*The Municipal Development Institute and Local Institution Building : Recent Bolivian Experience **

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INTRODUCTION

In the lapse of the last twenty-five years, municipal development institutions have become common components in the governmental structure of many Latin American nations. Municipal development institutions function in Brazil, Venezuela, the Dominican Republic, Guatemala, Costa Rica, Paraguay, Bolivia, Honduras, and Peru (Gall, 1976 : 28,30). Generally these institutions are charged with financing the construction of urban infrastructure through loans to municipalities and in some cases to other community groups or governmental agencies. A secondary emphasis is normally given to promoting municipal autonomy and the training of municipal employees through a combination of direct technical assistance to specific municipalities and indirect technical assistance to a wide range of municipal governments through the preparation of manuals or guides and short training courses.

Bolivia's municipal development institution, the Servicio Nacional de Desarrollo Urbano (SENDU), was legally established in 1972 as a decentralized and semi-autonomous agency under the indirect control of the Ministry of Housing (Jickling, 1974:39; SENDU, 1978:3). It operated for its first year and part of its second with a skeleton staff of about four individuals. In mid-1973 external funding of SENDU by the United States Agency for International Development (USAID) began with the official approval of the USAID capital assistance

paper "Bolivia : National Urban Development Service (SENDU)" and the signing of the formal project agreement between the two governments. The agreement called for a \$3 million loan to the government of Bolivia by USAID for SENDU — \$2,500,000 for loan capital, \$300,000 for technical assistance, \$100,000 for in-country training, \$50,000 for foreign scholarships, and \$50,000 for equipment (USAID, 1973:40). The Bolivian government pledged \$1,125,000 in financial support for SENDU — \$625,000 for loan capital and \$500,000 for operating costs. Loans were destined to be made to municipal governments for "revenue producing, or otherwise self-liquidating" projects (USAID, 1973:iii). Such projects were to include, the construction and expansion of markets, slaughter houses, water and sewer systems, sanitation equipment, telephones, electricity, street paving, sidewalks, public lighting, and other unspecified types of urban projects. As much as \$300,000 of the USAID loan funds could be used for feasibility studies. As a requirement for project loan approval, each borrowing municipality would be required to supply at least 10 percent of total project costs, in cash, labor, land, materials, or feasibility studies.

This paper summarizes and analyzes the experience of SENDU'S first decade of operation. The institution's role within the context of urban and municipal development efforts in Bolivia is discussed and the internal organization and operational aspects of SENDU are reviewed. The process of project selection, loan terms and administration, and project implementation are examined. A brief analysis of SENDU's technical assistance efforts to municipal governments is also included. The paper's conclusions focus on recommendations for the improved functioning of the institution and on the critical problem of its future financing and that of municipal development institutions in general.

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SENDU AND BOLIVIA'S MUNICIPAL DEVELOPMENT

The role of SENDU in the development of Bolivia's municipalities has been ambiguous. Legally the institution is empowered to make loans to municipalities for potable water, sewer systems, domestic electricity, telephone service, markets, slaughterhouses, curbs, and sidewalks. In fact, SENDU has concentrated on making loans for curbs, sidewalks, and markets. It has made a few essentially unsuccessful loans for sewer and potable water systems, but no loans for electricity provision, telephone services, or slaughterhouses (Table I).

This concentration on certain types of projects and the seeming avoidance of others stems from several causes. One obvious cause is the ease with which curbs, sidewalks, and markets can be constructed. Their visibility also makes them favored projects for local government officials. It can also be argued that SENDU has focused on these types of projects because of institutional competition for other municipal development projects. For example, the Corporación de Aguas Potables (CORPAGUAS) finances and plans the construction of potable water systems in municipalities throughout the country. Another government

agency, the Empresa Nacional de Electricidad (ENDE) finances and constructs urban electric systems, while the national communications corporation, the Empresa Nacional de Telecomunicaciones (ENTEL) can finance the provision of telephone services to local communities. The Servicio Nacional de Desarrollo de la Comunidad (SNDC), another central government agency, is also involved in a broad based effort to develop small towns and communities. SENDU and SNDC are not intended to overlap in their community development efforts. SNDC is supposed to concentrate on communities with less than 3,000 population, while SENDU is intended to focus on municipalities with populations in excess of 3,000 (USAID, 1973:34). Nevertheless, a certain competition exists between the two. Finally, in the financing and construction of basic urban infrastructure, many of SENDU's functions are duplicated on a departmental level by the Department Development Corporation (DDC). With the possible exception of the two smallest DDCs, each DDC has significantly greater financial resources and stability than SENDU. They are generally able to initiate local development projects with financial terms much more attractive to municipal governments.

