

EASTERN DEVELOPMENT PROJECT (PRORIENTE)

(TC-98-02-30-GU)

EXECUTIVE SUMMARY

REQUESTER: Republic of Guatemala

EXECUTING AGENCY: Social Investment Fund (FIS)

AMOUNT AND	Japan Special Fund	US\$1,000,000
SOURCE:	Local counterpart funding:	US\$ 112,000
	Total:	US\$1,112,000

TERMS: Donation

OBJECTIVES: The Technical Cooperation will provide key inputs to the preparation and start-up of a Bank financed project. The project will create new relationships between central programs, local government and the many communities in the east of Guatemala that have been marginalized from the socio-political and economic mainstream. The project is based on the concept that collaborative relationships must be forged and new competencies acquired in order to create a self-sustaining process of development. Not only will the TC prepare vital studies to design the project, but it will also develop and test a new methodology for a key central program to delegate authority to the local level by creating new working relationships between communities and municipal authorities. In this sense, the TC will constitute the most important element in preparing the project for execution

DESCRIPTION: The TC will finance: (i) the cost of administering the TC; (ii) studies to identify ways to strengthen support for the productive activities of small farmers and micro-entrepreneurs (especially marketing); (iii) preparation of an operating guide to include the detailed procedures for financial, technical and administrative management of the project; (iv) the preparation of a set of indicators to monitor progress in establishing new relationships and processes as well as to assess the impact of the project; and, most notably, (v) a series of pilots that will demonstrate the feasibility of executing the project at the local level and anticipate bottlenecks at each phase

ENVIRONMENTAL AND SOCIAL REVIEW:	The TOR for project indicators will consider sustainable development and/or environmental impacts, and the participation of women in the program. In addition the program will address gender issues and promote the participation of women. To the extent possible and where relevant, the knowledge of local languages will be added to consultant qualifications (see paragraph 3.1).
BENEFITS AND BENEFICIARIES:	The TC will ensure high quality project design and new procedures and methodologies will be tested in the field thereby enabling rapid project start-up and a higher probability of success. The Beneficiary will be the Republic of Guatemala.
RISKS:	The very nature of the TC is to reduce the risk of starting project execution without the benefit of first proving the new methodology. In this sense, the most important contribution of the TC is that risk is transferred to it from the project. For this reason it is explicitly anticipated that the methodology will have to be significantly modified based on the experience gained from the pilots. A separate type of risk is that associated with the achievement of the actual objectives of the TC and there is no noteworthy element that is anticipated to prevent it from being executed as planned
RELATIONSHIP OF PROJECT TO BANK'S COUNTRY/REGION AND SECTOR STRATEGY:	The project is entirely consistent with the Bank's strategy, as enunciated in the Country Paper, to integrate the poor, indigenous and rural population into the development process
SPECIAL CONTRACTUAL CONDITIONS:	<p>Prior to disbursement of resources from the TC for pilots, the Social Investment Fund (FIS) must present to the satisfaction of the Bank:</p> <ul style="list-style-type: none">(i) evidence of the designation of the Coordinator of the TC and the assignment by the Executing Agency of the personnel necessary for the supervision and execution of the activities of the TC and evidence of the institutional arrangement to execute the TC (paragraph 2.14);(ii) evidence of an agreement between the Executing Agency and the <i>Instituto de Fomento Municipal (INFOM)</i> (paragraph 2.11);(iii) an Initial Methodology Guide for the orientation of the pilots (paragraph 2.7);(iv) evidence that the Operating Manual of the Executing Agency has been adjusted to include the norms necessary for the execution of the pilots in accordance with the provisions in the Initial Methodology Guide. (paragraph 2.6);

(v) a list of municipalities selected to participate in the pilots (paragraph 2.9);

(vi) evidence of at least one agreement between the FIS and one municipality that will participate in the pilots that obliges the municipality to use the methodology specified by the TC (paragraph 2.11).

**EXCEPTIONS TO
BANK POLICY:**

See section on Procurement which follows.

**PROCUREMENT OF
GOODS, WORKS AND
CONSULTING
SERVICES:**

A waiver of IDB contracting procedures is requested to permit contracting a firm to carry out the commercialization study without a new competitive selection process, because one firm (International Management and Communications Corp., IMCC) is uniquely qualified to do the work (paragraph 2.4).

