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Guatemala
Country Assistance Evaluation

December 11, 2002

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Acronyms

CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
COEDUCA	Comité de Autogestión Educativa
FIS	Fondo de Inversión Social
GDP	Gross domestic product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INFOM	Instituto de Fomento Municipal
MIGA	Multilateral Investment Guarantee Agency
MINUGUA	United Nations Mission in Guatemala
NGO	Nongovernmental organization
OED	Operations Evaluation Department
PRONADE	Programa Nacional de Autogestión del Desarrollo Educativo
QAG	Quality Assurance Group
SAT	Superintendencia de Administración Tributaria
SIAF	Sistema Integrado de Administración Financiera
UNDP	United Nations Development Program
URNG	Unidad Revolucionaria Nacional Guatemalteca
USAID	(United States) Agency for International Development

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Office of the Director-General
Operations Evaluation

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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

Subject: Guatemala Country Assistance Evaluation

Inflation, economic decline, and civil war impoverished Guatemalans in the 1980s, but good economic performance during the 1990s improved their welfare. Inflation peaked in 1990 at 40 percent, but then declined steadily to about 5 percent in 2000. GDP per capita reached bottom in 1985 and has not yet returned to its 1980 level. Per capita income grew at 1.5 percent per year in the 1990s, not enough to reduce poverty quickly. The poverty rate declined from 63 percent in 1987 to 57 percent in 1998. Economic policies explain much of the performance in the 1980s and 1990s, but the 1990s also saw a favorable institutional change: the signing of a peace agreement between the Government and the guerrillas of the Unidad Revolucionaria Nacional Guatemalteca (URNG) in 1996. The agreement brought to the fore the problems that affect a majority of Guatemalans: poverty, illiteracy, disease, inequality, exclusion, and violation of human rights. Guatemala improved its institutions and economic policies during the past decade, but it needs to further strengthen its economic institutions and governance system to achieve and sustain high growth rates.

The Bank played a supportive role with money and advice in helping Guatemala recover stability and growth in the 1990s. Bank assistance evolved from financing infrastructure projects in the 1980s to supporting loans for adjustment, reform, and public sector management. After the signing of the peace agreement, the Bank financed projects in education, infrastructure, land titling, land distribution, and judicial reform. Support for these programs helped deal with grievances outlined in the agreement.

The outcome of the Bank's program in the 1990s was satisfactory, following major improvements in its relevance and efficacy—and driven in large part by stronger government ownership. The outcome in the 1980s, however, was unsatisfactory. In the 1980s, the assistance supported programs of limited relevance for solving the country's most important problems and had weak links with the Bank's strategy. In the early 1990s the Bank supported programs that brought economic stability and growth, and better management and governance of the public sector. In the second half of the 1990s the Bank gave technical advice during the peace negotiations and later focused on supporting the peace agreement and helping people in rural areas—mainly indigenous people—gain access to education, land, rural and urban markets, and the legal system. The programs constituted a first step toward helping Guatemala prosper.

The Bank's future assistance strategy should shift from post-conflict vision to help to accelerate growth and achieve more ambitious poverty reduction efforts. The assistance should focus on helping preserve macroeconomic stability, with emphasis on strengthening the financial system, in particular through improving the regulation and supervision of financial institutions. In its support to poverty reduction programs, the Bank should support programs for primary education, rural roads, and basic infrastructure for rural communities, land titling, and strengthening of the judiciary. The design of Bank-supported programs should ensure that the benefits also reach indigenous people, who account for almost half of the population and a much higher share of the poor. The Bank should insist on redirecting towards the poor Government expenditure in education, health, electricity, water supply and sanitation. Continued support for the FIS is justified if the Fund is made more accountable and transparent, if the communities have more power to select and manage projects, and if the Government streamlines the various social funds operating now.

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Jorge García-García was the Task Manager for this report and acknowledges with thanks the contributions of Luis Alvaro Sánchez and Alberto Valdés (consultants). The CAE also benefited from contributions by Diana Campillo and Ximena Traa-Valarezo for the OED Indigenous People study and by José Alberto Garibaldi for the OED Anti-corruption study. Dinara Seijaparova and Anar Omarova provided statistical information, and Norma Namisato, administrative support.

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Preface

This Country Assistance Evaluation (CAE) report reviews the Bank's assistance strategy for Guatemala from 1985 to 2001. It looks at whether the assistance dealt with the major issues affecting the economy and how it contributed to the accomplishments of the country. The report also assesses the relevance, efficacy, and efficiency of that assistance and recommends actions for the future. The evaluation is based on a review of World Bank documents and on interviews with government officials, Bank staff, officials from other donor agencies, members of non-governmental organizations, academicians, people in the private sector, and journalists. A Bank mission visited Guatemala from May 29 to June 9, 2001. The contribution and the cooperation of government officials and agencies, NGOs, and donors are gratefully acknowledged.

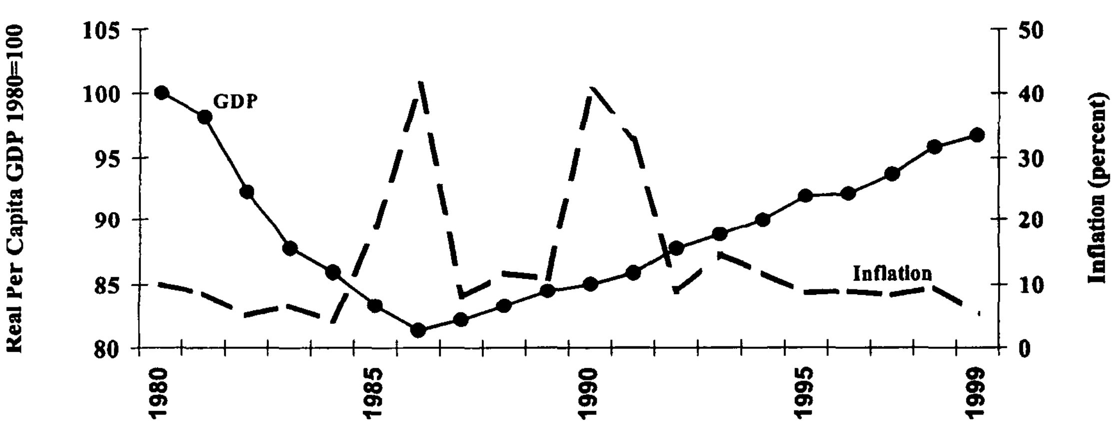
A draft of the CAE was shared with the Government of Guatemala and their comments are presented as Attachment B. The comments were either incorporated in the main text of the report, or in footnotes attributed to the Government.

1. Economic Background and Government Strategy

1.1 Military governments have ruled Guatemala for most of its life as a republic. The last era of military rule (1954–1985) brought some initial prosperity, but ended in misery and intense violence. Real GDP per capita in 1985 fell 20 percent below the 1980 peak, which has not been reached again (see Figure 1). The exclusion of a democratic opposition from political activity encouraged the formation of a guerrilla movement in 1960, the Unidad Revolucionaria Nacional Guatemalteca (URNG). The subsequent conflict lasted 36 years.

1.2 Despite having the third highest per capita income in Central America, Guatemala's social indicators rank among the lowest in the region. Of 11 million Guatemalans, about 6.4 million lived in poverty in 1998, most of them in rural areas. Indigenous people account for about 45 percent of the population, but 74 percent of them live in poverty. The indigenous claim less than 25 percent of total income and consumption, and they have less access to basic services like water, electricity and sanitation than ladinos (the non-indigenous) do.[1] They receive about 15 percent less income than ladinos.[2] The richest 10 percent of the population have per capita incomes 18 times higher than the poorest 40 percent.

Figure 1 - Inflation and Real Per Capita GDP: 1980-1999



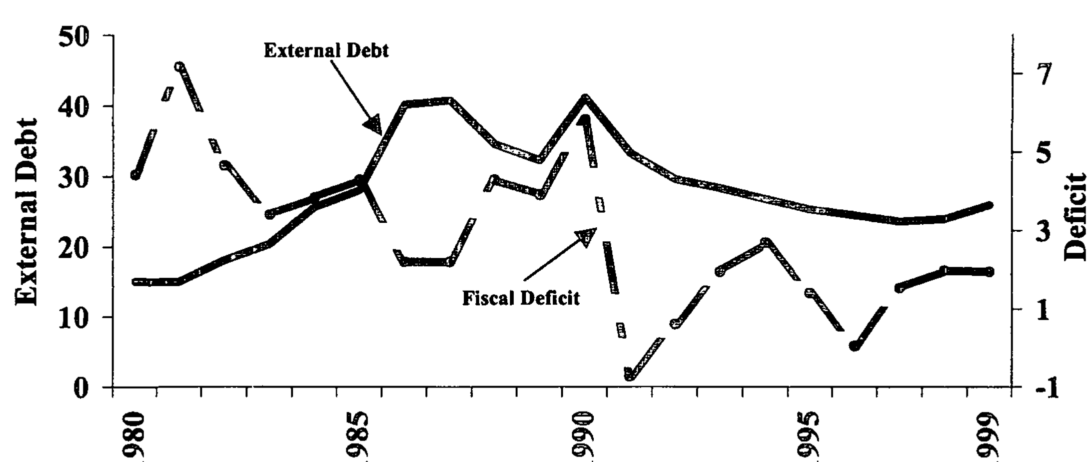
1.3 ***High inflation and moderate growth: 1986–90.*** Vinicio Cerezo, elected president in 1985, inherited an economy in turmoil. Better management of fiscal and

[1] The World Bank, *Guatemala-Poverty Assessment Report* (draft, 2002); Naciones Unidas en Guatemala, *Guatemala: La Fuerza Incluyente del Desarrollo Humano* (Guatemala, Artgrafic de Guatemala, 2000), Tables 3.1, 3.3, 3.25-3.28, and 5.4.
[2] Quentin Wodon et al., "Poverty in Latin America: Trends and Determinants," *Cuadernos de Economía,* August 2001, Table 11.

monetary policies in 1986 and 1987 helped to reduce inflation and restore growth, but the stabilization effort eventually failed as fiscal and monetary discipline broke down in 1989 and 1990. In 1990, inflation reached 41 percent and the fiscal deficit was 5.8 percent of GDP (see Figures 1 and 2). The Cerezo administration also floated the quetzal, initiated some import tariff reforms, liberalized interest rates, and increased oil prices and energy tariffs to reduce losses in the power sector; the reforms helped to reduce some of the constraints to growth. As fiscal discipline eroded, the external debt increased and arrears on long-term debt mounted. Some of the arrears were with the Bank, and in July 1990 Guatemala entered non-accrual status, which lasted until the end of 1992, when the new Government of President Serrano signed a Letter of Intent for an International Monetary Fund (IMF) Stand-By Agreement. The Agreement triggered the release of $50 million in U.S. bilateral support that allowed clearance of Bank arrears.

1.4 ***Stabilization, reform, and moderate growth: 1990–99.*** The administration of Jorge Serrano (1991–92) sought to stabilize and modernize the economy. It produced fiscal surpluses (of the consolidated public sector) and tightened monetary policy, bringing inflation down to 9 percent in 1992. The stabilization brought about a reduction in the Government's external debt, a trend that continued over the decade, reflecting in part the country's prudent approach to debt management. Serrano resigned after an unsuccessful attempt to extend his term beyond its legal limit. His successor, Ramiro de León Carpio, continued the stabilization program, liberalized trade, streamlined the bureaucracy, and reorganized some public agencies, and started programs to modernize the state. GDP grew 4.3 percent per year between 1991 and 1995. Since 1993, the consolidated public sector deficit began to grow again, triggered by large losses by the Central Bank (Banco de Guatemala). To avoid further inflation and larger current account deficits, the Central Bank tightened monetary policy, freed interest rates, and let the quetzal fall. As a result, GDP growth decelerated in 1996 to 3 percent.

