledge of national programs helpful to municipalities were of little use since the municipalities had not been assigned a key role in national development, nor were therefore systematically informed about it, and further, many of the mayors were newly elected. Matters of program and policy in INFOM's history prior to 1970 were not covered in discussions with the staff since there had been almost a complete change of personnel with the change in general manager at that time. We did not devote much effort to analysis of administrative and accounting procedures or practices since they had been exhaustively analyzed by IBAM in 1972, and a team of Puerto Rican consultants had been engaged

to assist in carrying out the IBAM recommendations. We encountered newly-assigned project officers in USAID, a newly-appointed INFOM general manager, and relatively newly-installed municipal administrations. It is also the period during which a new five-year national development plan is being prepared.

Given this situation as we stopped the clock in Guatemala, we feel that it is important to state explicitly the principal themes which emerged as our work proceeded.

> First, we discussed and considered at some length the existing and potential role of the municipality in Guatemala's development, and the conditions, resources, and programs which might be required to augment that role to make the much-respected autonomy (provided by law and invariably extolled in rhetoric) more of a reality.
>
> Second, we examined the resources and strategies available to INFOM and required for it to take the leadership in strengthening the municipal system.
>
> Third, we evaluated the projects being provided through INFOM's efforts in terms not only of fulfillment of their planned purposes, but whether those types of projects are sufficient to the needs at the municipal level and adequate to an expanded municipal role in economic as well as other forms of development.

In the course of our work we were gratified by the reciprocal interest in these issues of General Manager Fernando Cabrera and his staff, as well as their complete hospitality and cooperation in providing office facilities, local and field transport, senior staff escorts in the field (Carlos Prera, Planning Chief and Alfredo Vidal, Chief of the Water and Drainage Division), and free access to information and informants. We concentrated on these themes because they emerged as the important ones, and because the Guatemalans appeared to share our concerns. In addition, it is our judgment that they are the basic issues in AID's assistance to municipal development institutions in the region.

Summary of Principal Recommendations

This listing is tied to the text in Section III which discusses related findings and ancillary considerations. We urge readers to look at that section in order to fully understand our judgments.

A. Strategy and Policy

1. Place emphasis on total municipal development through national and local partnerships.

2. INFOM should tie administrative and financial assessments and assistance to its lending program.

3. INFOM should strengthen its research, planning, and evaluation functions.

4. INFOM should seek to diversify and refine its credit policy.

5. INFOM should decentralize many of its activities to regional offices, especially process assistance.

6. INFOM might take the lead in establishing a Council on Municipal Reform as part of the partnership of municipal development at the national level.

7. INFOM should adopt its strategy changes by planned stages in an integrated manner.

B. Organization and Procedures

1. INFOM must be restructured in order to carry out a broader program of municipal development.

2. INFOM should begin as soon as possible to broaden the capacity of its staff and improve personnel incentives.

3. INFOM should utilize contracting with specialized institutions and experts in order to broaden its capacity.

4. INFOM should make a standard procedure of including benefit estimates in project preparation.

5. INFOM should proceed with carrying out the IBAM recommendations for improving internal operations, but making sure that they are appropriate and are tied to the planning of new program directions.

C. Legal Matters

1. The municipal election cycle should be altered to provide for more continuity in local administrations.

2. INFOM should provide leadership in developing a modern municipal tax code.

3. The confusion regarding cadastral surveys should be straightened out at an early date.

4. INFOM should make efforts to assure that the national budget percentage for municipalities is used for developmental purposes.

D. Financial Matters

1. Improvements in INFOM's institutional planning should result in improvements in financial planning and performance.

2. Financial planning should distinguish clearly between those activities financed by banking operations and fees, and those requiring subsidization.

3. INFOM should seek to make more effective use of its existing capital through leveraging techniques.

4. INFOM should raise more money.

E. AID Support

1. USAID/G should establish close relations with the INFOM Planning Unit, and consider providing grant support and technical assistance for diagnostic studies and the formulation of improved programming for rural municipalities.

2. AID could direct its efforts toward the possibility of a package of special purpose assistance to INFOM to bring selected municipalities into the stream of national development.

3. Any future AID assistance to Guatemalan municipalities should be channelled as a package through INFOM, although specific activities might be contracted by INFOM to other entities.

4. Any new assistance to INFOM should be designed to produce changes and improvements in the entire institution.

SECTION I

Introduction

Section I describes the factual context of our study of INFOM for those readers not familiar with the background and situation in Guatemala. The municipal system is briefly described, as well as a summary history and basic facts about INFOM, with principal emphasis on its recent activities. Section II is our analysis, based on our visits to municipalities and our study of INFOM as we found it, in a phase of re-examination of its program and resources and transition to a changed scope of activity. In Section III we present our recommendations drawn from the analysis of the municipalities, the institution, and discussions with persons outside of INFOM with concern for the local government's role in Guatemalan development.

A. The Municipal System

According to the Guatemalan Constitution of 1965 and the Municipal Code of 1957, municipalities are autonomous units of government. They are empowered to generate revenue from rents and production yielded by community property or lands, from taxes on local production, on parking, and to levy service charges on municipal facilities. They have legislative and police powers. Their responsibilities include the planning, execution and operation of basic services such as drinking water, drainage, slaughterhouses, markets, and street cleaning. The code also requires that municipalities establish committees concerned with (1) municipal finances and property; (2) food and public health; (3) urbanization, public works, and feeder roads; (4) education, culture, and tourism; and (5) agriculture and forestry.

The 326 municipalities are divided into four categories under the Code, as summarized in the table below:

CATEGORY	CRITERIA	NUMBER IN CATEGORY	AVERAGE INCOME[1] 1974 (Quetzales)
I	Population more than 100,000 and Department capitals	21	166,800
II	Population 10,000 to 99,999 and ports	113	53,680
III	Population 5,000 to 9,999	96	18,340
IV	Population 1,000 to 4,999	94	11,450

Clearly, the municipal system of Guatemala is principally composed of small towns. 190 municipalities have fewer than 10,000 inhabitants, and in Category II, 83 have fewer than 25,000. Together these categories comprise 84% of the total. The tax bases and human resources of most of the towns are therefore extremely limited. The average income figures indicate the limitations as well.

In nearly all areas of the country the municipalities typically include a large rural area surrounding a small town center, resembling more closely a county or New England town than a city in the United States.

Each municipality is directed by a mayor and city council. Municipalities in the Central District, or those which have more than 30,000 inhabitants, or are Department capitals elect their administrations every four years; the rest hold elections every two years. Mayors are required by law to be literate, though this has not always worked in practice. In general, the educational level of mayors in the smaller towns is low.

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[1] Includes ordinary and capital income. One Quetzal equals one U.S. Dollar. Figures obtained from the Plan de Apoyo Básico - 1975, which exclude Guatemala City and Nueva Concepcion.

The principal administrative positions at the municipal level are those of Secretary and Treasurer. In Category IV municipalities the jobs are often combined in one official. While these positions are frequently held by individuals with several years of experience, they have little formal training for the position, and may be replaced by each newly-elected administration. The continuity of municipal government therefore may vary widely.

The municipalities depend for their financing on a revenue sharing system as well as on locally-generated income. National taxes on gasoline, liquor, beer, and coffee are destined for the municipalities under a formula administered by INFOM. After a fixed percentage has been allocated to Guatemala City, the remainder is split between the municipalities according to category and INFOM, which retains 50 percent to be used to assist municipalities in their development. Beyond this arrangement, Article 237 of the Constitution provides for an unspecified percentage of the national budget (ordinary income) to be distributed to the municipalities in a "technically planned" way. This provision has not yet been satisfactorily fulfilled from a municipal standpoint.

Other institutions in the municipal system include ANAM, ANEM, the Municipal Personnel Board, and INAD. The mayors formed the National Association of Municipalities (ANAM) in 1961, headed by law by the Mayor of Guatemala City, as a way of acting jointly on matters of common interest. ANAM has a small staff of advisors, a budget of about Q 36,000 per year, and the Guatemala City Mayor's office has provided technical and informational services to the municipalities. Annual assemblies are held, during which issues are discussed and demands presented to the national government regarding perceived needs for financial and technical support.

ANEM is the National Association of Municipal Employees, which seeks to represent the interests of that group. In 1973 a Municipal

Service Law was passed in order to regulate the terms and conditions of municipal employment and eventually to establish a modern civil service for local government. The law established a Municipal Personnel Board, which during its first year set up its own operations, heard grievances from municipal employees, and began work on devising a municipal employment system which would guarantee the rights of employees, and presumably set common standards.

The National Institute of Development Administration (INAD), through its Municipal Affairs unit, has provided training for municipal employees intermittently during recent years, and under an AID grant prepared a series of manuals on various administrative topics for use at the local level.

At this stage we should probably note that we have used the word "system" rather loosely, in that the various elements described here are by no means an integrated whole, nor are their interests necessarily mutual in all respects. They have tended to operate quite independently, at times even in isolation or opposition, but they are all potential institutional actors in the dynamics of municipal development.

While the Guatemalan municipalities share many characteristics and problems, their differences also deserve mention. Geography and cultural diversity are important factors. In the Western highlands local economies are based on subsistence farming characterized by minifundios or communal lands farmed under traditional Indian customs. At the same time, this is one of the regions of major interest to tourists. Commercial-scale farming of major export crops (coffee, sugar, and cotton) is located along the Pacific lowlands, producing seasonal labor demand for migrant workers from the mountains, as well as problems of rapid urbanization. In the eastern and northern regions agriculture is a mixture of small-holding, livestock-raising, and commercial farming, where the municipalities cover large areas. Here

the cultural patterns are less distinctively Indian, as the ethnically mixed ladino predominates. As in nearly every Latin American country there is also an extensive "outback", the Peten region, a large area of tropical forests, scarcely connected with the rest of the country, and just beginning to be developed through colonization and tourism. As we will discuss in more detail later, these variations in socioeconomic conditions are probably of more significance in planning Guatemala's municipal development than the existing system of classification according to population.

In summary, the Guatemalan municipality is in most cases small (in terms of population and area), poorly financed, managed by low-paid, frequently changing and untrained personnel, and suffers from a lack of continuity and direction in providing the basic services for which it is legally responsible. Municipal autonomy has more rhetorical than real meaning. The rest of this report discusses these realities of the Guatemalan municipal system, and the activities past and future undertaken by INFOM to alter these realities.

B. INFOM: 1957-1974

1. Founding and Charter

The creation of INFOM was a logical development in the policy of the Guatemalan Government to enhance the autonomy of the municipalities. For many years, the municipalities were obliged under the highly centralized form of government to seek financial and technical assistance from ministries and agencies of the central government, approaching the appropriate organization depending on the type of assistance required. The success of the municipalities in this search and pleading for help depended heavily upon the political strength and personal interests of town officials and on their contacts in Guatemala City. The results were not related to any coherent development plan of the municipality or objectively determined need for the projects.

The desire to break this pattern of municipal mendicancy and dependence led not only to the new Municipal Code of 1957, but to the establishment of INFOM in the same year. At INFOM, municipalities could approach an institution as a matter of right and using their own credit to seek assistance in financing projects, in training their municipal officials, and in planning their development.

INFOM was established as an autonomous state institution, assuming capital and functions of the Municipal Credit Department of the National Mortgage Credit Bank, and beginning its operations under an organic law passed in the same year as the new Municipal Code. INFOM's founding legislation charged it with providing financial, technical, and administrative assistance to municipalities. In addition to serving as a development bank to finance public works, INFOM was to provide assistance in municipal taxation and financial management, in administration of municipal affairs, and to serve as a depository and distributing agent for certain portions of national revenues destined by law to supplement or subsidize municipal governments and operating budgets. INFOM was to be essentially self-supporting, its operations to be budgeted out of interest earning and nominal service charges, its capital augmented by retaining a fixed percentage of the national revenues, by issuing bonds, and by international borrowings.

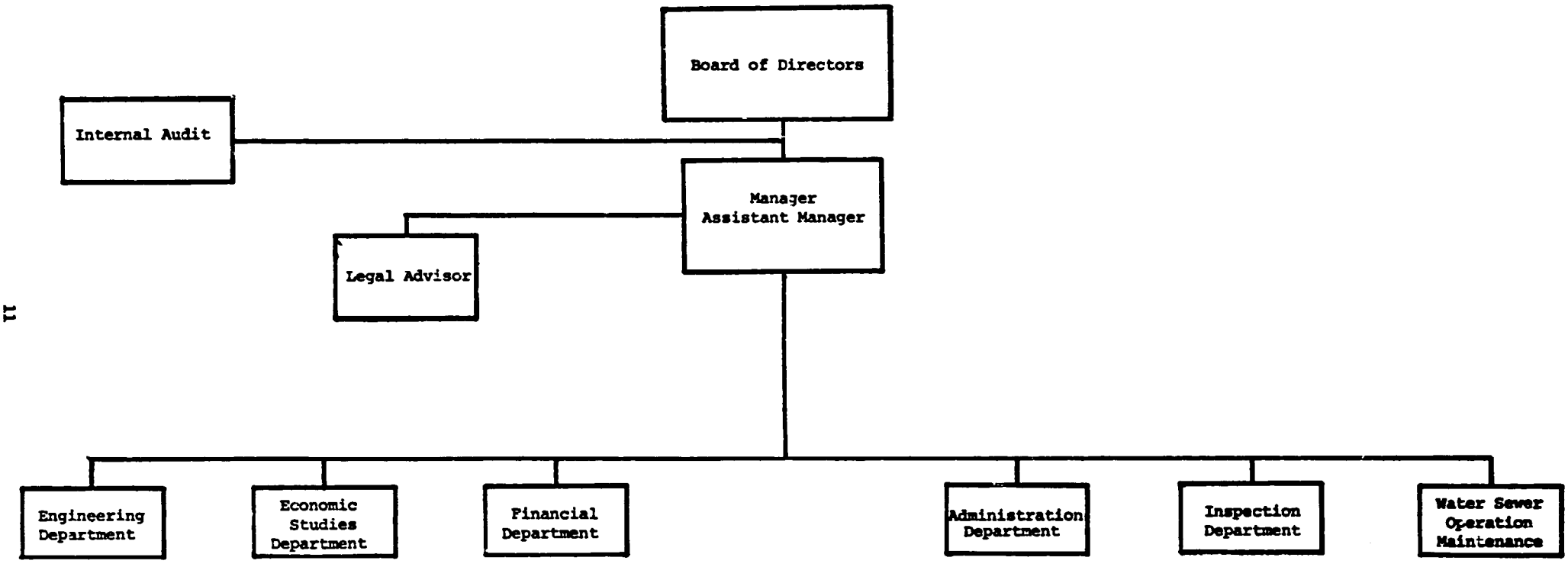
2. Management and Organization

Its management was entrusted to a three-member Board of Directors, one named by the President, one by the National Association of Municipalities (ANAM) and one by the National Monetary Board. The General Manager as well as the Chief Auditor is named by the President of the Republic from a list of nominees presented by the INFOM Board.

INFOM has undergone a series of organizational changes in response to its growth, its relations with international lenders, and the differing management styles of its managers. As shown in Exhibit I-1, by the end of the 1960's there were four substantive units having

Exhibit I-1

INFOM Organization - 1968



Sections:

- Design
- Calculation
- Supervision

Sections:

- Economic
- Financial
- Credit

Sections:

- Accounting
- Commercial

Sections:

- Personnel
- Library and Records
- Secretarial Service
- Maintenance
- Reproduction and Documents

Source: Checchi and Company adaptation from AID Capital Assistance Paper.

operational relationships with the municipalities, the Departments of Engineering, Inspection, Economic Studies, and Water and Sewage Operation and Management, the latter apparently established to assure maintenance of the IDB-financed projects. In addition, there were staff and support units including Departments of Administration and Finance, a legal advisor and the internal audit staff.

In 1970, with a change in top management came a major personnel change in which only a handful of technicians and professionals were retained. Major departments became divisions, with Water and Drainage becoming a separate Division. A new division was created and called External Loans to administer project activity financed with international credits. A Financial Division was set up, combining the functions of economic studies of municipalities and preparation of subloan agreements using INFOM's funds and intended to be the advisory unit on municipal finances and administration. The Engineering Division was basically the same as under earlier department structures, and the Administration Department became a Division. An information unit was created. By 1973 the organizational structure had evolved to the form presented in Exhibit I-2.

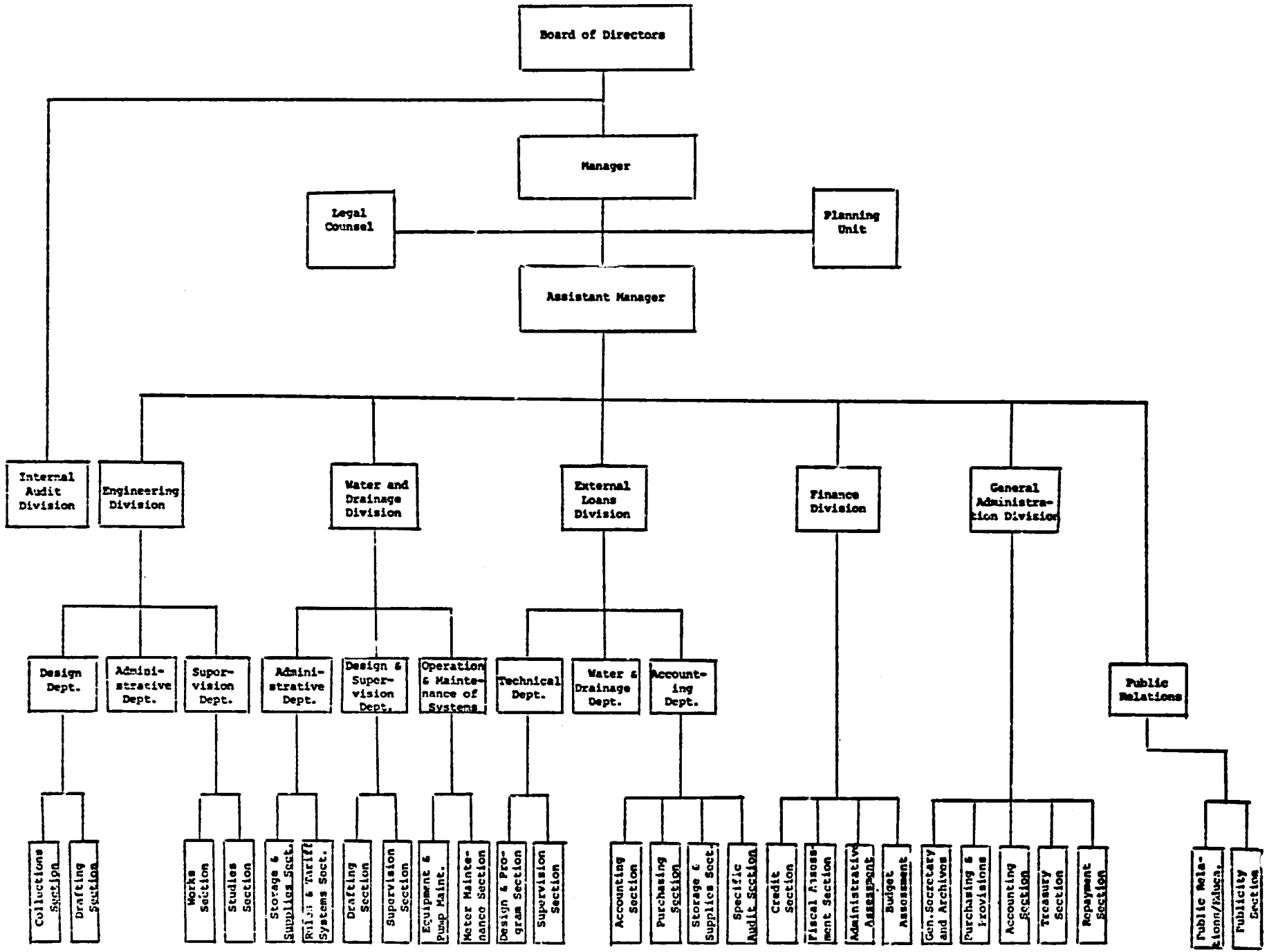
The External Loans Division, staffed by engineers, was provided with its own accounting unit, motor pool, and a budget separate from that of the rest of INFOM. The External Loans Division Chief has authority to sign checks, and the unit is supervised fiscally by a team detailed from the Chief Auditor's staff. INFOM has no regional offices.

3. Personnel

INFOM's technical and administrative staff can be divided into three predominant groups, of which the most numerous are those in engineering, architecture, and related activities like drafting, surveying, and construction supervision, who make up 50 percent of the non-clerical personnel. Exhibit I-3 shows that the next most

Exhibit I-2

INFOM Organization - 1974



Source: Checchi and Company translation. Chart provided by INFOM.

Exhibit I-3

Professional Personnel Distribution of INFOM

	Management	Engineering Division	External Loans Division	Water & Sewer Division	Planning Unit	Administration Division	Finance Division	Legal Department	Public Relations Department	Internal Audit	External Loans Audit	TOTAL
Civil Engineer	1	9	10	5	3[a]							28
Architect		5										5
Journalist									2			2
Lawyer								1				1
Economist					1		3					4
Topographer				1								1
Junior Engineer		2	5									7
Junior Economist							2					2
Practical Accountant			5			9	1		1	4	3	23
Practical Agronomist						1						1
Other Semi-Professionals[b]	1	4		3		7	4	1	7	1		28
Other			6	2		1			1			10
TOTAL	2	20	26	11	4	18	10	2	11	5	3	112

[a]Including INFOM counterparts now working with PAT team.

[b]All graduates of secondary schools with educational equivalent of junior college.