I. BACKGROUND

- 1.1 The TC will support the preparation of a Bank financed project to create new relationships between central programs, local government and the many communities in the east of Guatemala that have been marginalized from the socio-political and economic mainstream. Ongoing public programs have not been able to reach these disadvantaged groups and they do not have the wherewithal to singlehandedly break out of the dynamic that perpetuates their exclusion.
- 1.2 The target communities represent about half the 1.2 million people living in the east. They are scattered throughout the region and are contiguous with others that were not left out. This anomaly makes it vital to conduct a thorough diagnosis of the reasons for their selective exclusion and to design targeting mechanisms that are sufficiently sensitive and accurate to pick them out.
- 1.3 The communities are relatively heterogenous so the proposed solutions will have to be sufficiently varied to match their different needs. They include indigenous groups in the highlands and foothills; Garifunas along the coast; and other mixed and European-origin groups sprinkled throughout the region. The factors that contribute to their exclusion from the development process are understood to include: language, ethnicity, culture, topography, poverty, gender and atomization in pockets of far flung communities.
- 1.4 The Government runs both national social programs and others designed to accommodate the special needs of each region. The Eastern Region is only now being incorporated into this strategy since the Government has heretofore focused on war-torn areas and those with greater economic potential. Its program for this region is called PRORIENTE and Bank support, in the form of a US\$50.0 million loan, has been requested in support of it.
- 1.5 PRORIENTE is based on the concept that collaborative relationships must be forged and new competencies acquired in order to create a self-sustaining process of development. Instead of top-down emergency interventions to provide missing infrastructure. The idea is to lay the foundation for long term changes in decision making and problem solving. A model in which beneficiary communities learn to work in partnership with local governments is considered to offer deeper and more lasting relief from grinding poverty and exclusion than external palliatives that largely leave the causes of the problem intact.
- 1.6 The executing agency would be the FIS: a statutory entity created in 1993 with a mandate to improve the living standards and socio-economic conditions of the materially poor. However, the traditional FIS delivery mechanism is inappropriate for the problem at hand. Its targeting mechanism is too blunt to pick out the

neediest communities; its policy of responding to demand on a first-come-first-served basis excludes the least competent; and by centralizing the evaluation, approval, financing and management of projects it does not encourage local initiatives. This top-down model has proved to be ineffective in reaching the poorest, least able people and does not promote local development. The FIS is entirely cognizant of this and is already taking steps to modify its operating methodology. PRORIENTE is seen as an opportunity to begin the evolution toward a new bottom-up model that delegates decision making to the local level.

- 1.7 An analogous project is currently being negotiated with the World Bank for the San Marcos Department (it includes similar elements of decentralization; and community participation and organization) to be executed by a regional entity called FONAPAZ (National Foundation for Peace). Despite the existence of other similar initiatives and the novelty of the new approach for the FIS, it was still chosen to execute the project because of its national mandate, experience in the Eastern Region and as a way to introduce more effective modalities for its future operations.

A. Government Priority

- 1.8 The Government has assigned high priority to the project not only in the context of its overall strategy to complement blanket programs with targeted ones, but also in order to reorient its national programs (introducing more decentralized methods and improving targeting of the most needy) and to remove a regional inequity that could lend itself to unrest if not attended to with alacrity.

B. Bank Strategy and Experience

- 1.9 The Project is entirely consistent with the Bank's strategy, as enunciated in the Country Paper, to integrate the poor, indigenous and rural population into the development process. The Bank is treating the PRORIENTE project as an adjunct to its ongoing support for the FIS. The current project with the FIS is now 100% committed and 46% has been disbursed. The World Bank is expected to approve a second loan in October of 1998. Even though there is no explicit link between the project to be prepared with this TC and the 1999 FIS project it is anticipated that the innovations in the former will be taken into account in designing the latter. The Profile I for the project was approved in March 1998, and the Profile II was approved in August 1998.
- 1.10 As part of its recent expansion of the scope of its operations with the Bank, the Japan Special Fund recently included the preparation of social projects as eligible activities. Via memorandum RE1/FSS-134 of April 29, 1998, the JSF indicated its acceptance of the Government's request for a non-reimbursable grant to finance the costs of the TC related to PRORIENTE.

II. OBJECTIVES AND DESCRIPTION

A. Objectives

- 2.1 The innovative nature of the eventual project and its implications for radical change of the Government's current delivery mechanism for investment in basic social infrastructure make it necessary to not only develop a new methodology but also to test it in a pilot phase prior to its application. In this sense the TC will constitute the most important element in preparing the project for execution. It will provide for rapid project start-up based on new procedures and methodologies to be designed in conjunction with beneficiaries and pre-tested in the field.