Figure 2 - External Debt and Fiscal Deficit (percent of GDP)



1.5 Economic reforms continued at a moderate pace. The administration of Alvaro Arzú (1996–99) sold the electricity and telecom companies, promoted competition in the two markets, and the mail and railways services were assigned to private concessions. Private companies also were given the right to manage infrastructure services, such as road construction and maintenance. Fiscal and monetary discipline began to slip, and the fiscal deficit reached 2.8 percent of GDP in 1999.[3] Fiscal and monetary policies, together with exogenous shocks (falling terms of trade, hurricane Mitch), reduced investor confidence and triggered private capital outflows that weakened the quetzal. The GDP growth rate of 5.1 percent in 1998 dropped to 3.6 percent in 1999.

1.6 ***Peace Agreement.*** The peace talks between the guerrilla movement and the Government started in the early 1990s and centered on the major problems that affected the majority of Guatemalans: poverty, illiteracy, disease, inequality, exclusion, and violation of human rights. The 1996 agreement proposed solutions to these problems while also calling for reform of the state and transparency and accountability in the use of public funds. The Government agreed to expand bilingual education and decentralize control of the primary school curriculum, and also committed itself to simplifying the land titling laws and setting up a Fund to help peasants and cooperatives acquire land.

1.7 Some of the goals set in the Peace Agreement have been achieved, but others have to be met. Public spending on education increased from 1.6 percent of GDP in 1996 to 2.5 percent of GDP in 2000, with primary schools receiving about 50 percent of the funding. More than 50 percent of the funds budgeted for health were allocated to preventive health care. Coverage of electricity, water, and sanitation services increased by about 15 percent during the 1997–00 period, compared to 10 percent between 1993 and 1996. But the literacy rate (at 69 percent in 2001) only approached the target of 70 percent, infant and maternal mortality rates are still twice the level of targets set in the peace accord, and tax revenues (9.6 percent of GDP in 2000) did not reach the target of 12 percent of GDP.[4] A recent report of the UN Verification Mission in Guatemala (MINUGUA) concluded that "the overall status of compliance with the peace commitments is uneven. Much has been accomplished. But many substantial commitments need to be fulfilled, and the population still does not perceive the benefits of peace, aside from the ending of the armed conflict."[5]

1.8 ***Guatemala entering the 2000s.*** The administration of Alfonso Portillo, who took over as president in 2000, sought to maintain economic stability, to advance the execution of the peace agreement and to reduce poverty. The public sector deficit fell to 2.2 percent of GDP in 2000 but rose to 3 percent in 2001. To keep the deficit low while

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[3] The Government pointed out that *in the second half of the 1990s Guatemala received grants from the donor community which financed the implementation of programs required by the peace agreements*

[4] The Government pointed out that *the present administration has introduced some reforms to achieve the tax revenue objectives set in the peace agreement and the Pacto Fiscal, an agreement between civil society and the Government on fiscal policy for Guatemala. The administration of Alfonso Portillo has increased the income tax rate from 25 to 31 percent, widened the coverage of the value added taxes, and eliminated some exemptions. Later on, it increased the rate for value added tax from 10 to 12 percent, and introduced reforms to the tax and penal codes that enhance the powers of the tax administration to collect taxes.*

[5] MINUGUA, Report of MINUGUA for the Consultative Group Meeting for Guatemala (Guatemala, January 18, 2002), pages 20 and 21.

increasing social expenditures, in 2001 Congress approved an increase in the value added tax from 10 to 12 percent. The Government has prepared a strategy to reduce poverty, which it plans to discuss with the regions and is intended to give preference to rural areas in health, education, basic services and infrastructure, to strengthen public administration, to empower regions and communities, and to promote citizen participation. Notwithstanding these advances, various actions threatened some of the advances of the 1990s. The Central Bank bailed out some commercial banks instead of letting them fail and thus suffer the consequences of poor management. The Portillo administration has sought to reverse the privatization of electricity and telecommunications, but so far has not succeeded. Its inclination to reverse privatization in these industries, however, has made some external investors wary of seeking other investment opportunities in Guatemala. Another problem is that some members of the administration and Congress have tried to curtail funding for the Programa Nacional de Autogestión del Desarrollo Educativo (PRONADE), a program paid for by the Government and run by communities that has achieved considerable success in educating the poor in rural communities.

1.9 ***Achievements, challenges, and opportunities.*** War and economic mismanagement impoverished Guatemalans in the 1980s, but peace, better policies and better economic institutions helped recover in the 1990s. Guatemala's markets are now subject to fewer governmental interventions, and significant price distortions in the foreign exchange markets and trade regime have been reduced. Guatemalans have become more aware of the importance of the rule of law and of respect for the rights of indigenous peoples. Democratic institutions have gained strength and standards of living are better than in the 1980s. GDP per capita grew an average 1.5 percent per year between 1990 and 2000, and inflation fell. The poverty rate declined from 63 percent in 1989 to 57 percent in 2000. Between 1987 and 1998 the percentage of those suffering from malnutrition fell from 34 to 24 percent, while the rate of infant mortality dropped from 73 to 45 per 1000 live births (see Table 1).[6]

1.10 The economic situation causes concern about the country's ability to grow fast enough to reduce poverty. The economy grew at 2.3 percent in 2001, and it is expected to grow as much this year and about 3.5 percent in 2003; but with population growing at 2.7 percent per year, per capita income will fail to reach the 1980 level. The weakness of financial institutions and the deficits in public finances threaten economic stability, and the decline in world coffee prices and the increase in oil prices increase the risk of external imbalances. Although confidence in the ability of the central bank to maintain stability continues, there are limits to what the central bank can do if the government continues running fiscal deficits. The environment for private sector development has deteriorated.[7] Political divisions within the party in government, weak financial institutions, fiscal deficits, and changing business rules, have dented business and

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[6] The social indicator profile (Annex Table 2) shows an increase in the growth rate of population between 1985 and 1999, from 2.5 percent to 2.6 percent, but declines in the illiteracy rate—from 42.8 percent to 31.9 percent—and in infant mortality—from 64 per 1000 in 1987 to 42.1 per 1000 in 1998. Life expectancy increased from 59.7 years in 1987 to 64.3 years in 1998.

[7] The Government pointed out that *the deterioration of the investment climate has been largely due to factors not under its control. In particular, the slowdown in the US economy, Guatemala's principal trading partner, has reduced the demand for exports, pulling down the growth rate of the economy.*

investor confidence. Political tensions and weak economic fundamentals reduce investment and constitute the major constraints to private sector activities. Several publicized governance issues have exacerbated the perception of high regulatory risks and instability of private contracts.

1.11 Guatemala needs to strengthen its institutions for the country to achieve and sustain high growth rates. Property rights continue to be weak, and excessive regulation of domestic commerce and foreign trade burdens private enterprises, who then seek to avoid the burden by paying bribes to civil servants. Crime rates (kidnappings, robberies) are high compared with other countries in Central America (except El Salvador); recently, the respected general manager of the Central Bank was kidnapped and released unharmed, but many motives have been given for the ransom: from organized crime to political motivations related to a power struggle within the ruling party.[8]

Table 1 – Poverty and Social Indicators

	1987	*1998*
National Poverty Rate (percent of total households)	63 *	57
Rural (percent of rural households)		29
Urban Poverty Rate (percent of urban households)		76
Infant mortality (per 1,000 live births)	73	45
Illiteracy (percent)		
Women		39
Men		22
Children with chronic malnutrition (percent)	59 x	44
Rural areas		58 ++
Urban areas		32 ++
Population growth rate (percent)		2.6
School enrollment, primary (% gross)	79	88+
Secondary education, pupils (% female)	..	46.8+
Inequality (GINI based on consumption expenditure)		0.5 ++

Source: Naciones Unidas en Guatemala, *Guatemala La Fuerza Incluyente del Desarrollo Humano*, 2000, Tables 3.1, 5.4 and A.47 for poverty rate, illiteracy and infant mortality; Instituto Nacional de Estadística and others, Guatemala: Encuesta Nacional de Salud Materno Infantil 1998–1999 (Guatemala, INE, 1999), World Bank, *Guatemala. An Assessment of Poverty*, 1995 for other information; World Bank, *Guatemala: Poverty Assessment 2000* –GUAPA-, (Draft March 2002)
x 1987, * 1989, + 1997, ++ 2000
Note Some of the data in this table differ from data in Annex Table 2 because the data come from different sources. The report uses domestic sources, when possible.

[8] Economist Intelligence Unit, "Country Risk Service," Guatemala, April 2002, page 1.

2. The World Bank's Assistance Strategy

Objectives of Bank Assistance

2.1 Between 1985 and 2001, the Bank produced three country assistance strategies whose overarching objectives were helping to reduce poverty, promote growth and economic stability, and improve the management and productivity of the public sector. Each CAS also had a separate objective: rationalizing the trade regime (the 1987 CAS), human resource development (the 1995 CAS), and building social cohesion and strengthening participatory decision processes (the 1998 CAS).

2.2 The 1987 strategy proposed three adjustment loans (Financial, Agriculture, and Export Development), along with loans for projects in education, health and nutrition, water, sewerage, power, municipal development, and low income housing. The adjustment loans—never granted—would have been conditional, among others, on the Central Government increasing tax revenues and public expenditures from 9.4 and 11.8 percent of GDP in 1987 to 15 percent and 16 percent of GDP in 1992. The Government did not meet these ambitious goals and showed little interest in addressing the problems that exacerbated poverty and inequality. Rather than insist on Government action on structural adjustment, the Bank gave loans that the bulk of it (70 percent) financed power projects, road maintenance and construction, and construction of schools and production of textbooks.

2.3 In the 1990s, the authorities stabilized the economy and peace became a reality, Bank lending evolved from support for stabilization, economic reform, and poverty reduction to support for programs that strengthened peace. The 1995 CAS proposed lending for education, basic services for rural communities (social funds), secondary roads, financial management, and agricultural services; but lending for land rights program, although included in the CAS, did not take place. The 1998 CAS proposed to lend for rural roads, land administration, rural financial markets, low-income urban neighborhoods, and reconstruction in war-torn areas.[11]

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[9] The World Bank, *Guatemala-Poverty Assessment Report* (draft, 2002); Naciones Unidas en Guatemala, *Guatemala: La Fuerza Incluyente del Desarrollo Humano* (Guatemala, Artgrafic de Guatemala, 2000), Tables 3.1, 3.3, 3.25–3.28, and 5.4.

[10] Quentin Wodon et al., "Poverty in Latin America: Trends and Determinants," *Cuadernos de Economía*, August 2001, Table 11.

[11] The assistance carried out during the 1990s fits into the priorities now set for Bank interventions in post-conflict reconstruction (World Bank, *Post-Conflict Reconstruction: The Role of the World Bank* [1998], pp. 25–26). The assistance aimed at: jump-starting the economy by supporting the conditions for macroeconomic stabilization and rehabilitation of financial institutions; reconstructing the framework of governance; repairing the physical infrastructure; rebuilding and maintaining key social infrastructure; targeting assistance to individuals harmed by the war and revitalizing local communities hurt by conflict.

Lending

2.4 Between 1985 and 2001, the Bank approved 21 loans amounting to $795 million. In the 1980s the Bank lent relatively little for what it espoused in the 1987 CAS, but its lending in the 1990s matched its strategy better (see Table 2).

