

FD-010K 034

**LOCAL REVENUE  
ADMINISTRATION PROJECT**



**SYRACUSE UNIVERSITY**

End of Tour Report, SENDU II

June 16 - July 17, 1980

Robert B. Kent

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SYRACUSE UNIVERSITY  
LOCAL REVENUE ADMINISTRATION PROJECT

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September 30, 1980

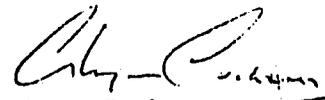
Dr. Meredith Scovill  
DS/RAD, Office of Rural Development  
U.S. Agency for International Development  
Washington, D. C. 20523

Dear Meredith:

Enclosed are the results of consultive work for USAID on the Government of Bolivia's Servicio Nacional de Desarrollo Urbano (SENDU). The fieldwork and research reported here represent the work of Robert Kent who was resident in Bolivia between June 15 and July 28, 1980. His work was suspended as a result of the military coup in mid July, and consequently this report represents only a portion of the original scope of work agreement between USAID/Bolivia and the Local Revenue Administration Project (LRAP).

Kent's report indicates that although SENDU has experienced a variety of problems and impediments in the execution of its mission, many are beyond its control, and overall SENDU has been reasonably successful in meeting the development assistance goals of USAID. Recommendations are included in this report which, if implemented, should lead to the improved functioning of the institution. The report recommends that if relations with the Government of Bolivia are normalized in the future, that before the terms of a second SENDU loan are determined, the consultive work originally agreed to by USAID/Bolivia on the state of Bolivian municipal finance, SENDU's role in the GOB's municipal development efforts, and the infrastructural needs of Bolivia's small towns be completed.

Sincerely,



Glynn Cochrane  
Project Director

DGC/db  
Enc.

I. SUMMARY AND RECOMMENDATIONS

This report summarizes the results of an investigation performed for USAID on the past experience and future prospects of the government of Bolivia's municipal development agency, the Servicio Nacional de Desarrollo Urbano (SENDU). Originally this investigation was intended to represent a total of about 25 weeks of work by four consultants from Syracuse University's Local Revenue Administration Project (LRAP) working under its cooperative agreement with USAID/Washington's Development Support Bureau and USAID/Bolivia. Due to the July 1980 coup and the end of constitutional government in Bolivia, this work was prematurely terminated. The report as it now stands represents only the preliminary phases of the planned scope of work agreed upon by LRAP, USAID/B, and USAID/W. The work presented here is the result of four and a half weeks of work by one of the LRAP consultants. The consultant's first three and a half weeks were spent in La Paz in the offices of SENDU and USAID/B reviewing such written material as was available concerning SENDU, while the final week of work was spent making site visits to four SENDU projects.

SENDU is a municipal development agency providing loans to municipalities for the construction and improvement of urban infrastructure. Indirectly it seeks to strengthen local government. SENDU was established in 1973 with the financial and technical assistance of USAID which provided approximately \$2.5 million in loan capital, \$300,000 for technical assistance, and \$100,000 for equipment purchases and foreign scholarships for SENDU employees. The Bolivian government supplied approximately \$625,000

of additional loan capital and has paid the salaries of SENDU's employees since its establishment. Disbursement of USAID loan capital began in late 1973 and continued until August 1978.

As of August 1980, SENDU had placed 19 loans with municipalities for infrastructural improvements. The construction of eight of these projects is now completed. Of the remaining eleven projects still in progress, three are characterized as "paralyzed" by SENDU engineers. The institution has financed five feasibility studies for other projects and has promised to finance four additional projects. The loans provide for the provision of sewer systems, potable water, municipal markets, and sidewalks and curbs. Nearly 60 percent of the institution's loan funds have been used to finance sidewalk and curb construction. Along with the construction of municipal markets, sidewalk and curb construction projects have been the most successful. Efforts to provide sewer systems and potable water have been less successful and these projects appear more difficult for the institution to manage.