Source: Checchi and Company - Data from INFOM Divisions as of November 1974.

numerous group is that of accountants, bookkeepers, and auditors, who manage the various banking, financial management, and purchasing functions of the Institute. There is a mixture of junior staff, with a broad range of educational backgrounds (teaching, industrial management, and general secondary education) who perform a variety of administrative and support functions.

The General Manager is a secondary school graduate with a long career in government and business management, and there are four economists (one senior level), a part-time lawyer, and two journalists.

Although several of the engineers and architects have had additional training in urban planning, specialized in subjects like monument restoration, or taken courses in management and public administration, there are no fully qualified professionals in public finance, public administration, community development, or such social sciences as sociology, anthropology, or demography.

It is also notable that the Financial Division, which is charged with providing financial and administrative advice to the municipalities, in addition to performing analyses of project feasibility and credit worthiness, has a staff of ten, making up 9 percent of the total staff, in contrast to the engineering group which represents 50 percent.

The personnel system lacks the incentives of most public-sector employment. Each position is tagged with a fixed salary, with no increases for seniority or merit. In order to obtain a salary increase an employee must advance to the next position after his immediate supervisor is promoted, leaves, dies, or transfers laterally. This structure hampers the Institute in its efforts to hire and retain highly qualified personnel.

4. Physical Environment

In terms of office space, INFOM is very well situated, having moved in August to a six-story, newly-constructed building in a residential area of Guatemala City. The building was designed and

built by INFOM for $1.2 million (including land), and at present strength only five floors are being used. In includes underground parking, warehouse space, large conference and Board rooms, a library, and a potential restaurant area.

5. Municipal Project Process and Activity

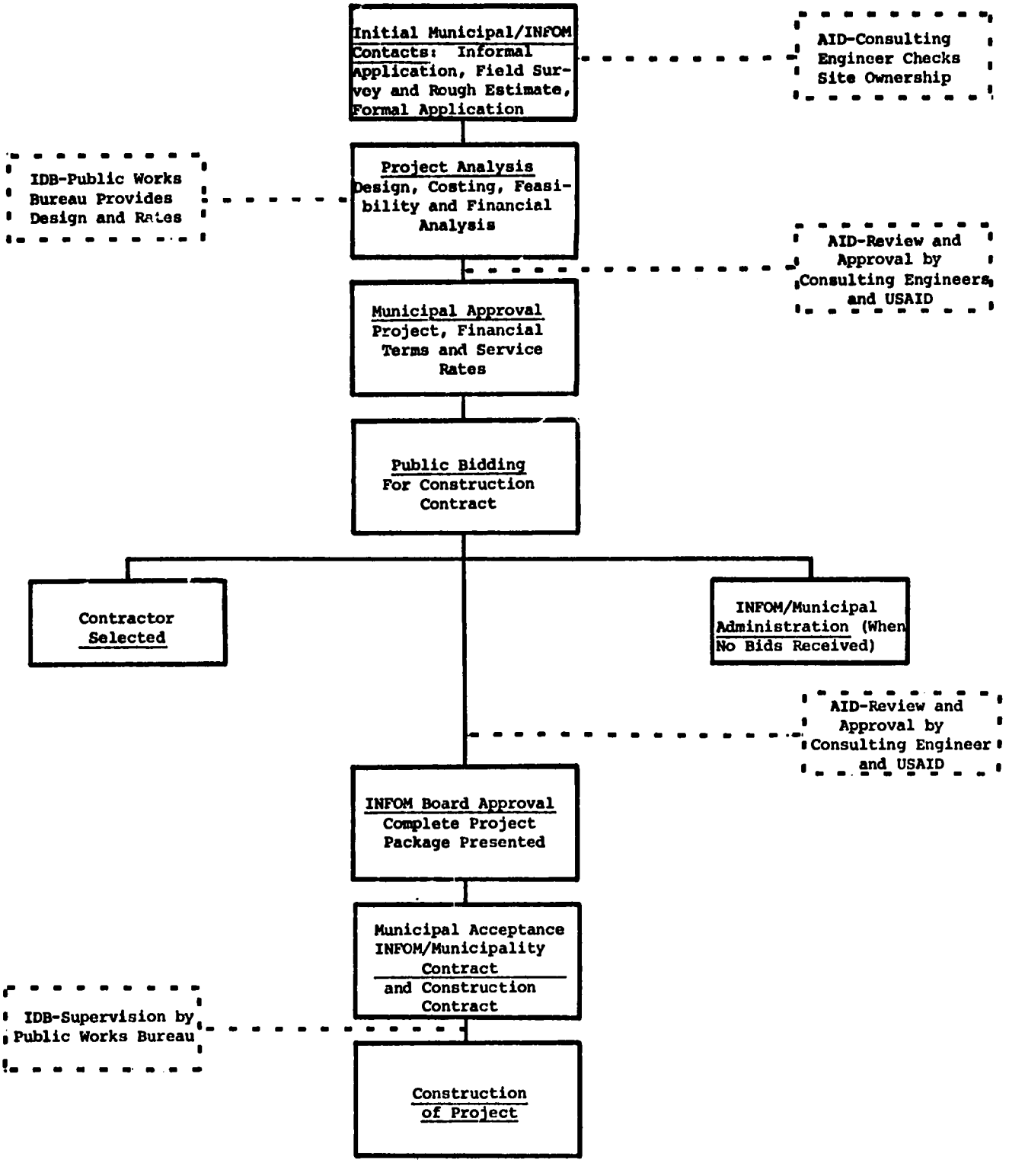
In Exhibit I-4 we have consolidated the typical process by which INFOM receives, prepares, and carries out municipal public works projects under its various loan programs. Within each major step are included a number of related actions. While the process is generally the same for projects financed from INFOM's own capital and those supported by AID or the Inter-American Development Bank, there are some variations or additional actions associated with the foreign loans, as depicted in the exhibit and described below.

In most instances a municipality will discuss its proposed project and its credit capacity informally with INFOM before making a formal request. This may include discussion of the priority of the project, or selection of one from a list of expressed needs. An INFOM engineer will visit the site, explain the lending terms and requirements, make a rough estimate of the magnitude of the project, and assist the municipality in drawing up a formal application supported by a council resolution. The municipality must also prove that it has clear title to the land on which the project will be built.

Project analysis includes, in addition to design and costing, a study by the Financial Division of the municipality's financial and credit status, of the income-producing potential of the project and service rates to be charged. Where time or necessity permits, a review is made of other facilities offering the same services, a form of rough market research. Most of this work, with the exception of the market assessment, is done in INFOM's offices based on data provided by the engineering units.

Exhibit I-4

Simplified Project Preparation Process



Source: Checchi and Company. Adapted from project process charts provided by INFOM.

The project plan is assembled, including design, estimates of costs, materials, and labor required, financing terms and services rates, and is presented to the municipality for its formal approval and resolution.

Once the municipal approval has been received, INFOM publishes the information in the official gazette, and opens invitations for bids by construction firms. Frequently more than one project in a municipality or area will be included in the bid package. If bids are received, a selection is made. If none are received, the project is planned for execution "by administration" under the supervision of INFOM and the municipality. In practice about 25 percent of those funded by INFOM's own resources are carried out by contractors, and about 30 percent of those funded by AID have been contracted. The remainder are being carried out by direct administration.

When all of these steps have been completed, the entire project package is presented to the INFOM Board of Directors for review and approval by resolution. If approved, INFOM draws up the contract with the municipality (and with the contractor, when applicable), and according to a schedule prepared as part of the project plan, supervises the construction. INFOM supervisors (engineers or junior engineers) typically visit the project weekly during construction to assure that specifications are met and schedules are adhered to. INFOM may also provide assistance or direct service in purchasing materials such as pipe, cement, or roofing.

As the exhibit shows, projects funded with AID or IDB funds involve additional steps. Water and drainage projects are designed by the Public Works Bureau of the Ministry of Telecommunications, which also sets the service rates and supervises construction. AID requires that a local consulting engineering firm certify the municipal ownership of the project site, and review all project packages. The USAID Mission must also review and approve all subloans made with AID funds. Presumably

the IDB also approves its subloans at some stage of the process, but we lack specific information on that step.

During construction of projects executed by administration and financed by INFOM capital the municipality takes an active role in hiring the foreman and workers and obtaining materials. INFOM funds pass through the municipal treasury and are accounted for in relation to project progress. INFOM closely examines all financial transactions and audits them. In the case of contracted projects, the agreements are made between INFOM and the construction firm without involving the municipality, and INFOM exercises control over contractor performance and payments. Foreign loan-funded projects are directly managed by INFOM in all cases, with no funds passing through the municipal treasury.

Under the AID project standard designs have been developed by the External Loans Division for markets, slaughterhouses and health posts, whereas for INFOM's own projects the Engineering Division draws up custom designs for each job.

Service fees are charged by INFOM's Engineering Division on projects which it administers from INFOM's own capital. This income defrays 70 percent of the Division's personnel costs. The charge for construction supervision ranges from 2 to 5 percent of the total project cost, depending on the type and complexity of the project. The Division also provides design services for municipalities funding their own projects, charging 8 percent of the project cost (as against 12 to 15 percent in the private sector for similar services).

We have divided the history of INFOM's lending activities into two phases. The early phase spans the period of 1957 through 1969. The latter phase covers the period 1970 through 1974.

The following chart indicates the type and number of projects funded by INFOM from its inception through 1967. The chart also

breaks down by percentage and amount the loans made for each project type. By the end of 1967, INFOM had lent a total of Q 15,994,000.

TYPE	NUMBER	VALUE	% OF LOANS/alue
Water	59	Q 2,162*	13.5
Paving and Sewage	50	3,428	21.4
Markets and Slaughterhouses	116	2,314	14.4
Electrification	77	1,396	8.7
Schools	120	1,012	6.3
Buildings (Municipal offices, clinics, etc.)	94	3,567	22.3
Equipment		1,675	10.4
Miscellaneous		439	2.7
Total		Q 15,994	100.0%

* '000 omitted

During that first phase INFOM lent funds for the construction and improvement of over 600 projects.

In 1968 INFOM funded 57 municipal projects through loans valued at Q 900,000. A breakdown by projects for the years 1968 and 1969 is not available; however, INFOM project lending in 1969 totalled Q 2,165 million.

The early phase of INFOM lending activity was augmented by two loans from the Inter-American Development Bank, both for water and drainage or sewer works in the larger municipalities of the Republic. In 1962, the IDB lent INFOM Q 3.5 million, and in 1966 this loan was followed by a second for Q 3.02 million. The first loan was used to construct 35 water systems and 18 drainage networks. The second loan was used to construct 23 water systems and 7 drainage networks. To administer the IDB loans a separate division known as External Loans was established (see Section B-2 above). Since that time the External Loans Division has had sole responsibility for all funds obtained from foreign sources.

To provide a chronological basis for studying annual INFOM lending volume, using its own capital, the following chart is provided covering the last seven years.

	Q 000
1968	900
1969	2,165
1970	1,039
1971	1,733
1972	1,786
1973	2,310
1974 (50 11/22/74)	1,184
	Q 11,117

Exhibit II-2 in Section II provides a more detailed breakdown of INFOM's lending activities during the last five years. Moreover, it shows the number and costs of IDB-funded water and drainage projects carried out during that period. Finally it elaborates on the AID loan and the uses to which those funds have been put.

Initially AID lent INFOM Q 2.1 million, for planning the funding of 355 basic infrastructural projects in 114 third and fourth class municipalities. The number of projects was subsequently revised to reduce the number of municipal projects to 152 with the total AID/INFOM funding of Q 3.5 million remaining unchanged. As of September 1974, 115 AID-funded subprojects had been approved. IDB loans made during this period totalled 19 while INFOM funded 632 projects from its own rotating loan fund. The grand total of subproject loans made during this second phase was 766. Construction funded by the Institute with its own as well as foreign funds reached 285 of the country's 326 municipalities.

6. Budget Levels

Exhibit I-5 shows INFOM's overall budgets for the last three years. Although we were unable to obtain budgets for prior years, these figures are useful in shedding light on the Institute's projections

Exhibit I-5

Budgets of INFOM[1]
1972 - 1974
('000 Quetzales)[2]

INCOME	1972	1973	1974
Current Income			
Interest on Assets	628	500	500
Charges for Services	125	135	187
Transfers from State Orgs.	3	125	125
Others	7	10	10
Subtotal	762	770	822
Capital Sources			
AID Loan	881	1,151	975
Government Grants	650	650	750
Repayment of Loans	1,300	1,400	1,400
Capital (Dec Law 334)	375	430	500
Bank Deposits:			
INFOM	37	607	228
IDB - 2nd loan	428	557	295
AID	---	297	---
Sales to Municipalities	40	71	81
Subtotal	3,711	5,162	4,229
Grand Totals	4,473	5,932	5,051

EXPENDITURES	1972	1973	1974
Operating Expenses			
Personnel Services	373	524	556
Others	227	246	266
Subtotal	600	770	822
Capital Expenditures			
Acq. Assets for Mun.	40	71	81
Loans and Advs. to Mun.	1,337	900	1,500
Water and Sewer Loans	591	557	295
AID Loan Projects	1,531	2,098	1,725
Work and Consts.	---	1,050	167
Amortization of Debts	375	430	449
Other	---	57	12
Subtotal	3,711	5,162	4,229
Grand Totals	4,473	5,932	5,051

[1]Source: Checchi and Company analysis of INFOM Budgets

[2]One Quetzal equals one U.S. Dollar.

Source: Financial Division, INFOM.

of levels of income and expenditures. Under capital expenditures, none were shown for Works and Construction in 1972, whereas 1973 and 1974 saw substantial outlays for this category. The explanation is that INFOM's new headquarters building was being financed during the latter two years.

The Institute estimated its operating expenses for those three years as 14%, 13%, and 15.2% respectively of total budgeted outlays. Annual reports showing actual levels of overall income expenditures were not available at the time of our visit; therefore a comparable exhibit on the actual budgets for the years in question is not included, and limits the extent of our analysis.

However, budgeted and actual figures on credit assistance have been extrapolated from INFOM's Plan de Apoyo Básico and are expressed in Exhibit II-4 and are analyzed in Section II.

7. Planning

Two forms of planning may be expected of an MDI: (a) municipal planning, or assistance to local governments in identifying needs and planning their investments, and (b) institutional planning of the MDI's own program, as a basis for budgets, staff additions, and the like.

We were told that during the administration of one of the managers of INFOM in the early 1960's there was a unit which engaged in city planning in the sense of zoning and land use plans for larger towns, known in most of Latin America as planes reguladores. We understand that during three of four years of the existence of this unit, six or eight or these plans were drawn up and presented to the towns. On the appointment of a new INFOM manager, the activity was judged to be ineffective or not sufficiently productive, and it was phased out. Planning advice to municipalities since that time has been handled on an ad hoc basis by INFOM engineers as they visit municipalities which have requested INFOM financing. We were told that this

advice consists of making sure that the municipality is satisfying basic service needs before investing in plaza beautification or swimming pools, explaining INFOM and foreign donor restrictions on project funding, and other loan conditions. Until recently there has been no organized attempt by INFOM to assist municipalities in drawing up inventories of needs and investment plans.

In 1972 and 1973 AID provided grant funds to assist INAD in establishing regional associations of municipalities which would eventually have technical offices, supported partly by municipal contributions and partly by national budget funds. These regional units were to have provided planning as well as administrative aid to the municipalities. The project suffered setbacks during its brief life, including a lack of cooperation between INAD and INFOM, and political opposition (and consequently no financial support) from the national administration during the pre-election months. USAID and INAD finally agreed to suspend the project, with tentative plans to re-activate it if the political climate improved.

INFOM is required by its Organic Law to draw up a Plan de Apoyo Básico[1] (Plan of Basic Support), describing the order of priorities and amounts of its credit assistance to municipalities, and assessing the economic conditions and capabilities of the potential client towns. The plan is to be coordinated with other public investment plans. Although these annual plans were prepared during the early years of INFOM's existence, we were informed that they have not been done since 1970.

In October, 1974, the new administration of INFOM established a three-man Planning Unit. In the short period of time since then, the Unit assembled information from the divisions, analyzed an inventory survey of basic services in 200 municipalities conducted in August by the Engineering Division, prepared and began to implement a new survey of services in all 326 municipalities, and prepared a Plan Básico for 1975.

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[1]Referred to elsewhere in this report as Plan Básico.

The document, which we received late in December when we were back in Washington preparing our report, evaluates the activities of INFOM and the municipal situation for the period 1970-74, discusses a range of concerns for future planning, and makes a number of substantive recommendations for the new year's work of the Institute. The Plan Básico represents an intensive three-month effort by the new unit, and is a valuable source of summary information gleaned from INFOM's records and its municipal relations. We have therefore drawn information from this source, although we have not always reached the same conclusions from the data.

It is planned that the new unit will become a permanent part of INFOM, conducting diagnostic studies of the municipalities as a basis for improved institutional planning. Special budgetary support of Q 100,000 for the unit has been requested from the Central Government for 1975.

By 1974 INFOM had established itself as an effective institution within the area of activity it had carved out, able to respond to municipal project requests for improvement of their basic services, to prepare the required documentation and physical plans, supervise or contract for construction services, and see that the projects were carried out within a reasonable schedule and budget. Predominantly staffed by engineers and architects, operating in an essentially spontaneous, unplanned manner, the institution had evolved into an efficient project production machine, lending about Q 2 million per year to an average of 150 projects during the 1970-74 period. It was not equipped to provide a full range of assistance in financial and administrative matters, having a small staff in the Financial Division, dedicated almost entirely to serving the basic analytical requirements in support of loan project preparation and to the processing of approval for new municipal taxes. INFOM operated apart from INAD, ANAM, ANEM,

and the development planning machinery of the government, its main contacts being with the Bureau of Public Works and occasionally with INDE, the electric power agency and CONACE, the school construction entity.

SECTION II

ANALYSIS OF INFOM AS A DEVELOPMENT AGENT

Introduction

Up to this point our narrative has been principally descriptive, providing factual information on the municipal system and INFOM's activities. Section II provides our analysis as a basis for the recommendations presented in Section III. Subsection II-A presents our observations of the reality of the majority of the municipalities, drawn from our field visits, conversations, and reading. In II-B we comment on the relationships and impact resulting from INFOM's work with municipal governments, with special emphasis on the 1970-74 period. The discussion covers project lending activity in some detail, as well as other forms of assistance. Subsection II-C focuses on INFOM itself, providing our insights as to why the municipal/INFOM relationship has developed in the ways we have observed, and analyzing various elements of INFOM's institutional capacity. INFOM has begun to examine its programs and policies during recent months, and Subsection II-D offers our views of the transitional process. Finally, Subsection II-E analyzes the AID/INFOM interaction, the concepts and impact of the loan and grants which have been introduced by AID in order to provide assistance to the smaller municipalities.

A. Municipalities in Guatemalan Development

1. Municipal Role and Attitudes

It is evident that the development role of most of the municipalities is a very passive one. The dominant attitude at the local level is that the first source of solutions to local problems is the national government. The municipalities continue to stand as supplicants, presenting their petitions to the departmental governors or to the President when he goes on tour. The system, which funnels either shared revenues through

INFOM or projects financed by the national budget, provides little or no control over significant financial resources at the municipal level, and indeed the attitude of many members of the Guatemalan technocracy is that this is appropriate, that the mayors and other municipal officials should have as little opportunity to manage funds as possible.

As we have noted in Section I, the Municipal Code gives the municipalities direct responsibility for a limited range of public, mostly urban services. There are additional provisions for committees on such matters as health, education, agriculture, industry and tourism, but little evidence in practice that anyone at either the national level or municipal level considers these committees to be active, problem-solving arms of the local governments.

The National Development Plan for 1971-74 is revealing of the view of the General Secretariat of the National Council on Economic Planning. The municipal system is classified as a "sector", a vertical activity along with agriculture, industry, and tourism. More than half of the programs discussed in the Annual Operational Plan for 1974 (derived from the five-year plan) are related to Guatemala City, the rest being INFOM's own and foreign-funded public works projects. In other words, the municipal government was not regarded as a horizontal level of governmental action and problem-solving, dealing with all sectors of economic and social change, but was seen as a "sector", and one with a very limited role.

At the local level in third and fourth class municipalities we found very little awareness of the wide range of national development programs which directly or indirectly affect the conditions in most of the country. This is understandable in the case of the alcaldes who had been in office for only a few months, but it was also true of municipal secretaries and treasurers who had held office for more than a decade in several instances. It was apparent that little effort had been made by national agencies (including INFOM) to inform and enlist the cooperation of local government in national programs. The municipal

association, ANAM, did assemble a folder of program descriptions from various agencies, development banks and institutions of higher education, and distributed it at the annual assembly held in Antigua, Guatemala at the end of our visit (December 5-7, 1974). The initiative came from the ANAM advisors who work closely with the Mayor of Guatemala City.

The matter of municipal financial and administrative resources, mentioned above, deserves further elaboration, since it lies at the core of the municipalities' capacity to exercise the "autonomy" which is so frequently praised but so little realized in practice.

2. Municipal Finances and Administration

The INFOM Plan Básico provides a succinct analysis of the financial and administrative conditions prevalent in most Guatemalan municipalities.

- Deficient systems of revenue collection, derived from the long tradition of delinquency and evasion of taxes, service charges, and contributions by the citizenry.

- Tax and rate systems current in nearly all of the municipalities do not correspond to the socioeconomic reality, which can also be described in terms of the obsolete legislation covering the municipal tax structure.

- Annual budgets of income and expenses of the great majority of municipalities, especially those of third and fourth categories, present a series of deficiencies, such as: erroneous estimation of ordinary income and expenditures, constant transfers and adjustments reducing the allocations for investment and increasing those for operations, non-existence of specific investment plans, and absence of periodic budget reviews and liquidations.

- Anachronistic and non-functional accounting systems, especially in municipalities of Categories II, III, and IV.

