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# A Historic, Enduring Relationship



### **The historic and enduring relationship**

between the Bank and Guatemala began shortly after the IDB launched its first lending operations in 1961. Since that year the Bank has approved 116 loans to Guatemala for a total amount of \$3.2 billion, of which \$2.2 billion has been disbursed. The 19 active projects in the loan portfolio total \$822 million, supplemented by \$34.9 million in grants for technical cooperation. Included in the latter are projects financed by the Multilateral Investment Fund, which promotes private sector growth, and the Social Entrepreneurship Program.

Bank operations support key sectors of public investment—such as transportation and electricity, water and sanitation, health, education, rural development, protection of natural resources, public financial management, and preservation of historical heritage. (See Figure 1). One of the

most noteworthy technical cooperation programs, undertaken in partnership with the private sector, provides training for disadvantaged youth and helps them enter the job market.

The Bank supports Guatemala’s efforts to substantially reduce poverty and to incorporate large sectors of the population, now excluded from many of the benefits of society, into the economic and social mainstream. The country has benefited from grants for technical cooperation from the Bank’s Fund for Special Operations and from its Intermediate Financing Facility, which has provided a partial subsidy for interest rates. In addition, in the past two years the Bank has introduced greater flexibility in its operations, allowing financing for a broader range of sectors and categories and eliminating an existing requirement that project financing be accompanied by a fixed percentage of local counterpart funding.

The Bank’s relationship with Guatemala, which includes a frank and constructive ongoing dialogue with the government, goes beyond financial assistance and includes technical support, within a long-range strategy, to promote sustainable reform of the state and a more effective dialogue with civil society and the private sector.

Guatemala is one of the main beneficiaries of grant financing for technical cooperation, receiving on average more than \$3.5



Photo: PRODERT archive



Palace of Justice



Photo by Kaleidos

million annually for the past five years, with resources coming mainly from the Japan Special Fund, other trust funds, and the Fund for Special Operations, the Bank's concessional window. These grants support a wide range of activities with socio-economic impact, such as the development of plans and strategies for poverty reduction, programs to increase the participation of rural women in the economy and society, assistance to expand commercial opportunities under the Central America-Dominican Republic—United States Free Trade Agreement, and capacity building for social management.

The IDB has chaired consultative groups that mobilize and coordinate international resources from donor countries and organizations to assist not only in the development process, but also in recovery and reconstruction from natural disasters and disaster prevention. The Bank provides technical support for fiscal reform, an important work in progress. No less important have been the Bank's activities as a catalytic agent to mobilize resources and joint action for other diverse programs, such as overcoming the coffee crisis or advancing regional integration through the Puebla-Panama Plan.

The 1996 peace accords were a historical milestone that opened an opportunity to redefine the economic and social agenda of Guatemala, focusing on building a society that is more inclusive and prosperous,

with greater respect for human dignity. Bank strategies, adopted in conjunction with three successive governments, were designed to build a strong, lasting peace by reducing poverty and consolidating macro-economic stability.

IDB President Luis Alberto Moreno has launched a new initiative to build Opportunities for the Majority, designed to improve the quality of life of the largest segment of the population in Latin America and the Caribbean—those earning \$300 a month or less. Under the initiative this majority, historically excluded from the benefits of growth, is viewed as an asset—a large market of producers and consumers and partners in society capable of generating greater wealth.

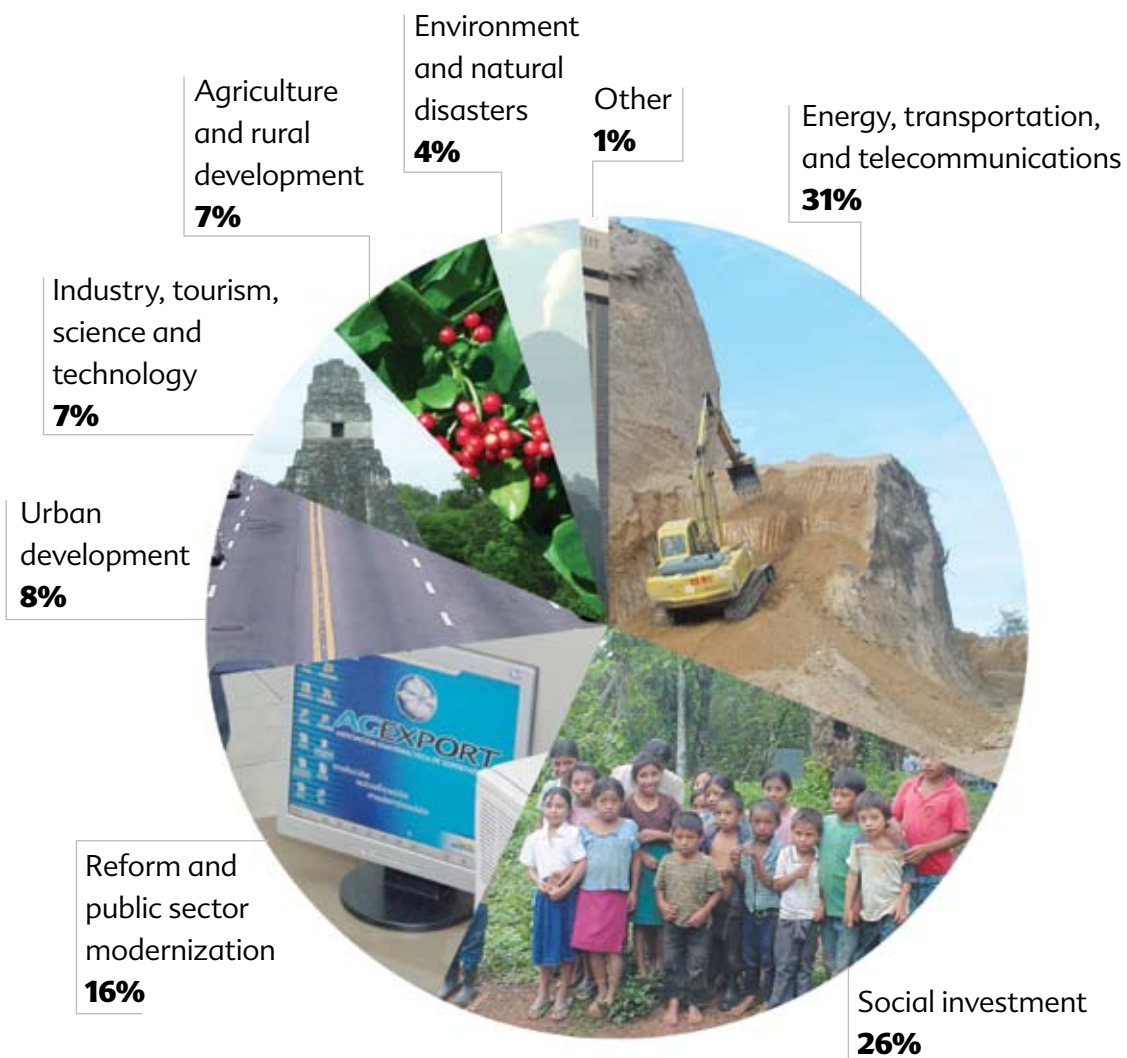
Under this initiative, opportunities will be opened up for this segment of the population to achieve important advances that will benefit society as a whole. The IDB and its Country Office in Guatemala are prepared to apply this initiative as a central component of financing operations and other future activities.

The Bank's current program in Guatemala focuses on improving production and enhancing social inclusion, creating social capital, and strengthening governance. Prominent on these three fronts are operations to promote rural development, prevent violence, and target social investment in rural areas.

In an increasingly competitive financial context that offers countries greater and easier access to world international capital markets, the Bank has moved recently, in agreement with the government, to make available to the country additional fast-disbursing financial instruments. Notable

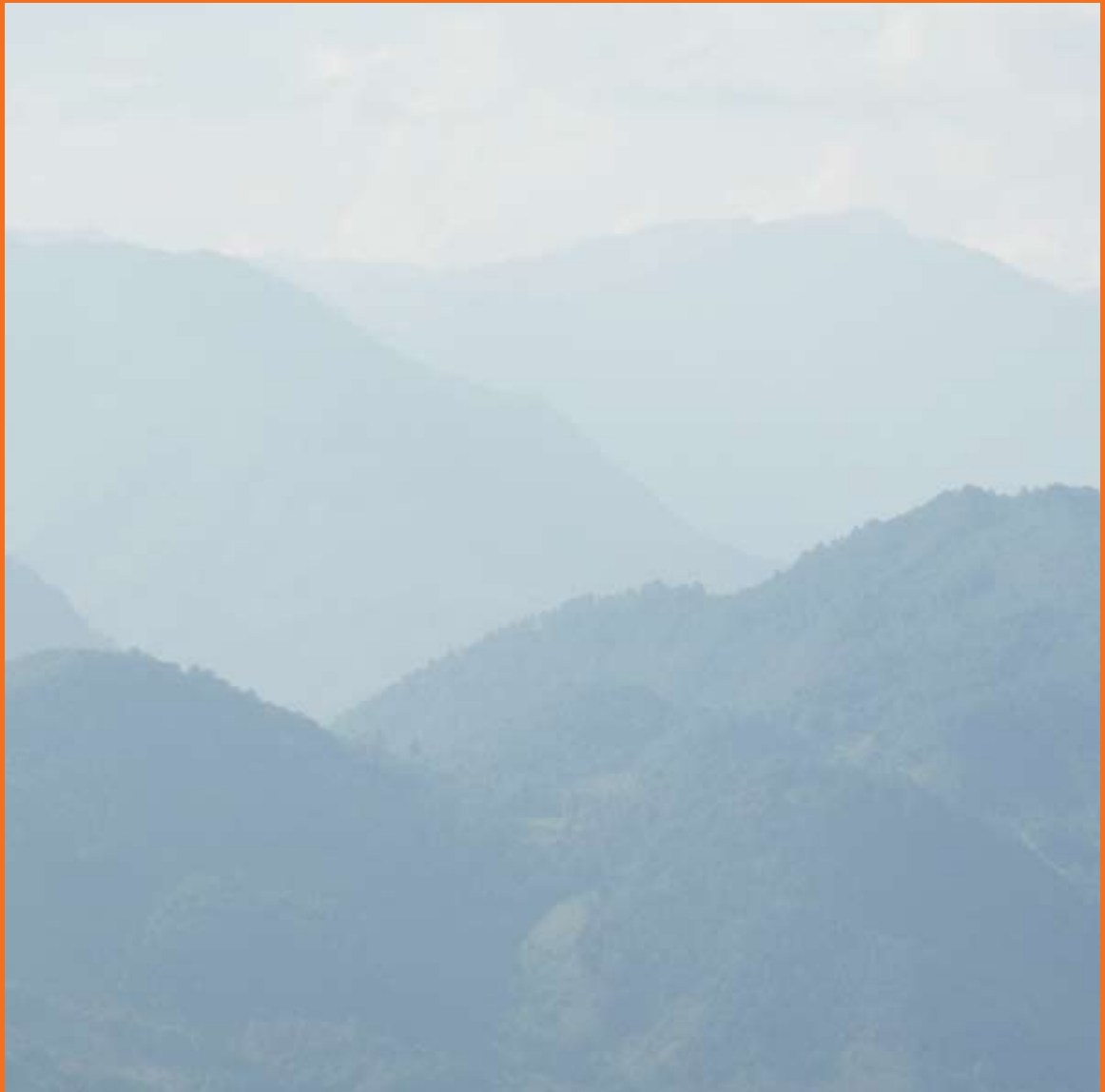
in this area is a programmatic loan that strengthens public sector financial management in the years to come.