B. Description

- 2.2 The technical cooperation has three components: (1) Administration which includes the costs of carrying out the TC; (2) Studies which include a commercialization study, preparation of an operating manual and project indicators; and, (3) A series of studies, in the form of pilots to verify the feasibility of executing projects at the local level so as to test and improve the project's methodology as well as to finalize its Methodology Guide.

1. Component 1: Administration

- 2.3 **Administration:** The FIS will provide part of the financing for the administration of the TC. This will include office space, staff time and logistical and administrative support. The grant will pay for the costs of consultancies, training, travel costs and systems development (including hardware and software).

2. Component 2: Studies

- 2.4 The TC will finance three studies:
- (i) **commercialization:** The results of the **commercialization study** will be incorporated into the design of a project component that will encourage the productive activities of beneficiaries. It will identify forms to strengthen productive activities by small farmers and microenterprises. An initial stage of the commercialization study to be financed by this Technical Cooperation is currently being carried out by a consulting firm (International Management and Communications Corp., IMCC) financed by resources from the Norwegian Fund for Innovations in Social Programs. The firm was selected through a competitive selection procedure. To conduct a new bidding procedure for the second stage of this study would be counterproductive since other firms would be unable to compete effectively with the firm that has already launched the first stage. For this reason, it is considered that the current firm is uniquely qualified to conduct the second stage, budgeted at US\$60,000 to be financed by this TC. Therefore a waiver of IDB

contracting procedures is requested to permit contracting the same firm without a new competitive selection process.

(ii) The **Operating Manual** will be a prior condition for starting disbursements of the Bank loan and as such will have to be finalized and agreed as soon as possible in order to not delay the start of the project.

(iii) The **indicators** are vital to keep track of the progress of the project in achieving its development impact. It has been shown that the collection of data at the outset of execution is very important for appreciating the changes brought about by the project. This is even more important in this case given the innovative nature of the project methodology.

3. Component 3: Pilots

- 2.5 **The Pilots:** The pilots are essential for proving the procedures and systems to be put in place for project start-up. They will blaze a trail for project activities and make it possible to anticipate problems and their solutions in advance of the definitive investments. This will be the first time the FIS, local governments and the communities of this region will have participated in a joint working relationship of this kind. Although the pilots will have the benefit of a Initial Methodology Guide that will be agreed with the Bank prior to getting the pilots off the ground, it will still be necessary for all players to feel their way at first, experimenting and learning as they go and perfecting the Guide along the way.
- 2.6 Since the pilots will include the procurement of goods and services and of civil works it will be necessary to agree on the corresponding operational procedures before the pilots get underway. Accordingly, as a prior condition to initiating the pilots, the Beneficiary will present, to the satisfaction of the Bank, evidence that its operating manual has been modified to incorporate the procedures necessary to carry out the pilots in manner consistent with the Initial Methodology Guide. This will put special emphasis on the procedures for selection, contracting and payments. These procedures will form the basis for those to be included in the Operating Manual whose presentation will be a prior condition for the larger Bank-financed project.
- 2.7 **The Methodology Guide:** The Initial Methodology Guide to orient the pilots will be based on: (i) the results of an ongoing Community Organization Program (known by its Spanish acronym: POC) attached to the ongoing Bank operation with the FIS; and (ii) the existing institution strengthening program of INFOM (the National Institute for Municipal Development). It assists communities to identify their problems and prioritize solutions. In addition it organizes committees that represent the communities in productive or commercial activities. The Guide will provide the basic conceptual underpinning for the pilots but will depend, in turn, on the pilots to flesh out detailed procedures based on actual experience in the

field. Given the central importance of the Guide for the pilots, the Beneficiary and the Bank will agree on the first version of it as a prior condition to initiating the pilots. Once the investment programs mentioned in paragraph 2.13 have got under way, specialized consultants will be hired to work with the FIS, local governments and communities to produce a more definitive version of the Guide (in doing so they will also take into consideration other recent experiences such as the Bank financed community peace program and the World Bank supported San Marcos local development program). The consultancy for producing the definitive version of the Methodology Guide will also include an evaluation of the performance of the pilots, emphasizing their impact and lessons learnt. Furthermore, the consultancy will prepare impact and performance indicators for the program.

