A Progress Evaluation of the Rural Development Planning Project and Departmental Development Corporations Project in Bolivia

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This report evaluates the progress of two U.S. Agency for International Development projects in Bolivia: the Rural Development Planning Project (grant no. 511-0471) and the Departmental Development Corporations Project (loan nos. 511-T-064 and 511-T-65). The former originally provided a grant of US$1.2 million for technical assistance. This was later raised to US$4.2 million through various amendments. The latter provides for a loan of US$10 million to establish a complementary project implementation fund of US$9.7 million and an additional technical assistance fund of US$0.3 million.

Although the original grant for technical assistance was in part expended over the 1978-1981 period, its implementation was interrupted between November 1981 and April 1984. The loan portion remained frozen until it was reprogrammed in September 1983 and the various conditions precedent were met in mid-1984.

The implementing agency was to have been the Ministry of Planning and Coordination (MPC), which was to have coordinated with the nine departmental development corporations (DDCs) to improve their overall planning capacity.

The nine-person technical assistance team was to:

- Develop technically sound methodologies for regional planning and project identification, preparation, and analysis;

- Assist the DDCs in the use of these methodologies to prepare annual operating plans according to revised MPC guidelines; and

- Assist the MPC in the development of overall guidelines for its planning system.

Nevertheless, internal discord within the U.S. technical assistance team and its limited authority, lack of DDC executive authority to implement the methodologies, interruption of the technical assistance activities as a result of political issues, and little support within the government of Bolivia for the projects impeded the successful implementation of the Rural Development Planning Project and caused the Departmental Development Corporations Project to be frozen before disbursement could begin.

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This situation led to the reprogramming of both projects in September 1983. The MPC and the DDCs still maintained their respective roles. The technical assistance mandate remained the same initially, but the team comprised Bolivian personnel on personal services contracts with USAID. The reprogramming of the loan fund, however, resulted in an emphasis on production-oriented subprojects, especially those involving the private sector.

As had been the case previously, the MPC proved to be an inappropriate implementation mechanism. As a result, a semi-independent Project Coordination Unit (UCP) was established outside of the MPC and under USAID. Two additional actions were taken. First, it was decided during mid-1984 that the technical assistance in planning to the DDCs had achieved its goals and could be de-emphasized. Second, the UCP and the technical advisors would assist the DDCs in establishing mechanisms to identify, design, evaluate, and fund private sector subprojects.

Critical to this new thrust has been the establishment of financial credit units (UCFs) within eight of the nine DDCs. These will be the project's future implementation vehicles. It is envisioned that the UCFs will evolve into full-fledged development banks with ability to attract and disburse development funds.

The mechanism for subproject funding involves financial participation from the borrower (greater than 10 percent), a commercial bank (greater than 20 percent), the P.L. 480 Executive Secretariat for local costs, and USAID for the foreign exchange costs. To date, 64 subprojects for a foreign exchange value of US$9.5 million are in the approval and procurement process. They are predominantly agricultural, include a majority of single entrepreneurs (although a significant number of groups are also borrowers), and are all production oriented.

Of particular concern is that none of these 64 subprojects has been implemented, although some of them were submitted at the end of 1984. The reasons for these delays include the number of agencies involved in the approval process (the bank, UCF, UCP, P.L. 480 Executive Secretariat, and USAID), vague definitions of the target population and subproject selection criteria, and hyper-inflation and the difference between the official and the parallel exchange rates. In addition, USAID has been serving as a procurement agency despite the lack of sufficient resources to carry out this function effectively.

FINDINGS

To date, the projects have achieved the following results:

- The technical assistance since reprogramming, as well as the training, seminars, and publications, improved the institutional capacity of the DDCs to elaborate coherent departmental plans and private sector projects. This stage of project activities has been termed a success, and need not be continued except in specific well-defined cases.

- As a result of the project's technical assistance, the outreach capacity of the DDCs through their UCFs is improving. The UCFs show promise of being able to fulfill their future roles as development banks. However, delays in the subproject approval process are begining to jeopardize the advances gained to date.

- Cultural and ecological differences have an impact on a DDC's ability to implement a program of this type to the extent that a requisite amount of infrastructure and entrepreneurial capacity is not available. This implies that most subprojects will be urban rather than rural. Certain Bolivian departments depend primarily on non-agricultural sectors for the majority of family incomes. The peoples of some areas tend to favor group activities, whereas in others the single entrepreneur predominates.

- The project's proposed benefits will reach only a limited portion of the target population. This is due to the limited size of the fund, the lack of acceptable subprojects, the inability of many to design a subproject (or afford to pay for a design), and a general lack of familiarity with banking and financial institutions. The use of private and voluntary organizations (PVOs) is recommended to broaden the impact of the project on the target population.

RECOMMENDATIONS

Short-Term Technical Assistance and Training

1. UCF AND DDC Level

To consolidate the project's activities to strengthen the UCFs and DDCs, the staffs of the UCFs will to require the same type of technical assistance that they now receive. This assistance will be necessary for a period of six months to one year beyond the project assistance completion date (PACD) of December 1985. Additional short-term technical assistance is also recommended in data base management and institutional development.

2. Subproject Borrowers

Many subproject borrowers will require short-term technical assistance in project design, evaluation, and implementation. In the case of organized groups, they will also require technical assistance in institutional development. The use of PVO-type community organizations is especially recommended in this area to increase the outreach capacity of the UCFs. Subproject borrowers will also need access to specific technical expertise during the implementation phase of their projects. The project's US$0.3 million technical assistance fund could be used for this purpose.

Strategies to Enhance Current and Future Project Development

3. Target Population and Subproject Selection Criteria

One principal cause for delays in the subproject approval process is the lack of specific definitions of the target population and of the selection criteria for subprojects. The evaluation team proposes that the definition of the target population be broadened to include low- and middle-income persons engaged in non-agricultural, as well as agricultural, activities. The team also recommends that at least 75 percent of the income of a borrower be earned from the type of activity for which he or she is borrowing.

In the case of subprojects that deal with companies, or individual entrepreneurs, the team recommends that more attention be paid to the socioeconomic analysis, other than mere job creation. Further study is necessary to determine the optimal capital-to-jobs-created ratio, as well as the long-term benefits to job creation.

Concerning subproject selection criteria, the team recommends the establishment of a ranking system that compares similar subprojects based on preselected variables, as well as internal rates of return and benefit/cost ratios.

4. The Subregional Planning Process

Although technical assistance in planning activities has, for the most part, accomplished its goals, subregional marketing studies still need to be carried out for many areas. The evaluation team therefore recommends technical assistance from the UCP to the planning departments of the DDC in this area.

5. The Financial Mechanisms of the Project

Bolivia is at present in a very unstable period in terms of its economic and political systems. The hyper-inflation, the differential between the official and the parallel exchange rates, and the scarcity of foreign exchange make traditional financial practices almost impossible. As a result of the recently concluded presidential elections, the Bolivian government has not dealt with the deteriorating economic situation. The team recommends that the situation be closely monitored and lending terms be adjusted accordingly. At present, some borrowers stand to make windfall profits (those borrowing in dollars), whereas others could loose substantially (those borrowing in pesos).

6. The Establishment of an Indefinite Quantity Contract (IQC)-type Mechanism for the Selection of Consultants

The team recommends that each DDC, or UCF, establish a short list of competent, qualified consultants who are familiar with the subproject design requirements of the project.

7. The Use of PVO-type Organizations

The team fully endorses the concept of using PVO-type community development organizations, federations of cooperatives, or church-supported organizations to increase the outreach capacity of the DDCs. These groups could be used to identify potential subprojects among the target population and to provide implementation support once the subprojects have been approved.

The Subproject Approval Process

8. The evaluation team supports the establishment of the Project Coordinating Committee and the Technical Project Approval Committee. It is hoped that these committees will resolve some of the problems leading to the long delays in subproject approval.

9. The information flow surrounding subproject approval and disbursement should be made more efficient. Several suggestions are offered.

10. The Involvement of USAID and the P.L. 480 Executive Secretariat. There are currently too many players in the subproject approval process. The following recommendations are offered:

Short Term:

- USAID should reduce the number of its staff required to approve a subproject from seven to three.
- The use of provisional invoices should be explored to shorten and make more efficient the procurement process currently managed by USAID.
- Subprojects not requiring P.L. 480 pesos should not require the approval of the P.L. 480 Executive Secretariat. Conversely, if they are approved by that office, the USAID approval process should be merely perfunctory.

Medium Term:

- As the UCFs evolve and gain experience, they should be given most of the responsibility for subproject approval.
- USAID should disburse funds quarterly disbursements to the DDCs/UCFs based on the past quarter's financial activity, instead of releasing funds on a piecemeal basis.
- The possibility should be explored of having the banks, or their agents, serve as the agency that procures the equipment and supplies.
- The entire P.L. 480 approval process could be avoided for all subprojects if local peso costs were to be financed through U.S. dollar conversions from the project.

Project Follow-on

11. The team strongly recommends that the PACD for the project be extended for 12 months to allow for the subprojects in the approval process to become operable, the UCFs to gain experience while still eligible for the technical assistance that the project can supply, and a follow-on project to be designed.

12. Since the 64 subprojects currently in the approval process represent US$9.5 million in potential project funding, and more than 80 other subprojects have been identified by the UCP for an additional foreign exchange value of $36 million, the project could easily run out of money in the near future. The evaluation team therefore recommends that USAID seek additional sources of funds to add to this project until a second project can be designed.

13. Once the problems in the subproject approval and procurement systems are worked out, USAID will have an excellent and efficient mechanism to reach the target population. Of special note is the fact that the mechanism involves the private sector as both borrower and financial intermediary. Given this situation, it would only be logical to continue the project in a redesigned form. Most realistically, the new project would place less emphasis on technical assistance and more on subproject funding and implementation.

CHAPTER ONE

INTRODUCTION

This report evaluates the progress of two U.S. Agency for International Development Projects in Bolivia: the Rural Development Planning Project and the Departmental Development Corporations Project. Field data collection and preliminary draft write-up were conducted between July 8 and August 2, 1985. The team comprised an agricultural economist, a social anthropologist, and a regional planner.

The methodology used by the evaluation team included extensive interviews with USAID/Bolivia and Project Coordination Unit (UCP) staff, representatives of five of the nine departmental development corporations (DDCs), Ministry of Planning and Coordination (MPC) personnel, bankers, potential borrowers, and other members of the private sector (over 60 persons were contacted; see Annex B). In addition, the team reviewed the appropriate literature (see Annex C for a bibliography). Since none of the 64 subprojects had reached the implementation stage at the time of field investigation, only a small, but representative, sample of borrowers were interviewed. Seven borrowers, or groups of borrowers, are included on the list of persons contacted (Annex B).

