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AGENCY FOR INTERNATIONAL DEVELOPMENT <b>PROJECT PAPER FACESHEET</b>		1. TRANSACTION CODE <b>C</b> A = ADD C = CHANGE D = DELETE	PP 2. DOCUMENT CODE <b>3</b>
3. COUNTRY/ENTITY <b>Paraguay</b>		4. DOCUMENT REVISION NUMBER <b>1</b>	
5. PROJECT NUMBER (7 digits) <b>[526-0112]</b>	6. BUREAU/OFFICE A. SYMBOL <b>LA</b> B. CODE <b>[05]</b>	7. PROJECT TITLE (Maximum 40 characters) <b>[Market Town Development]</b>	
8. ESTIMATED FY OF PROJECT COMPLETION FY <b>[1812]</b>		9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY <b>[1718]</b> C. FINAL FY <b>[1718]</b> 3. QUARTER <b>[3]</b> (Enter 1, 2, 3, or 4)	

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$1 - **4130.5**)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	1,320	4,480	5,800	1,320	4,480	5,800
(GRANT)	( 785 )	( 15 )	( 800 )	( 785 )	( 15 )	( 800 )
(LOAN)	( 535 )	(4,465 )	( 5,000 )	( 535 )	(4,465 )	( 5,000 )
OTHER U.S. 1.						
OTHER U.S. 2.						
HOST COUNTRY		3,145	3,145		3,145	3,145
OTHER DONOR(S)						
TOTALS	1,320	7,625	8,945	1,320	7,625	8,945

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <b>78</b>		H. 2ND FY <b>79</b>		K. 3RD FY <b>80</b>	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) <b>FN</b>	<b>241</b>	120	120	32	0	260	833	263	1,326
(2)									
(3)									
(4)									
TOTALS				32	0	260	833	263	1,326

A. APPROPRIATION	N. 4TH FY <b>81</b>		Q. 5TH FY <b>82</b>		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED  MM   YY <b>01   81 0</b>
	O. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
(1) <b>FN</b>	187	1,525	58	1,316	800	5,000	
(2)							
(3)							
(4)							
TOTALS	187	1,525	58	1,316	800	5,000	

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

2 1 = NO  
2 = YES

14. ORIGINATING OFFICE CLEARANCE		15. DATE DOCUMENT RECEIVED IN AID W. OR FOR AID W. DOCUMENTS, DATE OF DISTRIBUTION  MM   DD   YY <b>01   01   78</b>
SIGNATURE	DATE SIGNED	
TITLE <b>Mission Director, USAID/Paraguay</b>	MM   DD   YY <b>01   01   78</b>	

USAID/PARAGUAY

MARKET TOWN DEVELOPMENT PROJECT

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
**PROJECT IDENTIFICATION DOCUMENT FACESHEET**  
 TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE  
 C A = ADD  
 C = CHANGE  
 D = DELETE

PID  
 2. DOCUMENT CODE 1

3. COUNTRY/ENTITY  
 Paraguay

4. DOCUMENT REVISION NUMBER

5. PROJECT NUMBER (7 DIGITS)

6. BUREAU/OFFICE  
 A. SYMBOL LA B. CODE 05

7. PROJECT TITLE (MAXIMUM 40 CHARACTERS)

8. PROPOSED NEXT DOCUMENT  
 A.  2 = PRP B. DATE   
 3 = PP

10. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 = )

FUNDING SOURCE	DA65285
A. AID APPROPRIATED	
B. OTHER U.S.	1. 2.
C. HOST COUNTRY	
D. OTHER DONOR(S)	
TOTAL	

9. ESTIMATED FY OF AUTHORIZATION/OBLIGATION  
 a. INITIAL FY   
 b. FINAL FY

11. PROPOSED BUDGET AID APPROPRIATED FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. FIRST FY		LIFE OF PROJECT	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	H. GRANT	I. LOAN
(1)							
(2)							
(3)							
(4)							
		TOTAL					

12. SECONDARY TECHNICAL CODES (maximum six codes of three positions each)  
 060 051 031

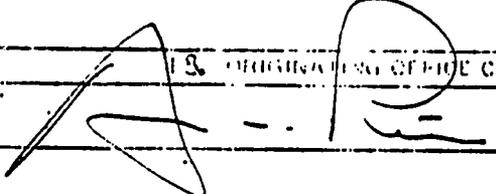
13. SPECIAL CONCERNS CODES (MAXIMUM SIX CODES OF FOUR POSITIONS EACH)  
 BR EQTY INTR PART

14. SECONDARY PURPOSE CODE  
 291

15. PROJECT GOAL (MAXIMUM 250 CHARACTERS)

16. PROJECT PURPOSE (MAXIMUM 400 CHARACTERS)  
 1. Develop the capability of the Municipal Development Institute (IDM) and of municipalities (individually and in groups) to provide the services needed by the rural poor.  
 2. Develop a planning capacity on the local (service area) level to identify and prioritize the needed services. This includes development of capacities within IDM to identify service areas and to assist development committees representative of such areas.

17. PLANNING RESOURCE REQUIREMENTS (staff/funds)

18. ORIGINATING OFFICE CLEARANCE  
 Signature:   
 Title: Mission Director, USAID/Paraguay  
 Date: 01 06 78

19. DATE RECEIVED, RECEIVED AID, or for AID/FOI REQUESTS, DATE OF DISTRIBUTION  
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## I. SUMMARY AND RECOMMENDATIONS

### A. Recommendations

USAID/Paraguay recommends authorization of A.I.D. loan and grant funds to the Government of Paraguay for the use of its Instituto de Desarrollo Municipal (Municipal Development Institute - IDM), with the following terms:

Amount: US\$ 5,000,000 loan, \$ 800,000 grant.  
Period of Disbursement: Four years.  
Period of Repayment: 20 years, with 10 years grace.  
Interest Rates: 2% during grace period, 3% thereafter.

### B. Summary Description of Project

Paraguay, with an agriculturally oriented economy dominated by small producers, has 170 towns on which producers depend for purchasing inputs, marketing products, receiving other economic opportunities, and obtaining services. IDM, founded in 1971 and recipient of a previous A.I.D. loan, has been assisting these towns in achieving a level of administrative competence adequate to provide public works and services. To date the focus of sub-project selection has been on subprojects which generate enough revenues at least to cover all costs. IDM and the municipalities realize, however, that if the latter are to fulfill their roles of contributing to the economic opportunity and social well-being of their populations - particularly of the neediest, who represent an estimated 79% of the total - they must begin to target their activities so that they directly and predominantly benefit that target group. Institutionalization of the capability to provide the services needed by the target group is one of the two parts of the Project purpose.

IDM and the municipalities also are increasingly aware that there has been no process for selecting subprojects to insure that those proposed for IDM financing are the ones which would most address the needs of the poor in the area served by the town. As the second part of the Project purpose, a planning capacity will be developed on the local level to identify and prioritize the services needed by the target group, both those in the towns themselves and those in the surrounding areas. This will include the development within IDM of capacities to identify towns' service areas and to assist local development committees representative of such areas. These two parts of the Project purpose - embodying a strategy of growth with equity, since it will result in distribution of available public resources toward the needy - will contribute to the Project goal of increasing the income and well-being of the rural poor target group of over 1.5 million persons.

Implementation of the Project will occur in three overlapping stages. First, through courses and other TA, IDM will sensitize the officials of all municipalities to the appropriateness of carrying out subprojects with definable direct and predominant impact on the needy. Each subproject proposed will have to meet strict criteria to insure such impact. Second, through courses and other TA, IDM will instruct officials of all municipalities in the basics of spatial theory, to make them aware of the interaction of their

town with other towns and with rural areas. Through this, IDM will encourage municipalities to work together on joint subprojects which will serve a defined service area. Third, using surveys, development scaling, and spatial techniques, IDM will identify with some precision all service areas in Paraguay and will classify all towns into development categories. IDM will then select municipalities from each grouping with which to work on an intensive basis to establish a local planning capacity. If a development committee exists, IDM will begin to work with it; if not, IDM will encourage the formation of one. In either case, IDM will do what it can to insure that the committee has representation from throughout its service area and from all sectors of the population. IDM will then train and guide each committee, to enable it to identify the development potentials and problems of its area and to identify and prioritize the area's needs. IDM will also assist the committee as a liaison with GOP and other sources of assistance. If a subproject is indicated to solve a need, IDM will help the committee and the municipalities involved design it. In short, IDM will establish a process of integrated rural-urban planning using a "bottom-up" approach.

The outputs needed to achieve the above are (cumulative by FY):

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
1) Municipal officials trained in development of impact subprojects and in basic spatial theory	340	340	680	680
2) Municipalities represented	170	170	170	170
3) Impact subprojects financed	25	65	111	151
4) Municipalities with impact subprojects	25	58	80	100
5) Joint subprojects financed	1	3	6	10
6) Municipalities involved	3	8	15	25
7) Development committees working with IDM	-	4	8	10
8) Subprojects stemming from development committees	-	2	6	9
9) Person-weeks of formal training for IDM personnel	50	100	150	200

The inputs will be of three basic types. First, A.I.D. grant funds of \$800,000 will give IDM the needed assistance to be able to institutionalize the two new roles to be developed under the Project purpose. This assistance will consist of a long-term advisor in planning for three years (\$240,000), an advisor for one year in rural sociology and community development (\$80,000), 18 technician months of short-term services in a variety of fields (\$288,000), short-term participant training primarily for IDM personnel (\$155,000), courses for municipal officials (\$15,000), and vehicles and equipment (\$22,000). Second, A.I.D. loan funds of \$ 5 million will provide financial support for the new directions, plus a small amount of general support for items for which IDM has difficulty obtaining line items in its GOP approved budget. Specifically, \$4,850,000 will go into a subloan fund to be used to finance eligible subprojects. \$100,000 will finance accounting and other equipment, vehicles, and renovation

of IDM's headquarters building. \$50,000 will finance municipal seminars, short-term experts, attendance at conferences, and other TA. Third, there will be counterpart of \$3,145,000. IDM will finance each subproject on a 20% pari passu basis, for a total of \$1,213,000. Second, IDM will incur \$601,000 in incremental operating expenses in order to carry out its new activities, including the establishment of a new department. Third, the municipalities will continue to finance an average of 18% of each subproject, for a total of \$1,331,000.

### C. Summary Findings

The Project has been analyzed for technical, social, financial, and economic soundness (Section III) and has been found to be feasible. It fulfills all legal criteria (Annex II, Exhibit B). USAID believes that the Project is ready for implementation, and the Director has so certified (Annex II, Exhibit A).

### D. Project Issues

This Project was reviewed by the DAEC at the PP stage on July 22, 1977. The DAEC requested that the Project be resubmitted with resolution of five areas of issues (see Annex I, Exhibit C). The earlier PRP review indicated two other areas for the PP to address. USAID, IDM, AID/W TDY experts, and a team of consultants have done considerable work on these areas and have provided solutions and justification for all. USAID does not believe they are issues any longer. The issues and their solutions are:

(1) The DAEC wanted demonstration that subprojects financed under the Project will directly benefit the A.I.D. target group. The Project contains a set of strict subproject selection criteria which clearly restrict financing to those subprojects which have an identifiable direct and predominant target group impact (Annex I, Exhibit D). Types of subprojects which cannot readily show such impact have been eliminated (Section II, B.8.). Furthermore, the target group has been more precisely defined (Section III.B.1.).

(2) The DAEC wanted a better definition of the regional planning approach under the Project and questioned whether the Market Town Development Project and the Community Based Rural Development Project should remain separate. The approach developed for the Project is an integrated urban-rural planning technique from the bottom up (Section III.A.), to be carried out by local development committees guided by IDM (Section II.B.4.). Spatial planning concepts will be used to define the service areas which the development committees will represent (Section II.B.10. and Annex I, Exhibit F). The two projects have been combined (Section II.A.3.), with the grant funds to be used for the TA necessary for IDM and the committees to develop the planning capability.

(3) The DAEC wanted a better definition of which market towns would be eligible for assistance. Since one part of the Project purpose is to develop a sensitivity throughout municipal government to providing services which

would impact directly and predominantly on the target group, no municipality will be a priori excluded from obtaining financing under the Project for an eligible subproject (Section II.B.10.). For the task of working with development committees on integrated urban-rural planning, communities will be pre-selected depending on hierarchy, geographical diversity, practical considerations and potential for development (Section II.B.10.).

(4) The DAEC wanted a demand analysis to justify the size of the Project. This has been done (Section III.C.2, with supporting data in Annex I, Exhibit G), showing more than adequate demand for the types of subprojects to be financed. The size of the Project has had to be limited by other factors (Section III.C.3.).

(5) The DAEC wanted a revision of the GOP support levels for the Project. This has been done (Section III.C.3.), demonstrating an adequate level of support.

(6) The DAEC during its review of the PRP wanted an analysis of IDM's institutional capacity and of USAID's monitoring role. An institutional analysis has been done (Section IV.A.), showing that IDM should be able to implement the Project now that it has established a new Planning and Special Projects Department. USAID's monitoring role under the first project and a revised, less burdensome one under the proposed Project are described (Section IV.B.).

(7) The DAEC during its review of the PRP wanted a detailed financial analysis of IDM to determine if self-sufficiency will be reached and an analysis of the municipalities' capacity to incur debt. An analysis of IDM's financial situation (Section III.C.1.) shows that with new revenues from an expanded tax base plus the revenues generated under the Project, IDM will achieve its objective. An analysis of the municipalities' financial capacities (Section III.C.2.) shows that they will be able to participate in the Project without adverse financial effects.

#### E. Composition of Project Committee

This Paper was written by Michael H. Hirsh, Assistant Capital Development Officer, USAID/Paraguay, who coordinated development of the Project. The Paper was reviewed by a USAID Project Committee, composed of:

Abe M. Peña, Mission Director  
Paul A. Montavon, Assistant Director  
Henry L. Miles, Capital Development Officer  
Lauryn C. Drengler, Controller  
Bernard H. Masters, Assistant Program Officer  
Larry K. Laird, Assistant Rural Development Officer  
Ralph E. Holben, Program Economist

A number of other individuals contributed to the conceptualization of the Project and drafted various sections of this PP. Special recognition goes to:

William Feldman, TDY from LA/DR  
Gerald Wein, TDY from LA/DR  
Richard Rhoda, TDY from TA/UD  
Rifat Barokas, Ph.D., Economist and Team Leader-Multinational  
Agribusiness Systems Inc. (MASI)  
Laurence Delliquadri, Ph.D., Spatial Geographer - MASI  
Peter Gore, Ph.D., Sociologist - MASI  
Judith F. Laird, Ph.D., Contractor, Market Town Survey  
Ned Ewart, Contract Anthropologist  
Agustin Bareiro Yegros, President, IDM  
Vicente Capello, Chief of Planning and Special Projects  
Department, IDM  
Luis G. Talavera, Project Assistant, USAID/Paraguay.

## II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

### A. Background

#### 1. The Development Problem

Based on the Small Farmer Subsector Assessment and other research, the following statements can be accepted as given:

a. Paraguay's current economy and its future development are oriented toward agricultural activities. There are limited alternative possibilities for employing large numbers of persons or earning needed foreign exchange. Agriculture provides 36% of GDP, 85% of the value of exports, and 51% of employment.

b. Paraguay's agricultural sector is dominated by small producers. The estimated 190,000 farms under 20 hectares, representing over 85% of the total, produce over 50% of most major crops and of many types of animals, including such cash export crops as cotton, sugar cane, and tobacco. Over two-thirds of such domestically consumed foods as corn, manioc, sweet potatoes, round beans, swine, and chicken are produced by small farmers.

c. Paraguayan towns serve as the small farmers' market link to the larger national and world economies. The 170 towns serve as central points where goods are sold, where inputs are purchased, where extension services are available, where cooperatives are found, and where a variety of other services are located.

d. Through Paraguayan law and custom, municipal government has the responsibility for providing most local infrastructure, public works, and public services. For that infrastructure provided by national institutions, municipal government must play a coordinating or cooperating role with such institutions.

e. Until these municipal governments are able to provide essential infrastructure and services, the small farmers who are dependent on the towns will not be able to take full advantage of the economic opportunities potentially available to them. The farmer living near a thriving community, where there are points of distribution for agricultural products and perhaps some agroindustries, where rural roads are maintained, and where transportation and other essential services are provided, should be able to produce more crops, decrease the cost of marketing the crops he produces, produce higher value crops, obtain off-farm employment, and/or otherwise be able to take advantage of new opportunities to increase his income. Likewise, thriving market centers provide economic opportunities for the poor townspeople. A U.N. study has shown that over 80% of domestic migration to Asunción is from other urban cores.<sup>1/</sup> In addition to economic opportunities, municipal centers provide health and other social services essential for the well-being of the populace.

<sup>1/</sup> A municipality is divided into an urban core and its strictly rural zones, called compañías. All 170 urban cores are classed as "urban" by the GOP, though several contain fewer than 200 persons (see Section II.B.2.). For conceptual purposes, such places might be thought of as urban points in rural areas.

Five years ago only two or three of the larger municipalities in rural Paraguay could be described as having fully functional governments. The others did not budget, keep books, collect revenues available to them, or provide any public works or services. The Municipal Development Institute (IDM), founded in November, 1971, and recipient of an earlier A.I.D. loan, has been instrumental in assisting all 170 municipalities. Some 40 to 50 municipal governments can now be said to be reaching the point of being fully functioning; they collect all of the types of revenues due them, budget for the use of their resources, manage their resources honestly and relatively efficiently, keep municipal books, provide public works and services, and carry out some type of planning for the future. The other municipal governments are being assisted by IDM to achieve at least the same level; in 1976, 167 of the then existing 168 municipalities prepared budgets. 92 municipalities have borrowed from IDM to undertake a total of 138 development subprojects.

With IDM now established and with the municipalities beginning to become viable institutions for rural development, several points are becoming evident:

a. There is increasing demand among the municipalities to carry out subprojects with direct impact on the neediest sectors of the populace. Through IDM encouragement, subprojects to date have emphasized revenues for the municipalities without particular regard for social impact or targeting. Yet interviews with municipal officials and other townspeople and the results of a recent survey (see Section III.C.2.) indicate substantial demand for social impact subprojects.

b. There are demands and opportunities to carry out rural development in a more organized manner. With no encouragement from IDM or other GOP institutions, a number of municipalities have established development committees or have indicated a desire to do so. Several isolated instances have occurred of municipalities working together on activities. But no resources have existed to carry these beginnings into programs. No expertise exists within IDM or other GOP institutions in integrated urban-rural development. People at the local level need assistance in defining their towns' service areas, in effectively organizing themselves for local planning, and in identifying and prioritizing needs and subprojects.

The proposed Project is designed to carry municipal development into these stages of providing the services needed for the economic and social well-being of the poor majority and of developing a planning capability at the local level to identify and prioritize the needs. The Project takes advantage of the level of development of IDM and the municipalities, of the increasing interest in Paraguay in rural development, and of the latest thinking in integrated urban-rural development.

## 2. Municipal Development Efforts in Paraguay

Interest in municipal development in Paraguay stems from a series of seminars for municipal officials in 1965-1967, sponsored by A.I.D., the National University, and OPACI (the Paraguayan Organization for Intermunicipal

Cooperation, an institution sponsored by the GOP and municipalities to provide an advisory role on municipal affairs and to lobby for legislation benefitting municipalities). Interest was heightened by the Paraguayan Constitution of 1967, which gave considerably increased autonomy to the municipalities. In 1969 A.I.D. sent a group of municipal leaders to visit municipal financial institutions in four countries. Upon its return, the group began to persuade GOP officials of the need for a similar institution in Paraguay. In 1970 A.I.D. sponsored the visit to Paraguay of two experts in municipal lending institutions, who did the feasibility study for the creation of such an institution and drafted legislation. On November 10, 1971, the legislation was passed and IDM was created. Its role was defined as providing administrative assistance (training officials, improving tax collection, preparing manuals, granting scholarships for municipal study, assisting in budget preparation), providing technical assistance (planning and studying subprojects, preparing feasibility studies), and providing financial assistance (as a municipal bank) to all municipalities in Paraguay excluding Asunción.

The Agreement for the first loan to IDM (526-L-022) was signed February 6, 1973. The basic objective of the project was "to assist in the creation of IDM", with the purpose "to assist municipalities other than Asunción to begin to develop infrastructure and a framework for self-sustaining growth." The \$2 million loan was divided into two parts: \$450,000 for TA to IDM and \$1,550,000 for relending to municipalities. Subloans permitted were for any self-liquidating municipal development subproject, with USAID approval required above certain amounts and under certain circumstances.

As of December 1, 1977, IDM had approved 98 subloans using loan funds, 58 others for financing from its own funds, and 14 using Government of Brazil funds. The subloans have gone to 92 different municipalities for 138 specific development subprojects. (In several cases more than one subloan was made for the same subproject, and several subloans were made for "contingencies", i.e., groups of small activities.) In addition to its financial services, IDM over the past four years has given considerable technical assistance and training to all 170 municipalities.

Two joint IDM-USAID evaluations and two AG audits indicated that the project was quite successful. The TA to IDM appeared to have created an organization which, considering its short life, was managing itself efficiently and was effectively carrying out its role. The subloans appeared to be based on sound technical analyses and appeared to be promoting the socio-economic development of the towns. As the latest evaluation stated, "The project has already made a good start towards achieving its subgoal of strengthening and modernizing the municipal governments," and, "The evaluation has concluded that the project has significant potential to achieve the goal of promoting the socio-economic development of communities in Paraguay, and that progress towards achieving the goal is satisfactory,"

The evaluations and audits point out a number of minor implementation problems in the subloan approval process, subloan bidding procedures, and subloan inspections. These can be considered routine problems intrinsic to a new and growing institution, have been diminishing over time, and have been

taken into account in developing the implementation procedures for the proposed Project (see Section IV.B.). A major weakness in the project, however, was the inability of IDM to become self-sufficient and to capitalize itself adequately, as were anticipated as the project was developed. The main reason for this was the underestimation of IDM's task. Not only was the job of bringing municipal governments up to fully functioning status a difficult one, but demand for IDM's services by the municipalities was greater than expected. IDM's revenues from tax sources, the GOP budget, and subloan interest spread were not adequate to cover its substantial expenses. The problem was aggravated by the fact that the GOP, though it continually paid to IDM the minimum contribution promised in the Loan Agreement, did not live up to its covenant of providing "as needed all funds... and all other resources required for the punctual and effective carrying out of the Project, including but not limited to the amounts provided for in (the Loan Agreement)." As an incentive to solve the financial problems, USAID withheld disbursement of the final \$254,000 of the subloan part of the loan. The GOP in turn passed legislation to increase greatly the tax revenues which flow to IDM (more fully discussed in Section III.C.1.). A.I.D. extended the TDD of the loan (formerly December 31, 1976) to December 31, 1977, to permit the withheld funds to be disbursed. The project has now been satisfactorily disbursed.

### 3. History of this Proposed Project

The proposed Project stemmed originally from a request by IDM for additional loan funds to meet the growing demand for its services and to enable it to capitalize itself more adequately. As USAID worked with IDM on the development of the Project, the potential benefits of an expansion of IDM's scope to being the catalyst for higher impact subprojects and integrated rural-urban planning emerged.

The PRP was presented to AID/W in October, 1976, and was reviewed by the DAEC on October 20. Though the Project was originally slated for FY 1978 funding, AID/W agreed that the Project could be presented earlier. A PP was prepared in mid-1977 and was reviewed by the DAEC on July 22. The DAEC asked that the Project be resubmitted with better defined subproject selection criteria to assure direct target group impact, with a more refined definition of the planning function within the Project, with a rationale for the eligibility of towns for subloans, and with a more complete demand analysis. The current PP was prepared with the help of a contracted team of consultants and of several AID/W specialists, in accordance with the guidance from the two DAEC cables (see Annex I, Exhibit C).

At the same time that the Market Town Loan Project was in its early stages of development, USAID began development of a grant project entitled Community Based Area Development. Originally conceptualized as a project to spur agroindustrial development through the auspices of development committees organized by local cooperatives, the project's objectives and methods began to evolve closer and closer to those of the Market Town Project with IDM. The PRP was submitted to AID/W in October 1976 and reviewed by the DAEC on October 27, without an implementing institution having been selected. During the first months of CY 1977, USAID explored the carrying out of the project with a

dozen Paraguayan institutions and settled on IDM as the most appropriate and capable. The DAEC, in its July review of the Market Town Project, suggested that USAID look carefully into whether the two projects should be combined. The consultant team devoted a large part of its time to this analysis and concluded that since the two projects had evolved so closely in concept, a merger was appropriate. This PP therefore presents a combined project, with the grant funds used to provide the technical assistance needed to give IDM the capability to carry out the new roles it will be playing, and with the loan funds providing the necessary financial support for the process to work.

## B. Project Description

### 1. Purpose and Goal

The Project purpose is to (a) develop the capability of IDM and of municipalities (individually and in groups) to provide those services needed by the rural poor target group and (b) develop a planning capacity on the local (service area) level to identify and prioritize the needed services. The latter entails development of a capacity within IDM to identify service areas and to assist development committees representative of such areas. Provision of the services needed by the rural poor target group will contribute to the Project goal of increasing the income and well-being of the target group.

### 2. Strategy

The most significant distinctions in approach between this Project and the prior loan to IDM are that all subprojects will have to impact directly on the needy and that IDM will organize itself and serve as the catalytic agent at the local level to promote the distribution of available public goods to the needy. To achieve these objectives, the administrative style of IDM will reflect a sensitivity to the value of relying on local government and local development committees to express their development needs and of joining with them to satisfy those needs. Growth with equity should guide the new direction for IDM and reflects what the Project seeks to accomplish.

All the resources made available under the Project will be mobilized to implement this new policy of operation. A new Planning and Special Projects Department has been created which will encourage the formation of local development committees and will work with local government and the development committee in identifying subprojects to improve the economic and social well-being of the poor. Technical assistance and training provided from grant funds will be used to install and professionalize this capacity. Skills in planning, rural sociology, group and organization dynamics, survey research, and community development will be developed.

Although the main impact of the funds will be on the urban-rural entity known as the municipality (analogous to a country), a significant start will have been made to have rural Paraguay look at its development needs in a broader context so as to make possible an integrated rural-urban development approach. A regional perspective as perceived from the bottom up will help to rationalize not only the resources from this Project but the rest of A.I.D.'s

ongoing and planned investments in nonformal education, rural roads, rural enterprise development, and rural health, and perhaps those of other donors as well.

### 3. Outputs and Inputs

Project outputs and inputs are presented in detail in the Logical Framework Matrix (Annex I, Exhibit A), with annual targets. In summary, outputs will be: (a) 680 municipal officials trained in the targeting of sub-projects and in basic spatial theory, representing all 170 municipalities, (b) 151 subprojects with target group impact implemented by 100 municipalities, (c) 10 subprojects carried out by groupings of municipalities, with 25 municipalities involved, (d) IDM working with 10 development committees, (e) nine subprojects implemented stemming from the development committees, and (f) 200 person-weeks of formal training given IDM personnel in methodologies needed to carry out its expanded roles.

A.I.D. inputs fall into two types. The grant funds are designed to give IDM the needed technical assistance and to cover other incremental costs so that it can carry out its expanded tasks. The grant funds will provide (a) a long-term advisor in planning for three years (\$240,000), (b) a long-term advisor in rural sociology and community development for one year (\$80,000), (c) 18 technician months of short-term services in marketing, rural economics, development administration, zoning, planning, and other fields (\$288,000), (d) courses for municipal officials (\$15,000), (e) short-term participant training for IDM personnel and other appropriate individuals (\$155,000), and (f) two vehicles and equipment specifically for use in IDM's new tasks (\$22,000). Grant funds will total \$800,000. The loan portion will provide the financial support for IDM's expanded roles. In addition, a small amount will be available for necessary general support to IDM. Specifically (a) a \$4,850,000 subloan fund will be established for subprojects which meet the new eligibility criteria; (b) \$100,000 will be available for renovation and expansion of IDM's new headquarters building and for vehicles, accounting equipment, and other commodities IDM needs for its entire operation; and (c) \$50,000 will be available for seminars, short-term contracting of experts, and other technical assistance activities which will support IDM in general. In addition to the A.I.D. inputs, local counterpart includes \$1,213,000 in the subproject fund, \$601,000 in incremental operating expenses, and \$1,331,000 in municipal subproject contributions, for a total counterpart contribution of \$3,145,000.

### 4. The Process

Project implementation has three basic parts. (a) IDM will continue to work with municipal officials in the assessment of needs and the development of subprojects. But IDM will begin to sensitize these officials to the appropriateness of carrying out subprojects with definable direct and predominant impact on the needy. This will be done by a series of special courses for municipal officials and through IDM's normal contacts with municipal officials, during which IDM will discuss the specific criteria each type of subproject must fulfill if it is to be eligible for financing under the Project. Subproject applications will be reviewed carefully against the selection criteria.

(b) IDM will instruct municipal officials through the special courses and its normal contacts in the basics of spatial theory, so that each official is aware in general terms of his municipality's own service area and whether the municipality is part of a larger service area. IDM will begin to encourage municipalities to work together on joint subprojects which will serve a defined service area. (c) Using surveys of all municipalities, spatial techniques, Guttman scaling, and other methodologies, IDM will classify all municipalities into categories (developed regional center, emerging regional center, potential emerging regional center, and local market center) and will identify with some precision the various service areas. IDM will then select municipalities from each grouping with which to work on an intensive basis to establish a local planning capacity (see Technical Analysis Section, Section III.A., for theory and more details). If a development committee exists, IDM will begin to work with it. If not, IDM will encourage the formation of one. In either case, IDM will do what it can to insure that the committee has representation from throughout its service area and from all sectors of the population, particularly from the target group, both in the urban cores and from the companias (particularly small farmers). IDM will then train and guide each committee, to enable it to identify the development potentials and problems of its region and to identify and prioritize its needs. IDM will further assist the committee as a liaison with GOP and other sources of assistance. For example, if the committee identifies lack of agroindustrial development as a need, IDM will put it in contact with the Special Development Fund of the Central Bank and will organize meetings in the field. If it appears that the private sector will make agroindustrial investments, then IDM will work with the committee and the leaders of the municipalities involved in designing appropriate municipal subprojects to support the investment (e.g., electricity, port improvement). If a committee identifies lack of a particular social service (e.g., health centers, complete primary schools in the rural areas) as a need, IDM will bring the committee together with the appropriate GOP institution to work out a solution. If municipal funding is determined to be part of the solution, IDM will help the committee and the municipalities involved design a subproject. In short, IDM will establish a process of integrated rural-urban planning using a "bottom-up" approach. Out of this activity is expected to come a number of subprojects, many funded by groups of municipalities, a number of them of a significantly larger size than the typical subproject has been.

##### 5. End of Project Status

By the end of the Project two concepts are expected to have been institutionalized. First, through IDM's assistance the municipalities (singly and in groups) will be undertaking subprojects with high target group impact. Through the annual evaluations, impact on the needy, both of economic opportunities and well-being, will have been demonstrated. Secondly, the municipalities, with IDM assistance, will be undertaking integrated urban-rural planning using the bottom-up approach. Though this will have been implemented in only ten service areas, all municipal officials will have been trained in the basics of such planning so that the approach can be extended throughout the country after the Project terminates. Specific end of Project indicators are presented in the Logical Framework Matrix (Annex I, Exhibit A).

## 6. Assumptions

The basic assumptions for the Project to be successful are: (a) IDM and the municipalities are motivated to execute subprojects aimed at the target group; (b) the municipalities are willing to take on subprojects which require that they pay a share or even all of the costs out of their own revenues; (c) neighboring municipalities are willing to cooperate in joint development activities and IDM is able to motivate them to do so; (d) municipalities are willing to establish development committees with broad representation from throughout their service areas; (e) IDM is able to obtain and retain needed staff; (f) there will continue to be cooperation between IDM and the GOP agencies responsible for various types of activities (e.g., water, electricity, ports, road maintenance); (g) IDM is able and willing to offer more attractive terms for certain high social impact subprojects; and (h) the GOP continues to make available its annual budget support to IDM plus all revenues due IDM from tax sources. As discussed in the appropriate sections of this PP, it is reasonable to expect that these assumptions will hold true.

## 7. Tie-ins with Other Projects

Establishment of a locally (service center) based, bottom-up planning capacity throughout rural Paraguay will lead to rationalization of all A.I.D. projects, both ongoing and future. For example, one of the elements of both the Rural Enterprises and the Productive Credit Guaranty Projects is to work with people in rural towns to instruct them in the projects and enable them to determine how to utilize the resources available under them. Currently such activities must be done on an informal basis, with municipal officials, businessmen, officials of GOP agencies, or others being contact points. Broadly based development committees will enable information to reach all sectors of the population and will allow organized planning to take place. Likewise, development committees can help determine schools to be rehabilitated, health centers to be constructed, feeder roads to be improved, and crops for which agricultural credit should be made available. They will be a basis for planning all rural development activities in Paraguay, including those funded by other donors and by the GOP itself.

There is a particular tie-in between the proposed Project and the ongoing Cadastral Survey and Property Tax Improvement Project (526-W-026). That project is causing a rapid increase in property taxes collected in the interior of the country, important to the proposed Project since 10% of all such revenues go to IDM and 4.4% to the individual municipalities. Also, the maps and land information obtained from the Cadastral Survey will be of great use to IDM and the municipalities as each municipality is studied as part of the planning phase of the Project.

## 8. Description of Eligible Subprojects

Under Loan 022, the subprojects financed were heavily directed toward those which would provide municipal revenues or at the least pay for themselves in a short period of time. This was an essential first step in the

development of IDM as an institution and of the municipalities as functioning local government entities providing services to their populations. There was however, little or no emphasis on targeting subprojects to the poorer people of the communities. Subprojects undertaken up to December 1, 1977 consisted of the following categories 1/:

Slaughterhouses	33
Markets	21
Street Paving	20
Municipal Buildings	18
Electricity	8
Water Tanks	5
Bus Terminals	5
Theaters/Gymnasiums	5
Commercial Stores	4
Road Graders	2 <u>2/</u>
Swimming Facilities	2
Restaurants	<u>1</u>
	124

In spite of the lack of targeting emphasis, the consultant team found that all of the subprojects provided some benefit to their communities, and many showed substantial benefit to the target group. The most significant conclusion was that within any given category, a subproject might or might not show direct target group benefit depending on design factors. Based on this conclusion, in the development of the proposed Project it was decided to eliminate only a small number of categories of subprojects which did not readily show direct target group benefits. For the rest, criteria were established to assure that only those subprojects designed to impact directly and predominantly on the target group would be acceptable. (Once a subproject passes the criteria of target group impact, it must still then be proved to be financially and technically feasible before it can be funded.) A brief discussion of each type of subproject category follows; a more detailed discussion of the selection criteria are presented in Annex I, Exhibit D.

a) Slaughterhouses: A variety of slaughterhouses has been financed to date, from tiny local ones to large facilities in the Asunción suburbs. Slaughterhouses provide hygienic benefits to the entire population. (Meat is eaten in varying amounts by all classes.) They are also an attractive type of subproject for municipalities, since the slaughter of meat is a principal revenue source, and a slaughterhouse provides a means of municipal control. In the proposed Project, slaughterhouses will be financed only in compañías or in smaller municipal cores where it can be demonstrated that the majority of the meat is consumed by target group members, the majority of the target group members consume meat, and the majority of the cattle slaughtered are provided by target group producers.