Many of the institution's loans (75%) are in arrears. Only the largest and most prosperous municipalities are able to keep current in their loan payments. This seems to be a function of the weak state of municipal taxation and finance in Bolivian cities and towns and the unrealistic and stringent loan conditions imposed by SENDU on the municipalities. Loan terms with longer grace periods would likely improve the repayment rates, since many projects are far from complete when the grace period expires. The repayment period for most loans should be extended because the financial status of most Bolivian municipalities generally makes it impossible to repay major infrastructure improvements in the five years or less which the SENDU loan terms normally dictate.

Based on site visits to several SENDU projects, the projects financed with SENDU loan funds are improving the quality of life of many lower class Bolivians in the small towns and cities. Most projects have supported USAID/B's country development goals as specified in the Bolivia CDSS - FY 1982. Sanitation has been directly improved with the initiation of sewer systems and potable water projects and indirectly by the provision of sidewalks and curbs which help improve ambient health conditions in small towns. Market construction in several cities has reinforced the Mission's Market Town Development Project. The projects thus far implemented have also helped in the Mission's stated goals of encouraging local responsibility, and local technical and financial capacity, as well as encouraging interaction between local and national government bodies. Overall, it seems the USAID funds used in financing these projects have been prudently used and have helped to accomplish the social and economic assistance goals of USAID and the US government in Bolivia.

It is also worth noting that many of the institutional problems which SENDU has faced, and continues to face, are beyond that institution's control. One of the institution's earliest and most serious problems was a result of the unrealistically rapid loan disbursement schedule which was included in the original USAID/GOB loan agreement in 1973. This agreement provided only three years for the disbursement of these loan funds. Two terminal disbursement date extensions were eventually required to avoid deobligation of the loan. The pressure for rapid loan placement resulted in SENDU placing a number of loans without adequate engineering and financial analysis. Further more, the deplorable state of local government in Bolivia, a weak tax base, the absence of representative elections, frequent turnover of the responsible municipal officials, very limited central government

subventions or subsidies to local government, and a general lack of training and experience of municipal officials, have made SENDU's activities all the more difficult to accomplish.

When USAID assumes its previous level of economic assistance programs in Bolivia, a second SENDU loan, of modest proportions (\$3 million), and of a slightly modified focus should be seriously considered. Of critical importance in any future SENDU loan must be the development of a permanent tax contribution or some other permanent source of funds from the Bolivian government for the continued maintenance of the institution and its capital fund.

#### Principal Recommendations

1. The process of project review and selection of SENDU loans, especially as regards the economic and engineering feasibility studies required for SENDU loans, must be improved.
2. Loan terms, specifically interest rates, grace periods, and amortization periods must be reassessed and modified to bring them in line with the realities of different subloan projects, different municipalities, and the danger of decapitalization of the capital fund.
3. The focus and goals of SENDU's technical assistance program require re-examination considering the limited success of these efforts to date. Training of SENDU personnel in municipal development organizations in other Latin American countries and in educational institutions overseas must be stepped up. Only \$5,000 of a total of \$50,000 originally earmarked for such purpose in the SENDU I loan were utilized.
4. Consideration of a second SENDU loan and the structure it might take require a better understanding of SENDU's role in Bolivia's overall

development program, of the infrastructural state and needs of Bolivia's municipalities, and municipal finance. The necessity for this type of information was originally set out in the memorandum of understanding between USAID/Bolivia and LRAP which guided the work reported here. Due to unforeseen political developments in Bolivia this work could not be completed.

## II. PROJECT SELECTION

A review of the projects funded by SENDU during its term of operation shows that about 58 percent of its loan capital (nearly \$1.8 million) was spent on eight sidewalk and curb projects. Market construction accounted for a total of five projects and the expenditure of approximately \$650,000 (21%), while the provision of potable water and sewer services also accounted for five projects which required the expenditure of \$600,000 (19%). SENDU funded five feasibility studies at a cost of about \$50,000 (2%). At the time of this writing SENDU had also advanced nearly half a million dollars of funds, most rolled over from repayment of earlier loans, toward the construction of a tile plant in Tarija. The total cost of this project at the time of its completion is estimated to be nearly \$1.25 million.

The emphasis SENDU has placed on the construction of sidewalks and curbs, and municipal markets is partially a result of the facility with which these projects can be accomplished. They are technically simple to execute. Additionally, they have a great appeal to municipal officials because of their visibility. Because SENDU was under pressure from USAID/B to disburse the loan funds relatively rapidly, it was inclined to fund those improvements for which municipal officials were willing to borrow funds. Indeed, because the institution was nearly unknown, SENDU personnel reported that they almost had to beg municipalities to borrow money.