The selection of the five DDCs that team members visited was based on their representative nature as well as logistical considerations:

- Corporacion de Desarrollo de La Paz (CORDEPAZ), because of its central location and because the team could not travel to the field during the first week as a result of the presidential elections;
- Corporacion de Desarrollo de Santa Cruz (CORDECRUZ), because of its relative size, availability of resources, and dynamic nature;

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- Corporacion de Desarrollo de Cochabamba (CORDECO), because of its reputation as having developed the best departmental plan;

- Corporacion de Desarrollo de Chuquisaca (Sucre) (CORDECH), because of its reputation as having had the best experience in implementing project planning, evaluation, and management methodologies; and

- Corporacion de Desarrollo de Oruro (CORDEOR), because it is one of the poorest corporations, yet has had good experience in reaching the target population through the use of funding from the European Economic Community.

In addition, information concerning the four remaining DDCs was collected through interviews with UCP staff members assigned to them.

The heartfelt thanks of the team members go to those persons who assisted them in their data collection and analysis efforts. In every phase of the evaluation, cooperation and frankness greatly facilitated the team's work. Special thanks must be given to Gaston Martinic, Director of the UCP, and his staff, who were tireless in their efforts to inform and assist the evaluation team.

This report is divided into three sections. The first section comprises a chronological history of the various incarnations and phases of both of the projects under evaluation, as well as a description of the projects in their current phase. The second section analyzes the issues cited in the Statement of Work in terms of USAID's concerns. The third section provides guidance for the continuation of the current projects, as well as recommendations for a follow-on project.

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CHAPTER TWO

PROJECT DESCRIPTION

The Rural Development Planning Project (no. 511-0471, signed in August 1978) and the Departmental Development Corporations Project (no. 511-T-064 and 511-T-065, signed in September 1979) formed the basis of an integrated effort to improve the planning and project implementation capacity of both the MPC and the DDCs. The former originally provided a grant of US$1.2 million for technical assistance. This amount was raised to US$4.2 million through amendments by January 1984. The latter provided a loan of US$10 million to establish a complementary project implementation fund of US$9.7 million, and an additional technical assistance fund of US$0.3 million.

Although the original grant for technical assistance was in part expended over the 1978-1981 period, its implementation was interrupted between November 1981 and April 1984 for political reasons. The loan portion remained frozen until it was reprogrammed in September 1983 and the various conditions precedent were met in mid-1984. The brief description of the evolution of the projects that follows is divided into three parts: original project design in 1978-1979 to reprogramming in 1983, the original reprogramming attempt in 1983-1984, and the project as it appears at present.

Two documents were especially useful to the evaluation team: McKee and Riordan, "Review of Bolivia's Rural Development Planning Grant," November 1981, and Proyecto Planificacion para el Desarrollo Rural MPC/USAID/B, "Memoria Informe al 30 de Junio 1985," July 1985. Unfortunately, many other documents of an historical nature concerning these projects were sent to AID/Washington as a result of a litigation process that will be explained below.

FROM PROGRAM INCEPTION TO REPROGRAMMING, 1978-1983

Beginning in early 1979, Practical Concepts, Inc. (PCI) was awarded the technical assistance contract to fulfill the terms of reference established by the Rural Development Planning Project. These terms of reference included the provision of seven international planning advisors for a period of three years each. Through a series of permutations, these advisors were assigned to the MPC and to six DDCs. The advisors were to:

- Develop technically sound methodologies for regional planning, and project identification, preparation, and analysis;
- Assist the DDCs in the use of these methodologies to prepare annual operating plans according to revised MPC guidelines; and
- Assist the MPC in the development of overall guidelines for its planning system.

Nevertheless, this integrated planning process never came about as programmed. According to McKee and Riordan, ". . . The bulk of time and effort was expended in methodology development, the work directly with the DDCs occurred only in a few DDCs, and the work with the MPC to develop guidelines/criteria for the planning system never got underway."

In attempting to determine the reasons for non-compliance in the PCI contract, two factors were identified. The first involved an internal division among the technical assistance team about the proper role of the advisors: Some preferred to follow a course of pure methodological design, whereas others wanted the projects designed and implemented as case studies for the methodologies. At this time, PCI/Washington was disintegrating and provided no leadership or backstopping in the debate. It also appears that no one at USAID was sufficiently involved in project implementation to assist in the matter.

Second, these advisors had not been placed within the structural hierarchy of either the MPC or the DDCs. This meant that they were allowed to act as free agents, under no particular control or authority. Their work was therefore seen as unintegrated, highly technical, and beyond the capability of the local institutions to implement. Weak executive leadership concerning the importance of systematic planning at the DDC level was no doubt an additional contributing factor.

Further exacerbating the problem was a cooling of U.S.-Bolivian relations following the Garcia Meza coup in June 1980. This required the PCI staff working with the MPC to keep a low profile and to restrain from ministerial-level contacts. During this period, Bolivia also suffered through four successive governments and five planning ministers. As a result of the apparent contractual non-compliance, the government of Bolivia sued PCI for failure to provide the day-to-day technical assistance required under the contract. PCI responded with its own suit for non-payment. In July 1985, this case was decided by a U.S. court in favor of Bolivia.

Of the methodologies designed by the PCI team, the project management system (SMP) was the most implemented; vestiges of it can still be seen today. The principal component of this system involves the use of the Logical Framework Matrix as a tool for both planning and monitoring. At present, all DDCs, and the MPC as well, continue to use this methodology. Of concern, however, is that the entire SMP system, which was to have supported projects in every phase, from idea inception to ex-post evaluation, was implemented in its entirety only in the department of Chuquisaca. Other supporting methodologies developed by the team were also implemented on a piecemeal basis by several of the other DDCs, for example:

- Statistical profiles -- Oruro;
- Restrictions analysis -- Tarija;
- Lines of intervention -- Chuquisaca;
- Urban functions in rural development -- Potosi; and
- Ex-post evaluations -- La Paz.

Nevertheless, aside from the use of Logical Framework Matrix, little evidence of the use of these planning tools remains at either the MPC or the DDC level, except as theoretical concepts. This may be explained by the high degree of staff turnover.

Thus, poor team dynamics and control, the lack of executive authority on the part of the DDCs to implement the methodologies, the interruption of the technical assistance activities, and almost non-existent political support for the project from the top impeded the successful implementation of the Rural Development Planning Project in its initial stage. As a result of these planning activities not having taken place, the conditions precedent for the Departmental Development Corporations Project loan were not met. This resulted in its being frozen before disbursement could begin.

THE REPROGRAMMING PHASE -- 1983-1984

The November 1981 progress evaluation of the Rural Development Planning Project performed by McKee and Riordan recommended that:

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- The entire project become operational, linking the planning process to subproject identification, design, and implementation;
- The principal actor in the program be the MPC;
- Work on project identification methodologies be integrated into one relatively compact methodological manual for use by the DDCs;
- Work on the SMP should continue, stressing its value beyond that of only the Logical Framework Matrix; and
- Further technical assistance to the corporations in the short run be reduced to short-term specific activities on an as-requested basis.

As a result of continued cool relations between the United States and Bolivia over the Garcia Meza government as well as cocaine trafficking, project redesign was held up until mid-1983 (held hostage, as one USAID staffer stated). At that time, Implementation Letter No. 16, dated September 15, 1983, increased the amount of the Rural Development Planning Project grant to US$4.2 million. In so doing, the grant also established new conditions and priorities under which the Departmental Development Corporations Project loan would be disbursed. Central to the reprogramming of both projects was, and still is, a strong private sector focus.

Essentially, the intent of the reprogramming effort was to:

> provide financial resources and technical assistance to the Departmental Development Corporations to improve their capabilities to plan, design, and implement subprojects designed to improve the standard of living of the poor in the following categories: agricultural development, storage facilities, agroindustry, water control and resources, land improvement, marketing facilities, reforestation, rural potable water systems, rural electrification, or other categories , of subprojects impacting on the rural and urban poor.

The goal of the projects, stated in broad terms, is to improve in the "standard of living of the rural and urban poor ('target group')." The purpose of the projects is also equally broad: "to improve the capability of the DDCs to promote, design, and implement productive rural development projects, especially in cooperation with the private sector, which will be of direct benefit to target group communities."

Guidance is also given about the types of subprojects eligible for funding. Particular attention should be paid to those with relatively high economic productivity potential, defined as providing "additional income or employment opportunities for the target group communities particularly in the rural sector." Four categories of allowable subprojects are specified:

- Private sector investment, partially financed through commercial banks;
- DDC-private sector joint ventures;
- DDC-owned enterprises; and
- Rural development infrastructure projects.

The implementation letter also defines the terms of the subproject loans. Of particular importance are the criteria for the first category of subprojects (private sector); they specified that at least 15 percent of a subproject's value would be provided by the borrower (later reduced to 10 percent), and that 15 percent of the loan value would be provided by a commercial bank, with the remaining 85 percent to be refinanced through the USAID loan fund (these percentages were later changed to 20 and 80 percent, respectively). The commercial banks participating in this program are responsible for 100 percent of the incurred debt, however. In addition, the USAID-provided loan fund finances the U.S. dollar foreign exchange requirements of each

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subproject, whereas Title III/P.L. 480 Bolivian peso reflows are used to finance the local currency requirements above the 20 percent to be provided by the commercial bank.

Each subproject design must demonstrate specified feasibility criteria, such as:

- Direct or indirect benefit to the poor through employment, increased income, access to services, etc.;
- Economic and financial feasibility in terms of a reasonable economic return and financial viability;
- Social and cultural feasibility, including a socio-economic profile of the beneficiaries, identification of potential social and cultural constraints to project implementation, strategies to alleviate the constraints, and methods to facilitate beneficiary participation in the subproject;
- Technical feasibility in terms of reasonable cost estimates, maintenance requirements, and a time-phased implementation and construction plan;
- Institutional analysis that demonstrates that the borrower or group of borrowers has the administrative and personnel capacity to implement the subproject; and
- Environmental assessment for those subprojects judged to have a potentially significant impact on the environment.

The approval process for the subprojects was specified as beginning with their inclusion in each DDC's annual operating plan, which had previously been approved by the MPC. The subprojects were to have been designed by the DDCs according to the MPC-established selection criteria. These same criteria applied to the P.L. 480 peso portion of each subproject.

Once a subproject had been designed according to the above process and established criteria, its financing was to have been approved according to the internal review process of the appropriate DDC. USAID initially was to have reviewed all subprojects whose total costs exceeded US$75,000. This limit was to have been raised after the DDCs gained experience over several months in the design and approval of subprojects. The Title III P.L. 480 Executive Secretariat (a semi-autonomous government agency that oversees the distribution of reflows generated by P.L. 480 wheat sales) was also to have assisted USAID in its review of subprojects.

Financial procedures included the establishment of DDC program limits (a division of the US$9.7 million) according to estimated potential demand, and a trimestral disbursement process from USAID to the DDCs based on a "pari passu" system of audited expenditures (disbursements made against expenses incurred). In addition, as the subproject loans are repaid, the principal and interest are to be placed in an interest-bearing trust account in each respective DDC for relending in successive rounds. Up to 20 percent of these reflows could have been used for each DDC's administrative expenses.

