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In most of Latin America the municipality is the main unit of local government, typically encompassing a town and a surrounding rural area. It may be called a district, a canton, or a municipality. It may be subdivided into smaller units, but the main point is that municipal development may be as much rural as urban development in the Latin American context. The motivation behind establishing a municipal development institution in nearly all cases has been to provide a source of concessional credits for public works and other capital improvements to local governments. In addition, most of the institutions have included a component to deliver various forms of technical assistance and training to municipal leaders and officials. The value and potential of four operating municipal development institutions are assessed as instruments for the promotion of social and economic development. There is a brief discussion of the municipal development institutions and the objectives of the programs which they have carried out along with an evaluation of the impact of these programs at the municipal level. This is the level at which the effectiveness of these institutions can be best assessed. The MDI's are examined as agents or instruments of national as well as municipal development against the background of accomplishments and needs identified at the local level. There is a discussion of gaps in past performance and potential areas for strengthening the municipal development effort. A tentative model for programming for municipal development is submitted.

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**PROGRAM
EVALUATION
STUDIES**

**Intercountry Evaluation of
Municipal Development
Programs and Institutions**

Costa Rica
Dominican Republic
Guatemala
Venezuela

October 1975

Agency for International Development

Bureau for Latin America
Office of Development Programs (LA/DP)



AGENCY FOR INTERNATIONAL DEVELOPMENT

BUREAU FOR LATIN AMERICA

PROGRAM EVALUATION STUDIES

INTERCOUNTRY EVALUATION OF
MUNICIPAL DEVELOPMENT PROGRAMS AND INSTITUTIONS

Costa Rica
Dominican Republic
Guatemala
Venezuela

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A.I.D. Evaluation Studies represent the views of their authors and are not intended as statements of official policy.

MUNICIPAL DEVELOPMENT PROGRAMS AND INSTITUTIONS
IN LATIN AMERICA
Evaluation and Considerations for the Future

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INTRODUCTION

Background and Scope

Checchi and Company has been engaged in the study of and assistance to municipal development institutions (MDIs) in Latin America since 1973, when we conducted an evaluation of the Instituto de Fomento y Asesoría Municipal (IFAM) in Costa Rica in response to a request from the USAID mission in San José. At about the same time the Office of Development Programs of the Latin America Bureau in the Agency for International Development was preparing a scope of work for an inter-country evaluation of the municipal development programs which the Agency was supporting or had supported in the past. As indicated in Exhibit A on the following page, the comparative study was postponed until 1974-75. Checchi and Company worked closely with IFAM during the intervening year assisting in the implementation of recommendations made during the initial study. We also had an opportunity to visit the Servicio Nacional de Desarrollo Urbano (SENDU) in Bolivia during 1974.

The comparative study supported by AID/Washington continued with an evaluation of the Instituto de Fomento Municipal (INFOM) of Guatemala during November-December, 1974. In March and April, 1975, Checchi analysts made brief observation visits to the Liga Municipal Dominicana in the Dominican Republic and to the Fundación para el Desarrollo de la Comunidad y Fomento Municipal (FUNDACOMUN) in Venezuela. These MDIs were assisted by AID loans and grants during the 1960's, but there has been no direct involvement by the Agency with the Liga or FUNDACOMUN for more than five years.

While this work is based primarily on the study of four operating MDIs (SENDU was in its organization stage at the time of our visits), we consulted a number of additional persons and materials, in order to gain perspective on municipal development over a broader time span, and to gain information on the programs in other countries. Selected papers, articles and books related to the role of local government in development were also reviewed. These sources are identified in Annex C to this report.

EXHIBIT A

THE BACKGROUND AND CHRONOLOGY
OF THE STUDY

<u>Date</u>	<u>Activity</u>	<u>Product</u>
1. March - April, 1973 (3 weeks)	Evaluation of the <u>Instituto de Fomento y Asesoría Municipal - IFAM 1973</u> , (Institute of Municipal Development and Assistance), Costa Rica.	<u>IFAM After Two Years</u> , June, 74 pages.
2. January, 1974	Brief visits to the <u>Servicio Nacional de Desarrollo Urbano - SENDU</u> (National Urban Development Service) of Bolivia.	Knowledge of SENDU project and municipal problems in Bolivia.
3. February 1974 - February 1975	Five short-term advisory visits to IFAM, assisting with detailed evaluation, planning, programing, preparation of capital assistance paper.	Four reports to IFAM and other specific problem analysis.
4. November-December, 1975	Evaluation of the <u>Instituto de Fomento Municipal - INFOM</u> (Institute of Municipal Development) of Guatemala.	<u>Municipal Development Institutions in Latin America: Interim Report</u> , January 1975, 110 pages.
5. March, 1975	Observation visit to <u>Liga Municipal Dominicana</u> (Dominican Municipal League) of the Dominican Republic.	Comparative information (no specific report prepared).
6. April, 1975	Observation visit to the <u>Fundacion para el Desarrollo de la Comunidad y Fomento Municipal - FUNDACOMUN</u> (Foundation for Community and Municipal Development) of Venezuela.	Comparative information (no specific report prepared).
7. May - June, 1975	Document Review and interviews in Washington with officials of AID, Organization of American States, Institute for Public Administration.	Comparative, historical, and theoretical information on municipal, regional and rural development, experiences of experts in various Latin American countries.

NOTE: Activities 1 and 3 were conducted under USAID-IFAM contracts, and Activities 4 through 7 and this report were done under an AID/ Washington Work Order.

The scope of work for this study was broad, and went beyond the AID assistance projects:

The product of the study ... shall ... evaluate (the MDIs') goals, processes and viability (including coherence of program design and execution, nature of banking and technical assistance/training functions, and long-range prospects); its impact on municipalities (including effects on local institutions and nature and actual distribution of its services, benefits, and disbenefits if any); its place in the context of the national development effort (including relations with national banks, public works agencies, any relevant academic or private sector linkages, and national plans and priorities). ^{1/}

We were asked to assess the value and potential of municipal development institutions as "instruments for the promotion of social and economic development". The visits to formerly-supported MDIs (the Liga and FUNDACOMUN) had a somewhat more limited scope, to gain "insights and information on their structure, functions, relationships and impact." The purpose of the shorter visits was observation rather than evaluation, and we did not prepare separate reports as we did on IFAM and INFOM.

On all visits, after meeting with MDI officials and gathering information in the capital with local officials, we looked at sub-projects funded by MDI loans, and when time permitted, informally surveyed local residents, generally those who are the users of the facilities. Interviews were held with national planning entities, and other institutions involved in work related to municipal development.

Purpose and Organization of this Report

The Latin America Bureau requested that this report be of primary use and value to the municipal development institutions and to the USAID missions which are collaborating in local development efforts. A secondary audience is AID/Washington. We have designed the report with those priorities in mind.

^{1/} From Checchi's Work Order Number Six defining the INFOM study.

The body of the report (Section 1) begins with a brief discussion of the municipal development institutions and the objectives of the programs which they have carried out. This is followed by the evaluation of the impact at the municipal level of the MDIs' programs. It is our belief that this is the most important area of interest for practitioners, because it is, after all, the level at which the effectiveness of the institutions can be best assessed. Section 2 then examines the MDIs as agents or instruments of national as well as municipal development against the background of accomplishments and needs which we identified at the local level. Section 3 raises a number of fundamental issues and concepts for consideration by the field and Washington audiences. The Section is concerned with gaps in past performance and potential areas for strengthening the municipal development effort. The involvement of AID with the MDIs, for the most part a recent activity of the Agency, is discussed separately in Section 4. As a logical extension of the issues identified in the report, we submit in Section 5 a tentative model for programming for municipal development. We believe it may have value as an instrument for improving the capacity and performance at both local and national levels, while recognizing that its timing and methods of application will vary widely from one country situation to the next.

Basic Information

Recognizing that some readers of our report may not be familiar with the subject matter, on the following pages we have provided condensed basic information and explanations of terminology which are important to understanding the discussion. As in the remainder of the report, similar information is presented in clearly labelled boxes to give it the importance it deserves in the analysis.

The municipality as found in most of Latin American is defined, emphasizing its dual urban-rural jurisdiction. The term "municipal system" is explained, and an exhibit is provided to illustrate the role and position of the municipality in the sub-national organizational structure of the governments of Costa Rica, Dominican Republic, Guatemala, and Venezuela. Municipal development institutions are briefly described, although the variations make a general yet precise description difficult. The terminology for various kinds of municipal development activity (program, project, and so on) as used in this report is presented. Finally, as general background we have assembled summary data and information on the four countries and their local governments.

Acknowledgements

The principal author of this report was involved in all of the activities listed in the study background, but drew heavily on the expertise of three colleagues: Jack Corbett, senior economist and financial expert (in Costa Rica and Guatemala); David Padilla, lawyer and municipal development specialist (in Guatemala); and Harry Carr, municipal development and social research expert (in the Dominican Republic and Venezuela). The dozens of MDI executives, technicians, and consultants, the many municipal leaders and "end users" of municipal projects, the USAID personnel, cannot all be listed here but they all deserve to be, as they offered courtesy, hospitality, information, and useful criticism all along the way.^{1/} Mary Douglas, Cae Johnston, Cindy Parobek and Yolanda Woodward made all the words and lines come out straight.

^{1/} See a partial listing of persons consulted in Annex C.

EXHIBIT B

TERMINOLOGY: Municipality and Municipal System

Municipality: In nearly all of Latin America this is the main unit of local government, typically encompassing a town and a surrounding rural area, like a county or New England town in the United States. It may be called a district (Venezuela, Dominican Republic), a canton (Costa Rica), or a municipality. It may be subdivided into smaller units, but the main point is that municipal development may be as much rural as urban development in the Latin American context.

The municipal government is generally "autonomous," locally elected, with the members elected at large, rather than under a ward representative system. Beyond this it is difficult to generalize. Exhibit E provides selected comparative national and municipal data on the countries visited.

Municipal System: Local government in Latin America has its roots and framework established in a number of elements, entities, and influences. In this report when we refer to the municipal system, we mean:

Constitutional provisions on local government and elections

Municipal legislation, in the form of a code, or compiled laws covering local

Taxation
Employment, social security
Budgets, finance, audits
Borrowing
Revenue sharing
Assets
Role and responsibilities

Municipal Associations or Leagues

Municipal Employee Associations

These elements make up the "system," the environment to which the municipal development institution must adapt, or which it may modify or modernize.

EXHIBIT C

SUBNATIONAL FORMS OF GOVERNMENT ORGANIZATION

COSTA RICA

DOMINICAN REPUBLIC

GUATEMALA

VENEZUELA

Development Regions
Proposed

Development/Administrative
Regions Proposed

Development Regions
Proposed

Development Regions
in Effect

Province^{1/}

Province^{1/}

Department^{1/}

State

Municipal Canton

Municipality

Municipality

District

District^{2/}

District

Municipio

Sections and
Parajes

Caserio

1/ Largely ceremonial and political; limited administrative or development functions.

2/ On this level all are subdivisions of municipalities, sometimes having limited administrative role in rural areas.

EXHIBIT D

TERMINOLOGY: Municipal Development Institution

The municipal development institutions in Latin America have been established along varying models. In Costa Rica, Guatemala, Honduras, Venezuela, Bolivia, and Paraguay they have been established as autonomous or semi-autonomous banking institutions or foundations. In the Dominican Republic the Municipal League, an association of local governments, has assumed the role of MDI. Countries such as Brazil and Colombia have a diverse group of institutions, public and private, working with local governments at national and intermediate department, state, and regional levels.

The motivation behind establishing an MDI in nearly all cases has been to provide a source of concessional credits for public works and other capital improvements to local governments. In addition, most of the institutions have included a component to deliver various forms of technical assistance and training to municipal leaders and officials.

Although the Liga of the Dominican Republic was founded in 1937, most of the MDIs are younger institutions, and have been functioning for five to fifteen years.

The institutions have been capitalized through direct budgetary support, revenue-sharing arrangements, and international development assistance and other external borrowings.

More specific, comparative information on the municipal development institutions is presented in Exhibit 2-1 in Section 2 (page 44).

EXHIBIT E

TERMINOLOGY: Program, Project, Subproject/Subloan

Program as used in this report refers to the overall, long-range national effort to improve municipal capacity in a given country.

Project applies to the usage employed by the Agency for International Development, the funds and activities which are expended or carried out under a bilateral project or loan agreement--a package of assistance to an MDI, for example, which generally includes lending capital, technical assistance, training, and in some cases, commodities or equipment. An AID project generally represents a portion of the program, though it may be a more pervasive influence.

Subproject/Subloan refers to the works or activities which take place at the local level with MDI support, whether AID-funded or financed with national resources. Unless identified as AID-funded, the term refers to all such activity.

MUNICIPAL DEVELOPMENT PROGRAM

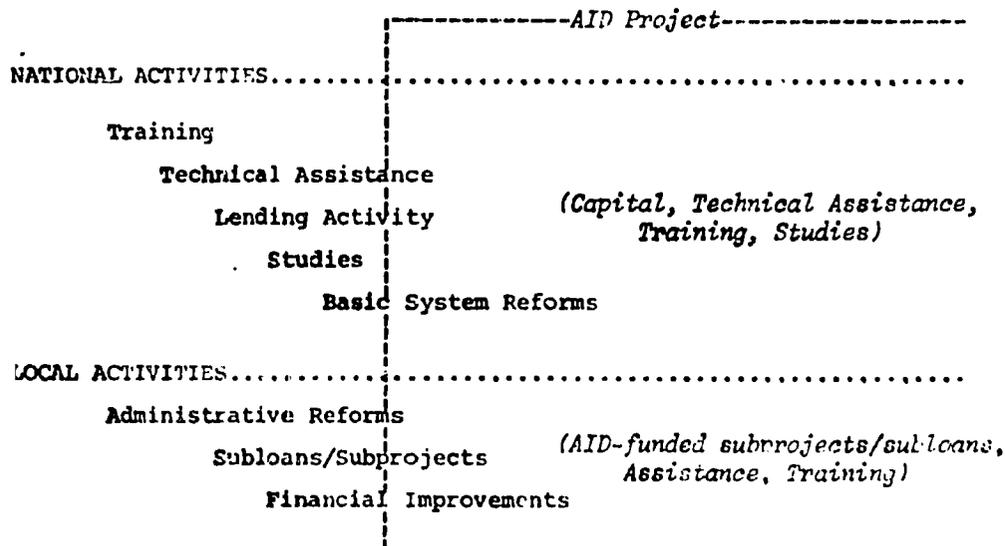


EXHIBIT F
COMPARATIVE NATIONAL AND MUNICIPAL DATA
COSTA RICA, GUATEMALA, VENEZUELA, AND THE DOMINICAN REPUBLIC

CHARACTERISTIC/INFORMATION	COSTA RICA	GUATEMALA	VENEZUELA	DOMINICAN REPUBLIC
Population (Approximate - 1974)	2 million	5.2 million	11.0 million	4.5 million
Urban	41%	35%	80%	45%
Rural	59%	65%	20%	55%
Area	19,600 sq. mi.	42,000 sq. mi.	352,000 sq. mi.	12,000 sq. mi.
Literacy Rate	90%	38%	77.1%	68%
Per Capita Income (1974)	\$645	\$442	\$1,169	\$464
Percent of Labor Force in Agriculture (1972)	44.8%	63%	19.7%	50.2%
Gross Domestic Product (1972)	\$1.07 billion	\$2.1 billion	\$12.3 billion	\$1.8 billion
Number of Municipalities	80	326	186	116
Municipal Term of Office	4 years	2-4 years	5 years	2 years
Type of Municipal Government	Council/Manager	Mayor/Council	Council	Mayor/Council
Classification System	No	Yes, By Population	No	Yes, By Population
Sources of Income				
Local Taxes and Fees	Yes	Yes	Yes	Yes
Charges for Services	Yes	Yes	Yes	Yes
Rent or Sale of Assets	Yes	Yes	Yes	No
Share of National Revenues	Yes	Yes	Yes	Yes
Domestic Borrowing	Yes	Yes	Limited	Yes
International Borrowing	Yes	Yes	No	No
Local Planning Capability	No	No	16 munic.	No-Done by Liga
Police Powers	No	Yes	Yes	No
Budget Control	Controller General	INFOM	None	Liga
Municipal Code	Yes (1971)	Yes (1957)	State Codes	Various-Compiled
Municipal Employment Law	Included in Municipal Code	Yes (1973)	No	No
Municipal Tax Code	Under Study	Under Study	No	Under study
Municipal Association	No	Yes	Yes	Yes-Liga
Municipal Employee's Association	No	Yes	Local-Some munic.	No

Statistical Data Sources: OAS, IDB

SUMMARY

The major themes of our report are synthesized in this summary. Although it generally follows the order of the text, we have highlighted the principle accomplishments and major problems of the municipal development programs, both of which are discussed in Sections 1 and 2. Also included are references to selected exhibits which condense findings and information, explain the terminology used, or provide a graphic representation of a basic concept.

The MDIs have successfully operated municipal credit activities, delivered technical assistance and training to a large number of municipalities, and have fulfilled a special role not covered by other agencies.

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The centerpiece of the municipal development programs launched in Costa Rica, Guatemala, Venezuela (and to a lesser extent in the Dominican Republic) has been the provision of concessional credits for municipal public works. We were favorably impressed by the number, distribution, and impact of the subprojects which we reviewed. The lending programs have reached beyond the major cities, and have filled basic needs as identified by local officials in numerous small and intermediate towns. Wide geographic distribution has been achieved, and the works serve entire urban areas of municipalities, reaching a cross-section of social and economic groups. The lending activities are well run. There is strong emphasis on making sound loans, building sturdy facilities, and creating the conditions for responsible debt service on the part of the municipalities. (See Exhibit 1-1, page 26.)

We are less satisfied with the technical assistance and training components of the MDIs' programs. Nevertheless, there has been considerable energy expended, broad geographic coverage has been achieved, and real needs have been met. The amount of effort and its content differs among the MDIs, but the emphasis is commonly on resolving municipal financial weaknesses, particularly those which affect subloan repayment.

The MDIs fill, in concept and in practice, a role not covered by past multi-agency programs. In their operations to date the MDIs have provided the municipalities with useful and beneficial projects and with some basic administrative tools. They have given attention and support from the national level to municipal governments which were to a great extent abandoned or bypassed previously. The MDIs have served to bring to national attention the needs and activities of local governments, and compared to many other agencies, have been apolitical in their operations. Through their procedures MDIs have helped reduce corruption in the handling of public funds, and have, as far as we (and AID auditors) can determine, remained free of corruption in managing their own and the municipalities' funds. Our findings and perspectives suggest that the potential of the MDI idea has barely begun to be exploited.

We submit that with a combination of better application of the resources they have, and the addition of new resources, the MDIs can truly fulfill a broad role within the municipal system and in relation to national development. We are sympathetic critics, and our suggestions are directed at closing the gap between current practice and potential impact.

The MDIs share problems of imprecision of strategy, related failings in programming and budgeting, and a variety of management and operational problems. Financial planning is weak. All of the MDIs are examining these problems and planning various forms of corrective action.

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We measured MDIs' programs against both internal and external standards, and found a range of problems to be attended to. There is a lack of clarity and precision in their strategies, due to insufficient diagnostic information and weak or missing programming mechanisms in the institutions. Adopting a passive stance, the MDI programs are essentially aggregated lists of (a) subprojects and (b) other activities. There is a lack of definition of expected results and limited integration of these two components. On the whole, the programs are not closely linked to overall national development plans. (See Exhibit 2-2, page 45.)

Planning and budgeting lack precision. Used to secure funding authorizations, the plans and budgets are not used or useful as management tools, and are characterized by wide variances between the projected and actual levels. Top managers are excessively burdened by external, ceremonial, and petty administrative matters, so that program coordination and technical management is neglected or left to the inclinations of unit chiefs. (See Exhibit 2-3, page 53.) Except for FUNDACOMUN, which has regional offices, operations are based in capital cities, reducing effectiveness and impact in the field. There is a need to move that part of the field effort which is related to municipal processes closer to the client municipalities through some degree of decentralization. (See Exhibit 2-4, page 56.) There must be simultaneous improvements in program design, management, and administrative support mechanisms.

Subloan operations retain an excessive degree of paternalism, for example in the procedure under which INFOM directly contracts for subproject construction. If effective audit measures can be created, we would suggest that the municipalities gradually assume the contracting function for their MDI-funded subprojects. The common method of processing subloans within the MDIs leaves little discretion for policy decisions and should include a preliminary review step before the process reaches a point of nearly total, mutual (if informal) commitment.

Although the quality and dedication of the personnel working in the MDIs was excellent, we were concerned by the nonrepresentation of such professions or disciplines as sociology, community development and planning, rural economics and training.

Financial planning is weak in all of the MDIs, especially for capital requirements over the long range. In part it is another reflection of the general planning problem, but it also points to a need to review the subloan financing policies and procedures so as to produce a more regular rhythm of rollover. More varied combinations of maturities and interest can contribute to this end. Other financing mechanisms deserve study and application, such as guarantees of loans obtained from other financing sources by the larger municipalities, consortium financing of large subprojects, and interest subsidies to cover the gap between commercial rates which a municipality might have to pay, and the concessional rates it may have been accustomed to.

The MDIs expressed sincere interest in seeking ways to improve their institutions and programs. They are taking action on many of these problems, beginning with self-evaluation, which was going on in some form in all of the institutions we visited. Planning units are being set up and various surveys of municipal conditions are being started. Other special studies (of municipal taxation, of the legal structure) are being carried out with the intent of making reforms in the municipal systems. Reorganizations are taking place. Basic questions about the role of the municipalities in rural and urban development are being examined. And new proposals for international domestic and international financing are being considered.

We find that the dynamics and theories of development are bringing forth changing concepts of the municipality's role in development. The potential implications of these new ideas for the MDIs are profound and extensive, and are related to a number of the basic issues which emerged during our study.

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3

The concept of municipal development is changing from what we call a vertical or traditional view to a more horizontal view. The vertical is essentially aimed at the urban centers of the municipalities and is limited to a narrow range of facilities and social and administrative services, while the horizontal represents the broadening of the municipal role into a range of governmental functions and development needs. (See Exhibit 3-1, page 65). The municipality may act directly or as a catalyst and agent. Rural concerns receive more attention than in the old view. This change in concept is based on pragmatic considerations, emerging theories of development, and local political pressures.

As this view gradually replaces the traditional one, there will be an increasing need for data, research, diagnosis and special studies, which must be well-designed, monitored, and utilized. (See Exhibit 3-3, page 74).

The economic growth element in municipal development deserves more attention than it has received in the past. (See Exhibit 3-4, page 76). Investment, employment, and incomes must be increased and

distributed in order for municipalities to make significant advances. Until economic factors are affected by local action (in collaboration with national plans and operations), the municipalities will continue to exhibit their universal problems of weak finances, unskilled and undermotivated administration, and physical unattractiveness. Installing minor public works, new tax and accounting systems, and administrative reorganization will be but marginal improvements and of little development impact without a reorientation of the scope of the effort toward economic concerns.

Three municipal economic development strategies which tie into national rural development plans are presented for consideration: (a) non-farm employment creation, (b) rural infrastructure, and (c) rural market centers. They may be pursued separately, or in some mix, depending on national or regional opportunities and objectives.

Other strategic questions lie ahead of the MDIs. It may be necessary to concentrate assistance on selected municipalities and assist them sequentially rather than simultaneously. Additional reforms of the municipal system (legal codes, electoral cycles, personnel incentives) may have to be undertaken. Credit policies should be differentiated, with varying terms for each category of municipality and type of subproject. Consideration should be given to developing packages of assistance based on local plans worked out jointly by the MDI and the municipality. If this proposition is accepted, it will have broad implications, requiring improvements in technical management, staff skills, accountability, municipal training, and financial resources.

As the role and integration of municipalities in development is increased, there may have to be a phase when the traditional autonomy of local government is modified. The tradeoff is that if the municipalities are to get the assistance and the tools they need to make their autonomy effective, they will have to accept more intervention and collaboration with national agencies such as the MDI.

Many knowledge gaps remain. They can be filled through action, new studies, and application of existing ones. The needs range across the entire spectrum of problems discussed above, from definition of the municipal role to the methods of delivering assistance in packages. (See listing on page 88). This agenda will engage the municipal development institutions, associations and leagues of municipalities, research, academic and consulting organizations in the interested countries, and international assistance organizations and experts.

The AID role in municipal development has been a constructive one, though in our view the concept and content of the MDI Projects funded by the Agency can be further improved.

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Our critique of AID's role during the past five years, represented by \$18 million in six loans to five countries, focuses more on the concept and content of the projects than on the operational aspects of them. We found that, until last year, the AID projects generally accepted the traditional view of municipal development, and focussed heavily on the banking aspect to the detriment of the institutional needs of the MDIs and the municipalities. Project design has been too rushed and incomplete. The economic growth problem hasn't received enough attention. And, inputs have not been correlated with stated objectives.

On the positive side, the AID projects influenced the MDIs to devote resources to smaller towns and cities having the effect of redistributing national revenues and development resources, increasing the awareness of the relationship of local government to rural development, and giving municipal administrations an opportunity to carry out often complex subprojects in a reasonable manner.

AID can extend this impact through more careful project preparation which addresses the range of problems and opportunities faced by the MDIs, and by making available technical information which exists as well as supporting efforts to fill the gaps in knowledge and methods.

We recommend that in doing so, AID take steps to see that its assistance does not become compartmentalized in one unit of an MDI, but that it have pervasive influence on all aspects of MDI processes. Further we suggest that AID focus its municipal development resources on one institution, rather than dispersing funds to different entities. Certain activities, such as studies or training, might be contracted out by the MDI using AID's funds, but this should be done within an agreed strategy for which the MDI is responsible and controls the funds. Finally, we urge that if AID finds the matters raised in this report to be valid and useful, the Agency take the necessary steps to put it into practice in both on-going and proposed MDI projects.

We have elaborated a tentative logical programming model for municipal development institutions. We are tentative about its details, but based on our analysis of MDIs problems with planning and programming we are convinced of the need for something like it.

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In our assistance to IFAM we began to develop a logical process of programming municipal development. As we began our comparative work in the other MDIs we found similar problems which suggested a similar solution. MDI and USAID practitioners showed interest in the approach, contributed ideas to it, and urged that we continue.

It is presented here as tentative in the sense that the details are still in rough form. Our conviction that something like it is needed is not, however, tentative. The process begins with the collection of indicative information and base data in the municipalities, and moves through a series of sequential steps to an institutional annual work plan, budget, and long-range program for the MDI and selected municipalities. It incorporates categorization of the municipalities based on a multifaceted profile, making strategic decisions on resource allocation, carrying out joint local planning as the basis for MDI programming, and building evaluation measures into the entire process at both the MDI and municipal levels. (See Exhibit 5-5, page 126).

We condense the logical programming process to its basic elements, it consists of the following:

- a. The MDI builds its program from diagnostic information gathered at the local level, rather than speculative estimates and often subjective demands;
- b. The MDI develops a strategy and plan of its own, linked to national plans, but not totally defined externally;
- c. The internal plans and arrangements of the institution are derived from specific, planned results and changes anticipated at the local level, as clear and relatively objective basis for evaluation, re-planning, and if needed, reorganization and revision of the strategy.

We recognize that the application of this approach will vary widely from one country situation to the next, depending on political realities and cultural traditions, technical capacity of the MDI and local administrations and the creativity which is applied in adapting this material. The creativity will involve applying complex concepts on a broad scale, finding what may be modest but useful solutions during the early stages, and bringing in specialized, technical talent where it is most needed.

SECTION 1

Municipal Development Programs and Their Impact at the Local Level

1.1 The Programs and Their Objectives

The municipal development programs which were studied directly through observation and reviewed in documents have been created in response to a problem which might be best characterized as weak local government. The municipalities are found to be financially weak, administratively weak, and thus unable to provide adequate services to their citizens. Because the local government cannot provide such basic services as potable water, sanitation, drainage, and so on, the people lose confidence, fall behind in paying for whatever limited services are provided, evade paying taxes, and in other ways withdraw support. This sets up a vicious cycle in which the already weak local government is further weakened by withdrawal of support.

The municipal development programs operated by the municipal development institutions have focused primarily on assisting local governments to provide new or improved services, largely through public works projects. A supportive and related effort has generally been carried out to provide various forms of technical assistance and training in accounting and administrative functions. The central activity is the subproject or banking function, generally responding to local initiatives and project identification done by municipal leaders. Technical assistance is offered in tax administration and collection, developing cadastral surveys and lists of users of services, and in other general administrative functions. The MDI will send its engineer, or arrange for one from another agency, to help prepare the project or subloan documents. The subloans are made on soft terms (relative to other financing sources), with low interest and extended maturities. The priority in the subloan activity is typically placed on sub-projects which are considered self-financing through user charges, thus assuring repayment by the municipality to the MDI, and reducing the possibility that the project will be a new or additional burden on the municipality.

The MDIs have functioned as bankers in another sense. In Costa Rica, Guatemala, and Honduras the institutions distribute or hold as depositors the shared national revenues or subsidies made available for support of local government. Additional activities may include assistance in urban planning (the Liga), community and regional studies (IFAM), community organization and development (FUNDACOMUN), and volume purchasing of construction materials (INFOM).

The objectives of these programs are generally stated in broad terms. It is expected that local government will be "strengthened" in its capacity to deliver and administer basic services such as water, sewage, public food markets, street drainage, paving and lighting. Objectives also include improving tax collections and administration, record-keeping of various kinds, and integration of the municipalities with other national development efforts. The programs have tended to concentrate on the intermediate and smaller municipalities, although services and assistance are available to all. This aspect of the municipal development effort is discussed in more detail later in the report. Briefly stated, the rationale for assisting relatively smaller municipalities has been that the greatest needs have been identified there, that other national agencies have tended to assist the capitals and other major cities, and that given the limited funds available to the MDIs, their impact can be greater in the smaller towns.

