

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUATEMALA

HUMAN CAPITAL INVESTMENT PROGRAM

(GU-L1017)

LOAN PROPOSAL

This document was prepared by the project team consisting of Graciana Rucci (SCL/SPH), Project Team Leader; Nohora Alvarado (SPH/CGU); Isabel Nieves (SPH/CPN); Jesús Duarte (SCL/EDU); David Rosas (SCL/SPH); Mario Sánchez (SCL/SPH); María Cristina Landázuri (LEG/SGO); and Ethel Muhlstein (SCL/SPH)

CONTENTS

PROJECT SUMMARY

I.	PROGRAM DESCRIPTION AND MONITORING OF OUTCOMES.....	1
A.	Background, problems, and rationale	1
B.	Objectives, components, and cost.....	7
C.	Outcome indicators	11
II.	FINANCING STRUCTURE AND PRINCIPAL RISKS	11
A.	Financing instrument.....	11
B.	Social and environmental safeguards	12
C.	Risks	12
III.	IMPLEMENTATION AND ACTION PLAN	13
A.	Implementation arrangements and monitoring of outcomes.....	13
B.	Significant design activities following approval	14

Annexes	
Annex I	Policy matrix

Electronic Links
REQUIRED <ol style="list-style-type: none">1. Policy letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=16037482. Outcomes matrix http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=16135303. Means of verifying conditions for disbursement http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=16100104. Independent macroeconomic assessment http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=15213055. Social and environmental safeguards http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1610027

ABBREVIATIONS

AINM-C	Atención Integral a la Niñez Comunitaria [comprehensive community-based services for children]
BHCS	Basic health care services
BPHCS	Basic package of health care services
CCTP	Conditional cash transfer program
ENCOVI	Encuesta Nacional sobre Condiciones de Vida [National living standards survey]
GDP	Gross domestic product
MEU	Mi Familia Progresá execution unit
MIFAPRO	Mi Familia Progresá [My Family is Making Progress]
MINEDUC	Ministry of Education
MSPAS	Ministry of Public Health and Social Assistance
NGO	Nongovernmental organization
PBL	Policy-based loan
PEC	Programa de Expansión de Cobertura [Coverage Expansion Program]
PNI	Plan Nacional de Inversión para Infraestructura Pública Escolar [National Investment Plan for Public Education Infrastructure]
SESAN	Secretaría de Seguridad Alimentaria y Nutricional [Food and Nutritional Security Department]
SOSEP	Secretaría de Obras Sociales de la Esposa del Presidente de la República [The President's Wife's Social Affairs Department]

PROJECT SUMMARY

GUATEMALA HUMAN CAPITAL INVESTMENT PROGRAM (GU-L1017)

Financial Terms and Conditions ¹					
Borrower: Republic of Guatemala Executing agency: Ministry of Finance			Financing OC	Parallel concessional financing	
				OC	FSO
Amortization period			20 years	30 years	40 years
Source	Amount (US\$)	Grace period:	5 years	5.5 years	40 years
Financing – OC	139.0 million	Disbursement period:	2 years from the effective date of the contract		
Parallel financing – concessional	61.0 million	Interest rate:	Variable	Variable	0.25%
OC financing (80%)	48.8 million	Inspection and supervision fee:	*	*	N/A
FSO financing (20%)	12.2 million	Credit fee:	*	*	N/A
Total	200.0 million	Currency:	U.S. dollars from the Single Currency Facility	U.S. dollars from the Single Currency Facility	Dollars
Project at a glance					
<p>Project objective/description:</p> <p>The program's general objective is to support actions aimed at strengthening human capital accumulation of Guatemala's poorest children by targeting chronic malnutrition and truancy in priority municipios through a conditional cash transfer program (CCTP). The specific objectives, which address two central challenges for the successful implementation of the CCTP, are: (i) to consolidate the design and operation of the CCTP under a mandate to rapidly expand the program; and (ii) to ensure that the supply of services promoted by the CCTP can quickly and adequately meet the demand generated by the CCTP.</p> <p>Special contractual clauses:</p> <p>The disbursement of funds for each tranche is subject to implementation of measures on the policy reforms or institutional changes agreed for the release of each tranche in accordance with chapter I, section B and Annex 1 (Policy Matrix).</p> <p>Exceptions to Bank policies:</p> <p>None.</p>					
Project qualifies as: SEQ <input checked="" type="checkbox"/> X PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/> 					

* 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. PROGRAM DESCRIPTION AND MONITORING OF OUTCOMES

A. Background, problems, and rationale

- 1.1 **Background.** Although Guatemala is a middle-income country, it has one of the highest poverty indexes in Latin America. In 2006, 51% of the population (6.63 million persons) lived in poverty, and 15.22% in extreme poverty. Poverty is more severe in rural areas, where 52% of the population lives, and among indigenous peoples (38.4% of the total population). In 2006, 72% of Guatemala's poor lived in rural areas and 28% in urban areas (of the extremely poor, the respective proportions were 83% and 17%). Indigenous peoples account for 56.25% of Guatemala's poor and 69% of the extremely poor, while non-indigenous peoples account for close to 44% and 31%, respectively. Among persons under 15 years of age, who account for 43.1% of the population, 60% are poor and 40% extremely poor.¹
- 1.2 Intergenerational transmission of poverty is of even greater concern, particularly in rural areas and among indigenous peoples. Guatemala's nutrition, health, and education indicators are among the lowest in the region. Currently, chronic malnutrition in children under five years of age is 49%, the highest in Latin America. Infant mortality was 33 per 1,000 live births in 2004, and maternal mortality was 153 per 100,000 live births in 2000. In education, despite significant gains in school coverage, in 2006 nearly 11% of children between the ages of 12 and 14 in the lowest income quintile had not completed a full year of education, and only 41% of the first-quintile cohort of 15- to 17- year-olds had finished primary school. In addition, 43 of every 100 children in first grade were over age.
- 1.3 During the last eight years, social spending has represented close to 50% of public spending but only 5% of gross domestic product (GDP) (increasing slightly in only the last few years). Guatemala's social spending for education, health, and social assistance represents little more than half the Latin American average (8.2% of GDP in 2004). Although Guatemala has managed its economy prudently in recent years, the most significant macroeconomic challenge facing the country is the difficulty in generating sufficient tax revenue (the tax burden is 12.3% of GDP).² The institutional framework for social policies and programs in Guatemala involves the traditional social ministries, such as education and health, as well as a large group of departments and social funds. There is little strategic, financial, or operational coordination between them, which was one of the problems of the *Guate Solidaria* poverty reduction strategy.³ Given the deficit of social services in

¹ Encuesta Nacional de Condiciones de Vida [National Living Standards Survey] (ENCOVI) 2006, poverty line: 3205.9 quetzales and extreme poverty line: 6573.9 quetzales.