TABLE I
DISTRIBUTION OF INVESTMENTS FOR
INFRASTRUCTURE PROJECTS:
BY PROJECT TYPE 1974-1980

PROJECT TYPE	TOTAL CREDIT DISBURSED	PERCENTAGE
Paving (Curbs and Sidewalks)	2,524	65.3
Markets	675	17.5
Domestic Water	394	10.2
Sewers - Storm and Sanitary	226	5.8
Feasibility Studies	46	1.2
	3,865	100.0

SOURCE : SENDU, 1981 : 16

In one area of municipal development activity, SENDU has no serious competition from other central government agencies. No other agency provides or even attempts to provide technical assistance to municipal governments.

SENDU — INTERNAL ORGANIZATION AND OPERATIONS

SENDU is organized into five departments, and employs a total of 33 individuals (SENDU,

1981:26). Approximately half of these are professionals, while the remainder are secretaries, drivers, and other support staff. The institution's five departments and respective number of employees are: the Office of the Director and Administration (16), the Legal Department (2), Technical Assistance (5), Finance (5), and Projects (7).

The key departments in SENDU's external operations are Projects, Finance, and Technical

Assistance. It is the responsibility of the Projects Department to review and approve or disapprove the feasibility studies and engineering plans prior to any project loan approval. Once project loans are approved and the construction work has begun, it is also expected that this department will provide some ongoing supervision of contractors during construction. This requires that the engineers periodically visit projects during their execution. Unfortunately, a lack of personnel, limited funds for travel, and administrative problems have made this work very difficult, and have caused delays in the completion of several of the institution's projects. The Finance Department reviews the first municipal inquiries for loan funds, analyzes the economic feasibility studies, and supervises loan disbursement and repayment.

The training of municipal officials, through direct technical assistance to municipalities with SENDU loans and indirect technical assistance to all Bolivian municipalities via short courses and publications, is the responsibility of the Department of Technical Assistance. The activities of this department, though laudable, have been severely impeded by the perpetual instability of local governments, mayors, and municipal employees. Some SENDU employees feel that much of the technical assistance given by this department is nearly futile. They reason that municipal officials and employees are changed so frequently that whatever skills that were taught were little utilized, especially because those who were trained often lost their jobs soon after receiving their training. For instance, in four municipalities visited by the author during August 1980, where SENDU had financed projects, Copacabana, Llallagua, Oruro, and Potosi, the longest any mayor or set of municipal officials had served was 13 months. In Copacabana, where SENDU has financed a sewer project the stability of municipal officials has been almost non-existent. During the three and a half years the project had been under construction (as of August 1980), the municipality had been under the direction of no less than six different mayors.

PROJECT SELECTION

A review of the projects funded by SENDU, shows that about 65 percent of the total credit disbursed, \$2.5 million, was used for loans on nine sidewalks and curb projects (Table 1). Market construction accounted for a total of five projects and the expenditure of approximately \$675,000 (18 percent), and the provision of potable water and sewer services also accounted for five separate projects and the

expenditure of \$620,000 (16 percent). SENDU also funded five feasibility studies at a cost of about \$46,000 (1 percent).

The emphasis SENDU has placed on the construction of curbs and sidewalks, and to a lesser degree on markets, is partially a result of the ease with which these projects can be executed. They are technically simple, and further they have a great appeal to municipal officials because of their visibility. A compounding factor was heavy pressure from the government of Bolivia and USAID to disburse the loan funds. Hence SENDU was often inclined to fund, perhaps without adequate analysis, almost any project for which municipal officials were willing to borrow. Because the institution was practically unknown, it reportedly almost had to beg municipalities to borrow its money. Several of the curb and sidewalk projects funded have been quite large: Cochabamba II for \$376,000, Oruro for \$430,000, Yacuiba for \$395,000, Villazon for \$822,000, and Tarija II for \$1.25 million (Table 2). These large loans were probably the result of SENDU's desire to obligate all of its loan capital without delay, since it had had to request two extensions of the terminal disbursement date for the loan funds from USAID. All USAID loan funds were eventually disbursed by August 1978.

