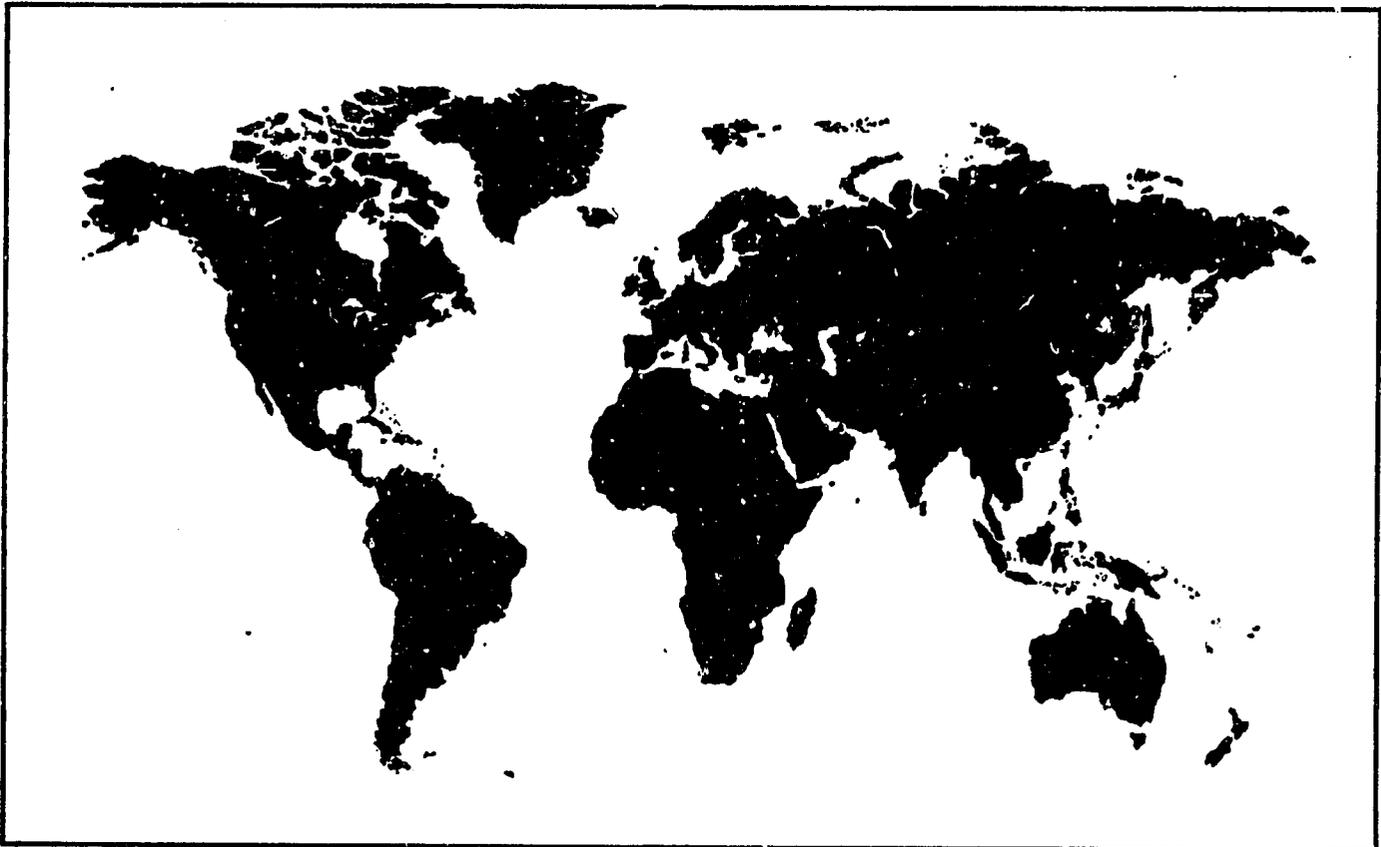


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# Urban Financial Management

## Phase II: Pilot Projects Summary

Final Report



Research Triangle Institute

## **URBAN FINANCIAL MANAGEMENT SERIES REPORTS**

The following reports have been produced by the Research Triangle Institute as part of its program of technical assistance and research in municipal financial management in developing countries.

- **Urban Financial Management Phase I: Case Studies and Analysis**  
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- **Urban Financial Management Phase II: Pilot Projects Summary Report**
- **Urban Financial Management Phase II: Prototype Property Tax Records System for Tunisia**
- **Urban Financial Management Phase II: Local Government Financial Management Workbook for the Philippines**
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**Urban Financial Management**

**Phase II Report**

**PILOT PROJECTS  
SUMMARY REPORT**

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**October 1983**

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## Chapter 1

### EXECUTIVE SUMMARY

This project was carried out as Phase II of the Urban Financial Management Project under the sponsorship of the Office of Housing and Urban Programs (PRE/H), Agency for International Development. Phase I of the project, completed by the Research Triangle Institute (RTI) in August 1982, consists of a series of case studies of innovative municipal financial management in eight developing countries and a set of recommendations for AID's continued involvement in supporting improved financial management at the municipal government level.