This report discusses the performance of the municipal development institutions and related activities in general terms. The involvement of the Agency for International Development is separately analyzed in Section 4. This approach is taken because AID requested a study which went beyond the limits of its assistance projects and because AID's role has been different in each case. AID resources have been used to provide initial capital and technical assistance for newly-founded agency (IFAM), to mount a special project for smaller communities in an existing agency (INFOM), to add a lending fund where it did not exist (the Liga), and to reform and refocus the work of another existing MDI (the Banco Autónomo Municipal - BANMA - in Honduras).

1.2 Order and Scope of Analysis

We have elected to begin our discussion with analysis of the local impact of the work of the MDIs, and where appropriate of other elements of the municipal development program. Our reasoning is the following:

- Evaluation methodology is increasingly being focussed on the impact of development programs at the end-user level. This is appropriate because it is at this level where the "payoff" occurs or doesn't occur, where unintended results may be identified. In this report the target groups or client group include the municipal corporations, and the people who live under their jurisdiction, both rural and urban.
- Having established a pattern of impact at the local level our analysis of the national institutions, primarily the MDIs, involved in municipal development will have more meaning. To begin with a somewhat abstract assessment of the MDIs' strategy, organization, and capacity is less useful than to analyze them against the background of their activity and its consequences.
- This approach allows us to assess the full range of needs at the local level as another standard of evaluation of the municipal development effort. This is meant in the sense of the typology of needs, rather than the magnitude of them in any given country. In other words, is the municipal development institution's program sufficiently comprehensive in its content? This basic issue can only be understood in a bottom-up view.

The scope of work provided by AID lends weight to this approach.

During the preliminary phases of this study we were asked by AID to examine the benefits and disbenefits at the municipal level of the sub-projects and other activities funded by the MDIs with their own funds and with AID's. We were to examine the geographic distribution of projects to see if larger towns were receiving more, thus widening disparities, and to see if technical assistance and training were

equitably distributed or concentrated. Subloan projects were to be studied to see who benefits (socioeconomic class, occupation, rural-urban location, sex) or conversely who might have been denied access or benefits. Effects on neighborhoods, on employment, on the ecology (including presumably health as well as natural surroundings and forces) were to be assessed. The extent of user and local initiative in creating the project was also an object of study.

We carried out this aspect of the study using simple questionnaires, informal open interviews with municipal officials and residents, through observation and by examining scores of documents. We must characterize our findings as aggregated patterns and impressions. Our visits to the municipalities were brief. Further, the plans for the subprojects examined seldom included specific estimates of expected benefits, which meant that we did not have standards of measurement internal to the project which would have been required for rigorous analysis. We had to infer them from subproject documents and discussions, and in some instances we had to develop, quickly, our own standards.

The most tangible outcome of municipal development activity has, of course, been the investment in public works, and it receives our attention first, followed by technical assistance and training. The subproject activity is discussed in broad terms, followed by our assessment in relation to the issues posed in our scope of work by type of subproject.

1.3 Findings on Municipal Subprojects - General

Examining the past four or five years of lending activity, we found that the distribution of subloan activity was extensive in terms of geographic spread and in reaching small, intermediate and a few large cities. Both IFAM and IFOM had directed significant shares of their lending resources measured in funds as well as number of subprojects to small towns and villages, rather than concentrating investment only in

larger cities. Subprojects financed by the limited funds of the Liga were found in small towns. FUNDACOMUN tended to invest in larger subprojects in regional centers, but also made loans to smaller communities.^{1/}

Several reasons for this outcome can be identified. Aside from conditions imposed by AID financing which effectively earmarked funds for use in small towns, the MDIs were explicitly charged by their charters or government policy to serve the small towns and cities. As noted above, the intent was to fill a gap not being handled by national technical agencies. The MDIs also acted in response to political pressures from outlying regions (the "interior", in Venezuelan terms). The small amount of capital with which the MDIs were endowed also forced a practical choice: Small projects in small towns would provide more coverage.

This is not to say that we did not find extreme cases of need for improved facilities in small towns which had not been met by MDI lending activity. However, the limitations which caused this result do not appear to be based on disinterest or conscious neglect by the MDIs. Two major external influences reducing aid to small towns were identified:

- a. *Weakness in municipal capacity:* lack of ability to plan, weak financial bases and systems, and lack of public participation in local decision, resulting in non-payment of service or user charges.
- b. *The geographic priorities of technical agencies* working in sanitation, roads, electrification, etc. have been in areas other than the smallest and most needy municipalities, thus limiting access by MDI-supported projects to such agencies' technical skills, materials, equipment and participation in financing, which is often essential to the completion of a local project. This at times has the effect of forcing MDIs to invest in relatively larger towns where the resources of other national agencies can be tapped.

^{1/} It should be explained here that the project lending activities of both the Liga Dominicana and Venezuela's FUNDACOMUN have been limited and declining during the past three or four years.

The individual beneficiaries of municipal projects funded by the MDIs are in the great majority small-town, low-income people of both sexes. The projects are located in the administrative "capital" of the municipality in most cases. The "capital" towns are typically based on a fairly simple, rural economy, characterized by residential areas, retail commerce and a limited amount of industry. Water, sewer, and electrification systems generally are planned for the entire town, or to expand a system to a newly-settled area which is often a barrio of workers, farmers, or farm laborers working on nearby plantations. Municipal markets, street paving, drainage, lighting and slaughterhouses tend to benefit most directly the commercial interests and those doing business in the town. To obtain more precise measures of the distribution of subproject impact among social, ethnic, and economic groups would require more time and rigorous research instruments and methods than we were able to employ in the field visits. The reader is referred to the introductory definition of the municipality in Latin America and its resemblance to a county in the United States. Our general observation is that most of the subprojects cover the developed portions of the urban centers of the municipalities, and that in many instances they represent expansions and improvements of existing systems extended to newly-settled fringe areas (thinking particularly of water, sewer, and street paving works). Further, we can generalize that the populations of these towns, whether shopkeepers, workers, or government servants, are people predominantly in the lower half of the income range. We saw few, if any, instances of projects primarily benefiting wealthy areas or groups.

Feeder road projects (along with related bridges or causeways) represent the one category of commonly-funded projects which have direct benefit to rural people, and not all MDIs (or municipalities) are engaged in building feeder (or farm-to-market) roads. Where they are being built they generally benefit small farmers or colonizers. The large ranches, farms or plantations have either built their own roads or have

had them built by central government agencies. A few rural water projects have been funded by IFAM and INFOM outside the municipal "capitals" and we encountered a cattle vaccination corral project in a dairy producing area of Costa Rica which had direct economic benefits to small-scale livestock raisers. On the whole these are exceptions -- subprojects tend to be concentrated in the towns.

The nature of the benefits of the subprojects may be as important an issue as the distribution of them. Here we are talking not only about benefits to individuals or families, but also about the benefits to the municipal corporation. ^{1/} *The subprojects are primarily social and secondarily economic in their effects on the users,* in our view. We do not dispute the value of better and more convenient drinking water, of drained, paved, well-lit streets, of schools and health clinics, but this brings primarily social, not economic benefits. While municipal markets and slaughterhouses are often classified as having an economic impact, this classification should depend on whether or not they generate new economic activity, rather than simply putting new walls around essentially the same people doing the same things. In nearly all cases we found more of the latter than the former.

If the facility is not well managed and maintained, of course, whatever benefits may have been expected will be cancelled out. We found numerous instances of installations, especially those involving sanitation (such as slaughterhouses in Guatemala) where failings of administration resulted in hazards or declining use of the facility. Design shortfalls were observed, and environmental disbenefits were seen in Guatemala and Venezuela where sewage systems were discharged into streams which were used for washing and drinking in the rural surroundings.

Where such results occur, clearly the municipality does not gain confidence and support among the residents, and in fact its prestige may be damaged. The municipal corporations have also had mixed results in

^{1/} See the Economic Benefits column in Exhibit 1-1, and the discussion in Subsection 3.2.

terms of the financial impact of the projects. We found cases in which the new facility, designed to be self-sustaining through user charges did in fact generate sufficient revenues to cover operation and maintenance and amortize the debt. We found others among those generally considered self-sufficient (water systems, markets, slaughterhouses) where the outcome was the reverse, and the municipality was in worse financial condition. The local government had hired personnel to operate the service or building, but found that they need more than expected, that the costs of materials to make repairs had risen, and that there was a ceiling on what user charges they could impose before people would refuse to pay. The project begins to run at a loss, the municipality's debt burden makes it ineligible for further financial support, it must draw down other revenues to keep up the payments, and the net result is the opposite of the intended one.

These outcomes were traced to such factors as hasty or incomplete studies of the subproject's feasibility, to inexperienced management, or to lack of political will to raise the charges to the necessary levels. If a municipality's tax base or other revenue sources remain static, as has been the case especially in the smaller towns, such results can be most damaging. They are less so if revenue is growing and the effective subsidy requirement can be borne. Such findings raise questions related to technical assistance (discussed below), and more fundamental ones about the economic issues in municipal development.

In most instances we found that the initiative for subprojects had come from municipal leaders and their perceptions about local priorities. The MDI technicians had not imposed the idea, nor were there local diagnoses or plans which identified needs and priorities. The local mayor's perception was often based on popular pressure, or on common sense. We did find cases in which the motivation was more "monumental", satisfying the leader's desire to erect a "work" with his name on the plaque, regardless of needs and benefits. The classic examples of this are municipal buildings, park beautification, or street lighting in a town lacking more important amenities such as potable water or an electric network. Lacking objective

information on the relative magnitude of problems and appropriate priorities, municipal mayors or councilmen make the best judgements they can, often discussing alternatives with MDI technicians, and at time tailoring their requests to MDI resources and priorities.

We did find that local democracy is limited and that this affects the impact of subprojects. Informal surveys conducted in all four countries showed that communication between elected municipal officials and the people, especially the rural people, is limited and often one-way--downward. Decisions are made by the council or the mayor, often behind closed doors, and in response to petitions, party, personal and special interest pressures. One result is often that since the community was not involved in deciding about or preparing a subproject, there is silent and widespread resistance later when the municipal corporation imposes or raises user charges or taxes to support the facility. An exception is the cabildo, a form of open town meeting which is a strong and continuing tradition in Indian communities in the Guatemalan highlands, where budget and project matters are presented for discussion and consideration by the community at large. Mayors in such municipalities reported that they enjoyed unity and support on projects where the cabildo was used in the discussion process.

1.4 Findings on Subprojects by Type

Exhibit 1-1 presents our findings with respect to the incidence and impact of each of the types of subprojects most commonly funded by the municipal development institutions. The material also indicates which subproject types are generally developed in conjunction with national technical agencies as well as the MDI, and which ones have been identified for AID loan or grant support. We have shown where each type is most liable to appear (geographic or size distribution), the source of initiative, the beneficiary groups as we observed them, and then have broken down impact into three categories (physical, social, and economic). Both positive and negative outcomes are identified. The intent is to condense the information, to provide readers with a complete "snapshot" of each type of project, and to illustrate some of the major

EXHIBIT 1-1

GENERALIZED FINDINGS ON MDI SUBLOAN BENEFITS
BY TYPE OF PROJECT

Project Type	Geographic or Site Distribution	Initiative	Beneficiary Groups			Physical Impact	Social Impact	Income/Economic Impact on People, Municipal Corporation
			Concentration, Class	Location	Sex			
1. Potable Water ^{a/b/}	All towns	Popular user demand	All	Principally urban	Both	May replace often messy water taps. Must be carefully planned in coordination with drainage, sewer, street paving, or will be disruptive, more costly.	Improved public health convenience.	Few systems observed were installed to industrial capacity and, thus, as provided, will have little incentive for investors, aside from general improvement in conditions of community. New, or increased user rates generally follow installation. If rates are paid and system well maintained, municipality can run at break-even and amortize debt. Cases observed where system ran at loss, others where national utility took over management.
2. Sanitary Sewage or other Drainage ^{a/b/}	All towns	Popular user demand, leader perception	All	Urban	Both	Replaces latrines, standing waste water, improving ambiance. Some systems drain into rivers, causing sanitation hazard, odors, especially in rural periphery.	Improved public health in area served.	
3. Electrification ^{a/b/}	All towns	Popular user demand	All	Principally urban, but some rural	Both	Generally overhead, adds clutter to urban landscape.	Mainly used in homes for lighting, radios, television, some motor-driven equipment.	
4. Municipal Markets ^{b/}	Most towns	Leader perception, sometimes user demand	Sellers, shoppers who still use such markets	Urban	Both, esp. women	Improves appearance of central location, sometimes accompanied by improvements in use of space and traffic patterns. Heard complaints about poor ventilation, isolation of booths, inflexibility of new designs.	If well-run and designed, offer improved sanitation and convenience.	Markets observed were for retail sales at the local level, and thus had little apparent impact on agricultural marketing. In Costa Rica studies showed that most bulk or commercial marketing by-passes open public market. Sellers pay higher rates for space, pass on in higher food costs. Municipality may break-even, or make small profit after debt service.
5. Bus Terminals ^{b/}	Most towns on trunk or secondary roads	Leader perception, some user demand	Lower income people, farmers	Urban	Both	Improves appearance of central location, improves traffic circulation.	Convenience, possible increase in availability of transportation.	More efficient transportation may open new commercial activities, though in many instances existing merchants move in. In Venezuela seldom break-even, must be subsidized by municipality
6. Slaughterhouses ^{b/}	Most towns	Leader perception	Butchers and those residents who can afford meat	Urban	Both	Wooden, or other old structure, replaced by cement one, generally better equipped, drained.	Improved sanitation and health if well-operated and maintained and meat inspection is adequate and regular, not always the case in Guatemala. Meat is sold at retail elsewhere, and may spoil or be contaminated after leaving facility.	Usually existing butchers use facility, typically during morning hours, take meat elsewhere to sell. Built for local daily market, has little or no impact on livestock economy. Municipality may break-even, be able to amortize credit.

a/ May be installed with extensive assistance of national technical agency, administered by them. Trend was observed in Costa Rica, Guatemala, Venezuela.

b/ AID supported.

EXHIBIT 1-1

GENERALIZED FINDINGS ON IDI SUBLOAN BENEFITS
BY TYPE OF PROJECT

Project Type	Geographic or Size Distribution	Initiative	Beneficiary Groups			Physical Impact	Social Impact	Income/Economic Impact on People, Municipal Corporation
			Occupation, Class	Location	Sex			
7. Street Paving, Lighting ^{c/}	Most towns	Leader perception	Commercial and shoppers	Urban	Both	Paving replaced dirt, stone, or gravel surface. Easier to clean, beautifies city. Unless well-planned, may impede or make more costly--later installation of other utilities.	Cleanliness of area, with attending health benefits, pride in town's appearance. Lighting may offer increased security, traffic safety.	May increase commercial activity and investment. Municipality often (but not in all cases) assesses fronting businesses and residences. In cases in Costa Rica has resulted in a burdensome debt where other revenues didn't increase to cover amortization and maintenance. Costs of asphalt repair have risen with oil prices with negative impact on street projects.
8. Refuse collection, Street Cleaning ^{c/}	Sub-regional, Regional towns	Leader perception	Commercial residents, all	Urban	Both	Improves town's appearance. Sub-loans often cover only truck, equipment, and not final disposal improvements, thus no change at dumping point, and environmental problem persists.	Permit broader coverage, more frequent and rapid collection or cleaning, improving health and sanitation.	General improvement in environment and health may provide investment incentive. Service rates generally increased. Equipment often complex, imported, difficult and costly to repair and maintain, often a financial burden on municipality.
9. Feeder roads, Bridges ^{d/}	Most towns, especially smaller	Communities, Leader perception	Farmers, especially low-income laborers (temp.)	Rural areas	Both	Follow traditional routes in most cases. Generally gravel, though may be paved.	Provide access to schools, medical facilities, more integration of areas served to rest of municipality.	Mixed results: Provide access to markets, may encourage crop diversification, open up new areas to mineral exploitation. May also result in land speculation, change to extensive farming or livestock raising, second home development, other effects prejudicial to area residents, displacing them. Evidence of this is strong in Costa Rica. May require related measures of land use control, rural development. Municipality may gain in terms of increased trade, economic diversification. May impose user or frontage charges to pay construction, maintenance costs.
10. Road equipment (trucks, dozers, levelers, etc.) ^{d/}	Most towns,	Leader perception	All	Rural-Urban	Both	Support road and street construction and repair operations.	Better road and street network improves circulation.	Contribute to improved transportation network, access to markets. Complex equipment may cause unexpected costs and maintenance complications for municipality.

c/ Public works Ministry, electric company may assist in construction and maintenance.

d/ Public works or transport Ministry may lend equipment, technician as in Costa Rica.

EXHIBIT 1-1

GENERALIZED FINDINGS ON MDI SUBLOAN BENEFITS
BY TYPE OF PROJECT

Project Type	Geographic or Size Distribution	Initiative	Beneficiary Groups			Physical Impact	Social Impact	Income/Economic Impact on People, Municipal Corporation
			Occupation, Class	Location	Sex			
11. Municipal Buildings ^{a/}	All towns, but often those having rapid growth	Leader perception	Municipal officials	Urban	Both	Improves appearance, may modernize use of space, permit more efficient service.	May contribute to better service to people, also has negative impact on community if other basic needs not met first.	For people, no apparent economic benefits. If building includes rental space, may be income-producing for municipality. If not, debt burden may reduce eligibility for credit for other needed investments.
12. Schools, clinics, health posts ^{a/}	All towns	Community Leader perception	All, frequently low income	Rural-Urban	Both	May be new facility or replacement of old, over-crowded or unfit structure.	If properly staffed, equipped and maintained, provides improved social services (health, education). May be built for multiple uses (community centers).	May improve economic opportunities for people through better education, health. May also indirectly provide incentive to migrate to larger places to seek more education and opportunities. No revenue-producing element for municipality, representing new financial burden to amortize, maintain structure.
13. "Other" -- Parks, plazas, playing fields, bath-houses, community and cultural centers, theaters, libraries, cetereries	All towns in some form	Leader perception, popular demand	All classes	Usually urban, some rural	Both	Beautification, new facility or replacement/expansion of old one.	Satisfies some popular needs, leader desires for monuments. May improve community cohesion.	Consequence of growth, not direct contributor to it. Generally, minor part of MDI portfolio. Renders little or no financial benefit to municipality except in case of entertainment taxes or concessions.

^{a/} In some countries, like Guatemala, local government provides structure. Ministry of Health or Education provides equipment and staff.

themes of this report. The types are listed roughly in the order of priority and incidence we found in municipal development programs, although this ranking clearly varies somewhat from one country to the next as explained in Section 2.

To sum up our observations on the subloan component of municipal development institutions' programs, we are favorably impressed by the number, distribution, and impact of what has been done so far. The lending programs have reached beyond the major cities, and have filled basic needs as identified by local officials in numerous small and intermediate towns. The projects which have been carried out have not always had the expected results, but on balance the results are positive. In Sections 2 and 3, we will examine some of the operational and conceptual questions which arose from our field experience in examining subprojects.

1.5 Findings on Technical Assistance and Training

As in the case of subloan projects, we found that the question of the distribution (geographic, and size of municipality) of technical assistance and training was of less importance than its content, method of delivery and impact.

1.5.1. Technical Assistance

Nearly all municipalities in Costa Rica and Guatemala have been visited by MDI officials on some sort of advisory mission. When the Dominican Liga's field teams had been active, they had attempted to achieve broad coverage. In Venezuela the regional offices of FUNDACOMUN programed activities throughout their areas, although we learned that the coverage was uneven, that the regional center city tended to receive a large proportion of the assistance. INFOM and the Liga exercise close financial control over municipal budgets and accounts, largely carried out through correspondence. In all countries assistance to prepare and supervise the construction of projects was distributed widely. IFAM and FUNDACOMUN additionally have placed emphasis on assistance in urban cadastral surveys, tax administration (based on the new or updated

cadasters), registration of users of municipal services, updating service rates and reducing the amount of uncollected receivables, and budget preparation. All of the MDIs have offered legal assistance, such as help in drafting ordinances, to the local government. INFOM's staffing and organization does not permit significant field assistance in these matters.

We find that the content of technical assistance described above is useful, and that it addresses at minimum some of the basic financial difficulties of local governments. However, after visiting about thirty municipalities in the four countries, discussing local government problems with elected leaders, local officials, MDI technicians, and reviewing several studies, we feel that there are a number of needs which are not being met if local governments' performance and capacity are to be significantly improved. In addition to assistance with financial administration, the following requirements emerge:

- a. *Help with surveys of development problems, and diagnosis of development service needs in rural as well as urban parts of the municipalities;*
- b. *Based on the above, counsel on drawing up local plans, even in broad general terms, which would put order into such activities as public investment, land use, targeting of services, and would permit the municipality to cope with the increasingly complicated issues facing them and identify those solutions possible at the local level, and those requiring inter-municipal, regional or national approaches or intervention;*
- c. *Relating budgets, requests for national agency or MDI assistance, staff training, and administrative organization to the above plans;*
- d. *Development of long-range (meaning in most cases more than one year) revenue and financial projections based on the local economy and expected national subsidies such as revenue sharing;*
- e. *Organization and administration of municipal government personnel, so as to encourage greater stability, productivity, and professionalism;*

- f. *Establishing better communication and collaboration between municipal governments, community development or neighborhood associations, and other community groups, and opening up the decision-making process at the local level.*

If "strengthening municipal government to make it an effective participant in national development" is the goal of MDI programs, as it is generally stated to be, then the above kinds of assistance are, in our view, essential components of MDI technical assistance activities.

The methods of delivery of technical assistance need to be improved as well as the content. Two tendencies were found in the delivery process. In one situation assistance is narrowly related to assuring amortization of a subloan. In the other the assistance is delivered on a shotgun basis and is unrelated to other program activities. Municipalities often receive assistance from different MDI units. Technical assistance and training are not always well integrated.

It is natural that as banking institutions the MDIs should place priority on making improvements in those elements of municipal management directly related to taxes and finances, and should focus that assistance in towns which will or already do have subloans from the institution. The principal objective of such assistance is to assure that amortization of the debt to the MDI takes place as scheduled, permitting a rollover of the capital fund. The scenario of such assistance is typically the following:

Municipality applies for project. MDI examines records of municipal finances to ascertain creditworthiness. MDI makes judgement about this, and about self-financing potential of project. MDI finds that the project can be financed if the municipality can manage the project so that it pays for itself, or if the municipality can increase general or specific revenues to subsidize the project. In order to make these financial improvements, a cadaster is needed, service rates and contributors must be updated, tax collections improved. Two forms of technical assistance are thus set in motion: studies and design of the project itself, and efforts to improve financial administration.

The result is that the project package is reasonably well developed, the facility being soundly designed from an engineering perspective, and the banking requirement being met by assistance on finances. The financial assistance in many cases has broader impact if a good cadaster and related administrative system is set up and other improvements are made in accounting, collection of receivables, and possibly budgeting.

The issue here is not whether this is good practice--from a banking point of view it is certainly basic. The question is whether this is sufficient, whether it contributes to the long-run capacity of local government to provide services and participate in development. All too often, the narrowly subproject-related assistance is a one-shot affair having little overall institutional impact. It keeps the MDI's money moving, but may not contribute to broader goals as stated in the MDI's charter and other expectations of municipal development..

The second problem is the shotgun approach to technical assistance, as found in Costa Rica. *Assistance is frequently delivered in isolation from other related program activities.* IFAM was attempting to reach all municipalities with assistance in service rates, cadasters, budgeting and accounting during one program year, using a limited field staff based in the capital city, each advisor assigned to 10 to 12 municipalities. Local officials often found that the assistance was confusing and sporadic. The advisors admitted that they were unable to meet the program targets, and that their involvement in training sessions in the capital and special demands on their time interfered with providing routine service to their client municipalities.

Thirdly, assistance to municipalities by different departments or divisions of the MDI was not coordinated, resulting in duplicative visits and at times, conflicting advice. INFOM exhibited this tendency, sometimes sending technicians from different units separately to the same town to deal with water projects, foreign loan-funded projects, or a market project, with differing policies and requirements being advocated in each case.

Fourthly, technical assistance was insufficiently linked to training. INFOM has only recently taken an interest in training, having previously left that aspect of municipal development to another institution, the National Institute of Development Administration (INAD). In the field of cadastral surveys and management of public services, IFAM held courses for municipal officials while sending advisors to the field to assist with application of the techniques. During the past year there has been a better effort at providing field assistance to trainees. However, as IFAM broadens its training curriculum, it is not simultaneously broadening its technical assistance capability, and therefore is limiting the extent to which courses can be followed up by on-site reinforcement.

The MDIs have not yet developed measures of the impact of technical assistance, and therefore we found no ready yardsticks of evaluative records to examine. We asked MDI technicians and local officials what the results had been. They pointed to some improvements in municipal finances, the existence of cadasters and registers of users of services, in other cases to adoption of program budgeting formats (though often the advisor had in fact prepared the budget so that the municipality could comply with a central government requirement). In short, lacking quantified baseline analysis and specification of targets or of expected results *before* technical assistance was provided, it was difficult for both the participants in technical assistance and the evaluators of it to apply objective standards after the fact.

In general, the technical assistance efforts of the MDIs as viewed from the local level are not characterized by lack of activity. The municipal development technicians in Costa Rica, Guatemala (almost entirely engineers in INFOM's case) and Venezuela are active in the field, and the Dominican Liga proposes to reactivate its field teams. The difficulties are more in the matters of comprehensiveness, integration, and coordination. *We found a need to define more precisely the purposes of technical assistance, to analyze more thoroughly the needs to be met in addition to those needed for responsible banking, and to manage the effort more effectively and efficiently.*

1.5.2 Training

Under present conditions the evaluation of training conducted by the MDIs is a field of inquiry fraught with speculation. ^{1/} An inter-related series of factors involving the trainees, the trainers, and the content and process of training must be considered.

- a. With respect to trainees,
 - Their employment security and term of office;
 - The variety in their backgrounds, educational levels, motivations and responsibilities;
- b. Regarding trainers,
 - the multiplicity of their backgrounds and abilities in general, and
 - the balance between training skills and substantive knowledge in a broad range of subjects;
- c. Factors of content and process,
 - the relative emphasis placed on the broad range of potential subjects for training municipal officials (planning, administration, project development, taxation, community relations);
 - the locations and physical conditions under which training is conducted; and
 - the degree of linkage of training with technical assistance, local projects, and local problem-solving.

We are unable to make detailed assessments of these elements in IFAM and FUNDACOMUN for two major reasons: lack of data available in the MDIs, and lack of time to generate it ourselves. IFAM's training unit is a section of the Technical Assistance Division. In the early 70's FUNDACOMUN established a semi-autonomous School of Local Development and Municipal Administration (EDLAM). Both units report their activity in terms of numbers of courses of class hours delivered, numbers of municipal

^{1/} Of the four institutions studied, only two (IFAM and FUNDACOMUN) have engaged in training to any significant extent during the past five years.

functionaries and numbers of municipalities who have sent trainees. Most of the MDI officials with whom we discussed training agreed that these numbers, while useful in indicating the level of activity, do not contribute to assessing the impact or quality of training. MDI officials stressed the difficulty of evaluating training impact, given the number of factors, many considered beyond the MDI's control, which may intervene and must be considered.

At the local level we found varied reactions. In the Dominican Republic and Guatemala there had been little or no training during recent years, so we asked what kinds of training might be useful. ^{1/} The responses covered a wide range of topics, but the emphasis was on needs for knowledge and skills to deal with financial, accounting and taxation difficulties. Other topics included needs for training in planning projects, administering services and facilities, and a variety of administrative and secretarial skills.

In Costa Rica the emphasis until recently has been on training accountants, treasurers and municipal executives in financial and taxation matters, including cadastral management. The trainees we met had found the experience useful in their work, especially when it was related to follow-up technical assistance in solving a specific problem. Municipal executives indicated that there were other fields, including development and project planning, in which they needed training not being offered by IFAM (related courses have since been introduced). In Venezuela time did not permit adequate local interviewing regarding training.

A continuing problem in all countries is the turnover of municipal personnel, which can cancel the effects of the best training program. The departure of officials is attributed to politics (each new municipal

^{1/} Under arrangements supported by USAID in Guatemala, the training aspect of municipal development was delegated to INAD, which during the past five years has been operating under severe budget and program limitations. In addition, INFOM-INAD collaboration on the content and delivery of training has been minimal.

council will demand its patronage in staffing the various local government units); to low salaries and incentives, or to opportunities to apply technical skills such as accounting in the private sector.

Studies of training plans, manuals and other materials, visits to training courses in Costa Rica, and our discussions with local officials, do provide a basis for making the following observations:

- a. *MDI training still relies heavily on the lecture method, and has not yet widely put into practice the use of round tables, case studies, and the like. FUNDACOMUN states in a five-year report that it is exploring the introduction of more "active" rather than passive training methodologies.*
- b. *Training activities have not been sufficiently tied to the production and distribution of manuals and other written materials and in some instances the manuals and materials themselves are either too general and theoretical, copied from foreign sources and not adapted to national circumstances, badly organized and difficult to follow, or overly technical for broad use by varied audiences.*
- c. *Training has not been followed up regularly with technical assistance and evaluation of the knowledge and performance of trainees;*
- d. *The content of training has been lacking in some of the same areas as technical assistance (needs surveys, investment planning, administrative functions other than financial, for example).*

1.6 Summary

The municipal development programs as seen from the perspective of the municipal level are serving two primary needs. They are reaching many previously unassisted communities with basic urban facilities and services, and steps are being taken to improve the notoriously weak financial status of the local governments, at least sufficiently to assure amortization of subloans. We found, however, that most of the subprojects are limited to the urban centers of the municipalities, that there is a need to extend the impact of the lending program both geographically and possibly into more directly economic types of subprojects to the rural areas surrounding the

towns. Training and technical assistance is taking place, but is either overly narrow in scope, or overly dispersed among the municipalities, and its impact is difficult to assess.

