

COMMUNITY DEVELOPMENT FOR PEACE PROGRAM (DECOPAZ)

(GU-0099)

EXECUTIVE SUMMARY

BORROWER AND  
GUARANTOR: Republic of Guatemala

EXECUTING AGENCY: Ministry of Finance, through the Executive Board of  
the Community Development for Peace program

AMOUNT AND SOURCE: Borrower: US\$ 5.6 million  
IDB (FSO, local currency): US\$33.0 million  
IDB (ordinary capital,  
under the IFF): US\$17.0 million  
Total: US\$55.6 million

FINANCIAL		OC	FSO
TERMS AND	Amortization period:	30 years	40 years
CONDITIONS:	Disbursement period:	4 years	4 years
	Grace period:	4.5 years	10.5 years
	Interest rate:	variable	1% 10 years 2% year 11 and thereafter
	Currency	Dollars	Local currency
	Inspection and supervision:	1%	1%
	Credit fee:	0.75%	0%

BACKGROUND: To quote from the English text of Guatemala's report to an informal meeting of donor countries in June 1995: "The historic causes which [led] to the internal armed confrontation in Guatemala are structural. Among them the most important are: the fragmentation and the high degree of poverty in the society; the inability of the political system to democratize its structures and to enforce respect of human rights and equality before the law; the low degree of participation of the civil population in the decision-making processes and its limited access to the benefits of economic growth. Since the Colony up [to] the beginning of the democratic transition in 1985 - with the exception of a brief democratic interval between 1944-1954 - an authoritarian and excluding political system prevailed, characterized by a high degree of social repression, ethnic and gender discrimination, political instability, and lack of institutional mechanisms for the peaceful resolution of social conflicts through dialogue and legal channels. This political environment, together

with the international climate propitiated by the cold war, fostered the rise of several guerrilla movements in 1960, which unified in 1980 as the *Unidad Revolucionaria Nacional Guatemalteca* (URNG). The most critical period of the guerrilla fight was between 1979 and 1984. The Government's response, based on the policies of counter-insurgency and national security, only reinforced the traditional characteristics of the political system, yielding a vicious circle: on one part, the internal armed confrontation suffocated the society and in turn the limitations of the latter exacerbated the internal armed confrontation."

The communities affected by the conflict are in very straitened circumstances, having been drained of their physical capital (communications and services infrastructure, basic social services, productive infrastructure and housing), human capital (loss of life, migration, scant social investment), and social capital (the network of social and labor relations that enable a society to function in organized fashion).

**OBJECTIVES AND  
CONCEPTUAL  
UNDERPINNINGS:**

The objective of the program is the rebuilding of physical, human and social capital in the most strife-torn areas.

The program is premised on community-based participatory planning, where communities (working from an approved aggregate budget) determine what their priority projects are and either carry them out directly or contract out the needed services. To achieve these objectives, three very innovative elements are featured in this program: (i) responsibility for selecting projects and deciding how they will be carried out and financed is being delegated to the local beneficiaries; (ii) intensive training will be offered in effective project management, and (iii) participatory planning is being introduced to encourage a culture of work in concert, against a backdrop of peace.

The Bank has funded projects with community-participation elements, but has not operated programs in a post-conflict setting which would call for specific initiatives to rebuild the social fabric. The program proposed herein will use a methodology suited to such situations; the operation thus has innovative features, and is a novel venture for the Bank.

**DESCRIPTION:**

Under the program, the communities themselves will preidentify, select, plan, and carry out local priority projects. With this in mind, the program is built around (i) a participatory, efficient, and transparent institutional arrangement for allocating government resources to the communities; (ii) a technical team assembled to assist the communities (helping with the kinds of problems that arise due to local participants' inexperience) so they can agree upon their priorities, determine what investments will be made, and carry them out; and (iii) a systematic, participatory working arrangement that cultivates the local capacities that will be needed to underpin the local development process.

The program will be set up as a trust fund administered by an Executive Board appointed for that sole purpose and on which the government and Guatemalan society will be well represented. The Board will operate through an Executive Secretariat; that body's Technical Unit will check the technical caliber of projects and monitor the program's finances. The Board will engage "first-tier" institutions (FTIs) to assist with participatory planning and provide technical assistance to help the communities prepare and carry out their projects.

At the local level, with the coordination and support of FTIs, the beneficiaries themselves will select specific investments and decide how they will be executed and financed. The beneficiaries will be organized into microregions (each consisting of six to eight communities) and will set up an "entity representative of the microregion" (ERM) to take receipt of and administer the program resources.

The program's funds will finance: (a) its administration costs, including costs of the Executive Board, Executive Secretariat, and Technical Unit (US\$4.9 million); (b) training and technical services for communities, through FTIs (US\$10.6 million); (c) preinvestment and projects involving investments in human and physical capital (US\$29.1 million); (d) productive projects, through loans that the communities make to local producers' associations, with complementary technical-assistance funds (US\$9.7 million); and (e) administration and supervision costs (US\$0.5 million). A sum of US\$800,000 has been budgeted for contingencies.