One of the major recommendations of the Phase I report was that AID focus its support in developing countries on strengthening central government agencies which are mandated to provide technical assistance to local governments. This strengthening of municipal development institutions was seen as the most effective mechanism for securing the widest possible impact of AID support.

In order to test the strengthening approach, PRE/H contracted with the Research Triangle Institute to demonstrate the approach in three countries. Two outputs of the project were specified in the work scope:

- a tested approach to capacity building in municipal financial management in three countries which can serve as models for institution building elsewhere
- production of prototype financial management tools including models and written manuals

The project was divided into four tasks which were carried out sequentially for each of the three countries selected for inclusion in the project. These tasks included: (a) selection of target countries and collaborating institutions within those countries; (b) establishment of collaborative agreements with host country institutions; (c) conducting of needs assessments and preparing scopes of work with collaborating institutions; and (d) carrying out the work.

The three countries were selected on the basis of (a) wide geographic and language coverage, (b) the existence of fairly well established institutions in the countries charged with technical assistance to municipal government, and (c) concurrence of the PRE/H, Regional Housing and Urban Development Offices (RHUDD), and the USAID missions in the target countries. The three countries selected were Tunisia, Costa Rica, and the Philippines.

Individual subprojects were developed and carried out within each of the three countries:

- TUNISIA: In collaboration with the Directorate of Local Government Finance of the Ministry of Interior and the National Computer Center, RTI staff designed a prototype local property tax records system for implementation on low cost microcomputers;
- COSTA RICA: In collaboration with the Instituto de Fomento y Asesoria Municipal (IFAM), the Costa Rican municipal development assistance agency, RTI staff designed a centralized information system, employing microcomputers, covering (a) revenue and expenditure data for individual municipalities (or cantones), (b) inventory of capital equipment purchased by local governments, and (c) socio-economic and public service delivery data on each canton;

- PHILIPPINES: In collaboration with the Local Government Center of the University of the Philippines, RTI staff developed and field tested a workbook on analyzing financial performance of local government, including projections of revenue and expenditures and techniques for identifying potential for increased local revenue generation.

The project, although modest in scope, also provided a number of insights which proved useful in defining further work in the municipal finance area for PRE/H. In particular, consistent with the Phase I findings, it was apparent that local governments in many cases can significantly increase their own revenue generation and improve the management of financial resources, making the capacity building approach a cost effective use of foreign donor resources. Chapter 3 of this report deals with these "lessons learned" and describes a series of follow-up activities. These activities include:

- Preparation of How-to-do-it manuals covering:
  - \* conducting financial management assessments of cities being considered for participation in municipal infrastructure loan programs
  - \* analysis of property tax performance and yield potential
  - \* instituting cost recovery systems in municipal services
  - \* financial management and accounting practices for municipally managed markets
  - \* assessing training needs in municipal financial management
- Providing technical assistance (including training workshops) in :

- \* analyzing financial data from municipalities, including trend analysis and comparative performance measures
- \* assessment of capacity and performance of municipal development institutions in the area of municipal financial management
- \* establishing simplified financial information systems to monitor performance and potential of municipal governments
- \* transfer of microcomputer based local tax records system prototype developed in Tunisia to other countries

The rest of this report describes briefly the work carried out in each of the three participating countries. Detailed reports on each of the three subprojects are contained in separate volumes, entitled:

- LOCAL GOVERNMENT FINANCIAL MANAGEMENT WORKBOOK FOR THE PHILIPPINES
- PROTOTYPE PROPERTY TAX RECORDS SYSTEM FOR TUNISIA
- MUNICIPAL INFORMATION SYSTEM FOR COSTA RICA

It should be emphasized that this project constitutes a relatively modest effort, intended as a true pilot application of the institution strengthening approach. In each of the three host countries the work of the RTI staff is to be further extended by the collaborating institutions. The work to-date does demonstrate that the strengthening approach is effective given the existence of institutional capacity within host country agencies. In some of the countries not selected for participation in this project, however, it was discovered that appropriate institutions were not yet developed to the point where they could participate in a strengthening program. In these countries USAID should give consideration to more

fundamental institution building to develop such capacity.

## Chapter 2

### SUBPROJECT DESCRIPTIONS

#### 2.1 SUBPROJECT SELECTION

The three subprojects were selected to provide maximum geographic and language coverage. From the outset, it was intended to select one Spanish-speaking country, one French-speaking country and one English-speaking country. At the same time, concurrence for country selection had to be obtained from the PRE/H office, the RHUDD serving the target country, the USAID mission to the target country, and the host country collaborating institution. The selection process required considerably more time than originally envisioned by the RTI staff since several of the "actors" in the concurrence process had differing expectations and agendas for the project.