- Out-dated registers and cadasters, which contain incomplete information on the state of indebtedness of taxpayers, making collection of those debts impossible.

- Lack of knowledge on the part of municipal functionaries and employees of the administrative and legal procedures for collection of municipal taxes.

- Lack of regulations and manuals for the provision of and management of the different municipal services.

- Lack of trained personnel to manage, operate and maintain the various municipal services.[1]

During our municipal visits, in which we concentrated on Categories II, III, and IV, these observations were borne out. Municipal functionaries whom we interviewed, mainly mayors and secretary/treasurers, generally were unable to estimate the amount of the 1974 budget without consulting the files. The budget records, including five-year retrospective histories, showed that the fourth-class municipalities' ordinary budgets were about Q 10,000 per year, that they showed little or no tendency to increase over the period, that many of the taxes and fees brought in less than Q 500 a year, some of them fluctuating between Q 5 and Q 30 per year, and were therefore hardly worth the administrative and bookkeeping effort involved.

The smallest towns generally had a payroll of three or four persons, including the mayor, the secretary/treasurer, and one clerk, sometimes an all-purpose worker to handle the slaughterhouse or market, in other cases one or two policemen. Other functions were handled on a volunteer basis by councilmen who had specific assignments. Repairs to the water system would be handled by a local worker, hired when needed and paid a daily rate as needed. We encountered a handful of secretary-treasurers, those with more than three years of service, who had attended training seminars run by INAD one or two years previously. In many cases where the entire administration had changed with the election, there had been no formal briefing for the new officials on the programs under way, nor regarding the financial status and obligations of the municipality. In all cases the municipal officials whom we interviewed identified "lack of funds...scarce financial resources" as their principal problem in carrying out their responsibilities.

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[1]Translated by Checchi and Company from pages 12 and 13 of the Plan de Apoyo Básico - 1975.

This latter point deserves further comment. During our talks with INFOM technicians and in our observation of the ANAM Assembly it was clear that, like municipalities throughout the world, there is a reluctance in Guatemala to take the tough steps necessary to generate additional income at the local level through new or increased taxes. The principal ANAM demand was for additional central revenues, or for INFOM to release automatically all municipal shares which passed through it. INFOM projects on occasion have been cancelled by municipalities when the self-financing requirements were explained to them, and they realized that the connection or service charges would hit the populace as a new tax seemingly imposed by the mayor and council. Such situations have been overcome by persuasion on the part of INFOM officials and through holding open meetings to discuss the projects, their benefits and costs, but in other instances the municipalities have simply backed away from the commitment.

INFOM's analysis provides additional insights to the financial capacity of the local governments:

> The deficient existing systems of tax collection do not permit the municipalities to develop the potential of their tax base and their economic and social growth. In the majority of municipalities, especially in those of third and fourth category, the linkage of such factors as poverty, unemployment, illiteracy and the passive attitude of the municipal authorities concerning tax collection, creates the situation in which taxation is practically nonexistent and yet the services and works are carried out based on loans from INFOM and/or central government subsidies, with no clear definition of competence. On the other hand, the local tax base is characterized by a proliferation of specific rates or fees, most of which have little if any income potential. Municipal income is raised more from the people on the urban fringe than from those in the rural areas, but it is the town dwellers who benefit the most from local investment. This results in the people of least income contributing most to the municipalities in contrast to the large rural landholders whose interests are not taxed in relation to the amount of income they earn within the municipal jurisdiction; in the same way the wholesale businessmen are generally the ones who are taxed less than or the same as the people of low incomes who carry out small-scale businesses.

The municipal budgets, from which one should be able to estimate the financial situation of the local governments, are confusing and unsystematic documents, with deceiving figures which defy precision and abuse of contingency items and of transfers of amounts especially from works and services to operational costs.

In consequence, the information presented earlier in this report in relation to the distribution of estimated incomes should be taken with a certain amount of caution because the majority of municipalities, especially those of Categories III and IV, use all or almost all of the current income in their treasuries to cover operational costs and even to incur debts...to carry out their small works and services.

Obviously this situation limits the possibilities of the municipalities to establish, manage and maintain the local public services, therefore it is important that the Institute aggressively develop special programs of financial and administrative assistance, preferably in the field, in response to the requisites of the Organic Law.[1]

INFOM's past activity in improving these conditions is discussed below in Subsection II-B.

3. Physical Conditions - Basic Services

Judging by Exhibit II-1 on the following page, while INFOM's lending activity and local action has provided basic service installations in many communities, much remains to be done. The data in this table, drawn from a rapid survey of services conducted by INFOM during October, November, and December 1974, shows that the job of providing the basic services listed has been slightly more than 50 percent completed. The major gaps continue to be in drinking water, drainage, slaughterhouses, and markets, whereas nearly all municipalities have acceptable health units or town halls.

The data in this table should be considered as illustrative of the magnitude of needs, rather than definitive. INFOM staff members, including social promoters, engineers, and economists, made the survey

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[1] Plan Básico - 1975, pp. 24-25. Translation by Checchi and Company.

Exhibit II-1

Basic Service Needs of
Guatemalan Municipalities
(324 Municipalities[a])

Type of Service	Good Condition		Acceptable Condition		Bad Condition		None Present		Total of Bad Condition or None Present	
	No.[b]	%	No.	%	No.	%	No.	%	No.	%
Potable Water	117	36	55	17	123	38	29	9	152	47
Drainage	91	28	32	10	3	1	198	61	201	62
Electricity	233	72	39	12	23	7	29	9	52	16
Market	107	33	55	17	36	11	126	39	162	50
Slaughterhouse	81	25	71	22	81	25	91	28	172	53
Municipal Bldg.	169	52	110	34	45	14	--	--	45	14
Health Unit	243	75	16	5	52	16	13	4	65	20
Totals	1041		378		363		486		849	

[a]Excludes municipalities of Guatemala City and Nueva Concepcion. Data adapted from Plan Basico, table 1-15.

[b]Of municipalities.

Source: Plan de Apoyo Básico - 1975

in a brief period, relying on interviews with municipal officials and personal observation. Judgments about what is "acceptable" or "bad" are subject to wide variation, and there may be situations in which a municipality with more than one town, or because of geographical conditions, will require more than one slaughterhouse or health unit. There may be non-municipal facilities (such as a church-run health post or private electric generator) which are meeting the communities' need in some degree.

In any case, the picture is clear--many municipalities continue to need assistance in providing their citizens with basic social infrastructure.

B. INFOM and the Municipalities

1. Project Lending Process and Activities

a. Project Preparation and Processing

INFOM's 17-year history of project lending has permitted it to develop a standardized procedure for receiving, assessing, and administering loans for municipal public works, as described in Section I, Exhibit I-4. The municipality presents a project idea (or a list of needs) to an INFOM representative, and following a series of discussions, it takes more definite form and INFOM proceeds with its process of analysis, design, and so forth.

We examined examples of loan documents, discussed the procedures with INFOM officials, and interviewed a number of municipal officials whose projects had been funded. We found that in most instances the analysis and procedures started from the assumption that the project was needed, that it was of some high degree of priority at the local level, and that the important business at hand was to develop it as a bankable venture. Municipal development plans do not exist in Guatemala (apart from the capital and perhaps Antigua), so there is no issue of comparing the project against such plans or diagnoses of needs and priorities.

We did not find evidence in the loan documents of explicit measurement of social or economic benefits, or other statements of justification for the projects. We were told by the INFOM technicians that they do at times attempt to persuade municipal officials to apply first for basic projects, and later for recreational facilities or town halls, but that there is no systematic approach to such judgments, nor is a diagnosis of overall community needs a prerequisite to project analysis.

Apparently the municipality's capacity to assume debt for the project is accepted as it is. If a municipality has a weak financial situation, and the project cannot be expected to be self-financing, the project application is discouraged before it is put into the INFOM process. The Financial Division told us that they therefore have no records of applications received, rejected, and processed. If accepted initially, the request almost always becomes a loan project. If a municipality is financially weak, it must wait until its creditworthiness improves; INFOM does not, for reasons explained below, mount an assistance effort to improve the financial situation. As the inventory of needs on a national scale shows, there are always plenty of municipal clients whose projects qualify and who are eligible financially.

In essence, then, the strictly project-related analysis dominates the existing process, with the emphasis most apparently on the engineering, design, and costing techniques necessary to move the project forward. As far as we could determine from examination of the procedures and from observation of the projects from a layman's point-of-view, INFOM is highly expert in this aspect of its work, and we understand that AID's engineering units give INFOM high marks in this respect.

By the time a loan package reaches the Board of Directors of INFOM, it has been carried to the point of contract award or construction planning. INFOM has invested extensive staff time in visits to the field, development of project analysis, designs and other documentation, and the

municipality has formally committed itself and its resources. The approval of the Board of Directors is therefore virtually automatic, because rejection of the project at this stage of the proceedings would be highly wasteful and have a number of other negative repercussions.

We question whether there should not be a preliminary review by the Board of projects under preparation before they reach such an advanced state of de facto mutual commitment. It is true that the Board does issue general guidelines for project priorities, but as we shall see in the following discussion, the effective priorities often emerge very differently under the pressures of the program, and the Board has little control over this outcome under the existing procedure.

In the case of foreign aid loans, INFOM reported few problems at this stage. Having learned the procedures of a foreign donor through its work with the IDB since the early 1960's, the AID procedures were found to be similar in many respects, and were quickly put into practice. The External Loans Division did state that the process for an AID-funded project or subloan sometimes takes as long as three to six months in order to meet source and origin requirements for special equipment (a water pump example was given). The AID requirement for review of subloans by a consulting engineering firm has caused some delays, and we wondered about the need for it, given the known engineering abilities of INFOM. Apparently the firm was used to help develop standard project designs, and according to INFOM now makes little substantive input to proposed projects. Consulting firm review is still a required step, and does produce additional delays in processing. External Loans also reported that the sharing of responsibilities for IDB loans with the Public Works Bureau has caused some confusion and delays. On the whole, however, INFOM appears to have overcome these obstacles (or learned to live with them) and has set up effective machinery for processing its AID-funded projects.

b. Project Distribution

In this discussion, as in other sections of this report, we owe a debt to the Plan de Apoyo Básico - 1975. We found the retrospective analysis of the Plan Básico to be in large measure in accordance with our own, although there were minor variations between the data assembled by INFOM's planning unit, and that which we assembled from various documents provided us by the Divisions of Engineering, Finance, External Loans, and Water and Drainage. In most instances, we have cited the Plan Básico figures, on the assumption that the variations are based on changes in commitments, estimated costs, or operational changes which we did not become aware of or were not reflected in the material presented to us during our brief stay in Guatemala. We have combined some of the tables in the document in order to provide more complete information in less space.

The data provided in Exhibit II-2 confirms that during the five-year period, taking all credit programs (INFOM, IDB, AID) into account, about $7.1 million of the total of $9.7 million project lending, or 73 percent was directed at Category I and II municipalities.

In terms of numbers of projects, Category II received the most, followed by Category III, then IV, with Category I having the fewest number of projects. Other information shows that there were only 35 of the 766 projects for which loans of more than $40,000 were made with INFOM's own funds, but that those projects were concentrated in the larger cities, and consumed about 49 percent of all funds lent from INFOM's own capital.

This information describes a situation which can be interpreted in a number of ways. First, it is logical that larger, more costly projects should be located in the larger cities, which are also presumably the best credit risks, and that conversely there will be a larger number of projects of lower cost scattered through the Category III and IV towns, which are small and financially weak. The two foreign

Exhibit II-2

INFOM Project Lending Activity - 1970-74

PROJECT	By Municipal Category: Category 1 (>100,000)		Category 2 (10,000-100,000)		Category 3 (5,000-10,000)		Category 4 (1,000-5,000)		By Source of Capital: AID[b]		IDB[c]		INFOM[d]		TOTAL	
	Amount[a]	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number
Existing Municipalities	22	100	114	100	96	100	94	100							326	100%
Municipalities Served	19	86	103	90	91	95	72	77							285	87%
Water	466,433	30	651,823	41	326,854	21	126,862	8	132,429	6	405,214	10	1,034,339	84	1,571,982	100
Drainage/Sewage	90,089	19	209,648	45	123,201	26	45,707	10	18,279	1	90,038	9	360,328	38	468,645	47
Paving/Bridges/ Rural Roads	188,968	31	413,626	113	92,846	46	10,566	10	--	--	--	--	706,006	66	706,006	66
Schools	13,895	3	259,091	60	116,055	27	43,294	10	--	--	--	--	432,335	127	432,335	127
City Halls	12,516	1	588,830	69	152,334	18	105,669	12	--	--	--	--	859,349	91	859,349	91
Electrification	298,300	43	199,696	29	125,780	18	65,181	10	--	--	--	--	688,957	65	688,957	65
Markets	1,289,040	33	1,679,288	43	599,280	15	343,903	9	789,025	44	--	--	3,122,486	92	3,911,511	136
Health Posts	--	--	48,409	23	103,268	49	59,519	28	162,870	36	--	--	48,326	10	211,196	46
Slaughterhouses	129,309	42	39,429	13	103,293	34	34,184	11	141,900	28	--	--	164,314	12	306,215	40
Miscellaneous	268,132	46	276,656	47	19,622	3	21,328	4	--	--	--	--	585,739	48	585,738	48
TOTAL	2,756,692	28	4,366,496	45	1,762,533	18	856,213	9	1,244,503	115	495,252	19	8,002,178	633	9,741,934	766

Source: Plan de Apoyo Básico - 1975 - Checchi and Company adaptation.

[a] In Quetzales

[b] As of September 1974

[c] As of September 1974

[d] As of September 1974

loan programs also may skew the figures to some extent, since the IDB loans were contracted to handle large-scale water and drainage problems, presumably in larger cities, while the AID loan was directed specifically at the smallest and weakest, and included a 45 percent grant subsidy. We should also bear in mind the high percentage (over 70) of Category II towns which have 25,000 or less inhabitants. So while there has been an apparent concentration of resources in the larger towns, it has been to some extent inevitable for a banking institution, and the fact that about $4.4 million was loaned in that large Category II which contains many smaller cities (90 percent received loans), softens the negative impact of the finding.

The geographical distribution of projects also has its positive elements. In Exhibit II-3, which shows a regional division proposed by the National Planning Council as a matter of national development programming policy, we find that the principal beneficiary of INFOM credits in dollar terms has been the Western Highlands, followed by the Southeast and the Central Regions. These three regions have absorbed 64 percent of the credits, and include 215 towns, or 65 percent of the municipalities. INFOM's recent survey shows that these are also the regions with the greatest lack of basic services, and we are aware that they have also been the poorest and most neglected regions (leaving aside the Guatemala City subregion of the Central Region) throughout Guatemala's history. The other regions of the country have received portions of the total lending roughly in proportion to the number of towns and presumably of population which they contain.

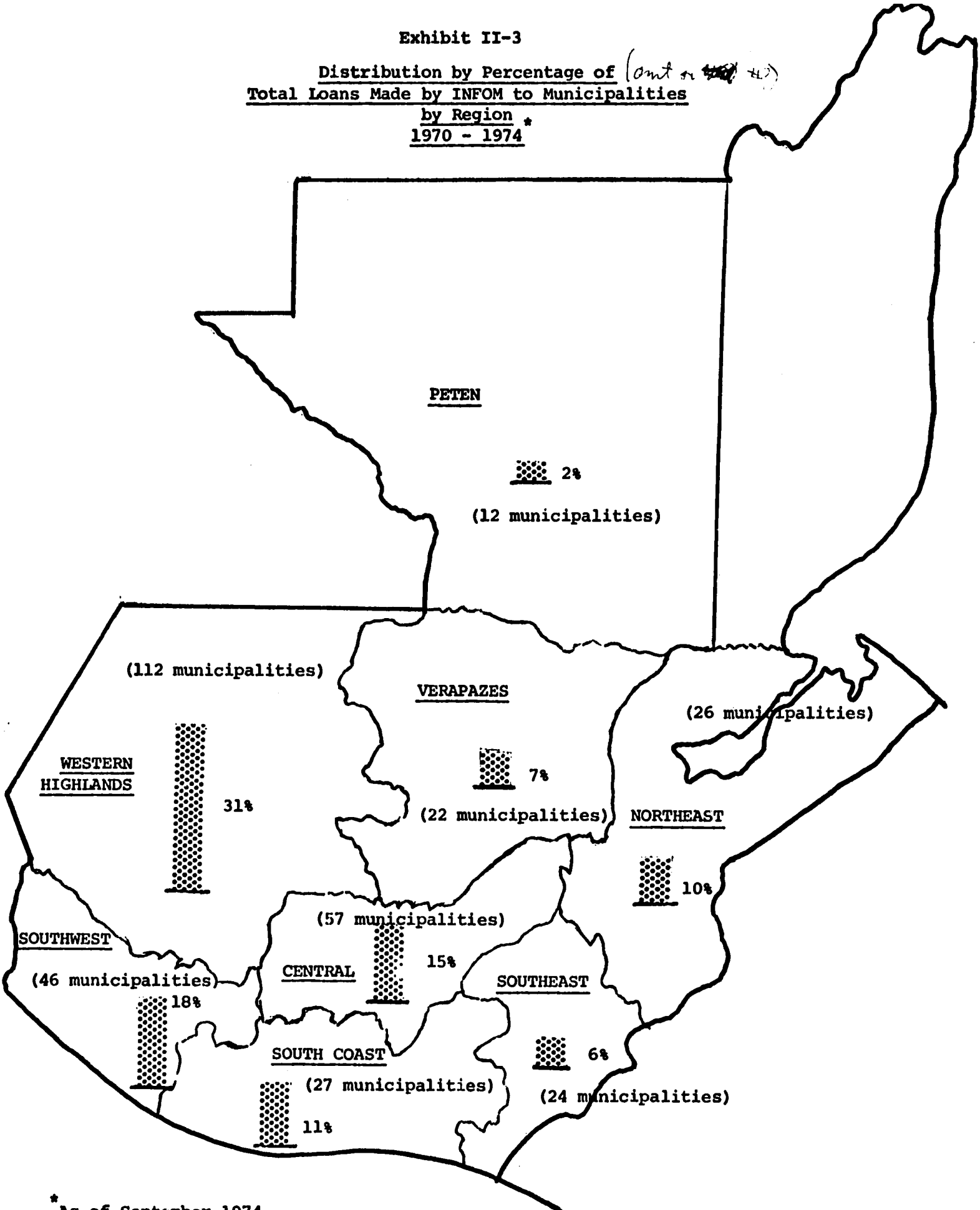
c. "Effective" Priority and Benefits of Projects

During the 1970-74 period the management of INFOM has stated its priorities for project credits in accordance with the Municipal Code in the following order: drinking water, drainage, markets, slaughterhouses, health posts, and schools. A secondary group of projects included electrification; street paving; municipal buildings such as city halls

and what % of credit (# loans or # $?)

Exhibit II-3

Distribution by Percentage of (amt or [illegible])
Total Loans Made by INFOM to Municipalities
by Region
1970 - 1974*



*As of September 1974

Source: Plan De Apoyo Básico - 1975

and community buildings; roads and bridges; and a subcategory of "others" which encompasses recreational facilities, cemetery improvements, beautification projects, and marketing loans to a couple of municipalities which operate their own extensive coffee plantations.

In contrast to the stated priorities there are the "effective priorities" as revealed by the actual allocation of INFOM's capital during the last five years (in response to municipal applications).

INFOM's loans went to the following kinds of projects in order of effective priority: (1) markets, 40 percent; (2) drinking water, 16 percent; (3) municipal buildings, 9 percent; (4) electrification and street paving, 7 percent each; (5) others (land, cemeteries, coffee marketing, machinery and furniture), 6 percent; (6) drainage, 5 percent; (7) school buildings, 4 percent; (8) slaughterhouses, 3 percent; (9) health posts, 2 percent; and (10) bridges and roads, one percent. On this point INFOM's Plan Básico states: "The investments of the Institute have been channelled basically as a function of municipal petitions, which can be termed a program of "credit assistance on request."[1] Clearly when municipal buildings, classified under the Municipal Code as being secondary or discretionary, are in third place in effective priority, and slaughterhouses, classified as basic and essential under the Code, emerge in eighth place, we may conclude that the Institute has not made loans according to its stated priorities.

The possible reasons for this discrepancy between stated and effective priorities is discussed at the end of this subsection. Following is an examination of the various types of projects, based on our field observations.

Markets

Investments in municipal markets by far represent the largest single category of construction, absorbing 40 percent of INFOM's loans.

We visited old markets, new ones, and others funded by INFOM which have been in use for some time. Doubtless, the INFOM markets represent a great improvement over earlier facilities.

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[1] Ibid, page 17.

Their construction appears durable, and aesthetically they are more pleasing than the older markets which were either open plazas or other outdoor areas used as markets on certain days, or ramshackle and unsanitary wooden structures maintained by the municipality. Modern market facilities for rent offer the following: butcher shops, small kitchen/dining rooms, small stores, tables (planchas), and floor spaces (pisos de plaza).

The new markets have running water, indoor lavatories, and much cleaner dining facilities. Their layout is standard and logical.

They are used by both urban merchants and rural peasants who bring their products to town to sell. While the municipalities have invariably raised the rent of the new facilities above those charged for use of the old, fee negotiation and compromise between the municipality and users generally takes place. Fee schedules are an important part of the planning process and in some towns these have been done in consultation with prospective users while in other towns they have been arranged unilaterally by INFOM and the municipality. In the latter case, our user-informants more frequently reported misunderstandings and objections.