Table 2 – World Bank Commitments, FY85–01 (US$ million)

	1985–89	*1993–97*	*1998–01*	*Total*
Adjustment Lending	*	120		120
Public Sector Financial Management		9	44	53
Judicial Reform			33	33
Power	126*			126
Education	30*	33	62	125
Roads	32		67	99
Social Funds		20	50	70
Water Supply	23 *			23
Land Titling and Administration			54	54
Local Development and Reconstruction	29		30	59
Private Sector Development		13	20	33
Health and Nutrition	*			0
Municipal Development	*			
Low Income Housing	*			
Total	**240**	**195**	**360**	**795**
Number of projects	**6**	**5**	**10**	**21**
Lending per year	**48**	**39**	**90**	**57**

* Sectors selected for support in the 1987 CAS.

Sector Work

2.5 The Bank selected relevant topics for its economic and sector work, which guided its lending program in the 1990s. Country economic memoranda (CEMs) (1987, 1996), reviews of public expenditures and fiscal management (1988, 1989, 1997, and 2000), and a financial sector report (1990) constituted the bulk of that analysis. The reports analyzed the same topics (inflation, financial sector, fiscal and current account deficits, and structural change) and recommended liberalizing trade, mobilizing private savings, eliminating the public sector deficit, and shifting additional public expenditures to health and education. The 1987 CEM and the 1990 financial sector report helped prepare an Economic Modernization Loan in 1993. The 1989 expenditure review signaled the institutional problems that affected large parts of the public sector, but its optimistic view of the country's prospects hid the urgent necessity of reform. The 1996 CEM provided valuable input for the negotiations on the peace accord and contributed to the design of new Bank operations in public sector modernization. It also discussed land tenure and set the foundations for the FY99 loans for land administration and the land fund. The 1997 public investment review helped establish the basis for the investment program that followed the signing of the peace agreement. The 2000 public expenditure report reviewed the achievements made in expenditure management since 1997 and proposed reprogramming some of the targets of the agreement. The work on public sector expenditure improved the Bank's knowledge about some of the accountability problems in the public sector; to complement this knowledge, the Bank is carrying out a country procurement and a country financial accountability assessment. The financial sector report of 1990 pointed out that gaps in regulation and supervision gave banks an incentive to evade standard financial requirements. Similar results were found in a joint Bank-IMF assessment of the financial sector in 2001; the assessment points out the problems in the sector and suggests ways to improve supervision and regulation of financial institutions while giving more independence in managing monetary and financial policy to the Central Bank.

2.6 The Bank's two reports on education (1986, 1995) guided its lending program for the sector. The first report pointed out the inefficiencies and problems in the system but overlooked how economic incentives and different institutional arrangements could improve the use of resources and instead suggested higher expenditures as the solution. The report guided the loan for education in the 1980s. The 1995 report paid more attention to institutional issues, such as support for bilingual education and greater community involvement in the expansion of educational services; its recommendations guided the loan for education in 1997.

2.7 A 1995 report on poverty recommended giving farmers better access to land, additional spending on education and rural infrastructure, and improving macroeconomic stability as ways to help reduce poverty. The report was weakened by inadequate data on household incomes and rural activities.

2.8 The Bank did many reports on macroeconomic and public sector expenditure issues but paid insufficient attention to agriculture and rural development, private sector development, labor markets, corruption, violence, and the accuracy of data and the quantity of information. While that may have been the result of insufficient information, the Bank could have pointed out the importance of such information. A more recent poverty assessment was designed to help close the gap by providing more complete information on household incomes and living standards. The information, now being analyzed, should help in developing a better understanding of the determinants of poverty in Guatemala.

3. Evaluation of the Bank's Assistance Strategy

Products and Services

3.1 The outcome of Bank loans to Guatemala for the 1985–01 period, exceeded the average for all Bank loans as well as the average for Bank loans to Latin America (Table 3). Some 98 percent of net commitments to Guatemala had satisfactory outcomes, while 80 percent and 77 percent of net commitments to all countries and Latin America had satisfactory outcome. Ongoing projects seem to be performing well, but QAG ratings show one loan (Private Participation in Infrastructure Technical Assistance, to be closed soon) at risk. That loan represents 3 percent of the value of outstanding loans, a lower percentage than for commitments at risk in the entire Bank portfolio (15 percent) and for loans to Latin America (13 percent). The loans to Guatemala also show better performance than loans to Bolivia and Ecuador, where commitments at risk represent 22 and 12 percent of total net commitments, but weaker performance than loans to El Salvador and Dominican Republic (no commitments at risk).

3.2 In terms of outcome, the ratings show that loans to Guatemala performed quite well, with a rating of close to 100 percent (see Table 3). In terms of institutional development and sustainability, the ratings show that loans to Guatemala performed less well than loans to the rest of Latin America and also than Bank loans to all the world's countries. Two loans (the Economic Modernization Loan—EML—and the Social Investment Fund I) account for the large difference in ratings between outcome (98 percent) and sustainability (31 percent), and their rating pulls down the portfolio's sustainability rating. When Ramiro de León Carpio had to take power suddenly the EML provided his administration with a framework that later helped to stabilize the economy over the last 10 years. The social investment fund has continued its operations and remains the largest executor of the Government's investment program. With the support it enjoys, the fund seems likely continue operating.

Outcome

3.3 The outcome of the Bank's program in the 1990s was satisfactory[12], following major improvements in its relevance and efficacy – and driven in large part by stronger government ownership. The outcome in the 1980s, however, was unsatisfactory.

3.4 *Relevance of the program.* OED rates the relevance of the Bank's program in Guatemala as *negligible* for the 1980s and *substantial* for the 1990s. During the 1980s the Bank's lending program matched neither the program proposed in the CAS nor the sector work diagnosis. During the 1990s the Bank did a better job of identifying the problems, diagnosing their causes, and aligning its instruments with its assistance objectives.

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[12] The Government agreed that the overall outcome of Bank assistance in the 1990's was satisfactory, and noted that the more successful loans were those supporting stabilization and the modernization of the public sector.

Table 3 – OED Project Ratings: 1985–01
(percent of net value of commitments)

	Guatemala	*Latin America*	*Bankwide*
Satisfactory Outcome	98	80	77
Substantial Institutional Development Impact	26	47	42
Likely Sustainability	31	70	64

Source: OED ratings database as of August 31, 2001.
The satisfactory rating includes projects rated as highly satisfactory.

3.5 *Efficacy of the assistance.* OED rates efficacy as *substantial.* Of seven completed and rated loans, six achieved their main objectives and three had a substantial impact on institutional development.

3.6 *Efficiency.* For the 1991–99 period, operations in Guatemala are cost-effective per loan granted. Overall cost (including the costs of loan preparation and supervision, and economic and sector work) was about $0.8 million per loan (see Annex Tables 6A and 6B). That was lower than the average for Latin America and about the same for countries in the region with projects of similar size.

Lending

3.7 The performance of loans that have already been closed, along with the performance of some ongoing loans where disbursement is almost complete, is discussed below.

3.8 *Supporting stabilization and reform.* In the early 1990s the Government asked the Bank for a structural adjustment loan to assist its program for stabilizing the economy and laying a foundation for medium-term growth. The Bank's subsequent Economic Modernization Loan (EML, FY93) helped to articulate a policy agenda involving reforms in trade policy, the financial sector, the social sector, public finance, and public enterprise management. The loan complemented a standby agreement with the IMF. More important, the loan's policy commitments provided a solid base to guide the economic policy of the de León Carpio administration following the departure of President Serrano.

3.9 In its preparation and its execution of the loan, Guatemala demonstrated that it had a group of qualified technical cadres committed to improving economic management. The loan achieved most of its objectives, except those related to the financial sector. Trade liberalization went as planned; the level and variability of tariffs declined, and the prices of gasoline and diesel-oil were freed. The Government provided adequate budget allocations for primary and preventive health care. Tax administration improved, and intervention by the agricultural marketing agency was reduced, but little changed in the electric power sector. Opponents of reforms in the financial sector succeeded in their goal of thwarting efforts of making financial institutions accountable and stronger. Also, poor coordination between the Bank and the Inter-American Development Bank (IDB) allowed the Government to argue that it had met the conditions of the Bank's loan when it met the conditions attached to an IDB loan that was also intended to support reform of the financial sector. The Bank probably overestimated its influence on the Government as well as the Government's power to reform the financial sector.

3.10 A technical assistance loan in FY97 was intended to help the Government prepare selected sectors—ports, electric power, telecommunications, highways, and the postal service—for sale or concession to the private sector within a sound legal and regulatory framework. The Government sold the electricity and communications companies, issued regulations to promote competition in those newly privatized sectors, and awarded concessions of the mail and railway services to foreign operators.

3.11 *Supporting better management of public funds.* To enhance the administration of public funds, the Bank provided two loans in FY95 and FY98 for development and execution of an *integrated system of financial management* (Sistema Integrado de Administración Financiera—SIAF) intended to overcome some of the problems caused by complex and imprecise budgetary procedures. The first loan (SIAF I) surpassed its objectives. The Government now has a bookkeeping structure that integrates its budgeting, accounting, and cash management functions, and a comprehensive database for improved reporting and budget management. Forty ministries and government agencies use the system. Congress and the public have access, albeit limited, to information about the Government's budget and cash operations. The second loan (SIAF II), still disbursing, is supporting expansion of the system to all other agencies and the Comptroller General's Office, and the creation of modules for debt and capital projects. SIAF III—approved by the Board on March 14, 2002—will expand coverage to other agencies and levels of government not covered by SIAF I and II.

3.12 To improve *tax administration,* the Arzú administration decided to merge the administration of internal and foreign trade taxes under a Superintendencia de Administración Tributaria (SAT) and to create a separate, better paid, civil service for the agency. This is being supported by an ongoing technical assistance loan (FY98). Disbursements under the loan started about two years later than planned because it took that time for Guatemala's Congress to pass a law authorizing full autonomy for SAT. The operations of SAT, however, have not met expectations, reflecting in part the political difficulties of carrying out reforms in tax administration. Both the Bank and the Government have made mistakes. The Bank did not press the Arzú administration for execution of the plan agreed originally with the de León Carpio administration, and vested interests seem to have prevented the SAT carrying out its tasks as planned.

3.13 *Supporting delivery of basic services for poor communities.* Two Bank loans (FY93, FY99) supported the largest social fund, the Fondo de Inversión Social (FIS), which aimed to deliver basic services to poor communities. It is estimated that the poor receive about 66 percent of total FIS spending. Both loans met their objectives and helped to finance thousands of projects, but some of them seem not to have delivered what the communities wanted. FIS helped the country to respond quickly to the need to rebuild infrastructure after Hurricane Mitch hit Guatemala in 1998. Although FIS is the largest provider of infrastructure in Guatemala, it has provided insufficient training of local personnel in maintenance tasks. Its central office selects projects consulting little with local communities, negating one of the reasons for its existence: giving voice and power to the communities. The FIS needs to improve its system for screening projects and its ability to evaluate properly the benefits of the projects it finances. The existence of the FIS, created as a temporary organization, has eliminated the pressure to reform the organizations and procedures that triggered its birth. FIS has its own procurement and civil service norms, and its accountability to the public is quite limited. A recent OED report—*Social Funds: A Review of World Bank Experience* (2001)—found similar problems with social funds in other countries.

3.14 *Supporting more and better education.* A Bank loan in FY89 for education in Guatemala financed production of textbooks, construction of schools, and training of teachers. The project met its quantitative targets and contributed to increases in enrollment, but it did not improve the quality of instruction or administrative planning of the education system. Two other loans (FY97, FY01) financed expansion of PRONADE, a program that serves rural communities not served by regular programs of the Education Ministry and accounts for about 10 percent of all elementary education. PRONADE finances teachers' salaries and training, scholarships for girls, and the development of teaching materials in the Mayan language. Various evaluations suggest that when compared to other primary public schools, PRONADE's schools have meant longer time spent by pupils in classrooms, higher attendance, greater and more informed community participation, and higher rates of promotion and student retention. Moreover, the program targets the poor effectively: about 92 percent of the expenditure goes to poor people. The education sector expanded faster following the 1996 peace agreement, reflecting a large increase in public spending on education. About half of the increase in student enrollment was achieved through PRONADE.