As set forth in Implementation Letter No. 16, the MPC was to have played a crucial role in setting the parameters of the loan program and in guiding the DDCs through the overall planning process. Technical assistance was to be provided to the MPC and the DDCs through 36 person-months of additional support from the Rural Development Planing Project. This increased technical assistance provided one planning advisor to the MPC and one to each of the nine regional development corporations. In theory, the entire 10-person team was to be under the guidance of the MPC, and to represent its interests within each DDC. These advisors were to assist in the formulation of regional surveys, development strategies, and five-year development plans. With the assistance of the advisor to the MPC, assigned to the National Regional Planning Office, these regional plans then became part of the national five-year development plan.

The hiring of this technical assistance team resulted in the establishment of the UCP in late 1983, comprising representatives of the MPC, USAID, the DDCs, and their project-supported advisors. In practice, however, a highly politicized ministry, with constant staff turnover, proved to be an unsatisfactory institutional home for the technical assistance project activities. After a short time, the UCP was therefore withdrawn from the MPC, except for formal offical contacts, and was established as a semi-autonomous project implementation unit under USAID.

Near the end of 1984, the technical advisors assigned to the nine DDCs had completed their tasks of developing the regional surveys and operational one- and five-year plans. Nevertheless, since subproject design, financing, and implementation were to be dependent on the results of this joint planning process between the MPC and the DDCs, very few subprojects had entered the approval process. Therefore, USAID and the UCP decided that further planning activities could be curtailed and the highest priority would be given to subproject promotion, design, and approval.

THE CURRENT PHASE: 1984-PRESENT

The Organization of the Project Coordination Unit

Given the new imperative to get the subproject process moving and to draw down on the Departmental Development Corporations Project's US$9.7 million, which had been left untouched since September 1979, another attempt was made to reorient the technical assistance team of the UCP to improve its efficiency and to reflect the new project focus. The nine DDC advisors were reduced to four. The nine departments of the country were then organized into four groupings based on potential subproject activity and ease of communication, with one advisor assigned to each. At present, these groupings include the following departments:

Grouping 1: La Paz, Oruro, and Pando;

Grouping 2: Cochabamba and Beni;

Grouping 3: Santa Cruz and Chuquisaca; and

Grouping 4: Potosi and Tarija.

This reassignment and reallocation of departments were based on the judgment that project development no longer required the daily presence of an advisor and that a periodic promoter would be more efficient. It was also felt that full-time advisors tended to become part of the DDC bureaucracies and were therefore not as effective as short-term technical assistance.

In addition, a national-level group of advisors was hired to provide specific short-term assistance to the DDCs and to the UCP's regional advisors. This group is headed by the UCP director and includes one advisor in each of the following areas: promotion and design of projects (also in charge of the four regional advisors), monitoring and evaluation of projects, institutional and organizational aspects of the DDCs, and marketing and financial matters.

<u>The Activities of the Project Coordination Unit</u>

To support the subproject thrust of the current program, USAID and UCP staff jointly decided that promotional activity would be directed only toward private sector subprojects, rather than toward all four categories established in Implementation Letter No. 16. The rationale for this was that, given the rapidly deteriorating state of the Bolivian economy, an imperative exists for the implementation of production-oriented subprojects that will yield immediate and measurable results. This focus necessarily ruled out the use of project funds for infrastructure or other DDC-oriented public sector subprojects. (Of the 64 projects currently in the process of being approved, 62 are private sector and 2 are joint ventures.)

The principal vehicle for the promotion, design, and monitoring of subprojects is a UCP-promoted mechanism called the financial credit unit (UCF). These units under the technical assistance of the UCP have now been established within all of the DDCs with the exception of Pando, which has a relatively low level of potential economic activity in the private sector.

They have been established to serve as the financial arm of the DDCs, which are prohibited by law from either receiving or managing private sector funds. These UCFs were recently granted legal status, and in most cases, their staffs are inexperienced. The UCP and the DDCs themselves intend to evolve into fulfledged development banks, or "financieras," with the ability to attract funds and grant loans.

An issue to be resolved is the degree of autonomy that the UCFs will, or should, have in relation to the DDCs. The project's designers and the evaluation team think that the UCFs and the DDCs should be mutually supportive, with overall planning performed at the DDC level. Public sector implementation of projects would also be performed through the DDCs, whereas private sector projects would be processed and financed through the UCF. Nevertheless, should the UCFs become successful in generating their own funding sources, a potential problem could exist because financial independence often creates total autonomy.

It is through these UCFs that the project promotion focus is currently being implemented by two complementary methods: the organization of DDC/UCF-level seminars given by the UCP, and short-term technical assistance from the UCP staff. In the past year, three subproject design seminars were held for these staff members (114 total participants) in the departments of Santa Cruz, Chuquisaca, and La Paz. These were run as design workshops, and 19 of the current 64 subprojects were an important result of these seminars.

Short-term technical assistance in promotion by UCP staff is largely responsible for the remaining subprojects. This promotion has taken several forms, depending on the department and the operational style of each DDC and UCF. In several cases, UCP staff have held informational seminars for commercial bank representatives (intermediate credit institutions) to inform them of the project and its ability to refinance loans and provide access to foreign exchange. In other cases, UCP staff have individually visited the commercial banks to inform them of the project's operational procedures and benefits. In either case, with the exception of Pando, these activities have resulted in the signing of letters of intent with one, or more banks, per department and the respective UCF (or the UCP, where the UCF is just getting organized, as in La Paz) to establish subproject financing agreements.

At present, and until the various UCF staffs gain experience, the UCP technical advisors have been responsible for guiding the promotion, identification, design, and evaluation of the subprojects. To date, more than 150 individual subprojects requiring over US$36 million in foreign exchange alone have been identified. Sixty-four of these, for a foreign exchange component of US$9.5 million, are currently in the subproject approval and procurement process. As a result of almost having reached the total funding limit for the entire project (US$9.7 million), the subproject promotional activities of both the UCP and the UCFs have been curtailed so as not to create a backlog of unsatiated demand among potential borrowers and their bankers.

In addition to these activities, UCP staff have also been involved in two other critical areas: project-oriented methodological design and DDC reorganization. Although Implementation Letter No. 16 places the responsibility on the MPC for target population and subproject selection criteria, as well as all of the other guidelines and methodologies required for the implementation of the project, this never became a reality. This task therefore fell to the UCP. As such, all of the project's current guidelines and methodologies have been designed by the UCP staff.

The organizational and administrative structures of the DDCs have not lent themselves to the efficient promotion of regional development, especially in terms of the private sector. The reprogrammed Rural Development Planning Project therefore included the hiring of an expert in organization and administration to provide technical assistance to the DDCs for their restructuring. Reorganization plans, either complete or partial, have been designed for the DDCs of Tarija, La Paz, Santa Cruz, Chuquisaca, Beni, and Oruro.

The results of this activity have not been positive, however, and further work in this area will most likely not continue. Although all of these DDCs requested assistance in their reorganization, they did not, for the most part, implement the recommended courses of action. In Tarija and Chuquisaca, none of the recommendations has been acted upon, and in La Paz, Santa Cruz, Pando, Beni, and Oruro, they have been implemented only on a piecemeal basis. The reason appears to be the difficulty of influencing cumbersome bureaucracies lacking the political will to change. Vested interests, inept managers and decision makers, and a general lack of resources were often cited as additional reasons.

The Subproject Loans: Terms and Conditions

In many cases, subproject borrowers are identified by the commercial banks that have agreed to participate in the project. This is often done through their promotional loan departments (as in the case of Bank of Cochabamba and Bank of Santa Cruz); at other times, the banks rely on affiliated consultants to bring them potential clients and projects. In other cases, the UCP or DDC/UCF staff have identified the borrowers and their subprojects and have directed them to one, or more, of the banks. Once this contact is made, subproject design is initiated. This process also can take several forms, depending on the DDC and the educational and financial level of the potential borrowers.

In some cases, the banks have a technical division that assists in the design of subprojects. For the most part, however, the banks recommend private consultants to potential borrowers. These consultants usually charge a percentage of the loan amount (2-3 percent) that is either paid up front, or can be included in the loan value. In other cases, where consultants do not exist at a technically competent level (for example, in Oruro) or when borrowers are financially unable to pay for the design, the DDC or UCF staffs have designed the subprojects.

The financial arrangements for the funding of subprojects are complex, especially in light of Bolivia's spiraling inflation, which averages 5,000 percent per year, and the difference between the official exchange rate of B.$75,000 to the

U.S. dollar, which USAID and the government of Bolivia use, and the parallel exchange rate of from B.$750,000 to B.$1.2 million per U.S. dollar.

A typical loan request will require both a U.S. dollar and a Bolivian peso component. The dollars will be required for the importation of equipment, supplies, or other inputs, whereas the peso portion will go toward labor payments, local construction costs, or working capital. The borrower is required to provide at least 10 percent of the total subproject value (although borrowers are encouraged to provide more, if possible; the average percentage for the 64 present subprojects is 30 percent). The lending bank can rediscount 80 percent of the loan value through the project, but is responsible for repayment of the entire loan amount in both dollars and pesos. Since the commercial banks do not, in theory, have access to foreign exchange, they usually put up 20 percent of each loan in pesos, while the project provides 80 percent in dollars. Normally, however, a borrower will receive the loan from three sources: the bank's 20 percent portion, the project's U.S. dollar portion, and P.L. 480 Executive Secretariat's peso portion.

The interest rates applied to each loan component are different. In the case of dollars, the rate is 16 percent per year repayable at the B. $ 75,000 per dollar official rate, but with a maintenance-of-value clause pertaining to the principal. This clause implies that, through devaluation, as the official exchange rate moves closer to the parallel rate, the amount owed in pesos would increase proportionally.

The P.L. 480 peso portion also carries the 16 percent annual interest and the maintenance-of-value clause. In the case of the 20 percent peso portion of the loan provided by the banks, interest rates are calculated at whatever the market will bear (between 45 and 75 percent per month, compounded monthly), but without the maintenance-of-value clause.

In reality, the dollar portion of the loans is a gift, given the current spread between the official and the parallel rates. The worth of this gift will become less as the official rate is devalued (although not immediately, during the current period of presidential elections), but will remain a bargin until the two exchange rates become equal. To keep these loans from immediately becoming windfall profits, the project has imposed a prepayment prohibition clause. Without this clause, a borrower could obtain a loan for imported machinery, for example, sell the machinery at the parallel market rate, pay off the loan at the official rate, and pocket the difference. This prepayment prohibition is currently being applied. Some observers, however, have expressed doubt about its effectiveness because Bolivian banking law expressly allows for prepayment, although a fine equal to one year's interest must be paid.