Subproject country selection required first an identification of candidate countries for each region/language grouping. The following candidate lists were developed on the basis of expressions of interests by either PRE/H, RHUDD, or USAID mission staff:

- FRENCH SPEAKING (West and North Africa):
  1. Tunisia
  2. Ivory Coast
- SPANISH SPEAKING (Latin America):

1. Costa Rica
2. Honduras
3. Ecuador

- ENGLISH SPEAKING (Africa and Asia):

1. Philippines
2. Indonesia

The list was reduced to one candidate in each grouping following discussions with AID staff in the relevant RHUDO and USAID mission offices. Most of the countries not selected were dropped because of inadequate host country institutions with which to work. Several of these discussions produced requests for assistance in more basic institution building which went beyond the strengthening exercise embodied in the current project. This evident need for basic institution development in municipal finance assistance in certain countries is discussed in more detail in section 3.0 below.

Once the three target countries were selected, site visits were made by RTI staff to finalize selection with RHUDO and USAID mission staff and to develop the collaborative agreements with the host country institutions. The following sections describe the individual subprojects as they were developed from this point forward.

## **2.2 SUBPROJECT WORK SCOPES**

The scope of work of each of the three subprojects is presented below. Each write-up presents the background of the subproject, the activities carried out, the outputs, and a description of the

follow-up work being carried out by the collaborating institution.

## 2.2.1 Tunisia: Prototype Tax Records System

### A. Background

As part of the current Five Year Plan, the Government of Tunisia is implementing a decentralization program which will increase the responsibilities and financial resources of local governments. In support of the program, the Direction des Collectivites Locales (DCL) of the Ministry of Interior is committed to introducing improved management techniques in municipal operations. As part of this commitment, DCL is mounting a program to improve collection of the local property tax (*taxe locative*) which is performing well below capacity.

Analysis of the performance of the *taxe locative* conducted by RTI staff during the initial site visit to Tunisia reveals both considerable underassessment of property values and a collection rate of about 33% on average across all municipalities. That the *taxe locative* collection rate can be substantially improved is borne out by recent experience in the city of Sousse. A program to increase collections through partially automating the tax records and billing systems has resulted in greatly increased receipts from the *taxe locative* -- from approximately a 40% collection rate to 70% in one year.

The financial impact of raising the collection rate of the *taxe locative* of all cities in Tunisia to the level achieved by Sousse would be substantial. On average, it would increase the proportion of local budgets contributed by *taxe locative* from ten percent to almost eighteen percent. It would also allow local governments to undertake expansion of local services and to service debts being incurred as a result of infrastructure

upgrading programs of the World Bank and USAID.

To support the efforts of the DCL, the RTI staff have collaborated with staff of the DCL and the Centre National d'Informatique (CNI) to develop a prototype tax records system to be implemented on a microcomputer system. In addition, an implementation program for introducing the prototype on a wide scale has been designed, including training and technical support to municipal staff, and public education campaigns. The microcomputer system design represents a considerable improvement on the system used in Sousse, utilizing less expensive but much more powerful microcomputers that have just recently become available in Tunisia.

#### B. Activities

Consideration of Tunisia as a participating country was the direct result of a request by the Director of the DCL to the Tunis based RHUDO for assistance in developing a microcomputer based local tax records system. Once the subproject was approved by RHUDO/Tunis and the PRE/H Project Monitor, the following activities were carried out by RTI staff:

- needs assessment and establishment of collaborative arrangements with the DCL and CNI in Tunis: December 1982
- selection of candidate cities for implementing the prototype system and data collection on specific user needs in Tunisia: March 1983
- design and programming of the system at RTI in collaboration with CNI staff (including training of CNI staff member on microcomputer): March - May 1983
- presentation of system design to RHUDO/Tunis, DCL and CNI in Tunis and planning for DCL implementation: Late May 1983

RTI staff expended a total of 93 days of professional effort on

the project with considerable staff contributions from the DCL and CNI, in addition to staff time of the municipalities of Kairouan and Sousse.

### C. Outputs

The principal output of the Tunisia subproject is the design of the prototype property tax records system for use by small to medium sized cities in Tunisia. The system was designed on a modular basis to meet the needs of all secondary cities. By selecting different, and expandable, hardware configurations, the prototype system can accommodate tax record files of 500 to 20,000 properties.

The computerized prototype is designed to model the existing tax system as it is established by law. It also seeks to improve upon current applications and records management. The system is compatible with current tax operations in that all steps in the tax assessment and collection system are replicated and all documentation required by existing regulation is provided. The speed with which the computerized system functions and the amount of information which may be accessed should greatly speed up the tax notification/collection procedures, as well as the identification of collection problems. In addition, the system permits future standardization of tax assessments (a goal of the Tunisian government) and analysis of information on housing stock, costs, tenure and access to municipal services.