The following articles describe the main Bank activities in Guatemala in greater detail.



**Figure 1**  
IDB Loans to Guatemala by Sector, 1961–2006

# Working for a Lasting Peace



## End of Civil Strife Consolidated by Social Investments

In 1996 representatives of Guatemala's government, armed forces, rebel leaders, and the United Nations signed a historic Peace Accord that ended more than three decades of civil strife.

Apart from ending armed violence, the accord set out a broad agenda for development, which included steps to achieve greater economic growth with equity, respect for indigenous rights, inclusion into society of previously neglected groups, a reduction in military spending, an increase in social investment, and a fairer, more effective system of justice.





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To help make the economic and social commitments in the Peace Accord a reality, nations and international organizations around the world provided support with loans, grants, and technical assistance.

The IDB took a leadership role both in providing financial assistance and in mobilizing and coordinating international aid in support of the Peace Accord. The Bank chaired a meeting of the Consultative Group on Guatemala held in Brussels in 1997 at which donor countries and international organizations, including the IDB, pledged nearly \$2 billion in assistance for the period 1997–2000. At the same time, the consultative group urged Guatemala to meet the reform and social investment targets of the peace process and place special emphasis on poverty reduction.

## Peace Is Achieved

While not all the targets were met—increasing tax collections has proven especially elusive—the peace plan commitments were fulfilled substantially, and most of the international assistance pledged was disbursed. The parties once in conflict honored the basic goal of the Peace Accord to end the violence. The IDB chaired subsequent meetings of the Consultative Group on Guatemala to monitor progress in regard to the peace plan, serve as a forum for suggestions from the international community, and mobilize additional resources to help the country.

The IDB provided financing for a series of social investment and modernization measures closely linked to the peace plan. In 1996, before the Peace Accord was formally signed, the Bank approved two loans, one for \$50 million and the other for \$42.3 million, for small-scale community investments in infrastructure, education, health, and citizen participation among low-income groups.

These measures were followed by loans in 1997 to assist the underprivileged in housing (\$60 million) and education (\$15.4 million), and the following year the Bank approved an additional \$90 million for small-scale social investments in five rural departments in the eastern part of the country and \$25 million for judicial reform. In 1999 the IDB approved a \$55.4 million loan for health care for neglected rural communities.

Both the IDB and the international community have continued in the 21st century to support social investment for neglected groups in society and further reforms to strengthen and consolidate the peace process, which has been backed by three successive Guatemalan administrations.



**Classroom in school built by peace program**

# DECOPAZ: Organizing the Disadvantaged



Library built with DECOPAZ funds

## Bottom-Up Decision Making Empowers Local Communities

**TOSCÁN**—For members of the farming community of Toscán in the department of Huehuetenango, a new school meant saving their children 20 minutes of walking time over mountain roads to a facility in the municipality of San Juan Ixcoy.

The building was erected with financing from the government-financed Community



Pedro Sandoval Pascual Velasco

Development for Peace Program, known as DECOPAZ. This and other social investment programs were part of a national political and social healing process that culminated in December 1996 with the signing of the Peace Accord, which ended armed violence.

Under DECOPAZ, low-income communities were consulted on their preferences for improvement projects before investments were authorized—whether they were for a road, a school, a health center, a library, a community center, or microfinancing for small businesses and farms. The program targeted 17 municipalities in two departments, Quiché and Huehuetenango, that had suffered severely from civil strife.

Community leaders were given training to enable them to carry out projects, and they were assigned financial responsibilities. Disbursement of funds required three signatures.

The 50 families living in Toscán chose to build a school, which is shared by 130 students attending first through sixth grades. Its three teachers are bilingual in Spanish and Kanjobal, one of the 23 indigenous languages of Guatemala.

## Resources Are Scarce

Children who cannot afford to pay for their school lunch with money contribute by bringing a piece of firewood for the school



Obdulio Funes





Meeting of a Microregion unit in Santa Eulalia



School cook

kitchen. Pedro Sandoval Pascual Velasco, the 22-year-old principal and a teacher at the school, says he sometimes pays for building improvements out of his own pocket.

He has two additional investment priorities: building a higher barrier in back of the school to prevent flooding during the rainy season from a river behind the school and building a tent over the outside patio to shield it from the sun and rain during outdoor school events, such as graduation ceremonies.

DECOPAZ, supported by \$50 million in IDB loans approved in 1996, was phased out by the government in 2005 after financing 3,000 small projects, most of them benefiting indigenous communities.

However, many of the projects initiated by the program continue to operate with funding from other sources. The salaries of the schoolteachers in Toscán, for instance, are now paid for by the National Education Program (PRONADE).

In the city of Santa Eulalia in Huehuetenango, a library built by DECOPAZ is now funded by the municipality. The city's old DECOPAZ organizing unit, known as a

*microregión*, continues to function using resources from other agencies, such as the Guatemalan Indigenous Fund and the National Peace Fund. Obdulio Funes, an accountant for the *microregión*, says one of its current projects is to improve the distribution of water through the installation of electric pumps.

Ismar Figueroa, the last national director of DECOPAZ, says the program unified once-broken communities by bringing former guerrillas, former government soldiers, and nonpolitical citizens into a common organization, a board of directors (*junta directiva*), which set community priorities, allocated resources for projects, and then monitored their completion.

This helped repair infrastructure in areas where it had been severely damaged during armed conflict and also enabled communities “to recover not only physical capital, but human capital, as well,” he says. By acquiring training and organizational skills and the ability to invest in priority projects, citizens began “to rebuild the social fabric,” benefiting from a flow of government resources into once-neglected rural communities where “the state had never really operated as a real state for more than 400 years,” says Figueroa.

# Development In Petén: An Integrated Approach



Tourists arrive in Petén

**The northern department of Petén** accounts for one-third of Guatemala's surface area and is rich in forests and archeological sites of the ancient Mayan civilizations that are a major international and national tourist attraction and an economic pillar of the region.

To help preserve the forests, the government has set aside about 43 percent of the department's territory, 15,553 square kilometers, mainly in a protected area known as the Mayan Biosphere Reserve.

But actually protecting the forests on the ground rather than just on paper is a daunting task. Petén is sparsely populated compared to the rest of Guatemala. Its population represents only 6 percent of the country's total, attracting migrants from other parts of the country. Most of the newcomers are poor, seeking cheap land and other opportunities. Along with long-time residents, they use destructive slash-and-burn farming techniques, clearing the forest to make way for subsistence crops, mainly corn and beans.

To protect the economic and environmental future of Petén, the government, with backing from international and bilateral organizations, launched the Petén Integrated Development Plan in the early 1990s with multiple, mutually reinforcing goals. The overall objective was to build an economic future for Petén based on sustainable agriculture and tourism—a goal that requires

a substantial and continual outlay of resources.

### **Investments in Sustainable Agriculture and Tourism**

The plan called for investments and technical assistance to enable small producers and settlers to obtain legal title to land and learn sustainable farming and forestry techniques in order to both protect natural resources and help increase their incomes. Other measures were investments to restore and improve archeological sites to make them more attractive and accessible to tourists, reduce poaching and squatting through better policing of the protected areas, and strengthen public administration to enable the government to carry out the development plan and other activities.

Under the plan, the public was encouraged to participate in the planning and implementation of development and conservation projects, and the private sector was invited to play a major role in the effort. In support of this plan, the IDB provided a \$19.8 million loan in 1996 to finance the Sustainable Development Program for Petén and, for the second stage of the program, a \$30 million loan approved in December 2006.

Eduardo Cofiño, a businessman who is coordinator of the Sustainable Development Program for Petén, says the government, with international support, has managed



**Eduardo Cofiño**  
Photo by Michael Collins





## Yaxhá



**Salvador López**  
Photo by Michael Collins

to improve the economic prospects of the department, restore ancient Mayan ruins and make them more attractive to tourists, establish mechanisms to slow down the degradation of forests, and help thousands of small farmers by providing them with titles to their land and technical assistance in sustainable agriculture, forestry, and cattle raising.

### Population Pressure

What continues to undermine government efforts, he cautions, is the department's unchecked population growth rate, which he estimates at just under 10 percent annually; the continuing forest degradation; and the strain on budget resources needed to deal with these development challenges. The Petén program, says Cofiño, is "like treating a sick child with antibiotics. The child continues to be ill, but without the antibiotics the child would have died." He estimates the population of Petén at 750,000,

increasing at a rate of 50,000 annually. The National Institute for Statistics listed Petén's population as 489,000 in the 2002 census.

According to Cofiño, the joint IDB-government investment program in Petén has been very successful in restoring the ancient Mayan ruins of Yaxhá and Aguateca and developing tourism facilities there, sharply increasing the number of tourists visiting the department in recent years, which has had an economic multiplier effect. Through the program, the government for the first time contracted private, specialized Guatemalan firms to restore archeological sites.

Other concrete program results, according to a recent IDB evaluation, are the distribution of land titles and introduction of sustainable agriculture and forestry techniques to hundreds of small farmers. The latter has involved active participation of beneficiaries and local organizations in the design





of small, productive projects, such as the introduction of improved animal husbandry techniques, forest resource management, product diversification (including export crops), and agroforestry systems.

Salvador López, general director of the Institute of Anthropology and History, the government agency that oversees historic sites, says the process of maintaining and restoring ancient Mayan ruins is unending. By building stairways, visitor centers, and other facilities and providing explanatory material, the program has made the sites more attractive to tourists. The increase in visitors has led to greater economic activity among hotels, restaurants, and other businesses, creating more tax revenue and enabling the government to better protect and preserve national treasures.

The single most visited archeological site in Petén is the ruins of Tikal. Traditionally the most common way to visit Tikal was to fly

in and out of the city of Flores, the departmental capital, and visit the ruins in a single day. By rehabilitating other ancient Mayan historic sites, such as Yaxhá and Aguateca, and by promoting supplemental tourism ventures, such as local arts and crafts and cultural activities, the government is relieving pressure on Tikal. Tourists are being enticed to extend their visit to Petén and contribute more to the department's economy.

And to help earn resources to maintain archeological sites, the government recently introduced an entrance fee for tourists visiting the Yaxhá ruins.

The second stage of the Sustainable Development Program for Petén, which is expected to start in 2007, will build upon the initial IDB-financed project by focusing investments on strengthening the department's tourism corridor and on conservation in protected areas, as well as improved resource utilization in adjacent areas.