² Source, Ministry of Finance and Independent Macroeconomic Assessment, June 2008, IDB. In 2007, spending as a proportion of GDP was 2.7% for education, and 1.2% for health and social assistance. Budgeted amounts for 2008 are 3% and 1.3%, respectively. The tax burden figure is for 2006, IMF.

³ See "Más crecimiento, más equidad. Prioridades de desarrollo en Guatemala [Greater growth, greater equity. Development priorities in Guatemala," IDB 2007. *Guate Solidaria* was the previous administration's poverty reduction strategy.

Guatemala, education, nutrition, and health are areas where the lack of coordination is becoming critical.

- 1.4 Poverty reduction in the medium term presents significant challenges. The little public funding directed to fighting poverty is biased toward urban areas and limited by low tax-collecting capacity. At the same time, considerable inequality in income distribution (2006 Gini coefficient: 44.8) combined with geographic and ethnic exclusion limit the impact of economic growth on poverty reduction. Lack of interagency coordination also limits the impact of social spending. Lastly, the combination of market failures and unstable supply of social services for the poor discourages that population from investing sufficiently in the human capital of its youngest members and creates a vicious circle by depriving them of the minimum capacity to escape poverty in adulthood.
- 1.5 **The Guatemalan government's strategy for the social sector: *Mi Familia Progres*a [My Family is Making Progress] (MIFAPRO).** Guatemala's new government is deeply committed to implementing a conditional cash transfer program (CCTP). This commitment is the product of an urgent need to improve indicators for nutrition, health, and education for Guatemalan children, coupled with the positive evaluations that several CCTPs in the region have received with respect to their capacity to impact those indicators. The high priority placed on CCTPs by the Office of the President has translated into a strong call to action by the ministries and agencies involved in implementing the program as well as demand for an accelerated pace of implementation.
- 1.6 Accordingly, 100 days into President Colom's administration (22 April 2008), the Guatemalan government began pilot implementation of MIFAPRO. During the pilot phase, the program has been delivering subsidies to families living in five of the 45 municipios designated as priorities by the national government⁴ that received the maximum score on a proxy means test. Families with a pregnant mother or with children under 16 years of age who have not completed the primary education cycle (six grades) are eligible to be beneficiaries of the program.
- 1.7 The program is currently providing a monthly health and nutrition transfer of 150 quetzales (US\$20) to families with children under age six, and 300 quetzales for education to families with at least one child between the ages of six and 15 attending primary school or preschool, if available in the community. The maximum per family is 300 quetzales. In both cases, payments are made to families twice a month. As with other programs in the region, the first and second payments to families is made in return for administrative commitments (registration with the program and proof of school enrollment or registration with a health care center).

⁴ The prioritization of those municipios lends continuity to a political decision made by the previous national government. During that administration, in the context of implementing the "Guate Solidaria Rural" [Rural Guatemala Together] strategy, 41 municipios were designated as priorities based on a combination of indicators (food security, poverty, productive capacity). The four remaining municipios are those most severely affected by recent natural disasters.

However, beginning with the third payment, families are expected to assume co-responsibility for: (i) visiting health care centers and stations or attending meetings of the Programa de Expansión de Cobertura [Coverage Expansion Program] (PEC) and, if the family composition includes a pregnant woman and/or children under age six, receiving a basic package of nutritional and preventive maternal-child health care services; and (ii) regularly attending school (no more than 10% unjustified absences) if the family composition includes children between the ages of 6 and 15. If a family member fails to meet his or her co-responsibilities, the corresponding monthly transfer (nutrition and health or education) is canceled.

- 1.8 With support from the IDB and the World Bank, the Guatemalan government is developing a proposal for a new education transfer plan, expected to cost no more than the total anticipated cost of the current plan, in which families would be guaranteed a minimum amount and benefits would increase with school grade and number of children, up to a maximum total transfer per family (total health, nutrition, and education transfers). The government is also working on a plan to expand the program, which currently is expected to cover the 45 priority municipios in 2008 (approximately 200,000 families) and 125 of the country's 333 municipios by the end of 2009.⁵
- 1.9 As noted above, while the program's accelerated pace of expansion reflects the priority accorded by the Guatemalan government, it also represents significant risks for appropriate implementation of the program and achievement of the current government's objective of promoting the program's continuity in the medium term and making it State policy. These risks are described below, in addition to their implications for the effectiveness and sustainability of the program.
- 1.10 **Validation of conditions of access and capacity to provide services.** CCTPs promote demand for public services. Therefore, the communities where the program is launched must have the infrastructure and human and financial resources necessary to meet the current demand for services as well as the increased demand expected to be generated by the program. The program's rapid implementation has prevented validation activities from being conducted with the timeliness necessary to have resources and activities available to meet this demand.
- 1.11 **Interagency coordination and financial arrangements to ensure sufficient financial resources for supply.** In order to be effective, CCTPs must become a mechanism for interagency coordination to ensure that the operational conditions of services are maintained, problems in providing services are identified, and actions are taken to strengthen supply. A key element for such coordination to be more than nominal is a financial arrangement to ensure that sufficient resources exist to maintain and strengthen supply; that they are executed exclusively within the framework of CCTPs, to avoid overlaps with other programs; and that they are not diverted for other purposes within the ministries or agencies involved in the