1/ The number of subprojects listed is smaller than the number of subloans IDM has made because several subprojects needed more than one subloan and because IDM also gave a number of small subloans (not counted here) for a variety of small works.

2/ During the same period IDM also gave 14 subloans to municipalities for 10 road graders and 10 dump trucks with Brazilian government financing.

b) Markets: Central markets do not play the critical role in Paraguay that they do in most other Latin American countries. In most market towns the marketing structure for producers works through a hierarchy of wholesalers, and the central markets sell only a miniscule amount of local production. In many towns the central markets only sell meat, and this function is declining as neighborhood meat markets are established. Nevertheless, there are perhaps 20 to 30 towns which have active central markets. These traditionally play a role in selling on a retail basis the fruit, vegetable, cheese, and grain production of some small producers located near the town. Improvement of such markets can have demonstrable benefits to the target group. For example, in Concepción a score or more small farmers daily bring in foodstuffs by oxcart from rural areas five to ten kilometers away. The market located in the center of town, is an unpaved area with sellers selling from the carts or off the ground. The oxen and other animals wander loose. Children play in the mud and animal droppings. Flies are everywhere. An appropriately designed improvement, with the market area covered by paving stones, with areas for the carts to line up in an orderly fashion, with stalls for sellers now on the ground, with a corral for animals, and with a day care center for the sellers' children, would have tremendous benefit for the target group sellers as well as for the buyers, who are by and large the poorest residents of Concepción. Under the proposed Project, therefore, no new markets will be built. Only ongoing active markets will be improved, and they will be designed in such a way that both the target group sellers and the target group buyers will be benefitted.

c) Cobblestone Streets: Under Loan 022 street paving was a popular type of subproject. In some cases these were simple cobblestone projects; in others they were expensive asphalt endeavors. The consultant team found a range of benefit incidence. Under the proposed Project, only subprojects with labor intensive laying of cobblestone or paving stones will be financed, and only those subprojects which fall into the situations with the highest target group benefit. One situation is to solve marketing bottlenecks. In certain towns the streets surrounding the market, the wholesalers' warehouses, or other marketing facilities are impassible all or some of the time, and cobblestoning is the most efficient way to provide access. This will be done only in minifundia zones where it can be demonstrated that such lack of access is a constraint to the small farmer. The other situation is when poorer sections of towns have problems of access due to impassible streets. This can be of particular importance to target group members in towns where there are numerous home industries.

d) Municipal Buildings: Though the consultant team found varying levels of benefit incidence for this type of subproject - including potential benefit for the target group for facilities used for courses, meetings, and offices for public service institutions, such as the extension service - such subprojects will not be eligible for A.I.D. financing under the proposed Project because of the difficulty in proving in advance direct benefits to the target group.

e) **Electricity:** This type of subproject can have considerable impact on the target group. Street lighting, increased industrial activities, increased commercial activities, and the preservation of perishable foods all are beneficial for the target group. Nonetheless, in most electricity sub-projects to date the impact has not been as great as it might have been. This is because the typical subproject has charged a high installation fee, limiting service to wealthier townspersons. Under the proposed Project, electricity subprojects will be financed only when the installation fee and rate structures are established and the population of a town or compañia are such as to assure that the majority of connections will be in the homes and businesses of target group members and that the majority of target group members in the location will be served.

f) **Water Systems:** A reliable supply of clean water is one of the greatest needs in the interior of Paraguay. National health data indicate a high incidence of disease traceable to unclean water supplies. There is a national service - SENASA - which supplies water to urban cores of under 4,000 persons. (CORPOSANA serves larger urban cores.) All water subprojects to date have been water tanks built in conjunction with SENASA projects. The difficulty, as in the electricity subprojects, has been that high installation fees have precluded many of the target group from obtaining the service. SENASA has obtained a loan from the World Bank to install water service in 41 municipal urban cores and five compañias and has a program for eventually serving all urban cores and larger compañias. Therefore water subprojects under the proposed Project will be limited to extending systems into poorer sections of towns or to doing water projects in compañias not to be covered soon by SENASA. As in the case of electricity, installation fees and monthly rates must be structured so that the target group can afford the service, and the majority of connections must be in homes of target group members.

g) **Bus Terminals:** These were found to have direct target group benefit in towns where there is substantial intradistrict or intraregional public transportation in addition to transportation out. Terminals result in a more organized transportation system, which benefits small farmers who come into town or use the town as a transfer point to elsewhere to make purchases, to obtain other services, to make marketing arrangements, or with products to sell. In the proposed Project, terminals will be financed only after a survey indicates that the majority of bus users are target group members.

h) **Theaters/Gymnasiums:** Though these provide social and recreational benefits to the target group, and though theaters are often used as community meeting halls, these types of subprojects will not be eligible for A.I.D. financing under the proposed Project because of the difficulty of substantiating direct target group impact.

i) **Commercial Stores/Restaurants:** Though these are attractive revenue producing subprojects for municipalities and though they provide employment, it is difficult to justify direct impact on the target group. These types of subprojects will not be eligible for Project financing.

j) **Swimming Facilities:** A case can be made that in Paraguay, where everyone - rich or poor - plunges into the nearest stream or pool to keep cool, there are benefits in providing a clean pool for the use of the poor rather than having them use the increasingly polluted streams. Nonetheless, because of the difficulty of justifying target group impact, this type of subproject will not be eligible for Project financing.

k) **Road Equipment:** The two graders financed under Loan 022 and the 10 graders and 10 dumptrucks financed by IDM under the Brazil credit are used in a variety of activities: maintaining unpaved streets, preparing streets for paving, maintaining and improving rural access roads, and working on other public works projects. Maintaining and improving rural access roads certainly has had and could have tremendous target group impact. Maintaining unpaved streets in poor neighborhoods also could have substantial impact. The consultant team considered provision of graders and other road equipment one of the highest potential target group impact types of subprojects under the proposed Project. Nevertheless the team cautioned that criteria be established to insure that the benefits reach the target group and are not diverted elsewhere. In order for road equipment to be financed under the Project, the municipality must present a proposed plan of use, showing what roads and streets will be maintained and on what schedule. From cadastral and Military Geographical Institute maps, IDM and the Mission will determine what percentage of the roads and streets pass through minifundia and other poor zones. At least 60% of the use time of the machinery must be on road and street activities in such target group areas. In addition, IDM will finance such machinery under the Project only outside the four departments covered by the Rural Roads Project. Both approaches to solving the difficult problem of access roads (the Ministry of Public Works working through local road committees, and municipal handling of road maintenance) are innovative and worth trying. Approximately two years after both projects are underway, an evaluation will be done to determine what should be the approach for the future for Paraguay, and one activity will be integrated into the other.

Most of the above listed types of subprojects can be carried out either by a single municipality or by a group. A limited amount of group activities is now occurring. For example, three municipalities share a private electric system, and municipalities have jointly purchased road graders. Joint subprojects will be encouraged under the Project, particularly as IDM begins to work with development committees and helps them identify their service areas.

In addition to the seven categories of traditional subprojects which will be eligible for financing under the proposed Project (slaughterhouses, markets, cobblestone streets, electricity, water systems, bus terminals, and road equipment), a number of other types of subprojects may be financed which heretofore have not received IDM technical or financial support. Many have been undertaken by municipalities on their own; others are expressed desires for which technical and financial assistance have never been available. Many are particularly appropriate for multi-municipal implementation. As with the types of subprojects mentioned above, all must fulfill criteria designed to

show direct target group impact (see Annex I, Exhibit D). These "new" types of subprojects are:

a) **Equipping and/or Construction of Health Centers:** Under Paraguayan law, each municipality must construct a health center, which will then be equipped and staffed by the Ministry of Health. The consultant team reported that in 68 municipalities visited, all had health centers, generally with one or more health professionals. But most had practically no equipment. Furthermore, a number of compañias far from the urban cores were in need of health centers. Under the Project, equipping of existing health centers or construction of new health centers may be financed, but only when shown to be in areas where the majority of persons to be served fall into the target group.

b) **Port Improvement:** In several places river transport offers a less expensive mode of transportation for farm products than does road transport. For example, a port in Rosario could save money for several thousand small farmers who now have to pay a considerable percentage of the return on their cotton crop to have it shipped 326 kilometers over poor dirt roads to the cotton gins near Asunción. The port which once served the area deteriorated between the days of heavy yerba mate exportation and the days of heavy cotton production, and now is virtually unuseable. Other similar situations exist in Paraguay. Improvement of such ports would be good regional-type subprojects, but each would have to demonstrate that it would be serving primarily small farm producers in order to be eligible for financing under the Project.

c) **Sites and Services for Agroindustry:** There appears to be a substantial unmet demand for agroindustry in Paraguay, as evidenced by excellent response to the new Rural Enterprises Project. A number of municipal officials have mentioned that a lack of appropriate sites is impeding the development of agroindustries in their towns. Under the Project such sites and services as would be appropriate (water, sewerage, access streets, electricity) may be financed. It must be shown that the agroindustries to be established benefit the target group, using the criteria already in effect under the Rural Enterprises Project.

d) **Artisan Markets:** Several communities specialize in crafts or similar products but lack adequate facilities for their sale. Such subprojects may be eligible if the products are produced and sold by target group members.

e) **Cold Storage, Grain Storage, and Grain Drying Facilities:** The private sector, cooperatives, and the GOP have all invested in various types of storage and drying facilities. Nevertheless, with the increase in agricultural production, there remain a number of zones in which small producers have no access to such facilities and could benefit substantially if they were installed. Small fishermen and growers of fruits, vegetables, corn, and soybeans have particular need. Several municipalities have indicated the desire to construct such facilities, which would be eligible for financing if the majority of producers and potential users in a zone were in the target group.

f) **School Construction:** The consultant team found that one of the greatest needs indicated by municipal officials was expanding rural primary schools to include all six grades. Of the 2,098 primary schools in the compartias of the 152 municipalities for which data are available, 1,360 (or 65%) include fewer than six grades, generally offering only through the third. Since schools in Paraguay are typically community built, it would be a feasible subproject to assist compartias in expanding their primary schools.

g) **Vocational Training:** Municipalities often offer courses in the evenings to young adults lacking skills. This may be an eligible type of subproject for Project financing.

h) **Reforestation/Irrigation:** These may be eligible types of municipal subprojects if it is clearly shown that small farmers will be the predominant beneficiaries.

i) **Municipal Vegetable Gardens and Common Pasture Areas:** In many towns, poor townspersons own cows which run loose, creating unsanitary conditions, destroying the limited green areas, and not getting adequate nourishment. Controlled common grazing areas, available for a small monthly fee per head, will provide healthier animals (which give more milk) and a more hygienic town. Likewise, many poor families in urban cores do not have lots large enough to plant family gardens. Setting aside municipal land for vegetable gardens, with an annual rental fee, could provide nutritional and income benefits for the target group.

j) **Municipal Colonization:** In Paraguay there is considerable rural migration and colonization (see the Small Farmer Subsector Assessment). Most programs are under the auspices of the Land Reform Agency (IBR), but there are other private colonization programs. A municipal sponsored program, enabling small farmers or nonfarmers to move from less productive lands in one part of a municipal district to better lands in another part, would be an eligible type of subproject, given proper technical design.

k) **Other:** The opportunities for municipal sponsored subprojects are virtually unlimited. When asked about other possible subprojects with a direct impact on the target group, municipal officials have indicated that they are interested in low cost housing, sewerage, trash collection, and a number of other types of activities. Such categories of subprojects will be eligible for financing under the Project, but only if each subproject clearly demonstrates target group impact, using criteria similar to those for the types of subprojects listed. USAID must approve each such subproject.

In Loan 022, all subprojects were required to be self-financing. This meant that the revenues from each subproject were expected to cover its total costs. Self-financing was handled in different ways. Some subprojects produced continuous revenues (e.g., slaughterhouses, from fees per animal slaughtered; markets, from fees for use of stalls; bus terminals, from fees for each departure and from rental space of restaurants and shops; municipal theaters, from rental of office space and from entrance fees to cultural and sporting events). Others produced revenues from installation fees, later

reduced to cover operating expenses (e.g., electrification, water supplies). Others produced revenues only until construction costs were fully paid (e.g., street paving, whereby adjacent property owners must pay for the improvement on an installment basis). Still others enabled municipalities to realize a net savings by not having to pay rental (e.g., municipal buildings). Several types of subprojects were combinations of the above. Purchase of road graders, for example, enabled the municipalities to save money on not having to pay the contractors who previously maintained the dirt streets. In addition, the municipality received revenues from road committees or private individuals when the graders were used to work on rural roads or other activities. In practice, some subprojects have produced more revenues than anticipated, while in others the municipalities have had to pay part of the costs from their general revenues.

In the proposed Project, self-financing will be encouraged whenever possible, so as to keep the municipalities and IDM in as strong a financial state as possible. Certain types of subprojects will likely only be undertaken if self-financed given normal lending terms (e.g., slaughterhouses, bus terminals, sites and services for agroindustries, port improvements). Others may be self-financing only if IDM gives better terms than it has been accustomed to give. For example, water and electricity subloans have typically been made for periods of 2 1/2 to six years, which has been adequate time for repayment since most of the subloans were to be recovered from installation fees, which users pay off over a two to five year period. With the new policy of target group impact, subloans may not be able to be paid off for 10 or more years, since installation fees will be nominal and most revenues will come from monthly user rates. In very poor communities, only a reduction in interest rates may enable the subproject to be financially viable. Finally, there are other types of subprojects which could probably never be self-financing (e.g., equipping of health posts, vocational training). The municipalities in these cases will have to subsidize all or part of the costs out of their general revenues. (At best the municipalities can hope that these investments will bring long-term growth which will eventually create higher tax revenues.) Such subprojects will also likely require the more favorable IDM terms. Both IDM and numerous municipalities have expressed their desire to do such greater social impact subprojects which may involve soft terms and subsidies. (The financial implications of these are analyzed in the Financial Analysis Section, Section III.C.).

#### 9. Description of the Municipal System

There are two levels of government in Paraguay: the national government and municipal governments. The principal link between the two is the Ministry of the Interior. The Ministry has divided the country into 19 departments, and each has a governmental delegate appointed by the President of the Republic. Municipalities are chartered by the Paraguayan Congress upon the recommendation of the Ministry. Any territory with defined boundaries, possessing a population of at least 3,000, and demonstrating sufficient economic resources for self-support may solicit a charter. Approximately half of Paraguay's physical territory, representing the areas where some 97% of the people live, is chartered as 171 municipalities (including Asunción).

Each municipality, analogous to a U.S. county, consists of an urban core and surrounding rural areas, the latter called compañias if established for some time and colonias if more newly settled.<sup>1/</sup> The larger municipalities (currently 43) receive a mayor appointed by the Minister of the Interior with approval of the President. Other than that, municipalities are self-governing, with a town council elected directly by the population. The councils may create municipal codes and enforce them as law within the municipalities. Each town council elects a president and vice president from among its members. In the municipalities without appointed mayors, the presidents of the town councils serve as mayors.

Municipal responsibilities are regulated by a Municipal Law, and municipal revenues by a Municipal Tax Law, the latter completely revised by the Paraguayan Congress in December, 1976. The Municipal Law grants municipalities autonomy and responsibility for local government, security and order, public works and services, and general social well-being within the municipality, including the compañias. The Law states that the mayor is responsible for the authorization of public works, municipal acquisitions, and contracts, and makes certain provisions for how these should be carried out. He is further responsible for preparing an annual budget which must be submitted to the Ministry of the Interior. The Law also provides that each municipality have a salaried secretary and a salaried treasurer, both appointed by the town council from persons nominated by the mayor. They have responsibilities for municipal employees, collection and administration of funds, and accounting. The Law stipulates certain controls and checks on their performance. The Law in addition provides for a town plan for each municipality, setting forth programs in zoning, sanitation, public transit, education, personal security, and provision of public works and services. The Law also provides for municipal development committees, with responsibility for long-range planning.

The Municipal Tax Law details the income municipalities may receive. Municipalities may collect taxes on construction, vehicle licensing, transfer of property titles, urban transport, legalization of promissory notes, cemetery plots, public announcements, public entertainment, raffles, registry of animal brands, animal slaughter, and licensing of merchants, industries, and professional persons. The municipalities also receive 4.4% of the land taxes collected by the national government in their districts. Other sources of revenue include the income derived from the use of municipal assets (particularly land, which in some municipalities is the principal revenue source), assessments for public services, fines, loans, and social contributions. The 1976 Municipal Tax Law extends the municipalities' financial responsibilities beyond the urban cores to their rural zones, and for the first time provides them taxing power upon their rural areas. In a related change, whereas the municipalities received 4.4% of the land taxes collected only from the urban cores, now they receive 4.4% of the taxes collected from the entire municipal districts.

In short, the municipal system is a ready and essential vehicle through which to carry out rural development activities. IDM's efforts to date

<sup>1/</sup> The term compañia as used in this PP will refer to both compañias and colonias.

have established a basic core of competency which can be built upon to achieve the purpose of the proposed Project. And the Municipal Laws provide the legal base needed to carry out the Project.

#### 10. Description and Definition of Market Town

A market town is an urban nucleus to which farmers in the surrounding areas come to market their products, procure supplies, pay taxes, and obtain other services (e.g., health, religious). Generally, rural roads spoke out from the town to the surrounding rural areas, while the town itself is connected to the rest of the country by a national road and often by a river or railroad. The town, in short, depends on the surrounding agricultural activities for its economic existence, and the farmers depend on the town (or on several towns) for theirs. Recent developmental theory as well as A.I.D. directives have pointed out the importance of such towns in total rural development.

Under current theory there can be several categories of market towns depending on the extent of the service area. A farmer or towns person may obtain certain services from his immediate town, others from a more distant town, and still others from an even more distant and more developed town. The consultant team visited 68 municipalities in Paraguay. Using Guttman scaling and spatial plotting techniques, the team identified four types of towns into which all municipal urban cores fall: developed regional center, emerging regional center, potential emerging regional center, and local market town. The techniques used and the towns identified are given in Annex I, Exhibit F. In addition to placing each town in a category depending on the services provided and the scope of influence, the team discovered that the configuration of the 14 defined areas of influence varied considerably--in linear, circular, or diffused configurations, depending on roads, other transportation modes, and natural barriers.

Since one of the purposes of the Project is to create a sensitivity throughout Paraguay to carrying out municipal subprojects which have direct benefits to the target group, no municipality will be a priori ineligible for obtaining financial assistance under the Project. All 170 municipalities in Paraguay outside Asunción are basically rural. Only 17 municipalities have more than 5,000 persons in their urban cores (according to 1972 census data), of which five are suburbs of Asunción. Only nine, including three suburbs, have over 10,000. The largest, Encarnación, has 22,800. 113 have fewer than 2,000 persons in their urban cores (see Annex I, Exhibit E.). Even including the suburbs, 159 of the 170 municipalities have more people in their rural areas (comarcas) than in their urban cores. All the towns depend to some degree on agriculture for their existence, and most exist only to support the surrounding agriculture. Even the towns which support other activities (e.g., Pilar - textiles; Hernandarias and Puerto Presidente Stroessner - support towns for the Itaipú Dam Project; the Asunción suburbs) have large rural hinterlands and provide services needed by their rural populations. In short, because of the nature of the towns and because of the first purpose of the Project, all municipalities will be able to participate in presenting subprojects for financing under the Project.

For the second aspect of the Project, that of integrated urban-rural planning using a "bottom-up" approach, there will be preselection of participating municipalities. IDM, using techniques described earlier, will define service areas and will classify all towns into four categories. It will then select one developed regional center and its service area with which to work intensively, one emerging regional center and its service area, one potential emerging regional center and its service area, and one local market town. A year later it will again choose one from each category to work with, and about eight months later will choose one additional emerging regional center and potential emerging regional center. Thus by the end of the Project, IDM will have worked intensively with ten such service regions, encompassing perhaps 25 to 30 municipalities. Actual selection will be based on pragmatic considerations (such as the motivation of the public officials), on the desire for geographic diversity, and on potential for development.

#### 11. Definition of Target Group

The target group is described in detail in the Social Analysis Section (Section III.B.). It can basically be defined as the rural poor, as based on AID/W criteria on income and other indicators. Since the urban cores are considered rural, the rural poor include townspersons as well as persons who live in the compañías. The latter generally consist of small farmers, about whom USAID has considerable data, and farm laborers, Indians, and others about whom USAID knows little. From available data, approximately 87.5% of the persons in the compañías can be said to be included in the target group, with most of the rest on the margin of falling into the target group. The compañías contain approximately 78% of the two million persons who live in municipal districts.

USAID has begun to learn about townspersons from a survey recently conducted in two towns. The data, summarized in the Social Analysis Section, indicate that at least 50% of the people in a town, and probably much higher in most cases, fall into the target group, based on the AID/W guidelines. These are generally workers in agroindustries, members of families with home industries, shopkeepers and their employees, employees of other service institutions, farmers who reside in the town, and farm workers. 20 to 30% of the families are headed by women. Assuming a conservative 50% of townspersons fall into the target group plus 87.5% of the population of the compañías, 79% of the total two million inhabitants of municipal districts can be considered to be included in the target group--the poor majority. With strict criteria in the Project to insure that the subprojects funded impact directly on the target group and with 100 municipalities expected to carry out subprojects with direct target group impact, a large proportion of the target group will likely benefit from the Project.

### III. PROJECT ANALYSES

#### A. Technical Analysis

##### 1. Rationale for the Technical Approach

At the level of economic theory there is considerable dispute among development economists as to whether development assistance can enable a recipient country to pursue successfully a strategy of "growth with equity". In the Paraguayan case, the growth process is underway, stimulated principally by large foreign investments in major hydroelectric projects and reinforced by favorable conditions in world markets for a number of agricultural commodities. While, from a macro-economic point of view, the Paraguayan economy is doing well, evidence is accumulating that this growth is accompanied by an increasing disparity in the income distribution. Some of the rural populace has, of course, benefitted from the expansion of recent years, particularly from the improved world market conditions for major exports such as vegetable oils and cotton, much of which is produced by small farmers. However, the indications are that incomes in the rural areas have risen much more modestly than in the economy as a whole. Furthermore, evidence provided elsewhere in this paper indicates that social overhead capital investment has been heavily concentrated in the area in and around Asunción.

This Project seeks ultimately to stimulate growth of income in the rural areas by providing resources for investments which will directly benefit the rural poor and by influencing the distribution of public sector investment through the enhanced capacity of municipal governments and local communities to design and implement development plans which serve the self-identified needs of their own areas. The Project has been carefully designed to take maximum advantage of the dynamics of the development process in the interior of Paraguay. Some of the dynamic elements of the process are: (a) the rise of municipal governments, (b) the growth of a number of interior towns, (c) an increasing interest in community organization for development, and (d) some concrete examples of inter-municipal cooperation.

The increasing importance of municipal governments on the Paraguayan scene is a factor of considerable importance, for which A.I.D. can rightfully claim some credit. The previous A.I.D. loan to IDM has enabled the Institute to assist all of the municipalities toward becoming functioning bodies through improved mobilization, budgeting, and administration of their resources. IDM subloans have given the municipalities a taste of what they can do for themselves with the right assistance, and has created a recognition of the potential which exists for development at the local level. Moreover, the recently held OPACI-sponsored first national congress of municipal governments reflects a new political force on the horizon. The congress was noteworthy not only for its businesslike discussion of municipal problems, but also for its outspoken criticism of the inadequacies and unresponsiveness of several national entities, and for its demands on the Central Government for a greater share of tax resources for the municipalities.

A second dynamic element is the rapid growth of a number of interior towns. As might be expected, this phenomenon generally results from the strategic location of these towns in the flow of traffic and commerce or their proximity to the major hydroelectric projects. These "growth poles" are beginning to perform important economic functions in storage, handling, and some processing of agricultural commodities for their surrounding areas. They also tend to become logical sites for branch offices of banks, extension services, education and health centers, and other service institutions

A third phenomenon of significance for this Project is the fact that a number of municipalities are experimenting with forms of community organization such as local development committees. Experience with this approach is limited, but the interest is definitely there. A major purpose of the Project is to enable IDM to develop the knowledge, experience, and technical capacity to assist local communities to find appropriate forms of community organization which assure the representation and participation of the intended beneficiaries in the formulation of development plans for the community

Finally, there have been a few examples of inter-municipal cooperation on development projects of mutual interest and benefit. Three municipalities have a joint electricity program and there have been cases of joint purchase of road equipment. Recently in the San Pedro area, where cotton is a major crop, three municipalities formed a committee with the purpose of locating a cotton gin in the area. This has led to interest in improving the port facilities in Rosario, a project which could have substantial benefits in reduced transportation costs for the farmers of the area.

The Project presented in this paper seeks to take maximum advantage of these dynamic elements. As indicated previously, IDM is the institutional vehicle for doing so. IDM will be called upon to provide the resources and technical assistance which will enable the municipalities to identify and design subprojects which will directly benefit the lowest income recipients in the areas which the municipality serves. IDM itself will need help in developing this capacity. The Project provides for a full time foreign expert to help IDM develop the technical skills needed for identifying, analyzing, designing, and evaluating subprojects aimed at the rural poor. IDM will also need assistance in its efforts to promote community organization for development. The Project contemplates a full time expert to assist IDM in this undertaking. This expert will have to be knowledgeable and experienced in spatial theory and area development to advise IDM when and how to move toward forms of inter-municipal cooperation when the situation warrants.

At the July, 1977 DAEC review of this Project there was some suggestion that the Project should seek to transform IDM into a regional planning institute. USAID has specifically rejected this alternative. One reason is that IDM is now a successful municipal development institute and such a complete shift in direction and orientation is not realistically achievable. A more fundamental reason is that Paraguay is a long way from being able to undertake full blown regional planning. Even if these facts were otherwise, USAID would not favor an attempt to move toward regional

planning in the usual concept of a central office which divides the country into planning regions and elaborates regional plans which fit neatly into a consistent national plan. Such an approach would sacrifice the grass roots participation of the local communities on which this Project places so high a value. Moreover, such an approach would almost certainly fail to build on the success of the previous A.I.D. loan and would most likely miss the opportunity to fortify the dynamic features of the development process in rural Paraguay.

## 2. The Integrated Urban-Rural Framework for the Project

The Project generally takes the "bottom up" approach to integrated urban-rural development. The Project relies on local organizations (municipal governments and local development committees) for analysis of existing situations and constraints, identification of priority needs, determination of subprojects, and implementation. The Project has a technical assistance component to aid the local organizations with this task. In addition, the Project incorporates a central staff to conduct general analyses of integrated urban-rural development including assessments of the needs of urban service centers and their impact on rural development. This function is designed to identify technical assistance needs of the local organizations and to provide a framework for determining the consistency and complementarity of locally identified subprojects with each other and with the activities of national level agencies.

Development and implementation of the Project will involve two basic actors: (a) local organizations such as municipal governments, municipal development committees, and multi-municipal or regional development committees, and (b) IDM, which will provide technical assistance and training to local organizations and subloans for subprojects which meet certain criteria.

### a. The Role of Local Organizations

Municipal governments are the basic unit of local government in Paraguay and are good organizations through which to pursue grass roots development. They already have considerable institutional capacity and economic viability. They are operating concerns which have experience in infrastructural development. Their boundaries include urban cores and rural hinterlands (compartias). They all have self-governing councils. In addition, municipal governments are expected to have good information on the needs and priorities of their people and the desire to work for development. This desire is demonstrated by the large demand by municipalities for IDM services. These characteristics of municipal governments are all contributory to successful integrated urban-rural development.

Individual municipal governments are ideal for small service center development subprojects because each administers an urban center and its surrounding hinterlands. Subprojects at this level are expected to be the most numerous, particularly in the early stages of the Project. Assuming the governments adequately represent the interests of these hinterlands (and their

possible, they will be encouraged to have local advisory development committees with broadly based representation), the types of subprojects identified should strengthen center-rural ties and stimulate rural development. The idea here is not just to select relevant subprojects; it is to establish at the municipal level a permanent multi-faceted development process which includes (1) assessment of local conditions, (2) determination of constraints, (3) identification of local goals, needs, and priorities, (4) identification of subprojects, (5) appraisal of potential impacts of subprojects, (6) arrangement of financial mechanisms, (7) technical design and implementation of subprojects, and (8) evaluation of subprojects and their impacts.

Small groups of municipalities which form natural cohesive economic areas can join together to form joint development committees. These committees, with IDM technical assistance, can analyze the area and identify specific subprojects which benefit the participating municipalities. Such subprojects would then be carried out by the municipalities jointly, under the legal auspices of an association or cooperative of municipalities. Subprojects at this level are expected in the later stages of Project implementation.

Larger groups of municipalities surrounding one of the regional centers can also form regional development committees. Each committee, with technical assistance from IDM, will assess its regional situation and determine its role and relation to national development. Each will study existing regional needs and identify specific larger scale subprojects with wide ranging regional benefits. These regional subprojects will require considerable technical assistance from IDM and in some cases outside consultants. In addition, such regional subprojects will have to be coordinated with the activities of national level agencies. Regional level subprojects will appear in the later years of the project after IDM has gained experience with smaller multi-municipal subprojects and with regional analysis. Agencies (cooperatives, associations, committees) which operate at the multi-municipality or regional level may be either permanent or limited to the implementation of a specific subproject.

#### b. The Role of IDM

IDM has been assisting municipalities in achieving administrative competence and in providing needed public works and services. IDM has provided municipalities with technical assistance, training, and loans. In the proposed Project, these activities will be expanded. In addition, IDM will develop the capacity to do integrated urban-rural analysis and planning.

(1) **Technical Assistance:** IDM has provided all 170 municipalities with technical assistance; however, providing technical assistance related to integrated urban-rural development will be a new function. IDM will, on demand, personally visit municipalities and assist them with an integrated development analysis; i.e., (a) assessing the current situation, (b) appraising local goals, needs, and priorities, (c) determining key constraints, (d) identifying appropriate subprojects, (e) analyzing the spread of subproject benefits in both socio-economic and geographic space, (f) arranging subproject design and implementa-

tion, (g) identifying appropriate sources of funding, and (h) evaluating sub-projects and their impacts.

IDM, under the A.I.D. loan, was a major source of financing for municipal subprojects. This will continue; however, new subloans will be restricted to subprojects having significant impact on the poor target group. When possible, IDM will help municipalities find sources of financing from other agencies for subprojects which do not meet these new criteria. Alternatively, IDM will help municipalities revise and reorient subprojects so that they have the needed target group impact. To do this effectively, IDM will develop the capacity to conduct competently the multi-step integrated development analysis described above. This capacity will also include the ability to assess the area and region wide impacts of subprojects. Technical assistance activities will provide officials in local municipalities with a better understanding of the spread of subproject benefits, with greater sensitivity to the impacts of subprojects on rural areas and the poor, and with the ability to make simple appraisals of these impacts. To provide effectively this technical assistance, IDM will also develop and expand its capacity to work with local organizations and to do integrated urban-rural linkages, regional systems analysis, and collection of a wide variety of data.

(2) Training: IDM's training activities have focused on municipal administration, budgeting, bookkeeping, and revenue collection. These will continue, but new training activities will be initiated which focus on appraising subproject impacts on the poor, particularly in rural portions of municipal districts. These new activities will be presented in a planning framework based on the eight step integrated development analysis cycle described above, which will be presented to municipal officials early during Project implementation through a series of courses.

(3) Loans: IDM's loan activities have been quite successful and will continue. Subloans with Project funding will be made only for subprojects which meet new criteria concerning impact on the poor target group. In addition, these new subloan applications will be evaluated with respect to the spread of benefits to rural portions of municipal districts and to other municipalities. Furthermore, subloan applications will be assessed with respect to their consistency with regional development patterns and processes.

A capacity in IDM for integrated urban-rural analysis will be developed using A.I.D. funded consultant technical assistance. This aspect of the Project will begin slowly and expand during the course of the Project. At the end of the Project period, IDM will be able to conduct reasonably sophisticated analyses of urban-rural linkages and regional systems. The types of analytic capacity required were demonstrated to IDM recently by the team of contract consultants who came in conjunction with the development of this Project. A summary of their methodologies and conclusions is presented in Annex I, Exhibit F. Through similar types of analysis, IDM will become aware of subprojects which it believes would be of benefit for both the target group and the development of a particular area. If through discussions and educative dialoguing with municipal and multi-municipal governments and

committees, these organizations decide actively to support one or more recommended subprojects, a major Project purpose will have been fulfilled. A final point is that because the approach outlined above is new and somewhat experimental for IDM, it should remain flexible. Perhaps the best way to proceed is to focus initially on relatively simple subprojects. As the first few simple subprojects are started and experience is gained, attention can slowly be shifted to more complicated and challenging elements. This incremental process continues as feedback and experience are gained.

### 3. Other Technical Considerations

#### a. Appropriateness of Technical Designs

IDM has traditionally tried to design subprojects at the lowest possible cost for the municipalities. For the most common types of subprojects, IDM has developed standard designs which it then modifies for the individual situation. IDM is well aware of the technology existing in Paraguayan towns and makes a conscious effort to design subprojects to fit it. Slaughterhouses, for example, are designed to combine current slaughtering techniques with efficiency and hygiene. Street paving utilizes a low-cost cobblestone method in use for over a century in Paraguay, or a paving stone method with stones made in a simple machine and laid by hand. In spite of its success in designing low-cost subprojects using simple technologies, IDM has given little consideration to maintenance and environmental factors (both covered below) and to the target group impact of its designs. For example, a market can be designed to either encourage or discourage the entrance of animal drawn vehicles. A water system can provide taps serving more than one house in poorer areas. As IDM moves heavily into providing high target group impact subprojects, the technical designers will have to become sensitive to designing for the greatest impact. The long-term technical assistance advisors, short-term consultants, and USAID's Regional Engineer will provide inputs as necessary to assure that this occurs.

#### b. Subproject Maintenance

In its emphasis on construction, IDM has focused little on maintenance. Yet other programs in Paraguay, particularly school building, have shown that buildings deteriorate fairly rapidly without care. IDM has expressed to USAID its desire to establish a maintenance capability. USAID's Regional Engineer will work with IDM's Technical Department on simple norms which the municipalities can use to maintain physical structures. A maintenance plan will be part of each subproject document.

