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PROJECT EVALUATION SUMMARY
(Submit to MD/PAV after each project evaluation)

1. Mission or AID/W Office Name USAID/PARAGUAY			2. Project Number 526-0801 (Loan L-022)		
3. Project Title MUNICIPAL DEVELOPMENT					
4. Key project dates (fiscal years) a. Project Agreement Signed 6 Feb. 1973			b. Final Obligation 31 Dec. 1977		c. Final input delivered
5. Total U.S. funding life of project \$2,000,000			8. Date of this Evaluation Review July, 13 1977 Month/Day/Year		
6. Evaluation number as listed in Eval. Schedule 77-5		7. Period covered by this evaluation From: Mar 1976 To: May 1977 (Final) Month/year Month/year			8. Date of this Evaluation Review July, 13 1977 Month/Day/Year
9. Action Decisions Reached at Evaluation Review, including items needing further study (NOTE--This list does not constitute an action request to AID/W. Use telegrams, airgrams, SPARS, etc., for action) Send a letter to IDM summarizing what AID expects and requires of it once the disbursement period has ended.			10. Officer or Unit responsible for follow-up Capital Dev. Office (Mr. M.Hirsh)		11. Date action to be completed 31 July 1977

12. Signatures:		Mission or AID/W Office Director	
Project Officer		Signature	
Signature		Signature	
Typed Name Michael H. Hirsh		Typed Name Paul A. Montavon	
Date		Date 7/15/77	

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13. SUMMARY

This evaluation concludes that the project has achieved its purpose as established in the Loan Agreement and has made significant contributions towards higher level objectives.

IDM, in its short life, has been able to consolidate itself as a sound institution effectively carrying out its responsibilities. Its technical assistance efforts to municipal governments have strengthened their administration and enabled them better to perform a more positive role within their communities. For the first time, through more rational methods of tax collection, the budgets of municipalities are growing at a rate substantially higher than the growth rate of the GNP. In the area of public works, IDM has effectively financed sound, well conceived subprojects through a well run credit program. While we are not able to demonstrate with hard data that the subprojects have contributed to the economic development of the communities, we have seen that most projects have had a positive social impact and have established the base for further projects of a more developmental nature.

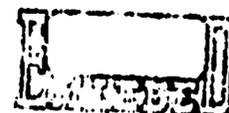
In summary, AID should be credited for having contributed, through this project, towards the establishment of a permanent institution within Paraguay, the benefits of which will be felt for many years to come.

14. EVALUATION FINDINGS ABOUT OUTPUTS AND INPUTS

AID inputs as set forth in the Loan Agreement consisted of \$450,000 of loan funds for technical assistance and \$1,550,000 for relending to municipalities. The GOP committed to contribute amounts of not less than \$400,000 to capitalize IDM and \$200,000 to defray operational costs. In addition, the law establishing IDM allocated the following resources to it:

- a. 10% of real estate tax as levied on all urban properties outside Asunción for a period of 12 years;
- b. 2% of the revenues of all municipalities outside Asunción; and
- c. 2% of the proceeds of a newly established tax on imported alcoholic beverages.

As of May 31, 1977, AID had disbursed \$424,315 for technical assistance and \$1,295,977 for subloans. The GOP has complied fairly well with payments of its minimum level commitments but has continually been about 6 months behind. These delays have not been a limiting factor to IDM operations. The fact that these minimum level contributions were inadequate to enable IDM to achieve financial self-sufficiency will be discussed in the next section.



In general terms it can be stated that these inputs have produced the outputs necessary to achieve the purpose of the project.

In the area of technical assistance, IDM contracted the services of a Brazilian firm, Instituto Brasileiro de Administracao Municipal (IBAM), and two local consulting firms, Consorcio Monitor Fretes-Ventre and Equipo Guarani. All three contractors have carried out their tasks satisfactorily and have been instrumental in upgrading the capability of IDM and laying the base for delivering technical assistance and training to the municipalities.

