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**A Municipal
Development
Strategy for USAID
in Ecuador**

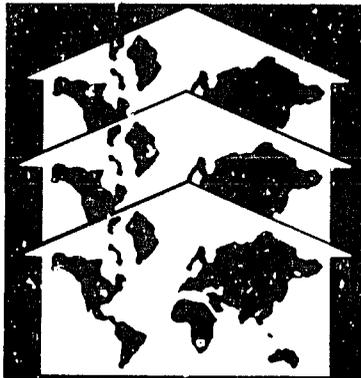
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W O R K I N G P A P E R

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**A Municipal Development
Strategy for USAID
in Ecuador**

June 1991

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I. INTRODUCTION

This report recommends a municipal development strategy for USAID in Ecuador. In doing so, it takes into account two important "constraints" or local realities: (1) the commitment by USAID that any municipal program must help strengthen democratic institutions, and (2) the existence of the *Programa de Desarrollo Municipal* (PDM). This \$300 million program, formally agreed to by the Government of Ecuador, the World Bank, and the Interamerican Development Bank in February 1991, establishes several basic lines of municipal reform for the country.

The report assesses the current conditions of the municipal sector as well as the character of the reforms introduced by the PDM. Against this background, it considers the following issues:

- Is there a role for AID to play in the municipal sector, given its special mission?
- If so, what is that role?
- What specific strategy should be followed in program implementation?

The report is based on a field trip of two weeks' duration to Ecuador by the authors; interviews in Washington with project directors for the World Bank and Interamerican Development Bank municipal development programs in Ecuador; and the invaluable collaboration of two Ecuadorian consultants, Eduardo Samaniego, currently consultant to the Central Bank and formerly Coordinator of the Programa de Desarrollo Municipal, and Marcelo Herdoiza, a member of the staff of BEDE and formerly technical director of the Programa de Desarrollo Municipal.

The team met with mayors and other public officials in three coastal cities, Machala, Milagro, and Manta, as well as with the mayor of Quito. It also met with business leaders in these cities, with community groups, with representatives of the national organizations closely involved in PDM, the international organizations supporting PDM, and a number of private sector consultants who have worked with local governments. Altogether, formal interviews were held in country with twenty-four people knowledgeable about municipal development, as well as numerous local citizens, representatives of neighborhood groups, and officials of the USAID Mission. Nonetheless, the field experience underlying the report was limited, and this fact should be kept in mind by readers.

The main body of the report is divided into five sections. These address the municipal role in strengthening democratic institutions; salient characteristics of the municipal sector in Ecuador; the nature of the World Bank-BID program of municipal development, PDM; the principal gaps that remain in trying to create an autonomous, democratic municipal sector; and a specific strategy recommended by the consultants for AID to follow in tackling municipal reform.

Two appendices provide more detailed supporting information. Appendix A provides basic data on recent trends and current conditions in the municipal sector, drawing on two unpublished surveys of municipal government finances. Appendix B summarizes the five-year experience of the German technical assistance agency, GTZ, in Babahoyo, and extracts the principal lessons for USAID. This program, costing more than \$2.5 million, is the most directly relevant experience for any AID program that works with individual municipalities. Appendix C identifies the people and institutions interviewed in the course of the study.

II. THE MUNICIPAL ROLE IN STRENGTHENING DEMOCRATIC INSTITUTIONS

Democracy has fragile roots in Ecuador. National commentators have called attention to the fact that the country's political culture does not accommodate widespread participation in government. Government is seen (largely accurately) as something exercised by a distant bureaucracy, which reaches its decisions without explanation and without adhering to clear guidelines applicable to all. The lack of established rules of play creates a strong element of political arbitrariness in allocating resources, and perpetuates a relationship of paternalism and clientelism between political leaders and citizen-voters.

This perception of democracy's functioning has bred skepticism toward civil government. Recent polls reveal that Ecuadorians in general place faith in only three institutions: the family, the church, and the army. They see government as a separate institution, largely unconnected to their lives, which exists to enrich politicians and to perform its bureaucratic functions in isolation, without a policy mandate from the electorate.

From our interviews, it seems fair to say that, except for the current administrations in Quito and a handful of other cities, municipal governments are viewed by the public at large as skeptically as the central government. Much of the present cynicism and indifference toward government arises at the local level. For example, all of the business leaders that we interviewed stated that they had nothing to do with local government. They did not meet with the mayor or city department heads, did not participate in selecting investment priorities for the city, did not receive information from the municipal government, and did not seek out opportunities for meetings.

Local government, nonetheless, offers the best opportunity for establishing a democratic political culture in Ecuador. Municipalities are the entities best situated to strengthen (or originate) four activities that are key to democracy:

Participation in government is much easier at the local level than at the national scale. Although Ecuadorian municipalities do not have a tradition of inviting participation from community groups, the business sector, or other local organizations, the scale of local government and the nature of its spending and planning decisions make local participation perfectly feasible. Indeed, most other Latin American democracies have cultivated this type of

community and citizen participation in local government. Neighborhood organizations are consulted about the priorities of local public works investments and methods of cost recovery; household surveys are used to detect demand for public services and the most urgent community needs. Both community organizations and business groups are consulted about urban planning and large investment projects that will affect the economic development of the city. All of this is extremely rare in Ecuador.

Accountability is the other side of participation. In successful democracies, local governments are accountable to the voters that elected them, as well as to the laws governing their functioning. The concept that government should render clear accounts of what it is doing is lacking in Ecuador. The introduction of this activity, though difficult, is easier at the municipal level than elsewhere.

The exercise of accountability can begin at several points: from community groups that demand in an organized way fulfillment of campaign promises, from the local city council that demands budget accountability from the mayor (something which currently does not occur), or from a mayor who wants to establish a tradition of reporting to community and business groups. At present in Ecuador, voters and local organizations receive almost no information about the plans or accomplishments of local government, and the costs that have been incurred in carrying out this labor. Such activity is crucial to a democratic culture. It has become common practice in several other countries of Latin America. Moreover, the strong movement in this direction by the mayor of Quito, and the favorable public response, suggests that such an objective is feasible in Ecuador, too.

Collective choice about public services, taking into account budget constraints is also fundamental to democratic practice. In fact, the origins of democracy in almost all developed nations was the need to decide at the local level, as a community, how resources should be raised and how monies should be spent for collective benefit. This sense of public budget choices is lacking in Ecuador. The perception that government benefits are gifts from above, to be sought by political pleading with higher authorities, is instilled at the local level. The use of central government subsidies to finance local services perpetuates local dependence upon the central government and citizen dependence upon local politicians who can intervene most effectively in the subsidy choices made in Quito. When local municipalities, or local communities within municipalities, have to make choices about how their *own* resources will be spent on public goods, a new level of community control and seriousness in choice making is established.

Although collective choice about the use of resources can eventually be extended to national government budgets, the national government is too remote an institution to introduce this linkage effectively. Collective decisions about how to use limited resources take on practical meaning when a neighborhood must decide what kind of water system to install, given the costs of different options, or must decide how it will treat those members of the community who will not pay for the type of water provision preferred by the majority.

Finally, strengthening democratic practices at the local level contributes importantly to national democracy through the *decentralization* of political power it encourages. To the extent that public service decisions can be made locally, using local resources (including automatic entitlement grants from the central government), the less is the dependence upon central bureaucracies and central-level politicians. Historically, the existence of independent nuclei of democratic power at the local level has been an effective defense against national totalitarianism.