- 2.8 **Strengthening of Local Development Associations (LDAs).** The methodology for local development to be applied in the context of the PRORIENTE project is based on the premise that assigning authority and responsibilities by the FIS to the local level requires that the actors have the technical and organizational capacity to collaborate with the FIS in assuming them. Principally through training and the provision of consultant services, the TC will develop a capacity at the local level to target the most needy communities, jointly develop projects to solve the most pressing needs and decentralize execution.
- 2.9 **Strengthening of Offices of Planning.** In this sense the project will include the strengthening and (where they do not yet exist) the creation of Offices of Planning (ODPs) in the municipal governments, to guide and oversee the process and ultimately assume full responsibility for continuing it with funds other than those provided through this special program. The TC will finance training, transport, equipment and consultancy services needed to strengthen the ODPs.
- 2.10 The Bank and the FIS will agree on the municipalities to be included in the pilots. Agreement on the list of communities is a prior condition to the initiation of the pilots. The selection of communities to participate in the pilots will be the result of a consensus reached in assemblies among stakeholders, including municipal authorities, representatives of ministries, civil society organizations and communities.
- 2.11 Given that INFOM is responsible for strengthening municipal governments and has already developed methodologies and programs to this end it will be necessary for the FIS to coordinate closely with INFOM in designing and implementing the strengthening component for ODPs. For this reason, prior to initiating the pilots, it will be necessary for the FIS and INFOM to enter into an agreement which specifies the responsibilities of each in training and establishing ODPs in the municipalities where the pilots will be carried out.

- 2.12 Likewise, given the novelty of the proposed methodology for the municipalities and the central role they must play in the pilots it will be necessary for the FIS to enter into agreements with each of the municipal governments that will participate in the pilots. The agreements will provide the details of the role to be played by the municipal government. In order to maintain flexibility and permit rapid start up, execution in each municipality will be able to begin independently as soon as each municipality formalizes and agreement with the FIS. The preparation of at least one of these agreements is a prior condition for initiating the pilots.
- 2.13 The FIS will then assist the ODPs to guide a participatory management exercise whereby organized communities will work with them to identify problems and solutions, rank projects and prepare project profiles. The outcome of these workshops will be investment programs for each community that will then be consolidated by the ODPs and reviewed at the municipal level by a committee comprising representatives from the communities, the municipal authorities and representatives of the various sector ministries. The product will be a consolidated investment program that accurately reflects the informed decisions of the communities, enjoys the full backing of the municipal authorities, has been cleared by the sector ministries and has identified sources of financing (either 100% by the project or co-financed from other sources).
- 2.14 Execution will be handled by either the LDAs, the municipalities or the FIS as determined by the respective capacity of each. The preference will be to assign management of execution (including procurement, payment and supervision) to the LDAs, however, the complex nature of some projects and the incipient capacity of some LDAs will necessitate the intervention of the ODPs in many cases. Where neither the LDA nor the municipalities is able to handle the responsibility, then the FIS will intervene to do so directly through an interim institutional arrangement based on existing structures. This arrangement allows the FIS to directly contract, disburse payments and supervise projects, but this is only permitted for projects assigned priorities by communities and approved in consolidated investment programs (see paragraph 2.12). This arrangement is limited to no more than 30% of the resources allocated to the pilots.
- 2.15 Given the central role to be played by the FIS, as a prior condition to the first disbursement, the FIS will present to the satisfaction of the Bank, evidence that it has designed the program coordinator; assigned personnel; adapted the institutional structure to allow the supervision and execution of the TC. An agreement will have to be reached with the Bank on the structure and terms of reference of the institutional arrangement, as a prior condition to initiating the pilots. In order to maximize the benefit of the pilot, the interim institutional arrangement will form the basis of the definitive structure to be used for the larger project. In this regard, the FIS has indicated its decision

to create a new and separate section with a coordinator, a presence both at FIS headquarters and in the region.

- 2.16 The procedures for estimating project costs, evaluation of project viability, safeguarding the environment and financial reporting will be those already developed by the FIS in the ongoing project financed by the Bank. Eligible investments will go beyond the current FIS menu in that they will be governed instead by negative list. Rather than select from a limited number of solutions, communities will be able to identify projects that will most directly meet their needs as long as they are not on the list of ineligible investments. These include churches and temples; arms; land; illegal activities; vehicles for personal use; political campaigns and political parties; the production and procurement of housing services; debt refinancing; or projects which threaten the conservation of the environment, public health or the security and safety of the population.
- 2.17 Since the new methodology includes several aspects that are not currently covered under the existing operating manual used by the FIS, the latter will have to be modified as a prior condition to initiating the pilots.

