

**SOCIAL INVESTMENT FUND
EASTERN DEVELOPMENT PROJECT
FIS-PRORIENTE**

(GU-0127)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	Government of Guatemala	
EXECUTING AGENCY:	Social Investment Fund (FIS)	
AMOUNT AND SOURCE:	IDB: (OC/IFF)	US\$ 90 million
	Local contribution:	US\$ 10 million
	Total:	US\$100 million
FINANCIAL TERMS AND CONDITIONS:	Amortization period:	30 years
	Grace period:	4 years
	Commitment period:	3 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75% of the undisbursed amount
	Currency:	Single Currency Facility in U.S. dollars
BACKGROUND:	The FIS is a key government institution implementing the government's strategy to meet the needs of persons living in poverty in Guatemala. Since its establishment in 1993, the FIS has evolved, modifying its procedures and methodologies to make them more efficient and effective. The proposed project will support these changes over the next four years.	
OBJECTIVES:	The project has two objectives: to establish procedures in the FIS to strengthen and promote local development management and to meet the most pressing socioeconomic infrastructure needs of the poor, rural population.	
DESCRIPTION:	The project has three components, which represent new methods that the FIS will use along with its general operations. The project will intensify the demand-driven approach and introduce a new initiative to guide new emergency operations from the supply side. All the components will increase access to basic infrastructure.	

Component 1. PRORIENTE (US\$31 million). This component focuses on the eastern region of the country, which suffers from a situation of relative exclusion from development programs. PRORIENTE was therefore designed not only to supply infrastructure, but also to promote community initiatives to identify needs. It further promotes the collaboration of the communities with the municipal governments both in approving projects and in project execution and sustainability. It will strengthen the managerial capacity of the municipalities and communities for participatory planning, project execution, and maintenance of investments.

Component 2. Establishing microregions (US\$15 million). This component will have two subcomponents that will finance investments in: (i) eleven microregions already organized by the community organization program (COP), an initiative to strengthen community organizations that was launched as a pilot project with financing from the first Bank loan to the FIS; and (ii) at least six new, poor microregions that will be identified and organized through methodologies similar to those developed and implemented by the COP.

Component 3. Sector investments (US\$44.9 million). This component will meet urgent socioeconomic infrastructure needs that initially and in the aggregate have been identified by the FIS through a targeting process in municipalities with less coverage in education and health services, water supply and sanitation, and road infrastructure. These needs were confirmed with direct participation of the communities themselves, as well as the authorities and local sector representatives.

**ROLE OF THE
PROJECT IN THE
BANK'S COUNTRY AND
SECTOR STRATEGY:**

To meet its objective, FIS-PRORIENTE will improve the standard of living of the poor population in rural areas of Guatemala. It will also reduce the degree to which the population in the east is excluded from the country's development process. In this way, the project will support the first focal point of the Bank's strategy set forth in the country paper approved in 1996: the integration of the poor, indigenous, rural population into the development process. The project considered and incorporated elements of the Bank's policy on social investment funds set forth in document GN-1930-2, on the use of social investment funds as an instrument for combating poverty, approved on September 30, 1998.

**ENVIRONMENTAL
REVIEW AND SOCIAL
ASPECTS:**

A modified version of the environmental protection system included in the loan currently being executed by the FIS will be implemented. Under that system, the environmental impact is examined as part of each project's technical evaluation. In addition, the training of local development associations (LDAs) and the planning offices (POs) in the municipal corporations in the PRORIENTE component will include environmental protection and gender-related considerations.

Project monitoring will: (i) verify whether the communities participating in the environmental diagnostic exercises are receiving proper training on environmental issues relevant to the living conditions of those communities; (ii) measure the impact of the training on the results of the participatory diagnostic assessments; and (iii) review the specific environmental indicators designed to evaluate the degree of implementation of mitigating measures and assess the efficiency and effectiveness of those measures (paragraph 4.11).

BENEFITS:

The main beneficiaries of the project will be groups living in poverty and extreme poverty in rural areas of Guatemala. All the components will increase these groups' access to basic social and economic infrastructure. With the sector ministries and apex agencies fulfilling their obligations in terms of allocating human, physical, and financial resources to operate that infrastructure when necessary, the target population will benefit from a substantial improvement in access to social services.

RISKS:

Project sustainability. The success of the first component depends on the parties involved, particularly the municipalities, adopting the participatory management methodology. There is the risk that some local authorities may prefer not to use resources of the project because of its methodology that involves broad participation in decision-making. Nonetheless, the results of consultation with the stakeholders indicate that this risk is minimal.

Quality of the investments. After a slow start, the FIS increased its capacity for investment project commitment and execution. In 1998, it achieved a monthly average of roughly US\$5 million in commitments and disbursements. Based on the resources from FIS-PRORIENTE, new external loans (from the World Bank, KfW, OECF, and CABEI), and

increased allocation of resources from the national budget, the FIS foresees continued growth in its investment program. As with any organization, there is a risk that growth could affect the quality of the investments. The FIS will offset this risk in the first two components by assigning more of the maintenance responsibilities to the communities and local institutions directly involved in the operation of the works.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement:

- (i) An agreement between the borrower and the executing agency establishing the conditions for the transfer of the loan proceeds and the local counterpart, as well as the agency's obligations and responsibilities with respect to project execution (paragraph 3.1).
- (ii) Evidence of interagency coordination agreements between the FIS and the sector ministries and apex agencies that are consistent with the modalities and period of execution of the project's three components (paragraph 3.20).
- (iii) An agreement between the executing agency and the Bank regarding a monitoring system for quality, maintenance, and environmental and social impact of the investments carried out with project resources (paragraph 3.21).
- (iv) Presentation of a bill to Congress extending the life of the FIS for the loan execution period (paragraph 3.2).
- (v) The inclusion in the FIS operations manual of: (a) procedures and ceilings for procurement of works, goods, and services (paragraphs 3.34-3.36); (b) performance indicators (paragraph 3.38); and (c) environmental system modifications (paragraph 4.6).

Conditions precedent to the first disbursement for the PRORIENTE component:

- (i) Adjustment of the FIS operations manual for implementation of the component (paragraphs 3.1, 3.7, and 3.26).
- (ii) The establishment and startup of an operative unit for execution of the component (paragraph 3.5).

- (iii) An agreement between the Instituto de Fomento Municipal [Municipal Development Institute] (INFOM) and the FIS on municipal training (paragraph 3.6).

**POVERTY-TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

Since the project is described as a poverty-targeted investment (PTI) because it supports a social investment fund, the Bank's financing could cover up to 90% of the total cost of the project.

**EXCEPTIONS TO
BANK POLICY:**

See Procurement (below).

PROCUREMENT:

Normal Bank procedures for procurements will be implemented. International competitive bidding procedures will be implemented for: (i) the procurement of goods valued at over US\$250,000; (ii) the contracting of works valued at over US\$1,500,000; and (iii) the contracting of consulting services valued at over US\$200,000.

Local competitive bidding is allowed for the procurement of goods if the amount is under US\$250,000, and limited bidding (three quotes) for amounts under US\$100,000. For the procurement of general works, local competitive bidding may be used for amounts under US\$1,500,000, and limited bidding (three quotes) for amounts under US\$150,000. For consulting services, local competitive bidding may be used for amounts under US\$200,000 and limited bidding for amounts under US\$50,000 (Table 3.3).

As an exception to Bank policy, direct contracting will be allowed for the procurement of goods for amounts under US\$10,000 and for contracting of works in amounts under US\$50,000, if the latter are being executed in remote rural areas where shopping is not feasible (paragraph 3.35).

The following limits on direct contracting, as a percentage of the amounts from the loan resources allocated to each component, are being established: (i) for component 1, no more than 50%; (ii) for component 2, no more than 40%; and (iii) for component 3, no more than 30% (paragraph 3.36).