#### c. Environmental Factors

Up until now IDM has not been particularly concerned with environmental considerations. As was pointed out in the Initial Environmental Examination submitted with the PRP and accepted by AID/W, none of the subprojects is expected to have a significant environmental impact. Nonetheless, there is always the possibility of minor negative effects from subprojects if

a conscious effort is not made to avoid or minimize them. For example, wastes from a slaughterhouse could pollute a stream, a street might not have adequate drainage, or garbage from a market may not be disposed of adequately. IDM will covenant to take these factors into account when designing subprojects. USAID's Regional Engineer will work with IDM in establishing necessary norms.

d. Technical Capacity

IDM has a technical staff of seven, including a civil engineer, three architects, and three draftsmen. Over the past three years the staff has designed over 230 municipal subprojects, 120 in the last year. Given its experience and stock of standard designs, the Technical Department will be able to handle the level of activities anticipated during the Project period with little or no increase in staff size (see Section IV.A.). As larger, more complex subprojects are undertaken, the Technical Department will be able to make preliminary sketches, but final designs will have to be contracted to firms with specialized experience. As indicated above, in order to carry out its task effectively, the technical staff will have to be trained in how to design subprojects for maximum target group impact, in maintenance planning, and in avoidance of negative environmental effects. Some short-term participant training in these areas is foreseen.

B. Social Analysis

1. The Target Group

The Project is designed to benefit the rural poor. Rural in this context is defined as everything outside Asunción, since, as discussed earlier in Section II.B.10., all urban cores other than Asunción are basically rural. Using 1972 census data, approximately two million persons live outside Asunción. Of these, some 22% live in the 170 urban cores. The remainder of the population lives in the strictly rural areas, known as campesinos. Of this group, an estimated 77%, or 1,200,000, reside on the 190,000 small farms of under 20 hectares located in Eastern Paraguay. The remainder range from impoverished Indians and landless rural laborers to large land holders. In order to get an idea of which rural dwellers are included in the target group and in order to get a profile of the characteristics of target group members, USAID has conducted several studies of the rural population. They are described as follows by sector.

a. Townspersons

Though this was the main beneficiary group of the first A.I.D. loan to IDM, until recently USAID has known little about it. To find out about the characteristics of this group, USAID undertook in December, 1977 a survey of the inhabitants of two towns. The purpose was primarily to determine what segments of the population could be considered part of the target group.

Selection of the towns depended on the hypothesis that towns of larger population would be higher on the scale of development and would have higher per capita incomes than smaller towns. Therefore it was decided to survey only urban cores of over 3,000 population each. Of the 42 towns in this category, it was decided to eliminate those in the Central Department, since they are basically suburban or otherwise extremely dependent on Asunción. Also eliminated were the six "cities" - Concepción, Encarnación, Pilar, Pedro Juan Caballero, Puerto Presidente Stroessner, and Villarrica - since it was felt that any survey would not be representative beyond those communities and since time and financial constraints of surveying such communities were prohibitive. Of the remaining 25 districts, a list was made of those for which urban cadastral maps were available (the Cadastral Project has done urban maps for about two thirds of Paraguayan towns) and which had their compañías surveyed in the Small Farmer Survey. From the towns on this final list, two were chosen at random: Carapeguá and General Artigas.

The survey covered one tenth of the households in each town, selected scientifically on a random basis using the cadastral maps to identify house locations. A questionnaire, pretested in a third locality, was administered by experienced and trained interviewers to the head of household or spouse. Questions covered income in detail, household composition, employment, and living conditions. In addition, in order to get an indication of the economy of the towns, a survey was done of public institutions and business establishments. The surveys brought forth a great deal of information on the towns and their inhabitants. Because, however, of the slowness of hand tabulation, a number of useful cross tabulations had not been done by the time of this writing, and the final report will not be issued until mid-January. Nonetheless, from the information generated, the following can be said about the towns and their inhabitants.

Carapeguá is located on one of Paraguay's two main paved highways, 82 kilometers from Asunción. The consultant team considered it to be an emerging regional center, and gave as its zone of influence an area also incorporating the municipalities of Roque González, Quiindy, Caapucú, Acahay, La Colmena, and Ybycuí. The consultant team also placed it number 11 out of 68 towns on the Guttman Scale of Development (see Annex I, Exhibit F). According to the 1972 census, Carapeguá has 3,430 persons in its urban core and an additional 23,754 persons in its compañías. Its total zone of influence contains some 118,000 persons.

According to the survey, Carapeguá is rather prosperous. Of 61 families surveyed, 21 (or 34.4%) have net per capita income 1/ falling within the A.I.D. target group guidelines, representing 41.7% of the individuals. 2/

1/ Total family income was obtained, including earnings from all sources by all family members, rents, pensions, and home consumption. Costs of inputs were subtracted for self-employment endeavors. This net total family income was divided by number of family members.

2/ The guidelines indicate \$150 per capita annual income in 1969 prices. To bring this to current prices, there are three possible measures available in Paraguay: the cost of living index for Asunción, the food index for

However, there is a large cluster of 13 additional families representing 20.8% more of the population just above that point, beyond which there appears to be a natural break in the continuum of incomes. These other families can be considered marginal target group members. The biggest determinant of per capita income in Carapeguá, in fact, appears to be family size, which on the whole is abnormally low. 31% of the surveyed families are composed of only one or two persons, 30% more of three or four persons, and 26% of five or six persons. The average family size is only 3.9, far below the rural average of over six. Of the 21 target group families, average size is 4.8. Of the 13 marginal target group families, average size is 3.8. Average size of the remaining families is 3.3. The explanation of the small family size appears to be one of outmigration. Whereas less than 15% of the population of Paraguay are persons aged 45 and above, over 26% of Carapeguá's population fall into that group. Only 28% are children under 15, compared with almost 50% for all of Paraguay. Furthermore, when asked from where the head of household comes from, only six have resided there less than 10 years, and 49 (80%) are originally from Carapeguá. In addition, a U.N. study of population in Paraguay indicates that this is one of the highest zones of outmigration. All these data together indicate that Carapeguá is a stagnant community. Since it is the service center for a large zone, there are a number of reasonably well paying jobs. Those who have them stay; those who do not, leave. Young people evidently find little opportunity there.

Virtually half (47.9%) of the income in Carapeguá comes from self-employment in nonagricultural pursuits, and an additional 9.8% from agricultural production, including home consumption. 21.5% comes from salaries earned by heads of household, and 17.8% from salaried wives and from the earnings of other family members. The other 3% comes from pensions, social security, rent, dividends, and other income. 24 of the surveyed families (39%) are engaged in some type of agricultural pursuit, ranging from gardens for home consumption to commercial agriculture on farms located in the surrounding rural areas. 54 families are engaged in some type of nonagricultural self-employment. Five own small businesses (tanning, baking, candy making, and making of household articles), which bring yearly income ranging from \$322 to \$1,839. 15 own small corner markets, general stores, or stalls in the market; mean annual earnings are \$1,232 and median are \$552. Five others are wandering merchants; two of these, who travel throughout Paraguay in their own pick-up trucks selling handicrafts made in the compañías of Carapeguá, are at the top of the income scale, each earning over \$5,600 a year. The other 29 are engaged in a variety of activities. 16 are involved in dress making or tailoring; the others are watchmakers, bricklayers, carpenters, barbers, artisans, shoemakers, a veterinarian, a musician, and a nurse. In

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Asunción, and the GDP deflator. The food index was felt to be most representative of factors affecting persons in rural towns. The COL index includes local bus transportation and other Asunción specific indicators. The GDP deflator is only available through 1976; however, it more closely corresponds to the food index. Using the food index, \$150 in average 1969 prices comes to \$333 for the end of October, 1977 (¢ 43,457).

addition to self-employment, 56 individuals are employed by others. Four are domestic day servants, 14 work in another person's small industry or home industry, 10 work in the town's sugar mill, which employs 100, three are clerks, one is a full-time salaried farm worker, seven work in professional offices, and 17 work in public positions. These salaried people range from completely unskilled to semi-skilled (carpenter's assistant, practical nurse) to skilled (road grader operator, bank teller) to professional (teacher, minister, judge). Monthly salaries range from \$11.50 (shoemaker's apprentice, domestic servant, animal slaughterer) to \$268 (bank manager, minister). The mean is \$73 and the median \$57.

The employment pattern given above reflects Carapeguá's economy. Carapeguá has seven public schools in the urban core and nine other public institutions (telephone, water, electric, agricultural extension, malarial control, hoof and mouth disease control, National Development Bank, health service, and social security service). The above have a total of 175 employees, including three doctors. There are a Catholic church, a Baptist church, three Protestant missions, a political party headquarters, and a co-operative affiliated with CREDICOOP. The town has eight large merchants who also market agricultural products. There are 60 smaller general stores, of which 32 are tiny (capital invested of less than \$600). There are also two bookstores (selling mainly school supplies), five pharmacies, eight meat vendors, five bakeries, seven bar/restaurants, and a movie. The biggest industry is the sugar mill, with 20 full-time and 80 seasonal employees. The other two industries of any size are a meat processor with an investment of \$23,000 and a tanner with an investment of \$38,000. There are also 11 small tanneries, a small soft drink bottler, an ice cream maker, two radio repair shops, one auto mechanic, and a variety of bricklayers, dressmakers, barbers, carpenters, photographers, tinsmiths, sign makers, shoemakers, watch repairers, plumbers, and frame makers. There are also six dentists, three veterinarians, a public accountant, a lawyer, and a licensed midwife.

Living conditions, though modest, reflect the relative prosperity of Carapeguá. Virtually all houses are brick with tile roof and brick floor. 41% are on the SENASA water supply, 25% have indoor toilets, and 43% have gas or kerosene stoves (versus wood). The town has 24 hour a day electricity. A survey of possessions, with a score given for each, indicates moderate ownership of possessions, but with virtually no correlation between ownership and net family income. All the houses surveyed are single family houses, except for one with two families. 14 of the houses also have a retail business attached. There are an average of 1.4 persons per room. 29.7% of the families are headed by women. 86.9% are nuclear families, with only 13.1% living in large extended families. Credit demand is moderate. Eight families have had credit during the past year (five from the NDB, one from the cooperative, one from a bank in Asunción, and one from a private source) and 26 others (49%) indicate desire for credit, about one-third of those for home industries.

The results from General Artigas reflect more what USAID's impression had been of the "typical" Paraguayan town. General Artigas is in the northwestern part of the department of Itapúa, some 40 kilometers north

of Coronel Bogado, 90 from Encarnación, and 360 from Asunción. It is on an unpaved highway which is closed during and after heavy rains. It is also on the railroad. It is located in what is considered one of Paraguay's two richest agricultural zones. Though the consultant team found it ranked fairly high on the Guttman scale of development (13 out of 68 towns), it is considered to be in the zone of influence of Coronel Bogado, an emerging regional center 40 kilometers away on the paved highway. It is also in the larger zone of influence of Encarnación. There is also interaction with the town of San Pedro del Paraná, 12 kilometers away. According to the 1972 census, General Artigas has 3,538 persons in its urban core and 9,171 more in its compañías.

According to the survey, 45 of the 76 families surveyed (59.2%) have net per capita income within the A.I.D. target, representing 63.4% of the individuals. A further group of five families (6.6% of the families and 7.2% of the individuals) is clustered just above (per capita income up to \$390). Family size in General Artigas is closer to the national average, but still below. The average is 4.6. There is some correlation between family size and per capita income. Of the target group families the average size is 4.9. Of the marginal target group families it is 5.0. Average size of the remaining families is 3.9. General Artigas appears to be attracting in-migration, according to town officials. An unknown though substantial number of persons have immigrated recently from Argentina, the majority of whom are evidently returnees, i.e., native sons who had previously left General Artigas. This more dynamic aspect of General Artigas is reflected in its age profile. 38% of the population is under 15 years of age.

General Artigas is a much more agriculturally oriented community than Carapeguá. 50.2% of the income comes from agricultural production (including home consumption). 30.3% comes from various types of self-employment, only 9.7% from salaries earned by heads of household, 6.8% from salaried wives and from the earnings of other family members, and 3% from other sources. 62 of the 76 surveyed families (82%) are involved in agricultural pursuits, and 59 are involved in some other type of self-employed activity. Of the latter, six have home industries (carpentry, leatherworking, crocheting, cigar rolling, empanada baking, and tool making), bringing in an average annual income of \$674. 15 others own small stores. These bring in mean annual income of \$958, with the median at \$812. Four others are larger merchants, with annual income of \$1,810, and two are wandering merchants with average annual income of \$250. One other person surveyed is the owner of a small bar and another of a large furniture making establishment. The other 30 persons have a variety of occupations, including nine dressmakers, 13 bricklayers and construction workers, three washerwomen, one radio repairman, one bicycle and lamp mechanic, one dentist, one paramedic, and one midwife. In addition to self-employment, 46 individuals surveyed are employed by others. Seven are domestic day servants, seven work in another person's small or home industry, seven work in stores, 13 are public employees, three are clerks, and nine are full-time salaried farm workers. Monthly salaries are considerably below those of Carapeguá. The mean is \$50.66, the median is \$45.98, and the highest (an agronomist with the extension service) is \$122.60.

General Artigas also has a mixed economy. It has six public schools in the urban core and several other public institutions (telephone, water, agricultural extension, hoof and mouth disease control, health service, railroad, land tax office, and agrarian reform agency). There are Catholic and Baptist churches, two political party offices, and a cooperative affiliated with CREDICOOP. There are no large industries but a number of smaller ones, particularly sawmills, furniture making, processors of manioc starch, and leather working, the largest with about \$12,000 invested. The town has seven large merchants who also market agricultural products, the largest with \$47,000 in capital. There are 43 small stores, most of them tiny, several with investments as small as \$230. There are also 19 small meat vendors, three bar/restaurants, two pharmacies, one book store, one photographer, one electrician, one carpenter, two veterinarians, three dentists, and a doctor. There also are a variety of home handicraft industries.

Living conditions are more modest than in Carapeguá. Only about half of the houses are brick with tile roof and brick floor; most of the rest are adobe with thatched roof. Only 22% of the surveyed homes are on the SENASA water supply, only 8% have indoor toilets, and only 9% have gas or kerosene stoves. The town is not on the national electric system. A municipal system supplies power in the evenings, and people with industries have their own generators. The survey of possessions noted a much lower incidence of ownership than in Carapeguá, and there was a noticeable correlation between ownership of possessions and family income. All the surveyed houses were single family structures, 20 (26%) with small businesses attached. Unlike Carapeguá, the municipality of General Artigas owns some 70% of the land within the defined urban core; people can enter into an arrangement under which they can build their own home on a lot owned by the municipality and pay an annual rental fee. 46 of the 76 surveyed households live under this arrangement, which is a source of much frustration. People are reluctant to invest in their houses given the uncertain tenure arrangement. 21 others in the sample own their own homes, one more is in the process of buying, four rent, and four are living in the house of a relative. In the total sample, there are an average of 1.7 persons per room. 19.7% of the families are headed by women. 88.4% are nuclear families; only 11.8% are extended families. As to credit, only five families have received any during the past year, four from the cooperative and one from a business. 37 of the other 71 families (52%) express a desire for credit, 16 of them to buy agricultural land and 11 for financing their agricultural production, reflecting the heavy agricultural nature of the economy in General Artigas.

The above gives a useful profile of two market towns and their inhabitants. From this several conclusions can be drawn. First, the target group makes up a substantial part of the residents of market towns. In one of the most prosperous towns in Paraguay, an emerging regional center on the paved highway, 41.7% of the residents are within the A.I.D. guidelines, and 20.8% more are on the margin. In another, perhaps more representative town of the same approximate size, 63.4% of the residents are within the A.I.D. guidelines, with 7.2% more on the margin. If the hypothesis holds true that less developed, less populous towns are poorer, then the vast majority of towns (128 have fewer than 3,000 inhabitants) should have 60% or more of their

populations fall into the target group. Second, the survey shows clearly the close relationship between the town and the rural areas. In many ways, the towns exist basically to serve the surrounding hinterlands. And third, the survey shows that living conditions are hard in the towns. With salaries low, most families have to engage in several activities to maintain a rather low standard of living. Most homes do not have running water, modern toilet facilities, or convenient cooking facilities. For most individuals, to be able to maintain a minimal standard of living is a struggle.

The survey has enabled USAID better to understand Paraguayan towns and their inhabitants and to identify what proportion would qualify as target group. One useful aspect of the survey is its ability to be replicated. It could be used, for example, to test the hypothesis stated above, or to see what the income distribution is in one of the larger "cities". For the moment, though, it gives backing to the belief that at least 50%, and probably considerably more, of the roughly 450,000 inhabitants of the market towns of Paraguay fall into the A.I.D. defined target group.

b. Small Farmers

In 1976 USAID conducted a survey of some 1,400 small farm families of eastern Paraguay, designed to be representative of the whole grouping, to get data on income, production, and other characteristics. The results have been tabulated, and they support the contention that the 190,000 farm families owning or working less than 21 hectares fall within the A.I.D. target group, along possibly with some farmers immediately larger. These small farm families contain some 1.2 million persons, representing approximately 49% of the population of Paraguay, 60% of the population excluding Asunción, and 77% of the people residing in the compañías.

Per capita income is shown as follows by size of farm (size in hectares, income in U.S.\$):

	<u>0-4.9</u>	<u>5.0-9.9</u>	<u>10.0-20.9</u>	<u>21.0-50.9</u>
Number of farms	82,714	35,042	71,997	14,987
Per capita income <u>1/</u>	\$ 150	\$ 181	\$ 194	\$ 277

Though all four strata fall within the A.I.D. target limits 2/ USAID normally tends to exclude the largest stratum because of substantially higher capitalization (\$5,100 versus \$676, \$1,672, and \$2,333 for the other strata). Nonetheless, since the major constraints to increased production and

1/ Net per capita income is derived from household income, including off-farm earnings and on-farm consumption. No imputed costs for family labor were included.

2/ Since survey was conducted in 1976, it should be compared with a \$291 target figure, which is \$150 in average 1969 prices indexed to average 1976 prices.

earnings among larger small farmers in Paraguay are family labor and lack of labor saving technologies (see Small Farmer Subsector Assessment), and since technologies do not vary until one gets to much larger commercial farms, a case can be made that the 21-50 hectare stratum varies little from the 10-20 hectare group and therefore should be included in the target group. Perhaps it would be best to say that all farmers through 20 hectares definitely fall into the A.I.D. target group and those with 21-50 are marginally in the group.

Taking the strata up through 20 hectares, it can be seen that the average number of family members per farm is 6.3. 14.2% of the farms are headed by females. The average age of schooling is 2.68 years among heads of household, varying little among strata (2.65, 2.69, and 2.72, increasing to 2.99 among the 21-50 hectare stratum, not included in the average).

An attempt was made to get data for the farmers in the districts of Carapeguá and General Artigas, to compare them with the data obtained from the urban core survey. Since, however, the Small Farm Survey was not intended to be representative of particular districts, and since the samples of any one district are rather small, contiguous and other districts considered similar (by virtue of distance from Asunción, location on paved road, and general topography) were added. Though not completely representative, therefore, of just Carapeguá and General Artigas, the results are indicative of the situation in two types of regions of the country:

	<u>Region 1</u> <u>1/</u>			
	<u>0-4.9</u>	<u>5.0-9.9</u>	<u>10.0-20.9</u>	<u>21-50.9</u>
No. farms	4,641	1,721	991	291
Family size	5.97	7.44	6.52	4.60
% female heads of family	32.6	14.8	12.4	16.8
Gross farm income	560	1,410	1,911	2,443
Net farm income	357	1,063	1,283	1,152
% net income from animals <u>2/</u>	48.7	24.3	9.7	28.3
Net family income <u>3/</u>	795	1,365	1,608	1,368
Net per capita income	133	183	247	297
	<u>Region 2</u> <u>4/</u>			
No. farms	1,936	2,379	2,388	548
Family size	6.09	7.39	6.56	8.38
% female heads of family	20.2	3.2	4.7	13.7
Gross farm income	759	1,718	2,003	2,997
Net farm income	578	1,220	1,321	1,851
% net income from animals <u>2/</u>	36.8	28.7	23.2	12.8
Net family income <u>3/</u>	749	1,352	1,427	2,040
Net per capita income	123	183	218	243

1/ Consists of districts of Carapeguá, Quiindy, Yaguarón, and Itacurubí de la Cordillera. Strata are by number of hectares of farm size. Amounts are in dollars at exchange rate of \$ 130.5:US\$ 1.00.

2/ Includes eggs, milk, cheese, hides, and all other animal products.

In summary, of the roughly 1,550,000 persons (1972 census) living in the compañías of eastern Paraguay, approximately 1.2 million (77%) live on the approximately 190,000 farms of 20 hectares or less, and can be considered members of the target group. Another 115,000 (7%) live on 15,000 farms of from 21 through 50 hectares and can be considered marginal members of the target group.

c. Other Rural Inhabitants

USAID knows little about the remaining 235,000 persons (1972 figures) residing in the compañías. Some are certainly the owners of the estimated 15,000 land holdings of over 50 hectares in size, though the owners of the largest land holdings tend to live in Asunción. A larger number would be the workers on these larger land holdings. With wage rates for such workers ranging from \$30 to \$80 a month, these individuals and their families would fall well within the target group, assuming typical family size. There are also an unknown number of impoverished Indians, some settled, others living off forest products or working as migrant day laborers. There are undoubtedly other landless migrant or settled day laborers as well, though indications are that most farm labor comes from individuals residing on other family farms.

A substantial number of these 235,000 persons are evidently members of families engaged in nonagricultural activities in the compañías. Many compañías are large expanses of territory with no discernable centers. Others, however, are mini-urban cores, a cluster of a dozen or more houses, many with businesses. The Carapeguá survey, for example, shows 195 small general stores and 41 meat vendors in the 11 compañías. There are also 12 larger merchants who purchase agricultural production. In addition there are two tanneries, one dentist, two pharmacies, 24 persons who slaughter animals, two bricklayers, one bar, 14 public schools, one health post, one police post, and one justice of the peace. In addition, three of the compañías specialize in weaving cotton hammocks and other articles. The General Artigas survey found 56 small stores and 30 meat vendors in its 21 compañías. There are also four larger merchants who purchase agricultural production, three compañías with a number of small manioc starch processing plants, one compañía with a number of small yerba mate processing plants, and 18 public primary schools (13 go only through three grades). Also in both districts there are numerous small shops which make and repair wagon wheels, agricultural implements, and other small items. Most of the above activities occur in conjunction with farming. A man may run the farm and his wife the store. A man may farm in the morning and repair wheels in the afternoon. Even teachers commonly work only a half day shift and farm the other half day. Nonetheless there are undoubtedly some families which devote themselves only to these other activities. Since the majority of such activities are quite low paying, the vast majority of such families fall within the target group.

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3/ Includes off-farm employment of all kinds.

4/ Consists of districts of General Artigas, San Pedro del Paraná, General Aquino, Hugo Stroessner, and 25 de Diciembre.

In short, from the incomplete data available, it is known that this group of other rural dwellers is involved in a variety of endeavors. A conservative estimate would be that two thirds of them fall into the A.I.D. target group in terms of income earned.

d. Summary

In summary, the two million persons residing in the rural areas of Paraguay can be divided into townspersons, small farmers, and others. In the first group, containing some 450,000 persons, at least 50% clearly fall into the A.I.D. target group, with perhaps another 20% falling on the margin. In the second group, there are approximately 1.2 million persons residing on farms up to 20 hectares in size, all of whom can be considered part of the target group, and 115,000 others who reside on farms of 21 to 50 hectares, who can be considered on the margin of the target group. Of the "all other" category of 235,000 persons, at least two thirds can be considered part of the target group. This gives approximately 1,582,000 persons, or 79% of the rural residents, falling squarely into the target group - the poor majority. Another 205,000 persons, or 10%, are on the margin of being target group members. It is toward this target group of over 1.5 million persons that this Project is directed.

2. Benefits Accruing to Target Group

The basic strategy of the Project involves growth with equity. The Paraguayan economy is progressing. However, as is shown more clearly in the Economic Analysis Section below, public investment at the municipal level is highly concentrated in Asunción. Furthermore, as can be observed from an observation of municipal subprojects done to date, benefits have not been directed toward the neediest sectors of the rural population. The Project makes an attempt to reverse these trends, by channeling a substantial amount of funds into municipal development, and by assuring that those funds are used only for activities which have a direct and predominant benefit on the target group.

The latter will be assured by a set of specific subproject selection criteria, presented in Annex I, Exhibit D. The criteria encompass four areas of analysis: target group impact, integrated urban-rural development objectives, economic - financial viability, and technical soundness. The sine que non, however, is target group impact. Without fulfilling the target group impact criteria, a subproject cannot be eligible for financing under the Project. In this way, though the subprojects proposed for financing will come from the local level, through municipal governments (singly or in groups) and local development committees, there is assurance that the Project objectives of assisting primarily the target group with each subproject will be fulfilled.

As detailed in the referenced Annex, the target group impact criteria vary according to each type of subproject. They have been designed to be both effective and easy to apply. Under certain circumstances - for example, when a subproject impacts on a compañia of small farmers or impacts widely over a poorer town - an a priori judgment may be made as to predominant

benefit on the target group, provided the other criteria for that type of subproject are met. In other cases simple surveys will have to be taken, to determine, for example, the passenger load of public transportation, or whether the needed percentage of households in a poor neighborhood will utilize a water or electric system once provided. Using such simple methods of analysis, the criteria will assure that subprojects are designed so that target group members are the principal beneficiaries.

The specific types of benefits fall into three general and interrelated categories: economic, social, and civil. There are several types of economic benefits expected. In a micro sense, there will be economic opportunities brought about by specific subprojects. Electricity can spur the creation of home industries and agroindustries. Silos, grain dryers, cold storage facilities, rural road maintenance, and port improvement can create significant new marketing opportunities for small farmers, leading to increased production and/or higher returns per unit produced. Artisan markets, common grazing areas, and municipal vegetable gardens can bring new sources of revenue for the landless. Irrigation, reforestation, and colonization can create opportunities for new agricultural production. Vocational training can add to employment.

In a more macro sense, there will be economic benefits through transfer of resources, both public and private, to the target areas and groups. As Paraguay increases its budgetary revenues, there is a tendency to spend them on highly visible projects in the Asunción area (e.g., the new airport terminal and the new bridge across the Paraguay River). IDM has been able to obtain considerable governmental resources, much of these through A.I.D. pressures for counterpart, providing the wherewithal for the municipalities to bring new services to their populations. In addition, IDM's strengthening of the municipalities' administrative capabilities has led directly to the passage of the revised Municipal Tax Law, which gives municipalities considerable new taxing power, including the receipt of tax revenues which previously went to the national government. Such types of transfer of public resources, which will be enhanced as IDM begins to encourage the municipalities to invest their resources in services which will most benefit the neediest sectors of their communities, should spur further public and private resource transfers. The phenomenon, further explained in the Economic Analysis Section below, can have profound impact on the poor.

Social benefits include clean water, better health facilities, more hygienic meat and produce, public lighting, and greater educational opportunities. All of these have their economic effects as well, as a healthier, better educated populace is more productive. A clean, healthy community will also attract new investment much more readily than one lacking the basic amenities. Asunción businessmen have expressed to USAID that they would not put agroindustries in a particular town, even when there are obvious economic opportunities to do so, because neither they nor any of the people they would put as managers would be willing to live there.

A particular socio-economic effect on which the Project is expected to impact is migration. In the past there has been substantial

migration out of small town and rural Paraguay. Evidently people from towns have tended to migrate to Asunción and people from the compañias to rural areas of Argentina. It is believed there are over 500,000 Paraguayans in Argentina alone. Although a small amount of such out-migration has evidently been for political reasons, the large majority has been for economic reasons. With little land pressure in Paraguay, the main motives for out-migration evidently have revolved around difficulty in marketing agricultural production, lack of job opportunities for those (generally women and young persons) who wish to pursue work other than agriculture, and the harsh life of rural Paraguay compared with the amenities of the city or of Argentina. Though quantitative predictions are difficult to make, it is expected that the Project will contribute to stemming out-migration, as marketing agricultural production is made easier, as job opportunities are created, and as certain amenities of life are provided. Likewise, with economic deterioration in Argentina currently causing a noticeable return of migrants, improved conditions in rural/small town Paraguay should attract returnees who might otherwise consider going to Asunción.

Civil benefits refer to the significant impact this Project is expected to have in promoting grass roots decision making and in encouraging local government to play a greater role. As described earlier, Paraguay has two levels of government, national and municipal. Municipal government for many years has been barely functioning, leaving almost all power and provision of services with the national government. Municipal government, with its elected councils and its closeness to the people, is a viable form of government whose role this Project should be enhancing. Furthermore, as the Project encourages the formation and expansion of local development committees, there will be much more potential for democratic, grass-roots level participatory decision making. IDM and USAID will work closely with these groups to make sure that the target group has a representative voice on the definition and prioritization of the activities which will affect them.

In some countries it would not be possible to bring townspeople and small farmers together on development committees. In Paraguay there is a general spirit of social equality which would make this acceptable. But in spite of its acceptability, small farmers are not accustomed to sitting and talking frankly with townspeople. CREDICOOP's experience is that with encouragement, the small farmer can in time become a confident and fully accepted member of a mixed committee. IDM and the townspeople themselves will have to be sensitive to this and will have to be persuaded by the long-term advisors to offer the necessary encouragement. As to who will represent the small farmer, there are no formal small farmer organizations in Paraguay. Each compañia, however, has its natural leaders, people who head the school building committee, the road improvement commission, or who otherwise represent the interests of the compañia to the outside world. These people will be the logical representatives of their communities at first. The long-term rural sociologist and community development advisor will look into other ways in which representatives might best be selected given the realities of rural Paraguay.

Women will likely benefit from the Project and from individual subprojects as much as if not more than men. Agroindustry jobs expected to be created will likely provide employment to women in greater numbers than men. The provision of public services, particularly improved market places, electricity, running water, and improved transportation, will positively affect women by making more pleasant, more sanitary, and easier some of the tasks usually performed by them in Paraguay. Experience with the cooperative system has shown that Paraguayan women, if given the opportunity, can be active participants and leaders. IDM will therefore actively encourage their participation in the local development committees. A number of municipalities already have women on their elected municipal councils. As for IDM itself, it currently has only two women in a staff of 30, both in relatively low level positions. IDM, however, is familiar with A.I.D.'s predilection on the issue of women in development and agrees to provide equal opportunity for employment as new positions open. With several women now active in municipal affairs through the Asunción City Council and OPACI, and with organizations such as CREDICOOP demonstrating that women can make effective field representatives, it is expected that more women will be attracted to the kind of work IDM offers.

### C. Financial Analysis

#### 1. IDM's Financial Situation

Financial self-sufficiency was a major objective of the first A.I.D. loan to IDM; this was not achieved, primarily due to underestimation of IDM's task. Though the proposed Project has different purposes from the first, financial self-sufficiency must continue to be a major objective, since it is vital to the long-run viability of the organization being strengthened. In accordance with GOP policy, IDM is required to repay its international loan. Thus it is important that IDM generate sufficient net revenues over the years so as to be able to capitalize itself.

#### a. Revenues, Expenses, and Capital Position

IDM's revenues, expenses, and capital position are presented in Tables I, II, and III below <sup>1/</sup>. The following is a discussion of each line item, explaining how projections were made:

Table I shows the sources from which IDM currently receives revenues, excluding external loans and reflows of principal from subloans:

(1) 2% of Municipal Budget Revenues: In 1976 <sup>2/</sup> IDM realized \$45,263 from this source, which is paid to IDM from each of the 170 municipalities. For 1977 the amount budgeted was \$53,640, and the amount collected through November was \$64,002. This increase over the previous year and over budget reflects the success of the municipalities in administering their new

<sup>1/</sup> All numbers have been changed from guaranies to dollars at the current free exchange rate of ₡130.5:US\$1.00. A.I.D. loans are disbursed at the prevailing free rate. The official rate is ₡126:US\$1.00.

<sup>2/</sup> Except where otherwise noted, all dates are in CY, which corresponds to IDM's fiscal year.

taxing capacities given them in the revised Municipal Tax Law. For 1978, IDM estimates a further increase of 26.8% over what will be realized in 1977, for estimated revenues of approximately \$88,500. A conservative projection thereafter would be 15% annually.

(2) 10% of Land Taxes: In mid-1977 the GOP passed legislation, primarily due to USAID pressure for a more adequate level of counterpart, to increase substantially IDM's revenues from this source. Previously IDM received 10% of the land taxes collected from urban cores. IDM now will receive 10% of land taxes collected throughout municipal districts, rural as well as urban. Rural land taxes are increasing rapidly under the Cadastral Project. For the first nine months of 1977, taxes collected from the municipalities of eastern Paraguay were \$2,723,430, a 39.8% increase over the same period the previous year. In the two departments where the rural cadastral survey has been finished, the increase was 68.9%. In the nine departments where the urban cadastral survey has been completed, the increase was 50.3%. It can be expected that as the urban cadastral survey is completed in the other five departments and the rural survey in the other 12, further substantial increases will occur, since the cadastral surveys bring large numbers of new taxpayers on the rolls. The increases should then continue to a lesser degree, as the Ministry of Finance refines its collection procedures. In 1976, IDM received only \$30,236 from land taxes. IDM's 1977 budget, prepared before the new legislation was passed, estimated \$42,146. For the first three quarters of 1977, IDM realized \$45,840. This, however, is still based on the old legislation. There is some confusion as to whether IDM will receive the new revenues for the period during 1977 following approval of the new legislation, or whether the increased revenues will begin in 1978. To be conservative, Table I estimates that IDM will receive only some \$55,000 in land taxes in 1977, but that it will receive \$340,000 in 1978 (assuming land tax collections increase 25% between 1977 and 1978). Land taxes are then projected to rise 10% per year thereafter, a conservative projection. Originally IDM was slated to receive this tax only through 1983, but the legislation effecting the above mentioned change appears to have made this a permanent tax source for IDM. Nonetheless, for the sake of a conservative projection, Table I has the contribution ending as of 1983.

(3) 2% of Alcoholic Beverage Tax: Through March 1977 Paraguay had two types of taxes on alcoholic beverages, one tax on imported beverages and a much lesser one on beverages in transit. Most beverages which in fact were to stay in the country entered under transit status; very few were imported under the tax upon which IDM's share is based. Revenues in 1976 therefore were only \$3,166, and the 1977 budget projection was \$5,364. In March 1977, however, the GOP announced a policy under which the in-transit status would no longer exist and the importation tax would be enforced. IDM's receipts for 1977 through November have reached \$101,529, and it is reasonable to estimate 1977 and 1978 revenues each at \$110,000. A 5% annual increase is projected thereafter.

(4) GOP Contribution: As counterpart to the first A.I.D. loan, the GOP agreed to contribute from general budget sources \$100,000 per year for capitalization and \$50,000 per year for operating expenses (both

at the official rate of exchange, or the equivalent of \$144,828 at the free exchange rate). The GOP has agreed to continue this support for the years 1978-1982 as counterpart for the Project.