The P.L. 480 peso portion of the loans also is unusual, as a result of the maintenance-of-value clause. In this case, pesos are lent, and must be repaid, at the official rate. But should the currency be devalued (which will have to happen over the average five-year amortization period of the loans), the borrower will be required to pay back at the new higher rate. With the two rates currently in variance by a factor of 10, the potential increase in a borrower's debt obligation is also 10-fold. Realizing this, borrowers and bankers alike are reluctant to borrow pesos through the project. (Two bankers admitted to having advised their clients to delay loan requests until the official peso was substantially devalued. Other bankers told of having their clients withdraw their loan requests for the same reason.)

An additional effect of the maintenance-of-value clause and the variance in exchange rates concerns the guarantees required by the banks. Since the banks are responsible for repayment of the entire loan to the project, they have tended to apply one guarantee policy to all segments of the loans. Predicting relatively large devaluations in the future, some banks require loan guarantees of up to 10 times the loan value on the peso portion, and in some cases on the dollar portion as well (a factor of two to three times is considered normal for Bolivia, which some banks will still accept). Needless to say, most borrowers neither will, nor can, provide these guarantees.

The issue of bank spread in the interest rates was also a topic considered by the evaluation team. In the case of the project and P.L. 480 Executive Secretariat portions, which allow the banks to charge 16 percent, 3 percent is to be retained by the banks to cover their administrative costs, 0.75 percent is to be retained by the UCFs for their administrative costs, and 12.25 percent is to be paid into the UCF's revolving fund for future lending. Approximately one-half of the bankers interviewed stated that the 3 percent spread was sufficient to cover costs, whereas the other half stated that it was not, but that the loss could be covered by interest on the bank's 20 percent portion or from other charges. In no case did the spread appear to be an impediment to a bank's entering the program. Most bankers interviewed stated that the real attractiveness of the project was the ability to obtain foreign exchange and to expand its clientele to a target population with which it had previously not dealt.

Nevertheless, a recent study of Bolivia's financial sector commissioned by USAID found that, as a result of hyper-inflation and the variance between the official and parallel exchange rates, many banks do not know their actual costs of lending. Furthermore, the study concluded that administrative costs on small loans averaged between 9 and 12 percent of loan values (not in variance with the experience of other developing countries). This difference between the current 3 percent spread and potential costs could, in time, become an obstacle to bank participation in the project.

A word of caution concerning the revolving funds to be established in each UCF as the subproject loans fall due: If measures are not taken to bring the official and parallel rates as close together as possible, these funds will be rapidly decapitalized. The UCP is conducting talks with Bolivian government agencies to determine what can be done to replenish these funds.

Since paying off a loan in fixed value pesos is so beneficial to the borrower at present, loan defaults will probably not represent a problem for the near future. This situation should be monitored, however, since drastic changes in the exchange rates could jeopardize the loan repayment rates.

The Subproject Approval and Disbursement Process

Even more complex than the subproject loan process is the approval and disbursement process. Borrowers, bankers, DDC/UCF officials, and the UCP staff all strongly criticized it. The approval system simply does not work in the time frame required by borrowers to implement their projects. In addition, transactions costs (expenses incurred by the borrower in applying for and receiving a loan) often approach the value of the loan, thus making some subprojects not worth the effort.

Many subprojects are of an agricultural nature; to be successful, they must coincide with cropping cycles. If the funds are not disbursed in a timely fashion, an entire year's production can be lost. Moreover, as a result of hyper-inflation, many subproject budgets rapidly become outdated, requiring the entire approval process has to be reinitiated. The average time necessary for the subprojects to be approved, the money disbursed, and the equipment procured can be 6 months, and some have taken up to 10 months.

It should also be mentioned that, for the purposes of the project and this evaluation, the approval process does not begin until a subproject has been designed, approved by a participating bank, and authorized for submission by a UCF. It then goes to the UPC offices where, because the advisors were involved in the design, it is normally approved relatively quickly.

It then enters the P.L. 480 Executive Secretariat and USAID systems, where most of the problems occur. Among the principal causes for this situation is the hyper-inflation and the vast difference in exchange rates. For example, the P.L. 480 Executive Secretariat receives its funding from government, based on the official exchange rate. However, the subproject expenses that its loans finance are normally in inflated parallel market pesos. This means that the P.L. 480 accounts are frequently without funds, resulting in delays in subprojects.

An additional cause for delays in the subproject approval process is that the project is relatively new and complex. The project also deals with several bureaucracies, each with its own established procedures and regulations, which are at times in variance: the banks, the DDCs, the MPC, the Central Bank of Bolivia, the P.L. 480 Executive Secretariat, and USAID.

Implementation Letter No. 16 delegated much of the authority for project implementation to the MPC and the DDCs. Oversight authority was delegated to the P.L. 480 Executive Secretariat since some of its funds are also included. Most important, however, the banks and their borrowers were responsible for their own actions in terms of subproject feasibility as long as they fell within MPC- and USAID-established selection criteria. The implementation letter also implies that the private sector (banks and borrowers) would handle the procurement of goods financed under the subprojects.

As this system broke down, with the MPC unable to provide an institutional framework for the project and the DDCs too inexperienced, USAID was forced to become more involved in project implementation, especially in the subproject approval process and in the procurement of imported items financed by the subprojects. At present, USAID operates as both a development bank and a procurement agency. It has neither the staff nor a sufficiently agile administrative system to perform these tasks.

Meanwhile, as the project evolved over the past year, the P.L. 480 Executive Secretariat either assumed, or was granted, an ever greater role in the subproject approval process. This office now approves all subprojects, including those that do not require P.L. 480 funding. This was taking place precisely when the UCP was establishing its assigned role as a promoter, designer, and evaluator of the subprojects.

In summary, the approval process now involves the following players, anyone of which can stop the advancement of a sub-project:

- A bank, which approves the financial and legal aspects of a subproject;

- The DDC/UCF, which determines that the subproject fulfills the target group, technical, socioeconomic, institutional, and environmental criteria;

- The UCP, which has in most cases assisted the UCF in ensuring that the subproject complies with the selection and feasibility criteria;

- The P.L. 480 Executive Secretariat, which reviews the subproject based on the exact same criteria as the UCP; and

- USAID, which reviews the subproject based on the exact same criteria as the P.L. 480 Executive Secretariat. At present, no less than seven signatures must be obtained within USAID before the procurement process even starts.

Two additional comments are in order concerning the approval process. First, the definition of the target population has evolved from the urban and rural poor to small and medium producers in the private sector. Project selection criteria are also vague, with guidelines limited to employment creation, generation of foreign exchange, import substitution, and increases in agricultural and agro-industrial production. The result of this lack of specificity has meant that each player in the approval process judges a subproject on often subjective, self-defined criteria, from those that follow the poorest of the poor New Directions mandate to those that emphasize the private sector and financial viability. A lack of established criteria concerning subproject financial limits, or per beneficiary loan limits, has also delayed some of the larger subprojects.

A second comment concerns a potential semantical difference, between Spanish and English, in the use of the words "to evaluate" and "to observe." In English, "evaluate" normally means the comparison of results with expected outcomes. In Bolivian Spanish, and in terms of this project, "evaluate" means the affirmation that a subproject complies with established selection criteria and feasibility issues. In contrast, "to observe" in English means to examine an issue without commenting on it, whereas in the Bolivian context of this project, it means the ability to point out discrepancies or anomolies in a subproject, but not to impede its progress. In the original concept of the project, and in the evaluation team's view of the current situation, evaluation responsibility was given to the banks and the DDCs/UCFs (with the assistance of the UCP staff) and observational responsibility was given to the P.L. 480 Executive Secretariat and USAID.

At present, the subproject approval process is in disarray, with each player blaming the others. The UCP has suggested the establishment of two committees to rectify this situation. One would be called the Project Coordinating Committee and would be composed of the USAID Project Manager, the UCP Director, and the Subsecretary of P.L. 480 Executive Secretariat. The Coordinating Committee would be a permanent body to establish guidelines, standards, and procedures for subproject approval; coordinate the actions of the three entities involved in the project; and resolve differences among them. The second would be a series of ad hoc Technical Project Approval Committees, whose members would be chosen according to the particular problems to be resolved. For example, in the case that a subproject is held up in either the P.L. 480 Executive Secretariat or USAID for more than a specified period of time, a committee of representatives would be convened from either the P.L. 480 Executive Secretariat or USAID, the UCP, and the appropriate UCF. This committee would then consult with the borrower, the bank, or the import suppliers, whichever is appropriate, to identify and resolve the problems that led to the halt in the approval process. The evaluation team fully supports the concept of both committees and urges USAID and the P.L. 480 Executive Secretariat to give it their full support.

As of July 1985, 64 subprojects were in the approval and procurement process. Table 1 shows the division of these subprojects by DDC and level in the approval process.

TABLE 1

SUBPROJECTS IN THE APPROVAL PROCESS

DDC	Presented to P.L. 480 No.	Presented to P.L. 480 US$ '000	Presented to USAID No.	Presented to USAID US$ '000	Approved by USAID No.	Approved by USAID US$ '000	Project Implemented
CORDECO	18	1,392	5	622	5	258	0
CORDEPAZ	4	375	4	375	3	160	0
CORDECH	13	3,062	5	1,885	3	72	0
CORDEBENI	6	1,377	4	611	1	--	0
CORDECRUZ	18	1,446	14	839	11	513	0
CODETAR	4	1,866	4	1,866	0	0	0
CORDEPANDO	1	25	1	25	0	0	0
CORDEPO	0	0	0	0	0	0	0
CORDEOR	0	0	0	0	0	0	0
Total	64	9,543	37	6,223	23	1,003	0

Source: UCP, Memoria Informe al 30 de Junio, 1985, La Paz, July 9, 1985.

The DDCs with the greatest number of subprojects are CORDECO, CORDECRUZ, and CORDECH. Those with the fewest are CORDEPO, which does not as yet have a UCF, and CORDEOR, which submitted its first four projects during the last week of July 1985. No subprojects have yet been implemented.

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CHAPTER THREE

ISSUES IN THE STATEMENT OF WORK

This section addresses several points that were of particular concern to the USAID staff. Most of these issues were articulated in the Statement of Work. These are divided into three categories: program results, the current process, and project benefits. Each issue is presented below, followed by the evaluation team's comments.

PROGRAM RESULTS

> (1) The usefulness of planning strategies and methodologies developed at the departmental level to the process of elaborating coherent departmental development plans and private sector projects.

In addressing this issue, it is critical to consider two interrelated points. First, the philosophy of, and justification for, macro- and micro-level planning within the framework of the DDCs has changed over the life of the projects. Second, regional planning most likely takes on a different role when the focus of attention passes from public sector to private sector activities.