It needs to be emphasized that at the moment these advantages of local government in strengthening democracy are almost entirely *potential* advantages in Ecuador. Municipal governments for the most part do not operate to enhance citizen and community participation, take seriously accountability to local constituents, or cultivate local public choice within realistic budget constraints. In fact, local governments in most Ecuadorian cities presently are merely formal expressions of democracy. They are elected civil authorities, but they do not incorporate the values of democratic control of government.

How could AID judge whether a five-year program in municipal development was successful from the perspective of strengthening democratic institutions and practices? Progress should have been registered on each of the four goals identified above. That is, in the municipalities where AID has worked, mechanisms should have been established for the regular expression of community demands, and there should be practical collaboration between the public and private sectors in making and implementing major choices about local investments or service delivery. Routine procedures through which government renders accounts to voters should be in effect. Local management of financial resources should be more transparent, and local governments should exert effective control over a larger proportion of their own budgets.

Perhaps most fundamentally, local elections should begin to revolve around local service delivery issues. Voting should begin to reflect choices between alternative plans for public service provision, alternative proposals for paying for development, or the capacity of rival candidates to translate campaign promises into reality. Given the political posturing that has become endemic in Ecuadorian national elections, establishing a link between voting and service delivery performance would be a valuable gift from municipalities to the nation at large.

III. IMPORTANT CHARACTERISTICS OF THE ECUADORIAN MUNICIPAL SECTOR

Until the municipal reforms that began in 1989 and culminated in formal adoption of the PDM in 1991, municipal government in Ecuador was on a downhill slope. It is important to examine the reality of the 1980s, both to judge the adequacy of the PDM response and the likelihood of its success.

Appendix A provides data substantiation for the summary interpretation of important trends and characteristics offered in this section.

1. The Declining Role of Municipal Governments in Public Spending

Expenditure levels are one measure of the municipal role. Between 1982 and 1988 real expenditures per capita by municipal governments fell 48.3 percent. In part, local governments shared with the central government the consequences of the fall-off in Ecuador's most important revenue source, petroleum exports. However, municipal government spending fell much faster than central government spending. Faced with declining revenues, the central government passed on more than a proportionate share of the burden of budget adjustment to municipalities.

Local governments also suffered a qualitative loss of independence. Perhaps the most dramatic loss of local autonomy was represented by the "Implementing Units" that the national administration of 1984-88 created at the local level to assume some of the functions of local government, especially functions utilizing national funds.

2. The Collapse of Municipal Investment

Municipal governments in Ecuador are responsible for many investments basic to the population's well-being and to local economic growth. Its responsibilities include investments in local roads, water systems, sewer systems, flood control, trash collection, markets and slaughterhouses. During the 1980s' expenditure decline, municipal governments tended to preserve employment levels and worker wages, at the expense of investment and maintenance. Table 2 of Appendix A contrasts the modest decline in total personnel remuneration with the vastly larger decline in municipal construction spending.

The sharp decline of real investment spending, in the face of high rates of urban population growth, meant that coverage rates for basic infrastructure systems declined substantially. The World Bank estimates that in 1987 69 percent of the total urban population had access to drinking water in their houses, down from 75 percent in 1982; and only 53 percent had access to adequate sewage facilities, down from 62 percent in 1982. (Estimates prepared by BEDE show an even steeper decline in coverage rates.) Fast-growing medium-sized and small municipalities in the coastal region have faced the worst rates of deterioration of sewer and water coverage.

3. Collapse of the Municipal Credit System

One reason that municipal capital spending fell so steeply in the 1980s is that credit for municipal capital projects almost disappeared. Real per capita loans to municipalities for capital investment in 1988 were less than one fifth what they were in 1982. This represented both the evaporation of international lending and a large decline in the volume of lending of

BEDE to municipalities. BEDE itself lost more than 80 percent of its capital during this period, as a result of failure to adjust its lending rates to inflation.

4. Central Transfer System

Ecuador has had a complicated system of central government transfers to municipalities. However, the effect of this system has been clear: to perpetuate dependence upon central government funding and to increase the role of political calculations in resource allocation.

Before reforms in 1990, municipalities received funds from the Central Government through a number of different channels including the National Revenue Sharing Fund (FONAPAR) and earmarked oil revenues. The most important of these, FONAPAR, was established in 1971 to make transfers more predictable and transparent. To this end, all transfers from central to local government were supposed to be included within FONAPAR. The system was also designed to favor poorer municipalities. FONAPAR's transfers to local governments flowed through two channels: automatic entitlements, which were to be used for current expenditures, and designated investment funds.

During the oil boom of the late 1970s, the amount of transfers to municipalities greatly increased. Municipal governments used the inflow of external funds to cut back on their own revenue collections. As a result, by 1982 central government transfers accounted for 74.4 percent of municipal revenue (excluding credit). The end of the oil boom brought large reductions in central government transfers, as well as delays in central government payment, which further reduced the real value of the transfers in a period of high inflation.

The transfer system also became increasingly politicized. Although FONAPAR was originally established to be the only conduit for central government transfers to municipalities, other channels accounted for over 40 percent of such transfers by 1988. These general budgetary transfers followed no set rules, and were customarily made for patronage rather than developmental reasons. Even the FONAPAR allocations became politicized, as annual adjustments in local entitlements began to be made on a case by case basis.

6. Local Governments' Own Resources

Local governments in Ecuador have meager own-source revenue collections, even by the modest standards of other Latin American countries. At one level, the lack of own-source revenue presents a paradox. Municipalities in Ecuador have more freedom to establish tax rates, and levels of local fees and charges, than is true of most countries in the continent. For example, urban property tax rates, vehicle registration fees, water charges, and other key rates can be established by the municipality. Despite this freedom of action, municipalities did little in the 1980s to replace the loss of central government transfers. Central government transfers fell by more than 40 percent in real terms, but total locally collected revenues increased by less than 2 percent to offset the loss of external revenue. On a per capita basis, locally collected revenues declined significantly.

Two factors account for the lack of local revenue collection. The administrative capacity of almost all municipalities prevents them from updating their tax bases in line with municipal growth and inflation. *Catastros*, in particular, have fallen far behind the recent in-migration of population, just as property assessments have fallen far behind the increases in market values of property. Still, the more important factor in local revenue collection seems to be the lack of political will to collect. GTZ spent a large amount of resources in updating Babahoyo's catastro, and modernizing the system of property tax billing and information storage. However, the real value of property tax payments continued to decline, because the mayor did not find it politically advantageous to collect the tax.

7. Municipal Personnel Structure

The bottom-weighted nature of Latin American municipal personnel structures (i.e., the predominance of unskilled workers relative to professionals and middle management) is well known to most observers of the municipal scene. Nonetheless, the figures for Ecuador, especially cities on the coast, are startling. *In Machala, only 6.7 percent of all municipal employees have completed primary schooling.* Each department that we visited in our trip to Coastal cities had a single professional in charge of the department, then only a mass of unskilled workers and clerks. There were no middle management positions, no other professionals, and few skilled workers. This makes it impossible for municipalities to deliver virtually any services or local public works that require design, costing, or management.

IV. RECENT MUNICIPAL REFORMS

Influenced by the municipal lobby and philosophically in favor of strengthening localities, the national administration that took office in 1988 pledged to return to municipalities what they had lost during the previous administration. However, the new central government also favored decentralization for other reasons. BEDE remained in precarious financial condition, which could only be remedied by the large cash infusion and administrative reforms accompanying a major donor commitment. Most important, this national administration viewed decentralization as a way of lessening the burden on the national treasury of a chaotic transfer system.