(5) Interest from subloans: IDM normally charges 10% on subloans to municipalities. It is charging 12% on the \$500,000 credit it received from the Government of Brazil, since the cost of the money was 10%. Revenues during 1976 from subloan interest were \$76,918. Through November, 1977, revenues were \$117,701 on regular operations and \$17,905 on subloans from the Brazil credit. Revenues for years beyond 1977 are computed based on the amounts available for subblending in Table III. Since under the Project IDM is expected to make certain subloans at lower than its normal interest rates, one-third of the funds from the subloan part of the Project are estimated as being lent at 5% annual interest.

(6) Commissions: IDM normally charges a 1% commission on all subloans made. In 1976 this amounted to \$7,856 and for the first 11 months of 1977 to \$12,496. Future projections are based on 1% of actual lending done (see Table III).

(7) Interest from Savings: IDM normally has a certain amount of cash from reflows, foreign credit disbursements, and other income which is not quite ready for subloan disbursement. Most of this is kept in interest bearing accounts. In 1976 this amounted to \$31,415. In 1977, with USAID encouragement to keep less "idle" money on hand, the revenues for the first 11 months have been \$24,611, which projects to \$26,848 for the year. This can be expected to decline further to \$20,000 in 1978 and remain at that level thereafter.

(8) Miscellaneous: IDM has a small amount of additional income, from such activities as sale of manuals. In 1976 this was \$1,465. For the first 11 months of 1977 it was \$2,370, projecting to \$2,586 for the year. This figure can be expected to grow by 10% annually.

Table II shows IDM's expenditures, excluding subloans made and repayment of foreign credits:

(9) Personnel: IDM has been increasing the size of its staff to provide more services (e.g., creation of an audit function) and in anticipation of the Project (e.g., creation of the Planning and Special Projects Department). In addition, IDM has been giving the maximum salary increases permitted by law so as to attract and retain qualified personnel. Its personnel expenses increased from \$110,404 in 1976 to an estimated \$132,087 in 1977 (based on actual 11 month figures of \$117,387 plus provision for the Christmas bonus), or an increase of 19.7%. As IDM undertakes the Project, it can reasonably be expected that new hiring and salary increases will necessitate similar (20%) increases in each of 1978 and 1979, falling to a 15% annual increase thereafter.

(10) Contracted Assistance: Much of this item has been for contracting with persons who later are added to the payroll. It also pays for

external auditing. In 1976, contracted assistance amounted to \$36,373. Based on an 11 month expense of \$52,170, it is estimated to be \$56,913 for 1977, and 10% annual increases thereafter can be expected.

(11) Transport and Travel: These expenses were \$10,734 for 1976 and \$10,370 for the first 11 months of 1977, or an estimated \$11,313 for the year. As the Project gets underway, these expenses should jump considerably perhaps 20% for each of two years, and then should level off to perhaps 10% a year.

(12) Rent and Utilities: These expenses were \$5,241 for 1976 and \$5,307 for 11 months of 1977, or an estimated \$5,790 for the year. IDM has recently purchased a building of its own and will be moving approximately January 20, 1978. Though IDM will have no rent expense, it has budgeted \$5,977 for utilities and upkeep for 1978. This is expected to increase by 10% a year in the future.

(13) Printing and Office Expenses: These items were \$9,408 in 1976 and are expected to be \$10,949 in 1977, based on 11 months expenditures of \$10,036. They are expected to grow by about the same factor (15%) for the next two years and then level off at 10% per year.

(14) Other Operating Expenses: This category grew almost 24% from 1976 to 1977, from \$13,210 to an estimated \$16,358, based on an 11 months actual expense of \$14,994. This category, including such items as insurance, study courses, representation allowance, and dues in international organizations such as FINICAM, will probably again grow by the same factor in 1978, easing off to 20% and 15% in the following years, and leveling off at 10% thereafter.

(15) Acquisition of Office Equipment: This item, \$3,797 in 1976, \$3,626 for 11 months of 1977, and expected to be \$3,956 for all of 1977, can be expected to increase by 10% a year.

(16) Interest on External Debt: This expense was \$16,855 in 1976 and is expected to be \$40,000 for 1977. For the future it is calculated as follows: 2% per year on the first A.I.D. loan (or \$40,000 per year) until 1984 when the grace period ends, with 3% on the unpaid balance thereafter; 10% on the \$500,000 Brazil loan, which will be paid off over an eight-year period beginning in 1979; and 2% per year on the \$5 million loan in this Project, based on the projected disbursement schedule in Subsection 3. below.

Table III shows IDM's capital position, as follows:

(17) Reflows: In the past, the average IDM subloan was for 5.5 years. With the new emphasis on high target group impact subprojects, IDM will have to give more favorable subloan terms, allowing a repayment period even beyond 10 years in certain cases. The average repayment period is therefore expected to increase to seven years. In the projections, reflows are

computed as the amount loaned out at the end of the previous year divided by 5.5 for 1977 through 1979, 6.0 for 1980, 6.5 for 1981, and 7.0 thereafter, in each case reduced by 10% to account for delinquencies, money available to be lent out the previous year which was actually not loaned out, grace periods, and other inefficiencies. IDM normally gives grace periods of six months to one year. Since the actual amount available to be loaned out as of the end of 1976 was \$1,658,000, reflows generated during 1977 are estimated to be \$271,300.

(18) Net Foreign Loan Disbursements: This item lists all loan disbursements less repayments from the first A.I.D. loan, the Brazil loan, and the proposed Project.

(19) Excess of Revenues to Expenses: This is the difference of total revenues (items (1) through (8), see Table I) to total expenses (items (9)-(16), see Table II) for the previous year. This excess is available to IDM as capital.

(20) Available for New Lending: The total of items (17), (18), and (19) gives the amount available for new lending each year.

(21) To item (20) the amount loaned out or available for lending at the end of the previous year should be added. The actual amount available for lending at the end of 1976 was \$1,658,000.

(22) To the sum of items (21) and (22), item (17)--reflows--should be subtracted in order to obtain the amount loaned out or available for lending at the end of the year.

(23) Loaned out or available for lending at end of year: This item represents the gross capital position of IDM.

(24) Foreign Indebtedness: This is the principal balance owed on IDM's two loans from A.I.D. and one from Brazil.

(25) Net Capital Position: This is item (23) less the amount of foreign loan indebtedness.

The above analysis, summarized in Tables I, II, and III, shows that by the end of 1985, IDM will have capitalized itself in the amount of approximately \$6.5 million. New lending, which will be approximately \$1,160,000 in 1977, falling to \$714,000 in 1978 due to lack of new foreign loan disbursements, will increase in 1979 to over \$2.1 million and will peak in 1981 at almost \$3.2 million. It will then fall to about \$2.2 million in 1985. Projections beyond that date would show small increases thereafter. By the end of 1985 IDM's portfolio will approach \$13.5 million, or almost \$79,000 per municipality, a substantial increase from the 1977 level of just over \$2.5 million.

The analysis also shows the differences the new levels of support from the GOP will make. Through 1976, the GOP contributions, combined

**TABLE I**

**LM's Actual and Projected Revenues (US\$000) 1/**

	<u>Actual 1976</u>	<u>Estimated 1977</u>	<u>Projected 1978</u>	1979	1980	1981	1982	1983	1984	1985
(1) 2% of Municipal Revenues	45.3	69.8	88.5	101.8	117.1	134.6	154.8	178.0	204.8	235.5
(2) 10% of Land Taxes	30.2	55.0	340.0	374.0	411.4	452.5	497.8	547.6	-	-
(3) 2% of Alcoholic Beverage Tax	3.2	110.0	110.0	115.5	121.3	127.3	133.7	140.4	147.4	154.8
(4) GOP Contributions	144.8	144.8	144.8	144.8	144.8	144.8	144.8	-	-	-
(5) Interest from Subloans 2/	76.9	151.3	264.1	345.3	493.5	669.4	848.2	984.2	1,088.6	1,166.1
(6) Commissions 3/	7.9	13.6	6.8	20.0	24.8	30.3	28.7	23.8	24.6	21.2
(7) Interest from Savings	31.4	26.8	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
(8) Miscellaneous	<u>1.5</u>	<u>2.6</u>	<u>2.8</u>	<u>3.1</u>	<u>3.4</u>	<u>3.8</u>	<u>4.2</u>	<u>4.6</u>	<u>5.0</u>	<u>5.5</u>
<b>Total</b>	<b>341.2</b>	<b>573.9</b>	<b>977.0</b>	<b>1,124.5</b>	<b>1,336.3</b>	<b>1,582.7</b>	<b>1,832.2</b>	<b>1,899.0</b>	<b>1,490.4</b>	<b>1,603.1</b>

1/ Figures for 1976 are actual. Figures for 1977 are estimated based on actual figures from first nine or 11 months of year. Projections of all items except (5) and (6) are as explained in text. Projections of items (5) and (6) are explained in following footnotes. Years are CYs.

2/ Computed on the amount available at the end of the year before for subloans - item 23 - plus half of new availabilities for sub-lending during year excluding reflows, less 5% factor for inefficiency and less item (7). Interest is computed at 12% for the outstanding subloans from the Brazil credit, at 5% for one-third of the outstanding funds from the new A.I.D. loan, and 10% on the rest.

3/ Computed as 1% of amount available for new lending during year - item (20) - less 5% inefficiency factor.

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**TABLE II**

**IIM's Actual and Projected Expenditures (US\$000) 1/**

	Actual 1976	Estimated 1977	Projected 1978	1979	1980	1981	1982	1983	1984	1985
(9) Personnel	110.4	132.1	158.5	190.2	218.7	251.5	289.3	332.7	382.6	440.0
(10) Contracted Assistance	36.4	56.9	62.6	68.9	75.8	83.3	91.7	100.8	110.9	122.0
(11) Transport and Travel	10.7	11.3	13.6	16.3	17.9	19.7	21.7	23.9	26.2	28.9
(12) Rent and Utilities	5.2	5.8	6.0	6.6	7.2	8.0	8.8	9.6	10.6	11.6
(13) Printing and Office Exp.	9.4	10.9	12.6	14.5	15.9	17.5	19.3	21.2	23.3	25.7
(14) Other Operating Expenses	13.2	16.4	20.3	24.3	28.0	30.8	33.9	37.3	41.0	45.1
(15) Acquisition Office Equip.	3.8	4.0	4.4	4.8	5.3	5.8	6.4	7.0	7.7	8.5
(16) Interest on External Debt	<u>16.9</u>	<u>40.0</u>	<u>90.0</u>	<u>98.4</u>	<u>117.1</u>	<u>140.0</u>	<u>158.7</u>	<u>161.9</u>	<u>174.6</u>	<u>166.4</u>
<b>Total</b>	<b>206.0</b>	<b>277.4</b>	<b>368.0</b>	<b>424.0</b>	<b>485.9</b>	<b>556.6</b>	<b>629.8</b>	<b>694.4</b>	<b>776.9</b>	<b>848.2</b>

1/ Figures for 1976 are actual. Figures for 1977 are estimated based on actual figures for first 11 months of year. Projections of all items are as explained in text.

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**TABLE III**

**IM's Projected Capital Position (US\$000) <sup>1/</sup>**

	1977	1978	1979	1980	1981	1982	1983	1984	1985
(17) Reflows	271	417	465	673	890	1,122	1,367	1,513	1,651
(18) Net Foreign Loan Disbursements	754	0	1,033	1,242	1,450	875	(63)	(129)	(129)
(19) Excess of Revenues to Expenses	<u>135</u>	<u>297</u>	<u>609</u>	<u>700</u>	<u>850</u>	<u>1,026</u>	<u>1,202</u>	<u>1,204</u>	<u>713</u>
(20) Available for New Lending	1,160	714	2,107	2,615	3,190	3,023	2,506	2,588	2,235
(21) Plus: Loaned out or available for lending at end of previous year	1,658	2,547	2,844	4,486	6,428	8,728	10,629	11,768	12,843
(22) Less: Reflows (item (17) above)	<u>271</u>	<u>417</u>	<u>465</u>	<u>673</u>	<u>890</u>	<u>1,122</u>	<u>1,367</u>	<u>1,513</u>	<u>1,651</u>
(23) Loaned out or available for lending at end of year	2,547	2,844	4,486	6,428	8,728	10,629	11,768	12,843	13,427
(24) Less: Foreign Indebtedness	<u>2,500</u>	<u>2,500</u>	<u>3,583</u>	<u>4,875</u>	<u>6,375</u>	<u>7,250</u>	<u>7,188</u>	<u>7,058</u>	<u>6,929</u>
(25) Net Capital Position	47	344	903	1,553	2,353	3,379	4,580	5,785	6,498

<sup>1/</sup> All figures calculated as indicated in text. The figure in line (21) for 1977 is actual

with all other revenues, did not enable IDM to capitalize itself. IDM invested \$450,000 of the first \$2,000,000 A.I.D. loan in technical assistance, with the result that it found it difficult to bring itself up to a positive net capital position. Not until 1977 was IDM able to bring itself up to a positive net position, estimated to be \$47,000. The new GOP revenues, in part a result of USAID pressure, will cause IDM's total revenues for 1978 to be 70% higher than these for 1977, an amount necessary if IDM is to carry out the proposed Project efficiently. It will also bring IDM into conformity with the law which established it, which states that the revenues from the three taxes should be used for capitalization. The revenues which IDM generates itself (interest, commissions, miscellaneous), plus that part (one-third) of the GOP budget contribution designated for operating expenses, should together cover all expenses. By 1979 that will be the case; and by 1980, even if all GOP support stops, IDM will be in a position to cover its expenses from its own earnings.

In summary, the combination of the Project funds plus the new GOP contributions will leave IDM in a good capital position by the end of Project. Even if some of the expense items prove to be underestimated, IDM will have sufficient revenues to cover them. It should be noted that the projections were made with the assumptions that \$1.6 million of subloans would be made at an interest rate of only 5% and that the average subloan term would gradually increase from 5.5 to seven years. If reality proves to be as favorable as the projections, IDM may want to consider making an increasing amount of its subloans at the more favorable terms.

b. Other Financial Considerations

This subsection will discuss the effects of inflation, will describe the disbursement procedures of IDM, and will go into more detail than was presented above on IDM's interest rate. IDM's role within Paraguay's financial market will also be discussed.

Any intermediate credit institution can be hurt by inflation. Inflation can cause decapitalization in real terms; or, when inflation causes the local currency to devalue against the dollar, it can prevent the institution from being able to meet its debt commitments. Paraguay has been remarkably successful in combatting inflation. Of the past 12 years, only two had double digit inflation (1973 at 12.8% and 1974 at 25.2%), and those reflected world-wide inflation caused by the petroleum crisis. Eight of the years had inflation of 5% or below. In 1975, prices rose 6.4% and in 1976, 4.5%. In spite of past success, the potential for higher inflation exists. Paraguay's economy is expanding rapidly, with a greater than 7% GNP growth rate predicted for 1977. The Itaipú and Yacyretá dam construction projects are pouring substantial foreign exchange into the economy giving Paraguay a large balance of payments surplus. Under these conditions, it is difficult to control the size of the money supply, and inflation may occur in spite of measures which would seem restrictive under more normal conditions. 1977 inflation may approach or possibly reach double digit.

There is little fear of devaluation of Paraguay's currency against the dollar. Paraguay's trade is in balance. The foreign currency inflows are causing a balance of payments surplus, and foreign exchange reserves now exceed eight months' worth of imports. If anything, this has caused a small appreciation of the currency in the free market. Earlier in 1977, the free exchange rate was regularly about 7% above the official rate; now it is 3.5% above. Actually, IDM benefits from whatever difference there is in the rates, since A.I.D. disburses at the free rate (currently  $\text{G}\$130.5:\text{US}\$1.00$ ), whereas IDM expects to be able to purchase dollars for repayment from the Central Bank at the official exchange rate ( $\text{G}\$126:\text{US}\$1$ ). In spite of the current absence of devaluation risk, IDM keeps a maintenance of value reserve, which has normally been equivalent to the difference in the exchange rates. A.I.D. will continue to require a provision for maintenance of value and will work with IDM to adjust this, depending on the situation of the economy.

As to the longer-run effects of constant inflation, adequate provision was made in the financial projections for normal rates of inflation. Most items were increased by 10 or 15% per year, enough to allow for moderate inflation plus IDM's growth. Should annual rates begin regularly to approach or exceed 10%, then IDM will have to take measures to protect itself, since it will be loaning at a real negative interest rate. A monetary readjustment factor, similar to those being used by the Savings and Loan System and CREDICOOP, would seem then to be in order.

IDM normally disburses subloans in installments using a system of advances based on a predetermined percent of work done. The average number of installments is three, though the number has gone as high as six. It has taken IDM an average of seven months to disburse its subloans, and some have taken up to 24 months. The lengthier cases usually are due to contractor delays. USAID supports the basic methods IDM uses in disbursing and is working with it to improve its disbursement predictions so it can manage its funds in an efficient manner.

As mentioned above, IDM's normal annual interest rate is 10%. Under the Project, IDM is expected to lower this rate by half on a certain number of socially beneficial subprojects which could not be financed under other conditions. These are estimated to represent about one-third of the subloan funds from the Loan, or about 26.7% of the amount to be subloaned under the Project. USAID believes that IDM's normal 10% rate is appropriate. It is high enough to give IDM a return which will cover its expenses, and it is low enough to enable municipalities to undertake priority, usually self-financing public investments, which do not by their nature have the rate of return private investment does. The interest rate is lower than bank interest rates would be for this type of subloan (about 13%) and higher than the Central Bank charges (6% to 8%).

Finally, it should be mentioned that Paraguay's financial system is quite unsophisticated. The possibilities for an increased role for IDM are almost without limit. For example, IDM could act as a banking facility

for municipal surpluses. Or IDM could issue bonds, which is something not done heretofore in Paraguay, but legislation under consideration in the GOP Congress to create a capital market would make it possible. As possibilities present themselves, USAID will attempt to give IDM advice and arrange for appropriate technical assistance.

## 2. The Municipalities' Financial Situation and Demand

### a. Municipal Debt Capacity

The budgets of the municipalities have gone up from \$1,789,144 to \$3,409,868 (an increase of 90.6%) from 1975 to 1977.<sup>1/</sup> A number of municipal governments are collecting all taxes due them, while others still make little effort to be responsible fiscal bodies. Half of the municipalities (84) have 1977 budgets of under one million guaranies (\$7,662); 38 of these have budgets of under \$3,000. On the other hand, 19 have budgets exceeding \$40,000, and ten have budgets ranging from \$83,831 to \$690,785. Budget amounts appear to correlate more closely with the population size of the urban cores than with the population size of the municipal districts. The municipalities' new taxing powers were not fully included in the 1977 municipal budgets, since the revised Municipal Revenue Law was not passed until December, 1976. IDM estimates that municipal revenues will grow by 26.8% in 1978 over the realized 1977 amounts. It is not unreasonable to expect at least 15% annual increases thereafter.

Under the previous A.I.D. loan, little concern was given to debt capacity since all subprojects were expected to produce sufficient revenues to cover expenses. Emphasis was placed only on whether the municipality had sufficient surpluses to cover the minimum 15% counterpart contribution and some minor slippage should revenues not be up to projected levels. By law each municipality is expected to budget for a difference of revenues over operating expenses of at least 25% of revenues; this surplus is to be invested in some type of public works activity. With the small size of subloans, even municipalities with low budget levels could come up with enough funds to participate in these self-financing subprojects. Ninety-two municipalities in total have borrowed from IDM, including 18 with annual budgets of less than \$5,000. Five of the latter took out two subloans each.

Probably because of the self-financing aspect of the subprojects, the delinquency level has been low. As of October 31, 1977, there were delinquencies in 13 subloans, for a total of \$8,612, well under 1% of IDM's outstanding portfolio. Ten of the delinquencies were less than two months old, and IDM considered delays in transfer of funds from isolated towns with no banking facilities as the major cause. The oldest delinquency was only four months old. The largest was only \$1,844. Though IDM keeps a bad debt reserve of 3%, it has never had to charge off a subloan. Actually, IDM has

<sup>1/</sup> This is for 163 municipalities for which data were available both years. In 1977, 169 municipalities submitted budgets, for a total of \$4,127,702, or an average of \$24,424 each. All budget figures are for revenues.

an effective tool which it can use if necessary to collect at least part of any delinquent subloan. IDM receives 14.4% of all land taxes collected directly from the Ministry of Finance; it is expected to retain 10% and distribute the other 4.4% to the respective municipalities. If a municipality is past due on a debt payment, IDM has the right to retain the 4.4% municipal share. Under the proposed Project IDM will continue its 3% reserve for bad debts. In addition, it has agreed not to loan to any delinquent municipality and to include the names of all past due municipalities in its monthly newsletter.

Under the proposed Project, a number of subprojects are expected not to be fully self-financing. In these cases it becomes important to study in each instance the debt capacity of each municipality or group of municipalities to handle the debt incurred. It also is important to make a predetermination in this PP as to whether this debt capacity will exist.

A guideline to debt capacity already exists in Paraguayan law, which states that a municipality should incur debt only to the point at which the servicing of the debt does not exceed 30% of municipal revenues. Debt for self-financing subprojects is not included. Under the Project, self-financing will be encouraged when possible, but will not be allowed to stand in the way of a subproject which fulfills a stated need of the local target group, as long as the capacity for financial servicing is present. Assuming that 40% of the subloan funds under the Project (approximately \$2,425,000) will be loaned for such subprojects to 60 different municipalities (at an average of \$40,000 per municipality), with each subloan having a six-year payment period, a one-year grace period, and 10% annual interest, the average debt service the second year would be \$12,000, falling to \$8,800 by the sixth year. With average municipal revenues projected by IDM to be \$41,507 by 1980, the \$12,000 servicing the second year would be close to but within the allowable limit of \$12,452. By the sixth year, with average municipal revenues growing and the debt servicing amount decreasing, the debt service would represent only about 12.1% of municipal revenues, allowing additional debt to begin to be incurred. The above, of course, speaks only in averages. In practice smaller municipalities will likely take on smaller subloans and vice versa. The analysis does point up two things, however. First, it shows that in general the municipalities will be able to handle approximately 40% of the subloan fund in non-self-financing subloans (perhaps more in partially self-financing ones). Secondly, it shows that since under the above analysis the average municipality comes quite close to the recommended debt limit the second year of servicing, it behooves IDM to look carefully at the financial situation of the individual municipalities when making non-self-financing subloans.

#### b. Demand Analysis

IDM since its inception has been interested in the potential demand for its services. In 1974, one of the consulting firms financed under the technical assistance portion of the first A.I.D. loan undertook an intensive onsite analysis of over 150 municipalities, which included finding out what subprojects the municipal governments had been planning on undertaking over the

following several years, what subprojects the municipal officials felt were most needed were financing available, and what subprojects the surveyors felt were priority. The survey came up with some 450 planned subprojects, 600 needed subprojects (approximately a third of which were also in the first list), and 500 subprojects the surveyors felt were needed. With most of these subprojects of modest scale, costing an average of about \$20,000 each, it could be said there was somewhere around \$10 to 12 million of demand for IDM financing.

In early 1976, IDM undertook a second survey in order to make a case to A.I.D. for financing of a second loan. It asked the officials of all 168 municipalities then existing for what plans they had with respect to markets, slaughterhouses, water systems, and street paving. The officials came up with some 280 plans. These were individually costed out. Since several were ambitious subprojects of larger municipalities, the average cost was approximately \$60,000, for a total of slightly over \$17 million.

To get an indication of demand for the proposed Project, USAID and IDM conducted a survey during December 1977 at the First National Municipal Congress sponsored by OPACI. A questionnaire was given to each group of municipal officials. The questionnaire clearly explained that what was requested was a list of clearly defined needs for services which would have a direct impact on the neediest elements of the population, in both the urban cores and the compañias. A list of some 20 suggested categories of subprojects was given, with an explanation for each category as to what would be necessary for a subproject to qualify as high impact (e.g., water subprojects must be expansions to poor neighborhoods or subprojects in compañias, silos would have to be located and designed to serve small farmers). The questionnaire also indicated that the officials could list other types of high impact subprojects they thought were needed, but it also made clear what types would not be eligible at all (e.g., municipal buildings, asphaltting of streets). Several knowledgeable persons from IDM, USAID, and the USAID consulting team were present to assist in the distribution and collection of the questionnaire and in answering questions.

The results of the survey are detailed in Annex I, Exhibit G. In summary, 124 municipalities returned the questionnaire, giving a 73% sample of the total 170. They indicated the need for 391 subprojects in 18 categories which had been listed (electricity--41, water--4, cobblestone streets--54, bus terminals--26, road equipment--42, market improvement--26, health centers--21, port improvement--4, sales stalls for artisan products--1, cold storage facilities--7, vocational courses--23, school construction in the compañias--16, reforestation--6, irrigation--1, municipal colonization--7, silos and grain dryers--14, common grazing areas--1, and slaughterhouses--37). In addition, talks with municipal officials indicated a clear demand for two other types of subprojects which had been listed but evidently not clearly explained in the questionnaire (sites and services for agroindustries--3, and municipal vegetable gardens--3). Costing out each of these subprojects by type of activity and size of municipality (see Annex), IDM and USAID came to a total demand of \$17,003,000, or an average of \$42,829 per subproject.

In addition to the above subprojects, the municipal officials listed 12 subprojects in seven categories which had not been previously considered and were not listed on the questionnaire. They are low-cost housing--1, urban planning--2, municipal owned cotton gin--1, sewerage--4, trash collection--1, social welfare program--1, and ferry boats--2. Further study will be needed to determine the target group impacts, the viability as municipal undertakings, and the costs of these types of subprojects; but the fact that they were listed indicates that there are surely other types of target group impact subprojects than the ones currently being considered, and that municipal officials are conscious of existing community needs.

The municipal officials, in spite of instructions to the contrary, also listed 63 subprojects in ineligible categories. In many cases, a note was made indicating that they felt such subprojects would have a substantial target group impact in their district and for that reason were listing them. The categories were: municipal buildings (new, expanded, and renovated)--31, commercial stores--4, swimming facilities--13, new market--1, asphaltting of streets--2, hotel/restaurant--3, gymnasiums--5, parks--2, radio station--1, and street widening--1. The fact that there continues to be demand for such subprojects indicates that during the Project there will be substantial demands on IDM's non-Project funds for financing such types of subprojects.

The survey must be taken only as a preliminary indicator of demand. With the other 27% of the municipalities added in, the \$17 million demand would likely grow to over \$23 million, even higher with other types of subprojects added in. On the other hand, it is likely that half or more of the listed subprojects would fall out as not having sufficient impact or as not being technically or financially feasible. But on the other hand, it must be assumed that once courses are held and municipal officials begin focusing more on identification of needs and ways to serve them, and once development committees are formed and functioning, the demand should rise substantially. Suffice it to say that the survey demonstrates two things. First, potential subproject demand is at least two to three times the level of financing to be available during the Project period. Second, municipal officials are beginning to be conscious of serving the needs of the poorer elements in their districts, providing a good base for the initiation of the Project.

### 3. Project Financial Plan

#### a. Size of Project and Counterpart Contribution

The size of the Project is \$8,945,000, composed of the following:

A.I.D. Loan funds:	\$5,000,000
Subloans	(4,850,000)
Building, vehicles, equipment, technical assistance, other	( 150,000)

A.I.D. Grant Funds:	800,000
GOP Counterpart:	1,814,000
Subloans	(1,213,000)
Incremental Operating Expenses	( 601,000)
Municipal Counterpart:	<u>1,331,000</u>
	\$8,945,000

The GOP counterpart will be used in two ways. First, IDM will finance 20% of each subloan made under the Project on a pari passu basis. Given A.I.D.'s \$4,850,000 contribution, IDM's share will be \$1,213,000, for a total of \$6,063,000 of subloans to be made under the Project. Second, IDM will finance the incremental operating expenses necessitated by the Project. It has been computed that if the Project did not exist, IDM's operating expenses over the period 1978-1982 would be \$1,863,000. With the Project, IDM's expenses are projected at \$2,464,000, for a difference of \$601,000. This GOP counterpart of \$1,814,000, representing 20.3% of the total Project amount, has as its sources the \$150,000 annual counterpart contribution the GOP will be making over the years 1978-1982 (\$750,000) and the incremental amount IDM will be receiving as land taxes from the change in legislation, which was instituted as a direct response to A.I.D.'s request for more counterpart for IDM. It is projected that IDM will receive \$2,075,700 from land taxes over the years 1978-1982, \$1,656,000 more than if the new legislation had not been passed. In short, there appear to be adequate sources to assure IDM's counterpart.

The municipalities were required under the first A.I.D. project to contribute a minimum of 15% of the cost of each subproject. IDM has retained this policy. Actually, municipalities have been contributing over 18%, and this rate is expected to continue. If so, there will be a municipal contribution of \$1,331,000 as counterpart to the \$6,063,000 in subloans IDM will make under the Project. The total counterpart contributions-- GOP and municipal combined--is therefore \$3,145,000, representing 35.2% of the total Project.

The size of the Project has been determined by several factors. The potential demand for eligible subloans, as described in the preceding subsection, would argue for perhaps even a larger project size. However, the budget limitations of the municipalities and of IDM and the rate at which IDM can effectively expand argue for some restraint. Likewise, though the consultant team proposed a more extensive and costly grant financed technical assistance package, IDM and USAID settled on the \$800,000 level as one which would provide the needed elements without overwhelming IDM as an organization. In short, USAID and IDM believe that a \$5 million loan, \$800,000 grant, and counterpart as indicated above will provide a Project which will fulfill the Project's purposes given the various realities and limitations which exist. Likewise, the four-year Project period (certain GOP counterpart will be counted over five years) will give the needed time to implant the new planning techniques and disburse the subloan fund.

It should be pointed out that the Project does not include reflows IDM will receive from past subloans nor certain other revenues. During the Project period, IDM will have over \$10.9 million available for sublending, \$4,872,000 more than what will be under the Project, enabling it to finance subprojects which might not be eligible under the Project.

b. Summary Cost Estimate and Financial Plan

The summary cost estimate and financial plan for the Project is presented in Table IV. The Project's disbursement schedule is presented in Table V, by USG FY. The latter is set forth on an accrued basis; USAID is requesting that the total funding be obligated in FY 1978.

The estimates are predicated on several assumptions. In the first A.I.D. loan, all subproject financing was in local currency because all subprojects were basically simple construction activities. In the proposed Project, several of the larger subprojects of types not heretofore financed (e.g., port improvement, silos, and grain dryers) may require part of their financing in foreign exchange. Ten percent of the subproject funds under the A.I.D. Loan are therefore indicated as foreign exchange. The A.I.D. Loan will also finance vehicles, equipment, and other items needed by IDM for its functioning and for which funds are not available in its normal budget. Imported vehicles, accounting equipment, and other office equipment are expected to require \$40,000 in foreign exchange and \$10,000 in local currency. \$50,000 in local currency funds are expected to finance renovation and expansion of IDM's building. Finally, there is \$50,000 for other technical assistance type activities for which IDM does not have budget funds and which are not within the scope of the grant funding. These are expected to include sponsoring municipal conferences in conjunction with Project evaluation, contracting with advisors on such topics as the issuance of bonds, and attendance of IDM officials at an international meeting. An estimated \$10,000 of this will be for foreign exchange expenses; the rest will be local currency.

The A.I.D. grant will finance only those TA activities directly related to the achievement of the two Project purposes. It will fund (1) a professional planner for a three-year period to serve as an advisor to IDM, at an estimated cost of \$240,000; (2) an expert in rural sociology and community development, with an understanding of group and organization dynamics, to work in the formation of and assistance to the local development committees, at an estimated cost of \$80,000; (3) 18 months of short-term advisory services in such fields as marketing, community development, rural economics, subproject feasibility, rural sociology, development administration, planning, zoning, and survey research to sensitize IDM personnel and local municipal and development committee people to broader development concerns and to give them a capacity to evaluate subproject impacts, identify and resolve developmental constraints, define regional areas and promote intermunicipal cooperation, and coordinate their activities with national and international institutions, at an estimated cost of \$288,000; (4) short-term training, both participant training for up to three months in the U.S. or third countries for selected IDM personnel, and training courses in Paraguay, using outside experts, at an estimated cost of

**TABLE IV****Summary Cost Estimate and Financial Plan  
(US\$000)**

<b>Source</b>	<b>A.I.D. Loan</b>		<b>A.I.D. Grant</b>		<b>GOP</b>	<b>Municip.</b>	<b>Total</b>
	<b>Fx.</b>	<b>Lc</b>	<b>Fx</b>	<b>Lc</b>	<b>Lc</b>	<b>Lc</b>	
<b><u>Use</u></b>							
<b>Subprojects</b>	485	4,365			1,213	1,331	7,394
<b>Vehicles, Equip., Bldg.</b>	40	60	22				122
<b>Long-Term TA Advisors</b>			320				320
<b>Short-Term TA Advisors</b>	10		288				298
<b>Participant Training</b>			155				155
<b>Courses, Surveys, Other TA</b>		40		15			55
<b>Incremental Operating Exp.</b>					601		601
<b>Totals</b>	535	4,465	785	15	1,814	1,331	8,945

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**TABLE V****Disbursement Schedules  
(US\$000)**

	<u>FY 1978</u>		<u>FY 1979</u>		<u>FY 1980</u>		<u>FY 1981</u>		<u>FY 1982</u>	
	<u>Fx</u>	<u>Lc</u>	<u>Fx</u>	<u>Lc</u>	<u>Fx</u>	<u>Lc</u>	<u>Fx</u>	<u>Lc</u>	<u>Fx</u>	<u>Lc</u>
<b><u>A.I.D. Loan:</u></b>										
Subprojects			773		64	1,222	223	1,267	198	1,103
Vehicles, Equip., Bldg.			30	20	10	15		15		10
Other TA				10	5	10	5	15		5
<b><u>A.I.D. Grant</u></b>										
Long-Term TA Advisors			120		120		80			
Short-Term TA Advisors	10		80		80		70		48	
Participant Training			50		60		35		10	
Vehicles, Equip.	22									
Courses, Surveys, Other TA				10		3		2		
<b><u>GOP:</u></b>										
Subprojects				193		322		373		325
Incremental Operating Exp.		63		88		117		150		183
<b><u>Municipalities:</u></b>										
Subprojects				212		353		409		357
<b>Totals</b>	<b>32</b>	<b>63</b>	<b>280</b>	<b>1,306</b>	<b>339</b>	<b>2,042</b>	<b>413</b>	<b>2,231</b>	<b>256</b>	<b>1,983</b>
		<b>95</b>		<b>1,586</b>		<b>2,381</b>		<b>2,644</b>		<b>2,239</b>

\$155,000; (5) two vehicles and a small amount of equipment (such as calculators and projectors) as direct support for the advisors and for IDM's Planning and Special Projects Department, at an estimated cost of \$22,000; and (6) two courses for municipal officials, each given at several sites in the interior of the country, to sensitize them in the development opportunities of high impact subprojects and to instruct them in the basics of spatial theory, plus related surveys, at an estimated cost of \$15,000. This last item is the only part of the grant funds indicated for local currency financing; all the rest is expected to be foreign exchange. It must be stated that though the uses for the grant funds have been worked out as above by IDM, USAID, and AID/W TDY personnel, they should be treated as estimates and remain flexible. During the Project period it may be decided that fulfillment of the Project's purposes requires some exchange between categories. It may well be decided, for example, to extend the rural sociologist for an additional year at the expense of some of the short-term advisory time. All changes will be made with USAID's approval and under the condition that grant funds are only to give IDM the expertise to carry out the two specific Project purposes. Finally, since a number of procurement actions under the grant will involve third countries (e.g., participant training in third countries, hiring of third country short-term experts), the draft Authorization has been prepared permitting source and origin procurement under the grant from Code 941 countries.

c. Rationale for Grant Funding

IDM is embarking on two courses new to it and to Paraguay. The first is to change the thinking of its own staff and of municipal officials on the criteria which should govern the financing of municipal subprojects away from whether the subproject will pay for itself to whether the subproject will give the greatest direct benefits to the needy elements of the population. The second is to introduce and establish a capacity for integrated urban-rural planning using a bottom-up approach, through sensitizing and instructing municipal officials and encouraging the functioning of broadly representative local development committees. These profound changes will necessitate substantial investments, far more costly than for the initial establishment of IDM. These include technical assistance from outside Paraguay, sophisticated technical training for IDM's staff, a substantial increase in staff size, courses for municipal officials, surveys, equipment, and funds for subblending. IDM is taking on a considerable part of the investment itself--by increasing its staff size and operating budget by over \$600,000 and by contributing over \$1.2 million in subloan funds which it could otherwise have used for tried and true types of subloans. It also is taking on the burden of a \$5 million loan which it will have to pay back, including a commitment to lend for the first time at rates substantially below what it normally charges. It will also be encouraging its municipal clients to take on riskier subprojects and ones which, for the first time, are non-self-financing. For IDM to take on more than this for a rather experimental project would be asking too much. IDM is certainly willing to borrow for TA which it is assured will assist it generally--witness the TA elements in the first project and the loan part of this Project--but it is understandably reluctant to take on a commitment for such a large amount of high priced TA which may have unknown results. The TA from the first project, which IDM considered a necessary investment, caused it to lapse into a state

of negative net capitalization from which it is just beginning to emerge. To ask it to make a larger TA commitment for a higher risk endeavor at a point when it is just beginning to move into the black financially is not proper. For these reasons USAID proposes a sharing of the costs and risks, with the grant element financing those TA inputs necessary to help IDM make the changes mentioned above.

d. Other Considerations

Three other financial aspects of the Project warrant consideration: reflows, avoidance of monopolizing, and the relationship of the Central Bank to the Project. As to reflows, IDM has agreed to covenant in the Project Agreement that all reflows will be used for relending for similar types of sub-projects, unless A.I.D. otherwise agrees.