While projects involving the construction of sidewalks, curbs, and municipal markets have been executed without excessive problems, projects involving the construction of sewers and potable water systems have been seriously troubled. These problems have been the result of both inadequate financial analysis, poor engineering work, and negligent contract supervision. These points will be discussed in subsequent sections.

It appears that SENDU lacks any coherent policy concerning project selection. It seems that SENDU generally made loans on a first come first serve basis. Because the institution now has a large backlog of loan requests (56 projects -- 14 markets, 11 sewer systems, 7 potable water, 6 slaughter houses, and 18 miscellaneous) it would seem essential that if it is to receive a second capital assistance loan, it must devise a coherent policy regarding the types of projects and municipalities which will have first priority for financing.

Several of the most recent loans SENDU granted were excessively large (Yacuiba-\$US 400,000, Cochabamba II - \$US 400,000, Tarija II - \$US 1,250,000). This might have been a result of its desire to obligate all of the loan capital without delay, and without asking USAID for a third extension on the terminal disbursement date.

### Recommendations

1. Any future USAID loan to SENDU should allow additional time for obligation of the loan funds. Given SENDU's past level of operation the institution might now reasonably obligate about \$750,000 of loan funds annually.
2. A ceiling should probably be placed on the amount of money that could be loaned to any one municipality.
3. A coherent loan selection policy based on clearly identified principles must be developed.

### III. LOAN TERMS

The terms of most of SENDU's loans have been unrealistic for the municipalities which have received them. For example, only three or four of the 19 loans are current in their payments. Two of these are departmental capitals (Oruro and Potosí). Cities of this sort have considerably larger financial resources and better planning capabilities than most municipal governments and it is not surprising that they have been more successful in loan repayments.

A serious problem that has arisen involves the grace periods on loans: they have been almost always too short. The grace period for any given loan was determined by the estimates of the SENDU engineers as to how long the project will take to execute. These estimates, in every single case, have proved to be overly optimistic. The time required to execute most projects has varied from two to five times as long as the estimates of the SENDU engineers. The termination of the grace period and the initiation of loan payments long before the completion of a project has been a source of considerable aggravation for some municipalities. This has been more pronounced when the repayment of the loan has been tied to the collection of betterment levies. In several cases, severe resistance to the continued payment of the monthly installments has developed among municipal property owners. They question why they should be expected to pay for something for which they have received no benefits. This situation has led to a virtual paralyzation of work in four municipalities Copacabana, Quillacollo, Caranavi, and San Borja.

A typical case of "project paralysis" would include: an extended delay in the execution of the project (often for predictable and acceptable reasons)

which leads the vecinos (municipal property owners) either delay payments or quit making them altogether. The contracts between the municipalities and SENDU are written so that if a municipality falls into arrears, then SENDU is legally restrained from continuing the disbursement of loan funds to the contractor who is executing the project. This forces the participants in the project process -- the municipality, the contractor, and SENDU, into an unfortunate vicious cycle. With the completion of the project delayed beyond the original estimate of SENDU's engineering staff and the municipality's residents making payments long before the project is destined to be completed, the vecinos often rebel and refuse to continue making loan payments. As a result, SENDU is forced to suspend loan disbursements to the contractor. With work on the project suspended, the vecinos are even more reticent to continue payments. As the interest penalties which SENDU charges on late payments begin to accrue, the vecino's reluctance to make their payments is compounded.

Loan amortization periods have been far too short for most municipal governments. The amortization periods have varied from 16 months to five years. By comparative standards, these are unduly restrictive. Other USAID municipal development institutions in Costa Rica (IFAM) and Guatemala (INFOM) have, for example, amortization periods between 7 and 15 years and up to 20 years respectively (see Gall, 1976:28). For major infrastructure improvements, in municipalities with limited financial resources, SENDU's amortization periods are unrealistic. For example, the loan for the sanitary and storm sewer project in Quillacollo, which was for some \$100,000, was to be repaid in a period of 16 months.