In many respects, PDM and the associated municipal reforms represent a sophisticated and ambitious attempt to overcome the problems of the past. The package of reforms creates a number of important incentives to more efficient behavior by localities. However, in attempting to get the new system off the ground, PDM as an institution has relied on high levels of central control and central administration. Arguably, the effects have been to increase the extent of centralization, and do nothing to enhance municipal autonomy. This gap between the expressed objectives of PDM and its current operational reality creates an opportunity for USAID to promote its agenda by redirecting municipal reform to its originally stated purposes.

In this section, we review some of the most important changes introduced by the PDM system, distinguishing between the stated objectives of reform (and the long-term incentives that have been created) and the strategies followed in actual implementation to date.

Reform of the Transfer System

In accordance with agreements made with BIRD and BID, the Ecuadorian Congress passed legislation to replace FONAPAR with a new revenue sharing system, called FONDESEC on May 8, 1990. This law went into effect in December 1990. The source of funds for this system includes all monies to have gone through FONDESEC plus additional revenues from oil exports and the central government budget. Seventy-five percent of this total is channeled to the municipalities. The municipal portion is divided into two overall components: automatic revenue-sharing (60 percent) and a municipal investment fund (40 percent). Automatic revenue-sharing is currently being distributed to local governments based on formulas taking into account population, poverty, and fiscal effort. The municipal investment fund is to be channeled through BEDE to municipalities as the Government of Ecuador's counterpart funds for PDM. Currently, municipalities are receiving no monies from these counterpart funds, since no loans or grants have been made by PDM.

Potentially, the municipal investment fund is the major attraction of PDM for Ecuador's small and medium-sized municipalities. The fund has two components: up-front grants to municipalities too poor to pay the full debt service on infrastructure loans (subsidios) and grants that provide incentives for generating current account surpluses (compensacion). The proportion of funding for these two purposes is fixed by agreement with the international funders: in the first year, 50 percent of the counterpart funds are to be allocated to subsidios and 40 percent to compensacion. However, to gain access to these funds local governments must submit investment projects to PDM and have them approved. As no loans have yet been made, no communities are receiving payments. Moreover, it now appears that the great majority of communities will not be able to submit projects that receive approval in the first year of the program, and thus will be excluded altogether from the municipal investment fund benefits. One consequence is that, although FONDESEC was designed to increase central government transfers to local governments, actual payments have declined because of the retention of funds by BEDE. PDM has temporarily centralized resources and control over municipal development in the name of decentralization.

Eligibility Requirements and Provisions for Strengthening Municipal Capacity

To be eligible for PDM, municipalities must fulfill three conditions. First, their current accounts must be in balance. Second, the municipality must present an institutional and financial action plan. Third, for water and sewer projects, the municipality must have or create an autonomous agency.

To meet the challenge that these eligibility criteria represent to many municipalities, PDM is designed to provide extensive support to help municipalities, although this support is currently only partially in place. GTZ and BEDE are to assume the lead roles in technical assistance. AME has been given the role of providing training courses and supporting institutional development. Although the intentions of PDM to channel substantial resources to strengthening municipalities are clear, the staff capable of assuming these roles is yet to be hired in AMF, GTZ, and to considerable extent, BEDE. For example, 120 consultants are scheduled to be hired, but none has been hired to date. Not surprisingly, the technical and institutional outreach to municipalities in order to meet eligibility requirements and for sub-project preparation has yet to begin.

Strengthening of BEDE

A major institutional goal of PDM is to strengthen and recapitalize BEDE. Five mechanisms exist to this end. First, during the project preparation phase, BEDE underwent an administrative reorganization. Second, the need to pay back BIRD and BID loans will give BEDE its first experience in intermediation and help provide the discipline necessary for placing this organization on a more business-like footing. Third, 40 percent of revenue-sharing under the new system is being channeled through BEDE to on-lend or grant to municipalities. Fourth, 25 percent of repayments on PDM loans made to local governments are to be retained by BEDE to recapitalize the bank. Fifth, the interest rate on PDM loans is to gradually approach market rates, further ensuring BEDE's recapitalization. (Interest rates as of this date have been adjusted to 43 percent per annum, which is only modestly below the most recent 12 month inflation rate of 47 percent.) The theme behind these mechanisms is to recapitalize BEDE and put this organization on a business-like basis so that it needs no further transfers from central government.

Coordination of Central Government Agencies

The need to reach agreement between the many entities involved in municipal development has created delays and bureaucratic rivalries. Besides the international agencies involved in PDM, these organizations include SENDA, FONAPRE, AME/INFODEM, BEDE, CONADE, the Ministries of Finance and Public Works, the Institute of Public Works (IEOS), and others. PDM seeks to integrate these organizations into a functioning whole through the formation of a coordinating committee and a project prioritization committee composed of representatives of these groups. The goal is to have the project committee receive projects, then have them evaluated simultaneously by the several national organizations that must review them.

Project Preparation, Evaluation, and Approval

Project review and approval in the past has been one of the weakest parts of central-municipal relations. GTZ found that the approval process took an average of 43 months from time of project submission to final approval by the national government. PDM is supposed to

accelerate the project review process. However, it also has introduced new requirements, such as environmental impact assessments and cost recovery plans.

Project review threatens to become the most severe bottleneck in the PDM process. PDM officials have cited the urgency of project review and the incapacity of local officials to prepare projects as further rationale for performing all project assessments at the national level. Central authorities are also the ones considering design alternatives, making cost estimates, and calculating the user charges necessary to repay credits.

This crucial bottleneck dates back to the beginning of PDM. The first joint mission of BID and BIRD gave BEDE the task of identifying possible infrastructure projects in order to justify and determine the size of the program. Through visiting municipalities and contacting central government agencies, BEDE collected 870 project ideas. On further examination, only 62 fulfilled minimally adequate technical requirements; 32 were selected for further consideration. Of these 32, only 8 had up-to-date costs. These 8 projects are the only ones that have currently received approval from PDM, but no disbursements to date have been made on even these projects.

The bottleneck in project preparation, evaluation, and approval derives largely from monopolization of key functions in this process by two entities at the national level, BEDE and FONAPRE. FONAPRE'S role is to contract out the preparation of projects, while BEDE reviews the projects when their preparation is completed and they are submitted for funding. PDM specifically allows for inclusion of the costs of project preparation in loan accounts and preparation of projects by municipalities. However, local governments are generally arranging with FONAPRE to contract out on their behalf the preparation of projects. The reasons for this delegation of responsibility include the lack of consultants in Ecuador capable of this function, the lack of a fund to finance up-front the preparation of projects before the PDM loan closure, and municipalities' sense that FONAPRE must know the program rules. Indeed, although manuals have been prepared detailing these rules, they have not been distributed and the municipalities that we visited were unaware of them.

V. PRIORITY GAPS IN THE MUNICIPAL REFORM PROCESS

PDM and its associated reforms constitute a complex process, whose implementation sometimes has moved in different directions from the stated objectives of the Program. What are the principal gaps that now exist?