The Project encourages the financing of larger subprojects than have been permitted previously. Particularly as multi-municipal projects take place over large regions, the size of certain subprojects could become quite large. Though this is in conformance with the Project's purpose, what would not be desirable would be if a small number of municipalities or sub-projects were to use up a large part of the subloan fund. To avoid this, A.I.D. will require a covenant stating that unless A.I.D. otherwise agrees, no more than 40% of the subloan funds made available under the Project shall be for financing subprojects each over \$200,000 in size. Also, A.I.D. will have to approve each subloan when it is to a municipality which, singly or as part of a municipal group, has more than \$200,000 in total outstanding debts to IDM.

Finally, during the development of the Project, negotiations took place to determine if it would be worthwhile to channel the Loan through the Central Bank of Paraguay, creating a discount or rediscount relationship for IDM. This would have the advantage of a future assured source of funds for IDM. IDM, however, decided not to create such a relationship since it would lose three points of interest spread, which it felt would not compensate at this time for the advantage gained. Such a relationship, though, could be a good future source of funding for IDM, and all parties hope the contacts will continue. The negotiations nonetheless did lead to a benefit for IDM. On occasion the Central Bank has lent to municipalities, charging only 6% interest. In one instance IDM gave a municipality considerable free technical design help, only to see the municipality go to the Central Bank for financing. The Central Bank agreed during the negotiations to make loans to municipalities only when IDM certifies that it cannot. The Central Bank also said it would charge at least 8% on any such loans.

D. Economic Analysis

1. The Need for Local Investment and Resource Mobilization

In Paraguay as in many small developing countries, the level of development in the capital far exceeds that in any other part of the country. Though data on the level of development in Asunción versus the rest of the

country are not available, a recent study done by the GOP's Technical Planning Secretariat on the influence of Asunción throughout its service area demonstrates the inequalities of income and public and private sector investments between greater Asunción and the rest of the country. The Asunción service area (the departments of Central, Cordillera, and Paraguari), which consists of 3.9% of the land area of all of Paraguay and 9.9% of the area of the eastern part of the country, contains 47% of the national population, has 53% of the economically active population, has 66% of the population which works in industry (mostly light agroindustry and home industries), has 70% of the population which works in basic services and 72% of the population which works in general services, is home to 82% of the motor vehicles, has 91% of the automatic telephones, consumes 80% of the electric energy, produces 73% of the industrial product, has 50% of the primary students, 63% of the secondary students, and 96% of the higher education students, and does 92% of the banking business. A 1972 Central Bank study shows that urban per capita GDP is 3.7 times as much as rural per capita income (urban including the approximately 450,000 Asunción residents and the approximately 450,000 residents of the other urban cores). Since USAID's survey of urban cores (see Section III.B.) shows that income in the towns is not much higher than in strictly rural areas, Asunción must count for most of the urban-rural GDP difference.

The heavy allocation of public and private investments to the Asunción area is a primary cause of regional income disparity. Public investment in Asunción in housing, education, health, electrification, potable water, and virtually every other public service has been greater in proportion to population than has been true in other urban areas of the country.

Municipal investments also are skewed toward Asunción. Recent planning data supplied by the Ministry of Finance show that without additional IIM resources, in the future Asunción will be receiving an ever increasing share of total municipal investments:<sup>1/</sup>

(\$ Millions; 1977 Prices)

Year	A	B	A
	Asunción	Other Municipalities	As % of B
1976	114	448	25
1977	264	324	81
1978	284	239	119
1979	331	276	120
1980	394	286	138
1981	603	359	168

<sup>1/</sup> Paraguay (El Esfuerzo Nacional y las Necesidades de Financiamiento Externo). Statistical Annex, Table 31. Ministry of Finance, Asunción Nov. 1977; Table 31 was prepared by the Technical Planning Secretariat.

A Congress of Municipalities was held recently in Asunción at which municipal authorities complained of a lack of municipal development planning support from the national Government and lack of adequate collection of taxes for municipalities by Government authorities. Mention was also made of inadequate support from such national public institutions as the Paraguayan Urban and Housing Institute and the water authorities.

The imbalance in public investment discourages private investment in areas with little or no social and economic infrastructure and creates an incentive for private savings to flow into Asunción. Although many economists formerly believed that only this type of unbalanced growth with increasing income inequality would lead to increased savings, investment, and growth, more recent studies by Chenery and others have strongly attacked the notion that growth and equity are incompatible.

The Government of Paraguay has itself acknowledged the need to shift public and private investment toward the smaller urban centers and rural areas. One indicator is a recent law prohibiting establishment of new industries within a 20 Km. belt of Asunción. Change in the allocation of investment, however, will occur slowly at best. Even assuming high level GOP support, a flexible GOP bureaucracy, and ample financial and technical assistance from donor agencies, new GOP programs for the small town and rural areas will require years to plan, negotiate, and implement.

This Project represents a small but important step toward redressing the existing investment and income distortions. IDM has already shown itself under the first A.I.D. loan to be one of the most effective public sector instrumentalities for channeling resources into productive investments in Paraguay's small towns. This second Project is designed to expand and improve IDM's capabilities not only to channel resources to the municipalities, but to channel resources to subprojects which directly benefit the poor, mobilizing local resources in the process. Many of these subprojects will require a collaborative effort with public utilities, such as CORPOSANA, SENASA, and ANDE, and with other government agencies such as the Technical Planning Secretariat. As noted above, municipal authorities have expressed their concern publically about lack of sufficient planning support from the Central Government. If this Project serves to facilitate better planning and closer cooperation between the Central Government and municipal authorities which lead to a more effectively planned and financed development of the municipalities outside of Asunción, it could contribute significantly both to more balanced development and to a more equitable distribution of the national income.

As part of the Project, IDM will have the important task of selecting developed and emerging regional development centers with which to work. These centers constitute focal points for the growth of surrounding clusters of municipalities. The decisions made in the selection of which regional centers on which to concentrate will be of critical importance to the regional development of the country. In order to make such decisions properly, IDM will need to confer with the National Planning Secretariat and with other agencies concerning plans for the development of infrastructure. IDM also will

have to coordinate with other agencies in the design and implementation of certain types of subprojects. Thus, while IDM will be the spearhead of an effort to plan, design, and finance municipal development, most of the important GOP agencies will in one way or another have to become involved. This process can be expected in time to become of major importance in shaping the country's future economic development.

The productivity of A.I.D.-IDM resources depends largely on the extent to which they act as a catalyst to stimulate local self-help measures. The incentive to mobilize local resources will come from several Project activities. First, the implementation and maintenance of the subprojects will employ underutilized local resources and generate local income. Some multiplier effect will be felt in the local area of the investment. Second, the subprojects in health, education, transport, and other sectors will improve the quality and productivity of local resources. Improvements in the quality and organization of an area's resources are central to the economic growth process. Better educated and healthier people, less expensive and more dependable transportation, power for agroindustrial development, and other subproject outputs will cause existing private sector activities to become more efficient and yield greater real income to the community. Potential private sector investments will also become more profitable, thereby increasing the incentive to invest locally.

Efforts to create effective, broadly-based local development committees will provide a third source of stimulation to the mobilization of local resources. Experience has repeatedly shown the importance of local organization in generating essential local participation in the planning and implementation of subprojects and in developing an awareness of the opportunities that exist to stimulate the development process. Increased democratization of municipal government decision-making will also improve the subproject identification and selection process described below.

Given the variety of types of subprojects and the importance given to mobilizing local resources, the overall economic impact of the Project is impossible to predict with any degree of certainty. However, if successful, it is clear that Project benefits accruing predominantly to the poor will extend considerably beyond the \$7,394,000 directly invested by IDM and the municipalities.

## 2. Economic Impact of Subprojects on the Target Group

The general need for investment in economic and social infrastructure in the small towns and rural areas does not eliminate the need to discriminate among possible subprojects on the basis of their potential economic impact. In the past, IDM has relied upon financial analysis as a proxy for economic analysis. Financial analysis focused on the subproject's ability to generate enough revenue for the borrowing municipality to service its debt. Better measures of the financial viability of subprojects would be the rates of return to equity and to total investment. The latter would closely approximate a test of economic viability for income generating projects.

From an economic perspective, the criterion employed under the first A.I.D. loan that all subprojects be self-financing <sup>1/</sup> has several possible advantages. First, insuring that subprojects generate sufficient revenues to pay for themselves lessens the possibility that the subproject will cause a weakening of the municipal government's financial position and a curtailment of economically important municipal services. Ideally subprojects would generate financial profits so that other municipal services could be expanded. Second, revenue producing subprojects decrease the likelihood of a decapitalization of IDM which would force it to reduce its development functions. Third, financial viability implies that the benefits Paraguayans receive from the subprojects at least equal the financial costs. In the absence of important externalities or distortions in factor markets, the financial viability criterion provides reasonable assurance that selected subprojects are economically sound.

There are cases, however, where the use of the self-financing criterion may distort the efficient allocation of municipal resources. To avoid these distortions it is important that IDM and the municipalities have an understanding of the economic and social benefits that may be realized from subprojects which are not self-financing. Municipal subprojects can be self-financing only when the services or goods provided can be successfully marketed or when the municipality has the legal right to impose user taxes (or fees) on those benefiting from the service. This translates to requirements that (a) beneficiaries can be identified, (b) beneficiaries are willing and able to pay, (c) beneficiaries can be denied the service if they refuse to pay, without detriment to the rest of the community, and (d) collection of users' fees do not interfere with efficiency.

Many economically important services traditionally offered by the public sector fail to meet these requirements. For example, municipal activities to prevent or control contagious diseases fail to meet the first requirement. The program might work through early detection and quarantine of sick persons, but the major beneficiaries, those individuals who would have otherwise contracted the disease, cannot be identified and charged. The second requirement - that beneficiaries be willing and able to pay the real costs of the service - cannot be met if the government attempts either to ensure that basic human needs are satisfied or to encourage income redistribution. In Paraguay, to ensure that all citizens have access to potable water, basic education, or minimal shelter, it may be necessary to subsidize to some degree those citizens who have the smallest incomes. The provision of sewage disposal, contagious disease control, hygienic markets, and properly located and hygienic slaughterhouses are examples of services which municipalities must either subsidize or require that its citizens use because individual use has important externalities. Failure of some individual or group to use the service would likely have detrimental effects on others. Finally, city streets often represent a class of subprojects for which charging all users would interfere with

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<sup>1/</sup> Defined here to mean that revenues generated cover all investment and operating costs.

efficiency. Most countries finance city streets through general tax revenues, although in some countries exceptions are made for residential streets constructed exclusively for the benefit of the owners of adjacent property. Paraguay's system of charging the full cost of all municipal street paving and maintenance to the owners of adjacent property creates some economic distortions, but is probably justified in view of the limited revenue generating capacity of the municipalities.

As the financial position of municipalities improves, increasing consideration should be given to these types of economically important services which may not be self-supporting, particularly when provided to low income groups. When user fees do not permit the extension of a basic service to target group residents, economic analysis can assist the municipalities to determine whether the subproject should be carried out. Technical Assistance will be provided to IDM's staff in order that it will have the necessary skills to conduct such analysis.

The economic analysis of subprojects will need to identify and to the extent possible quantify all benefits to the community. It will also take into account the possible benefits or costs that might spill-over into neighboring communities and the possible benefits that would accrue from a multi-municipality or regional subproject. Because of the limited financial base of the municipalities, emphasis will be given in the analysis to consideration of alternative pricing schemes and financial terms that would permit the subproject to have the broadest possible economic impact without depleting normal municipal revenues. For example, the high installation costs associated with water, sewerage, and electricity subprojects have traditionally been charged at the time of connection. To permit target group members to participate, installation fees could be reduced to a nominal level sufficient only to demonstrate the good intent of the household. Monthly fees would then need to be raised, preferably with a progressive rate structure based on level of use, so that all costs could be amortized. In other cases IDM may need to give lower interest rates and longer amortization periods to encourage municipalities to undertake high impact, nonrevenue generating subprojects such as schools and health posts.

In short, taking the above into consideration, the design of the Project and the procedures to be followed during implementation provide reasonable assurance that the Project will produce substantial economic benefits to the poor majority target group.

#### IV. IMPLEMENTATION ARRANGEMENTS

##### A. Institutional Analysis

As indicated earlier, the changes in strategy that differentiate this Project from the previous loan to IDM are that (1) all subprojects will have to meet specific criteria to assure that they will impact directly on the needy and (2) IDM will institutionalize a capacity within its own organization and at the local level to plan the distribution of municipal investment so that the lifestyle of the poor is improved. For the most part the present organizational structure and staffing of IDM are adequate to implement this Project. Certain minor changes will be necessary to redirect the organization to implement the new strategy. A description follows of the present organization and the modifications that will be made.

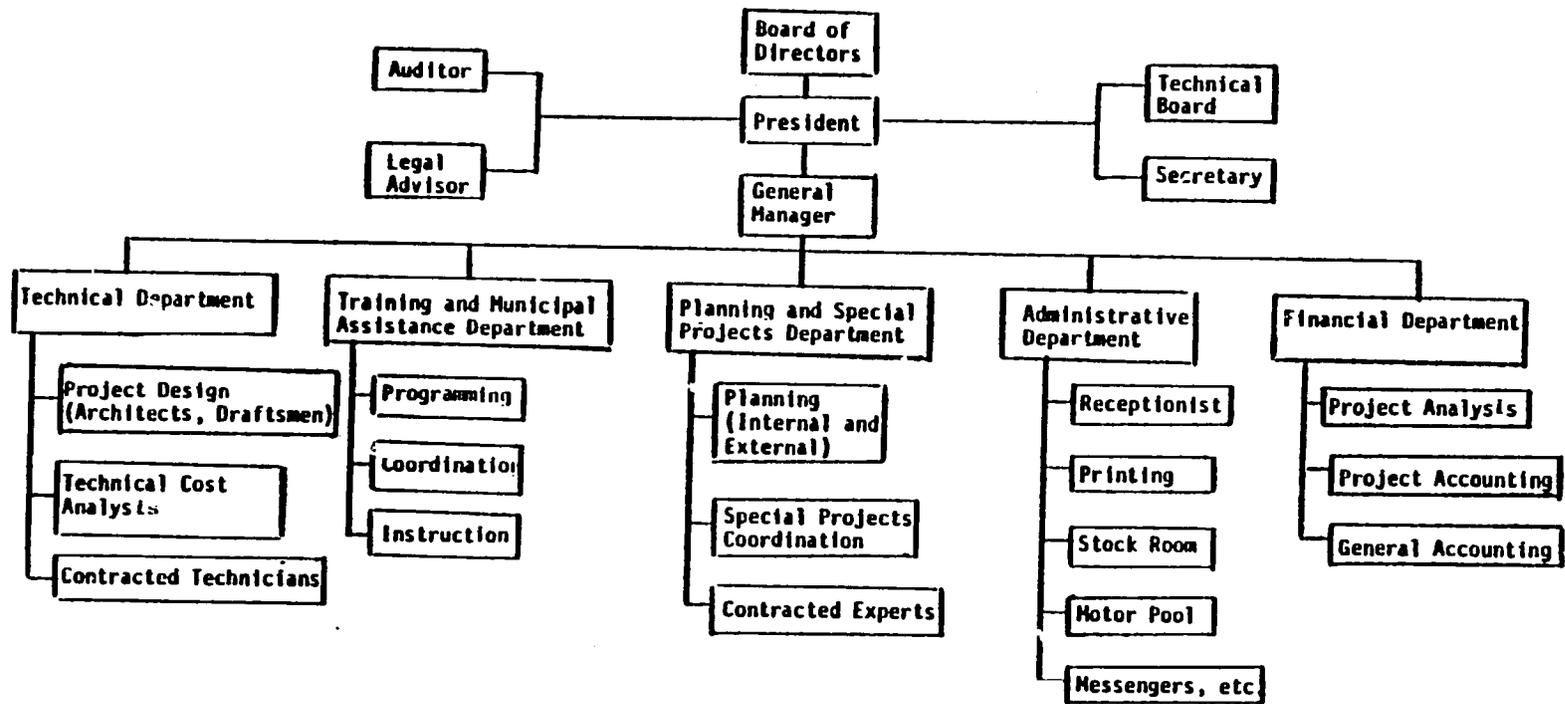
IDM until recently has had four departments: The Training and Municipal Assistance Department, the Technical Department, the Administrative Department, and the Financial Department. IDM recently formed a new Planning and Special Projects Department, specifically for administering the proposed Project.

The department chiefs report to a General Manager, who in turn is responsible to a salaried President. The President and three outside persons make up the Board of Directors. One member of the Board is named by the Minister of the Interior and the other two by OPACI. The President is chosen by the Minister of the Interior and formally named by the President of the Republic. The Board has the right to hire, promote, and remove the General Manager and all other employees (see chart on next page).

The management of IDM is adequate for an expanded operation. The Board of Directors meets once a week for an entire morning and takes an active role in decision-making. Two of the present Board members have long experience as former municipal mayors. The President is an extremely capable man, a former mayor of Concepción. He works full-time with IDM and meets at least weekly with the Technical Board, composed of the General Manager and all department chiefs. The General Manager is a man with long experience at OPACI. Also as part of management are an Auditor and a Legal Advisor, the latter part-time. The Auditor studies ongoing subprojects, but is beginning to spend more time giving auditing assistance to individual municipalities. As this role expands, IDM will likely hire another auditor. The Legal Advisor primarily assists IDM; municipalities can obtain legal assistance from OPACI.

The Technical Department has seven professionals. During the past year this department planned over 120 subprojects. It also devoted part of its time to preparing technical models for various recurring types of subprojects. During the four year Project period about the same number of subprojects will be processed annually as were processed during 1977, though the average size will be larger. Given that the department now is armed with a considerable number of models and has considerable experience in subproject design, it is expected to be able to design virtually all the

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subprojects expected during the Project period with no increase in number of personnel. For new types of subprojects in which it does not have sufficient expertise (e.g., port design), it will contract appropriate technical experts. Since it is generally difficult in Paraguay to eliminate a position or discharge a person once hired, the Technical Department does not want to add any new type of expert until finding that it is contracting enough of a given expertise that it would definitely be less expensive in the long run to hire such an individual.

The Training and Municipal Assistance Department consists of four full-time persons. It coordinates with municipalities to determine individual or collective needs. It then programs appropriate training, which it usually gives in the field. For large types of courses, it generally taps persons from other departments of IDM or from the outside to be instructors. For example, it recently held a series of three day courses in 15 different parts of the country to teach municipal officials how to administer the new Municipal Tax Law. Instructors were from both the Training and Municipal Assistance Department and the Financial Department. The Training and Municipal Assistance Department has developed considerable expertise in training municipal officials to budget, keep books, collect revenues, and do simple planning. Though its work is not subproject specific, its tasks will grow at a moderate rate as IDM's total effort increases. It is expected to add one employee early during the Project and add others slowly over the next several years.

The Financial Department separated itself from the Administrative Department in late 1976. It has certain tasks which are subproject specific, such as subproject analysis and subproject accounting, and has others which will grow as IDM as a whole grows, such as general accounting. It now has eight persons and is expected to increase slowly in size over the next several years.

The Administrative Department takes care of printing, office supplies, the receptionist, messengers, transportation, and other such support functions for the smooth operation of IDM. With its subsections well organized and a full-time staff of seven, it is not expected to have to grow over the next several years except for contracting part-time help paid by the hour.

The main focus for the efforts under the Project will be in the new Planning and Special Projects Department. This department, proposed in June 1977 and officially put into operation in November, is expected to have three tasks. One is to assist IDM management with internal planning. Second is to work with municipal governments and local development committees on local planning, which is an essential part of the Project. Third is to work with GOP, other local, and international institutions on new types of programs which eventually can be incorporated into IDM. A Department Chief recently was named, the former head of the Technical Department. An eventual staff of three professionals and a secretary is planned. The Department Chief will be trained in spatial planning and local-national urban-rural linkages. He will also be trained in project design to assure

that the subprojects affect the needy. The second professional position will require a development economist with experience at the local level and who has a statistical/survey administration background. The third professional position will require a rural sociologist/community development specialist with experience in group and organization dynamics, who will help organize and assist local development committees. The technical assistance advisors contracted under the Project will work with the Planning and Special Projects Department.

The redirection of IDM will also be reflected in the Training and Municipal Assistance Department, which will add one full-time professional to give IDM a training and technical assistance capacity in such areas as community development, spatial planning, rural sociology, development administration, and economics. He will have access to other IDM staff, particularly those in the Planning and Special Projects Department, and will work closely with the technical assistance advisors provided under the Project. The main functions of this professional will be to create sensitivity and a capacity in IDM and at the municipal level to identify and design projects which improve the lifestyle of the poor, and to expand the perspective of local government so that it can better organize itself for economic and social development.

In summary, as IDM expands over the next several years, it will need a limited number of new persons, primarily professionals and mid-level technicians:

<u>Department</u>	<u>Needs</u>
Technical	Perhaps one mid-level
Training and Municipal Assistance	One professional and one mid-level
Financial	Two or three mid-level
Administrative	---
Planning and Special Projects	Two professionals and a secretary
Management	Assistant Auditor

IDM will therefore need some three new professionals, some four to five mid-level technicians, and a secretary. Other persons needed, ranging from non-permanent experts to chauffeurs, will be contracted.

Though IDM recognizes it will need additional personnel, approximately as indicated above, it rightly is reluctant to hire them in advance or make firm commitments to hire, for fear of overloading itself with employees it does not need and cannot get rid of. It is proud of the fact that in five years there has been no turnover from the professional ranks and almost no turnover throughout the entire Institute. USAID analysis indicates that IDM is relatively efficient and well organized, with good morale and good utilization of personnel. Therefore IDM and USAID believe it best to use the following approach to insure that IDM will be properly staffed:

- (1) IDM will plan its personnel needs each year. As a condition

precedent to first disbursement under the loan portion of the Project, IDM will have to submit a plan with exact personnel needs for the following year and an estimate for future years. IDM will repeat this procedure to receive loan disbursements during each subsequent year. In addition, IDM's staffing will be an important topic of the annual joint evaluations (see Subsection D. below). If IDM is not sure that it should create a permanent position, it may contract for someone to fill the job until it is sure it should hire or not. In any case, it must show evidence that there are sufficient funds to hire or contract all needed personnel to fulfill the conditions precedent.

(2) IDM will do a certain amount of hiring before the Project begins. Recently IDM hired a professional to head the Technical Department, as the Chief of that department was named Chief of the Planning and Special Projects Department. IDM has also hired two university students to work part-time in the new department gaining experience, with the hope of future employment. IDM's 1978 budget contains provision for new personnel, and IDM will continue to budget each year so it may hire other new personnel as needed. Even if the above analysis proves to be unrealistically low, IDM should be able to finance needed personnel.

(3) IDM will provide budget funds for contracting with persons not needed as full-time staff. The projected budget (Table II) showed this category growing with no negative budget effects.

In short, a combination of judicious permanent hiring, increased use of contractors, and a recurring condition precedent as a control should enable IDM to have an adequate staff to carry out the Project. This, combined with the increased financial resources and the other inputs to be provided under the Project, should bring together all the elements needed for a successful Project.

#### B. Implementation Mechanisms and Roles of IDM and A.I.D.

The primary responsibility for the Project will rest with IDM. The Board of Directors will have policy responsibility, and the Technical Board, composed of the General Manager and the chiefs of the operating departments, will have operating responsibility. As discussed earlier, through training and on-site assistance, IDM will help municipalities identify and prioritize their needs and plan for the future. It will continue to provide the municipalities with training in tax collection, fiscal administration, general administration, and development planning, with an emphasis on the new directions the Project will foster. It will provide auditing services to the municipalities. And it will program, plan, and approve subprojects, administer and supervise the engineering and execution of the subprojects, and establish a maintenance program for each subproject. Under Loan 022, IDM sent monthly reports to USAID on use of funds, disbursements, subloan recuperations, training accomplishments, inspections made, and other relevant information. These reports, with modifications as needed, will be continued under the proposed Project. In addition, IDM will be required to prepare quarterly shipping reports. There will also be annual joint evaluations with USAID as detailed below.

The GOP will supervise implementation of the Project through the Ministry of the Interior, which receives monthly and annual reports from IDM. The Ministry of Finance will be responsible for the fiscal contributions to IDM and the Project.

The municipalities will carry out and be responsible for the individual subprojects. In some cases legally formed associations of municipalities or municipal cooperatives will carry out subprojects. Current procedures for reporting subproject progress to IDM will be continued, with modifications as needed. Such reporting is and will continue to be a condition of every subloan agreement. IDM will also continue a program of subproject inspections implemented under Loan 022, which uses a form designed jointly by IDM and USAID. The reports from the municipalities and from IDM's inspections will also be utilized in the evaluations as discussed in detail below.

The USAID Capital Development Office will monitor the Project, including day to day coordination with IDM and with the technical advisors. It will assist IDM in contracting and with procurement under the loan part of the Project, and will conduct contracting and procurement under the grant.

Under Loan 022, prior USAID approval of subloans over one million guaraníes (slightly under \$8,000) was required. In addition, USAID was required to approve municipal bidding procedures on subloans of the same size before IDM could disburse funds. In other words, the procedure was: IDM and the municipality did a feasibility study/plan of a subproject, USAID had to approve it, the municipality called for bids and selected a contractor, USAID had to approve that, and only then could IDM disburse funds. USAID believes that less strict monitoring arrangements are needed as far as the technical aspects of subloans are concerned. Nonetheless, USAID is concerned about IDM's understanding and strict observance of the subproject selection criteria on target group impact, particularly during the early stages of the Project. USAID will therefore require prior approval on all Project funded subprojects during the first year of implementation. Thereafter it is expected that prior USAID approval will be required only for subloans over four million guaraníes (about \$31,000), for any subloan to a municipality having a total of more than \$200,000 equivalent in IDM subloans, and for any subloan to a group of municipalities. Nonetheless, USAID will visit IDM on a regular monthly basis to review a sample of subloans to insure that proper subproject selection criteria are being used. If USAID believes that more or less strict monitoring procedures are warranted, it will establish them through implementation letters.

A review of USAID's monitoring workload under Loan 022 and of problems thus dealt with shows that reviewing municipal bidding procedures was more burdensome than original subproject approval. Under Loan 022, a municipality with a subloan under one million guaraníes was allowed to use whatever means it wished to get the work done. For a subloan between one and two million guaraníes, it was allowed to use a procedure under which the municipality could contact prospective contractors to obtain at least three bids. Above two million guaraníes (slightly over \$15,000), a municipality was required to use formal call for bid procedures. This involved

publishing a call for bids and going through a strict selection process. If at least three bids were not received, a second call had to be made. There is no doubt that formal bidding procedures normally bring lower cost construction contracts than would be obtained through procedures otherwise used in Paraguay, and the fact that they were enforced under Loan 022 was a definite benefit to the municipalities. Nonetheless, in certain cases such requirements caused problems and delays which made them counterproductive. This generally occurred with small subloans (from one to perhaps four million guaraníes) in smaller, rather isolated municipalities, where it was difficult to find three bidders and even more difficult to find more than one qualified bidder. Since these cases can normally be predicted in advance, it is suggested that IDM be allowed to decide in advance for all subloans between one and four million guaraníes whether formal call for bid or the informal requesting bid procedures are to be used, and state the rationale in each subloan paper. In cases where formal bidding procedures would appear to be workable, they will be expected to be used. USAID will review the decisions made and the rationales during its review for approval or its monthly review of sample subproject documents. If USAID believes this system is being abused or otherwise not working effectively, it has the right to change the size limits in implementation letters. For subloans over four million guaraníes, it is expected that formal bidding procedures will be used, but IDM may request a waiver from USAID for exceptional circumstances. Unless later changed by implementation letter, USAID approval will be required on the bidding procedures or other arrangements used for all subloans of over four million guaraníes.

Generally, subloans call for 100% local currency disbursement. IDM and A.I.D. funds will be disbursed for subprojects on a pari passu basis of 20% and 80%. As under Loan 022, funds are expected to be advanced to IDM to cover approximately three months' needs, and proper invoices will be charged against the advance when received. With IDM expected to finance some different and larger scale subprojects, imported equipment or services may on occasion be required. These will be obtained in accordance with A.I.D. procurement and financing procedures. There will be a recurring condition precedent each year requiring payment of all GOP contributions due IDM before any new funds may be disbursed.

### C. Time Phased Implementation Plan

Annex I, Exhibit B. presents a Critical Performance Indicator (CPI) Network for the Project, based on USAID's most realistic estimates of implementation timing. The Network estimates AID/W Authorization of the Project by February 15, 1978. The Project Agreement is expected to be signed four months later. As with all loans to Paraguay, ratification of the Project Agreement by the Paraguayan Congress will be required before the legal opinion, which is a standard condition precedent to first disbursement of loan funds, can be rendered. This procedure generally takes about six months; hence it is not realistic to expect the conditions precedent to first disbursement under the loan portion to be met before December 15, 1978. Nevertheless, a number of actions can be taken in regard to the grant funds before that time. Within a month after Authorization, PIO/Ts will be written for

the two long-term technical assistance advisors, and the PIO/Ts will be issued as soon as the Project Agreement is signed. The first advisor is expected to be on board before the conditions precedent to first disbursement of loan funds are met.

From that point on, the CPI Network takes several interrelated paths. One leads to the courses to be given to municipal officials to instruct them in the new impact targeting and in the rudiments of planning theory. Another leads to the subprojects financed and set dates for loan disbursement targets. Another leads to when the second advisor is on board and to when the techniques to be used to define planning areas are designed. It then sets dates for IDM's working with development committees. A fourth path leads to full staffing of the Planning and Special Projects Department, and sets target dates for meeting the recurrent conditions precedent to loan disbursement. A fifth leads to the municipal congresses and the annual evaluations.

#### D. Evaluation Plan

IDM and USAID will hold joint annual evaluations. The following will be evaluated:

(1) The output indicators will be examined to determine if IDM is making satisfactory progress in implementing the Project. All output data can be obtained directly and easily from IDM's records. If there are indicators for which less than satisfactory progress is taking place, an attempt will be made to determine the causative factors and develop a plan to rectify them. Causative factors for indicators for which excellent progress is being made will be identified if possible and noted to AID/W for possible use in other programs.

(2) Inputs will be examined to make sure that they are satisfactory in quantity and quality for Project success. This will include an analysis of the technical assistance IDM is receiving and a close look at whether all GOP contributions are being received.

(3) Implementation arrangements will be studied each year to make sure they are proper. Particular attention will be given to IDM's staffing to assure that it is adequate in numbers, quality, and organizational arrangement. Recommendations from this analysis will be used to determine how the recurring condition precedent to disbursement will be fulfilled. Attention will also be given to USAID's monitoring role and to whether the limits for subproject approval and bidding arrangements approval are satisfactory.

(4) An analysis will be done of several purpose level factors to determine if satisfactory progress is being made toward the conditions expected at the end of the Project. Specifically, IDM's financial status will be analyzed, using the records of its own accounting staff and the reports of its outside auditors, to make sure it is on the road to self-sufficiency. A look will be taken at the progress of IDM and the municipalities in achieving proper targeting for subprojects, taking as indicators

the submission and implementation of target group impact subprojects. Finally, IDM's progress in dealing with the municipal officials and development committees on planning will be examined, using IDM's records and the reports of the long-term technical advisors. The technical advisors will also report on IDM's capabilities to carry out the two new directions it will be involved in under the Project.

(5) An analysis will be done to determine progress toward contributing to the goal. USAID will select a small sample of completed subprojects each year, perhaps two or three, for intense study. Comparison will be made of what the subprojects were expected to accomplish as regards productivity, income, and other impacts on the target group, as expressed in the subproject selection criteria, versus what actually occurred. The process will involve field visits to the sites, collection of all relevant data available, and interviews with various persons in the community. If possible, one of the subprojects selected each year will be from an area which has a development committee with which IDM has worked on planning, and if possible will be a subproject carried out by a group of municipalities.