Municipal officials find that assistance from the MDIs is often uncoordinated, and that it is not tied sufficiently to training courses and materials. These issues are examined from the perspective of the MDIs in the following Section.

SECTION 2

Characteristics and Performance of Municipal Development Institutions as Agents of Development

2.1 Introduction to the Institutional Assessment

Having reviewed the manifestations of activity of the municipal development institutions at the local level, this Section focuses on the agencies themselves (and their relationship to other development efforts), on their characteristics and how they perform.

2.1.1 Scope of Evaluation

The scope of work prepared by AID requested judgements about the MDIs' strategies, plans, operations, staff and management capability, financial situation, and future prospects. We were also asked to look into the nature of the linkages between the municipal development effort and other aspects of social, economic and institutional development in the countries.

2.1.2 Standards of Evaluation

Clearly, the Agency is asking for more than description of what is going on--it is seeking evaluation. This requires standards against which to measure the effectiveness and quality of what we observed. Since municipal development in the form it is being done by the MDIs is a relatively recent activity, and there are a number of perspectives on what is "good" municipal development, it is important that we state explicitly the internal and external standards which were applied during this analysis.

The most obvious internal standard to use is the statement of objectives contained in the founding charter of each municipal development institution. We found that IFAM, INFOM, and FUNDACOMUN all have similar statements of purposes and functions, although FUNDACOMUN's charter refers to communities, and is thus broader than the other two. IFAM's

Organic Law states in Article 4 that "The objective of IFAM is to strengthen the municipal system, stimulating the efficient functioning of local government and promoting constant improvement in municipal public administration."

In its 1974 program budget, FUNDACOMUN synthesized its general objectives as:

- Sustained growth of the level of life in the communities, initiating or accelerating the process of economic development of the municipalities.
- Political-administrative development of municipal government, with the goal that it may efficiently take advantage of its growing possibilities in human and economic resources.
- Continuous elevation of conscious and organized participation of the communities which form the municipality toward the goal of their own development.

The first article of INFOM's Organic Law states:

The Institute of Municipal Development is created to promote the program of the municipalities giving technical and financial assistance to the municipalities in the carrying out of programs of basic works and services, in the rational exploitation of municipal assets and enterprises, in the organization of the municipal treasury and administration and, in general, in the development of the economy of the municipalities.

The Liga's stated aims (embodied in its founding decree in 1937) are more vague and limited, related principally to fostering inter-municipal communication and information exchange. In practice, especially during the late 1960's, the organization branched into a number of fields of activity similar to those of the other MDIs.

The charters are broad, and leave room for differing interpretations and emphasis, but common themes appear: the municipal development institutions are to assist with project financing and administrative improvements in order to assist the local governments in providing better services and contributing to social and economic development.

Another internal standard which we applied in each country was the pattern of needs and problems which we found or learned about at the local level. Our inquiry thus examined to what extent the MDI perceived those needs and to what extent and in what manner it was working to satisfy them. In this connection, we focused on the smaller towns of a primarily rural nature.

We applied external standards as well. They included relative inter-country comparisons of problems and various approaches being taken to solve them. We compared the MDIs' programs (and associated AID projects) with the state of the art and current thinking about the role of local government in development and the role of administration in development.

In the countries we visited and in the literature we reviewed there is frequent reference to the value of decentralizing development, to assigning a more significant role to local government, regional organizations, and institutions which are closer to the problems and the people to be served.^{1/} The importance of improving management at all levels of development, and of tying management assistance to specific project or program activities is receiving new, or perhaps renewed, attention.^{2/} In this view, improvement in administration is considered to be a major tool of development, and less an end in itself.

Finally, we evaluated the municipal development institutions and their programs against a standard of liberal democracy. We believe that this is appropriate for evaluators from the United States assessing programs on behalf of AID. It has been a major theme of our assistance, especially since Title IX was added to the Foreign Assistance Act in 1966, that American aid should contribute to, and support the growth and improvement of, democratic institutions at all levels of government and in development agencies and activities. We realize that this element of AID's mandate has

^{1/} See Annex A, Annotated Bibliography, especially Items 1, 3, 4, 5, 13.

^{2/} See Items 4, 7, 8, in the Annotated Bibliography.

not at all times and in all cases received strong emphasis, and that the best resources and methods for doing so effectively are still somewhat unclear to many practitioners. Nevertheless it remains as a concern and a statutory charge, and in our view municipal development is a kind of development activity which is especially appropriate for supporting increased popular participation.^{1/} Therefore we looked at the activity and impact of the MDIs in terms of their contribution to strengthening democracy at the local level, and by extension, on a national scale.

2.1.3 A General Conclusion About Municipal Development Institutions

Before moving to detailed examination of the MDIs performance, it should be emphasized that we are sympathetic critics who believe strongly in the special role of a municipal development institution both in concept and in practice as we have observed it. The application of a mixture of resources and expertise to local development problems by a single institution was found to be more effective than other multi-agency or specialized public works programs used in the past and in other places. The specific comments, criticisms and suggestions contained in this report should be understood as being directed at closing the gap between current practice and potential impact in programming and management by the MDIs and at the local level.

In their operations to date the MDIs have provided the municipalities with useful and beneficial projects and with some basic administrative tools. They have given attention and support from the national level to municipal government which were to a great extent abandoned or bypassed previously. The MDIs have served to bring to national attention the needs and activities of local governments, have distributed their services and resources in an equitable manner, and compared to many other agencies, have been apolitical in their operations. The MDIs have, through their procedures, helped to reduce corruption in the handling

^{1/} In the Bibliography, see Item 12.

of public funds and construction contracts, and have, as far as we (and AID auditors) can determine, remained free of corruption in managing their own and the municipalities' funds.

On the other hand, our own findings and biases suggest that the potential of the MDI has barely begun to be exploited. We submit that with a combination of better application of the resources they have, and the addition of new resources, the MDIs can truly fulfill their assigned roles within the municipal system and in relation to national development. We further believe that if they can approximate the ideal situation which they pose in their charters and statements, over the long run they can reach the ultimate measure of success in most development efforts--putting themselves out of business because they aren't needed any more.

In the ideal concept, the MDIs can provide a kind of service to and within the municipal system which other national technical and planning entities cannot. They have the potential of offering a supermarket of assistance and of integrating it and tailoring it to meet each local government's requirements. They can be both advocate and technical resource for basic reforms in the municipal system which are fundamental to the accomplishment of their objectives. Potentially they can assemble a bank of data on local conditions and capacity available in the aggregate to no other national agency. They can, if sufficiently well organized and managed, integrate themselves and the local governments into national development within the growing trends toward regionalization, decentralization, and distribution of the benefits of development. They can help to build bridges between rural and urban development, between community and municipal development, and between municipal officials and the wide range of other agencies with which they must interact.

The MDI can reach this potential only under certain conditions:

- a. When a genuine political commitment to decentralization, distribution, and "localization" of development exists; and
- b. When MDI management has both the vision and the technical orientation (backed by political influence)

to assemble, program and manage the variety of resources required.

Without exception, we encountered the MDIS when they were engaged in self-evaluation and re-examination of their objectives, performance, organization and financing. We took snapshots where moving pictures would more fairly portray the situation. Subsection 2.3, below, reflects the dynamic nature of the subject, and shows that the self-examination is producing decisions and changes.

2.1.4 Comparative Facts on the Four Municipal Development Institutions

Exhibit 2-1, on the following page, provides comparative factual information on the institutions reviewed during this study. It covers general characteristics, financial characteristics, and brief statements regarding the capabilities and activities of IFAM, INFOM, FUNDACOMUN and the Liga. As might be expected, complete comparability was not achieved in all of the items presented due to differing time periods, and to gaps in information due to unavailability or lack of time in which to assemble it. Given these flaws, the table does offer the reader a useful framework for what follows.

2.2 Questions and Answers About MDI Performance

For the reader seeking a rapid review of our findings on the performance of municipal development institutions, Exhibit 2-2, which is provided immediately following the fact sheet on MDIs, is available. In the text following we have stated the questions which we were asked by AID to examine, and the answers we found. Included are suggestions, recommendations, or in some cases, issues for further consideration by practitioners and policy-makers.^{1/}

^{1/} See Annex B, *Illustrative Exhibits from Country Studies*, for examples of the matters discussed in this Subsection.

EXHIBIT 2-1

INSTITUTIONAL COMPARISONS -- IFAM - INFOM - FUNDACOMUN - LIGA

GENERAL CHARACTERISTICS/DATA	IFAM	INFOM	FUNDACOMUN	LIGA
Year Founded	1971	1957	1952	1938
Type of Institution	Autonomous State Agency	Autonomous State Agency	Public Foundation	League of Municipalities; Autonomous State Agency Decree/Law
Founding Legislation	Organic Law	Organic Law	Presidential Decree	
Professional/Semi-Professional Employees	51	112	300 (approx.)	200 (approx.)
Sole	Financial Assistance Technical Assistance Administrative Assistance Distribution of Shared Revenues	Financial Assistance Technical Assistance Administrative Assistance Distribution of Shared Revenues	Financial Assistance Technical Assistance Administrative Assistance Community Development Housing	Financial Assistance Financial Control Distribution of Revenues Technical Assistance Train Municipal Cooperation
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.	Community action in slums, assistance to intermediate cities in planning, administration, services and revenues.	Engineering and urban planning studies, supervision of works, supervisory and auditing of accounts.
FINANCIAL CHARACTERISTICS	IFAM	INFOM	FUNDACOMUN	LIGA
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	National and international borrowing, budget support, service fees	Budget support
Own Capital - 1974	\$7.19 million	\$7.35 million ^{d/}	\$56.85 million	\$1.7 million
Operating Budget - 1974	\$693,400	\$822,000	\$4.78 million	\$968,000 ^{b/}
Credit Budget - 1974	\$6.28 million	\$3.5 million	\$1.9 million ^{c/}	\$836,000 ^{c/}
Lending Level Average 4 - 5 years	\$1.2 million (3 years)	\$1.6 million	\$3.3 million	Not Available
Term of Project Loans:				
Interest	6 - 8%	4-1/2 - 5%	1 - 8.5%	3.75%
Maturities	7 - 15 years	Up to 20 years	1 - 25 years	10 years
Total Projects Sponsored to Date	96	1,000+	300 projects; 15,000 housing units	120 (approx.)
AID Loan(s)	1971, 1974	1970	1962	1966 (grant)
AID Input	(1971) (1974)	\$2.1 million	\$30 million (?)	\$1.7 million
Central Government Contribution		\$2.0 million	\$35 million ^{d/}	Budget support
CAPABILITIES/ACTIVITIES	IFAM	INFOM	FUNDACOMUN	LIGA
Institutional Planning Unit	Est. 1974	Est. 1974	Est. 1974	None
Training Program (Internal)	Yes	No. Periodic, Selected Study Grants	Yes - Active	None mentioned
Administrative Field Advisors	10	--	37	Not Available
Regional Offices	--	--	5	--
Engineering Capability	Minimal, provided by other agencies	Large, Dominant	Minimal	Internal - 50% of budget
Internal Audit	Yes - Reports to Board	Yes - Reports to Board	Yes - Reports to President	None
Technical Assistance for Institute	ISAM, CEISA, OAS, Czech ^{f/}	IBAM, <u>Servicios Tecnicos</u>	None since 1972	None since 1969
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)	Studies of Municipal Finances Diagnostic Surveys	None

^{a/} As of September 1974^{b/} Reduced by about 60% for 1975.^{c/} Fund not active last two years.^{d/} Over ten years, 1964-73. After 1970, central government annual budget support dropped from about \$35 million to \$1 million.

EXHIBIT 2-2

FINDINGS ON MUNICIPAL DEVELOPMENT INSTITUTIONS

I. Strategies and PoliciesRelationship to national development plans

National planning not dominant in Costa Rica. IFAM coordinates with local technical agencies, encouraged and carried out first regional studies.

Identified as "sector" in last 5 year plan. Informal coordination with technical agencies.

Not closely integrated at national level. Coordination in some regions, limited in others.

Centralized planning, Liga not integrated.

General Approach

Passive response

Passive response

Passive response, though changes Presidential Decrees 506, 332 (1974)

Passive on assistance
Controlling on finances

Data Base

Diagnosis missing until 1974

Diagnosis started 1974

Partial diagnosis 1972-74

Financial data

Lending

All municipalities -- emphasis on smaller towns, soft terms

All municipalities -- special AID fund for smaller with soft terms

All municipalities -- larger, more housing; shopping centers, buildings; soft terms. Also grants for CD projects

Inactive in last 3-4 years; soft terms

Leveraging funds from other sectors or banks

Not done with banks. Have assisted municipalities in dealings with technical agencies.

Not done with banks

Not done to our knowledge

Some done - securing bank loans with government guarantee

Training/TA

Extensive -- especially cadasters, finances

Limited -- financial review by mail

Extensive -- cadasters, finances, services, some urban planning

Limited -- financial review, regional seminars

TA tied to credits

Not until 1974

No

Not as regular policy

No

Basic reforms in municipal system

Established with new Municipal Code; tax reform under study

Limited -- generally other institutions lead. Some work on tax reform

Limited by lack of national municipal code. Municipal assistant pushing draft law.

Little interest.

II. Operations and Impact on MunicipalitiesNature of relationship of MDI and municipalities

Principally supportive advice on finances, training project loans. Responds to requests.

Principally project planning and finance; Management of municipal funds, review of budgets causes some resentment.

Supportive in wide range of training, assistance, project finance, community development.

Training, TA, project finance limited in recent years. Detailed financial control of local budgets, accounts.

EXHIBIT II-2

FINDINGS ON MUNICIPAL DEVELOPMENT INSTITUTIONS (Cont.)

	IFAM	INFOM	FUNDACOMUN	LIGA
<u>II. Operations and Impact on Municipalities (Cont.)</u>				
<u>Municipal Planning</u>	No capacity	Not since mid-1960's	Urban planning in 16 cities; community development in others.	Prepares land use plans for larger towns.
<u>Effective Autonomy</u>	MDI assistance has improved financial systems; municipal executives trained.	MDI has limited impact.	History of almost extreme autonomy, probably strengthened by FUNDACOMUN	Not a priority.
<u>Local Participation, Communication</u>	Supported in theory, though project and budget assistance does not require; found to be minimal on field visits.	Varied, based on local traditions. Not active concern of INFOM.	Limited -- little impact from FUNDACOMUN activity.	Limited -- not active concern.
<u>Impact on Local Priorities</u>	Informal counsel - no general planning assistance; preference for projects of "social benefit". Generally responds if project is on eligible list; social infrastructure, water, sewer, street paving, and lighting, feeder roads, markets, bus terminals, municipal buildings.	Essentially as in IPAM	Aside from assistance in planning to 16 cities, responds to local priorities.	Responds uncritically in most cases, when resources available.
<u>Geographic Distribution of Services</u>	All municipalities have received services.	Broad distribution, special attention to smaller towns.	Regional offices provide broad coverage.	No detailed information.

Code: a = Problem Area
 b = Not Problem
 c = Correction in Progress

FINDINGS ON MUNICIPAL DEVELOPMENT INSTITUTIONS

III. Findings:
Institutional
Problems

	IFAM			INFOM			FUNDACOMEN			LIGA		
	a	b	c	a	b	c	a	b	c	a	b	c
a. Integration with national and regional development	X		X	X		X	X		X	X		
b. Data base and detailed diagnosis of municipal conditions and needs	X		X			X	X		X (partial)			
c. Technical management (internal)	X			X		X	X		X	X		
d. Planning/Budgeting/Evaluation System	X		X	X			X		X-?	X		
e. Long-range plans, including financial (capital and subsidy requirements)	X			X			X		X	X		
f. Organizational structure		X	X	X		X	X		X	X		
g. Corruption, dishonesty		X			X			X			X	
h. Political interference	Occasional and minor							X			Occasional	
i. Staff Skills - Basic Capability												
Public administration		X		Too few		X		X			X	
Public works engineering	(Rely on other agencies)	X			X			X			X	
Local planning			X	X		X		X (Limited)			X	
Social sciences/Community development			X	X		X		X			X	
Regional analysis	(Transferred to national planning)	X		X				Other agency handles Uneven coordination			X	
Institutional planning		X	X	X		X		X			X	
j. Staff Turnover			X (Stabilized last 2 years)		X			X (Radical policy change)			X	

2.2.1 What is the Strategy of Municipal Development, and What is its Relationship to Other Development Efforts?

Strategy, like a lot of military terms lifted and used in other contexts, has come to mean many things, but still has the general sense of being concerned with broad objectives in public policy. In development programming, a strategy is more than a summing up of a list of projects and activities--it is a plan based on a set of value judgements about the future which establish the basic goals and policies of an institution. A strategy involves defining what end results are expected, and relies on collected information as well as on perceptions of what is politically and otherwise possible.

Used in this way, we found that for the most part the municipal development institutions lack strategy. The goals and purposes which are stated in their charters do not define a program, they merely indicate the kinds of activity which will take place. And the program and policy statements of the MDIs do not provide the needed definition. What is really meant by rational exploitation of municipal assets or "by promoting constant improvement in municipal public administration"? We encountered no long-term vision of what a model municipality, or different models under differing conditions of size and economy, might look like. We found little differentiation among municipalities except on the basis of size as measured by population, yet clearly some are more rural, others more urban; some will develop through agriculture, others through industry or tourism. We encountered little or no analysis or policy defining what kinds and scales of projects are appropriate for local action, for cooperation among municipalities, for regional-local efforts, and for direct intervention by a national agency. Technical assistance and training policies do not state what the end objective at the municipal level is, what the measures of effectiveness or efficiency are. Geographic or regional priorities are not stated.

Clearly, there is a tactical advantage in leaving such issues open--it provides fewer targets for local officials or national

legislators to shoot at. Lack of defined strategy was blamed on a general lack of national development policy definition, and on the tradition of municipal autonomy which limits MDIs' scope of intervention. But there are also some more rational reasons which can be discerned for the vagueness of strategies. We mentioned above that a strategy is based on judgements and information--a field commander needs intelligence about the field of battle before he can position his troops, his artillery, his navy. But the MDIs, on the whole, lack good information about their clients and their development needs. The absence of a reliable, current data base regarding municipal conditions and problems was striking in all four of the countries we visited.

Developing a good strategy requires staff work by analysts trained and instructed to think about major objectives in relation to needs and resources. IFAM, INFOM, and FUNDACOMUN established internal institutional planning units only during 1974, and had no mechanisms for department heads to meet on a regular basis with the top manager to discuss program issues. The Liga still has no organized planning mechanism.

Creating strategy may also require that special studies be conducted in addition to general diagnosis and collection of descriptive or indicative data. Yet, again, we found surprisingly few cases where policy studies had been conducted on subjects where knowledge and analysis was scarce and needed. Exceptions were the integrated food marketing study conducted by IFAM as a kind of defense against numerous requests for subloans for municipal markets, and the municipal tax studies being done by IFAM, completed by FUNDACOMUN, and planned by INFOM. We might have expected to find studies of municipal employment conditions, of project planning processes at the local level, of various models of municipal-regional interaction, of low-cost ways of solving local sanitation problems--but we did not. We found that IFAM commissioned studies and consumed consultants at a high rate, but did not have adequate mechanisms for converting these inputs into policy and program decisions and actions. INFOM, on the other hand, placed more limited reliance on external

research and consulting resources, maintaining a less outward oriented attitude toward new and different concepts and ideas.

In other words, strategies of municipal development are still at the stage of aggregated project and activity lists.

Municipal development remains a government activity largely apart from other, often closely related, development programs. In Costa Rica national development planning has not been a strong function, and the several autonomous technical agencies, of which IFAM is one, have programmed themselves and operated in an independent manner. In Guatemala the 1970-74 national development plan set up local government under INFOM as a special "sector" reporting to the infrastructure unit of the planning secretariat. FUNDACOMUN's special status has placed it outside most development programming on the national level, with exceptions in certain regions where it has collaborated closely with regional entities and other decentralized offices of national agencies.

Other factors which help explain the strategy problem, and explore some of its implications, are covered below.

2.2.2 How do MDIs Plan and Budget?

MDI annual program plans, operating budgets, and capital requirements are typically an aggregation of division or department estimates of what will be needed in order to meet existing commitments and to maintain a constant level of activity in such areas as technical assistance and training. Where foreign assistance is involved, funds are allocated to meet requirements of international agreements. The departmental estimates are drawn from past experience, from requests coming in from local governments, expected inflationary influences, and, in some instances, from the need to develop an activity in response to a policy or priority announced by the MDI board or executive.

Departmental estimates are generally passed to the accounting or general services unit, where they are aggregated. The executive reviews the figures, discusses such details as staffing levels and vehicle or

equipment requests with the middle managers, and submits the budget to the board for approval. The MDI budgets are then submitted to the national executive, the national planning agency, and the legislature for approval, and requests for new budgetary support, tax allocations or international borrowing are defended.

In effect, the plans and budgets represent the sum of expected activities as viewed from the technical, operating units. Operating budgets are developed primarily based on cost levels of past years, adding in new personnel and administrative support costs and a factor for inflation. Capital budgets are based on applications for subloans which are being processed or discussed and, in part, on the projections developed with foreign lenders.

The value of these budgets is in assuring an acceptable level of funding which will receive government approval and permit continued operations. They are used by the MDI's controller and accountants to monitor expenses. Although the governments of Costa Rica, Guatemala and Venezuela have all adopted complex program budget formats, it is not at all clear that this results in more precise programming, or that the budgets are used as management or program monitoring tools once the appropriation has been made. In IFAM, for example, "ordinary" budgets are prepared and submitted frequently during the operating year in order to reallocate funds among line items or to request additional funds. The initial budget bears little resemblance to the actual pattern of expenditures and investments at the end of the year.

In any public institution there are adjustments necessary during the program year in order to adapt to changing demands and conditions, but the wide variances found in MDI budgets indicate to us that the imprecision and disorganization of the programming process is a major contributing factor to the unreliability and variability of the budgets. The plans on which the budgets are based are developed in an uncoordinated manner at the operating level. Lacking general goals or strategy, the plans reflect the perceptions and interests of the different departments, rather than

an attempt to interrelate project work, technical assistance, training and studies. The plans are prepared once a year as a bureaucratic requirement, and as the year advances, and daily operating demands mount up, the plans recede into the background.

In all cases the municipal development institutions would benefit by assistance in using the budget process as a financial reflection of, and management tool for, a better program design.

2.2.3 How Are MDIs Managed?

An MDI executive is a political appointee in the first place, and a public person with some known interest in improving local government in the second. Below him is a deputy, often someone who has come up through the organization. Next in the hierarchy are the department or division managers who run the lending activity, the technical assistance function, and the general services unit, which generally includes the accounting operation.

Most briefly stated, the answer to the question is that there is effectively a vacancy on the organization chart which we call the position of "technical manager." The technical management role is defined in the box on the following page. The reasons for the vacancy include:

- The executives spend as much time away from their agencies as in them, going out to attend interagency meetings, municipal ceremonies, meetings with the president of the country, international conferences, teaching at the university, or attending to other business.
- Internal functions are frequently dominated by petty administrative activities, signing checks, per diem authorizations, and similar matters.
- Board meetings are lengthy and frequent, sometimes as often as twice or thrice a week for almost half a day, and the top executive must attend all sessions for protocol reasons (in IFAM he is chairman of the board as well as executive).

EXHIBIT 2-3

TERMINOLOGY: Technical Management

In this context we mean a series of managerial and leadership functions which go beyond ceremonial and representational duties, petty administration, and other activities which take up so much of most MDI executives' time. The following elements illustrate what is intended:

1. Leadership in policy formulation, definition of roles and goals (in contact with national development planners).
2. Leadership in internal plan formulation.
3. Leadership in financial planning and monitoring
 - budgeting and progress during the program year
 - longer-range capital and operational fund-raising.
4. Leadership in identifying needs for basic system reforms or major research needs.
5. Leadership in maintaining internal coordination and focus on objectives.
6. Developing standards of evaluation of program performance, of project benefits, of personnel and of municipal improvement.
7. Leadership in building bridges at the technical level with other agencies and levels of government.
8. Leadership in maintaining morale, incentives, and technical improvement among the staff.
9. Leadership in maintaining a flow of new information from within the country and comparative experience in other countries, as well as current technical information.
10. Identification of problem areas, gaps in the program, needs for reorganization, expansion, spin-offs, regionalization, and so forth.

This is not to imply that a technical manager should actually do all of these things, but that he or she should be actively involved and holding unit chiefs responsible for accomplishment of the above.

The deputy (executive director in IFAM, assistant manager in INFOM, for example) generally shares the administrative load, but is seldom delegated a substantive role in program decisions, which are held by the top executive who infrequently finds time to concentrate on them.

Internal reporting, which might provide a basis for better technical management, is irregular, incomplete, and informal. Senior staff meetings are held to review a subloan proposal, but are not routine or used for developing or coordinating the overall program. Financial reports may give information on the status of budget expenditures and of subloan approvals and disbursements, but our financial analyst found them badly organized, difficult to understand, overly detailed and voluminous, and in short, not very useful as management tools.

As long as the municipal development institutions' programs consist of divisional activities operated as passive response to municipal needs, this kind of management approach may not be a major problem. The executives assure themselves that activities are being carried out by the operational units, that the institution is within budget (or can make the budgetary changes needed to keep things going), that external demands at the national level are being satisfied, and that international obligations are being met. They are operating in the personal style which is expected of public figures in Latin America.

However, should the municipal development effort become a more active, multi-faceted one than it now is, and begin to move in some of the directions posed in other parts of our analysis, the top management role and capability in the MDIs will require some form of restructuring, and the individuals in those jobs will require training in the management of development. If the external and ceremonial demands on the top persons can't be avoided or reduced, it may be necessary to create a new position of deputy executive for program management or something similar. Assistance programs have generally focussed on training technicians, but it should not be assumed that the executives are not equally in need of new or improved skills.

In addition, the MDIs should be assisted in installing more effective reporting and monitoring systems than currently exist. Of course, such systems will not be of much use if the programs are poorly designed, and if the top managers don't have the time and orientation to take action on the information, or are not inclined to hold their unit chiefs responsible for performance.

2.2.4 How do MDIs Operate?

In Section 1 many aspects of MDI operations were discussed as seen from the local level. We found that the activities were rather narrowly focussed on the subproject and assuring its repayment, that there were problems of duplication and uncoordination between representatives of different MDI departments in the dealings with the local governments. We found that there are a number of areas of need which are not being met, such as diagnosis of needs, project and financial planning, personnel administration, and community-municipal relations. We found that training, technical assistance, and help in developing a subproject were often carried out as isolated cases by MDI personnel.

We have identified some of the reasons for these outcomes in the preceding parts of this institutional assessment. In addition, there are operational observations which help to explain the shortfalls of the MDIs.

Except for FUNDACOMUN, the municipal development staffs operate from a base in the capital city which has negative impact on their effectiveness. The technicians in each department are assigned to sub-projects or technical assistance duties by their chiefs, and not always in the same region of the country. Or else they are given a blanket assignment in an area (to train all councilmen in understanding taxation problems, for example) which includes ten or twelve municipalities. The towns are of differing sizes, differing economies, and there are simply a lot of them. The result is that the technician concentrates his work in the largest and most accessible town, or else disperses his effort so widely that he can accomplish little by the time he reaches each place and then allows time to get back to the capital for the weekend.

Coordination of field operations is insufficient, as discussed in Section 1, and this is but a reflection of the lack of coordinated program management in the MDI head office, and the minimal level of accountability on the part of department heads.

In our view it is necessary to think in terms of categories of technical assistance, and their relationship to regionalizing certain functions. During nearly two years (1970-71), Checchi and Company carried out a project to provide "Technical Assistance in Economic Development to the Model Cities Program" in the United States. In the final report on that project, after working in more than 20 cities and counties, we drew upon our experience to define subdivisions of technical assistance. We identified one group of activities we called "process" assistance, and another kind of work we refer to as "project assistance." This distinction is not intended to imply exclusivity--the two kinds of work are closely related and overlapping. It does, however, serve to clarify the component parts of assistance in local development.

EXHIBIT 2-4

TERMINOLOGY: Categories of Technical Assistance - Process and Project

Process assistance deals with municipal program or strategy development, program or task planning, project identification, institutional management and evaluation, data collection and analysis, and the mobilization of technical and financial resources. In our view this assistance should be situated in the local or regional milieu, at close range to the client, in order to permit continuity and frequent contact. It is most effectively delivered through a decentralized network, using regional offices and generalists trained in process functions.

Project Assistance provides help with specialized, technical, or relatively mechanical matters, such as engineering, architecture, land surveying, road design, installation of new accounting systems, or such other needs as may arise occasionally in relation to a specific project or problem. If there is sufficient demand in a region this kind of assistance may be decentralized, but it may just as well be provided from the capital city, since it doesn't require the degree of constant attention and sensitivity as does process assistance.

Our field trips in the four countries showed that assistance was needed in the process area as much as, and perhaps more than, in projects. Our bias is that strengthened institutional capacity will come as much from process as from project assistance, especially where the technical assistance activity is uncoordinated.

Costa Rica, Guatemala and the Dominican Republic are small countries, and nearly all points can be reached in less than a day's drive from the capital. However, the regional differences even within such small countries are significant, with differing economies, social structures and physical obstacles. Technicians travelling occasionally for brief visits from the capital cannot effectively deal with process issues, in our observation.