⁵ The remaining 80 municipios have been prioritized under *La Estrategia de Solidaridad* [Solidarity strategy], the government's current social policy framework, based on poverty maps.

program. Up to this point, the program's organizational structure has favored the short-term objective of locating and registering families over the development of an effective arrangement for interagency coordination. Recently, a MIFAPRO board of directors was formed, comprised of members of the MIFAPRO execution unit (MEU) (currently located within the Office of the President's Executive Coordination Department), the Ministry of Public Health and Social Assistance (MSPAS), the Ministry of Education (MINEDUC), the Food and Nutritional Security Department (SESAN), and the Ministry of Finance. A technical committee was also set up to institute and strengthen interagency coordination and establish the program operating rules.⁶

- 1.12 **Payment system and verification of co-responsibilities.** A key factor for the credibility and sustainability of a CCTP is a payment system that ensures timely and transparent allocation of subsidies based on the families' fulfillment of their co-responsibilities. While significant progress has been made in developing an information system to automate the selection of beneficiaries, verification of co-responsibilities, and payment to beneficiaries, these processes are currently manual and focus on the process of enrolling beneficiaries.
- 1.13 **Monitoring and evaluation.** In addition to being a key tool for operational management and accountability, CCTP monitoring and evaluation systems have become a tool to insulate those programs from political cycles. One of the significant characteristics of the region's most successful CCTPs is the weight accorded to the evaluation of their operation and outcomes. Accordingly, from the design phase, the plan for expanding those programs has gone hand in hand with information-gathering mechanisms, allowing the program's design and operational mechanisms to be adjusted and their impacts clearly identified and disseminated to the public, generating public and political support. However, the accelerated expansion of the program limits the opportunities to generate lessons learned as the basis for continued adjustment of the program's operational cycle and design.
- 1.14 **The supply of public services and MIFAPRO.** CCTPs generate demand for public services and are public service programs themselves. Outlined below are the crucial aspects of the current public services offered in the health, nutrition, and education sectors in the context of the challenges inherent in MIFAPRO.
- 1.15 **Health.** According to estimates, more than 40% of the Guatemalan population lives over one hour from a health care institution, and 26.2% of Guatemalans had no access to health care services in 2005. Low health care coverage is more severe in rural areas and among indigenous peoples. In 2000, the proportion of women who underwent prenatal checkups from a health professional ranged from 78.4% in the urban area to 34.9% in rural areas, and 66.2% among the ladino population and 32.9% among the

⁶ MIFAPRO, created by Executive Order 117-2008 of 16 April 2008 and placed under the Office of the President's Executive Coordination Department, will act through the MEU.

indigenous population.⁷ The supply of basic health care services (BHCS) is provided through the PEC and health care centers and stations.⁸ Health care coverage has increased in recent years through the PEC, primarily in rural areas. In 2006 health care coverage for the total population in the 41 priority municipios was as follows: health care centers, 18%; health care stations, 15%; PEC, 67%; and 3% with no coverage.⁹ However, there are significant challenges to be faced. First, and particularly for health care centers and stations, the minimum requirements established for primary care are not always covered, and there is no standardization of BHCS either in terms of modalities or between establishments. There are also no supervisory mechanisms to ensure that services are offered or monitor service quality. In particular, health care centers and stations lack information and supervisory systems, and the NGOs are subject to virtually no supervision. Secondly, there is a shortage of health care professional and technical staff in Guatemala, exacerbating the difficulty of assigning and retaining personnel in rural and remote areas. Among the most important challenges in meeting MIFAPRO's needs are the development a strategy to standardize the basic package of health care services (BPHCS), including the strengthening of the PEC and health care centers and stations, design of rigorous supervisory systems to ensure the quality of services provided, and implementation of training and incentive policies to address the lack of primary health care technical and professional staff.

- 1.16 **Nutrition.** MIFAPRO is faced with the following scenario: nearly 70% of indigenous children suffer from chronic malnutrition. Micronutrient deficiencies (particularly iron and vitamin A) exacerbate malnutrition and directly contribute to maternal-infant morbidity and mortality. The fact that 65% of infants aged six to 11 months and 57% of infants aged 12 to 23 months suffer from anemia caused by iron deficiency is a severe public health problem. At the same time, 17 to 20% of pregnant women are anemic and therefore at high risk of dying in childbirth. Nutrition services mostly consist of free distribution of food, the impact of which has not been demonstrated. Recent achievements in nutrition are uneven: the reduction of low weight for age and low height for age has been twice as rapid for non-indigenous populations as for indigenous populations, and rates of anemia and vitamin deficiency continue to be moderate to severe. The MSPAS preventive nutrition and micronutrient supplement programs have low coverage rates and technical weaknesses.¹⁰ A community-based program to prevent malnutrition in children, Atención Integral a la Niñez Comunitaria [comprehensive community-

⁷ Gragnolati, Michele, and Marini, Alessandra, Health and Poverty in Guatemala, Policy Research Working Paper 2966, World Bank, 2003 (based on data from ENCOVI 2000).

⁸ The PEC contracts with nongovernmental organizations (NGOs) to travel to communities and provide mobile BHCS.

⁹ MSPAS Report, July 2006.

¹⁰ Micronutrient supplements are one of the most cost-effective interventions to combat deficiencies, reduce illness, and prevent deaths among children and pregnant and lactating women.

based services for children] (AINM-C) was implemented on a pilot basis in 2005.¹¹ The program was strengthened, particularly in the 45 priority municipios, in 2007, and the “Creciendo Bien” [Growing Well] program, which provides nutritional counseling, was expanded. In parallel, while nutritional services provided by health care centers and stations include height and weight monitoring and distribution of certain micronutrients, they have shown significant technical weaknesses, inadequate equipment, and lack of supplies. The Guatemalan government’s efforts should be directed toward: preventing chronic malnutrition and reducing iron and vitamin A deficiencies; making the provision of care to children under 24 months and pregnant and lactating women a priority, using interventions with proven effectiveness (early childhood development); and focusing services on the poorest populations, particularly indigenous peoples, with sustainable, community-based interventions to modify dietary behavior and maternal-infant care, thereby preventing malnutrition.