As a condition precedent to first disbursement, IDM will be required to submit a detailed evaluation plan, describing how the above is to be carried out. It is expected that the evaluations will take approximately two weeks to carry out, involving an officer from USAID's Capital Development Office, a local assistant, USAID's Evaluation Officer, and the Chief of IDM's Planning and Special Projects Department. Both IDM and USAID will pay for the expenses incurred out of their respective operating budgets, unless special expertise is needed, which can be financed from the grant. Twice during the Project, IDM will sponsor municipal congresses, which will provide forums to obtain feedback from municipal leaders. These may be financed from loan funds.

AID 1020-28 (7-71)  
SUPPLEMENT 1

Annex I, Exhibit A  
**PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK**

Project Title & Number: Market Town. Development 526-0112

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:  
From FY 1978 to FY 1982  
Total U.S. Funding \$5,800,000  
Date Prepared: JANUARY 3, 1978

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>Increase the income and well-being of the rural poor target group.</p>	<p>Measures of Goal Achievement:</p> <p>That each subproject undertaken fulfills the specific target group impact objectives spelled out for it.</p>	<p>USAID and IDM will select a sample of completed subprojects each year and will compare what the subprojects accomplished as regards productivity, income, and other impacts on the target group with what was expected as expressed in the selection criteria.</p>	<p>Assumptions for achieving goal targets:</p>

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project:  
From FY 1978 to FY 1982  
Total U.S. Funding \$2,800,000  
Date Prepared: January 3, 1978

Project Title & Number: Market Town Development 526-0112

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose:</p> <ol style="list-style-type: none"> <li>Develop the capability of the Municipal Development Institute (IMI) and of municipalities (individually and in groups) to provide the services needed by the rural poor.</li> <li>Develop a planning capacity on the local (service area) level to identify and prioritize the needed services. This includes development of capacities within IMI to identify service areas and to assist development committees representative of such areas.</li> </ol>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> <li>151 subprojects with target group impact undertaken.</li> <li>10 of the above subprojects undertaken by groupings of municipalities.</li> <li>IMI with trained staff to instruct municipal officials in benefits of undertaking target group impact subprojects and to evaluate subprojects for target group impact.</li> <li>IMI functioning with expenses covered by revenues without eating into capital and with a net capital position of at least \$3 million.</li> </ol> <ol style="list-style-type: none"> <li>IMI having studied, using spatial theory, entire area of Paraguay encompassing municipal districts and identified all rural-urban relationships (service areas).</li> <li>IMI working with 10 development committees in defined service areas, each of which has received training, has identified needs, and has planned to meet the needs.</li> <li>9 subprojects stemming from such planning.</li> <li>IMI with a trained staff to work on local planning, as defined above.</li> </ol>	<p>1a, 1b, 1d, 2b, and 2c from IMI records; 1c, 2a, and 2d from consultants' assessments and joint evaluations.</p>	<p>Assumptions for achieving purpose:</p> <ol style="list-style-type: none"> <li>IMI and municipalities motivated to execute subprojects aimed at target group.</li> <li>Municipalities willing to take on subprojects which require their absorbing part or all of costs out of own revenues.</li> <li>Neighboring municipalities willing to cooperate in joint development activities and IMI able to motivate them to do so.</li> <li>Municipalities willing to establish development committees with broad representation from throughout service areas.</li> </ol>

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AID 1020-28 (7-71)  
SUPPLEMENT IPROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORKLife of Project:  
From FY 1978 to FY 1982  
Total U.S. Funding \$5,800,000  
Date Prepared: January 3, 1978Project Title & Number: Market Town Development 526-0112

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS				MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:					Assumptions for achieving outputs:
	<u>1979</u>	Cumulative by FY				
		<u>1980</u>	<u>1981</u>	<u>1982</u>		
1. Municipal officials trained in development of impact subprojects, and in basic spatial theory.	340	340	680	680	All output indicators can be obtained from IDM records, which will be maintained in such a way that this information will be available on a monthly basis.	1. IDM able to obtain and retain needed staff. 2. There will continue to be co-operation between IDM and the GOP agencies responsible for various types of activities (e.g., water, electricity, road maintenance). 3. IDM able and willing to offer more attractive terms for certain high social impact subprojects.
2. Municipalities represented.	170	170	170	170		
3. Impact subprojects financed.	25	65	111	151		
4. Municipalities with impact sub-projects.	25	58	80	100		
5. Joint subprojects financed.	1	3	6	10		
6. Municipalities involved.	3	8	15	25		
7. Development committees working with IDM.	-	4	8	10		
8. Subprojects stemming from development committees.	-	2	6	9		
9. Person-weeks formal training for IDM personnel.	50	100	150	200		

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Project Title & Number: Market Town Development 526-0112

Life of Project:  
From FY 1978 to FY 1982  
Total U.S. Funding: \$5,800,000  
Date Prepared: January 3, 1978

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS					MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS	
	Implementation Target (Type and Quantity)							
Inputs:	1979*	1980	by FY		Total		Assumptions for providing inputs:	
			1981	1982				
1. AID grant funds (to give IDM capacity to carry out the two project purposes):						USAID/IDM records	GOP continues to make available \$150,000 annual support to IDM from national budget plus all revenues due IDM from tax sources.	
A. Long-term TA advisors	120	120	80	-	320			
B. Short-term TA advisors	90	80	70	40	280			
C. Participant training	50	60	35	10	155			
D. Courses, surveys, other	10	3	2	-	15			
E. Vehicles, equipment	22	-	-	-	22			
2. AID loan funds (to provide financial support for the above and general support for IDM):								
A. Subproject fund	773	1,286	1,490	1,301	4,850			
B. Vehicles, equipment, and building	50	25	15	10	100			
C. Technical assistance	10	15	20	5	50			
3. Counterpart:								
A. As part of subproject fund	193	322	373	375	1,213			
B. Incremental operating expenses	151	117	150	183	601			
C. Local contribution to sub-projects	212	353	409	357	1,331			
	*63 in GOP incremental operating expenses, 22 in vehicles and equipment under A.I.D. grant, and 10 of short-term TA advisors under grant will actually be incurred during FY 78.							

Country	Project No.	Project Title	Date	(X) Original	Approved
Paraguay	526-0112	Market Town Development	Dec.13,1977	( ) Revision #	
<b>PROJECT PURPOSE (FROM PID FACESHEET)</b>					
<p>1. Develop the capability of IDM and the municipalities (individually and in groups) to provide the services needed by the rural poor.</p> <p>2. Develop the capacity on the local (service area) level to identify and prioritize the needed services, including development of capacities within IDM to identify service areas and to assist development committees representative of such areas.</p>			<p>D-1 3/31/79 Second advisor on board.</p> <p>D-2 7/15/79 Data collection finished.</p> <p>D-3 8/31/79 Service areas defined and chosen.</p> <p>D-4 9/30/79 IDM begins working with first four development committees.</p> <p>D-5 7/31/80 IDM begins working with next four development committees.</p> <p>D-6 3/31/81 IDM begins working with next two development committees.</p>		
<b>CPI DESCRIPTION</b>					
<p>A-1 2/15/78 Project authorized.</p> <p>A-2 6/15/78 Project Agreement signed.</p> <p>A-3 12/15/78 Conditions Precedent met.</p>			<p>E-1 10/31/78 IDM Planning and Special Projects Department fully staffed.</p> <p>E-2 10/31/78 IDM trainer on board.</p> <p>E-3 1/31/80 Recurring conditions precedent met.</p> <p>E-4 1/31/81 Recurring conditions precedent met.</p> <p>E-5 1/31/82 Recurring conditions precedent met.</p>		
<p>B-1 3/15/78 PIO/Ts for long-term advisors drafted.</p> <p>B-2 6/15/78 PIO/Ts signed.</p> <p>B-3 11/15/78 First advisor on board.</p> <p>B-4 2/15/79 Courses begun for municipal officials.</p>			<p>F-1 11/15/79 Municipal congress.</p> <p>F-2 1/15/80 PAR sent to AID/W from first evaluation.</p> <p>F-3 1/15/81 PAR sent to AID/W from second evaluation.</p> <p>F-4 11/15/81 Municipal congress.</p> <p>F-5 1/15/82 PAR sent to AID/W from third evaluation.</p>		
<p>C-1 12/31/78 First subprojects sent to USAID.</p> <p>C-2 1/31/79 First disbursement of loan funds.</p> <p>C-3 1/31/80 25% of loan funds disbursed.</p> <p>C-4 12/31/80 50% of loan funds disbursed.</p> <p>C-5 10/15/81 75% of loan funds disbursed.</p> <p>C-6 6/15/82 Loan funds fully disbursed.</p>					



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TAGS:

SUBJECT: MARKET TOWN DEVELOPMENT PP

1. THE SUBJECT PP WAS REVIEWED BY THE DAEC FRIDAY, JULY 22, 1977. THE PROJECT REPRESENTED AN INNOVATIVE ATTEMPT TO UTILIZE IDM FOR SUPPORTING THE MISSION'S RURAL DEVELOPMENT OBJECTIVES AND FOR CREATING IN IDM A REGIONAL PLANNING CAPACITY. HOWEVER, THE DAEC CONCLUDED THAT THE PROJECT REQUIRES ADDITIONAL ANALYSIS PRIOR TO AUTHORIZATION. SPECIFICALLY: (1) THE PP DID NOT ADEQUATELY DEMONSTRATE THAT ALL SUBPROJECTS PROPOSED FOR FINANCING WOULD BENEFIT THE AID TARGET GROUP; (2) THE PROPOSED REGIONAL PLANNING APPROACH WAS NOT FULLY DESCRIBED AND COORDINATED WITH THE MISSION'S FY 78 COMMUNITY BASED RURAL DEVELOPMENT GRANT; (3) NO SYSTEMATIC APPROACH WAS PRESENTED FOR SELECTING THOSE MARKET TOWNS THAT WOULD BE ELIGIBLE FOR ASSISTANCE AND EMERGING REGIONAL CENTERS AND MUNICIPAL GROUPINGS WERE NOT IDENTIFIED OR DEFINED; AND (4) THE PP DID NOT PRESENT AN ADEQUATE SUBPROJECT DEMAND ANALYSIS TO JUSTIFY A 5.0 MILLION DOLS AID LOAN.

2. THE MISSION IS REQUESTED TO ADDRESS THE FOLLOWING SPECIFIC ISSUES AND SUBMIT A REVISED PP FOR FY 78 AUTHORIZATION:

-----A. TARGET GROUP IMPACT AND SUBPROJECT SELECTION CRITERIA: THE REVISED PP SHOULD CLEARLY DEMONSTRATE THAT SUBPROJECTS TO BE FINANCED BY THE LOAN WILL DIRECTLY BENEFIT THE AID TARGET GROUP (AS DEFINED DURING THE RECENT DAP REVIEW -- THE RURAL POOR WITH PER CAPITA INCOMES OF LESS THAN 225 DOLS IN 1973 PRICES).

IN ORDER  
TO DEMONSTRATE SUBPROJECT IMPACT, THE MISSION MAY WANT  
TO CONSIDER UNDERTAKING THE FOLLOWING TYPE OF TWO-STAGE  
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ANALYSIS FOR THE REVISED PP;

----- A REPRESENTATIVE SAMPLE OF SUBPROJECTS FROM EACH CATEGORY OF ACTIVITIES PREVIOUSLY FINANCED BY IDM SHOULD BE EVALUATED SO AS TO IDENTIFY THE DIRECT BENEFITS GENERATED OR THE AID TARGET GROUP. FOR THOSE NEW TYPES OF SUBPROJECTS NOT PREVIOUSLY FINANCED BY IDM (E.G., COLONIZATION PROJECTS), THE MISSION MAY WANT TO EVALUATE SIMILAR ACTIVITIES THAT HAVE BEEN IMPLEMENTED BY OTHER GOP AGENCIES TO DEMONSTRATE THEIR POTENTIAL BENEFITS FOR THE AID TARGET GROUP. FROM THIS EVALUATION THE MISSION SHOULD THEN SELECT FOR LOAN FINANCING THOSE CATEGORIES OF SUBPROJECTS THAT CLEARLY GENERATE THE GREATEST DIRECT BENEFITS FOR THE PARAGUAYAN RURAL POOR. (THE DAEC SERIOUSLY QUESTIONED WHETHER MUNICIPAL STREET PAVING AND OFFICE BUILDINGS WOULD DIRECTLY ASSIST THE AID TARGET GROUP. IT WAS SUGGESTED THAT THESE ACTIVITIES NOT BE ELIGIBLE FOR AID FUNDING UNLESS THE MISSION'S EVALUATION CLEARLY DEMONSTRATES THEIR LINKAGES TO THE RURAL POOR.) A SUMMARY OF THE MISSION'S EVALUATION SHOULD BE PRESENTED IN THE PP ALONG WITH AN ILLUSTRATIVE DESCRIPTION OF HOW REPRESENTATIVE SUBPROJECTS HAVE BENEFITED THE PARAGUAYAN RURAL POOR.

----- IT IS RECOGNIZED THAT ALL INDIVIDUAL SUBPROJECTS WITHIN THOSE CATEGORIES SELECTED THROUGH THE ABOVE EVALUATION MAY NOT DIRECTLY IMPACT ON THE AID TARGET GROUP. THEREFORE, THE MISSION SHOULD DEVELOP WITH IDM A SET OF SUBPROJECT SELECTION CRITERIA THAT WILL ASSURE THAT IN EACH CASE THE SUBPROJECT WILL DIRECTLY IMPACT ON THE RURAL POOR. OF THE SELECTION CRITERIA PREVIOUSLY IN THE PP, ONLY 40 PERCENT WERE RELATED TO TARGET GROUP QUESTIONS. AS PRESENTED, A ZERO SCORE ON THESE QUESTIONS WOULD NOT KEEP A SUBPROJECT FROM ATTAINING THE MINIMUM POINTS NECESSARY TO QUALIFY FOR FINANCING. THUS, A SUBPROJECT COULD BE FINANCED EVEN THOUGH IT DID NOT HAVE SIGNIFICANT TARGET GROUP IMPACT. IN ANTICIPATION OF THIS TYPE OF PROBLEM THE MISSION SHOULD DEVELOP WITH IDM TWO SETS OF CRITERIA: FIRST, THE TARGET GROUP CRITERIA THAT WOULD SERVE AS AN INITIAL FILTER FOR ALL PROPOSED SUBPROJECTS, AND SECOND, TECHNICAL ECONOMIC AND REGIONAL SELECTION CRITERIA. THESE TWO SETS OF CRITERIA SHOULD THEN BE TESTED ON A NUMBER OF SUBPROJECTS SO AS TO INDICATE IN THE PP HOW THEY WILL ENSURE THAT ONLY ACTIVITIES WHICH PRIMARILY BENEFIT THE RURAL POOR TARGET GROUP WILL BE FINANCED BY THE AID LOAN.

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-----B. REGIONAL PLANNING APPROACH: THE DAEC ENCOURAGED THE MISSION TO CONTINUE DEVELOPING THE REGIONAL PLANNING CONCEPT PROPOSED IN THE PP. HOWEVER, THE RELATIONSHIP BETWEEN THIS PROJECT AND THE FY 78 COMMUNITY BASED RURAL DEVELOPMENT GRANT WAS NOT CLEAR. ACTIVITIES OUTLINED IN THE PP (E.G., PROMOTING REGIONAL PLANNING, ESTABLISHING AND TRAINING DEVELOPMENT COMMITTEES, ETC.) APPEAR TO BE SIMILAR TO THOSE ON WHICH THE GRANT PROJECT IS TO FOCUS. MISSION SHOULD REVIEW THE TWO PROJECTS AND CONSIDER WHETHER THEY SHOULD BE COMBINED INTO A SINGLE PROJECT. IN ADDITION, THE MISSION AND IDM, WITH THE ASSISTANCE OF A PROFESSIONAL REGIONAL PLANNER, SHOULD MORE FULLY DESCRIBE AND ANALYZE THE REGIONAL PLANNING FRAMEWORK THAT IS PROPOSED FOR THE PROJECT. THIS SHOULD BE A MAJOR PART OF THE TECHNICAL ANALYSIS IN THE PP. CONCEPTS SUCH AS "EMERGING REGIONAL CENTER", GROUPINGS AND HIERARCHIES OF MUNICIPALITIES SHOULD BE DEFINED AND APPLIED TO THE PARAGUAYAN SITUATION.

-----C. MARKET TOWN SELECTION CRITERIA: THE DAEC QUESTIONED WHETHER ALL MARKET TOWNS SHOULD BE ELIGIBLE FOR ASSISTANCE AND WHETHER MARKET FORCES ALONE SHOULD BE USED TO ALLOCATE LOAN FUNDS. A MORE SYSTEMATIC APPROACH SHOULD BE DEVELOPED IN THE PP FOR IDENTIFYING THOSE MARKET TOWNS TARGETED FOR ASSISTANCE. IT IS EXPECTED THAT A REGIONAL PLANNING ANALYSIS COULD BE USED TO SET PRIORITIES AMONG MARKET TOWNS. LIKEWISE, THE MISSION MAY WANT TO CONSIDER FOCUSING ASSISTANCE IN REGIONS WITH LARGE CONCENTRATIONS OF RURAL POOR OR IN AREAS WHERE THE AID LOAN WOULD COMPLEMENT OTHER MISSION ACTIVITIES. THE REVISED PP SHOULD IDENTIFY MARKET TOWNS ELIGIBLE FOR ASSISTANCE AND PROVIDE THE RATIONALE FOR THEIR SELECTION.

-----D. SUBPROJECT DEMAND ANALYSIS: THE PP DID NOT PRESENT A SUBPROJECT DEMAND ANALYSIS THAT JUSTIFIED A 5.0 MILLION DOLS AID LOAN. AFTER COMPLETING THE ANALYSIS DESCRIBED ABOVE IN (A), (B) AND (C) A SUBPROJECT DEMAND ANALYSIS SHOULD BE DEVELOPED AND PRESENTED IN THE PP. THE DEMAND ANALYSIS SHOULD LIST ILLUSTRATIVE SUBPROJECTS TOTALING SUBSTANTIALLY MORE THAN THE AID LOAN AND SHOULD

BE KEYED TO TARGET GROUP CRITERIA AND TO THE MARKET TOWN SELECTION CRITERIA.

-----E. GOP SUPPORT FOR THE PROJECT: THE DAEC AGREED

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THAT THE LEVEL OF GOP CONTRIBUTION TO THE PROJECT SHOULD BE REVISED TO REFLECT THE ADDED REVENUES COMING TO IDM AS A RESULT OF THE RECENTLY PASSED LAND TAX LAW..

3. TDY ASSISTANCE: AS DISCUSSED WITH MISSION REPRESENTATIVES, A TEAM OF CONSULTANTS MAY BE NECESSARY TO ASSIST WITH THE EVALUATIONS AND SPECIAL STUDIES REQUESTED IN PARAGRAPHS (A), (B), AND (C) ABOVE. AID/W IS ATTEMPTING TO IDENTIFY THE FOLLOWING TYPES OF CONSULTANTS TO WORK WITH IDM AND THE MISSION: (I) EXPERIENCED PERSONNEL INCLUDING A SOCIOLOGIST/ANTHROPOLOGIST TO ASSIST THE MISSION DEVELOP A METHODOLOGY FOR EVALUATING THE IMPACT OF POTENTIAL SUBPROJECTS ON THE AID TARGET GROUP AND FOR IMPLEMENTING THE PROPOSED EVALUATION; (II) A RURAL REGIONAL PLANNER TO ASSIST THE MISSION AND IDM FURTHER DEVELOP THE REGIONAL PLANNING FRAMEWORK FOR THE PROJECT, IDENTIFY SPECIFIC EMERGING REGIONAL CENTERS AND MUNICIPAL GROUPINGS WITH WHICH THE PROJECT SHOULD WORK, AND ESTABLISH PRIORITIES FOR THE USE OF PROJECT RESOURCES; AND (III) A MUNICIPAL DEVELOPMENT EXPERT AND ECONOMIST/ FINANCIAL ANALYST TO WORK WITH THE MISSION'S PROJECT COMMITTEE IN STRUCTURING THE REVISED PP AND DETERMINING THE ECONOMIC AND FINANCIAL FEASIBILITY OF THE FINAL PROJECT PROPOSAL. WE HAVE CONTACTED SEVERAL IQC FIRMS ABOUT POSSIBILITY OF PROVIDING THIS ASSISTANCE. PROPOSALS (BASED ON SCOPE OF WORK DRAFTED BY CDO HIRSH) ARE EXPECTED IN MID-AUGUST. THEY WILL BE POUCHED FOR MISSION REVIEW, APPROVAL AND FUNDING. VANCE

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STATE 299081

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MIDAC

E.O. 11652: N/A

TAGS:

SUBJECT: DAEC REVIEW - MARKET TOWN DEVELOPMENT LOAN PRP

THE DAEC REVIEWED SUBJECT PRP ON OCTOBER 20 AND AUTHORIZED INTENSIVE REVIEW. THE DAEC REVIEW RESULTED IN THE FOLLOWING GUIDANCE WHICH IS BEING PROVIDED MISSION FOR PREPARATION OF PP:

(1) SUB-PROJECT SELECTION CRITERIA

-----A. GIVEN THE WIDE VARIETY AND VARYING MAGNITUDES OF SUB-PROJECTS TO BE FINANCED AND MUNICIPALITIES LIKELY TO BE INVOLVED, INTENSIVE REVIEW SHOULD OUTLINE SPECIFIC SUB-PROJECT SELECTION CRITERIA WHICH WILL INSURE THAT BENEFIT INCIDENCE IS GREATEST ON TARGET RURAL POPULATION. SUCH CRITERIA MUST CLEARLY DEMONSTRATE THAT SELECTED SUB-PROJECTS IMPACT DIRECTLY ON INCOMES, EMPLOYMENT AND PRODUCTIVITY OF THE RURAL POOR.

-----B. WITHIN SUCH CRITERIA A SYSTEM FOR DETERMINING PRIORITIES MUST BE ESTABLISHED TO GUIDE IDM IN ITS SELECTION OF SUB-PROJECTS TO BE FUNDED. THERE ARE SEVERAL ALTERNATIVE WAYS OF APPROACHING THIS, AND THE MISSION MAY WISH TO CONSIDER EITHER OR BOTH OF THE FOLLOWING: (1) A QUANTITATIVE APPROACH, SUCH AS THAT USED BY USAID/CHILE IN ITS IFICOOP

LOAN (513-T-065) WHICH ESTABLISHED A SYSTEM FOR WEIGHING DIFFERENT INDICATORS AND MINIMUM SCORES BELOW WHICH SUB-PROJECTS WOULD NOT BE ELIGIBLE FOR FINANCING; (2) A QUALITATIVE APPROACH, SUCH AS THAT DESIGNED IN PARAGUAY FY 76 RURAL ENTERPRISES LOAN. AID/W WILL POUCH A COPY OF THE FORMER PAPER TO THE MISSION.

(2) INSTITUTIONAL CAPACITY OF IDM

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-----A. INTENSIVE REVIEW SHOULD EXAMINE IDM'S CURRENT INSTITUTIONAL CAPACITY AND DETERMINE WHAT STAFFING AND RESOURCE INCREASES WILL BE NECESSARY TO INSURE PROJECT EXECUTION SUCCESS IN VIEW OF THE PROJECTED INCREASE IN ITS PRESENT WORKLOAD AND THE ANTICIPATED SHIFT IN ITS OPERATIONAL EMPHASIS FROM WHAT HAS UP TO NOW BEEN A STRICTLY URBAN FOCUS TO AN URBAN-RURAL ORIENTATION. THE ANALYSIS SHOULD FOCUS ON THE TIMING ASPECTS OF STAFF AND RESOURCE BUILD-UP AS THEY RELATE TO THE ANTICIPATED PROJECT IMPLEMENTATION SCHEDULE, IN ORDER THAT RECRUITING EFFORTS, TRAINING NEEDS, AND TECHNICAL AND ADMINISTRATIVE OPERATIONS CAN BE SMOOTHLY COORDINATED.

-----B. INTENSIVE REVIEW SHOULD ANALYZE THE MISSION'S OWN ROLE IN PAST IDM OPERATIONS, PARTICULARLY ITS SUBSTANTIAL INPUT IN SUB-PROJECT REVIEW AND APPROVAL WHICH HAS BEEN CONSIDERED NECESSARY DURING IDM'S FORMATIVE YEARS.

(3) FINANCIAL CAPACITY OF IDM AND PARTICIPATING MUNICIPALITIES

-----A. INTENSIVE REVIEW SHOULD FOCUS ON A DETAILED FINANCIAL ANALYSIS OF IDM TO DETERMINE WHAT LEVEL OF FUNDING WOULD BE MOST CONSISTENT WITH THE TARGET OF ITS EVENTUAL SELF-SUFFICIENCY, INCLUDING AN ANALYSIS OF THE CURRENT TAX BASE FROM WHICH IDM'S SUPPORT IS DERIVED, AND ANTICIPATED INCOME LEVELS UNDER THE EXPECTED NEW LEGISLATION. MISSION SHOULD ALSO FOLLOW PROGRESS OF LEGISLATION, AND DETERMINE AT WHAT POINT PP PREPARATION SHOULD BE CURTAILED IF LEGISLATION NOT PASSED. MISSION SHOULD ALSO DEFINE THE WORK PERFORMED UNDER THE CADASTRAL LOAN AS IT IS RELATED TO THE PROPOSED LOAN, ESPECIALLY IN TERMS OF EXPANSION OF THE MUNICIPAL TAX BASE.

-----B. INTENSIVE REVIEW SHOULD ALSO ANALYZE THE FINANCIAL BASE OF MUNICIPALITIES TO BE SUB-BORROWERS UNDER THE PROJECT. SINCE LOAN 022 SUBLOANS ARE GENERALLY FIRST LOANS TO A GIVEN MUNICIPALITY WHICH MAY BE ELIGIBLE FOR ADDITIONAL SUBLOANS UNDER THE NEW PROJECT, THE DEBT CAPACITY STRUCTURE OF THE MUNICIPAL SYSTEM SHOULD BE

REVIEWED TO DETERMINE WHAT PROBABLE TOTAL SUBLOAN LEVELS WILL BE APPROPRIATE FOR DIFFERENT SIZED MUNICIPALITIES.

(4) PRP PROPOSED IDM AS BORROWER, YET ASUNCION 4391 STATES THAT LOAN WILL PROBABLY BE CHANNLED THROUGH CENTRAL

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BANK. MISSION SHOULD PROVIDE RATIONALE FOR CHANGE IF PART OF FINAL PROJECT DESIGN AND INDICATE HOW IMPLEMENTATION ARRANGEMENTS WILL VARY FROM THOSE OUTLINED IN PRP.

(5) TIMING AND LEVEL OF FUNDING

THE MISSION SHOULD REVIEW THE TIMING PROPOSED FOR PP SUBMISSION AND INFORM AID/W ASAP IF IT FEELS THAT EARLIER SUBMISSION (I.E. FY 77 FUNDING) WOULD SIGNIFICANTLY INCREASE THE PROBABILITIES OF PROJECT SUCCESS BASED UPON THE MOMENTUM ALREADY ATTAINED BY IDM. AT THE SAME TIME, THE FINANCIAL ANALYSIS (REF PARA 3) SHOULD INDICATE TO THE MISSION OPTIMAL FUNDING LEVEL THAT WOULD MAXIMIZE THE PROBABILITY OF PROJECT SUCCESS.

(6) BASED ON THE MISSION'S INITIAL ENVIRONMENTAL  
----EXAMINATION, THE AA/LA HAS REACHED A THRESHOLD DECISION  
----FOR THIS PROJECT INDICATING A NEGATIVE DETERMINATION.  
---- ROBINSON

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## SUBPROJECT SELECTION CRITERIA

Every subproject must be analyzed in four ways: for target group impact, for how it serves the developmental objectives of the geographic area involved, for economic-financial viability, and for technical feasibility. These analyses for each subproject will be presented formally in a subproject paper, though IDM will typically want to make informal judgments, perhaps with the advice of USAID, before proceeding to the stage of a formal document. Of all the analyses, the sine qua non is target group impact. Without adequate impact justification, a subproject will be ineligible for financing under the Project, even if it meets the other criteria. The effect of this requirement will be to change drastically the composition of IDM's subloan portfolio and thus the types of new activities the municipalities carry out. Whereas a substantial proportion of the subprojects under the first AID loan was for municipal buildings and street paving, these types of subprojects will be virtually excluded under the Project. Other activities financed under the first loan, such as markets, slaughterhouses, electrification, and water supplies, will be financed under the Project only when they meet more rigorous criteria designed to assure that the benefits accrue primarily to the poor majority.

### 1. Target Group Criteria

In designing these criteria, USAID and IDM have felt it essential that the criteria be both effective and inexpensive to apply. Some trade-offs clearly exist between these two objectives. Effectiveness could be maximized by requiring that IDM conduct studies to identify the specific beneficiaries of each subproject and conduct income surveys of those beneficiaries to establish their status as target group members. USAID might then review each analysis. Such procedures would be unduly expensive given the modest size of most subprojects and the limited technical and financial resources of IDM and of the municipalities. Where no acceptable alternative to an expensive survey exists to assure target group impact, USAID has generally eliminated that type of subproject activity from eligibility for financing under the Project rather than try to impose unrealistic analytical requirements.

In order to simplify the analysis of target group impact of subprojects that affect the total population of urban areas, USAID conducted pilot surveys of the income of families in two municipalities. These studies, described in the Social Analysis Section, showed that the majority of residents can be considered part of the A.I.D. target group. In light of the findings, when the benefits of municipal subprojects can be shown to benefit all residents of these towns in a roughly equal manner, the benefits will accrue predominantly to the A.I.D. target group, and the subproject would be eligible for financing under the Project.

The two towns sampled are considered more developed than most towns in Paraguay, falling 11 and 13 on the Guttman Scale of Development of 68 towns

studied by the consulting team. If additional planned surveys continue to show that half or more of the residents of towns of this level of development fall into the A.I.D. target, then that same percentage of poor can be assumed to be present in other similar towns. Moreover, it will be reasonable to assume that the smaller and poorer towns lower on the development scale have even greater percentages of poor. Subprojects designed to provide municipal services such as water or electricity to almost every household in those towns would thus qualify as providing benefits predominantly to the poor.

Most subprojects will not yield equal benefits to all municipality residents and must therefore be designed to ensure that the poor are the principal beneficiaries. USAID and IDM have agreed upon the following specific criteria for each type of subproject:

a. Slaughterhouses: This type of subproject will be financed only (1) in compañías of small farmers (75% of the farmers working and owning less than 20 hectares) or in towns which are far enough down on the development scale as to indicate that the large majority of the population falls into the target group, (2) where meat sales data indicate that the majority of the meat is consumed by target group members and the majority of the target group members consume meat, and (3) the majority of the cattle slaughtered are provided by small farmers.

b. Markets: This type of subproject will be financed only (1) in towns which already have active markets, (2) where such markets, in addition to meat, sell fruit, vegetable, dairy, and grain products which are brought into the market from surrounding small farms, (3) when the location of the market and a visible observation of its use indicate that it is used by a substantial number of the urban and rural target group population for their purchases, and (4) when the market is designed so as to enhance its use by target group sellers and buyers.

c. Cobblestone Streets: This type of subproject will be financed only when (1) it will solve a specific marketing bottleneck in which impassable streets hinder the production of small farmers from reaching the town market, wholesalers' warehouses, or other marketing facilities (e.g., port), or (2) it serves the poorer sections of towns where there are problems of access, when such poorer sections have home industries or specifically defined potentials for other productive endeavors. In addition, all such subprojects must use the labor intensive cobblestone or paving block methods.

d. Electrification: This type of subproject will be financed only (1) in compañías or in towns or in neighborhoods of towns where the majority of the residents fall into the target group, (2) when the system's grid and generating capacity are designed to cover all sections of the geographic area being served (i.e., an entire urban core, an entire neighborhood, an entire compañía core, an entire colonia), (3) when the installation fees and monthly

use rates are established in such a way that all or virtually all of the residents can participate, and (4) when a survey indicates that at least 75% of the residents will participate.

e. Water Systems: This type of subproject will be financed only (1) in compañías of small farmers, in towns which are not programmed for service by SENASA in the near future (i.e., the poorer towns), or in poorer unserved neighborhoods of towns which already have water systems, (2) when the system is designed in a way to reduce the costs as much as possible for the target group (which may mean providing taps outside the home or multi-family taps when appropriate), (3) when the installation fees and use rates are established in such a way that all or virtually all of the residents can participate, and (4) when a survey indicates that at least 75% of the community or previously unserved population will participate.

f. Bus Terminals: This type of subproject will be financed only (1) when the town has a system of public transportation to the compañías which will use the terminal, in addition to its use by the buses which connect the town to Asunción or other big center, (2) when a simple survey of public transportation use (by occupation, for example) indicates that the majority of users will be target group members, and (3) when the proposed location is such that it will be convenient both for the poorer townspeople and for the small farmers coming into town.

g. Road Equipment: This type of subproject will be financed only (1) where at least half the rural population of the municipal district(s) is composed of small farmers, (2) when a detailed plan of use is presented indicating that at least 60% of the use time of the machinery will be on rural road activities in small farmer areas or on street activities in the poorest parts of the town, as determined by cadastral or Military Geographic Institute maps, and (3) outside the area of the Rural Roads Project.

h. Health Centers: This type of subproject will be financed only (1) in compañías of small farmers, or in towns which are far enough down the development scale as to indicate that the large majority of the population falls into the target group, or in more developed towns where data clearly indicate that the facility primarily serves target group persons, and (2) when (in the case of construction) the Ministry of Health has agreed to provide the needed personnel and medicines or when (in the case of equipping existing centers) the subproject meets with the approval of the Ministry of Health, which agrees to continue the provision of personnel and medicines.

i. Port Improvement: This type of subproject will be financed only (1) when more than half the use of the port will be for shipping the products of small producers and (2) the subproject will bring a demonstrable improvement in the income of small farmers.

j. Sites and Services for Agroindustry: This type of subproject will be financed only when the agroindustry to be established fits the

criteria for target group benefit now being used successfully by the Rural Enterprises Project. Basically, the criteria consist of a series of questions used to determine (1) if the majority of the raw materials of the industry will be supplied by small producers or (if it is an industry producing agricultural inputs) if the majority of the production will be used by small farmers, thereby solving a current constraint, and/or (2) if the agroindustry will create unskilled job opportunities for target group members.

k. Artisan Markets: This type of subproject will be financed only (1) when the producers of the product can be identified as target group members, (2) when the sellers can be identified as target group members, and (3) when it can be demonstrated that the subproject will bring income or other benefits to both the producers and the sellers over current marketing arrangements.

l. Cold Storage, Grain Storage, and Grain Drying Facilities: These types of subprojects will be financed only (1) when a study clearly indicates that over 50% of the use of such facilities will be made by the products of small producers and (2) when it can be clearly demonstrated that such facilities will bring a financial advantage to small producers over alternate available marketing arrangements.

m. School Construction: This type of subproject will be financed only (1) when the schools are in compañías of small farmers and (2) when the Ministry of Education agrees to equip and staff the schools.

n. Vocational Training: This type of subproject will be financed only (1) when it is geared to small farmers, or to unemployed, unskilled, or semiskilled adults, or to youths who have dropped out of school, or to students from lower income families with limited future job prospects, and (2) when the courses are job oriented.

o. Reforestation and Irrigation: These types of subprojects will be financed only (1) when a majority of the beneficiaries will be small farmers and (2) when a majority of the distribution (number of seedlings, volume of water) goes to small farmers.

p. Municipal Vegetable Gardens: Given the social and economic realities of Paraguay, it is difficult to imagine any but target group members participating in this type of subproject. Nonetheless this type of subproject will be financed only (1) when the fees are established at a level and in a manner allowing target group members to participate, (2) when the garden is located conveniently to where target group members live, and (3) when a survey indicates adequate target group participation to justify the subproject.

q. Common Pasture Areas: This type of subproject will be financed only (1) when fees are established which would allow target group members to participate, (2) when the area is located conveniently to where target group members live, and (3) it is clearly demonstrated that at least half of the

cattle to be grazed will belong to target group individuals.

r. Municipal Colonization: This type of subproject will be financed only (1) when over 75% of the farmers to be settled are currently small farmers or otherwise members of the target group and that over 50% of the lands to be settled will go to them, and (2) when the colonists will be assured of receiving clear title to the lands they are settling.

s. Other: All other types of subprojects must also similarly show that the majority of the direct beneficiaries will be target group members, that the majority of the benefits will go to target group members, and/or that the majority of people in a zone or region served will have access to the service provided. USAID will be required to approve any such subprojects.