Increases in rent do not necessarily bring strong objections. Vendors claim that they do not generally translate the higher rents into higher consumer prices since competition in the marketplace is keen. If rent rises and prices remain the same, then it may be that the seller is losing something. While even a small rent increase can have a profound impact on a poor merchant, we were assured that sellers were not being driven out of business by rent increases. In one town, for example, where a new market was under construction, all stores and stalls had been reserved in advance in spite of rent increases. This supports our belief that, in general, the increased rents charged at INFOM markets are not oppressive.

On the other hand, the vendors did not believe that they were selling more or earning more in the new markets. Those questioned indicated that they were earning about what they had earned before and that was not much, which may, of course, be a predictable response.

The municipalities themselves, however, varied in terms of earnings derived from their new markets. One town was realizing a net income of $500.00 a month from its new market. In other towns where market administration wasn't as good or the rates were not adequate, no net gain was being made.

Since markets have received the largest share of INFOM's investment, presumably based on the assumption that they are an essential part of the municipalities' economic system, it would probably be wise to examine that assumption through a research study. This would require an assessment of food consumption and marketing patterns, to determine whether the public open market continues to play a major role in Guatemalan small-town life, and what its benefits really are to the farmers who sell there, and to the consumer who buys there. Such a study, to be complete and responsible, should also study the social and attitudinal elements associated with such markets.

Water and Drainage Systems

Our discussion of these two projects together shouldn't suggest that they are always undertaken together. They are often installed separately. Yet since they both involve water and their benefits are primarily in terms of health we will treat them as one type of project.

Water and drainage systems account for 21 percent of INFOM project investments during the last five years. Both can be self-financing when administered properly. They could actually become sources of net income for the municipalities.

INFOM water systems mean the introduction of potable water into private homes. Drainage refers to either the systematic removal of human wastes or of washing water from individual homes through a common network of pipes and the final disposal of the sewage.

Both types of systems presumably mean a dramatic improvement in sanitary conditions. Before water systems were introduced people depended on wells, public taps, rivers, and springs for drinking, bathing, and washing clothes. Interviews with water users indicated that the water from the new systems was clean and had no bad effects on drinkers.

Likewise, we received a very positive response from people whose homes were connected to the INFOM-funded drainage systems. Previously, they had used latrines that were generally as unsanitary as they were offensive, and the advantages of indoor flush toilets are obvious contributions to a more pleasant home environment. In the case of wash-water drainage, streams which formerly passed down gutters or in front of houses, collecting in unpleasant pools and used as play areas by children, are eliminated. Both water and drainage systems mean a tremendous convenience for people whose homes are connected. No longer do women have to haul water, often for great distances. No longer are bathrooms a source of germs and foul odors.

Water and drainage systems primarily benefit residents of the urbanized sections of the municipalities. While the water systems extend to the homes of the poor urban dweller as well as the more well-to-do resident, the poor person may not in all cases be able to pay the costs of connecting his home to the system (about Q 40.00 in many cases), and to bear the user charges. The fact that most people within reach of the system find the means to "plug in" is a good indication of the degree to which water and drainage are felt needs.

In spite of the very positive impact of sewage systems on a community, we must point out a disturbing flaw. In the course of our site surveys, we visited the construction of a drainage system which anticipated flushing raw sewage into a small river which is fished and used for drinking and washing water downstream. The system may benefit the people whose homes are connected to the network yet have quite an adverse effect on the rural neighbors who rely on the river. We were informed by the INFOM Water and Drainage Chief that this is a common practice. We strongly feel that some sort of treatment (whether septic fields or more elaborate means) should be incorporated into the preparation of all drainage systems.

real damage.

City Halls

The next largest area of INFOM investment is in the construction of municipal buildings, generally city halls. Some 9 percent of INFOM loans in the last five years have gone to the building and repair of city halls. The benefits of these activities are debatable. They certainly are not used or enjoyed by the majority of citizens except possibly in an indirect sense where a city hall's appearance is more pleasing than was its predecessor's. People in the countryside are even more removed from the new or redecorated city hall.

Yet, if INFOM's purpose is to help breath new life into the municipalities then perhaps it is reasonable to make loans for city halls in selected cases where other basic service needs have been adequately met. The respect enjoyed by municipal government and the city's capacity to marshall development efforts depend among other things on its physical image. The planning, coordination, and administration of municipal activities must be done in facilities conducive to such activities.

So while the benefits of these projects are hard to pinpoint, we hesitate to conclude that they are not worthwhile. We are concerned, as is INFOM, that what is in our view a project of secondary importance has achieved third place in the investment

levels during the 1970's. The buildings are costly projects, are not always built after other needs are met, and may therefore reduce the eligibility of the municipality for more credits to meet greater needs.

Streetpaving, Bridges, and Rural Roads

Residential and commercial streets are paved in the urbanized parts of the municipalities, often using interlocking concrete blocks.

The primary beneficiaries are people who live along the paved streets or own businesses there. People who own vehicles also enjoy a major advantage in such projects. In all, INFOM has invested 7 percent of its loan funds in street paving projects.

These projects can be particularly useful in those areas that endure long, muddy rainy seasons. The advantages accruing--cleanliness, improved appearance, and convenience--are enjoyed by a relatively small group of citizens, however. People in the rural areas derive only occasional, if any, benefit.

Rural bridges and roads, on the other hand, are essential for communication and commerce within a municipal district. They serve rural areas and in turn contribute to the greater municipal development. Yet they account for a mere one percent of INFOM's spending since 1970. Street paving, bridge and rural road building are all expensive and none are income producing until a system of frontage or user charges is put into effect.

Electrification

Roughly 7 percent of INFOM's loans have been used in construction of electrification projects. Electricity in Guatemala is provided by both the Central Government's National Institute for Electrification (INDE) and by smaller private municipal and regional power companies. The type of electricity financed by INFOM loans goes to lighting homes and streets and for powering radios, refrigerators, and other appliances. While the introduction of electricity alone may not result in some particular sort of development, it is undeniably an essential component in any developmental infrastructure. The electrical projects generally serve the urbanized areas and are self-financing. No one particular class of people benefits.

Schools

INFOM has spent a substantial portion of its investment funds on the creation, expansion, and improvement of primary schools. While only 4 percent of its total loans went for this purpose, a total of 127 school projects were carried out, generally in the rural areas. The municipalities share responsibilities for schools with the National Committee for School Construction and CARE. Of course, schools are not income-producing and represent a net loss for the municipality in strict financial terms, but in a country where about 60 percent of the population is illiterate these projects are clearly needed. The value of the buildings to the community can be increased through such uses as adult education, night classes, and the like.

Slaughterhouses

The standard model is a high-ceilinged cement block structure with a killing platform, block and tackle, racks and hooks, and heated tubs for cleaning swine. There are also a toilet, a shower, and a small storeroom. In back of the building is a holding pen, where the animals are brought the night before. The animals are checked by a municipal or health official for evidence of disease, and the slaughtering charge is paid before the animal is penned.

In the smaller towns, between one to five cattle are killed each morning, swine apparently somewhat less often. Charges for use of the facility range around Q 1-2 per animal. In the towns we visited the user charge had been increased by a small margin over that levied for the old facility, which typically had a dirt floor and no equipment for hanging the meat while it was being butchered.

We encountered variations of cleanliness of the relatively new slaughterhouses which we visited, in a couple of instances finding bone piles outside, bits of meat and blood in evidence around tubs and on the floor. In some cases we found that the special equipment had not been used.

If well operated and cleaned, the slaughterhouses are probably a net addition to sanitation and health, benefitting the butchers and those in the town who can afford to eat meat on a regular basis. We observed that a program of training slaughterhouse managers is basic to realization of sanitation benefits, and perhaps to butchers, to assure that they adopt the modern methods which the equipment allows. They do not benefit large-scale livestock raising, since

slaughtering for export is not contemplated for these facilities. On this level the cattle are shipped live to one of the packing houses near Guatemala City.

Health Posts

INFOM has spent 2 percent of its loan resources on small health posts since 1970. These standardized facilities appeared clean, but rather meagerly equipped. They are staffed by full-time practical nurses and are visited on a weekly basis by a physician. They provide free medical care for emergencies, and for minor and chronic treatment. They obviously benefit the poorer groups of the towns, but render no financial return to the municipalities. More serious medical problems are handled at health centers and hospitals located in the larger municipalities or regional centers. The quality of the health services depends to a great extent on the personnel in the posts. Potential benefits include health, hygiene, and nutritional education programs as well as family planning and the collection of health statistics.

d. General Observations and Critique

INFOM has used its own resources in the recent period to make about three quarters of its loans for revenue-producing projects such as markets, slaughterhouses and water systems. Prior to 1970 a higher percentage was being used for non-income-producing projects such as schools or non-essential projects such as municipal buildings. In the cases where user charges have been set at realistic levels and the service well maintained, the projects have produced a net revenue benefit to the municipalities. As we have discussed, other forms of benefit have accrued to the communities. In many instances only those who live in the urban center have benefitted, but in other cases the farmers live in the town and travel daily to the cultivated lands, and thus benefit directly from the basic services. As we have noted, the great majority of the municipalities are small and essentially rural. The residents are principally farmers, generally on a small scale, and are of the Indian or ladino ethnic groups.

Time limitations prevented us from making detailed studies of the impact of project construction activity on the communities visited, aside from some broad aspects which we noted. All of the projects we saw under construction were labor intensive, using workers (some of whom were also seasonal farmers) from the locality. Gravel was produced by hand, cement hand-mixed, dirt moved by hand. Most of the workers welcomed the additional, if temporary, income, and presumably spent it locally, generating a small multiplier effect. There may have been some training in skilled trades involved, or at least useful experience in construction, useful in most developing countries.

Once they were put into use, operation, maintenance, and repair of the projects varied widely, in our observation. In the smaller communities it was a part-time or volunteer activity, in others a fulltime employee was in charge, his salary paid out of market or slaughterhouse fees or water use charges. INFOM had to establish a special unit several years ago to work in the field to assure the sanitation and continued operation of water and drainage systems, and its engineers reported continuing problems in this area. As we mentioned, we saw the potential sanitation benefits of new slaughterhouses or markets cancelled out by lack of cleaning and repair, or non-use of the special equipment. There is no question that the joint INAD/INFOM effort to refine the service manuals is urgently needed and overdue. It also would be advisable to establish a regular system of training, inspection, followup, and evaluation of all INFOM-supported projects as part of each loan package.

We do not wish to leave the impression that we are unimpressed by the number, range, and importance of INFOM projects. Over 1,000 projects distributed among more than 90 per cent of the municipalities have been generated. It has been a remarkable accomplishment, and we know that INFOM is as interested as we are to use it as a basis for more and broader responses to municipal needs.

Clearly INFOM as a bank must be able to lend to those municipalities which are most creditworthy, and for those projects which are desired by

the local leaders and in accordance with the Municipal Code. Our review of the credit program for the past five years shows that INFOM has developed a strong capacity to meet these limited criteria in a satisfactory manner. The program has been passive, in the sense that INFOM has not imposed any master plan on the municipalities, and the effective priorities have emerged as they have.

There are however four areas of concern which we believe deserve discussion and consideration:

- The lending program has not served to encourage local initiative, planning, community involvement and active support.
- The lending program has not been used as a lever to carry out financial and administrative reforms, or other kinds of institutional development needed in the long run.
- The standard list of basic service projects is in our view very limited in its impact on the basic problem of most of Guatemala, namely the lack of employment and income opportunities in the rural areas.
- Municipal development so far has been unrelated in most instances to other development efforts being carried out in the country.

Each of these concerns is discussed in more detail below.

First, it is difficult for us to see how the INFOM lending program is substantively different from traditional forms of national government assistance to local government. The municipalities perceive a problem, or the leaders desire a project to mark their period in office. INFOM carries out a series of preliminary studies to assure that the project has some value, and that the municipality can bear the debt burden, and then basically does the rest of the project preparation and execution. The project is financed by service rates established by INFOM (or by a collaborating technical agency), or it may be amortized out of shared revenues which pass through INFOM and are deducted from the municipal account before reaching the municipal treasury. The execution of many projects, especially those in the smaller towns administered by the

External Loans Division, is done almost entirely by INFOM's technicians. In the case of potable water projects INFOM supervisors check the purity of the water, do the purchasing of chemicals, and even carry out or arrange for repairs.

Therefore no plans are required of the municipalities, in many cases they do not handle the funds, and they may not even be expected to establish an effective system for operating and maintaining the service. Thus the process in our view tends to reinforce paternalism and centralized control, to perpetuate the idea that national agencies must solve local problems, and to undermine attempts to establish municipal competence and responsibility. INFOM is not using the leverage which its loan program provides it to bring about needed, fundamental, long-term changes at the local level. There is a disturbing lack of that old-time community development ethic of "first we try to do it ourselves, and only if it is beyond our capability or can't be done with local materials do we seek outside help."

Second, on making its assessment of municipalities' creditworthiness, INFOM has accepted the municipalities' financial situations as they have found them. This, as we have noted naturally leads to the poorer getting less, the richer getting more, and the relative position of the smaller towns thereby worsening (one project may create a debt burden which eliminates a small town from eligibility for more projects for several years). The concentration of project funds in a few cities is an inevitable result. Again, the INFOM stance has been a passive one, with little or no effort being made to work actively to strengthen the financial capacity of the smaller municipalities.

Third, the list of basic projects which we have analyzed is really rather limited in developmental terms. In the INFOM Organic Law and in AID's loan paper, the terms economic and social development are used, but in fact the list of eligible projects falls almost entirely into the category of social infrastructure (drinking water, drainage, markets, slaughterhouses, health posts, and schools). Very little is being done under any of the activities about municipal economic infrastructure,

such as roads, industrial water, irrigation, crop storage, land use planning. While it may be argued that these are national concerns being treated by various national agencies, the following questions occur to us:

- When INFOM has provided the five basic minimum services in all of the municipalities, which it could conceivably do in four or five more years of lending at the prevailing levels, what role will it assume?
- Can social infrastructure alone, which basically serves to make poverty a bit more comfortable, stem the tide of rural-to-urban migration? Are not basic economic opportunities on the farm and off, more likely to have positive effects?
- Can the national agencies, operating without active collaboration and material support from the local governments, really generate the economic infrastructure which is required at local, regional and national levels? Once created, can it be effectively operated, maintained, and expanded by national agencies?

We feel that these basic questions must be asked, and we believe that the answer is that INFOM must begin looking beyond its limited project list, while continuing to emphasize the provision of basic services. We visited municipalities whose rural populations outnumber the urban, where the municipal income is presumably derived from the production and taxation of the rural people, but who are likely to receive little benefit from the current standard list of municipal projects. We visited other towns, such as Panajachel, where the demographic and the economic growth potential is high, and where the potential income sources are barely being tapped even under the existing municipal taxation laws. Such towns, and presumably others around the shores of Lake Atitlan with similar potential, will require sophisticated local planning and management capability in order to cope effectively with the changes to be expected during the rest of the decade. Industrial or tourism development could have a major effect upon municipal development and therefore could be taken into account in tax policy and

development planning. Clearly, the establishment of a processing or manufacturing industry could affect in a significant way a municipality and its development. However, there is little or no evidence that the municipalities are structured or staffed to pursue and develop these possibilities. If they are to develop, these elements must be planned for.

We were told by an advisor to the National Planning Council that during the next Five-Year Plan period the various elements of the national government will be conforming their plans and operations to a common system of regional boundaries and eventually regional plans. It is likely that these developments will result in the identification of regional and subregional growth poles. Again, these key communities will be expected to provide more than basic social infrastructure in order to carry out their new role in development. So while we find value in the projects which INFOM has financed, most of them answering basic needs and benefitting small-town dwellers of all social groups and levels, we question whether the past limited program is sufficient for the future demands which will be placed on local governments.

This leads to our fourth concern, the lack of relationship between national development programs and municipal projects. There are many projects carried out by the central government which affect the municipalities and the surrounding territories for which they have a responsibility. Major road projects, electrification, irrigation, food storage, low-cost housing, and the like have a significant effect upon municipalities, but we encountered no evidence that the municipalities or INFOM participate in the selection or planning of such projects. This is the other side of the idea of municipal projects being planned in support of national priorities and programs. While we realize that the financial, administrative and development planning capabilities of most of the municipalities are very weak, and have gone into some detail as to the nature and causes of this weakness, we do not accept the proposition that this should forever be the case. It is therefore logical that INFOM should take the advance role in bringing the municipalities into the development process, recognizing the long-term nature of the job.

2. Institutional Development

a. Technical Advice

The Financial Division of INFOM is charged with assisting the municipalities in ways which would contribute to their capacity as local governments. This includes advice on budgets, taxation, and administration. It should be recalled that the Financial Division is also involved in the financial and economic elements of the preparation of all loan projects, and prepares the Institute's budget. The Division is endowed with nine percent of INFOM's technical staff.

The Division reviews all municipal budgets, since by law all of them must be approved each year by INFOM. In order to simplify this task INFOM prepared a standard budget format and instructional material for the use of municipal treasurers in drawing up their budgets. They also asked that all municipalities provide a five-year history of their finances. All of this activity, as best we could determine, takes place by mail. The three-man budget unit of the Division cannot make field visits to check budgets and instruct the treasurers. There is no time to go beyond matters of format and to review the substance of the budget, or the problems of municipal management and planning which they may reveal. We were told by treasurers that many municipalities do not follow the recommended format. As we have discussed earlier, the budgets are often unreliable guides to the municipal situation and operations, and we have also pointed out that municipal planning as a basis for rational budgeting is practically non-existent.

New tax proposals must also be submitted for approval to INFOM, which has a three-person staff to review them. We were told that INFOM has conducted no studies nor issued any guidance on setting up municipal taxes. Therefore presumably the review of municipal taxes, again a desk exercise carried out in Guatemala City, consists of making sure that the new revenue plan presented by a municipality is legally permissible. Time and staff limitations do not permit trips to municipalities to review potential sources of revenue and recommend

major changes. As described in II-A the municipalities often end up with ten or twelve income sources, each a different fee (arbitrio), license or tax, all legal, but each yielding very little to the municipal treasury because of difficulties in enforcement and administration. The final pattern is also often unjust in addition to being confusing. INFOM's impact on improving the structure and content of municipal taxation has therefore been very limited to date.

Assistance in administrative procedures and organization has been beyond the capability of the Financial Division, according to the Division Chief, and therefore has not occurred.

b. Training

INFOM has not engaged in formal training of municipal leaders and officials during the last five years to our knowledge. INAD has worked in this area during the period, but we did not have an occasion to meet with INAD during our stay, and therefore cannot make any useful comments on the activity. We did meet one or two secretaries and treasurers who had attended workshops run by INAD during the last two or three years. We were also told that until this year INFOM and INAD did not work jointly on this or other activities. AID's resources in this field were funnelled through INAD, principally for the preparation of a series of manuals for use at the local level, providing guidance for secretaries, treasurers, and administrators of markets, slaughterhouses, and other services. Recently INAD and INFOM did meet to review the manuals when they were in final form, and it was agreed that further work would be required to make them complete, accurate, and suitable for distribution and use. The manuals for secretaries and treasurers were judged to be overly technical in presentation and language. Two sessions jointly sponsored by INFOM and INAD were held with groups of secretaries and treasurers to participate in the revision of those manuals. The manuals for managing services were found to be superficial, in some respects inaccurate and incomplete, and in examples which we reviewed, dedicated more to expounding general principles of good management than

to providing practical information on the operation and maintenance of the installations under discussion.

INFOM's assistance to municipalities in institutional development has been mostly incidental to preparing and executing projects, and has been carried out largely by engineers, architects, and construction supervisors. We have concluded that the Institute has effectively had no coherent program in this area.

c. Basic Reforms

The issues discussed so far have referred to institutional development within the existing legal and organizational structure of the municipal system. We found that INFOM has done little to date to provide leadership in identifying areas requiring more basic reforms which would facilitate changes at the municipal level. For instance, while there has apparently been recognition of the need for a modern municipal tax code, INFOM has only recently begun to devote resources to developing one. We identified other areas which deserve study and possible change. As long as 285 of the municipal administrations change every two years, efforts to train mayors, councilmen and even many municipal employees will be a treadmill operation with limited impact. Proposals might be developed to permit longer terms, to allow elected officials to succeed themselves for a second term, or at minimum, regulations for orderly transition from outgoing to incoming administrations might be drawn up.

We believe that effective municipal taxation and management will be difficult as long as municipal cadastral surveys are not performed. INFOM's Organic Law requires it to do this work, but the Ministry of Finance has a unit doing a national cadaster. A joint process between INFOM and the Ministry should be worked out in order to speed up the survey and to assure that the cadasters are administered and used properly at the local level.

Partly as a result of our work with IFAM on municipal indicators, we took special note of the classification system in use in Guatemala.

As described in Section I-A, the municipalities are grouped simply by population or special status (departmental capitals, ports) under the existing Municipal Code. This ignores a wide range of factors (economic, geographical, social) which would be more useful for programming municipal development.

Among fourth class municipalities we visited, for example, were ones engaged in subsistence farming, another virtually attached to Antigua yet attempting to duplicate all of the services of that major city, and another by the shore of Lake Atitlan, an area of rapidly increasing tourist importance and the site of vacation homes. These municipalities have little in common except their present number of inhabitants. From a developmental point of view, from the point of view of their tax bases and capacity for effective autonomy, they represent totally different problems and opportunities. And in another sense the classification system punishes the smaller municipalities, in that nearly all revenue-sharing plans in effect distribute funds according to population, with the least share going to the smallest (and therefore the perpetually poorest) towns. INFOM could use its research findings as the basis for a municipal data bank, which in turn could yield valuable information to support a more accurate and useful classification system.