In general, the gaps fall into two categories: philosophical gaps, or omissions in PDM's overall orientation which prevent it from providing strong support for local democratic initiatives; and what might be called implementation gaps. These latter deal mostly with local governments' management capacity. Although from one perspective they may be considered "technical" gaps, they are critical to realizing greater local government autonomy and citizen

control over government. Very little is achieved by democratizing government functions if the municipality as an instrument is so inefficient that it cannot carry out its mandate.

Gaps in the Democratic Orientation of Municipal Reform

Local Control. Although PDM has the stated objective of supporting municipal autonomy, its implementation to date has not moved in this direction. Quite the contrary. The national authorities directing PDM distrust the capacity of local governments and feel under pressure to produce projects for international financing. Thus, they have assumed almost all of the functions of project preparation and review themselves. Localities are not being encouraged to develop projects on their own; are not consulted on the weighing of technical alternatives, in light of project costs; and are not receiving technical assistance to remedy their inadequacies.

Of course, the national view that most municipalities lack planning and project design capacity is correct. However, municipal autonomy will never be achieved if this reality is used as a continuing rationale for central government's supplanting municipal functions. In a few cases, local governments do have the capacity to design straightforward projects reflecting their own priorities, but are not being encouraged to do so. The technical assistance plans of the central government have assigned priority to hiring consultants who can perform these functions for localities at the central level. The technical assistance planned for municipalities themselves has not gotten off the ground.

Lack of Community Participation. So far there have been no advances in community participation under PDM. In fact, the master plan for technical assistance postpones all community participation until the third stage of program development. The first two stages are designed to put the municipios' financial affairs and administrative arrangements in order. In the third phase, technical assistance is to be rendered to help municipalities prepare full-blown urban development plans. Community participation enters only at this stage, as the Program contemplates soliciting community input into the planning process.

In terms of the more concrete payoff of urban investment projects, the community is not assigned a role. There is no community participation in project selection, project design, weighing of investment alternatives, or, perhaps most importantly, design of the cost recovery system to be imposed on the community. Community contact will occur only after the project *convenio* between the central government and municipality has been signed: at that stage, communities will be "educated" on their obligation to pay the service costs that have been assigned to them.

Confrontational or Nonexistent Relationships between the Public Sector and Private Sector

If municipalities are to make more headway on their own, they will have to overcome the presently hostile relations between the public and private sector. This is especially true on the

Coast, where there is almost no cooperation between the two sectors. The private business sector is a potential co-investor for important projects, a potential manager of public services, and the source of most local tax revenue.

In other Latin American countries it is traditional for municipal administrations to maintain a working relationship with a variety of local organizations. Small and medium-sized municipalities customarily have a basic set of organizations, including commercial and industrial associations, construction associations, and representatives of rural interests. They often have organized neighborhood associations, as well. Often, the heads of these organizations become involved in politics and run for council or mayor. Government and private sector leaders frequently try to unify the community to make economic progress and progress in service coverage.

In contrast, we heard little of cooperation between local government and private sector or community groups in our visits. The local governments seem isolated. Business leaders as well as community groups work without government contact.

Technical Gaps

Project Preparation and Approval. In the previous section we commented on the bottleneck that is emerging in project preparation and approval, which threatens to derail the PDM process.

This bottleneck is not being addressed. Curiously, given the magnitude of technical assistance in the program, *none* of the 120 consultants to be hired to work with municipalities will be available for project design or cost studies. The lack of project preparation threatens all aspects of municipal reform: without projects, localities cannot enter into the revenue sharing aspects of the municipal investment fund. They cannot qualify for the subsidies or financial incentives for current account balances that the fund offers. Without projects, small municipalities in particular will be cut out of the program.

Various alternatives for breaking the project preparation bottleneck exist. Since most local governments do not have the capacity for project preparation on their own, and since continued performance of this function by central authorities on behalf of municipalities is both inconsistent with the program's decentralization goals and a source of delay because of the central agencies' own bureaucratic weaknesses, the solution lies in getting short-term help to the municipalities. One option involves large-scale involvement of fifth year university students in project preparation, as part of their thesis work, under professors' supervision. This option is spelled out in Appendix C.

Technical Assistance. Technical assistance to all municipalities is supposed to be available, free of charge, at each of the three stages of program participation. Unfortunately, the TA process is going very slowly. No consultants have yet been hired. Few consultants

appear to want to work in the smaller municipalities, and the qualifications of those applying have been very disappointing.

Lack of Middle Management and Skilled Workers. In the municipalities that we visited on the Coast, only department heads had technical training. Otherwise, municipal personnel consisted of clerks, secretaries, and unskilled manual labor. This work force is totally unequipped to design projects, make cost estimates, or manage public services. It usually consists of political hangers-on of the party in power, who also have little desire to work.

In the longer run, this skill gap in municipal government is likely to be broken only by attacking both the demand and supply side of the problem. Municipalities are likely to become more acutely aware of the importance of the gap as they try to prepare projects and improve their service delivery. In the long run, steps can be taken to upgrade municipal salaries for skilled personnel, and to introduce university programs in municipal management. However, to be fiscally responsible these measures would have to be accompanied by large-scale reductions in the number of unskilled municipal workers. Within Latin America, only Chile has successfully implemented such a recomposition of the municipal labor force, and this was done under a military government.

Lack of Municipal Development Organizations. In other democratic nations of Latin America, there tend to be a number of organizations that provide some level of technical and administrative assistance to municipalities through site visits, courses, and model plans for typical municipal public works. In Brazil, many of these organizations date back to the 1940s. In addition, secretariats of state government typically contain professional staff that are knowledgeable about municipalities and they often oversee programs carried out by the municipality in the functional area of the secretariat.

Professionals that are knowledgeable about municipal development seem to be in very short supply in Ecuador. AME performs some training functions, but there are no organizations besides those incorporated in the PDM process that could give a balance to its perspective. There is no formal instruction in the universities in municipal administration.

VI. A MUNICIPAL STRATEGY FOR USAID

What strategy by AID can best respond to the current conditions of municipalities and the character of national-local relations in Ecuador? We address this basic question through a series of subordinate questions.

Should AID Initiate a Municipal Program, or Is It Too Late to Influence the Direction of Municipal Change in Ecuador?

The timing for a municipal program is excellent. The PDM provides \$300 million of resources which AID can help municipalities access, thereby greatly leveraging its own funds.

The recent reforms are consistent in their broad outlines with AID objectives. However, the initial implementation steps have not supported municipal autonomy or democratic accountability at the local level, and raise the danger that, as implemented, the PDM will become another centralizing, bureaucratic force. AID has an opportunity to steer municipal reform in a direction that strengthens democratic local governments.

Should AID Operate Its Program through PDM?

No. The PDM is an extremely complex administrative arrangement between four international funders (World Bank, BID, GTZ, and probably UNDP) and eight national agencies. Its current structure is the outcome of several years of negotiation. As the smallest minority investor in this enterprise, and one without a history of participation in defining the program, AID would have no chance of influencing program operations from within. It would have to subordinate its technical assistance and funding to PDM priorities. As PDM staff have made clear, this would reduce AID to paying for some of the narrower technical assistance that PDM needs.

How Should an AID Program Relate to PDM?

PDM is the central reality of municipal reform in Ecuador. AID should explicitly and emphatically support it, while pursuing its own program priorities.