#### Reconstruction of Yaxhá ruins

# Sweet Profits



## Honey Production Compatible with Conservation

**PETÉN**—The hike to the beehives led through what appeared to be abandoned land, a tangle of brush and small trees, many armed with sharp spines. But to the property owner, Mauro Hernández Flores, if his bees liked it this way, so did he.

The fact is that this vegetative potpourri is just that—a mix of many different species that bloom throughout the year. This apparent wasteland provides the bees in his 35 hives with year-round sustenance.

Chopping a pathway with his machete, Hernández Flores led his visitors to a small tree with bunches of yellow flowers. The *tecomasuche* bush (*Cochlospermum vitifolium*) is a particular favorite with the bees, he said. The honey produced from it has an especially delicate fragrance.

He extolled the advantages of beekeeping. “To be honest, I like it better than farming,” he said. “I clear a little plot of land where I keep my 35 hives that earn me about 5,000 quetzales (approximately \$660) a year,” he said. “This is the same as I would make if I cleared six or seven hectares.” While the bees are producing honey, the permanent vegetation protects the soil. It is far from being a natural forest, but it is much more environmentally friendly than a field of beans.



Hernández Flores would like to have 160 hives, as his father did. Then he could devote himself exclusively to beekeeping and would not have to clear and burn any land. “There would be food for my bees, so that my bees could give food to me.”

Sharing some of his personal history, Hernández Flores recalled that he was 11 years old when his father and two brothers were killed during the former civil conflict. He and his mother had to struggle to make

Photo by Roger Hamilton



Photos by Roger Hamilton

ends meet. Now, he is carrying on part of his father's legacy.

Hernández Flores belongs to the 108-member Northern Guatemalan Beekeepers' Association, founded five years ago. The association has 11 branches, one in the little community of Palestina. Each branch sells supplies and equipment to the members and takes in their honey for sale.

The president of the Palestina branch is Esteban Hernández. Also visiting that day was José María Tamath, project coordina-

tor for the nongovernmental organization Mesoamerican Cooperation for Development and Peace, which carries out several projects for the IDB-financed Sustainable Development Program for Petén. The group is one of six co-executing agencies that work with the program's five technicians in over 65 productive projects, each of which benefits an average of 19 low-income families.

Nearing his hives, Hernández Flores and the others slipped into their white, long-sleeved shirts and pants, tied at the ankles.



Tecomasuche flowers

Their head nets would protect their faces. Esteban Hernández, a veteran of 20 years of beekeeping, stuffed grass and leaves in his smoker and lit it. He tested the bellows until enough smoke was puffing out of the nozzle to keep the bees at bay.

“Petén is perfect for honey production,” Esteban Hernández said. First, the local farmers use no pesticides, so all the honey can be marketed as organic. Also, the large extensions of natural areas produce flowers year

round. Finally, no sugar cane is grown in the area, so there is no danger that the bees will suck their juice, which makes the honey taste like ordinary cane sugar.

Esteban Hernández has made apiculture study trips to Mexico, Honduras, and Chile and is grateful to the program and its co-executing agency for helping him perfect his skills still further, teaching him how to make better hives and reduce the threat of diseases. He is also grateful to the marketplace, which now pays six times more for honey than what it paid just a few years

ago. He invests the equivalent of about \$260 a year in frames, boxes, fencing, and other materials and receives about \$530 annually for his bees’ honey. He grows corn and beans as well, but honey gives him a better return on his investments, he said.

Although Esteban Hernández’s protective gloves were worn and full of holes, he nonchalantly reached into the hives to remove the trays. He brushed off the bees, which formed an angry cloud around the human trespassers, and showed how to distinguish the combs that contained honey from those with pollen and bee larvae. He took a fancy knife out of an elaborately decorated sheath and cut off thick, dripping hunks of honeycomb, some of which contained larvae and pollen (an antidote for flagging virility, he assured). They would be eaten a little later in a ritual of praise for the bees that included spitting the chewed wax on the ground.

Back at the association’s Palestina office, Esteban Hernández gave his guests soda bottles filled with honey. “I’m fascinated by the bees’ life cycle,” he said. He is also happy to be earning a living that helps, rather than harms, the environment. Bees belonging to cooperative members living near the protected forest areas find flowers easily, he explained. Esteban Hernández said the forest guards are doing a better job of keeping out poachers and illegal timber cutters than in years past. “But they can’t keep out our bees!” he declared.

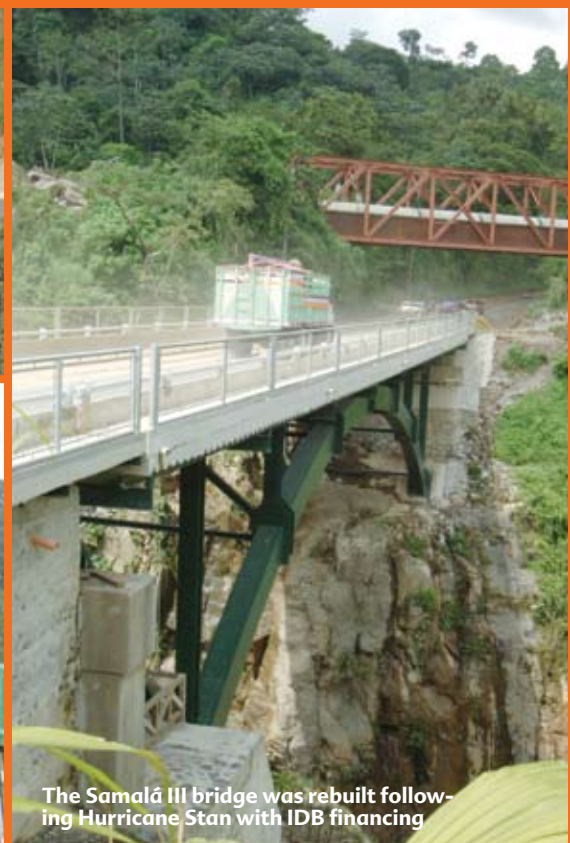


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# Financing Basic Infrastructure



Truck carries cargo on newly paved road connecting city of Nebaj to the departamental capital.



The Samalá III bridge was rebuilt following Hurricane Stan with IDB financing



Operating Guatemala City's aqueduct



## Water and Sanitation, Energy, Transportation

As Guatemala's population and economy grow, so too do the investment demands for basic infrastructure to meet the country's increasing needs for electric power, roads, and water and sanitation. The IDB has been a major source of financing for these sectors, through both loans and technical assistance, and it has also asserted leadership in promoting a regional approach to infrastructure development.

One of the earliest major infrastructure projects financed by the IDB was the Xayá-Pixayá aqueduct, a system that today supplies 45 percent of the potable water in Guatemala's capital. The 48.5-kilometer aqueduct and its storage and purification system was financed by two IDB loans totaling \$25.5 million—the first of which, for \$15.5 million, was approved in 1969. The project was prepared and planned with the support of a \$235,000 Bank grant for technical assistance.

In addition, in 1974 the Bank approved a \$10 million loan to improve the sewerage system in Guatemala City. This operation was followed by a \$35.5 million loan in 1977 to expand water distribution in the capital and to continue improvements in sewerage. More recently, the Bank approved a \$55.6 million loan in 2004 to support rural water development. Selected cities have financed pilot water and sanitation projects



Checking storage of  
Guatemala City's water supply



Checking water purity for Guatemala City



Computerized controls  
of Guatemala City's  
aqueduct system



**Presidents Oscar Berger and Vicente Fox inaugurate construction of a transmission line interconnecting Guatemalan and Mexican electricity systems**

Photo by César Castellón

through a municipal development program supported by a \$19.5 million loan approved in 1999.

## Energy Integration

The Bank has actively promoted integration of energy systems in Central America and Mexico to achieve economies of scale and build a more reliable and efficient interconnected power grid.

In a major advance, on June 13, 2006, the presidents of Guatemala and Mexico inaugurated construction of a 103-kilometer, 400-kilovolt transmission line linking the Mexican city of Tapachula with Los Brilantes in western Guatemala. The project,

supported by a \$37.5 million IDB loan, will reduce energy costs and expand electricity services under the framework of the Puebla-Panama Plan, an integration mechanism designed to strengthen economic and social development of the seven countries of the Central American isthmus and nine states in southeastern Mexico.

The Guatemala-Mexico electricity transmission link complements the project to construct the Central American Electric Interconnection System (SIEPAC), a regional power grid designed to develop a wholesale electricity market shared by Guatemala with Costa Rica, El Salvador, Honduras, Nicaragua, and Panama. The IDB is providing \$240 million of the project's estimated





\$320 million total cost for the six countries. The Bank's financing consists of \$170 million from its own resources and \$70 million from a special concessional fund established by Spain and administered by the IDB. A major component of SIEPAC will be an 1,830-kilometer, 230-kilovolt transmission line from Guatemala to Panama that will connect to substations and the national power grids of the participating countries. The line is expected to begin operation in 2008.

## Transportation

An efficient and reliable surface transportation network is one of the pillars of economic development and growth opportuni-

ties. The IDB and other multilateral financial organizations have played a prominent role in financing Guatemala's major highways and secondary road systems.

In the past decade road maintenance and rehabilitation in Guatemala have improved significantly. In 1995, for instance, 72 percent of the country's paved road network was rated in poor condition. By 1998, only 22 percent of the road system was rated poor, following investments in rehabilitation and maintenance through an extensive long-range program that is still under way.

The IDB supported road improvement projects with a \$115 million loan in 1995 and a \$150 million loan in 1999, financing the



**Minibuses have replaced open-air pickup trucks as the preferred means of passenger surface transportation following the paving of the main road to the city of Nebaj**

rehabilitation of 700 kilometers of the primary road network and about 250 kilometers of the secondary network, as well as maintenance of 650 kilometers of roads. The investments benefited an estimated 3.8 million persons and emphasized improved access to ports and transportation between municipalities and departments.

In addition to financing physical works, the IDB loans have helped modernize road administration and promote greater participation by the private sector in maintenance and construction. Increased highway safety is an important result of highway improvements. For instance, prior to the paving of

a 19.4-kilometer road link to the city of Nebaj, an important tourist and agricultural center in the department of Quiché, passengers commonly traveled to that city in open-air pickup trucks. Once the link was paved, with the assistance of IDB financing, safer minibuses became the preferred means of transportation.

### **Response to Natural Disasters**

The IDB used its fast-track system to provide a \$40 million loan to Guatemala in response to the devastation caused by Hurricane Mitch in 1998 as well as a credit of \$25 million, consisting of funds redirected



Engineers survey new embankment protecting newly paved mountain road to the city of Nebaj



from a previously approved program, to meet the emergency following Hurricane Stan in 2005.

The Bank financed the reconstruction and rehabilitation of 1,300 kilometers of roads following those two natural disasters, as well as 66 bridges, including the Santa María de Jesús bridge and the Samalá III bridge, which are vital for transportation on the highway connecting the cities of Quetzaltenango and Retalhuleu. The reconstruction effort included the strengthening of river embankments and dredging. In addition to repairing and rebuilding works, the investments laid the groundwork for eco-

nomics reactivation and provided a source of employment.