- 1.17 **Education.** Although Guatemala has made significant progress in terms of access to primary education in the last 20 years, achieving a net enrollment ratio of 94.5%, significant school failure problems remain, as reflected in a high repeater rate (25% of first grade students repeat and, on average, 16% are held back), attrition (45% of students drop out of the system beginning in fifth grade), and late entry (43 of every 100 first grade students are over age). As a result, only 71%¹² of students who enter the first grade reach the sixth grade, and of all the children who begin primary school at the appropriate age, only 32% finish on time.¹³ Problems of school failure and late entry in primary school mainly affect children from the poorest families, who are concentrated in Guatemala’s rural areas and indigenous households.
- 1.18 The principal causes on the supply side that explain internal inefficiency and late entry relate to the quality of infrastructure (more than the quantity), the number and academic level of teachers, and inadequate teaching methods. According to the Censo de Infraestructura Escolar [School Infrastructure Census] (MINEDUC 2005), only 53% of official schools meet the minimum conditions for adequate schooling. Teacher training is also inadequate, and intercultural bilingual education covers only 23% of indigenous children enrolled at this level. Furthermore, there are weaknesses in the management and assignment of teachers (the average time required to appoint a teacher to a vacant position is 311 days, and there is an inverse relationship between experience and assignment to a rural location). In order to

¹¹ AINM-C is offered only in communities served by the MSPAS’s PEC. The PEC and AINM-C serve 60% of the population in the pilot municipios. The pilot has not been formally evaluated. Beginning in mid-2008, the AINM-C pilot will be extended to an additional 70 municipios with funding from the World Bank, which plans to conduct an impact evaluation of AINM-C.

¹² It should be noted that the net enrollment rate for lower secondary education is 34.7%. As a result, the average number of years of education is 5.3.

¹³ Intervenciones orientadas a mejorar la calidad y eficiencia en educación primaria en Guatemala [Interventions to improve the quality and efficiency of primary education in Guatemala], IDB 2008.

improve the assignment of teachers, MINEDUC intends to adopt a system in which teachers are assigned by department. The regulatory framework for Guatemala's education system is complex and responsibility for and management of the education infrastructure are not well defined, as reflected by poorly coordinated efforts. Lastly, the parallel phenomenon of migration also contributes to truancy and educational failure. In general terms, the sector's principal challenges for primary education relate to improving internal efficiency and quality, school infrastructure, and teacher competencies.

B. Objectives, components, and cost

- 1.19 The Guatemalan government and the Bank have agreed on an agenda to support the current administration's social strategy that includes among its priorities the design of a CCTP that will increase the demand for education and health care services by the most vulnerable populations and ensure adequate levels of nutrition. In general, the Guatemalan government faces two challenges to the successful implementation of MIFAPRO: (i) consolidating the design of the CCTP and its operational processes under a mandate for rapid expansion; and (ii) ensuring that the supply of services promoted by the CCTP can rapidly and adequately meet the demand generated by the CCTP.
- 1.20 The Bank's support is focused on meeting these two challenges through two mechanisms. First, the proposed program will support the implementation of regulatory changes and administrative processes to promote the execution of MIFAPRO in a framework of effective interagency coordination, and regulatory and operational changes to ensure the sufficiency of sector resources and flexibility in their use, so as to meet the demands generated by MIFAPRO's expansion. Second, the Bank will support the technical design, operational cycle consolidation, and analytical and operational learning during the execution of MIFAPRO (in order to boost the impact of the intervention), and the evaluation of the CCTP through a nonreimbursable technical-cooperation operation in the amount of an estimated US\$2 million, expected to be financed with resources from the Social Fund.
- 1.21 **Objectives.** The development goal of the program is to assist the Guatemalan government in reducing intergenerational poverty. Although the feasibility of this goal depends on a number of activities beyond the scope of social action, the program's general development objective is to support the Guatemalan government in actions to strengthen the human capital accumulation of Guatemala's poorest children, focusing on chronic malnutrition and truancy in priority municipios by means of a CCTP. See link to Policy Letter.
- 1.22 **Components and structure.** The program's specific objectives—which give rise to its components—address the two central challenges identified for successful implementation of MIFAPRO: (i) consolidating MIFAPRO's design and operational processes under a mandate to rapidly expand the program; and (ii) strengthening the supply of health, nutrition, and education services promoted by MIFAPRO in order to rapidly and efficiently meet the demand generated by

MIFAPRO. The following sections describe each component and the conditions precedent to the disbursement of each tranche of financing to achieve those objectives. See detailed version in the Policy Matrix.