The prototype tax records system is programmed using the database management system software "dBASE II" which can be used with little or no modification on most commercially available microcomputers. RTI staff developed a set of programs using "dBASE II" to create a customized and "user friendly" tax record system specifically suited to municipal tax offices in Tunisia. Although an IBM Personal Computer with ten megabyte hard disk was used in developing the prototype, the system can be used on any hardware which can operate the "dBASE II" software and which can

be configured according to relatively standard set of equipment specifications.

The system can be used by persons with no formal training in computer programming. However, it does require some basic familiarity with microcomputer use; RTI staff experience shows that this familiarity can be acquired either through an introductory training workshop (approximately one day) or through self instruction using the guide manuals supplied with any purchased microcomputer.

A separate volume entitled **Urban Financial Management Program Phase II: Prototype Property Tax Records System for Tunisia** presents the details of the work in this subproject. The volume includes:

- Background and Methods used in the project
- Overall design of the tax records system
- System documentation for microcomputer application
- Microcomputer user's manual
- Training program outline

In addition to the printed companion volume, a set of microcomputer diskettes has been developed containing the microcomputer software for implementing the system on an IBM Personal Computer with hard disk additional memory.

#### D. Institutional Follow-up

The DCL with support of CNI is undertaking to implement the prototype system with some technical assistance support provided by the Tunis RHUDD. The implementation strategy involves a pilot demonstration in one city followed by wider dissemination to additional cities.

The pilot demonstration will involve purchase of a

microcomputer system. Following purchase, the equipment will be tested in Tunis at CNI using the software developed at RTI. This will also allow CNI and central DCL staff to become trained on the system and the software. The system will then be taken to the demonstration city for installation. Local staff will be trained in the system operation; the training will involve a combination of outside consultants, CNI and DCL staff with the intent that CNI and DCL staff will take over local training in further implementation. A public education program will also be undertaken to gain public acceptance of improved tax collection efficiency.

## 2.2.2 Costa Rica: Municipal Information System

### A. Background

An important component of improved local administrative capacity is the ability to perform simple analyses of municipal financial status. These analyses may be performed primarily within, but also between, municipalities in an effort to ascertain financial status in terms of, for example, current versus capital expenditures, own source versus central government transfer revenues, and local debt capacity. However, the critical and often lacking element in these and similar analyses is accurate, readily accessible and easily maintained data.

The Instituto de Fomento y Asesoría Municipal (IFAM) is the Costa Rican agency charged with the functions of a national, municipal development institution. IFAM makes loans to municipalities for local development projects. It also provides technical assistance to local governments to improve revenue and expenditure management performance.

After discussing several alternative approaches within the scope of the Urban Financial Management Phase II Project, IFAM

selected the development of a national level municipal information system as most relevant to its immediate needs. This system should provide socioeconomic, physical and financial data in a manner so that IFAM may compare relevant indicators of local needs and performance across municipalities, as well as within a municipality over time. The immediate objective of the municipal information system is to improve the quality of IFAM's loan portfolio and of its technical assistance to municipalities. A longer-run but equally important objective is to improve the quantity and quality of local services through improved local financial management.

#### B. Activities

Technical assistance from RTI to IFAM has followed a process of three basic steps: (1) information system needs assessment; (2) system design; and (3) system implementation. Within the constraints of the project, it was agreed that after a joint RTI/IFAM needs assessment, RTI would develop, in close collaboration with IFAM, the design of an appropriate municipal information system. After agreement was reached on this design, IFAM would have primary responsibility for system implementation, although RTI would provide implementation guidelines to IFAM.

The schedule of activities under this subproject includes:

- establishment of collaborative agreement and development of scope of work in Costa Rica: January 1983
- comprehensive needs assessment with IFAM staff in Costa Rica: March 1983
- development of initial information system design at RTI: April - May 1983
- completion of system design/specifications and development of implementation strategy: May 1983

The total amount of professional effort expended by RTI staff on this subproject included 99 days with a considerable amount of time provided by IFAM staff in the needs assessment, completion of the system design/specification, and in the developing the implementation strategy. Furthermore, IFAM has assumed responsibility for programming and implementing the system on their computer equipment.

### C. Outputs

The principal output of the subproject is the design of a microcomputer based information system for IFAM referred to as the Sistema de Planificacion, Evaluacion e Informe (PEI). The system is modelled after the computerized "Planning, Evaluation, and Reporting" system developed by RTI in the late 1970's for U.S. state and local government information management needs. The PEI system has been designed specifically for use by IFAM to aid its staff in monitoring local government financial trends, performing better needs assessment for technical assistance requirements of local governments, monitoring equipment inventories of local governments, and monitoring IFAM loan programs.

The subproject included a detailed needs assessment of IFAM information needs, data availability, existing analytical capabilities, computer hardware availability and capacity. The system design was divided into two components, including those elements of the information system that could be implemented immediately and those that should be undertaken in the future.