One of the most serious problems the institution has had with project selection has been its failure to develop a rational system for the establishment of priorities for municipal development and consequently a means for evaluating the merits of competing project applications (Institute of Public Administration, 1977:16). It appears in part due to pressure to avoid deobligation that SENDU has made loans on almost a first come, first served basis. Now, however, it would seem essential that SENDU must develop a coherent policy regarding the types of projects, and as well, the types of municipalities that will have priority in the use of loan funds.

PROJECT PLANNING AND EXECUTION

The successful execution of individual projects has ranged from fairly good to very poor. A factor common to almost all projects has been that the time required to terminate them has been excessive. A \$120,000 project in the municipality of Trinidad for the construction of curbs and sidewalks required 44 months to complete (Table 2). With the exception of the five feasibility studies funded by SENDU, only one project had been completed in less than 12 months. Among completed projects,

there seems to be little relation between total cost and the time required for completion of construction. Both the Punata and Cochabamba II projects for curb and sidewalk construction required 17 months each. The Punata loan was for \$33,200, while the Cochabamba II loan was in excess of \$375,000.

Although the time required to complete projects already terminated may seem excessive in some cases, the situation with projects still

under construction is worse. Of the nine projects under construction in the second half of 1980, for which data are available, the shortest time any project had been under construction was 14 months. The average time was 28.5 months! Although most of these projects were very close to completion, at least three were effectively paralyzed, with no work in progress and none foreseen in the near future. The nine projects, with one exception, involved SENDU credits of less than \$160,000.

TABLE II
PROJECT PROFILES, 1974 - 1979

PROJECT LOCATION	TYPE	CREDIT AUTHORIZED US\$ (000)	% TOTAL COST	ACTUAL DATE OF INITIATION	N° of MONTHS FOR PROJECT COMPLETION	% COMPLETION
COMPLETED PROJECTS						
1. Viacha	Feasibility Study (domestic water)	3.8	100	7-74	2	100
2. Cochabamba	Curbs and sidewalks	160.6	98	8-74	14	100
3. Llallagua	Feasibility Study (market)	4.7	90	1-75	3	100
4. La Paz	Sewer	80.0	86	3-75	8	100
5. Guayanamerin	Market	91.8	95	4-76	15	100
6. Trinidad	Curbs and sidewalks	117.8	90	9-76	44	100
7. Yacuiba	Curbs, sidewalks, and calzadas	394.6	90	9-76	12	100
8. Caranavi	Feasibility Study (market)	9.0	90	6-77	6	100
9. Oruro	Curbs and sidewalks	429.8	90	8-77	20	100
10. Cochabamba	Curbs and sidewalks	376.2	91	11-77	17	100
11. Punata	Curbs and sidewalks	33.2	91	7-78	17	100
12. Tupiza	Feasibility Study	14.4	100	- - -	—	100
13. Montero	Feasibility Study	17.0	100	- - -	—	100
ACTIVE PROJECTS						
					<i>N° of Months in Execution</i>	
14. Quillacolla	Sewer	90.5	90	2-75	28	89
15. Tarija	Curbs and sidewalks	157.5		9-76	27	90
16. Copacabana	Sewer	98.3	90	11-76	42	80
17. Llallagua	Market	155.0	92	3-77	38	95
18. Potosí	Market	105.6	80	5-77	36	92
19. Uyuni	Market	108.0	75	5-77	36	85
20. Tarija	Machinery	1,256.8	90	7-78	—	—
21. Caranavi	Domestic water	111.1	69	9-78	20	15
22. Camiri	Market	113.6	90	3-79	14	85
23. Villazon	Curbs and sidewalks	822.0	86	5-79	18	45
24. San Borja	Domestic water	479.1	71	- - -	—	Paralyzed
TOTAL		5,230.4				

SOURCE: SENDU, 1980.