- 1.23 **Component 1: Consolidation of MIFAPRO.** The objective of this component is to support central aspects of MIFAPRO's design and operational processes to ensure successful implementation in light of certain MIFAPRO risks described in section A. This component will support the following strategic lines: (i) budget resources for MIFAPRO and interagency coordination; (ii) consolidation of the information and payments system; and (iii) monitoring and evaluation.
- 1.24 It is critical to have budget resources for the MEU as well as the sectors responsible for the supply of health, nutrition, and education services in the priority municipios to enable them to meet the MIFAPRO design and implementation requirements. Accordingly, there will be two conditions precedent to the disbursement of the *first tranche* of financing: (i) inclusion of a line item in the government's budget with sufficient funds for operational and technical implementation of MIFAPRO in the priority municipios; and (ii) at minimum a 20% increase in funding allocated by MINEDUC and MSPAS for 2009 to boost the supply of education, health, and nutrition services so as to meet the demand generated by MIFAPRO in the priority municipios compared with 2008 levels. The conditions precedent to disbursement of the *second tranche* of financing will be: (i) a line item in the government budget with sufficient funds for the operational and technical deployment of MIFAPRO in the priority municipios based on the program's progress; (ii) commitment by MINEDUC and MSPAS of the funds allocated in the 2009 budget (mentioned for the first tranche) to boost the supply of health, nutrition, and education services so as to meet the demand generated by MIFAPRO; and (iii) the identification of separate line items for MINEDUC and MSPAS resources in the government budget for 2010, in the amounts estimated by the MIFAPRO technical board, to cover the supply of services required by MIFAPRO in the priority municipios designated as such by MIFAPRO.
- 1.25 In addition, to support the consolidation of MIFAPRO, the IDB technical team is supporting the MEU in reviewing the most appropriate design for the transfer scheme and its organizational structure, information systems, and monitoring and evaluation systems (operations, systems, and impact) and organizing technical workshops on CCTP. At the same time, and outside the scope of this operation, the aforementioned technical-cooperation operation will support the MEU through: (i) an institutional analysis geared toward studying and strengthening technical, operational, and interagency coordination from the start of MIFAPRO; (ii) an ex ante evaluation of the supply of basic social services in the priority municipios in order to plan the necessary budget resources; (iii) an impact evaluation, including design, baseline preparation, and initial monitoring, as well as recommendations for adjustments based on the findings; and (iv) analytical and operational lessons learned during execution. The technical-cooperation operation is also expected to pilot alternatives relating to early childhood development.

- 1.26 Taking this context as a starting point, the challenges relating to institutional coordination, consolidation of information and payments systems, and monitoring and evaluation are also supported through the following conditions precedent to the disbursement of each tranche. For the ***first tranche***: (i) approval by the MIFAPRO Board of Directors of the MIFAPRO expansion timetable, which allows for evaluation of MIFAPRO's impact according to the specified design; (ii) approval of MIFAPRO's institutional and organizational structure in a form that promotes: (a) technical and operational coordination between the sectors; and (b) the delegation of administrative, financial, and managerial functions to the executing unit; and (iii) implementation of at least three of the four modules of the MIFAPRO information system, and initiation of the fourth module with delivery to 100% of the holders of the health checkup attendance forms. For the ***second tranche***: (i) completion of at least two operational evaluations and one systems evaluation of MIFAPRO and implementation of adjustments based on the conclusions of those evaluations, especially with regard to the selection of beneficiaries, verification of co-responsibilities, and timely and adequate payment of transfers; (ii) approval by the MIFAPRO Board of Directors of an institutional and organizational strengthening plan that reflects the recommendations of an institutional, technical, and operational coordination evaluation; and (iii) completion of adjustments to the MIFAPRO information system, based on an evaluation thereof, in such a way as to ensure that the monitoring and control systems are comprehensive and sufficient.
- 1.27 **Component 2: Strengthen the response capacity of public education, health, and nutrition services to enable them to meet the increase in demand expected to be generated by implementation of the CCTP.** The objective of this component is to support policies to ensure that the supply of health, nutrition, and education services the use of which is promoted by MIFAPRO can rapidly and adequately meet the demand it generates. This component will support activities designed to: (i) strengthen comprehensive, community-based care for mothers and children (AINM-C) to promote healthy growth and prevent chronic malnutrition in children under three years of age, with emphasis on children under the age of two; (ii) prevent micronutrient deficiencies; (iii) strengthen the quality of basic primary care services and the BPHCS to ensure that the services are consistent with MIFAPRO conditionalities; (iv) create incentives to attract the human resources necessary in rural and isolated areas; (v) prepare the infrastructure and teachers necessary in primary schools; (vi) make the academic calendar more flexible so as to improve MIFAPRO beneficiaries' access to and continuance in the school system; and (vii) promote audits by parents to contribute to compliance in education services supply. The conditions precedent to the disbursements of each tranche, defined to support these objectives, are indicated below by sector.
- 1.28 **Health.** For the ***first tranche***: (i) approval of a plan for supervising the delivery of primary health care services for the priority municipios identified by MIFAPRO; (ii) validation and implementation of pilot projects of alternatives for stationing and maintaining primary health care technical and professional staff in the locations required by MIFAPRO. For the ***second tranche***: (i) supervision of 100% of the

- PEC basic health care teams and at least 50% of the health care centers and stations in the municipios covered by MIFAPRO that have received at least three transfer payments, according to the approved supervision plan; (ii) approval of an incentive policy for stationing and maintaining primary care technical and professional staff based on the evaluation of the pilots implemented; and (iii) availability of the standardized BPHCS from 50% of the health care centers and stations and 100% of the PEC basic teams in the municipios covered by MIFAPRO.
- 1.29 **Nutrition.** For the *first tranche*: (i) completion of a comparative analysis of the key behaviors promoted by the AINM-C strategy in families with different levels of intervention; (ii) approval of a plan to strengthen operational coordination between community-based services (AINM-C) and institutional systems (BHCS) providing primary care in municipios covered by MIFAPRO; and (iii) initiation of the process, in accordance with the respective procurement system, to ensure the supply of micronutrient supplements for suitable coverage of children under age three (*chispitas*—premixed blend of vitamins and minerals) and pregnant and lactating women in all municipios covered by MIFAPRO whose beneficiaries have received at least three payments.¹⁴ For the *second tranche*: (i) approval and implementation of an AINM-C strategy strengthened by recommendations from the analysis and integrated into the BHCS. The strategy must be implemented in 100% of the populated areas covered by the PEC and in 50% of the populated areas served by health care centers and stations in the municipios covered by MIFAPRO; and (ii) effective delivery of nutritional supplements to at least 80% of the beneficiaries in 100% of the municipios covered by MIFAPRO whose beneficiaries have received at least three payments.
- 1.30 **Education.** For the *first tranche*: (i) the Plan Nacional de Inversión para Infraestructura Pública Escolar [National Investment Plan for Public Education Infrastructure] (PNI) has been updated and focused on the municipios to be covered by MIFAPRO in 2008; (ii) validation of a proposed regulatory framework for assigning teachers to educational centers according to MIFAPRO priorities; (iii) approval of a proposed bonus for rural assignment and corresponding regulations; (iv) revision of the national basic curriculum for primary education to customize the content to the different levels of application of the educational modules; and (v) design of a proposal for fathers' and mothers' training and participation in social audits of educational services and approval for implementation on a pilot basis in the MIFAPRO priority municipios. For the *second tranche*: (i) implementation of the PNI in a form that meets MIFAPRO demand for education infrastructure identified for 2008, and revision of the plan in order to expand it to new municipios covered by MIFAPRO in 2009; (ii) approval and entry into force of the regulations governing assignment of teachers to schools according to MIFAPRO priorities, and implementation of communication actions to ensure compliance; (iii) approval for creation of a bonus for rural assignments,