One of the most poorly planned aspects of all SENDU loans is the invariable 8 percent interest rate which each municipality is charged. The

original USAID/GOB contract specified that interest rates could vary between 2 and 10 percent, given current circumstances this range seems unduly low especially for self financing projects. Apparently at an early date it was decided in SENDU that regardless of social desirability or financial recuperability, all loans would carry the same interest rate. SENDU officials acknowledge this problem and hope to correct it in the near future.

The penalties levied on SENDU loans which fall into arrears are high, approximately 1 percent per month on the amount in arrears. Indeed, in the case of one municipality, Quillacollo, penalty payments (\$35,000) now constitute 30 percent of its total debt to SENDU. Penalty payments in Copacabana and Yacuiba now constitute about 10 percent of their debt, about \$10,000 and \$60,000 respectively. These penalty payments alienate many vecinos who claim that the institution is engaging in usurious practices and consequently feel justified in not continuing their loan payments.

The nature of loan guarantees offered by municipalities varies considerably. These have included projected general tax revenue, revenue to be generated from project income and user charges, municipal real property, and the countersignatures of departmental prefectures and Departmental Development Corporations. Although many loans are in arrears, I know of no case where SENDU has collected or attempted to collect funds due it from loan cosigners or through legal action against municipalities. This is probably because in either case, it is unlikely its efforts would be successful. In a few cases it appears as if no loan guarantees were required, or at least they were not evaluated and discussed in the economic feasibility studies which are required for each project. Other guarantees, notably those involving general tax revenues, were often offered and accepted on the basis of very limited data on the state of a municipality's revenues and expenditures.

Overall it appears that regardless of the nature of a loan guarantee offered by a municipality, it means very little in reality.

### Recommendations

1. Grace periods for loans should not be based on the engineer's estimates of the length of time required to complete the project. These estimates have proved to be totally unreliable in the past. A more satisfactory approach would be to multiply the engineering estimate by a factor of 3 or 4 and base the grace period on this figure. Alternatively, the grace period might be defined the time required for project construction, plus six months.
2. Amortization periods must be lengthened; it is unrealistic to expect relatively poor local government units to repay major infrastructure investments in periods of less than five years. Amortization periods should be doubled or tripled in most cases.
3. Interest rates should be varied depending on the social desirability and financial recuperability of each project. Rates should probably range from 4 to 20 percent depending on the degree of project self financing. Another important consideration in the determination of interest rates must be the inflation rate and its influence on the decapitalization of SENDU's loan capital.
4. Penalties on late payments should be reduced significantly. They create considerable animosity, damage SENDU's image among municipal officials, and may lead to considerable delays in the repayment of outstanding loans.
5. A new policy should be developed by SENDU which identifies what constitutes acceptable and collectible, loan guarantees. One suggestion is the

possibility that the municipalities could offer the revenues from cigarette and liquor taxes they share with the central government as loan guarantees (for details on revenue sharing for cigarettes see Gaceta Oficial de Bolivia, No. 991, Decreto Ley No. 15471, and for beer Gaceta Oficial de Bolivia, No. 943, Decreto Supremo No. 14907). If the municipality went into arrears, municipality's shared taxes would be diverted directly to SENDU by the central government.

#### IV. PROJECT IMPLEMENTATION

Successful project implementation varies tremendously from loan to loan. As noted above, all projects have taken from two to five times longer to execute than the original engineering estimates had suggested would be necessary. This is not exclusively the fault of the contractors. Most of the engineering estimates provided by the SENDU Projects Departments have been exceedingly naive. The SENDU engineers appear base their estimates on a minimum of construction time and on the assumption that there will be no serious problems in purchasing the materials required for project construction and that the transportation of materials to the project site will occur without delay. Under the most favorable circumstances, these assumptions are at best tenuous. In the Bolivian context both assumptions are totally unjustified. For instance, in 1978 and 1979 there was a national shortage of cement/concrete which resulted in significant delays in construction of several SENDU projects. Additionally, the availability of cement/concrete in the future will probably continue to be spotty as the country has now restricted imports and is attempting to supply all of its own needs.