While we recommend that serious consideration be given to the concept of identifying and decentralizing process assistance, we caution against doing it in absence of improvements in MDI planning and management. There must be a commonly agreed-upon approach, priorities, and effective monitoring of regional units in order for them to be effective. The regional system set up by FUNDACOMUN became a group of independent mini-agencies, operating under different guidelines and assumptions in each region, with little accountability or direction from the capital. A balance must be struck between maintaining common program goals, and adapting activities to the conditions in each region. The regional units can potentially make a contribution to better institutional plans and programs if their role is well-defined and their relationship and operating guidelines with the head office are established and monitored effectively.

The administrative support system is important to effective operations, and is often in the position of determining, rather than responding to, program activities. In all of the MDIs we visited, we listened to technicians' complaints about the restraints placed on their work by the administrative and financial controls of their institutions. In IFAM we had an opportunity to observe this over a span of a year and a half, and in INFOM we interviewed an advisory team working on improving the

administrative system. We were thus able to judge that the complaints represented more than the usual griping about bureaucratic rules and regulations. And while we appreciate that many seemingly illogical rules in developing countries are designed to prevent corruption and abuse, we concluded that many of the complaints were legitimate. Vehicles are often difficult to obtain, or not available when needed; per diem cannot be collected unless the top executive signs the chit, and he may be out of touch for several days; authorization to travel to put on a training seminar outside the capital may not be given if the request form wasn't filled out correctly. These factors frustrate the activists among the technicians, and provide a perfect excuse for the ones who prefer to stay at their desks in the capital. The effect is that the administrative system, which in theory is a service unit to support field operations, ends up contributing to non-performance, bad timing, and in extreme cases, results in the departure of dedicated professionals.

The administrative support systems of the MDIs need to be reviewed from time to time to see that they are working in support of the program, rather than achieving de facto control over it.

In essence, the operational problems of the MDIs are not different from, but a reflection of, the broader problems of programming and management already discussed.

2.2.5 How do They Run Their Loan Programs?

Speaking mainly of IFAM and INFOM, which had active subloan operations when we visited them, the answer is, briefly, that they run them well. As noted in Section 1, there is a strong emphasis on making sound loans, building sound structures, and creating the conditions for responsible debt service on the part of the municipalities. The subloan documents contain the basic information and analysis necessary to assess the project and approve it, and state the financial conditions which the municipality must meet before work can start, during the project, and during repayment.

There are some elements of the lending process which we believe deserve attention and/or improvement. We believe that a subloan should be the occasion for working out a joint MDI-municipal work plan to deal with a range of problems, many of which may go well beyond the subproject and its amortization. In this concept the lending function is the leading edge of a broader program of local reform. If the subloans were seen as leverage for general reforms, the documents should specify these as conditions of the loan to the extent possible, and represent an obligation not only for the municipality, but for the MDI to provide the necessary process as well as project technical assistance to achieve the changes in local planning and administration.

Although construction contracting is often handled under the close supervision of, or even directly by, the MDI, we would suggest that it gradually be turned over to municipal administration, with the MDI retaining auditing rights. The paternalistic relationship between central and local administrations must be eventually broken down, and this would be a step in that direction, with the audits acting as a hindrance to corrupt contracting and administration.

The subloan approval process allows for little or no discretion at the levels of executive and board of directors. This was particularly true in INFOM, in which the subloan package has reached the stage of contract award and construction planning by the time it is presented for top-level approval. The staff has invested time and other costs in field visits, project analysis, designs and other documentation and the municipality has formally committed itself and its resources. The approval by the board is therefore virtually automatic, because rejection of the proposal at this stage of the proceedings would be highly wasteful and have a number of other negative repercussions. With this little discretion remaining to the policy levels, there is little possibility that subloans will be reviewed in terms of stated priorities, policies, or targets. We suggest that there be a preliminary review of projects under preparation before they reach such a stage of the facto commitment, in order to allow for more management control and monitoring relationships between goals, policy and individual subprojects.

2.2.6 What Kind of Personnel Work for the MDIs?

In our observation, the municipal development institutions have succeeded in attracting highly-motivated, well-trained individuals, most of them young and energetic, in the fields of engineering, project economics, and public administration. IFAM drew much of its initial staff from the municipal finance office of the national Controller General's office, since it was one of the few agencies which had frequent contact with local government. On the whole, IFAM's technical assistance/training division has had more staff than the lending division. In INFOM, the emphasis has been on engineering, with only a handful of staff members trained in public administration and finance. FUNDACOMUN has been well-staffed for its banking, training and technical assistance functions since the mid-1960s, including a number of staff members with foreign training.

In short, the quality of the staff we encountered was excellent; we were concerned, however, by the lack of representation of such professions or disciplines as sociology, community development and planning, rural economics, and training. None of the MDIs had brought community developers into municipal assistance, including FUNDACOMUN, which has, until now, kept its municipal development and community development units quite separate. We find the staffing in municipal development rather narrow, consisting of public administration people, civil engineers, and economists for the most part.

2.2.7 How Good is MDI Financial Planning and Management?

To some extent we have answered this question under the planning and budgeting question, at least in terms of annual periods. Over the long range the problems are similar. *Lacking clear program goals, and thorough assessment of municipal needs, both capital and operational, the MDIs reveal a general lack of financial planning for longer periods. This causes some very real problems.*

IFAM, during 1974, was making loan commitments beyond its capital resources. FUNDACOMUN committed its capital, (largely AID loan funds in

the mid-1960s). It has experienced declining central government support and had problems in collecting loan repayments from the local development foundations which borrow on behalf of the municipalities, with the result that the credit program has practically dwindled away. INFOM has committed most of its capital on terms which will produce slow rotation and place severe limits on future activities unless new funds can be found. These problems seem to creep up on the MDIs and when they are realized, the tendency (seen in IFAM and FUNDACOMUN) is to try to meet obligations by borrowing in international capital markets at high interest rates and for short periods. This is costly, requiring either passing on high rates to the municipalities, or seeking subsidies or even assumption of the debt on the part of the central government.

The problems of unplanned decapitalization could be alleviated by better forward planning of capital needs; better definition of program content; thinking far enough ahead to be able to prepare projects and loan applications for international development lenders; and altering the terms on which subloans are made in order to produce a more even rhythm of rollover. This would involve having a wider range of terms for different kinds of projects ("hard" - income producing, "soft" - social infrastructure) and for different municipalities with differing financial capacities.

The MDIs should also look into ways of leveraging their capital through consortium financing, guarantees, and interest subsidies. Financially strong municipalities should be able, with the MDI's advice and intervention, to borrow for some highly income-producing projects from the national banking system. The MDI could help develop and present the project, use one of the mechanisms mentioned above as an incentive for the commercial or public bank, and thus multiply the impact of its capital and portfolio. As banking institutions, the MDIs have barely begun to utilize the various financing combinations which are potentially available.

2.2.8 What are MDI Attitudes Toward the Municipalities?

On the whole we found that municipal development technicians respect the local officials with whom they work, although there were

exceptions. MDI people exhibit less of the paternalistic, technocratic and centralistic attitudes that are found among many national officials and professionals in technical agencies. We did find at times among MDI officials a kind of maddening circular reasoning which says that we can't do anything significant with the municipalities or expect them to do much until they have more resources and are better managed. This is somewhat baffling when one assumes that that is what the effort is all about, to give local governments the tools to assume more responsibility and authority. In the paternalistic view, local government is seen as a playground for ambitious politicians who can't make decisions and handle money.

Bureaucratic and political inertia obstructs innovations and fast action in some cases, and in others pushes action forward when more analysis, reflection and information is needed first. Bureaucratic, political and geographic territorialism interferes with useful and rational collaboration among agencies, municipalities and levels of government, is an obstacle to rational distribution of authority, and blocks mutual definition of roles in the development process. Anxiety is a problem, arising from being threatened by the idea of committing one's self, agency or department to clear quantified objectives and procedures, and anxiety based on evaluating results and making indicated changes in programs, personnel, and organizations.

These factors are present in most development or governmental institutions and are not insurmountable. *MDI officials we observed are generally very positive in their attitudes*, sincere in seeking ways to improve their institutions and programs, and willing to respond to needs at the local level. With these attitudes as a starting point, much can be done to improve the programs.

2.3 Actions and Plans of the MDIs to Improve Performance

In the first pages of this Section we mentioned that we found all of the MDIs in the process of self-evaluation and change. In two cases, (INFOM and FUNDACOMUN) national political changes had brought new management in at the top, with the effect of injecting a fresh look at

programs and operations. IFAM was making program changes in response to outside influence, and the Liga was exploring new program possibilities.

IFAM is the case we know best through our continuing contact with the institution from February 1974 to February 1975. During that period IFAM made organizational changes to reduce the number of units reporting to the executive, and recognized the importance of the lending and technical assistance departments by raising them to division status. A planning unit was created, and a program of community and municipal studies was created. Plans were developed for establishing regional offices. A "rural window" lending program was established as the basis for a second AID loan. Technical assistance is planned to improve financial planning, management and reporting. A working agreement with the community development agency was being developed to coordinate municipal and community development. A three-way agreement was being negotiated with the OAS, IFAM and INVU, the housing and urban development agency, to establish a technical assistance program working toward a national urban system.

INFOM, under its new manager, had a consulting team working on improving internal management, and an in-house, newly-established planning team reviewing the last five years' programs, and making recommendations for broadening the institutional development elements of the program and making organizational changes. Surveys of municipal services and facilities were carried out, and a municipal taxation study was planned.

FUNDACOMUN was undergoing a basic reorientation as a result of a major policy commitment by the national President and by its own President to take rapid action on the slum problems, strengthen intermediate city development, and integrate community development with municipal government. Positive action is hoped for in the Venezuelan Congress on the long-pending national municipal code bill. Program and policy development and management are to be strengthened through better control over regional offices, and through the creation of a planning office. The organizational structure, which had become very dispersed, was being tightened under two major bureaus (direcciones), one for community action, the other for municipal

development (including both lending and technical assistance in one bureau).

The Liga Municipal in the Dominican Republic was assessing its activities, exploring the reassignment of field staff, and looking into the possibilities of establishing a municipal bank.

In all of the countries we found that rural development had been given high priority and that there was new thought being given to ways to involve local government in the process. Urban development policies are being reviewed, and urban problems are being studied outside the capital metropolis.

This activity is still preliminary, and much of it may turn out to be more rhetorical than real, but it does give some indications that changes are occurring in the field of local government which will be important in the future. The remainder of this report is concerned with considerations for that future, and ways to carry the evolution forward and perhaps accelerate its pace.

SECTION 3

Considerations and Propositions

For the Future

3.1 Changing Concepts of the Role of the Municipality in Development

As the Latin American countries draw up more complex, multisectoral development plans, there is taking place an examination of the role, potential, and current involvement of local governments in the development process. This phase of examination was encountered in one form or another in Costa Rica, Guatemala, the Dominican Republic and Venezuela, and probably contributes to the uncertainties and lack of definition which we found in their municipal development strategies. As in most situations involving changing perceptions, older concepts survive and appear to dominate even as the new ones are being understood and adopted.

We characterize the prevailing traditional view as a vertical concept of municipal government's role, and the emerging developmental notion as the horizontal concept. The two concepts are depicted in Exhibit 3-1 on the following page.

The vertical view is the traditional one being applied in a number of countries in which the municipality collects nominal local taxes, possibly receives a national subsidy in proportion to its population, and then provides town dwellers with a limited range of facilities, social services and administrative services. Other government functions--agricultural and industrial development, incentives for tourism investment, health and education, and the larger-scale or more technical infrastructure to support them, are reserved as fields of action for national or specialized agencies. Local government is assigned a narrow range of activity within a municipal, essentially urban, "sector" as it was designated in Guatemala's 1971-74 development plan, for example. The municipal development institution's role and program derives from this concept, focussing them equally narrowly on mainly urban social infrastructure and improvements in the local administrative machinery.

In the horizontal view the municipality takes on the characteristics of national government in microcosm, extending its role directly and indirectly into a broad range of governmental functions and development needs. This extension of the municipal role does not necessarily mean that it assumes from national agencies full responsibility for health, education, economic development, and so forth, but that it becomes catalytic, and that it engages in a broader range of projects than previously at the local level or on a local or subregional scale. It implies more activity in the rural part of the municipality's jurisdiction, at least in providing infrastructure to support agricultural development programs. It implies developing a local planning capability, and perhaps a role in data-gathering for local, regional and national purposes. It may involve assigning a more active role to municipalities in gathering certain national revenues on a sharing basis, with the hope that collections would increase as the municipalities had a direct interest in raising their revenues (this approach is being used in Costa Rica).

The horizontal concept is still evolving, responding to a more advanced level of understanding of the dynamics (and limitations) of the development process. It emerges also from the increasing demands being placed on local governments, and from the realization that central governments and their technical agencies often fail to meet development needs sufficiently and equitably. Central agencies simply cannot respond to the requirements of dozens--or hundreds--of local problems, each within a different physical, economic and social setting. Plans drawn up in capital cities by technicians who briefly visited a local community have often not been implemented or maintained after delivery back to the locality. Municipalities and rural popular organizations have increasingly demanded that more resources be allocated to them, and that they be given control over how those resources are used. At minimum, the local voices call for participation in decisions involving major projects or programs in their areas. Thus, the horizontal view arises from pragmatic considerations, lessons of experience, and emerging political pressures. These are the same forces which influenced the creation of the municipal development institutions.

As theories of development, and of how to make it more effective, are refined in recent studies and documents, they increasingly support the thesis that development should be decentralized, made more democratic, given a spatial dimension (regionalized), distributed more equitably, and therefore planned and coordinated as close to the end beneficiary as possible. The reasoning of the analysts (who represent a range of disciplines) is at times ideological, but generally practical. They identify the waste and failings of centralized development efforts and their tendency to concentrate investment and benefits in capital cities or in one or two other major cities. The growing concern over the rapid growth of urban poverty and misery in those cities, due, in great measure, to the lack of incentives and opportunities in secondary towns and rural areas, has reached a state of alarm. As rural development programs are designed with the intent of slowing rural to urban migration, the role of local government in supporting those programs comes under scrutiny. Strategies to disperse industry, to process natural resources in-country near their source rather than exporting them, and to provide non-farm employment in rural areas, all have importance in the horizontal view of local government's role.^{1/}

Finally, the dynamics of change at the local level are influencing the changing view. The smaller towns are finding that they are also becoming the gathering places for the rural poor as intensive agriculture gives way to livestock ranching, as farm laborers are displaced by mechanization, as rural land is bought for vacation homes or other real estate speculation. The more perceptive local leaders see that not only must they attempt to provide services to squatter settlements, but they must begin to take an active interest in the root problems out in the rural areas of their municipalities. The old distinction between rural and urban development becomes smudged, and local leaders must find new tools and methods

^{1/} In the Annotated Bibliography, see Items 1, 3, 4, 5, 8, 9, 13, reflecting the views of specialists in urban, regional, and rural development and in development administration.

for responding to a more complicated interaction of social and economic forces. In short, these forces may mount to the stage that there isn't much choice in changing from the vertical to the horizontal concept.

The most common manifestation of the changing view is the establishment of development regions in several countries, along with the creation of corresponding institutions and decentralization of national agencies' operations. The larger countries (Brazil, Venezuela, Colombia and Chile) have taken the regionalization route, in part because of size and distance considerations, but the other influences reviewed above have played a role. The smaller countries (Costa Rica, the Dominican Republic, Guatemala, Honduras, Nicaragua, and Panama) are considering, or putting into practice, various regional schemes.

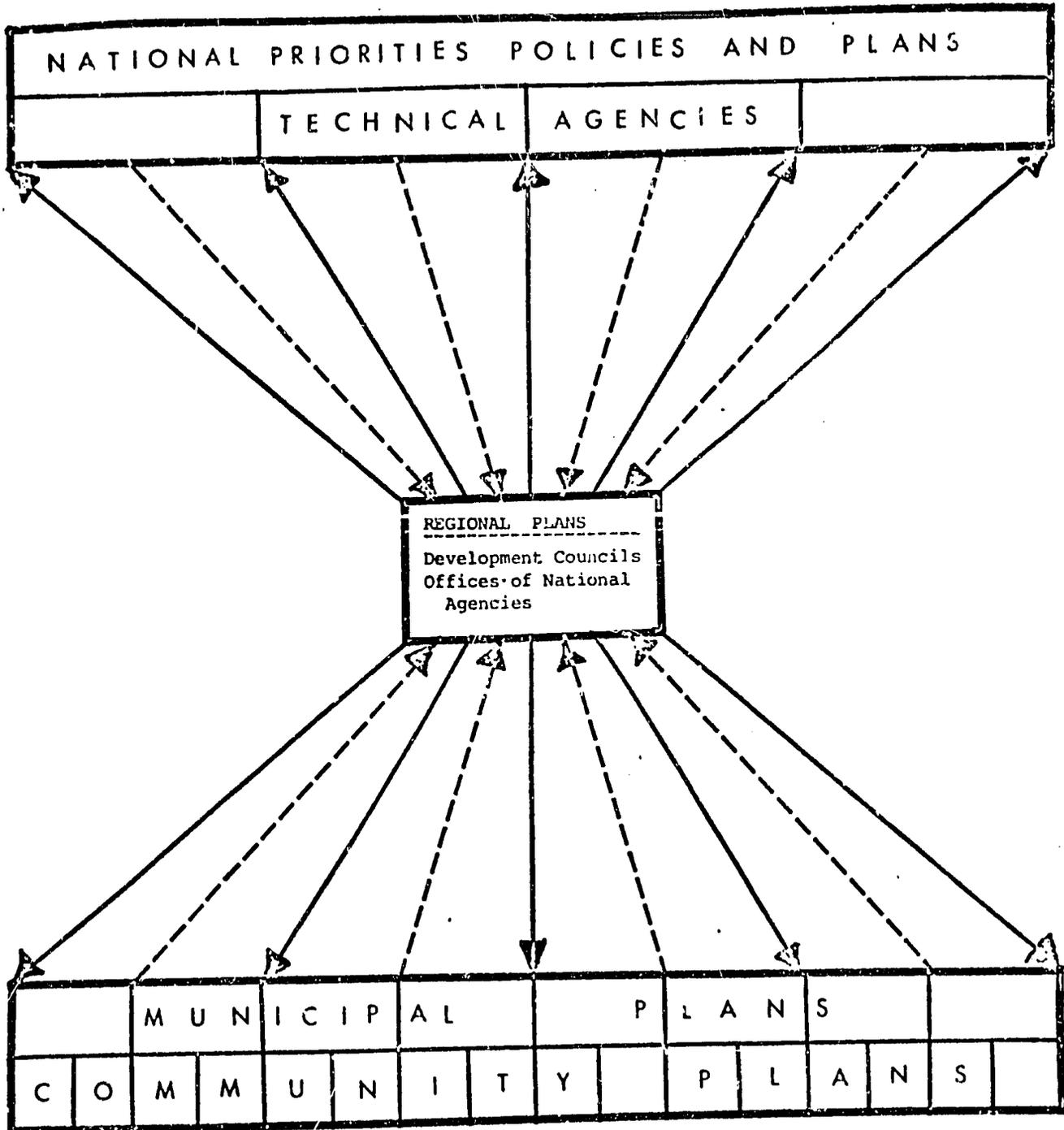
The relationship between regionalization and local government's role in development is not entirely clear, but some implications are worth noting. Municipal officials will be participating in regional development councils and in consideration of major projects. Local governments will participate in the identification and implementation of those projects to some degree. Central government will be closer and thus more accessible to the municipalities. At a minimum, the changed governmental structure of development will lead to a confrontation with the definition problems and the matters of role assignments, and will probably have the affect of extending local government into new areas previously neglected in the vertical, urban concept.

One approach to sorting out the national/regional/local puzzle is to view the regional level as an integrative one between development needs and activities generated at the local level, and the national government's efforts to achieve certain macroeconomic, sectoral and social goals through its overall development program.^{1/} This, of course, raises a series of questions about delegation of authority over funds, whether the regional units of government will be simply planners or also executors of programs and projects, and a host of others, as discussed in some of the experts' papers cited earlier. And again, it raises questions and corresponding

^{1/} Exhibit 3-2, following page, illustrates this integrative role of regional bodies.

Exhibit 3-2

REGIONAL INTEGRATION OF DEVELOPMENT



demands on the MDIs' program and policy development capacity, about what municipal capacity should really be under differing conditions (economic, demographic, and so forth).

These are the kinds of problems with which the proposed technical assistance program of the Organization of American States will be grappling as they send teams to the various countries to help design "national urban systems," seeking to adapt some structure to each country's governmental, political, and historical conditions.^{1/}

3.2 Strategies and Lending Policies for the MDIs

3.2.1 The Need for Data and Diagnosis

The information gaps in developing countries are well known, and it is only in recent years that systematic efforts have been made to attack the chronic problem of missing, outdated, inaccurate, incomplete data which is all too often aggregated in inappropriate ways. *As we noted in Section 2, one of the prime requisites for effective strategic and planning decisions is good information, and the MDIs revealed a major shortage of good information.* In part, it is a problem of unavailability of good data; in part, it is a lack of recognition of its importance (some of what they need is available in other agencies--most just haven't used it); and in part, the data problem has been based on the fact that the MDIs did not have the organizational units and appropriate personnel to gather and analyze data.

There is always the danger of going off to extremes in data collection. Careful definition is needed to assure that the data which is gathered is useful and not merely interesting. This means that the operational technicians should have a role in defining which data are needed. As electronic data processing comes into use in the countries it is often assumed that any data problem requires a computer, and if there isn't one, that the data problem can't be adequately handled. This should not be an

^{1/} Annotated Bibliography, Item 5.

obstacle to developing information systems which are suited to the local state of affairs, and which might be converted to more sophisticated processing later on.

The data should lend itself to local, general, and relative diagnosis of municipal conditions and capacity. It should, therefore, be comparable from municipality to municipality as much as possible. Secondary data should not be shunned where it is reasonably reliable. Once the data has been collected, it should be kept up to date, preferably through inputs from the municipalities. They should have access to the data for their own purposes. The data should be capable of being assembled by municipality and by subject for different policy and program decision purposes. The data bank's contents and arrangement should be reviewed from time to time to assure its usefulness and that it accurately reflects changing conditions.

A good data bank will not solve all of the strategy problems of the municipal development institutions, but without one it is hard to see how they can be solved.

Developing a complete, useful and current data bank will meet only part of the MDI's information needs. Other forms of study and research are a continuing need in a field as evolutionary, broad-ranging, and complex as municipal development. The basic questions revolve around clearly defining the need for analysis and information, establishing what scale of effort is required, and determining the most appropriate way to carry it out (as a staff study, or using domestic or foreign experts), and then having an effective mechanism for utilizing it in policy and operational terms.

Again, some classification may be useful in bringing order to a rather confusing subject. We have suggested three categories of studies in the following box, including some general guidelines and cautions regarding their appropriateness under different situations.

We noted in Section 2 that INFOM has drawn very little on outside experts, either national or international, and that IFAM tended to draw

heavily on both, but did not utilize their products effectively. The two situations are symptomatic of a common problem of when and how to use outside expertise. *The most fundamental need is to clearly define, before the study starts, what final product is expected and how it is to be used. Findings and recommendations should be discussed with those who made the study or provided assistance, additional details requested if necessary, and then a decision made whether to accept, reject, or modify what has been suggested, and necessary adjustments made in order to put the new approaches or information to use.*^{1/}

3.2.2 The Economic Element in Municipal Development

The best tax system in the world will yield little from a stagnant or declining economy, and this applies at the local level, no less than at the national. In our view, insufficient attention has been paid to this basic reality in the municipal development programs, and this represents a major flaw, and one which should be rectified if the municipalities are to move to a more comprehensive developmental role. The current programs have not yet moved to the next stage of linking public investment to incentives for industrial (including agro-industrial), tourism, marketing, and other enterprises which would provide new income to the population, and by derivation, new revenues to the municipalities.

The investor, whether he is private or public, looks for economic factors to be provided by local governments, such as water, sewer and power of industrial scale, refuse collection capable of handling massive amounts of waste, access to major transportation networks and markets

^{1/} For a graphic version of the study-policy-operational cycle, see Example 10, Annex B, first presented in our evaluation of IFAM.

EXHIBIT 3-3

CATEGORIES OF STUDIES: Research, Diagnosis, Special Studies

Research (investigación) has its place primarily in the study of long-range problems or policy issues. In Spanish the term is often used loosely, to apply to any kind of study, and in Latin America the results are frequently voluminous, time-consuming, consulting all possible sources and striving for scholarly precision. Great care must be taken to charter and monitor research so that it has applicability and usefulness for decisions.

Diagnosis (diagnóstico) should be a relatively short-term effort designed to develop the best possible profile of reality using available data or that which can be readily gathered in the field through surveys. Once begun, diagnosis becomes an intermittent, continuing responsibility and effort, a frequent reference for evaluating programs, shifting resources, and determining policy.

Special Studies (estudios especiales) are specific inquiries into a technical problem, often identified by operational staff, and once done are not repeated. They should be well-defined as to their use (and users), rapidly concluded, preferably by experts in the field, and translated into policy or procedure, perhaps in the form of a manual.

Examples in the municipal development context:

Research: Analysis of the electoral process and its impact on municipal administration, or an inquiry into the long-range implications of decentralizing administration of property taxes.

Diagnosis: Comparative assessment of municipal capacity and development needs (see Section 5): a survey of municipal-community relations.

Special Studies: Development of a methodology for evaluating municipal market projects; analysis of the legal implications of establishing local development foundations; or a study of the costs of collecting a new tax on tourism at the local level.

and land located and prepared to suit his needs. In addition, of course, the investor needs labor and raw materials which may be found locally or imported if other factors compensate.

Until economic factors are effected by local action (in collaboration with national plans and operations), the municipalities will continue to exhibit their universal problems of weak finances, unskilled and undermotivated administration, and physical unattractiveness. Installing minor public works, new tax and accounting systems, and administrative reorganization will be but marginal improvements and of little lasting value or fundamental development impact without a reorientation or expansion of the scope of the effort toward economic concerns.

The type and scale of public works being carried out by the municipalities with MDI assistance do not, in their present form, have much impact on the economic factors. On close examination of the subprojects, as reflected in Exhibit 1-1, we found that very few of the projects had a direct or significant positive economic impact on either the communities or the municipal corporations, although the subprojects were often billed as being economic in their effects.

It may be useful to classify the subprojects under two categories as we see them. One category we call social infrastructure and the other economic infrastructure. As defined in the box on the following page, few of the commonly financed municipal/MDI subprojects, with the exception of feeder roads, fell under the economic infrastructure heading. In our experience (and past involvement in industrial location questions), parks, paved and lighted streets or a new municipal office building may make a marginal difference to an industrial investor, but they will not be determinant. We feel that the balance should be shifted in the future to more of the economic category of infrastructure, without, of course, neglecting the other factors and needs.

As Exhibit 1-1 on project benefits shows, we found that the municipal corporations did not always fare well economically under the MDI lending programs. Municipalities in all of the countries we have visited and

EXHIBIT 3-4

CATEGORIES OF MUNICIPAL SUBPROJECTS: Social Infrastructure/
Economic Infrastructure

A rough way of stating this classification is to say that social infrastructure makes people more comfortable in their poverty, while economic infrastructure serves directly to alter the condition of poverty itself by encouraging new investment, new employment and increased income. Both are important, and social infrastructure is often necessary to create some preconditions for improvements in productivity. However, there appear to be limits to the extent that municipal governments can develop, finance, and manage services and social infrastructure unless economic growth is also occurring, and it may be necessary to promote municipal development activity which is more directly aimed at the economic factors as the next stage in municipal development. We have classified municipal subprojects under the two headings, as follows:

Social Infrastructure

Municipal building
Street paving
Refuse collection (residential)
Residential water, sewer,
electrical installations
Housing
Clinics, health posts, primary
and secondary schools
Street lighting
Parks, playing fields
Street cleaning

Economic Infrastructure

Transportation terminals (see
below)
Highways (feeder, secondary)
Industrial waste disposal
Electric, water, sewer installa-
tions of industrial capacity
Land acquisition and preparation
for industrial, commercial or
tourism uses
Vocational training facilities
Crop storage facilities
Input storage facilities
Irrigation systems

Marketing and Slaughtering Facilities
(see below)

Municipal markets, slaughterhouses and transportation terminals (bus stations, ferry terminals) may fall under either heading, depending on their scale and use patterns. Most of the markets and slaughterhouses we observed were social rather than economic, offering better housing for the same activity. Where such facilities are of sufficient scale to encourage new production, diversification and commercialization of production, we would regard them as economic. Where passenger terminals include new commercial space and activity for new entrepreneurs, they lean toward the economic. Where they merely replace wood with cement, and the same businesses take the space, they may represent nothing more than beautification, and thus be primarily social in impact.

studied have frequently found themselves in worse financial condition because of such projects, having to add staff to manage them, having increased their indebtedness to the point of being ineligible for further financial support, finding that managing the new facility is more complex and costly than anticipated, and that the community is not willing to pay the user fees, that the concessionaire in the bathhouse loses money and fails to renew his contract. The facilities have not added to the tax base in any measurable way by creating new economic activity. Often such projects as municipal markets and slaughterhouses represent nothing more than physically refurbishing the same economic activity (if the maintenance machinery works).

Employment generation is often cited as being a community economic benefit related to municipal projects. After visiting the sites, this generalization is difficult to sustain. In our observations the projects are built using labor-intensive methods requiring large numbers of persons carrying materials moving earth and mixing cement, and a few skilled laborers laying block, installing plumbing or building roof supports. The skilled laborers often move from town to town or work for a contractor full time, while the unskilled are local farmers or farm laborers. When the project, or a complex of facilities, is built by a contractor, as in Guatemala, the firm is often based in another, larger city. The result, in terms of local employment generated by the construction projects, is that the work is temporary, supplemental to other income, rather than representing a new career for the local workers. There may be some marginal multiplier effect in the form of increased consumption, benefiting local shopkeepers, and the laborers may be exposed to some construction skills which are always marketable in a developing country. But none of this adds up to significant economic income-generating impact.