3.15 Communities perceive PRONADE as the best education system for rural areas. One of its merits is the formation of human capital through the creation of parent-run school committees (COEDUCA, Comité de Autogestión Educativa) that administer the program locally. But further improvements are possible. PRONADE could improve the quality of bilingual education by providing more training in bilingual education to teachers, making sure that schools have texts in both Spanish and native languages, developing an appropriate bilingual curriculum, and supplying more cultural materials for indigenous communities. The loan approved in FY01 capitalizes on the lessons learned in previous projects and addresses the shortcomings found in them. Continued Bank support would strengthen PRONADE's ability of expanding literacy in rural areas.

3.16 *Judicial reform.* The Judicial Reform project (FY99), still under implementation, sought to reduce corruption, improve access to justice, and strengthen judicial institutions. Some progress can be reported, especially in incorporating traditional Mayan law into judicial decisions at the community level. But the main objectives of the loan have yet to be achieved. The Supreme Court, which is the executing agency, has delayed the planned separation of administrative and judicial responsibilities. The project has helped to create a general manager's office in the Supreme Court to handle planning and management issues in the judiciary. The Bank needs to work more with that office, set up by the Supreme Court to advance reform in the administration of justice. The Bank needs to maintain a balance between working with the judges and with the general manager's office, because working mainly with the judges who are managing the project, would perpetuate some of the management problems that the loan was designed to solve.

3.17 *Supporting land distribution and creation of land rights for the poor.* The 1996 peace agreement called for giving peasants better access to land ownership. A FY99 Bank loan financed the Land Fund, a program that helps smallholders and landless workers in rural areas to purchase land. The loan finances training, technical assistance, purchases of equipment and civil works related to land purchase. The Fund, initiated with support from USAID, benefits people in the bottom income quintile of the population and costs less per beneficiary ($9,200) than similar programs in other countries. The Bank loan will allow the Fund to assist 22,500 of the 70,000 families the program hopes to reach.

3.18 The Land Administration (FY99) loan, an adaptable program loan (APL) helps to develop the legal and institutional framework for land registry and cadastre services. The first phase of the loan is helping to develop the cadastre and regularize land ownership in El Petén region, while the second phase would support land titling. The Government values this support because the Bank can be an honest broker and provide objective technical advice, has extensive experience with such programs and can commit to a long-term program. The program started well but had problems in 2000 because of political pressures. The Bank needs to monitor the program closely to preserve its integrity.

3.19 *Supporting better road infrastructure.* Road maintenance ceased during the civil war and parts of the road network were destroyed. A Secondary and Regular Roads Rehabilitation loan (FY89) achieved its repair targets, promoted private sector participation in maintaining roads, and strengthened the General Directorate of Roads. A Rural and Main Roads loan (FY98) has supported the work of the DGC and the Instituto de Fomento Municipal, financing about 70 percent of the investment budget of DGC. Major projects are better evaluated and monitored, reducing political pressures in the selection of projects and providing greater financial transparency. Bank support reduces the cost per kilometer of road built and maintained because it ensures the financing and lets construction firms make longer-term plans.

3.20 *Power Distribution Project.* This project (FY86) was intended to finance an expansion of the distribution network and the preparation of a program to enlarge power generation and improve efficiency in the sector. The loan only became effective three years after the Board approved it and eventually had to be cancelled because the Government could not meet the loan conditions.

3.21 *Water supply.* A loan for Water Supply (FY87) failed to achieve its objective of supporting a comprehensive rehabilitation of the physical, managerial, and financial status of water supply services in Guatemala City. The loan became effective two years after its approval, and only 15 percent of it was disbursed. The loan was cancelled in 1992, after the Government obtained a loan for the same purpose from a bilateral agency under more favorable conditions.

3.22 *Municipal development.* The loan for a Municipal Development Project in Guatemala City (FY88) was intended to help revitalize the city's financial capabilities and administration, finance the provision of services for low-income areas, and assist in road maintenance and improvement. After delays in execution, the Government and the Bank agreed to cancel about two thirds of the loan and to continue only the services component. The project financed street paving and construction of low-cost sewage treatment plants that improved the living conditions of about 38,000 poor people. The project also helped to show that groups of low-income beneficiaries can plan, pay for and execute infrastructure improvements. The component now serves as an example of good practice for loans with similar objectives in other countries.

Aid Coordination

3.23 In the 1980s, Guatemala received large amounts of aid and did not absorb it effectively, but since the early 1990s the country started using it better. Donors coordinated their efforts better, reducing inconsistency and overlapping. The Bank coordinated the aid efforts in the early 1990s, when it helped to put a financing package to support the programs of the de León Carpio administration, but in 1995 it ceased coordinating donors activity, a task then assumed by IDB. After the peace agreement was signed, the Bank, the IDB, the Central American Bank of Economic Integration, the United States, the European Union, and Spain and Germany jointly put together a $1.9 billion aid package to support the agreement. That assistance was conditional and required a land census, reformation of the tax structure and the judiciary, and initiation of programs to title and reduce rural poverty.

3.24 The Government could obtain greater benefits from external assistance through better coordination with donors. That might include internal guidelines for selecting the assistance that it needs most. As things stand now, the large number of donors providing financial aid is straining the Government's ability to coordinate the assistance, and the assistance tends to be concentrated on topics that donors favor. The donors have set up a committee (Grupo de Diálogo) that meets regularly to discuss assistance issues, and the United Nations agencies operating in Guatemala agreed on a development assistance framework that is considered to be a good example of coordination in post-conflict countries. The Bank could also use the regional unit for technical assistance (RUTA) in Costa Rica, a mechanism for aid coordination in agriculture involving several partners with the Bank in a leading role, to help develop a strategy for agricultural development.

Analytical and Advisory Services

3.25 The Government paid little attention to Bank advice during the 1980s but the quality of the dialogue improved during the 1990s. As the Government tried to stabilize the economy, ignite growth and improve economic institutions, the Bank and the IMF helped to design stabilization and reform policies. The Bank also helped in designing restructuring of some government agencies. During the peace negotiations the Bank acted as an honest broker, helping the negotiating parties to determine the financial and technical feasibility of their proposals, especially on fiscal and social issues and land tenure and land reform. After a difficult start, the quality of the dialogue with the Portillo administration has improved. Difficulties arose because the governing coalition and the parties that support the Government sought to reduce funding for PRONADE and to backtrack on the improvements in governance and accountability brought about by the reforms in the Ministry of Finance. The dialogue has improved as the Government has realized the importance of consistent macroeconomic policies and meeting the commitments of the peace agreement.

3.26 To ensure that Guatemala benefits fully from the Bank's technical assistance, the Bank should allocate more resources for supervision or give the Resident Mission more responsibility for it. On some projects, for example, the Bank hires administrative expertise from the local office of the United Nations Development Program. For those services, Guatemala is charged a fee of 3 percent of the value of the project. Since the services rendered by UNDP involve procurement, Bank procurement specialists could train Guatemalans and transfer this know-how at lower cost. It should also be mentioned that foreign experts could make their assistance more effective by being more sensitive to local conditions, listening more carefully to local views, and working more closely with local parties in making decisions. The ultimate goal is to make sure that training of Guatemalans and transfer of technology take place so that the benefits of the project continue when the foreign experts depart.[13]

Participation and Consultation

3.27 The Bank's efforts to encourage participation and consultation have sometimes been hampered by the mutual distrust of different groups within Guatemala as well as Guatemalan suspicions that representatives of external agencies may be acting as undesirable agents of foreign governments or NGOs. In addition, Bank staff have sometimes ignored, or been unaware of, political realities and local sensitivities. In one instance, the Bank consulted with Mayan towns without informing the Government, which saw the activity as an attempt by foreigners trying to dictate Guatemala's cultural policy. As a result of this incident, the Bank and the Government adopted guidelines for consultations during project preparation: the Bank informs communities, conducts consultations, provides technical assistance to indigenous organizations, and informs communities about the resources allocated to the regions where the project will be carried out. Subsequently, coordination with Government and local communities has improved.

Development Impact

3.28 Neither policy advice nor loans from the Bank benefited Guatemala in the 1980s. Some of the loans approved during the period financed projects of little relevance for Guatemala's development, and others did not deliver the expected benefits. The loans for hydroelectric power, water supply, and municipal development generated few benefits, as did the 1987 loan for education. Meanwhile, since the Government had no strategy for using Bank assistance, it could not demand a program tailored to the country's problems

13 The Government noted that *Bank could help improve the execution of projects by supporting training programs for local counterparts and through joint monitoring and supervision.*

nor determine if Bank loans met their objectives. Things changed in the 1990s, as the Bank and the country both learned some lessons from experience.

3.29 Bank ideas and policy advice have sometimes contributed more to the country's development than the money lent. The Economic Modernization Loan helped maintain the stabilization program during the administration of Ramiro de León Carpio, who took over the presidency on short notice and lacked a coherent economic program. The loan helped to provide that framework. Political turmoil may have caused the slowdown in growth in 1993—GDP grew 3.9 percent—but because the stabilization program was preserved, the economy grew faster the next two years. The loan also helped shape the liberalization of trade, the sale of state-owned companies, and the management of taxes, budget, and treasury. The liberalization of trade reduced the discrimination against agriculture, forced the industrial sector to be more efficient, and reduced the incentives in customs to engage in corrupt activities. The financial management loans also helped improve efficiency and transparency in managing public funds. Reliable and timely information enabled the authorities to reduce payment delays and procurement costs. And the public, provided with better information, could judge if the Government used its funds wisely.

3.30 The economy grew slightly more than 4 percent per year during the 1990s, causing a moderate reduction in poverty. The economy probably could not have grown much faster during the period. Despite the 1996 peace agreement, the country and its people still suffered from the aftermath of the 30-year conflict and lingering suspicions between the warring parties. Many Bank programs have helped to improve economic conditions and the credibility of Government commitments.

3.31 Children in rural areas have more access to education today than they did ten years ago, rural people have a better chance (albeit still small) of owning a piece of land, and farmers are beginning to have a better access to markets as road infrastructure improves. PRONADE now covers 310,000 children in 3,430 rural communities. PRONADE has mainly benefited Mayan children, but it has also improved the human capital of parents by giving them the opportunity to manage and administer human and financial resources. The land titling program gives its beneficiaries secure title to land and hence improves their access to credit. Although their impact is still small, the education and land programs are changing the attitude of the rural poor and the attitudes of other Guatemalans toward the rural poor. New roads have increased employment opportunities for rural workers and allowed farmers to grow new products, pay lower prices for their inputs and get higher prices for their produce. The Basic Education, Rural and Main Roads, and Local Reconstruction and FIS (Community Organization) loans have enhanced social networks and existing social structures in indigenous communities.

3.32 Unfortunately, the Bank has done little sector work on agriculture in Guatemala, missing the chance to influence policies for the rural sector, where most of Guatemala's poor, illiterate, and indigenous people live. Although some Bank loans have supported development in rural areas and project preparation work has analytical content and policy advice, the Bank has known too little about the country's agricultural markets (products, inputs, rural labor, and rural support services) and lacks an explicit strategy to deal with agriculture. The current poverty study affords an excellent opportunity to remedy some of these shortcomings, and the forthcoming Country Assistance Strategy should say explicitly how its elements will help drive agricultural development and reduce rural poverty.