¹⁴ The specification of adequate coverage is set out in the Policy Matrix.

approval and entry into force of applicable regulations for implementation thereof; (iv) implementation of the national basic curriculum for primary education in the first cycle of primary education in MIFAPRO priority municipios, including content customized to the different levels of application of the educational modules; and (v) approval and entry into force of the regulations on the training system for mothers and fathers and their participation in social audits in accordance with the recommendations from the evaluation of the pilot.

- 1.31 **Cost.** The cost of the operation is US\$200 million, to be financed in full by the Bank loan. The Guatemalan government projects that approximately US\$100 million will be allocated for transfers in the national budget for the next three years. Accordingly, this operation is important to meeting financing needs for the country's development.

C. Outcome indicators

- 1.32 In recent years, CCTPs have been one of the most effective interventions in strengthening human capital accumulation among the poor, as shown by impact evaluations. Those evaluations indicate significant improvements in school attendance and enrollment; increases in prenatal care, particularly in rural areas; declines in chronic malnutrition in rural areas; and reductions in maternal and infant mortality rates, anemia, and low birth weight.¹⁵ While MIFAPRO's impacts will be quantified through the evaluation of impacts and expected outcomes also depend on the baseline values for the country and the transfer mechanism, there is evidence that expected outcomes in the medium term are on the order of: a 2 to 20 percentage point increase in school attendance; a 10 to 17 percentage point increase in enrollment; a 2 to 7 percentage point decline in the school dropout rate; a 30 to 60% increase in satisfactory school progress; a 3 to 9 percentage point decline in chronic malnutrition ; a drop of approximately 15% and 6% in maternal and infant mortality, respectively; and a 60% increase in proper prenatal care.
- 1.33 The outcomes matrix includes output indicators to monitor the progress of actions supported and medium-term outcome indicators to evaluate the MIFAPRO development objectives supported by those actions. The process of defining the scope of MIFAPRO and the resources needed makes it impossible to estimate the program baselines and targets at this time. However, they will be defined during 2008 using the MIFAPRO, MSPAS, MINEDUC, SESAN, and Ministry of Finance information systems and the baseline established to evaluate the program's impact.

II. FINANCING STRUCTURE AND PRINCIPAL RISKS

A. Financing instrument

- 2.1 The Guatemalan government has requested the use of a policy-based loan (PBL) in two tranches of US\$100 million each, with the first tranche to be disbursed at the

¹⁵ "Do We Know What Works," IDB 2007, summarizes the impacts of CCTPs in the region's countries.

beginning of 2009 and the second in 2010. It has also requested that the loan proposal be presented for consideration by the Bank's Board of Executive Directors in September 2008 so that the resources can support the country's 2009 budget. The mechanism used is coupled with Guatemala's commitment to the CCTP, ongoing dialogue between the IDB and the Guatemalan government, the technical process to support consolidation and implementation of the CCTP, and the interval between approval of the loan and the first disbursement, which will allow the Guatemalan government to complete the processes of defining the CCTP's scope and resource needs.

- 2.2 The loan operation will also be part of a series of operations the Bank has planned with the country. In particular, it will be coordinated with the education sector investment loan (GU-L1023) being prepared by the Bank, which will principally support primary education, improved education infrastructure, educational quality with cultural and linguistic relevance, and strengthening of school management.

B. Social and environmental safeguards

- 2.3 As part of its analysis of the reforms and policies resulting from this operation, the project team has reviewed the aspects of the operation related to the environment and indigenous peoples in order to ensure consistency of the operation's policy matrix with the Bank's Environmental and Safeguards Compliance Policy (OP-703) and Policy on Indigenous Peoples (OP-765).
- 2.4 Positive social benefits are expected from the CCTP that the operation supports. The MIFAPRO beneficiaries are families who live in the priority municipios identified by the Guatemalan government, that have pregnant women or children under 16 years of age who have not completed the primary education cycle (sixth grade), and received the maximum score on a proxy means test. The benefits are the cash transfers received by the family and the strengthened human capital of beneficiary families.

C. Risks

- 2.5 Based on its nature and complexity, this operation presents significant risks. Because of its accelerated pace of growth in coverage and the priority attached by the Guatemalan government, MIFAPRO's successful implementation requires a number of important conditions. If those conditions are not met, there is a risk that the Guatemalan government's objective of promoting continuity of the CCTP in the medium term as a government policy will not be achieved. One significant risk relates to ownership: MIFAPRO is becoming a cross-cutting program internalized by the line ministries as their own, although this ownership must be strengthened. There is also the risk of lack of coordination and structure: MIFAPRO requires strong interagency linkage and coordination, which has been rare in the past in Guatemala and has resulted in the failure of poverty reduction strategies. It also requires an institutional and organizational structure that promotes technical and operational coordination as well as the delegation of administrative, financial, and management functions to the MEU. Lastly, there is the risk of insufficient

resources: MIFAPRO requires resources to finance the transfers, support its consolidation, and adapt the supply of services to the demands generated by MIFAPRO. In this regard, the loan operation supports key actions to overcome such challenges, mitigating the risks described, and providing technical support for the country's planned pace of implementation of MIFAPRO.¹⁶ In addition, the MIFAPRO policy is expected to be consolidated and evaluated with technical cooperation from the Social Fund.