The IDB chaired the meetings of international consultative groups that raised international resources for the reconstruction and economic and social transformation of Central America following Hurricane Mitch. These and subsequent international consultative group meetings chaired by the Bank, in addition to mobilizing pledges of assistance, emphasized that the reconstruction effort needed to include social development, good governance, and sound economic policies.

# Farewell to Arms: Ex-Fighters Build New Future



**SANTA ELENA, PETÉN**—The leaders of the Nuevo Horizonte farming cooperative still call each other by the old code names they used in clandestine warfare—“Ovidio,” “Melvin,” “Napo,” and “Manuel.”

No longer revolutionary combatants, they have redirected their energies to building a better future for themselves and for Nuevo Horizonte, a 900-hectare cooperative founded by former insurgents with government assistance two years after the signing of the 1996 peace accords, which ended civil strife.

“Ovidio,” 48, is the cooperative’s president, whose real name is Gerardo García Franco. He recalls the early years of the cooperative’s existence as the most difficult. Its 97 founding members were required to work almost exclusively for the community as they cleared land, built homes, drilled wells, laid pipes for water, and installed electrical facilities.

“There was nothing here when the cooperative was founded in 1998,” he says. “There was only wilderness.”

Now Nuevo Horizonte has a school with 10 computers for primary and secondary students, a community center, a restaurant, a greenhouse, electricity, piped water, and two guesthouses for business visitors and a handful of occasional tourists from Europe. Ovidio would like to attract more of what he calls “solidarity tourism.” Solidarity tour-

ists go horseback riding, explore the wilderness, and observe ranching operations. They have the alternative of visiting nearby ancient Mayan ruins and the picturesque city of Flores.

### The Quest for Sustainability

Although it has survived major hurdles, Nuevo Horizonte still faces the challenge of achieving sustainability. It is training its leadership in modern business and accounting techniques, identifying new opportunities for production and sales, and improving housing, education, and medical care. The organization is devising its six-year strategic plan, taking into account the framework of the recently negotiated Central America—Dominican Republic—United States Free Trade Agreement.

While taking steps to increase its income, the cooperative is renegotiating the remaining payments on a 2,100,000-quetzal (\$280,000) mortgage with the National Land Fund.

Ovidio says the cooperative is committed to paying the mortgage but needs some breathing space as it gains management expertise and increases and diversifies agricultural and livestock production.

He says there is little risk the mortgage will be abruptly foreclosed on by the government because of an understanding that the cooperative will be allowed to give a



“Ovidio”



“Melvin”

priority to health and education for 400 residents—who include women, children, and other settlers in addition to the founding members—while simultaneously raising the organization’s income to meet its debt obligation.

### A Hard Life for Colonists

On Ovidio’s mantel at his office are photos of two former members of the cooperative in their combat uniforms. Both survived the fighting but died of natural causes while building Nuevo Horizonte, a reminder that rural colonization can be physically hazardous.

The cooperative owns 300 head of cattle and maintains a 145-hectare forest reserve, for which it receives a stipend under a government environmental program. Health needs are met by a resident government nurse and by “Napo,” the pharmacist who serves as both a paramedic and a dentist. Napo’s real name is Gumersindo Sánchez Perez. Now 45 years old, in a previous life as a combat medic he treated bullet wounds and other injuries, gaining experience to undertake some minor surgery needed by residents of the cooperative.

The IDB is among several international aid organizations supporting Nuevo Horizonte. The Bank provided a \$250,000 grant to the cooperative in 2003 to improve agricultural and livestock technologies and marketing, train leadership in business and account-

ing skills, and establish a \$15,000 revolving credit fund for microentrepreneurs. The IDB is now preparing a second phase of assistance.

“Melvin,” whose real name is Juan Carlos Pirir, is completing the IDB-financed training program in accounting—a career move expected to give him a prominent role in the community’s leadership. He notes that the cooperative’s grazing lands are dedicated more to fattening cattle than to raising them from birth, because the fattening process is more profitable. “We are learning,” he says.

Melvin, who is 36, says the cooperative has changed its rules over the years to accommodate new trends. Different areas of production and activity were put under the direction of project teams, and obligatory community labor was reduced from 30 days a month to four, reflecting the fact that many members of the cooperative were finding employment outside of Nuevo Horizonte.

The 51-year-old “Manuel,” whose real name is Miguel Angel Morales, manages the cattle project, the cooperative’s major income source. Although he and most other founding members of the cooperative grew up on farms, Manuel, who walks with a limp from old combat wounds, says he had to concentrate on relearning ranching skills that he forgot while absent from the farm for many years as a fighter.



Guest house at Nuevo Horizonte



School at Nuevo Horizonte



Restaurant at Nuevo Horizonte



"Napo"

# Reaching the Neediest with Health Care



Rural health monitor



## Innovative Plan Serves Patients in Rural Areas

**LA UNIÓN**—Jacobó Vicente Méndez, a 54-year-old farm worker, heard from a passing car with a loudspeaker that a nurse would make a monthly visit to his mountain community of 1,700 residents, who subsist by growing basic food crops, such as beans and corn, at an altitude of 2,100 meters above sea level.

Knowing that tetanus is a hazard because of accidents during farm work, he walked to a small health clinic, known as the Centro de Convergencia, that shares a building with the village courthouse. He asked for an inoculation against the disease from the visiting nurse and received it on the spot, no payment required.

A woman passing by with a baby, noticing the clinic open in the late afternoon, asked the nurse to check and weigh her child. This was done immediately.

Vaccination and infant care services are part of a prolonged effort by the Guatemalan government to bring health care to where it is needed most: the poorest of the poor living mostly in rural, indigenous communities, especially in the country's rugged mountain highlands.

About three million people, roughly one-fourth of Guatemala's population, qualify to receive assistance under the plan because

of their low incomes. Launched in 1987, the program's sources of funding have been irregular—it still depends in good measure on international assistance. The plan, called the Integrated Health System, received new impetus and additional national and international resources following the 1996 Peace Accord.

“One way this program is different is that it brings health services to the communities, saving people the cost of transporting as many as four or five children in a family to a health center many kilometers away,” says Dr. Manuela Hernández, coordinator for health extension services for the department of Quetzaltenango, one of the country's poorest areas. “The old system was to wait for people to walk to a health center.”

## Nongovernmental Organizations and “Health Monitors”

The village of La Unión provides an example of the difficulty that rural residents have in gaining access to health care. It is eight kilometers by bumpy, unpaved mountain road from San Juan Ostuncalco, the nearest city, which in turn is another 15 kilometers by paved road from Quetzaltenango, the departmental capital, where the nearest fully equipped hospital is located.

To bring health services to isolated rural areas, the Ministry of Health enlisted the



Dr. Manuela Hernández



**Nurse weighs child at community health centre**

support of nongovernmental organizations (NGOs). It divided poor rural areas into health districts with 10,000 residents each and contracted NGOs to provide health services for each district.

Each district is assigned one physician, or, when not enough medical doctors are available, one trained nurse. These doctors and nurses are supplemented by a network of community health assistants with different levels of training, including “health monitors,” who can administer first aid and child and prenatal care and teach residents basic sanitation, such as purifying water. The monitors, in turn, receive the support of community residents with a higher level of

training who are called “health facilitators.” Midwives are the third category of trainees in the program.

Ideally, a rural health district of 10,000 persons has 70 trained health monitors, 10 health facilitators, and 10 midwives, supported by five small clinics, the Centros de Convergencia, and one larger community health center, known as a Centro Comuni-

taria, located typically in the nearest city. In practice, both personnel and facilities fall short of the system’s formal guideline

Hernández says the eventual goal is to consolidate the three levels of care—primary, secondary, and advanced (hospital level)—into a sustainable, institutionalized system with measurable results and reliable sources of funding. As part of the program, the government has taken a census of the population in rural areas to help assess health services. The recent acquisition of computerized monitoring and evaluation systems is strengthening the program, which is constantly building on lessons learned from its experiences.

The IDB supported the program as part of its overall assistance to Guatemala’s health reforms with three loans, two for a total of \$38.6 million approved in 1995 and another for \$55.4 million approved in 1999. In addition to financing the provision of services to the neediest in rural areas, the resources also helped strengthen the Ministry of Health, modernize the Social Security Administration, and improve the quality of hospital services.

A series of evaluations of Guatemala’s health system commissioned recently by the United States Agency for International Development (USAID)—a major contributor to the country’s health reform programs—reported that health indicators in the country have improved dramati-



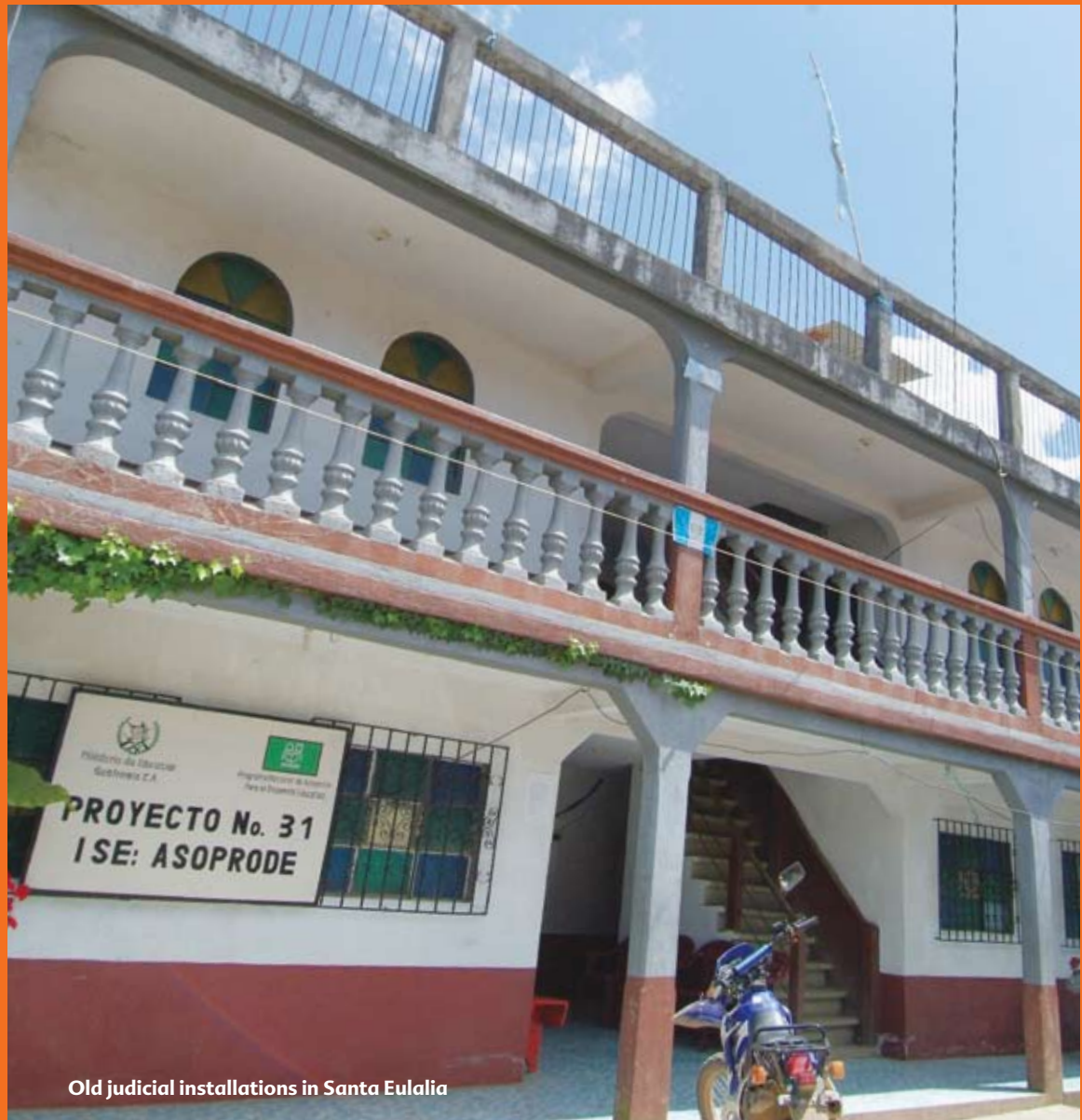
cally in the past two decades. For instance, the infant mortality rate declined from 75 for each 1,000 live births in 1987 to 53 per 1,000 live births in 2002. Nevertheless, the evaluations also warned that statistically Guatemala is ranked among the countries in Latin America with the most serious deficiencies in health and nutrition, particularly among rural and indigenous groups, and

that substantial ongoing corrective measures need to be taken.