Presumably new sources of revenue will continue to be tapped in support of municipal development and of INFOM. The recent controversy over the national budget percentage required by Article 237 of the Constitution of Guatemala provides an interesting case of another opportunity for basic reform. While the government chose to substitute a fixed amount of one million Quetzales for the percentage during 1975, the method of distribution of those funds may be more important than the amount. INFOM and ANAM, the latter having a major role in pressuring for the funds, could work together to assure that the funds are used in ways which encourage municipal financial responsibility, good planning, and initiative. The money could be used as counterpart or matching funds, to reward improvements in revenue collection, and distributed preferentially to the most needy communities. The alternative is that

the money simply flows out with no systematic application, or is used and regarded as a fund for political favors or another handout. This choice presents itself with any new source of income for the municipalities, and INFOM has a potential role in seeing that new funds are used in positive, developmental ways.

The most basic issue of all of course is that of attitudes. As long as the municipalities are not required or allowed to make their theoretical autonomy effective and given the tools to start doing it, there will be little fundamental change in local government. Many technicians basically distrust the municipalities, regard them as incompetent to solve their problems locally. The municipalities reach upward for their solutions, in many instances receive some response to their demands, and have also come to believe that this is the best and natural order of things. There must be a new mutual conviction at the local and national levels that this relationship can be changed, or the old ways of doing things will live forever.

C. The Institutional Capacity of INFOM

Having said all this about the municipalities and about the interaction between them and INFOM in recent years, it is appropriate to examine INFOM itself, its characteristics and operations, in order to understand how the situation has developed.

1. Plans and Priorities

We cannot explain the reason why INFOM did not prepare annual plans under the previous management, but we believe that effective planning might have prevented some of the problems we have discussed in preceding sections. INFOM had no regular system of collecting basic data and making diagnostic studies, without which rational planning is difficult if not impossible. Because of its extensive field contact through project work, the key personnel in the Institute knew there were a lot of problems and needs deserving attention, knew they didn't have to seek clients, and knew that their resources were inadequate for the magnitude

of the demand for them in any given year. Therefore, they may have said, why spend time doing studies and plans? INFOM had developed its competence in the field of project production, had learned to work with and satisfy the requirements of foreign aid agencies, and therefore could be reasonably assured of doing a useful job well.

But lacking studies, INFOM lacked plans. Lacking plans meant that it had no firm basis for evaluating itself. Without well-defined estimates of needs and targets for meeting them, INFOM lacked a basis for sound budgeting and financial planning, which resulted in wide variations between plans and performance. Although general project priorities were enunciated by the Board, specific projects were not identified before the program began in a given year, and the effective priorities could only be determined by adding up the score card of projects at year's end. No control mechanisms existed for monitoring or standardized reporting as they went along.

We have pointed out that the Board of Directors reviews proposed loans after they have been brought to the point of practically irreversible commitment by INFOM technicians and the municipality in question. Having no annual work plans to review, and annual reports not having been published for the last three years, the Board's ability to influence the fulfillment of its stated priorities was very limited. The result was that INFOM muddled through on the judgments and talents of its technicians.

2. Financial Planning, Performance and Management

In the absence of diagnostic studies, systematic evaluation of its own performance, and specific work plans, INFOM's financial plans are derived from a series of rough projections, as best we could determine.

Capital budgets are based on a combination of the following factors:

- Reviews of lending levels using INFOM's own funds in past years;
- Cash flow projections based on project loan amortization schedules and other regular sources of income such as the liquor tax; and
- Municipal project applications received or being processed.

Operating budgets are presumably derived from past performance, requests by the divisions for new personnel and their administrative support estimates, inflationary forces, and other factors. The volume of capital expenditures from foreign loans are based either on identified projects, or on such projections as may have been included in the donor/ INFOM agreement.

This system of budgeting results in an uneven record of performance when plans are compared with actual results. The program of credit assistance to municipalities is, of course, the largest budget item, and serves as a useful example for analysis. The bar chart in Exhibit II-4 shows the variations in between budgeted and actual lending volumes for both INFOM and foreign aid funds for the last five years.

Looking at INFOM's capital assistance from its own funds, we see that after 1970 (during which year a new manager took office and a nearly total personnel change took place), INFOM loan commitments ran consistently above planned levels, amounting to loans above budget of Q 1.85 million for the three years 1971, 1972, and 1973.[1] Given the fact that the rollover of INFOM's own capital from outstanding loans is about Q 1.5 million a year, further study is needed to understand fully how these higher loan volumes were supported. In any case, the spread between planned and actual performance indicates a need for more accurate planning and financial projections.

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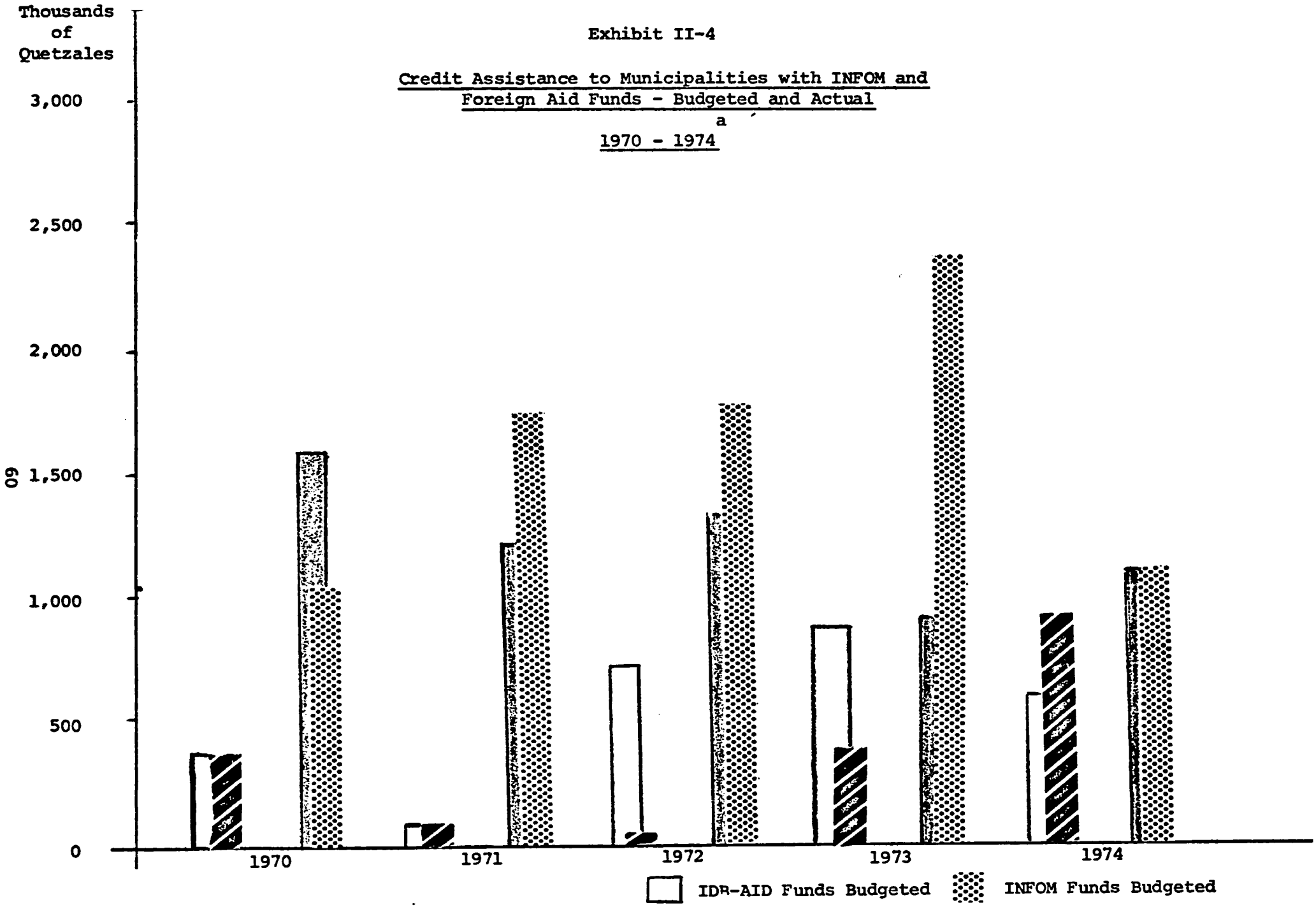
[1] Here we have presented the budgeted figures shown in the Plan Basico to illustrate the point. The data available to us on budgeted levels before receiving the Plan Básico was contained in copies of initial annual INFOM budgets as approved by the Finance Ministry for the years in question. According to those figures, municipal lending was budgeted at nearly double the levels shown in the Plan Básico, and INFOM performed below planned levels rather than above. We are unable at this time to investigate the reasons for the discrepancy in the documents, but either way, the figures illustrate the point; INFOM's budgets and performance show wide fluctuations during recent years and suggest a need for more accurate financial program planning.

Exhibit II-4

Credit Assistance to Municipalities with INFOM and Foreign Aid Funds - Budgeted and Actual[a]

1970 - 1974



[a]As of September 1974

Source: Plan de Apoyo Basico - 1975 (two graphs combined)

The foreign loans part of the chart shows the phasing out of the IDB second loan in 1970 and 1971, and the start-up of AID-supported lending in the remaining three years. The chart reflects (in addition to optimistic planning) the difficulties which were encountered in working with the poorer municipalities, the need to increase the subsidy percentage in order to make the loans attractive to Categories III and IV, the non-responsiveness of contractors to the bidding process, a severe lack of building materials, particularly cement in 1973, all of which resulted in implementation delays. 1974 was the year when the system began to operate effectively, and loan volume picked up.

We have limited information from INFOM on the actual levels of operating costs for the last few years, but using budgeted figures we have looked at the ratio of operating costs to lending volume, which is a valuable indicator of the performance of a banking institution. In the table below, based on the lower budgeted lending levels provided in the Plan Básico, we see that the ratio of operating costs to lending levels is high by the standards of most banking institutions.

	000 Quetzales		
	1972	1973	1974
Budgeted			
Lending[1]	2.05	1.77	1.71
Operating Costs[2]	.60	.77	.82
Ratio (%)	29	44	48
Actual			
Lending	1.79	2.67	2.06
Operating Costs	.60	.64	.82
Ratio (%)	34	22	40

We should note that while the lending levels include foreign loans, the operating costs of the External Loans Division are separately budgeted, and therefore apparently not included. The table therefore

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[1]Source: Plan de Apoyo Basico - 1975, Table I-1.

[2]Initial budgets as approved by the Finance Ministry. For 1973 we have have used the actual operating costs obtained from the proposed 1975 budget.

points out two problem areas: first, the ratios are very high, giving an average for the three years of at least Q.35 in operating expenditures for each Quetzal loaned out; and second, showing rather dramatic fluctuations from one year to the next, during which little substantive change occurred in the program of emphasis of the Institute. Such fluctuations are also unusual for most banks.

We recognize that INFOM carries out many tasks which are not common to other lending agencies. It does some engineering design and supervision work which may not be recompensed, it administers a considerable flow of tax receipts and municipal funds, and provides some technical assistance functions in its home office. Even so, these operations would not explain the unfavorable ratios nor account for the fluctuations since these activities are ongoing and relatively predictable functions of the Institute. We suspect, without having detailed information, that the answers could be found in specific line items of the engineering divisions and general administration, yielding valuable information on the productivity of the organization.

Looking carefully at the capital resources of INFOM, it is apparent that they are deficient in a number of respects. First, INFOM is the only national institution providing low-cost credit to local governments, and given the needs for basic services and other developmental infrastructure, the demand for loans is much higher than the Institute can reasonably service at its present levels. Its lending with its own funds has been at about the same level for the last five years, and when inflation is taken into account the net volume is in fact shrinking.

Given the amount of capital it now has, the terms on which it must borrow and re-lend, and the operating costs which are now high and will go higher with new program strategies, subsidization will be needed if the Institute is to fulfill its assigned role.

INFOM has available to it the following sources of additional financing: (1) normal increments under existing revenue sharing

provision; (2) new borrowings; (3) changes in the interest and maturity of its municipal lending; (4) government subsidies or new revenue allocations; and (5) foreign assistance or borrowing.

Under existing provisions, INFOM's capital fund is growing very slowly. The balance sheet for September 1974 showed capital of Q 7.35 million, an increase of only Q 184,000 over the end of 1973. Loans outstanding to municipalities increased during the same period Q 587,000 reaching a total of Q 8.31 million. Routine additions to INFOM capital are derived from a fixed percentage of the liquor (aguardiente) tax which has been yielding about Q 200,000 per year. INFOM has also issued two ten-year bonds, one in 1970 and one in 1973, each for Q 1.0 million, placed with the Central Bank, and at five percent interest. We may assume that any future borrowing within the country will be at that level of interest, and possibly two or three percent more.

INFOM lends to municipalities at 4.5 to 5 percent by law, depending on the category of municipality. We don't believe that this one half percent spread adequately reflects the widely varying financial conditions of the municipalities, and in any case, it clearly does not generate sufficient income to cover operating costs and servicing domestic borrowings. Foreign aid funds have been borrowed at three percent, allowing a one and a half or two percent margin to cover operations. In order to maintain its levels of lending with its own funds, INFOM's subloan maturities are really rather short, running from two to seven years, averaging about five. Clearly, if maturities were lengthened, interest rates could be raised without affecting significantly the borrowing capacity of municipalities; the two factors could be balanced to produce the same amortization burden at the local level, but INFOM would be earning a better income on its lending operations. In order to maintain the same lending volume or rollover under this approach, additional capital would have to be injected into the municipal credit fund. Raising the interest ceiling would require an amendment of the Organic Law.

Government subsidies to INFOM have been limited. Aside from the subsidy built into the amortization of foreign aid loans, INFOM has received a transfer of Q 125,000 for the last three years to assist it in its reorganization. We have no current, complete information on what future plans there may be for government subsidies. These might take various forms, including direct budgeted support, or the allocation of some portion of specific national revenues (property tax or a luxury tax, for example).

It is our firm view that government subsidization will have to be increased for INFOM to carry out its mandate, and that some form of fixed, predictable support such as that offered by a new revenue allocation, would be the best form of subsidization. First INFOM must clearly identify the amounts and kinds of subsidies it will require on its capital as well as current account. These would include financing the difference between the costs of borrowing money and the rates charged to municipalities, the costs of new studies and technical assistance or training efforts, and perhaps some portion of general operating costs. The Government of Guatemala has asked INFOM to provide subsidization of municipal development; it should in turn find means of assuring the viability of the Institute. Otherwise, INFOM will become more and more of a bank and less and less a development agency; it cannot be expected to support itself and meet the full scope of its responsibilities at the same time.

Finally there is the matter of foreign loans. Following this discussion we have some specific thoughts on the AID project, but here some general observations are in order. Thusfar INFOM has called on foreign aid to meet special purposes for which its own resources were not sufficient. IDB funds were used to finance major, capital-intensive water and sewer projects mainly in the larger municipalities. AID funds have been used to support small, specific works in the numerous poorer and more rural municipalities. INFOM's own funds have been used throughout the system, but mainly in the middle group in terms of size of town and project. We find this approach to be appropriate, in that INFOM has

gone to the right place for the right things, and presumably does not plan to rely on these sources on a continuing basis. Some day the Institute should be capable of meeting these specialized needs as well, either directly or indirectly. INFOM cannot repeatedly borrow abroad, even on a concessional basis without additional Central Government support, given its financial situation. We have also identified a number of fields in which technical assistance and training for INFOM and its staff would be appropriate. These needs should be clearly defined and proposals made to obtain grant aid from AID, the OAS, or other sources.

To sum up, financial planning improvements in INFOM will require consideration of:

- Developing a better basis for forecasting through diagnostic studies, policy refinements, and clear program targets;
- Assessment and restructuring of the lending program to keep the loan terms favorable to municipalities, while assuring INFOM a reasonable return on the activity;
- Precise estimates of the Institute's subsidy requirements to cover interest rate spreads, operating costs, and new programs.

One other point deserves mention. INFOM until now has not engaged in leveraging its capital. There are large projects of an income-producing nature in the larger municipalities which could conceivably be financed by institutions other than INFOM if INFOM used its capital to either subsidize part of the higher interest or to guarantee the financing. Others might be financed on a participating or consortium basis in which INFOM would join with other agencies or banks to fund a project. This would free up some capital for lending to softer projects or in the poorer municipalities. We believe that INFOM should seek advice on these and other possible means of multiplying the impact of its capital resources, whatever their magnitude.

INFOM's financial management capacity is considerable, judging by the number of employees it has devoted to bookkeeping, accounting, and auditing. We did not explore this area in detail, largely because it

had been covered thoroughly by the IBAM study, and was being worked on by the Servicios Tecnicos technical assistance team. We did note that there was apparently no regular financial reporting system (which would be logically part of an institutional management information routine) based on key financial indicators. The foreign donors apparently have had no problems with INFOM's accounting practices, and it appears to handle a large number of transactions well, if in a somewhat duplicative manner. We will be interested to see if the consolidation of these functions which is now underway results in a more efficient and perhaps less costly operation.

3. Organizational and Operational Characteristics

As described in Section I (Exhibit I-2), INFOM is divided into three major units engaged in engineering (the Divisions of Engineering, External Loans, and Water and Drainage); one operational unit for handling municipal financial and administrative affairs (the Financial Division); an administrative support unit, and three staff offices (Publicity, Legal, and Planning).

As the chart shows, and as IBAM discussed at length in its 1972 study, this structure contains and produces remarkable amounts of duplication. We suspect that it also results in higher operating costs than are necessary.

The most obvious area of duplication is in the dispersion of engineering functions among three divisions. There are varying rationales for the existence of this situation, but the practical outcome is that a municipality may be visited by technicians from three parts of INFOM, all engaged in various aspects or stages of project execution, depending on the type and number of projects going on in the town and the sources from which they are funded. Vehicles are used and fuel consumed in duplication, per diems are spent in duplication, and staff is used in duplication. We imagine that in addition to this waste of resources, the municipal officials must have at least a confused if not a negative

impression of this way of operating. In the INFOM offices each of the engineering divisions has its own designers, surveyors, draftsmen, and so forth.

The External Loans Division is practically an agency within an agency, having its own accounting and purchasing operations and a separate budget based on foreign aid funds. It does its own planning, has its own internal audit team, and exercises almost complete control over all projects it finances. It was established to provide convenience and accountability in the management of aid funds, but in the process of simplifying the work of auditors, the establishment of the External Loans Division has set it apart from the rest of the Institute. Whatever benefits there may be from its experience with the smallest municipalities have not spilled over into the rest of INFOM, and the management and Board of Directors are able to exercise only a minimum of supervision over its activities.

The Financial Division is simply overloaded. With a small staff and budget, it is barely able to keep pace with the project processing requirements of the engineering divisions, and is therefore unable to carry out any field services to the municipalities to improve budgets, taxation, and administration.

The organization chart also shows that the administrative support functions of the Institute are fragmented and duplicative, with accounting, purchasing and warehousing functions spread throughout the operating divisions, in addition to those handled by the General Administration Division. Until 1974 there was no planning unit, and it has been made effective only since October.

As we have noted, INFOM's technical personnel are principally trained in engineering, architecture, and related disciplines. A few have had additional training in more general fields such as management and community development. On the whole, the Institute has a strong representation of apparently dedicated younger professionals, willing to spend most of each

week in the field seeing that projects are planned and completed. INFOM, however, lacks the kind of comprehensive view of the development process which might be provided by personnel with training and work experience in development economics, political science or sociology, public administration, training techniques, and community development. Presently it lacks a structural unit within which to place such skills, again reflecting its past emphasis and operations.

In short, then, INFOM's organization and operational characteristics are directly related to the nature of its interaction with the municipalities. The Institute operates entirely from a headquarters base with no continuing regional or local presence. It is overwhelmingly a public works agency, with little impulse (and therefore inadequate resources) to fulfill the broader mandate of its founding legislation.

4. External Relations and Coordination

In the past, INFOM has experienced serious problems in the area of coordination with national entities related to municipal affairs and development planning while apparently maintaining good working relations with technical agencies concerned with public works, electrification, school construction, and health, and with the banking system. As far as we are aware, INFOM has not sought collaboration with agencies involved in agricultural, industrial, or tourism development. INFOM's coordination with national planning has been channelled through the Secretariat's office for infrastructure development. This pattern again coincides with our analysis so far in which the Institute has pursued a very limited course in municipal development.

Relations with the municipalities and with ANAM have been strained in recent years, almost a state of "cold war" in the words of the present General Manager of INFOM. There is natural resentment among the municipalities of INFOM's control over resources which they consider to be "theirs", and over which they have so little apparent control. The municipalities are interested in obtaining maximum access to "free" money, funds which

they may use at their own discretion. Rather than finding ways to generate the revenues locally, they look to national sources from which funds have always come before. INFOM, as a technical agency and bank, represents an obstacle to getting free money, and INFOM, as we have seen, has not succeeded in projecting a more comprehensive, supporting image in its municipal relations.

D. The AID Relationship

The original purposes of the AID loan to INFOM were limited to improving the basic urban services in the smallest and weakest municipalities. The loan's emphasis was on improving social infrastructure with a very limited list of eligible projects (markets, slaughterhouses, health posts, water and drainage systems), a requirement that they be "solid" projects in the banking sense, and yet providing for softer terms than those available under INFOM's normal lending program, and evenutally arranging a 45% subsidy to encourage wider participation by the Category III and IV municipalities.

While the basic purpose of the loan was to generate public works, a number of ancillary benefits were also anticipated, as enumerated in the loan paper beginning on page 16. Exhibit II-5 presents the statements made to justify the project, along with summary comments based on our findings.