The part of the PEI system recommended for immediate implementation includes four linked data files:

- Basic Data on each Canton (local government unit) including socio-economic, demographic and service provision data at the Canton level
- Equipment Inventory Data including the location, condition,

and value of vehicular equipment

- Revenue Data from semi-annual Canton budgets (settled accounts)
- Expenditure Data from semi-annual Canton budgets (settled accounts)

The part of the PEI system recommended for future implementation includes:

- Municipal Project Data including resource, service and characteristics data on each project performed within each municipality
- Loan Data including the cost and terms of all IFAM loans, along with service measures

In addition, the RTI team made recommendations for information support services not requiring computer support, including library functions and inventory of municipal plans and related documents. Finally, RTI staff made recommendations for several alternative strategies for IFAM in computer hardware and software to support the PEI and other computer operations of the Agency.

A separate volume entitled *Urban Financial Management Phase II: Municipal Information System for Costa Rica* presents the work of this subproject in detail. The volume includes:

- Needs Assessment
  - \* Information needs of the Operations, Technical Assistance and Planning Departments
  - \* Information requirements and data availability
- System Design
  - \* Design Structure
  - \* Data Files

- \* System-User Interface
- \* Report Specifications
- \* System Archives and Backup
- \* Documentation and Training

- Implementation Strategies

D. Institutional Follow-up

The separate subproject report presents full design and specifications of the IFAM Municipal Information System. As understood from the beginning of this activity, system implementation is the responsibility of IFAM. In order that this effort be implemented in a meaningful way, IFAM should continue to support the project in two basic ways: first, physical implementation of the system; and second, institutional support for the system's use and improvement.

At the physical implementation level, IFAM has two basic alternatives: (1) use of its NCR computer, although this will require considerable time and expense because of the need for a major programming effort to implement the system; or (2) acquisition of a state-of-the-art microcomputer supported by a proven database management software system. Although the latter alternative would require a fairly modest capital expenditure, it is strongly recommended because:

- the initial capital expense would be more than offset by a sharp reduction in programming costs;
- final users of the system would have direct access to the system through a microcomputer software package, eliminating the need to have professional programmers interface between user and machine; and
- the software package would permit system updating and

modification by the direct system users.

### 2.2.3 Philippines: Financial Management Performance

#### A. Background

Like many developing countries, the Philippines has experienced a considerable rate of inflation and a consequent decline in real government revenues in the late 1970's and early 1980's. At the same time, development projects in many of the regions have been showing potential for significant improvements. This prompted concern among Government of the Philippines (GOP) and USAID Mission staff to find new sources of revenue to cofinance, with external donors, additional development projects. A major target for those efforts has been local governments which have important revenue raising powers. Local governments, however, on the whole have depended on the national government for forty to fifty percent of their total revenues, with no signs of significant change.

Several recent studies on local government finance have been sponsored by the Philippine Institute for Development Studies, of the National Economic and Development Authority. These studies, involving staff from GOP ministries and the University of the Philippines, concluded that significant improvements in local revenue generation could be made, but that local management capacity is a critical limiting factor. The USAID Mission also reviewed their development project priorities since 1980 to assess the potential for financial as well as managerial participation by local governments.

With the Ministries of Finance and Local Government, USAID developed the Rural Services Center project to provide technical assistance directly to local governments in the areas of general management, property tax administration, and financial analysis.

With the National Economic and Development Authority, USAID developed the Local Resources Management project which includes a local financial management training component. Other recent projects developed by the USAID Mission for Public Markets operation and local health care services also have included some financial management components. In this context, the PRE/H sponsored financial management project offered a good possibility for cutting across several Mission projects.

Based on contacts with Mission staff by RTI personnel involved in other work in the Philippines and a review by Mission personnel of RTI's Phase I report and Phase II scope of work, RTI was requested to include the Philippines as one of our three countries.

#### B. Activities

The development of the Philippines subproject was somewhat more complex than the other two subprojects, since it involved coordination among several USAID mission projects and two local institutions-- the Local Government Center of the University of the Philippines and the National Economic and Development Authority (NEDA).

In December 1982, Ronald Johnson of RTI visited the Philippines for two weeks to conduct the needs assessment, establish a collaborative relationship with one or more Philippine institutions, and develop with the collaborators, the USAID Mission and the Asia RHUDDO (Al Votaw), a scope of work for the recommended RTI activity. A general agreement was reached with the Local Government Center, University of the Philippines, to collaborate on the project. The Ministry of Local Government and NEDA agreed to provide official sponsorship of the project; appropriate Ministry of Finance officials were not available on the first site visit, but the subsequent site visit resulted in their interest in the project as well.