- 2.6 There are two principal risks unrelated to the design of the operation. First, achievement of the program's development objectives depends on the continued existence of a stable macroeconomic framework. Guatemala has managed its economy prudently in recent years; however, the most important macroeconomic challenge facing the country is the difficulty in generating sufficient tax revenue, which may entail problems for MIFAPRO's sustainability. In this regard, the Bank is supporting the Guatemalan government in the preparation of tax reforms to increase government resources. In parallel, the Guatemalan government has adopted measures to maintain a stable macroeconomic environment. According to macroeconomic projections for Guatemala, the government expects—despite external factors that could affect the economy—to maintain GDP growth at 4.5% in 2010 and 2011, sustain fiscal discipline (central government deficit of 1.9% of GDP in 2009 and public debt of 22% of GDP), improve tax collection, and continue a monetary policy focused on price stability.¹⁷ Second, food price subsidies may exert pressure on public finances and the pace of expansion for MIFAPRO (which already had an accelerated startup), thereby heightening MIFAPRO's core challenges. Although permanent solutions to food price subsidies involve actions worldwide, the current government is aware of the consequences and is adopting emergency measures. The technical team is involved in an ongoing dialogue with the Guatemalan government, has provided policy recommendations in the context of MIFAPRO, and will provide technical support to the MEU in designing and implementing emergency modifications to mitigate the possible effects of this phenomenon on MIFAPRO's consolidation.

III. IMPLEMENTATION AND ACTION PLAN

A. Implementation arrangements and monitoring of outcomes

- 3.1 The operation will be executed by the Ministry of Finance, which will be responsible for monitoring and providing the Bank with all information, indicators,

¹⁶ The Guatemalan government is currently framing and adapting MIFAPRO's scope, the timetable for its expansion, and its financing needs in order to plan a viable, sustainable financial scenario for the coming years.

¹⁷ See link to Independent Macroeconomic Assessment of June 2008; 2008-2011 Country Strategy with Guatemala, July 2008; and loan proposal "Strengthening Public Finance" (GU-L1020). There are economic policy difficulties concerning approval of reforms. The Guatemalan government has been working with political actors to seek points of consensus and build support for eventual approval by the legislature.

and parameters enabling the Guatemalan government and the Bank to monitor, measure, and evaluate program outcomes. The Bank's technical support in the design, implementation, monitoring, and evaluation of MIFAPRO is a critical factor for its additionality in achieving the development objectives. In structuring support to the country, the project team will implement a strategy consisting of: (i) putting into effect and monitoring the implementation of technical cooperation resources in areas already identified; (ii) conducting special missions to support the implementation of MIFAPRO; and (iii) providing technical and operational support in addressing the challenges facing a CCTP. Because the operation is a PBL, the outcomes matrix will contain the program's direct outcomes (outputs). Outcomes will also be presented for monitoring and evaluation of the scope of MIFAPRO's objectives. The targets for these latter outcomes will be presented over the medium term, and the MIFAPRO impact evaluation will serve as the means of verification.¹⁸ The targets included in the outcomes matrix will be monitored by the Bank's technical team using the MINEDUC, MSPAS, and Ministry of Finance information systems, the MIFAPRO information and monitoring system, and the MIFAPRO impact evaluation.

B. Significant design activities following approval

- 3.2 The significant challenges and risks facing MIFAPRO require ongoing technical and operational support from the Bank after approval. The technical team will continue to support the consolidation and expansion of MIFAPRO; the monitoring, design, and implementation of evaluations through analytical efforts; recommendations for policies and necessary adjustments to MIFAPRO; organization of training workshops; synthesis of lessons learned from other CCTPs; nonreimbursable technical cooperation funding (Social Fund); and technical missions.

¹⁸ As explained in paragraph 1.35, the baselines and targets will be established in 2008. The ministries are conducting the initial survey of needs in the priority municipios.

POLICY MATRIX
HUMAN CAPITAL INVESTMENT PROGRAM
(GU-L1017)

Objectives	Actions prior to disbursement of first tranche	Actions prior to disbursement of second tranche
Maintain a stable macroeconomic framework	Compliance with guidelines established in the Policy Letter and macroeconomic framework consistent with program objectives.	Compliance with guidelines established in the Policy Letter and macroeconomic framework consistent with program objectives.
Component 1. Consolidation of “Mi Familia Progresá”		
Support central aspects of the design and operational processes of “Mi Familia Progresá” [My Family is Making Progress] (MIFAPRO) to ensure effective implementation.	1.1. A government budget line item has been introduced with sufficient funds for operational and technical implementation of MIFAPRO in the priority municipios.	1.1 A government budget line item is maintained with sufficient funds for the operational and technical deployment of MIFAPRO in the priority municipios based on the program’s progress.
	1.2. The Ministry of Education (MINEDUC) and the Ministry of Public Health and Social Assistance (MSPAS) have increased the funding allocated for 2009 by at least 20% compared with the amount committed in 2008, to boost the supply of education, health, and nutrition services to meet the demand generated by MIFAPRO in its priority municipios.	1.2 MINEDUC and MSPAS have committed the funds allocated in the 2009 budget (referred to in the previous action under the first tranche) to boost the supply of health, nutrition, and education services to meet the demand generated by MIFAPRO. 1.3 Separate line items are established in the government budget for 2010 to fund MINEDUC and MSPAS with the amount estimated as necessary by the MIFAPRO technical board, in order to boost the supply of services required by MIFAPRO in its priority municipios.
	1.3. The MIFAPRO Board of Directors has approved the MIFAPRO expansion timetable, which allows for implementation of MIFAPRO's impact evaluation according to the specified design.	1.4 At least two operational evaluations and one evaluation of MIFAPRO’s systems have been conducted and the adjustments recommended by those evaluations have been implemented, particularly with regard to: (i) selection of beneficiaries; (ii) verification of co-responsibilities; and (iii) timely and proper payment of the conditional cash transfers.