3.33 *Indigenous people.* After the signing of the Peace Agreement, the Bank and the Government used the subsidiary agreements on socioeconomic and agrarian issues and on the rights and identities of indigenous people to provide guidelines for its assistance. The guidelines are consistent with the principles established in the Operational Directive (OD) 4.20 for Indigenous Peoples: (a) right of civil society to participate; (b) consulting with stakeholders for project design, and (c) decentralizing power and administrative matters to the regional and local level. In support of the peace agreement, and following OD 4.2, in 1996 the Bank carried out consultations with indigenous authorities, specifically the Mayan Council of Elders and the Auxiliary Mayors. The Mayan Elders value the contribution of the Bank, and the Council of Elders considers the Bank as "the only investment institution concerned with the well-being of indigenous peoples."[14]

3.34 Bank assistance aimed at indigenous peoples benefited the target population (poor, indigenous people, and children and girls in the poorest regions), and helped to build social capital in the communities receiving the assistance. The assistance encouraged the build up of social capital, enhanced the social networks and the existing structures in indigenous communities. It also helped in the training of individuals to diagnose community problems, establish priorities and manage projects. The analytical work of the Bank gave attention to indigenous people issues, and the last country assistance strategy systematically integrated issues specific to indigenous peoples into it. Also, the Resident Mission has hired a full time staff to deal with indigenous people issues.

3.35 Future assistance aimed at indigenous people should benefit from the lessons learned from the present one. For example, when projects lack a budgetary allocation for a specific activity, the activity is not carried out. Bank efforts to assist indigenous people have a better chance to succeed if the budget specifically allocates funds for each planned activity. Also, to monitor and evaluate the impact of projects on indigenous people, projects should have separate indicators to measure their impact on indigenous and non-indigenous people. The lessons learned also benefit the design of new projects, as the recently approved education loan exemplifies by including elements more specific to the needs of the indigenous people.

3.36 *Gender.* Two Bank projects were designed to help reduce gender tensions: the Second Basic Education Reform project and the Social Investment Fund II (FIS II) project. The Basic Education project gave special attention to school enrollment of girls and indigenous peoples. The FIS II project was intended to create means to respond to socioeconomic needs identified by poor communities, with special focus on indigenous communities and women's groups. The work performed by the two projects must be

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14 Ximena Traa-Valarezo and others, *Guatemala· OED Evaluation of Impact of Projects on Indigenous Peoples-Desk Review and Field Verification*, May–June 2001, page vii.

supported by other actions. Local project personnel must improve their communication with indigenous women, and project managers should develop sensitivity training for men to prevent self-defeating conflicts between men and women. The FIS project should decentralize more decisions to rural communities while making sure that women have more voice and influence.

Attribution

Bank Performance

3.37 *The 1980s*. The Bank drew an ambitious strategy for Guatemala and the proposed lending program broadly matched the strategy, but the strategy was poorly implemented because the Bank did not review the strategy's timing, political feasibility, and speed of execution. The Staff in the Region believed that political constraints and an ineffective bureaucracy made the program undoable. Under such conditions the Bank's strategy could not succeed.

3.38 Weak institutional capacity in the country and insufficient budget allocations slowed the execution of projects. The Bank could have prevented these problems by simplifying implementation arrangements, giving technical assistance, working on reforms to improve the Government's financial management, and relying on community and the private sector for implementation. Demanding from the Government more expenditures at times of growing fiscal deficits clashed with the need for fiscal discipline. The Bank recommended higher taxes and, in some way, avoided the inconsistency of its stand.[15]

3.39 *The 1990s*. Bank assistance benefited Guatemala during the 1990s because it supported better economic policies and better targeting and management of public resources. Both the 1995 and 1998 CASs dealt with the relevant problems in the country and adopted the proper interventions to deal with them. Also, the Government owned the strategy and dealt with the problems. The Bank adopted the right targets and sequencing of interventions.

3.40 Although the Bank adopted better strategies in the 1990s, it could have placed greater emphasis on education sooner and could have made more explicit how the strategies could affect rural development. After approving the Basic Education loan (FY89), the Bank lent again for education eight years later. By then, PRONADE had already demonstrated its success. The Bank could have supported PRONADE from its beginning, as it did in El Salvador with EDUCO, another successful program of rural education. The Bank could be more forceful in supporting education programs with loans and sector work, and in working with civil society (political parties, think tanks, NGOs) when vested interests threaten the existence of education programs. Some of the loans helped deal with rural poverty, but if the strategies had tried to link the proposed program

[15] The Government indicated that *weakness in design contributed to the slow execution of projects, and it suggested that institutional weaknesses may have been overplayed as a factor in the negative performance of projects.*

to rural development, it would have become evident the need for an agricultural development strategy.

3.41 After the signing of the peace agreement, the Bank expanded its lending for programs deemed important for peace. Although this expansion was warranted, the Bank should be ready to curtail its lending in the event of poor economic management.

3.42 *Environment.* The most serious environmental problem in Guatemala seems to be that related to lack of water supply and sanitation. The Bank financed one project in the water sector, and the IDB has provided the assistance that the country demands for the sector.

3.43 *Governance.* Although the Bank did not have an explicit anticorruption strategy for Guatemala during the 1985–01 period, its three CASs had anticorruption components that in essence constituted a strategy. Four loans (Judicial Reform, Integrated Financial Management, Tax Administration, and Private Participation in Infrastructure) were directly relevant to the goals of reducing corruption and improving governance and accountability. Other loans, like those for education and local development, have promoted more transparency and accountability by giving communities more power to manage resources and decide where to spend the money. But support for FIS encourages less-than-transparent management of the investment budget because FIS is exempt from government procurement rules, and until December 2001 its accounts were not part of SIAF. To be more effective in the area of Governance, the Bank should (a) take more explicit account of how its loans help reduce corruption; (b) continue supporting better economic institutions; and (c) support further efforts at improving governance in the public sector.

3.44 *Supervision and portfolio management.* Portfolio management improved during the 1990s, but some earlier problems persisted. For that reason, the Bank needs to emphasize supervision more strongly. Bank staff say they have sufficient resources for supervision, but additional resources seem merited, since the Borrower has complained that it has difficulty reaching Bank staff when it needs them.

Borrower Performance

3.45 *The 1980s.* The Cerezo administration, the first elected government after 30 years of military regimes, received large inflows of bilateral assistance that probably helped postpone the necessary structural adjustment. Aid from bilateral donors accounted for more than 85 percent of all official development assistance, with the United States alone accounting for about 50 percent. But foreign aid alone cannot be blamed for the country's economic problems. The administration had poor policies and coordinated them poorly. Government agencies lacked a coordinated view of what should be done and seemed to have constant disputes over turf.

3.46 The administration initiated policies without exploring their political impact. When pressure groups resisted policies, the Government then backtracked. This vacillation undermined the credibility of the administration. Because the Government lost its focus, economic policy deteriorated and the Bank program could not be carried out. The Ministry of Finance apparently saw the Bank as a source of long-term unrestricted funds rather than as a development institution that could provide assistance to solve institutional and policy problems. By 1989, five loans were not yet effective, three of them because of lack of legislative approval.

3.47 *The 1990s.* In the early 1990s, the Government took ownership of the stabilization program as well as the programs for financial management and tax administration. It fired people from such overstaffed ministries as Finance and Agriculture, and it obtained the necessary support from Congress (a two-third majority) to create a new organization for tax administration (Superintendencia de Administración Tributaria) because the one operating them was controlled by a small group of entrenched functionaries with allegiance to other parties outside the government. The changes in financial management, however, seem to have been more effective than the changes in tax administration. The Government manages expenditures better, but the results in SAT (income tax management and higher revenues, among others) have fallen below expectations. Conscious of the benefits of better information about public expenditures, civil society, together with opposition parties, prevented the Portillo Government from carrying out a plan in 2000 to reduce the amount of information available to the public.

3.48 The Government has indicated that it intends to take a more active role in ensuring greater effectiveness of Bank supported projects in achieving their objectives of reducing poverty and improving growth prospects. To this end, the Government plans to request joint evaluations to restructure projects, reallocate funds to the more active programs, and to cancel loans that have not performed well over a long period.

Other Aid Partners: IMF, IDB, USAID, MINUGUA

3.49 The Bank has worked closely with the **IMF,** especially in the preparation of the Economic Modernization Loan. The IMF has supported the country's adjustment efforts with two stand-by agreements (1988, 1992), but in the last one the country did not use the funds available. During 1994 and 1995 the country embarked on a shadow program with the IMF, but the program went off-track in the third quarter of 1995. Recently, the IMF and the Bank prepared a Financial Sector Assessment Program which found the financial system to be in fragile condition and recommended its strengthening by making the Central Bank fully independent and improving the sector's legal, regulatory, and supervisory framework.[16]

3.50 The **IDB** has made loans to Guatemala totaling $1.27 billion over the last 16 years, making it the country's most significant external source of funding. About 40 percent of the loan funds have gone to the energy and transportation sectors, with health, urban development and provision of basic services to small communities through the social investment funds accounting for about 30 percent. Loans for reform and modernization of the state accounts for a 17 percent of the portfolio. Although the Bank

[16] In this context the Government noted *the need for closer coordination between the Bank and the IMF to ensure that their programs are complementary.*

and IDB have not cofinanced projects, they have financed the social investment funds and complementary programs for the reform and modernization of the state. Their lending programs in the social and environment sectors have been selective, with the Bank financing education projects and the IDB financing health projects. The Bank financed one water project in the 1980s, but IDB financed projects for environmental protection, water supply, sanitation, and urban development. The Bank is preparing a loan for the financial sector that will be cofinanced by IDB.

3.51 Over the period 1985–98, **USAID** gave $1.24 billion of net external assistance, the largest amount from bilateral donors (about 30 percent of the official development assistance). The assistance dropped from about $100 million per year in 1985–90 to about $80 million per year in 1991–98. Although USAID assistance declined during most of the 1990s, it rose sharply in 1998 to support the peace agreements. USAID support helped start the land titling and land registration programs. In 1993, with USAID and private sector support, the Ministry of Education started a pilot program, "Eduque a la Niña," to promote scholarships for indigenous girls. An evaluation showed that the program has been effective in promoting attendance, retention, and completion of schooling by female students.

3.52 The United Nations Mission in Guatemala (**MINUGUA**) has a large staff that monitors the fulfillment of commitments under the peace accord, issues periodic reports on the overall status of the peace process, and develops special reports on areas covered by the agreement.

IFC and MIGA

3.53 **IFC** and **MIGA.** Between 1990 and 2001, MIGA guaranteed two projects in the power sector for $123 million, while IFC has invested about $172 million in 13 projects worth about $650 million.

Exogenous Factors

3.54 Although Guatemala has reduced its dependence on a handful of export commodities—coffee, bananas, sugar, and petroleum—they still generate about one third of its foreign exchange earnings. Improved policies in the 1990s helped the country adjust to changing conditions in international markets and cushioned the impact of external shocks, but natural disasters (earthquakes and hurricanes) took a large toll. In 1998, Hurricane Mitch caused damages estimated at about $550 million, almost 4 percent of GDP. Guatemala then had to divert resources from new investment to rebuild its damaged infrastructure.

4. Lessons for the Bank

4.1 The following lessons emerge from the Bank's experience in Guatemala.

- Bank assistance can be more effective when its analysis and lending deal with themes and projects that civil society and the government are most likely to support over the long term.

- The experience of PRONADE shows that local communities can manage resources and execute some projects as well as, or better than, the central government.

- Excessive external assistance can allow a government to neglect the changes needed for stabilization and growth. Guatemala received large amounts of aid during the 1980s, but it made necessary fiscal adjustments only in the early 1990s, when the flow of aid fell sharply.

- When governments create temporary organizations (social funds) to do the work that line organizations should do but are not doing, they should set time limits on the temporary organization or strip such functions from the line organizations when the new organization takes over.