A set of three potential projects was identified with the USAID mission staff and RHUDO officer; these were narrowed to one during the initial needs assessment visit, the preparation of a workbook for local officials on how to analyze municipal revenue and expenditure data. The following outlines the schedule of activities undertaken in the subproject to produce the workbook:

- Establishment of collaborative arrangements and needs assessment in the Philippines: December 1983
- Preparation of workbook outline at RTI: January 1983
- Completion of workbook draft and field testing with the Local Government Center in the Philippines: February 1983
- Revision of workbook based on field tests: March - April 1983

During the visits of RTI staff to the Philippines, recommendations for training of LGC staff in financial management and microcomputer support were discussed with the LGC and the USAID Mission. It was agreed that all components of the workbook would be prepared on a microcomputer (compatible with equipment currently in use in NEDA) so that portions of, or the entire, workbook could be modified over time, as necessary, by LGC or other Philippine staff.

RTI staff expended a total of 81 days of professional effort on the project with additional staff contributions from the LGC, as well as officials from several municipalities in Antique Province, where the Workbook was field tested.

### C. Outputs

The principal output of this subproject is the Local Government Financial Management Workbook which is designed to help local government officials (and others with an interest in local government finance) collect and interpret financial information

about a single municipality or a group of municipalities.

The Workbook takes the user through a series of steps in which readily available data on municipal revenues and expenditures is first assembled and put into a form in which it can be analyzed. The Workbook then leads the user through a series of exercises which show how to:

- identify trends in revenues and expenditures over time
- identify which revenue sources can be most readily increased
- pinpoint problem areas in revenue and expenditure patterns
- analyze dependency on the central government transfers
- project budget deficits and surpluses
- analyze future expenditure and revenue needs in light of inflation and population growth

The Workbook is designed to be utilitarian, leading the users through a series of exercises which are illustrated with historic data on revenues and expenditures from a sample of Philippine municipalities. The analyses are designed to be carried out by hand calculator or by readily available programs on a microcomputer. Some of these analyses, such as the trend projections using regression models, are most easily performed on a microcomputer for which simple-to-use software packages already exist.

Although all of the data used for illustrative purposes in the Workbook were collected at the local level, the same information is available at the Philippine Ministry of Finance. This means that the central government, or other source of technical assistance, can use the analytical techniques in the Workbook for any number of Philippine municipalities without extensive data collection.

The major portions of the Workbook were field tested in Antique Province to determine if they were appropriate and well received by local government officials. The test indicated that local officials were eager for this type of financial analysis and were fully competent to carry out the analytical techniques.

The completed Workbook is presented in a separate volume entitled Urban Financial Management Phase II: Local Government Financial Management Workbook for the Philippines

#### D. Institutional Follow-Up

The major follow up on the subproject is to put the Workbook into use. There is considerable interest on the part of the USAID funded Rural Service Centers project staff to use the Workbook in their technical assistance work. In addition, there are several other possibilities aimed at expanding the capacity of the Local Government Center to provide financial management technical assistance to local governments.

- The presentation of a workshop for local officials from a Province or Region on financial management utilizing the workbook. This would be conducted once by RTI and LGC staff and subsequently by LGC staff alone. Whether in the United States, the Philippines, or some third country, the training activity should be held away from the LGC so that staff participation would be on a full time basis for that period of time.
- Demonstration and training in financial management analysis for Ministry of Finance staff. Subsequent to the RTI second site visit, MOF staff requested a very short technical assistance effort from RTI's urban financial management team (through the USAID Mission) and expressed interest in developing their own analysis and technical assistance capability.

It should be noted that the Workbook has been used in training officials from Ecuador and Peru in financial analysis techniques in a formal training program conducted by RTI in September 1983. For this purpose, the Workbook has been translated into Spanish.

## Chapter 3

### FINDINGS AND RECOMMENDATIONS

A major objective of this project was to test whether interventions in municipal financial management can best be made through strengthening support to central government agencies. Although the size and duration of the subprojects were quite modest, the experience has generated a number of useful insights into these issues. The following section briefly describes the major lessons learned from this project. Following that is a set of recommended activities for PRE/H to consider as logical next steps in its program of strengthening municipal financial management in developing countries.

#### 3.1 Lessons Learned

- The Need for National Level Assistance in Local Municipal Financial Management is Becoming Well Recognized at all Levels of LDC Government and within International Assistance Agencies

Contacts with RHUDD's, USAID missions, host country agencies and local governments reveal a rapidly growing awareness that assistance is needed in this area. World Bank and USAID housing/urban development projects increasingly focus on secondary cities with the burden of loan repayment being passed through to participating municipalities. The need for upgrading

municipal staff capability to manage cost recovery and improved tax collection to pay for these programs is now evident to all those involved in these types of activities.

**- National Level Agencies Do Exist Which Could Provide Technical Assistance to Municipalities**

In almost every country there exists an agency (or agencies) mandated to provide technical assistance, training, and in some cases loans and/or grants to municipal governments. The extent to which these agencies are effective, or even motivated, varies greatly from country to country. In several instances during the subproject selection task, it was found that central agency capacity needed to be built from the ground up; these cases require significant institution building before they could benefit from the strengthening approach being attempted in this project. This indicates that a second approach, more focussed on basic institution building, might be appropriate for countries without a national agency already operating in municipal technical assistance.