When the two projects were designed, both USAID and the government of Bolivia emphasized public sector activities that would improve the overall standard of living of the urban and rural poor. This philosophy, began to change about the time of project reprogramming as the increased emphasis on productive activities in Implementation Letter No. 16 demonstrates. The letter specifies four types of potential subprojects: private sector, joint ventures, DDC enterprises, and rural infrastructure projects. At the time of reprogramming, therefore, the projects' current private sector focus was beginning, but the emphasis on public sector activities, and their corresponding need for

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traditional regional planning, were still strong. Now, almost two years after reprogramming, the private sector activities of the projects have superseded their public sector activities.

This is not to say that the methodologies and strategies that were designed during the past two phases of the Rural Development Planning Project are not useful to the current projects, or to the DDCs in general. The DDCs continue to emphasize public sector activities (although somewhat more production-oriented than before), and use the methodologies and strategies designed under the Rural Development Planning Project. Similarly, they form the framework within which the current Departmental Development Corporations Project operates, as well as establish the parameters for current subproject selection.

> (2) The value of training, seminars, and publications to the institutional capacity of the Corporations to carry out the process of elaborating coherent departmental plans and private sector projects.

Since reprogramming, and indeed even since the Scope of Work for this evaluation was written, the vehicle for subproject design and implementation has changed from the DDCs themselves to the UCFs and the commercial banks. The focus of the VCP has therefore changed to the training of UCF staff through seminars and short-term technical assistance. Seminars and promotional visits have also been used to inform the banking sector about the project and its requirements. The informational publications, guides, and methodologies that have been drawn up by the UCP staff form the basis for all subproject design and documentation. The 150 subproject requests, with 64 already in the approval process, are the best indicator of the success of this facet of the project.

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Notwithstanding the change in project focus from the DDCs to the UCFs, it is hoped that the DDCs will benefit significantly from the creation of their own financial windows. Since the UCFs have only recently been formed, it is difficult to predict their eventual impact on the DDCs. Nevertheless, the ability of the UCFs to deal with small- and medium-scale private sector borrowers, while attracting external sources of capital, is a concept that has merit. As the UCFs develop, they should be monitored on a continuous basis and be provided technical assistance when needed.

(3) The outreach capacity of the corporations to promote, elaborate, and evaluate financially sound projects in the private sector, and their ability to collaborate with private sector institutions.

The DDCs are the best-known public agencies in the departments. DDCs are expected to solve the majority of local needs, and, in the past, have been pressured to provide services, such as roads, schools, and health facilities. In effect, the DDCs have substituted for many public sector agencies at the local, departmental, and national levels.

It is not surprising, therefore, that the current economic crisis, which has affected the DDCs by dramatically reducing in their resources, has produced a serious institutional crisis as well. Several DDCs, for example, rely on mineral and petroleum royalties as their principal source of funds. The government pays these royalties to the DDCs in official rate pesos, but DDC expenses must be met at the parallel rate. In real terms, the endowment of each DDC has been drastically cut as a result of the hyper-inflation and the existence of the two exchange rates. This situation is leading to changes in the nature and role of the DDCs, especially as they realize the need to seek alternative funding sources.

It is within this context that the concept of the UCFs has emerged. By July 1985, UCFs were functioning within the DDCs of Santa Cruz, Cochabamba, Chuquisaca, Oruro, Beni, and Tarija. The formation of UCFs in La Paz and Potosi is in progress under the guidance of the UCP. The small size of the DDC in Pando does not justify the creation of its own UCF.

With an average of two technicians per unit (usually on assignment from their DDCs), the capacity of the UCFs is still limited. This is partially explained by the short time that the UCFs have operated and by the limited number of approved subprojects per UCF, almost none of which has reached the implementation stage. (In CORDECH, the evaluation team was told that the decision to hire a UCF manager was in abeyance until "USAID shows some sincerity in approving subprojects. We can not afford to have a manager if he has nothing to manage!")

During this initial phase, the role of the UCFs has been limited to:

- Disseminating information about the credit line and conditions to bankers and other private sector groups and promoting its use; and
- Conducting first-tier evaluations of subprojects identified and designed by the private sector borrowers, their consultants, or the UCF itself.

This limited role allows for only a partial evaluation of the capacity of the UCFs to promote, identify, and design financially sound projects. Although it is understandable that in this first phase they would play a limited role, the question arises about their future ability to operate independently, that is, without the support of their DDC or the UCP advisors.

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Under the current structure, the UCFs have almost no responsibility and no decision-making power, even for small loans. This responsibility rests with the UCP and the P.L. 480 Executive Secretariat, and all final decisions are left to USAID. The current project structure resembles, as was indicated by many UCF staff interviewed, the much-criticized centralist tendency of Bolivian public administration. In that system, only the highest authority within an agency makes all descisions under criteria known only to itself.

Under the current approach, the UCFs act as a clearinghouse for subprojects presented by potential borrowers and their banks. The subproject evaluation conducted by the UCFs is critical since it goes beyond the normal financial and legal analysis that the banks perform. As a clearinghouse, the UCFs select subprojects that comply with guidelines provided by the project and that fall within the departmental development plans. These guidelines normally cover the areas of socioeconomic feasibility, technical viability, and institutional capabilities. The financial and legal feasibility of the subprojects is normally checked by the bank involved and only reviewed by the UCF.

Over the past few months, the staffs of the UCFs have gained experience in analyzing subprojects according to these five categories. The staffs are weakest in the area of institutional analysis, especially in the cases of farmer groups and cooperatives. More attention must be given to this section of the subproject profile. Similarly, problems frequently arise with the socioeconomic feasibility sections when the subprojects reach the P.L. 480 Executive Secretariat and USAID. This, however, is due to the vague definition of the target population and to a lack of specificity in the socioeconomic criteria. In either case, the technical assistance and supervision provided by the project to the UCFs are still critical to their future and long-term success.

The UCFs, with the support of the UCP advisors, have had excellent results in their outreach campaign to establish ties to the banking and other segments of the private sector. Thus far, the DDCs/UCFs have established linkages with such private sector institutions as banks; producers associations; cooperatives; and the Chambers of Businessmen, Agriculture, and Commerce.

The reactions to this campaign have been good, resulting in the current set of 64 subprojects, with over 80 additional ones awaiting funding. Given this excessive demand, the UCFs have all curtailed subproject promotion activity until the certainty of future project funding is clarified.

Although these advances are important, the institutions the UCFs reach are the traditional members of the private sector. They exclude large segments of the rural and urban low-income population, who constitute the largest segment of the private sector of Bolivia. The overwhelming majority of the rural and urban low-income population is made up of independent producers, including farmers, miners, merchants, artisans, mechanics, and carpenters.

A number of other private sector institutions and agencies work for, and with, this population. If the UCFs could establish linkages with these institutions (often called private and voluntary organizations [PVOs]), the UCFs could greatly expand their outreach capacities. Examples of these institutions include federations of cooperatives such as FENACRE, COINCA, and AGROCENTRAL; non-profit rural development support institutions such as DESEC, CIPCA, ACLO, and FIDES; and other public agencies working in rural areas such as IBTA and SNDC. The establishment of linkages with these types of institutions could provide the UCFs with a ready-made outreach capacity far beyond what the UCFs themselves can provide. These organizations could also be useful in screening the institutional capabilities of potential borrowers.

This same type of relationship could also be developed between the UCFs and the DDCs. All DDCs have ongoing rural development projects within their respective departments. These could be used to identify and elaborate production-oriented subprojects for rural communities and producer associations in these areas. These subprojects could then be presented to the UCFs for funding. Under this type of approach, the role of the DDCs would be similar to that of the banks and private and voluntary organizations in terms of helping their clients identify, design, and implement financially sound subprojects.

THE CURRENT PROCESS

(4) The extent to which technical assistance provided by the Project Coordination Unit to the Ministry of Planning and Coordination has benefited project implementation since reprogramming.

The concept of the MPC serving as the institutional home of the projects never was realized. Rather, assistance in regional planning, since reprogramming, was provided to the MPC in the form of a technical advisor for ten months during 1983-1984.

With the help of planning information provided by the nine UCP staff members assigned to the DDCs, this technical advisor assisted MPC staff in the preparation of several important planning documents that the MPC uses (albeit in their updated form since the advisor left over a year ago). These include:

- A Regionalized Socio-Economic Statistical Series, 1975-1982;

- Surveys, Strategies, Objectives, and Policy Documents for the Nine Departments;
- Bolivia: Its Industrial Sector, Identification of Industrial Opportunities;
- Bolivia: Employment, Migration, and Living Conditions;
- Bolivia: The Agricultural Sector; and
- Macro Level Evaluation of the Country's Natural Resources.

In most regards, the MPC has worked isolated from the DDCs, preferring to relate to the line ministries in planning for theirs annual budget submissions to the Ministry of Finance. Although the MPC in theory approves the budgets and annual work plans of the DDCs, in practice it merely rubber stamps them, and includes them almost verbatum in the national plan. As a result of the weak position of the MPC, and its often highly politicized nature, technical assistance was withdrawn by the project in February 1984.

In summary, the project-supported activities with the MPC were curtailed shortly after reprogramming. Any lasting results from the technical assistance remain with the counterparts who may have benefited from learning new methodologies and procedures.

(5) The benefits to the Corporations of the technical assistance and training provided by the Projects from reprogramming to date.

In considering this issue, three phases of project implementation must be taken into account: the regional planning technical assistance in 1983-1984, the technical assistance in the reorganization of the DDCs from reprogramming to date, and the current assistance in subproject promotion and design through the UCFs.

The regional planning technical assistance phase of the Rural Development Planning Project was thought to have been a success by those DDC officials whom the team interviewed. The technical expertise imparted by the advisors served to establish quality standards and methodological models for the preparation of departmental one- and five-year plans and yearly operational plans for all of the nine departments.

DDC officials interviewed felt that the presence of an advisor assigned to their staff, but not actually a part of it, resulted in far greater objectivity in the planning process. This factor, in the view of many of the advisors, allowed them some political leverage. DDC officials and advisors alike agreed that, although this phase of the project had been successful, it had served its purpose and that the new subproject-oriented focus was the correct way to proceed. Many respondents also felt that most DDCs can now prepare their own annual work plans as well as update their five-year plans.

The technical assistance in the restructuring of DDC organizational and administrative arrangements was not a successful effort. Despite of the fact that the DDCs themselves had requested this assistance, very little has been done to implement the recommendations, and the UCP has therefore decided to curtail this activity in the future. The possibility exists, however, that the UCP will still offer short-term technical assistance in this area to meet specific requests from the DDCs.

The technical assistance in the establishment of the UCFs for the promotion and design of subprojects is now the main activity of the UCP. Without this technical assistance, the majority of the UCFs would not exist and the significant member of subprojects in the approval process would never have been achieved. The staffs of the UCFs are still without much experience and will require further training. The work that has been accomplished so far is good, but more will be necessary to solidify the current mechanism.

> (6) The extent to which the varying cultural and ecological conditions of the departments affect the capacity to implement a program with a strong private sector entrepreneurial emphasis, particularly within the agricultural sector.

