DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUATEMALA

REFORMULATION OF THE VIOLENCE PREVENTION PROGRAM

(GU-0163 – 1734/OC-GU)

REFORMULATION PROPOSAL

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ABBREVIATIONS

AGEXPORT	Asociación Guatemalteca de Exportadores [Guatemalan Association of Exporters]
AWP	Annual work plan
BCI	Business climate index
BDS	Business development services
CNEE	Comisión Nacional de Energía Eléctrica [Nacional Electric Energy Commission]
GCI	Global competitiveness index
IDB	Inter-American Development Bank
ITC	Interagency technical committee
MEM	Ministry of Energy and Mines
MINECO	Ministry of Economy
MINFIN	Ministry of Public Finance
PCT	Program coordination team
PRONACOM	Programa Nacional de Competitividad [National Competitiveness Program]
SEGEPLAN	Planning and Programming Secretariat of the Office of the President
SEU	Special executing unit
TFP	Total factor productivity

PROJECT SUMMARY

GUATEMALA
REFORMULATION OF THE VIOLENCE PREVENTION PROGRAM
(GU-0163 – 1734/OC-GU)

Financial Terms and Conditions				
Borrower: Republic of Guatemala			Amortization period:	*
Executing agency: Ministry of Economy (MINECO) through the Special Executing Unit of the National Competitiveness Program (PRONACOM)			Grace period:	*
Source	**Amount**	**%**	Disbursement period:	*
IDB (OC)			Interest rate:	Based on LIBOR
Original loan approved: 1734/OC-GU*	US$29,000,000	85.6	Inspection and supervision fee:	**
Local counterpart	US$3,879,331	14.4	Credit fee:	**
-of which, the private sector:	US$2,567,331	8.2	Currency:	U.S. dollar
Total	US$**32,879,331**	100		

Project at a glance

Project objective/description:
To support the government's efforts to boost the productivity of the economy in general and of business in particular, especially micro, small, and medium-sized enterprises. The purpose will be to help: (i) remove barriers in a business and investment climate that limits the development of business and investment; and (ii) boost the productivity of businesses in sectors and regions or areas considered priorities for the country (paragraph 1.17).

Special contractual clauses:
(a) **Precedent to the first disbursement:** (i) issuance of a ministerial resolution making the special executing unit (SEU) of the National Competitive Program (PRONACOM) responsible for program execution (paragraph 3.1); (ii) formation and appointment of an interagency technical committee (ITC) and its confirmation by PRONACOM's executive committee (paragraphs 1.21 and 3.3); (iii) approval of the program Operating Regulations by the PRONACOM executive committee (paragraph 3.6); and (iv) formation and appointment of the program coordination team (PCT) and contracting of specialized consulting services to provide strengthening for the team (paragraph 3.2); and (b) **Partial eligibility:** Once the conditions precedent to the first disbursement as specified in subparagraphs (a), (b), and (e) of Article 4.01 of the General Conditions have been fulfilled, an advance against the first disbursement of up to US$250,000 may be made to engage specialized technical services for the PCT to facilitate compliance with the special conditions precedent to the first disbursement as well as fast and effective start-up of the program (paragraph 2.3).

Exceptions to Bank policies:
None.

Project consistent with country strategy:	Yes [X]	No [ ]			
Project qualifies as:	SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ]	Headcount [ ]

* The financial conditions of the original loan will remain unchanged.

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems, and rationale

1.1 **The original loan**. On 3 May 2006, in response to a request from the Government of Guatemala, the Bank approved a violence prevention program for US$29 million (1734/OC-GU) whose main objective was to assist the State in its efforts to reduce juvenile violence and improve coexistence through strategic, comprehensive, interagency, participatory actions to prevent violence. The loan contract has still not been signed by the borrower.

1.2 **Reformulation request**. Given the adverse impact of the international economic crisis on Guatemala's economy and its prospects,[1] the government considers it appropriate to strengthen its competitiveness agenda, which is strongly supported, by the public and private sectors. Although combating and preventing violence continue to be priorities for the current administration, the reformulation proposal stems from the need to apply the Bank's technical and financial support strategically. The Guatemalan government and the IDB agreed, as reflected in the Bank's new strategy with the country, to anchor the Bank's actions in a prioritized set of development objectives where Bank support brings greater additionality. Therefore, the government has opted to turn to bilateral aid to support its road map on security (which has been agreed on with civil society and formalized in the National Agreement for the Advancement of Security and Justice).

1.3 **The purpose of the reformulation** is to modify the objectives of the original program to support the country in the current international economic and financial context by helping to boost its productivity levels.

1.4 **Growth and productivity in Guatemala**. Growth in Guatemala's economy over the last 15 years has been very modest even by Latin American and Caribbean standards. Annual per capita GDP growth in constant prices between 1990 and 2008 averaged just 0.9%, well below the annual rates of 2.4% in Central America and 2% in Latin America and the Caribbean. Also, per capita GDP adjusted for purchasing power parity was lower in 2008 than the Central American average (US$4,416 compared to US$6,999) and the gap with that region widened from US$555 in 1990 to US$2,583 in 2008.

1.5 The relatively low economic growth, as demonstrated in recent studies on patterns and sources of growth in Guatemala,[2] is explained by the low rates of physical and human capital accumulation, particularly during the 1980s, and by slow growth, and even contractions of -1.8% and -1.5% in 1976-90 and 2001-05, respectively, in total factor productivity (TFP). According to those same studies, however, TFP appears to have had more impact on low economic growth.

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1 See the impact of the crisis on the Guatemalan economy in a presentation by Management to the Programming Committee of the Board on 23 June in conjunction with approval of the country strategy.

2 See Artana D., Auguste, S. and Cuevas M. (2007), "Tearing Down the Walls: Growth and Inclusion in Guatemala," Inter-American Development Bank, GU-P1031.

1.6 Although there is no conclusive explanation for the particular evolution of TFP in Guatemala, several factors may explain the trend. The first is that the processes of reassigning production factors do not appear to be operating properly in the economy. For example, in the case of sector reallocations of labor, it is not clear that workers are increasingly flocking to sectors that are highly productive and expanding. A second factor is the low investments in public goods to complement highly productive sectors. A third is the slow adaptation to new technologies, which is normally associated with shortcomings in human capital and, lastly, the presence of a business and investment climate that is still not very conducive to business development, a factor that impedes innovation and technology adaptation.

1.7 Aware of the impact of these factors on the economic productivity in general and its main productive sectors in particular, since the end of the 1990s successive governments, through the joint work of the National Competitiveness Program (PRONACOM) and the Invest in Guatemala,[3] have introduced reforms to strengthen the environment in which the private sector operates and actively promote its development. These efforts have led to improvements in the country's ranking in different international classifications. In recent years, Guatemala's rating in the World Bank's Business Climate Index (BCI) and the Global Competitiveness Index (GCI) of the World Economic Forum has improved considerably. For example, according to the 2009 BCI, Guatemala ranked 112th out of the 181 economies analyzed that year. Compared to the 155 countries included in the 2006 BCI, Guatemala improved from position 109 in that year to position 95 in 2009. Also, in the 2007 BCI, Guatemala ranked among the 10 most important reformers out of 175 countries evaluated around the world and among the three most important in Latin America and the Caribbean. Although the country did not rank among the 10 most important reformers in the 2008 BCI, the report shows that between mid-2006 and 2007, the country introduced reforms that made it the most important reformer in Central America. Similarly, Guatemala has been improving its rating in the GCI in recent years, moving from 87 in 2007-2008 to 83 in 2008-2009.

1.8 **Challenges, opportunities, and rationale for the proposed reformulation**. Despite these achievements, Guatemala continues to face significant challenges to facilitate and promote private-sector development. For example, its ranking in the World Bank's most recent Business Climate Index is still relatively low, not just in the world but in Latin America and the Caribbean as well—112th out of the 181 countries covered by the report and 22nd among the 32 economies rated in the region. Furthermore, in certain aspects of the index, such as the opening and closing of a business, contract enforcement, ease of paying taxes, and property registration, there has been some slippage between 2008 and 2009, which does not necessarily imply that the situation in the country has deteriorated, but rather that other

[3] For more information on the history and achievements of these institutions see: Pronacom-Invest.

countries have undertaken more aggressive reforms to improve their positions with respect to Guatemala.

1.9 After several years of rapid and sustained economic growth, marked by a robust expansion of trade and broad access to international capital markets, the global economy has deteriorated. Higher energy and food prices, a deep international financial crisis, and the consequent slowdown in the world's main economies are forcing developing countries like Guatemala to face new challenges in economic management. In this adverse and volatile international climate, having a domestic economic environment that promotes productivity and competitiveness is particularly relevant if Guatemala is to weather external shocks and maintain a solid economic performance in future.

1.10 Any successful national productivity and competitiveness strategy will have to integrate the country's productive fabric, as evidenced by the experience of the Chilean Economic Development Agency (CORFO) and different states in Mexico and Brazil. This poses the challenge of creating mechanisms to enable departmental and local public and private stakeholders: (i) to become the main sources of knowledge about productive development priorities in their spheres of influence; (ii) to take the lead in implementing national strategies for productive development; and (iii) to act as a catalyst in mobilizing the national and regional public and private resources to finance those priorities. It also requires that micro, small, and medium-sized businesses be linked to large companies and production chains, providing them with the chance to build up their management, productive, and technical capacity for growth and innovation.

1.11 Lastly, the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) brings challenges as well as new economic opportunities for the country. Guatemala is already feeling the competitive pressures typical of free trade agreements that and are reflected in significantly higher imports. If the country is unable to improve the business climate for business and investment in the systems, technologies, product and process certifications, and labor skills required in the new trade order, some sectors and regions may begin to loose their current share of international and regional markets as well as their own domestic markets, with the accompanying adverse impact on employment, income generation and, ultimately, poverty. With its particular mix of traditional and nontraditional exports, tourism, services exports, and the potential of many productive sectors to attract domestic and foreign private investment, Guatemala has an opportunity to steadily increase its productivity and, hence, its income. This assumes that it will continue to improve the business and investment climate through individual and collective efforts.

1.12 The proposed reformulation works precisely toward this goal through activities: (i) to improve the investment climate; (ii) to strengthen the technical and financial foundations of strategic investment projects; (iii) to improve the productive and business environment in which companies and production chains in priority sectors

and territories work; and (iv) to help them improve their own processes and products in order to bolster individual and collective productivity.

1.13 The reformulation seeks to provide continuity. Also, it would consolidate and expand key areas of a recent World Bank competitiveness project for US$20 million, particularly with regard to the creation of an institutional framework to spur competitiveness at the territorial level and to raise productivity through specific support for companies and production chains. The project was approved by the World Bank in November 2000 and carried out between July 2002 and June 2009 by the Ministry of Economy, through the Special Executing Unit of the National Competitiveness Program (PRONACOM). The lessons learned from that experience and used in the proposed reformulation are summarized at the following link: Lecciones Aprendidas

1.14 Lastly, the program complements and has direct synergies with two Bank operations under way: the trade and integration support program (GU-L1037), and the project to support rural economic development (GU-L1006). The first seeks to help Guatemala tap trade opportunities by building capacity for foreign trade management, export promotion and investment, and export business development. The second would increase the income of rural inhabitants, by strengthening and establishing productive supply chains with investments to remove bottlenecks that interfere with the competitiveness of indigenous rural enterprises in selected rural territories.

1.15 The proposed reformulation is linked to the Bank's strategy with the country (GN-2501) as it would help improve and conserve the country's productive infrastructure—the third pillar of the strategy—by supporting business and investment reform to facilitate the flow of private resources to develop infrastructure, particularly infrastructure with positive externalities over other sectors of the economy. Also, insofar as the proposed reformulation enhances the productivity of priority sectors and regions that it will wind up supporting, national and subnational tax revenues from those sectors and regions are expected to increase, thus helping to achieve the revenue goals of the Peace Agreements—the fourth pillar of the strategy.

1.16 **Institutional framework for competitiveness**. MINECO is responsible for developing internal and external trade, promoting domestic and foreign investment, and facilitating the competitive development of micro, small, and medium-sized businesses. It is called upon to "formulate and execute, within the existing legal framework, policies governing domestic and foreign investment, competitiveness promotion, and industrial and commercial development and to propose guidelines for their implementation." MINECO is composed of the Deputy Ministry for Integration and Foreign Trade (VMCE), the Deputy Ministry for Investment and Competition, and the Deputy Ministry for Micro, Small and Medium-sized Enterprise Development. For its part, PRONACOM is a program co-managed with the private sector to promote actions and policies to improve the conditions for private investment, support the creation of productive clusters, and promote

national competitive development. Lastly, Invest in Guatemala was established at the start of the present decade to “propose, promote, and carry out actions to improve investment promotion in the country.” PRONACOM and Invest in Guatemala do not have legal status and because they report to MINECO they depend on it administratively and financially.

B. Objectives, components, and cost

1.17 The general *objective* of the program is to support the Guatemalan government’s efforts to continue boosting the productivity of the economy in general and of businesses in particular, especially micro, small, and medium-sized enterprises. The *purpose* will be: (i) to remove barriers in a business and investment climate that limits the development of business and investment; and (ii) to boost the productivity of businesses in sectors and regions or areas that are considered priorities for the country. The activities planned for components 1 and 2 seek to resolve problems affecting business and investment at the national level, while those planned for components 3 and 4 will remove restrictions that afflict the productive base of the businesses themselves and the productive context in the territories where they are located.

1.18 Component 1. Support for the design and implementation of improvements to the business and investment climate in the private productive context (IDB: US$4.13 million; government contribution: US$250,000). This component would continue supporting the efforts of several government agencies to improve the investment climate and the productive environment in the country based on a consensus on priority reforms reached with the private sector under the National Competitiveness Agenda 2005-2015. This component has two subcomponents, one to back interventions to strengthen the investment climate and the other to support reforms to the business climate and national productive environment. With regard to the investment climate, technical-assistance and consensus-building activities will be carried out in areas such as double taxation, investor protection, and industrial park strategy and policies.

1.19 As for crosscutting improvements to enhance the productive environment, support will take the form of technical assistance, awareness raising, and consensus building in priority areas such as: (i) the institutional quality of national statistics production, quality, and animal and plant health systems; (ii) strengthening of logistics infrastructure; (iii) worker training, for example in languages (bilingual); (iv) financial deepening through proposed reforms to the Commercial Code and capital market legislation, development and implementation of bancarization initiatives, and strengthening of the Registry of Liens; (v) efficiency of goods and services markets, through support for initiatives to reduce the cost of doing business and for the formalization of businesses; and (vi) innovation and technological development through initiatives to align academic efforts with the needs of Guatemala’s business sector.

1.20 Component 2. Support for the structuring and promotion of strategic investment projects (IDB: US$2.33 million; Guatemalan government contribution: US$170,000). Under this component, the Invest in Guatemala, in close coordination with PRONACOM, will support the efforts of different government agencies to increase private investment in sectors considered strategic to the country, owing to their direct contribution to growth and employment (tourism and light manufacturing) and their positive impact on other sectors of the economy (transportation infrastructure and energy), or because of their potential to contribute to tax revenue and regional development (natural resource development sectors). The component includes financial resources for consulting services and awareness-raising and consensus-building events relating to legal, institutional, and regulatory changes to gain the support of civil society and the interest of private capital in investing in those sectors. Also, some of the component's resources will be used to support the technical and financial structuring of a portfolio of strategic projects in those sectors and to develop and implement strategies to promote them nationally and internationally. In the technical structuring of strategic projects in socially and environmentally sensitive sectors, the technical support provided by the program will need to take those dimensions into account. See the link Componente 2.

1.21 Component 3. Start up of a program for business development and production chains (IDB: US$15.2 million; local counterpart: US$2.57 million from the private sector and US$320,000 from the Guatemalan government). Through this component, the program will offer a series of business development services (BDS) to boost productivity and competitiveness in productive sectors that are potentially world class and/or territorial leaders. In the first stage, BDS will be delivered to companies or groups of companies in not more than three priority productive sectors. To concretely structure delivery of the services, the component will help to finance: (i) specialized consulting services and certain administrative, monitoring, and evaluation costs required by the organizational model used to efficiently and effectively reach the sectors and territories where the project will be implemented, in coordination with the Office of the Deputy Minister of MINECO's Micro, Small, and Medium-sized Enterprise Development; and (ii) the BDS to be provided. To initiate this component, an interagency technical committee must be set up to support the executive director of PRONACOM in implementing the technical assistance envisaged for this component and component 4 as a condition precedent to the first disbursement.

1.22 **Strengthening the institutional framework to provide support for priority companies and production chains**. The analysis performed in designing this component indicates that the best organizational model to enable PRONACOM to efficiently and effectively provide BDS includes three levels:

a. *Third level—Strategy and coordination*. Corresponds to PRONACOM's executive committee and its executive director, with support from the above-mentioned technical committee. Its mission is to provide strategic leadership and coordination on the institutional level.

b. *Second level—Management*. Consists of PRONACOM's sector directors and managers and the intermediary agencies. As outlined in the *Component 3* link mentioned in paragraph 1.28, the main mission of these private groups is to provide technical guidance for entrepreneurs on the characteristics, eligibility requirements, and selection criteria for projects under the program's different development tools, and support them in their preparation and evaluation.

c. *First level—Service delivery*. Corresponds to the series of training institutions, consulting firms, and individual consultants who provide specialized services for entrepreneurs as part of BDS. They offer their services on the market through a Suppliers' Registry that exists in MINECO. Their main mission is to provide the services required by the entrepreneurs in accordance with the quality standards, prices, and timeframes agreed. The services provided to the beneficiary companies will be carried out under contracts between them and the service providers.

1.23 The target market will be companies or organized groups of producers who make use of BDS through the presentation of eligible projects structured with the support of intermediary agencies.

1.24 This organizational model is advantageous for PRONACOM since it allows the latter: (i) to determine the capacity required to provide BDS in the territories; (ii) to forge partnerships with entities that are very close to entrepreneurs in those territories; (iii) to adjust the procedures and operating rules for the delivery of BDS to the actual situation in the territories; and (iv) to learn directly on a day-to-day basis about the BDS needs of entrepreneurs.

1.25 The advantages noted should permit PRONACOM to play an important leadership role in coordinating public policies for business development on the territorial sector level, responding quickly and effectively to the needs of business to improve productivity and competitiveness in dynamic markets.

1.26 To make this organizational model viable, the component includes funds to contract three national sector directors and six territorial sector managers. Also, to ensure that these specialists are able to effectively coordinate the supply of BDS in their respective sectors, financial resources are required to ensure their continuous physical presence in the territory, develop studies and consulting services, provide training, carry out dissemination activities, and perform the necessary monitoring and evaluation of the BDS provided under the program.

1.27 **Support for business development and production chains.** The program will support public/private cofinancing of BDS through a demand-driven model in which the services and the amounts involved will be defined by the entrepreneurs, with support from the sector directors and managers to be contracted. The system will operate through a public/private cofinancing arrangement, with the government contributing a portion of the total program through the loan and the private sector the remainder. About 5,340 of the 960,000 companies in the country are expected

to benefit from the services—4,337 microenterprises, 717 small businesses, 243 medium-sized businesses, and 43 large businesses.

1.28 The BDS or subprograms for business development offered under this component will be: (i) technical assistance and training subprogram to assist in the different management and training areas of companies, based on their needs; (ii) quality subprogram, to support the incorporation of management systems and technologies in order to attain product and process standards that meet the requirements of international markets; (iii) business partnership subprogram, to help businesses tackle common challenges and/or collectively generate business (partnering projects and supplier development) to strengthen their competitive position in target markets; and (iv) technology transfer subprogram, to offer support for incorporating or adapting new knowledge in management and/or production technologies, for the purpose of enhancing business competitiveness. See the link Componente 3.

1.29 Component 4. Support for the development of an institutional framework for competitiveness on the territorial level (IDB: US$3.23 million; Guatemalan government contribution: US$170,000). This component will support the development of an institutional framework to boost competitiveness on the territorial level, involving public and private national and local players with expertise in this field. In an initial stage, work would be limited to a maximum of four priority territories. The progress of this framework will permit PRONACOM to gradually take up a leadership role in coordinating the efforts of different institutions and initiatives in the country to improve territorial competitiveness, opening up spaces for participation for the organized private sector and departmental and/or municipal public bodies. The support to be provided under this component is compatible with the support for priority productive sectors under the preceding component.

1.30 If it is to act as coordinator, it will be necessary to strengthen PRONACOM's presence in the territories, reinforcing its technical capacity and providing it with resources to deliver BDS, an aspect included in the preceding component. One territorial director will be hired at the national level and four territorial managers. The latter will help bring the institution closer to the challenges to production in the localities for which they are responsible, carrying out assessments and work programs that are shared and coordinated with other institutions with a local presence, tailored to the particular conditions of each case. In addition, the component has the resources to raise PRONACOM's technical capacity in designing and evaluating BDS; in developing training programs for institutions and entities participating in the system to optimize the use of available resources for the delivery of BDS; and in establishing an information system to provide MINECO with all relevant information regarding BDS in Guatemala. The system will be essential for systemizing and disseminating information of interest to the other institutions involved in productive development and for designing new services, identifying training requirements, mapping sectors and territories with and without

access to BDS, and establishing monitoring and control systems. See the link Componente 4.

1.31 Component 5. Institutional strengthening for PRONACOM and support for program management, administration, monitoring, and evaluation (IDB: US$1.77 million; Guatemalan government contribution: US$390,000). In addition to helping cover administrative, monitoring, and evaluation costs, this component will provide funds to hire key management and technical experts to enable PRONACOM to fulfill its obligations under the program and to buttress its future effectiveness and continuity as an institution.

C. Key results matrix indicators

1.32 The program includes a reflective evaluation to assess the results obtained in improving the investment and business climates on the national level (component 1) and promoting strategic investments for the country (component 2). As for the objective of raising sector and regional productivity (components 3 and 4), the program provides for an impact evaluation with an experimental, or even, quasi-experimental design[4] to distinguish four categories, i.e.: (i) companies that receive support in areas backed by the program; (ii) companies that receive support in areas not backed by the program; (iii) companies that do not receive support in areas not backed by the program; and; (iv) companies that do not receive support in areas backed by the program. Consistent with the objectives of the National Competitiveness Agenda 2005-2015, the main outcomes expected from the program can be summarized as follows: (i) improvements in the business and investment climate through favorable changes in internationally-recognized indicators for the business climate, investment climate, and competitiveness; (ii) increased interest among investors in learning about opportunities for strategic investment in Guatemala through visits by foreign missions; and (iii) higher productivity and employment in priority sectors and regions, measured by the impact evaluation. The program outcomes, indicators, and baselines are presented in the results matrix in Annex I.

II. FINANCING STRUCTURE AND RISKS

A. Financing and cost table

2.1 The total cost of the operation is US$32.9 million. The Bank will finance US$29 million from the Ordinary Capital Single Currency Facility, including an estimated US$2.3 million to cover finance expenses during the disbursement period. It is estimated the private sector and the borrower will contribute approximately US$2.6 million and US$1.3 million, respectively, broken down by component and source of financing as shown in the cost table below.

[4] The guidelines for the evaluation can be found in: Lineamientos de Evaluación.

COST AND FINANCING PLAN (IN US$ MILLIONS)				
Investment category	Bank	Local contribution		Total
		Borrower	Private sector	
Component 1	4,131,462	253,770		4,385,232
Component 2	2,330,616	174,900		2,505,516
Component 3	15,211,657	323,969	2,567,331	18,102,957
Component 4	3,231,830	171,600		3,403,430
Component 5	1,772,838	387,761		2,160,599
Financial expenses (interest and fees)	2,321,597			2,321,597
TOTAL	**29,000,000**	**1,312,000**	**2,567,331**	**32,879,331**

2.2 **Disbursements**. Disbursements will be made from a revolving fund of 5%, in keeping with Bank policies, once the special conditions precedent to the first disbursement have been fulfilled. The disbursement period will be 54 months, including six months for organizing startup of the program. It is estimated that the proceeds of the financing will be disbursed as follows:

DISBURSEMENT SCHEDULE (IN US$ MILLIONS)				
Source	Year 1	Year 2	Year 3	Year 4
IDB	6,663,863	7,085,665	7,781,821	7,468,652
Government counterpart	328,000	328,000	328,000	328,000
Private sector counterpart	364,520	602,375	803,964	796,472

2.3 **Partial eligibility**. Once the conditions precedent to the first disbursement have been fulfilled, as specified in subparagraphs (a), (b), and (e) of Article 4.01 of the General Contractual Conditions, an advance of up to US$250,000 may be made from the first disbursement to engage specialized consulting services for the PCT to facilitate fulfillment of the special conditions precedent to the first disbursement and fast and effective startup of the program.

B. Environmental and social safeguard risks

2.4 Since the program will finance mainly technical assistance, it will not have any adverse social or environmental impact. The ESR classified the project as a category C.

C. Risks

2.5 The operation has medium-low fiduciary risk. Although the country faces challenges in income and financial administration, they are not expected to affect execution. First, mindful of the financial constraints the government is under, the loan expenses were covered during the disbursement period and a small counterpart was established. Second, MINECO/PRONACOM, through their execution of an earlier World Bank loan, have established fiduciary systems which, with strengthening included in the program, will ensure streamlined and reliable execution.

2.6 The program also has medium-low nonfiduciary risk. The main risks are the degree of ownership of the program by the government, PRONACOM's institutional and financial sustainability, and its execution, monitoring, and evaluation capacity. With regard to government ownership, the program was designed based on consensual commitments by the government and private stakeholders under the National Competitiveness Agenda 2005-2015. Moreover, its design took the expertise and authority of the executing agency into account and the latter's efforts to develop strategic partnerships with the participating entities. Also, the content and scope of the activities have been designed in active consultation with participating officials, and potential beneficiaries.

2.7 PRONACOM's institutional and financial sustainability, as an agency with broad and solid backing from the private sector, gives it a degree of stability in the face of political changes. As to the transition when a new president takes office in 2011, the program offers PRONACOM the resources to maintain its pace of work, enabling it to demonstrate its additionality and relevance. Lastly, the program includes resources to identify options to strengthen its institutional framework and financial sustainability in the medium and long terms.

2.8 As for execution capacity, the experience acquired and the systems introduced under the World Bank program are a good starting point. However, the program seeks to establish strategic partnerships with intermediary agencies for the delivery of BDS and a series of measures to build up PRONACOM's technical capacity that includes hiring experts in certain priority areas. As for the risk that demand for BDS may be low, the program will actively disseminate information on its merits to the private sector. The benefits of BDS for companies and territories and the implicit subsidy they represent are incentives that should stimulate demand by companies and by public and private stakeholders in the territories.

2.9 With regard to monitoring and evaluation capacity, the program will build on and strengthen the platform created with the execution of the World Bank loan.

D. Procurement

2.10 Procurements of goods, works, and consulting services[5] will be conducted in accordance with the Bank policies established in documents GN-2349-7 and GN-2350-7. The program will not finance any works. The itemized budget and procurement plan are presented in Annex II. Depending on the results of the procurement reviews which will be performed ex ante, and after an evaluation of institutional risk in the area of procurement, the Bank may decide on the ex post review modality. The threshold values for the procurement process, which may be revised under the ex post method, will be determined after the risk evaluation.

III. IMPLEMENTATION AND ACTION PLAN

A. Summary of implementation arrangements

3.1 **Execution plan**. The borrower will be the Republic of Guatemala, through MINFIN. MINECO will be the executing agency, through a PRONACOM special executing unit (SEU)[6] reporting to MINECO through the Office of the Deputy Minister of Investment and Competition. A ministerial resolution must be issued making the SEU responsible for program execution, as a special condition precedent to the first disbursement. The executive director of PRONACOM will also act as the executive director of the SEU, thus ensuring the requisite ministerial coordination for execution. Invest in Guatemala will participate in component 1 and component 2 activities to improve the investment climate, in close cooperation with PRONACOM. PRONACOM's executive director will in turn be the executive director (acting) of Invest in Guatemala, to ensure interagency coordination. See the link Organigrama de Ejecución.

3.2 For the purposes of execution and as a special condition precedent to the first disbursement, a program coordination team (PCT) will be appointed inside the SEU to act as liaison with the Bank. The PCT will also have the advisory services of an expert international coordinator in strategic program areas, an expert in business environments, and another in investment environments. Like any medium-term consultant engaged out of the proceeds of the financing, they will be hired on one-year contracts that may be renewed if the agreed terms of reference are fulfilled. All procurement and contracts will be carried out by the SEU.

3.3 To execute components 3 and 4, the ITC will be established. Its membership will comprise at least the executive director, the coordinator of projects and institutional relations, and PRONACOM's sector and territorial managers, and technical staff from entities in the public and private sectors with a formal mandate and/or recognized experience in sector and/or regional productive development (such as

[5] The consulting contracts will include training for officials and/or entrepreneurs in contracting procedures to ensure the greatest possible transfer of knowledge.

[6] Operation of the SEU will be governed by ministerial directive No. 372-2009, of 13 May 2009 for the execution of loans IBRD 7044-GU, IBRD 7374, and IDB 1733/OC-GU.

MINECO, SEGEPLAN, management groups, and AGEXPORT). The ITC will be confirmed by the executive committee and will help the executive director carry out the programs to support sector and territorial development in components 3 and 4.

3.4 Program coordination will be overseen by PRONACOM's executive committee which will have broad representation from the private sector. The committee's functions will include: (i) approving the program Operating Regulations and any changes to them; (ii) approving the annual work plans; (iii) requesting public and private entities mentioned in the preceding paragraph to appoint technical representatives to the ITC; and (iv) validating the prioritization of sectors and territories proposed by the ITC in components 3 and 4.

3.5 The SEU will maintain program accounting and financial records separate from other funds administered by PRONACOM so that: (i) financial transactions made using program funds can be identified; and (ii) financial statements can be prepared for the program. The SEU will present the program financial statements audited by a firm of external auditors acceptable to the Bank within 120 days after the end of each fiscal year.

3.6 **Operating Regulations, annual work plans, and annual meetings**. The Operating Regulations must establish procedures for program execution and their approval by PRONACOM's executive committee in a form acceptable to the Bank, as a special condition precedent to the first disbursement.

3.7 For an effective evaluation process, the annual work plans (AWPs) will need to include qualitative and quantitative targets of the main indicators in the results matrix to permit valid comparisons and, if necessary, corrective measures. The SEU will present the AWP and the procurement plan for the calendar year in the first quarter of each year for the duration of the program. Based on the AWP, the SEU and the Bank will meet to evaluate the progress made in the previous year and the extent to which the criteria for disbursement and technical execution of the project have been fulfilled, and to agree on and ratify the AWP presented.

B. Summary of arrangements for monitoring results

3.8 **Evaluations**. Program funds will be used to engage experts to establish a monitoring and evaluation arrangement. The first intervention will take place at the outset of the project to design the monitoring and evaluation strategy and establish the baselines, particularly for components 3 and 4. An initial evaluation will be conducted 18 months into the program. Based on the results, a first economic evaluation of components 3 and 4 will be performed and corrective measures may be taken to ensure proper and expeditious program execution and attainment of the development objectives. The program also provides for external midterm and final evaluations. The midterm evaluation will be commissioned when 50% of the proceeds have been disbursed or 36 months into the program, whichever comes first. This evaluation will extract lessons so far learned so that adjustments can be made to maximize the possibilities of success during the remainder of the program. The final evaluation will be commissioned when 90% of the loan has been

disbursed or 54 months into the program, whichever comes first, and will seek to measure the outcomes and development impact based on the results matrix indicators. PRONACOM will undertake to make the information on program execution available upon completion should the Bank decide to perform an ex post evaluation at its expense.

ANNEX I

The information contained in this document is confidential.

GUATEMALA
REFORMULATION OF THE VIOLENCE PREVENTION PROGRAM
(GU0163-1734/OC-GU)

RESULTS MATRIX[1]

PROJECT OBJECTIVE	*To support the government in its efforts to boost the productivity of the economy in general and of businesses/production chains in particular.*

INDICATORS	BASELINE	TARGET	COMMENTS
To improve the country's rating in the Investor Protection Index (assuming that the methodology used in the 2009 Report is maintained).	4 (2009)	In 2014, the rating improves by about 10% compared to the base year.	This indicator is a proxy for improving the investment climate and is prepared by the World Bank as part of its Business Climate Index. The index is composed of the following subindexes: (i) transparency of transactions; (ii) liability for self-dealing; and (iii) shareholders' ability to sue officers and directors for misconduct. The information source is the World Bank's Doing Business web page. Link to DB Index
Improvement in country risk classification to the levels of its regional comparators (e.g. El Salvador, Panama)	OECD (2009) – 5 Moody's (2009) - Ba2 S&P (2009) - BB, stable Fitch (2009) - BB+ stable	OECD (2014) – 3 Moody's (2014) - Baa3 S&P (2014) - BB+, positive Fitch (2014) - BB+, positive	Means of verification: Country risk publications by risk classification agencies.
Improvement in the country's ranking in the Business Climate Indicator (compared to the same 181 countries included in the 2009 Report).	112 (2009)	The country's ranking in 2014 improves by a minimum of 10 places compared to its ranking in the base year.	This indicator measures the country's business climate ranking compared to the other countries covered by the survey (181 in 2008-2009). The index is composed of 10 areas: (i) opening a business; (ii) dealing with construction permits; (iii) employing workers; (iv) registering property; (v) getting credit; (vi) protecting investors; (vii) paying taxes; (viii) trading across borders; (ix) enforcing contracts; and (x) closing a business. The information source is the World Bank's Doing Business web page. Link to DB Index

[1] The matrix of the principal outputs by component can be found in: Outputs Matrix.

INDICATORS	BASELINE	TARGET	COMMENTS
Improvement in Guatemala's score in the Global Competitiveness Index of the World Economic Forum (assuming that the methodology used in the 2009 Report) is maintained.	3.94 (2009)	In 2014, the ranking improves by about 5% compared to its ranking in the base year.	This indicator measures the country's competitiveness compared to the other countries covered by the survey (134 in 2008-2009). The index is composed of three pillars: (i) basic requirements for competitiveness (institutions, infrastructure, macroeconomic stability, and health and primary education); (ii) efficiency enhancers (higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, and market size); and (iii) innovation and sophistication factors (business sophistication and innovation). The information source is World Economic Forum's web page. http://gcr.weforum.org/gcr/
More business visits to learn about the strategic investment opportunities offered by Guatemala.	In 2008 five missions were received from investors interested in investing in the tourism sector. Twelve missions were received in the other strategic sectors (promoted only since 2008).	Tourism (2014): 25 annual missions. Other strategic sectors (2014): 90 annual missions.	The information source for compiling this indicator will be the records of visits by foreign business missions interested in learning about specific projects in the strategic sectors that will be supported by this program, which is conducted by the Invest in Guatemala Agency.
Increase in average productivity per employee of beneficiary companies compared to eligible nonbeneficiary companies.	1.00 (2010)	1.09 (2014)	The guidelines for the evaluation of the program's impact on the productivity of priority sectors are described at the following link:

Component 1: Support for the design and implementation of improvements in the business and investment climates in the private productive context

Subcomponent 1.1: Strengthening of the business climate

Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
Commercial Code and Code of Civil Procedure reformed and in force to improve protection for investors.			Dec. 2011				Means of verification: Pronacom's monitoring system.
Legal framework on double taxation reformed and in force.			Dec. 2011				Means of verification: Pronacom's monitoring system.

Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
Legal framework, procedures, and regulations to improve the treatment of foreign investors modernized and in force.			Dec. 2011				Means of verification: Pronacom's monitoring system.
Multisector risk panel set up and effectively coordinating the activities of different stakeholders involved in raising the country risk rating		June 2010	2011	2012	2013		Means of verification: Pronacom's monitoring system
Strategy and policies on industrial parks revised, modernized, and in force.			Dec. 2011				Means of verification: Pronacom's monitoring system.
Four strategic territorial plans that include comprehensive public-private strategies to develop industrial parks actively promoted by relevant stakeholders.				Jan. 2012 (2 plans)	Jan. 2013 (2 plans)		
Subcomponent 1.2: Improving the business climate							
Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
Greater use of the Register of Liens	2008 Value registered: Q75M Trans: 4k	Q.150M 10k	Q. 900M 80K	Q. 1500M 125K	Q. 2,000M 150k	2000M 150k	Means of verification: Amount (Q millions) and number of transactions recorded in the Register of Liens based on the records maintained by that institution.
Labor Code reformed and in force, regulating part-time work.			Dec. 2011				Means of verification: Pronacom's monitoring system.
National immigration system reformed and in full effect, making it easier to obtain business visas and visas for temporary workers.		Sept. 2010					Means of verification: Pronacom's monitoring system.
Commercial Code reformed and in force to facilitate opening and closing businesses.				June 2012			Means of verification: Pronacom's monitoring system.
Process of registering companies in the Business Register simplified and in force, consolidating business registration in the tax administration and social security systems in a single electronic process.				Dec. 2012			Means of verification: Pronacom's monitoring system.

National logistics survey held annually.			June 2011	June 2012	June 2013		
Strategic restructuring of the country's logistics system, including restructuring and modernization of its institutions, in full implementation.				June 2012			Means of verification: Pronacom's monitoring system.
Government Procurement Act reformed to include the "right to submit proposals."				June 2012			Means of verification: Pronacom's monitoring system.
Bilingual training programs in full implementation.				Jan. 2012			Means of verification: Pronacom's monitoring system.
Legislation on pensions, retired public servants, stock market, and Commercial Code reformed and in full force for greater financial deepening in the country.					Jan. 2013		Means of verification: Pronacom's monitoring system.
National policy for business formalization and pilot projects in full implementation.			Jan. 2011				Means of verification: Pronacom's monitoring system.
Consensual bancarization initiatives for unbancarized population in the implementation stage.				Jan. 2012			Means of verification: Pronacom's monitoring system.
Launch of the National Animal and Plant Health Institute.				April 2012			Means of verification: Pronacom's monitoring system.
Strengthening of the national quality system in full implementation.				April 2012			Means of verification: Pronacom's monitoring system.
Initiatives for innovation and technological development that seek to align academic efforts with the needs of the Guatemalan business sector in full implementation.			Jan. 2011				Means of verification: Pronacom's monitoring system.
Component 2: Support for the structuring and promotion of strategic investment projects							
Subcomponent 2.1: Tourism							
Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
Master plans for investment in tourism with the investment profiles actively promoted by the stakeholders concerned.			Jan. 2011				Means of verification: Pronacom's monitoring system.
Profiles of tourism investment projects in the resorts sector actively promoted by the stakeholders.			Jan. 2011				Means of verification: Pronacom's monitoring system.

Tourism Incentives Act approved and in force.					Jan. 2013		Means of verification: Pronacom's monitoring system.
Reform of the Act governing the Office of Control of State Land Reserves (OCRET) approved and in force.					Jan. 2013		Means of verification: Pronacom's monitoring system.
Subcomponent 2.2: Mining							
Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
National committee to coordinate mining policy full functioning.		Dec. 2010					Means of verification: Pronacom's monitoring system.
New mining act being implemented.			Mar. 2011				Means of verification: Pronacom's monitoring system.
Ministry of Energy and Mines strengthened in project and socioenvironmental management.			Dec. 2011				Means of verification: Pronacom's monitoring system.
Proposed projects with mining potential in four communities with public-private participation actively promoted by relevant stakeholders.			Dec. 2011				Means of verification: Pronacom's monitoring system.
Subcomponent 2.3: Electricity							
Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
Investment in the electric power sector actively promoted in coordination with the Invest in Guatemala.		June 2010	2011	2012	2013		Means of verification: Pronacom's monitoring system.
Subcomponent 2.4: Oil and gas							
Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**Comments**
Investment in energy and gas-related sectors actively promoted by the stakeholders during the program.		June 2010	2011	2012	2013		Means of verification: Pronacom's monitoring system.
Subcomponent 2.5: Transportation infrastructure							
Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
Active promotion of two investment projects under the new APD Act in ports and airports.			June 2011	2012	2013		Means of verification: Pronacom's monitoring system.
Active promotion of two investment projects under the new APD act in overland and urban transportation.			June 2011	2012	2013		Means of verification: Pronacom's monitoring system.

Components 3 and 4: Support for business and/or production chains that are potentially world class and/or territorial leaders and for development of an institutional framework for territorial competitiveness							
Midterm outcomes	**Base**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**	**COMMENTS**
Increase in average productivity per worker in the beneficiary companies	100	104.8	109.8	115.1	120.7	120.7	Means of verification: Pronacom's monitoring system.

GUATEMALA
Reformulation of the violence prevention program
GU0163-1735/OC-GU
Summary procurement plan

Period covered by the plan: from 01/2010 to 12/2011

Ref. No.	Description and type of procurement	Estimated cost of the contract	Procurement method [1]	Revision (ex ante or ex post)	Source of financing and percentage		Estimated dates		Status (pending, under way, cancelled)	Comments
					IDB %	Local/Other %	Tentative date of publication	Date of contract		
	Procurement of consulting services									
	1. Consulting services									
	o National individual consultants	**$ 3,151,763**	NICQ		100%	-	N/A	N/A	Pending	
	o Individual international consultants	**$ 947,871**	IICQ		100%	-	N/A	N/A	Pending	
	o National legal consultants	**$ 274,606**	NICQ		100%					
	o Consulting firms	**$ 3,531,605**	QCBS		100%	-	N/A	N/A	Pending	
	2. Goods									
	o HW and SW, databases, Internet portal, and equipment for technological upgrading	**$ 232,500**	NCB		100%	-	N/A	N/A	Pending	
		$ 112,500	ICB		100%		N/A	N/A	Pending	
	3. Other services									
	o Travel and per diems	**$ 117,280**	NCB		100%		N/A	N/A	Pending	
	o Materials for workshops, logistics	**$ 129,615**	PS		100%		N/A	N/A	Pending	
	o Services for missions, trade fairs, and other international events	**$ 646,981**	PS		100%		N/A	N/A	Pending	
	o Program dissemination and promotion services	**$ 154,290**	NCI		100%		N/A	N/A	Pending	

Goods. ICB: international competitive bidding; LCB: local competitive bidding; PS: price shopping; CD: direct contracting. **Consulting firms.** QCBS: quality and cost-based selection; SCQ: selection based on the consultant's qualifications. **Individual consultants**. SCQIL selection based on comparison of qualifications, individual local consultant; SCQII: selection based on comparison of qualifications, individual international consultants.

Executing unit consultants	**$ 422,111**
English language study grants	**$ 88,000**