Our judgment is that in terms of the limited stated purpose of providing basic service projects, this is a "good project". In stating this we agree with those in AID/W and USAID/G who frequently used these words in characterizing INFOM and its application of AID's funds. Where we part company with the Agency is on the original conception of the project, in its limited scope, and in the logic of assuming the multitude of side benefits without providing sufficient inputs and monitoring to see that outputs and purposes were achieved. We wonder, in short, why this project was set up the way it was, given AID's espousal

Exhibit II-5

AID Project Expectations and Evaluation Findings

PROJECT EXPECTATIONS[1]	EVALUATION FINDINGS
a. For the people in the communities where projects are undertaken:	
i. A better facility with economic and social benefits. The new water system, market, slaughterhouse or other projects will have a direct benefit to the people served. It may save them time-consuming trips to an existing source of water; it may provide them with a more sanitary water supply, market, slaughterhouse, or sewer facility with resulting health benefits; it may provide them with opportunities for economic gain which they would not otherwise have, through space in the market, the slaughter and sale of meat, or the new possibilities of grinding grain or other activities made more economical through the introduction of electricity.	Our findings show that water supply has been brought closer to peoples' homes. Sanitation benefits from the project depend on proper training of the service administrators, and we found that INFOM has no systematic means of doing this training once a project was completed. We found very mixed results on this benefit. As we noted in II-1-4 the economic benefits appear to be minimal. The same people are doing the same things as before, earning little more, and paying a slightly higher rate for the service. There has been a marginal change, but little improvement.
ii. A sense of community progress and spirit. The presence of these projects in rural communities will do much to strengthen community spirit, to develop the self confidence necessary to solve community problems and improve the conditions of life. This spirit is vital to development and in encouraging people to stay in these rural communities rather than move to the larger cities.	The subprojects are primarily a contract between INFOM and the municipal leadership in office at a given time, and while in some cases the community has been consulted through an open meeting, in many cases there was little awareness of how the project was developed. Those who benefitted were the town dwellers in most instances, and in some but not all cases their image of the municipality was improved by the execution of the project. We have no evidence that the projects affect migration patterns or decisions. As far as we know there is no base data available against which to make a sound judgment.
b. For the participating municipal governments:	
i. A stronger municipal government. These projects will be built through the efforts of the local government. Psychologically these types of projects strengthen the municipal government in all of its activities by showing the towns people that it can introduce modernization, and contribute to local development.	Perhaps this has occurred. Our study was not sufficiently rigorous to make this judgment. Our views are noted above, that the projects were built through INFOM's efforts in consultation with elected leaders, but not in a way which engaged the active participation of the people in general.
ii. Better municipal revenues and administration. Most of the facilities to be constructed will provide additional revenues to the municipal government. This plus the technical assistance to be provided by INFOM to the participating municipalities will enable them to improve their financial and administrative systems.	This was not always the case. The expected technical assistance did not materialize. The user rates for most of the projects we studied were too low to have a net income benefit to the municipality, and health posts. Drainage and paving projects yield no income, but are a debt burden on the municipalities.
c. For the municipal development activities of INFOM:	
i. Assistance to municipalities not now served effectively by INFOM. The fund will enable INFOM to expand its activities to small rural municipalities who have not fully shared in their services. This will enable INFOM to live up to its responsibility to assist with the development of all municipalities.	Projects have undoubtedly been carried out in municipalities which had not previously qualified for INFOM's credit assistance, especially when the subsidy portion was increased from 12 percent to 45 percent. The AID input therefore helped INFOM to broaden its coverage.

70

Exhibit II-5

AID Project Expectations and Evaluation Findings (Cont.)

ii. Expansion of INFOM's technical assistance activities. The additional staff which INFOM will employ to administer this fund will enable it to expand its technical assistance and training activities to all municipalities. INFOM has realized that this is one of the important aspects of its responsibility for municipal development which it has not been able to carry out as fully as is needed.	This effort did not develop, as has been fully documented in this report, and AID did not use its influence to assure that the necessary steps were taken within or through INFOM to see that it did.
d. For the government and nation as a whole:	
i. An effective program of public works for the small communities of the nation. There will never be enough central funds to provide the public facilities needed in the small towns across the country. Only through contributing to a program which depends on local initiative and local financing can these needs be met. This is such a program.	While we agree with the basic proposition, and that local initiative has been rewarded, we did not find that the program rewarded efforts at local financing, but provided a substitute for them, and in many ways reinforced paternalism and dependence on the national government.
ii. A balanced pattern of urban-rural growth. To reduce the rate of migration to the urban centers there must be visible progress and economic opportunities in the small towns and rural areas of the country. These projects will not reverse the trend toward urbanization but they will help to improve the conditions in rural communities and make them more attractive places in which to live. The "pull" factors of migration to the urban centers will be as large as ever, but hopefully the "push" factors of unsatisfactory rural conditions will lessen.	We have a basic doubt as to whether social infrastructure alone basically alters the "push" factor if real economic opportunities in the form of new employment or changes in agricultural production are lacking in the rural areas. We have stated that local government can be part of national efforts to improve economic as well as social conditions in the rural areas, but that the municipalities have not yet been included as a level of government concerned with all sectors.
iii. A secondary social and economic problem that the loan project will confront is that of rapid growth of major urban centers. The population of the capital is growing at nearly 6% annually. The increasing concentration of population in the capital will create serious social and political, as well as economic, problems. In that the desire for improved economic welfare is the major reason for migration to the capital (and two or three other urban centers), an improvement in material well-being in areas outside of the large centers may well help stem the incoming tide.	

[1] Source: AID Capital Assistance Paper, INFOM--Small Municipalities Development Fund. June 23, 1969, pages 15-19.

for more than a decade of such concepts as institutional development, integrated programs and activities, encouraging political maturation, community-based projects and community contribution.

True, during the second and third years of the project grant funds were used to encourage institutional development, supporting INAD in efforts to set up municipal leagues and regional assistance offices and to prepare technical manuals. Grant funds were used to hire IBAM in 1972 to do a diagnostic study of INFOM, and after failing to reach a mutually satisfactory arrangement for follow-up work with IBAM, Servicios Tecnicos was contracted for a more limited effort. All of this assumes the character of a series of afterthoughts, tacked on around the edges. INAD's regional efforts were unsuccessful, presumably because of lack of Central Government support. Eight technical manuals were produced by INAD, but following a recent joing examination by INFOM and INAD, only two were judged satisfactory, and those two will require revision before they are fully useful. The technical assistance from IBAM was under tripartite negotiation for over a year before it was called off and an alternative was found.

On the institutional side the record is therefore less bright than on the project side. The net result has been that the AID assistance has apparently served to confirm INFOM's limited appraoch, reinforced the formation of yet another specialized engineering unit within the institution, but has done little or nothing to date to encourage municipal development in its broad sense through the institution primarily responsible for it. Instead the institutional efforts were channelled through separate agencies, with little net benefit. We recognize that some of the difficulties were well beyond AID's control, but return to the question: Why was it set up that way in the first place?

Why didn't the AID loan/grant package go through INFOM, requiring that INFOM set up a broader capability to assist municipalities with planning, financial improvements, staff training, and other reforms?

Why was there no requirement to do a basic diagnosis of the third and fourth categories of municipalities as a basis for improved INFOM plans, and to integrate those plans with national development priorities? While the existence of the External Loan Division probably made life easier for AID auditors, it did not encourage or establish the conditions for changes in the way INFOM functioned as a whole.

A recent AID audit found little wrong with the loan project. Certainly INFOM, given almost six years of experience with the Inter-American Development Bank, quickly learned how to live under AID's regulations and procedures, and performed well within the limited scope required by the project. But this is where evaluators differ from auditors: we reserve the right to ask questions about issues outside the framework of the project as established, especially when the claims made at the outset suggest broader expectations.

E. INFOM in Transition

As the new General Manager of INFOM and the new national administration took office in mid-1974, the Institute entered a period of transition. We visited INFOM as this transition was beginning to take form. Many of the problems we discussed were being realized, and steps being taken to correct them. We found these changes to be most encouraging. Some were in the action stage, others in planning, others still being studied or or at the idea stage. Under the previous manager a consulting team from Puerto Rico had been engaged to begin work on the IBAM recommendations, chiefly in the areas of organization and internal administration. The more basic re-examination of INFOM's role and activities is taking place under the leadership of the new manager, formerly a member of INFOM's Board.

The most important transitional steps under way, planned or recommended include the following:

1. Establishment of the planning unit, which is conducting diagnostic studies, reviewing INFOM's past performance, raising basic questions, and formulating firm recommendations for new approaches in the Plan Básico.

2. Action by the Servicios Tecnicos team on procedures, organizational structure, internal communications and reporting, rational delegation of authority, and related matters. Our only reservation regarding this activity is that the planning unit and the technical assistance team do not appear to be working in a collaborative manner.

3. Policy issues and external coordination are being examined by the General Manager to find ways to improve the developmental impact of INFOM's program.

4. Plans are underway to set up a study team on a municipal tax code, with a deadline of six months to develop new proposals.

5. Recommendations have been made by the Planning Unit to establish "special programs" in the institutional development area, to strengthen INFOM's capacity to assist municipalities in financial and administrative matters. (As yet there have been no recommendations regarding municipal planning.) The recommendations urge that this work be regionalized, or at least carried out primarily in the field rather than in the head office.

6. Aggressive steps have been taken to establish constructive working relations with ANAM, ANEM, and INAD. Seminars have been held jointly with INAD and the Department governors on problems of local development. INFOM and INAD have run joint workshops with municipal secretaries and treasurers to review and improve the technical manuals.

7. INFOM has been working more closely with the planners in the National Planning Council and with other technical agencies to establish rational priorities and to exchange information. They are in contact with the Guatemalan consultants to the Planning Council who are developing a new concept of the municipal role and of INFOM's role in development during the upcoming five year plan.

8. Sources of additional capital and operating income are being studied in order to support an expanded program. Negotiations are underway with the IDB on another water and sewer loan to benefit fourteen municipalities.

9. Attempts are being made to change the image of INFOM at the municipal level, in recognition of past frictions. The new General Manager has made extensive field trips, large posters have been developed and distributed, and social promoters have been sent out to hold discussions with municipal leaders on INFOM's activities and procedures.

10. A more vigorous public relations program has been carried out to publicize INFOM-supported projects and other activities.

Many aspects of this ferment of self-examination and change are still in preliminary form and may take time to be translated into concrete action or results. We found that there is a realization of many of the shortfalls of the past, and an apparent commitment to correcting them. We encountered these concerns not only within INFOM, but heard them expressed by national planners, a representative of the President of Guatemala, and by municipal leaders and employees.

Into this climate we introduce the recommendations contained in the following section, adding them to the other suggestions which INFOM has received during the past two years from IBAM, Servicios Tecnicos del Caribe, and its own planning team. Our recommendations, which were developed independently of the others' and before reading the others' reports, coincide in most respects. There are, however, instances in which our emphasis is different, and we have also chosen to challenge some of the basic elements of the municipal system which have until now been accepted as given by INFOM and its advisors.

SECTION III

Recommendations

A. Strategy and Policy

1. Place emphasis on total municipal development through national and local partnerships

   a. Related Finding: INFOM's project construction emphasis has produced little institutional change at the local level, and has perpetuated the paternal relationship in many ways between the national government and the municipalities. INFOM has tended to operate in an isolated manner, seldom taking advantage of other governmental, educational and private resources.

   b. Discussion of Recommendation:

      - A new strong element must be added to INFOM's work, namely the institutional reform of the local governments, and narrowing the resource and capability gaps between the larger and smaller towns.

      - Municipal development must branch into the development of economic incentives and infrastructure in addition to the social benefit projects which have been traditionally supported.

      - Total municipal development must be put on a partnership basis, in which local government learns to seek local solutions first, with advice from INFOM, and only secondarily seeks outside financial help through loans and subsidies.

2. INFOM should tie administrative and financial assessments and assistance to its lending program

   a. Related Finding: Such assistance in the past has been minimal and unrelated to lending the function except in terms of assuring debt service.

   b. Discussion of Recommendation:

      - INFOM has lost an opportunity to use its lending program as an incentive to promote institutional change in local governments.

      - As soon as INFOM has the personnel capability, loan agreements should include requirements for setting up new

systems of planning and budgeting, tax system improvements, personnel training, and improved administration of services, with INFOM assistance.

3. <u>INFOM should strengthen its research, planning, and evaluation functions.</u>

   a. Related Finding: INFOM has done very little of any of these until late in 1974.

   b. Discussion of Recommendation:

      - INFOM should define its needs in three basic types of research: (1) diagnostic studies of municipalities, including institutional as well as physical aspects; (2) specific studies needed to improve the operation of the technical divisions; (3) long-range or basic research on major reform issues, economic issues related to municipalities, causes of municipal problems, and the like.

      - Research should be a basis for improved planning, operations, evaluation of work performed, and reprogramming.

      - Research should be the basis for establishing a municipal basic data bank, constantly updated, used by the technical divisions and by the municipal authorities in their own planning and budgeting.

      - The data bank in turn will provide the basis for developing a more sophisticated classification system for municipalities, taking in more factors than population and allowing better planning decisions. Factors to be considered include level and type of economic activity, social indicators, service and facility needs, budgetary levels, and others related to municipal conditions and capabilities.

      - Planning should be a joint activity of the planning unit, technical division chiefs, and management, as well coordinated and integrated as possible.

      - Evaluation should be based on specific work plans, be primarily for internal use in improving the Institute's program, and be a continuous activity. Results should be made known to the Board and the public.

4. <u>INFOM should seek to diversify and refine its credit policy</u>.

a. Related Finding: The previous policy has been overly rigid in some respects and vague in others.

b. Discussion of Recommendation:

- INFOM should explore whether the list of eligible projects could be expanded, perhaps initially on a pilot basis, to include projects of more direct economic impact and of benefit to rural people.

- INFOM should explore a more sophisticated mix of lending terms, tied to differing types of projects, municipal circumstances, and cash flow requirements of the institution and its program.

- INFOM should seek ways of multiplying the impact of its capital through the use of guarantees for bank loans to financially stronger municipalities. (See III-D)

- The credit policy should include linkage of institutional reform to loans, as recommended above in A-2.

5. <u>INFOM should decentralize many of its activities to regional offices, especially process assistance</u>.

a. Related Finding: INFOM operates in a completely centralized manner, reducing its effectiveness. A new institutional emphasis will require close and frequent contact with the municipalities and understanding of their special circumstances.

b. Discussion of Recommendation:

- "Process" assistance is that which deals with changing institutional capability, such as planning, budgeting, administration, financial management, administration of construction and services.

- Highly technical functions, which are needed only for the solution of specific problems, may continue to be centralized.

- Regional offices will probably have to be initially supported completely by INFOM, but over time, as their value is realized, municipal support might be solicited.

6. INFOM might take the lead in establishing a Council on Municipal Reform as part of the partnership of municipal development at the national level.

a. Related Finding: The various entities concerned with municipal reform have historically worked independently, when many issues could better be resolved in concert.

b. Discussion of Recommendation:

- A Council on Municipal Reform might include ANAM, ANEM, the Municipal Personnel Board, INAD, and the National Planning Council, in addition to INFOM.

- Representation might also be sought from the national legislature and the Presidency, especially when issues of legal reform are involved.

7. INFOM should adopt its strategy changes by planned stages in an integrated manner.

a. Related Finding: INFOM has a 17-year history of running a certain kind of program, and has built up a series of relationships, expectations and commitments. Change must come in stages, and the ones recommended here will be complex, fundamental, and probably costly.

b. Discussion of Recommendation:

- While the change will be gradual, it should be planned in terms of specific targets spread out over two to four years. Unless such commitments are made, it will be easy to let things slip and continue in the old patterns.

- Integration is important; the entire Institute should be involved in the change, not just one or two special units operating in isolation from the rest, as has been the case with the External Loans Division. The management of INFOM must lead and take an active part in the transformation of the program.

B. Organization and Procedures

1. INFOM must be restructured in order to carry out a broader program of municipal development.

a. Related Finding: IBAM as well as INFOM itself have recognized for over two years that restructuring is needed in order to rationalize the engineering activities and internal

administration. If the Institute is to broaden and strengthen its program in institutional development, additional organizational changes will be needed in order to clarify responsibility and relationships for carrying out the new strategy.

b. Discussion of Recommendation:

INFOM should be divided into major functional units and staff offices. Exhibit III-1 provides a possible model:

- Two major units would work directly with municipal problems, the Division of Municipal Works and the Division of Municipal Assistance (Asesoría).

- The Division of Municipal Works would combine all engineering functions and project-related economic and financial analysis in one operation to assure maximum coordination in studying, designing, and administering municipal projects in accordance with a common set of priorities, policies, and procedures.

- The Division of Municipal Assistance would be a new unit charged with development of municipalities as institutions, providing advice and training on financial, administrative, and development planning matters.

- The General Administration Division would provide support for the rest of the agency, and perform such functions as administration of revenue-sharing.

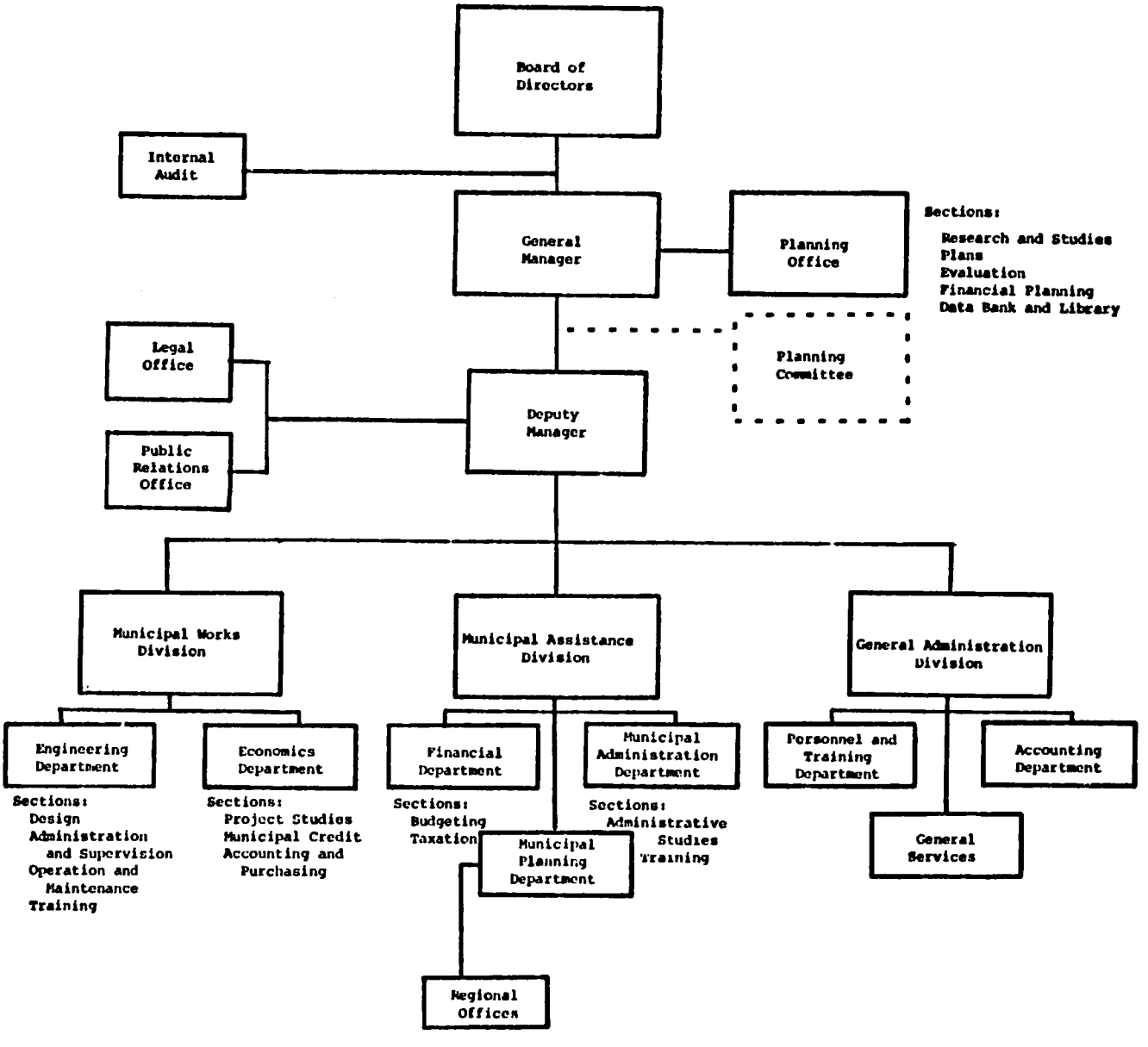
- The other units would be called "offices", providing staff functions, and not to be confused with the line divisions.

- A Planning Committee might be established, composed of the management and heads of divisions, meeting regularly to preview plans, policies, evaluate progress and budgets, and discuss coordination with other entities. The chief of the Planning Office could serve as secretary, and the other office chiefs or department chiefs would participate as appropriate to the agenda.

- Such a model would take form in a gradual manner, but the basic outlines of it should be established as soon as possible in order to establish responsibility for carrying out the intent of the Organic Law.

Exhibit III-1

Proposed Organizational Model for INFOM



Source: Checchi and Company.

81

2. <u>INFOM should begin as soon as possible to broaden the capacity of its staff and improve personnel incentives.</u>

   a. Related Finding: In order to broaden its program, INFOM requires staff capable in fields such as public administration and finance, community planning and development, social and economic research, and training--fields which are either not represented or are underrepresented on the existing staff. The current salary structure does not provide sufficient incentives to INFOM personnel.

   b. Discussion of Recommendation:

      - Staff improvements can be made by training existing staff or recruiting new technicians, depending on budgetary limitations.

      - The salary and allowance structure needs reform to reward merit and seniority, service in the field, and to encourage seeking additional training.