A key problem in project execution, for both SENDU and the contractors with which it has dealt, has been poor project supervision. At two of the

project sites visited, Copacabana and Llallagua, the vecinos reported that the contractors frequently did not have supervisory personnel on the job site. They complained that this reduced the effectiveness of the contractor's employees and often led to poorer quality work by the contractor. A related problem is the infrequent site visits by the SENDU engineering staff. It is quite possible in several cases that delays in project completion and poor quality work could have been avoided or at least ameliorated through frequent site visits by SENDU personnel.

In a few cases poor project planning from the initial stages has seriously jeopardized the successful execution and completion of projects. Most of the responsibility for these situations must unfortunately be assigned to SENDU. Some responsibility, however, must also be assigned to the municipalities which accepted the loans and to USAID/B which allegedly approved all SENDU loans to municipalities.

The sewer system project in the town of Copacabana is a flagrant example of poor project planning. This SENDU loan provided funding in 1976 for the construction of a sewer system in this important tourist town which has a population of around 3,500. Unfortunately the project provided only for the construction of a network of sewer lines -- no connections to individual residences were included in the project and even more surprising no funds were included for either the construction of a sewer treatment plant or septic tanks for the treatment of the raw sewage. Thus, even when this long overdue project is completed, a second loan and a second project will be required in order to utilize the sewer system the first loan financed. Once the first project is completed, there will be considerable difficulty in convincing the vecinos that they should continue payments on the first loan since the system still will not be usable. The tragic part of this

situation is that these problems were identified by USAID/B engineers Adams and Hoover in an inspection trip report dated 2 December 1976, but no remedial action was ever taken.

The Quillacollo sewer project (initiated in 1976 and still unfinished as of August 1980) is another SENDU loan plagued by poor project planning. In this case the gravity flow sewer system to be built there was designed by the Ministerio de Urbanismo y Vivienda and was apparently reviewed and approved by the municipality and by SENDU. Sadly, the plan ignores the topographic realities of the town so that in some places the raw sewage does not flow through the system, but simply backs up. Other shortcomings in the planning of the project (based on USAID/B's engineers trip reports in 1976 and 1977) were the exclusion of several streets from the sewer system but the inclusion of the streets in the levying of the betterment levies, and the planned discharge of raw sewage into the river adjacent to the town. Whether these defects were corrected is unknown.

#### Recommendations

1. Improve the operation of the Projects and Finance Departments. The goal would be to improve contact with municipalities, contractors and SENDU in the field. There are two possible alternatives. Each of these departments should probably be expanded by one or two professional level positions -- possibly one sanitary engineer in the Projects Department if SENDU is to continue to loan funds for sewer and water projects, and one economist in the Finance Department with expertise in designing betterment levies. These positions should not increase the total SENDU staff, but should be taken at the expense of the Technical Assistance and Legal Departments. Alternatively, SENDU could establish a working

relationship with Bolivian consulting engineers and economists whose services could be contracted for when required. Given the comparative low level of SENDU's operation this may be the preferred alternative.

2. Travel to project sites by SENDU personnel in both the Projects and Finance Departments must be on a regular basis. A visit to each project once a month during the term of its execution by a representative of both departments would greatly facilitate and improve project execution.
3. Travel to project sites must be facilitated by SENDU's Administrative Department. In the past, this department has been extremely slow in processing requests for travel to project sites and according to some reports, actually attempts to block site visits, rationalizing that the engineers and economists who visit these sites do not accomplish any useful work. When economists and engineers travel, they are normally forced to use public transportation which is slow and often entails considerable delay, wasting valuable time. This policy is counterproductive and unnecessary considering that the original USAID/GOB agreement provided for two four wheel drive vehicles expressly for such purposes. Until the past year these vehicles rarely left La Paz. With the appointment of a new director (R. Otermin) last year, they are now used for field visits.
4. Some mechanism must be developed which contractually binds SENDU and its personnel to oversee the successful execution of all projects which the institution funds. At present this is not the case. With the exception of the municipalities which are departmental capitals, municipalities simply do not have personnel with sufficient technical training to

successfully oversee and evaluate the work of contractors. Consequently this task must fall to SENDU.