PDM is the vehicle through which AID can leverage its resources. Supporting it means:

- Facilitating the entry of municipalities into the program by accelerating project preparation and helping municipalities fulfill other steps for eligibility. In this way, AID will both be helping local municipalities and helping PDM overcome the bottleneck represented by lack of projects.
- Using the manuals PDM has prepared for project design, cost recovery studies, environmental impact analysis, and socioeconomic studies. There is a temptation for each program funder to go its own way. However, if AID is to integrate its activities with PDM, it is critical that it use methodologies that speed municipalities' entry into the program. The manuals are perfectly acceptable for guidance in project preparation, and any AID program should follow them.

Should AID Work with a Single Municipality?

No. The argument for working with a single municipality is that AID gets to know the functioning reality of a city in detail, can help assess its priority needs in an informed way, and can understand the community and political situation well enough to have an impact on how things are done. However, working with a single municipality provides no framework for spreading successful project experience. GTZ worked for five years in Babahoyo, at a cost of

more than \$2.5 million, and achieved some significant successes (See Appendix B). But no other municipality learned from, or even displayed interest in, its experience.

Moreover, relations with a single municipality are always hostage to the personal attitude of the mayor and other unpredictable situations. In Babahoyo, GTZ found that the mayor remained indifferent to its administrative upgrading program, with the result that even the municipal training never affected local administrative practice.

What, then, Should Be AID's Strategy for Working with Municipalities?

AID should plan to work with a cluster of municipalities in a particular region--say two larger municipalities and two smaller ones, at the outset. Inclusion of the smaller municipalities is critical, since these are the places most likely to be neglected by PDM, given the way it is developing.

Under this strategy, AID would place a permanent consultant in each of the larger municipalities. It would also establish a revolving team of four experts to move among the localities, helping to carry out specific projects and solve particular problems. This team might be composed of a financial economist, an engineer, an architect, and a community worker.

By working in four municipalities AID can:

- Obtain the advantages of working in specific communities
- Create a built-in mechanism for transferring successes and project approaches from one community to another
- Use the enthusiasm generated in one location to support change in other locations.
- Set up competition for AID's funds and technical assistance. AID can shift its attention to the mayor and municipalities that are most responsive, thereby placing pressure on the others. The Babahoyo experience confirms that a guaranteed monopoly on technical assistance by one locality reduces its interest in experimenting with new practices recommended by the funder.

Finally, AID should from the beginning build into its program devices for spreading successful project experience beyond the pilot communities. Ideas for doing this are presented below.

It would be reasonable to work with the first set of cities for two to two and a half years, then evaluate the program. If it is successful, a second set of cities would be covered in the second stage.

What Should Be the Substantive Focus of Work with Municipalities?

The Program should have two focuses. The first focus would be to introduce practices directly related to local democratic objectives (see Section I). These would include working with the municipality and community groups so that the community participated in priority-setting for investment projects and public services, while acknowledging its obligation to participate in payment for services. As the GTZ found in Babahoyo, this intervention might require the creation of community groups, since these often do not exist in the Coastal region.

Accountability in government budget decisions and investment choices would receive special attention, as would opportunities for collaboration between the public sector and the private business sector.

Specific innovative ideas that we found in our interviews with cities include:

- In Machala, the new public works director (who is also head of the local Society of Engineers) wants to form a mixed public-private corporation so that the banana companies, whose trucks have destroyed the pavement of the road to the port, pay into the company to finance the costs of maintenance and repairs. The funds for this purpose would be received and administered solely by the company, under private management. The costs to the banana companies of road repairs should be much more than offset by time and repair savings to their own vehicles. Implementation of this project could serve as a model for tapping private sector financing for public investments that are directly in the private interest.
- In Manta, the planning director has begun a program with the local university (Eloy Alfaro), whereby teams of fifth-year students, under the direction of professors, do their thesis work by designing civil works for the municipality. Several of these have been submitted to PDM for funding. The municipality has no other professional capacity for design work. To date it has used the university teams to design water extensions into poor areas, new markets, and a new bus terminal. This experience represents a pilot experiment with a general proposal recommended by Eduardo Samaniego to develop university training courses to provide technical assistance to municipalities, by having fifth-year university students in engineering, architecture, and other professions prepare projects for municipalities, under professors' supervision, in fulfillment of their thesis requirements

In both cities, the private business sector expressed dismay at its isolation from public sector investment decisions, especially those that critically affect local economic growth. In Machala, the director of Banco Pacifico expressed the conviction that the greatest threat to the region's economic growth lies in the contamination of the coastal waters from the discharge of untreated sewage waste. This practice jeopardizes the shrimp export industry, which is the fastest-growing part of the economy. In Manta, private sector leaders unanimously identified lack of potable water supply as the greatest constraint on the private sector--both for industry

and for continued housing construction. The private sector's perceived vulnerability to public sector investment decisions provides a basis for dialog between the two sectors, even if the private sector harbors a great deal of skepticism about the honesty and efficiency of public sector operations.

The second focus would be on improving the administrative efficiency of municipal government and providing it help in project preparation. These are the activities that have the swiftest payoff, both for the participating municipality and for PDM. AID can help the municipality receive the substantial resources potentially available to it through the PDM process. At the same time, it can help speed up PDM's work of project generation and municipal strengthening. These activities are critical to gaining acceptance of AID's role by both municipalities and PDM.

Which Municipalities Should Be Chosen for Participation in the First Round?

The key to a successful program is selecting mayors who want to participate. No amount of technical assistance is likely to overcome a mayor's resistance to outside help, and, at least in the initial stages of a program, there is no reason to work with municipalities unless they want to participate.

The timing of the next municipal elections creates certain difficulties, as well as certain opportunities, for selecting participating cities. New mayors will be elected in April 1992. As discussed below, the period between the election and the mayors' installation (June 1992) would be ideal for holding a week-long seminar for newly elected mayors. The seminar also could be used to identify those mayors who appear most interested in participating in AID's program.

Too much work with individual cities before the elections does not seem appropriate, since new mayors are likely to repudiate much of the effort of their predecessors and replace many if not all of their management personnel. However, at least one city might be selected on the basis of the strength of interest of community leaders and the business sector. AID then would have specific experience to draw on in conducting the mayors' seminar and recruiting further cities.

Within these constraints, we recommend looking first to the Coastal region for participating municipalities. The needs are greatest there. Municipal staffing is of the poorest quality. The divisions between the public and private sector are most firmly entrenched. Poor communities have the deepest skepticism about working with local government. This also is the region of fastest urban growth, and the location of potential social unrest. Any progress that can be made in drawing the fast-expanding peripheral communities into municipal decision-making should have high payoffs throughout the region.

One combination of municipalities could be in the Province of Manabi: the two larger municipalities (each around 150,000) of Manta and Portoviejo, together with the smaller communities of Jipijapa and Montecristi or Rocafuerte.

An alternative combination would be in El Oro Province. Here there is only one larger municipality, Machala, where the AID Office of Housing will have acquired community experience. It could be combined with the smaller municipalities of Santa Rosa, Pasaje, and Huaquillas.

Yet a third possibility would be to combine Machala and Manta, as the larger municipalities, while selecting a smaller community near to each city, say Jipijapa and Santa Rosa. This combination potentially works best in terms of types of cities covered. However, it raises greater logistical questions. Machala and Manta are five hours apart by road. The rotating team of experts in this case, however, could live in Guayaquil, which may well make contracting them easier.

What Can AID Do to Help Spread the Program beyond the Pilot Communities?