In terms of quantitative outputs, IDM has largely exceeded all planned expectations. For example, from an expected total of 57 seminars for 1,400 participants, IDM, in cooperation with the consulting firms, has carried out a total of 99 seminars and 35 short courses. In addition, during 1976, an IDM mobile team provided on-site training in administration to personnel in 156 municipalities. In 1977 the same team organized regional courses to train the municipalities in the use of the new Municipal Tax Law. Total attendance in all training events has amounted to 4,694 participants.

In the area of subloan financing, we found that there has been a shortfall in the number and value of subloan applications received. From a planned total of 200 requests totalling \$4 million, IDM has received only 164 requests amounting to \$2.5 million. The shortfall can be attributed to several factors. At the time the project started, all municipalities were handicapped by basic deficiencies in their financial positions, weak administration, and a complete absence of planning capability. It was only in 1974 that the first subloan applications were received, and lending operations started in late 1974. Most early applications were either erratic or ill conceived, and the processing time extended in some cases to over 6 months. This situation has improved thanks to the outstanding performance of the IDM Technical Department and the continuous monitoring efforts on the part of the Mission. Furthermore, IDM in almost all cases has assisted the municipalities in preparing their proposals. As a result, most of the applications coming in have resulted in sound projects ready to be considered for financing. This has been particularly true in smaller municipalities where there is an absence of or a relatively low planning capability.

In spite of the shortfall of number and value of subloan applications received, total amount of subloans approved as of May 31, 1977, is approximately as originally planned:

	<u>Actual</u>	<u>Planned</u>
AID Loan	\$1,456,691	\$1,550,000
IDM (counterpart and rollover)	<u>538,374</u>	<u>400,000</u>
Total	\$1,995,065	\$1,950,000

14. EVALUATION FINDINGS ABOUT PURPOSE

The purpose of the project as envisioned in the planning documents is to establish an institute for municipal development capable of providing administrative, technical, and financial assistance to all municipalities throughout Paraguay. The conditions can be summarized as follows:

EOFS No. 1

"AID loan funds fully disbursed and IDM effectively operating with roll over funds. Subproject financing amounts to \$1,550,000 and \$400,000 from loan and counterpart funding respectively.

Total funds applied to subproject financing as of May 31, 1977, were as follows:

Loan funds	\$1,137,135
IDM counterpart	299,257

As can be seen from the above figures the rate of disbursement has been slower than anticipated. This has been due to the late start of the subgranting activities and to delays in the implementation of the subprojects.

The Mission has been disbursing loan funds on the basis of lists of subloan requests approved by IDM; because of delays in the formalization of the subloans and actual execution of the subprojects, IDM has ended up with a high liquidity. Funds deposited in bank accounts as of May 31, 1977, and available for financing of subprojects including loan, counterpart, and rollover funds, amounted to the equivalent of \$375,550, which added to the undisbursed loan balance of \$254,023.05 brings the total availability to \$629,573. Moreover, we noticed a reduction in the number of subloan applications approved during the first five months of 1977, which IDM explained to be the result of a more cautious attitude on its part in promoting subloans due to uncertainty at the beginning of the year that the remaining loan balance would actually be disbursed to it; this balance was withheld pending the passing by the GOP of an amendment to a law providing additional income to IDM. The law was passed in June 1977. In the meantime IDM has received sufficient applications for subloans, which if approved and promptly implemented should contribute to absorb fully the relatively high amount of funds presently available.

EOFS No. 2

IDM operating effectively without external technical assistance and continuously engaged in providing technical assistance in municipal administration.

Our evaluation concluded that IDM has developed a capability to carry out an adequate technical assistance program to the municipalities. Through the

establishment of a capable and dedicated training unit, IDM is achieving significant improvements in the administrative area and thus fulfilling a role not covered by any other institution within Paraguay. The assistance has been provided to all municipalities without regard as to whether they have received or planned a subloan, and has covered the most needed aspects of administration. Our concern is that most of the activities have been financed from the Technical Assistance component of the Loan Agreement, and it has not been demonstrated yet whether IDM will be willing to allocate its own resources to continue these activities at the same level or, preferably, higher, in order to expand to new areas of administration and build on several accomplishments already made with the municipalities.