V. SENDU -- INTERNAL ORGANIZATION AND OPERATIONS

SENDU comprises five departments, which employ a total of around 32 individuals. Probably half of these may be considered professional staff, i.e., they have university training and/or degrees in the area in which they work. The remainder of the staff is composed of secretaries, a driver, an errand boy, and a woman who runs the organization's library. The five departments of the institution are listed below with the number of employees in each in parentheses:

Administrative Department	(11)
Legal Department	(4)
Technical Assistance	(6)
Finance Department	(5)
Projects Department	(6)

The most critical departments in SENDU operations are the Projects and Finance Departments. It is the responsibility of the Projects Department to review and approve the various engineering plans and feasibility studies which are executed before any project loan can be made. It is also expected to provide some ongoing supervision of the construction of projects funded by SENDU. This requires that the engineers periodically visit projects which are in process. A lack of personnel, limited funds for travel, and administrative blockages make the execution of their work more difficult.

The Finance Department's work begins with the first municipal inquiries for loans funds, and continues until the repayment of the loan is complete. As the Projects Department is responsible for reviewing the engineering feasibility studies, the Finance staff are responsible for the review of the financial feasibility studies which must be submitted with each loan application.

After a loan has been granted, this department oversees the disbursement of funds, and receives loan payments, levies penalties on late payments, etc.

The Technical Assistance Department is charged with training municipal officials through direct technical assistance to municipalities with SENDU loans and indirect assistance to all municipalities via short courses and publications designed to help in the practical management of Bolivian municipalities. The activities of this department, though laudable, have been severely impeded by the perpetual instability of municipal governments in Bolivia. It was noted by some SENDU employees that the indirect technical assistance given by this department in the form of short courses was actually futile. They reasoned that the municipal officials were changed so often that whatever skills the officials were taught were rarely if ever utilized because the officials normally lost their jobs shortly after receiving their training. For example, of the four projects visited (Copacabana, Llallagua, Oruro, and Potosí) the longest any alcalde or set of municipal officials had served was 13 months. In Copacabana, during the three and a half years the sewer project has been under construction, the town had been under the direction of no less than six different alcaldes. The July 1980 coup will certainly mean the wholesale replacement of most of the civilian municipal officials and their replacement with military officers.

One commendable effort undertaken by the Technical Assistance Department was a survey mailed to all Bolivian alcaldes which attempted to determine the state of municipal infrastructure in their alcaldías and what they felt were its most pressing public service needs. Unfortunately, the return rate on the survey was exceedingly poor, no doubt due in part to the failure to include self-addressed stamped envelopes with the questionnaire.

The SENDU Legal Department oversees the contractual arrangements between

SENDU and the municipalities which receive loans. This department is seriously overstuffed. It employs two lawyers and two secretaries full time. In five years of operation, this office has probably written a maximum of 20 to 30 contracts, hardly enough to keep its employees fully occupied. Considering the trouble that SENDU has had collecting accounts which are in arrears or in fining contractors who fail to meet the scheduled deadlines for project completion, would suggest that probably the contracts are formalities with little practical significance or that they are so poorly written that they are useless. The legal research and analysis conducted by this department, also leaves much to be desired. The Legal Department proposed to USAID/Bolivia to compile, organize, and analyze the evolution of legislation relating to municipalities, and received a supplemental grant from USAID/Bolivia of \$US 2,500 to accomplish this. It was alleged that this would assist in SENDU's basic task of municipal development. Unfortunately, it is not clear how the final product of 424 typed pages of verbatim municipal legislation beginning in 1826 and extending to 1876 will assist SENDU in its current work. The report contained no index or table of contents, nor was there any analysis or reflective writing as the Legal Department's original proposal had promised. It was later learned, from a publication in the SENDU library, Esquemas de Tematica Municipal by David Maldonado, that a two volume compilation of all municipal legislation between 1832 and 1907 had been published in 1908, and that a more recent work of the same nature had been published in 1945. The work undertaken on the legal code as it pertained to municipal government was a questionable use of SENDU's time and USAID's money. It may be noted, that USAID/Bolivia has not yet received a copy of the final report.