We recommend, therefore, that municipal development strategies take explicit account of the economic element, and that where it is appropriate in terms of such development priorities as increasing rural employment or dispersing industry, opportunities be seized by the MDIs and the local governments to expand their involvement in creating well-planned and designed economic infrastructure.

3.2.3 Strategy Choices

When the diagnostic and policy review needs of the MDIs are addressed in the future (as they must be under the changing conditions and concepts) they will be facing a number of strategic choices. The MDIs will have to decide where to allocate their capital and manpower for the best effect--what size and category of municipality, what mix or combination of assistance, and all of this hopefully toward some better-defined goal of municipal improvement. Some of these issues are discussed here for the consideration of planners and practitioners.

If the conditions and policies in the country are propitious for mounting a municipal economic development effort, especially in the intermediate or smaller towns, the following choices might be examined:

- a. *Non-farm employment creation:* Aiming for light, principally labor-intensive industry, tourism, mining and related industries, timber-related industry (paper, furniture, plywood).
- b. *Rural infrastructure:* Placing primary importance on developing, through municipal action, feeder roads, village sanitation, potable water and irrigation systems, veterinary or agricultural extension facilities, rural training centers and health posts.
- c. *Rural Market Centers:* Emphasizing improving the attributes of the town center in its role as an "engine" of rural development, a mixture of directly and indirectly supportive services which encourage diversification of agriculture and agro-industry, such as land designation, preparation, and industrial-scale water, power, sewage and waste disposal suited to milling, canning and freezing; installation of transportation and storage facilities for cash crops or livestock, and other related projects.

The national development plan may call for one of the above, or the strategy may represent a judgement to vary the approach in each region or even each locality. In many municipalities the strategy may require a mix of the above, and identification of the proper emphasis should be a

combined effort of local officials and national, regional, or provincial technicians.

Another basic decision to be faced is which municipalities should be assisted under an active program which operates on objective criteria and policy. In practice, the following choices present themselves:

- Assist all with something;
- Concentrate on the smallest and most needy;
- Work with the most capable or financially sound;
- Sit back and wait to see who comes to the door, the passive approach;
- Work with the ones controlled by the right political party; or
- Channel resources to meet or fill the gaps in the development plans of other agencies.

Most MDIs do not have sufficient resources to assist all municipalities during a two- or three-year period. Assisting the smallest and most needy first may satisfy a political or ideological goal, but may not be productive in the aggregate, or even in the smaller municipalities, if the resources are thinly spread. Assisting the most capable, the ones which have plans, are financially sound, have shown they can manage "good" projects well, may have a good payoff and results, but may also widen existing disparities, and result in good banking but limited institutional, horizontal, development where it's needed. The passive approach, which is the most frequent one, results in a project here, some TA there, and very little in the way of measurable results. It also causes problems for the MDI, as it must constantly shift budgetary allocations, staff assignments, and experiences other problems of rational management. Consideration of the development plans of other agencies is *essential*, since it may illuminate gaps in resource allocation as well as duplication. The political approach has been limited in our experience, although one MDI recently fought off an attempt to use its resources to reward party loyalties and build local bases for the next election.

In reality, the decision on which municipalities should receive assistance will consider a combination of the above factors, hopefully with the help of something resembling the planning process presented for consideration in the final section of this report.

Yet another general strategic question relates to the action to be taken on basic reforms of the municipal system, its laws, institutions and processes. In some countries the needs and solutions have been apparent for some time; in others, further study may be required. This may be an area suitable for MDI action--working alone or in collaboration with a municipal association, or league--on such matters as:

- a. Reforming the municipal code(s) where they are out-dated or non-existent, focussing on such areas as
 - clarifying the role of municipal government;
 - developing modern, progressive and simplified local tax provisions;
 - providing professional status and job security for municipal employees;
 - providing safeguards against municipal corruption;
 - setting standards for elected officials, and extending their terms of office or allowing successive terms where they are two years; and
 - separating local government elections from national ones, so that local elections focus on local issues rather than on national, or party, matters.
- b. Providing financial incentives and channels for domestic capital and cash reserves to go into municipal projects, and setting up guidelines for municipal credit, bond issues, and international financing of local projects.
- c. Establishing national civil service incentives for field service, such as special allowances, basing promotions on field service, opening special careers in regional and local planning and administration.
- d. Working toward an official classification system for municipalities which go beyond population numbers alone and provide a better basis for development planning and fund allocations. (See Section 5).

In many countries, without some--or all--of the above reforms of the system itself, municipal development projects and activities will be merely symbolic, palliative, and probably wasteful.

3.2.4 Lending Policies

The gaps between stated subloan priorities and actual results of the municipal credit activities are, as we have noted in Section 2, the result of several factors and forces, including lack of well-defined programming, insufficient coordination (internal and with other agencies), and the procedures for preparing and reviewing loan packages which, to a great extent, limit the discretionary review at the executive level.

We have reviewed the stated priorities of the MDIs, including three not included in our field visits but which are receiving AID assistance, and excluding two (the Liga and FUNDACOMUN) whose lending activity was inactive and therefore did not provide us with policy statements. The rankings are shown in Exhibit 3-5, on the following page.

In IFAM and INFCM we were able to take a close look at the "effective priorities" as reflected in their performance over a four- or five-year period, and as measured in terms of relative allocations of subloan funds, and to compare them against the stated policies.

In the past, the stated priorities in credit allocation have been similar among the MDIs and have represented

- projects generally assumed to be lacking or in high demand by the municipalities (drinking water, sewage systems), and
- projects assumed to be income-producing and therefore self-financing (markets, slaughterhouses, bus terminals).

In most cases, low priority has been placed on municipal buildings and on recreational and cultural facilities. There has been no differentiation between priorities for subprojects in distinct categories of municipalities (large, small, mostly urban or mostly rural). The priorities have generally favored the social infrastructure category, and, to date, there has

EXHIBIT 3-5

SUBPROJECT FINANCING PRIORITIES OF
MUNICIPAL DEVELOPMENT INSTITUTIONS

SOCIAL INFRASTRUCTURE	IFAM (Costa Rica)				INFOM (Guatemala)		BANMA (Honduras)	IDM (Paraguay)	SENDU (Bolivia)
	1971-1974		1975		1970-1974		Stated ^{a/} (4 classes related to impact on agriculture)	Stated ^{a/}	Stated ^{a/} (No order given)
	Stated ^{a/}	Effective ^{c/}	Proposed New Priorities ^{b/}		Stated ^{b/}	Effective ^{c/}			
			Rural	Urban					
Potable Water	7	1	1	1	1	2	B		x
Sewers, Drainage	10	2 1-latrine 2-sewers		1	2	6	B	8	x
Electrification	5	8	1	1		4	B	3	x
Street Paving, Lighting, Curbs	6	4	2,3	1-curbs 2-paving, lighting	6		C	7	
Markets	2	3	3	1	3	1	A	1	x
Slaughterhouses	2			1	4	8	A	1	x
Bus Terminals			4	3			B	2	x
Schools (Primary, Secondary)	8		4	4	6	7	B (Rural)		
Health Posts					5	9	B		
Refuse, Street Cleaning			2	1			D		x
Housing			1	3					
Parks, Playing Fields			4	4					
Road Equipment		6		2	8		D		
Community or Cultural Centers	9		3	4	7		D	9	

a/ Stated in AID Capital Assistance Paper.

b/ Stated in Internal Document.

c/ Based on allocation of subloan funds. In IFAM's case, allocation of AID funds to December 1974, in 36 subloans.

EXHIBIT 3-5
SUBPROJECT FINANCING PRIORITIES OF
MUNICIPAL DEVELOPMENT INSTITUTIONS

SOCIAL INFRASTRUCTURE (continued)	IFAM (Costa Rica)				INFCM (Guatemala)		BANAM (Honduras)	IDM (Paraguay)	SENDU (Bolivia)
	1971-1974		1975		1971-1974		Stated ^{a/} (4 classes related to impact on agriculture)	Stated ^{a/}	Stated ^{u/} (No order given)
	Stated ^{a/}	Effective ^{c/}	Proposed New Priorities ^{b/}		Stated ^{b/}	Effective ^{c/}			
			Rural	Urban					
Theaters	3				8				
City Halls	3	5		3	7	3	D	5	
Cemeteries					8	5			
Other	11		4	4					
ADMINISTRATIVE, OR NON-PHYSICAL									
Cadastral surveys, tax projects, administra- tive analysis			1	1			D		
Feasibility Studies			2	2			D		
Planning Studies									
Office Equipment			2				D		
ECONOMIC INFRASTRUCTURE									
Land, land preparation		7	4	3		5	B		
Feeder Roads, Bridges	1	9	1			10	A		
Industrial Services: Water Sewer Electrification Transportation Access									
Irrigation									

EXHIBIT -5
 SUBPROJECT FINANCING PRIORITIES OF
 MUNICIPAL DEVELOPMENT INSTITUTIONS

ECONOMIC INFRASTRUCTURE (continued)	IFAM (Costa Rica)		INFOX (Guatemala)		BANAMA (Honduras)	IDH (Paraguay)	SENEU (Bolivia)
	1971-1974	1975	1970-1974		Stated ^{a/} (4 classes related to impact on agriculture)	Stated ^{a/}	Stated ^{a/} (No order given)
	Stated ^{a/}	Effective ^{c/}	Proposed New Priorities ^{b/}				
		Rural	Urban	Stated ^{b/}	Effective ^{c/}		
Agriculture Storage					A		
Agriculture Programs		1					
Shopping Centers					C		
Vocational Training							
Tourism Projects	4				D	6	

been little conscious policy orientation toward public works which generate direct economic incentives.

Effective priorities in INFOM show that municipal markets, ranked in policy as third, received the largest proportion of the Institute's funds during the 1970-74 period studied. Markets also incidentally represented the largest number of projects, 136 out of 766 funded.^{1/} Sewers and drainage, ranked second in stated policy, were sixth in terms of funds actually loaned. Electrification, not included in the original policy, was fourth in results. City halls, ranked seventh in stated policy, came out third in practice.

IFAM gave a low priority to potable water in its policy, but ended up loaning the largest proportion of its AIF funds for such subprojects. Street lighting, paving and curbs, sewers and drainage all received higher effective priority than planned. Feeder roads ranked ninth in funds allocation, though they had first priority in the original ranking.

The stated priorities of National Urban Development Service of Bolivia (SENDU) and the Institute of Municipal Development (IDM) of Paraguay are weighted toward social infrastructure of the income-generating type.

The new credit policies recently developed by IFAM and BANMA reflect some of the changes occurring in municipal development concepts. Drawing on the diagnostic surveys carried out during 1974, and reflecting more the thought given to more thorough overall municipal development strategy, the two institutions have proposed to follow more differentiated and refined credit policies. In this the institutions are contributing to the horizontal expansion of municipal activity, and either relating project eligibility to an economic rationale or assigning priorities to economic infrastructure. IFAM has developed a rough typology of rural and urban municipalities and defined differing priorities for groupings of sub-projects solicited by each type of town. BANMA has tied its policy to a

^{1/} See Annex B, Example B-2.

categorization of municipalities according to their characteristics as regional rural centers, and has ranked groups of subprojects according to their expected impact on agricultural development, as follows:

First: Projects that directly improve the efficiency of the production and distribution of agricultural products: markets, slaughterhouses, access roads to areas of high agricultural production, road maintenance and improvement, bridges, and storage facilities for agricultural products.

Second: Projects that indirectly improve the efficiency of the production and distribution of agricultural products: potable water systems, sewage, electrical energy, preparation of industrial sites, transport terminals, health centers, rural schools.

Third: Projects having marginal effects on agricultural productivity: street paving, storm drainage, shopping centers.

Other Projects: Garbage collection, tax administration, cemeteries, city halls, recreational facilities, tourism projects, technical and professional services.^{1/}

Some of the linkages stated or implied in the above groupings of projects may be debatable, and in different countries different groupings may be more appropriate, or a more suitable governing rationale will be developed. But the new credit policies of BANMA and IFAM are significant because they reflect the beginnings of improved strategy, more thorough analysis of municipal needs, an implied expansion of the municipal role in development, and an allocation of resources to the problem of developing local, especially rural, economies.

Readers of an earlier draft of this report commented that it is risky to compare new policies to ongoing programs, or to assume that there will be fewer gaps between stated and effective priorities in IFAM and BANMA than in other and earlier credit operations, just because they based their policies on broader criteria and more thorough analysis. It is certainly true that without accompanying changes in management, monitoring,

^{1/} Capital Assistance Paper for BANMA, May 16, 1974, pp 45-46.

and other factors, improvements in policy will not necessarily translate into better programs. Our focus in this part of the report is on improving policy, on suggesting and illustrating some models for consideration in the future, and we recognize the importance of operational reforms in affecting program impact. Some operational issues are covered below.

3.3 Packages of Assistance

3.3.1 Integration and Planning of Assistance Packages

If we look back for a moment at the basic for having municipal development institutions in the first place (page 39) one of the rationales is that they are multi-faceted institutions potentially capable of providing a coordinated mixture of services and assistance in the solution of municipal problems. Clearly, if the separate agencies or institutions which work in various fields with municipal governments, like public works ministries, electric utilities, public administration housing/urban development agencies, and so forth, could accomplish the necessary integration of assistance, there would be little need for the MDI.

We have found, however, that the MDIs are falling short of this basic objective in some degree. They have not succeeded notably in packaging in an effective and efficient way the financial and technical assistance which they provide. This aspect will require careful attention in the future, especially if more active and complex programs are designed to be realized by the MDIs.

In effect, it is necessary to break down the assistance into its component parts and then put it back together again. We have presented the subcategorization of process and project assistance, identifying the first as a group of activities best delivered continuously and at close range, and the second as being intermittent and less sensitive to the proximity factor.

The effectiveness of technical assistance (like almost everything else) depends to a great extent on the quality and comprehensiveness of diagnosis of what is needed, and on the planning and sequence of events.

In the past, the diagnosis has been carried out by individuals representing different criteria and assumptions. The scheduling and sequence of advisory visits and various professional inputs has been haphazard and uncoordinated.

One approach to this is to develop a general diagnostic scheme using a combination of trained local persons and process specialists from the MDI.

A way of improving the scheduling and packaging problems is to develop a joint work plan involving the MDI (including its various units), the municipality, and whatever other technical or regional agencies might be involved in the content of the program. The work plan would show short-range and long-range targets and goals, and the sequence and interaction of various elements of the assistance (project analysis, administrative reforms, engineering and design). The coordination of the work plan would be the job of a process advisor, working with the technicians and local officials. Once reviewed and approved by the MDI (and where appropriate, other agencies), the work plan would define the what, when, and how of the technical assistance package, and provide a basis for evaluation of the delivery system.

Ideally, the assistance package should be related to a longer-range, general plan for the municipality, and derived from that, a one-year plan of investments, tax and administrative reforms, staffing and training. The joint MDI/municipal work plan, and the technical assistance package it requires, would become the mechanism for accomplishing the program targets, both institutional and local, and a rational basis for making staffing, budgeting, and other decisions in the MDI.

3.3.2 Implications of the Planned Package Approach

The municipal development institutions will have to make some changes in order to approach their mission in the way we've been discussing. These may include changes in the way the organizations are managed, structured, staffed, budgeted, evaluated, and financed.

- a. *Technical management would have to be improved (See pages 52-55).*

- b. *New forms of organizational structure may have to be created. The typical model is to have a unit for "fomento municipal" or technical assistance staffed with public administration people, and a project banking unit staffed with engineers and economists. It may be necessary to split along different lines, perhaps one section for process assistance (including the regional office network) and another for project assistance. The process unit would include the planning machinery and certain kinds of general institutional assistance, while the project unit would include the architects, lawyers, engineers, land use planners, and other specialized personnel. Planning units should have the evaluation role built in, and as the program develops, have access to computer facilities for better data management and analysis.*
- c. *New staff may have to be recruited (or existing staff given special orientation and training) including persons trained in the social sciences, in special training techniques, in survey research, and in rural or industrial economics.*
- d. *Administrative support systems (vehicle pools, general services, per diem payments) may have to be reviewed to assure that they are flexible and supportive of the new program efforts, reflecting operational needs rather than dictating to and limiting them, as so often occurs.*
- e. *Accountability to program goals and continuous evaluation of results and obstacles will have to be tightened if a package approach to municipal development is to be effective. The subjective element in assessing program accomplishments will be reduced in favor of measurement against targets and planned changes at the municipal level.*
- f. *Training requirements for existing MDI staff may increase and be altered in content along with the more comprehensive concept of municipal development. Training may have to be more task-oriented and interdisciplinary, providing exposure to sociology, economics, and budgeting for field advisors, and making the engineers more conscious of the environmental and social impact of their work. Training for the top executives may be needed, teaching them how to integrate the various elements of their technical management role, and to keep up with the increasing body of information on urban, rural and regional development.*
- g. *The training of municipal officials will also take on a new dimension, preparing them to accept more rational processes of development and administration and to manage them effectively, and requiring the application of useful manuals and modern training techniques to impart information, develop skills, and encourage application of both.*

- h. *Formal agreements with technical agencies and training agencies may be necessary in order for the package approach to work effectively.*
- i. *It may be advisable to give the MDI sign-off authority over earmarked portions of the funds of technical agencies in order to assure that some part of these agencies' resources are directed into priority areas as identified by the municipalities and the MDIs (this is an approach being introduced this year in Venezuela as an element of the national attack on urban slums being coordinated by FUNDACOMUN).*
- j. *Municipal work plans, and by extension, MDI work plans, will become the basis for more reliable budgeting of available resources and there will also have to be mechanisms and procedures for relating the local plans to regional and national development priorities and programs.*
- k. *Finally, the MDI's will probably require new injections of capital and operating funds. If a good program which shows multiplier effects at the local level can be developed, fund-raising should be easier than in the past, and it should be possible to make more accurate and longer-range projections of financial requirements. The planning process should also provide a rational basis for allocating shared revenues or special subsidies to municipal governments, reducing the uncertainties and inequities which are frequently built into such systems.*

3.4 Municipal Autonomy

It is a long historical tradition, embodied in most Latin American constitutions, that municipal governments are "autonomous," and with very few exceptions officials who are working with or in local governments insist that municipal autonomy must be respected. MDI officials will state (sometimes with a tone of regret), that they cannot force local governments to accept assistance because of their autonomy, and local officials justify their actions based on this holy principle, and when it is convenient, reject assistance on the grounds that it represents interference with their autonomy.

The question of municipal autonomy deserves analysis because if the local governments are brought into a more broadly-conceived partnership in the development process, the definition of autonomy may have to be changed, a new contract drawn up around its sacred altar.

We found that municipal autonomy has a very relative meaning from one country to the next, and within countries can be evoked or ignored as circumstances warrant. When a mayor doesn't want a central government technician questioning his project priorities, he leans on autonomy. When an assembly of municipalities presents a petition to the President's representative demanding an increased share of national revenues, autonomy can be conveniently forgotten or reformulated, because--after all--it is not supposed to mean abandonment. As in most places in the world, the municipalities want central funds for their own use, with no conditions attached, to be spent "autonomously." In many instances such demands are framed in terms of receiving back what has been paid in through taxation, and to a great extent this is a legitimate claim.

The reality is that the autonomy we've seen is an empty and ill-defined idea, a kind of liberty without bread. It may, in fact, contribute to a great extent to the problems and isolation of the municipalities. What is required is a new, "effective autonomy," in which the municipality is endowed with the vision, human and financial resources and economic base to take its part in development and earn the respect (which it often lacks) of local people and of national leaders and institutions. In order to achieve this within a strategy of municipal development such as we are discussing here, there may have to be a modification of the old concept, a period during which municipalities, in return for packages of assistance which will give them the tools and methods they need to be effectively autonomous, will submit to more guidance and intervention, to having their plans developed jointly with other levels of government and agencies, and will be expected to accept and apply some basic changes in their internal processes.^{1/}

^{1/} See the OAS article cited in Item 2 of the Annotated Bibliography, for an argument for limiting "utopian concepts of autonomy."

3.5 Remaining Knowledge Gaps

It sometimes seems that as our perceptions and insights sharpen, they only serve to define how ignorant we still are. The analysis we have conducted of the municipal development programs and institutions has raised more questions than we were expecting to ask, and most of the answers lead to more areas of inquiry and testing. A quick review of outstanding issues, by no means all-inclusive, is presented below. Some of the topics may be most effectively dealt with through direct action and experimentation in each country, others by various kinds of studies, surveys, and by additional review and analysis of existing documents and information. Some of these items are:

- a. *Definition of the role of local government in more precise terms within the horizontal view; delineation of the relationship of the municipality to the region, to the rural population and its development, and to intermediate and national levels of government and agencies; examination of the question of municipal autonomy and how it might be made more effective and productive;*
- b. *Means of assuring more representative local administration, more employment security and professional incentives for municipal functionaries;*
- c. *Refining rapid, comprehensive methods of data collection, analysis, and simplified development plans for small and intermediate cities and their hinterlands;*
- d. *Examining and testing the potential of various forms of rural development service complexes and economic growth opportunities for regional or subregional centers;*
- e. *Better systems of classifying local governments, using a variety of indicators and factors;*
- f. *Developing criteria for designation of priority municipalities, where problems are most severe, or potential for development is high, or (ideally) both are true, and giving this strategy political acceptance or respectability;*
- g. *Means of delivering packages of process and project assistance to municipal governments through improved programming, decentralization, and flexible administrative support mechanisms;*

- h. *Improvements in the evaluation of results, finding ways of targeting the programs and assessing their impact, rather than simply measuring the amount of activity, energy, or funds expended;*
- i. *Improvements in the internal technical management of the MDIs, including coordination, annual plans and long-range projections, performance evaluation, information flow, personnel management, training and incentives.*
- j. *Devising simplified progressive tax codes for local governments; and*
- k. *Means of applying, on a broad scale, modern techniques and theories of training for MDI executives and their staffs, as well as for local functionaries.*

This is a partial agenda for the future. It will require the involvement of the municipal development institutions, associations or leagues of municipalities, research, academic and consulting organizations in the interested countries, and international assistance organizations and experts. Local governments have been studied for years as administrative machines. Now is the time to understand their current status and potential role as "development enterprises," the term used by Armando Arauz, Executive Chairman of IFAM.

SECTION 4

The AID Record and Future Direction in Municipal Development

The objectives of rural development ... extend beyond any particular sector. The central need is to improve the productivity of the rural poor and the quality of their lives. For this purpose, it may be necessary not only to help raise production directly, but also to introduce mutually reinforcing programs of better nutrition, preventive health, improved water supply, basic sanitation, and practical education. *Primary emphasis in all cases has to be on developing better organization within the areas covered, and improved administration of rural areas as a whole.*^{1/}

4.1 General

This discussion relies on examination of Latin America Bureau loan papers, technicians' reports, studies prepared or sponsored by AID's Technical Assistance Bureau, and interviews with selected experts on municipal development in the region, in addition to our field work.^{2/} Where we refer to AID below, we are generally using it as shorthand for the Latin America Bureau and Missions in that region, unless specified otherwise.

AID's support for municipal development institutions in the form of loan obligations during the 1969-1974 period was slightly more than \$18 million, distributed as shown in Exhibit 4-1. In addition, there has been support in the form of grants for pre-project studies, special technical assistance, and evaluations related to municipal development projects. Previously, during the 1960s, AID provided assistance in local and urban development in a widely varied and dispersed series of projects in public administration, and made a \$30 million loan to FUNDACOMUN, primarily for housing development. A loan for the "urban sector" in Colombia was approved in 1971 for about \$30 million, for a broad range of economic development efforts through a multitude of national, regional,

^{1/} From a summary of the recently published World Bank book *The Assault on Rural Poverty* (Baltimore and London, The Johns Hopkins University Press, May 1975).

^{2/} See Annex C.

Exhibit 4-1
AID LOANS TO
MUNICIPAL DEVELOPMENT INSTITUTIONS
1969 - 1974

Country	Disbursement Period	Lending Capital	Technical Assistance	Training	Technical Assistance, Training as Percent of Total Project	Commodities/ Equipment	TOTAL
1. Guatemala (INFOM)	1969 - 1972	\$ 2,000,000	\$ 100,000 ^{a/}		4.8		\$ 2,100,000
2. *Costa Rica (IFAM) (022)	1971 - 1974	3,000,000	350,000	\$ 150,000 ^{b/}	13.8	\$ 100,000	3,600,000
3. *Paraguay (IDM)	1971 - 1975	1,550,000	300,000	150,000 ^{c/}	22.5		2,000,000
4. *Bolivia (SENDU) ^{d/}	1973 - 1976	2,500,000	300,000	150,000 ^{e/}	15.0	50,000	3,000,000
5. Costa Rica (IFAM) (023)	1974 - 1977	3,000,000	175,000	225,000	11.7		3,400,000
6. **Honduras (BANMA)	1974 - 1977	3,500,000	400,000	150,000 ^{f/}	13.4	50,000	4,100,000
TOTALS		\$15,550,000	\$1,625,000	\$ 825,000		\$ 200,000	\$18,200,000

Source: AID Capital Assistance Papers

* Founding Loan

** Reorganization Loan

^{a/} Supervising engineers - local firm.

^{b/} \$50K for IFAM staff scholarships; \$100K for in-country municipal training.

^{c/} \$75K for foreign training; \$75K to support municipal training.

^{d/} \$233K in grants spent or planned over period for TA, training, commodities.

^{e/} \$50K for foreign scholarships for SENDU staff; \$100K for in-country municipal training.

^{f/} \$110K for municipal training; \$25K BANMA staff short-term; \$15K BANMA staff long-term.

departmental and local institutions. While it contains many of the elements discussed in our report, its scale and complexity place it in a special class by itself.^{1/} Looking strictly at the MDI loans, then, we are discussing a fairly recent and minor component of AID's assistance to Latin America during the 1969-1975 period, which totalled \$2.2 billion.

4.2 The Project Concept in AID's Support for MDIs

Like the auditors who have looked at AID's MDI projects, we can find little to criticize in the operation of the projects as they have evolved, speaking principally of IFAM and INFOM. They have both made subloans within the terms of their loan agreements and have lived up to most of the other terms and conditions. Unlike auditors, however, we are applying broader criteria, and we find that there is an evolutionary pattern in the concept and content of the MDI projects. *We find that AID has, in its earlier projects (the first four listed in Exhibit 4-1), accepted the limited, vertical, town-centered view of municipal development held in the host countries. Project resources tend to reinforce the limitations of this view and of the MDIs, rather than giving the collaborating countries the tools for moving beyond the traditional toward a more comprehensive scope. The more recent projects (the loans to IFAM and BANMA approved during 1974) are more carefully conceived and provide a framework which may move the institutions toward the horizontal concept and more fundamental changes at the municipal level.*

Many of the positive elements and accomplishments of the municipal development programs and institutions identified in Sections 1 and 2 are the result of AID's involvement in the activity. *Through AID influence, the MDIs have placed increasing emphasis on cities and towns outside the*

^{1/} For a statistical and policy analysis of AID's urban development involvement, see *Urban Growth and Development as a Component of Agency Policy and Programs* (Washington, D.C., Office of Urban Development, Bureau for Technical Assistance, Agency for International Development, February 1973). Attachment B to Policy Determination No. 54 of that year, "Guidance Statement on Urban Development."

capital metropolis, having the effect of redistributing national revenues and development resources, increasing the awareness of the relationship of local government to rural development, and giving an opportunity for municipal administrations to carry out often complex subprojects in a responsible manner, thereby demonstrating their potential for additional contributions to national development.

In addition, AID resources have provided useful training to MDI technicians and selected local officials. In Costa Rica, AID funds facilitated the IFAM initiatives in special studies and diagnoses, and encouraged a more active program for the rural areas of the municipalities. In BANMA, a broad institutional reform and redirected program was set in motion. AID set up improved standards for subloan analysis and administration, and means of assuring responsible banking and rollover of the capital which was injected. The entire exercise has probably contributed to the awakened expectations of the local governments, and their requests for more resources and more control over them.

In the early projects, the missing elements are as interesting as the ones which were included. There was little more than rhetorical reference made to decentralization of government functions. The technical assistance component of the loans did not provide for expertise in this aspect; it was expected to happen indirectly through the subproject process. The projects emphasized hard resources (money and technology) more than soft resources (trained people, effective institutions). Title IX was also given due mention in the loan papers, but again, the conditions and inputs to promote more democracy at the village and town level were not built into the design. These might have included advisors on community-municipal relations, requiring that subprojects be approved by the potential beneficiaries, and requiring legislative and municipal system reforms of an appropriate nature (which is common to many other kinds of AID projects).

In effect, the MDI have been encouraged, even pushed to emphasize good banking and municipal project production at the expense of the "softer," yet potentially more lasting, institutional elements of the projects.

The matter of economic impact deserves special attention. We find it curious that the Agency, which has been criticized for being overly focused on economic growth in much of its program, gave so little attention to this element in defining the kinds of subprojects to be financed with AID funds. The project statements refer to expected economic impacts of certain of the subprojects (principally markets and slaughterhouses), but there were no economic advisors built into the projects to make sure that this in fact happened. The requirements for approval of subprojects did not provide for the MDIs to make projections of expected economic benefit as standard procedure.