- Policies on indigenous people can be more effective when the projects in support of the policies have budget earmarked for each activity planned and indicators to measure their impact.

5. Conclusions and Recommendations

5.1 The quality of Bank assistance improved over time. Bank assistance in the 1980s lacked purpose and brought few benefits because the Bank lent to a government that needed economic discipline, not loans. Bank assistance in the 1990s supported an economic policy that brought economic stability and restored growth, and set the policy agenda for the 1990s. The assistance also supported programs agreed to in the peace accord, finally coming to grips with the problems of the majority of Guatemalans: poverty, inequality, and social exclusion.

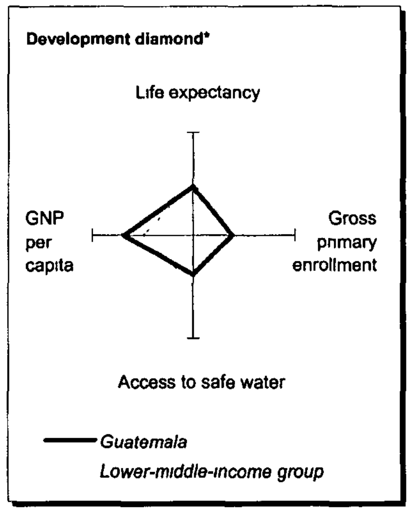
5.2 OED rates the outcome of the Bank's assistance unsatisfactory for the 1985–90 period and satisfactory for the 1991–2000 period. Institutional development impact is rated as modest and the sustainability of the Bank's assistance program is rated as likely, notwithstanding the problems that PRONADE and some public sector management programs experienced in 2000. Institutions that benefit the community have improved, and community perceptions of these improvements have led the people as a whole to oppose attempts to weaken them.

5.3 Guatemala is unlikely to reduce poverty and meet the millennium development goals with an annual GDP growth rate of 2.5–3 percent and the current population growth rate of 2.7 percent. Guatemala needs to grow at 5–6 percent per year or higher to achieve its development goals. A shift in Bank assistance from post-conflict vision to help to accelerate growth and achieve more ambitious poverty reduction efforts should focus on:

- Preserving macroeconomic stability, with strong financial system and public finances. In particular, the Bank should support improving the quality of regulation and supervision of financial institutions, promoting the independence of the Central Bank and of the Banking Superintendency, and fiscal policies that produce balanced budgets or small fiscal deficits.
- Improving the efficiency of government expenditure and spending more on poverty reduction programs. The Bank should insist on redirecting towards the poor Government expenditure in education, health, electricity, water supply and sanitation. It could also continue supporting the FIS if the Fund is made more accountable and transparent, if the communities have more power to select and manage projects, and if the Government streamlines the various social funds operating now
- Investing larger amounts in education, health, and physical capital (transport and other basic services). The assistance should emphasize interventions in rural areas, and should also support programs of titling of land to the poor and protection of property rights in land. The design of the programs should ensure that their benefits reach indigenous people and that their budget makes explicit allocation of funds for each planned activity.
- Improving the investment climate through better improvements in public sector management, more respect for the rule of law, better working of the judiciary, further liberalization of trade, and the design and enforcement of regulations that promote competition and the growth of the private sector

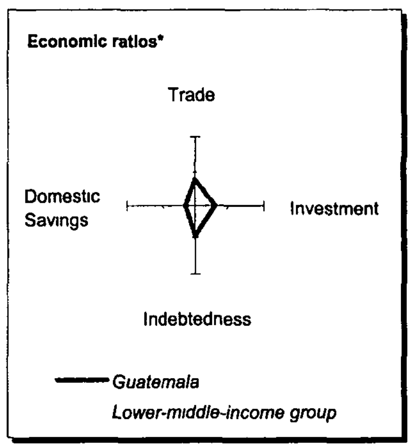
Annex Table 1. Guatemala at a glance

POVERTY and SOCIAL	Guatemala	Latin America & Carib.	Lower-middle-income
1999			
Population, mid-year *(millions)*	11 1	509	2,094
GNP per capita *(Atlas method, US$)*	1,660	3,840	1,200
GNP *(Atlas method, US$ billions)*	18.4	1,955	2,513
Average annual growth, 1993-99			
Population *(%)*	2.6	1.6	1.1
Labor force *(%)*	3 6	2 5	1 2
Most recent estimate (latest year available, 1993-99)			
Poverty *(% of population below national poverty line)*			.
Urban population *(% of total population)*	39	75	43
Life expectancy at birth *(years)*	64	70	69
Infant mortality *(per 1,000 live births)*	37	31	33
Child malnutrition *(% of children under 5)*	27	8	15
Access to improved water source *(% of population)*	67	75	86
Illiteracy *(% of population age 15+)*	32	12	16
Gross primary enrollment *(% of school-age population)*	88	113	114
Male	93	.	114
Female	83		116

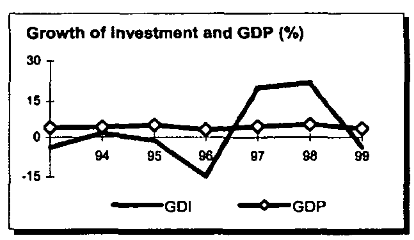


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1979	1989	1998	1999
GDP *(US$ billions)*	6 9	8.4	18.9	18.0
Gross domestic investment/GDP	18.7	13 5	16 0	15 7
Exports of goods and services/GDP	21.3	17.3	18 6	18.8
Gross domestic savings/GDP	14.2	8.3	7.7	8 3
Gross national savings/GDP	16.1	8 0	10.5	11 5
Current account balance/GDP	-3 0	-5.4	-5 5	-5 3
Interest payments/GDP	0.7	1.3	0 7	0 8
Total debt/GDP	15.2	31.5	20.9	22.6
Total debt service/exports	7.3	19 6	9 8	9.6
Present value of debt/GDP	..	..	22 6	..
Present value of debt/exports	..	..	105 2	

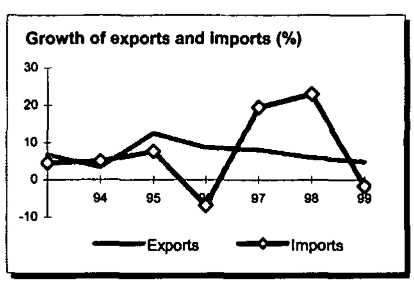
	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	0 4	4.1	5.1	3.5	5.0
GNP per capita	-2.3	1 5	2.8	0.6	2 4
Exports of goods and services	-3.7	6.5	6.0	4 8	7 9



STRUCTURE of the ECONOMY	1979	1989	1998	1999
(% of GDP)				
Agriculture	25 4	25.6	23.4	23.1
Industry	21.5	20.1	20 0	20 1
Manufacturing	16 3	15 2	13.5	13 4
Services	53.1	54 3	56.6	56 8
Private consumption	78.7	83.8	86.8	85 9
General government consumption	7.1	7.9	5.6	5.8
Imports of goods and services	25.9	22.5	26.9	26 2



	1979-89	1989-99	1998	1999
(average annual growth)				
Agriculture	0 7	2 9	3 5	2 2
Industry	-0 6	4.2	5 2	4.1
Manufacturing	-0 3	2 8	3 6	2.6
Services	0 6	4.6	5 8	3 7
Private consumption	0 8	4.3	5 5	3.0
General government consumption	2 8	4.5	10.6	4.8
Gross domestic investment	-3 3	5.2	21.9	-4.0
Imports of goods and services	-4 2	9.0	23 0	-1 7
Gross national product	0 1	4.2	5 5	3.2



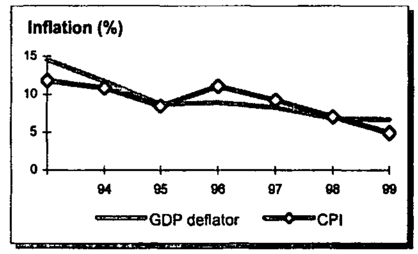
Note: 1999 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average If data are missing, the diamond will be incomplete.

Guatemala

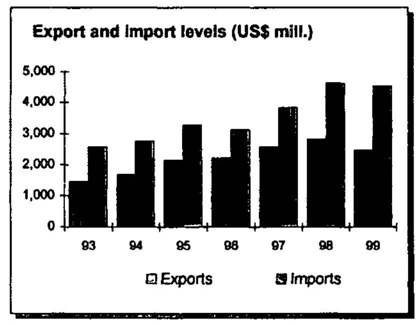
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices, average	11 3	11 4	7 0	4 9
Implicit GDP deflator	8 6	10 9	6.8	6.6
Central Government finance				
(% of GDP, includes current grants)				
Current revenue		.	9 9	9.8
Current budget balance	..		2 4	1 6
Overall surplus/deficit		.	-2 5	-3.1



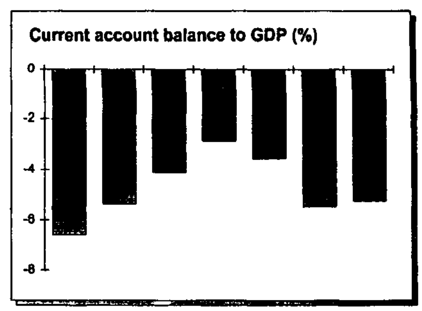
TRADE

	1979	1989	1998	1999
(US$ millions)				
Total exports (fob)	.	1,126	2,847	2,488
Coffee		380	581	561
Sugar		92	314	192
Manufactures			929	839
Total imports (cif)		1,641	4,651	4,558
Food		231	969	960
Fuel and energy		212	284	321
Capital goods		352	1,373	1,289
Export price index *(1995=100)*		84	89	81
Import price index *(1995=100)*		101	93	91
Terms of trade *(1995=100)*		84	96	90



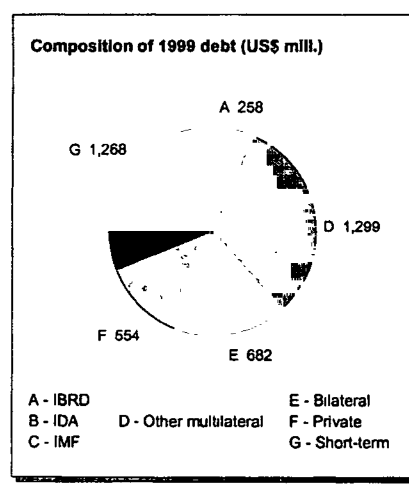
BALANCE of PAYMENTS

	1979	1989	1998	1999
(US$ millions)				
Exports of goods and services	1,449	1,465	3,455	3,475
Imports of goods and services	1,784	1,869	5,028	5,005
Resource balance	-335	-404	-1,573	-1,530
Net income	3	-195	-169	-200
Net current transfers	123	148	705	783
Current account balance	-209	-451	-1,037	-947
Financing items (net)	183	364	1,279	822
Changes in net reserves	26	88	-243	125
Memo:				
Reserves including gold *(US$ millions)*	718	329	1,209	1,084
Conversion rate *(DEC, local/US$)*	1 0	2 8	6 4	7 4



EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1998	1999
(US$ millions)				
Total debt outstanding and disbursed	1,050	2,651	3,944	4,061
IBRD	108	261	203	258
IDA	0	0	0	0
Total debt service	113	304	396	386
IBRD	10	48	26	31
IDA	0	0	0	0
Composition of net resource flows				
Official grants	20	127	152	71
Official creditors	126	16	124	58
Private creditors	61	7	-52	-46
Foreign direct investment	117	76	673	155
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	29	154	23
Disbursements	47	14	30	70
Principal repayments	2	27	14	15
Net flows	44	-13	15	55
Interest payments	8	21	12	17
Net transfers	36	-34	3	38