3. <u>INFOM should utilize contracting with specialized institutions and experts in order to broaden its capacity.</u>

   a. Related Finding: Technical activities related to municipal development have not been channeled through INFOM. INFOM will require expertise in many fields, and contracting will avoid duplication of existing facilities and organizations.

   b. Discussion of Recommendation:

      - As INFOM defines its research requirements, there will be those of a specialized or long-term nature which can best be performed by academic or technical institutions, or by teams of experts and consultants in law, economics, the social sciences, engineering, or other disciplines.

      - Training for municipal functionaries and for INFOM staff may be most effectively contracted to INAD, technical training entities, or universities.

      - Contracting may take the form of inter-institutional agreements in which both entities allocate funds to a given activity, or of contracts funded completely by INFOM with its own or foreign aid resources.

      - It is important that INFOM maintain control over contracted entities, clearly defining the work product desired,

establishing a firm schedule for completion, and checking the acceptability of the work before making final payment.

4. INFOM should make a standard procedure of including benefit estimates in project preparation.

   a. Related Finding: Current project preparation does not include prior analysis and description of social, economic, or other benefits expected from projects which it finances. Therefore INFOM lacks a valuable evaluation tool.

   b. Discussion of Recommendation:

      - As a procedural and substantive matter, INFOM should begin to include in each project study a section on planned benefits, quantified to the extent possible (number of persons or households to benefit, economic or social improvements expected, including an estimate of the pre-project conditions).

      - A further refinement would be to show when the benefits might begin to appear and to define the means for measuring them, as a guide to project evaluation in the future.

5. INFOM should proceed with carrying out the IBAM recommendations for improving internal operations, but making sure that they are appropriate and are tied to the planning of new program directions.

   a. Related Finding: The Servicios Tecnicos team's work on organization and procedures did not appear to be closely coordinated with the new Planning Unit's development of program recommendations.

   b. Discussion of Recommendation:

      - While the final responsibility for such coordination rests with the General Manager, steps should be taken by the T.A. Project and the Planning Unit to assure that administrative reform of INFOM is in accord with program reforms.

C. Legal Matters

1. The municipal election cycle should be altered to provide for more continuity in local administrations.

   a. Related Finding: 285 Guatemalan municipalities have two-year administrations which may not succeed themselves. This will be a major obstacle to any attempts to establish rational municipal planning, training of municipal officials, and other institutional reforms.

   Is this a bit simpleminded?

   b. Discussion of Recommendation:

      - INFOM could take the lead in advocating one of three possible modifications of the two-year rule:

        - Lengthening all municipal elected terms to four years;

        - Permitting re-election for one additional term; or

        - Creating a mechanism for orderly transition from outgoing to incoming administrations.

      - The Council of Municipal Reform recommended under III.A-6. might be a channel for encouraging this (and other) legal reforms.

2. INFOM should provide leadership in developing a modern municipal tax code.

   a. Related Finding: The existing provisions for municipal taxation are obsolete, confusing, and a simplified code is essential to improving the financial capacity of the municipalities.

   b. Discussion of Recommendation:

      - The proposed code prepared by the OAS for Guatemala City may provide some useful approaches. It simplifies terminology, reduces the number of income sources to six basic taxes, and provides for a graduated system to distribute the tax burden more equitably.

      - In developing a new code, it might be advisable to test it in a few pilot municipalities in order to assure that it is appropriate and feasible for the smaller towns.

      - Introduction of the new code should coincide with efforts to develop municipal planning to assure that new local

revenues are rationally invested and that there is public consciousness of the linkage between new taxes and better services.

3. The confusion regarding cadastral surveys should be straightened out at an early date.

   a. Related Finding: By the terms of its Organic Law INFOM is charged with conducting cadastral surveys as the basis for municipal management. While this has not yet been done by INFOM, the Ministry of Finance has been for several years engaged in a national cadaster.

   b. Discussion of Recommendation:

      - Cadastral surveys are basic to improved municipal management, including land use analysis, taxation and service planning, and yet is a complex task to perform. It may not be productive for INFOM to equip itself to do cadastral work, and duplicate the efforts of the Finance Ministry.

      - It may, on the other hand, be possible for INFOM to contribute to the effort and to speeding it up by training municipal officials in the use and maintenance of such surveys, and in cooperating with the Finance Ministry's cadastral teams. In this way its legal responsibility may be carried out.

4. INFOM should make efforts to assure that the national budget percentage for municipalities is used for developmental purposes.

   a. Related Finding: While the President's recent offer of Q 1 million does not fully satisfy the terms of Article 237 of the Constitution which has been a matter of conflict between the municipalities (represented by ANAM) and the Central Government for several years, it does provide a basis for INFOM to influence the uses and distribution of those funds as the basis for full compliance in the future.

   b. Discussion of Recommendations:

      - The "percentage" funds have not yet been allocated, but rather a fixed sum in place of them. Now the criteria, method, and channels for distributing this amount will become new issues.

- The fund may be distributed in a way which makes it another form of dependence on centralized problem-solving, a political tool, a new form of paternalism OR it may be managed in a more positive way to encourage local initiatives.

- The fund might be distributed preferentially to those municipalities which have shown the greater ability to raise revenue locally, to make rational investments, or develop projects which benefit large groups. It could be used as a matching or counterpart fund in a set ratio to local revenues.

- We would hope that INFOM could be influential, working with ANAM, in drawing up administrative or legal mechanisms to assure that these funds are well used in connection with advice or other assistance which INFOM could provide to the municipalities in the field.

D. Financial Matters

1. Improvements in INFOM's institutional planning should result in improvements in financial planning and performance.

a. Related Finding: Prior capital and operating budgets have not been based on a coherent planning process, and have therefore resulted in wide divergence between projected and actual performance. There has been no regular reporting system to provide management with financial indicators of progress and problems during the year.

b. Discussion of Recommendation:

- The Planning Unit should be the center for budget preparation, assembling the divisional plans and projections for review and rationalization with INFOM's policies and targets, matching them with research and evaluation findings.

- Key financial indicators should be identified as a basis for a reporting system which gives management information useful in assessing progress and problems. Indicators might include lending levels, operating costs, ratio between operations and lending, cash flow reports, and others.

2. <u>Financial planning should distinguish clearly between those activities financed by banking operations and fees, and those requiring subsidization</u>.

   a. Related Finding: The distinction is difficult to ascertain under the current system of budgets and financial statements, and results in an unclear picture of the requirements and status of the Institute.

   b. Discussion of Recommendation:

      - The lending and engineering operations may be expected to pay for themselves and for debt service, plus some part of the costs of management and general administration, but clearly cannot be expected to generate sufficient funds for improvements in research and planning or for institutional development efforts.

      - Subsidies may also be necessary to finance the margin between the interest which INFOM may have to pay for new capital and the rate at which it is legally required to lend to municipalities. These magnitudes should be analyzed and clearly identified in order to make realistic financial plans and as a basis for raising funds from domestic and international sources.

      - If INFOM plans to try to cover all of its costs from its own interest, fee, and tax income and not to depend on subsidies, careful study will be necessary of the amounts of capital and the terms of its capital operations, to see if higher yields can be obtained.

3. <u>INFOM should seek to make more effective use of its existing capital through leveraging techniques</u>.

   a. Related Finding: In the past INFOM has used its capital only in direct lending, without exploring the possibilities of achieving multiplier effects through additional means (see Recommendation A-4 above).

   b. Discussion of Recommendation:

      - INFOM's capital could be used as a guarantee fund to back up direct bank loans for larger municipalities planning income-producing projects.

      - INFOM could participate with other banking institutions or agencies in financing projects, forming consortia, and using a small proportion of its capital as an incentive.

4. INFOM should raise more money.

a. Related Finding: INFOM's current capital is insufficient to meet the demand for projects, and is growing at a slow rate. The value and impact of its capital is shrinking with rising prices of materials and labor. The new strategies being proposed will call for additional capital and operating funds.

b. Discussion of Recommendation:

- Likely funding sources will include the national banking system, central government budgetary transfers, levying of new taxes or new allocations of portions of existing taxes for INFOM support, and international agencies or banks.

- The preferable source, especially for operating funds, would be the allocation of a fixed proportion of a reliable and growing tax. This would be a source free of political influence and in other ways most reliable.

- Foreign aid resources should be sought when a special need or program has been identified and well defined, as has been done in the past, but should not be regarded as a regular or continuing source of support.

- In the long run, INFOM may be able to seek a portion of its support from the municipalities for operations such as regional offices, levying service fees, or seeking regular contributions. This should be done on a selective basis and only after more institutional development has taken place at the local level.

E. AID Support

1. USAID/G should establish close relations with the INFOM Planning Unit, and consider providing grant support and technical assistance for diagnostic studies and the formulation of improved programming for rural municipalities.

a. Related Finding: The new unit is a basic element in developing needed information as a basis for rational examination of new policies and programs. In order for AID to make accurate judgments on whether to continue its support, and on what form and level new assistance should have, complete data and assessments of needs and opportunities will be essential.

b. Discussion of Recommendation:

- The focus of this planning grant should be on assisting INFOM in carrying out Recommendation III.A-3 above.

2. AID could direct its efforts toward the possibility of a package of special purpose assistance to INFOM to bring selected municipalities into the stream of national development.

a. Related Finding: The municipal role has been peripheral until now, with projects limited to social infrastructure. The signals are that this will change during the next five-year national development plan which places major emphasis on rural economic opportunities, redistribution of income, and will define a new role for INFOM and the municipalities under a phased regionalization scheme.

b. Discussion of Recommendation:

Given this climate, responsive activities of potential interest to AID might include:

- Assistance to projects of municipal economic infrastructure in support of and integrated with other rural development efforts.

- Assistance for regional offices providing selected groups of municipalities with services in financial and administrative reform and development planning.

- Assistance in training the personnel of INFOM in disciplines which it requires but now lacks, such as community research and planning, public administration, and related fields.

3. Any future AID assistance to Guatemalan municipalities should be channelled as a package through INFOM, although specific activities might be contracted by INFOM to other entities.

a. Related Finding: AID's assistance in municipal development has been dispersed among various entities with differing motivations and strategies, producing lack of coordination and limited results.

b. Discussion of Recommendation:

- INFOM has the legal mandate and most of the resources necessary to be the major Guatemalan technical agency for municipal development. It should be encouraged to fulfill that mandate by broadening its own capability and drawing on other institutions for specialized studies or tasks.

4. <u>Any new assistance to INFOM should be designed to produce changes and improvements in the entire institution.</u>

   a. Related Finding: Previous aid has been funnelled through a special unit, in many respects isolated from the rest of the Institute and geared to meeting foreign requirements.

   b. Discussion of Recommendation:

      - Special efforts and programs should become normal, ongoing ones supported by and participated in by the entire agency, and this should be a purpose of the AID input.

      - Inputs should include assistance in INFOM's overall planning, budgeting, and new techniques for working with the municipalities.

      - Conditions on the assistance should require that subloans be used as leverage for local reform, to encourage local planning, and to create the conditions of effective municipal autonomy.

CHAPTER TWO

INFOM AND IFAM COMPARED

Introduction

We have looked at two municipal development institutions in some depth, stopping the clock at different times in each case, but have been faced with the challenge of analyzing a dynamic process involving a variety of technical and human factors in a somewhat static way. There is undoubtedly information of which we are not aware, there are knowledgeable people whom we have not interviewed, and there are many many communities we have not visited. Our view, then, is a partial one, and we are asked to draw general conclusions and make suggestions based on an imperfect base of information. Had we stayed longer in each country, allowed ourselves to become immersed in the rhythm and complexities of each place and institution, we might express ourselves with more qualifications, be less ready to make judgements, but we might also end up with little of value to say. In each country we formulated at least the general terms of our observations and conclusions and we tested our suggestions in discussions with the executives of the institutions and USAIDs before leaving to write our reports. Our comparative observations are drawn from these brief country experiences, as well as nearly a year of contact through short visits to IFAM and municipalities in every region of Costa Rica since the first study was done.

This Chapter is divided into two Sections, the first providing background information on the characteristics of Guatemala and Costa Rica and their respective systems of municipal government. Section II compares The Institute of Municipal Assistance and Development (IFAM) of Costa Rica, and the Institute of Municipal Development (INFOM) of Guatemala, looking at their goals, their strategies and policies, and their impact on the municipalities, and their institutional capacities. Section II closes with observations on the AID assistance that each has received.

SECTION I

Comparison of the Countries and Municipal Systems

A. National Characteristics

Both Costa Rica and Guatemala include a variety of living conditions within their borders, considering that they are both small countries. There are mountain regions with small farms, lowland coastal areas of commercial farming, dry regions suitable for livestock raising, and an extensive unexplored region in each country. Both capital cities sit on upland plateaus and are the only real metropolitan cities in their countries.

As the data in Exhibit Two-1 shows, both countries are primarily rural and agricultural, but urbanization, especially in the regional centers and provincial capitals has moved rapidly during the past decade. While both economies have grown rapidly in recent years, the distribution of income has remained inequitable. Costa Rica is about one half the size of Guatemala in area and population, but enjoys a slightly higher standard of living and a literacy rate of about 90 percent against Guatemala's estimated 38 percent.

Ethnically and linguistically the two countries are quite different. Costa Rica's population is 97 percent Caucasian and Spanish-speaking, the only minority group of significance being the descendants of the English-speaking Jamaicans who settled the Atlantic Coast in the 19th Century. In Guatemala one finds a rich mixture of people of European, native American and mixed extractions. About 40 percent are Indian, speaking among them 17 different languages, and in many instances speaking little or no Spanish.

In the rural areas of both countries one finds problems of underemployment, ill health, insufficient schooling, and a lack of basic services and infrastructure such as drinkable water, transportation, and electrification. Tourism and industrial development have been concentrated in or near the capitals, and agricultural development has tended to benefit large-scale, export-oriented farming and livestock raising. During the last few years both Costa Rica and Guatemala have begun to devote their own resources and those of foreign aid donors to correct these imbalances and provide better

EXHIBIT TWO-1

COMPARATIVE NATIONAL AND MUNICIPAL DATA
COSTA RICA AND GUATEMALA

CHARACTERISTIC/INFORMATION	COSTA RICA	GUATEMALA
Population (Approximate - 1974)	2 million	5.2 million
Urban	38%	35%
Rural	62%	65%
Area	19,600^2 miles	42,000^2 miles
Literacy Rate	90%	38%
Per Capita Income (1972)	$572.20	$414.70
Percent of Labor Force in Agriculture (1972)	44.8%	63%
Gross Domestic Product (1972)	$1.07 billion	$2.1 billion
Number of Municipalities	326	80
Municipal Term of Office	4 years	2-4 years
Type of Municipal Government	Council/Manager	Mayor/Council
Classification System	No	Yes, By Population
Sources of Income		
Local Taxes and Fees	Yes	Yes
Charges for Services	Yes	Yes
Rent or Sale of Assets	Yes	Yes
Share of National Revenues	Yes	Yes
Domestic Borrowing	Yes	Yes
International Borrowing	Yes	Yes
Local Planning Capability	No	No
Police Powers	No	Yes
Budget Control	Controller General	INFOM
Municipal Code	Yes (1971)	Yes (1957)
Municipal Employment Law	Included in Municipal Code	Yes (1973)
Municipal Tax Code	Under Study	Under Study
Municipal Association	No	Yes
Municipal Employee's Association	No	Yes

opportunities for their largest population group, the small farmers. At the same time they have both been hard hit by the recent burden placed on their economies by the spurt in oil prices.

B. Municipal Systems

In Guatemala and Costa Rica the term municipality may be misleading to North Americans, who are accustomed to local governments serving urban concentrations. In both countries the municipality is the next level below the province (a largely ceremonial organ in both cases), and typically includes a large rural area surrounding a small town, more like a county or a New England town in the United States. The capital cities are considered, governed, and financed in a class by themselves, and are generally not considered as part of the group we are analyzing in this report. In both countries the municipalities are overwhelmingly small (in terms of population) and rural in character.

Basic legal and factual information on the two municipal systems is included in Exhibit Two-1, and need not be repeated here. Qualitatively the situations are similar in most respects. The municipalities lack sufficient income, trained staff, and equipment with which to fulfill their responsibilities. The attitude of local officials, in keeping with the Hispanic-American tradition, is to look to national authorities for solutions to their financial and developmental problems, often before attempting local solutions. In Costa Rica we found that the municipalities were marginally better financed and staffed than in Guatemala, but still in need of improved tax codes, financial and development planning systems, and other forms of institutional guidance.

The new Municipal Code of Costa Rica, enacted in 1971, provides for a municipal executive working under an elected council which chooses its own chairman. Guatemala's code provides for an elected council and mayor, the principal employees being the secretary and a treasurer. The Costa Rican approach thus allows for town managers whose terms of office are the same as the elected officials, but who may be (and in many cases are) retained by

newly elected administrations. Municipal elections are held in Costa Rica every four years, and in Guatemala every two years in 285 of the 325 municipalities. (In the remainder the officials have four-year terms.) Thus, the Costa Rican system provides a better opportunity for professionalism and continuity in municipal management than the Guatemalan.

Costa Rica and Guatemala have both allocated fixed percentages of national revenues for distribution to the municipalities, using the MDI's as agents. In both cases the taxes (on liquor, for example) are relatively predictable, slowly growing resources. Costa Rica has also allocated a portion of the fixed property tax (Impuesto Territorial) to the municipal system, and as the municipalities and IFAM take a more active role in updating the property records, assessments and administration, a healthy increase in this source is expected since it will be managed by those with a direct interest in effective collection. Guatemala has not as yet taken this step. The weakness of the revenue-sharing techniques is that they tend to maintain the status quo in relative municipal income, since they are distributed in relation to population, thus maintaining the smallest towns as the poorest. INFOM is proposing a change in this approach in connection with a newly-allocated tax, and will suggest that the system be reversed, providing larger shares to the smaller towns.

While Costa Rica has moved farther than Guatemala in certain areas of basic reform, in both countries further steps are needed. New tax codes are overdue; standards and guarantees for municipal employment need to be strengthened; election cycles should be altered in order to divorce local politics from national campaigns; and the role of the municipality in relation to regional and national development needs more precise definition.

SECTION II

Municipal Development Institutions Compared

A. Charters and Goals

As noted in Exhibit Two-2, which provides basic comparative information on IFAM and INFOM, both were established by Organic Laws which were passed by the national legislatures in recognition of a need to establish a technical and banking institution to systematically strengthen the municipal governments. The language of the two laws is strikingly similar, and we speculate that the framers of the IFAM law drew on the existing MDI laws when they were drafting their own. The goals of INFOM, as stated in the revised law of 1965, are to create a specialized entity to give technical and financial assistance to the municipalities; to assist in coordinating municipal investment with national development priorities; and to make effective the autonomy of the municipalities to permit administrative decentralization of the solution of local problems.

The goal of IFAM is to strengthen the municipal system, stimulate the efficient functioning of local government, and promote the ongoing improvement of municipal public administration. Both institutions are charged with coordinating closely their programs and those of the municipalities with national development plans.

The functions of the Institutes are clearly laid out in their charters, and both mention making direct loans, acting as financial agent and guarantor, providing advice on budgets, taxation, finance, administration and planning, offering purchasing services, and extending training to municipal officials. INFOM's Organic Law is more specific on the matter of its role as sole depository of municipal funds, and it in fact has more control than does IFAM over municipal deposits of all kinds. INFOM also has power of review over municipal budgets and taxes, whereas these functions are carried out in Costa Rica by the Controller General of the Republic which exercised them before IFAM was created. IFAM's law is broad in scope in that it assigns the Institute the responsibility for doing research and disseminating ideas for improvement of the municipal system, and for promoting intermunicipal cooperation.

EXHIBIT TWO-2

INSTITUTIONAL COMPARISONS -- IFAM - INFOM

GENERAL CHARACTERISTICS/DATA	IFAM	INFOM
Year Founded	1971	1957
Type of Institution	Autonomous State Agency	Autonomous State Agency
Founding Legislation	Organic Law	Organic Law
Professional/Semi-Professional Employees	51	112
Role	Financial Assistance Technical Assistance Administrative Assistance Distribution of Shared Revenues	Financial Assistance Technical Assistance Administrative Assistance Distribution of Shared Revenues
Stated Priorities	Help municipalities plan, finance, execute, maintain projects, services, and revenues as part of national development.	Help municipalities plan, finance, execute, maintain projects, services, and revenues as part of national development.

FINANCIAL CHARACTERISTICS	IFAM	INFOM
Sources of Finance	Bond issues, national and international borrowing, interest income, shared revenues, grants	Bond issues, national and international borrowing, interest income, shared revenues, grants
Own Capital - 1974	$7.19 million	$7.35 million*
Operating Budget - 1974	$693,400	$822,000
Credit Budget - 1974	$6.28 million	$3.5 million
Lending Level Average 4 - 5 years	According to 4-year plan	$2.6 million
Terms of Project Loans:		
Interest	6 - 8%	4-1/2 - 5%
Maturities	7 - 15 years	Up to 20 years av. 5 years
Total Projects Sponsored to Date	96	1,000+
AID Loan(s)	1971, 1974	1970
AID Input	$3.6 million $3.4 million	$2.1 million
Central Government Contribution	$1.5 million $775,000	$2.0 million

CAPABILITIES/ACTIVITIES	IFAM	INFOM
Institutional Planning Unit	Est. 1974	Est. 1974
Training Program (Internal)	Yes	No. Periodic, Selected Study Grants
Administrative Field Advisors	10	--
Regional Offices	--	--
Engineering Capability	Minimal, provided by other agencies	Large, Dominant
Internal Audit	Yes - Reports to Board	Yes - Reports to Board
Technical Assistance for Institute	IBAM, CEISA, OAS, Checchi	IBAM, Servicios Tecnicos
Special Projects/Research	Agricultural Marketing Tax Code Municipal Atlas Rural Municipal Inventories Property Tax Administration	Municipal Services Inventory, August 1974, November 1974 City Planning (mid 1960's)

*As of September 1974

As noted in the Exhibit both agencies are empowered to borrow funds nationally and internationally, issue bonds, and receive funds or subsidies from the central governments. Both are autonomous, have boards of directors drawn from both government and the private sector but composed of persons with demonstrated concern for municipal affairs. Under a law passed in 1974 IFAM's Board Chairman is also its chief executive, while INFOM's General Manager answers to the Board. Both have internal audit units which answer to the Boards of Directors, but are also audited by national controllers general. The internal audit system is in many ways a duplication of the accounting and disbursing functions carried out by the Institutes' administrative units.