**- Central Government Agencies with Oversight of Municipal Development or Finance are Receptive to Acquiring Additional Responsibilities in Technical Assistance**

National agencies which are responsible for making loans/grants to local government, those charged with municipal budget review, and those charged with general municipal development functions are prime candidates for assuming the technical assistance functions necessary to aid municipal management. These agencies are already involved with municipal officials, routinely collect financial data on municipal operations, and may be targeted by the international lending agencies as key intermediaries in

promoting urban development loan programs in secondary cities. These agencies appear to be receptive to acquiring this expanded role, although few have experience in actually delivering technical assistance to local governments on a regular basis.

**- Local Governments are Receptive to Assistance in Management, Particularly Ways to Raise Revenues**

There is a general awareness within local governments that their performance can be improved. Furthermore, many local governments recognize that much of the potential improvement depends on bettering local management practices and decreasing dependence on the Central Government. Within this context, there is a general receptivity to technical assistance provided by a Central Government agency, particularly when this assistance is viewed as directly contributing to an improved local resource base.

**- National Agencies Need Help in Becoming Effective Technical Assistance Providers to Local Government**

Although national agencies may be willing to assume greater responsibility for providing technical assistance, their staffs are inexperienced and often have little familiarity with local government concerns. It is not uncommon for central agency staff to view local officials as incompetent and unmotivated; such attitudes prevent the staffs in these agencies from becoming effective technical assistance agents. Agency staff may also not be able to identify where technical assistance is needed nor may they have the training to provide assistance once problems are identified.

**- Good Information on Municipal Finances is Maintained at Local and National Levels to Support Better Financial Analysis**

Unlike much data in LDC's, municipal finance data is well maintained both at the local and national levels. Municipal revenue, expenditure and budgetary information is usually available in considerable detail. Indeed, central government agencies that maintain this data appear quite eager to participate in programs which will help them make better use of this data, for both: (a) monitoring municipal loan programs; and (b) identifying where municipal financial problems are occurring.

**- National and Local Government Agencies Appear Receptive to New Management Technology, Particularly Microcomputers**

The introduction of microcomputer technology to conduct financial analysis, maintain information and monitoring systems, and provide specialized applications is meeting with enthusiasm at all levels. At the same time, there are some serious constraints to introducing microcomputer systems into LDC's without proper training and support networks. In addition, there are a number of applications for which computers are less appropriate than alternative systems; however, it is sometimes difficult to persuade collaborators in host countries to accept the alternative.

**- Local Governments Need Basic Assistance in Selecting Levels of Services**

The concept that government can provide packages of services at different quality levels is not well understood. For example, the site and services model of designing upgradable housing which

is affordable to target beneficiaries has not generally been extended to other infrastructure investments. Analysis of alternative service levels for such urban infrastructure as markets, roads, water and sanitation is not common, and if more widely diffused, could considerably enhance the expenditure efficiency of local governments.

**- Most Improvements in Urban Financial Management Practices can be Self-Financing**

When adequately targeted on the short-term needs and potential of local governments, the costs of improving local financial management can be quickly recovered through increased local revenue generation and improved expenditure efficiency. Particularly in smaller municipalities, it is often the case that there is a considerable potential for increased revenues within the existing legal structure, but local officials may not be aware of these possibilities, or, if aware, they may lack the basic skills necessary to fully take advantage of them. In addition, a broader use of increasingly powerful, and less expensive, microcomputers may be very cost effective in appropriate municipalities. For example, there is evidence that moving from a slow, often inaccurate, manual property tax recording and billing system to a microcomputer based system may improve tax compliance, particularly when staff formerly used for laborious record keeping and processing may be more productively used in direct contacts with taxpayers. In these cases, capital costs may be quickly recovered from improved staff productivity and increased revenue generation.

In summary, the strengthening approach has met with good acceptance and evident success in the three countries. Additional technical assistance appears to be needed in selected instances to carry the work to full implementation. In addition,

there is a group of countries which need more basic institution building before they can benefit from such a strengthening approach. The subprojects carried out have been judged valuable by the participating institutions. Of particular note has been the relatively simple comparative financial analysis efforts which support central agency technical assistance as well as self-analysis conducted by individual local governments.

### 3.2 Recommended Activities for PRE/H

RTI proposes the following list of high priority activities for PRE/H to undertake in supporting municipal finance improvements in LDC's. These have been selected on the basis of (a) addressing the key problem areas noted above, (b) providing significant pay off in the short term, (c) supporting HG initiatives in secondary city housing and infrastructure upgrading programs, and (d) building on country specific work already begun under Phase II of the PRE/H funded Urban Financial Management Program.