A recurrent problem in project execution, for both SENDU and the contractors with which it has dealt, has been poor project supervision. At two of the project sites the author visited, Copacabana and Llallagua, the municipal residents reported that contractors frequently did not have supervisory personnel on the job site. They complained that this reduced the effectiveness of the contractor's em-

ployees and often led to poor quality work. It is quite possible in several cases that delays in project completion and low quality work could have been avoided or at least reduced by frequent site visits by SENDU staff.

In a few cases poor project planning in the preliminary stages has jeopardized successful project completion. Most of the responsibility

for this must be assigned to SENDU. Some responsibility must also be assumed by the municipalities which accepted the loans and to USAID in Bolivia which reviewed and approved SENDU's loans to municipalities.

The sewer project in the municipality of Copacabana on the shores of Lake Titicaca is a classic example of poor project planning. The loan was approved in November of 1976 for slightly less than \$100,000. The approved project, lamentably, only provided for the construction of a network of sewer lines. No domestic connections were included in the project; these were to be installed and financed by each property owner. Even more surprisingly, especially for a USAID funded project, no funds were included for the construction of a treatment plant or septic tanks for the treatment of the raw sewage. Thus, even when this long overdue project is completed, a second loan and a second project will be required, if the raw sewage is not to be dumped directly into Lake Titicaca. These problems were identified by USAID engineers on an inspection trip to the site in December 1976 about a month after the loan had been approved. Apparently, no remedial action was ever taken. By August 1980, nearly four years after the project was started, the construction was only about 90 percent complete.

The Quillacolla sewer project, is another SENDU loan plagued by poor planning. In this case the gravity flow sewer system was designed by the Ministry of Housing. It was apparently reviewed by SENDU and the municipality, and approved by both. The plan ignored some of the topographic realities of the town's location, so that in some places the raw sewage did not flow through the system but simply backed up. Other shortcomings in the planning of this project were the exclusion of several streets from the construction plans, but their inclusion among those streets that would be expected to pay betterment levies for the project. The untreated sewage was to be discharged into the river adjacent to the town. Initiated in early 1975, the system was 90 percent complete in August 1980.

PROJECT LOANS

The financial terms of nearly all of SENDU's project loans have proved difficult for municipal governments. Critical problems have arisen in the length of grace periods, the time allowed for loan amortization, the fixed rate of interest charged on all loans, payment of late penalties, and loan guarantees.

The grace periods allowed on project loans have almost always been too short. Grace periods were originally determined using the engineering estimates for the time required for project completion. These estimates proved to be overly optimistic. On average, the time required to execute projects has varied from two to four times longer than the estimates indicated. The fact that the grace periods have expired and the initiation of loan repayments has begun long before projects have been completed, has been a source of conflict between the municipalities, their residents, and SENDU. This has been especially pronounced when the repayment of the loan has been tied to the collection of betterment levies. In several cases, severe resistance to the continued payment of the monthly installments has developed among municipal property owners. During 1980 this situation led to the virtual paralyzation of work on four projects in the municipalities of Copacabana, Quillacolla, Caranavi, and San Borja.

A typical case of this kind of project paralysis begins with an extended delay in the completion of a project often due to unpredictable and uncontrollable circumstances. This leads municipal property owners either to delay payments or to quit making them altogether. The contracts between the municipalities and SENDU are worded so that, if a municipality does not meet its payments, then SENDU is legally restrained by the comptroller of the national treasury from continuing disbursement of project loans funds to the contractor. This forces the participants in the project process — municipal residents, the municipality, the contractor, and SENDU — into a vicious circle. With the termination of the project delayed beyond the original estimates and payments initiated on the loan long before the project is destined to be completed, residents often become disillusioned and refuse to continue repaying the loan. As a result SENDU is forced to suspend disbursements to the contractor. Once the work on the project is suspended, residents become even more dissatisfied. As the interest penalties which SENDU charges begin to accrue, the residents' reluctance to resume their payments is compounded.