AID's loan preparation process places distinct limits on adequate data collection, analysis and project definition before the capital assistance paper is submitted for review. The concept and content of the project designs show the effects of the inadequate preparation in the following ways: (a) vague goals and imprecise design; (b) overstatements or misstatements of the projected impact of the project; (c) failure to include appropriate, or sufficient, technical and financial inputs necessary to achieve stated objectives; (d) carryover of project definition and institutional organization into the post-approval or implementation phase, which delays disbursements; and (e) when the activities and disbursements do begin to reach an acceptable rate, subloan production overshadows other elements such as institutional development of the MDI, training, basic municipal system reforms, and integration of the program with other kinds of development. The projects thus fall short of AID's expectations.^{1/}

The problem can be illustrated by a quick comparison of the preparation and outcome of the first IFAM project, the design of the second IFAM loan, and the design of the BANMA project. IFAM's first three years were characterized by a year of getting organized, a "year of approvals" and a "year of disbursements", covering the fixed three-year life of an AID loan. During the process, subloan studies became more and more restricted to purely subproject and banking questions, the institution's many units became fragmented and uncoordinated, and impact at the local level was

^{1/} See the contrast between the INFOM projects' stated objectives and our findings as summarized in Annex B, Example 5.

found to be very diffused in our initial evaluation there. During the third year the Mission took steps to correct these problems, arranging for technical assistance in community studies, institutional planning, encouraging an assessment of training needs, and then began to build the basis for a well-designed second loan for "rural municipal development." The process was taking form and needed about six months' more activity and analysis to produce a coherent project, when the word came from Washington that the capital assistance paper had to be presented in May 1974. After a crash effort, in which IFAM itself had an outside role, the paper was prepared. While the general outlines of a good project were there, it was not collaborative, nor was it based on complete data and logical programming.

The BANMA loan is a useful contrast. Nearly two years were well used to assemble a broad range of data, carry out the necessary reorganization of BANMA itself, develop a strategy of emphasis on regional and subregional centers as supporters of agricultural production, and carefully draw up the amounts and kinds of inputs necessary in the loan package. It was ready to begin work on all aspects once the loan was authorized. In our view, it's the best loan paper we've read on municipal development, and should be made available on a broad basis to people in the field. We attribute its superiority in some measure to the pre-loan time and money which was spent. We understand that a recent AID audit report criticized the design as well as the execution of the BANMA project (a bit early for the latter judgement, in our opinion). But our statement still stands: relative to the other MDI projects, the BANMA design represents a major improvement over previous efforts, and is a solid step toward integrating such projects with rural development goals.

4.3 The Design Problem

As we stated in Section 2, we believe that municipal development projects potentially have a productive, even major, role to play in advancing AID's rural development mandate, if they are carefully designed. By this we mean that the specific conditions of each country, its various regions, its local conditions, its municipal system, its degree of openness

to more complex decentralized approaches to development and capacity to carry them out, must be understood before the first project identification statement is sent to Washington.

This may require some exploratory studies, some grant support for general diagnostic efforts along the lines proposed in Sections 3 and 5. The purpose will be to understand the situation in terms of rural-urban dynamics, to take a first cut at understanding the magnitude and nature of the problem. We are not in a position to make specific suggestions to AID on how such preliminary studies should be set up, processed, financed, and evaluated, since time did not permit enough research within AID on how these matters are now routinely handled. We can only assert our conviction that such efforts would yield results in terms of better designed, more integrated projects with a greater multiplier effect on local government. They should also contribute to better evaluability than we have encountered in our work on this study, a better focus on what is to be accomplished, more quantified targets and fewer rhetorical, unsupported claims.

4.4 The Inputs Problem

Lacking adequate design, AID's MDI projects have apparently been funded in a somewhat arbitrary fashion, particularly in terms of the balance between capital for project subloans on the one hand and funds for technical assistance to the MDIs, training of MDI personnel and municipal officials, on the other. The table in Exhibit 4-1 shows that 13.5 percent of total regional MDI support for the 1969-74 period has been allocated for technical assistance, training, and equipment. Perhaps this is typical of the balance within AID loans--we have no data on this--but our judgement is that this is a low ratio of institutional development to capital investment, given the magnitude and complexity of institutional problems inherent in this kind of project. This gets to basic purposes, whether the fundamental objective is to pile up bricks and mortar, or whether it is to "strengthen the capacity of municipal government to contribute to national development," as so often stated. The gap between loan project statements and the actual outcomes (illustrated by our findings on INFOM) is certainly

traceable to the amount and mix of inputs applied to reach the stated objectives.

We recognize the many factors which may influence these figures and ratios. If local, rather than foreign, technical assistance and training is to be primarily used, dollar costs will be low. If either technical assistance or training is to be channelled through institutions other than the MDI (the case of using grant funds in Guatemala for INAD to do municipal training), then the figures in the loan may be misleading. If pre-loan, grant-funded assistance has been used to deal with institutional questions, then a low figures may appear in the loan on the assumption that the investment has been made. Institutional components may be funded partly through the recipient country's counterpart input.

On this topic, various arguments can be advanced. We would argue that an international input is important in order to transfer new ideas and experiences from beyond the confines of national experience. We found in Guatemala that channeling grant funds through INAD resulted in a fragmented effort. It is probably better to channel all funds through one institution primarily accountable for municipal development, and then arrange for them to contract to specialized agencies to carry out the functions where they exist and duplication is to be avoided. We have supported pre-loan assistance, but do not accept the proposition that this is a substitute for applied expertise during the life of the project. Advice will be required as the partially hypothetical plans become real daily problems, and as new requirements for expertise are identified.

Other aspects of the input problem are discussed below.

4.5 The Information Problem

There are really two information problems. One is the in-country information struggle, and the other is the lack of technical information for USAID and MDI practitioners. Ever since the international development process began, people have been complaining about the lack of complete reliable data and information in the developing countries. At the same time it is remarkable how recently aid donors have begun to assist with surveys and help with information systems. As we've emphasized here, the

MDIs need information and mechanisms for gathering and applying it. They need it assembled by municipality, not by region, province, or altitude, yet only one of AID's MDI projects to date (IFAM--with a USAID Mission initiative) has provided for assistance in doing surveys, and in setting up a data bank and a planning unit to use it.

The other general problem is the need for existing technical information, (including state-of-the-art reviews, special studies, task force reports, and other useful materials) on the part of development officers in USAID missions and the executives and technicians of the institutions supported by AID. During our study we often found that the most useful documents (among them the noted ones in Annex A) were in extremely short supply. Yet they are precisely what is needed (and requested) by field technicians to use to answer specific problems, to provide a basis of comparison and knowledge for evaluating municipal development performance, and as resources for training. Of course, it hardly needs to be said that the documents will be most useful if they are in Spanish so that they might be widely distributed in the countries. Translation and distribution should include papers, studies, and bibliographies produced outside AID by OAS technicians, by research and consulting organizations, and other entities involved in the fields of municipal, urban, and regional development. Selection and synthesis will be necessary, and perhaps seminars could be held to review new knowledge and compare experiences. This is not to suggest that USAID project monitors need become experts themselves, but they need more knowledge than they have now in order to guide the MDIs to better information and technical resources.

4.6 The Training Problem

Municipal development institution executives have not, to our knowledge, been identified as trainees under AID projects, yet we found that there is a need to develop their capacity to plan and manage municipal development programs. Given the many pressures and duties of these executives, it may be necessary to develop special short courses in program design and evaluation, financial planning and management, and to create

materials, perhaps in the form of case studies, which illustrate planning and management problems drawn from the Latin American experience in municipal development.

MDI staff training has emphasized courses and observation trips in third countries, as well as a limited amount of Stateside training. We agree with the importance of the third country visits, finding that they may have an unexpected benefit. In addition to the usual purpose of having MDI personnel learn from the more advanced countries, such as Brazil and Venezuela, the visitors often find that some of their own approaches, or aspects of their own municipal systems, are, in fact, better than they may have thought, and find the visit to another supposedly more advanced country gives them new inspiration to improve what they have.

The second IFAM loan package includes an important concept which might be usefully replicated elsewhere: developing the capacity in the recipient country's institutions of higher education to provide special courses for development practitioners, including interdisciplinary approaches not normally found in Latin American universities or technical schools. The elements of this approach include a joint USAID/MDI faculty group to identify and prepare the courses, and funding foreign (including U.S.) faculty to do all or some of the teaching in-country.

As in all projects, the training mentioned above (as well as observation, course, or degree training in the United States) should be carefully designed as one of the last steps in the project design exercise, once the municipal needs, development strategies, and manpower requirements have been defined. Too often, a training fund is set up and then activities are planned for how to utilize the funds. This can result in gaps in content and in approaches being left unexplored.

4.7 The Evaluation Problem

Evaluation of the MDIs has been difficult due to the factors we have been discussing: lack of firm objectives, lack of "before-and-after" data, the variety of views of what municipal development is to accomplish in terms of national development, and the paucity of thinking to date about indicators.

On the subproject level we have not found pre-project estimates of project benefits (against which to compare outcomes), or explicit statements of the expected results from technical assistance and training activities.

Better project and subproject design should yield improvements in the "evaluability" of municipal development efforts, and AID has already begun to provide assistance along these lines, at least for IFAM. In our opinion, the emphasis should be on internalizing evaluation. This means going beyond design and identification of indicators to helping set up the institutional, procedural and methodological tools for doing and using evaluation within the MDIs, and eventually extending the system to the municipal level.

Once evaluation, and the application of evaluation, has become routine within the MDIs, external reviews should become occasions for discussing major issues of impact, relationships with other agencies in the development effort, basic reforms needed, new areas requiring training, capital or technical assistance, and the like. As part of assistance in evaluation, emphasis should be placed on improving management information, especially on financial, as well as program matters, and on instructing MDI managers in the use of such systems in quarterly or monthly reviews.

4.8 The Knowledge Gap Problem: General and Within AID

AID should be prepared to devote additional resources for action and study to reduce the knowledge gaps identified in Sub-section 3.5 (pages 92-93). Such resources might include support for new studies on special projects, as well as distribution and translation of existing materials which bear on municipal development, rural-urban interaction, regional and local planning, and so on. Perhaps the grant mechanism is the more flexible, appropriate tool for supporting efforts at refining new programming approaches, applying them in regions or whole countries, strengthening technical management and finding better methods of training.

A further observation, not based on broad study, is that within the Agency there appears to be a need to improve the mechanisms for transferring new knowledge and insights from Bureaus of Technical Assistance and

Program and Policy Coordination to the regional bureaus and missions which evaluate and make funding decisions on projects. It appears that there is considerable lag from the time a study which offers useful improvements in AID's programming and concepts is presented and the time it is processed through policy channels as practical guidance to the line units of AID. This is probably more true for matters such as municipal development, which create a number of semantic and conceptual problems involving a number of disciplines and sub-units within the Agency and its bureaus. This particular field of development involves the public administration people, the community development people, the urban and regional developers, the rural developers, the institutional, social, and political analysts, as well as the lawyers and engineers, to make the machinery function. Municipal development is potentially a mechanism for organizing and extending a variety of development activities, for promoting many of the goals embodied in AID's legislation. The challenge now is to figure out who has the action on follow-up within the overlapping structure of AID itself, given the communication problems in Washington and between the missions and Washington. This matter is beyond the scope of our study, but we feel that it deserves renewed attention, and therefore mention in this report.

4.9 Suggestions for AID Support for Municipal Development Programs

Pulling together the findings on impact at the local level, the performance of the municipal development institutions, and the trends in the AID involvement, a list of suggestions can be drawn up for the Agency. The emphasis here is on the process and institutional side of the program for the usual reason: if the capital and technical resources are not well targeted and coordinated, they will be limited in impact (in terms of the long term, as well as in scope) at best, and possibly wasted. The relative emphasis of AID involvement among the various items noted below will vary from one country to the next, depending on the country's own human and institutional capacity, its political orientation and realities, and the USAID Mission's staff capability. Assistance and/or influence of AID could be usefully applied to some degree in the following:

- a. *Establishing data banks* through surveys of socio-economic conditions and administrative capacity in the municipalities, compiling descriptive and indicative information for diagnosis. Such assistance might include advice on setting up simple data processing systems, both manual and electronic.
- b. *Defining roles, goals and linkages* on various dimensions and levels (rural/urban, local/regional, economic/administrative).
- c. *Research and special studies*--in addition to providing funds, helping to:
 - identify needs (for research on basic reforms or for special studies);
 - define the uses and users of studies, and their content;
 - utilize outside experts (defining their scope of work, sources of experts, selection and negotiation, monitoring, and termination); and
 - implement the study results.
- d. *Program planning, building in evaluation measures and mechanisms*, so that outside assessments can focus on internally generated findings on results, and on strategy, policy and resource issues.
- e. *Developing credit policies as a tool of a broad program*, dealing with such elements as:
 - types and mix of subprojects,
 - eligibility of various categories of municipalities for different project types,
 - varying terms for varying conditions, and
 - other banking and leveraging techniques.
- f. *Financial planning and management*, including:
 - program budgeting and forecasting, and
 - financial and budget reporting as a management and monitoring device.

- g. *Planning training activities and identifying alternative sources and methods (for managers as well as technicians and local officials) to fit program goals, with emphasis on developing skills in both process and project functions.*
- h. *Organizational structures and administrative support systems, such as:*
 - *process and organizational advice in setting up and operating planning units and regionalization schemes, and*
 - *reviews of the responsiveness and efficiency of administrative support systems and equipment.*
- i. *Identifying, translating and distributing useful information and technical material on the above.*
- j. *Support for international conferences and seminars among MDI personnel, preferably built around specific common technical or program problems.*

Finally, there are two general caveats:

- k. *AID should try to avoid compartmentalizing its assistance within an MDI (such as in the External Loans Division of INFOM), but should seek to have its project inputs delivered in such a way that they affect the processes of the entire institution; and*
- l. *Aid should support municipal development programs through one major institution, rather than dispersing its resources to several, as was done in Guatemala. The MDI might be encouraged to draw on other specialized institutions, using AID funds for contracted studies, training, or other program components, but within an agreed, consistent program structure and set of objectives under the MDI.*

4.10 Application of this Report

If, on examination and discussion of this report, AID finds that it offers useful criticism and possible new programming directions, the Agency will encounter the problem of how it might be applied in projects now under way, and in improving the design of those MDI loan proposals which are now being prepared in Panama and Nicaragua.

We do not know to what extent on-going loan projects can be modified in scope or emphasis, new resources added or existing ones re-programmed,

or special grant projects channeled for studies or assistance of the nature we have suggested. We believe that these questions deserve examination in order to increase the impact of existing projects, especially in two areas: integration with national development, and increasing the institutional capacity of the MDIs and the local governments.

Where new institutions are being created with AID's assistance, as in Panama and Nicaragua, the Agency should consider whether bureaucratic or political imperatives can be kept at arm's length so that the design phase can be extended in scope and time to permit a thorough analysis of local problems and detailed elaboration of project objectives, policies and inputs. Our study shows that especially in the case of new institutions, this will result in improvements in the impact of the investment and will take advantage of the evolving understanding of the role of local government in development.

SECTION 5

A Tentative Model of Logical Programming for Municipal Development

5.1 Rationale and Assumptions

This study represents two years of intermittent work, during which we not only evaluated four MDIs, but worked as advisors to carry out our recommendations to one institution, IFAM. In the initial study in Costa Rica in 1973, and in the collaborative work with IFAM during 1974, a systematic approach began to take form, a logical progression of planning elements which were necessary in order to cover all of the substantive matters and the complex interrelationships inherent in developing effective municipal development programs. Until we started the comparative phase of our work, beginning with the trip to Guatemala in 1974 (November-December), and the subsequent observation trips to the Dominican Republic in early 1975, we couldn't determine whether the concepts and programming process being developed and tested in Costa Rica had utility elsewhere.

The comparative experience yielded the following:

- The other MDIs had similar problems of programming, from one end of the cycle to the other;
- The sequence and content of programming being explored in Costa Rica had potential for application in the other countries;
- MDI officials and USAID personnel in all countries made contributions to the concepts; and
- The practitioners encouraged us to continue with development of a general model, recognizing that it would be subject to varying interpretations and adaptations in each country.

We therefore decided to further develop the model as far as possible within the strict time limitations of the study, and to present it as an integral part of this report.

We have pointed out in previous sections that new concepts of municipal development are still evolving. There are traditional attitudes about local government which are strongly held and which present obstacles to radical change. The same may be said about approaches to, and techniques of, program development, implementation and evaluation. In some respects this study and model confront the root questions about what municipal development is and could be, challenge the customary ways of running development programs and institutions in Latin America, and open up debates about specific techniques and their applicability. In other respects, we have taken the position (which may be a leap of faith) that in setting up the municipal development institutions, the founders intended something more organic and long-lasting than equipping each municipality with a potable water system. And further, we operate from the principle that most development programs have as an objective changing outmoded attitudes, ideas and behavior.

The approach set forth below, then, assumes that:

- a. There is a sincere commitment, in the countries having or establishing MDIs, to the principle that the general goal of municipal development is to improve the capacity and performance of local governments to affect and improve the socioeconomic conditions in their jurisdictions;
- b. Agreement can be reached on objectives and methods of development among the local and national institutions in the municipal system, with the assistance of more and better information;
- c. A well-prepared municipal development strategy and program can demand and command both domestic and international resources in support of its efforts more justifiably than one which is based on uninformed judgements and abstractions, is insufficiently targeted and integrated, and the impact of which is difficult to identify.

It is, therefore, in the interests of the MDIs and their supporters in AID and elsewhere to work toward a programming concept based on the following propositions:

- d. Municipal development institutions and their programs are best judged by the extent to which they produce

results and changes at the local level, rather than by merely assessing the activity and efficiency of the institutions themselves.

e. Results and changes cannot be assessed fairly except in relation to

- the *status quo ante*, or baseline conditions, and
- the firm, defined goals of the program.

f. The MDIs should therefore be programmed in terms of a body of knowledge about the kind and scope of problems at the local level, and a clear vision of how, where, and when they will be resolved.

We have labelled this a "tentative" model. We are not, however, tentative about our conviction that such a model is needed, based on what we've experienced. But the details of it are only roughly developed, and are presented here in order to put some flesh on the skeleton. Improvements and elaborations will, to some extent, depend on filling the knowledge gaps listed in subsection 3.5. Specialists in the technical fields which the model covers will make contributions to the concept and to its application. And, of course, it will undergo modification and refinement as it is attempted in the countries, as it already has in Costa Rica. The term used there by an IFAM manager was "sociological reduction," referring to the cultural forces which always intervene.

Logical programming is a way of bringing some order into the complexities of municipal development which we've analyzed, and tries to affect all of them to some degree. The following pages provide discussion of the general scheme of the process, and some of the details have been filled in or indicated. There are four basic steps, common to most development programming: (1) diagnosis, (2) policy definition, (3) specific planning, and (4) implementation, evaluation, and reprogramming. We have provided graphics to illustrate the process, including the names of some hypothetical municipalities. Under each step is defined (a) the output and its use, (b) the content of the work, (c) the method of implementation,

(d) a rough estimate of time requirements in a small country, and (e) technical considerations.

5.2 STEP ONE: Local Data and Diagnosis

a. Output and Use:

There are two data collection outputs in the first step. One is descriptive data based on a number of aspects of development status and capacity for use by the municipality and the MDI as baseline information for planning decisions, and in problem and project analysis. The other is a compilation of indicators of development conditions and municipal capacity to affect them, which will serve principally the MDI as a shorthand diagnostic tool and as a basis for ranking municipalities.

b. Content of Work:

Using a standard, limited checklist of indicators (along the lines of those shown in Exhibit 5-1 under "Key Indicators"), local and MDI officials develop a profile of the municipality's capacity (administrative, financial, civic consciousness and activity, project activity) and of its development status (socioeconomic conditions, physical and natural resource attributes, demographic characteristics, and projects)^{1/}

Beginning at the same time, but on a larger scale and extending over a longer period, work begins on developing a complete descriptive data base on a longer standard list of items, perhaps as many as 20-40 items under each subheading of capacity and development status. At this stage, the data is primarily for use at the municipal level, but the MDI advises and assists in its compilation.

c. Method of Implementation:

We would urge that local people be the principal workers, assisted, trained and advised by the MDI or by a survey/planning contractor

^{1/} Note that project activity is a subcategory of information which is presented as an indicator of both development status and of capacity.

STEP ONE:
LOCAL DIAGNOSIS, MUNICIPALITY OF SAN RAMON

PROFILE

EXAMPLE OF
DESCRIPTIVE DATA BASE

EXAMPLES OF
THE INDICATORS

ADMINISTRATIVE SITUATION
Personnel (categories, educational levels, salaries, security)
Facilities and equipment (offices, warehouse, workshop, office equipment, trucks, vehicles, tractors, etc.)

ADMINISTRATIVE
Number employees
Salary levels
Mechanic shop

FINANCIAL SITUATION
Budget (changes in time, ratio operating to capital, ratio local to national income)
Services income (deficit, year rates were set)
Contributor and list of contributors
Accounting and financial reports

FINANCIAL
Capital budget
Service deficit
Income sources

CIVIC CONSCIOUSNESS
Presence of community organizations, special committees, business clubs, political clubs
Attitudes, knowledge of municipal government, projects, contact with national agencies, interest in plans

CIVIC
Town committees
Project awareness
Agency contact

PLANS/PROJECTS
Public: number, type last three years, national agencies involved, plans and priorities, sources of ideas
Private: new investments last three years, benefits, requirements, preferences for MDI assistance

PROJECTS
Projects completed
Priorities
Needs for MDI

SCCIO-ECONOMIC CONDITIONS
Issues by levels, type, area (urban, rural)
Production levels, use of technology
Labor force by categories (skilled, unskilled, prof)
Education, health measures

SCCIO-ECONOMIC
Income per cap.
New crops
Disease incidence

PHYSICAL AND RESOURCES INVENTORY
Housing (baths, electricity, roof types, materials)
Communication (radios, telephones)
Water systems (residential, industrial, drainage)
Roads, streets (paved, bridges, sidewalks)
Minerals, Fuels, Water, Soil, Forest

PHYSICAL
Number w/water
Km paved streets
Km electric line

DEMOGRAPHIC DATA
Ratio of rural to urban, change over time
Total population changes over time
Age distribution

DEMOGRAPHIC
Rural/urban ratio
Growth rate
Age distribution

Capacity
Level
Development
Status

MUNICIPAL CAPACITY

DEVELOPMENT STATUS

deployed under the MDI's supervision. Ideally, the data collection would be done by a municipal employee, perhaps a local youth, a college or even a high-school graduate, who will remain involved, perhaps becoming the municipal planning officer. It will also be important to involve the municipal councilmen and other local leaders, in order to orient them to the process and its purposes. In assembling the indicative information, the MDIs should have a direct involvement, since there may be a need to make judgements, or draw on information not available locally. Some of the data may be gathered from secondary sources such as the census, agriculture statistics, or other agencies' records, while the rest will require observation or rapid surveys in the municipality.

The data base collection will similarly use secondary data to the extent that it exists, is reliable and current, but will also probably involve surveys carried out either by a survey organization or local people under direct MDI supervision.

d. Elapsed Time:

These estimates are, of course, guesswork, and will vary according to the number of municipalities in each country, the number and skills of people assigned, and so on. In a country such as Costa Rica or the Dominican Republic, one could estimate a week or less in each municipality to assemble the indicator data, and perhaps four to six weeks of effort to prepare the descriptive data base. One might therefore allow three months to assemble the indicators nationally, and nine months, or so, to gather the more detailed descriptive data in all of the municipalities. Before the work starts it might be necessary to spend a week or two training surveyors.

e. Technical Considerations:

This phase of the work is basic to the whole model, and must therefore be carefully designed. The checklists should, of course, be suited to country conditions, drawn up by persons knowledgeable about municipal conditions, and who understand the purpose of the effort. Care should be taken, as we noted in Subsection 3.2, that time is not spent collecting data which is "interesting" but not useful for the planning

process. The design of the data collection should, to the extent possible, include thinking ahead to the processing and analysis phases. Training surveyors is important, so that data is accurate, complete and comparable. The emphasis should be on getting some information under all headings in each municipality, even if it is imperfect, rather than gathering information in great precision and depth in some categories and places and not in others. Data collection should include the rural as well as urban areas of the municipality, and, where possible, the information should be identified as representing the rural or urban conditions, as well as being totalled for the municipality overall.

The art of profiling community conditions has advanced in recent years, and includes using indicators, imperfect secondary sources, and such surveying shortcuts as aerial photography. A number of social scientists and development planners have produced useful guides to this work. One guide to "macro-social accounting" is cited along with others in the Lassen paper.^{1/}

5.3 STEP TWO: Aggregation, Comparison and Categorization

a. Output and Use:

The product of this step is a categorization and ranking (using the indicators) of municipalities based on a wider range of factors than the usual one of population. It is a move toward establishing a national urban system, a rural/urban typology as the basis for strategic program decisions. The aggregation of the more extensive descriptive data will form a complete data bank for baseline purposes and specific subproject analysis, activity plans, and special studies.

b. Content of Work:

Aggregation involves collecting the indicator data, and assembling it by municipality, by region or province, and by subject, permitting various kinds of analysis.

^{1/} See Annotated Bibliography, Item 11.

Comparison of the municipalities will be the basis for the categorization process and ranking within categories. The work will be a combination of compilation, cross-referencing, and summarizing the data, followed by analysis and decisions by the senior officers of the MDI, drawing on outside advisors as necessary.

c. Method of Implementation:

The indicators and descriptive data will be fed in by the municipalities through MDI or contractor personnel. The MDI planning staff will compile, cross-index, and store it. Since this body of information will be dynamic, updated regularly, it should be in looseleaf binders, manual card sorting stacks, or, if feasible, in a more elaborate (electronic) storage and processing system.

Once that data is available in various formats, and summarized for easy use, the planning staff, technicians of the MDI and the MDI executive will have to reach preliminary decisions on the comparisons, categorization and ranking. Before final decisions can be reached, it will probably be necessary to confer with the national planning agency and other institutions involved in urban and rural development (some of this consultation should have taken place before the process began, of course).

d. Elapsed Time:

One might reasonably expect that a three- or five-person planning staff could assemble and summarize the indicator data, and the senior staff review and reach preliminary technical decisions on it in two or three months. The final decision process is, of course, unpredictable, since it presumably will involve interagency consultations, and probably some degree of presidential review.

e. Technical Considerations:

Comparison involves a considerable element of decision and judgement. In order to achieve ranking there will have to be a set of standards or criteria defining the various categories, and giving weight to the indicators. This element of the work is extremely important (if

only because of its potential for raising political controversy), but we are not attempting to prescribe a formula for establishing the categories and weighting. This is very much a country-by-country problem, and should be handled on that basis. Again, there is ample experience and literature to draw upon, although as yet we know of no convenient international standards to which one might refer. Even if there were such standards, the rankings would ultimately have to be derived from the relative status of the municipalities in the country where the work is being done.

The categorization we have shown in Exhibit 5-2 shows four groupings: National Urban Centers, including the capital, cities of national economic importance, such as port cities or manufacturing centers other than the capital; Regional Centers, which may or may not be state or provincial capitals; Subregional or Rural Centers, which provide a specified range of services beyond their own borders, but short of having regional influence; and, finally, what might be called Rural Satellites, village headquarters of rural municipalities, serving mainly their own people and forming part of the influence area of larger places. These categories are suggestive, and we have purposefully avoided attaching population ranges to them, or prescribing other descriptors. We know that these matters will be worked out in each country, hopefully using the data which emerges, and applying common sense as well as some arbitrary judgements.

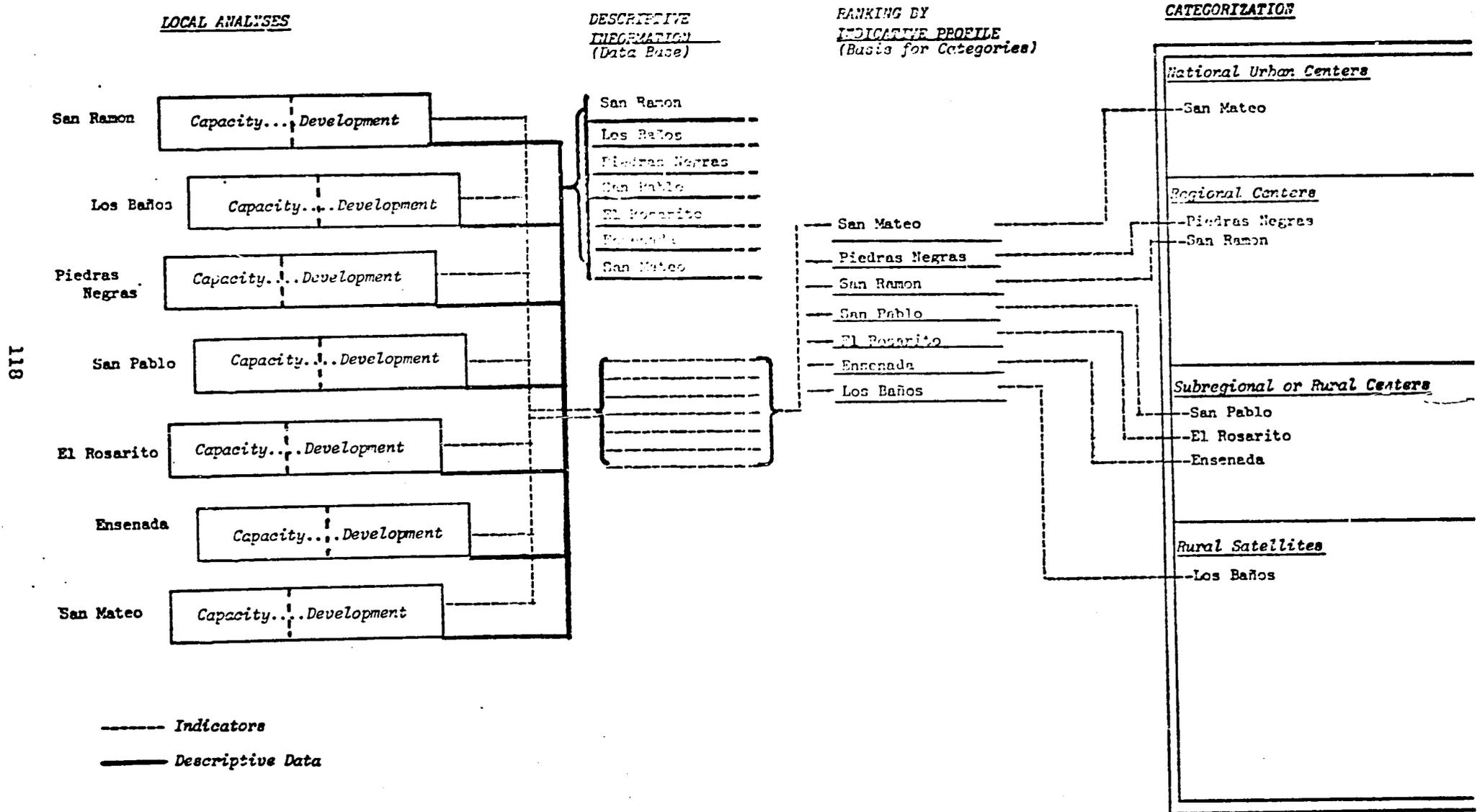
5.4 STEP THREE: Application for Program Planning

a. *Output and Use:*

The product of this step, which takes place partly at the MDI and partly back at the local level, is an institutional plan for the MDI (and related budget), which contains the targets and activities for the program year, as well as a longer-range plan including financial projections and system reforms which will be undertaken. Similar local plans will be developed for selected municipalities. These institutional and local plans will guide municipal development activities, establish an

STEP TWO:

AGGREGATION, COMPARISON, CATEGORIZATION



objective basis for monitoring and evaluation, and be used as the basis for funding.

b. Content of Work:

The work will begin with an extension of the decision process in Step Two, based on the data compiled in Step One. The pattern and scope of needs in the various categories of development and municipal capacity will be reviewed, desired impact defined, and a rough estimate of available resources made. Priority target categories of municipalities will be identified. The strategy will be coordinated with national development goals, spatial objectives, and the plans of other agencies. A first-year target group of municipalities will be selected and local plans developed with them. Based on the local plans (and perhaps some estimate of what will be required to service existing commitments) the MDI will draw up its institutional plan. See Exhibit 5-3 on the next page.

c. Method of Implementation

The MDI executive, or his deputy for program planning and management, will have to be actively involved in this step, since it will involve technical, political, budgetary and interagency questions. This is where many of the strategic choices discussed in Section 3 will come up. With the staff support of the planning unit, involvement of the technical directors, and in coordination with the national planning agency, there will have to be decisions regarding priorities, resources, and potential impact.