## 2. Developmental Objectives Criteria

Each subproject paper will analyze how the subproject relates to the municipality in which it will be carried out, how it relates to its wider service area, how it addresses expressed needs, and how it fulfills basic developmental objectives. IDM has expressed interest in quantifying at least part of this in a point system, but for the moment it is presented in narrative form. It is expected that this analysis will become more sophisticated as IDM, the municipalities, and local development committees develop a greater capacity for conducting integrated urban-rural development planning. The specific points to be examined are:

a. The Municipality: This will be a descriptive section upon which the rest of the analysis will be based. It will describe the location, size, population (rural and urban), physical and political facts, principal rural and urban productive activities, and existing infrastructure (national roads, rural roads, other means of transportation, electricity, water, telephone and telegraph, mail service, GOP tax office, police, judiciary presence, elementary and secondary schools, health posts, agricultural extension service, veterinary service, commerce, industry, markets, slaughterhouse, bus terminal, community centers, etc.) for each municipality receiving a subloan.

b. The Larger Service Area: This will describe how the municipality or municipalities relate to a larger service area. As TA causes techniques for analysis to be refined, this section might well describe hierarchical relationships and differing levels of development within a service area.

c. Relationship of the Subproject to Municipal and Service Area Needs: This section is the heart of the analysis, defining the following: (1) how the subproject relates to the development needs of the municipality and to the wider service area (as techniques become more sophisticated, this may include Guttman or other scaling), (2) how the needs to be addressed were identified and prioritized, (3) what is expected to be accomplished by the subproject for the social and economic development of the district or area, and (4) what the linkages are between the subproject and other activities

occurring in the municipal district or wider area. These must make a satisfactory case in order for the subproject to be approved.

### 3. Financial/Economic Criteria

Each subproject paper will analyze the financial implications of the subproject. Each segment of the analysis must be justifiable for the subproject to be approved. The three segments are:

a. **Financial Plan:** This will present the cost of the subproject, the amount of revenues it can be expected to generate, the municipality's contribution, the interest rate and length of the subloan, and the disbursement and repayment schedules. For each item, a rationale should be presented as to why it was decided to do it the way presented instead of alternative ways. For example, in a subproject which is not self-financing under normal interest rates, is it better for IDM to lower its interest rates to, say, 5% to make the subproject self-financing, or for IDM to charge its normal interest rates and the municipality take on part of the cost as a subsidy, or for IDM to lower its interest rates a smaller amount and the municipality to take on a smaller part of the cost.

b. **Municipal Capacity:** This will analyze the financial capacity of the participating municipality or municipalities, taking into account past and projected future budget performance and prior experience with IDM subloans. When a subproject is not self-financing, the analysis must assure that the municipality's debt servicing burden does not exceed the recommended 30% of each year's general revenues.

c. **Mobilization of Local Resources:** This will analyze certain economic effects of the subproject, including employment creation during construction and after completion, an estimate of the increase in local productivity that will accrue, and an estimate of multiplier effects through the local economy. Each subproject must have a positive economic effect, short or long term.

### 4. Technical Criteria

Each subproject must meet certain technical criteria, as follows:

a. **Technical Plans:** Each subproject must have technical specifications approved by IDM. There must be satisfactory justification for each of the following: (1) location of the subproject, (2) the design in regard to the subproject's meeting the needs of the beneficiaries, (3) the design in regard to environmental effects, and (4) a maintenance plan. In addition, a basis for the cost estimates will have to be presented.

b. **Implementation Plan:** Each subproject must have a satisfactory implementation plan, with estimated timing for call for bids and the various phases of the construction work.

c. Municipal Role: Each subproject paper must define the role the municipal government will play and must analyze the capacity for the municipality to carry out the role. Prior experience in carrying out subprojects and training of municipal officials should be considered.

SELECTED MUNICIPAL DATA

Name (by Department)	1972 Population <sup>1/</sup>		1977 Budget Revenues (\$000)2/	IDM Subprojects to Date <sup>3/</sup>
	Urban Core	Compañías		
<u>Concepción</u>				
1. Concepción	20,914	23,750	20,010	C, I, M3
2. Belén	1,214	8,265	798	J
3. Horqueta	4,424	29,238	4,999	A, B, E, G
4. Loreto	1,258	11,457	1,123	D
5. San Lázaro	3,429	2,241	500	
<u>San Pedro</u>				
6. San Pedro de Ycuamandyyú	3,225	23,068	3,406	A, B, I, M2
7. Antequera	1,260	992	610	A, B
8. Felipe Matiauda	NA	NA	585	
9. General Aquino	1,306	17,499	2,178	E
10. Itacurubí del Rosario	2,460	8,549	3,380	A, E
11. Lima	1,097	4,900	563	D
12. Nueva Germania	572	3,982	448	
13. Rosaric	4,169	5,650	3,036	A, D, E
14. San Estebanislao	4,782	7,613	4,269	A, M3
15. Tacuaví	834	1,355	203	A, B
16. Unión	1,295	2,410	474	H
17. 25 de Diciembre	NA	NA	409	
<u>Cordillera</u>				
18. Caacupé	7,224	14,023	7,556	G
19. Altos	1,450	8,969	910	A
20. Arroyos y Esteros	1,259	17,832	5,136	
21. Atyra	1,430	8,215	1,130	
22. Caraguatay	1,433	16,069	1,575	
23. Emboscada	1,223	5,408	644	
24. Eusebio Ayala	4,330	11,163	2,903	C, I
25. Isla Pucú	1,769	7,197	910	A
26. Itacurubí de la Cordillera	1,971	7,678	1,290	
27. Juan de Mena	1,029	3,401	222	
28. Loma Grande	NA	NA	240	
29. Mbocayaty del Yhaguy	NA	NA	575	C
30. Nueva Colombia	153	3,362	281	
31. Piribebuy	4,502	17,256	3,309	F
32. Primero de Marzo	695	6,588	733	B
33. San Bernardino	959	4,656	3,784	D, I
34. Santa Elena	1,426	8,111	864	
35. Tobatí	4,943	9,425	2,081	
36. Valenzuela	1,117	7,952	670	A, B
<u>Guairá</u>				
37. Villarrica	17,995	15,425	16,232	B, C, M3

Guaira (cont)

38.	Borja	395	8,496	597	
39.	Coronel Martínez	2,816	4,534	1,082	
40.	Félix Pérez Cardozo	663	4,791	435	
41.	General Eugenio A. Garay	741	5,987	350	
42.	Independencia	1,043	13,663	2,763	H
43.	Itapé	1,380	5,589	381	A
44.	Iturbe	3,403	5,579	1,229	
45.	José Fassardi	820	3,808	294	
46.	Mauricio José Troche	1,067	3,356	500	
47.	Mbocayaty del Guairá	924	5,330	904	A, B
48.	Natalicio Talavera	1,604	4,208	310	
49.	Numí	938	2,785	274	B
50.	San Salvador	1,404	2,620	277	
51.	Yataity	1,159	2,276	841	A

Caaguazú

52.	Coronel Oviedo	12,885	40,892	10,940	C, MI
53.	Caaguazú	7,900	50,816	12,991	C, L
54.	Carayaó	1,202	7,737	598	
55.	Dr. Cecilio Báez	1,319	6,518	955	
56.	Dr. Juan Manuel Frutos	1,498	12,973	1,748	B
57.	Dr. Juan Ramon Chávez	NA	NA	1,213	
58.	Hugo Stroessner	443	9,711	474	
59.	Repatriación	NA	NA	1,700	A
60.	San Joaquín	1,785	18,857	594	
61.	San José de los Arroyos	3,096	11,966	2,072	B
62.	Yhú	962	12,036	1,596	E

Caazapá

63.	Caazapá	3,128	18,662	1,796	
64.	Abaí	1,527	7,048	300	
65.	Buena Vista	1,345	1,670	225	A
66.	Fulgencio Yegros	1,061	6,776	1,359	E
67.	General Higinio Morínigo	1,240	5,437	359	
68.	Maciel	375	4,515	225	
69.	Moisés S. Bertoni	377	3,232	200	
70.	San Juan Nepomuceno	2,964	15,323	879	
71.	Yuty	2,393	22,366	1,051	A

Itapúa

72.	Encarnación	22,777	18,080	44,121	C, L, M2
73.	Bella Vista	1,415	9,052	1,842	MI
74.	Cambyretá	82	7,226	817	
75.	Capitán Matiauda	728	6,581	720	
76.	Capitán Meza	375	16,703	1,100	MI
77.	Capitán Miranda	584	7,823	1,191	
78.	Carmen del Paraná	1,978	3,814	2,125	
79.	Coronel Bogado	3,968	9,171	2,464	C, MI
80.	Domingo Robledo	NA	NA	1,000	A, D
81.	Fram	1,089	12,919	2,486	MI
82.	General Artigas	3,538	9,485	1,551	A
83.	General Delgado	637	6,183	582	
84.	Hohenau	1,111	3,912	1,947	MI
85.	Jesús	1,490	4,080	630	

Itapúa (cont)

86. José Leandro Oviedo	NA	NA	248	D
87. Obligado	727	5,665	1,702	
88. San Cosme y Damián	727	5,665	355	
89. San Pedro del Paraná	2,721	27,324	3,240	A, E
90. Trinidad	836	3,084	398	

Misiones

91. San Juan Bautista	6,445	5,892	2,444	A, C
92. Ayolas	309	2,315	167	A
93. San Ignacio	6,112	9,791	5,459	C
94. San Miguel	1,024	3,892	377	
95. San Patricio	1,131	1,456	327	A
96. Santa María	794	5,408	337	A
97. Santa Rosa	3,746	14,332	1,000	H
98. Santiago	1,261	4,026	523	A
99. Villa Florida	1,262	60	3,549	
100. Yabebýry	790	2,241	260	

Paraguari

101. Paraguari	4,990	8,734	4,410	B, C
102. Acahay	1,940	14,522	1,939	C
103. Caapucú	1,406	6,362	705	
104. Caballero	1,162	8,231	655	
105. Carapeguá	3,430	23,754	2,862	C, F
106. Escobar	547	6,711	400	
107. La Colmena	1,808	3,245	507	A
108. Mhuypapey	1,561	9,421	419	
109. Parayú	2,698	8,236	1,212	D
110. Quiindy	2,666	13,753	3,402	C
111. Quyquyhó	954	6,894	477	
112. Roque González	1,378	17,987	875	
113. Sapucaí	1,855	6,601	1,178	D
114. Tebicuarymí	177	5,129	NA	
115. Yaguarón	3,386	15,926	2,527	C
116. Ybycuí	1,725	23,842	3,324	B, F
117. Ybytymí	815	7,011	247	

Alto Paraná

118. Fuerte Presidente Stroessner	7,069	19,416	90,147	
119. Dr. Juan León Mallorquín	2,163	8,278	1,660	B
120. Hernandarias	3,896	28,948	14,298	D
121. Itaquyry	1,035	4,682	939	
122. Juan E. O'Leary	1,194	6,877	1,076	A, B
123. Presidente Franco	NA	NA	5,075	D

Central

124. Areguá	3,916	7,286	2,280	G, H, J, K
125. Capiatá	2,811	23,606	5,271	D
126. Fernando de la Mora	NA	NA	9,435	
127. Guarambaré	3,696	3,113	1,453	A
128. Itá	7,069	18,132	7,516	A, B, C
129. Itaiguá	3,762	16,447	3,080	F
130. Lambaré	NA	NA	5,985	

Central (cont)

131. Limpio	2,232	10,535	1,593	A, B
132. Luque	13,945	26,732	18,200	B
133. Mariano Roque Alonso	1,486	5,902	2,058	B
134. Nueva Italia	1,438	4,414	689	
135. Nemby	861	6,038	1,072	
136. San Antonio	4,891	2,430	9,737	C
137. San Lorenzo	11,621	25,190	24,200	H
138. Villa Elisa	609	4,165	1,200	F
139. Villeta	3,164	10,310	3,441	G
140. Ypacaraí	5,211	5,282	2,768	C
141. Ypané	1,488	3,984	461	D

Ñeembucú

142. Pilar	12,462	4,749	9,125	B, C, G, M2
143. Alberdi	2,349	2,102	949	A, B
144. Cerrito	950	4,705	171	
145. Desmochados	551	2,654	169	
146. General José E. Díaz	556	3,475	713	D
147. Guazú Cuá	141	2,811	113	
148. Humaitá	934	1,837	255	D
149. Isla Umbú	237	3,662	276	
150. Laureles	435	4,650	220	D
151. Mayor Martínez	324	4,613	362	
152. Paso de Patria	699	662	247	D
153. San Juan de Ñeembucú	691	5,813	300	
154. Tacuaras	193	3,065	257	
155. Villa Franca	359	981	100	
156. Villalbín	NA	NA	144	
157. Villa Oliva	564	2,845	300	

Amambay

158. Pedro Juan Caballero	21,105	27,597	29,595	C, M3
159. Bella Vista	3,095	3,517	1,321	A
160. Capitán Bado	879	8,918	2,925	A, M2

Canendiyú

161. Saltos del Guairá	NA	NA	8,693	D
162. Corpus Christi	NA	NA	1,032	
163. Curuguaty	1,095	3,219	787	D
164. Ygatimí	384	786	179	
165. Ypejhú	646	2,132	299	

Presidente Hayes

166. Villa Hayes	4,795	26,861	4,313	
167. Benjamin Aceval	2,881	3,902	1,853	A
168. Puerto Pinasco	1,332	11,105	837	

Alto Paraguay

169. Fuerte Olimpo	3,191	2,175	497	E
170. La Victoria	NA	NA	1,372	

Chaco

Nueva Asuncion

Boquerón

Totals	<u>415,534</u> (155 municipalities)	<u>1,466,612</u>	<u>538,687</u> (169 municip.)	<u>138</u> (94 municip.)
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1/ Source: 1972 National Census. Most of the municipalities marked NA have been formed since the Census; generally their population was counted under the compañía category of the contiguous municipalities from which they were formed. From other sources we know the populations of some of these: Repatriación (Caaguazú): 1,215 and 3,410, Domingo Robledo (Itapúa): 1,420 and 2,850, José Leandro Oviedo (Itapúa): 1,516 and 2,570, Presidente Franco (Alto Paraná): 2,500 and 3,500, Lambaré (Central): 6,370 and 26,440, and Saltos del Guairá (Canendiyú): 2,700 and 4,500. Fernando de la Mora (Central) was listed in the Census as having a population of 36,910, but no breakdown was made between urban core and compañías.

2/ Figures are from 1977 budget projections submitted to IDM early in the year. Indications are that these figures will be exceeded due to the success the municipalities are having with the revised Municipal Tax Law. Exchange rate is approximately ₡130.5: US\$1.00.

3/ As of December 1, 1977. Multiple subloans for some subprojects are only counted once. Excludes "Contingency" subloans for a series of small public works. Codes used are as follows:

- A = Slaughterhouse
- B = Market
- C = Street paving
- D = Municipal building
- E = Electrification
- F = Water tank
- G = Bus terminal
- H = Theater/gymnasium
- I = Commercial Store
- J = Swimming facility
- K = Restaurant
- L = Road Grader (IDM/A.I.D. financed)
- M = Road equipment financed under Brazil credit  
 (M1 = grader, M2 = dump truck, M3 = grader and dump truck)

## SERVICE AREA SELECTION METHODOLOGIES

This Annex summarizes a first attempt to define in a logical, scientific manner the relationship of communities in Paraguay to each other and to broader service areas. The task was carried out as part of the work of a three man consultant team from Multinational Agribusiness Systems Incorporated (MASI), which was in Paraguay from November 14 - December 19, 1977 on the development of this Project Paper. This Annex, written by USAID after the departure of the team, is meant to be only a summary; details may be found in documents left at USAID by the team.

The results described below must be viewed only as a first attempt to define levels of development and spatial relationships in Paraguay. Due to time constraints, the MASI team was only able to visit 68 of the 170 municipalities and was only able to gather a part of the data it would have gathered had there been more time. Furthermore, lack of time and lack of previous experience in Paraguay meant that the team admittedly had to make relatively superficial conclusions of the spatial relationships. In spite of these limitations, the work provides a useful base which IDM, particularly with the help of TA experts, can use and build upon in the future as it begins to interject spatial theory into the decision making capabilities of municipal government and local development committees.

The methodologies used fall into two basic types, development scaling and identification of spatial relationships, each described as follows:

### 1. Development Scaling

The team constructed a Guttman scale of development for the 68 municipalities studied and a more rudimentary one for all 170 municipalities. The Guttman scale is a technique based on the theory that within a relatively homogeneous area, services are added to communities in the same sequence - for example, that gas stations precede barber shops. It is recognized that certain exogenous factors may cause specific services to be or not to be present in certain locations; nonetheless, over a large enough area, an overall pattern should emerge.

The scale has several uses. First, it can be used as an historical guide as to what institutions and services have appeared in a community. This measure of the complexity of a town is important when trying to define the spatial relationship of the town to its surrounding areas, as will be discussed in the following subsection. Secondly, it has predictive value of what services should logically appear next in the town. This could be useful to IDM in

determining, given the Paraguayan context, whether a town is "ready" for a certain service, or whether a different one further up the scale might not be more appropriate. Third, the scale can be a measure of progress of various communities over time, and can be used by IDM to measure the effects of subprojects and other development activities.

The team formed its scale by gathering data on the availability of various services. These were gathered from the central offices of various institutions and from site visits, where a questionnaire was administered to municipal officials and to other people of the town. Visual observations made during the site visits were also important. After a one day survey of several towns indicated to the team what types of services might be available in Paraguayan towns, it decided to gather data on 28 services: a plaza, electricity, resident priest, resident doctor, gasoline station, agricultural extension office, IDM subproject, mechanic, tire repair, veterinarian, movie, Peace Corps volunteer, savings cooperative, bank, automatic telephone, paved streets, swimming pool, Lions Club, water system, radio station, commercial airport, soldering shop, office of the hoof and mouth disease control service, locally based transport service, landing strip, development committee, bus terminal, and park. It was found that the last seven items listed did not fit on the Guttman scale. Reasons ranged from unreliable data to geographic conditions necessitating a landing strip. The 21 other items did, however, make up a Guttman scale which tested out at acceptable levels using measures accepted in academic circles (coefficient of reproducibility of .90 and coefficient of scalability of .57). The scale is presented on the following page.

## 2. Identification of Spatial Relationships

The team identified spatial relationships using the Guttman scale and two other types of information. First data were gathered on transportation networks (paved road, cross roads, river port, railroad, air service), on other services distinguishing regional centers (regional education center, regional court), on geographic and political features (on an international frontier, a department capital or not), and on the size of its budget, its population, and several other indicators (24 hour electricity, presence of a development committee). Second, during the site visits questions were asked as to what people from elsewhere use the town for what services and where do people from the town go for various services not available in the town.

	Plaza	Electricity	Resident Priest	Resident Doctor	Gas Station	Ag. Extension Office	IBM Subproject	Mechanic	Tire Repair	Veterinarian	Movie	Peace Corps	Savings Cooy	Bank	Automatic Telegraphs	Paved Streets	Swimming Pool	Lions Club	Water System	Radio Station	Com'l. Airport
Concepción	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Encarnación	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Villarrica	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Puerto Pte. Stroessner	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Caacupé	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Caaguazú	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San Juan Bautista	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Coronel Oviedo	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Hernandarias	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Luque	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Carapegú	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Caragatay	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
General Artigas	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Coronel Bogado	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San Pedro de Y.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San Ignacio	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Horqueta	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Ypacaraí	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Yaguaron	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Capiatá	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San Estanislao	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Paraguarí	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Quindy	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Eusebio Ayala	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Hohenau	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Presidente Franco	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Itacurubí del Rosario	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Caazapa	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Rosario	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Obligado	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Dr. J. L. Mailorquin	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Itacurubí de la Cord.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Dr. J. M. Frutos	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Yuty	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Santa Rosa	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Santa Elena	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Juan O'Leary	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Capitán Miranda	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San José de los Arroy.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Itá	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Itaguaí	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San Pedro del P.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Bella Vista (Itapúa)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
General Delgado	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Carmen del P.	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Capitán Meza	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Isla Rucú	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Fulgencio Yegros	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
General Aquino	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Loreto	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Carayac	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Caapucú	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Villa Florida	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Lima	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Roque González	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Félix Pérez Cardozo	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Antequera	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San Miguel	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Yataity	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Belén	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
San Patricio	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Trinidad	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Cecilio Báez	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Felipe Matiauda	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Itaquyry	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Nueva Germania	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Maciel	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Moisés S. Bertoni	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

The team concluded that four levels of spatial relationships could be identified. The first, developed regional centers, were towns having a position of 21 on the Guttman scale, i.e., providing all services normally provided in Paraguay. Of the 68 towns studied by the team, four fell into this category: Concepción, Encarnación, Puerto Presidente Stroessner, and Villarrica. The second level was tentatively identified as those towns with a position of 17-20 on the scale, of which there are 19. Using the other data, towns were eliminated which were close to Asunción, which could be considered satellite communities of a developed regional center, or which were part of a service area of another town of the same scale of development but for other reasons considered more important. (As an example of the last, General Artigas and Coronel Bogado are side by side on the Guttman scale. Yet other data indicate that Coronel Bogado, which is on the paved Asunción-Encarnación road and which is where a number of agroindustries have recently been established, draws goods from General Artigas. Hence the latter was eliminated from this category in favor of Coronel Bogado.) Eventually seven towns, designated emerging regional centers, were identified: Caaguazú, Carapeguá, Coronel Bogado, Coronel Oviedo, San Estanislao, San Ignacio, and San Pedro de Ycuamandyyú. It can be expected that these towns will develop the additional services needed to serve effectively their regions of influence.

A third category was developed, starting with the seven towns falling at 15 or 16 on the scale. Again, several were eliminated for the same reasons given above (e.g., Rosario was chosen over Itacurubí del Rosario, Presidente Franco was felt to be a satellite city of Puerto Presidente Stroessner). Three were finally chosen: Caazapá, Obligado, and Rosario. These towns are called potential emerging regional centers. Each now serves and influences a defined region, but the level of services offered is still low, and it is possible that another town could usurp its position (e.g., Hohenau over Obligado, Itacurubí del Rosario over Rosario).

Finally, all the other towns can be called local market centers. Each definitely services its surrounding compañías to one degree or another. In many cases, a local market center provides areas beyond its own municipal district with one or more specific services, but it cannot be considered in one of the higher categories until it begins to provide an array of services and generally influence a wider area. Thus, we can see a hierarchy of spatial influences. San Pedro del Paraná, for example, serves its own population and that of its compañías with certain services (for example, it has a resident priest, a doctor, a mechanic, a veterinarian, and a bank). It also certainly interacts with other towns (for example, it surely serves nearby General Artigas with its bank and veterinarian and is served by General Artigas' gas station, agricultural extension office, tire repair, and savings cooperative). It is also within the

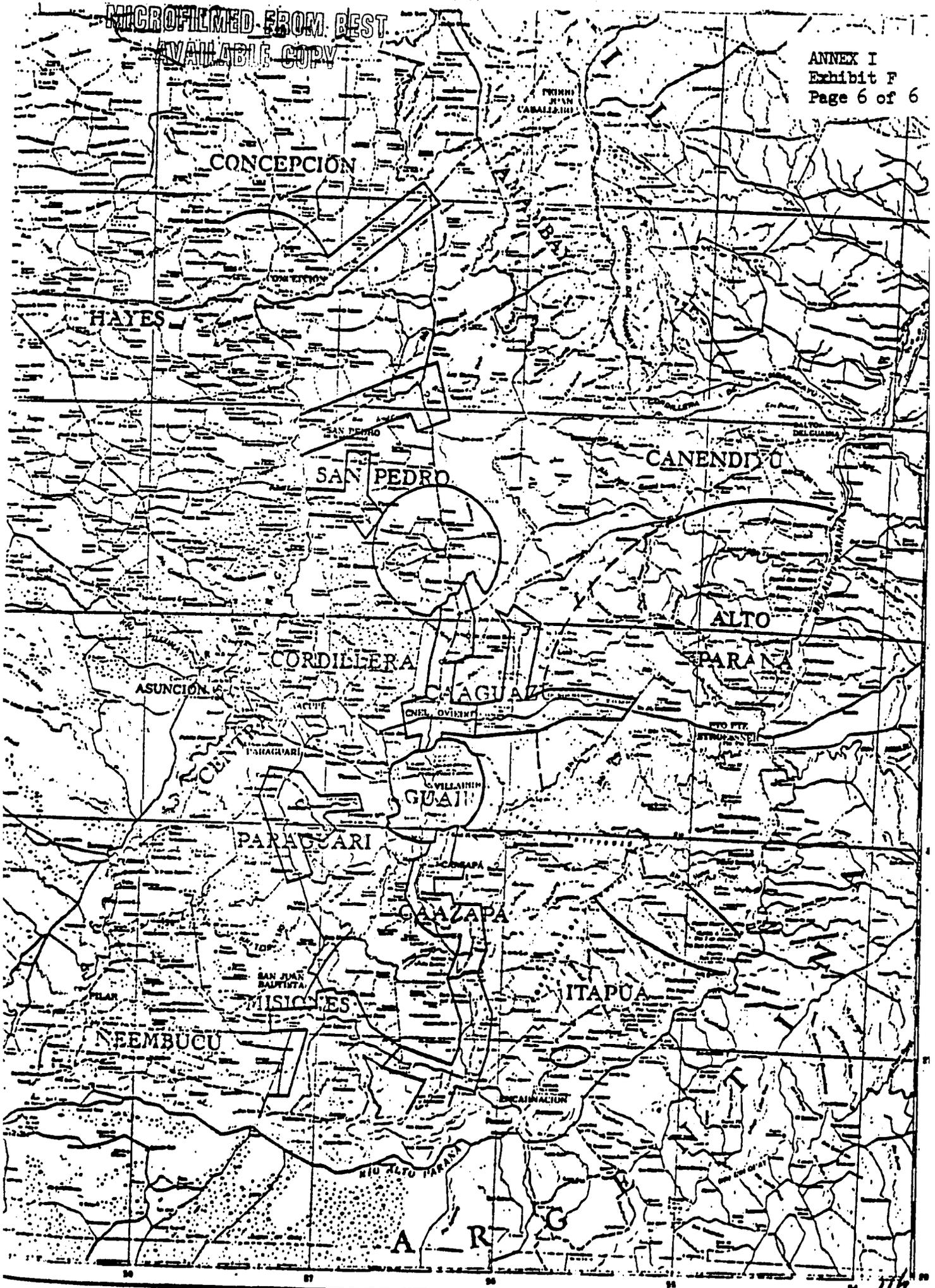
zone of influence of an emerging regional center - Coronel Bogado - to which many of its agricultural products go for processing and which supplies it with yet other services. And finally, it is within the larger zone of influence of Encarnación, through which the agricultural products are exported and which has such services as a radio station and an airport.

The team also noted that there are different patterns of spatial relationships depending on transportation networks, natural barriers, and departmental boundaries. (Though there is no departmental government, it is a unit which the central government uses to provide many of its services; everything from the police to the road committee system is organized on a departmental basis.) Some of the relationships (San Estanislao, Villarrica, Obligado) are circular or nearly so. The majority, however, are linear, following the line of roads and railroads. Finally, two show an irregular pattern and can therefore be called diffused. For example, Encarnación would have a fairly circular zone of influence were it not for the Tebicuary River to the north, which has only a precarious ferry service. Thus Yuty, for example, which is about the same distance by road to Encarnación as it is to Caazapá and which is closer to Encarnación than it is to Villarrica, looks to those other centers for its services. Should a bridge be built, it is expected that Encarnación's zone of influence would expand. In addition, in the northeast section of its zone, Encarnación's zone of influence overlaps with that of Puerto Presidente Stroessner. As that area develops, the distinct zones of influence will probably become better defined. The zones of influence of all 14 developed, emerging, and potential emerging regional centers defined in this study are presented on the map on the following page.

It should be cautioned that this analysis is preliminary at best. It was done quickly and with limited support staff. Nonetheless, for the first time it presents a rational basis on which to identify spatial relationships. As IDM, with appropriate technical assistance, learns to refine the techniques, this type of analysis can serve as a useful tool in helping municipal governments and local development committees identify appropriate development subprojects.

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ANNEX I  
Exhibit F  
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DEMAND ANALYSIS

As explained in Section III.C.2.b. of the text, USAID and IDM conducted a survey December 15, 1977 of municipal officials attending the First National Municipal Congress to obtain an indication of their plans for undertaking subprojects with definite direct benefit impact on the most needy sectors of the population of their districts. The text gives details on the wording and distribution of the questionnaire, which need not be repeated here. The purpose of this Annex is to give more details on the results.

The 124 responding municipalities indicated the need for 391 subprojects in 18 categories listed on the questionnaire. In addition, after discussions with municipal officials, IDM added six additional subprojects in two other categories which were evidently not clearly enough explained in the questionnaire. The 20 categories were then each given cost estimates for each of three sizes of subproject. Each municipality was then placed into one of three size categories based principally on population, size and importance. The individual responses were then costed and tabulated as follows:

<u>Category</u>	<u>No. Subprojects</u>	<u>Estimated Cost per Subproject</u>	<u>Total Cost</u>
<u>Electrification</u>			
1	14	\$ 69,000	\$ 966,000
2	13	24,000	312,000
3	<u>14</u>	18,000	<u>252,000</u>
	41		\$ 1,530,000
<u>Water Supply</u>			
1	19	\$ 115,000	\$ 2,185,000
2	14	100,000	1,400,000
3	<u>11</u>	75,000	<u>825,000</u>
	44		\$ 4,410,000
<u>Cobblestone Paving</u>			
1	33	\$ 100,000	\$ 3,300,000
2	13	75,000	975,000
3	<u>8</u>	50,000	<u>400,000</u>
	54		\$ 4,675,000

<u>Category</u>	<u>No. Subprojects</u>	<u>Estimated Cost per Subproject</u>	<u>Total Cost</u>
<u>Bus Terminals</u>			
1	11	\$ 40,000	\$ 440,000
2	6	16,000	96,000
3	<u>9</u>	8,000	<u>72,000</u>
	26		\$ 608,000
<u>Road Equipment</u>			
1	14	\$ 150,000	\$ 2,100,000
2	13	100,000	1,300,000
3	<u>15</u>	50,000	<u>750,000</u>
	42		\$ 4,150,000
<u>Market Improvement</u>			
1	8	\$ 8,000	\$ 64,000
2	6	4,000	24,000
3	<u>12</u>	2,000	<u>24,000</u>
	26		\$ 112,000
<u>Health Centers</u>			
1	1	\$ 5,000	\$ 5,000
2	6	10,000	60,000
3	<u>14</u>	15,000	<u>210,000</u>
	21		\$ 275,000
<u>Port Improvement</u>			
1	1	\$ 25,000	\$ 25,000
2	1	15,000	15,000
3	<u>2</u>	10,000	<u>20,000</u>
	4		\$ 60,000
<u>Artisan Sales Stalls</u>			
1	8	\$ 2,000	\$ 16,000
2	2	1,500	3,000
3	<u>1</u>	1,000	<u>1,000</u>
	11		\$ 20,000
<u>Cold Storage Facilities</u>			
1	4	\$ 50,000	\$ 200,000
2	3	25,000	75,000
3	<u>3</u>		<u>75,000</u>
	7		\$ 275,000

<u>Category</u>	<u>No. Subprojects</u>	<u>Estimated Cost per Subproject</u>	<u>Total Cost</u>
<u>Vocational Courses</u>			
1	7	\$ 5,000	\$ 35,000
2	6	5,000	30,000
3	<u>10</u>	5,000	<u>50,000</u>
	23		\$ 115,000
<u>Rural School Construction</u>			
1	2	\$ 4,000	\$ 8,000
2	6	3,000	18,000
3	<u>8</u>	2,000	<u>16,000</u>
	16		\$ 42,000
<u>Reforestation</u>			
1			
2	3	\$ 5,000	\$ 15,000
3	<u>3</u>	5,000	<u>15,000</u>
	6		\$ 30,000
<u>Irrigation</u>			
1	1	\$ 25,000	\$ 25,000
2			
3			
	<u>1</u>		<u>\$ 25,000</u>
<u>Municipal Colonization</u>			
1	1	\$ 25,000	\$ 25,000
2	1	25,000	25,000
3	<u>5</u>	25,000	<u>125,000</u>
	7		\$ 175,000
<u>Silos and Grain Dryers</u>			
1	4	\$ 10,000	\$ 40,000
2	6	8,000	48,000
3	<u>4</u>	5,000	<u>20,000</u>
	14		\$ 108,000
<u>Common Grazing Areas</u>			
1			
2	5	\$ 10,000	\$ 50,000
3	<u>6</u>	8,000	<u>48,000</u>
	11		\$ 98,000

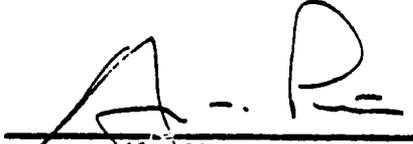
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<u>Category</u>	<u>No. Subprojects</u>	<u>Estimated Cost per Subproject</u>	<u>Total Cost</u>
<u>Slaughterhouses</u>			
1	5	\$ 10,000	\$ 50,000
2	15	8,000	120,000
3	<u>17</u>	6,000	<u>102,000</u>
	37		\$ 272,000
<u>Sites and Services for Agroindustry</u>			
1	1	\$ 8,000	\$ 8,000
2	1	4,000	4,000
3	<u>1</u>	2,000	<u>2,000</u>
	3		\$ 16,000
<u>Municipal Vegetable Gardens</u>			
1	1	\$ 4,000	\$ 4,000
2	1	3,000	3,000
3	<u>1</u>	2,000	<u>2,000</u>
	3		\$ 9,000

The above cost estimates are based on IDM experience and on assumptions in each case. For example, the electrification and water supply sub-projects assume complete town wide systems, including generators or well construction. If subprojects for extension of existing systems into other areas come in, the costs may well be less. On the other hand, school construction assumes the finishing of one rural school in each case. Should a municipality submit a subproject to finish a number of schools, the cost will, of course, be substantially higher. Likewise, a number of sub-project types assume that the municipality already owns the land and just has to do the required improvement (e.g., sites and services for agro-industry, vegetable gardens, common grazing areas). In every case, the cost estimate was made on what the IDM subproject would be, not on what the total cost would be. In short, the estimates are rough and try to be conservative, but should approach reality. For an analysis of the results, see the text (Section III.C.2.b.).