EOFS No. 3

"An adequate function for assisting municipalities to prepare projects will have been installed and working in IDM."

IDM has a Technical Department staffed by one engineer, four architects, and a clerical staff, actively engaged in preparing feasibility studies, technical designs for subprojects, and cost analyses related to the approval of IDM financed subprojects. In addition the Technical Department has performed a number of technical studies for projects which municipalities have financed from their own resources. This Department is the first and only official organism that provides technical consulting services to the municipalities, and its increasing influence and outstanding performance have resulted in a heavy demand.

EOFS No. 4

IDM would have a solid financial base: sufficient income to cover expenses, sufficient funds for a viable lending operation and adequate reserves to cover contingencies.

a. According to audited financial statements as of December 31, 1976, IDM ended the year with a loss of \$34,482, which was only one third of the loss experienced in the previous year. While there had been increases in operational costs between the two years, additional income from increased GOP contributions and from interest earned on saving deposits more than covered the additional costs.

Inflation plus a general underestimation of costs in the original projections against a rather fixed income received from the GOP have been the reasons for the shaky financial base of IDM. The situation is expected to be overcome, however, with the passage on June 27, 1977, of a new law which will greatly increase the amount of land taxes flowing to IDM.

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b. Perhaps the most important success of IDM has been the almost total absence of delinquency in the repayment of loans and the payment of interest by the municipalities. Payments in arrears as of May 31, 1977, amounted to the equivalent of \$17,079, or only 1.34% of the total portfolio. Moreover, the age of most of the accounts in arrears was less than one month.

c. IDM has established reserves for bad debts and for rate of exchange fluctuations as set forth in its organic charter and the AID loan agreement. The amounts of the reserves are considered adequate.

15. EVALUATION FINDINGS ABOUT GOAL/SUBGOAL

The subgoal, as stated in the logical framework, is, "To strengthen the municipalities economically and politically, and to modernize the administration of municipal governments .

Although the project planning documents lacked specific targets for measuring progress towards the subgoal, sufficient evidence was gathered during the evaluation confirming that the project has made a significant contribution toward enhancing the administrative capabilities of local municipal governments. Perhaps the most relevant measure of success has been the continuous increase in the budgets of the municipalities. Almost all municipalities had languished for many years, producing stagnant budgets clearly insufficient to cover even the most pressing needs and which had not increased in a proportion equal to the economic growth of the communities or even to the rate of inflation. It was only in 1974, as a direct result of the assistance received from IDM in the area of administration, that the budgets of the municipalities started showing a considerable increasing tendency. IDM at that time identified a number of cases where some municipal taxes were not properly administered or not enforced at all, and geared its assistance accordingly. The effects of these efforts are reflected in the increases in municipal revenues as demonstrated in the table below.

<u>Year</u>	<u>Number of Municipalities</u>	<u>Current Budgets at 1972 Constant Guaranties</u>	<u>Annual Growth Rate of Budg.</u>	<u>Annual Growth Rate of GNP at 1972 Constant Prices</u>
1972	157	141,002,312		-
1973	157	127,060,315	- 8.5	7.0
1974	161	123,414,430	- 4.4	8.3
1975	162	136,185,569	10.3	5.0
1976	160	236,409,701	73.6	5.7

As can be seen, the most spectacular increase took place in 1976, when revenues in all municipalities increased by 73.6% in real terms over the previous year's figure. Considering that there were no changes in the municipal tax legislation during the period reviewed, all the increases are probably the result of the

assistance program carried out by IDM.

Other achievements in the administrative area of the municipalities are improved accounting systems, simplified forms, and better internal control systems, such as the preparation of daily cash statements and the use of banking facilities. In almost all cases, key staff of the municipalities, namely the Intendente, Secretario General, and Tesorero, have attended at least one seminar or short course on municipal administration carried out by IDM. We have noticed that personnel trained under IDM programs have achieved a certain stability in their positions. Although we have no hard data, it seems that the turnover rate of personnel in the municipalities has been significantly reduced.