Loan amortization periods have been far too short, ranging from 16 months to 5 years. By comparative standards these amortization periods are inadequate. Municipal development institutions in Costa Rica (IFAM) and Guatemala (INFOM) have, for example, amortization periods for project loans of between

7 and 15 years, and up to 20 years respectively (Gall, 1976:28). For major infrastructure improvements, in municipalities with limited financial resources, as is the case in most of Bolivia, SENDU's amortization periods have been unrealistic.

One of the most poorly planned aspects of all project loans has been the invariable 8 percent interest rate. The original contract between the government of Bolivia and USAID, specified that interest rates could vary between 5 and 10 percent (USAID, 1973:41). Apparently at an early date it was decided, regardless of the social desirability or financial possibilities of a project, that all loans would carry the same interest rate, 8 percent.

The overall experience with repayment of project loans has not been positive. During 1980, only about 15 percent of the institution's project loans were current in their payments. Of the three municipalities current in their payments, two were department capitals, Oruro and Potosi. Basically, only municipal governments of this size and sophistication, with reasonable financial resources, better administrative organization, and more experience with planning are able to meet project loan terms in a timely manner. For smaller municipalities, loan terms have proved very difficult and consequently future SENDU loans to such municipalities must be more attuned to their actual financial and administrative situation.

The penalties levied on project loans which fall into arrears are approximately 1 percent per month on the outstanding late payments. In the case of one project loan, Quillacolla, the penalty payments (\$35,000) in August 1980, constituted about 30 percent of its total debt to SENDU. At the same time penalty payments due in Copacabana and Yacuiba constituted about 10 percent of their total debt to SENDU, about \$10,000 and \$60,000 respectively. These penalty payments have created considerable bad feelings between municipal residents and SENDU. It is claimed that SENDU, as a government agency, is engaging in usurious practices and, thus, residents feel justified in discontinuing their loan payments.

The nature of project loan guarantees offered by municipalities has varied. These have included projected tax revenues, revenues to be generated by the project user charges, municipal real property, and the countersignatures of the departmental prefectures or the Department Development Corporations. Some guarantees, notably those involving municipal

tax revenues, were often accepted on the basis of very limited data on the state of a particular municipality's finances. Although almost all project loans are in arrears, there is apparently no case where SENDU has collected or even attempted to collect funds due to it from loan cosigners or through legal action against a municipality. Efforts of the kind would be unlikely to succeed. Regardless of its nature, a project loan guarantee offered by a municipality apparently means little.

TECHNICAL ASSISTANCE AND TRAINING FOR MUNICIPAL GOVERNMENTS

Since its inception, one of SENDU's principal goals has been to provide training to municipal employees and technical assistance to municipal governments in finance, taxation, organization, and the administration of municipal public services. At first, however, SENDU was the beneficiary of several technical assistance missions whose objectives were to provide organizational assistance during its establishment and to help it develop a program of technical assistance for Bolivian municipalities.

This technical assistance to SENDU was provided initially by the Institute of Public Administration of New York (IPA), which had earlier produced an extensive survey of local government in Bolivia (Cabezas M., et al., 1970). The IPA's work with SENDU began in early 1972 and continued under various contracts until 1977 (Casey, 1977:6). The IPA was involved in the original organization of SENDU, and later, once the institution was legally established, it prepared manuals on operations and technical assistance. IPA consultants also prepared guidelines for training courses and seminars, and manuals for the financial and administrative departments of SENDU.

Further technical assistance was provided by the Instituto Brasileiro de Administración Municipal (IBAM) between 1975 and 1977. The objectives of IBAM's contract were to improve SENDU's ability to provide technical assistance to municipalities, to train SENDU personnel in municipal affairs, and to design the municipal credit program. The majority of IBAM's effort, however, was devoted to the writing of manuals to be used in technical assistance work with municipalities (Instituto Brasileiro de Administración Municipal, 1977: 3-8). These manuals addressed municipal organization (2), municipal taxation (3), municipal budgeting and accounting (4), and the administration of municipal services — slaugh-

terhouses, cemeteries, markets, bus terminals, and several others (a total of 6). IBAM also prepared case studies of the state of municipal public services in two municipalities, Tarija and Oruro, and diagnostic studies of the municipal governments of Trinidad, Quillacolla, Copacabana, and Tarija (Ramirez V., 1978: 43).