In addition to the IDB and USAID, other donors active in supporting health reform in Guatemala have been Germany, the European Union, and the United Nations Children's Fund (UNICEF).

**Innoculation  
against tetanus**

# Justice Centers Meet Rural Needs



Old judicial installations in Santa Eulalia

## New Approach Emphasizes Dispute Resolution

**SANTA EULALIA**—The sprawling complex of beige modern buildings housing Santa Eulalia’s justice center is a contrast to the cramped, two-story colonial building that was once the courthouse.

The two structures represent two different approaches to justice in rural Guatemala. The old building held the offices of the district judge, who heard serious criminal cases, such as those involving assault, murder, and robbery.

The new complex not only houses the district judge but is also home to a legal counseling service, known as the *Bufete Popular*; an office of mediation, conciliation and alternative dispute resolution; the office of the justice of the peace, who handles minor legal offenses; and the public defender’s office. Called a Center of Judicial Administration, the multipurpose compound also has a jail, a police headquarters, an office of judicial investigations, and a prosecutor’s office.

The center’s purpose is to concentrate judicial services in one site, emphasizing legal counseling and dispute resolution as opposed to traditional, lengthy legal proceedings. Interpreters are available to assist plaintiffs and defendants who speak only one of the three main indigenous languages in this highland region of the department

of Huehuetenango. Mediation, counseling, and public defender services are available free of charge.

The new judicial complex, serving eight surrounding municipalities with a combined population of 150,000, was inaugurated in 2002. Services actually began being provided three years earlier, operating out of temporary buildings.

Before the new services were established in 1999, how did citizens in and around Santa Eulalia resolve common legal issues such as family and land tenure disputes?

“They had to travel eight hours over unpaved roads to the departmental capital of Huehuetenango, and few could afford to do that,” says Héctor Augusto Osorio López, coordinator of the judicial center and head of the *Bufete Popular*. Once the travelers brought their legal issues to the departmental capital, their cases were typically subjected to frustrating and expensive delays as they searched for the right public office and bureaucratic channels, says Osorio.

What happened to those persons who could not afford the long trip?

“There was no justice,” says Osorio.

The growing emphasis on the use of judicial centers, counseling, and dispute resolution through mediation is a part of a larger ju-



**Héctor Augusto Osorio López**



Translator, far right, with three women visiting justice center to resolve family dispute



Old courthouse of Santa Eulalia



Criminal trial under way in new justice center in Santa Eulalia.

dicial reform effort in Guatemala designed to build a more equitable system of justice with better services for average citizens and the poor. This approach received impetus from the 1996 Peace Accord, which ended armed violence and at the same time recognized that steps were necessary to address social inequities.

On a typical day at the judicial center in Santa Eulalia, Pedro Alonson García, 30, a farmer in the nearby community of San Mateo Ixtatán, made a decision to take to the mediation center rather than to court a family land dispute that has been unresolved for 30 years.

Three elderly sisters from the indigenous community of Nancutac, speaking a native language through an interpreter, said they traveled 10 kilometers to the justice center to lodge a complaint and seek redress, because they had been evicted from the home of a relative despite a contract stipulating that they could stay.

Simultaneously, in a modern courtroom, equipped with computers and an official stenographer, a criminal court judge pre-

sided over a case in which a man was accused of drunken driving and shooting and wounding a motorist in a dispute following a traffic accident.

The most common cases brought to the judicial center are those involving abandoned mothers, paternity suits, alimony cases, and land disputes, says Osorio. Many plaintiffs and defendants lack identity papers necessary for legal proceedings, he notes. The judicial center helps these individuals acquire temporary documents and later permanent documents so that they can exercise full citizenship rights.

The Guatemalan government has assigned priority to providing legal services to the poor, with special assistance for different ethnic and cultural communities in rural areas, and to establishing mediation and other alternative dispute resolution services.

Aided by international assistance, between 1995 and 2004 Guatemala established 23 alternative dispute resolution centers and 19 multiservice judicial centers serving low-income areas.

An IDB loan of \$25 million approved in 1999 helped finance the establishment of eight judicial centers, and it also provided resources to strengthen and sustain other components of the judicial reform program. Other resources to back the reform were provided by Sweden, the United States,



Men outside courthouse of modern justice center in Santa Eulalia



Women waiting for legal counseling at justice center in Santa Eulalia

the World Bank, and the United Nations. For more information on Guatemala's judicial reform strategy, visit the Web site of the country's judicial branch, the Organismo Judicial, at [www.oj.gob.gt](http://www.oj.gob.gt).

# Rescuing At-Risk Youth

## Technological Training Offers Alternative

For decades the low-income, sprawling suburbs surrounding Guatemala's capital have been plagued by high crime. Disadvantaged youths are tempted to drop out of school and, lacking opportunities in the mainstream job market, are often drawn to gangs and a violent life of robbery and dealing in drugs and firearms.

In 1989 a Catholic priest, the Reverend Pedro Nota, founded Grupo Ceiba to seek out at-risk youths in the El Limón neighborhood of Guatemala City and provide them with counseling, education, and job training to keep them in society's mainstream.

Grupo Ceiba has gradually expanded and refined its prevention activities. Now an independent, nondenominational, and nongovernmental organization, it provides educational and job training opportunities to 1,000 at-risk youth in the neighborhood, which is still plagued by gangs and crime.

Recently Ceiba adopted a new approach. As an alternative to traditional job training for semiskilled trades—like baking and metalworking—it began instruction in information technology and related computer skills. Marco Antonio Castillo, the general director of Ceiba, says the project is resulting in higher student retention rates and better employment opportunities, be-



Ceiba training center in Guatemala City





cause it is “attractive to youth, especially at-risk youth, and matches them better with the job market.”

There was some opposition inside Ceiba when a computer training project was first proposed. “People said we were crazy,” says Castillo. “They said the at-risk youth would steal the equipment.”

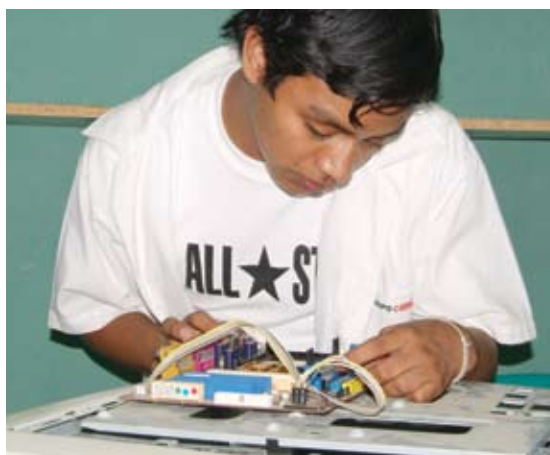
Despite the doubters, the project has flourished, attracting donors from global corporations, such as Microsoft and the Kellogg Foundation, as well as assistance from government agencies. The Paiz Foundation, established by a Guatemalan supermarket chain, is a major contributor to Ceiba’s projects. The government of Sweden has donated used computers, which are repaired in a shop operated by graduates of Ceiba’s computer and information technology courses.

Castillo is especially proud of five graduates of the computer program who received

four-month scholarships to study robotics in Colombia. “This demonstrates to the world what youth can do when given an opportunity,” he says.

The IDB provided a \$237,000 grant to Ceiba to launch the information technology training program for a targeted group of 220 at-risk youth between the ages of 16 and 24 in El Limón. The resources were used to develop teaching methods, train staff, strengthen Ceiba’s administration, and invest in related activities—such as job creation and employment counseling, income generation through fees and other sources to make the project sustainable, and evaluation and follow-up.

For more information about Ceiba, visit the organization’s Web site at [www.grupoceiba.org](http://www.grupoceiba.org).



# Entrepreneur Makes Fuel from Native Plant



Experimental plantings of piñon

**RETALHULEU**—While much of the world reacted with distress when petroleum prices spiraled upward beginning in 2001, Ricardo Asturias saw an opportunity.

An entrepreneur with an extensive background in agroindustry and the petroleum business, Asturias, 55, immediately understood that very high world oil prices made alternative fuels more attractive to consumers. That meant biofuel production could be a profitable possibility.

The fuel he had in mind would be produced from vegetable oil derived from the nonedible fruit of a small tree called the *piñon* that flourishes in Guatemala. Known scientifically as *Jatropha curcas*, *piñon* is commonly used in Guatemala for fencing—it contains a chemical that repels cattle—but it had little other use until now. In other countries

*piñon* is known as the “physic nut” or the “purging nut,” and it is used for medicinal purposes and the manufacture of soaps and candles.

Asturias knew that experiments with different varieties of *piñon* as a renewable energy source were under way around the world. He learned that India already produces substantial amounts of *Jatropha* as a biofuel, and he was aware that public transportation vehicles in Seattle and other U.S. cities were using biodiesel fuel.

### Converting an Idea into Profitable Reality

Asturias’s challenge was to convert his idea into a profitable venture. For that he needed help. He got it in the form of a \$5,000 grant to prepare a project design from Guatemala’s Program to Support Technological Innovation, run by the National Council of Science and Technology (CONCYT), and another CONCYT grant for \$7,500 to design a biodiesel factory. He received a \$54,000 grant from Guatemala’s Competitive Fund for the Development of Agricultural and Food Technology (AGROCYT) to test the genetic makeup and production capabilities of different varieties of *Jatropha*, and still another grant for \$110,000 from Finland to acquire land for *Jatropha* production and genetic testing.

After he and a group of associates invested an additional \$1.5 million, his company, Oc-



Technician with biodiesel fuel



Biodiesel factory



Ricardo Asturias

## Piñon

tagón, built a factory operated by seven employees that is producing 600 gallons of biodiesel fuel a day in an industrial zone 33 kilometers south of the capital. At another site in the municipality of Retalhuleu, 190 kilometers southwest of the capital, he is carrying out experiments with 50 varieties of *Jatropha* to find the best ones for production.

“The *Jatropha* from the Cape Verde Islands is the best,” he says. “It is productive, and the tree is low in height, making it easier to harvest the fruit.” Asturias also employs scientists to test the quality of the biodiesel fuel produced by his factory and the effectiveness of different production procedures, such as mixing, heating, and purifying the oil. Initially he heated the oil with solar energy before processing it into biodiesel fuel. Now he is using geothermal steam, readily

available as a result of the volcanic activity in the ground underneath the factory.

Asturias sells the biodiesel fuel to different buyers who are mainly interested in testing its potential for different kinds of engines. He predicts the factory will turn a profit within a year when it can produce fuel on a much larger scale. The agroindustrial operation he is developing, which consists of both *Jatropha* production and the factory, needs a larger investment and four years to become profitable, he estimates. His big concern now is acquiring enough land, mainly through leasing, to grow significant amounts of *Jatropha* and financing the initial investment required to get agricultural production started on a large scale. He needs to raise another \$10 million to make that investment.



## Environmental Award

The environmental commission of the Secretariat of Central American Integration awarded Asturias a prize for environmental innovation for identifying the *piñon* as a viable source of renewable energy. Asturias says he realized the plant had commercial possibilities after he studied an imported species of *Jatropha* as a consultant for the Inter-American Institute of Agricultural Cooperation. “We were surprised to find out that this was the same plant as the *piñon*, which we had known about all our lives in Guatemala,” he says.

Asturias is confident that the *piñon* and other renewable sources of energy “will result in an agricultural revolution in our countries.” He says the *piñon* is a noncontaminating fuel source that also prevents

erosion and deforestation. High petroleum prices and growing scarcity of hydrocarbons will “make biodiesel very profitable,” he adds.

The IDB supports renewable energy and environmental projects throughout Latin America and the Caribbean, as well as the transfer of new technologies to the private sector for the development of small and medium-sized enterprises. In 1999 the Bank approved a \$10.7 million loan to CONCYT to strengthen Guatemala’s system of technological innovation and help transfer technology to small businesses. During the prior year the IDB supported AGROCYT with \$12.5 million in financing that was part of a \$33 million loan package to the Ministry of Agriculture to strengthen the competitiveness of the country’s food and agriculture sector.

Product testing in biodiesel factory

# Business Alliance for Development



Displays at the Ixkit Museum

## Grupos Gestores Promote Broad Vision

**QUETZALTENANGO**—A train station built in this Guatemalan city by German engineers in 1930 was converted into an army base following the demise of the railroad a few years later. It remained an army facility for decades, until cutbacks in military spending after the 1996 Peace Accord. Then the government decided to close the base, leaving its future in doubt.

Some police officials thought the facilities were ideal for a new headquarters. Civic leaders argued on behalf of making them a cultural center.

A new alliance of businessmen and professionals called a Grupo Gestor (literally “Facilitating Group”) decided to throw its weight and persuasive capacity behind the effort to found a cultural center. Its lobbying effort was successful.

The Intercultural Center of Quetzaltenango was opened in 2004 and today houses an art school, youth sports facilities, conference rooms, and theaters, in addition to a museum of indigenous costumes and a railroad museum.

“The Grupo Gestor was the leader in making this facility a place for sports and cultural activities, and for getting permission for our museum to use these installations,” says Lina Barrios, one of the four founders

of the Ixkit Museum, which emphasizes the cultural and historical value of the colorful costumes now worn by members of the indigenous communities of the Guatemalan highlands, who are descendents of the ancient Mayan cultures.

Just what is a Grupo Gestor? How did it come to play an important role in the decision-making process of Quetzaltenango, a city of 128,000 inhabitants in a region with many areas of rural poverty?

Roberto Gutiérrez, an entrepreneur who is the founder and president of the national network of the 44 Grupos Gestores, says the idea started when a group of three businessmen in Quetzaltenango decided in the early 1990s to take a survey on what people thought about the future of their city, which in the 19th century was an important industrial center. The city fell on hard times beginning with an earthquake and eruption of a nearby volcano in 1902. The Great Depression of the 1930s and the constant emigration of city inhabitants to Guatemala City put Quetzaltenango into a decline.

The survey, says Gutierrez, revealed widespread concern about economic opportunities, especially for youth, and that concern prompted a decision to forge an alliance of business leaders to do something about it.



**Roberto Gutiérrez**  
Photo by Grupo Gestores



**Lina Barrios**

Surprisingly, of the 15 business leaders invited to the initial meeting of what became the first Grupo Gestor, nearly all represented small and medium-sized companies. Representatives of the largest companies by and large ignored the fledgling organization.

By joining together, leaders of the small and medium-sized companies found that they could have a stronger voice in local development. Later, when professionals, city administrators, academics, and other civil society members joined the organization, its

influence grew. Owners of small municipal businesses found their views had greater clout when supported by the opinion of trained professionals and managers.

One early project in Quetzaltenango was to build a road connecting two business districts of the municipality. Until they met in the Grupo Gestor, the businessmen on one side of town did not realize that they had strong potential allies on the other side of town to build the same road. By banding together, they were more effective in convincing the municipality to make the investment.

“Ours is an entrepreneurial vision to advance productive activities that generate employment and thereby contribute to the welfare of the community,” says Gutiérrez. The Grupos Gestores concentrate on supporting development projects in cities and rural areas outside of the metropolitan area of Guatemala City, where industry and national wealth are concentrated.

Among the more than two dozen projects sponsored by the Grupos Gestores in recent years have been studies on infrastructure and competitiveness, training for chocolate producers, provision of food and medicine for victims of Hurricane Stan, the formation of business clusters, organizing contributions for a public library, and organizing a conference of tourism operators to promote greater consistency in the country’s tax laws.





Two women founders of the Ixkit Museum



Miguel Chavarría

Miguel Chavarría, project coordinator of the Grupos Gestores, says the organization supports four types of projects: precompetitiveness projects, which involve activities to attract investment and may include measures to cut red tape and reduce corruption; prefeasibility and feasibility projects, including studies for investment projects; natural disaster projects, directed at providing relief and reconstruction following natural disasters; and national projects focusing on infrastructure and other activi-

ties involving more than one municipality. Promotion of tourism has a high priority.

Members of the Grupos Gestores (about 20 per group) serve without pay, but the organization's projects have received support from several national agencies and bilateral and international organizations, including the IDB, which has assisted in the development of the Grupos Gestores with a grant of \$148,000 and is preparing additional financial assistance.

# Credit for Microenterprise and Small Business



Fabián Lucas beside ropes produced by his factory

## ADISA Meets Local Needs

### SAN ANTONIO ILOTENANGO

—Fabián Lucas, 48, has always made his living in the rope business, selling ropes for ranchers, fishermen, household use—ropes for just about any purpose. He sold ropes as a young street vendor and then worked in a factory. Later he founded his own factory, making a respectable profit.

That wasn't enough. Lucas dreams of quadrupling his monthly sales from 25,000 quetzals (\$3,300) a month to 100,000 quetzals (\$13,000), expanding the market both inside of Guatemala and abroad to other Central American countries. He also has his eye on opportunities resulting from the Central America–Dominican Republic–United States Free Trade Agreement. In a reflection of that ambition, his trademark lassos are already sold in a plastic bag with an image of a cowboy on a bucking bronco in the American West.

To increase production Lucas bought second-hand, German-made, electric-powered machinery to supplement his manually powered plant—which is driven by men pumping bicycle wheels. Because of a temporary lack of access to three-phase electricity, in 2005 Lucas faced a crisis: he could not make monthly payments on a loan that enabled him to purchase the machinery, which has yet to become operational. He needed bridge financing, or he would risk losing his investment.

He turned to help from a local grassroots organization and microcredit provider that in recent years has undergone its own rapid expansion: Asociación para el Desarrollo Integral de San Antonio Ilotenango, known as ADISA. Credit examiners from ADISA knew about Lucas's operations personally and were impressed by his successful track record in business. The association granted him a two-year bridge loan of 150,000 quetzals (\$20,000), which he has repaid on schedule.

### Weighing Credit Risk

How did ADISA, which is increasingly applying hard-headed systems of business analysis, know Lucas was a good credit risk?

“We knew from his monthly income receipts that he had the resources to pay us back,” says Francisco Yat, a 33-year-old former schoolteacher who is ADISA's general director.

A nonprofit organization, ADISA was founded in 1992 with a handful of subscribers paying 25 quetzals a month. Its purpose was to devise ways to help meet local development needs in three areas— agriculture, health, and education—in one of the poorest municipalities in the country. An early idea to found a community pharmacy never got off the ground. But providing poor farmers with small loans to buy seed and fertilizer—loans repaid within a



New equipment for rope factory



**Manuel Vicente**



Hand-driven rope factory.



year when crops were harvested—filled an immediate local need and launched ADISA on the road to establishing a viable, growing microfinance operation.

Now the organization has 1,600 borrowers, offices in three cities, a loan portfolio of \$1.6 million and \$400,000 in capital. Its 59 full-time employees not only run a sustainable microcredit system, but also carry out health and education programs on government contracts.

Yat describes ADISA's evolution as a process of trial and error. Early risk analyses were weak, and the default rate among borrowers was about 30 percent. Interest rates were about 34 percent annually, but even so the organization struggled to survive. After many years of experience and capacity building, the default rate has been reduced to 4.5 percent. The interest rate

has been lowered to 24 percent. International assistance, first from Canada and later from the Netherlands, helped ADISA adopt better credit management techniques and expand its loan portfolio in the late 1990s.

A \$250,000 IDB grant for technical assistance and \$500,000 IDB loan disbursed in 2002 enabled ADISA to undergo a major expansion in recent years, Yat says. The resources helped ADISA establish a consistent credit management system, install the necessary computer software, train personnel, and draft a long-term business plan. ADISA is seeking additional resources to expand even further.

Over the years the share of agriculture loans in ADISA's portfolio has declined, while credit for commerce is playing a larger role. A typical borrower now is En-



Textile microenterprise



Bakery that received ADISA financing

carnación Simaj, whose three grown children help her operate a bakery. She obtained two loans from ADISA, one for 50,000 quetzals (\$6,600) in 2004 and another for 75,000 quetzals (\$10,000) in 2005, to enable her to purchase new oven equipment and to raise production by 50 percent.

ADISA has not abandoned its roots, however, and continues to lend to small farmers like Manuel Vicente, a 37-year-old father of six. He received a 25,000-quetzal (\$3,300) loan from ADISA in 2006 for a six-month term that enables him to buy seeds and fertilizer to grow asparagus and other vegetables on his small farm and bring them to market. In the coming years he will repeat the borrowing process, which is necessary for his family's economic survival.



Encarnación Simaj



# Training Managers in Social Policy

## INDES Courses Strengthen Human Resources

The IDB's Social Development Institute, based in Washington, D.C., offers a series of courses, workshops, and seminars to train leaders and administrators in government and nongovernmental organizations and civil society in developing and carrying out social policies and programs—the backbone of providing large segments of society with basic services.

Known as INDES, the institute has developed an extension program that brings

training sessions to individual countries themselves, making it more accessible to trainees and national institutions.

Guatemala is among the six countries in Latin America that have been the sites of INDES extension training programs. Financed by a grant from Norway, the Guatemalan project trained 900 social policy specialists between December 2003 and March 2006. The trainees were government officials and leaders of nongovernmental and civil society organizations. Most courses were either two or four weeks in length. Areas of instruction in-



INDES class - Photo by INDES

cluded conducting social, economic, and political analyses and management of social policies and programs.

In addition, the program provided training in specific managerial tools, such as program implementation, leadership, negotiation and conflict resolution, stakeholder analysis, use of a logical framework, organizational learning and change, and the training of trainers.

An innovation in the Guatemalan program was the use of instructional materials in Mayan languages indigenous to the country. About 19 percent of the participants in the course identified themselves as members of indigenous communities. As part of the program, a national prize was established to recognize quality and excellence in social management.

Five academic volumes and three special studies on social policies in Guatemala were published as part of the project and constitute key teaching materials for continuing training.

## National Institutions Continue Training

To keep a training system in place following the INDES project, instructors were trained to provide continuing education at the National Institute of Public Administration (INAP), Landívar University, and the University of San Carlos. As a result of

the INDES initiative, INAP developed and is now offering courses and a diploma in social management. In addition, the University of San Carlos has integrated social management material into its social work program, and Landívar University has incorporated social management issues into several of its courses.



**INDES seminar.**  
Photo by INDES.

An evaluation of the INDES project in Guatemala by a team of consultants from Canada's McGill University concluded that the training program had met its goals and "set a new standard for INDES national programs." The evaluation said that the objective of achieving sustainability in the medium term had been "largely fulfilled," but it cautioned that in the long term there was a need for follow-up activities to encourage national institutions to adopt needed changes and offer better incentives for employees to develop their skills.



INDES headquarters, Washington, D.C.

# Guatemala Promotes Regional Public Goods



**The forces of globalization, economic integration, competitiveness, and technological change** have had an uneven impact, both positive and negative, on the societies of emerging nations. There is a growing awareness that regional public goods can be an effective tool for addressing complex social and economic issues, both new and old, that transcend national borders.

In March 2004 the Bank launched its Initiative to Promote Regional Public Goods, backing it with \$10 million in annual grant financing. The initiative seeks solutions for regional challenges as well as opportunities for collective action by countries in Latin America and the Caribbean to respond to a shared need. Projects carried out within the framework of the initiative are proposed by the individual countries and subsequently screened through a competitive process based on technical criteria, such as ascertaining that collective action is in order.

## **Guatemala Participates in 50 Percent of the Projects**

Guatemala has actively promoted the creation of regional public goods, participating in 50 percent of the projects selected

for the region and financed under the initiative. These projects, which received \$7.4 million in grants, seek collective solutions to common, transnational challenges in many sectors, including health, environment, finance, and information and communications technology. Five of the projects benefiting Guatemala involve borrowing countries throughout the Western Hemisphere, while the other four are for Central America.

In the area of environmental protection, an IDB grant of \$830,000 supported the administration of water resources as a regional public good in the Trifinio region of the Upper Lempa River watershed, which the country shares with El Salvador and Honduras. The program includes the establishment of joint mechanisms for the integrated sustainable management of water resources—such as sharing social, economic, and environmental information on water usage among municipalities, a campaign for water conservation, and strengthening municipal administrative capabilities.

A second environmental project, supported by an \$800,000 IDB grant, strengthens the conservation of biodiversity and the ecosystem in 20 municipalities—seven of



them in Guatemala—in a region Guatemala shares with Mexico and Belize. The program promotes sustainable agriculture and stricter prevention of the illegal exploitation of flora and fauna in protected areas, as well as management of shared environmental emergencies. It also helps protect biological corridors and finances the monitoring and evaluation of the integrity of the ecosystem of the Maya Forest (Selva Maya). The project's executing agency is the Center for Tropical Agricultural Research and Higher Education in Guatemala.

## Nutrition and Health

Guatemala plays an important role in a project, supported by a \$1.3 million IDB grant, to strengthen nutrition and health for vulnerable groups through the Central American System to Strengthen Nutrition (see separate story), and in another project to design and carry out a regional program to combat Chagas' disease, which according to the World Health Organization infects approximately 30,000 persons annually in Guatemala. Supported by an IDB grant of \$900,000, the project provides resources to develop a regional approach to the establishment of guidelines and standards for Chagas disease detection, control, and prevention; to treatment of individual cases; and to community participation in combating the illness.

Guatemala took a leadership role, from the time of its presentation to its execution, in a

regional public goods project to modernize public management through the application of best practices in electronic government. The Presidential Commission to Reform, Modernize and Strengthen the State and decentralized agencies of the Guatemalan government proposed that this project—supported by a \$200,000 IDB grant—be carried out within the framework of the Network of Electronic Governments of Latin America and the Caribbean.

The project identifies standards and best practices for using electronic government as an instrument to improve public management in activities such as a one-stop shop to channel multiple government procedures quickly and efficiently. The program also strengthens intraregional cooperation by the institutions responsible for electronic government.

Other grant-supported regional public goods projects that benefit Guatemala are those to improve the institutional capacity of public agencies responsible for administering the national debt (\$500,000), enhance statistics used for measuring human development (\$1.8 million), strengthen academic networks through the Latin American Advanced Network Cooperation (\$600,000), and establish a Central American climate database (\$400,000).

For more information on the Initiative to Promote Regional Public Goods, see [www.iadb.org/int/bpr](http://www.iadb.org/int/bpr).



Photo: PRODERT archive

# Strengthening Nutrition in Central America

## Health as a Regional Public Good

Through its Initiative to Promote Regional Public Goods, the IDB is supporting a decision of the Central American nations to create a regional system to improve the health of their least advantaged citizens by adding nutrients to common foods.

A diet lacking in certain nutrients—such as iron, iodine, vitamin A, vitamin B complex, zinc, and folic acid—leads to higher rates of sickness and mortality, especially among children. This health hazard is preventable at low cost through the addition of these and other nutrients to common foods, such as flour, salt, and sugar. Mass consumption of nutritional additives can result in the eradication of some diseases.

The concept of regional public goods promotes the use of technologies with a high social impact that will improve the quality of life of large sectors of the population that have previously been neglected. Better child

and maternal health also leads to greater educational attainment and reduces social vulnerability, thereby contributing to the creation of new opportunities for the majority.

In response to a request by health ministers, the Institute of Nutrition of Central America and Panama, whose headquarters is in Guatemala, proposed that a system to fortify basic food be developed under the framework of the Central American Council of Health Ministers.

## Project Will Harmonize Policies

Specifically, the project will promote the harmonization of policies, norms, and regulations needed to establish a regional system of fortifying food. Measures will include the development of reciprocal quality control and the coordination of national systems for monitoring diseases that can be prevented by food additives containing nutrients.

Combating infant mortality is a major challenge in Central America. According to the Pan American Health Organization, 40 percent of infant mortality in Honduras, Costa Rica, and Guatemala is the result of congenital neural tube or heart defects.

The food fortification project is expected to reduce the risk of miscarriages caused by a lack of nutrients. It will improve the health of children under six years of age and lessen anemia among women of childbearing age.

This innovative project is being undertaken through an alliance of national governments with the private sector and civil society. The IDB contribution of \$1.3 million is supplemented by financing from the health ministries of Guatemala, Belize, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama. Other contributing agencies include the Institute of Nutrition of Central America and Panama, the Foundation for Food and Nutrition in Central America and Panama, the Pan American Health Organization, the

Centers for Disease Control and Prevention in the United States, the Child Health Foundation, and the March of Dimes Foundation.



# Green Deal a Good Deal for Guatemalan Tourism



## Environmental Sensitivity Brings More Business

**FLORES**—The colonial city of Flores is strategically located as a tourism center. It is near the sites of ancient Mayan ruins, a major national and international attraction, and it is surrounded by tropical forests in the department of Petén, the least populated area of Guatemala.

Businesses are finding that many tourists are not interested just in historic sites, lodging, and good food, but also in hiking on nature trails. They have more than an average concern about the environment. That means they may be inclined to give more of their business to a firm displaying the Green Deal badge.

A Green Deal certification for a hotel, restaurant, or travel agency tells customers that the business has taken steps not only to improve service to clients, but also to protect the environment, conserve energy, and comply with health and sanitation standards. The Green Deal standards are monitored by the Rainforest Alliance, a well-financed, worldwide organization based in New York.

The certification, conferred on the basis of on-site inspections, is managed in Guatemala by the Asociación Alianza Verde. The names of companies holding the Green Deal certification are posted on the Internet.



For Benedicto Grijalva, owner of the Capitán Tortuga restaurant and the Marstam travel agency of Flores, the prestigious Green Deal is a good deal. In addition to furthering environmental goals, it is also “a good marketing tool,” he says, and it is especially relevant for the nature tours organized by his boutique travel agency, which attracts tourists sensitive to environmental issues. He also notes that the energy savings and sanitation measures associated with the certificate—such as energy and water conservation—improve the quality and efficiency of his business operations.

**Petén Itzá lake**  
Photo by Kaleidos



**Benedicto Grijalva with Green Deal certificate**

Green Deal certification is one of the services promoted by an association of 55 tourism businesses in Petén known as the Tourism Business Center. The entrepreneurs pay a monthly fee of 75 quetzals (\$10) and in return have access to training seminars, an information clearinghouse,

standardized quality and pricing guidelines, and other marketing and business tools.

Grijalva says that a recent seminar on how to navigate a new Guatemalan tax law that is difficult to understand was particularly useful for the tourism businesses.

The center in Flores is one of three such centers for small businesses and microenterprises that were established by a private organization known as the Foundation for the Development of Guatemala (FUNDESA). The network program was supported by a \$400,000 grant from the IDB's Multilateral Investment Fund (MIF). Guatemalan companies and the Andalusia Business Confederation, as well as the government of the autonomous region of Andalusia, Spain, are among the backers of FUNDESA projects.

The general manager of FUNDESA, Juan Carlos Zapata, says a goal of the tourism development program is to raise service standards and quality in small hotels with four to five rooms and small restaurants that have between 40 and 60 tables. The business centers gain efficiencies through clusters of activity and improvements of different kinds of support activities, known as a "value chain." The program is "an example of large firms supporting smaller ones," says Zapata.

Training offered by the business center program ranges from a three-day semi-





nar on customer service to a three-month course on basic English. Other courses focus on marketing, managing a tourism business, organization and management of hotel services, financial management, restaurant management, teamwork, and using the Internet.

An evaluation of the program commissioned by the MIF concluded that the project had contributed significantly to improving the participating tourism business services. It said businessmen felt the activities of the centers had improved the national and international image of tourism in Guatemala and created greater awareness of the need for cooperation among firms to achieve higher standards.

## The MIF and Guatemala

Since it began operations in 1993, the MIF has approved \$25.5 million in financing for 35 projects for Guatemala. In addition to supporting tourism development, the “fast window” for business registration, and the adoption of a policy framework for development of small and medium-sized businesses, the MIF has a financed a variety of other operations, such as projects to strengthen e-commerce, rural credit, and airport security.

MIF operations have also supported alternative dispute resolution for businesses and the channeling of remittances into productive activities.

**Flores**  
Photos by Kaleidos



# Building Opportunities for the Majority

**The IDB initiative to build Opportunities for the Majority** is a new approach to improving the quality of life for some 360 million people—that 70 percent of the population in Latin America and the Caribbean earning less than \$300 a month.

Launched in June 2006, the initiative views the majority through a new lens, seeing it not as an obstacle to development, but as an essential and effective partner for growth. Although individually its members typically lack resources, collectively they represent an immense market of consumers, producers, partners, and creators of wealth that can be unleashed through the right combination of investments and incentives to achieve a higher standard of living for all.

## Six Priority Areas

The IDB will devote new resources to six priority areas that will have a high impact on building opportunities for the majority: documenting citizens, through such essential procedures as birth certificates and

social security; spreading financial democracy, by extending the number of persons with bank accounts and access to credit and other financial instruments; extending connectivity, such as increasing the number of persons with access to computers and telecommunications; promoting the growth of small and medium-sized enterprises and enhancing workers' skills through an "enterprise compact"; improving access to basic infrastructure services, such as water and sanitation; and extending low-income housing.

While the IDB has been active in Guatemala and other countries in Latin America and the Caribbean in investing in all six of the priority areas, the Opportunities for the Majority initiative will use a systematic approach to achieving concrete, measurable results by 2011. It will conduct research and experiment with pilot projects and new ideas to identify the most effective programs, enlisting support from the private sector and civil society as well as from governments to ensure that the majority receives its fair share of the benefits from





economic growth, thereby strengthening society as a whole.

### Projects in Guatemala

Among the IDB projects undertaken in Guatemala with special relevance to the initiative are one that reduced the time it takes to register a business from nine days to one day and another long-term project that reduced the time needed to obtain an export permit from nine days to just five minutes. Other IDB programs in Guatemala aligned

with the initiative are investments in roads and electrification and a modernization of justice project that includes obtaining identity documents for low-income persons in rural areas. The IDB financed the development of a policy framework that is the basis for new legislation to improve the business climate and support small and medium-sized businesses—a primary objective of the initiative.

For more information on the initiative, visit [www.iadb.org/bop](http://www.iadb.org/bop).

# A Municipal Priority: Water and Sanitation



Stabilization pond

**IPALA**—Sylvia Albanés Jordán, a 32-year-old housewife and mother of four children, used to pay only 2.5 quetzals a month for water supply, the equivalent of 33 U.S. cents.

Recently the municipality of Ipala installed a new water and sewerage system, and with it water meters. As a result her monthly bill is 35 quetzals (\$4.60) a month.

Normally, consumers are alarmed, if not outraged, at a steep price increase. Albanés Jordán, the wife of a bricklayer, says that not only did she expect the increase, but she also accepts it.

“Previously, we had service one day, but not the next day, and then not all day,” she says. “Now we have water every day of the week.”

She was aware her water rate was going up, because before a new system was installed, promoters from the municipality visited her home to advise her of the expanded service and the rate hike. “I was in agreement,” she says.

Ipala, a city of 7,000 inhabitants located 200 kilometers east of the capital, invested 26 million quetzals (\$3.5 million) in the new water and sanitation system. The project was supported by a \$19.5 million IDB loan to finance a nationwide municipal development and modernization program for different types of services and infrastructure.



Municipal water source

## Integrated System

Mayor Roel Pérez Argueta describes the new water distribution, storage, treatment, and drainage system as “one of the few fully integrated water and sanitation projects in Guatemala.”

Convincing residents to accept a rate increase in exchange for better service was not easy, he says, but he estimates that more than 80 percent of the population favors the new investment despite its higher cost. There was widespread dissatisfaction with the previous water supply system, in which “water was available only a few days a week and in some cases only a few hours a day,” says Mayor Pérez.



Sylvia Albanés Jordán



El agua potable tiene los años contados  
**VEA CÓMO LLEGA A USTED y decida**

- 1 El agua se extrae de fuentes naturales: ríos, lagos, manantiales o lagunas de agua dulce.
- 2 El agua se filtra en un proceso de filtración.
- 3 El agua se trata con un cloro sódico para desinfectarla.
- 4 Se extrae el agua de la planta productora de la red pública de distribución.
- 5 Esta agua se almacena en un depósito de agua.
- 6 Después de ser extraída el agua pasa por el agua fría para ser almacenada en un depósito de agua fría.
- 7 El agua se filtra en un proceso de filtración.
- 8 El agua se trata con un cloro sódico para desinfectarla.
- 9 Se almacena el agua en un depósito de agua fría para ser almacenada en un depósito de agua fría.

**¡aguas!**  
 Que nos quedamos sin agua

Si paga, el servicio de agua mejora,  
 pero no la desperdicia.

su municipalidad



Ipala

The project included building a two-kilometer pipeline to a spring, digging wells, installing pumps and new storage tanks, building a treatment plant, laying pipes for the drainage system, and building a stabilization pond to extract sediments from wastewater.

A separate administrative unit was established within the municipality to operate the water system. Computer systems were installed to modernize operations and billing procedures, and personnel were trained in their usage. Water meters were placed at the homes and businesses of consumers. Contracts to private sector suppliers were awarded based on government procurement rules.

“Previously only 40 percent of the population received water service, and 50 percent of the water was lost due to leakage,” says Luis Ambrosio, the project engineer. “Now we have 100 percent coverage, and we don’t have leakage.”

Mayor Pérez and other officials consider the Ipala project a model that could be repeated elsewhere in the country. Its underlying principles are holding public consultations prior to a controversial investment, demonstrating the tangible benefits of the investment, modernizing administrative machinery to help make the investment a success, and incorporating cost recovery mechanisms to make the project sustainable.





Ing. Joaquín Estuardo Arriaga

# Technology Reduces Red Tape

## Business Procedures Cut from Days to Minutes

In a fast-paced, competitive, and globalized world economy, business opportunities can be won or lost in minutes or even seconds.

Guatemalan authorities and the country's business community have taken steps to keep pace with rapidly changing requirements for faster processing of business licensing. They recognize that if entrepreneurs are not able to register a new business quickly or get an export permit in a timely way, the country's overall competitiveness will be affected.

"In 1986 it took nine days for a business to get an export permit," says Joaquín Estuardo Arriaga, director of the privately managed one-stop shop that processes documents for Guatemalan exporters. "Now it takes five minutes."

Exporters can complete the necessary procedures and obtain their licenses on the Internet, without having to visit an office, making the services available 24 hours a day, every day of the year. The modernization process was gradual but took a big

step forward in 2000 when the time was cut from two days to 30 minutes, and in 2002, the processing was cut again to five minutes, says Arriaga. Not only is the automated electronic system faster, but it reduces opportunities for corruption, because procedures are automatic and standardized, he adds.



Single windows

The modernization process will continue indefinitely, Arriaga says, because there is a constant need for investments in upgrading computer and Internet technology, training for exporters, and harmonization of trade procedures and documentation with other members of the Central American Common Market and with Guatemala's other major trading partners.

The quick procedure for obtaining export documentation, known as the Single Window (*Ventanilla Única*), is managed by a private organization, the Guatemalan Exporters Association (AGEXPORT), which charges a fee of 35 quetzals (\$5) for each export permit issued.

### Time Is Money

An example of how the automated electronic process is important for business competitiveness is provided by the case of the firm Eke Guatemala, a major producer of flowers and ornamental plants, mainly poinsettias, which are exported by airplane, mainly to the United States.

The firm's 20 hectares of farmland and greenhouses, worked by approximately 700 employees, are located 50 kilometers from Guatemala City near Antigua, at a site where unusual soil and climate conditions have proven ideal for growing poinsettias and other flowers. Byron Calderón, general manager of the farm, says the firm needs export licenses constantly because

of its reliance on continuous air transportation. By using the Internet and the Single Window, the company can accelerate each export procedure by one day—the time it would have taken for an employee to travel to Guatemala City and apply for the permit in person.

### Accelerating Registration of Firms

The government recently applied new technologies and procedures that reduced the time it takes to register a business—a step necessary for it to legally operate—from approximately nine days to one day for businesses in Guatemala City. For businesses located outside of the capital, the process takes three days, because an extra two days are needed to send legal documents back and forth.

The new system, known as the Fast Window (*Ventanilla Ágil*), reduced the number of forms from 10 to only one. An applicant previously had to visit 15 institutions to register a company. Now the applicant only needs to visit the Mercantile Registry. The time needed to complete the registration process is now 15 minutes, compared with 17 hours required by the previous process.

"We want to reduce the time to one minute," says Arturo Saravia Altolaquirre, the chief of the Mercantile Registry. The registry is working on a plan to streamline



Carlos Enrique Herrera Castillo



### Fast windows

the registration process to enable a person to register a company instantaneously on the Internet, Saravia says.

### New Steps for Competitiveness

Deputy Economy Minister Carlos Enrique Herrera Castillo says the Fast Window is a reflection of a recently adopted policy framework that guides the government in taking steps to achieve greater competitiveness for microenterprises and small and medium-sized businesses.

To help carry out the policy, the government is urging the legislature to enact three proposed laws. One would enable microcredit institutions to join the formal financial system as regulated institutions, a status that would enable them to extend more credit to small producers. As formal institutions, microlenders could expand their assets and operations by offering savings accounts, managing remittances from overseas, and issuing different financial instruments, such as credit cards and commercial paper.

A second proposed law would establish mutual guarantees so that guarantees for loans to small and medium-sized firms

could be based more on the quality of a proposed project and the company's integrity—assets not traditionally accepted by banks in Guatemala as sufficient backing for a loan. The proposed mutual guarantee system would be supported by a nationwide fund.

A third proposed law would enable entrepreneurs to use their nonfixed assets—such as product inventory, machinery, or accounts receivable—as collateral for a loan. This would help expand credit to firms, says Herrera, because traditionally banks in Guatemala have required fixed assets as collateral for loans.

The IDB has supported Guatemala's business competitiveness programs with loans and grants. The Bank provided a \$900,000 credit in 1998 to upgrade technology, regulations, equipment, and training for the operation of the Single Window, and in 2006 it supported that facility with a \$9,500 grant. The Bank's Multilateral Investment Fund provided a \$900,000 grant in 1999 to support the creation of the Fast Window for the registration of companies and the development of a policy to promote small and medium-sized companies.