Annex Table 2. Guatemala: Key Economic and Social Indicators, 1991-99

Indicator	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*Guatemala Average 1991-1998*	*Bolivia Average 1991-1998*	*Dominican Rep Average 1991-1998*	*Ecuador Average 1991-1998*	*El Salvador Average 1991-1998*
GDP growth (annual %)	-0 6	0 1	3 5	3 9	3 9	3 1	3 7	4 8	3 9	4 0	4 9	3 0	4 4	5 1	3 6	4 2	4 1	5 7	1 7	4 7
GNP per capita growth (annual %)	-2 7	-3 6	1 5	1 6	1 6	0 8	1 9	2 2	1 3	1 1	2 1	0 0	1 7	2 9	0 5	1 5	1 9	3 7	-0 4	2.7
GNP per capita, Atlas method (current US$)	1,190	1,090	1,050	1,010	1,000	970	1,000	1,070	1,180	1,270	1,400	1,480	1,570	1,640	1,660	1,363	884	1,424	1,324	1,501
GNP per capita, PPP (current international $)	2,098	2,188	2,420	2,606	2,650	2,703	2,832	3,023	3,132	3,232	3,390	3,418	3,439	3,455	3,517	3,271	2,019	3,804	2,857	3,740
Agriculture, value added (% of GDP)	26	26	26	26	26	26	26	25	25	24	24	24	24	23	23	24	16	13	12	13
Manufacturing, value added (% of GDP)	16	16	16	15	15	15	15	15	14	14	14	14	14	14	13	14	18	18	22	22
Services, etc , value added (% of GDP)	54	54	54	54	54	54	55	55	55	56	56	56	56	57	58	56	53	55	52	59
Exports of goods and services (% of GDP)	12	16	16	16	17	21	18	18	18	18	19	18	18	19	18	18	20	30	32	21
Imports of goods and services (% of GDP)	13	15	22	22	22	25	22	27	26	25	25	23	24	27	28	25	27	37	30	35
Resource balance (% of GDP)	-1 0	1 5	-6 4	-5 8	-5 2	-3 8	-3 6	-9 2	-8 4	-7 3	-6 3	-4 8	-5 6	-8 3	-10 1	-7 1	-6 9	-7 0	1 9	-14 0
Current account balance (% of GDP)	-2 5	-0 2	-6 2	-5 3	-4 4	-2 8	-2 0	-6 8	-6 2	-4 8	-3 9	-2 9	-3 6	-5 5	-7 1	-4 7	-6 2	-3 1	-4 2	-1 3
Total debt service (% of exports of goods and services)	28 1	31 8	29 6	27 8	19 9	12 6	15 3	25 0	13 4	11 9	10 8	11 0	9 9	9 8		13 4	32 2	7 8	26 2	11 7
Gross international reserves in months of imports	3 9	5 2	3 6	2 6	3 0	2 1	4 8	3 2	3 6	3 3	2 4	3 0	3 1	3 1	2 7	3 3	5 5	1 0	3 5	3 8
Gross domestic investment (% of GDP)	11 5	10 3	13 9	13 7	13 5	13 6	14 3	18 3	17 2	15 7	15 1	12 7	14 2	16 0	16 2	15 5	17 0	23 5	19 9	17 3
Gross domestic savings (% of GDP)	10 5	11 8	7 5	7 9	8 3	9 8	10 7	9 1	8 9	8 4	8 8	7 9	8 6	7 7	6 1	8 4	10 1	16 4	21 8	3 3
Inflation, consumer prices (annual %)	18 7	36 9	12 3	10 8	11 4	41 2	33 2	10 0	11 8	10 9	8 4	11 1	9 2	7 0	4 9	11 8	9 7	11 3	38 0	9 1
Current revenue, excluding grants (% of GDP)	10 6	11 5	12 0	12 6	12 3	11 1	12 1	12 9	11 7	10 5	11 7	12 9	12 0	12 3	13 1		16 3	15 5	15 8	
Expenditure, total (% of GDP)	12 0	12 3	13 0	15 3	15 5	14 0	11 1	12 1	12 9	12 0	11 9	11 9	12 3	14 0	15 6		21 5	15 2	15 3	
Public sector deficit (% of GDP)	4 3	2 2	2 2	4 3	3 9	5 8	-0 7	0 6	2 0	2 7	1 4	0 0	1 5	2 0	2 0		-2 2	0 5	0 5	
Population, total	7,738,000	7,935,470	8,136,290	8,339,570	8,544,230	8,749,000	8,973,470	9,211,220	9,459,420	9,715,290	9,976,000	10,243,400	10,517,000	10,799,000	11,086,100	9,997,878	7,420,620	7,826,963	11,455,844	5,680,080
Population, total (m)							9 0	9 2	9 5	9 7	10 0	10 2	10 5	10 8	11 1	10 0	7 4	7 8	11 5	5 7
Population growth (annual %)	2 5	2 5	2 5	2 5	2 4	2 4	2 5	2 6	2 7	2 7	2 6	2 6	2 6	2 6	2 6	2 6	2 4	1 9	2 1	2.1
Urban population (% of total)	37 8	37 9	37 9	38 0	38 0	38 1	38 2	38 3	38 4	38 5	38 6	38 8	39 0	39 3	39 5	38 7	59 3	61 7	60 3	45 1
Illiteracy rate, adult total (% of people 15+)	42 8	42 1	41 3	40 5	39 6	38 8	38 0	37 3	36 5	35 6	34 9	34 1	33 4	32 7	31 9	34 9	17 8	18 4	10 5	24 1
School enrollment, primary (% gross)	77 9	77 4	79 3	80 7	79 1	77 6	81 2	85 1	86 6	85 8	87 5	88 0	88 1			86 0		94 6	123 5	87 6
Immunization, DPT (% of children under 12 months)	21 0	33 0	16 0	43 0	56 0	66 0	63 0	66 0	75 0	71 0	80 0	73 0	78 0			72 3	78 6	68 7	77 4	83 3
Sanitation (% of population with access)	54 0			57 0		65 5					67 0					67 0	41 0	78 0	64 0	68 0
Life expectancy at birth, total (years)			59 7			61 4		62 6					64 2	64 3		63 7	60 9	70 5	69 8	68 7
Mortality rate, infant (per 1,000 live births)			64 0			56 2		51 0		46 2			43 0	42 1		45 6	66 1	42 5	35 1	34 5

Source World Bank, SIMA database for all but fiscal accounts information

Fiscal deficit of consolidated public sector includes Bank of Guatemala losses

Sources for fiscal accounts are.

1 For 1985-90 The World Bank, CEM 1991, Report No 9378-GU, Statistical Annex, Tables 5 1 and 5 2

2 For 1990-94 The World Bank, CEM 1996, Report No 15352-GU, Statistical Annex, Tables 5 1 and 5 2

3 For 1995-99 IMF, *Guatemala - Recent Economic Developments*, SM/01/139, April 30, 2001, Table 23

Annex Table 3. External Assistance to Guatemala

A. Net Receipts per Year from all Donors, 1980-00 (US$ million)

Donors	*80-90*	*91-00*	*1997*	*1998*	*1999*	*2000*
Bilateral	103	183	213	182	231	230
Multilateral	35	44	50	51	62	33
o/w IBRD	4	-	-	-	-	-
Total	137	228	264	233	293	264

Source: IDS online, as of February 5, 2002.

B. World Bank Commitments by Sectors for FY85-01

Sectors	*85-90*	*93-01*	*1997*	*1998*	*1999*	*2001*
Agriculture	0	23			23	
Economic Policy	0	120				
Education	30	95.2	33			62.2
Electric Power & Energy	125.6	0				
Environment	0	31			31	
Private Sector Devel.	0	33.3	13			20.3
Public Sector Mgmt.	0	86.3		43.9	33	
Social Protection	0	100			80	
Transportation	31.5	66.7		66.7		
Urban Development	29	0				
Water Supply & Sanitation	23	0				
Total	239.1	555.5	46	110.6	167	82.5

Source: World Bank Business Warehouse as of February 5, 2002.

Note: Numbers in Table I and Table II are not comparable. Table I refers to net receipts per year, and Table II refers to accumulated value of commitments.

Annex Table 4. ESW and CAS for Guatemala

Report Title	*Date*	*Report #*
Country Assistance Strategy Document		
Guatemala - Country Strategy Paper (draft)	16-Sep-87	
Guatemala - Country Assistance Strategy (Vol.1)	5-May-95	14451
Guatemala - Country Assistance Strategy (Vol.1)	19-Jun-98	18036
Economic Report		
Guatemala - Economic Situation and Prospects (Vol 1)	16-Jan-87	6434
Guatemala- Fiscal Management. An Agenda for Modernization	15-Aug-88	7382
Guatemala - Public Sector Expenditure Review (Vol 1)	23-May-89	7478
Guatemala - Financial Sector Report (Vol 1)	16-Jul-90	7819
Guatemala - Country Economic Memorandum (Vol.1)	19-Jun-91	9378
Guatemala - Building Peace with Rapid and Equitable Growth· Country Economic Memorandum (Vol 1)	22-Aug-96	15352
Guatemala - Investing for Peace: A Public Investment Review (Vol 1)	15-Jul-97	16392
Guatemala-Expenditure Reform in a Post-Conflict Country	4-Feb-00	19617
Guatemala-Financial Sector Assessment Program (with IMF)	July-01	
Sector Report		
Guatemala-Basic Education Sector Memorandum	6-Jun-86	6248
Guatemala - Population, Nutrition and Health Sector Review (Vol 1)	25-Jul-86	6183
Guatemala- Environmental Issues Paper	7-Jun-90	8769
Social investment in Guatemala, El Salvador and Honduras: Workshop on Poverty Alleviation, Basic Social Services and Social Investment Funds within the Consultative Group Framework (Vol.1)	30-Jun-90	8922
Guatemala - Informe Sectorial Agropecuario	12/?/ 1990	9193
Guatemala - Issues and Options in the Energy Sector (Vol 1)	1-Sep-93	12160
Guatemala - Health Sector Report	November-93	12216
Guatemala - Basic Education Strategy Equity and Efficiency in Education (Vol 1)	20-Jan-95	13304
Guatemala - An Assessment of Poverty (Vol 1)	17-Apr-95	12313
Guatemala - Land Tenure and Natural Resources Managements	3-Jul-95	14553
Other Reports		
Ethnicity, Education and Earnings in Bolivia and Guatemala	November-92	WPS 1014
Indigenous People and Poverty in Latin America	September-94	13551
The costs of Discrimination in Latin America	November-94	13801
Mobilizing Private Capital for the Power Sector Experience in Asia and Latin America	November-94	16276
Social Funds Strengths, Weaknesses and Conditions for Success	January-95	20840
Human Capital and Industry Wage Structure in Guatemala	April-95	WPS 1445
The Use of First and Second Language in Education - A Review of International Experience	June-95	18803
Guatemala - Constraints to Non-traditional Exporters: A Summary of Survey Results	January-96	15340
Education Vouchers in Principle and Practice A World Survey	February-96	15365
Costs and Benefits of Bilingual Education in Guatemala A Partial Analysis	October-96	16028
Guatemala - Consultation for the Indigenous Development Plan Listening to the Mayan Elders	June-97	16997
From Civil War to Civil Society· The Transition from War to Peace in Guatemala and Liberia	July-97	16997
Teacher Development Making an Impact (jointly with USAID)	November-98	19009
Violent Conflict and the Transformation of Social Capital Lessons from Cambodia, Rwanda, Guatemala, and Somalia	May-00	20564

Annex Table 5. OED and Supervision Ratings for Guatemala and Comparator Countries

A. OED Ratings

Country	Total Evaluated, $m	o/w Adjustment $m	Outcome % Satisf	Outcome % Satisf Adj	Inst. Devel. Imp. % Substatial	Inst. Devel. Imp. % Substantial Adj.	Sustainability % Likely	Sustainability % Likely Adj.
Projects approved in FY58-90								
Bankwide	202,920	34603	71	68	34	38	54	56
LCR	52,380	11909	67	73	34	46	58	75
Guatemala	**413**	..	**60**	..	**9**	..	**29**	..
El Salvador	257	..	64	.	21	..	82	..
Dominican Republic	452	.	41	..	13	..	22	..
Bolivia	810	256	77	80	45	51	76	100
Ecuador	1,165	199	75	50	38	50	38	50
Projects approved in FY91-01								
Bankwide	87,733	44634	86	90	48	48	68	72
LCR	22,676	11202	86	88	54	58	71	71
Guatemala	**149**	**120**	**100**	**100**	**20**	**0**	**6**	**0**
El Salvador	163	125	100	100	83	100	100	100
Dominican Republic	94		100	.	84	..	100	..
Bolivia	379	146	89	100	82	100	72	100
Ecuador	616	180	69	44	14	0	38	0

1) The Institutional Development Impact and Sustainability ratings have been in use only since FY89. Hence, the data for these two ratings for the period before FY91 apply for smaller levels of total net commitment than shown in columns 2 and 3 of the table.