I. BACKGROUND

- 1.1 This loan will support the Republic of Guatemala's pressing strategy, entrusted to the Social Investment Fund (FIS), to overcome the conditions of poverty of rural groups and communities in the country, by satisfying their immediate needs for basic social infrastructure. It will also support the goal of making FIS action more effective and impactful by introducing and strengthening methodologies that improve, target, and transfer the State's social investment to local development institutions.

A. Poverty and exclusion

1. Poverty

- 1.2 According to 1994 census data, 65% of the 8.4 million Guatemalans reside in approximately 20,000 rural communities, the majority of which have fewer than 2,000 inhabitants. According to the criteria of the poverty profile, INE-FNUAP, and the SEGEPLAN projections, 75% of households in the country live in poverty, that percentage is much higher in rural areas (83.5%). Rural poverty affects indigenous groups primarily (at a rate of 93%).
- 1.3 Rural poverty in Guatemala is rooted in political and economic inequality in terms of access to factors of production, participation in democratic processes of government, and public and private investment in human capital. Education and health receive less than half the regional average as a percentage of GDP. There is little investment in basic rural infrastructure for access roads. The conditions of poverty are unequally distributed among geographic areas of the country. Wealth is concentrated in Guatemala City and the surrounding areas, and the most disadvantaged departments are in the north, west, and east.

2. Exclusion

- 1.4 The Government of Guatemala has expressed concern over the degree of exclusion that affects a large number of communities in the eastern part of the country. Approximately half the 1.2 million inhabitants of the five departments in eastern Guatemala are isolated from State agencies, disconnected from their neighbors, lacking in internal organization, poor, and with a limited economic outlook. They do not have the necessary capacity to gain access to existing national programs.
- 1.5 The lag in their inclusion in these programs is due to historical and economic factors that have focused the government's attention on areas directly affected by the internal conflict and those with greater economic potential. This situation has worsened because of the limited effectiveness of the targeting mechanisms of the national programs toward the most underserved groups and because of

centralization in the decision-making process. This has excluded certain communities from the development process.

- 1.6 The excluded communities are relatively heterogeneous and geographically separated. They include ladinos and members of the following ethnic groups: Garífuna, Chortí, Pocomam, and Kekchi. They live in areas that vary significantly in their topographical and environmental characteristics - mountains, flatlands, areas near the coast and lakes, and land with agricultural and forestry production capacity. The latter have been severely affected by environmental deterioration from deforestation and the ensuing soil erosion. Land tenure consists of small farmsteads, larger plots, and communal land. A development project for the region would have to be sufficiently flexible to accommodate this heterogeneity.

B. Government strategy

- 1.7 The 1996-2000 government program identifies three main keys to reducing poverty: (i) an urgent program, which focuses its efforts on the target groups and priority regions; (ii) institutional reforms in sectors with the greatest impact on combating poverty; and (iii) realignment of sector policies and improvement of the external efficiency of public spending. The government has given the FIS main responsibility for the first point: expanding social services by financing small, social and economic infrastructure projects that meet the demand of communities and local governments.
- 1.8 The government has stressed the urgency of reducing the exclusion of communities in the east and, at the same time, contributing to improving access to public services, reducing poverty, containing the deterioration of the environment, and revitalizing the economy. Accordingly, it proposed preparing a development project for that region, called the eastern development project (PRORIENTE). In keeping with the commitments made in the peace agreements and the local development strategy in the government's social strategy, it was emphasized that PRORIENTE must support the principles of broad-based participation of the communities and equity among population groups.
- 1.9 The peace agreement on social and economic aspects and agrarian situation lays the foundation for collaborative action at all levels of society, in order to promote equity in the provision of social services and the development of sustainable, productive projects. It stresses the importance of widespread and effective participation of citizens in identifying, prioritizing, and meeting their needs and commits the government to taking initiatives that prevent the creation of conditions that would adversely affect the meeting of those needs.
- 1.10 According to the document on the government's social strategy, the government's local development policy is based on the constitutional principle of subsidiarity, which promotes delegation

by the central government of decisions, functions, and resources to local agencies, including private institutions. The central government intervenes only when those institutions cannot resolve a given problem.

C. The Social Investment Fund

- 1.11 As a policy instrument and strategy to overcome poverty promoted by the government, FIS investments have had a substantial impact on the most disadvantaged sectors in the country. As of mid-September 1998, the FIS was responsible for building 2,676 classrooms and 1,347 more are under construction, benefiting 1,776 schools, or almost 20% of rural schools in the country. In the water and sanitation sector, the FIS has financed 143,842 service connections for potable water and 12,618 latrines, benefiting roughly 14% of rural families. In the health sector, 401 health posts were outfitted and 95 were built, benefiting isolated rural communities that lacked services or only had low-quality, primary health care. These investments were financed by the IDB, the World Bank, KfW (Germany), OECF (Japan), OPEC, and the national budget.

1. First Bank loan for the FIS

- 1.12 The Bank approved a first loan to support the FIS program in July 1996 (943/OC-GU, US\$42.3 million, declared eligible in June 1997). In 17 months of execution through November 1998, 100% of the resources from this loan had been committed and 63% had been disbursed. The main use of these resources involved the construction of schools (approximately 60% of the resources committed), followed by improved greenhouses (14%), health infrastructure (4%), outfitting of schools (4%), provision of texts and teaching materials (4%), and water supply (2%). The FIS has become the main agency for building schools in the country.
- 1.13 The purpose of this first loan was to develop a new model to: (i) promote the organization of the communities and develop their self-management capacity for productive activities and basic social and economic services; and (ii) support subsidiarily, through social investment, the empowerment of the communities so that they would undertake the comprehensive and ongoing improvement of their living conditions.
- 1.14 In order to fulfill these purposes, the loan helped the FIS launch a pilot program to expand community participation in its investment projects. The community organization program (COP) developed an effective methodology to: (i) form, train, and certify community organizations; (ii) carry out participatory planning processes that include the identification of needs and the prioritization of projects and important aspects of the project cycle; and (iii) manage the mobilization of resources.

- 1.15 Begun in the Chortí region of eastern Guatemala in 1996, the COP is currently strengthening communities organizations in 11 poor, rural microregions in the country. Over half the municipalities (25 out of 48) targeted by the COP fall in the "extreme poverty" category, which is the most severe of the five categories defined on a poverty map based on 1994 census data. Another 13 municipalities fall into the second category of "severe poverty."
- 1.16 Through workshops on participatory planning, the COP provides advisory services and training to communities to identify and prioritize their needs and incorporate them into investment plans. In addition, the methodology developed and implemented by the COP involves the participation of local, civil society institutions and the government. A recent evaluation of the COP provides evidence of the communities' satisfaction with this program and its success.
- 1.17 A preliminary analysis of the first loan, shows a large increase over the execution period, in the capacity to manage projects. However, it also shows that the FIS did not meet the targeting goals of investing 20% of the resources in priority "A" municipalities (those in "extreme poverty") and 50% in "A" and "B" priority municipalities (the latter are in "severe poverty"). It only committed 13.5% of the resources to the "A" municipalities and 40.3% to priority "A" and "B" municipalities. Nonetheless, out of the total investment of resources from all sources from 1994 to 1997, the FIS channeled 46.8% to the two poorest categories.
- 1.18 The first FIS loan anticipated the use of direct contracting for about 55% of the investments. This modality is used primarily for small investments in poor areas where there is a scarcity of contractors. As the FIS strengthens its internal procedures, it will have the capacity to expand the use of competitive procurement methods.

2. Challenges for the FIS

- 1.19 To meet the government's goals of reducing poverty throughout the country and addressing conditions in the east, the FIS has identified three areas for special attention: (i) greater impact on four basic, key sectors for development; (ii) targeting resources to the poorest microregions in rural areas; and (iii) participatory management of local development agencies. FIS-PRORIENTE is meeting these challenges.

a. Improving impact on the sectors

- 1.20 The FIS has identified rural, geographic zones with deficient services in four key sectors: road infrastructure, education, health, and water supply and sanitation. It has identified them through a sector-based system founded on information from the 1994 population and housing censuses.