C. Cost and Financing

- 2.18 Financing for this TC has been requested from the Japan Special Fund and preliminary acceptance for financing has been provided by the Government of Japan. The estimates for each of the proposed activities to be financed by the TC are presented below (in US\$000):

Cost Category	JSP	Local	Total	#
1. Administration	20.0	6.0	26.0	2.3
1.1 Consulting Services	10.0	0	10.0	
1.2 Training	2.0	0	2.0	
1.3 Travel	4.0	0	4.0	
1.4 Systems	4.0	0	4.0	
1.5 FIS honoraria and operating expenses	0	6.0	6.0	
2. Studies	120.0	0.0	120.0	10.8
2.1 Commercialization Consultancy	60.0	0	60.0	5.4
2.2 Indicators Consultancy	20.0	0	20.0	1.8

2.3 Operating Manual	40.0	0	40.0	3.6
2.3.1 Consulting Services	30.0	0	30.0	
2.3.2 Training	5.0	0	5.0	
2.3.3 Systems	5.0	0	5.0	
3.0 Pilots	800.0	100.0	900.0	80.9
3.1 Investment Projects	626.6	100.0	726.6	
3.2 Strengthening ODPs	98.4	0	98.4	
3.2.1 Transport	34.6	0	34.6	
3.2.2 Training	30.0	0	30.0	
3.2.3 Consultancies	20.7	0	20.7	
3.2.4 Equipment	13.1	0	13.1	
3.3 Strengthening LDAs	45.0	0.0	45.0	
3.4 Methodology Guide Consultancy	30.0	0.0	30.0	
Contingencies	60.0	6.0	66.0	6.0
Total	1,000.0	112.0	1,112.0	100.0
%	89.9%	10.1%	100%	

III. SOCIAL AND ENVIRONMENTAL VIABILITY

3.1 The CESI/TRG reviewed the Plan of Operations in its meeting of July 20, 1998 and made the following recommendations:

- (i) the terms of reference for indicators should include the evaluation of the impact of the projects on sustainable development and/or their environmental impacts, and measure the participation of women in the program as well as the permanence of their participation in the various processes over time;
- (ii) the Plan of Operations should establish explicitly that gender issues and efforts to promote participation by women will be taken into account in all aspects of the program, including looking at gender as an exclusion factor and developing specific mechanisms to facilitate the participation of women in community activities such as the development of municipal plans, the Local Development

Committees, and Review Committees for Investment Programs;
and,

- (iii) consultant qualifications should include a knowledge of local languages.

All of these recommendations were incorporated, as appropriate, either into the text of the Plan of Operations or into the terms of reference for consultancies.

- 3.2 This TC is automatically classified as poverty-targeted because it supports a social investment fund. The TC seeks to help Guatemala's Social Investment Fund improve its targeting to include the poorest, least able people, while it also supports local development in the areas where these people live.

IV. SPECIAL ISSUE

- 4.1 Local governments will have to play a crucial role in the new model, but the incentives for them to do so may be inadequate. As part of the overall decentralization effort they have recently been allocated resources in amounts that dwarf the proposed program and which do not require adherence to the particular procedures of this program. In addition, the financial sustainability of the initiative depends on the willingness of local governments to eventually use the new modalities to channel their own resources. For these reasons the pilot phase is doubly important to obtain feedback on the degree to which local governments can be expected to participate.

V. EXECUTION ARRANGEMENT

- 5.1 The FIS, in consultation with the project team, will be responsible for selecting, paying and supervising consultants for the studies. CGU will have responsibility for authorizing disbursements. The project team will approve the final version of the methodology guide to be produced as part of the pilot component. The FIS will have primary responsibility for providing counterpart resources and selection, payment and contracting of the pilot studies and administrative activities. The Project Team will closely monitor the execution of the pilots, including the definitive version of the Methodology Guide, to ensure results are adequately recorded and disseminated for effective input to the execution of the project. The procurement procedures already agreed with the FIS in the ongoing operation with the Bank (943/OC-GU), will be used for the procurement of goods and services.

PROPOSED RESOLUTION

**GUATEMALA. NON REIMBURSABLE TECHNICAL COOPERATION TO SUPPORT
THE EASTERN DEVELOPMENT PROJECT (PRORIENTE)**

The Board of Executive Directors

RESOLVES:

1. 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 Japan Special Fund established pursuant to the letter of agreement dated April 26, 1988 between the Government of Japan and the Bank, to enter into such agreements may be necessary with the República de Guatemala and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document AT- , with respect to a non reimbursable technical cooperation to support the Eastern Development Project (PRORIENTE).
2. That up to the sum of US\$1,000,000, is authorized for the purposes of this resolution chargeable to the resources of the Japan Special Fund.
3. That the above mentioned sum is to be provided on a non reimbursable basis.