The Program should contain from the beginning a component designed to spread Program learning beyond the pilot communities. One strategy is to encourage the communities in the Coastal region to form a regional municipal association to exchange successful experience. The Ecuadorian Municipal Association to date has not given importance to horizontal exchange of experience between municipalities. Rather, it sees its role as pleading before central government on municipalities' behalf, and transmitting to municipalities the program directions established by central government. However, it states that, in support of decentralization, it wishes to establish programs of mutual assistance and form regional municipal associations. If the communities of the Coast see AME as helpful, the regional association could be formed under its auspices. Otherwise, it could be formed independently, as the municipal law permits.

AID also could take advantage of the timing of its program, by setting up a week-long seminar that introduces newly elected mayors, before taking office, to local administrative issues, to the national programs that they can take advantage of, and to AID's program of assistance. This would take place between the April 1992 elections and the June 1992 assumption of office. In 1992 it would make sense to hold the seminar on a regional basis for Coastal cities. By 1996, the Program could sponsor a nationwide program. These introductory seminars have proved very successful in other countries in communicating a more professional approach to municipal administration. At present, mayors come out of campaigns tied to political promises, but with very little conception of what needs to be done to translate these promises into reality, or the resources they can count on in doing so. As a result, programs do not get implemented, and mayors spend most of their time in rhetorical denunciation of the central government for failing to provide assistance.

Perhaps the most basic strategy for spreading successful pilot experience, however, is to bring mayors from other cities to see what has been accomplished. Nothing is as persuasive in opening a mayor's eyes to what is possible than to see what has actually been accomplished in a city similar to his or hers. At the same time, such visits reinforce the commitment of the host city, which is being held up as an example of accomplishment. USAID has used this practical dissemination strategy to great advantage in the work of the Carvajal Foundation in microenterprise.

What Are the Costs of the Recommended Program and How Should It Be Managed?

Obviously, this consultant team on the basis of two weeks in country cannot define in detail the structure required to implement the recommended program and its costs. However, an initial cost estimate is necessary to judge its feasibility.

We estimate the total annual cost at \$750,000. This figure is broken down as shown below:

Salaries and benefits for six professionals (two permanently located in communities, four members of a roving team) at \$25,000	\$150,000
Travel expenses	30,000
Equipment (Land Rovers, computers) and Office, annualized	25,000
Seed Money to encourage innovative projects	250,000
Administrative Oversight from AID Offices; Connection with BEDE, PDM, and other national authorities (Ecuadorian professional)	30,000
Support for regional-scale activities (regional municipal association, seminar for newly elected mayors, etc.)	75,000
AID Staff Management (one-quarter time)	40,000
US-based technical assistance (largely from Spanish-speaking municipal officials)	100,000
Allowance for unforeseen costs	50,000
<hr/>	
TOTAL	\$750,000

Management

For both cost reasons, and reasons of program effectiveness, the program should be managed by an Ecuadorian professional, preferably one who is familiar with BEDE and the PDM, and enjoys a good reputation within these circles. His or her function would be both to manage the field workers and to act as facilitator on behalf of the program municipalities with national government authorities. In addition, the program would require some management oversight by a permanent USAID employee.

What Is the Minimum Level of Effort Required to Justify a Program Initiative?

We estimate that the spirit of the above recommendation probably cannot be achieved at less than \$600,000 per year. To cut back to this level would mean reducing the size of the travelling team to three members, cutting the size of the fund devoted to innovative projects by \$50,000, and reducing the costs for regional activities and US technical assistance by \$25,000 each.

VII. CONCLUDING COMMENTS ON RISKS AND OPPORTUNITIES IN PROPOSED PROJECT

Every program has its risks--both the risks of going forward and the risks of doing nothing. It is best to try to identify these risks beforehand.

Program Risks

Three risks stand out in the recommended program design.

First, there is the risk that mayors in fact do not want outside technical assistance in improving service delivery, increasing community participation in priority-setting, launching joint projects between municipal government and the private sector, or making more transparent and accountable the business of government. Some purely political resistance can be expected. Moreover, the experts we interviewed stated that there was a substantial degree of corruption (or favoritism) in municipal government, especially on the coast, and that we could anticipate an unwillingness on the part of many mayors to open the reality of budget resource allocation to outsiders. This assessment appears to be borne out by the experience of GTZ in Babahoyo (see Appendix B), where despite GTZ's high level of financial commitment, the mayor resisted changing traditional practices.

These risks can be reduced in various ways. Probably most important, the program can be structured so that there is competition for entry into it. If AID then takes the time to assess as carefully as possible individual mayors' desire to participate and willingness to grant access to the inner circle of decisionmakers, it can greatly improve the probability of cooperation. Although it is not possible to "read" a mayor's intentions with certainty, frequent visits to localities before making the final selection about program participants can screen out municipalities where

difficulties are most likely to develop. Certain cities where there is notorious political risk--such as Guayaquil--should not be considered for participation, at least in the initial round of the program. Finally, the staffing of the program is critical. The Ecuadorian program director should be a person who feels comfortable in the political world of municipalities, has the temperament of a dealmaker, and is able to speak directly to local officials.

Second, there is a risk that PDM will backfire, that it will be perceived as a bureaucratic obstacle rather than as a support for municipalities and decentralization. The track record of intermediate financial institutions of this kind supported by the World Bank is decidedly mixed. In some places, such as Rio Grande do Sul, they have been both a technical and political success. In other places, such as the Calcutta Metropolitan Area or the Autonomous Municipal Bank in Honduras, the credit institutions have generated a great deal of resentment on the part of municipalities, who see them as antagonistic bureaucracies standing in the way of municipal authority. It is too early to tell how PDM and BEDE will be perceived under the new program. However, there certainly are signs of local resentment. The best protection for AID against this risk is to ensure that its program is a separate endeavor, with its own structure and the clearly defined goal of strengthening democratic institutions and municipal management at the local level. AID's efforts should expedite municipal access to PDM, but AID should not participate in the national administration of PDM.

Thirdly, there is the risk that accelerating community participation in municipal affairs will lead these communities to demand "too much too soon." The Program can protect against this risk to a certain degree, by emphasizing the cost side of individual projects and the necessity for cost recovery from beneficiaries. This will temper more extreme demands. In general, however, some degree of political risk must be accepted: once local citizens or local neighborhood groups gain a greater voice in priority setting, their activities cannot be programmed entirely by outsiders. This, indeed, is the objective of democratic empowerment.

Risks of Doing Nothing

The greatest risks lie in doing nothing to increase participation in local government. At present, large segments of the population are effectively excluded from self governance. This exclusion has bred a resentment that swings between anger and indifference toward government at large and, especially, toward democratic institutions. National surveys show that respondents express faith in three national institutions: the family, the church, and the army. They do not express trust in the organs of democratic government. Such trust is unlikely to begin with the national level of government, which is both physically and bureaucratically remote for most of the population. Rather, experience with democratic government will begin at the local level, in choices over the local use of resources. If the most volatile segments of the population are excluded from local participation, it is highly likely that at some point in the not distant future they will look to nondemocratic expressions of their political demands.

APPENDIX A

BASIC FINANCIAL DATA FOR ECUADORIAN MUNICIPALITIES

One of the difficulties of working with the municipal sector is the lack of regularly collected, or regularly published, financial data.

As part of the preparation for PDM, two surveys of municipal finances were conducted, one covering 117 municipalities for 1986, 1987, and 1988 by the *Subsecretaría de Crédito Público* and the other covering 71 municipalities for the period 1982-88 by BEDE. These special surveys are the source of the data presented below. The detailed findings of the financial surveys are presented in A. Humberto Petrei, *Ecuador: Transferencias del Gobierno Central a los Gobiernos Seccionales* (November 1989).