The technical assistance activities of SENDU to municipal governments can be placed in two broad categories, direct and indirect. Indirect technical assistance has focused principally on the offering of short courses on a variety of municipal themes. Between early 1974 and the end of 1977, the Department of Technical Assistance presented a total of 18 short courses, an average of more than 4 annually covering financial administration and budget (9), municipal organization (3), municipal administration (3), public services (1), planning and evaluation of projects (1), and regional urban planning (1). The total enrollment for all courses was 417 individuals, representing a total of 115 municipalities (Ramirez V., 1978:23). Unfortunately, SENDU never managed to duplicate and distribute any of the IBAM produced manuals to Bolivian municipalities (Ramirez V., 1978:23). The IBAM manuals were well produced and attuned to Bolivian circumstances, and although perhaps not perfect, their general distribution as reference manuals would certainly have been welcomed by municipal governments.

One of the Department of Technical Assistance's first activities during SENDU's first years of existence, was an attempt to form a national mayor's association and equivalent associations in each department (Jickling, 1974:40). These efforts eventually proved to be futile, certainly due in large part to the fear of such grass roots political activity by central government officials (Institute of Public Administration, 1977:20).

Direct technical assistance by SENDU was provided to 15 local governments on 35 different occasions (individual visits) during the four year period 1974-1977 mentioned above (Ramirez V., 1978:24). However, an evaluation of the technical assistance as of late 1977 concluded that the direct technical assistance to municipal governments had only been minimal. The evaluation did note, on the positive side, that SENDU did have the capacity to supply limited, but meaningful assistance to a few target municipalities (Casey, 1977:12-13).

Training of SENDU's own technicians overseas in other municipal development institutions was supposed to comprise a significant element in the training of SENDU's personnel. Originally \$50,000 was budgeted for this purpose, but by late 1980 only \$5,000 had been spent, and less than five individuals had received training overseas. It was initially planned that over 20 technicians would receive some overseas training and experience (Ramirez V., 1978:25).

Most observers of the technical assistance activities of SENDU have tended to agree that by 1980 the department had achieved a significant level of sophistication, but was understaffed, and that several more experienced technicians were needed if the department was to have a real chance of fulfilling its anticipated role.

CONCLUSIONS AND RECOMMENDATIONS

Strategic loans to municipal governments to improve the quality of urban life and infrastructure in Bolivian towns and the provision of technical assistance to municipal governments in the areas of public services, administration, and finances, were outlined as SENDU's basic goals when the institution was founded. It has been partially successful in fulfilling these objectives, but has encountered serious problems in the selection of projects, in their execution, in the repayment of project loans, and perhaps to a lesser degree in the provision of technical assistance to municipal governments.

Projects selected for execution by SENDU have concentrated excessively on the paving of streets and sidewalks. This has been the result of a variety of factors — a preference for this type of high visibility project by local government officials, pressure from other central government agencies and USAID to disburse loan funds and avoid deobligation, funding of other types of projects under more attractive terms by competing development agencies within the Bolivian government, and the technical ease with which such projects can be executed. The failure to develop a coherent system of prioritizing project applications early in the project's life, certainly contributed to the emphasis given to the construction of curbs and sidewalks.

The time required for construction of most SENDU projects has been two to four times more than initially anticipated. In some cases

inadequate engineering plans, faulty construction materials, or a lack of supervision at the job site has led to these delays. Some of these problems probably could have been avoided if site visits to projects by SENDU personnel had been more frequent. Due in part to administrative problems and in part to lack of sufficient funding for travel, site visits have not been as frequent as would be desired. If SENDU had developed a policy of working in municipalities within limited geographical target areas, the supervision of project construction would probably have been much improved, while costs of *per diem* and transportation reduced.

Loans to municipalities for the construction of individual projects have been inadequately designed, and as a result, the level of compliance with repayment schedules poor. In late 1980, slightly more than 80 percent of the institution's active loans were in arrears. Only the largest and most prosperous municipalities were able to keep current in their loan obligations. This is a result of the weak state of municipal finances in Bolivian towns and cities and the unrealistic loan conditions imposed by SENDU on municipalities. Specific problems have focused on grace periods, loan amortization, interest rates, late penalties, and loan guarantees.