- 1.21 For **road infrastructure** projects, maps were consulted to identify rural communities (settlements and hamlets) that are accessible only by way of long footpaths; 287 sections of highway were identified for priority attention at a cost of roughly US\$72 million. For **health**, construction and equipment requirements for the sector were estimated at US\$13 million. For **education**, the FIS has already received 1,642 requests to build schools and 1,295 for school equipment for an estimated amount of US\$50 million. The FIS also identified the municipalities in the country with the lowest coverage of **water supply and sanitation** and, based on the field work carried out, 1,854 new water supply systems, expansions of existing systems, and rehabilitation works were identified and prioritized for a total of US\$72 million. In short, in the four priority sectors, the FIS has identified a portfolio of requests totaling US\$207 million. The portfolio was confirmed by the communities, the local governments, and local representatives of the line apex agencies and ministries.

b. Targeting the poorest microregions

- 1.22 The targeting system implemented nationally by the FIS, which consists in allocating resources at the municipal level through a method based on the existing population multiplied by the municipal poverty index, does not guarantee that the needs of the poorest communities within the municipality will be met. Those communities face hurdles in articulating their demands, including conditions of exclusion and little contact with local government agencies. The FIS will try to improve its targeting by expanding the establishment of microregions begun by the COP in poor areas and the development of a participatory methodology in poor communities in the east.

c. Promoting participatory management of local development agencies

- 1.23 According to current procedures, the FIS is responsible for evaluating, approving, contracting, and paying the executing agencies and supervisors. It is important to transfer this technology to the local level. Although attempts have been made in the past to cofinance investments with municipal authorities, they have not been very successful. The FIS will further its efforts to include the participation of local development agencies, including departmental and municipal governments, development councils, civil society organizations (CSOs), and community organizations.

D. Other relevant experiences in community development

- 1.24 The **Community Development for Peace Program (DECOPAZ)** (loans 968/OC-GU and 984/OC-GU approved in November 1996). This is an innovative program that targets one of the areas most affected by the conflict and most excluded from the country's social, economic,

and political development. Its purpose is to rebuild the social fabric and reduce poverty. The main lessons that contributed to the design of the first component (PRORIENTE) are the importance of: (i) designing a program that takes into account the specific situation of the target population, which in the case of PRORIENTE involves a flexible methodology to respond to the heterogeneity of the population in the east; (ii) working with existing institutional structures, such as the FIS, instead of building new ones; (iii) involving the municipalities in the project in order to take advantage of complementary programs and promote the sustainability of the investments; conditions for a greater degree of collaboration from the local governments are favorable in the east where there is not the same degree of mistrust of the State as in the region in which DECOPAZ is operating; (iv) minimizing prolonged use of NGOs in implanting new processes; this will reduce costs and is suited to the east, where the communities do not suffer from the same level of neglect as in the DECOPAZ region; (v) preparing in PRORIENTE, as well as in DECOPAZ, a methodological guide that preserves the transparency of the processes; (vi) locating the executing and supervisory unit of PRORIENTE in the east, for the same reasons that the DECOPAZ unit is located in Huehuetenango - to maintain quick communications with the main stakeholders in the project; and (vii) minimizing the risk of politicizing the project by establishing mechanisms that ensure the participation of the communities and NGOs in the project.

- 1.25 **San Marcos Project.** In June 1998, the World Bank approved a loan to promote the development of communities that have experienced a degree of destruction of the social fabric similar to those in DECOPAZ. Lessons from the loan kept in mind when designing PRORIENTE include: (i) the feasibility of establishing decentralized mechanisms to approve investments; (ii) the confirmation of mechanisms that avoid prolonged use of NGOs in the field for the implementation of new processes; and (iii) a model that gives the financial and operational responsibility to an established agency to respond to the incipient capacity of the communities.
- 1.26 Since the legislation on development councils is being revised, the San Marcos project did not give the municipalities a defined role. However, PRORIENTE will give them a defined yet flexible role that is in keeping with the approach of the draft legislation. This decision reflects the importance of municipalities in PRORIENTE.

E. Bank strategy

- 1.27 To meet its objective, the project will reduce poverty in Guatemala. It will thereby support the first focal point of the Bank strategy set forth in the country paper (CP) approved in 1996: integration of the poor, indigenous, and rural population into the development process.

- 1.28 The preparation of FIS-PRORIENTE considered and incorporated elements of Bank policy on social investment funds set forth in the document on the use of social investment funds as an instrument for combating poverty. 1/

1/ Strategy paper. Final, revised version, GN-1930-2.

II. THE PROJECT

A. Project objectives

- 2.1 The FIS-PRORIENTE project has two objectives. The first is to establish procedures in the FIS that will strengthen and promote the management of local development agencies. The second is to meet the most pressing socioeconomic infrastructure needs of the poor, rural population.

B. Project strategy

- 2.2 To achieve the first objective, the project strategy will: (i) promote community management and community participation in identifying and prioritizing their needs, as well as community involvement in the projects and project sustainability; (ii) technically strengthen the planning capacity of the municipalities and their openness to community involvement in the actions of the municipality, particularly their project management and execution capacity; and (iii) geographically expand pilot experiments conducted by the FIS, aimed at community organization and participation in projects development.
- 2.3 To achieve the second objective, FIS-PRORIENTE will provide financing to meet pressing needs for socioeconomic infrastructure, particularly in four key sectors, and will emphasize the process of targeting investments to the country's most depressed areas.

C. Components

- 2.4 The project contains three components that represent different methods of identifying the most needy groups in Guatemala and meeting their needs. The first two components primarily fulfill the first objective of the project and the third fulfills the second objective. The three components are special and separate from the general operations of the FIS. Each one represents the new strategy of the FIS to complement its general operations with others that ensure the fulfillment of its mission in a time frame consistent with the pressing nature of the needs of the poor population, in a way that modifies processes that perpetuate poverty and exclusion. These three components comprise system of the proposed project.
- 2.5 The first component, PRORIENTE, will not only invest in social infrastructure, but also provide the beneficiaries with the capacity to solve their own problems and establish new working relations at the local level. Like PRORIENTE, the second component (establishing microregions) will be demand-driven and will organize and train the beneficiaries to manage their own development. The third, the sector-based component, will meet the pressing needs for

social services that cannot wait for requests to be made by the communities. In this way, the three components will develop new, long-term processes for increasing local capacity and organization and basic social services.

1. Component 1: PRORIENTE (US\$31 million)

- 2.6 PRORIENTE represents a novel approach for the FIS. It is based on the concept that in order to overcome the conditions of poverty and exclusion, a self-sustaining development process must be established. This includes meeting basic needs, the legal organization and training of communities, and the establishment of collaborative relationships between communities and local development agencies. The main point of the component is to lay the foundation for far-reaching changes in the decision-making and problem-solving processes.
- 2.7 PRORIENTE will target eastern municipalities with the highest levels of exclusion that are selected using criteria incorporated into an exclusion index. Those criteria include indicators on poverty; access to electricity, road and telephone infrastructure; ethnicity; presence of NGOs; and public investment. Based on this index, the FIS ranked the 50 municipalities by exclusion index. Only municipalities that agree to implement PRORIENTE's **participatory management** methodology will participate in the investments financed by this component.
- 2.8 Resources will be allocated to communities in keeping with a **participatory management** process that consists in collaboration among local governments, the communities, and the FIS to set investment plans that give priority to communities with the highest exclusion index. This methodology will be broken down in an amended FIS operations manual. Communities that will participate in the project will be selected at meetings held at the municipal level with the FIS and the municipal authorities.
- 2.9 With the participation of the planning offices (POs) of the municipal corporations, the FIS will launch a planning process with the communities, to organize them as local development associations (LDAs). The LDAs will be nonprofit associations, with the goal of promoting local development. Investment projects will be prioritized in community workshops, with the participation of the POs, the FIS, and, when necessary, the CSOs. The workshops will result in an investment plan for each community, with prioritized project profiles. This plan will be analyzed and fine-tuned by a technical review committee formed at the municipal level, with the participation of the FIS, the POs, the LDAs, and representatives of the sector ministries. For projects to be financed by the FIS under this plan, requests will be made for transfers to special accounts of the LDAs, CSOs, or municipalities, depending on who is responsible for project execution.