B. Strategies and Policies

INFOM and IFAM have carried out their charters in different ways since they were founded, but many of the strengths and weaknesses we have identified are remarkably similar.

We discovered that strategy in the two cases is largely defined by the volume and content of municipal loan applications in a given year, with some selectivity applied by the technicians working within a general framework of priorities enunciated by their respective Boards of Directors. Stated simply, they have both been passive in their planning.

INFOM and IFAM have until this past year lacked objective diagnostic information on municipal problems and conditions. They have not had planning units gathering and analyzing data on a systematic basis until 1974, and therefore have established no clearly defined geographic priorities or identified particular groups of municipalities for special attention. Under the requirements of AID loans they have given general preference to smaller, more rural municipalities, but in managing their own capital they have tended to take the banker-like paths of least resistance, responding first to the municipalities which are the best credit risks and which present the least controversial and most income-producing projects.

Lending policies differ slightly, in that IFAM's interest rates are higher (six to eight percent) and maturities longer (ten to fifteen years),

while INFOM's interest ceiling is set by law at five percent and its maturities are shorter (two to seven years). The net result is probably about the same: the loans are soft in comparison to those available in regular capital markets, and the amortization schedules can be budgeted or drawn from project income without much difficulty by most municipalities.

Neither institution had made municipal administrative or tax reform a condition of receiving a loan, although IFAM began to introduce the practice during 1974. As far as we are aware, neither has used its loan fund or financial agent authority for guarantees or other forms of incentives or levers to channel capital from other banks or agencies to municipal projects.

Perhaps the greatest difference in overall emphasis between the two Institutes is in their policies on training and direct assistance to municipalities in administration, finance, and taxation.

IFAM established a Technical Assistance Department as one of its two principal operational units, and assigned it the training and technical assistance role. The Department's budget has been equal to or larger than the lending unit's since the beginning. It has had a growing staff of municipal "instructors" working in the field and running training sessions.

INFOM is and has always been dominated by engineers and by the process of generating projects at a rapid rate. Everything the Institute does is subservient to this activity, with the possible exception of some of its operations related to managing municipal funds. IFAM on the other hand has struck a better balance between what we might characterize as the "hard" and the "soft" elements of municipal development.

Basic reform of the municipal system has also been of more concern to IFAM than to INFOM, perhaps because its first (and still) executive was a legislator and leader of the group which drafted the new Municipal Code and INFOM Organic Law. IFAM has identified a number of areas which continue to need change, in some cases through new or modified laws, and has mounted studies and pressures to bring them about. INFOM, by contrast, has apparently

accepted the obvious structural deficiencies of the legal and institutional framework, and has concentrated on what it does best, project loans.

C. Impact on Municipalities

The nature of the relationships between INFOM and IFAM and their municipal clients reveal some interesting differences. Basically the majority of municipalities have nowhere else to turn for the kinds of soft project loans which the MDI's provide. Before IFAM was established, for example, municipal leaders seeking project aid had to make the rounds along with their representative in the national legislature (if he was of the same party), waiting in the outer offices of ministers to present their petitions. With the creation of the new agency, municipal leaders could come on their own as a matter of right and be assured of a hearing and of some form of help. The relations between INFOM and the Guatemalan towns are somewhat strained compared to the situation in Costa Rica. We trace this in great part to the more active role of INFOM in managing municipal funds, including the policing functions on budgets and taxes which in Costa Rica are performed by the Controller General, not IFAM.

Not surprisingly, INFOM is seen at the municipal level as a technical agency which is much in evidence in the field when projects are being planned and carried out, and otherwise is a correspondent, dealing in budgetary, tax, and banking matters through the mails with the municipal treasurer.

IFAM, on the other hand, after a rather slow beginning during its first two years when it was getting organized, has been active in providing training and advice on finances as well as giving project aid. Neither institution has worked in the field of municipal development planning, nor have they worked on any broad scale on general administration.

IFAM has made a special point of assisting municipalities in carrying out urban cadastral surveys, restructuring their rates for basic services, reviewing their taxes, and improving budget formats and accounting systems. In addition to direct field assistance, IFAM has run numerous seminars and workshops for municipal treasurers, executives, secretaries, and councilmen. INFOM has left training and the preparation of administrative

manuals to INAD, except in the matter of budget formats, on which it has sent instruction material to municipal treasurers.

Municipal autonomy is in our view marginally more effective in Costa Rica than in Guatemala, due to less desperate financial conditions and the introduction of the town manager idea. The Costa Rican municipal executive has been the most frequent participant in IFAM's training seminars, and represents a key figure with whom the Institute can communicate. Under the Guatemalan system INFOM may find the mayor handling this problem, the secretary that one, or a councilman responsible for a certain project. With the four-year terms in Costa Rica it is possible for IFAM to run training and orientation sessions for elected officials as well as municipal employees with the hope that the people will remain in place long enough to put their new knowledge to use. IFAM has not yet evaluated the impact of its training in depth, and results of the training are not obvious in all cases, but at least there is more hope than in Guatemala for lasting impact. With two-year, non-successive terms for most Guatemalan councilmen, training them would be to a great extent an expensive treadmill to put in motion, and although municipal employees are somewhat more permanent, similar problems occur with them as well.

Two kinds of attitudinal problems persist in both Costa Rican and Guatemalan municipalities, and we do not perceive that the MDIs have made conscious efforts or achieved results toward changing them. The first is the paternalistic attitude, in which the municipality looks outside or upwards to national levels to solve its problems, and the technical agency responds, reinforcing the dependence. The second matter is the frequent lack of communication at the local level between community groups and the municipal government. The elected leaders often act in isolation, without soliciting the views of the general public on project priorities, desired services, budgetary commitments, and tax matters. Leaving aside ideological issues of participatory democracy, practical problems arise when a new project requires a substantial levy or service rate increase, and the citizens refuse to cooperate.

IFAM's leadership expresses a firm belief in making municipal government more democratic, but has taken few concrete steps to achieve the goal. INFOM's engineers told us that they talk to the people as well as the leaders during project planning. In Guatemala we found that municipalities rely on public meetings (cabildos) to discuss major issues more often than in Costa Rica, perhaps because of the special ethnic unity of many towns in Guatemala. Still, the difference is marginal, and neither institution requires, as part of a loan application, documented proof that the views of beneficiaries of projects have been sought beforehand, or that alternatives have been discussed outside the closed municipal council chamber.

We believe that if the MDI's would establish programs of assistance to municipalities in development planning, they could make some inroads on both of the problems mentioned above. This might be planning of a crude nature, based on a rough survey of the peoples' needs and of the existing facilities, setting up an investment plan and discussing it in various district subdivisions of the municipalities. It could be done in ways which would focus the leaders' attention on finding local solutions before seeking outside help, and on rallying community support behind projects which are widely regarded as important. It could also help the citizenry to understand the connection between paying taxes and receiving benefits from their local government.

Municipal priorities have probably been affected by the MDI's, but in a very loose and informal way. Both agencies attempt by persuasion to discourage high-cost, low-benefit projects in favor of basic services, and they appear to have been successful in this to a considerable degree. IFAM and INFOM have both concentrated on basic, mostly urban infrastructure in their project lending. INFOM has lent most of its capital to municipal markets, followed by drinking water, and sewage. IFAM has avoided municipal markets (after making some large loans for them) after its special study on food marketing showed that the modern economy has sharply decreased the importance of the traditional open market. The civic center or town hall is perhaps the best example of a project with low development impact, and

both institutions have used their own capital to make loans in this area. On balance, social infrastructure has been the chief product of the loan programs.

Neither institute has attempted to broaden its assistance to include strictly economic infrastructure, although many of their projects have some indirect economic impact. IFAM's extensive efforts in support of feeder roads are probably the most clearly economic in their effects. Neither have made special efforts to develop infrastructure related to agricultural development such as irrigation, crop storage facilities, or facilities to encourage agroindustry. Therefore, their impact has been primarily in the area of social infrastructure, most of it located in town centers rather than outlying rural areas.

Although lacking clear strategies and targets, INFOM and IFAM have both achieved a creditable distribution of their project lending in geographic terms, and less concentration of funds in a few municipalities than one might expect. They have both achieved reputations of being generally apolitical, responsive, and technically proficient.

The MDI's principal impact, then, has been in the nature of project production, with little measurable change or improvement in the capacity of local governments to manage their own affairs, or to engage in rational development planning which will provide new economic opportunities for people in the hundreds of small towns and surrounding rural areas.

We have looked for the causes of this situation. Some of them are rooted in historic attitudes, others in flaws in the municipal systems, or in the lack of taxable income available in most municipalities. Other causes may be traced back to the MDI's, in the way they have been structured, staffed, and managed.

D. Institutional Capacity and Viability of the MDI's

The most obvious problem we have identified in both IFAM and INFOM has been the lack of focus and direction in their programs. We have said this a number of ways before, but it is such a basic matter with such wide

effects throughout the institutions that it must be stressed. Neither agency, until this year, has collected basic, complete, diagnostic, comparative data on municipal conditions such as administrative capacity, financial situations, socioeconomic needs and potential, civic consciousness and awareness, and project needs and plans. Lacking this information the MDI's lack the means to channel their resources where they will do the most good and achieve the best results. They are without the means for defining targets and for evaluating changes resulting from their efforts. Financial planning, budgeting, and staffing requirements are based on guesswork about the level of effort which will be needed during a given year. Performance is measured in terms of activity or outputs, but not in terms of real improvements at the municipal level.

Another operational characteristic which is common in both agencies is lack of internal coordination among key departments or divisions. Again we can trace this, at least in part, to the lack of clear institutional plans and targets, and policies. The technical units tend to set their own goals based on the demands put on them by the municipalities, or on their own judgements about what is important. Internal communication is haphazard, and progress reports are irregular. In IFAM we found that the technical staff seldom met except to review loan proposals, and that the Departments of Technical Assistance and Operations worked almost completely in isolation. IFAM has a special problem not shared by INFOM in its offices being scattered among four different rented offices in separate buildings, while INFOM is under one roof in its own new building. Managers of the MDI's appear to spend a very small percentage of their time on internal program and performance matters, but are primarily engaged in preparing for or attending Board meetings (held two or three times a week in both IFAM and INFOM), serving on interagency committees, responding to ceremonial requirements, or meeting bureaucratic demands such as signing checks. Staff meetings are therefore rare, and major decisions are made by default rather than by design.

INFOM has operated in a more self-sufficient (or possibly isolated) manner than IFAM. INFOM's staff includes sufficient engineers and economists

to carry out studies of nearly all kinds of projects without outside help. The exceptions are large-scale water and sewer projects, electrification, and schools, which are designed by the Public Works Bureau, INDE, and CONACE. INFOM has not until recently contracted on a significant scale with outside entities for special studies, technical assistance, or guidance on its planning.

IFAM, in contrast, has hired local and foreign consulting firms to carry out project feasibility studies, engineering and architectural studies, economic studies (on food marketing, for example), regional development studies, research on municipal taxation, and most recently, surveys of municipal conditions and needs. IFAM's engineering staff is very small, and it relies on other government entities for design of roads, water systems, electrification projects, and major market or municipal buildings. IFAM has also engaged individual experts in financial planning and regional planning and has brought in consultants from the OAS. We criticized IFAM for not making very decisive use of the extensive advice it has received. INFOM appears to have been somewhat ingrown and closed to new ideas prior to the advent of the present administration.

IFAM's original organizational structure provided a logical model, with one key Department handling all lending operations (both economic and engineering aspects), and the other Department dedicated to technical assistance and training. During its first two years there were problems of dispersion of effort, as new units were set up for each special activity, often drawing staff away from the key departments, rather than being integrated with them. There was also confusion about the distinction between staff, line, and administrative support units, with authority often unsufficiently defined. During the past year this problem has lessened, with the two operational units being upgraded to Division status, and the establishment of the planning office to absorb special studies and promote coordination.

INFOM's organization was viewed in 1972 with alarm by the IBAM team, having evolved into a myriad of apparently duplicative Divisions, Departments and Sections, each of which had been established over the years to

respond to a particular need. The structural rationalization which is now underway was long overdue. We found in both institutions that the operating costs and administrative overhead were higher than necessary in relation to the substantive work with municipalities being performed, and clearly these unwieldy structures and overlapping authorities contributed to the high numbers of non-technical personnel and costs.

We were favorably impressed by the personnel in the MDI's. They are generally young, enthusiastic, and willing to work in the field. IFAM and INFOM have gaps in their personnel patterns, most notably the absence of persons trained in the social sciences and in community planning and development. In both cases the incentives necessary to retain and attract good staff need improvement, including a training plan for the staff with targets, budgets, and procedures for providing training in-country and abroad. IFAM has experienced an unusually high turnover of staff since it was founded. The problem has been less acute in INFOM, at least since the sweeping changes in 1970.

Relations with other national development agencies have followed similar patterns in IFAM and INFOM. They have both worked well and often closely with the entities charged with electrification, roads, health, water and sewers, and school construction. They have evidenced less success in their relations with the agencies which deal with social and administrative development, such as community development agencies and public administration institutes. Contacts with the national development planners have also been weak or sporadic, although this is less important in Costa Rica where the President's planning office has been weak and ineffective. IFAM and INFOM have both made efforts to regularize coordination with other agencies during recent months.

The financial resources of both agencies are limited and the demands placed on them are high. We theorize that one reason for the diffusion of effort and the difficulties of measuring results is that the MDI's are simply overextended, asked to do more than they can accomplish in a rational manner. Both are seeking more capital and operating funds as part of their recently improved planning.

IFAM is receiving more subsidies than INFOM, in that most of its capital is interest-free. Both are operating under the assumption that they will become increasingly self-financing banks, able to defray most of their costs from interest and fee income. We challenge this proposition, finding it inconsistent with their responsibilities under their charters. They face the dilemma of most development banks: if they are developmental, serving those most in need, they can't derive much income; if they concentrate on sound banking, their developmental performance as defined in their founding laws will be insufficient. IFAM has already committed more loans than the capital it now has, and is in need of a rapid injection. The first thought of the MDI financial planner is to look toward the large sums of municipal revenue-sharing money which is flowing through their hands, and look for ways of capturing it for their own uses, with the rationale that it is going to benefit the muncipalities anyway, and that they (the MDI) can make more effective use of it. The vigilance of the municipalities keeps this from happening.

We have found that neither INFOM nor IFAM has used its capital for leveraging through guarantees, nor have they sought to "graduate" the stronger municipalities which have self-financing projects and help them establish businesslike relations with other banking institutions.

Therefore, while we understand the pressures which cause the MDI's to lament their poverty in the face of such needs, we take a different view of the situation than they do. First, we feel that steps should be taken to make more effective use of the capital they already have. Secondly, we believe that the governments of Costa Rica and Guatemala can and will provide additional funds (including increased subsidies), in the present favorable climate and if the MDI's draw up sound plans for using the money.

Both governments have shown their commitment to municipal development. They have sponsored legal reforms, have established and capitalized their MDI's, have allocated shares of national revenues, and have incurred international debt liabilities in order to meet the special needs of the Institutes. Both countries are adopting development plans which will require further strengthening of the municipal governments. We therefore believe that the problem of additional financing is less severe than it is stated to be.

The Director of the World Bank's Agriculture and Rural Development Department, in estimating the capital needs of the developing countries for rural development, concluded by saying: "Finance is not necessarily such an important constraint on rural development as the technological, organizational, procedural and manpower ones." Leaving aside the matter of technology, this statement sums up our views on the financial needs for rural municipal development. If savings and investment can be captured and put to work by effective local governments, the need to pour more capital through MDI's will eventually diminish. The real challenge is on the institution-building side.

E. AID Relationships

AID resources have provided the means for IFAM and INFOM to reach municipalities which otherwise might have had to wait a long time for attention, and has given those smaller towns the opportunity and experience of carrying out an essential project. We found no instances of abuse of the intent of the AID loan funds, and believe that the loan assistance helped the MDI's to hold their focus on basically beneficial projects when pressures were present to finance less useful monuments.

Contact with AID has probably contributed to the MDI's financial responsibility and to developing orderly procedures for loan processing and administration, although in INFOM this work has been handled by one special unit, the External Loans Division, so that the effects have not penetrated to the rest of the Institute. In both cases the processing of AID-funded subprojects is slower than that for ones financed with the MDI's

own capital. This is not because AID-funded subprojects are prepared with more care, but generally the delayed timing is based on satisfying AID source and origin requirements and obtaining all the necessary approvals.

The Agency has not used its influence in either IFAM or INFOM in order to assure that the institutional development side of the project received the attention, resources, staffing, technical assistance and training which the activity required. We believe that this is partly due to the pressure in loan projects to meet prescribed disbursement schedules. AID/Washington expects these schedules to be met, places pressure on the USAID Mission, which in turn uses its influence on the MDI to speed up the lending activity. This has a number of outcomes, most of them negative in terms of project purposes. The project production machine is reinforced, to the detriment of the advisory services. The MDI cannot engage in municipal planning, or do administrative studies and set up technical assistance as a loan condition if they are expected to meet a quota of fund commitments. Startup of the AID-related operation is always slower than predicted, so when a regular routine is developed, it generally becomes mechanistic and a substitute for thinking about the process elements at the local level. It forces the MDI to find the most obvious projects in the most creditworthy municipalities, following the route of least resistance and fewest complications to reach the desired end. INFOM has recently made the case to AID that it must make more loans to Category II municipalities, because it has run out of creditworthy Category III and IV towns. This has been accepted because INFOM does not have the assistance capability or the time at this stage in the loan cycle to work on improving the financial eligibility of the smaller communities.

Pre-loan project planning in both countries was in our view incomplete, consisting almost entirely of developing rough estimates of demand for public works at the municipal level. AID did not provide the MDI's with assistance in developing a complete data bank and guidance in project design. In preparing the second loan for IFAM which will go into action in early 1975, the USAID Mission did encourage the Institute to set up a research operation with grant funds, and engaged consultants, including Checchi, to

advise on project planning. Unfortunately the value of this assistance was diminished by the loan review cycle, since the deadlines set by AID/Washington did not permit full use and incorporation of the survey findings in developing the level, terms and targets of the loan. The effort has however influenced IFAM to appreciate and organize for rational, comprehensive planning in terms of objective and judgmental data on municipal conditions, and we believe that it will have a permanent effect.

Outside technical assistance and evaluation has been funded under both projects, and in almost all cases it has been well-conceived in terms of being aimed at a real need. Our observation however has been that the assistance was not always defined in terms of an end product, nor were the MDI's, particularly IFAM, provided with guidance on making the best use of consultants and study teams. We believe that AID should provide more advice to the MDI's on how to take best advantage of the client/consultant relationship in order that its grant or loan funds produce applicable training, materials, and practical systems to strengthen the municipal development effort.

The final chapter of this report will be directed specifically and in more detail to the overall question of AID's support for municipal development efforts, with particular emphasis on the role and involvement of the small towns in rural development. With this in mind, we are reserving additional general comment on the AID/MDI relationship until we have completed the planned field work in the Dominican Republic and Venezuela.

Appendix A

Municipalities Visited

Municipality	Department	Category	INFOM Projects	Municipal Budget
San Cristobal Verapaz	Alta Verapaz	2	Potable Water System	Q 41,300
Santa Maria de Jesus	Sacatepequez	4	Drainage/Sewage System Health Post Slaughterhouse	Q 9,600
Jocotenango	Sacatepequez	4	Potable Water and Drainage/Sewage Systems (under construction)	Q 11,800
Panajachel	Solola	4	Market (under construction)	Q 22,000
San Pedro Carcha	Alta Verapaz	2	Potable Water and Drainage/Sewage Systems	Q 137,800
La Union	Zacapa	3	Market and Health Post (under construction)	Q 13,500
Gualan	Zacapa	2	Market	Q 81,000
Santo Tomas de La Union	Suchitepequez	4	Potable Water System Market Slaughterhouse	Q 19,700
Patulul	Suchitepequez	2	Market	

APPENDIX B

PRINCIPAL INTERVIEWS

Fernando Cabrera A.	General Manager
Isidro Morales Roldán	Acting Deputy Manager Chief of External Loans Division
Raul Quan Young	Chief of Engineering Division
Rafael Pineda R.	Chief of Financial Division
Alfredo Vidal P.	Chief of Water and Drainage/Sewage Division
Edgar Estuardo Asturias Sarti	Chief of General Administration Division
Pablo Porres R.	Chief of Legal Department
Hector Romeo Lucas	Chief of Public Relations Department
Estuardo Matheu Escobar	Acting Chief - External Loans Division
Carlos A. Prera F.	Chief of Planning Unit
Manuel Angel Castillo	INFOM Counterpart to STC
Miguel Velez	Chief - Servicios Tecnicos del Caribe
Miguel Gonzalez	Servicios Tecnicos del Caribe
Edward Coy	Director USAID/G
Carl Koone	Chief Food and Agriculture Division USAID/G
John O'Donnell	Rural Development Officer USAID/G
Dario Villatoro	Program Economist - Loan Office USAID/G
Antonio de Ros Sanz - Agero	Infrastructure Division National Planning Council Secretariat
Architect Fahsen	Consultant on Regional Planning to National Planning Council