Several recommendations can be made for the improvement of the municipal credit program. Grace periods should not be based on engineering estimates of the time required for project completion as has been the case in the past. Preferably, the grace period might be defined as the time required for project completion, plus six months. Amortization periods must be lengthened. It is unrealistic to expect relatively poor local governments to repay major infrastructure investments in less than five years. The time allowed for loan amortization should be doubled or tripled in most cases. Interest rates for project loans should be varied depending on the social desirability and the possibilities for recuperating the investment costs through user charges, betterment levies, or other means. Penalties on late payments should be reduced to a minimum. The penalty system as it is now employed has created considerable animosity among municipal governments, damaged SENDU's image, and led to considerable delays in repayment of outstanding loans. Finally, a new policy should be developed by SENDU as to what constitutes acceptable loan guarantees. One suggestion is that municipal-

ities could offer the revenues they receive from the central government from the sale of cigarettes and liquor, within their jurisdictions as loan guarantees (Bolivia, n.d.). If a municipality went into arrears, its share of the cigarette and liquor taxes could be diverted directly to SENDU by the central government.

SENDU has made a conscientious effort at providing the technical assistance to municipal governments which it is mandated to do. Some errors, however, have been made. The decision not to duplicate and distribute the municipal assistance manuals written by IBAM must be considered one of them. The department has always been hampered by understaffing, and the instability of municipal governments — officials and employees — throughout the country. Additionally certain kinds of municipal assistance, for instance, the emphasis on municipal autonomy and the formation of associations of municipal governments have probably not been viewed with much enthusiasm by some sectors of the central government. To some extent, the institution may not have promoted its own existence or program of technical assistance sufficiently. A recent monograph by the present mayor of La Paz, calls for technical assistance to municipal governments on the model of IBAM or the municipal development institute in Paraguay, without even acknowledging SENDU's existence (Salmon, 1981:41).

It is important to note that many of the institutional problems which SENDU has faced, and continues to face, are beyond the institution's control. One of the institution's earliest and most serious problems was the unrealistically rapid loan disbursement schedule included in the original agreement between the government of Bolivia and USAID in 1973. This agreement provided only three and a half years for disbursement of the loan funds. Two terminal disbursement date extensions were eventually required to avoid the deobligation of any of the loan funds. The pressure for rapid loan placement resulted in SENDU placing a number of loans without adequate engineering and financial analysis. Further, the weak tax base of local governments, the lack of representative elections, frequent turnover of municipal officials, limited government subventions, and the lack of training and experience of municipal officials have made SENDU's activities all the more difficult to accomplish.

SENDU's role in the development of Bolivia's municipalities is important and its efforts

should be continued. The Bolivian government has continued to support the operation of SENDU since the last USAID loan funds were disbursed in August of 1978. It has not been able to provide additional loan capital since that time, although presently the possibility for funding two small projects, totaling about \$200,000, is being discussed with the Central Reserve Bank of Bolivia.

Given the current inflation rate, the need for extended grace periods, and the inclination to subsidize interest rates, it is clear that even a greater compliance with loan repayment schedules, will probably result in a continued real decline in SENDU's revolving capital fund. Unless it is anticipated that a declining level of the real value of the capital fund is desirable, sources for additional and continuing contributions to its capital fund will have to be established.

For SENDU, as with all municipal development institutions, it is critical to establish dependable financial support for their development activities. Preferably these revenues should come from a legally mandated percent-

age of an established tax. Such is the case with the municipal development institute in Costa Rica, IFAM. There, a fixed percentage of the national land tax (property tax) is directed to IFAM's budget each year, regardless of budget constraints or political considerations.

One approach to securing additional revenues for SENDU would be to exploit a mechanism currently employed by the departmental municipal governments in La Paz and Cochabamba. Both of these municipal governments have offices which review the proposed tax rates in each municipality as well as its budget. For these services, each provincial municipal government in the departments of La Paz and Cochabamba is charged 2 and 2.5 percent of its budget by the departmental municipalities. It is suggested that SENDU might be legally authorized to assume this role for all of Bolivia's provincial municipalities, and levy a small (1 to 1.5 percent) charge for this service. The revenues so levied would be used to support municipal development projects and municipal technical assistance financed by SENDU.

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