In general, the tables in this appendix are either aggregate totals for the entire sample or, more usually, the sponsoring institutions' estimates for the entire municipal sector, based upon the survey results. In some tables, we break down the financial comparisons by city size.

All data correspond to government accounts only and exclude municipally owned enterprises.

Table 1

REAL EXPENDITURES OF MUNICIPAL GOVERNMENTS

<u>Year</u>	<u>Total Expenditures (Millions of 1988 Sucres)</u>	<u>Expenditure per Capita (1988 Sucres)</u>
1982	86,404	8,770
1983	69,211	6,993
1984	62,053	6,033
1985	66,473	6,313
1986	70,001	6,522
1987	60,545	5,217
1988	54,767	4,536

Source: Estimates of total municipal sector, based on sample of 71 cities, conducted by BEDE.

Table 2

**REAL EXPENDITURES ON PERSONNEL REMUNERATION
VS. CONSTRUCTION
(1988 Sucres)**

<u>Year</u>	<u>Total Personnel (millions)</u>	<u>Total Construction (millions)</u>	<u>Construction per Capita (sucres)</u>
1982	19,353	34,495	3,243
1983	17,256	28,412	2,738
1984	16,230	24,862	2,312
1985	16,304	27,827	2,609
1986	17,583	28,231	2,585
1987	19,742	20,267	1,581
1988	17,716	20,195	1,520

Source: Estimates for all municipalities based on BEDE sample.

Table 3

**MUNICIPAL CAPITAL FINANCIAL FROM
GOVERNMENT TRANSFERS AND CREDIT**

<u>Year</u>	<u>Per Capita Capital Transfers and Credit (1988 Sucres)</u>	<u>Per Capita Credit Financing Only (1988 Sucres)</u>
1982	2,699	1,785
1983	2,176	1,247
1984	1,418	748
1985	1,493	771
1986	1,517	919
1987	1,233	611
1988	747	332

Source: Calculated from data presented in BEDE survey of 71 municipalities.

Table 4

MUNICIPAL GOVERNMENT REVENUES, BY SOURCE
(Millions of 1988 Sucres)

<u>Year</u>	<u>Total Transfers from Central Government</u>	<u>Total Local Taxes</u>	<u>Urban Property Tax (included in total)</u>	<u>Total Charges for Services</u>
1982	47,230	11,323	4,888	1,488
1983	39,796	11,861	5,467	1,503
1984	31,519	13,990	4,749	1,841
1985	38,348	14,502	4,294	1,600
1986	38,159	14,124	3,909	1,772
1987	32,934	13,290	4,718	2,364
1988	28,720	14,527	3,295	1,321

Table 5

**MUNICIPAL REVENUES PER CAPITA BY
CITY SIZE CLASS**
(Average 1986-88, in 1988 Sucres)

<u>City Size Class</u>	<u>Total Revenue per Capita</u>	<u>Percent of Revenue from Central Transfers</u>
1,000,000+	7,636	38.9%
200,000-1,000,000	7,015	47.9%
100,000-200,000	5,503	55.5%
50,000-100,000	4,457	63.3%
30,000-50,000	5,285	65.7%
15,000-30,000	5,751	76.2%
<15,000	13,634	89.6%

Source: Calculated from data in 117 city sample of Subsecretaria de Credito Publico.

Note: Excludes municipally owned enterprises.

APPENDIX B

THE GTZ EXPERIENCE IN BABAHOYO

The German Technical Assistance Agency (GTZ) has operated a municipal development program at the local level in Babahoyo, a coastal municipality of 60,000, for six years. Their experience provides some important lessons for USAID involvement at the municipal level.

In the early 1980s, GTZ signed agreements with the Junta Nacional de la Vivienda (JNV) and the Banco Ecuatoriano de la Vivienda (BEV) to develop housing programs. Gradually, GTZ's interest shifted to municipal development. In 1984, GTZ proposed to the government of Ecuador a pilot project in municipal development in conjunction with JNV and BEV. The president, who had made promises to assist the municipality of Babahoyo during the 1984 electoral campaign, accepted GTZ's proposal provided that Babahoyo be the site.

Babahoyo is an inauspicious location for a pilot project. As many localities in the Coastal region, this municipality suffers from serious flooding problems that have no easy solution. However, GTZ agreed to the president's counter-offer and sent a team of consultants to evaluate this municipality's problems. GTZ's experience in other countries inclined the organization to a participatory approach at the neighborhood level. Hence, this team selected a poor neighborhood with a population of 3,500, Barrio Barreiro, as the focus of its initial analysis. During the course of study, the team decided to expand its recommendations to strengthening the capacity of local government. After four months of study, this team produced a report, *Mejoramiento Urbano Integardo de Barreiro, Estudio de Factibilidad*, in February 1985.

This report recommended an ambitious project that joined landfill, social organization, and infrastructure improvements in Barrio Barreiro with administrative reform at the municipal level. Based on this report, GTZ went through a lengthy process to reach formal agreements with JNV, BEV, and the municipality of Babahoyo, which were finally signed in 1987. However, as local expectations had been raised, GTZ began its program in Babahoyo in July 1985. The two components of this program--neighborhood improvement in Barrio Barreiro and strengthening of the municipality, are discussed below:

Barrio Barreiro

Previous to GTZ's involvement in Barrio Barreiro, this neighborhood had a small number of sports, women's, and other groups, but no organizations that represented the community. GTZ's first step was to stimulate the formation of a neighborhood committee, COPROBA (Comite Para Mejoramiento de Barreiro). GTZ assisted local people in preparing the committee's statutes, sending these statutes to central government for official approval, and organizing elections. The committee divided the neighborhood into nine sectors, each of which elected a representative to its directorio. A president, treasury, and secretary were elected in an assembly of neighborhood residents.

Funding for COPROBA's programs has come from GTZ via the municipality. Over the five years since its inception, COPROBA has made substantial progress in organizing and improving Barrio Barreiro, including the following initiatives.

- o Seven commissions operate its programs in functional areas such as health, education, employment, culture, and security. These commissions meet regularly and undertake various activities in their functional areas such as first aid courses, sports event, vaccination campaigns, and musical and dance performances.

- o A system of small loans to neighborhood people for a variety of purposes. COPROBA evaluates loan applications, disburses the monies, and collects repayments. Initially, these loans were made for family crises such as unemployment, purchase of basic domestic equipment such as cooking utensils, and for school tuition. These small credits proved so popular that COPROBA expanded the eligible uses of these loans to include shelter upgrading and microenterprise. The micro-enterprise portion of this loan program is managed by the Fundacion Eugenio Espero of Guayaquil. Loan repayment has been excellent. Less than 5 percent of total repayments have been made late.

- o A small loan and technical assistance program for fishermen and brickmakers.

By 1987, GTZ had entered into agreements with JNV, the municipality and the Junta de Defensa Civil (JDV) to address the main physical problem of Barrio Barreiros, flooding, through a program of land-fill. A GTZ study conducted in 1986 concluded that three additional meters in height are necessary to raise the 53 hectares of Barrio Barreiro above flood level. JDV owns the heavy equipment and executes the landfill. GTZ provides technical assistance. JNV imports the replacement parts needed for JDC's equipment, has contracted with the Ecuadorian Navy to oversee this work, and provides funding. This landfill continues in fits and starts to the present based on the availability of funds, bureaucratic approvals, and equipment.