2.10 PRORIENTE will be executed at the same time as the normal programs implemented by the municipalities to allocate their resources. One key indicator of the project's success will be the transfer of part of the normal resources from local government agencies to the participatory processes. These resources include the IVA-PAZ [VAT for Peace], the 10% constitutional contribution to the municipalities, and resources from the solidarity fund for community development (FSDC).

2.11 This component will include three subcomponents: (i) investments in physical and human capital; (ii) strengthening of municipalities and communities; and (iii) vehicles and equipment.

a. Investments

2.12 The communities and municipal authorities, together with the CSOs and the collaboration of the FIS, will identify, prioritize, and formulate development projects. PRORIENTE's investments will be demand-driven and therefore an open menu with a negative list will be used. The list will include religious infrastructure; land purchases; weapons; illegal activities; vehicles for personal use; political campaigns or partisan political organizations; production or procurement of housing; refinancing debts; projects that undermine environmental conservation, public health or public safety; and credit or training/technical assistance for credit unless expressly approved by the Bank. The investments will include both infrastructure projects, training, and productive activities that improve the standard of living and economic and social conditions of poor communities.

b. Strengthening the municipalities and communities

2.13 POs will be established and strengthened in all the municipalities and corporations selected to participate in the project. Fees, training, and transportation for the POs will be financed on a diminishing basis. The POs will manage the planning and advisory services in executing the project.

2.14 PRORIENTE will finance the training and contracting of support services for the LDAs. Instead of being organized in EFIS - entities with temporary legal status during the execution of a single investment project - the LDAs will have permanent legal status and will be responsible for monitoring the preparation, execution, and maintenance of investments for the communities they represent.

c. Vehicles and equipment

2.15 The project will finance the vehicles and equipment needed to strengthen the POs, including computer equipment, software, and motorcycles.

2. Component 2: Establishing microregions (US\$15 million)

- 2.16 This component will be divided into two subcomponents: (i) investments identified: these will be located in the 11 microregions already organized under the community organization program (COP), with US\$8.2 million in financing; and (ii) investments that will be identified through the process of establishing microregions, with US\$8.2 million in financing. All these investments will be implemented by the FIS, based on the procedures set forth in its current operations manual.
- 2.17 All the investments of the 11 microregions already organized by the COP have been prioritized and included in the investment plans of the target communities. The eligibility and feasibility analysis of these projects will be conducted in keeping with current procedures established in the FIS operations manual approved by the Bank.
- 2.18 The process of establishing microregions under the second subcomponent will be based on the successful results of the COP. This process will begin with the FIS identifying the poorest communities in the country, using a poverty map constructed using 1994 census data. Although all the communities that will benefit from these investments are poor, at least 60% of the investments will be channeled to communities in priority "A" (extreme poverty) and priority "B" (severe poverty) municipalities.
- 2.19 Once the participating communities are identified, through participatory planning workshops, a series of investments prioritized by the communities will be identified. According to the needs of the microregions, current FIS procedures allow for investments in the training needed by the communities, including strengthening community organizations, gender issues, arrangements to work with other financial institutions, and training that facilitates community participation in the selection of executing agencies, contracting, supervision, maintenance, and operation of investments.
- 2.20 The cost of the projects includes training communities in operation and maintenance, which is a key step in ensuring the sustainability of the investments. Through the COP, the FIS has already prepared training manuals on the operation and maintenance of its main investments. In addition to the intensive training of communities, the FIS will promote the operation and maintenance of the investments through agreements with the sector ministries and the participation of the municipalities.

3. Component 3: Sector investments (US\$44.9 million)

- 2.21 This component will finance investments in four of the most determinant sectors in conditions of rural poverty, targeting geographic zones with the highest indices of deficiencies. The

sectors are water and sanitation, education, health, and road infrastructure. Resources will be channeled to projects, using current FIS methodology.

- 2.22 The fields of activity in the list of FIS programs that will be financed by this component include: (i) water and sanitation: latrine construction, sanitary sewerage systems, and water supply systems; (ii) education: outfitting schools at the early childhood, pre-school, and primary levels, and education-related construction; (iii) health: outfitting and construction; and (iv) road infrastructure: access roads, bridges, and equipment storage areas. The project will also finance the preinvestment required for preparing projects in these four sectors. The cost of the investments includes training in operation and maintenance, pursuant to the manuals for this strengthening effort already prepared by the COP.
- 2.23 Since this component will finance investments in four sectors, with a sector planning modality, the policy-setting and regulatory responsibility for which lies with other apex agencies, the geographical assignment of investments in those sectors will be agreed upon through interagency coordination agreements.

d. Administration

- 2.24 The FIS estimates the administrative costs of component one at US\$3 million and at US\$4 million for components two and three. This includes salaries and benefits for technical, managerial, and operational personnel, equipment, and other recurring expenses. They will be financed in full by the FIS and are included in the local counterpart for the project.

D. Scope of the project

- 2.25 The scope of the project was determined based on: (i) the current operational capacity of the FIS to commit and disburse resources estimated to be equivalent to US\$5 million per month for investment projects; (ii) the Fund's own projections on its ability to expand the operational capacity to US\$6.4-6.7 million per month starting in 1999; (iii) the effective demand of the communities and sectors for new investment projects; and (iv) projections on the availability of resources from other sources of financing.
- 2.26 It should be made clear that during the execution of the first loan, with the support of other financial institutions and the Bank, the FIS has reorganized the project production line, based on the redesign of the processing cycle and the strengthening of the process of systematizing procedures, both in its central structures and its local offices. In the past 15 months, this has allowed for significant increases in the institutional, operational productivity of the investments made to benefit poor, rural communities in the country.

E. Costs and financing

- 2.27 In keeping with the project described in this chapter, the FIS-PRORIENTE project will finance the costs presented in Table 2.1.

Table 2.1
ESTIMATED PROJECT COSTS
(In thousands of U.S. dollars)

Category	IDB	Local counterpart	Total	%
1. Component 1: PRORIENTE	29,500	1,500	31,000	31.00
1.1 Investments	26,500	-	26,500	
1.2 Institutional strengthening	2,750	1,500	4,250	
1.3 Vehicles and equipment	250	-	250	
2. Component 2: Establishing microregions - investments	15,000	-	15,000	15.00
3. Component 3: Sector investments	44,370	484	44,854	44.85
4. Administration	230	7,000	7,230	7.23
4.1 Auditing	200	-	200	
4.2 Evaluation	30	-	30	
4.3 FIS staff and administrative costs	-	7,000	7,000	7.00
5. Financial expenses	900	1,016	1,916	1.92
5.1 Inspection and supervision	900	-	900	
5.3 Credit fee	-	1,016	1,016	
TOTAL	90,000	10,000	100,000	100.0
Distribution	90.0%	10.0%	100.0%	

1. Bank financing

- 2.28 The total project amounts to US\$100 million. The Bank loan for US\$90 million will be made from resources in the Single Currency Facility in U.S. dollars from the Bank's ordinary capital. The interest will be subsidized in part by resources from the Intermediate Financing Facility. Since the project is characterized as a poverty-targeted investment because it supports a social investment fund, Bank financing may cover up to 90% of total project cost. Categories financed by the Bank include 90% of the investments, a portion of the funding for institutional strengthening, auditing and evaluations, the recovery of the PPF, and inspection and supervision.
- 2.29 The terms of the loan are broken down in Table 2.3

Table 2.2
Loan conditions

Source of financing	Ordinary capital - IFF
Amount	US\$90 million
Terms:	
Amortization	30 years
Grace period	4 years
Commitment	3 years
Disbursements	4 years
Interest rate	Variable
Inspection and supervision	1% of the loan amount
Credit fee	0.75% annually on undisbursed amounts
Currency	Single Currency Facility in U.S. dollars

2. Local counterpart

- 2.30 The local counterpart is equivalent to US\$10 million and will come from the national budget. It will finance investments, some institutional strengthening, the credit fee, and administrative expenses.

III. INSTITUTIONAL FRAMEWORK AND PROJECT EXECUTION

A. Borrower and executing agency

- 3.1 The borrower is the Republic of Guatemala. The Social Investment Fund (FIS) will be responsible for executing the project. Even so, it should be stressed that the first component depends on participation by the Municipal Development Institute (INFOM) in coordinating the activities to strengthen the municipal planning offices. In addition, it should be noted that this component also calls for the participation of the municipal corporations and local development associations (LDAs) in selecting, contracting out, and supervising some of the projects. Before using the financing resources for activities executed by third parties, the Bank and the FIS will agree on the corresponding procedures, which will be set out in the operations manual. The presentation of this manual is a condition precedent to the first disbursement of the loan. In any event, the FIS will retain responsible for fulfilling the technical, financial, and legal requirements related to those projects. Another condition precedent to the first disbursement is the establishment of a mechanism for transferring resources from the loan and the local counterpart, as well as the obligations and responsibilities incumbent upon the FIS for project execution.

B. Executing agency

- 3.2 The FIS is an autonomous public agency established in 1993 with the mandate to improve the living conditions of poor, rural groups and communities. The original period for which it was set up ends on May 30, 2001. A condition precedent to the first disbursement of the loan is the provision of evidence that a bill has been presented to the Congress of Guatemala that amends the constitutive law of the FIS and extends, in a manner satisfactory to the Bank, the life of the FIS for a period sufficient to complete project execution. The Bank will suspend disbursements under the loan if, by November 30, 2000, the government has not provided evidence, to the Bank's satisfaction, that the law has entered into force extending the life of the FIS for a sufficient amount of time to allow the project to be fully executed, unless the Bank, by that date, has accepted another option for continuing with project execution.

C. Execution

- 3.3 The three components have different methods of identifying projects, but they all use standard FIS procedures for specifications, project evaluation, the selection and payment of suppliers, supervision of the works and project maintenance.

1. Institutional arrangement

- 3.4 From an institutional standpoint, the project will make maximum use of existing FIS structures. Neither the second or third components require additional personnel, structures, or procedures for execution. For the first component (PRORIENTE), the FIS has determined that the existing structures of the institution are not suitable to administer the planned activities, since they have very different characteristics from those of its general operations. Therefore, a new operating unit will be set up within the institution's structure, and a decentralized network will be established. Both the head office and the decentralized network will be used exclusively for executing the component.
- 3.5 To coordinate the execution of the PRORIENTE component, a specific operating unit will be established. It will be headed by a director who will be supported by two deputy directors located in the departmental branches in Zacapa and Jutiapa, both within the project area. Furthermore, delegates are to be assigned in the municipalities with the highest indexes of exclusion. The establishment of the unit and the procedures on execution of this component will be part of the FIS operations manual. The director will be responsible for supervising, controlling, and executing operating activities (evaluation, procurement, payment, supervision, reports, financial control, etc.). It will also facilitate and actively participate in the establishment and strengthening of POs and LDAs and the implementation of the participatory management methodology. The director will contract specialized services to complement the capacity of his basic team of personnel. The operations manual will include the model contracts to be used for the LDAs and POs.
- 3.6 It is important for the FIS and INFOM to reach agreements on: (i) municipal training; and (ii) methods for financing municipal investments. PRORIENTE will include the establishment, training, and strengthening of planning offices (POs) within the municipalities. INFOM is responsible for technical assistance, financial advisory services, and municipal training and has already prepared programs that will be used to design those activities. INFOM also provides financing for municipal investments through loans. Proper coordination between FIS and INFOM financing methods is expected to be achieved. The operations manual will present the agreement with INFOM, specifying the coordination mechanisms for providing municipal training.
- 3.7 The participation of the municipalities and communities is an important aspect of executing the first component and must be reflected in the amended version of the operations manual already approved by the Bank. As the municipalities and communities gain management capacity, they will be given responsibility for project formulation, contracting, supervision, and execution. However, given the incipient management capacity at the local level, up to

20% of the investments in the first component may be made based on a temporary modality whereby the FIS takes on full responsibility for these activities. Based on the planned pace for setting up POs and LDAs, they may begin to take on the proposed functions at the beginning of the second year of execution.

- 3.8 The second component (establishing microregions) will be carried out in accordance with procedures set forth in the operations manual approved by the Bank. The first subcomponent, which involves processing and executing the projects identified through the pilot phase managed by the COP will be the responsibility of FIS sector managers. The second subcomponent will identify investments according to investment plans prepared by the communities with support from the COP. The execution of the investments will be the responsibility of the FIS sector managers. Preferably, these projects will be carried out by the communities themselves. However, they may also be carried out by civil society organizations, particularly local ones, through cofinancing agreements with local government authorities or through executing agencies hired by the FIS. All these modalities have already been used and are governed by the FIS operations manual in force.
- 3.9 The third component (sector-driven) will be directly executed by the sector departments of the FIS. It is expected that relations with each ministry will reflect the different capacities and interests of each.

2. The menu

- 3.10 The FIS menu (list of programs) consists of 42 types of projects selected on the basis of the categories most frequently requested by the beneficiaries and the priorities of the line ministries and apex agencies in the social sector. Furthermore, the specifications for these projects have been set in a way that is consistent with the needs of the poor population. The menu will therefore help self-select poor groups and minimize diversion towards less poor groups. The menu will be applied in components two and three, but the first component will use a negative list. Instead of continuing to use the menu, during the loan execution period, the FIS will evaluate the feasibility of expanding the use of a negative list based on the experience of PRORIENTE.
- 3.11 The loan will finance all the fields of activity in the FIS list of programs, except those that finance the credit and/or training/technical assistance for credit. In order for the IDB to finance communal banks or other credit activities in the future, the proper technical and legal conditions must be in place for suitable financing and sustainability.

3. Targeting

- 3.12 The FIS uses a poverty map based on unmet basic needs (overcrowding, quality of housing and access to potable water, health services, primary education, and lack of job security) to target its operations on the poorest municipalities. The map is useful for planning at the municipal level, but must be supplemented with the parameters for each component, which are described below.
- 3.13 The national poverty map is used to allocate resources by municipality. Components two and three will adjust themselves to these allocations; however, the resources from the first component will be additional.
- 3.14 **PRORIENTE.** For the purposes of the first component, statistical information on exclusion and population density will be used together with the poverty map to identify the eastern municipalities with the highest exclusion indexes. Then, an exercise will be conducted at the local level, based on consensus-building, to identify the most excluded communities within each municipality.
- 3.15 **Establishing microregions.** The first subcomponent (COP) was targeted towards 11 microregions with the poorest groups. A poverty map was prepared for each municipality, identifying the poorest communities. This activity used the same indicators as the national poverty map.
- 3.16 The second subcomponent (expanding to new microregions) will identify at least six additional areas with groups that have the highest poverty indexes according to the indicators in the poverty map.
- 3.17 **Sector-based investments.** The third component used the information from the national poverty map to prepare maps at the national level that identify pockets with the greatest deficiencies in access to potable water, roads, education, and health. Once the neediest areas in each sector were identified, teams were sent to the corresponding communities to confirm the potential technical feasibility of each project and the existence of a minimum population density.

4. Evaluation

- 3.18 Once the projects in all the components have been formulated by third parties, they will be evaluated by the FIS according to the standards applied for the project currently being executed with Bank resources. This evaluation includes both aspects of technical and environmental feasibility and the cost-benefit ratio. The FIS does not have preestablished caps on the cost per beneficiary for

each type of project. Even so, an indicative limit equivalent to about US\$650 per beneficiary is applied.

5. FIS personnel

- 3.19 Because of its legal status, FIS officials are consultants. Because the FIS is a temporary agency and to guarantee the quality of the management and technical team, in the previous stage, the Bank financed US\$1.6 million in fees for professional FIS personnel. In recognition of the importance of preserving its technical team, but considering the fact that the duration of the FIS has become indefinite, it was agreed not to finance FIS salaries with FIS-PRORIENTE project resources. It should be noted that this initiative will help achieve uniformity in the policy applied to external resources.

6. Agreements with the line ministries and apex agencies

- 3.20 The FIS is legally required to coordinate its work with the line ministries and apex agencies. To accomplish this, the FIS has signed framework coordination agreements with many of those ministries and apex agencies. As a condition precedent to the first disbursement, the FIS will update the existing framework agreements or will sign new ones with the line ministries and apex agencies to meet the project requirements. The purpose of the agreements is to ensure that: (i) FIS investments and the geographic allocation of the resources of the third component are consistent with the policies of the ministries and apex agencies; (ii) there is no duplication of investments; (iii) coordination links are established; and (iv) the costs of operation and maintenance of the works are financed. Those agreements must be valid for the length of the project execution period, or longer.

7. Quality of the projects

- 3.21 The line ministries set specifications for the investments, and the FIS is responsible for applying them. To estimate the extent to which these specifications are in fact applied, as part of the previous project, the FIS agreed to launch a system to monitor the quality and impact of the projects. Given the system's importance, it was agreed that the establishment of the system will be a condition precedent to the first disbursement of the proposed project. The FIS will put the system into operation within six months of entry into force of the loan contract. The need to ensure the quality of the works is greater still, given the rapid acceleration of FIS disbursements, jumping from approximately US\$2 million per month in 1997 to over US\$6.4 million between 1999 and 2001.

8. Operation and maintenance

- 3.22 The operation and maintenance of the FIS projects, depending on their nature and type, is the responsibility of the line ministries and apex agencies, the municipalities, or the target communities. The FIS operations manual will include the most suitable procedures recording the commitment by the pertinent entity to the operation and maintenance of each project. Written evidence of that commitment will be a prerequisite for the execution of each project. Setting forth the obligation to provide for project maintenance and operation in the execution agreements signed with the municipalities is already envisaged.

D. Methodological aspects of execution

- 3.23 For methodological purposes, it is important to note that both the general operations of the FIS and the three components, in theory, may benefit a single municipality or community during the execution period. However, the potential complexity and duplication that could result from such a situation is substantially reduced by the fact that half the projects in the second component and 100% of those in the third component have been identified.
- 3.24 Since the identification of communities to participate in PRORIENTE will be done by consensus at the local level, it was decided to allow for the inclusion of communities that will also benefit from the other components, provided that this was freely decided by the inhabitants of the municipality.
- 3.25 Since the PRORIENTE methodology implies that the investment plans may not include all the communities in a municipality, it is essential for excluded communities to have access to other FIS windows. The potential partial coverage of the component in each municipality could imply a risk to the sustainability of the new processes. The execution of the pilots will be monitored to estimate the scope of the problem and, if necessary, to design a solution.

E. Disbursements

1. Special accounts and transfers

- 3.26 Loan resources will be deposited into a special account to be administered by the FIS. The planned allocation of managerial responsibilities at the local level, the legal and operational aspects of transferring resources to municipal corporations and LDAs, and their settlement will be set forth in the operations manual.

2. Internal control

- 3.27 To control the procurement of goods and consulting services, the FIS will maintain in its files the original and/or copies of the contracts, calls for offers, invoices, receipts, proof of payment, supplier certificates, and any other documents needed to corroborate the information furnished in the report presented to the Bank. The report must contain, among other data, a list of projects financed, amounts, check numbers, date, contractors and/or suppliers, source of funds, and taxes. The documents that these entities must keep will be duly identified and filed and must be provided to Bank staff and external auditors for examination.

3. IDB control

- 3.28 The Country Office will conduct a technical and financial review of the use of loan resources by means of sampling. Requests for disbursements will show that the resources were used according to the provisions of the loan contract. In addition, the Country Office will conduct technical and financial inspection visits to corroborate that the FIS is maintaining the documents in its files that show how project resources were used.

4. Reimbursement of previous expenses

- 3.29 The procedures for executing components two and three will be the same as those agreed on for the operation currently being executed. Therefore, there is already a solid base for guiding the investments in these components, and the FIS has decided to start implementing them prior to the approval by the IDB Board scheduled for December 1998. The FIS is aware that this decision does not mean the Bank is committed to approving the loan or reimbursing those expenses. The maximum amount that might be reimbursed is US\$4.5 million. That amount includes expenses to be incurred in components two and three. Expenses incurred using local counterpart resources of up to US\$450,000 for the same two components will also be recognized.

5. Revolving fund

- 3.30 Although a massive startup of components two and three is anticipated and there will be an acute need for cash flow during at least the first 18 months of execution, it has been decided to establish a revolving fund of 5% for the project. The main factor that influenced this decision was the experience of the previous project, which showed that the FIS gained sufficient financial management capacity to meet the financing needs with a revolving fund of this size.

F. Status of preparations for startup

- 3.31 The project is sufficiently defined to guarantee a strong, large-scale start, even before approval, during the first year of execution. As reflected in Table 3.1, the commitments are expected to reach at least 39% of the total loan during the first year. Fifty percent of the second component is already identified and another 47% will be identified and committed during the second year. In addition, 100% of the third component has already been identified, 40% has been included in the FIS portfolio, and half the component is expected to be committed during the first year of execution. The first component will not begin as quickly, however at least 25% of the resources are expected to be committed in the first year.

G. Commitment and disbursement periods

- 3.32 Based on the foregoing analysis, it was agreed that the deadline for commitment would be three years and for disbursement, four years. It was confirmed that all the activities that will be financed using project resources are likely to be executed in less than 12 months from the respective contracting (definition of commitment). It should be noted that the planned extension of the duration of the FIS should be sufficient to take into account the possibility of a delay in execution, which would require that the executing agency have the authority to take on responsibility for execution.

Table 3.1
Projected commitments and disbursements
(in millions of U.S. dollars)

Component	Year 1	Year 2	Year 3	Year 4	Total
Commitments					
PRORIENTE 1/	7.7	15.0	6.8		29.5
Establishing microregions	7.5	7.0	0.5		15.0
Sector investments	20.0	24.3			44.3
Other	0.3	0.3	0.3	0.3	1.2
Total	35.5	46.6	7.6	0.3	90.0
Disbursements					
PRORIENTE 1/	5.5	10.5	10.0	3.5	29.5
Establishing microregions	7.0	7.0	1.0	0.0	15.0
Sector investments	15.0	20.0	9.3		44.3
Other	0.3	0.3	0.3	0.3	1.2
Total	27.8	37.8	20.6	3.8	90.0

1/ Includes US\$1.5 million from the PPF.

H. Overall projections

- 3.33 The project will be an integral part of FIS operations over the next four years. Table 3.2 presents the context in which Bank resources will be committed. The FIS intends to achieve a commitment rate of US\$6.7 million per month and is borrowing resources in the corresponding amounts. It should be noted that the IDB is the key source for achieving the goals during the first two years, representing 46% and 58% of the total commitments. The other large source is the World Bank. Its resources would be committed gradually during the first two years, reaching a maximum point in the third year of execution. The difference between the two sources lies basically in that over half the IDB financing will be allocated to financing projects that have already been identified.

Table 3.2
Projection of Overall Commitments
(in millions of U.S. dollars)

Description	1998	1999	2000	2001	Total
1. Goals	60.0	76.8	80.0	80.0	296.8
2. Total sources identified	50.4	74.6	81.2	38.3	244.5
IDB: FIS-PRORIENTE		35.2	46.3	7.3	88.8 ^{1/}
IDB: FIS-IDB I	22.4	6.4			28.8
World Bank I	3.5				3.5
World Bank II ^{2/}		7.5	12.9	15.0	35.4
KW	2.7	1.0			3.7
OECD	9.1	6.5	6.0		21.6
OPEC	2.5	2.0			4.5
Government of Guatemala	10.2	16.0	16.0	16.0	58.2
3. Financial gap (1-2)	9.6	2.2	-1.2	41.7	52.3

^{1/} Excludes US\$1.2 million for administrative and financial expenses.

^{2/} An additional commitment of US\$11.3 million from the World Bank II is planned for 2002.

I. Procurement

- 3.34 International competitive bidding procedures will be implemented for: (i) the procurement of goods valued at over US\$250,000; (ii) contracting of works valued at over US\$1.5 million; and (iii) contracting of consulting services valued at over US\$200,000. The ceilings for contracting goods and consulting services of lesser value are shown in Table 3.3.
- 3.35 For limited bidding three quotes must be requested from qualified firms. As already established in the FIS operations manual, direct contracting will only be permitted when the FIS has a design prototype, including the estimated cost of the investment, and when

an additional requirement is met, i.e., that the works are being executed in remote rural areas and shopping is not feasible. For the purposes of contracting consultants who will manage the PRORIENTE component, the FIS will present for prior Bank approval the selection procedures, the slate of three candidates, the terms of reference, and the model contract before contracting personnel.

- 3.36 The following ceilings are being established for direct contracting: (i) for component 1, no more than 50% of the resources of the loan allocated to this component (US\$14.8 million); (ii) for component 2, no more than 40% of those resources (US\$6 million) and (iii) for component 3, no more than 30% of those same resources (US\$13.3 million).

Table 3.3
Ceilings for smaller procurements
(in U.S. dollars)

Category	Local competitive bidding	Limited bidding (3 quotes)	Shopping	Direct contracting
Goods	under US\$250,000	under US\$100,000	under US\$10,000	under US\$10,000 (under exceptional circumstances)
Works	under US\$1,500,000	under US\$150,000	under US\$50,000	under US\$50,000 (under exceptional circumstances)
Consulting services	under US\$200,000	under US\$50,000		

J. Accounting and auditing

- 3.37 The FIS will establish and maintain accounts and records, in keeping with acceptable accounting practices. The project accounts will be audited at the end of each fiscal year by a firm of qualified, independent auditors accepted by the Bank. The audited statements must be presented to the Bank starting in the first year of execution and throughout the entire loan execution period. The cost of the audits has been estimated at US\$50,000 per year, and financing resources have been included in the project budget to cover that expense.

K. Monitoring and evaluation

- 3.38 The project's progress will be monitored and evaluated through progress reports to be presented to the Bank semiannually. The reports will include information collected according to indicators that will be developed by consulting services to be financed by the technical-cooperation operation financed by the Japan Special Fund (JSF). The indicators will be agreed on in the context of the initial report, the presentation of which will be a condition precedent to the first disbursement. In anticipation of the

results of the consulting services, the indicators will include the aspects indicated below:

- (i) Sustainability of the participatory management arrangement developed in the first component: use of resources allocated to the local government agencies, which include the municipal 10%, the IVA-PAZ, and resources from the solidarity fund for community development (FSDC).
- (ii) Goals for involving local development agencies.
- (iii) Targeting goals.
- (iv) Social impact goals: gender, ethnicity, environment poverty.
- (v) Community participation targets for component 2.
- (vi) Sector goals for component 3.
- (vii) Process goals: number of projects, speed of procedures, number of final beneficiaries.

L. Supervision

- 3.39 The Country Office in Guatemala will be directly responsible for supervising the execution of the project. The Social Programs Division will support the Country Office in technical aspects and at specific times, including: (i) approval of the operations manual, which will be amended to include the new procedures called for in the project; and (ii) approval of the indicators.
- 3.40 By the end of the first year, counted from the date of the loan contract, or when the FIS has committed US\$36 million of the loan, whichever comes first, the FIS and the Bank will hold a first evaluation meeting. Subsequent evaluation meetings will be conducted a year after the first meeting. Until the first evaluation meeting is held and the measures to resolve any problems identified have been agreed upon, the Bank will not approve any more commitments of expenditures for the loan above the ceiling of US\$36 million.
- 3.41 In addition to the aspects agreed upon by the FIS and the Bank, the project reviews will consider: (i) progress indicators agreed upon with the Bank, including the strengthening of local development agencies and the targeting of FIS resources to the poorest groups; (ii) experience in the application of competitive procedures; (iii) impact and sustainability of projects, including environmental impact, monitoring of impact on beneficiaries, and quality of the works; and (iv) institutional efficiency and effectiveness.

IV. FEASIBILITY, BENEFITS, AND RISKS

A. Institutional feasibility

- 4.1 Experience from the execution of the first Bank loan to the FIS indicates that the institutional structure of that agency is suitable for channeling investments to poor groups in rural areas of Guatemala through existing procedures, which will be the basis of the execution of the second and third components of this loan.
- 4.2 To execute the technical-cooperation operation financed by the Japan Special Fund in support of the first component, the FIS is in the process of establishing the operating unit responsible for PRORIENTE. It is expected that this unit will be established and fully operational in 1998, several months before the eligibility of FIS-PRORIENTE.
- 4.3 FIS experience in executing the community organization program (COP) will help lay the foundation for effectively introducing a new methodology for training community organizations. Furthermore, the experiences of DECOPAZ and San Marcos have been relevant in designing PRORIENTE. INFOM's experience with PO training programs will also make a significant contribution to the project.
- 4.4 PRORIENTE's institutional feasibility will also benefit from the use of FIS accounting, financial, and computer systems. Those systems were established five years ago and have been strengthened through various technical cooperation projects of both the IDB and other financial institutions.

B. Technical feasibility

- 4.5 The technical feasibility is based on effective procedures of the FIS's for evaluating investments and selecting, contracting, paying, and supervising executing agencies. The studies and pilot projects financed by the Japan Special Fund and the Project Preparation Facility (PPF) will help introduce and adapt the methodology proposed for the first component.

C. Environmental and social feasibility

- 4.6 PRORIENTE will use a modified version of the system to protect the environment that was incorporated into the loan currently being executed by the FIS. That system, the environmental promotion and control system (SIPCA), breaks the investments down into three classes: (i) Class "A," in which the investment has a negative environmental impact that requires an evaluation to determine the necessary mitigative measures; (ii) Class "B," in which the investment has a lesser environmental impact that requires mitigative measures; and (iii) Class "C," in which there is no

negative environmental impact and, therefore, no need for mitigative measures. The modified version of SIPCA, called the environmental monitoring system (SIMON), would introduce procedures for involving communities in the identification and selection of alternatives for addressing environmental problems.

- 4.7 The environmental impact of a project is analyzed as part of its evaluation. The project management verifies that the request for financing classifies the project according to the appropriate environmental impact and that the design includes the necessary mitigative measures. Then, through field visits and the desk review, the inclusion of effective mitigative measures in the projects that have a negative environmental impact will be verified. The training of LDAs and POs will include environmental protection and gender considerations.
- 4.8 In order to make the gender aspects viable, in June 1998, the FIS launched the plan of action on gender, with the support of the World Bank and the IDB. The FIS has carried out the first three activities specified in that plan. The plan includes the establishment of indicators on the benefits and participation of women in project management; an awareness-raising program for FIS personnel; visits to other regional programs that have developed systems for promoting the participation of women; and strategies for designing and providing training with a business approach for women.
- 4.9 The FIS-PRORIENTE project will benefit from these efforts. It will also promote the active participation of women in all aspects of the project, in particular with the POs and LDAs.
- 4.10 With regard to the impact on ethnic groups, the FIS has maintained an impartial policy of targeting its investments to improve the standards of living of the poor, rural population. It does not preselect areas based on ethnicity. Nonetheless, a study financed by the KfW/FIS Program ^{2/} shows a high-level of participation by the indigenous population in FIS investment projects - 64.6% of the projects approved by the FIS technical committee are in indigenous areas. That same study concluded that there is definitely no discrimination against indigenous communities. It further observed that the percentage of indigenous people working in the FIS increased markedly in 1997. Since the methodologies of PRORIENTE and the COP that will be introduced and strengthened in this project will adapt to the specific characteristics of each subregion, they will ensure equitable participation by all groups in the region, and special actions for specific groups are not required.

^{2/} HYDROPLAN-GOPA-PRODESARROLLO-ECONSULT, "The participation of indigenous people in FIS projects", December 1997.

- 4.11 Project monitoring will: (i) verify whether the communities that participate in the environmental diagnostic activities are receiving proper training on environmental matters relevant to the living conditions of the communities themselves; (ii) measure the impact of that training on the results of the participatory diagnostic assessments; and (iii) review the specific environmental indicators designed to evaluate the level of implementation of mitigative measures, and also assess the effectiveness of those measures.

D. Financial feasibility

- 4.12 The Government of Guatemala has shown support for the FIS since its establishment through timely disbursement of the budgetary resources to cover the counterpart of the external resources intended for FIS investments and operating expenses. In 1998, the equivalent of US\$11 million has been allocated to the FIS from the national budget, from national counterparts and the IVA-PAZ. The FIS projected that those resources would increase to the equivalent of over US\$11 million in 1999.

E. Economic feasibility

- 4.13 The FIS-PRORIENTE project will use the cost system and evaluation instruments established by the FIS. That system has been evaluated as part of preparing the loan in support of that agency. The FIS uses a cost efficiency methodology that allows for the establishment of the expected cost of an investment based on the unit prices of the different project inputs and activities, which are verified through unit cost files and using the cost of previously-formulated prototypes. There are maximum tolerable deviations between the simulated cost and the maximum proposed cost. It also calculates and evaluates the cost-benefit ratio for production and infrastructure projects and implements cost-efficiency criteria for comparing investments of the same type.

F. Benefits

- 4.14 The main beneficiaries of the three project components will be groups living in poverty and extreme poverty in rural areas of Guatemala. The first component will benefit groups in eastern Guatemala that are excluded from the country's development processes. The implementation of the participatory management methodology will establish and strengthen collaboration between communities and local government agencies in order to improve the efficiency and availability of the resources channeled to areas affected by poverty and exclusion. The participatory management methodology will also provide an instrument for enriching community participation, which is currently incorporated into the procedures of the FIS and other agencies.

G. Risks

- 4.15 **Project sustainability.** The success of the first component depends on the parties involved, particularly the municipalities, adopting the participatory management methodology. There is the risk that some local authorities may prefer not to use resources of the project because of its methodology that involves broad participation in decision-making. Nonetheless, the results of consultation with the stakeholders indicate that this risk is minimal.
- 4.16 **Quality of the investments.** After a slow start, the FIS increased its capacity for investment project commitment and execution. In 1998, it achieved a monthly average of roughly US\$5 million in commitments and disbursements. Based on the resources from FIS-PRORIENTE, new external loans envisaged (from the World Bank, KfW, OECF, and CABEI), and increased allocation of resources from the national budget, the FIS foresees continued growth in its investment program. As with any organization, there is a risk that growth could affect the quality of the investments. The FIS will offset this risk in the first two components by assigning more of the maintenance responsibilities to the communities and local institutions directly involved in the operation of the works.

LOGICAL FRAMEWORK

Narrative summary	Verifiable Indicators (IVO)	Means for verification (MFV)	Important assumptions
<p>population with improved living conditions and the Guatemalan development process in 2002.</p>			<p>Social regulatory framework government is in effect.</p>
<p>of local development entities and the rural most pressing needs for social infrastructure are S.</p>	<p>Excluded rural population participates in development entities.</p> <p>The basic social infrastructure of the rural population improves.</p> <p>Cofinancing of investments between the FIS and local governments in eight municipalities in 1999; 10 in 2000; 15 in 2001; and 20 in 2002.</p> <p>Coverage of education, health, water supply and sanitary services, and access roads improves.</p>	<p>FIS information system.</p> <p>Population censuses, household survey, reports of the ministries.</p>	<p>Participation of the ministries local development associations programs to combat poverty.</p> <p>Government gives high priority to social sectors.</p>
<p>/results:</p> <p>NTE</p> <p>ent in social infrastructure.</p> <p>entation of the participatory management strategy.</p> <p>g in the municipalities in the east with the highest of exclusion.</p>	<p>Participatory management implemented in the east: six municipalities in 1999; eight in 2000; and 10 in 2001. Participatory management is expanded to at least eight municipalities outside of the east prior to December 2001.</p>	<p>National budget.</p> <p>FIS management information system.</p>	<p>Local government agencies convinced of the merits of participatory management.</p>

Narrative summary	Verifiable indicators (IVO)	Means for verification (MFV)	Important assumptions
<p>ESTABLISHING MICROREGIONS</p> <p>Identification of the poorest communities in the country.</p>	<p>Methodology of establishing microregions extended to at least six new microregions and investments in those areas financed by the FIS in 1999 and 2000.</p>	<p>FIS management information system.</p>	
<p>Identification of investments through participatory planning workshops.</p> <p>Agreements on operation and maintenance with the sector organizations.</p>			
<p>ROAD-BASED</p> <p>Provision of water and sanitation</p> <p>Provision of construction materials and supplied schools built and maintained.</p> <p>Organizing and construction of health posts.</p> <p>Construction of access roads and bridges.</p>	<p>Projects completed by the FIS before 2002:</p> <ul style="list-style-type: none"> - 287 sections of highway - 1,642 schools built - 1,295 schools outfitted - 1,854 new water supply systems 	<p>FIS management information system.</p>	<p>Increased financing from other financial institutions for these activities.</p> <p>Collaboration of the ministries in these investments.</p>

**TENTATIVE PROCUREMENT PLAN
GUATEMALA
SOCIAL INVESTMENT FUND
EASTERN DEVELOPMENT PROJECT
FIS-PRORIENTE
(GU-0127)**

Main project procurement	Financing	Method	Prequalification	Date (semester/year)
1. Component 1: PRORIENTE				
1.1 Investments ^{1/}	IDB 90% Government 10%	S (50%) DC (50%)	No	I/99 - II/2002
1.2 Institutional strengthening	IDB 65% Government 35%	LCB (30%) S (70%)	No	I/99 - II/2001
1.3 Vehicles and equipment	IDB 100%	LCB (70%) S (30%)	No	I/99 - II/99
2. Component 2: ESTABLISHING MICROREGIONS				
2.1 Investments ^{1/}	IDB 90% Government 10%	LCB (10%) S (50%) DC (40%)	No	I/99 - II/2002
3. Component 3: SECTOR INVESTMENTS				
3.1 Investments ^{1/}	IDB 90% Government 10%	ICB (10%) LCB (20%) S (40%) DC (30%)	No	I/99 - II/2001

ICB = International competitive bidding

LCB = Local competitive bidding

S = Shopping: requires three price quotes from foreign or domestic suppliers

DC = Direct contracting

^{1/} In the Bank's first loan to the FIS, the average size of projects approved by the FIS technical committee was US\$26,000.

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GU-0127
Original: Spanish

PROPOSED RESOLUTION

GUATEMALA. LOAN ____/OC-GU TO THE REPUBLICA DE GUATEMALA
(Fondo de Inversión Social - Eastern Development Project)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Guatemala, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Project to support the Fondo de Inversión Social- Eastern Development Project. Such financing will be for the amount of up to US\$90,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the "Terms and Financial Conditions" and to the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

RGII-GU164P
GU-0127
Original: Spanish

PROPOSED RESOLUTION

GUATEMALA. PARTIAL PAYMENT OF INTEREST ON
LOAN No. ____/OC-GU TO THE REPUBLICA DE GUATEMALA

(Fondo de Inversión Social- Eastern Development Project)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with the República de Guatemala, the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of up to US\$90,000,000 of the loan authorized by Resolution DE-____/____, in accordance with applicable Bank policy.