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE  
FOREIGN ASSISTANCE ACT

I, Abe M. Peña, the principal officer of the Agency for International Development in Paraguay, having taken into account among other factors the maintenance and utilization of projects in Paraguay previously financed or assisted by the United States of America, do hereby certify that in my judgment Paraguay has the technical capability and the physical, financial, and human resources to utilize and maintain effectively the proposed loan of five million United States dollars (\$5,000,000) and grant of eight hundred thousand United States dollars (\$800,000) from the Government of the United States of America to the Government of Paraguay for use of the latter's Municipal Development Institute, to conduct a project of rural development known as the Market Town Development Project, financed from Section 103 of the Foreign Assistance Act of 1961 as amended.

  
Abe M. Peña  
Mission Director  
USAID/Paraguay

January 6, 1978

CHECKLIST OF STATUTORY CRITERIA

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?  
**1. Contemplated assistance will directly benefit the needy. Subproject selection criteria have been designed to assure that only subprojects with such benefits will be selected for financing under the Project.**
2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?  
**2. No such determination has been made. Paraguay has an active drug control program, assisted by the DEA.**
3. FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?  
**3. No.**
4. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?  
**4. The Secretary of State has so determined.**
5. FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?  
**5. No such case is known.**
6. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?  
**6. No such action is known to have occurred.**

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7. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos?  
7. Paraguay is not a Communist country. Assistance will not be provided to the countries listed.
  8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?  
8. (a) No. (b) None is known.
  9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?  
9. No.
  10. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?  
10. Paraguay has instituted such program.
  11. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,
    - a. has any deduction required by Fishermen's Protective Act been made?
    - b. has complete denial of assistance been considered by AID Administrator?11. Paraguay has not seized or imposed any penalty or sanction against any U.S. fishing activities.
  12. FAA Sec. 620(q); App. Sec. 504. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default?  
12. (a) Paraguay is not in default as defined in the FAA on any AID loan. It has consistently been one to five months slow in making interest and principal payments. (b) No.
  13. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)  
13. In 1976, 15.6% of the national budget (operating and capital expenditures) was for military expenditures. The 1977 budget estimates 17.5%. In recent years no more than \$2 million a year in foreign exchange has been used to purchase military equipment, none for sophisticated weapons systems.

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14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
14. Paraguay has full diplomatic relations with the United States.
15. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?
15. Except for payments to the ILO, Paraguay is sufficiently up to date in its payments to the U.N. so that it has incurred no sanctions against it.
16. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?
16. No such instance is known.
17. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?
17. No.
18. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.?
18. No. Paraguay has not delivered or received nuclear reprocessing or enrichment equipment, materials, or technology.
19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?
19. No. Paraguayans are free to emigrate.

B. FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria
- a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.
1. a. Yes. See FY 1979 Annual Budget submission for USAID/Paraguay.
- b. FAA Sec. 201(b)(5), (7) & (8); Sec. 208; 211(a)(4), (7). Describe extent to which country is:
- (1) Making appropriate efforts to increase food production and improve means for food storage and distribution.
- (2) Creating a favorable climate for foreign and domestic private enterprise and investment.
- b. (1) Paraguay has active colonization, agricultural extension, and small farmer credit programs all designed to increase food production. It has an international credit for building food storage facilities and encourages cooperative efforts in marketing.
- (2) Laws 550 and 349 create a favorable climate for private enterprise and investment. Foreigners may invest in Paraguay on equal terms with Paraguayans, and the Ministry of Industry and Commerce actively promotes foreign investment.

B1b .

- (3) Increasing the public's role in the developmental process.
  - (4) (a) Allocating available budgetary resources to development.  
(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.
  - (5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press and recognizing the importance of individual freedom, initiative, and private enterprise.
  - (6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.
- c. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?
- d. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs?
2. Security Supporting Assistance Country Criteria
- a. FAA Sec. 519A. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? Is program in accordance with policy of this Section?
  - b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?
  - c. FAA Sec. 604. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Accounts (counterpart) arrangements been made?

(3) The government supports and encourages cooperative activities. The Municipal Development Institute also involves local citizenry in development planning.

(4) (a) Some 48.2% of the 1977 national budget is clearly earmarked for developmental and social expenditures (education, health, agriculture, transport and communications and industry). A substantial part of other categories is for development (e.g. IDM's financing is from the Ministry of the Interior, vocational training is under the Ministry of Justice and Labor) and social services (e.g., the Social Security System).

(b) Diversion of such resources for unnecessary military expenditure and intervention is not believed to have taken place.

(5) The government has an active cadastral and property tax improvement project. Its colonization program has opened up substantial lands to small farmers. Paraguay has basically a free press and allows freedom of expression within clearly defined limits. Its judiciary functions according to law. Private enterprise and initiative are encouraged, and people, with certain exceptions, have basic freedoms. The situation has been essentially stable for some years.

(6) Paraguay has an elected government (executive and legislature) and has formal and informal channels through which the citizenry can express concerns. The government encourages cooperatives and variety of local self-help committees.

c. Yes, for both.

d. No.

2. Not applicable.

GENERAL CRITERIA FOR PROJECT.

1. App. Unnumbered; FAA Sec. 653(b)
    - (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project;
    - (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure plus 10%)?
  2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
  3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?
  4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?
  5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
1. AID/W notified Congress of the project during the first quarter of FY 1977. Project is within country budget for FY 1977.
  2. Technical and financial analyses of the project have been carried out, and Tables IV and V of the PP present a reasonably firm estimate of the cost of the assistance.
  3. The only legislative action necessary is ratification by the Paraguayan Congress of the Loan Agreement. This is expected to be done in a timely fashion, based on past USAID experience.
  4. Not applicable.
  5. Mission Director has so certified. (See Annex II, Exhibit A of PP.)

A.

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multi-lateral project? If so why is project not so executed? Information and conclusion: whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate?
6. Project is not susceptible of execution as part of a regional or multilateral project. The recipient institution does share information with similar institutions in other countries.
7. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
7. The project is expected to encourage the establishment of private industries (item b) and improve marketing arrangements for agriculture (item e). It will support Paraguay's economic development through rural regional development subprojects. Each subproject will involve private contractors. It will not encourage the other items listed.
8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
8. Technical assistance will be provided under the project by US or other Code 941 individuals or firms. Any foreign procurement of goods will be open to U.S. alone or U.S. and Code 941 firms.
9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.
9. Paraguay is contributing approximately \$3.1 million in local currency to the project. The U.S. will be able to provide local currency costs with currencies it already owns, if such is the case.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?
10. No.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

1. a.(a) Project is designed to provide public works and services which will benefit the rural poor, providing increased income generating opportunities at the local level. Investment will only take place in small towns and rural areas. (b) Local development committees will be established under the project and encouraged to identify and prioritize the communities' needs and establish plans of action. The committees will contain representatives of cooperatives and other formal and informal local level institutions.

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b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

- (1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;
- (2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;
- (3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;
- (4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:
  - (a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;
  - (b) to help alleviate energy problem;
  - (c) research into, and evaluation of, economic development processes and techniques;
  - (d) reconstruction after natural or manmade disaster;
  - (e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;
  - (f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

b. Assistance is being made available:

1. (103) for rural development. Project is specifically designed to increase the income of the rural poor, by providing public works and services which will permit increased marketing opportunities, development of off-farm employment, and other opportunities. The project is focussed on rural market towns, with activities benefitting wider districts or regions.

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(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

- c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?
- d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?
- e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.
- f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
- c. Paraguay will contribute approximately \$3.1 million (35.2%) to the project. Approximately \$ 1,064,000 has been assured by recent passage of legislation. Another \$750,000 will be assured by inclusion in the national budget. The remainder will be assured by a provision that individual municipalities must contribute a specified minimum portion of each subproject.
- d. The project will include both loan and grant elements, both to be disbursed over a four year period. The grant will provide needed technical assistance inputs. Justification was made in a December 1977 Congressional notification.
- e. Assistance emphasizes the development of local level development institutions (item 1) It will ease certain marketing constraints to permit increased agricultural production (item 2). It will support improvements in public administration on the local level and in the ability of local level government to plan and meet local and regional developmental needs (item 5). It will considerably ease certain of the tasks women typically perform in Paraguay, to allow them to perform other types of work (item 6).
- f. Project will encourage the formation of development committees on the local level, which will identify, prioritize, and plan for meeting local and regional developmental needs, which local government will carry out. The committees will contain representatives from formal and informal local groups. Experts from throughout the country will be brought to the local areas to assist in the process.

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g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

g. The project gives reasonable promise of contributing to the self-sustaining economic development of rural towns districts, and regions of Paraguay. It is related to a number of development activities sponsored by the GOP, AID, and other lenders. A discussion of these items is given in the PP, which provides information and conclusion on the project's economic and technical soundness.

h. Certain goods and services are expected to be procured from the United States. The project is not expected to have any negative effect on the U.S. balance of payments.

2. a. The project has been discussed with other donors and no financing is available. The project is not of the type to be attractive for private financing.

b. (1) Experience with other loans and future economic prospects for Paraguay indicate excellent capacity for loan repayment. (2) Loan and its terms are reasonable and legal under U.S. and Paraguayan laws.

c. Such application has been received.

d. Yes, PP does so describe.

e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress projects should add the following two items to a project checklist.]

a. FAA Sec. 251(b)(1), -(8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

e. \$4,850,000 will be made available to an intermediate credit institution; the subloans will finance activities to be constructed or otherwise carried out by private enterprises. The remaining \$150,000 of the loan and all of the grant funds will finance goods and services, most or all of which is expected to be procured from private sources.

f. Assistance is not for any productive enterprise which will compete in the U.S. with U.S. enterprise.

3. Not applicable.

4. a. Project supports principles of the Act of Bogota by having as its primary objective the improvement of rural living through provision of local government services to assist the small farmer. It supports the principles of the Charter of Punta del Este by supporting a rapid and equitable economic development in rural areas. Project is one of several similar activities throughout Latin America; interchange of ideas and people among them will support integration of the region. IDM is a member of FINICAM, a regional body.

b. Paraguay has made no attempt to repatriate capital invested in other countries by its citizens since it has had no problem of foreign exchange or flight capital. The loan is consistent with CEPCIES recommendations.

4. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?
  2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?
  3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?
  4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
  5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?
  6. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.
  7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized,
- A. 1. Procurement of goods and services will be advertised to U.S. small business according to AID procurement regulations.
  2. Yes. Such delegation currently allows for procurement from Code 941 countries.
  3. No such instance of discrimination is known to have occurred.
  4. No such procurement is contemplated.
  5. Yes.
  6. USAID will monitor such compliance when applicable.
  7. All the technical assistance to be financed is expected to be furnished in the way so stated.

are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

8. Such provision will be made in contracts and purchase orders.

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million?

B. 1. Project is not a construction project. Construction to occur under subprojects is expected to be simple and within the professional capability of local firms.

2. Contracts for construction to be financed through subprojects will be let on a competitive basis based on requirements established by USAID and discussed in the FP.

3. Not applicable.

C. Other Restrictions

1. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?
3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the U.S.?
4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction?

C. 1. Yes. Interest rates will be as stated.

2. Not applicable.

3. Yes. No such promoting or assisting will be permitted.

4. Motor vehicles will be procured from the U.S.

5. Will arrangements preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or to motivate or coerce persons to practice abortions?

b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property?

c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?

d. FAA Sec. 662. for CIA activities?

e. App. Sec. 103. to pay pensions, etc., for military personnel?

f. App. Sec. 106. to pay U.N. assessments?

g. App. Sec. 107. to carry out provisions of FAA Sections 202(d) and 251(h)? (transfer to multilateral organization for lending).

h. App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress?

5. Yes. None of the items listed will be financed.



MINISTERIO DEL INTERIOR

ASUNCION, 31 de diciembre de 1.977

Nota N° 463.-

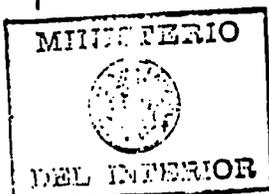
Señor  
Abe M. Peña, Director  
Misión Económica de los Estados Unidos  
de América en el Paraguay  
ASUNCION, PARAGUAY.

SEÑOR DIRECTOR :

En fecha 18 de Junio de 1977, tuve el agrado de dirigirle la Nota N° 240 en la cual solicité, en nombre del Gobierno del Paraguay, un crédito por la suma de U\$S 5.000.000 (Cinco Millones de Dólares Norteamericanos) del Gobierno de los Estados Unidos de América, para uso del Instituto de Desarrollo Municipal (IDM). Entiendo que, desde entonces, tanto el personal de esa Misión como el del IDM, han estado trabajando intensamente para definir los detalles del proyecto, que tendría como miras lograr un mejor desarrollo de la capacidad del IDM y de las municipalidades - individualmente y en grupos - para proveer los servicios necesarios a los sectores con menos recursos tanto del área rural como de la población urbana. El proyecto encargaría también el desarrollo de la capacidad de planificación al nivel local en lo referente a la identificación de aquellos servicios a proveer.

Teniendo en cuenta que los objetivos del proyecto que nos ocupa se han expandido en cierta medida, por lo que va a ser necesaria la concurrencia de una combinación de insumos un tanto diferente, quiero señalarle que el propósito de esta nota es el de solicitar sea modificada la estructura del proyecto en relación a esos insumos. En otros términos, mi solicitud previa del préstamo de U\$S 5.000.000 queda en pie. De esta suma, he aquí la modificación: U\$S 4.850.000 son para ser utilizados para financiar sub-proyectos municipales que satisfagan ciertos criterios que beneficien al sector menos favorecido; U\$S 100.000 para la adquisición de vehículos y equipos para uso del IDM, así

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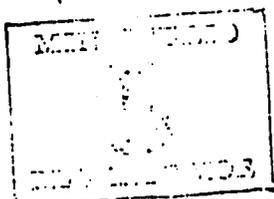


MINISTERIO DEL INTERIOR

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/- como para la remodelación y ampliación del nuevo local de la Institución; y U\$S 50.000 para sufragar costos de la asistencia técnica de varios tipos al IDM. En adición a todo esto, solicito también la suma de U\$S 800.000 en carácter de fondos no reembolsables, de cuya suma unos U\$S 320.000 serán utilizados para pagar los servicios de dos expertos a largo plazo que tendrán a su cargo proporcionar asistencia técnica al IDM en técnicas de planificación regional y de desarrollo de la comunidad; unos U\$S 288.000 serán destinados para pagar los servicios de varios expertos a corto plazo que trabajarán en una variedad de campos técnicos, conforme sean ellos necesarios; U\$S 155.000 para cubrir los costos de adiestramiento, en su mayoría en el exterior, para el personal del IDM, y, en alguna medida, de líderes al nivel local; U\$S 22.000 para la adquisición de dos vehículos y ciertos equipos para el IDM; y, por último, U\$S 15.000 para cursos de adiestramiento para funcionarios municipales y líderes de las juntas de desarrollo locales. En este respecto, pido que las cantidades de estas categorías sean flexibles, de manera que se pueda dar una óptima combinación de asistencia técnica a lo largo de la vida del proyecto.

En relación a las contribuciones para contrapartidas, y conforme ya lo indiqué en mi nota anterior, ellas provendrán tanto de parte del Gobierno Nacional como de las municipalidades. El primero continuará destinando U\$S 150.000 en sus presupuestos anuales para fondos de contrapartida por cinco años, de 1978-1982, a los que hay que agregar los nuevos substanciales ingresos que el IDM recibirá ahora a través de la modificación de la Ley Orgánica Nº 291 del IDM dispuesta en 1977. Se estima que las contrapartidas provenientes de estas dos fuentes nacionales, alcanzarán aproximadamente U\$S 1.814.000 durante la duración del proyecto, que el IDM destinará para cubrir sus incrementados gastos operativos emergentes de la expansión de sus funciones en el ámbito municipal, y, asimismo, para proveer el 20 % de la financiación de cada subproyecto. En cuanto a las municipalidades, es posible prever que puedan contribuir aproximadamente U\$S 1.331.000 como contribución para los subproyectos a emprender.



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MINISTERIO DEL INTERIOR

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Para terminar, quisiera expresar por su intermedio, Señor Director, a la Misión Económica, mis más sinceras expresiones de reconocimiento por su permanente y valiosa asistencia al IDM. Esperando que Usted podrá hacer viable, en la forma más rápida posible, la aprobación de este proyecto en la instancia correspondiente, en la seguridad de que sus beneficios serán de suma significación para el desarrollo del interior del Paraguay, aprovecho la ocasión para reiterarle las expresiones de mi más alta y distinguida consideración.



  
Dr. SABINO A. MONTANARO  
Ministro



MINISTERIO DEL INTERIOR

ASUNCION, 18 de Junio de 1.977.

ANNEX II  
Exhibit C  
Part 2  
Page 1 of 2

Nota N° <sup>240</sup>.....

Señor  
Abe M. Peña, Director Misión Económica  
de los Estados Unidos de América  
ASUNCION, PARAGUAY

Señor Director:

Tengo el agrado de dirigirme a la Misión Económica de los Estados Unidos de América en el Paraguay, a fin de solicitar la concesión de un préstamo por la suma de U\$S. - 5.000.000 (cinco millones de dólares americanos), que será utilizado por el Instituto de Desarrollo Municipal (IDM), dependiente de este Ministerio, para solventar un nuevo proyecto que el Instituto tiene en vista para su realización, de ser posible, en las mismas condiciones que el primer préstamo aprobado por Ley N° 393, del 17 de agosto de 1973.

Entiendo que la Misión Económica y el IDM han trabajado juntos estrechamente para el desarrollo de este nuevo proyecto. Este préstamo es para financiar los fondos necesarios para permitir al IDM otorgar subpréstamos a las municipalidades del interior de la República, para que ellas puedan emprender proyectos de desarrollo (U\$S4650.000), para cubrir el costo de los servicios de un asesor y de otras asistencias técnicas necesarias al IDM (U\$S 200.000), y para la compra de vehículos, equipos y la adquisición de un edificio para el local del Instituto (U\$S 150.000).

Se espera que este aporte permita al IDM aumentar su poder para fortalecer en los municipios y gobiernos municipales, la capacidad para planificar, para establecer prioridades y para implementar el desarrollo de obras y servicios públicos municipales, así como para facilitarles medios para hacer frente a las necesidades de los gobiernos locales en aquellas áreas con rápido crecimiento económico.

En vista de esta última situación, el IDM pretende emplear nuevas metodologías mediante las cuales las municipalidades podrán planificar las actividades regionales, con miras a beneficiar a las poblaciones rurales existentes en esas áreas que, hasta ahora, adolecen de un desarrollo integral.





Igualmente, todo trabajo que haga el IDM con cada municipalidad, será en base al ampleo de metodologías especialmente bosquejadas para enfocar esfuerzos del desarrollo municipal no sólo en la zona urbana municipal sino abarcando todo el Distrito. De ahí que, al ofrecer el proyecto la realización de los trabajos y servicios públicos, las poblaciones rurales también recibirán un impulso positivo hacia su desarrollo, puesto que: podrán producir cosechas en mayor escala y con mayores precios, se disminuirá el costo del mercado de esas mismas cosechas, habrán más empleos, y, por último, ellas podrán sacar más ventajas de las nuevas oportunidades a presentárseles.

La contrapartida de fondos para este proyecto provendrán de tres fuentes: primera: la contribución anual de U\$S 150.000 (ciento cincuenta mil dólares americanos), como aporte del Gobierno Nacional, a preverse en el Presupuesto General de Gastos de la Nación, durante los cuatro años de vida del proyecto; segunda: la nueva legislación que modifica la Ley Nº 291, Orgánica del IDM, resultará en nuevos substanciales ingresos para la Institución; y, tercera: la contribución de cada municipalidad continuará financiando un mínimo del 15% de cada subproyecto. La contribución total de la contrapartida proveniente de estas tres fuentes alcanzará aproximadamente unos U\$S 2.600.000 (dos millones seiscientos mil dólares americanos), en los cuatro años de vida del proyecto.

Finalmente, quiero expresarle que valoro en toda su magnitud los sinceros esfuerzos de la Misión Económica, a su digno cargo, a través de su trabajo con el IDM, a fin de que este nuevo proyecto reciba el tratamiento preferencial que se le está dando, todo lo cual beneficiará en forma muy significativa al interior del país, asegurando así el armónico desarrollo de todos los municipios de la República, en un todo de acuerdo con la política desarrollista del Gobierno Nacional.

En la seguridad de una respuesta favorable a la presente, aprovecho la ocasión para saludar al señor Director, con las expresiones de mi más alta y distinguida consideración.



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MINISTRO

DRAFT ANNEX I TO PROJECT AGREEMENT (PROJECT DESCRIPTION)

1. Purpose and Goal. The purpose of the Project is to (a) develop the capability of the Municipal Development Institute (IDM) and of municipalities (individually and in groups) to provide the services needed by the rural poor, and (b) develop a planning capacity on the local (service center) level to identify and prioritize the needed services. The latter includes development of capacities within IDM to identify service areas and to assist development committees representative of such areas. Fulfillment of the purpose should contribute to the Project goal of increasing the income and well-being of the rural poor target group. This is defined as those families or groups which have a per capita income of the equivalent of \$150 in 1969 prices adjusted to current price levels. This is generally thought to include farmers with use of 20 hectares or less, at least half of all residents of the 170 municipal urban cores, and at least two-thirds of all other rural dwellers, or a total of some 79% of all persons residing outside of Asunción. (The purpose and goal, and the inputs and outputs of the Project, are stated in the Logical Framework at the end of the Annex.)
2. Implementation. IDM will have primary responsibility for Project implementation, including administration of an ICI-type credit fund. IDM will work with individual municipalities and groups of municipalities to assist them in identifying the development potentials and problems of both the rural and the urban parts of their municipal districts and of the larger service areas of which the districts are part. IDM will assist municipalities in identifying and prioritizing the needs of the target group and in studying and planning ways to meet those needs. IDM will then provide the municipalities with the assistance necessary to meet the needs, including the technical and financial assistance to carry out subprojects such as improved markets, improved ports, acquisition of road equipment, installation of storage facilities, and sites and services for agro-industries.

Implementation of the Project will occur in three overlapping stages. First through courses and other contacts, IDM will sensitize the officials of all municipalities to the benefits of carrying out subprojects with definable direct and predominant impact on the target group. Each subproject proposed for financing under the Project must meet strict criteria developed to show that it directly and predominantly impacts on the target group, in addition to criteria which establish economic-financial viability, technical soundness, and fulfillment of other developmental concerns. Second, also through courses and contacts, IDM will instruct officials of all municipalities in the basics of spatial theory, so as to make them aware of the interaction of their towns (municipal urban cores) with other towns and with rural areas. Through this, IDM will encourage municipalities to work together on joint subprojects which will serve an entire service area. Third, using surveys, development scaling, and spatial geography techniques, IDM will identify with precision all service areas

in Paraguay and will classify all towns into development categories. IDM will then select areas from each grouping with which to work on an intensive basis to establish a local planning capacity. If a development committee exists in an area, IDM will begin to work with it; if not, IDM will encourage the formation of one. In either case, IDM will do what it can to insure that the committee has representation from throughout its service area and from all sectors of the population. IDM will then train and guide each committee, to enable it to identify the development potentials and problems of its area and to identify and prioritize the area's needs. IDM will also assist the committee as a liaison with GOP institutions and other sources of assistance. If a subproject is indicated to solve a defined need, IDM will help the committee and the municipalities involved design and finance it. (If IDM is not able to provide the necessary technical assistance for designing a subproject, it will assist the municipalities in obtaining contracted assistance, which can be financed under the Project if the subproject can be expected to meet the eligibility criteria.) In short, IDM will establish a process of integrated rural-urban planning using a "bottom-up" approach.

The municipalities will be responsible for individual subprojects and will be required to report regularly to IDM. Such reporting will be made a condition of every subproject agreement. IDM will be responsible for monitoring subprojects, including making regular inspections. IDM will send monthly reports to USAID on use of funds, subdisbursements, subloan recuperations and reuse, training accomplishments, inspections made, and other relevant information. IDM will also send USAID quarterly shipping reports and whatever other reporting of Project information USAID might request. USAID will monitor the Project. USAID will approve subloan requests and bidding procedures for subloans of types and sizes established by this Project Agreement and/or by Implementation Letter. USAID will make inspections and audits, and will participate with IDM in joint evaluations as detailed below.

3. Financial Plan. The AID financed inputs are estimated as follows (U.S. \$000):

	<u>A.I.D. Loan</u>		<u>A.I.D. Grant</u>		<u>Total</u>
	<u>Fx.</u>	<u>Lc.</u>	<u>Fx.</u>	<u>Lc.</u>	
Subprojects	485	4,365			4,850
Veh, Equip, Bldg.	40	60	22		122
Long-term TA					
Advisers			320		320
Short-term TA					
Advisers	10		288		298
Participant Train- ing			155		155
Courses, Surveys, other TA		40		15	55
Totals	535	4,465	785	15	5,800

The grant is to be used only for providing the technical assistance and other direct support required for IDM to institutionalize the changes it will be undergoing in order to carry out the Project purpose. One long-term advisor is expected to assist for three years in the design and implementation of the integrated rural-urban planning process IDM will be implanting. A second will assist for one year on the organizing of the development committees. Short-term advisors are expected to provide expertise in marketing, rural sociology, spatial planning theory, and other disciplines. The participant training will be primarily short-term courses in third countries for IDM personnel. The courses will be for instructing municipal officials in the benefits of carrying out sub-projects directly and predominantly impacting on the target group and in the basics of spatial theory. Two vehicles and a small amount of equipment will be procured in direct support of the advisors and the new activities. The amounts above are to be considered estimates, and, changes between line items in the use of grant funds will be made, with USAID approval, as the Project progresses.

The loan will be mainly used to finance the new activities. In addition, there will be financed a small amount of needed items of general support for IDM for which financing out of its own budget would be difficult. \$4,850,000 will go into a subloan fund to finance eligible subprojects. \$100,000 will finance vehicles and equipment and the renovation of IDM's new headquarters. \$50,000 will finance such items as attendance at conferences, short-term advisors in finance, municipal congresses, and other technical assistance.

Counterpart funds will be of three types. First, IDM will finance 20% of each subloan financed under the Project on a pari passu basis with AID, an amount of \$1,213,000. Second, IDM is expected to have incremental operating expenses of \$601,000 over the Project period over what it would have had were there no Project. The sources of these two counterpart items will be an annual contribution of \$150,000 equivalent over the years 1978 to 1982 from the Government of Paraguay national budget, plus incremental revenues IDM will be receiving from land taxes due to the modification in 1977 of Law 291 which establishes IDM. The third counterpart contribution comes from the requirement that the municipalities contribute a minimum of 15% to each subproject financed under the Project. This is expected to amount to \$1,331,000, an average of 18% of the total cost of all subprojects financed.

4. Evaluations. IDM and USAID will participate in annual joint evaluations. As a Condition Precedent to initial disbursement under the Loan, IDM will be required to present the details of the evaluation plan. In general terms, the evaluations will examine the following: (a) the output indicators, to determine if IDM is making satisfactory progress in implementing the Project; (b) inputs, to make sure that they are of satisfactory quantity and quality for Project success; (c) implementation arrangements, such as

IDM's staffing and USAID's monitoring role, to make sure they are proper; (d) purpose level indicators, to determine if satisfactory progress is being made toward the conditions expected at the end of the Project; and (e) a sample of completed subprojects to determine progress toward contributing to the Project goal. The latter will utilize the subproject selection analyses as guide, to compare what the subprojects were expected to accomplish as regards productivity, income, and other impacts on the target group, versus what actually occurred.

The Logical Framework Matrix, which is attached to this Annex as an integral part hereof, will be the overall guide to the evaluations. IDM should keep monthly track of the status of the output indicators, to facilitate performing the annual evaluations.

5. Timetable. The timetable for the Project depends upon when the Project is authorized and when the Conditions Precedent to first disbursement of loan funds are met. If these initial dates change, the timetable should be modified accordingly.

<u>2/15/78</u>	Project authorized.
3/15/78	PIO/Ts for long-term advisors drafted.
6/15/78	Project Agreement signed; PIO/Ts signed.
<u>10/31/78</u>	IDM's Planning and Special Projects Department fully staffed; trainer hired.
11/15/78	First long-term advisor on board.
12/15/78	Conditions Precedent to first loan disbursement met.
12/31/78	First subprojects sent to USAID for approval.
1/31/79	First disbursement of loan funds.
2/15/79	Courses begun for municipal officials.
3/31/79	Second advisor on board.
7/15/79	Data collection finished.
8/31/79	Service areas defined and chosen.
9/30/79	IDM begins work with first four development committees.
11/15/79	Municipal Congress.
1/15/80	PAR from first evaluation sent to AID/W.
1/31/80	Recurring conditions precedent met; 25% of loan fund disbursed.
7/31/80	IDM begins work with next four development committees.
12/31/80	50% of loan funds disbursed.
1/15/81	PAR from second evaluation sent to AID/W.
1/31/81	<u>Recurring conditions precedent met.</u>
3/31/81	<u>IDM begins working with next two development committees.</u>
10/15/81	75% of loan funds disbursed.
11/15/81	Municipal Congress.
1/15/82	PAR sent to AID/W from third evaluation.
1/31/82	Recurring conditions precedent met.
6/15/82	Loan funds fully disbursed.

DRAFT PROJECT AUTHORIZATION

Name of Country: Paraguay  
Name of Project: Market Town Development  
Number of Project: 526-0112

Pursuant to Part I, Chapter 1, Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan and Grant to the Republic of Paraguay ("Cooperating Country") of not to exceed five million eight hundred thousand United States dollars (\$5,800,000) ("Authorized Amount") to help in financing certain foreign exchange and local currency costs of goods and services required for a project hereinafter described. Of the Authorized Amount, five million dollars (\$5,000,000) ("Loan") will be loaned to the Cooperating Country. The project ("Project"), to be administered by the Cooperating Country's Instituto de Desarrollo Municipal ("IDM"), consists of providing technical and financial assistance to rural municipalities throughout Paraguay to enable them to provide for those public works and services necessary for economic development and the well-being of the rural populace on the local and regional levels. The entire amount of the Agency for International Development ("A.I.D.") financing herein authorized for the Project will be obligated when the Project Agreement is executed.

I hereby authorize the initiation of negotiation and execution of the Project Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

1. Loan Terms

The Cooperating Country shall repay the Loan to A.I.D. in United States dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in United States dollars interest from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

2. Source and Origin of Goods and Services

Except for ocean shipping, goods and services financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Ocean shipping financed under the Loan shall be procured in any eligible source country except the Cooperating Country.

3. Conditions Precedent to First Disbursement

Prior to any disbursement of Loan funds or the issuance of any commitment documents for Loan funds under the Project Agreement, Cooperating Country shall furnish in form and substance satisfactory to A.I.D.

a. A manual of operations for IDM's Planning and Special Projects Department.

b. A detailed staffing plan for IDM for the ensuing year and a suggested plan for future years with evidence of sufficient funds to pay for necessary personnel.

c. A detailed evaluation plan.

4. Conditions Precedent to Subsequent Disbursements

Prior to any disbursement of Loan funds or the issuance of any commitment documents for Loan funds under the Project Agreement in any calendar year beyond that of first disbursement, Cooperating Country shall furnish in form and substance satisfactory to A.I.D.

a. Evidence that all revenues due IDM in the preceding calendar year from the National Budget of Paraguay and from those portions of taxes which IDM is due to receive by law, including 10% of property taxes from the entire municipal districts and 2% of the alcoholic beverage tax, have been released by the Government of Paraguay for the use of IDM.

b. A detailed staffing plan for the calendar year, including evidence of sufficient funds to pay for needed personnel, and an estimate of personnel needs in later years.

5. Covenants

The Cooperating Country shall covenant

a. To provide IDM with the equivalent in local currency of no less than seven hundred fifty thousand dollars (\$750,000) from the National Budget of Paraguay over a five year period commencing with the year 1978, which shall be in addition to the portion of taxes which IDM is due to receive by law.

b. That unless A.I.D. otherwise agrees in writing, no sub-loan from Project funds will be made to a municipality or group of municipalities unless such municipality or group finances a minimum of fifteen percent (15%) of the activity being financed.

c. That unless A.I.D. otherwise agrees in writing, no more than forty percent (40) of the subloan funds made available by A.I.D. under the Project shall be made available for financing in whole or in part sub-projects each over \$200,000 equivalent in size.

d. That IDM will make a portion of the subloans from Project funds at interest rates below those it normally charges, when such subloans are for socially beneficial subprojects which would not be financially feasible at IDM's normal interest rates.

e. That unless A.I.D. otherwise agrees in writing, IDM shall make no subloan from Project funds without obtaining prior A.I.D. approval if such subloan (i) exceeds the equivalent of a dollar amount to be indicated in implementation letters issued by A.I.D., (ii) is for an activity of a type not indicated on a list to be issued by A.I.D. in implementation letters, (iii) would cause its total outstanding assistance to any individual municipality singly or as part of a group of municipalities to exceed the equivalent of two hundred thousand United States dollars (\$200,000), or (iv) is to a group of municipalities.

f. That IDM will make no grant to a municipality using Project funds.

g. That IDM will make no subloan from Project funds to a municipality individually or to a group of municipalities of which a municipality is a part when such municipality is delinquent in payment of any loan to IDM or to any other known lender, and furthermore that IDM will publish in its monthly newsletter the names of each municipality delinquent in payment of any loan to IDM, including the amount of such delinquency.

h. That IDM will maintain a reserve for bad debts of a type and amount acceptable to A.I.D.

i. To establish a mechanism acceptable to A.I.D. to maintain the value of the Project funds used for the credit activity as against the United States dollar.

j. That recoveries of principal of Project subloans will be reused for subprojects of the same nature as those financed under the Project.

k. That IDM design each subproject with all due regard for environmental effects and that it design a maintenance program for each subproject.

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Assistant Administrator  
Bureau for Latin America

Date: