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Country Program Evaluation Guatemala, 1993 - 2003

Office of Evaluation and Oversight, OVE

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TABLE OF CONTENTS

Acronyms

AS	Assumption underpinning project design (PPMR category)
ASIES	Asociación de Investigación y Estudios Sociales
BANGUAT	Banco de Guatemala
CABEI	Central American Bank for Economic Integration
CAFTA	Central American Free-Trade Agreement
CAJs	Centros de Administración de Justicia
CENACEP	Centros de Aprestamiento Comunitario en Educación Preprimaria
CGs	Consultative Groups
CNEE	Comisión Nacional de Energía
CNSAFJ	Comisión Nacional para el Seguimiento y Apoyo al Fortalecimiento de la Justicia
COVIAL	Fondo de Mantenimiento Vial
CPs	Country Papers
DECOPAZ	Desarrollo Comunitario para la Paz
DEOCSA	Distribuidora de Electricidad de Occidente, S.A.
DEORSA	Distribuidora de Electricidad de Oriente, S.A.
DGC	Dirección General de Caminos
DO	Development outcome (PPMR category)
EEGSA	Empresa Eléctrica de Guatemala
ENCOVI	Encuesta Nacional Sobre Condiciones de Vida, 2000
ENS	Encuesta Nacional Sociodemográfica, 1989
EPP	Entidades de Primer Piso
FAO	Food and Agriculture Association
FIS	Social Investment Fund
FONAPAR	Fondo Nacional para la Paz
FSMP	Financial Sector Modernization Program
GAFI	Grupo Acción Financiera Internacional
GUATEL	Empresa Guatemalteca de Telecomunicaciones
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFIs	International Financial Institutions
INDE	Instituto Nacional de Electrificación
INFOM	Instituto de Fomento Municipal de Guatemala
IP	Implementation
MDGs	Millenium Development Goals
MIF	Multilateral Investment Fund
MINUGUA	Misión de Verificación de las Naciones Unidas en Guatemala
MSPAS	Ministerio de Salud Pública y Asistencia Social de Guatemala
NGO	Non-governmental Organization
NPLs	Non-performing loans
OC	Ordinary capital
OPRCOS	Operational Cost Data System
OVE	Office of Evaluation and Oversight
PAIS	Project Alert Identification System
PCRs	Project Completion Reports
PDS	Programa de Desarrollo Sostenible- Petén
PMSS	Programa de Mejoramiento de Servicios de Salud
PMSSII	Programa de Mejoramiento de Servicios de Salud, Segunda Etapa
PPMRs	Project Performance Monitoring Reports
PRI	Private Sector Department
PRONADE	Programa Nacional de Autogestión para el Desarrollo Educativo
SEGEPLAN	Secretaría de Planificación y Programación de la Presidencia
SIAF	Integrated Financial Management System
SINAFIP	Sistema Nacional de Financiamiento de la Preinversión
UT	Unidad Tecnica
URNG	Unidad Revolucionaria Nacional Guatemalteca
VMCE	Viceministerio de Integración y Comercio Exterior
ZONAPAZ	Group of conflicted-affected departments in Guatemala

Country Program Evaluation Guatemala, 1993-2003
Executive Summary
December 2004

The purpose of this report is to present OVE's evaluation of the IDB's program in Guatemala during 1993-2003. Following established methodology and procedure, the report attempts to provide an account to the Board of Executive Directors regarding the program's relevance and results and to offer reflections for consideration as the Bank's Country Strategy for the period 2005-2007 is being prepared.

The report overviews key development and institutional challenges with a view to providing the background that is needed to inform the evaluation. It then examines the country dialogue and programming, the delivery of the program, and the apparent results achieved.

The key developmentally relevant events in Guatemala during the period covered in the report were the historic demise of the armed conflict and (in the form of the peace agreements) the establishment of a framework for pacification, democratization, greater equity, and inclusion. This set the stage for transforming the country and potentially prepared the ground for beneficial change in the years to come.

So far, however, the implementation of the peace agreements has been slow and key developmental challenges identified in this report remain. The challenges include: governance complications and exclusion, essentially along ethnic lines; a pronounced resource gap and public investment deficit; a weak public sector and inefficient public spending not well targeted on the poor; competitiveness shortfalls; a growth model showing signs of fatigue as to the sources of growth and a growth pattern benefiting relatively few; continued high levels of poverty; and poor prospects to meet most MDGs.

The Bank, in this situation, faces unusual difficulties in Guatemala, a country that in the literature produced by national and international entities, including domestic think-tanks, the United Nations, and the World Bank is characterized as a post-conflict country. Open hostilities as experienced in the past have ceased, but many of the conditions that gave rise to them in the first place remain.

Through iterative processes of *country programming*, the Bank developed a portfolio of loans and non-financial products that sought to address key priorities, particularly after the conclusion of the peace agreements in late 1996. The processes of programming were in harmony with the Bank's standards and practice of programming at the time, but "programming" was general and broad, leading to action areas with objectives that were imprecise and too numerous to be feasible. The pipelines of projects proposed in the Country Papers conveyed a narrower set of priorities, the rationale for which, however, was not made fully explicit in the Country Papers and other programming reports.

Displaying a varied pattern, the *delivery* of the program and the *supervision* of elements of the portfolio were fraught with challenges during the period reviewed. Conditions in Guatemala as well as factors under the control of the Bank are to blame. The evaluation revealed the Bank's project cycle in Guatemala to be under-performing relative to average indicators of performance calculated for projects in Region II, the group of C&D countries, and the Bank as a whole. Shortcomings in supervision, now being addressed, permitted irregularities to arise. The choice to work through parallel structures in many cases, as opposed to operating through the regular agencies of the state, could not prevent comparative delays in execution and problems related to supervision. However, in the absence of counterfactual analysis, which is beyond the scope of this report, it is not known how projects with parallel structures would have fared had they been executed through line ministries and "regular" structures of the state.

The evaluability of the Bank's portfolio of loans is low, implying that little can be said with respect to *results* by examining the data and such work as the Project Performance Monitoring Reports and the Project Completion Reports produced by the Bank. Information collected for the present evaluation enabled the formulation of tentative conclusions regarding the apparent results of 17 advanced projects and programs that were examined in some depth.

The overall conclusion is that some important developmental goals appear to have been achieved, notably in the financial sector, infrastructure, the social sectors, and social protection, with the sector loans apparently performing better than the investment loans in terms of results. At the same time, the documented results under most projects fell short relative to what was anticipated at approval by the Bank's Executive Board. Five of 17 operations are classified in this report as having met their outcome objectives in part; six are classified as not having met them so far; in the case of three investment projects it is unclear (because of information constraints) whether they can be classified as having achieved their objectives fully or in part; and in the case of one investment project and one sector loan it is too early to know.

With respect to the *relevance* of the program the conclusion of the evaluation is multilayered. The Bank, in principle, made important and pertinent contributions inasmuch as the portfolio of financial and non-financial products came about as a response to key development challenges. The support lent to the peace process through projects and non-financial contributions was clearly appropriate and timely at an historical moment in Guatemala. Certain factors, however, affected performance and thereby seemingly the relevance of the Bank's role. They include the mentioned delays in execution, which were in part the result of conditions in Guatemala over which the Bank had no control, issues with respect to transaction cost and the administration and supervision of expenditures, and the Bank's approach to programming which in the judgment of this evaluation limited the scope for a strategic presence in the country.

The perceived gradual loss of relevance of part of the portfolio of investment loans at certain times is one reason (among others) why that portfolio has not received the budgetary allocation that it needs. There is little justification in the eyes of the Finance Ministry to lock funds that may be needed elsewhere during the year into under-performing projects of the IDB. A cause-and-effect conundrum is at work in this respect in that slow projects are not given fiscal space, which in turn ensures that they continue to be slow. A review of the portfolio to determine the true priorities of today and to dispose of elements no longer urgent seems, therefore, in order. Society would benefit from a transparent sorting out of the distribution of benefits and losses of the restructuring or cancellation of under-performing operations or components thereof. These operations have their supporting constituencies even though their continued unmodified existence may not be justified from an overall efficiency point of view.

Hence, as the Bank produces its forthcoming Country Strategy to address development challenges that remain and new dilemmas going forward, it should attempt to sort out the issues of behavior and choice around which the caliber of relevance revolves. The following *recommendations* are offered with a view to addressing the challenges ahead:

1. <u>Restructuring</u>: In consultation with the borrower and as a *quid pro quo* for the growth of budgetary space assigned to the IDB, restructure the portfolio and update project design such as to reflect the true priority of the portfolio's elements today and facilitate execution.

2. Supervision and implementation: Present in the next Country Strategy a monitorable plan of action for adequate supervision and timely implementation of the portfolio.

3. Executing units: Present in the next Country Strategy a strategy for selecting and building up executing entities and human resources within the functional structure of the state.

4. Resource flow and budgetary implications: Present in the next Country Strategy an analysis of the projected net resource flow with reference to the portfolio's disbursement difficulties and developmental value as well as Guatemala's scheduled debt service to the Bank. Also, present an analysis of the lending program to be proposed in relation to the borrower's taxation and budgetary capacity with a view to ascertaining that the program can be absorbed along with operations planned by other IFIs and borrowing from the market.

5. Programming: Present in the next Country Strategy a vision for the Bank-Guatemala partnership in light of the development challenges facing the country and introduce results-oriented programming.

6. Instruments: In the next Country Strategy (i) discuss and specify the relative merits in Guatemala of the different instruments at the disposal of the Bank; (ii) program the use of the different instruments and modalities to solve problems effectively, specifying the assets and the value of future benefits to be created with each of the instruments and interventions proposed; and (iii) integrate the proposed Bank action with Guatemala's own planning and systems of resource allocation.

I. INTRODUCTION AND PURPOSE

1.1 This report summarizes OVE's evaluation of the IDB's program in Guatemala during 1993-2003. The purpose of the evaluation, following established procedure, is to provide an account to the Board of Executive Directors regarding the program's results and to offer reflections for consideration as the Bank's Country Strategy for the period 2004-2007 is being prepared.

1.2 Following the scope and methodology set out in OVE's *Protocol for the conduct of country program evaluations*,[1] the report seeks to assess, first, the *relevance* of the Bank's program and approach (i.e., did the program address key development challenges facing the country and did it respond to the borrower's needs?), second, the *coherence* of the program (i.e., was the program aligned with the borrower's priorities to the extent that these were compatible with the Bank's mandates, was the range of Bank instruments deployed coherently and was there adequate coordination with other development actors?), third, the *efficiency* of the program (here interpreted as referring to the timeliness of delivery), and fourth, the *effectiveness* of the program in terms of outcomes (i.e., did the program generate the expected developmental results or is it on track to generate these results?).

1.3 To answer these questions, the methodology involves working with Bank records (in particular those pertaining to programming, monitoring and self-evaluation), polling stakeholders and people knowledgeable about the program at headquarters and in Guatemala, and reviewing published and, where appropriate, unpublished data and research.[2] The methodology is empirical, subject to data and resource constraints, and both "top-down" (assessing the process of programming and the program as a whole) and "bottom-up" (looking at individual projects or groups of projects and their results). No attempt is made to construct without-the-Bank counterfactuals. Where needed, problems of attribution are addressed through a narrative that attempts to sort out the likely or plausible contribution of different factors that influence the achievement of results.

1.4 Chapter II provides some of the background that is needed to inform the evaluation. Chapter III assesses the country dialogue and programming, the Bank's programmatic intent, and the translation thereof into approved contributions. Chapter IV covers program delivery and results.[3] Chapter V concludes and distills recommendations for consideration by the Bank.

II. BACKGROUND

2.1 Guatemala's transformation since the end of military rule in 1985 and today's post-conflict situation with its challenges of governance, exclusion, the role and

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[1] Document RE-271-1, April 2003.
[2] See citations in the report. The Bank's monitoring and self-evaluation system is described in Document RE-238, June 1999.
[3] Annex 5 is devoted to a more detailed, project-level discussion of results.

reach of hidden powers, and resource constraints cannot be adequately described in this report. The purpose of this chapter, in the light of space limitations, is to recall some of the context that is needed to judge the Bank's program and role. The chapter considers the peace process, governance, the economy, and social challenges, concluding with a statement on the apparent implications for the Bank.

A. The peace process

2.2 Interrupted by the failed *autogolpe* of President Serrano, the process of negotiation with the *Unidad Revolucionaria Nacional Guatemalteca* resumed after R. de León Carpio became president in mid-1993. Thirty-six years of internal conflict came to an end when the *Agreement on a Firm and Lasting Peace* was signed in December 1996.[4]

2.3 The Peace Accord consists of a series of agreements covering, *inter alia*, human rights and justice; the resettlement of communities that were uprooted during the conflict; the establishment of a truth commission (*esclarecimiento histórico*); the rights and identity of indigenous peoples; socioeconomic aspects and the agrarian situation; the strengthening of civil powers and the role of the armed forces in democratic society; constitutional and electoral reforms; and an agreement on the implementation and verification of the peace process. A host of supporting programs and institutions sponsored by the United Nations and the donor community came into being as the agreements were concluded. Implementation began during the Arzú government (1996-1999), but was never comprehensive, shied away from the particularly contentious issues such as fiscal and constitutional reform, and (as evidenced in footnoted material below) suffered setbacks during the Portillo years (2000-2003).[5]

2.4 Seen as an integral and necessary program of nation building by some, the agreements are opposed and considered unconstitutional by others.[6] Public backing for the process as it evolved weakened over time, and bilateral donors,

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[4] See United Nations, *The Guatemala peace agreements*, New York, 1998.

[5] The achievements to-date fall short of the commitments undertaken, and the legislative agenda flowing from the agreements is all but stalled. For details see, Misión de Verificación de las Naciones Unidas en Guatemala (MINUGUA), *Informe del Secretario General*, 11 August 2003 and *Informe ante la reunión del Grupo Consultivo para Guatemala*, 7 May 2003. The latter report states (p. 2): […] *los retrasos* [in 2002-2003] *se expresaban en diversos ámbitos. El enfrentamiento armado interno había terminado definitivamente, pero no se estaban impulsando decididamente las transformaciones sociales profundas que permitieran erradicar las causas que le dieron orígen. Las instituciones estatales no habían superado sus debilidades estructurales, a pesar del inicio de varios procesos de reformas y los avances que se habían logrado en material de derechos humanos no se encontraban consolidados. El Ejército continuó absorbiendo recursos excesivos y no culminaba las transformaciones en sus políticas, despliegue, doctrina y enseñanza, previstos en los Acuerdos de Paz. El reconocimiento pleno de identidad y derechos de los pueblos indígenas apenas superó niveles declarativos, al mismo tiempo que no existían políticas públicas serias para combatir el racismo en sus diversas expresiones. Areas de gasto prioritarios de la paz quedaron sin los fondos suficientes, en parte debido a la persistencia de la baja carga fiscal. La población en general no percibía los beneficios del proceso de paz y la polarización política dificultaba aún más la implementación de los Acuerdos*. See Annex 3 for additional information.

[6] Proposed constitutional reforms linked to the peace process were defeated in a 1999 referendum.

owing to tighter budgets, new priorities, and disillusionment, have been reducing their promises of financial support.[7] The process is dynamic, and new elements today dwarf some of what was signed in 1996. Guiding the process at this juncture is a key challenge before the government that took office in 2004.[8]

B. Governance

2.5 The expectations for improved governance that came with the peace agreements have at best been partially met. The advent of democracy weakened the monopoly of power formerly enjoyed by the armed forces and the economic elite, but representative processes have not become notably stronger. Political parties, civil society actors and the civil service are weak, giving way to the emergence of particularistic agendas that are a source of discontent among the broader electorate.[9] Latinobarómetro's *index of satisfaction with democracy* for Guatemala was the lowest in Central America between 1996 and 2003 and one of the lowest in Latin America and the Caribbean.[10] A chronology of events compiled by OVE for the period reviewed in this report does not read very differently for the period before and after the Peace Accord as far as the incidence of judicial irregularities, examples of impunity and government by and for special interests, political assassinations, and violations of human rights are concerned.[11]

2.6 A key aspect of governance is the organization and effectiveness of the public sector. Under the peace agreements, shortcomings that would hamper their implementation became the focus of reform efforts in taxation, public expenditure management reform, civil service reform, judicial reform, and decentralization, among other aspects. Some of the results so far (at some risk of simplification owing to space constraints) are summarized below.

2.7 *Tax reform*—including the goal of increasing revenue to the Peace Accord target of 12% of GDP by 2000 (later postponed to 2002 and then to 2004)—was not achieved, raising the prospect of continued shortfalls in development expenditure and the provision of public goods.[12] Meant to give financial viability to the peace

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[7] OECD-DAC data indicate a declining trend in net ODA and a declining bilateral share: http://www1.oecd.dac.org/Images/AidRecipient. For a donor profile see BID, *Guatemala: Cooperación de la comunidad internacional 2003 -- Mapeo de donantes*, Mayo 2004.

[8] In the judgment of MINUGUA, the UN Verification Mission to Guatemala, the Peace Accord was in 2004 newly recognized by civil society and the authorities as the essential framework for the country's democratization and development See *Tareas pendientes en la construcción de la paz* at www.minugua.guate.net/PUBLICACIONES.htm.

[9] Sieder, R., et al., *Who governs? Guatemala five years after the peace accords*, Hemisphere Initiatives, January 2002.

[10] Cited from IDB, *Guatemala: Hacia una sociedad más incluyente y más próspera (Documento de diálogo de políticas)*, January 2004, p. 53. For further analysis, see IDB, *Guatemala: estudio de gobernabilidad*, Draft, December 2003; and UNDP, *La democracia en América Latina*, 2004 at www.pnudguatemala.org.

[11] *Cronología de eventos, 1993-2003*, Background note prepared for this report. See Annex 2 for a list of background notes and statistical material prepared for this report and available upon request.

[12] For an analysis of the tax issue see (i) O. Schenone and C. de la Torre, *Guatemala: Fortalecimiento de la estructura tributaria*, IDB (Series of Economic and Sectoral Studies of Region II), December 2003, and (ii) *El pacto fiscal: La piedra angular para el desarrollo y la reducción de la pobreza*, Presentation by the IDB/Region II to the Reunión de Diálogo de Políticas, Antigua, 19 March 2004.

process, the Fiscal Pact of 2000 is resisted by influential groups. A new version is on the drawing board as a priority of the Berger administration which in its first half-year in office obtained approval by the Congress for a series of measures designed to raise the tax take to 11% of GDP. Because of the insufficiency of funds—the consequence of the low level of effective taxation (the second-lowest in Latin America after Haiti)—some of the increases in social and infrastructure spending mandated by the Peace Accord have been financed by privatization revenues and borrowing at home and abroad.[13]

2.8 *Public expenditure management reform* remains elusive as a comprehensive proposition, but the introduction of SIAF (the integrated financial management system—not yet extended to the subnational level) and the creation of the Superintendency of Tax Administration under World Bank loans set the stage for notable improvements. The *civil service* in Guatemala continues to be affected by human resource limitations and problems that include or lead to the creation of administrative units for short-term reasons, the use of parallel managerial procedures, and discretionality in policy-making. The modernization of the *justice system* is among the least advanced of the processes defined under the peace agreements.

2.9 Progress has been made in the *decentralization* of the public sector where important challenges remain. On the national agenda since the end of military rule, decentralization was revitalized in 1996 as a necessary condition for the implementation of the peace agreements that aimed for territorial coverage of basic social services and infrastructure. Measures taken to strengthen the autonomy of municipalities include the passing of the *Ley de Decentralización* and the *Ley sobre los Consejos de Desarrollo,* the reform of the *Código Municipal*, and the regularization and growth of municipal transfers. The second of the two laws mentioned provides for *Consejos Departamentales* to function as the nexus between the municipal and the central level and as vehicles for participation.

2.10 Municipal transfers evolved from the 1985 constitutional level of 8% of central government current revenues (at least four-fifths of which to be allocated to investment in social and basic infrastructure) to 20% in 2003, one of the highest ratios in Latin America. The growth of transfers leads to questions regarding the governance and quality of public spending at the municipal level and the municipalities' own effort to raise revenue. Since the central government does not require or collect municipal-level financial and budget execution data, there is no easy way to verify the extent to which municipalities are complying with the requirement to devote at least 80% of transfers to investment needs or to determine the allocation and composition of their spending.

2.11 There is evidence that municipalities are turning to commercial credit with an implicit state guarantee, using the transfers as collateral for commercial debt. In

[13] *Guatemala: Selected economic issues*, a background note prepared for this report, traces the evolution of public revenue, expenditure, and debt.

addition, suppliers are extending credit to municipalities. Consolidated data on these relationships do not exist, thwarting attempts to estimate the size and sustainability of sub-national contingent liabilities.[14]

C. The economy

2.12 *Macroeconomic management* has been relatively prudent over the years in Guatemala. Tight monetary and fairly neutral exchange rate policies since the mid-1990s helped keep inflation in the single digits, preventing a strong appreciation of the Quetzal, though at the cost of high domestic interest rates. A source of concern is the *current account deficit* that averaged 5.3% of GDP between 1998 and 2003. At 19% of GDP on average during the years covered in this report the level of *public debt* (a third of which is domestic debt) remained low by Central American and Latin American standards. Public debt has been relatively stable inter-annually, except for expansions in the 1999 and 2003 election years. The government's limited control over tax policy and collection is a factor constraining the issuance of public debt. It also means that the share of current revenue that ends up being devoted to debt *service* (some 15% in 2003) is relatively large.

2.13 A program of macroeconomic modernization at the end of the 1980s, with changes to the interest and exchange rate regimes, underpinned the evolution of the *financial sector*. Controls on interest rates were eliminated in 1989, but following their liberalization, initially, nominal interest rates remained unchanged, turning negative in real terms in a context of a high degree of credit concentration, significant lending to related parties, and high inflation. Domestic financial intermediation began to erode and there was capital flight and moves to convert financial assets into real ones.[15]

2.14 After the conclusion of the Peace Accord, capital (official, commercial, opaque, and in the form of remittances) flowed into Guatemala, giving rise to a credit boom and setting the stage for a banking crisis towards the end of the decade in a context of plummeting coffee prices, other shocks and weak prudential regulation, and in the ensuing years prompting costly governmental interventions and liquidity assistance to troubled banks. Recognizing that the financial system was an area of high vulnerability for the economy, the authorities prepared a program of reforms to support the creation of a stronger banking sector—an endeavor that was assisted by the IDB.

2.15 As to the *real sector,* the data indicate the presence of change between 1993 and 2003 in the composition of GDP and the expenditure categories. With respect to the former it is seen in Table 1 that the contribution of agriculture, manufacturing

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[14] The topic is relevant to the objective of GU-0175, the Bank's *Mejoramiento del gasto social* operation approved in December, 2004. It is also important for the IDB because of its association with INFOM, the executing agency for GU-0134, the Municipal Development Project. INFOM is the intermediary for transfers to municipalities and municipal payments to commercial banks.

[15] *Evolution of Guatemala's financial sector and evaluation of IDB financial sector loans,* Background note prepared for this report.

and construction declined as that of utilities (water, electricity in the wake of privatization, telecommunications, and transport) grew. With respect to the expenditure categories the table shows that investment and exports tended to decline during the period while consumption (public and private) tended to increase. Growth prospects are modest in this situation and renewal with respect to the sources of growth seems needed, given the continued weight of the traditional sector on the supply side, the reduction in the components of aggregate demand that are associated with growth (i.e., investment and exports), and the increase in the components associated with consumption, much of which was imported.

Table 1 Guatemala: GDP Growth and Composition

	1981-90	1991-99	2000-03	2000	2001	2002	2003
GDP growth (% / year)	0.9	4.2	2.7	3.6	2.3	2	2.4
GDP per capita growth (% / year)	-1.6	1.4	0.0	0.9	-0.3	-0.6	-0.3

GDP Sector Composition	1993 (%)	2003 (%)	Absolute % Change Comparison 93-03
Agriculture	24.87	22.69	-2.18
Mining & quarrying	0.35	0.55	0.20
Manufacturing	14.50	12.64	-1.86
Construction	2.17	1.73	-0.44
Electricity & Water Utilities	2.86	4.28	1.42
Transport & Communications	8.42	10.74	2.32
Commerce	24.15	24.83	0.68
Banking, Insurance & Real Estate	4.46	4.97	0.51
Housing	4.83	4.66	-0.17
Public Administration	7.51	6.96	-0.55
Personal Services	5.90	5.94	0.04
GDP Expenditure Category	**1993 (%)**	**2003 (%)**	**Absolute % Change Comparison 93-03**
Private Consumption	84.31	87.28	2.97
Government Consumption	6.46	7.18	0.72
Private Gross Fixed Investment	13.37	12.07	-1.30
Public Gross Fixed Investment	2.72	2.65	-0.07
Stockbuilding (private)	1.16	2.33	1.17
Exports of Goods & Services	18.08	16.24	-1.84
Imports of Good & Services	-26.10	-27.75	1.65

Source: GDP composition and expenditure category: Ministerio de Finanzas; Growth data: IDB, *Guatemala: Hacia una sociedad más incluyente y más próspera (Documento de diálogo de políticas)*, January 2004, p.19.

2.16 The observed economy grew at the solid annual rate of 4.2% in the 1990s but (as seen in Table 1) displayed a slower dynamic in the 2000s so far. The overall growth to 1999 of Central America's largest economy (lower than that of El Salvador and Costa Rica) may be seen as a catch-up response to the ravages of the war-torn 1980s, the presence of structural reforms, and the absence of serious macroeconomic imbalances. It was also, and perhaps more fundamentally, the consequence of high prices of traditional exports and thus favorable terms of trade at the time, growing liquidity in international financial markets, and an expanding US market. The less favorable performance of the last four years raises questions about the sustainability of the past pattern and suggests the need for innovation and diversification as a strategy to raise exports and growth. Guatemala's international competitiveness (73rd in a 2003 World Economic Forum sample of 80 countries) is low, affecting the outlook on the external front in the context of CAFTA, the potential emergence of trading partners in Asia, and other prospects.

D. Poverty and social challenges

2.17 The World Bank's 2003 Poverty Assessment for Guatemala classifies 56% of the Guatemalan population as poor (down from 62% in 1989 according to this source) and 16% as extremely poor. The Assessment shows that poverty, present in all regions, is particularly prevalent in the North and Northwest, is largely a rural phenomenon and a phenomenon linked to geographic isolation, and disproportionately afflicts the indigenous population.[16]

2.18 Guatemala's Human Development Index improved during the 1990s but in 2001 remained the second lowest in Central America, after Nicaragua. The prevalence of undernutrition in the country grew during the 1990s as elsewhere in Central America, but the situation in Guatemala evolved from values below the Central American average in the early 1990s to values above in 1999-2001.[17] The prospects for achieving most Millenium Development Goals (MDGs) are poor.[18]

2.19 Guatemala's high population growth rate of about 2.6% per year translates into relatively low rates of per capita income growth. Positive and sustained during the 1990s, the variable fell to zero in 2000-2003 as seen in Table 1.[19] The scope for growth to translate into poverty reduction in Guatemala is limited by the corresponding elasticity, which is low and inversely related to income inequality, which is pronounced.[20] Also, growth is predominantly urban and non-tradable[21] in nature and thus by definition does not occur in the remote areas and in import substituting and export-oriented agriculture where it is needed from a poverty

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[16] World Bank, *La pobreza en Guatemala*, Report No. 27586, 2004.

[17] FAO, *El estado de la inseguridad alimentaria en el mundo*, 2003.

[18] Specifically, the prospects for seven MDGs are as follows according to the United Nations System in Guatemala: child mortality—achievement "probable"; extreme poverty and universal primary education—achievement "possible"; gender equality and autonomy of women; maternal health; combating HIV/AIDS and other diseases; and environmental sustainability—achievement "very unlikely"; cf. United Nations System, *Millenium Development Goals: Report on progress made in Guatemala*, 2003.

[19] The coffee crisis of 2001-2002 with prices sinking to record lows destabilized many rural communities that were plunged into extreme poverty. It also ruined banks that were exposed to the sector.

[20] From calculations based on the 2000 ENCOVI survey, the World Bank's Poverty Assessment cited above reports a *consumption* poverty reduction elasticity of growth of .99. Calculations performed for the present report based on indices of extreme poverty computed from the ENS survey for 1989 (58%) and the ENCOVI data in 2000 (35%) indicate a reduction of extreme poverty of 39.7% by 2000. This implies that by 2000 80% of the path to meeting the MDG of 29% (half of the 1989/1990 level of 58%) had been achieved ([58% - 35%] / 29% = 79.3%). This appears possible in the light of the sustained per capita income growth in the 1990s (Table 1) and the rural out-migration that is known to have occurred. Still, according to this calculation, a third of the population remained extremely poor in 2000, which does not bode well for the transition from civil conflict to peace. Applying the above elasticity, the slower growth observed since 2000 reversed the favorable trend of the 1990s, increasing extreme poverty by 3% in 2003 relative to the level calculated for 2000. If the goal were to reduce poverty by one third during the current administrative period (i.e., by the end of 2007), annual per capita GDP would have to grow by almost 9% between now and then -- or, alternatively, the Gini coefficient of .59 calculated from the ENCOVI data would have to drop by 14%, changing Guatemala from one of the Region's most unequal countries to one close to the average inequality for Latin America and the Caribbean where according to CEPAL a Gini coefficient of .53 applied in 2002. See *Pobreza, desigualdad y meta del milenio en Guatemala*, Background paper under preparation for this report.

[21] An examination of Table 1 suggests that much of GDP is generated in non-tradable activities.

reduction point of view. Lagging behind the economy as a whole,[22] agricultural growth is not sufficiently dynamic to generate enough of the unskilled jobs on which the poor depend. Structural factors such as Guatemala's extremely skewed pattern of land ownership worsen the situation of the poor: as calculated from the agricultural census 2000, the Gini coefficient for land ownership is .88—a figure that suggests archaic conditions and illustrates the effective exclusion of the poor from ownership of the key asset of land. For many, emigration (rural to urban and from Guatemala to the rest of the world) is a necessity. Migrants to the metropolitan area become potentially amenable to participation in the described urban, non-tradable pattern of growth.

2.20 The limited ability of the pattern of growth to contribute to poverty reduction places on social expenditure, in the short run, the burden of raising social indicators and creating the conditions for lower inequality and more widely shared growth. Yet public social expenditure is constrained by the "structural" resource limitation and the ensuing investment deficit referred to above. Social expenditure operates through the three largely uncoordinated blocks of the sector ministries, the municipalities, and the special feature of *ad hoc* funds under a variety of policies and rules. It grew by 57% from 3.7% of GDP in 1996 to 5.8% of GDP in 2001, but remained low by Central American and Latin American standards and stagnated in 2002.[23] It also grew as a share of total expenditure, from 39% in 1996 to 47% in 2002. While the level of expenditure varied between years, it tended to comply with the commitments under the Peace Accord in education and to a lesser degree in health, but not in housing, and remained relatively protected in the face of fluctuations in total expenditure. For example, as public expenditure fell by 7% between 1999 and 2000, social expenditure fell by 3.7% and as public expenditure grew by .11% between 2000 and 2001, social expenditure increased by 11.5%.

2.21 The productivity of social expenditure in terms of poverty reduction and improved social outcomes is low because of problems with targeting and expenditure management and the fact that programs tend to benefit the organized rather than the poor and are not spatially and ethnically distributed in the way poverty is. Improving the efficiency and targeting of social expenditure, and further raising its level, is key to the fulfillment of the commitments of peace.

E. Perspective

2.22 The most important developmentally relevant achievements during the period covered in this report were the historic demise of the armed conflict and (in the form of the peace agreements) the establishment of a framework for pacification,

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[22] Database prepared for this report.

[23] Data in this paragraph taken from N. Cely et al., *Guatemala: Hacia un gasto social mas eficiente, equitativo y transparente—retos y recomendaciones*, ASIES, 2003. Despite having grown considerably since the 1980s, at 2.3% of GDP, expenditure on education, for example, was below the Latin American average of 4% in 2002.

democratization, greater equity, and inclusion. This has transformed the country and potentially prepared the ground for beneficial change in the years to come.

2.23 So far, however, the implementation of the peace agreements has been slow and the developmental challenges identified in this chapter (other than the problem of open conflict) remain. The challenges include: governance complications and exclusion, essentially along ethnic lines; a pronounced public resource gap; a weak public sector and inefficient public spending not well targeted on the poor; competitiveness shortfalls, a growth model showing signs of fatigue as to the sources of growth and a growth pattern benefiting relatively few; continued high levels of poverty; and poor prospects to meet most MDGs, although the (not very ambitious) extreme-poverty – MDG may be met (footnote 20).

2.24 The Bank clearly faces unusual difficulties in Guatemala. In the literature produced by national and international entities, including domestic think-tanks, the United Nations, and the World Bank, Guatemala is characterized as a post-conflict country. Open hostilities as experienced in the past have ceased, but many of the conditions that gave rise to them in the first place remain. The Bank, as a result, operates in an environment of contrasts, uncertainty, and limited public sector capacity that calls for very careful consideration of what can and should be done. The chapters that follow examine the Bank's program and role.

III. COUNTRY DIALOGUE AND PROGRAMMING

3.1 The dialogue between the IDB and Guatemala and country programming for the period covered in this report is summarized in four partly overlapping Country Papers (CPs) produced in 1990, 1992, 1996, and 2001. Also, as explained below, the Bank sponsored economic and sector work and organized seminars and other events to discuss the findings and conclusions. A highlight in the relationship between the IDB and Guatemala was the Bank's role in donor dialogue through successive Consultative Groups that it organized and chaired.

3.2 It is the purpose of this chapter to assess, first, the quality of the CPs and thereby programming; second, the coherence and consistency between programming and the program, on the one hand, and between those aspects and successive governmental priorities, on the other; and third, to assess the "evaluability" of the program, i.e., the degree to which the program and its constituent components (the individual projects) were specified and are monitored such as to permit evaluation in a formal sense of the term.

A. The quality of programming

3.3 Four CPs, which do not offer full temporal continuity, were approved for programming cycles covering 1990-1993, 1993-1995, 1996-1998, and 2001-2003. The first two CPs responded to the governmental periods of Serrano Elías (1991-1993) and de León Carpio (1993-1995) who was installed by the Congress. The third and fourth CP responded to the governmental periods of Arzú (1996-1999) and Portillo (2000-2003). No pipeline of loans was proposed for 1994-1995, and the years 1999-2000 were not covered by a CP. For analytical purposes below, three programming/political cycles are distinguished: 1993-1995, 1996-1999, and 2000-2003.

3.4 The CPs varied as to their analytical depth and lacked specificity as instruments determining the Bank's intent:

- The 1990 CP (reviewed because the last year for which it claimed validity, 1993, is the first year of the period covered in this report) did not address the political context of the time despite having been written during the period of office of the first democratically elected government after 36 years. The 1990 and the 1992 CPs (the latter written after Guatemala's clearance of arrears to the IDB in late 1991) highlighted macroeconomic issues and the perceived inadequate capacity of the public sector to execute programs. The 1990 CP, in addition, took a sectoral view, prioritizing agriculture and industry, social services, natural resources, and environmental protection for the Bank's lending agenda. But the number of sectors identified and the "general action areas" proposed were so broad (in keeping with the way the Bank wrote CPs in the 1990s) as to have little meaning as a "strategy" or "program."

- The 1992 CP articulated three objectives, but no concrete action—the definition of the latter would depend on expressions of interest on the part of the authorities, which apparently did not materialize. The three objectives were (i) to establish a policy framework enabling the efficient implementation of social programs (in other words, an intent to work toward improvements in the allocation of resources was announced); (ii) to modernize the economy (no specifics given); and (iii) to strengthen the country's project preparation capacity and its ability to develop and manage a public investment program—challenges in public sector management in the country to this day, but not during the period reviewed the subject of operational focus by the Bank, as we shall see.[24]

- The 1996 CP, written shortly before the signing of the Peace Accord, focused on the peace agreements and the need to strengthen democratic governance. It articulated four thrusts of engagement that by the analysis of Chapter II above seem highly relevant and were a good fit with the peace agreements, i.e., inclusion of the poor, indigenous and rural population in the development process; expansion and improvement of social services; modernization of the state; and support for the development and growth of the productive sectors. Yet, as in the case of the previous CPs, the thrusts of engagement and the number of categories listed under each were so broad as to accommodate everything that might arise during the period of reference of the CP.

- The 2001 CP analyzed the peace process and delays in the implementation of the agreements. Its background section offered a discussion of economic aspects, the

[24] For a review of the management problems related to expenditures and public investment in Guatemala, including an analysis of the role of the Planning Secretariat, SEGEPLAN, see N. Cely, 2003, cited in footnote 23. The IDB did approve a Preinvestment Program for Peace (GU-0128), assessed in Annex 5.

fiscal pact, the social and human capital dimension, governance, the legitimacy of public institutions, and the state of public security. Providing some detail, this CP announced lending and other services in three areas: economic growth and competitiveness; equity, social protection and the development of human capital; and modernization of the state. The CP incorporated some new themes in response to the evolving situation in Guatemala, but (again, in keeping with the prevailing practice of programming Bank-wide) was all-inclusive in terms of what could be made to fit under the identified thrusts. In its discussion of growth, for example, the CP mentioned the following potential areas for intervention by the Bank: public finance; the financial sector, securities markets and pensions; agriculture; tourism; environmental sustainability; infrastructure (seaports and airports, roads, rail, urban transit, energy, telecommunications, water and sanitation); microenterprise and small businesses; and integration and trade.

3.5 Potentially a firmer guide to the Bank's intent than the narrative of the CPs is the pipeline of loans announced in each CP. The pipeline is where the perception of the country's demand and the Bank's capacity and capabilities meet. The study of the pipelines reveals a narrower set of priorities, the rationale for which is not made explicit in the programming literature.

3.6 The pipelines themselves were realized only in part. Figure 1 measures the "anticipation power" or "firmness" of programming by accounting for the loans that were anticipated and sent forward to approval (the higher this category, the "firmer" programming), the loans that were anticipated and not sent forward, and the loans that were sent forward and approved without being anticipated.

Figure 1 Programming "Tightness" (projects)

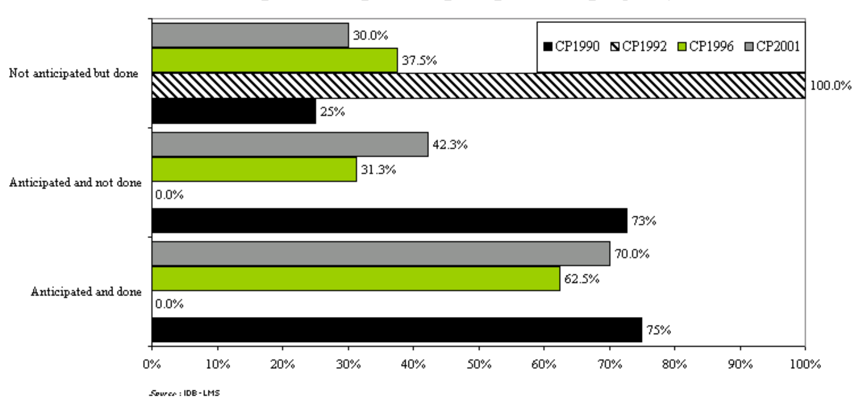


Table 2 Loan Approvals per Period

YEARS:	PERIOD: covered	PERIOD: not covered
1990-1993	229.7	
1994-1995 (*)		195
1996-1998	262	
1999-2000 (*)		235.7
2001-2003	439.3	
Total	931	430.7
Annual average	93.1	107.7

The periods marked by (*) were not covered by CPs or preannounced pipelines.
Data in US$ million.
Source: IDB Data Warehouse.

3.7 The share of projects that was anticipated and eventually carried out, relative to all projects carried out, was zero in the case of the 1992 CP (no operational action identified, as mentioned), 63% in the 1996 CP, 70% in the 2001 CP, and 75% in the 1990 CP, by this measure making this the "firmest" programming exercise here reviewed. The share of projects not anticipated but carried out, relative to all projects carried out, by definition, is the difference between these figures and 100%. The share of projects anticipated and not realized relative to all anticipated projects varied from zero for the 1992 CP to 73% for the 1990 CP. Hence, the predictive power or "firmness" of programming varied between programming periods as depicted in Figure 1. Changes in priorities in an evolving national context over time are probably part of the explanation, but so is the limited scope of programming on the part of the Bank. Suggestive of the latter is Table 2, which shows that average annual approvals during the years not covered by programming or pipelines were higher than in covered years, although a high share (86%) of the 1999-2000 approvals quantified in the table relates to extensions or second phases and can therefore be said to have been covered in part by programming in the past.

3.8 An aspect worth noting is that the CPs and programming focused on inputs rather than results. The 2001 CP did make reference to a number of expected results and included a system for partial verification. But the results offered failed to cover all of the stated objectives and were for the most part general and in some cases clearly unachievable. For example, under the thrust of equity, social protection, and development of human capital, the 2001 CP indicated that the expected results were those of the peace agreements and the government's social policy thrust, many of which were framed in sectors not addressed by the Bank.

3.9 We conclude with respect to the quality of programming and the CPs that the latter became more analytical over time but were ambiguous as to the Bank's intent and of limited use as predictors of what the Bank would do in operational terms. As country *strategies*, therefore, the CPs fell short: the objectives mentioned were too numerous to be feasible and not very precise; results chains and systems of verification were not specified in the early CPs and less than fully set out in the 2001 CP; and there was no functional discussion of the deployment, sequencing and intended interaction of different instruments at the disposal of the Bank.

3.10 The analytical sections of the CPs did not raise and explore the implications of such challenges identified in the previous chapter as the governance complications in Guatemala, the issues raised by the reality of widespread social and ethnic exclusion, the possible lack of sustainability of the country's model and pattern of growth, the operational and managerial weaknesses of the public sector, the challenges for programming arising from the lagging efficiency and effectiveness of public expenditures, and the need to work towards improvements in the allocation of resources. More fundamentally, the 1996 and 2001 CPs did not dwell on the programmatic implications of the post-conflict situation in Guatemala which, arguably, called for the articulation of a longer-term vision for the country and a strategic discussion of the contributions that the Bank would seek to make.

B. The composition and coherence of the program

3.11 Three broad themes delineated the Bank's program in Guatemala during the last decade. Variously labeled in successive CPs, they dealt with economic growth and competitiveness; equity, social investment and social protection; and (starting in 1996) governance and state reform. Table 3 maps the loan portfolio, the share of projects and the original approved amounts along these lines.

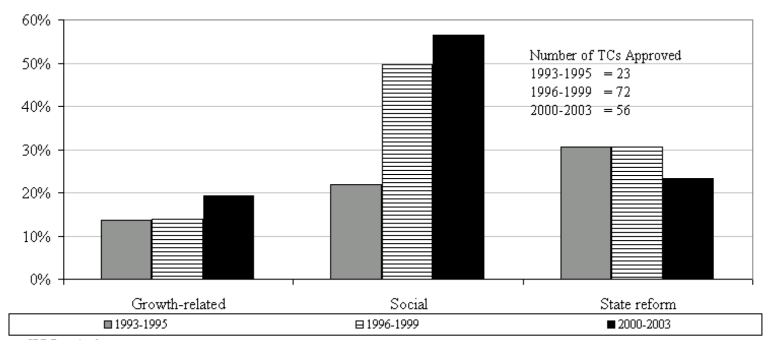
3.12 With three sector loans (two in the financial sector and one in infrastructure), two road rehabilitation and maintenance projects, an operation to restructure and raise the competitiveness of agriculture, and other, smaller loans, "economic growth and competitiveness" (following traditional standards of classification) appears as the main sector of engagement through loans during the period reviewed. Social sector activities took on importance during the second cycle as shown in Table 3, with approvals of projects in health (one of which a sector loan), education, housing, and social investment and compensation. The latter group included operations supporting Guatemala's Social Investment Fund (FIS) and the DECOPAZ project (GU-0099) that experimented with an approach whereby the investments in sub-projects would be used as occasions to promote the organization of beneficiary communities for self-management purposes (*autogestión*) and the prioritization of what to do. Lending for "governance and state reform," finally, represented the smallest component of the program, as mentioned, the "signature project" being a loan in support of judicial reform, GU-0092.[25] The Bank did not lend in the critical area of the fiscal pact[26] and public expenditure management (the World Bank was active in these fields), but did address these topics through non-financial services and technical assistance, reportedly because the borrower did not wish to incur debt for this purpose.

Table 3 Approvals by Strategic Dimension 1993-2003

Cycle	Growth		Social		Governance	
	#	US$	#	US$	#	US$
1993-95	50%	88%	25%	12%	25%	0%
1996-99	33%	46%	53%	48%	13%	6%
2000-03	63%	70%	38%	24%	13%	6%
Average Entire Period	48.6%	67.7%	38.6%	28.1%	16.9%	4.2%

Share of Loan Portfolio in terms of number of projects (#) and dollar amount (US$).
Source: IDB -LMS.

Figure 2 Technical Cooperation Projects by Strategic Dimmension (1993-2003) (By Approval Amount, Excludes 18 MIF Operations & 3 PPFs)



Source: IDB Data Analyzer

3.13 As to the coherence between programming and the actual lending program, therefore, the portfolio that came to pass was weighted towards "growth" during the period (49% of the projects and 68% of all approvals in dollar terms). This arguably responded to objective "needs" but is somewhat at odds with the narrative of the CPs, which focused rather substantially on social aspects and the topic of governance and modernization of the state.

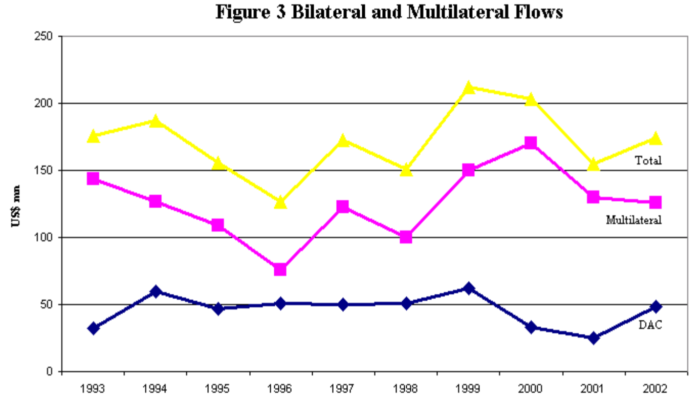
[25] The Bank's 2004 Policy Dialogue Paper concluded that without improvements in governance other development goals cannot be lastingly met.
[26] GU-0082, a reimbursable technical cooperation project for US$1.4mn to strengthen the customs system pursued as one of its objectives the consolidation of customs revenues.

3.14 Technical cooperation played some role in the portfolio, but the projects are difficult to evaluate because they tend not to be specified in terms of monitorable action and indicators with definitions and data for baselines, targets, and achievements.[27] Technical cooperation complemented large investment operations and the sector loans and was used as an instrument to make contributions in priority areas not the subject of loans. A total of 151 technical cooperation projects were approved between 1993 and 2003 for a total of US$31.5mn (Figure 2 above).[28] Approvals peaked during the 1996-99 programming period that coincided with the signing and early phase of implementation of the Peace Accord.

3.15 The Bank's non-financial services took the form of studies and the organization of venues for dialogue. It is difficult to establish an inventory of studies for the first half of the period under review, because the record in Bank files is not complete.[29] The work available to OVE from the first half of the period reviewed is of somewhat uneven quality. However, the quality of economic and sector work improved in the years since 2000 and was high, for example, in the case of the documentation prepared for policy dialogue sessions with the new authorities in 2000 and 2004.

3.16 The Consultative Groups (CGs) for Guatemala, convened and chaired by the IDB at the government's request, represented key moments of visibility for the Bank. Four CGs were held, in February 1997 (Brussels, followed by a CG *de seguimiento* in Antigua in September 1997), December 1998 (Washington), February 2002 (Washington), and May 2003 (Guatemala), in addition to the CG for the Reconstruction and Transformation of Central America in Stockholm, in June 1999, after Hurricane Mitch. The CGs were venues for the mobilization of resources and for debate about governmental policies, program priorities, and progress under the peace agreements. The funds pledged were not negligible, but they were only in part "additional and new."[30] The evolution of gross donor disbursements is depicted in Figure 3. The data point to the apparent limits of resource

Figure 3 Bilateral and Multilateral Flows



Source: Ministry of Finance.

[27] Another complicating factor is the fact that the documentation on the implementation and evaluation of technical cooperation projects in Bank files at headquarters and in the Country Office is incomplete.
[28] These numbers exclude MIF operations and project preparation facilities.
[29] Some of the Bank's analytical papers on Guatemala are available on the website of Region II.
[30] Brussels CG: US$1,900mn; Antigua CG: US$309mn pledged in addition to the amounts pledged in Brussels; Washington CG (post-Mitch, in December 1998): about US$6,000mn pledged for all of Central America (Honduras and Nicaragua the main beneficiaries).

mobilization from bilateral donors. Clearly, the multilateral institutions responded more readily than bilateral agencies to the needs and opportunities of peace.

3.17 The CGs are remembered with appreciation by representatives of donor countries and international organizations in Guatemala and termed "helpful" by a number of sources interviewed for this report. The same interlocutors, however, and contacts in government, in interviews with OVE, noted the Bank's low profile in matters of dialogue with the donors during the periods *between* CGs.[31]

3.18 On the issue of coherence between the program and successive governmental priorities, to the extent that these were consistent with the Bank's mandates, the evidence indicates the presence of a high degree of compatibility[32] even though programming by the Bank, as noted above, did not necessarily provide satisfactory rationales on what to take up and what to de-emphasize (Table 4).[33] Clearly, the Bank lined up with the peace process and became an actor in the implementation of the agreements and, in 1999, the response to the natural disaster wrought by Hurricane Mitch. Annex 3 offers data on the uptake of priorities under the agreements.

Table 4 Uptake of National Priorities in Bank's Program, 1996-2003

National Priorities (selection)	IDB Program[1]
Sector priorities:	
Financial sector	+++
Fiscal reform	+
Infrastructure, energy	+++
Environment	+
Health, water, & sanitation	++
Education	+
Housing	+
Integrated policies and reform:	
Decentralization	+
State reform and modernization	+
Combat poverty, social investment	++
Rural development	++
Production, employment, income	+
"Cultura de paz"	0
Peace agreements:	
Organize Consultative Groups	+++
Human rights	0
Resettle uprooted population	+
Truth Commission	0
Indigenous peoples	+
Socioeconomic and agrarian aspects	+
Strengthening civil powers	+
Electoral reforms	0
Ceasefire, incorporate UNRG to legality	0

[1] "Program"=approved operations (0 means zero or weak priority for the program; + means priority marginally incorporated into the program; ++ means priority incorporated; +++ means high priority for the IDB).
Source: Own elaboration based on CPs and Segeplan documents.

C. The evaluability of the program

3.19 Evaluability refers to the manner and extent to which an activity (a project or a program) is specified such as to permit evaluation. A *results framework* with meaningful, measurable indicators and targets is needed to permit evaluation in a formal sense of the term. From the discussion of programming in this chapter it appears that the CPs and hence programming (particularly the early programming exercises) do not present the basic requirements for evaluability. What, then, of individual projects? To answer this question, 25 investment projects were examined as to the quality and completeness of their results frameworks. The associated documentation, a set of tables and indicators of evaluability for each of the projects, was shared with Region II in April 2004.[34]

[31] Indeed, the interlocutors deemed the quality of the Country Office's external contacts to be poor in the period since 1996, the time frame on which they were asked to reflect.
[32] Cf. *Las prioridades en los programas de gobierno, 1993-2003*, Background note prepared for this report.
[33] The development of such rationales would be enhanced if in the process of programming one compared proposed interventions along a common scale of value such as the present value of future benefits.
[34] Available from OVE upon request. See Annex 4 for an example which is presented for didactic purposes in order to show the inconsistencies and lack of completeness of the logical frameworks drawn up by the Bank and to provide "food for thought" for the confection of these frameworks in the future. The example

The conclusion is that the results frameworks and hence the evaluability of the projects are deficient, as is, therefore, by aggregation, the evaluability of the program as a whole.

3.20 This is so because the Loan Documents and logical frameworks rarely specify indicators that fully reflect the stated objectives and are measurable and quantifiable. The baseline situation at the Loan Document stage is rarely given in the case of the projects reviewed, and measurable targets and milestones or intended intermediate results are missing in many cases. Without this information—especially for *outcomes*, as opposed to the more readily measured but less relevant concept of *outputs*—it is not possible to demonstrate progress and the investments' developmental effects.

3.21 Frequently, the indicators of success listed in the logical frameworks that were reviewed are limited to *activities* to be carried out. Indicators that are essentially activities are of limited evaluative value as the target then is the completion of an activity, rather than the accomplishment of a substantive developmental goal. The generally poor quality of indicators underscores the lack of focus of the project teams on evaluation. It also undermines the Bank's accountability for results and is suggestive of problems in terms of project design.

3.22 Key quantitative results of the evaluability exercise carried out for this report are as follows. On a scale from zero to one, where unity signifies full evaluability, the program-wide evaluability index *at entry* for outcomes is .52 when taken at face value from the Loan Documents and logical frameworks, but only .35 when corrected for inconsistencies and omissions.[35] The *progress* index for outcomes, in turn (a measure of the extent to which progress toward the achievement of specified outcomes is monitored in the Bank's PPMRs[36] and, for finished projects, the PCRs), is .08. In other words, the Bank's monitoring system in essence does not track, and hence does not permit the *demonstration* of, progress toward promised developmental results—which is different from saying that progress is not being achieved. Projects and thus the program as a whole are neither designed with a view to future evaluation nor does the Bank systematically record and report data, or enforce the collection of data on the part of the executing agencies[37] in compliance with the loan contracts, on the limited number of substantive indicators of success that it does specify.

3.23 A retrofitting effort to equip projects with results indicators is underway Bank-wide. It is hoped that the next Country Strategy report on the status of this exercise for Guatemala.

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in Annex 4 illustrates the merits of investing in the thought and analysis that are needed to come up with more narrowly and realistically specified objectives and indicators.

[35] Tabular analysis available on request.

[36] The PPMRs are the Bank's twice-yearly project performance monitoring reports. The PCRs are the project completion reports due within six months of the last disbursement.

[37] OVE ascertained, for example, that the executor for GU-0152, the Foreign Trade Support Project approved in 2001, as of October 2004 had not submitted to the Bank's Country Office data on progress related to the pursuit of the specified development objectives.

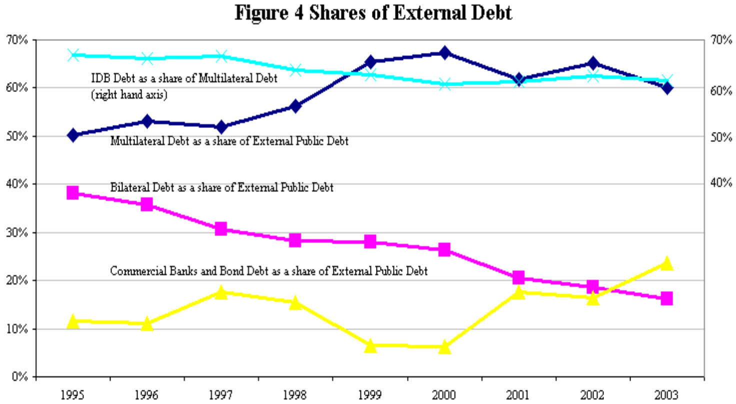
IV. PROGRAM DELIVERY AND RESULTS

4.1 The first topic of this chapter, delivery, is presented in two parts, a review of aggregate flows and an analysis of the efficiency and timeliness of loan delivery. Most loans were not delivered on a timely basis. The chapter examines the factors that appear to be responsible for this situation. As to the second topic, the overall assessment is that some important results have been achieved. At the same time, the results under most projects fall short relative to what was anticipated at the time of approval. Some of the apparent reasons underpinning this situation are explored.

A. Aggregate flows

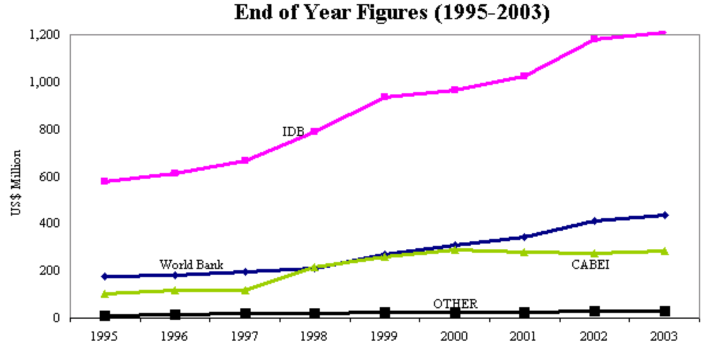
4.2 The IDB is the most important source of official external funds for Guatemala and the country's main official creditor. It approved 122 lending operations for a commitment exceeding US$2.5 billion since starting operations in the country and held 64%, on average, of all multilateral claims on Guatemala during the past eleven years. The debtor-creditor relationship between the Central American country and the IDB, hence, is unique on account of considerations of size, since multilateral debt exceeds bilateral debt as a share of external public liabilities and the IDB's claims of outstanding debt are orders of magnitude above those of the next-most important multilateral creditors, the World Bank and CABEI (Figures 4 and 5).

Figure 4 Shares of External Debt



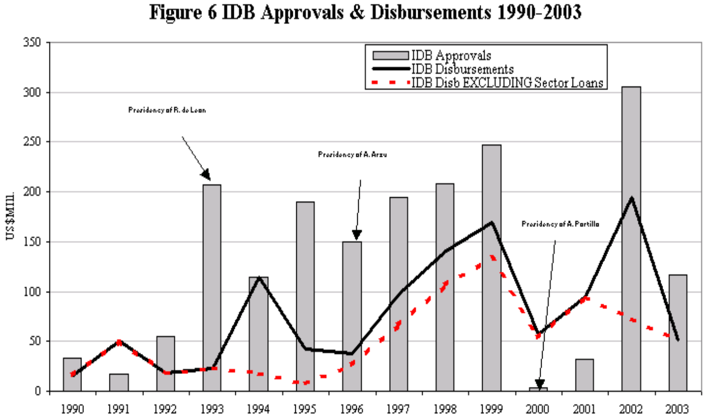
Source: MINFIN.

Figure 5 Stock of Multilateral Debt Outstanding End of Year Figures (1995-2003)



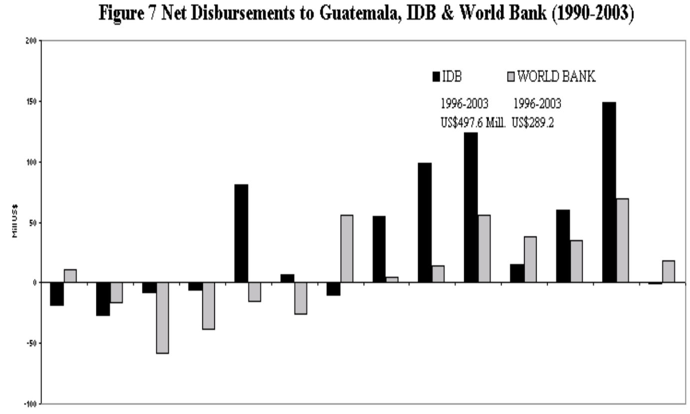
Source: MINFIN.

Figure 6 IDB Approvals & Disbursements 1990-2003



Source: IDB Datawarehouse

Figure 7 Net Disbursements to Guatemala, IDB & World Bank (1990-2003)



Source: IDB-LMS & WB.

4.3 The Country Papers and portfolio review reports do not focus on the implications of these numbers. The CPs note the presence of large undisbursed balances at the beginning of each programming period, suggesting a focus on the country's capacity to absorb funds rather than the productivity of money in developmental terms. Figure 6 depicts volatile disbursements and what may be called the peace dividend of steadily growing commitments and disbursements during the Arzú administration. The observed peak in 2002 is the consequence of the approval and initial disbursement of the second financial sector reform loan then approved. The peaks in approvals recorded for 1993, 1995, and 1997 similarly reflect sector loans, respectively, in finance, infrastructure, and health. It is seen that disbursements of investment loans declined in the past three years.

4.4 IDB *net disbursements* to Guatemala, negative in 2003, were often positive during the period depicted in Figure 7 and were almost twice the net size of disbursements by the World Bank thanks largely to the release of tranches of the sector loans. The net *cash flow* from the IDB (negative in 5 of the past 11 years) was very small relative to such domestic variables as tax revenue and primary expenditure, but gross flows amounted to more than 10% of the tax take in 1999 and close to 8% of primary expenditure in the same year (Table 5). On average, the net cash flow amounted to US$14.2mn per year in 1993-2003 while during the 1996-1999 and 2000-2003 sub-periods it amounted to US$30.2mn and US$11.4mn in turn. Guatemala's scheduled debt service to the IDB is about US$130mn per year in 2004-2007 and beyond to service an outstanding debt of about US$890mn in mid-2004. There is in the absence of important new approvals and accelerated annual disbursements a prospect of continued negative net flows that can be expected to sharpen the debate about the relevance of the Bank. To inform and shape this debate, it would be desirable to have data on the developmental benefits associated with the loans taken out. It follows from the section on evaluability above that the Bank's monitoring and evaluation system is challenged to supply these data—which, as mentioned, does not mean that no developmental benefits were produced.

Table 5 MDB Gross and Net Cash Flow and Domestic Variables

Year	IDB Gross Flows (Mill US$)	World Bank Gross Flows (Mill US$)	IDB Net Cash Flow (Mill US$)	World Bank Net Cash Flow (Mill US$)	Primary Expenditure (Mill US$)[1]	Net Tax Revenue (Mill US$)[1]
1993	23.1	1.1	-35.9	-54.8		
1994	114.1	28.9	50.2	-30.5		
1995	42.8	13.3	-24.7	-40.2	1176.8 (3.6%)	1119.6 (3.8%)
1996	37.3	68.9	-47.4	42.1	1329.6 (2.8%)	1395.2 (2.7%)
1997	96.9	16.5	22.9	-9.3	1733.2 (5.6%)	1550.2 (6.3%)
1998	141.0	28.1	64.5	2.0	2067.2 (6.8%)	1582.3 (8.9%)
1999	169.6	69.9	81.1	38.6	2165.9 (7.8%)	1617.0 (10.5%)
2000	57.3	51.4	-34.0	17.4	2234.9 (2.6%)	1832.7 (3.1%)
2001	95.5	46.3	18.6	12.3	2379.5 (4.0%)	1991.0 (4.8%)
2002	194.2	82.9	107.0	47.4	2596.5 (7.5%)	2471.4 (7.9%)
2003	51.4	34.2	-45.9	-0.5	3000.9 (1.7%)	2528.8 (2.0%)

Sources: IDB, World Bank, Ministry of Finance.

[1] The figures in parentheses in this column express IDB gross flows as a share of primary expenditure and net tax revenue, respectively.

4.5 Two observations looking to the next Country Strategy are in order: First, the issue of resource flows from the Bank as the country's largest creditor should be addressed in the next Country Strategy where it needs to be looked at with reference to the portfolio's disbursement difficulties and its developmental value, both of which are discussed below. In this context, reference should be made to the fact that the share of current governmental expenditure made available to the IDB portfolio has tended to be proportionally smaller than that associated with the portfolios of the other MDBs. The World Bank's and CABEI's portfolios have tended to move faster than the IDB's[38] even though the IDB has the largest Country Office, is competitive as to financial cost,[39] and arguably enjoys close relations with the government. Second, an aspect related to being a large creditor of a low-tax country is that the Bank should analyze Guatemala's overall budgetary capacity as it may be counterproductive to announce a new lending program if projected taxation levels are insufficient to absorb it along with operations planned by the other MDBs and borrowing from the financial markets. The Country Strategy needs to explore this issue with reference to the other players' pipelines and projections and the rate at which the IDB and the government intend to retire slow-moving operations currently on the books.

B. Program delivery

4.6 The efficiency of delivery of the program is an evaluation topic because of its effect on the timeliness, cost-effectiveness, and scope for achieving results. Delivery has many facets and can be studied with reference to data that are available for key dates related to the project cycle; the rate of disbursement of loan proceeds; and the Bank's self-qualification of projects as being "on alert" due to implementation problems and execution overruns. An element of delivery also examined in this section is *supervision*—specifically, the compliance with selected rules of the Bank's supervision system—because of the role of supervision in the management of risk as the portfolio is implemented.

4.7 The comparative analysis of key dates related to the project cycle during the period reviewed in this report reveals a slower and longer average cycle in Guatemala than that observed for Region II, the C&D countries, and the Bank as a whole. As shown in Table 6, for example, the average time taken from declared intent (or Profile I) to approval by the Board, from Profile I to eligibility for disbursement, and from approval to both signature (of the loan contract) and eligibility is greater for Guatemala than for Region II, the C&D countries, and the Bank as a whole. The greater average time taken for loans in Guatemala is particularly noticeable for the approval-to-signature part of the cycle: owing to delays in legislative approvals the period in question is more than twice that recorded for the comparators. The gestation period means that new projects are largely unattractive to new governments since it is unlikely that the projects will be activated significantly prior to the end of their term in office.

[38] World Bank and CABEI disbursements as a share of the size of the respective portfolios have tended to be more rapid than the IDB's (data for 2003 in the donor profile cited in footnote 7), although the situation varies from year to year and is sensitive to the occurrence of large one-off disbursements such as the IDB's 2004 release of the last tranche of the second financial sector reform loan.

[39] Cf. data on CABEI loan rates made available to OVE and Annexes D and E of Document CF-119-1 of July 2004, which provide data on OC loan charges and a lending rates comparison between the IDB and IBRD.

4.8 New projects also can be unattractive because of the time taken to process requests. Delays in this regard may explain the reported relative lack of interest in IDB funds in recent times as opposed to more expensive bond financing or other multilateral funding. In addition, the cancellation of approved operations before they start to disburse is a matter deserving attention as it represents wasted time and effort on the part of the government and the Bank.[40]

Table 6 Average Preparation Time (months)[1]

Component	Guatemala (no sector loans)	Guatemala (all loans)	Region II	C & D Group Countries	Bank[2]
Profile I to Approval	22.03	24.35	18.58	21.00	20.87
Profile I to Eligibility	39.33	41.51	33.34	34.00	33.28
Approval to Signature	13.83	12.86	5.25	4.47	5.34
Approval to Eligibility	18.07	16.70	14.24	13.30	12.63

[1] Public sector loans approved during 1993-2003.
[2] Emergency loans excluded from analysis.
Source: IDB Data Warehouse.

Table 7 Timing Analysis (months)[1]

Thematic Area	Prof I-Approve	Approve-Sign	Sign-Eligibility	Eligibility-ODFD (A)	Eligibility-CDFD (B)	B-A
AVG All loans	24.35	12.86	3.84	40.48	59.77	19.29
AVG Growth	24.31	10.95	2.80	42.67	54.16	11.49
AVG Social	28.12	10.62	4.39	40.66	67.20	26.54
AVG Governance	11.75	20.92	5.51	33.40	56.76	23.36
AVG Investment loans	22.03	13.83	4.25	42.45	60.85	18.40
AVG Sector loans	38.83	6.03	1.56	29.31	53.63	24.32

[1] Public sector loans approved during 1993-2003. ODFD: original date of final disbursement; CDFD:current date or actual date in the case of closed projects of final disbursement. See Table A.1 on sectoral distribution of loans.
Source: IDB Data Warehouse

4.9 The timing analysis by thematic area in Table 7 shows that the design phase takes two years on average in Guatemala, but is shorter (i.e., one year) in the case of projects in governance and state reform. The approval-to-signature phase is one year, on average, but 21 months in the case of projects in governance and state reform. The period for the fulfillment of prior conditions is relatively short on average (4 months). The delays in execution to-date, taking into account all projects, are significant, ranging to 23 months in "governance" and 26 months in the social area as of December 2003 and pointing to an excess of optimism, or a lack of realism, in the ex-ante estimation of the time required for execution.[41] The delays in execution to-date are worse for sector loans than for investment loans, as seen in the table. The reasons include delays in passing the legislation or taking other action underpinning policy reform.

4.10 Actual execution overruns for nine closed projects with overruns averaged 31 months, with a maximum of 46 months.[42] Predicted overruns based on past disbursement profiles are more sizeable still in the case of some currently active

[40] Recent cancellations include Education II (GU-0131), the Census project (GU-0170), and the labor market project (GU-0158), cancelled as a result of discussions during a portfolio review mission carried out in June 2004. An approved PRI project in the power sector, GU-0151, remains unsigned as of the date of this report.
[41] "Designers routinely set execution periods that bear no relation to reality" (statement by interviewee in Guatemala, June 2004).
[42] Calculated from Table A.1.

projects where they range to 177 months beyond the current estimated date of last disbursement in the case of GU-0081, the Petén Sustainable Development Project. Overruns imply costs to the borrower in the form of elevated fixed costs and the postponement of results, as well as financial costs. As a loan's disbursement period and repayment profile is extended, the present value of loan charges grows.

4.11 Overruns may also lead to a loss of relevance either in developmental terms, if conditions change relative to the ones that prevailed when the project was designed, or in terms of governmental priorities. The current administration inherited 22 projects from previous governments—13 from the Arzú administration and 9 from the Portillo government. The latter, in turn, inherited 15 operations from its predecessor. This pattern can have merit by fostering continuity. But it can also be seen as constraining the margin of choice of an incoming administration. The available balance bequeathed to the Berger administration exceeded US$500mn in early 2004—a sizeable resource for developmental investment according to parameters chosen in the past, but at the same time, in the absence of cancellations or other forms of restructuring, an obstacle to the initiation of new activities in a tight fiscal environment.[43]

Table 8 Measures of Disbursement Efficiency[1]

Measure	Guatemala	Region II	Bank
Incidence	0.53	0.44	0.48
Depth	0.28	0.25	0.21

[1]Investment projects in execution 2003, approved between 1993 and 2003. "Incidence" refers to the share of loans disbursing more slowly than prescribed. "Depth" refers to the size of the gap, in dollars, required to bring the portfolio up to the Region-wide or Bank-wide disbursement average.
Source: Own calculation.

Table 9 A deteriorating portfolio?

		Projects at risk[1]		
Year	Rated projects	IP unsatisfactory	DO improbable	AS deficient
1997	9	1 (11)	0 (0)	0 (0)
1998	14	0 (0)	0 (0)	0 (0)
1999	15	0 (0)	0 (0)	1 (6)
2000	17	5 (29)	2 (12)	0 (0)
2001	18	1 (6)	1 (6)	1 (6)
2002	18	2 (11)	1 (6)	3 (17)
2003	19	10 (53)	5 (26)	7 (37)

[1]IP: Implementation progress; DO: Development outcome, AS: Assumptions. Figures in parentheses: Percentage relative to the number of rated projects.
Source: PPMRs (year-end).

4.12 The performance challenges of the Bank's portfolio can be illustrated with reference to the rate and efficiency of disbursement. For investment loans, under-disbursement relative to the disbursement period stipulated in loan documents is more pronounced in the case of Guatemala than in Region II and the Bank as a whole (note the values for "incidence" in Table 8 and refer to the footnote to the table for an explanation of terms). Similarly, the "disbursement gap" is somewhat greater for Guatemala than for the comparator entities in that additional disbursements of 28% (versus 25% and 21% for the comparators, respectively) would have been needed in Guatemala to bring spending to the levels predicted at the time of approval by the Board.[44]

[43] Another obstacle to the uptake of new activities is the attention paid by new governments in the first six to twelve months to the review of inherited projects, deciding whether they are still wanted and training new technical teams that sometimes start at the bottom of the learning curve. This possibly inevitable process diverts energy from an early focus on relevant new endeavors.
[44] Delays in disbursement and implementation are reportedly also observed in the case of the portfolios supported by other external actors, including the World Bank. The recent *Guatemala Country Assistance Evaluation* by the Word Bank's Operations Evaluation Department does not address the problem (World Bank Report No. 25212-GT, 2002).

4.13 The performance challenges of the Bank's portfolio are further illustrated by the Bank's own qualification of projects as being "on alert" due to delays in execution. In early 2004, seven projects were classified as "on alert" in the Bank's PAIS database. Table 9 above points to an apparently deteriorating trend in the quality of the portfolio—in reality the effect of a new effort at transparent reporting—with a pronounced increase in 2003 in the number of projects apparently compromised by unsatisfactory ratings with respect to implementation (IP), the probability of achieving promised results (DO), and defects in one or more of the assumptions on which projects are built (AS; see also Figure 8). From the undisbursed balances of the projects underlying the table, the following *amounts at risk* are calculated for end-2003: US$272.2mn (i.e., more than half the then available balance in the portfolio) for less than satisfactory implementation progress; US$123.7mn for less than probable achievement of development outcomes; and US$149.3mn for defects in one or more of the underlying assumptions. From the Bank's PPMRs for 2003, seven projects emerge as particularly problematic at that time, with negative ratings for at least two of the three indicators just mentioned: GU-0022 (*Vivienda*); GU-0070 (*Reconversión agroalimentaria*); GU-0081 (*PDS Petén*); GU-0133 (*Cuencas altas*); GU-0134 (*Desarrollo municipal*); GU-0135 (*Desarrollo tecnológico*); and GU-0170 (*Censo*, a project cancelled in 2004, as mentioned earlier).

Figure 8 Total Number of Problems Recorded in PPMRs (1997-2003)

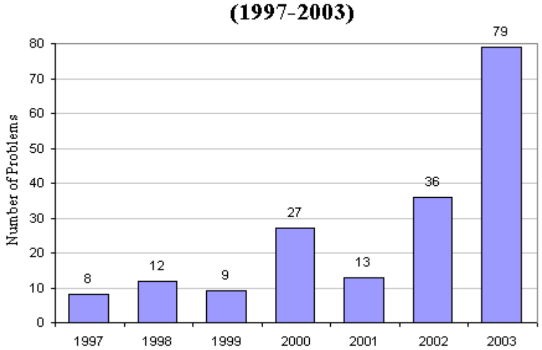
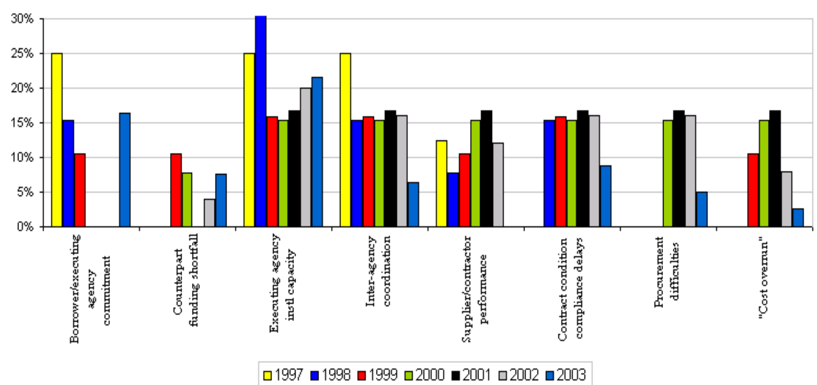


Figure 9 Share of problems reported in all PPMR problem categories between 1997-2003 (8 most relevant selected)



4.14 In the Bank's assessment as transmitted through the PPMRs, the following problem categories have affected delivery and execution with particular frequency since records began to be kept in 1997: capacity constraints in executing agencies, inter-agency coordination, contract condition compliance constraints, unsatisfactory supplier or contractor performance, ownership constraints on the side of the borrower, procurement difficulties, "cost overruns," and shortfalls in counterpart funding (frequency distribution in Figure 9).

4.15 The mere enumeration of problems in the twice-yearly PPMRs, of course, conveys little information about the nature of the difficulties encountered in projects, but it is instructive to note, for example, that ownership problems (labeled under "borrower / executing agency commitment" in the PPMRs) appeared in six or seven consecutive semesters in the case of GU-0022, GU-0081, and GU-0073 (*Programa ambiental area metropolitana*) and that the projects with the largest cumulative number of problems declared in the PPMRs languished for years without effective remedial action (Table 10). In Guatemala, none of the IDB projects in the *current* portfolio have been updated in the course of their existence (in part reportedly because of anticipated difficulties in Congress if and when Congressional approval is needed to sanction modifications), which (i) is key to the understanding of the difficulties of the portfolio today and (ii) helps explain the growing distance between how the projects are implemented and what is established in the loan contract.

Table 10 Projects with largest number of problems identified (1997-2003)

Project		Most relevant problem categories	Times/Semesters mentioned in PPMR
GU0081	Sustainable Development, Petén	"Inter-agency coordination" "Borrower/executing agency commitment" "Executing agency institutional capacity" "Project/component design"	30
GU0022	Housing Program	"Executing agency institutional capacity" "Borrower/executing agency commitment" "Legislative approvals"	27
GU0073	Metropolitan Area Environmental Program	"Inter-agency coordination" "Community/political opposition" "Borrower/executing agency commitment" "Legislative approvals"	24
GU0070	Restructuring Food and Agriculture	"Borrower/executing agency commitment" "Executing agency institutional capacity" "Project/component design" "Contract condition compliance delays"	16

Source: PPMRs.

4.16 As to the latter, the pressure to keep up with contextual changes in a delayed implementation mode led over the years to 2003 to permissiveness on the part of the government and the Bank where executing agencies were changed, new components created, approved components discontinued, compliance with contract conditions waived, and mandated reviews not carried out without modification of the loan contracts—the reality of how the Guatemala portfolio has tended to be implemented on a day-to-day basis for years.

4.17 The Bank, in the problem diagnosis of the PPMRs, tends to assign responsibility for delays to the borrower, and (as apparent from Chapter II) there is no doubt that the institutional and governance environment of Guatemala poses formidable challenges. Another source of delay flows from the often insufficient budgetary allocation by the government to projects funded by the IDB. There are therefore multiple factors conditioning the process of delivery and implementation, many of which are beyond the control of the Bank. At the same time, there are issues under its control that have affected the record, some of which, including project design, risk management, supervision, and managerial-administrative arrangements and culture, are discussed below.

4.18 Project design: Stakeholder interviews point to the issue of design (including excessive complexity relative to implementation capacity or relative to the needs as perceived by the borrower) as a factor that at times affected ownership and implementation. The multi-component urban environment project GU-0073, approved in 1996 and cancelled in 2002, appears to illustrate the fact that the proliferation of goals and objectives can affect ownership and thereby implementation if it is at variance with locally perceived needs.

4.19 Other types of design problems arise when preparation activities are inappropriately pushed from the pre-eligibility stage to the implementation stage[45] or when designs do not correspond to current priorities and procedures in the ministries, in which case one deals with continuous exceptions and *ad hoc* proposals that collectively are more onerous than updating the project would be. An aspect of design that has affected both implementation and sustainability in Guatemala is the reliance on specially created institutional structures—the case in many of the 26 investment projects approved between 1993 and 2003. This can be problematic as there are almost always national structures that, if strengthened, could do the job, with the externally financed projects then leaving a more permanent legacy of institutional support.[46]

4.20 The experience in Guatemala is that the delegation of execution to *ad hoc* structures has not precluded delays in implementation but rather was associated with precisely the kinds of inefficiencies that the parallel structures were supposed to avoid.[47] As noted in Annex 5, the reliance on various types of parallel structures in the Guatemala portfolio has

Table 11 Risk Realization Summary

Risk	Risk identified at approval	Risk mitig. factors identified	Risks that occurred to date	Unforeseen events that occurred	d=(b+c)/a
	a		b	c	d
GU-0082 (94)	1	1	0	1	1
GU-0017 (95)	3	3	2	1	1
GU-0071 (96)	3	3	0	0	0
GU-0073 (96)	4	4	1	1	0.50
GU-0081 (96)	4	4	1	2	0.75
GU-0099 (96)	3	1	1	2	1
GU-0022 (97)	5	3	1	3	0.80
GU-0037 (97)	2	2	1	0	0.50
GU-0070 (98)	8	6	3	3	0.75
GU-0092 (98)	2	2	0	0	0
GU-0127 (98)	2	2	0	0	0
GU-0128 (98)	4	0	1	1	0.50
GU-0137 (98)	1	1	0	0	0
GU-0125 (99)	7	7	1	2	0.43
GU-0130 (99)	1	1	0	1	1
GU-0134 (99)	3	3	1	1	0.66
GU-0135 (99)	3	3	2	1	1
GU-0131 (01)	3	3	0	0	0
GU-0133 (02)	2	2	0	1	0.50
GU-0155 (02)	3	3	0	0	0
GU-0158 (02)	3	2	0	1	0.33
GU-0150 (03)	3	3	0	0	0
GU-0170 (03)	4	4	1	1	0.50
GU-0171 (03)	5	3	0	0	0

If d=0, no risks realized. If 0<d<1, some risks realized. If d=1, all risks and/or unforeseen events realized. If d>1, more risks realized than identified.
Source: 24 results frameworks (investment projects) prepared for this report.

[45] An example of this is the health sector project, GU-0125, approved in 1999 without a definition or agreement on the operational audit of the outsourcing of care. As a result, four years have elapsed attempting to reach agreement on the nature of the audit services required. The effect has been to postpone execution and delay benefits. Because of this omission in design, less than 10% of the loan proceeds were disbursed as of mid-2004.

[46] There may be objective instances in which national entities and line ministries cannot within a useful time frame be trained to cater to the needs of an externally funded project. A case along these lines, however, cannot be found in the Loan Documents of the operations that included the establishment of parallel structures.

[47] A reason for the failure of *ad hoc* structures to produce the expected results is that they are of necessity attached to permanent structures from which they cannot operate independently. An *ad hoc* executing unit in a ministry will be faster than the ministry in producing bidding documents or disbursement requests, but the regular ministry structure (frequently resentful of the *ad hoc* entity) still has to sign off on them. Thus, if one valued efficient execution over institutional development, one would have to create executing units that operated entirely independently. The "half-way" approach retains some of the inherent delays while incurring new costs and missing out on permanent capacity building. In addition, the incentives for staffing the *ad hoc* entities by the Minister need to be considered. There is a natural tendency to hire associates, not all of whom may be professionally qualified. The incentives also favor an exodus from the ministry to take up the better paying jobs, which depending on the qualification of the transferees will be at the expense of capacity at their original point of work.

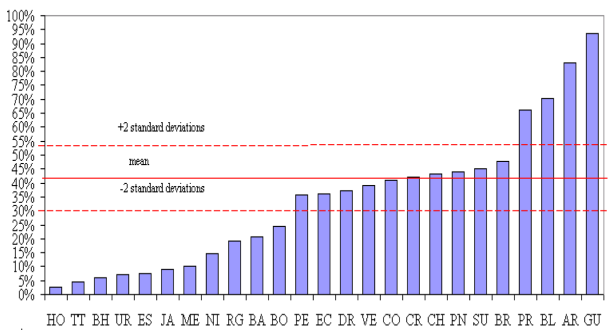
tended to cause: (i) high costs in personnel and technical assistance that are not an investment for the country because the structures tend to be dissolved at the end of the programs;[48] (ii) delays in the initiation of activities under the project because of the time required to contract executors and install the special units;[49] and (iii) limited scope for replication because of the dissipation of learning in a nonpermanent setting. Traditional structures lose out on resources for institutional strengthening that are invested in the establishment of parallel systems and furthermore can be undermined as (reportedly) in the case of the *Consejos de desarrollo departamentales* in the departments where the DECOPAZ, PRORIENTE and Petén projects are escaping the *Consejos*' constitutional prerogative of coordinating all activities of public policy and finance.[50]

Table 12 Compliance with Bank's Supervision Rules

Item	Requirement	Period	Due	Delivered	Comment
PPMR	2 per year	1998-2003	211	203	96% compliance; System ambiguous with respect to 8[1]
PCR	All projects 100% disbursed	1997-2003	10	6	60% compliance
Technical visits	Minimum of 1 per project per year	1998-2003	112	55	49% compliance
Financial visits	Annually programmed on basis of assessed risk	1998-2003	112	54	48% compliance
Portfolio review missions	1 per year	1997-2003	7	5	Years 1999 and 2000 missing
Country program reviews	1 per year	1997-2003	6	6	Full compliance (4 plus 2 surveys)
Mid-term and other evaluations	-	1993-2003	10 MTE 0 Other	11 MTE 0 Other	110% compliance 1 waiver (GU-0119)
EFAs[2]	Once annually per active investment loan	1998-2002	95	63	66 % overall compliance; 42 instances of qualified opinion by external auditors; 24 instances of same by the Country Office; 2001-02 compliance rate was 30% and 25%, respectively.

[1]Corresponding PPMRs are not available in the data base.
[2]External financial audits.
Source: Data supplied by Region II; OVE database of EFAs.

Figure 10 EFAs: Share of the Ordinary Capital Portfolio in Dollar Terms that is Unclean or of Unknown Quality (1998-2002)[1]



[1] Data refer to investment loans only. "Unknown" refers to EFAs not carried out.
Source: Own elaboration based on IIWP_ADMTRANS, IIWP_LOANLSM, and IIWP_LOANAFS databases.

4.21 Risk management: The Bank's efforts at risk management and mitigation have met with limited success for reasons that have to do with the inherent difficulties of dealing with risk but also include a lack of thoroughness when it comes to the analysis of risk at the outset. Table 11 indicates that (i) in 17 of 24 cases accounted for, up to three unforeseen events had occurred by December 2003, implying that the Loan Documents' risk analysis was incomplete; (ii) in five cases, the number of risk mitigation factors proposed was inferior to the number of risks foreseen, implying that the risk mitigation arrangements at entry fell short; (iii) in four cases all risks or new events occurred, implying that management and mitigation was unsuccessful; (iv) in ten cases some risks occurred, but fewer than feared, implying partially successful mitigation; and (v)

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[48] The cost of the *sistema especial de ejecución* absorbed 32% of the approved loan amount in the case of the DECOPAZ project, GU-0099.
[49] The bidding process for, and contracting of, the executing agency for the Petén project (which as argued in Annex 5 led to a questionable choice) took one year, during which period nothing else of consequence occurred under the project.
[50] In the absence of counterfactual analysis (which, as stated in Chapter I, is beyond the scope of this report) it cannot be known how projects with parallel structures would have fared without those structures. The point made here is that "going parallel" has not precluded *comparative* delays in execution and shortcomings in supervision as seen in Tables 6, 7, 12 and Figure 10.

in seven cases no risks occurred according to this database, implying successful mitigation under the strong assumption that the reporting on the realization of risk in the Bank's monitoring and evaluation system (on which this analysis is based) is complete.

4.22 Supervision: Compliance with the Bank's portfolio supervision requirements is incomplete. Table 12 on the matter of compliance points to deficits regarding the so-called technical and financial visits, the delivery of project completion reports, and above all the quality of the fiduciary stewardship of the Bank's funds: most of the external financial audits of the investment portfolio in Guatemala returned irregularities and qualified auditors' opinions in 1998-2002, making the portfolio the Bank's worst as far as the "cleanliness" of the audits is concerned (Figure 10) and suggesting repeated disregard for the recommendations in auditors' reports.

4.23 Managerial and administrative aspects: In addition to challenges with supervision, managerial-administrative problems affecting the delivery of the program are significant, and efforts by Region II to resolve them have during the period covered in this report not been fully effective. Two kinds of issues are at play. First, the problems deriving from Bank rules and procedures that raise transaction costs[51] and encourage resented micromanagement at the expense of substantive patterns of support during execution—the Bank *como policía de procedimientos y normas contractuales*. This is epitomized by the hundreds of "no objection" notes that the Country Office must issue to executors every year to authorize even trivial expenditures and procedures related to implementation and that give an appearance of control that the Bank in reality does not have. Despite the focus on control, many contractual clauses have in the past not been enforced and, as is known in Guatemala and at the Bank, there have been irregularities in the use of the Bank's funds.

"No Objection"

Research in the archives of the Country Office in May 2004 on 415 no-objections related to purchases of goods and services in 16 projects in the past two years revealed that few were issued in compliance with the rule of five working days, but many (ranging from 46% in the "slowest" project [Petén] to 88% in the "fastest" [Preinvestment for peace and FIS-Proriente]) were issued within 15 days. The research showed that the process is extremely cumbersome: one and the same business transaction is broken down into component steps, each of which requiring a no-objection. A surprising finding was that some of the no-objections issued by the Bank were later revoked—understandably a source of frustration for the executing agencies and line ministries involved. There is a need to decide if the control that comes with the no-objections is worth the price paid in terms of transaction costs.

4.24 The second issue is linked to administrative processes and culture in the Country Office during much of the period reviewed in this report. The Office has long

[51] A survey of executing agencies carried out by OVE for an evaluation project different from the present report indicates that 37% of the annual work load of three executing agencies in Guatemala was devoted to satisfying administrative requirements of the IDB in 2000-2003. This highlights the issue of transaction costs for the borrower as an apparent problem that stands out more than that of the administrative cost to the Bank of managing the portfolio in Guatemala. Using cost data from the Bank's OPRCOS system for 1996-2003 for Guatemalan investment loans, it is found that the administrative cost associated with the preparation, approval and execution of these loans was 7 US cents per US$ approved, slightly above the Bank average of 5 US cents per US$ approved. However, the information available on transaction costs at this time is circumstantial rather than precise and systematic. A dedicated assessment would be needed to fully characterize and quantify the problem.

operated under a kind of tension between bending the rules for the sake of implementation and rigidity in applying them in a context perceived to be prone to corruption.[52] In the process its approach to its tasks has become fragmented. An organizational chart does not exist;[53] office technology is outdated;[54] and the workload has tended to be distributed unevenly among the staff.[55]

4.25 The Bank's portfolio in Guatemala towards the end of the period reviewed was in a challenging state on account of the noted delays in execution, the suspected associated loss of relevance,[56] and acknowledged shortcomings in the quality of management and supervision. Changes in the management of the Country Office in 2003 signaled the Bank's intention to effect redress.

C. Results and outcomes

4.26 An effort was made for this report to assess the results of the projects and programs approved in 1993-2003 (net of cancellations) that had disbursed at least 20% of their loan proceeds by December 2003. The analysis of evaluability in the previous chapter suggests that little can be said with respect to results by examining the reports produced by the Bank. However, additional information collected for the present report enables the formulation of tentative conclusions regarding the results, or apparent results, of 17 advanced projects and programs examined in Annex 5.[57] The discussion focuses on the developmental *outcomes* engendered or facilitated by the operations in their sectoral context. While *outputs* are acknowledged in a number of instances in Annex 5 (particularly when data on higher-order results are lacking), *outcomes* and the prospects for achieving them are what the analysis is about—because *outcomes* are the reason why investments are made and debt is incurred.

4.27 The findings, subject to data constraints, are as seen in Table 13: five of 17 operations met their development objectives in part; six have not so far substantially met their objectives despite extensions relative to their originally projected date of final disbursement; in the case of three investment projects it is unclear (because of information constraints) whether they can be classified as having achieved their development objectives fully or in part; and in the case of

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[52] It is reported that this was particularly the case during the governmental period that ended in early 2004.
[53] An organizational chart was drawn up in May 2004 in response to a request by OVE.
[54] For example, there is no electronic correspondence control system at the Country Office, and the Office's loan contract management system is neither linked to Headquarters nor to such systems of supervision as the PPMRs. The state of technology in the Office lags behind that in key governmental entities in Guatemala.
[55] From 0 to up to 16 loans and technical assistance projects per specialist in 2003; frequent reassignments of projects among the staff have been the norm.
[56] It is assumed that the concept of an operation's "relevance" is time-sensitive.
[57] The 17 operations are: the financial sector loans GU-0018 and GU-0119; the infrastructure investment and reform loan (GU-0019); road rehabilitation and modernization I and II (GU-0017, GU-0130); the customs, external trade and natural disasters operations (GU-0082, GU-0152, and GU-0137); the health, housing, and education loans (GU-0023, GU-0022, GU-0037); the post-conflict social compensation and investment loans Pre-investment, DECOPAZ, FIS, and FIS-PRORIENTE (GU-0128, GU-0099, GU-0071, GU-0127); the PDS Petén (GU-0081); and the justice sector reform program (GU-0092).

one investment project and one sector loan it is too early to know. The information constraints responsible for the classification of operations in the unknown category for this reason took the form of a combination of deficient project-level monitoring and reporting, on the one hand, and the absence of relevant sector-level data, on the other. The difficulties of implementation and institutionalization reported in Annex 5 for one of the operations in this category, DECOPAZ, make it unlikely that measurable outcome-level results commensurate with what was anticipated in the Loan Document will be able to be documented. Again, for a substantiation of the conclusions conveyed through Table 13 the reader is referred to Annex 5.[58]

Table 13 Guatemala: Status Regarding Development Objectives, 17 Advanced Programs

	Development objectives (outcomes)		
Type	Partially met	Not so far met	Unknown[1]
Investment loans	Education I (GU-0037) Roads I (GU-0017)	PDS Petén (GU-0081) Judicial Reform (GU-0092) Preinvestment (GU-0128) Housing (GU-0022) Customs (GU-0082) Roads II (GU-0130)	FIS (GU-0071)* FIS-Proriente (GU-0127)* Decopaz (GU-0099)* Natural Disaster (GU-0137)* Foreign trade (GU-0152)**
Sector loans	Financial I (GU-0018) Health (GU-0023) Infrastructure (GU-0019)		Financial II (GU-0119)**

[1] This category refers to projects where outcomes are undocumented (*) or too early to call (**).

4.28 An aspect apparent from Table 13 is that sector loans display a proportionally better achievement record than investment operations—despite the fact that their project cycle was more delayed, on average, than that of the investment loans, as determined earlier in this chapter, and despite some questions regarding design that are pointed out in Annex 5, including, for example, whether the first financial sector loan (GU-0018) was appropriately structured and focused.[59] In addition to challenges of design and the factors compromising execution that were discussed in the previous section, a problem of note (which in the end is also one of design) is the formulation of overambitious objectives that can be observed in a number of cases[60]-- bearing limited relation to what is possible on the ground or to what is possible with the resources (including resources of an analytical kind) that the Bank was in a position to make available to the investments that it financed.

4.29 The analysis of results performed for this report can be summarized as follows, starting with the financial sector:

4.30 In the financial sector, where the Bank early and late in the period contributed sector loans, positive developments can be observed. At the same time, regulation and supervision lagged relative to the pace of liberalization as the Bank authorized tranche disbursements under the first loan without clear progress on these two points. A subsequent credit boom and collapse revealed the continuing weaknesses, prompting the Bank to approve another loan and suggesting that

[58] The PPMRs for the projects listed in the "not so far met" column of Table 13 and for the DECOPAZ project rate the likelihood of achieving the projects' development objectives as "probable" and in one case as "highly probable." This is at odds with the assessment of this report.
[59] Essentially, the operation sought to make low-level technical adjustments, while the financial system as a whole was dominated by two overriding features, i.e., an antiquated set of banking and financial laws and the pivotal importance of the Monetary Board.
[60] The Judicial Reform project (GU-0092) would appear to be a case in point.

tranches were released under the first loan without adequate progress in regulation and supervision.

4.31 In infrastructure, the power and telecommunications sectors were modernized and transformed under an IDB sector loan as the government's role was re-oriented toward purposeful regulatory tasks.[61] Achievements under the same loan in hydrocarbons, civil aviation, and the sectoral investment framework, however, fell short. The first of two investment projects in road rehabilitation and maintenance helped produce the institutional innovation of COVIAL, a road maintenance fund with sustainable financing derived from a tax on oil. The second project, in turn, will not achieve the full measure of development objectives approved by the Board because of irregularities that have affected its execution.

4.32 Projects to strengthen the customs system and support foreign trade have few tangible results to show so far. A natural disaster response and reconstruction loan helped rehabilitate storm-damaged infrastructure, paid comparatively little attention to the objective of improving disaster risk management and prevention, and is undocumented with respect to the safeguards applied to ensure the quality of the physical works and the transparency of the processes of execution and expenditure.

4.33 Loans in health conveyed a clear and coherent long-term vision of health reform but saw their execution affected by difficulties related to the implementation of a needed system to monitor and supervise the providers of care. A housing program spent most of its funds on accelerated subsidies channeled through land developers for the modality of serviced lots that was contrary to the design of the program and that kept the program, in large measure, from achieving its objectives. An education loan contributed to improvements in coverage and quality in preprimary and primary schools, but both it and the larger vision embedded in a second operation that was cancelled were affected by local resource constraints and differences between the government that left office in early 2004 and the Bank as to the espoused approach.

4.34 Loans in social investment and compensation displayed both positive and problematic results. A project to strengthen preinvestment analysis capacity and "rationalize peace-related public investment" and the presentation of proposals to donors did not achieve its objectives. A project for the physical, human and social recapitalization of areas severely affected by the armed conflict (DECOPAZ) was a source of inspiration for many at the time it was conceived, but developed a costly overhead structure and ended up operating more like a traditional social investment fund than the engine of community empowerment that it was meant to be. A loan to the Social Investment Fund proper bought into the entity's institutional set-up and approach and performed not unlike FIS-projects elsewhere: effective as to the realization of numerous small projects; with a

[61] Table 1 in Chapter II indicates that the role of electricity, transport and communications in the composition of GDP grew during the period reviewed in this report.

limited record of reaching the truly poor; and not above the temptation of clientelism in the allocation of funds.

4.35 The FIS-PRORIENTE project, whose objective it was to strengthen inside FIS procedures to develop program management capacity at the local level, helped build infrastructure through local development associations, but (contrary to the original intention) benefited communities that were better organized to start with and was largely unable to bring on board the line ministries as sources of permanent maintenance funding for the works carried out.

4.36 In "sustainable development," the twice-extended Petén operation (PDS) is not documented as having achieved its developmental goals, but has progressed to a degree in the titling of land and the rehabilitation of archeological sites.

4.37 Finally, in modernization of the state, the ambitious judicial reform project is experiencing problems both because of choices made during the phase of project design and because of intrinsic difficulties in an area that is among the least advanced and the most challenging of the processes defined in the Peace Accord.

4.38 The results achieved under operations funded by the Bank in support of the Peace Accord and in support of growth on the one hand and human development on the other are as follows:

4.39 As to the Peace Accord, the Bank's operational contribution focused on four out of twelve thematic areas covered in the agreements (Annex 3). In the thematic area of *human rights and justice* the Bank contributed the judicial reform program just mentioned. It was in the thematic area of the *socioeconomic situation and rural development* that it made more numerous contributions as identified in Annex 3, with positive results in some cases and a lack of documentation as to results in others (Annex 5 and Table 13). In the thematic area of *institutionalization of the peace*, the one project approved (Preinvestment for peace) cannot in the judgment of this evaluation be considered successful, as mentioned, whereas in the thematic area of *local authorities and the peace accords*, the project contributed—i.e., the Municipal Development Program to advance Guatemala's process of decentralization; see Annex 3—has not started to disburse.

4.40 As to the achievements with respect to fostering growth, results were generated under the Bank's support to infrastructure reform in the sectors of electricity and telecommunications, as mentioned, and, likely, through beneficial sector-level contributions to the process of financial reform. In human development, on the other hand, results were achieved in the context of loans in health, education and FIS-related endeavors of social compensation and protection, as discussed above and noted in Table 13. The table suggests that the record in terms of results in the case of other programs with a social and empowerment agenda is less favorable and/or unknown.

V. CONCLUSION AND RECOMMENDATIONS

5.1 The purpose of this chapter is to recapitulate and present the conclusions of the evaluation, assess the Bank's program in terms of the four evaluative criteria that were defined at the outset of this report, and formulate recommendations.

5.2 In Chapter II it was noted that in literature produced by national and international entities Guatemala is characterized as a post-conflict country in which many of the factors and conditions that gave rise to the internal armed conflict remain. The present report, in Chapter II, considered the demise of the armed conflict and the historic establishment of a framework for peace to be the key developmentally relevant events of the period reviewed. Other developmental challenges identified in Chapter II remain, creating a difficult and uncertain institutional and operational environment for the Bank.

5.3 These challenges include governance complications and exclusion along ethnic lines; a model of growth in need of renewal as to the sources of growth and a pattern of economic expansion benefiting relatively few; a public investment deficit linked to the country's pronounced public resource gap; a weak governmental sector and inefficient public spending; continued high levels of poverty and poor prospects to meet most MDGs. The challenge for the Bank is to define *what to do*, *with whom*, and *how* as it looks for ways to bring to life its generic contributions of transferring funds to help reduce the public resource gap in the short term, financing specific investments, policy reform, and endeavors aiming to improve the allocation of public resources, and supporting the design of policy initiatives and institutional change through non-financial contributions and technical support.

5.4 In reviewing the Bank's program and role, the evaluation noted the function of programming in identifying the right things to do and the ways to do them right. The evaluation judged the Country Papers and hence programming as presented to the Board to be in harmony with the Bank's standards and practice of programming at the time. In adhering to these standards, however, the CPs and other programming literature did not formulate a longer-term vision of the Bank's role and relationship with the country and of the programmatic implications of, for example, the post-conflict conditions encountered, the operational weakness of the public sector, and the challenges of growth and redistribution as characterized in this report. Also, the CPs tended not to formulate measurable anticipated results except in the case of the 2001 CP where an attempt in this direction was made. On the other hand, the programs that came to pass since 1996 coalesced with apparent governmental priorities and supported and were consistent with the process of peace.

5.5 The evaluation noted that while responding to governmental priorities and key needs, the program at the same time attempted to cover many bases, not always in convincing depth. On the other hand, where depth was intended, as in the case of a proposed three-phase educational reform, developments in the country did not allow it to be explored.

5.6 In line with the approved methodology and scope of country program evaluations, the evaluation delved in some detail into the topics of delivery of the program and supervision. It noted the multi-causal nature of the phenomena described and sought to distinguish between factors seemingly under the control of the Bank and factors arising from the presence of country issues and constraints.

5.7 The evaluation found the delivery of the program and the supervision of the portfolio to be deficient in comparative terms. The Bank's project cycle in Guatemala is under-performing relative to the average performance calculated for Region II, the group of C&D countries, and the Bank as a whole, and disbursement shortfalls are pronounced. As a result, the strategy of working through *ad hoc* or "parallel" executing units with a view to expediting implementation may need to be reviewed. The report noted that the parallel units can be costly, have not prevented serious delays in execution, and can be seen as diverting resources from the task of strengthening the regular structures of the state.

5.8 The evaluation determined that shortcomings in the supervision of the portfolio permitted known and suspected irregularities to continue over time, exposing the Bank to reputational risk. Toward the end of the period reviewed, the portfolio was compromised on account of the delays and problems in the management and supervision that the evaluation observed. Problems in the Country Office, now being addressed, were long in the making, implying that Guatemala and the Bank should clarify how they were allowed to come to pass.

5.9 If it is appropriate to surmise, as the evaluation does, that better programming can be expected to lead to wise and defensible answers to the above question of *what to do*, then the lessons of delivery and supervision should lead to solutions regarding the *with whom* and the *how*. The answer to the first of these latter questions emerging from the evaluation is *with the line ministries and traditional structures*, rather than in parallel, to the extent possible, strengthening these structures and creating the basis for continuity through the means available to the Bank. The answer to the second question would appear to be *through new models of supervision and control*—rethinking the systems that have failed (or whose application has failed), creating incentives for self-enforcement, and outsourcing control through methods that are effective while keeping transaction costs at bay.

5.10 Turning to the matter of results, the scope of the evaluation was limited by the absence of complete results frameworks in the projects and the data constraints deriving from the Bank's limited investment in monitoring and evaluation. Evidence assembled on a set of advanced operations suggests both that some important results were achieved and that many projects' apparent benefits in outcome terms are undocumented or fell short relative to what was anticipated at the time of approval.

5.11 More specifically, five of 17 advanced operations met their development objectives in part, six have not so far met their objectives, two are in the judgment of this evaluation too early to call, and in the case of four programs, because of deficient reporting and the absence of relevant sector data, it is unclear whether they can be categorized as having achieved their development objectives fully or in part.

5.12 The evaluation concluded that the sector loans in the portfolio seemed to perform better than the investment loans in terms of results.

5.13 The performance with respect to the elements of the Bank's generic contributions identified above was as follows during the period covered in this report:

- The contribution to help close the country's public resource gap was necessarily small in the presence of the modest net cash flow that was documented in Chapter IV of this report.

- The contribution to the funding of policy reform through four sector loans was sizeable, as was the program of specific investments financed, although both need to be judged with a view to their performance in terms of results which in the case of some of the investment projects was limited, as discussed.

- The contribution in terms of helping to improve the allocation of resources is assumed to have been sizeable through indirect effects linked to the changes engendered under the sector loans, but must be thought of as modest in the case of the investment loans. Indeed, the Preinvestment project specifically designed to help improve the allocation of public resources failed.

- The contributions to the design of policy initiatives and institutional change through technical cooperation other than MIF[62] and non-financial services (the evaluation of which was affected by limitations in the available documentation, as explained in this report) appear modest during the period reviewed—with the exception of the Consultative Groups where the Bank displayed leadership in helping to rally the donor community around the framework for peace.

5.14 At the outset of this report, the four evaluative criteria of *relevance*, *coherence*, *efficiency*, and *effectiveness* were introduced. The key conclusion with respect to results and thus *effectiveness* was formulated above, as was the finding with respect to the *efficiency* and timeliness of delivery of the program.

5.15 As to *coherence*, the record is mixed. First, as noted in this report, the Bank's program was aligned with and supportive of the borrower's priorities as expressed in governmental plans and other statements of policy and intent. Second, the Bank made seemingly judicious use of the different types of instruments it can deploy, i.e., sector loans, investment programs, technical cooperation, and non-financial support. Third, however, the absence of convincing results frameworks *at entry*, noted in this report, precluded a rigorous evaluation of the nature and quality of the interdependence among instruments and the combined results. Fourth, the quality of dialogue and coordination with other actors deserves good marks as far

[62] MIF operations are not assessed in this report.

as the mentioned Consultative Groups are concerned, but outside of these events the Bank's profile in the matter of dialogue and coordination was low.

5.16 On *relevance*, finally, we conclude that the Bank, in principle, made pertinent contributions in the sense that the portfolio of loans assessed in this report was an intended response to key developmental challenges. Furthermore, the support lent to the peace process through projects and non-financial contributions was clearly appropriate and important at an historical moment in Guatemala. Certain factors, however, affected performance and thereby the relevance of the Bank's role. They include the mentioned delays in execution, which were in part the result of conditions in Guatemala over which the Bank had no control, the issues referred to above and in Chapter IV with respect to the administration and supervision of expenditures, and the tendency, noted in this report, of the Bank to have a bureaucratic rather than a strategic presence in the country and to go it alone rather than to engage others in the pursuit of a shared approach.

5.17 The portfolio's problems and alleged higher-than-necessary transaction costs borne by the borrower in dealing with the Bank reportedly diminish the portfolio's relevance and the country's incentives to initiate discussions regarding new activities with the Bank. The reason, apparently, is less the often-invoked argument that the benefits from new initiatives would accrue *after* the petitioning authorities leave office than it is doubts regarding the IDB's ability to provide the rapid response and follow-up that the country's problems and the short four-year administrative cycle demand.

5.18 The perceived gradual loss of relevance of part of the portfolio of investment loans in recent years is one reason (among others) why that portfolio has not received the budgetary allocation that it needs. There is little justification in the eyes of the Finance Ministry to lock funds that may be needed elsewhere during the year into under-performing projects of the IDB. A cause-and-effect conundrum is at work in this respect in that slow projects are not given fiscal space, which in turn ensures that they continue to be slow. A review of the portfolio to determine the true priorities of today and to dispose of elements no longer urgent is overdue. Society would benefit from a transparent sorting out of the distribution of benefits and losses of the restructuring or cancellation of under-performing operations or components thereof. These operations have their supporting constituencies even though their continued unmodified existence may not be justified from an overall efficiency point of view.

5.19 As the Bank produces its forthcoming Country Strategy to address development challenges that remain and new dilemmas going forward, it should attempt to sort out the issues of behavior and choice around which the caliber of relevance revolves. The elements that deserve to be openly discussed include the problems and sectors to be addressed; the choice of instruments, including the balance between investment loans and more agile, controlled, Ministry-wide time-slice and programmatic approaches; and the arrangements for timely and transparent delivery. Another element that deserves to be discussed is the method proposed to combine the above such as to improve the strategic positioning of the Bank with respect to the country's and the government's needs.

5.20 The following recommendations are offered to address the issues raised in this evaluation with a view to addressing the challenges of supervision, delivery, resource flows, programming, and accountability for results:

1. Restructuring: In consultation with the borrower and as a *quid pro quo* for the growth of budgetary space assigned to the IDB, restructure the portfolio and update project design such as to reflect the true priority of the portfolio's elements today and facilitate execution.

2. Supervision and implementation: Present in the next Country Strategy a monitorable plan of action for adequate supervision and timely implementation of the portfolio.

3. Executing units: Present in the next Country Strategy a strategy for selecting and building up executing entities and human resources within the functional structure of the state.

4. Resource flow and budgetary implications: Present in the next Country Strategy an analysis of the projected net resource flow with reference to the portfolio's disbursement difficulties and developmental value as well as Guatemala's scheduled debt service to the Bank. Also, present an analysis of the lending program to be proposed in relation to the borrower's taxation and budgetary capacity with a view to ascertaining that the program can be absorbed along with operations planned by other IFIs and borrowing from the market.

5. Programming: Present in the next Country Strategy a vision for the Bank-Guatemala partnership in light of the development challenges facing the country and introduce results-oriented programming.

6. Instruments: In the next Country Strategy (i) discuss and specify the relative merits in Guatemala of the different instruments at the disposal of the Bank; (ii) program the use of the different instruments and modalities to solve problems effectively, specifying the assets and the value of future benefits to be created with each of the instruments and interventions proposed; and (iii) integrate the proposed Bank action with Guatemala's own planning and systems of resource allocation.

Approved projects, 1993-2003

Loan No.	Project No.	Project Name	Aproval Date	Current Approved Amount (date)	Original Approved Amount	Sector (Bank)	Sector (OVE)[1]	Goal	SEQ	PTI	Disbursement Amount (April 2004)	% Disbursed (April 2004)	ODD[2]	CDD[2]
783/OC-GU, 784/OC-GU, 917/SF-GU	GU0018	Finance Sector Reform Program	24-Nov-93	131,425,500.00	132,000,000.00	RM-FIN	Gr	To increase the efficiency of the assigment of financial resources; improve the capacity of financial intervention and acess to credit in genereal; and to increase the solvency of the financial system.			131,425,500.00	100	01/25/97	01/25/97
828/OC-GU	GU0082	Strengthening of the Customs System	09-Nov-94	1,392,851.14	1,400,000.00	RM-PUB	Go	To design and implement a program to modernize and strengthen the Customs Bureau	N	N	1,392,851.14	100	03/30/99	12/31/02
883/OC-GU, 884/OC-GU	GU0017	Road Rehabilitation and Modernization Program	27-Sep-95	150,000,000.00	150,000,000.00	TR-MAN	Gr	To establish sustainable financing mechanisms, optimize the use of resources, boost private sector participation, and modernize the DGC	Y	N	150,000,000.00	100	12/31/01	12/31/03
890/OC-GU, 891/OC-GU	GU0023	Health Sector Reform Program	04-Oct-95	38,554,500.00	38,554,500.00		So	The Ministry of Public Health and Social Assistance (MSPAS) has reorganized itself administratively and financially; incorporating a process of decentralization to make an efficient and transparent use of resources that will allow health services to be provided to the community in an opportune and equal manner, with the quality demanded.			38,554,500.00	100	01/13/99	04/13/02
943/OC-GU	GU0071	Social Investment Fund (FIS)	31-Jul-96	42,300,000.00	42,300,000.00	IS-FIS	So	To improve living conditions among Guatemala's poor rural population	Y	Y	42,300,000.00	100	12/30/00	06/30/02
967/OC-GU	GU0073	Guatemala City Metropolitan Area Environmental Program	13-Nov-96	-	34,800,000.00	PA-AMB	So	To improve the quality of life in the Guatemala City Metropolitan Area (GCMA)	Y	Y	-		CANCELLED PROJECT	
973/OC-GU, 974/OC-GU	GU0081	Sustainable Development Program for Petén	26-Nov-96	19,800,000.00	19,800,000.00	PA	So	Reduce the toll taken on natural and cultural resources by the process of deforestation and unplanned commercial exploitation of wooded areas.	Y	Y	8,735,065.15	44	09/10/01	09/10/04

Loan No.	Project No.	Project Name	Aproval Date	Current Approved Amount (date)	Original Approved Amount	Sector (Bank)	Sector (OVE)[1]	Goal	SEQ	PTI	Disbursement Amount (April 2004)	% Disbursed (April 2004)	ODD[2]	CDD[2]
968/OC-GU, 984/SF-GU	GU0099	Community Development for Peace Program (DECOPAZ)	13-Nov-96	48,800,000.00	50,000,000.00	IS	So	Rebuild physical, human and social capital in the most strife-torn areas.	Y	Y	47,976,232.25	98	01/21/01	11/21/04
1014/OC-GU, 1015/OC-GU	GU0019	Infrastructure and Investment Reform Program	25-Jun-97	82,546,794.81	107,650,000.00	RM-PLA	Gr	To increase private investment that will alow an increase in the coverage and efficiency of telecommunications, electric, civil aviation, and hydrocarbon services through the establishment of regulatory frameworks that encourage privatization.			82,546,794.81	100	10/20/00	07/20/03
1048/OC-GU	GU0022	Housing Program	15-Oct-97	53,151,381.53	60,000,000.00	DU-VIV	So	Improve housing conditions in the country by developing and implementing policies that will (i) improve the equity and efficiency of Guatemala's housing markets; and, (ii) increase the level of investment in housing occupied by low-income households.	Y	Y	53,151,381.53	100	03/14/02	03/14/04
1054/OC-GU	GU0037	Project to Support Education Reforms	12-Nov-97	15,360,000.00	15,360,000.00	ED	So	To improve the quality of education at the pre-primary and primary levels.	Y	Y	15,317,873.62	99	09/18/01	05/15/04
1153/OC-GU	GU0070	Support for Restructuring of Food and Agriculture Production	02-Dec-98	33,000,000.00	33,000,000.00	AG	Gr	To increase the competitiveness of the food and agriculture sector and thereby bolster its contribution to economic growth.	N	N	6,073,682.45	18	03/26/05	03/26/05
1120/OC-GU	GU0092	Program in Support of Judicial Reform	12-Aug-98	25,000,000.00	25,000,000.00	RM-JUS	Go	To strengthen the democratic and pluri-cultural rule of law.	Y	Y	17,618,334.90	70	03/14/03	03/13/05
1162/OC-GU	GU0127	Social Investment Fund Eastern Development Project (FIS-PRORIENTE)	16-Dec-98	90,000,000.00	90,000,000.00	IS-FIS	So	To establish procedures in the FIS to strengthen and promote local development management and to meet the most pressing socioeconomic infrastructure needs of the poor, rural population.	Y	N	80,583,006.14	90	10/18/03	12/31/04

Loan No.	Project No.	Project Name	Aproval Date	Current Approved Amount (date)	Original Approved Amount	Sector (Bank)	Sector (OVE)[1]	Goal	SEQ	PTI	Disbursement Amount (April 2004)	% Disbursed (April 2004)	ODD[2]	CDD[2]
1106/OC-GU	GU0128	Pre-investment Program for Peace	10-Jun-98	8,000,000.00	8,000,000.00	IS	So	To help promote pre-investment activities in priority lines of action under the framework of the peace agreements.	Y	N	5,448,471.25	68	12/11/02	12/11/04
1147/OC-GU	GU0137	Emergency Program in Response to Natural Disasters	18-Nov-98	39,802,272.23	40,000,000.00	IS	Gr	To prevent, avoid and reduce the effects of the natural disasters that (have) hit Guatemala.	Y	N	39,802,272.23	100	01/22/02	10/21/03
1221/OC-GU	GU0125	Health Services Improvement Program Phase II	17-Nov-99	55,440,000.00	55,440,000.00	SA-SER	So	To improve the health status of people in Guatemala	Y	Y	4,077,099.96	7	08/11/06	08/11/06
1224/OC-GU	GU0130	Road Rehabilitation and Modernization Program, Phase II	23-Nov-99	150,000,000.00	150,000,000.00	TR-VIA	Gr	To continue rehabilitation and maintenance efforts on Guatemala's network of highways and rural roads.	Y	Y	75,885,758.99	51	07/03/05	07/03/05
1217/OC-GU	GU0134	Municipal Development Program	03-Nov-99	19,531,800.00	19,531,800.00	DU	Go	To advance Guatemala's decentralization program and strengthen the framework for promoting municipal development.	N	N	927,105.92	5	08/11/05	08/11/05
1207/OC-GU	GU0135	Program for Support of Technical Innovation	13-Oct-99	10,700,000.00	10,700,000.00	CT	Gr	To enhance the productivity and competitiveness of small- and medium-sized enterprises (SMEs).	N	N	220,153.68	2	02/11/05	02/11/05
1326/OC-GU	GU0131	Support for Education Reform, Stage II	27-Jun-01	-	22,000,000.00	ED	So	To improve the delivery of education services.	Y	N	-		CANCELLED PROJECT	
1318/OC-GU	GU0152	Programa Apoyo al Comercio Exterior	16-May-01	5,000,000.00	5,000,000.00	RM-PUB	Gr	To increase the institutional capacity of the Government of Guatemala in acessing export goods and services and external markets, maximizing commercial trade.			2,027,858.20	41	09/17/06	09/17/06
1400/OC-GU	GU0119	Finance Sector Reform Program II	22-May-02	200,000,000.00	200,000,000.00	RM-FIN	Gr	To modernize the legal and regulatory framework of the financial sector and to strengthen the regulatory and supervisory agencies in relation to the Bank of Guatemala and the SIB.			200,000,000.00	100	03/17/05	03/17/05

Loan No.	Project No.	Project Name	Aproval Date	Current Approved Amount (date)	Original Approved Amount	Sector (Bank)	Sector (OVE)[1]	Goal	SEQ	PTI	Disbursement Amount (April 2004)	% Disbursed (April 2004)	ODD[2]	CDD[2]
1398/OC-GU	GU0133	Program for Natural Resource Management in Upper Watersheds	17-Apr-02	40,000,000.00	40,000,000.00	PA	Gr	To improve natural resource management in upper watersheds.			8,000.00	0.02	12/12/07	12/12/07
1440/OC-GU	GU0151	Capital Expen. Electricity Distribution	04-Dec-02	25,000,000.00	25,000,000.00	EN-DIS	Gr	To improve the efficiency and reliability of the distribution network.			0	0	n/a	n/a
1409/OC-GU	GU0155	Urban Poverty Reduction Program	19-Jun-02	46,800,000.00	46,800,000.00	DU-INT	So	To help reduce poverty in urban areas of the Department of Guatemala.	Y	Y	0	0	12/02/07	12/02/07
1401/OC-GU	GU0158	Labor Market Program	22-May-02	-	10,000,000.00	IS-EMP	So	To improve conditions for labor market participation by fostering new institutional incentives in employment training and intermediation.					CANCELLED PROJECT	
1469/OC-GU	GU0150	Rural Water Investment Program	06-Aug-03	50,000,000.00	50,000,000.00	OS	So	Promote better living conditions for Guatemala's rural population.	Y	Y	0	0	n/a	n/a
1450/OC-GU	GU0170	Program for Institutional Strengthening of the National Institute of Statistics, and the 2002-2003 Nationwide Census	15-Jan-03	-	25,000,000.00	RM	Go	To generate trustworthy, timely and necessary statistical information.	N	N			CANCELLED PROJECT	
1470/OC-GU	GU0171	Guatemala-Mexico Electricity Interconnection Project	06-Aug-03	37,500,000.00	37,500,000.00	EN	Gr	To increase energy supply in Guatemala at lower costs.	N	N	0	0	n/a	n/a
Sector Loans Highlighted														

[1]Gr=growth; So=social; Go=governance. [2]ODD=orig. date final disb.; CDD=current or for closed projects actual date final disb.

Background notes and databases prepared for this report

In a time span of about two months, OVE staff and consultants worked intensively to obtain and process the present report's information needs. The databases prepared from national sources such as the Ministry of Finance, BANGUAT, and INE, and international sources such as World Development Indicators, CEPAL, UN social data, Economist Intelligence Unit, and IMF include time series on a comprehensive set of economic, financial, public finance, and social statistics—available to readers on request. In sifting through the sources, gaps in the data became apparent. For example, BANGUAT's series in constant Quetzales dates from 1958, but there is no information on GDP components in current prices. Also, there is no single database on the financial situation of sub-national governments. Guatemala's heterogeneous cultural, ethnic and geographic conditions are not covered by disaggregated series of economic and social data. However, cross-section data are available for important samples through such surveys as ENCOVI and ENS.

OVE's methodology for gathering and processing information for country program evaluations can be summarized in three steps.

- First, the comprehensive revision of documents and data, starting with the information available at the IDB, and the development of databases as noted above. At the local level, most economic and financial series were obtained from BANGUAT, the Ministry of Finance, the Superintendency of Tax Administration, and SIECA, the Central American Economic Integration Secretariat. The cooperation of these agencies with the project that is the subject of this report is gratefully acknowledged.

- Second, the analysis and processing of the information. This was performed by an interdisciplinary group in Guatemala and outside with expertise in a range of areas. The group's contributions were naturally a pillar of the evaluation exercise. Space limitations prevented the inclusion of a share of the information and analysis that was performed, some of which is presented instead separately in the background notes listed below. (Some of the notes are in the process of being finalized as of the date of this report).

- Third, interviews conducted by OVE with representatives of governments past and present, academics in Guatemala, and representatives of civil society and the international community. These interviews and conversations were important as sources of qualitative information and as means to test hypotheses about the Bank's program and role.

Background notes:

Cronología de eventos, 1993-2003

Guatemala: Selected economic issues

Evolution of Guatemala's financial sector and evaluation of IDB financial sector loans

Pobreza, desigualdad y meta del milenio en Guatemala

Las prioridades en los programas de gobierno, 1993-2003

Evaluation of the infrastructure policy-based loan GU-0019

Evaluación del programa de preinversión para la paz (GU-0128)

Evaluation of the Bank's engagement in the health sector in Guatemala

Programa de desarrollo comunitario para la paz (DECOPAZ).

Fondo de inversión social de Guatemala: Nota evaluativa

El componente Proriente del Programa Fondo de Inversión Social

Proyecto de apoyo a la reforma educativa

Methodological cnsiderations on results frameworks to gauge the evaluability of projects

Progress under the peace agreements and operational contribution by the IDB

1. Achievements and pending tasks

Progress under the peace agreements is analyzed systematically by MINUGUA, the UN Verification Commission, which published *Retomando el camino: tareas pendientes en la construcción de paz* on its website (http://www.minugua.guate.net.gt/default2.htm) in 2004. This report presents a comprehensive review of the vision and achievements under each of the agreements. Much of the information provided however is of a qualitative nature and therefore not easily encapsulated in readily overviewed tabular form. A quantitative analysis of the achievements under each of the targets has not been performed.

The peace agreements covered the following thematic areas: Human rights and justice, the socioeconomic situation and rural development, the institutionalization of peace, local authorities and the peace agreements, fiscal policy, transparency and social auditing, the legislative agenda for peace, women's situation, indigenous populations, security and defense, displaced peoples, and the incorporation of the URNG. The MINUGUA report points to both achievements and a great unfinished agenda in each of the thematic areas addressed. A brief summary translated from the report for the thematic areas in which the IDB was active (the first four thematic areas listed above) is as follows:

a) Human Rights and Justice: Since the signing of the Peace Accord, according to MINUGUA, Guatemala evolved from the situation that prevailed at the time of the internal armed conflict. The signing of the Accord marked the end of an era of systematic violations of human rights and augured a transition to a post-conflict society. Yet weak institutions, particularly the *Policía Nacional Civil* and the justice system more broadly, permitted the emergence of new types of human rights transgressions in the context of crimes that may be isolated and non-political in nature but continue to be committed with impunity.

b) Socioeconomic Situation and Rural Development: According to MINUGUA, some positive achievements have been obtained in the area of **health**: for example, the infant mortality rate has declined and, among other aspects, the *Sistema Integral de Atención en Salud* has incorporated more than 100 NGOs to assist in providing health services. At the same time, government statistics indicate that around 20% of the population remain without coverage and the majority of service providers are not bilingual, making it difficult for the indigenous population to be treated. In **education**, the reform of 2000 has been paralyzed due to differences between the Ministry of Education and the teachers as to how to execute the reform and also due to the scarcity of funds. The *Programa Nacional de Autogestión para el Desarrollo Educativo* faces budget difficulties and there are regions where the majority of the indigenous population has no educational coverage. The bilingual and intercultural focus in education is lagging behind what was visualized under the peace agreements. There have been virtually no advances with respect to **housing** according to MINUGUA, the policies of the *Fondo Guatemalteco para la Vivienda* having discriminated against the needier segments of the population. Advances in **rural development and roads** have been below target and needs. Entities such as

FONTIERRAS and CONTIERRA, created to help increase access to land, are affected by budget constraints and political conflict.

c) Institutionalization of Peace: Most of the instances of **institutionalization** provided for under the Peace Accords were put into effect with mixed results. Proposals to renew the *Comisión de Acompañamiento* (CAP) with the aim of revitalizing the vision of the Accords are on the table, including a proposal to turn the CAP into a *Comisión Nacional de los Acuerdos de Paz*, comprised of all parties to the peace accords. Proposals aiming to enhance the participation of different national actors, including civil society, women, and the indigenous population have been advanced but have not been acted upon. This includes the creation of a *Mecanismo de Consulta y Participación* where key actors would assist in monitoring the peace process. However, *Comisiones Paritarias y Específicas,* created to deal with specific issue areas and groups, have created venues for the discussion of key themes related to the instutionalization of peace and have produced relevant proposals and recommendations.

d) Local Authorities and the Peace Accords: A large number of governmental, non-governmental, and international actors have supported the strengthening of the *Consejos de Desarollo* at the departmental, municipal, and community level. The Consejos play a role in setting priorities and elaborating agendas for local development programs. Security and conflict resolution commissions have been created in a number of departments and municipalities. They can contribute significantly to bringing together civil society and the government to help resolve conflicts that hinder the implementation of the peace process.

2. The IDB's operational role

In operational terms, the IDB addressed the thematic areas described above on a selective basis. The Bank was not directly active with respect to the issue of human rights, but approved a project in judicial reform**.** With respect to the socioeconomic situation and rural development the Bank approved rather numerous projects (Annex 1): in health (two loans), in education (two loans, one of which was later cancelled), in housing (one loan), and in roads with a largely rural focus (two loans). In addition, approved projects in the thematic area of the socioeconomic situation and rural development included loans focused on local development (a project with the objective to assist in the physical, human and social recapitalization of the areas most severely affected by the armed conflict, two loans directed to the Social Investment Fund, and the PDS-Petén project). Other approved projects related to the socioeconomic situation include an Urban Poverty Reduction Program, the Program for Support of Technical Innovation, the Rural Water Investment Program, and the Program for Natural Resource Management in Upper Watersheds. As to the theme of institutionalization of the, the IDB approved a Pre-investment Program for Peace to help promote pre-investment activity in priority lines of action. In the issue area of local authorities and the peace accords, the Bank approved the Municipal Development Program to advance Guatemala's decentralization program and strengthen the framework for promoting municipal development. The Bank was not directly active in approving projects in the areas of fiscal policy, the legislative agenda for peace, the situation of women, the indigenous population, displaced persons, and the incorporation of the URNG. The table below classifies the Bank's approvals according to a set of categories suggested by the *Asies* research institute (see source listed at the end of the table). For a discussion of results, see Annex 5.

Approved Projects by Thematic Area of the Peace Program [1]

Human Rights and Justice $25 mn
GU-0092 Judicial reform $25 mn
Socioeconomic Situation and Rural Development $818.9 mn
GU-0023 Health $38.5 mn
GU-0125 Health II $55.4 mn
GU-0037 Education $15.4 mn
GU-0131 Education II (cancelled)
GU-0022 Housing $60 mn
GU-0017 Roads I $150 mn
GU-0130 Roads II $150 mn
GU-0099 DECOPAZ $50 mn
GU-0071 FIS $42.3 mn
GU-0127 FIS-Proriente $90 mn
GU-0081 PDS Petén $19.8 mn
GU-0155 Urban poverty $46.8 mn
GU-0135 Tech. innovation $10.7 mn
GU-0150 Rural water $50 mn
GU-0133 Watershed mgt $40 mn
Institutionalization of Peace $8 mn
GU-0128 Preinvestment $8 mn
Local Authorities and the Peace Accords $19.5 mn
GU-0134 Municipal dev't $19.5 mn
No link to the Peace Program $385.6 mn
GU-0019 Infrastructure sector loan $107.6 mn
GU-0137 Emergency response $40 mn
GU-0152 External trade $5 mn
GU-0119 Fin. sector reform II $200 mn
GU-0070 Reconversión agroalim. $33 mn

[1] Net of cancellations.

Source: Own elaboration with reference to Asies, *Análisis de los proyectos de inversión pública financiados por las instituciones financieras internacionales a partir de la firma de los Acuerdos de Paz, 1997-2002 (2003).*

Example of project–level results framework constructed by OVE

INTER-AMERICAN DEVELOPMENT BANK

RESULTS FRAMEWORK (RF)

OFFICE OF EVALUATION AND OVERSIGHT (OVE)

GU-0099: Community Development for Peace Program (DECOPAZ)

Table 1: Project's Intent based on Loan Document. Performance indicators were provided in Annex XI

A. Objectives	***B. Indicators***	***C. Baseline***	***D. Milestones***	***E. Target***
Goal: The rebuilding of physical, human and social capital in the most strife-torn areas	NA	NA	NA	*1. NA*
Objective 1: An efficient and transparent participatory institutional arrangement established for allocating government funding to communities	1.1 Establishment of trust fund to administer the Community Development for Peace program (DECOPAZ), overseen by an appointed Executive Board of 5 to 7 members of the government, Guatemalan society and those closely linked with the peace process	NA	NA	Achieved
Objective 2: A technical team established to help communities determine what their priorities are, decide what investment to make and how to execute them	2.1 First-tier institutions (FTIs) contracted; 2.2 FTIs provide training and technical assistance to the communities; 2.3 Number of municipalities in the program.	NA	2.1 NA; 2.2 NA; 2.3) '97: 13; '98: 13; '99: 13.	2.1 Achieved; 2.2 Achieved; 2.3) '00: 8 = 48 in total?.
Objective 3: A systematic and participatory work method established that cultivates the local capacities that will further local development	3.1 Preparatory fieldwork carried out, involving initial assessment of needs, identification of local actors, training of community level participants, and establishment of a local work program for each micro-region;	NA	3.1 NA; 3.2 NA; 3.3) '97: 30;	3.1 Achieved; 3.2 Achieved; 3.3) '98/'99: 78;'00: 48;

	3.2 Legal status established for the entities representing micro-regions (ERMs); 3.3 Number of ERMs in the program; 3.4 Number of town meetings held to discuss peace accords, civil rights and responsibilities, human rights, and development opportunities; 3.5 Planning exercises carried out to institute communication mechanisms and disseminate technical standards in possible community priority sectors; 3.6 Value of projects approved; 3.7 Number of projects contracted out; 3.8 Number of projects completed; 3.9 Value of projects completed; 3.10 Percentage of funding for women's projects; 3.11 Number of beneficiaries of investments under the program; 3.12 Number of communities served under the program.		3.4) '97: 13; '98: 13; '99: 13; 3.5 NA; 3.6) '97: $5.2m; '98: $17.9m; '99: $14.5m; 3.7) '97: 160; '98: 750; '99: 629; 3.8) '97: 135; '98: 640; '99: 540; 3.9) '97: $3m; '98: $14m; '99: $13.7m; 3.10) 15% of (3.8); 3.11) 390,000; 3.12 NA.	3.4) '00: 8 = 48; 3.5 Achieved; 3.6) '00: 2.76m = $40.36m total; 3.7) '0: 150 = 1,689 total; 3.8) '00: 150 = 1,465 total; 3.9) '00: $6m = $36.7m total; 3.10) 15% of (3.8); 3.11) 390,000; 3.12) 468-624.

The program describes three elements under which it will operate. The program does not have normal components, and so these operational 'umbrellas' are the only division of the program that is available for use in this study, and these are given above. The Performance Indicators given in Annex XI largely represent measures to assess whether the project is performing as expected, being monitoring indicators of potential problems, rather than indicators of a successful result of the program. Only the most relevant indicators of a successful result are included above.

Three broad categories eligible for funding under the program are given as follows: (1) Projects and service packages for delivery of basic social services in health and education; (2) The communities' priority programs and projects; and, (3) Support for productive projects.

The PPMR does not indicate that the program has been restructured. Given the very weak nature of the Loan Document presentation of components and indicators, it is not surprising, therefore, that the PPMR presents a somewhat different structure than that presented above.

Table 2: Implementation based on PPMR dated December 2003

F. Objectives	**Changes in objectives**	**Indicators dropped**	**Indicators introduced**	**New Baseline**	**New target set**
Goal	Reconstruction of the areas most affected by the internal armed conflict + human, social and physical re-capitalization	NA	3.11 included here; (i) Improved access to services of basic education, primary healthcare, and basic sanitation, the exercise of citizen's rights and the reintegration of economic life; (ii) Improved levels and reach of community organization, with increased management capacity, participation in the role of municipalities, and confidence in the institutions of government (*how to measure?*); (iii) Establishment of basic infrastructure, principally educational centers, health centers, basic sanitation, and electric energy projects	NA	3.11 as above; 1. Achieved
Objective 1:	None	None	1.1 divided into two indicators.	NA	NA
Objective 2:	None	None	2.4 Implementation and functioning of the Executive Secretary; 2.5 Technical Unit functioning; 2.6 Agreement with UNOPS (?) approved and functioning; 2.7 Two NGOs contracted and operating, selected through the International Public Tender.	NA	Achieved
Objective 3:	None	3.4, 3.5, 3.12	3.13 Selection, and contraction of suppliers and execution of projects; 3.14 Evaluation of achievements.	NA	Achieved

Objective 4:	Effective delegation to the local beneficiaries of the decision-making on the identification and prioritizing of needs, as well as their selection, execution and investment financing	NA	4.1 Planning and execution of the process of participatory planning though three cycles of nine months each; 2.3 included here (new target of 8 municipalities by 2000?); 3.3, 3.6, 3.7, 3.8, 3.9 included here	NA	Achieved
Objective 5:	Process of training in the effective exercise of management of projects	NA	2.2 included here	NA	Achieved
Objective 6:	Incorporation of communities in the process of participatory planning to promote a work culture in conjunction with a climate of peace	NA	6.1 Design and formation of 78 micro-regions of groups of communities in each municipalities; 3.2 included here?	NA	Achieved

Table 3: Progress based on PPMR dated December 2003

G. Objectives	**Targets realized during project execution**		**Classification in PPMR**	**Percentage of indicators with data available**		**COF Archive data**	**Executing agency files**	**OVE (other sources)**
	Original	**Modified**		**Original**	**Modified**			
Goal	NA	3.11, (i), (ii), (iii) NA Details not provided	Probable	0%	0%	To be completed	To be completed	To be completed
Objective 1:	1.1 Established	1.1 Established	Satisfactory	100%	100%			
Objective 2:	2.1 & 2.3 NA; 2.2 Realized.	2.1 NA; 2.4 Functioning; 2.5 Established; 2.6 NA; 2.7 One contracted	Satisfactory	33%	60%			
Objective 3:	3.1 Presumed	3.1 Presumed	Satisfactory	42%	25%			

	carried out, studies mentioned; 3.2 Achieved; 3.3) 93 > target; 3.4, 3.5, 3.6, 3.7 NA; 3.8) 2,300 > target; 3.9) $42m > target; 3.10, 3.11, 3.12 NA.	carried out, studies mentioned; 3.10, 3.13, 3.14 NA.						
Objective 4:	NA	4.1 Achieved; 2.3 NA; 3.3, 3.6, 3.7 NA; 3.8) 2,300 > target; 3.9) $42m > target;	Satisfactory	-	43%			
Objective 5:	NA	2.2 Realized	Satisfactory	-	100%			
Objective 6:	NA	6.1) 93 > target; 3.2 Achieved.	Satisfactory	-	100%			

Implementation Progress Summary Classification: Satisfactory

Has it been demonstrated to date that the project development objectives have been met? No
Has it been demonstrated overall to date that the individual objectives or components have been met? Largely, yes, as targets have been more than achieved in the most important areas (number and value of projects) although modified Objectives 3 and 4 show poor levels of indicator information, and the systems and organizations established are not considered very sustainable.

Table 4: **Proposed Evaluation Quality Rate (PEQR)**				
H. Evaluation proposed	**Methodology defined**	**Definition of which entity to collect what information**	**Independent evaluation proposed**	**Costs and budget identified**
Ex post evaluation due 6 months after last disbursement	No	No	Outside consultant to be hired	Funds from program, but no costs given

Table 5: Risk Realization Matrix

I. Risks identified at approval	Risk mitigation measures identified	Risks that have occurred to date	Unforeseen events that occurred
1) Success of program dependant on the firm rooting of peaceful coexistence;	1) Program is integral part of government's consolidation of democratic society + in conjunction with public sector modernization programs, it is hope that an equitable and efficient transformation process will allow the whole of society to enjoy the benefits of development;	1) Question as to whether the ERMs are sustainable	4) Politicization of the project during electoral years;
2) Consistency of proposed program and the Social Investment Fund (GU-0071), and their coordination;	2) Investment needs in Guatemala are so massive that there will be no redundancy in financing both programs + programs should complement each other by expediting programs and eliminating duplications;	Not mentioned	5) Qualified auditor's report
3) Program to depend on a network of temporary institutions and so is reliant on the quality of the technical support engaged.	3) Program has funds to hire first-rate firms + provisions for suspending contracts in the event of non-performance or poor quality + long lead time for call for tenders so as to allow capacity building + heavy Bank technical support + ongoing supervision system + consideration given to relationships of new firms with existing organizations so as to not cause friction in the community + publicity programs to ensure transparency.	Not mentioned	

J. Basic Information Table	
K. Project number/Document number/Loan number	GU-0099/ PR-2157/ 984/SF-GU & 968/OC-GU
Profile I date	7th July 1995
Loan Document Board Approval Date	13th November 1996
Signature Date (Date of Contract)	21st January 1997
Ratification Date	NA
Eligibility Date	17th December 1997
Original Date of Final Disbursement	21st January 2001
Current Date of Last Disbursement	21st January 2004
SEQ, PTI, Women in Development classification	SEQ Yes, PTI Yes, Women in Development Yes
Sector Code	IS

Project Type	PESP
Loan Amount	$50,000,000
% Disbursed	$48,021,984 = 98% of amount after cancellation, 96% of original amount
Cancellations (quantity and date)	$1,200,000 = 2.4% or original amount
Final Date Extensions (number, total months)	36 months
PCR, mid-term review	Mid-term evaluation dated April 2000. PCR not due.
Ex post evaluations due date and if available	Due to be carried out within 6 months of the last disbursement of the program
If co-financed by others and annual disbursement profile to date	Local counterpart: $5,600,000 = 10%
Status (open or closed)	Open

EVALUABILITY INDICES

INTER-AMERICAN DEVELOPMENT BANK

OFFICE OF EVALUATION AND OVERSIGHT (OVE)

Project Num	Sector Code	Project Typ	Approval Da	Project Sta	Restructur	Loan Size	Cancellatio	PCR Status	Risk Reali	Reformulation	PEQR
GU-0099	IS	PESP	13-Nov-96	0	0	$50m	2%	0	NA	0.48	0.0

Date of analysis	Jan-04

Project Status: Open = 0, Closed = 1; Restructured: No = 0; Yes = 1; PCR Status: Approved & Available = 1, Otherwise = 0.

Ex-ante Evaluability Index Summary (Face Value) - EEI (Loan Document)

	Indicators	Baselines	Milestones	Targets	Index	Verification figures	
Outcomes	0	0	0	0	0.00	0	4
Index	0.00	0.00	0.00	0.00			
Outputs	16	0	9	16	0.64	41	64
Index	1.00	0.00	0.56	1.00			
Total	16	0	9	16	**0.60**	41	68
Index	0.94	0.00	0.53	0.94			

Ex-ante Evaluability Index Summary (Face Value) - EEI (Implementation)

	Indicators	Baselines	Milestones	Targets	Index	Verification figures	
Outcomes	4	0	1	4	0.56	9	16
Index	1.00	0.00	0.25	1.00			
Outputs	20	0	7	20	0.59	47	80
Index	1.00	0.00	0.35	1.00			
Total	24	0	8	24	**0.58**	56	96
Index	1.00	0.00	0.33	1.00			

Ex ante Evaluability Index Summary - EEI (OVE)

	Indicators	Baselines	Milestones	Targets	Index	Verification figures	
Outcomes	4	0	1	4	0.56	9	16
Index	1.00	0.00	0.25	1.00			
Outputs	20	0	7	20	0.59	47	80
Index	1.00	0.00	0.35	1.00			
Total	24	0	8	24	**0.58**	56	96
Index	1.00	0.00	0.33	1.00			

Demonstrability Index Summary (Face value) - DI

	Indicators	Baselines	Milestones	Targets	Progress	Index	Verification figures	
Outcomes	4	0	1	4	0	0.45	9	20
Index	1.00	0.00	0.25	1.00	0.00			
Outputs	20	0	7	20	11	0.58	58	100
Index	1.00	0.00	0.35	1.00	0.55			
Total	24	0	8	24	11	**0.56**	67	120
Index	1.00	0.00	0.33	1.00	0.46			

Demonstrability Index Summary - DI (OVE)

	Indicators	Baselines	Milestones	Targets	Progress	Index	Verification figures	
Outcomes	4	0	1	4	0	0.45	9	20
Index	1.00	0.00	0.25	1.00	0.00			
Outputs	20	0	7	20	11	0.58	58	100
Index	1.00	0.00	0.35	1.00	0.55			
Total	24	0	8	24	11	**0.56**	67	120
Index	1.00	0.00	0.33	1.00	0.46			

LOAN DOCUMENT DATA PRESENTATION - FACE VALUE

Ex ante "Evaluability" Matrix based on Project Intent Table							Aggregated component %age w/ data available			
	Identifier	Count	**Indicators**	**Baselines**	**Milestone**	**Targets**	**Indicators**	**Baselines**	**Milestone**	**Targets**
Goal	NA	1	0	0	0	0	0%	0%	0%	0%
Objective 1	1.1	1	1	0	0	1	100%	0%	0%	100%
Objective 2	2.1	1	1	0	0	1	100%	0%	33%	100%
	2.2	1	1	0	0	1				
	2.3	1	1	0	1	1				
Objective 3	3.1	1	1	0	0	1	100%	0%	67%	100%
	3.2	1	1	0	0	1				
	3.3	1	1	0	1	1				
	3.4	1	1	0	1	1				
	3.5	1	1	0	0	1				
	3.6	1	1	0	1	1				
	3.7	1	1	0	1	1				
	3.8	1	1	0	1	1				
	3.9	1	1	0	1	1				
	3.10	1	1	0	1	1				
	3.11	1	1	0	1	1				
	3.12	1	1	0	0	1				
		17	16	0	9	16				
		Total Ex ante "Evaluability" Index - Raw Data				**0.60**		41	68	

LOAN DOCUMENT DATA PRESENTATION - OVE INTERPRETATION

Ex ante "Evaluability" Matrix based on Project Intent Table							Aggregated component %age w/ data available			
	Identifier	Count	**Indicators**	**Baselines**	**Milestone**	**Targets**	**Indicators**	**Baselines**	**Milestone**	**Targets**
Goal	NA	1	0	0	0	0	0%	0%	0%	0%
Objective 1	1.1	1	1	0	0	1	100%	0%	0%	100%
Objective 2	2.1	1	1	0	0	1	100%	0%	33%	100%
	2.2	1	1	0	0	1				
	2.3	1	1	0	1	1				
Objective 3	3.1	1	1	0	0	1	100%	0%	67%	100%
	3.2	1	1	0	0	1				
	3.3	1	1	0	1	1				
	3.4	1	1	0	1	1				
	3.5	1	1	0	0	1				
	3.6	1	1	0	1	1				
	3.7	1	1	0	1	1				
	3.8	1	1	0	1	1				
	3.9	1	1	0	1	1				
	3.10	1	1	0	1	1				
	3.11	1	1	0	1	1				
	3.12	1	1	0	0	1				
		17	16	0	9	16				
	Total Ex ante "Evaluability" Index - OVE Interpretation					**0.60**		41	68	

IMPLEMENTATION DATA PRESENTATION - PPMR/PCR FACE VALUE

	Identifier	Count	**Indicators**	**Baselines**	**Milestone**	**Targets**	**Progress**		
Goal	3.11	1	1	0	1	1	0		
	(i)	1	1	0	0	1	0		
	(ii)	1	1	0	0	1	0		
	(iii)	1	1	0	0	1	0		
Objective 1	1.1	1	1	0	0	1	1		
Objective 2	2.1	1	1	0	0	1	0		
	2.4	1	1	0	0	1	1		
	2.5	1	1	0	0	1	1		
	2.6	1	1	0	0	1	0		
	2.7	1	1	0	0	1	1		
Objective 3	3.1	1	1	0	0	1	1		
	3.10	1	1	0	1	1	0		
	3.13	1	1	0	0	1	0		
	3.14	1	1	0	0	1	0		
Objective 4	4.1	1	1	0	0	1	1		
	2.3	1	1	0	1	1	0		
	3.3	1	1	0	1	1	0		
	3.6	1	1	0	1	1	0		
	3.7	1	1	0	1	1	0		
	3.8	1	1	0	1	1	1		
	3.9	1	1	0	1	1	1		
Objective 5	2.2	1	1	0	0	1	1		
Objective 6	6.1	1	1	0	0	1	1		
	3.2	1	1	0	0	1	1		
		24	24	0	8	24	11		
		Total Ex ante "Evaluability" Index - EEI (I)				**0.58**		56	96
		Demonstrability Index - DI					**0.56**	67	120

IMPLEMENTATION DATA PRESENTATION - OVE INTERPRETATION

	Identifier	Count	**Indicators**	**Baselines**	**Milestone**	**Targets**	**Progress**		
Goal	3.11	1	1	0	1	1	0		
	(i)	1	1	0	0	1	0		
	(ii)	1	1	0	0	1	0		
	(iii)	1	1	0	0	1	0		
Objective 1	1.1	1	1	0	0	1	1		
Objective 2	2.1	1	1	0	0	1	0		
	2.4	1	1	0	0	1	1		
	2.5	1	1	0	0	1	1		
	2.6	1	1	0	0	1	0		
	2.7	1	1	0	0	1	1		
Objective 3	3.1	1	1	0	0	1	1		
	3.1	1	1	0	1	1	0		
	3.13	1	1	0	0	1	0		
	3.14	1	1	0	0	1	0		
Objective 4	4.1	1	1	0	0	1	1		
	2.3	1	1	0	1	1	0		
	3.3	1	1	0	1	1	0		
	3.6	1	1	0	1	1	0		
	3.7	1	1	0	1	1	0		
	3.8	1	1	0	1	1	1		
	3.9	1	1	0	1	1	1		
Objective 5	2.2	1	1	0	0	1	1		
Objective 6	6.1	1	1	0	0	1	1		
	3.2	1	1	0	0	1	1		
		24	24	0	8	24	11		
	Total Ex ante "Evaluability" Index - EEI (OVE)					**0.58**		56	96
	Demonstrability Index - DI (OVE)						**0.56**	67	120

N.B. <u>Targets or Milestones in Bold</u> represent percentage targets for which there is no baseline data.
T hese are unverifiable. OVE's binary notation is therefore 0 not 1.
<u>Targets or Milestones for Goal</u> in Italics are improperly defined according to OVE
Achievement only of a Goal Target or Milestone therefore implies 0 not 1

Proposed Evaluation Quality Rate (PEQR)					
Evaluation Proposed	**Methodology defined**	**Entity/data collection identified**	**Independent evaluation**	**Costs and budget identified**	
1	0	0	1	0	
Proposed Evaluation Quality Rate (PEQR)				**0**	PEQR=0 if no evaluation proposed, or costs and budget not identified

If PEQR=1, project evaluation proposal is best practice
If PEQR=0, project evaluation proposal is inadequate

Ex post Risk Realization Index based on PCR				
Risks identified at approval (a)	**Risk mitigation factors identified**	**Risks that occurred to date (b)**	**Unforeseen events that occurred (c)**	
3	3	1	2	(b+c)/a
Ex post Risk Realization Index, RRI			**NA**	(Index = NA if no PCR)

If RRI = 0 => no risks realized ie. completely successful risk mitigation
If 0<RRI<1 => some risks realized but fewer than feared, ie. partially successful risk mitigation
If RRI = 1 => all risks and/or new events realized, ie. risk mitigation unsuccessful and/or Loan Document risk analysis incomplete
If RRI> 1 => more risks realized than identified, ie. risk mitigation unsuccessful and Loan Document risk analysis incomplete

Reformulation Index, based on differences between Loan Document and PPMR/PCR					
Was project officially restructured or reformulated? Yes = 1, No = 0		**0**			
Variations to Project Indicator cells	**Proportion**	Identifier	**Number**	Detail
Changes to Goal Indicators	NA	a	3	3 introduced
Changes to Objective 1 Indicators	0%	c	0	
Changes to Objective 2 Indicators	133%	d	4	4 introduced
Changes to Objective 3 Indicators	50%	e	6	3 dropped, 3 introduced
Changes to Objective 4 Indicators	NA	f	1	1 introduced
Changes to Objective 5 Indicators	NA	g	0	
Changes to Objective 6 Indicators	NA	h	1	1 introduced
Total changes made (dropped and introduced)		x	15	SUM (a-h)
Number of original Indicators given in Project Intent Table		y	16	
Reformulation Index, RI		x/(x+y)	**0.48**	
Outcome Reformulation Index			**1.00**	
Output Reformulation Index			**0.43**	

If RI = 0 => no alteration; **if >0** some alteration made; **if > 0.5** => substantial and/or complete alteration made

Project-level discussion of results

The purpose of this annex is to assess the results under the projects and programs approved in 1993-2003, net of cancellations and focusing on the operations that had disbursed at least 20% of the loan proceeds by December 2003 (17 projects).[63] The information presented is drawn from secondary sources, including the Bank's monitoring and self-evaluation reports, published sector-level statistics, conversations with executing agencies, and other sources as identified in the text**.**

Financial Sector Loans:[64] The Serrano administration (1991-1993) launched a program to stabilize the economy, and to this end requested assistance from the World Bank and the IDB. The financial sector element of the World Bank's US$120mn Economic Modernization Loan was co-financed by the US$132mn IDB Financial Sector Modernization Program (FSMP), which—approved in November 1993 and structured in three tranches—had the following objectives: (i) increase the efficiency in the allocation of financial resources; (ii) enhance financial intermediation capacity and overall access to credit; and (iii) improve the solvency of the financial system. Four components were defined as follows: (i) public sector financial policies; (ii) expansion of financial services; (iii) strengthening of prudential regulations; and (iv) modernization of financial supervision.

Related to the first two components, the FSMP had conditions regarding both the market determination of interest rates for all lending and deposit activity and the expansion of financial services, all of which were met. The conditions related to the third component, prudential regulations, are said to have been met in the PCR. However, this is unlikely as the adoption of prudential regulations encountered strong opposition from the commercial banks. Indeed, a banking crisis in the late 1990s illustrates the non-fulfillment of these conditions. Relations between the Superintendency of Banks and financial intermediaries were antagonistic. In 1994, a Financial Modernization Commission was created, which, through dialogue and negotiation, was able to agree with the financial community on the implementation of a partial, revised set of prudential norms.

The FSMP's conditionality with respect to the fourth component, supervision—including such elements as the minimum financial information that banks must disclose publicly and an accounting system facilitating supervision by the Superintendency—was met in

[63] With its focus on results, rather than the circumstances of implementation, this annex provides contextual information only to the extent deemed necessary, including to put into perspective the absence of results. The order of presentation of the 17 operations reviewed is as follows: the financial sector loans GU-0018 and GU-0119; the infrastructure investment and reform loan (GU-0019); road rehabilitation and modernization I and II (GU-0017, GU-0130); the customs, external trade and natural disasters operations (GU-0082, GU-0152, and GU-0137); the health, housing, and education loans (GU-0023, GU-0125 [this loan does not meet the disbursement criterion formulated above, but requires treatment as a sequel to GU-0082], GU-0022, GU-0037); the post-conflict social compensation and investment loans Pre-investment, DECOPAZ, FIS, and FIS-PRORIENTE (GU-0128, GU-0099, GU-0071, GU-0127); the PDS Petén (GU-0081); and the justice sector reform program (GU-0092).

[64] For a more detailed analysis see *Evolution of Guatemalan financial sector and evaluation of IDB financial sector loans*, Background note prepared for this report.

part. Banking supervision improved somewhat, the institutional capacity of the Superintendency grew, and the frequency and depth of on-site supervision increased. The key objective of increasing the operational autonomy of the Superintendency, however, was not met. The specific conditionality was ill coordinated with the World Bank, whose conditionality specified granting the Superintendency legal independence, whereas the government agreed with the IDB on functional independence. The government argued that Decree No. 23-95, granting functional as opposed to legal independence (meaning that Superintendency decisions may be overruled by the Monetary Board, the country's supreme monetary authority), complied with the conditionality of both Banks. This led to a situation wherein the IDB disbursed, while the World Bank did not, although it ultimately granted a waiver. The lack of operational autonomy of the Superintendency may well have contributed to the crisis of the late 1990s; at the very least, it did not help curtail it.

A broader question that may be asked is whether the FSMP was appropriately focused. Essentially, the operation sought to make low-level technical adjustments, while the financial system as a whole was dominated by two key institutional features, namely, an antiquated set of banking and financial laws and the pivotal importance of the Monetary Board. In the presence of these structural features, one can argue that the FSMP only genuflected in the direction of prudential regulation and supervision. The level and quality of regulation and supervision proved insufficient when, after the signature of the Peace Accord, capital began to flow into the country on a massive scale, fueling a credit boom amplified by lax fiscal and monetary policies between June 1997 and August 1999. Simultaneously, Guatemala was struck by exogenous shocks; a sharp drop in export prices; the sudden withdrawal of external lines of credit following the Asian/Russian financial crises; and disruptions caused by Hurricane Mitch.

The financial system was affected in a number of ways in the wake of massive capital inflows after the signing of the Peace Accord and exogenous shocks that included a sharp drop in export prices, the sudden withdrawal of external credit lines after the 1997/1998 Asian/Russian financial crises, and disruptions caused by Hurricane Mitch. First, there was an increase in the ratio of non-performing loans (NPLs), including repossessed collateral, to total loans from 10% at end-December 1996 to 14.9% at end-June 2000. Second, at around 26%, the provisions coverage of NPLs was low for the system as a whole. Third, profitability was overstated, given that (in a departure from internationally accepted accounting practices) increases in loan-loss reserves were not included as expenses in bank income statements because they were not deductible for income tax purposes. Fourth a number of banks were affected by chronic liquidity problems and received assistance from BANGUAT. In support of insolvent banks, Guatemala incurred a financial burden of about 2% of GDP in 1999-2002. BANGUAT's negative net worth was estimated at about 8% of GDP in 2002, compromising its ability to conduct monetary policy.[65]

Hence, at the beginning of 2000, there remained important weaknesses in the financial sector, pertaining to BANGUAT, prudential regulation and supervision, and the sector's

[65] See: World Bank/IMF, *Financial Sector Assessment Program, Aide Memoire*, Guatemala, September 2000, p. 15.

legal, institutional and judicial grounding. An evaluation of the second financial sector loan must necessarily begin with a reference to this context—dominated as it was by banks operating at the center of industrial-financial conglomerates in many cases not subject to regulation and supervision. The context also included a situation in which incentives fostered the use of unregulated entities as vehicles to dump impaired assets, hide loans to related parties, and generate phony capital for regulated banks. Given this potential for multiple gearing, existing capital was likely insufficient to support all of the risks in the system. At the end of 2000, compliance with the Basel Core Principles was almost non-existent, as determined by a World Bank/IMF Financial Sector Assessment Mission at that time.

The government prepared a second program of reforms in this situation, in which the IDB (in coordination with the World Bank/IMF) provided assistance designing the overall scheme for the resolution of the legacy of the country's weak and insolvent banks.

The legal framework developed in response consists of five laws directed at BANGUAT and regulation and supervision, the passage of which was a condition for Board presentation of the IDB's US$200mn sector reform loan approved in May 2002. The loan was designed to be disbursed in two tranches, the first, for US$120mn, upon the passage of legislation as mentioned and the second when the elements of the new framework would be fully implemented. In March 2004, Guatemala requested and was granted waivers in respect of two of some fifteen conditions prior to the disbursement of the second tranche on the grounds, accepted by the IDB, that "the program objectives had largely been accomplished."[66]

The 2002 loan contained objectives well suited to the Guatemalan financial environment at the beginning of the 21st century and seemed appropriately coordinated with the various actors in a situation in which the IDB, the World Bank and the IMF worked in collaboration to advise the authorities. Insufficient time has elapsed to judge the effectiveness of the loan, but in mid-2004 there were encouraging signs: the government that took office in 2004 respected the tenure of the BANGUAT President whose four-year term is designed not to coincide with the election cycle, the Superintendency was making progress in its audits, new capital requirements looked set to be adhered to, and Guatemala was hopeful that it would be removed from the GAFI money-laundering blacklist.

Infrastructure reform:[67] In 1997, the IDB approved an infrastructure policy-based loan (GU-0019) for US$100mn for the reform of selected infrastructure sectors and the Infrastructure Investment Framework (see below). The loan was composed of an initial tranche of US$30mn and three subsequent floating tranches of US$25mn, US$20mn, and US$25mn, respectively. The infrastructure sectors addressed were power, telecommunications, civil aviation and hydrocarbons. The loan had a specific rural expansion objective.

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[66] IDB, PR-2638-3, 25 February 2004.
[67] For a more detailed analysis see *Evaluation of the infrastructure policy-based loan GU-0019*, Background note prepared for this report.

In the *power sector*, the operation was contingent on Decree 93-96, the electricity reform law. Conditions for Board presentation included the passage of this legislation and associated regulations. The conditions for the first floating tranche included the unbundling of the activities of the *Instituto Nacional de Electrificación* (INDE) and the *Empresa Eléctrica de Guatemala* (EEGSA), the privatization of EEGSA's distribution business, and the establishment of the wholesale market administrator. These conditions were met. In 1998, an 80% stake in EEGSA was sold to Iberdola of Spain and the distribution assets of INDE were broken down into two regional distribution companies, DEORSA and DEOCSA, serving the east and west of the country respectively. The distribution companies, in turn, were also privatized, both purchased by Unión Fenosa.

A key result of the electricity sector reform was the rapid increase in coverage, from 53% in 1996 to 70% in 1999.[68] However, prices have also risen substantially, as the privatized distribution companies are allowed to pass on to consumers the variations in the purchase cost of energy. In order to protect domestic customers from rising electricity prices, the government introduced a social tariff, which held the price of electricity at around US$0.08 per kWh for all residential customers consuming up to 500 kWh (limit later reduced to 300kWh). The cost of this subsidy, estimated at over US$57mn per annum, is met by INDE on the basis of state transfers. The thresholds that have been set for the social tariffs are very high in relation to typical residential consumption. The social tariff continues to disproportionately favor non-poor households, given that 60% of poor households do not have an electricity connection.

In *telecommunications*, Decree 94-96 passed in October 1996 removed barriers to entry, created the basis for gains in coverage and reliability by providing for the privatization of GUATEL, the *Empresa Guatemalteca de Telecomunicaciones*, and redefined the role of the public sector in policy-making and regulation.[69]

The main disbursement conditions included, for Board presentation, the approval of this decree and, for the disbursement of the second floating tranche, the completion of the GUATEL privatization. These conditions were met. The telecom sector has since been transformed profoundly as the total number of fixed and cellular lines rose from around 350,000 to over 1,600,000 in 1996-2001, raising the teledensity index (fixed plus cellular lines/100 inhabitants) from 4.2% to 17.2%. A consequence of liberalization has been the need to rebalance call charges to remove the cross-subsidy between international and local calls. As a result, monthly subscriptions for local calls increased tenfold from US$0.51 to US$5.64 in the context of great gains in the quality of service and reliability. Rebalancing, combined with increased competition, led to a dramatic reduction in long-distance charges, from US$1.50/minute to the United States in 1996, to around US$0.30/minute in 1998.

[68] Official national coverage statistics provided by the regulator, the Comisión Nacional de Energía Eléctrica, CNEE.
[69] The factual information reported in this section is either drawn from V. Foster and C. Araujo, *Does infrastructure reform work for the poor? A case study of Guatemala*, World Bank, 2004, or supplied directly by the *Superintendencia de Telecomunicaciones*.

In *civil aviation*, the objectives were to strengthen the *Dirección General de Aviación Civil* and to transfer to the private sector the financing of new air transportation infrastructure. The disbursement conditions included, for the initial tranche, the ratification of a Civil Aviation Law, which did occur, and for the disbursement of the second floating tranche, a concession for the operation of La Aurora airport. This second tranche was cancelled as the IDB failed to receive information about stipulated studies for which consultants and contractors had been hired. A complicating factor was the government's intent to widen the concession process to include the building of a new airport, which conflicted with the loan conditions.

The objectives of the *hydrocarbons* program were to market-orientate the supply chain (i.e., the importation, refining, distribution, and transportation of petroleum products) through legislation and to enable the General Directorate of Hydrocarbons to act as a regulator. The conditions for the release of the initial tranche included the passage of a Hydrocarbons Marketing Law, Decree 97-109, which occurred in 1997. The loan proposal suggests that in relation to hydrocarbons the "accomplishment of development activities will depend on how successful the government is in its efforts to mobilize private investment." Yet the loan proposal offers no means of measuring this and does not offer conditionality in this regard. The proposal goes on to say "if this investment is not brought in, at best the changes in the legal and regulatory framework would have a marginal effect." This appears effectively to have been the case in the hydrocarbons sector.

The purpose of the *investment framework* reform was to promote market competition and mobilize national and foreign investment on the merits of a sound and predictable legal system. While the loan proposal contains narrative with respect to this goal, the policy matrix contains no specific conditionalities, and while the PPMRs do refer to this component, they offer little insight as to the progress achieved therein. Thus, it has not been possible to evaluate this aspect of the program.

By way of an overall evaluation it is acknowledged that the achievements under the loan reveal two very different scenarios, one for electricity and telecommunications, a qualified success, the other pertaining to civil aviation, hydrocarbons and the investment framework. Power supply has become more reliable and efficient, at higher prices, and coverage has been extended, including to rural communities under the new (largely private) ownership structure of electricity generation assets. These developments are mirrored in telecommunications. However, the performance of the second set of programs is far inferior, as there appears to have been little measurable improvement related to the objectives in civil aviation, hydrocarbons and the investment framework. In retrospect, more consideration should have been given to the issues of institutional capacity and the political economy needed to support reforms in so many sectors simultaneously. A project focusing on fewer sectors, with consistent political endorsement and priorities, might have proved more effective.

Road rehabilitation and maintenance: In 1995, the Bank approved a road rehabilitation and maintenance program (GU-0017) for US$150mn, accompanied by a technical cooperation operation,[70] to put maintenance financing on a sustainable footing; rationalize the use of resources; promote private sector participation in rehabilitation and maintenance; modernize the *Dirección General de Caminos* (DGC); and pursue network rehabilitation, in particular in the departments of El Quiché and Huehuetenango. In 1999 a follow-on program for the same loan amount was approved (GU-0130). The discussion below is limited to the first operation, the second, which was half-disbursed in mid-2004, having been affected by irregularities as determined by the Auditor General of the Bank that have kept it from pursuing and hence achieving its development objectives as approved by the Board.

Like other investment operations, the first program did not have a coherent set of targets and baselines, and the Loan Document did not explain the proposed role of the project in adequate depth, making evaluation difficult and implying that the analysis presented in the PCR is necessarily incomplete. Still, it appears that achievements under the program include the establishment of the *Fondo de Mantenimiento Vial* (COVIAL) and a sustainable funding arrangement for the maintenance of rehabilitated roads in the form of a tax on oil. By 2003, following the PCR, COVIAL had been securing financing for maintenance for five years, an important institutional result.

Less is known (and without fieldwork, knowable, based on the available documentation) about other promised benefits under the program. The DGC did initiate subcontracting to private operators for maintenance work and the program did finance physical works about which no development outcome information is available. Guatemala's road network has a length of approximately 26,000 km, of which 54% or 14,000 km constitute official or classified roads. Of this network, 4,000 km are surfaced main and secondary roads, while 10,000 km represent unsurfaced tertiary and rural roads. Between 1996 and 2002, the share of the surfaced network rehabilitated and in maintainable condition increased from 30% to 75%. The share of the unsurfaced network in maintainable condition was 45% in 2002.[71] The rehabilitation of unsurfaced roads—important for poverty reduction by fostering the integration of remote regions—continues to pose major challenges.[72] The program focused primarily on the all-weather accessible, surfaced network in the better-off regions of Guatemala. The PCR notes delays in the preparation of investment activities in road works in the ZONAPAZ, the region particularly affected by the legacy of the civil war.

The PCR provides no structured information about achievements related to other institutional objectives, including the objective of "rationalizing the use of resources." It provides no analysis of the "production function" of the reorganized DGC and the deployment of different available sources of funding vis-à-vis specified objectives. It claims success as far as the institutional reforms undertaken are concerned, but this seems premature, as evidenced, for example, by the fact that the component was taken up again in the 1999 program.

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[70] ATN/IF-4695-GU, *Programa de Modernización de la Administración Vial*.
[71] World Bank, Report No. PID 10624 on the IBRD's 2002 rural roads project in Guatemala.
[72] For an analysis combining road maps and Guatemala's poverty profile see Puri, J., *Transport and poverty in Guatemala: A profile using data from ENCOVI 2000*, Technical Paper No. 8, Prepared for the World Bank, 2002.

Strengthening of the customs system: In November 1994 a reimbursable technical assistance project (GU-0082, for US$1.4mn) to assist Guatemala in the design and implementation of a modernization program of the *Dirección General de Aduanas*, was approved. The project sought to effect a reduction in the time and cost of external trading operations, an increase in the collection of customs duties, and improvements in the conditions for investment in the country through better customs procedures. The project reached eligibility 32 months after the date of approval by the Board, took eight years and two extensions to implement, was modified without Headquarters' consent,[73] and was closed with a 2004 PCR that provides no information on the impact or the evolution of outcome indicators consistent with the objectives.

An analysis of the evolution of customs tax collections as a share of total imports shows an unfavorable trend from an average 1993-1995 value of 16.6% to a 2001-2003 value of 15.9%.[74] An analysis of the evolution of investment (gross fixed capital formation and foreign direct investment, both as a share of GDP) shows a constant trend of 14.5% and .5% for 1995, respectively, and 14.7% and .5% for 2003.[75]

Foreign trade support: In May 2001 a foreign trade support loan (GU-0152, for US$5mn) was approved. The loan operates through the *Viceministerio de Integración y Comercio Exterior* (VMCE) of the Ministry of the Economy. The objective is to increase market access for Guatemala's exports, to be achieved by strengthening VMCE's capacity to design and evaluate trade policy, conduct trade negotiations, broker consultations within government and with the private sector, and administer trade agreements.

The objectives seem well identified and highly relevant. Implementation, however, has been held up by delays in the Congressional ratification of the loan and subsequently by repeated personnel changes in the VMCE unit in charge. The loan is 40% disbursed and has yet to display results. As of today, key characteristics of the Guatemalan economy continue to be its excess of imports over exports and its high current account deficit (mentioned in Chapter II) that is driven fundamentally by the movements of the balance of trade. The CAFTA trade agreement and possibly the DOHA Round may in due course provide the appropriate context for an evaluation of the results of this operation.

Natural disaster response: In November 1998 a natural disaster response and reconstruction loan (GU-0137, for US$40mn) was approved in the wake of Hurricane Mitch, other tropical storms, and damages caused by the 1998 El Niño event. The fully disbursed loan operated through the Ministry of Communications, Transport, Public Works and Housing[76] and had two components: disaster damage prevention and the "temporary rehabilitation and permanent rebuilding of physical infrastructure … damaged by natural disasters in the transport, sanitation and other sectors to be decided on by the borrower and the Bank." The loan had been advocated and prepared in little

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[73] Minutes of the Comité de Revisión Gerencial – PCR, March 23, 2004.
[74] Calculated from SIECA, SAT, and BANGUAT data. Customs duties as a share of imports for the two periods 1993-95 and 2001-03 evolved from 7.45% to 4.53%, whereas the value-added tax on imports changed from 9.2% to 11.4%.
[75] BANGUAT data.
[76] US$2mn were executed by the Ministry of Agriculture and Food.

time by the Country Office, was ratified in less than two months after the date of approval, and was 70% disbursed and 95% committed within 6 months. Most of the loan proceeds (reportedly, 97%) financed the physical rehabilitation of Mitch-damaged infrastructure, the remainder of the resources having being spent on equipment (vehicles, computers, communications, remodeling of an operations center). The first component, disaster preparedness, prevention, and risk management, received little attention, although work to firm up river banks was performed. The operation had no monitoring system and a poor logical framework (cf. the Loan Document). A PCR was in preparation in mid-2004. The draft seen by OVE does not comment on the safeguards applied to ensure the quality of the physical works and the transparency of the processes of execution. No technical or financial inspection visits were carried out during the year of disbursement, 1999.

Health: Two programs were approved in the health sector in the period analyzed: a three-tranche sector loan: *Programa de Mejoramiento de Servicios de Salud* or PMSS (GU-0023) approved in 1995 for US$25mn, supported by a technical cooperation project; and an investment loan: *Programa de Mejoramiento de Servicios de Salud, Segunda Etapa* or PMSS-II (GU-0125) approved in 1999 for US$55mn as a continuation of the previous loan. The loans were mutually consistent as far as their formulated objectives are concerned.

The sector loan was fully disbursed in December 1999, 11 months after its original programmed date of January 1999. The technical cooperation project, on the other hand, was completed in April of 2002, 39 months after its original final disbursement date of January 1999 and 76 months after its first disbursement in December of 1996.[77]

While the PCR characterized as "best practice" to be replicated elsewhere the experience supported by the sector loan, it also acknowledged that the results obtained are not the program's, but the government's. Given the nature of the instrument and the fact that the accompanying technical cooperation project did not have a logical framework permitting an evaluation of its achievements, conclusions regarding results cannot be drawn directly from the operation.[78]

In Guatemala, the feasibility of the model promoted by PMSS is questioned because of three kinds of limitations: (i) inconsistency between the proposed dependence on an extensive monitoring, control and evaluation system and the prevailing context of institutional weakness; (ii) the espoused concept of a "basic package" is seen to clash

[77] It has not been possible to identify the reason for the TC's slow disbursement. However, in interviews conducted for this report, the Ministry of Health recognized their limited human resources capacity in project management. High transaction costs in working with the IDB, conveyed during these interviews, are an additional potential explanation for the slow rate of disbursement on record.

[78] According to the PCR, *el programa logró la mayoría de los objetivos planteados durante el diseño. En particular, (i) se preparó, aprobó y entró en vigencia un nuevo código de salud, (ii) se aumentó el gasto en salud del GOG y se re-direccionó el mismo hacia los servicios básicos de salud, (iii) se lograron mejoras en la calidad de la ejecución presupuestal del MSPAS, (iv) se definió un paquete básico de servicios de salud, (v) se suministró dicho paquete de servicios a través de la contratación de proveedores privados (Organismos No Gubernamentales), (vi) se simplificaron los procedimientos presupuestales y (vii) se reorganizó la estructura organizacional del nivel central del MSPAS.*

with that of integrality of services, and the definition of a *single* "basic package" for the entire country does not take into account differences in the epidemiological profile; and (iii) the per capita amounts defined for the reimbursement of services provided under the basic package are seen as being below actual cost, which, if so, would reinforce the incentives for under-provision that exist in a capitation system such as the one being implemented in Guatemala, discourage the emergence of new providers, and make the system excessively dependent on voluntary work. A midterm evaluation pointed out some of these issues and proposed remedial action, but few of the proposals were taken into consideration in the design of the follow-on operation, PMSS II.

Long delays in the fulfillment of prior conditions for PMSS II should be highlighted—particularly in view of the fact that a significant amount of money from the above-mentioned technical cooperation project remained available to prepare for the transition between the two loans. PMSS II was only 7% disbursed in mid-2004, had four components classified as *unsatisfactory* as far as their progress in achieving the expected development results was concerned and, as an operation, was designated as *on alert*, with more than half of the programmed duration already elapsed. The program in mid-2004 was only partially eligible, a clause related to one of the objectives (expansion of coverage and attendant auditing and supervision of NGO actors) remaining unfulfilled. An agreement appears now to have been reached to alter the expansion-of-coverage clause in the following sense: the auditing and supervision of NGO actors—among the key service providers under the program—would be conducted by the Ministry of Health and its agencies in the field rather than an outside contractor.[79]

The December 2002 PPMR acknowledged failures in considering the "reality" of the hospitals in the design of this loan. Since the program has a fully fledged hospital sector component, such an omission (if the PPMR's diagnosis is correct) would constitute a design problem. According to the loan document, the *problematique* of the public hospitals is well known (p. 6) which is why it seems surprising that only six months after achieving eligibility, the component should have been declared in need of *revision and even eventual changes in objectives* as stated in this PPMR.[80]

As an overall assessment, it can be said that the PMSS sequence conveys a clear and coherent long-term vision of health sector reform. The view embedded in both projects is (i) that health investments in developing countries have in the past overemphasized hospital care to the detriment of more cost-effective and equitable primary care and (ii) that efficiency gains can be achieved by shifting the function of the public sector (in particular, the Ministry of Health) from the provision of care to a policy-setting and regulatory role. Unfortunately, the PMSS sequence does not provide for the collection of data to test this view. The sector loan promoted the contracting of NGOs and other

[79] While this approach is essentially correct, since the monitoring and evaluation of contracted providers is a permanent undertaking and, fundamentally, the responsibility of the public sector, its implementation is risky without adequate institutional support given the limited capacity of the Ministry of Health, particularly at the local and regional levels.

[80] Another aspect worth noting, since this is not the first IDB operation in the sector in Guatemala, is that the December 2002 PPMR called attention, as a lesson learned, to the *importancia que tiene el diseño de componentes sencillos, bajo la responsabilidad de instancias de coordinacion compatible con la jerarquia institucional y metas claramente definidas con indicadores claves de desempeño.*

external providers without a supervision and evaluation system to monitor coverage, cost and performance data, and the quality of the services provided under contract. This is a design problem that (i) may have led to inappropriate expenditures by the government and a misguided tranche disbursement authorization by the Bank and (ii) made delays in the execution of the follow-on operation almost inevitable.

The Bank's papers on PMSS (i.e., the Loan Document for PMSS II, the PPMRs, and the PMSS I PCR) claim important achievements in expansion of coverage (to an additional three million people, approximately) without acknowledging the fact that in the absence of baselines and adequate monitoring such figures are purely theoretical.[81] The literature fails to explain or discuss the components of the basic package of services financed by the Bank which may affect the relevance and sustainability of the model promoted by the PMSS.

The Ministry of Health is now developing a proposal for a "results-oriented" type of contract with providers and is conducting an evaluation of existing providers and a household survey that could be used to set up a baseline of beneficiaries. This welcome development should make possible better-informed decisions. However, it appears that there are still no proposals to comprehensively evaluate the efficiency and effectiveness of the chosen capitation model and to estimate the true cost of the basic package of services in alternative settings. Analysis of this type is indispensable for the country and the Bank to know whether the PMSS approach is indeed the right one for the country.

Housing: The objective of GU-0022, the fully disbursed Housing Program approved for a loan of US$53.1mn in 1997, was to improve the equity and efficiency of Guatemala's housing markets and increase the level of investment in housing occupied by low-income households. Public spending in the housing sector has remained below the peace commitments, and the housing deficit today is estimated at 1.5 million units[82] in a country thought to have about 2.5 million households.

Supporting a number of different housing solutions, the IDB-funded program is estimated to have been instrumental in providing about 40,000 beneficiary families with a housing solution that appreciated in value.[83] The program worked in alliance with 30 intermediaries and more than 100 developers. Subsidies were distributed across different types of housing solutions. Distorting the program's objectives and design, more than half the subsidies were channeled through land developers for the modality of serviced lots in an accelerated procedure that depleted the program's resources in two pre-electoral

[81] The problems related to the lack of baselines and reliable coverage data was recognized in the PMSS's midterm evaluation (p. 6): *La primer limitante fue la falta de indicadores cuantitativos debido a que no se levantó una línea basal, por lo que no existió punto de referencia o de comparación antes y después del proyecto. Por otro lado se sumó la ausencia de mecanismos de monitoreo y por ende de indicadores de avance del proyecto, por lo que no nada más no existió un punto de referencia, sino que se carecía de un medidor o termómetro del progreso de los Subprogramas.*
[82] N. Cely et al., cited in footnote 22, p. 131.
[83] This paragraph adopts the conclusions of a recent evaluation of the program commissioned by the Bank: CHF International/Guatemala, *Socioeconomic/operational evaluation of the Guatemalan Housing Fund – FOGUAVI*, 2004. The use of funds under this program has been investigated in a 2004 report by the IDB's Auditor General.

years when disbursements had been planned to be spaced over four. Ninety-three percent of the subsidy amount was devoted to serviced lots, housing developments, and new construction on owned lots, the latter two components favoring beneficiaries that tended to have relatively high incomes. As to the serviced lots, many were located in remote areas, many had at least one risk factor making them vulnerable to natural events, 65% remained unoccupied more than two years after the expenditure of the subsidy, and many at that time lacked electricity, water or sanitation services. The program's "social window" that was intended to receive 60% of the program's resources received 9% as the bulk of the resources flowed to the "commercial window" where the developers played an important role in organizing the demand, facilitating the application process for beneficiaries and pushing subsidy applications through the system. The role played by the developers, particularly in beneficiary selection, biased what was designed to be a demand-side subsidy program towards the supply of serviced lots, some with houses that the developers were providing.

Education: Two programs were approved in the education sector in the period reviewed: *Support to education reforms*, GU-0037, approved in 1997 for US$15.4mn; and *Support to education reforms, Stage II*, GU-0131, approved in 2001 for US$22mn. The programs grew out of the peace agreements, which established the goal of building an education system contributing to the emergence of a more equitable society. The Loan Document for the first program indicated that this would be the first step in a process of reform in three parts aiming to ensure universal access to preschool and basic education (grades 1 to 9). The objective of the first program was to improve the quality of preprimary and primary education and, specifically, to reduce the mean repetition rate (i) in primary school from 15.3% in 1996 (baseline) to 13% in 2001 and (ii) in first grade from 27.1% in 1996 to 22% in 2001. The objective of the second loan was to "support key activities in education reform, strengthening institutional capacity to deliver education services and improving the coverage and quality of education." However, this operation was cancelled in 2003 following modifications to its teacher training component espoused by the government that left office in January 2004, currently leaving the government and the Bank with the task of defining the way forward in the sector as the almost fully disbursed first operation is winding down.

The GU-0037 program was part of a thrust that included support in the form of a basic education project by the World Bank. The two operations were implemented by the same executing unit in the Ministry. There was a division of tasks, the World Bank's project, which was prepared more rapidly than the IDB's, focusing on managerial issues and coverage, including the *Programa Nacional de Autogestión para el Desarrollo Educativo* (PRONADE), and the IDB's concentrating on the quality of education services, textbooks, curriculum design, teacher training, and teaching methods. Both programs devoted resources to community participation. And both were affected by a declining allocation of budget and counterpart funds to their activities in 2000-2003 as well as significant personnel turnover that marked the beginning of the administrative period of the government that left office in January 2004. The occurrence of Hurricane Mitch led to the reprogramming of a third of the proceeds of the IDB loan to the rebuilding of schools—according to information supplied by the Bank a factor in the non-achievement of the teacher training goal (*círculos de calidad*) and the under-achievement of the preprimary education objective through the so-called *Centros de Aprestamiento Comunitario en Educación Preprimaria* (CENACEP). However, the Hurricane-related reprogramming of resources was only one reason underlying the mentioned under-achievements. Another factor was that the corresponding component was not a priority for the government that left office in January 2004.

As shown in background work prepared for this report,[84] the program's targets regarding desertion and repetition rates were not achieved, principally because the variables in question are influenced by factors beyond the control of the components of the program. What this suggests is that the results chain between the inputs under the program and the desired effects was not evaluated properly and that, as a result, the program's *design* was less than fully adequate.

Social investment and compensation: Four projects in social investment and compensation under the peace agreements, meant to benefit the war-affected population, were approved in 1996-1998: Preinvestment for peace (GU-0128; for a loan amount of US$8mn; June 1998); DECOPAZ (GU-009; US$50mn; November 1996); FIS (GU-0071; US$42.3mn; July 1996) and FIS-PRORIENTE (GU-0127; US$90mn; December 1998). The projects are reviewed in turn.

Preinvestment for peace: The *Sistema Nacional de Financiamiento de la Preinversión* (SINAFIP) in SEGEPLAN is Guatemala's official entity for preinvestment study, but is able to respond to only a fraction of the calls for prefeasibility, feasibility, and cost-benefit analysis in the public sector. The Preinvestment for Peace project operates through SINAFIP with the objective of augmenting the latter's capacity and rationalizing both peace-related public investment and the presentation of proposals to the donors. The project arose in response to a presentation by the government to the 1997 Consultative Group in which the magnitude of the proposed investments seemed to make indispensable an effort to increase the capacity for preinvestment analysis.

To-date, some 750 project studies have been carried out. Less than half relate to potential projects in the operation's declared priority area, the ZONAPAZ.[85] Contrary to the intentions announced in the Loan Document the sectors covered in the studies bear little relation to the areas of intervention prioritized under the peace agreements.[86] The share of studies that has influenced investment decisions or was taken up formally in the preparation of projects is not known as this aspect was not monitored under the operation. There has been no effort by the Bank or SINAFIP to promote the use of the studies for initiatives that donors or line ministries might have been interested in funding.[87] The goal of rationalizing peace-related public investment cannot be said to have been achieved. The operation may have temporarily contributed to institution-building in SINAFIP by

[84] *Proyecto de apoyo a la reforma educativa*, Background note prepared for this report.
[85] An area of eight conflict-affected Departments, later augmented by Petén as the ninth Department, Zonapaz is the priority region for post-conflict social compensation under the Peace Accord.
[86] For detail see *Evaluacion del programa de preinversión para la paz (GU-0128)*, background note prepared for this report.
[87] *En una oportunidad FONAPAZ solicitó copia de algunos estudios para ciertos departamentos y en otra oportunidad el INFOM también solicitó algunos perfiles de proyecto* (interview with SINAFIP personnel, May 2004).

augmenting its staff by three professionals; however, there are no guarantees that the corresponding posts will be maintained beyond the point of completion of the project, now 68% disbursed.

DECOPAZ:[88] The objective of DECOPAZ is to assist in the physical, human and social recapitalization of the areas most severely affected by the armed conflict. The program represented a novel response to a key challenge in Guatemala after the signature of the Peace Accord—the need to rebuild communities and promote local development in areas that had been affected heavily by the internal armed conflict. The Loan Document noted that while the Bank had previously gathered experience with projects in community participation, it had not done so in post-conflict situations. It diagnosed a need to improve the conditions of eligible traumatized communities and proposed to use the vehicle of sub-projects to be financed under the program as a means to help organize them. In successive iterations the geographical area of focus was narrowed down to thirteen (later sixteen) municipalities in the Northern part of the Department of Huehuetenango (not the most severely conflict-affected Department) and the municipality of Ixcan in the Department of Quiché. After two extensions, the program is today almost fully disbursed.

DECOPAZ was implemented through a complex administrative and management structure that was at variance with the principles of simplicity and agility announced in the program's Profile I. The elements of the management structure were *ad hoc* creations, intended to be disbanded at the end of the program. Together, the *Junta directiva* for the program, which has no role elsewhere in public affairs, the *Secretaria ejecutiva*, the *Unidad tecnica*, and the *Entidades de primer piso* created to assist communities, have consumed 32% of the resources assigned to the program by the IDB and the borrower—a level of cost that is excessive, but might have been acceptable under an earlier (Profile II) version of the program under which experimental work was meant to be done to build lasting institutions, compatible with relevant existing structures, for a sustainable pattern of social recapitalization. As approved and carried out, the program was apparently less ambitious than visualized during the preparatory phase and ended up producing results not very different from what one has come to expect under Social Investment Funds. The majority of the investments (responding to the revealed preference of the communities) was in education and other social infrastructure where the most frequently occurring type of project was the building of schools. DECOPAZ was not successful in launching productive projects. Spending in this category remained at less than half the level foreseen at the time of approval.

A systematic accounting of results cannot be attempted since the program did not have an adequate results framework and monitoring system. The program may have played a role in some instances in creating social capital and fostering reconciliation, and it may thereby have contributed to the prevention of renewed conflict. To the extent that (as reported by the program's executing structure) teachers and other educational essentials

[88] A more in-depth analysis is available in *Programa de desarrollo comunitario para la paz (DECOPAZ)*, Background note prepared for this report. The Note represents a contribution to the discussion as do thoughtful opinions and reports submitted to OVE by Region II in reaction to the Note. In the absence of dedicated field work and systematic empirical data on results and outcomes under DECOPAZ, the "truth" regarding this innovative project is not known.

are present in the localities where schools were built, there is at least an element of sustainability, which is reinforced by the role DECOPAZ is said to have played in attracting recurrent government spending to the beneficiary communities. However, unambiguous documentation on all of this is not available, which implies that there is little to report in outcome terms. The implementation delays on the record, whereby some sub-projects of the first generation approved nine years ago are still under realization, do not bode well for progress in creating the kinds of results that have motivated the program in the first place. Also, the investment of large amounts of resources outside the formal system appears to have led to problems with the mayors of the beneficiary municipalities and the *Consejos departamentales de desarrollo* which have not been consulted on investment activity under DECOPAZ.

FIS and FIS-PRORIENTE:[89] Up to a third of public investment spending in Guatemala is being channeled through funds and programs that bypass, and partly overlap with, programs run by the normal structures of the state.[90] The lack of coordination prompted the government that took office in 2004 to commission a study on the proliferation of special funds and their interaction with the "normal" activities of the line ministries. The institution of the Social Investment Fund, FIS, is one of the special funds at play. Established in 1993 for eight years and endowed with its own *personalidad juridica*, FIS currently operates under an extension to 2006. The Bank supported it with two operations, GU-0071, the Guatemala Social Investment Fund, with the objective "to improve living conditions among Guatemala's poor rural population" and GU-0127, the Eastern Development Project, with the objective "to establish procedures in the FIS to strengthen and promote local development management and to meet the most pressing socioeconomic infrastructure needs of the poor, rural population."

The Loan Document for GU-0071 states that the program "will fund investments in small-scale projects geared toward improving the socioeconomic situation of the country's poor rural population." The evidence[91] suggests that this was done: FIS supplied to OVE rather detailed information about the flow of funds and the number of projects and small works that were financed. As to the poverty focus, data supplied by FIS indicate that close to 47% of the investments were directed to municipalities in the "extreme poverty" category. However, there is little information about how beneficiaries and projects were chosen and no information about results that would enable an *ex post* assessment of whether, and the extent to which and in what way, living conditions among Guatemala's rural poor improved. The PCR, issued in 2002, is vague and devoted to

[89] For an assessment see *Fondo de inversión social de Guatemala: Nota evaluativa*, Background note prepared for this report, and also *El componente Proriente del Programa Fondo de Inversión Social,* Background note prepared for this report.
[90] The six largest special funds were assigned 26.9% of the resources earmarked for public investment in 2003. The share of public investment funding that was assigned to special funds and programs (*dependencias* of the President's office) was 25.5% in 2000; 30.2% in 2001; and 24.6% in 2002 (budget information at www.minfin.gob.gt).
[91] See a) FIS: *Informe de Evaluación General Expost BID 943*; b) Asesoría Manuel Basterrechea Asociados: *Evaluación del Nivel de Implementación en el FIS de su Sistema de Monitoreo Ambiental*; c) SEGEPLAN, *Informe Global de Fondos Sociales Guatemala 1998*; and d) World Bank: Project Appraisal Document on a Proposed Loan to the Republic of Guatemala for a Second Social Investment Fund Project (1998).

undocumented claims.[92] The project had a component devoted to fostering the capacity of rural communities for self-management (*autogestión*) by means of a program of community organization. The PCR states that this objective was achieved, but offers no data and analysis to support the contention.

In OVE's assessment FIS in Guatemala has become an efficient vehicle for financing small-scale infrastructure works[93] in rural communities, in the process strengthening the capacity to operate of intermediary organizations at the service of the target group. The donors (including the IDB, the World Bank, KfW, Japan, and others) have advocated consistent approaches and played a role in setting standards as to process and managerial norms. The developmental results engendered under the effort, however, remain undocumented.

This statement applies to the PRORIENTE project, GU-0127, too. The project intended to benefit municipalities with a high degree of exclusion in the Eastern part of the country, selected on the basis of an index of exclusion. Resources were to be assigned to the selected municipalities on the basis of a participatory process involving the communities, local government, and the FIS with a view to prioritizing the investment needs. So-called *Asociaciones de Desarrollo Local* (non-profit community organizations created for the long-term, rather than the duration of the project) acted as the locus of intermediation between FIS and the communities.

Data on the distribution of projects compiled by OVE[94] suggest that projects in reality were chosen quite independently of the level of poverty and human development in the Departments and municipalities in which they were located. As an illustration, three of the four municipalities with the largest investment under the project had levels of poverty below the national mean, whereas three of the four municipalities with the lowest investment displayed levels of poverty above the mean.

PRORIENTE has helped increase the access to socioeconomic infrastructure of close to half a million people in the Eastern part of Guatemala. Its special participatory dimension, designed as a device for poverty targeting, however, has worked only to a limited degree. The project, in addition, may display problems related to the sustainability of the investments undertaken inasmuch as there is no evidence that agreements (called for in the loan contract) were reached between FIS and the sector ministries for the latter to guarantee the maintenance of the *obras* built under the project.

Sustainable development—PDS Petén: Of five approved projects in agriculture, natural resource management and sustainable rural development only one, the Petén project (GU-0081), known as PDS, meets the disbursement criterion defined at the outset of this annex

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[92] The following illustrates this point: "*El FIS benefició con algún nivel de satisfacción en sus necesidades básicas a cerca de 3.5 millones de personas en situación de pobreza y viviendo en aldeas, caseríos, cantones y parajes…*" (underline added).

[93] Schools were the most important type of investment financed under the IDB project (44% of investments). Note that according to data supplied by FIS, 55% of the investments benefited indigenous communities.

[94] *El componente PRORIENTE del programa Fondo de Inversión Social*, Background note prepared for this report.

for an assessment in this report. The PDS seeks to address the development *problematique* of the Petén—the largest Department in Guatemala, representing a third of the national territory with only 3% of the national population, an agricultural frontier receiving internal migratory flows, and a zone characterized by forest and natural resource depletion that in recent times has seen a rise in drug trafficking and organized crime. The PDS's purpose ("to contribute to sustainable natural resource management and preservation of the cultural heritage in Petén through economically sustainable pilot projects") is pursued through four components, the regularization of land tenure; the protection of selected cultural heritage sites and the creation of services for tourism; natural resource management and sustainable agricultural production systems; and "institutional strengthening."

Burdened with a very difficult institutional environment, the PDS (as shown in Chapter IV above) is the most delayed among the projects in the portfolio reviewed in this report. The following dates in the life of the project that was 45% disbursed in mid-2004 are self-explanatory—Profile I: July 1994; Approval: November 1996: Signed: September 1997; Eligible: March 1998, meaning that field activities were ready to start four years after the initiation of the process. At that stage, 12 months were needed to contract through international bidding the firm that would execute the program, 13 months were spent in negotiation with the government (*Fontierras*) to identify the 45,000 hectares whose tenure would be legalized; and 22 months were spent establishing a base line for the program. According to a recent evaluation commissioned under the project, 33 months elapsed between the issuance of the decree authorizing the Ministry of Finance to sign the loan contract and the initiation of activities in the field.[95] As to the second item, separate structures, the presence in Petén of the chosen executing agency is incidental as it is apparently isolated from the relevant local institutions and in particular the system of coordination and prioritization of public investment under the *Concejo Departamental*.

The identified evaluation indicates that (i) under the land tenure component some pertinent results were achieved in the form of the legalization of 45,000 hectares that benefited 385 families by early 2004, although as of February 2004 only 57% of the corresponding titles had been emitted; (ii) there is hope that the restoration of certain sites under the cultural heritage/tourism component may be completed in 2004; (iii) as to the natural resource management component, *las metas para las actividades sobre manejo forestal comunitario, manejo forestal, plantaciones e investigación forestal, agroforestal y agrícola sostenible, definitivamente no van a ser logradas por el Programa*" and (iv) as to the fourth component, institution-building, little measurable progress is noted.

Three facts and circumstances help explain the project's situation: (i) the general difficulty of establishing execution arrangements for area development projects, given that these kinds of projects require investments and activities in several sectors and the involvement of many actors; (ii) the fact that (because of the multisectoral nature of the objectives) the government and the Bank initially decided to locate the project within the Planning Secretariat (it was this choice, later revoked, that necessitated the contracting of an executing agency); and (iii) reported coordination difficulties with donors that delayed

[95] H. Martínez : "Evaluación del PDS Petén, Informe final de consultoría", Guatemala 2004.

the advent of grant funding for the land titling component: As communicated by Region II, the delay in identifying the land to be titled was due in part to the government's decision to title land originally identified with grant funding that, in the end, was not received; loan funds were subsequently shifted to regularizing the tenure of other land.

Judicial reform: Despite numerous contributions from national and international sources, including the IDB's Program in Support of Judicial Reform approved in 1998 (GU-0092), the modernization of the justice system is among the least advanced of the processes defined in the Peace Accord. There has been some progress in terms of access (although not for the indigenous population) because of the establishment of new courts. But continued impaired independence of judicial decisions, limited administrative transparency, human resource limitations in the face of budget constraints, and other problems are undermining progress in coverage such as it has been.[96]

The development objective of the Bank-supported operation, which was 70% disbursed in April 2004 and whose projected final date of disbursement is extended by two years to March 2005, is to "strengthen the democratic and pluricultural rule of law by providing support to the institutions of the justice system at the individual institutional level as well as in terms of coordination among institutions, in order to improve access to justice and the quality of judicial services." The program to this date does not have a consistent system of indicators; the indicators of success provided in the Loan Document are imprecise and it is unclear in key cases how they are supposed to be measured. An evaluation is planned for early 2005 as an input into a possible second phase. The described situation with respect to the indicators is certain to complicate the necessary exercise of the evaluation.

Certain considerations suggest that the program may be challenged to achieve its objectives, except perhaps in a downscaled version, although it did generate benefits in the form of capital goods (including information systems) supplied, training imparted, and the establishment of four *Centros de Administración de Justicia* (CAJs) which, according to a recent PPMR, attended 18,162 cases in a recent 18-month period, half of which were resolved. The considerations leading to doubts with respect to the program's ability to meet its objective include:

(i) Informal downsizing: key Loan Document targets of the access-to-justice component were not adequately budgeted for and have been informally reduced (among other aspects: 4 instead of 8 CAJs established, 36 instead of 47 *Juzgados de Paz* built or remodeled, 3 instead of 10 Fiscalías Distritales made to function).

(ii) Institutional issues: the Peace Accord in 1997 created what today is called the *Comisión Nacional para el Seguimiento y Apoyo al Fortalecimiento de la Justicia*. Tasked with promoting consensus on a set of specific reforms, the CNSAFJ is an actor with great legitimacy, part of the *institucionalidad* of the Peace Accord, but it does not have a role and is not participating in the program. The special executing agency for the program, the *Instancia Coordinadora de la Modernización de la Justicia*, occupies little

[96] For details, see Asociación de Investigación y Estudios Sociales (ASIES), *Proceso de modernización y fortalecimiento del sistema de justicia: avances y dificultades*, 2003.

space beyond the physical execution of the program. The objective of "coordination among institutions" and the systemic improvements pursued through coordination cannot be achieved without the CNSAFJ.

(iii) Financial sustainability: difficulties in this respect are illustrated by the discontinuation of litigation supported under the program in the *Instituto de la Defensa Pública* when financing was cut [date] because of cuts in counterpart funds.

(iv) Civil society: the information available to OVE indicates that there is little effective participation by, and consensus-seeking with, civil society for the purposes of the program;[97] yet such participation would seem to be of particular relevance in the case of this program.

Overall, the program has so far produced quantitatively less important results than promised. The program operates in a particularly contentious area of public policy and, like other operations, is affected by funding shortfalls on the government's side. But the program also suffers from issues of design, not only because of the institutional aspects mentioned, but also because of the manifest lack of correspondence between the structure and components of the project and its promises as to what would be achieved.

[97] See also MINUGUA, *Informe ante la reunión del Grupo Consultivo en Guatemala*, 2003; a number of evaluative comments on the GU-0092 program can be found in this report.

Comments by the Government of Guatemala
December 2004

COMENTARIOS A LA EVALUACIÓN DEL PROGRAMA DE PAÍS PARA GUATEMALA ELABORADO POR LA OFICINA DE EVALUACIÓN Y SUVERVISION, OVE.

- El documento en mención presenta una evaluación amplia de las operaciones del Banco Interamericano de Desarrollo -BID- en Guatemala durante el período 1993-2003. Consideramos que buena parte de las conclusiones son válidas y evidencian los aciertos y errores en cuanto a la coherencia, eficiencia y efectividad de las operaciones en Guatemala.
- Es importante señalar que durante el período que abarca la evaluación, el país experimentó una serie de cambios importantes. Entre ellos, la firma de los Acuerdos de Paz que marcó un cambio profundo en cuanto a las relaciones internas y externas en Guatemala.[98] Asimismo, dicho período abarcó 4 administraciones gubernamentales con diferentes objetivos y prioridades, lo que indudablemente influyó en el desarrollo de las operaciones del BID en el país, repercutiendo en la ejecución de la cartera, que al igual que con otros organismos, sufrió un retrazo en su ritmo de ejecución.
- Una lección que se extrae de la evaluación de OVE, al igual que la elaborada a inicios de este año a lo interno del Ministerio de Finanzas, es que hay muchas operaciones demasiado rígidas y con excesivas condicionalidades, lo que dificulta y muchas veces imposibilita su ejecución. Para superar ello, es importante que en el diseño (desde el origen) de los programas se considere la suficiente flexibilidad que permita en determinado momento, la reorientación, reestructuración o anulación de componentes en las diferentes operaciones. Se considera que ello redundará en una mejor, más rápida y más eficiente ejecución de los proyectos.
- Se coincide en que es necesario mejorar la supervisión e implementación de los proyectos. Sin embargo, se considera que hay que tener cuidado en cuanto al diseño de indicadores, principalmente si éstos se convertirían en disparadores de otros proyectos. Ello por cuanto que podrían convertirse en nuevos elementos que otorguen

[98] Probablemente este cambio requiera de mayor análisis en cuanto a su impacto en el comportamiento de la cartera con el Banco.

mayor inflexibilidad a las operaciones, así como mayores costos a las mismas. Lo anterior, podría significar un retroceso en las relaciones del BID con Guatemala.

- Se está de acuerdo en la necesidad de reforzar las unidades ejecutoras y en apoyar a las mismas. De hecho, a inicios del presente año la actual administración a través del Ministerio de Finanzas y en estrecha coordinación con SEGEPLAN, ha procurado un mayor apoyo mediante la designación de funcionarios dedicados en buena parte a ello. En adición, se ha creado al más alto nivel el "Gabinete de Cooperación", coordinado por el Vicepresidente de la República y donde participan los Ministros de Finanzas, Cancillería y Secretaría de Planificación, apoyados por un grupo técnico. Actualmente, el BID ha aprobado una cooperación técnica no reembolsable que se estima permitirá agilizar los procesos mediante la conformación de una unidad específica para estos fines.
- Un aspecto que es importante mencionar es el objetivo de que los flujos netos de recursos financieros con el Banco se tornen positivos en un horizonte de tiempo de mediano y largo plazo. Lo anterior, como consecuencia de que un país como Guatemala necesita del apoyo externo para poder coadyuvar a suplir sus requerimientos en diferentes áreas, en especial, de las relacionadas con el gasto social a las cuales esta administración les ha dado una importancia prioritaria.
- Dentro del contexto anterior, es importante que el BID explore nuevos instrumentos financieros, más adecuados para el actual enfoque de administración; esto es, orientados al crecimiento económico pero con ajuste fiscal. Ello, debido a que se continúa manifestando falta de espacio presupuestario o financiero que, en determinado momento, puede reducir la rapidez de los desembolsos en algunos proyectos.
- Se coincide en los comentarios que se refieren a la poca efectividad y calidad del gasto. Para mejorar esta situación, la actual administración se encuentra trabajando en la formulación de un presupuesto plurianual, basado en el planteamiento de objetivos y medición de resultados. Para el año 2005 existe un proyecto piloto en el cual están participando 4 Ministerios. El apoyo del BID en esta tarea es crucial para mejorar la efectividad del gasto, y por ende, de los recursos externos en los próximos años.

- En cuanto al seguimiento de proyectos conviene señalar que la actual administración le ha dado una gran importancia al tema. Para ello ha contado con el apoyo de las actuales autoridades de la oficina del BID en Guatemala, quienes han colaborado estrechamente en esta tarea. En adición, desde inicios de año se han realizado varias misiones de Washington para revisar la cartera de proyectos, donde han participado las diferentes unidades ejecutoras, funcionarios del BID, el Ministerio de Finanzas Públicas y la Secretaría de Planificación. Lo anterior, ha permitido superar algunos problemas, mejorar los niveles de coordinación y, en general, lograr una mejora en los resultados.
- Como se observa, algunas de las recomendaciones emanadas de OVE ya han sido tomadas en consideración por las actuales autoridades en coordinación con el BID (Región II y Oficina en Guatemala). Hay algunas otras que requieren aún tomarse en cuenta e iniciar con su implementación. Algunos avances se plantean en el documento de "Estrategia de País" elaborado recientemente por la Región II. No obstante, es importante recordar que el país hará suyas todas aquellas que busquen mejorar la eficiencia y efectividad de las operaciones, pero que a su vez también coincidan con sus intereses y que se adapten a sus características particulares del actual enfoque de administración.