The goal of the project, as defined in the Capital Assistance Paper, is to promote the development of the cities and towns in the rural areas. Neither the CAP nor a logical framework prepared in 1975 describes the measure of impact expected to be achieved on the socio-economic development of the communities; the only indicator provided was a description of the type of municipal public works subprojects to be funded through the project. In the presence of a broad goal definition without specific estimations of the expected benefits, we could not reach a definite conclusion about the result of the project at the goal level. However, from our analysis and observations we can say that IDM has been successful in carrying out a sound and well run lending program. The financial assistance has reached 86 municipalities out of a total of 170. A wide geographic coverage has been achieved, and the program has reached all categories of municipalities from the largest to the smallest and poorest.

As of May 31, 1977, the project financed the following subprojects:

1. Slaughterhouses	31
2. Street Paving	24
3. Municipal Markets	23
4. Municipal Office Buildings	14
5. Water Systems	7
6. Electrification	6
7. Bus Terminals	5
8. Gymnasiums and Auditoriums	5
9. Tourism Projects	5
10. Municipal Theaters	3
11. Road Equipment	2
12. Various	<u>1</u>
Total	133

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The primary considerations given by IDM in the selection of subprojects have been the self-financing aspect and technical soundness. To a much lesser extent were other factors taken into account, such as the benefit incidence towards larger groups of people or impact on the socio-economic development of the communities. This has principally been due to the fact that, in general, the municipalities had not been development-oriented and their first responsibility and concern, as they saw them, were to provide basic services within the reduced urban areas of the communities.

Nevertheless, when reviewing different types of subprojects undertaken, we observed that in most cases the impact on the population had been of a positive social benefit nature. This is especially true in the cases of electrification and water systems. (In at least one case we noticed that the incidence of intestinal diseases has been significantly reduced after the completion of a potable water system in a town.) Most of the projects, given their revenue producing characteristic, provide the municipalities with a continuous additional source of income, which after the subloan is amortized can be invested in other public works.

The economic impact of the project is a different problem. We have not found any concrete evidence that any of the subprojects so far completed have contributed in a significant measure to the economic development of their communities. For example, all water and electrification projects are of a small capacity, designed for domestic use, and do not constitute an incentive for industrial investment. The municipal market projects, which in many cases have consisted of the remodelling or modernization of existing facilities, have seemed to have had little immediate effect on the volume of operations. Likewise, the slaughterhouses have not contributed to an increase in the number of animals slaughtered, but rather have had a social impact through more hygienic processings.

Nevertheless, we believe that in one way or another, most of the subprojects will have some bearing on the economic progress of the towns and their surrounding areas, though a measurable impact might not be able to be seen. Moreover, we should also take into account that accomplishments to date only constitute a small sample of the real potential of IDM, which was established as a permanent institution with sufficient capability to continue its role and expand to new activities of greater impact.

16. EVALUATION FINDING ABOUT EXTERNAL FACTORS

There were no changes in host country circumstances, policies, and priorities that have affected the progress of the project, and assumptions at all planning levels have proved to be valid. The most essential assumptions for the project to achieve its purpose were that capable manpower would be available and that IDM would adopt procedures for reinvesting income on subloans in new loans. Assumptions at the goal level were that the local municipalities would be receptive to recommended changes and that the project would obtain adequate political support. We found that in general all these assumptions were

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realized in a measure adequate to ensure the success of the project.

17. EVALUATION METHODOLOGY

This evaluation was performed in accordance with the Mission's Annual Evaluation Schedule and constitutes the final review of the project. The work was accomplished by a Team composed of the Mission Evaluation Specialist, the Chief of the Technical Department of IDM, the Assistant Capital Development Officer (Project Manager), and the Administrative Assistant of the Capital Development Office. The work was reviewed by the Mission's Evaluation Officer and the Assistant Director.

The evaluation work included collection and analysis of data relevant to project progress at all planning levels. Field visits were made to 14 municipalities where meetings were held with municipal officials to discuss progress achieved in each area of IDM's operations. Final evaluation review meetings were held with the President and Technical Staff of IDM and finally with the Mission Assistant Director.