In 1989, GTZ funded the construction of a community center in Barrio Barreiro. This center consists of a school, a large multiple use space, a community room, and a health center and has a sports field alongside. This center, which cost US \$700,000, represents GTZ's major financial investment in Barrio Barreiro. GTZ staff indicate that their other activities in Barrio Barreiro total a fraction of the cost of the community center, although they could not provide us with exact figures. COPROBA operates this center.

Although these accomplishments are impressive, GTZ staff indicate that the most important achievement of their work in Barrio Barreiro is a gradual change in attitude of residents. A GTZ employee who spent five years in Babahoyo describes this change.

Before the arrival of GTZ and the establishment of COPROBA, people waited for someone else to help them and entered into patron-client arrangements with politicians to solve their problems. Bit by bit, they are taking a more

active role. Now, they go to talk with municipal authorities. Before, they did not do this and were manipulated by important people.

Barrio Barreiro organizations have developed a cooperative relationship with local government. From our visits to other municipalities, this accomplishment appears to be rare in Ecuador. Typically, the relationship between local government and private sector and community organizations is indifference or antagonism.

Municipality of Babahoyo

GTZ designed its municipal strengthening program by hiring consultants to perform studies. Based on these studies, GTZ prepared a series of manuals (accounting, tax, financial management, taxation) and administrative procedures. GTZ then hired a team of architects and graduates of university management programs to assist in implementing these procedures and in restructuring municipal administration. This team set up an office in city hall.

After five years and an expenditure of approximately \$2 million dollars--largely for consultants and salaries to maintain its team in Babahoyo--GTZ has made little progress. Municipal staff pay little attention to the manuals and conduct business as they did before. Although the municipality has a planning department where it had none previously, this department is unable to prepare fairly simple projects.

In the area of improving taxation and cadastral records, GTZ's progress is somewhat better, although still unremarkable. The organization's efforts to improve cadastral records and tax collection procedures have resulted in a substantial increase in registered properties--from 5,000 to over 12,000 currently. Yet, tax collection has failed to keep pace with the increase in property registration. The GTZ staff member who lived for five years in Babahoyo notes:

It is one thing to have better cadastral records and a manual on tax collection. But, the tax collection office did not want to apply the manual and collect taxes.

The mayor's lack of support for these reforms played a large role in their failure. Why did the mayor refuse to support these measures? A number of factors seem to have played a part. The main explanation given by one GTZ respondent is that the mayor had little interest in improving administration. As a politician, his priority lay in public works that the electorate could see, rather than invisible administrative reforms. In addition, the GTZ manuals that set down procedures for administration served to limit both the mayor's and staff's ability to maneuver and adapt to circumstances. The mayor did not want to be bound by these rules and the staff lacked the qualifications and ability to adapt these rules to changing circumstances.

GTZ's reluctance to use its financial leverage to pressure the mayor also contributed to this lack of success. The GTZ staff member who spent five years in Babahoyo understands this reluctance, but believes that more would have been accomplished if GTZ had been more forceful.

Finally, the staff of the municipality of Babahoyo has turned over a number of times during the period of GTZ's program. Although only one election has occurred in this interval, three people have occupied the key position of planning director. In contrast, the president and secretary of the COPROBA in Barrio Barreiros are the same as when GTZ first started working in this neighborhood. This neighborhood group has proved a much more stable partner than the municipality.

Efforts to Generalize this Experience

GTZ has made a number of efforts to apply the experience gained in Babahoyo in other municipalities and at the national level. GTZ's involvement in PDM, discussed elsewhere in this report, grew out of the organization's work at the local level. GTZ has also become a force in policy discussion at the national level in Ecuador largely as a result of its work in Babahoyo. Its publication, *Propuesta para Un Futuro Municipal*, is widely read and well-respected among municipal development professionals.

Finally, GTZ has introduced the method used in Babahoyo into JNV. A unit of JNV headed by a former GTZ employee with ample experience in Babahoyo has recently set up municipal development programs based on GTZ's approach in Ibarra, Guayaquil, Porto Viejo, and Huaquillas.

Successes and Failures of GTZ's Experience in Babahoyo and Lessons for USAID

GTZ has had striking successes and failures in Babahoyo, most notably the following:

- o Most broadly, GTZ's efforts succeeded in stimulating participation and local development at the neighborhood level, but had few results at the municipal level largely due to lack of support from the mayor, but also because of staff turn-over and the administrative inflexibility imposed by its manuals.
- o Although GTZ has begun the work of landfill in one neighborhood where 5 percent of Babahoyo's population lives, much of the rest of Babahoyo still suffers from flooding.
- o GTZ made some progress in generalizing the method developed in Babahoyo at the national level through PDM and at the local level through spread of its approach to four other municipalities via JNV. Yet, the experience of Barrio Barreiro has yet to spread to other neighborhoods in Babahoyo.

GTZ's experience suggests the following lessons for USAID involvement in municipal development, particularly given its interest in democratic initiatives:

- o Include a strong neighborhood component. The opportunities for promoting democracy and participation are strongest at the neighborhood level.
- o Take into account the attitude of the mayor. Excessive dependence on the mayor has proved a major problem for GTZ in Babahoyo. This risk can be spread

by working with more than one municipality and, hence, more than one mayor, and by working at the neighborhood level.

- o Incorporate plans for generalizing the project into the initial design.
- o Coordinate the project with the efforts of other organizations involved in municipal development. PDM, in particular, represents a great potential resource for local development. However, this program may conflict with USAID efforts at the local level if methodologies and rules differ. A senior GTZ staff member as well as others familiar with PDM raised this danger as a serious risk for USAID involvement in municipal development at the local level.
- o Plan for the long run. GTZ's initial plans for Babahoyo proved excessively optimistic. A refrain of GTZ staff and other municipal development professionals is that "things don't change overnight."

APPENDIX C

Interviews Conducted

1. Cecilia Rodrigues, manager, BEDE. April 30, 1991
2. Eric Naranjo, GTZ employee, worked in Babahoyo for 5 years. April 22, 1991
3. Ulrich Kuenzel, GTZ, Jefe del Equipo de Asesores. April 21, 1991
4. Gerd Junterman, GTZ, manager. April 30, 1991
5. Eduardo Samaniego, consultant to Central Bank and former Coordinator of PDM. April 23 and 28, 1991
6. Marcelo Herdoiza, BEDE staff and consultant to Central Bank. April 22, 26, and 27, 1991
7. Roberto Samayoa, GTZ, manager. April 21, 1991.
8. Carlos Rodrigues, SENDA, Asesor. April 22, 1991.
9. Diego Pena Carrasco, AME, Director Tecnico INFODEM. April 19, 1991.
10. Maria del Carmen Araujo, BEDE, Coordinator of PDM, April 18 and 22, 1991.
11. Oscar Sartorio, BID, Especialista Sectorial. April 19 and 23, 1991.
12. Jaime Torres, AME, Director. April 23, 1991
13. Mayor, Planning Director, Legal Counsellor and Director of Public Works, Municipality of Machala; President of Building Society, Machala.
14. Mayor, Planning Director, and Community Development Director, Municipality of Milagro.
15. Planning Director, Director of Chamber of Construction Contractors, Municipality of Manta.
16. Mayor and Special Policy Advisor, Municipality of Quito.