Objectives	Actions prior to disbursement of first tranche	Actions prior to disbursement of second tranche
	1.4. MIFAPRO's institutional and organizational structure has been approved in a form that promotes: (a) technical and operational coordination between sectors; and (b) the delegation of administrative, financial, and managerial functions to the MIFAPRO executing unit.	1.5 The MIFAPRO Board of Directors has approved an institutional and organizational strengthening plan that reflects the recommendations of an institutional, technical coordination, and operational evaluation undertaken within a year of MIFAPRO's startup.
	1.5. At least three of the four modules of the MIFAPRO information system have been implemented and the fourth module has been initiated with the delivery to 100% of the holders of the health checkup attendance form.	1.6 The information system has been adjusted based on an evaluation thereof, in such a way as to ensure that the monitoring and control systems are comprehensive and sufficient.
Component 2. Strengthen the response capacity of public education, health, and nutrition services to meet the increase in demand expected to be generated by implementation of MIFAPRO.		
Ensure that the supply of health, nutrition, and education services is sufficient to quickly meet the demand generated by MIFAPRO.	Health: 1.1 The plan for supervision of primary health care services for MIFAPRO priority municipios has been approved.	Health: 1.1 One hundred percent of the Coverage Expansion Program (PEC) basic health care teams are being supervised as are at least 50% of health care stations and centers in the municipios covered by MIFAPRO, in which at least three conditional cash transfer payments have been made, in accordance with the supervision plan for primary health care services (referred to in the previous action under the first tranche).
	1.2 Pilot projects of alternatives for stationing and maintaining primary health care technical and professional staff where required by MIFAPRO have been validated and implemented. The design of the pilot projects will include the methodology for evaluating them.	1.2 An incentive policy for stationing and maintaining primary health care technical and professional staff based on the evaluation of the pilot projects has been approved. 1.3 The basic package of standardized health care services (BPHCS) is offered by 50% of health care centers and stations and 100% of PEC basic teams in municipios covered by MIFAPRO.

Objectives	Actions prior to disbursement of first tranche	Actions prior to disbursement of second tranche
	<p>Nutrition:</p> <p>1.1 A comparative analysis has been conducted of key behaviors promoted by the AINM-C strategy among families receiving different levels of intervention.</p> <p>1.2 A plan for strengthening operational coordination between community-based (AINM-C) and institutional basic primary health care services in municipios covered by MIFAPRO has been approved.</p>	<p>Nutrition:</p> <p>1.1 An AINM-C strategy has been approved and is being implemented that was strengthened by recommendations from the analysis (referred to in the previous action under the first tranche) and integrated into basic health care services. The strategy is being implemented in 100% of the populated areas covered by the PEC and in 50% of the populated areas served by health care stations and centers in the municipios covered by MIFAPRO.</p>
	<p>1.3 The process has been initiated, in accordance with the respective procurement system, to ensure the supply of the following in all municipios covered by MIFAPRO whose beneficiaries have received at least three conditional cash transfers. (i) <i>chispitas</i> [premixed blend of micronutrients] to children under age three in amounts sufficient for delivery of the dosage required by MSPAS regulations twice a year; (ii) iron and folic acid supplements for pregnant women, with the dosage required by MSPAS regulations delivered to each woman in each of at least three prenatal care checkups; and (iii) iron and folic acid supplements to lactating women, with the dosage required by MSPAS regulations delivered in each of two postpartum checkups.</p>	<p>1.2 At least 80% of the beneficiaries in 100% of the municipios covered by MIFAPRO whose beneficiaries have received at least three conditional cash transfers are receiving nutritional supplements as follows: (i) <i>chispitas</i> to children under age three exactly twice a year according to the dosage required by MSPAS regulations, with at least four months between dosages; (ii) iron and folic acid supplements for pregnant women, with the dosage required by MSPAS regulations delivered in each of at least three prenatal care checkups; and (iii) iron and folic acid supplements to lactating women, with the dosage required by MSPAS regulations delivered in each of at least two postpartum checkups within six months of giving birth.</p>
	<p>Education:</p> <p>1.1 The National Investment Plan for Public Education Infrastructure (PNI) has been updated and targets municipios that MIFAPRO will cover in 2008.</p>	<p>Education:</p> <p>1.1 The PNI has been implemented in a manner that meets MIFAPRO demand for education infrastructure established for 2008 and the plan has been reviewed for expansion to new municipios covered by the program in 2009.</p>

Objectives	Actions prior to disbursement of first tranche	Actions prior to disbursement of second tranche
	1.2 The proposed rules governing assignment of teachers to schools have been validated in accordance with MIFAPRO priorities.	1.2 The rules governing assignment of teachers to schools in accordance with MIFAPRO priorities have been approved and are in force and communication activities to ensure compliance have been implemented.
	1.3 A rural bonus and applicable regulations have been approved.	1.3 Establishment of a rural bonus for teachers has been approved, the regulations for implementing it have been approved and are in force, and the rural bonus has been implemented in accordance with the regulations approved..
	1.4 The basic national curriculum for primary education has been revised to customize the content to the different levels of application of the educational modules.	1.4 The basic national curriculum for primary education—with content customized to the different levels of application of the educational modules—is being implemented in the first cycle of primary education in the MIFAPRO priority municipios.
	1.5 A proposal has been designed and approved for training and enlisting parents' participation in the social audit of education services. The proposal is to be implemented on a pilot basis in the MIFAPRO priority municipios and will include the design of the pilot evaluation and preparation of the baseline.	1.5 MINEDUC regulations have been approved and are in force regarding the system for training parents and enlisting their participation in social audits, in accordance with the recommendations stemming from evaluation of the pilot.