#### Recommendations

1. See recommendations 1 and 3 on pages 13 and 14.

VI. SENDU AND BOLIVIA'S MUNICIPAL DEVELOPMENT EFFORT

SENDU's role in the development of Bolivia's municipalities is ambiguous. Legally the institution is empowered to make loans to municipalities for potable water, sewer systems, electricity provision, telephone service, municipal markets, slaughterhouses, curbs, and sidewalks. In fact, however, SENDU has concentrated on making loans for curbs, sidewalks, and municipal markets. It has made a few generally unsuccessful loans for sewer systems and potable water, but no loans for electricity provision, telephone services, or slaughterhouses.

SENDU's concentration on certain projects and its avoidance of others stems from several causes. As noted above, the ease with which curbs, sidewalks, and markets can be constructed and their visibility has led to something of a proliferation of these projects. It can also be argued that SENDU has favored these projects because of institutional competition for other kinds of projects. For example, a central government agency (CORPAGUAS) finances and plans the construction of potable water systems in towns and cities throughout the country. Another central government agency (ENDE) finances and constructs electrical systems, while the national communications corporation (ENTEL) can provide telephone services to local communities. Another government agency supported by USAID funds, the Servicio Nacional de Desarrollo de la Comunidad (SNDC) is involved in a broad based effort to develop small towns. Although SENDU and SNDC are not supposed to overlap in their efforts, there is some competition between the two organizations. Given the overlapping interests of these two organizations, it would seem that possible areas of cooperation and competition should be identified. Finally, many of SENDU's functions are duplicated on a department level by the Departmental Development Corporations. Besides the competition SENDU

receives in its development efforts from these organizations, all of them, with exception of the smallest Department Development Corporations, have significantly greater financial resources than SENDU, and appear able to initiate local development projects with financial terms much more attractive to the municipalities.

#### VII. FUTURE SENDU FINANCING

Given the current inflation rate, the need for extended grace periods, and the inclination to subsidize interest rates, it is clear that even a much enhanced loan repayment experience will probably lead to a continual real decline in SENDU's revolving capital fund. Unless it is anticipated that a declining level of real (constant dollar) value of SENDU operations will be desirable, sources for additional contributions to its capital fund will have to be established. That is to say, a critical factor in the continued survival of SENDU will be the establishment of a permanent source of income for financing its capital fund and its operating expenses. It is unclear to me at this point if the Government of Bolivia would be willing to levy new taxes to support SENDU's operation or if it would be willing to divert taxes which are currently being levied to support the organization. In either case securing additional funds for SENDU from the Government of Bolivia will probably be difficult.

One approach to securing additional revenues for SENDU would be to exploit a mechanism currently employed by the municipal governments in La Paz and Cochabamba. Both of these alcaldías have offices known as Oficinas de Alcaldías Provinciales. Their function is to review the Ordenanzas de Impuestos y Patentes that each municipality must submit to the central government for approval in order to levy local taxes. Additionally, they review the

municipal budgets of the provincial alcaldías in their department. For these questionable services, the municipal governments in La Paz and Cochabamba charge each provincial alcaldía 2 and 2.5 percent respectively of their annual budgets.

According to several sources, this practice is illegal, but it continues to exist, although in only two of Bolivia's nine departments. It is suggested here that the GOB might be convinced to legally empower SENDU to assume this function of municipal budget and tax review and also allow it to levy a small (1 to 1.5 percent) tax on municipalities. The revenues so levied would be used to support municipal development projects financed by SENDU. A somewhat similar approach was used in Honduras during the 1970s to finance the USAID supported municipal development bank there, BANMA.

VIII. PUBLICATIONS AND UNPUBLISHED DATA CONSULTED

Municipal Budget Data: By Department (1979 and 1980)

La Paz:

La Paz\*  
Guanay  
Copacabana  
Apolo  
Desaguadero  
Chulumani  
Coroico - Nor Yungas  
San Buenaventura  
Sorata  
Irupana  
Achacachi  
Viacha  
Puerto Acosta  
Pelechuco  
Caquiaviri  
Inquisivi  
Coripata  
Quime  
Corocoro - Pacajes  
Tiahuanacu  
Capabuco

Potosí

Potosí\*  
Llallagua  
Tuniza  
Betazos

Tarija

Tarija\*  
Villazon

Santa Cruz

Santa Cruz\*  
Camari

Beni

Trinidad\*

Pando

Cobija\*

Chuquisaca

Sucre\*

Oruro

Oruro\*

\*Department Capital

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