Once the broad decisions have been made, and the target group of municipalities selected (perhaps 20 out of 100, for example), then local planning begins. MDI technicians return to the selected communities to carry out a joint exercise with the municipality, refining the diagnosis, setting priorities, contracting other involved agencies, and developing a joint work plan of the sort described in Subsection 3.3.

The local plans are then delivered to the MDI, and are the basis for allocating the resources of the various units, determining staff

STEP THREE:

APPLICATION FOR PROGRAM PLANNING

CATEGORIES
(From Step Two)

National Urban Centers

San Mateo

Regional Centers

Piedras Negras
San Ramon

Subregional or Rural Centers

San Pablo
El Rosarito
Ensenada

Rural Satellites

Los Baños

STRATEGIC DECISIONS
Resources, Needs,
Impact, Priorities

PRIORITY
CATEGORY

LOCAL PLANNING
Analysis of Key Indicators,
local planning, checking
national, agency, regional
plans.

San Ramon
Local Govt. Plan
With MDI: Other Sources
Projects: Min. Pub. Wks
Training: Water Co.
Finance: Electric Auth.

Ensenada
Local Govt. Plan
With MDI: Other Sources
Projects: Min. Trans.
Training: Min. Agri:
Admin.: Rural Elect.
Reform

PLANS AGGREGATED
Functional, Financial
Needs Totalled by Category

LOCAL PLAN

San Ramon
Local Plan

LOCAL PLAN

LOCAL PLAN

Ensenada
Local Plan

LOCAL PLAN

LOCAL PLAN

INSTITUTIONAL PLAN FOR MDI
Program Goals, Targets,
Resources

ANNUAL PLAN
Technical Assistance
Training
Credit

Staff
Funds
Equipment, space, etc.

LONG-RANGE

Program and Financial
Plans

Basic Studies, Reforms

Implementation/Eval.

-----Checks and Coordination with National, Regional and Agency Plans-----

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needs, capital requirements, assistance packages, credit policies, training needs (for MDI staff as well as municipal functionaries), and administrative and financial support requirements (see Subsection 3.2). The institutional plan is developed in terms of the timing and activities established at the local level, though the MDI technicians working with the local planners will have checked the commitments with the MDI before making them final (so as to avoid making commitments beyond the capacity of the MDI). Local planning may also include the contracting group used in data collection if the MDI field staff is too limited and the contractors have the capability to assist.

The long-range elements of the MDI plan are drawn from the broad analysis of municipal needs and the general data base, providing a picture of what resources and system reforms will be required to reach a desired level of municipal capacity and improvement of socioeconomic conditions.

d. Elapsed Time:

Again, the decision-making process is difficult to predict, but hopefully that could be worked through in one or two months. Local plans, on the scale envisioned (see below), could be developed in selected municipalities in two to three months. Institutional planning (the annual plan and budget) might take two months, overlapping in some degree with local planning. The long-range element of the MDI program can be developed at a more leisurely pace.

e. Considerations:

Implicit in this approach is the assumption that the MDIs cannot expect to assist all municipalities equally--there will be some which merit more attention because of the severity of their problems, others because of their existing, or potential, importance.

Our diagram shows priority for Regional Centers and Subregional or Rural Centers. This is partly illustrative, but also because we would expect, based on our experience, that these are the two categories where MDI resources can probably best be applied in most countries. One finds

that the National Urban Centers are generally assisted by national and regional agencies, and require solutions beyond the financial and human resources of most MDIs. The Rural Satellite Towns will require assistance, but, again, resource limitations will restrict most MDIs' abilities to reach such places, and the payoffs may be limited. Alternative strategies for such places include:

- a. Giving national technical agencies the job of installing basic social infrastructure in the rural satellites;
- b. Developing intermunicipal solutions for specific objectives, (such as electrification) which has been proposed but not yet widely implemented in Guatemala, the Dominican Republic and Costa Rica; or
- c. Consolidating such municipalities into special subregional units. While this may be the most logical solution, it is, like the intermunicipal approach, politically difficult to achieve--the trend is the reverse, to multiply the number of local governments.

Once the general strategy and policy choices have been made, the focus returns to the local level, using the diagnosis developed in the first steps to create plans and project priorities in each field (physical development, finance, administration, civic consciousness, etc.) seeking ways of solving the development problems and improving the capacity of local government to implement the solutions along, or jointly, with the MDI, other national agencies, or regional entities.

In using the term "local planning" we run a risk of being misunderstood. Below is our concept of the term.

EXHIBIT 5-4

TERMINOLOGY: Local Planning

As used in this report, local planning is a broader--and, initially, more simple activity--than the kind of urban planning usually practiced in Latin America which emphasizes land use and zoning (*planes reguladores*). Our idea is probably closer in concept to the "simple guide plans" mentioned in the recent Rivkin/Carson report for AID (see Annotated Bibliography, Item 3). Drawing on a diagnosis and profile of development and municipal capacity, the MDI and the municipality prepare annual and longer-range investment and municipal reform plans. This may precede the more formal, technical urban planning where that is appropriate, but it is important, initially, that it can be learned and applied by local officials under MDI guidance as a first step toward program budgeting and project identification in municipalities which cannot afford or support a full-scale effort. Our concept also goes beyond plan production and assumes joint MDI-municipal work plans, implementation, monitoring and evaluation for plan revision.

Local plans should show what is to be done, by whom, where, and when, including actions to be taken by the MDI regarding projects, administrative improvements, technical assistance on finances and taxation, training requirements, detailed diagnoses or studies, and the mobilization of technical and financial resources of public and private agencies at various levels.^{1/} These plans should, of course, be developed in consultation with such regional plans as may exist, or include checking with national agency representatives or planners.

Establishing the local joint work plan with the municipality will be a kind of bargaining process between the municipality, the MDI, national or regional technical agencies, and the community. It will require that MDI personnel be specially trained and well supervised.

The MDI program now begins to take form in terms of changes to be effected at the local level. The MDI builds up its operational program from packages of project and process assistance to be delivered to specified

^{1/} See Annex B, Example 9.

places, rather than from departmental estimates by function. The application of these packages is assigned to the MDI's appropriate functional units and/or regional offices. The institution's budget takes form, and contains rational justification in case it calls for additional national revenues or international assistance.

The MDI may identify new staff requirements, or training needs for existing staff. It may find that it must work out a formal agreement with one or more outside entities for technical assistance or joint programs in municipalities which have special problems outside the MDI's capacity. It may want to define municipal training needs and contract with a domestic university, institute of public administration or urban development entity to carry out the program.

This process should also reveal major obstacles to development which may be due to anachronistic laws, weak or missing institutions or programs, or other fundamental factors requiring either reform, other action or full-scale research to define appropriate solutions. The logical process should also yield, in most cases for the first time, a rough picture of the totality of municipal needs, allowing both the MDI and national planners to make longer-range projections and plans for filling them. The process might contribute to a generalized model (or models) of what a municipal government should be, thus setting a more defined goal toward which to work. And finally, the process will provide an evaluatable program expressed in terms of clear, specific targets, a more objective basis by which the performance of MDIs may be judged, primarily for internal use in improving that performance, and secondarily for external use by national authorities, the municipalities, and, if necessary, by international observers.

5.5 STEP FOUR: Implementation/Evaluation

There is little to add here that has not already been covered elsewhere in our report, primarily in Section 2. The program of the MDI will have built into it the work plan for its various units, in terms of specified timing, activities, and end results. The planning unit is

responsible for tracking the implementation, preparing summaries for the executive and department heads, and looking into both internal and external factors which cause variances in the program. There must be effective coordination with national and regional planners, with the national planning office, and other entities in the municipal system.

Some elements of the programming process are continuous and simultaneous with the implementation phase. Local planning may begin with a new group of municipalities. The descriptive data base will be completed, expanded and kept up to date.

The initial set of indicators will not be thrown away once the planning has been done. They should be pulled out and re-checked periodically, perhaps every two or three years as another measure of impact of the municipal development program.

5.6 Summary

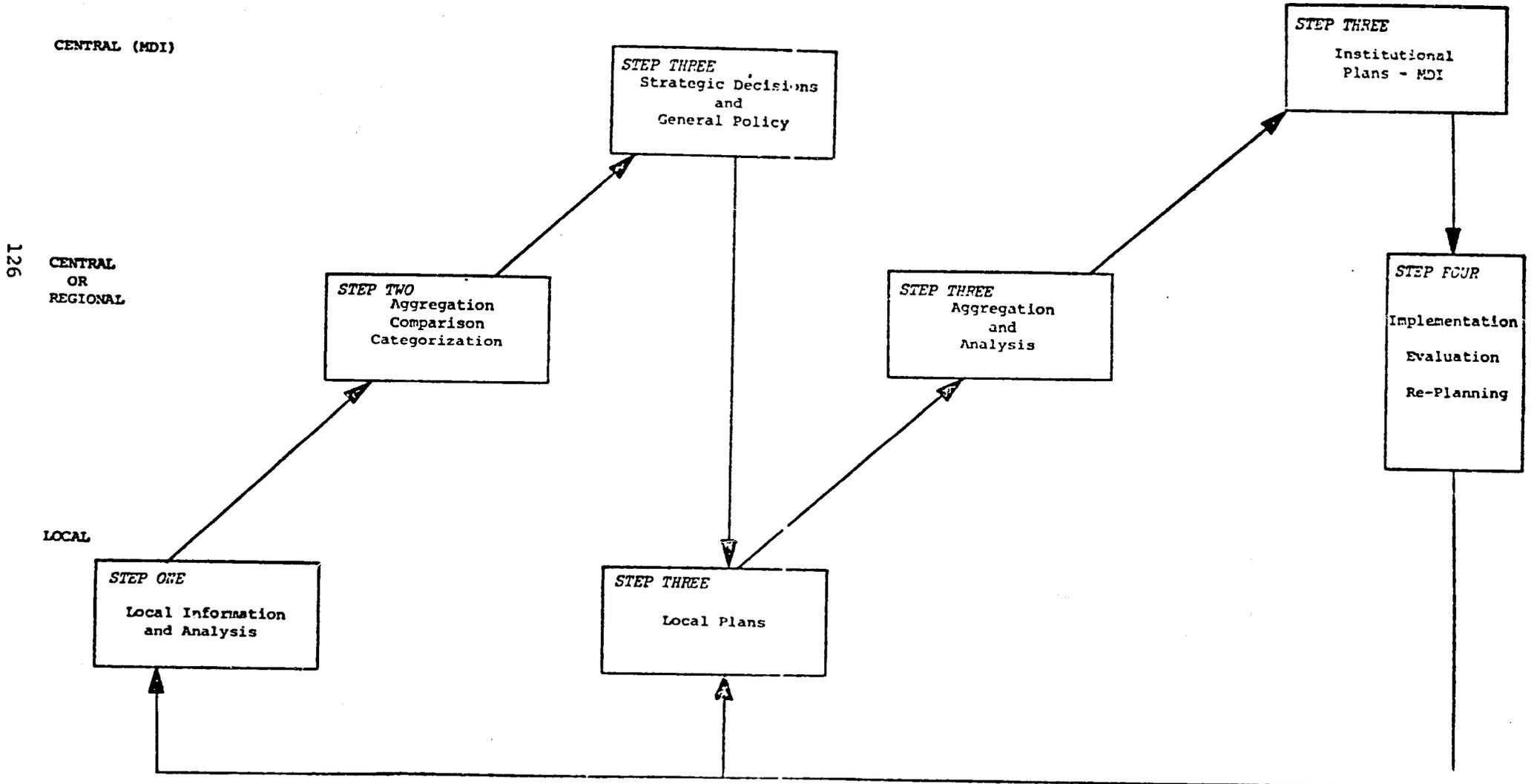
The process is summarized graphically in Exhibit 5-5 on the next page, and our hypothetical estimates of timing of the steps and their elements are aggregated in Exhibit 5-6.

To condense the logical programming process to its basic elements, it consists of the following:

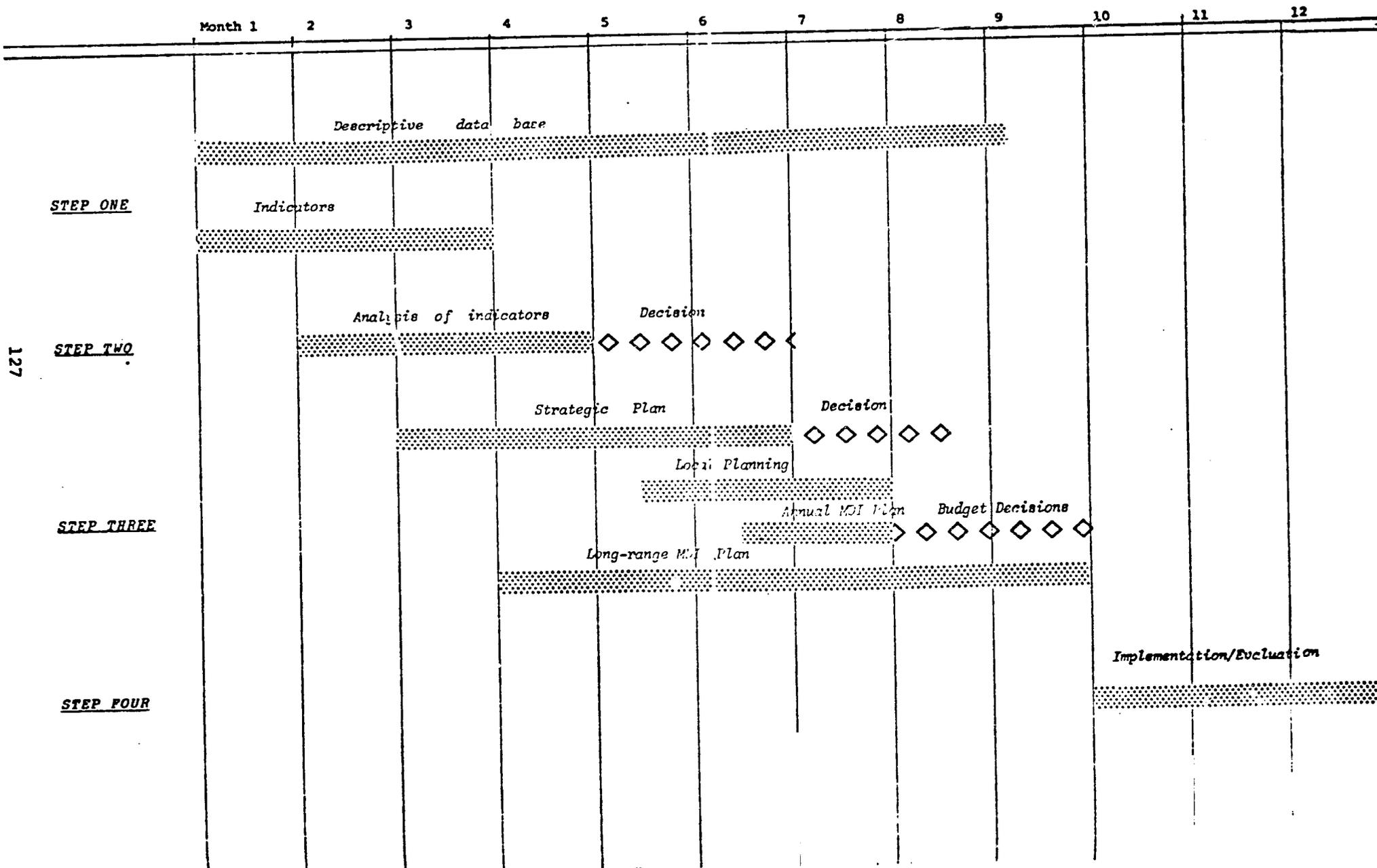
- a. The MDI builds its programs from diagnostic information gathered at the local level, rather than speculative estimates and often subjective demands;
- b. The MDI develops a strategy and plan of its own, linked to regional plans, but not totally defined externally; and
- c. The internal plans and arrangements of the institution are derived from specific, planned results and changes anticipated at the local level, as a clear and relatively objective basis for evaluation, re-planning, and if needed, reorganization and revision of the strategy.

It should be stated once more that we recognize that the application of this approach will vary widely from one country situation to the next, depending on political realities and cultural traditions, technical

SUMMARY OF LOGICAL PROGRAMMING



TIMING OF LOGICAL PROGRAMMING PROCESS



capacity of the MDI and local administrations, and the creativity which is applied in adapting this material. The creativity will involve applying complex concepts on a broad scale, finding what may be modest but useful solutions during the early stages, and bringing in specialized, technical talent where it is most needed.

The summary of the process shows it as a closed circle, which in many ways it is. Programming is not a once-a-year exercise in our concept-- it is continuous, part of the life of an institution and its activities. The goals and targets should not be rigid, and evaluation should be the tonic which keeps the program alive. When it is necessary to make adjustments because of unexpected events or external factors, changes in objectives and resources should be made, and the reasons made explicit. The summary Exhibit also shows that the program is a constant interaction between the local, national (and where appropriate, regional) levels at all stages. This is, of course, the essence of municipal development.

ANNEX A

ANNOTATED BIBLIOGRAPHY

The following citations refer to documents obtained primarily from the AID Reference Center, selected here for their usefulness in presenting basic issues related to municipal development, and for their value as guides to other technical literature.

Discussions of Strategy

1. James C. Miller, Regional Development: A Review of the State-of-the Art (Washington, D.C.: Office of Urban Development, August, 1974).

In fewer than 65 pages, Miller presents the rationale for spatial planning of development as a conscious strategy involving the development of secondary urban centers. In addition to a succinct review of current analytical literature, a number of examples of country experiences in developing (especially Latin American) and developed countries are summarized and evaluated. A good basic reference.

2. Public Administration Unit, Department of Economic Affairs, Organization of American States, "The Financial Situation of the Municipalities and the Role of the Central Government in Latin America", prepared for the Seminar on Central Services for Local Authorities, Rio de Janeiro, May-June, 1968 (Washington, D.C.: Organization of American States, 28 January 1969). Original in Spanish.

Attacks clinging to "utopian concepts of autonomy" when the reality is that the scope of services expected to be provided by local governments (according to law) is very broad in most Latin American countries, while the resources are limited and municipalities have a real financial dependence on central governments for subsidies. A better approach is to establish norms, controls, and municipal banks and make the local governments integrated partners in national development by limiting, defining and delegating what they really can and should do. Assistance in tax and financial administration should be accompanied by credits and conditional grants, linking major projects to regional and national goals. Urges that central funding and technical assistance should favor strengthening smaller towns, and that a central body should have power to approve local budgets.

3. Rivkin/Carson, Inc. Land use Programming and the Intermediate-Sized City: A New Challenge for Developing Countries

(Washington, D.C.; Office of Urban Development, Bureau for Technical Assistance, (TA/UD), Agency for International Development, October, 1974), to be published by Praeger during 1975.

Drawing on case studies in Brazil, Malaysia and Turkey, the study presents the development problems of "non-primate" cities in terms of land use planning and control, a disciplinary label which is somewhat broadened and softened by the content of the report and a definition of the term by the client office of AID, TA/UD. Reviews information problems, varied levels of sophistication in planning, and political, administrative and manpower constraints. Recommends pilot projects in intermediate city development using international assistance. Useful review of necessary pre-conditions for such projects, as well as a presentation of criteria for identifying intermediate cities (population of 100 - 500,000 or increasing development complexity, rapidity of growth, non-primate character), pages 135-140. AID has broadened the criteria, specifying regional importance, primarily agricultural based economy, in addition to the above. TA/UD is now designing three pilot projects, one each in Latin America (Nicaragua), Asia (Thailand) and Africa (a West African Country to be identified).

4. Louis A. Rouse, "The Agency for International Development and the Municipality in Latin America," The XII Inter-american Municipal Congress and the Special Session of the Hispanic-Luso-American-Philippine Municipal Congress (New Orleans, December 11, 1968).

Identifies 5 project areas related to local government development in which AID has assisted, pointing out that they are disbursed and fragmented. Argues that "effective local government needs greater recognition as one of the institutions vital to sound and continuing social and economic development." Emphasizes that "the distribution of municipal, urban, community and rural responsibility for development must begin with a rational distribution within and among all levels of the governmental and political policy and power structure." Offers brief reviews of AID projects in support of FUNDACOMUN, IBAM, INFOM, and the Liga Municipal Dominicana.

5. Urban Development Division, Organization of American States, "Program Memorandum: Urban Development Program" (original in Spanish, Washington, D.C., April 15, 1975).

An internal and preliminary proposal for the OAS assistance program in urban development for the next five years calls for a four-part program: (1) Integrated Urban Development, (2) Improvement of "substandard residential areas", (3) Training in urban planning and (4) Information services on urban development. The first part involves assisting member states in developing "national urban systems" which among other things means establishing a hierarchy of cities and towns, formulation of national strategies and policies for decentralization, and supporting improved coordination among levels of government.

Analysis of the Management Dimension

6. Mark W. Cannon, "Interactive Training Techniques for Improving Public Service in Latin America," in Development Administration in Latin America, ed. Clarence E. Thurber and Lawrence S. Graham (Durham: Duke University Press, 1973). pp. 148-187.

Consistently emphasizing the needs and sensitivities of Latin administrators, Cannon reviews the requirements for improved training in government services, the methods commonly used in Latin America, (lectures and workshops, generally authoritarian in nature) and the effects of these methods on administrative and decision-making styles. He then reviews methods being employed in and for Latin America, emphasizing the case study method, and noting the absence of well-prepared materials related to public sector problems in the Latin context. The potential and limitations of human relations laboratories, games, programmed instruction, commercial training systems, and supervised internships are reviewed, with useful references to current applications, articles and books. The paper concludes nine specific recommendations on research, organization, and delivery of training.

7. William O. Hall and others, "Draft Report on the Work Group for the Review of the Programs in Management Improvement and Development Administration of the Agency for International Development" (Washington, D.C., Agency for International Development, 1975).

An early draft (now superceded by a paper based on AID/Washington and Mission comments), the paper analyzes the management component of foreign assistance, especially under the terms of sectoral programs and in relation to the "new mandate" which will require strengthened and more responsive local institutions. 40 recommendations cover AID programming and management policies, sectoral program approaches, research and development, relationships among donors and with developing countries, exchange of information, and general managerial training and advisory services. Possibly voices crying in the wilderness, the work group's ideas potentially would have the effect of improving the institutional impact of aid, possibly at the cost of slowing down the pace of it.

8. Jack Koteen, "Key Problems in Development Administration", Staff Paper (Washington, D.C.: Technical Assistance Bureau, Office of Development Administration, Agency for International Development, February, 1970).

Among four broad "problem areas" discusses "lack of capacity for local action: the inadequacy of local government and central field services," "identifying low priority for local development, weak national institutions for local development, lack of financial capacity at the local level, lack of planning capacity at regional levels, lack of managerial capacity, absence of partnership between central and local authorities, and low level of popular participation. As our report illustrates, these problems persist, and effective means of altering them remain to be developed.

9. Padco, Inc., Strengthening Urban Administration in Developing Countries with Emphasis on Latin America. Ideas and Methods Exchange No. 67, prepared for the Agency for International Development (Washington, D.C.: Department of Housing and Urban Development, July 1971).

Though introduced as "tentative" and "speculative", offers a useful and thorough review of a broad range of problems in Latin American urban administration, development planning and coordination, data and information gaps, including references to specific countries and to useful literature. Emphasizes the importance of integrating urban development as a major factor in national development planning, and of establishing national policies and norms to guide other levels of government. Argues for the application of simplified systems approaches.

Reviews of Techniques

10. Drs. Orlando Elbittar and Andres Santos Lopez, "Bases para la Creacion de Bancos Municipales a Nivel Nacional" (Bases for the Creation of National Municipal Banks, Caracas, Venezuela: AVECI, March 1972) presented at the Interamerican Seminar on Municipal Banks.

Discusses policy and practical matters, including the need for such institutions, their functions, financing, organization. Focusses primarily on the banking function, with little discussion of other elements of municipal development.

11. Cheryl A. Lassen, "Planning for 'Integrated' Sub-National Change: Salient Issue Areas", paper prepared for Technical Assistance Methodology Division, Agency for International Development (Washington, D.C., February 1975).

A participant in a summer work-study program, Ms. Lassen reviews various criteria for regional development approaches, (river basin, intensive agricultural development, frontier settlements, growth poles, etc.), and perhaps most usefully, provides a summary and technical references on surveys and data-gathering, using macro-social accounting and aerial photographic surveys. Extensive bibliography on these topics.

12. Stanford Research Institute, "Participatory Democracy Through Effective Institutions", a report on Title IX of the Foreign Assistance Act (Washington, D.C.: Agency for International Development, December 1970).

The report calls for better definition of Title IX objectives, collection of baseline data as a basis for more precise evaluation, and more effective programming to achieve results and reach intended target groups. Based on various case studies, including a rice productivity project in the Philippines, the report distinguishes between various kinds of participation: (1) decision-making participation, (2) implementive participation, (3) distributive participation, and (4) integrative participation. Offers indicators for measuring each of the above. Criticized by covering AID airgram for stating the obvious and demanding ideal performance not possible when AID Mission staffs are being reduced.

13. Albert Waterston, "Administrative Implications of Increasing Sub-National Regional Planning", delivered at the Interregional Seminar on Organization and Administration of Development Planning Agencies, Kiev, October 1972 (United Nations Document ESA/PA/AC. 1/6, 31 August, 1972).

A concise and, as usual with Waterston, sensible review of the rationale for regional development recognizing the problems with it, such as delayed resource allocation and coordination problems during implementation. Describes various approaches used in countries like Yugoslavia, Spain and Brazil. Emphasizes localizing planning as much as possible, involvement of existing local groups and less direct involvement by central government technicians. Counsels that new data systems may have to be less precise and mathematical than technicians would want, but carefully defined so they can be decentralized. Mentions project to train rapidly large numbers of regional planners using programmed materials.

ANNEX B: EXAMPLE EXHIBITS FROM COUNTRY STUDIES

ANNEX B

EXAMPLE EXHIBITS FROM COUNTRY STUDIES

ANNEX B - Introduction

The exhibits presented on the following pages were prepared during our evaluation of IFAM and INFOM. We are including them in this report as examples of the country-level findings discussed in Sections 1 and 2, of some of the conceptual material in Section 3, and the points made regarding AID's involvement in Section 4.

The exhibits are preceded by a brief explanatory note on their significance, and are cross-referenced to the text of this report.

The Exhibits are:

- B- 1 Basic Service Needs of Guatemalan Municipalities
- B- 2 INFOM Lending Activity - 1970-74
- B- 3 Distribution by Percentage of Total Loans Made by INFOM
- B- 4 Credit Assistance ... INFOM ... Budgeted and Actual
- B- 5 AID Project Expectations and Evaluation Findings (INFOM)
- B- 6 Proposed Organizational Model for INFOM
- B- 7 Relationship Between IFAM's Loans and Administrative Reform
- B- 8 Distribution of Executive Director's Work Month
- B- 9 Example of Joint Work Plan
- B-10 Planning and Utilization of Research

EXAMPLE EXHIBIT B-1

This table was the result of an eight-week survey of the basic service needs of Guatemalan municipalities. The survey was carried out by INFOM's new planning unit as part of a self-evaluation. It is indicative of two things:

- a. The fact that nationwide basic data can be rapidly assembled when a clear priority is placed on doing so; and
- b. The limited content of surveys being conducted by the municipal development institutions. This survey is symbolic of INFOM's rather narrow concentration on sub-project activity.