Entrepreneurial tendencies are characteristics that most often transcend cultural and ecological conditions. They are particularly evident when the desire to improve one's lot in life is combined with the availability of, and accessibility to, the necessary resources such as land and capital. Furthermore, it is the type and quality of these resources (assuming a demand for the product) that determine the type of economic activity undertaken.

Most of Bolivia's departments vary considerably between and even within provinces. In the provinces of the highlands (La Paz, Oruro, Cochabamba, Tarija, Chuquisaca, and Potosi), microplot agriculture is primarily limited to the valleys, with only marginally productive agriculture possible in the highlands. Although minerals are mined in all departments, mining is the principal economic activity in both Oruro and Potosi.

Agriculture in general in these departments is on the decline as people migrate to the lowlands, or to the cities, to find work and a new life. In some cases, the male workers of a rural family will migrate weekly to urban centers, returning on the weekends. The wife, or other family members, is therefore responsible for maintaining the family lands.

In the frontier departments of Santa Cruz, Beni, and Pando, the land is uneven in quality, but much of it can be made arable, given appropriate infrastructure (roads, drainage, and irrigation). The vast majority of investment in agriculture over the past two decades has therefore been channeled into these departments. Although this investment has included land preparation, agro-processing facilities, and rural infrastructure, the demand is insatiable, especially in the cases of Beni and Pando.

This brief analysis gives rise to two sets of observations. First, agriculture should not be placed as the only priority category in the highland departments. Rather, the entrepreneurs of these departments should be left to choose the sectors to which they are the best accustomed and think they have the best chance of success.

In the lowland departments, it is probably correct to promote agriculture, broadly defined, since both the land resource and the climate are appropriate. Nevertheless, agriculture should be defined to include machinery supply, primary and secondary processing, storage facilities, and transportation.

The second observation is that entrepreneurs will tend to congregate in urban areas where capital, education, and other infrastructure are more plentiful. The majori~~ty of~~ subproject requests will therefore come from the urban, or near urban, areas, regardless of the department involved and despite its cultural or ecological conditions. Realizing this urban bias on the part of entrepreneurs further underscores the need for less emphasis to be placed on agriculture.

In summary, the private sector entrepreneurial activity that the projects hope to promote will surface independently of the cultural or ecological conditions, if the necessary other conditions exist in terms of access to land and capital. Equal access to these resources is an issue that will have to be monitored. It is discussed below in the section on project beneficiaries.

> (7) The adequacy of the work plan for the present calendar year to bring the Corporations to the level of competency necessary to carry out the program and achieve Project purposes by the PACD.

The work plan for the UCP is in the form of a Logical Framework Matrix, which summarizes individual departmental work plans drawn up during the annual staff meeting. The work plan appears to be a logical, realistic document, except for the subproject approval process. Although the UCP must share responsibility for the current problems in the approval process, to a large extent this situation is beyond its control. Since many of the work plan's achievement criteria are based on the approval of subprojects, many UCP goals are not being met in a timely fashion.

In addition, many of the project's goals will most likely not be achieved by the PACD as result of factors not envisioned in the original reprogramming exercise. The need to establish the UCFs (an excellent addition, in the evaluation team's view, but not contemplated when the PACD was determined), the inappropriateness of the MPC as the institutional home for the project, and the hyper-inflation and variance between the official and parallel exchange rates are all factors that have intervened since reprogramming and impede progress toward meeting the goals set by the yearly work plans.

POTENTIAL PROJECT BENEFITS

(8) The potential of the subprojects to affect the standard of living of the target population.

By July 1985, when this evaluation was conducted, none of the 64 subprojects had been fully implemented; consequently, only anticipated benefits can be discussed. These have been estimated on the basis of subproject impact projections that are included, in a limited form, in the socioeconomic justification of each subproject.

The lack of a clearly defined the target population requires analysis of the characteristics of the 64 borrowers and the potential beneficiaries of the subprojects. Over the life of the project, 1978-1985, the definition of the target population has evolved from that of the low income rural and urban population to criteria for subproject eligibility that emphasize production, the private sector, and financial soundness.

Funding priorities are established in the five-year departmental and national plans. As such, subprojects are eligible for funding under the project if they demonstrate potential benefits in one or more of the following categories:

- Production and productivity increases;
- Employment generation;
- Use of locally produced inputs;
- Diversification from traditional crops;
- Food production;
- Per capita income increases;
- Import substitution;

- Export potential/generation of foreign exchange; and
- Production of intermediate inputs for the agroindustrial and artisan sectors.

Subprojects are always in at least one of these categories, and often several. Attempts are made by the UCP and UCF staffs to make subproject designs coincide with this list of priority areas. Nevertheless, in a country as economically, socially, and culturally heterogeneous as Bolivia, only a relatively small segment of the population will be able to meet the lending criteria of the banks or the project (including guarantees, past credit experience, and ability to afford a consultant) without technical and financial assistance.

The capacity to undertake subprojects that meet the credit program criteria can be related to a set of minimun conditions for individuals and organized groups. Individual entrepreneurs will most likely have a relatively high level of education (secondary level or higher); be familiar with banking institutions; have either the capacity to identify and design a subproject, or the resources to finance its design; have sufficient economic and/or social status to negotiate with banks, importers, and the UCF; and have the necessary technical and managerial skills to implement the subproject or the resources to hire both technical and managerial expertise.

Organized groups must have the necessary institutional capacity to implement the subprojects. This includes technical and managerial capacity within the institution or the resources to hire technical assistance to strenghten its institutional capacity. Requirements other than institutional capacity for organized groups are not as essential for subproject implementation success as they are for individual entrepreneurs.

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It is likely that the actual percentage of the potential target population that is ready and able to qualify as project beneficiaries is relatively small. The existence of organized groups, allowing greater benefit spread and proven institutional capacity for project implementation, is also relatively small.

Although the demand for project funds already far exceeds supply, the potential target population that can be directly affected is being reduced to those who either individually, or in organized groups, can meet the criteria for subproject eligibility. In the Bolivian socioeconomic and cultural context, this means a small segment of the total population.

During the first year of the project's new focus, the target population breaks out accordingly:

- 0-34 subprojects (57.6 percent) by individual entrepreneurs;
- 0-14 subprojects (23.3 percent) by organized groups, that is, cooperatives and producer associations;
- 0-10 subprojects (16.7 percent) by companies; and
- 0-2 subprojects (3.3 percent) by mixed public and private sector enterprises.

Based on interviews with borrowers and with UCF and UCP personnel, it is clear that the typical individual entrepreneur/borrower is an urban resident, has a formal education, is a traditional client of the banks, and has a middle- to upper-level income. Most of the subprojects proposed by the individual entrepreneurs deal with agricultural production or processing, reinforcing a growing trend toward the participation of higher-income individuals in the modern agricultural sector. This trend, which breaks with tradition in Bolivia, reflects on the economic attractiveness of agricultural projects that use modern technology. The trend also reflects, however, the scarce opportunities for equally profitable occupations within the traditional urban activities (public sector employment, commerce, and independent professionals).

A profile of the organized groups as borrowers of the credit program shows that they are usually relatively well-established cooperatives or producer associations comprising rural and urban low-income producers of agricultural and artisan products. The members of these organized groups have lower levels of formal education than the individual entrepreneurs, are relatively recent clients of the banks, and are less skilled in dealing with private (including banks, importers, and consultants) and public institutions than the individual entrepreneurs. The size of their units of production are small and their use of technology low, thus leading to their becoming organized. The marketing of their production, however, seems to be the most important reason to form a group, as seen by the rapidly growing number producer associations.

The other two categories of borrowers, the firms and the mixed sector enterprises, belong to the traditional type of industrial or agroindustrial institutions of Bolivia and are typical bank clients. In these cases, the primary beneficiaries of the subprojects are the workers who will be hired as a result of the increased economic activity.

The predominance of individual entrepreneurs among the borrowers of the first 64 subprojects is a logical consequence of the eligibility criteria, the bank's preferred type of client, and the imperative to spend money before the PACD. It also reflects the experimental nature of the credit program during its first year; the absence of selection criteria to rank potential subprojects other than on financial return; and the scarcity of foreign exchange through traditional channels, which biases subproject submission toward those requiring foreign-made goods and services.

The presence among the borrowers of organized groups of small producers that have qualified under the eligibity criteria indicates the viability of these groups. Many subprojects from these groups have been identified by the banks. This reflects both the increasing integration of the small producers into the national economy and the changing nature of private banking institutions, which previously restricted their activities to a small upper-income segment of the population.

Although an analysis of the more than 80 subprojects that are not yet in the approval process was not possible, conversations with UCP and UCF personnel indicated that the majority of these subprojects were proposed by organized groups (cooperatives and producer associations). In Oruro, for example, of the 14 identified subprojects, 11 are by organized groups, 2 by individual entrepreneurs, and 1 by a firm. All other UCFs visited have expressed their interest in working with organized groups, which were not previously recognized as potential borrowers during the first phase of the credit program.

The justification for a number of subprojects is their potential ability to increase food production, save or generate foreign exchange, or use nationally produced inputs. All of these goals reflect the objective of helping in the economic recovery of the departments and of the country as a whole.

To the extent that these selection criteria help alleviate the current economic crisis of the country, they benefit everyone. Given the dramatic nature of the economic crisis, perhaps the importance of stimulating economic growth has put every other concern, such as equity, in a secondary position.

This is reflected in the lack of specific selection criteria to choose among subprojects that are equally sound financially, and in the socioeconomic evaluation of the subprojects themselves. In the latter case, there is no analysis of the possible secondary affects of some of the subprojects. Nor is there any evidence to indicate that the benefits of subprojects will spread beyond the individual entrepreneurs, or firms, in ways that can affect the standard of living of the indirect beneficiaries of these subprojects.

For example, although a rice mill project may create one or two unskilled positions and process locally produced rice, there is no evidence that the rice producers will be paid better prices than they receive from the middlemen. Similarly, although it is true that a chocolate factory may increase the demand for cocoa beans, there is no evidence in the project designs that indicates how the cocoa producers will benefit from this new demand. It is most likely that all secondary benefits from increased cocoa demand will accrue to a few middlemen.

The 61 subprojects in the approval process (as of July 7, 1985, when Table 2 was prepared) will require a total investment of US$ 22,875,349, of which borrowing represents 70.5 percent of the total. Table 2 depicts borrower contribution, credit requested, and direct and indirect employment created by corporation.

TABLE 2

INVESTMENT AND JOB CREATION

DDC	No. of Projects	Investment: Borrower	Investment: Credit	Investment: Total	Jobs Created: Dir.	Jobs Created: Indir.
		US $ '000				
CORDECRUZ	16	1,307	2,610	3,917	265	9,686
CORDECH	13	1,556	4,698	6,254	422	1,701
CORDECO	18	2,556	2,831	5,387	316	190
CORDEBENI	5	386	1,801	2,187	136	10
CORDEPAZ	4	207	579	786	110	100
CODETAR	4	729	3,567	4,296	445	0
CORDEPANDO	1	9	39	48	6	0
	61	6,750	16,125	22,875	1,700	11,687

Source: UCP, Memoria Informe al 30 de Junio, 1985, La Paz, July 9, 1985.