2) Ratings are aggregated by FY of project approval.

3) *Source*: OED ratings database as of 07/15/2001.

B. Supervision Ratings

Country	No of active projects	Net Commitments (US$m)	Projects at risk, %	Commitment at risk %
Bankwide	1512	100134	15	14
LCR	310	22501	11	11
Guatemala	**12**	**406**	**8**	**3**
El Salvador	8	461	0	0
Bolivia	17	586	24	20
Dominican Republic	10	345	0	0
Ecuador	12	387	8	12

Source World Bank Business Warehouse as of 02/20/2002.

Annex Table 6. Costs of Bank Programs for Guatemala and Comparator Countries, FY91-01

A. Total Costs

Regions/ Countries	*Total costs, $m*	*Lending completion costs, $m*	*Supervision costs, $m*	*ESW completion costs, $m*
Bankwide	3478.0	1243.0	1151.0	1084 0
LCR	553.0	201 0	203 0	149.0
Guatemala	**12.6**	**5.6**	**4.8**	**2.1**
Bolivia	27.8	10 6	13 2	4 0
Dominican Republic	9.1	4 0	3 0	2 1
Ecuador	23.8	9.5	10.7	3.6
El Salvador	10 7	4.6	4 6	1.6
Percentages				
Bankwide	100	36	33	31
LCR	100	36	37	27
Guatemala	100	45	38	17
Bolivia	100	38	47	14
Dominican Republic	100	44	33	23
Ecuador	100	40	45	15
El Salvador	100	43	43	15

B. Efficiency Table

Regions/ Countries	*Total costs, $m*	*Number of projects*	*Net commitment, $m*	*Net commitment for satisf & nonrisky projects, $m*	*Average costs per project, $1000*	*Average costs $ per $1000 of net commitment*	*Average costs $ per $1000 of net commitment for satisf & nonrisky projects*	*Memo Average project size, $m*
Bank wide	3,478	2,671	242,060	208,551	1,302	14	17	91
LCR	553	553	60,014	51,448	1,000	9	11	109
Guatemala	**12.6**	**15**	**555**	**555**	**837**	**22.6**	**22.6**	**37.0**
Bolivia	27 8	34	1,114	864	816	24.9	32 1	32 8
Dominican Republic	9 1	12	424	419	760	21 5	21 8	35 3
Ecuador	23 8	24	1,288	959	991	18 5	24 8	53 7
El Salvador	10 7	13	540	540	826	19.9	19 9	41 5

Source World Bank Business Warehouse, Resource Management, Report 2 3. Direct Costs by Service Across Fiscal Years, as of August, 2001.

The amount of total costs includes lending completion, supervision, and ESW costs.

Lending, supervision, and ESW costs are actual costs for active, closed, dropped, and all other projects in FY91-01

Annex Table 7. Bank's Senior Management, CY85-01

Year	*Vice President*	*Country Director*	*Resident Representative*
1985			
1986			
1987			
1988	S. Shahid Husain	Rainer Steckan	
1989	S. Shahid Husain	Rainer Steckan	-
1990	S. Shahid Husain	Rainer Steckan	-
1991	S. Shahid Husain	Rainer Steckan	-
1992	S. Shahid Husain	Rainer Steckan	-
1993	S. Shahid Husain	Edilberto Segura	-
1994	Shahid Javed Burki	Edilberto Segura	-
1995	Shahid Javed Burki	Edilberto Segura	
1996	Shahid Javed Burki	Donna Dowsett-Coirolo	Jose Roberto Lopez-Calix
1997	Shahid Javed Burki	Donna Dowsett-Coirolo	Jose Roberto Lopez-Calix
1998	Shahid Javed Burki	Donna Dowsett-Coirolo	Jose Roberto Lopez-Calix
1999	Shahid Javed Burki	Donna Dowsett-Coirolo	Jose Roberto Lopez-Calix
2000	David de Ferranti	Donna Dowsett-Coirolo	Eduardo Somensatto
2001	David de Ferranti	Donna Dowsett-Coirolo	Eduardo Somensatto

Annex Table 8. Poverty, Social, and Environment Indicators

Series Name	*1987*	*1993*	*1997*	*1998*
National Poverty Rate (percent of total households)*	63 *	..	..	57
Urban Poverty Rate (percent of urban households)*		..	..	..
Rural (percent of rural households)*		..	..	..
Infant mortality rate (per 1,000 live births)	64	51 +	43	40 -
School enrollment, primary (% gross)	79	87	88	..
Secondary education, pupils (% female)	..	46.8	46.8 ++	..
CO2 emissions, industrial (metric tons per capita)	0.6	0.7	0.8	..
Commercial energy use (kg of oil equivalent per capita)	471	500	535	..

Source: SIMA database as of October 15, 2001.
Guatemala: An assessment of Poverty, 1995
* 1989, + 1992, ++ 1997, - 1999
Poverty rates from Naciones Unidas en Guatemala, *Guatemala: La Fuerza Incluyente del Desarrollo Humano*, 2000, Table 3.1.

MFP
Transparencia, Dinamismo, Eficiencia.

Attachment A

Guatemala, 27 de mayo del 2002

Señor
Jorge Garcia-Garcia
Country Evaluation and Regional Relations,
Operations Evaluation Department,
The World Bank, Room H-3-325, 1818 H Street,
N.W., Washington DC
Phone (202) 473-5298, Fax (202) 522-3124

Señor Garcia:

Me es grato dirigirme a usted, para referirme a la Evaluación de la Asistencia del Banco Mundial para Guatemala.

Sobre el particular, atentamente adjunto el documento conteniendo los comentarios más relevantes al Informe del Banco Mundial.

Sin otro particular, me suscribo deferentemente,

Licda. Mélida de Calderón
Asesora del Despacho

MFP

Transparencia, Dinamismo, Eficiencia.

COMENTARIOS AL DOCUMENTO: EVALUACIÓN DE LA ASISTENCIA DEL BANCO MUNDIAL PARA GUATEMALA.

1. Respecto del comportamiento de la economía y de la estrategia de gobierno, es importante señalar que debe hacerse más énfasis en la existencia y logros del Pacto Fiscal y las diversas alternativas de solución que el Gobierno ha implementado para resolver las dificultades políticas y sociales para dar cumplimiento a dicho pacto, sobre todo en elevar la carga tributaria al 12 por ciento establecida en los Acuerdos de Paz.

2. También debe señalarse que el deterioro del ambiente para la inversión no es responsabilidad expresa del gobierno, tomando en cuenta que dicha participación es de aproximadamente el 25 por ciento y el resto corresponde al sector privado. Donde ambos no han logrado un consenso en cuanto a los puntos económicos medulares. Es importante remarcar que el ambiente para la inversión se ha visto deteriorado por la influencia de la depresión mundial de la economía, principalmente de los Estados Unidos, puesto que es el socio más importante de la economía externa de Guatemala.

3. Al evaluar la asistencia brindada por el Banco Mundial, es satisfactoria para la década de los 90s. Sin embargo, al hacer un análisis por préstamo, se evidencia que los más exitosos han sido los que se han dirigido a la estabilización y modernización del sector público.

4. Se recomienda incluir en el documento, que el Gobierno solicitará al Banco evaluar conjuntamente las condiciones para el desembolso de fondos y el cambio de destinos de los mismos, a efecto de apoyar los objetivos de reducción de la pobreza y la promoción del crecimiento, y en caso de evaluar préstamos, cuya ejecución se ha deteriorado por un largo período, evaluar la posibilidad de desobligarlo.

5. El documento nos parece un poco duro en cuanto a la aseveración, de que los objetivos del financiamiento no se han logrado por las razones multiculturales de las comunidades y de la poca capacidad de las instituciones ejecutoras. Además de los factores anteriores, debe agregarse que los estudios de factibilidad no han sido elaborados adecuadamente.

6. Debe aclararse que en los años 90s Guatemala recibió recursos provenientes de donaciones, derivado de la suscripción de los Acuerdos de Paz. Asimismo, Guatemala siempre ha mantenido una posición conservadora en cuanto a los niveles de endeudamiento externo y en busca de las mejores condiciones financieras del mercado. .

MFP

Transparencia, Dinamismo, Eficiencia.

7. Es importante que el documento recoja la necesidad de una coordinación estrecha entre el Banco Mundial y el FMI, de manera que se defina claramente los objetivos y apoyo al país por parte de ambas instituciones, a efecto que no exista competencia entre ambos organismos, sino complementariedad.

8. En el documento se debería dejar evidencia de la necesidad de mejorar los niveles de ejecucion de los proyectos financiados con recursos del Banco. tomando medidas administrativas incluidas la de capacitación y una estrategia de seguimiento conjunto a los préstamos.

Attachment B

MANAGEMENT ACTION RECORD

OED Recommendations	*Management Response*
Guatemala Country Assistance Evaluation	
• *Growth with stability:* The Bank should focus on strengthening the financial system by improving the regulation and supervision of financial institutions.	• Management agrees with this recommendation. The Bank and IMF have carried out an FSAP, after which the Government requested Bank support for a comprehensive program of financial sector reform. Corresponding adjustment and technical assistance loans are scheduled for Board consideration in late FY02/early 03.
• *Reduction in poverty and exclusion:* The Bank should support programs for primary education, rural roads, and basic infrastructure for rural communities, titling of land to the poor, and strengthening of the judiciary. The design of Bank-supported programs should ensure that the benefits also reach indigenous people.	• Management agrees with this recommendation. The Bank has loans in all of these areas in its portfolio (education, rural roads, social funds, land titling, judicial reform). In some areas, follow up operations are under preparation (roads, rural community infrastructure). All of these are targeted at the rural poor, mostly indigenous population, and some have programs addressing their specific needs (e.g., adapting judicial procedures to indigenous practices).
• The Bank should insist on redirecting towards the poor Government expenditure in education, health, electricity, water supply, and sanitation.	• Management agrees with this recommendation. The Bank has assisted the Government in the preparation of a poverty map that will help to improve targeting of social and other programs and the design of a system to monitor progress. Work is also underway to strengthen integrated financial management which, *inter alia,* should help to improve transparency and the capacity to track expenditure patterns.
• The Bank should support the FIS if: (i) the Fund is made more accountable and transparent; (ii) the communities have more power to select and manage projects; and (iii) the Government streamlines the various social funds currently in operation.	• Management agrees with this recommendation. The Bank is helping the Government prepare an operation aimed at reforming the design, efficiency and effectiveness of the social funds, in coordination with communities. OED's recommendations are consistent with the objectives of possible future assistance.

IMAGING

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