#### **- Prepare a Guidelines Manual for Secondary Cities Assessments**

A manual would be prepared setting forth guidelines for assessing the capacity of secondary cities to participate in USAID mission and RHUDD projects. Particular focus would be placed on assessing the capacity to: (a) participate in co-financing of development projects, and (b) manage the implementation of development projects. The guidelines would be used both to evaluate candidate cities for participation in projects as well as to identify where technical assistance and training might be necessary. The guidelines would focus on current financial performance, local staff resources,

administrative systems, and other factors critical to successful management.

- **Conduct Workshops for RHUDO and Host Country Agency Staff in Using Municipal Finance Data to Assess Financial Capacity and Management Performance of Target Cities in Selected AID Secondary Cities Programs**

A series of one-week workshops would be held for staff involved in designing and monitoring housing and upgrading projects which depend on financial management at the municipal level for success. The workshops would cover assembling and analyzing financial data on municipalities to assess current performance, revenue raising potential, debt carrying capacity and other indicators of financial management capability. This would build on earlier work in developing the Local Government Financial Management Workbook in the Philippines, the assessment of Municipal Financial Status in Ecuador, and the RTI Urban Financial Management Training Program.

- **Provide Technical Assistance to Selected LDC Agencies in Establishing Appropriate Financial Information Systems**

Technical assistance would be provided to LDC central government agencies working with USAID mission or RHUDO programs to establish information systems on local government finance. This activity would be a logical follow-on to the previous activity, serving to institutionalize the types of analyses needed by host country central agencies dealing with local government financial management. A sub-activity of particular importance would be the establishment of municipal loan monitoring information systems for central government lending agencies. This set of activities would build on previous RTI

work in Honduras and Costa Rica, and continuing work in Ecuador.

**- Develop a Manual on Introducing Cost Recovery into Municipal Service Delivery Systems**

A how-to-do-it manual would be developed for AID and host country staff involved in designing municipal service delivery systems, particularly physical infrastructure. The manual would cover the major elements of introducing cost recovery in public service delivery systems, including: (a) selecting services which can carry user charges, (b) conducting demand studies to ascertain levels of service and affordability, (c) choosing among available cost recovery mechanisms, (d) pricing services, (e) managing a cost recovery system.

**- Develop Guidelines for, and Provide Technical Assistance in, the Development and Strengthening of Municipal Development Institutions**

A set of guidelines would be developed for performing a needs and resources assessment for developing and strengthening host country Municipal Development Institutions (MDI's). These guidelines could then be applied in short term technical assistance missions to selected countries in which the USAID mission is developing a long term MDI support program. This would build on ongoing RTI work with the USAID mission in Ecuador and materials developed for the RTI Urban Financial Management Training Program.

**- Develop Guidelines for, and Technical Assistance in, Assessing Host Country Training Needs in Municipal Financial Management**

A set of guidelines would be developed for conducting assessments of host country training needs and resources in the municipal finance field, including the training of central agency staff, local government officials, and local staff. The guidelines could be applied to selected countries in which (a) the USAID missions are involved in direct support to training institutions or (b) RHUDO programs require significant staff building. Emphasis would be placed on competency based training (training staff members in specific job skills) rather than on academic training.

**- Develop a Manual on Assessing Property Tax Yields**

A how-to-do-it manual for estimating potential property tax yields for local governments would be prepared using estimation techniques developed by RTI staff in its previous financial management work in Ghana, Tunisia, and the Philippines. The local property tax is the largest common tax source across LDC municipal governments; furthermore, local officials often do not know how poorly the property tax is performing since they lack ways of estimating the true size of the tax base. This project could also be expanded to include a technical assistance component which would apply the techniques in the manual to field situations; the technical assistance would be particularly pertinent to HG programs which rely on local government tax revenues for loan repayment.

**- Transfer the Microcomputer Based Property Tax Records System Prototype Developed in Tunisia to Other LDC's**

Technical Assistance and Training would be provided to selected countries in acquiring the prototype property tax records system developed by RTI staff in cooperation with the Tunisian Ministry of Interior. The system is developed to run on commercially available microcomputers and is designed to increase greatly the speed and accuracy of local property tax administration. Since the prototype was designed for a French-speaking country, the initial transfers could be most readily done in other francophone countries as well as in English-speaking countries. However, the prototype software and documentation can be easily translated into Spanish for transfer to Latin American countries.

**- Prepare a Manual on Financial Management Practices for Municipal Enterprises, Particularly Public Markets**

A manual would be prepared describing how to set up an accounting system for municipal markets which includes costing of all inputs and revenues. Also included would be methods for (a) estimating demand, (b) selecting the appropriate level of services and affordability, (c) setting market fees, (d) methods for fee collection, and (e) evaluating financial performance. While written for municipal markets, the manual would be generalizable to other municipal enterprises which are expected to be self supporting or even profit generating.