From Table 2, it can be seen that each direct job created by a subproject represents an investment of approximately US$13,456. Furthermore, for every direct position created, 6.9 indirect positions will also be created.

It should be noted that these are anticipated jobs created and that, given the available data, no further analysis is possible. Who would be employed? How much would they be paid? Is the kind of employment created by the subprojects an improvement over previous conditions? These are some of the questions that should be answered in the subproject profiles.

The generation of permanent employment can potentially benefit unemployed rural and urban residents. Subprojects that increase the income of small producers by creating demand for their produce have the potential for greater benefit spread. Subprojects that benefit only an individual entrepreneur may result in demonstration effects because of the technology used. Nevertheless, without some plan to transfer this technology to traditional rural producers, indirect benefits from the sub-projects might not be forthcoming.

CHAPTER FOUR

RECOMMENDATIONS

This chapter comprises recommendations to improve the Rural Development Planning Project and the Departmental Development Corporations Project. These recommendations are divided into four categories: short-term technical assistance and training, future strategies for project development, suggestions to improve the subproject approval process, and suggestions for project follow-on.

SHORT-TERM TECHNICAL ASSISTANCE AND TRAINING

Two target groups have been identified to receive technical assistance and/or training: the DDCs/UCFs and subproject borrowers.

The DDCs/UCFs

The staff of the DDCs and the UCFs are not yet sufficiently trained in the concepts or functional execution of the project. Similarly, they lack familiarity with the ways in which the planning process can be tied to the subproject implementation process. To these ends, the evaluation team recommends the extension of UCP technical assistance to the DDCs for a period of six months to one year after the project assistance completion date (PACD) of December 30, 1985.

Significant strides have been made in reorienting the staffs of the DDCs and their UCFs toward private sector types of activities. Yet these advances could easily be lost if the project were to be canceled before a substantial number of subprojects have been implemented. The UCFs need a period of subproject implementation experience under the careful supervision of the UCP staff. No adjustments in the allocation of the four field advisors is recommended since this arrangement appears to work.

In addition, the evaluation team received suggestions for training in data base management and institutional development. The work prepared by the information systems consultant sparked varying degrees of interest among some DDCs, a few of which (for example, Santa Cruz) see the need for its application in the identification of target populations and potential subprojects.

Short-term technical assistance was also requested in the area of institutional development. It would be to assist the DDCs in spinning off several of the public and private sector functions that they have accumulated (all of the DDCs realize this need, although it was articulated the strongest in Santa Cruz). In this regard, short-term visits to the development corporations of other countries (Colombia, for example) by local staff could prove beneficial in addition to the work of a short-term advisor.

Subproject Borrowers

Subproject borrowers could benefit from technical assistance in at least two general areas. The first area is subproject design for those individuals or groups lacking either the financial resources to hire a consultant or the technical ability to design a subproject themselves. The second area is specific technical assistance during the subproject implementation stage in the fields required.

The need for technical assistance in the design of subprojects has not been as critical in the past as it will be in the future. Until this time, subprojects have been designed by

STRATEGIES TO ENHANCE CURRENT AND FUTURE PROJECT DEVELOPMENT

Target Population and Subproject Selection Criteria

At present, the definition of neither the target population nor the subproject selection criteria is specific enough, and in fact is one reason for the delays in the subproject approval process. Implementation Letter No. 16 defines the target population as the "rural and urban poor" working through "productive rural development projects in conjunction with the private sector." The latest implementation letter circulating in USAID suggests that this definition be changed to:

> small and medium agricultural producers, either individually or in groups. Also considered to be in the category of potential borowers are companies (individuals or corporations), if, and when, their projects would signify an important impact in the development of a region.

The evaluation team would prefer a definition that gives less importance to agriculture (especially in the departments where agriculture is not the principal economic activity) but include many types of profitable economic activities, regardless of sector. The team also thinks that several qualifiers should be added concerning small and medium producers. At present, as a result to the economic crisis in Bolivia, many middle- and upper-level professionals on salaries are returning to agriculture to hedge against a further erosion of their standards of living. These people frequently have jobs unrelated to agriculture but try their hand at it anyway. This group does not represent the true target population. The evaluation team therefore recommends a stipulation of at least 75 percent of a person's or group's income come from agriculture, or from the sector for which the subproject is proposed (such as mineral extraction or handicrafts). Other criteria, such as a person's income falling below a specified poverty level by region, should also be considered.

Furthermore, the definition of companies should specify who is to benefit, and in what proportion. The cost of creating jobs could be one measure. The evaluation team did not have access to comparative job creation data by sector, but the US$ 13,456 average cost (for the 64 subprojects in the approval process) for one additional job seems high, especially given the low wages in Bolivia. Further study should be made of this issue, and a capital to-jobs-created ratio determined.

Similarly, subproject selection criteria should be defined in terms of priorities. At present, subprojects are selected based on an individual's understanding of the eligibility criteria. As such, almost any type of project can be approved, and some are specifically designed to fall within the eligibility criteria. An organized system of ranking subprojects according to predefined criteria is lacking.

A three-tiered selection process is recommended, with a sub-project moving to the next tier once it has passed the previous one. The first tier would include a listing of criteria required by the project, or the laws of Bolivia or the United States. An example, which is by no means complete or comprehensive but suggested merely as a guide, is provided below.

TIER 1 CRITERIA

	Yes	No
1) Is borrower willing to use a commercial bank?		
2) Does the subproject require equipment to be imported from within the U.S./Latin American area?		
3) Is the total value of the subproject under US $ 300,000?		
4) Does the borrower have title to the land that he or she wishes to exploit?		
5) Does 75 percent, or more, of the borrower's current income come from the economic activity proposed in the subproject?		
6) Does the subproject require the purchase of land?		
7) Does the subproject require the purchase of transportation equipment?		
8) Will the productive impact of the subproject require more than one year to develop?		

Should a subproject receive a No answer for any of the questions, it would be rejected pending an appeal or further redesign. Having passed the first tier, a subproject would move to the second tier, which would attempt to rank the potential socioeconomic impact of the subprojects through the use of standardized meaures per type of subproject.

TIER 2 RANKING CRITERIA

(Typical agricultural production project for a cooperative; the criteria should be adjusted according to the subproject type; numbers in parenthesis signify potential points.)

1) Agricultural Potential of Area

a) As Is:

- High (10)
- Medium (5)
- Low (1)

b) With Subproject-provided Infrastructure:

- High (10)
- Medium (5)
- Low (1)

2) Market Availability for Subproject Proposed Products

a) Price Controlled:

- Yes (0)
- No (5)

b) Difficulty in Getting Produce to Market:

- Very Difficult (2)
- Moderately (5)
- No Difficulty (10)

3) Institutional Capacity of Cooperative or Group

a) Leadership:

- Excellent (10)
- Moderate (5)
- Poor (2)
- None (0)

b) Participation:

- High (10)
- Medium (5)
- Low (2)
- None (0)

c) Group Cohesiveness:

- Excellent (10)
- Moderate (5)
- Low (2)

4) Economic Activity

a) Percent of Income Derived from Agriculture:

- 100% (10)
- 90% (8)
- 80% (5)
- 75% (2)

b) Past Experience with Economic Activity of Subproject:

- High (10)
- Medium (5)
- Low (2)
- None (0)

5) Financial Inputs

a) Percent of Total Subproject Value Provided by Borrower(s):

10%	(2)
15%	(5)
20%	(8)
+25%	(10)

b) Past Experience of Borrower(s) with Credit Institutions:

Yes	(5)
No	(0)

Total Points for Subproject________

In this example, each subproject of a particular type would be graded and the total points of each would be calculated. Depending on the availability of funds, staff time, or other criteria, a point cut-off would be established (70 out of 100, for example). All projects receiving more than 70 points would advance to the third tier. Those that do not would be rejected or redesigned.

The third tier of the selection process would involve the standard calculations for the internal rate of return and the benefit/cost ratios of the various subprojects. As with the second tier, subprojects would be grouped by type, and specific cut-off percentages and ratios would be established for each subproject group. Once a subproject meets the selection criteria of the third level, it should be approved for funding.

A selection process of this type provides three distinct benefits over the current approach:

- It ties the planning process more closely to the subproject selection process, since the planners and UCF staff would establish the criteria, their weights, and the cut-off numbers.
- It provides an objective allocation mechanism to a situation in which the demand for subproject funds is potentially far higher than the supply of funds; and perhaps most important
- It provides the UCF staffs with definitive criteria that demonstrate their objectiveness and impartiality in subproject selection.

The Subregional Planning Process

Those interviewed for this evaluation generally felt that the overall planning needs of the DDCs had, for the most part, been met by the project. Nevertheless, the suggestion was made to continue technical assistance in at least one planning function, sub-area marketing potential.

Several respondents felt that the current level of detail in the departmental plans and surveys is not as location-specific as necessary to enable the staffs to recommend specific crops that can be grown and marketed. Sub-area planning exercises for sample regions thought to have high agricultural potential should therefore be carried out.

To do this, however, the planning units of the DDCs would require short-term outside technical assistance to establish a common methodology and to coordinate marketing information at the national level. Most of the DDCs would also require logistical support (for example, vehicles and mini-computers) since their current resources are overextended.

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The Financial Mechanisms of the Project

Hyper-inflation, the failure of Bolivia to devalue the peso, current banking practices and regulations, and the requirement for USAID to make financial allocations at the official rate have all contributed to a situation in which some borrowers stand to make windfall profits, whereas others could suffer a considerable loss. At present, the uncertainty and insecurity of the financial system keep many potential borrowers from participating in the project.

A careful analysis should therefore be performed of the terms of the loans, their payback periods, interest rates, the need for maintenance of value clauses, and the minimum proportions requirements. The ability to keep the terms of loans flexible, pending mutual agreement between the borrowers and the banks, should be considered, given changing conditions in the marketplace.

Of critical importance at this juncture, however, is the current uncertainty plaguing the Bolivian economy. As a result of the presidential elections recently concluded, the government has been unwilling to take drastic measures to resolve the country's economic problems (devaluation, printing less money, curtailing the use of price controls, and increasing the efficient allocation of foreign exchange). Until this situation is improved, no firm recommendations can be made.

The Establishment of an IQC-type Mechanism to Select Consultants

At present, the banks and the UCFs frequently use consultants to design subprojects. The quality and reliability of these consultants vary widely. In addition, many of the consultants, even those highly qualified, are not familiar with the project's requirements.

What is needed is a DDC-level short list of pre-qualified consultants accustomed to working with the target population and familiar with the project. This list could be managed by the UCFs and updated periodically.