In the text, see 3.2.1, 5.2.

EXHIBIT B-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	

^aExcludes municipalities of Guatemala City and Nueva Concepcion. Data adapted from Plan Basico, table 1-15.

^bOf municipalities.

Source: Plan de Apoyo Básico - 1975

EXAMPLE EXHIBIT B-2

Checchi combined two tables included in INFOM's internal Plan de Apoyo Básico to show the pattern of "effective" lending policies as reflected in the Institute's allocation of subloan funds and numbers of projects for each type of subproject. The table also shows the allocation of projects by category of municipality (based on population ranges), and gives a breakdown of how funds were allocated according to sources of funds (INFOM capital, and loan funds from the Interamerican Development Bank and AID).

In the text, see 2.2.5, 3.2.4.

EXHIBIT B-2

INFOM Project Lending Activity - 1970-74

PROJECT	By Municipal Category								By Source of Capital						TOTAL	
	Category 1		Category 2		Category 3		Category 4		AID ^b		IDB ^c		INFOM ^d		Amount	Number
	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	85	72	77							285	87%
Water	466,433	30	651,823	41	326,854	21	126,862	8	132,429	6	495,214	10	1,034,339	84	1,571,982	100
Drainage/Sewage	90,089	19	209,646	45	123,201	26	45,707	10	18,279	1	39,038	9	360,328	38	468,645	47
Paving/Bridges/Rural Roads	188,968	31	413,626	113	92,846	46	10,566	19	--	--	--	--	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	--	--	--	--	683,957	65	688,957	65
Markets	1,289,040	33	1,679,288	43	599,286	15	343,903	9	789,025	44	--	--	3,122,486	92	3,911,511	136
Health Posts	--	--	48,409	23	103,262	49	59,519	28	162,870	36	--	--	48,326	10	211,196	46
Slaughterhouses	120,309	42	39,423	13	103,202	31	34,134	11	141,990	20	--	--	161,314	12	306,215	40
Miscellaneous	268,132	46	276,656	47	19,622	3	21,328	4	--	--	--	--	565,739	48	585,736	43
TOTAL	2,756,692	28	4,366,496	45	1,762,533	18	856,213	9	1,244,503	115	495,252	19	8,032,178	633	9,741,934	766

Source: Plan de Apoyo Basico - 1975 - Checchi and Company adaptation.^aIn Quetzales^bAs of September 1974^cAs of September 1974^dAs of September 1974

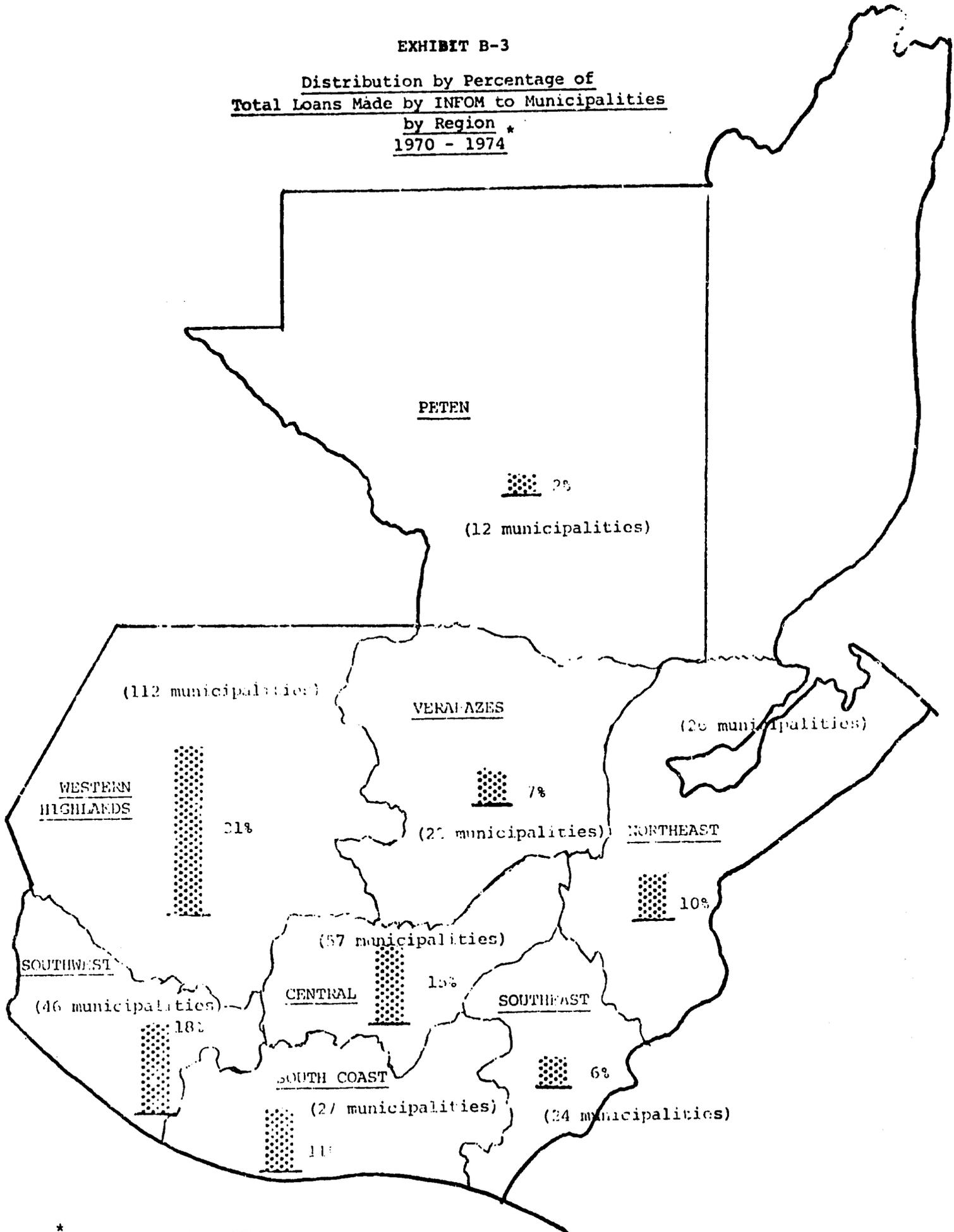
EXHIBIT EXAMPLE B-3

This outline map of Guatemala, divided into the proposed development regions shows the geographic allocation of INFOM's municipal credit funds. The pattern is apparently one of even distribution, although the exhibit would be more meaningful if the regions' population figures had been available for comparison.

In the text, see 1.3.

EXHIBIT B-3

Distribution by Percentage of
Total Loans Made by INFOM to Municipalities
by Region *
1970 - 1974



* As of September 1974

Source: Plan De Apoyo Básico - 1975

EXAMPLE EXHIBIT B-4

The bars in this chart reveal the rather striking variances between projections of lending activity as presented in INFOM's plans and budgets, and the actual results. It also illustrates the difference between planned obligations of foreign loan funds (shown as more or less constant for 1972, 1973, and 1974) and the actual pattern of slow startup followed by rapid subloan processing and approval. We have argued that these patterns could be changed through better program planning and more thorough AID project design.

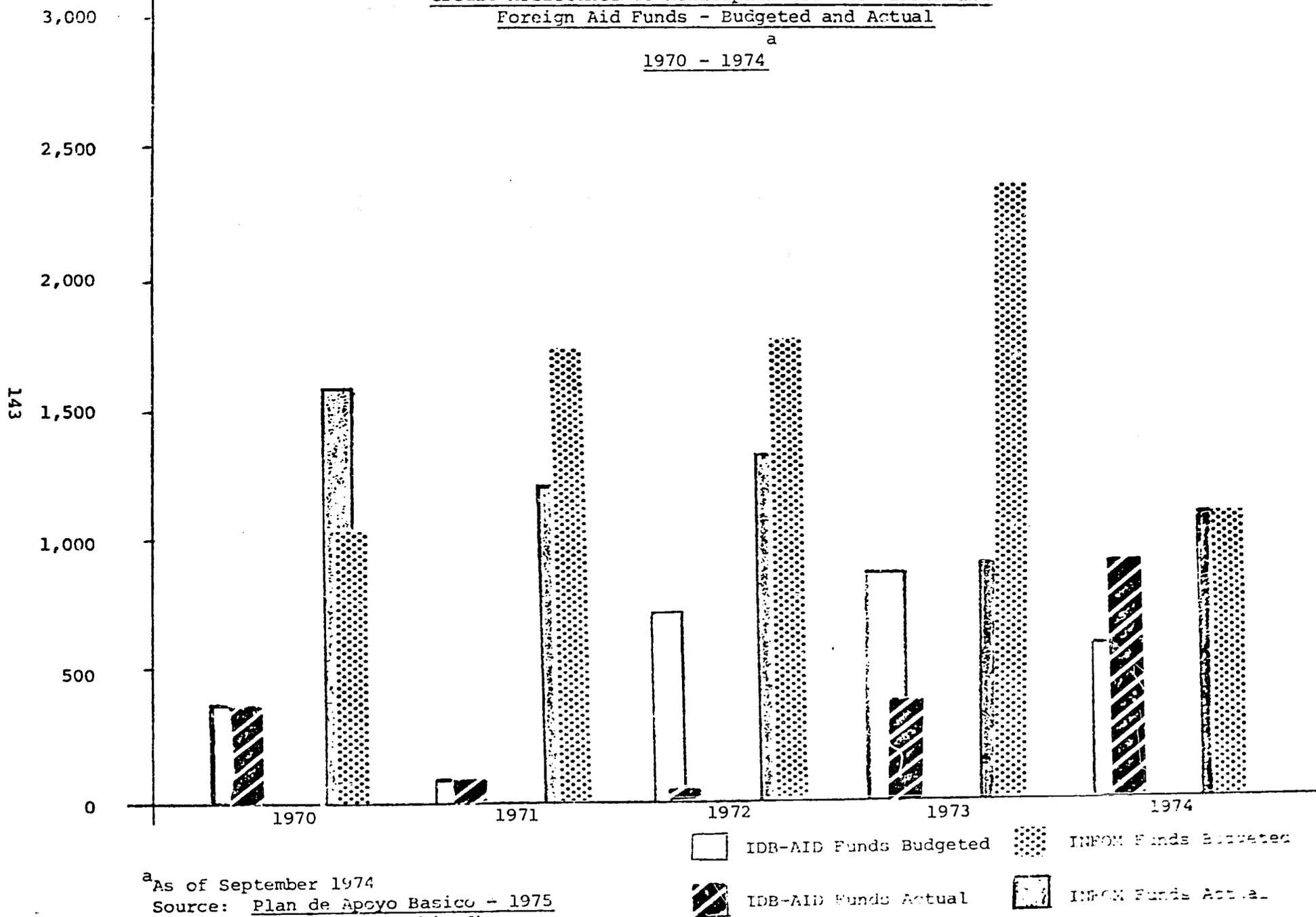
In the text, see 2.2.2., 2.2.7, 4.2, 4.3, 5.4.

Thousands
of
Quetzales

EXHIBIT B-4

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

^a
1970 - 1974



EXAMPLE EXHIBIT B-5

We took the language describing project objectives and expectations in the Capital Assistance Paper for AID's loan in INFOM, and compared it against our evaluation findings. The purpose was to focus on the kinds of statements made in loan papers, and to point out the pitfalls of assuming that lending activity, without accompanying institutional inputs and changes, will result in better municipal administration and development. This analysis also revealed the problem of stating that the project will have economic impact when the subproject types are not essentially economic in nature.

In the text, see Exhibit 1-1 and 3.2.2., 4.2.

EXHIBIT B-5

AID Project Expectations and Evaluation Findings

PROJECT EXPECTATIONS¹

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

EXHIBIT B-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.

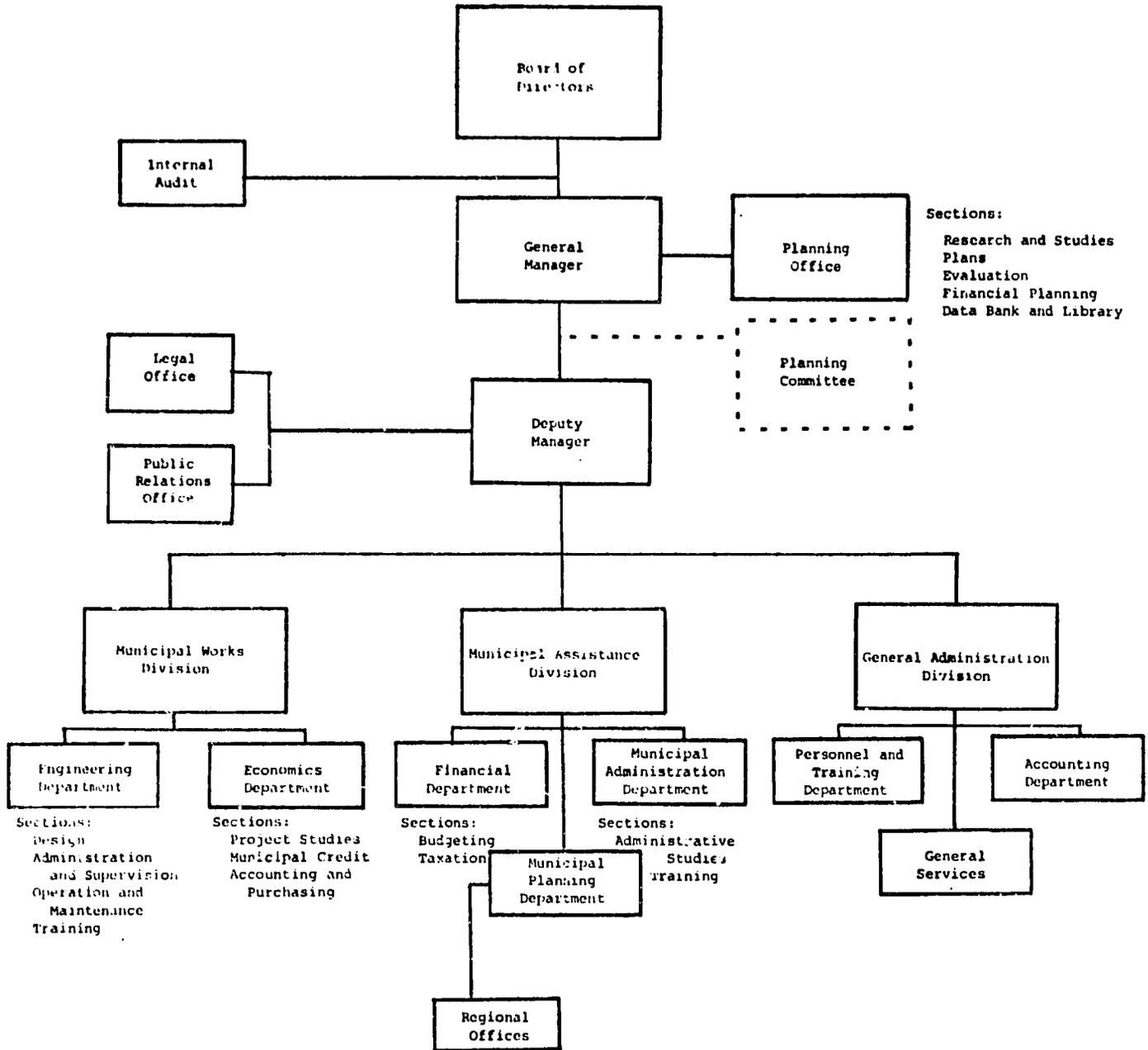
¹Source: AID Capital Assistance Paper, INFOM--Small Municipalities Development Fund, June 23, 1969, pages 15-19.

EXAMPLE EXHIBIT B-6

At the time of our visit to INFOM, the new management was engaged in a thorough review of the Institute's program, organization, and administrative support functions. This tentative organizational model represents one of several ideas for bringing more balance into the structure, and as a way of resolving the specific problem of having three engineering units, and only a small staff to look after the process side of municipal development. This proposal groups the process functions under the Municipal Assistance Division, and the project activities, both engineering and economic, under the Municipal Works Division. We also discussed the possibility of instituting a Planning Committee, consisting of the Manager, his Deputy, the head of the Planning Office and the Division Chiefs to develop program plans and review performance.

In the text, see Exhibit 1-4, and 1.5, 2.2.4, 2.2.6, 3.3.

EXHIBIT B-6
Proposed Organizational Model for INFOM



Source: Checchi and Company.

EXAMPLE EXHIBIT B-7

Our evaluation of IFAM focussed on the relationship between lending activity and administrative reform, to see to what extent these elements had been linked during IFAM's first two years of activity. The table shows that subloans were infrequently used as an opportunity to institute reforms other than those directly related to subloan amortization. Technical assistance and financial assistance were seen to be insufficiently coordinated to achieve concentrated impact in the client municipalities.

In the text see 1.5, 2.2.4, 3.3, 5.4.

EXHIBIT B-7

RELATIONSHIP BETWEEN IFAM LOANS AND ADMINISTRATIVE REFORM

Period	Number of Loans	Number of ^{1/} Municipalities	Admin/Financial ^{2/} Studies Done		Numbers and Types of Admin. Conditions Required ^{3/}						Responsibility for Assistance	
			Dept. of Operations	TA Dept.	None	Admin. Study	Finan. Admin. Study	Apply ^{4/} Reforms	Cadaster. ^{5/} Rate Reform	Other ^{6/}	TA Dept.	Operations Dept.
Last Quarter 1971	5	5	3	0	3	0	2	0	0	0	1	1
First Half 1972	9	9	5	4	0	0	3	4	0	2	8	1
Second Half 1972	22	19	2	5	4	0	3	0	15	0	16	3
First Quarter 1973	12	8	0	0	4	0	0	0	6	2	3	4
TOTALS	48	41	10	9	11	0	8	4	21	4	28	9

1. Seven municipalities received more than one loan from IFAM.
2. Listed according to loans approved, rather than municipalities.
3. Have grouped certain conditions, as explained in following notes.
4. Nearly all conditions imply application, but certain ones refer to general reforms.
5. Includes rates for public lighting, trash collection, street lighting, road repair, water services.
6. Includes insuring equipment purchased with IFAM loan, establishing rents, insurance on buildings.

SOURCE: Checchi Summary of IFAM Department of Operations Document.

EXAMPLE EXHIBIT B-8

We asked the Executive Director of IFAM to estimate the amount of time he spent on various internal and external activities. The pattern shown here was observed in the other MDIs, giving rise to our observations about the "Technical management" vacancy.

In the text, see Exhibit 2.3, and 2.2.3, 4.6.

EXHIBIT B-8

Distribution of Executive Director's Work Month

<u>ACTIVITY</u>	<u>WORK DAYS</u>
1. Board of Directors - Preparation and Meetings	6
2. Departments Of Operations, Technical Assistance, Legal	3.5
3. Departments of General Services and Accounting; Handling General Correspondence	4
4. Technical Commission Meetings	1
5. AID Meetings, contacts	1
6. Special Projects	2
7. Meetings with Municipal Delegations	2
8. Interagency Meetings	2
9. International Visits, contacts	1
	<hr/>
	22.5

EXAMPLE EXHIBIT B-9

As one of our recommendations to IFAM, we developed a rough model of a joint municipal-MDI work plan which identifies the nature, timing, and sequence of tasks to be performed by the municipality, the MDI, and other technical agencies. This chart is a graphic summary representation of the concept.

In the text, see Exhibit 5-4, and 3.3, 5.4.

EXHIBIT B-9

EXAMPLE OF JOINT WORK PLAN
(Ejemplo de Plan de Trabajo Conjunto)

RESPONSIBLE ENTITY
(Entidad Responsable)
TYPE OF WORK
(Clase de Trabajo)

MONTH/TASKS (Mes)/(Tareas)								
0	1	2	3	4	5	6	7	8

MUNICIPALITY
(Municipalidad)

Admin.
Financial
Project

a				b				
		c				d		
		e		f				

Reformas Administrativas: a(Details-^{1/}Detalles) b(-----)
c(-----) d(-----)

Reformas Financieras:
Planeación y Ejecución del Proyecto e(-----) f(-----)

IFAM

Technical Assistance
Operafions

a				b		b		b
		c				d		d

Asistencia Técnica a(-----) b(-----)
Operaciones c(-----) d(-----)

OTHER AGENCY
(Otra Agencia)

Planning
Materials
Equipment

a								
		b						
		c						

Planeamiento a(-----)
Materiales b(-----)
Equipo c(-----)

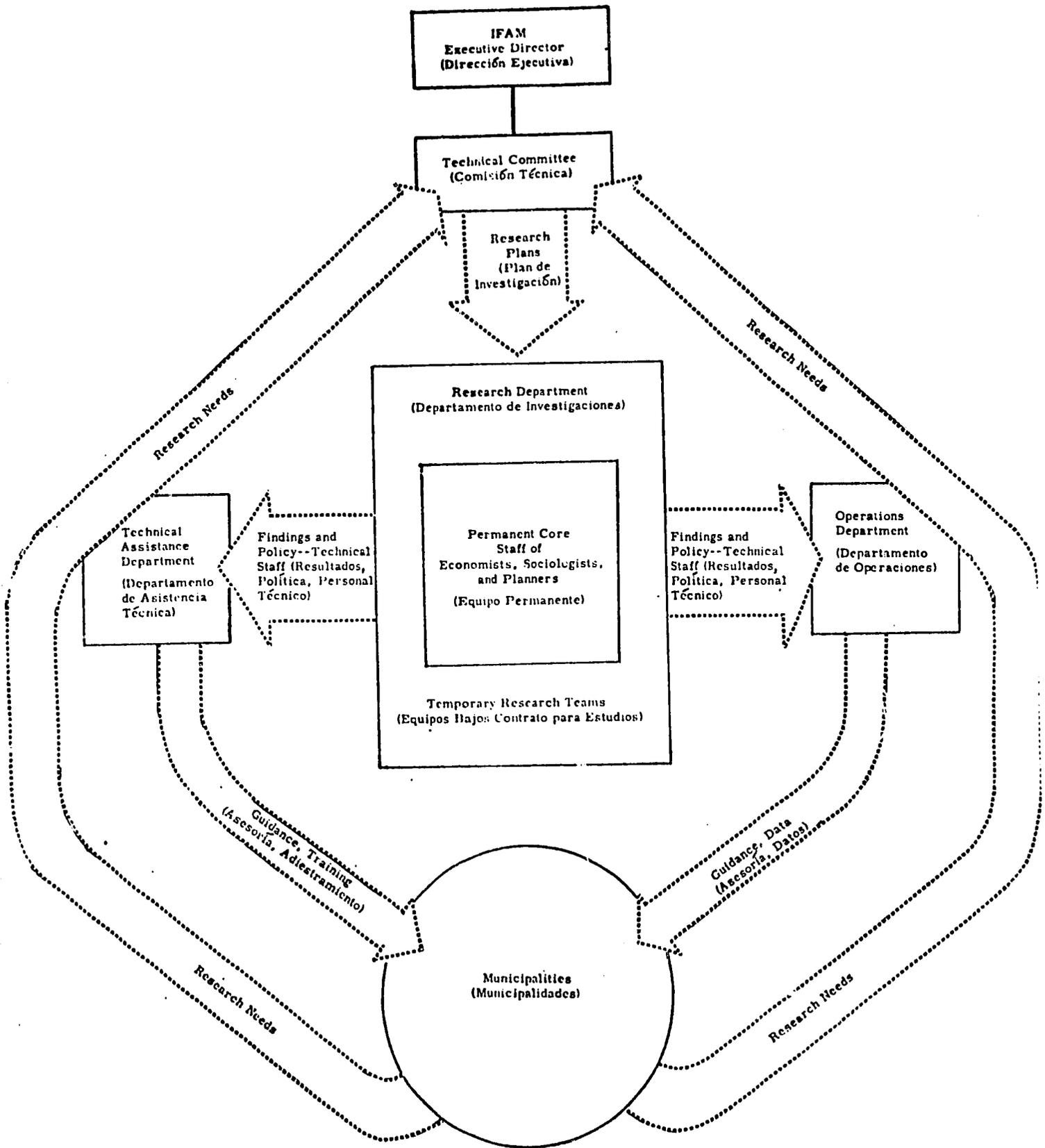
^{1/} Brief phrases explaining work (Frases breves que expliquen el trabajo)

EXAMPLE EXHIBIT B-10

Our study of IFAM (and subsequently of the other MDIs) showed that there is a general problem of how to identify research or study needs, how to carry them out so that they are useful, and how to adopt and utilize them. This chart was prepared to show research needs arising from field operations, defined and assigned by the top level of the Institute, and then carried out by a research unit augmented by outside specialists. It also shows the conversion of study results into policy and program operations.

In the text, see 2.2.2, 3.2.1, 4.9.

EXHIBIT B-10
PLANNING AND UTILIZATION OF RESEARCH
(Planeamiento y Utilización de Investigaciones)



ANNEX C: MATERIALS AND PERSONS CONSULTED

Mark W. Cannon, et. al., "Final Report: Technical Aid Program to FUNDACOMUN, Venezuela, April 1, 1963 - December 31, 1968" (New York, Institute for Public Administration, 1968).

Oscar Gómez Navas, "La Participación del Municipio en el Proceso de Regionalización," paper presented to the X^o Congreso Interamericano de Planificación in Panama, September, 1974 (Caracas: FUNDACOMUN, July 1974).

David Jickling, End of Tour reports on USAID Guatemala project on Public Administration and Municipal Development No. 520-11-790-176, May 1966 and May 1968.

G. M. Morris, et. al., "Municipal Improvement Project - Republic of Nicaragua: Final Report 1969" (Chicago: Public Administration Service, Sept. 1969).

Proyecto de Ley de Fomento a la Industria en el Area Rural, Costa Rica, late 1974.

Jennifer R. Thornley and J. Brian McLaughlin, Aspects of Urban Management, report on the Seminar on Urban Management held at Izmir, Turkey, May 29 - June 2, 1971 (Paris: Organization for Economic Co-operation and Development, 1974).

Garland P. Wood, Studying Agricultural Institutions: A Modular Approach, a summary report on the Agricultural Management Research and Training Project (Lansing, Michigan: Michigan State University, January 1974).

3. Persons Consulted

The complete list of all persons whom we interviewed would cover many pages, so we have elected to mention selected principal informants and identify groups of others contacted.

a. Country Visits

Costa Rica - Instituto de Fomento y Asesoría Municipal (IFAM)

Lic. Armando Arauz Aguilar, Executive Chairman.
Omar Aguilar Guitierrez, Executive Director.
Chiefs of Divisions and Technicians in the Divisions of Planning, Technical Assistance, and Operations, and heads of special projects.

Carlos Manuel Vicente Castro, (formerly) Minister of Government; Officials of National Planning Office; Central Bank, Community Development Bureau; Controller General's Office.

Consultants representing IBAM, CEISA, the OAS, Texas A & M University, AITEC.

Peter Kreis and Joe Sconce, former and present AID Affairs Officers; Thomas McKee, Robert Pratt, Katherine Balsis, Ana Sayaguez, USAID/Costa Rica.

Officials in 15 Municipalities.

Guatemala - Instituto de Fomento Municipal (INFOM)

Fernando Cabrera A., General Manager.
Isidro Morales Roldan, Acting Deputy Manager and Chief, External Loans Division.
Chiefs of Divisions and Technicians in the Divisions of Planning, Engineering, Water and Drainage, General Administration, and other units.

Miguel Vélez (Chief) and Miguel González, Servicios Técnicos del Caribe, Consultants to INFOM.

Officials and Consultants to the National Planning Council Secretariat.

Edward Coy, Mission director; Carl Koone and John O'Donnell, Rural Development Officers; and Darío Villatoro, Loan Office, USAID/Guatemala.

Officials in nine municipalities.

Dominican Republic - Liga Municipal Dominicana

Patricio Badía Lara, Secretary General.
Dr. Teófilo Severino P., Assistant to the Secretary General.
Chiefs of Departments of Inspection and Review, Loans, Municipal Planning, Aqueducts and Electric Plants, and Press and Public Relations.

John B. Robinson, Mission Director; Cristobal Tejeda, Multi-sector Officer, USAID/Dominican Republic.

Officials in five municipalities.

Venezuela - Foundation for Community Development and Municipal Development (FUNDACOMUN)

Orlando Elbittar, President; Rolando Grooscors, Director of International Programs; Chiefs of Planning, Municipal Development, Technical, Administrative Divisions; Internal Auditor; Technicians in Communal Action and Municipal Programs Bureaus; Acting Director and Technicians of Eastern Regional Office.

Dr. Rafael Ester Noda, Cadaster Advisor, Venezuelan Association of Intermunicipal Cooperation (AVECI).

Executives of Northeastern Regional Planning Office (ORCOPLAN) and Development Corporation (CORPORIENTE).

Officials of five municipalities

b. Persons Interviewed in Washington

Mark W. Cannon, formerly head of international programs (and consultant to FUNDACOMUN) at the Institute for Public Administration, New York.

Edwin "Tom" Chapman, Office of Development Administration, Bureau for Technical Assistance (TA/DA), Agency for International Development, and formerly advisor to the Liga Municipal Dominicana.

William Feldman, Development Administration Officer, Development Resources, Latin America Bureau, AID.

Lyle Fitch, President, Institute of Public Administration.

W. Scott Fosler, formerly IPA advisor on municipal development in Venezuela, Bolivia and Dominican Republic.

Jerome French, Chief, TA/DA, AID.

Eric Chetwynd, Jr., Office of Urban Development, Bureau for Technical Assistance (TA/UD), AID.

Philip Huber, Chief, Urban Development Division, Organization of American States.

Kenneth Kohnner, TA/DA, staff to the Hall Work Group on Development Management and Administration.

Paul Worthington, TA/DA.

William Miner, Chief, TA/UD, AID.