These consultants should be paid on a fee basis (person-days or a flat fee), rather than a percentage of the subproject's total value once it is approved. In the past, the linking of a consultant's fees to project approval has resulted in projects being designed to simply get through the approval process, rather than because they are technically sound.

The Use of PVO-type Organizations

To improve the capacity of the UCFs to reach the target population, local PVOs and other types of established community organizations should be used. These organizations already work with the target population, have gained their confidence, can judge their institutional needs, and have knowledge of their abilities. They could be used as a vehicle for project promotion and design as well as for continuing technical assistance, especially in the area of institutional development, once a subproject is funded.

For example, federations of cooperatives (FENACRE, COINCA, and AGROCENTRAL) could serve as a conduit between their member cooperatives and the UCFs. As such, they could identify member cooperatives with potentially successful subprojects, assist in the design and processing of the subprojects, and in some cases replace the banks as the financial intermediary. The interest spread earned could help defray the costs of assisting the UCFs.

In addition, these organizations could also be provide ongoing institutional support during subproject implementation (for example, training programs, auditing services, and leadership seminars). These services could be part of each federation's normal outreach programs, as well as contracted for by the UCFs through the project's Technical Assistance Fund.

Other local community-oriented organizations (DESEC, CIPCA, ACLO, and FIDES) and public agencies working in rural areas (IBTA and SNDC) could be utilized in similar ways.

THE SUBPROJECT APPROVAL PROCESS

The Project Coordinating Committee and the Technical Project Approval Committee

The problems of the subproject approval process have reached catastrophic proportions for the borrowers. The banks, the DDCs, and USAID will loose credibility if subproject funds do not begin to flow soon.

These projects have been responsible for the promotion of two types of relatively new relationships: the public sector is now attempting to deal with the private sector (the DDCs and the banks and borrowers), and the commercial banks are beginning to deal with non-traditional clients (to a great extent, the target population). The issue of institutional credibility is normally a critical one in business dealings and in the past has been extremely difficult to engender in either of the above two cases.

Nevertheless, the process has now begun. The DDCs and their UCFs have been talking to the bankers and other representatives of the private sector. More important, many commercial banks have signed agreements with the DDCs that express bank interest in participating in the loan program. Similarly, several banks have initiated outreach programs to identify and promote subprojects among non-traditional clients. Moreover, potential borrowers who would never have considered borrowing from a bank are presenting subprojects to the banks. All of this, however, is about to end, with great damage to the incipient credibility already gained.

To resolve this problem, the UCP has proposed the establishment of two committees; a Project Coordination Committee and a Technical Subproject Approval Committee. The first would consider and resolve issues involving each agency's (USAID, the P.L. 480 Executive Secretariat, and UCP) participation in the approval process including procedures, requirements, and regulations. The committe, would meet regularly and whenever issues threaten to slow down the approval process. It would be composed of the USAID Project Manager, the Subsecretary of the P.L. 480 Executive Secretariat, and the Director of the UCP. This type of a committee has been suggested in the past, but until recently (July 31, 1985, was the first meeting) it was not given the importance or attention it deserves.

The second committee would in fact be a series of ad hoc committees, each established to resolve specific problems pertaining to a particular subproject. It would be composed of different representatives depending on the particular problem, that is, USAID, P.L. 480 Executive Secretariat, bank, borrower, UCF, or UCP. The mandate of these committees would be to resolve problems as quickly as possible.

The evaluation team strongly recommends the institutionalization of both of these committees. Unless the interested parties begin an open and sincere dialogue to resolve the problems in the approval process, most of the gains achieved by the project could be jeopardized.

Streamlining the Approval Process

The problem of lost or missing documents is often an obstacle to subproject approval. Each subproject folder should have a checklist of the necessary documents with the dates required and the persons responsible. In addition, given the proliferation of individuals and agencies involved in the approval process, the many different types of documents involved represent a duplication of effort. The evaluation team therefore recommends that one standardized set of subproject documents be designed. This system should start at the UCF level and be used throughout the approval process. The subproject documentation requirements are being revised by the UCP staff. The evaluation team supports and encourages this effort.

The Involvement of USAID and the P.L. 480 Executive Secretariat

USAID is currently in both the development bank and procurement businesses. This situation was not intended in the design of the projects but evolved as the state of the Bolivian economy and the institutional capacity of the various governmental agencies deteriorated.

Similarly, the current role of the P.L. 480 Executive Secretariat was not contemplated in the original design of the project. Nevertheless, as its funds began to be used in some subprojects and as the MPC and the DDCs appeared less able to fulfill their respective roles, more authority was granted the P.L. 480 Executive Secretariat until it now has veto power over all subprojects.

The evaluation team realizes that Bolivia is in an economic crisis and that neither USAID nor the P.L. 480 Executive Secretariat desires the roles that have fallen on them. Nevertheless, the team recommends that both USAID and the P.L. 480 Executive Secretariat divest themselves of these responsibilities. In the meantime, however, the following suggestions are offered to speed up the current approval process

- Each subproject request would be approved only by the designated USAID Project Manager; a standard implementation letter would then be completed with the appropriate information; this letter would require only the signatures of the Comptroller and the Mission Director.

- The use of provisional invoices from equipment suppliers should be approved to alleviate delays. These provisional invoices could be used to get the subprojects through the approval process and to the signing of the implementation letters. At that point, official invoices could be obtained from suppliers that would have expiration dates beyond the time required by USAID's procurement process.

- Subprojects not requiring P.L. 480 peso funding should not need to pass through the P.L. 480 Executive Secretariat. The UCFs, with the assistance of the UCP staff, are gaining experience in subproject design and evaluation. This, together with UCP oversight, for the most part nullifies the need for the evaluation of subprojects other than its own by the P.L. 480 Executive Secretariat.

Given changes in the current situation in Bolivia, however, the following additional recommendations could be implemented:

- As the UCFs evolve into their proposed position as development banks, or "financieras," they should be given much of the responsibility of subproject approval (all subprojects below US$ 100,000, for example. Santa Cruz is almost ready for this responsibility now).
- USAID should provide quarterly disbursements to the DDCs/UCFs in U.S. dollars, and under a pari passu system, that is, each new quarter's disbursement based on the amounts lent during the previous quarter. USAID's role could then be reduced to a yearly auditing exercise.
- Upon approval of a particular subproject, the responsible bank would receive the U.S. dollar amount from the DDC/UCF. The bank would then issue its own letters of credit to equipment suppliers.
- The entire P.L. 480 approval process could be avoided for all subprojects if local peso costs were to be financed through U.S. dollar conversions from the project.

PROJECT FOLLOW-ON

The evaluation team was sufficiently impressed with project successes to date to recommend a continuation of the current projects, as well as the implemenation of a second, similar, project. This section will therefore consider project follow-on in three stages: the continuation of the current projects, a transition period between these and the follow-on project, and the follow-on project.

The Current Projects

The evaluation team strongly recommends that the PACD for both the Rural Development Planning Project and the Departmental Development Corporations Project be extended to allow for sub-projects in the process of receiving approval to be funded and

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implemented. This extension would also be necessary to consolidate the organization and administration of the UCFs throughout the country and to complete the work of the UCP. Twelve additional months beyond the PACD will be necessary for these activities.

The Transition Period

Until a second Departmental Development Corporations Project can be designed and funded, a transition period will most likely occur. It is important that this transition be as smooth as possible so as not to rekindle the credibility problems discussed above, as well as not to loose the momentum and experience already achieved by the DDCs and the UCFs.

If the recommendation to extend the PACD of the projects to December 1986 is accepted, additional funds will be required until the new project can be designed. The US$9.7 million fund is now (July 1985) almost totally committed. Furthermore, 88 additional subprojects have been identified with foreign exchange requirements of over US$36 million. (According to the majority of the bankers interviewed, this represents only a fraction of potential credit demand.) These figures would imply that considerable additional funding could be required during this period.

Furthermore, salaries, administrative and operational costs, and logistical support would be required to support the UCP team throughout calendar year 1986, and possibly into 1987, to assist in the implementation of the follow-on project. Additional funding should therefore be sought to replenish the USAID loan fund and to cover the operational costs of the UPC during this period. Transfers of Economic Support Funds or those from non-operational projects in USAID's portfolio should be considered.

The Follow-on Project

If the extension of the PACD is approved, and if additional funding is found for a transitional period, USAID, the DDCs, and the private sector will have an excellent funding mechanism to reach the target population. The evaluation team therefore recommends that USAID consider a DDC follow-on project. This follow-on project would require less technical assistance, but far more capital assistance (US $30-50 million) than the original project. Nevertheless, since one primary goal of the UCFs is to attract external capital, the USAID portion could be used either as seed capital to provide the attraction or as matching capital along with other donations or loans.

Assuming that Bolivia's financial and political crises have abated when a second project is implemented, the recommendations made above should be considered for the new design, that is, subproject approval up to US$100,000 by the DDCs/UCFs, USAID quarterly U.S. dollar disbursements to the DDCs, and the commercial banks handling or arranging for all procurement.

ANNEX A

ABBREVIATIONS AND CONVERSION RATES

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ABBREVIATIONS AND CONVERSION RATES

ABBREVIATIONS

CORDEBENI-Corporación de Desarrollo de Beni
CORDECH-Corporación de Desarrollo de Chuquisaca (Sucre)
CORDECO-Corporación de Desarrollo de Cochabamba
CORDECRUZ-Corporación de Desarrollo de Santa Cruz
CORDEOR-Corporación de Desarrollo de Oruro
CORDEPAN-Corporación de Desarrollo de Pando
CORDEPAZ-Corporación de Desarrollo de La Paz
CORDEPO-Corporación de Desarrollo de Potosi
CODETAR-Corporación de Desarrollo de Tarija

DDC- Departmental Development Corporation
IQC- Indefinite Quantity Contract
MPC- Ministerio de Planificación y Coordinación (Ministry of Planning and Coordination)
PACD-Project Assistance Completion Date
PCI- Practical Concepts, Inc.
PVO- Private and Voluntary Organization
SMP- Sistema de Manejo de Projectos (Project Management System)
UCF- Unidad Credetico-Financiera (Financial Credit Unit)
UCP- Unidad de Coordinación del Proyecto (Project Coordination Unit)
USAID- United States Agency for International Development

CONVERSION RATES

Official Rate: 1 US \$ = B \$ 75,000

Parallel Rate: 1 US \$ = B \$ 900,000 - 1,200,000

ANNEX B

LIST OF PERSONS CONTACTED

ANNEX B

LIST OF PERSONS CONTACTED

USAID

David Johnston, Head, Rural Development Office
Stephen Miller, Rural Development Officer
Marcelo Siles, Assistant Rural Development Officer
Karen LeBan, Assistant Rural Development Officer

Unidad de Coordinación del Proyecto

Gaston Martinic Reyes, Director
Jorge Bonadona, Organization and Administration of Corporations
Walter Jorgensen, Project Control and Evaluation
Roberto Jordan, Project Preparation and Evaluation
Richard Noth, Regional Planning
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