- OPERATIONAL MODALITY:** The program involves global investments carried out in accordance with selection criteria and operating procedures set forth in the Operating Regulations.
- TARGETING:** The program will focus on municipalities in northern Huehuetenango where the conflict took a heavy toll and where social development indicators are the lowest in the nation. Huehuetenango's is a heavily rural population (85%). A large percentage are indigenous people (82%) and 92% are poor. The program is expected to benefit some 390,000 people.
- ENVIRONMENTAL CLASSIFICATION:** The Environment Committee, at its meeting of February 20, 1996, classified this as a Category III operation. The environmental procedures were approved by the committee at its meeting of October 8, 1996.
- BENEFITS:** Instilling a culture of consensus will reduce violence and the attendant economic costs, which are considerable. The benefit to be gained by strengthening the rule of law and human rights accrues from the intrinsic value of human rights, from their importance in providing the political motivation to find solutions that create greater economic security for the majority, and from the contribution they make toward a better understanding and articulation of economic priorities.
- While rebuilding physical infrastructure is important, confidence is the real key to ensuring that the private sector takes the lead in the economic recovery. The costs of doing business are far higher when no systems are in place for participation and consensus-building to map out collective solutions and gain access to markets. Measures aimed at instituting such systems will improve economic efficiency.
- The conflict took a severe toll on Guatemala's social, human, and physical capital. The low stock of such capital triggers a vicious circle: transfers and investments have little impact at the local level, with the result that the replenishment of human and social capital is extremely slow. Physical reconstruction becomes at once a challenge and an opportunity to embark upon a sound social investment process that can rebuild local human capital and develop a core of social capital.
- The program relies heavily on the pursuit of concrete solutions that can help build local human capital, on the health and education fronts among others. The

communities' participation in active planning and implementation processes will make the investments more relevant and sustainable and elicit a stronger sense of ownership.

The program targets the needs of some 390,000 rural dwellers who are among the nation's poorest, with high indices of social and economic exclusion. Providing social services and local economic development opportunities is a means of drawing these communities into the national development process.

**RISKS:**

Risks associated with the peace process

While the program will begin under the umbrella of the accords already signed, it will only fully prosper if peaceful coexistence becomes the norm everywhere. The government has stated that this program is to be an integral part of its plan for consolidating and strengthening democratic society, which will dovetail with immediate-impact measures to be instituted locally to advance the peace process. The letter containing the government's undertaking in this respect will be part of the loan contract.

The program fosters coordination and the building of new relations between civil society and a new State. With the assistance provided under public-sector modernization programs, the State is expected to launch an efficient and equitable process of change to involve all Guatemalans in the development process. Were this not to materialize, the program would be a letdown for its beneficiaries.

Coordination with the Social Investment Fund program (GU-0071)

The reconstruction process is such that a transitional program is needed to target previously strife-torn areas, one that applies principles and methods suited to situations of this type. The presentation of the proposed program clearly differentiates it from the SIF.

Given the country's massive public and private investment needs, particularly in the former conflict zones, financing of this program and of the SIF is hardly redundant. To the contrary, in areas of common action, this program should expedite other initiatives, the SIF among them.

Risks associated with the planned implementation approach

The program will be built upon a temporary institutional network, augmented by contracted services. While the merits of this temporary arrangement will depend on the caliber of the technical support services engaged, there is funding in the program to hire first-rate entities; also, contracts will be suspended in the event of nonperformance and continual reviews will check the quality of interventions at the local level.

The number of first-tier institutions available is limited. Therefore, the call for proposals will contain ample information and be done sufficiently in advance to elicit good participation (allowing institutions to bolster their in-house capacity or set up interagency consortia).

The program is an innovative venture based on a brand-new institutional structure. Special efforts will be required to organize the institutional apparatus, train personnel, institute unaccustomed procedures, and so on. Accordingly, the Bank's technical team will lend particularly strong support to launch and monitor the program. A continual oversight system has been established, and rules and procedures will be flexible enough so that the program can be adjusted in progress.

The FTIs will be a strong institutional presence, appearing suddenly on the scene. To avert any negative impact, the FTIs will be continually monitored to make certain that they are working with local public and private institutions without displacing them and without creating local friction. Moreover, the latitude of the FTIs' technical authority has been limited. Finally, the Executive Board's information and dissemination programs will do much to ensure the transparency of the FTIs' role at the local level.

**THE BANK'S  
COUNTRY STRATEGY:**

The Bank's strategy for Guatemala in the 1996-1998 period, set forth in the country paper, has four focal points: (i) assimilating the poor, indigenous, and rural population into the sustained development process; (ii) expanding and improving social services; (iii) modernization of the State, and (iv) developing and expanding the private productive sectors.

CONDITIONS  
PRECEDENT TO  
PRESENTATION OF  
THE OPERATION TO  
THE BOARD OF  
EXECUTIVE  
DIRECTORS:

1. Official establishment of the trust fund and the Executive Board (with draft operating and administrative regulations for the trust fund).
2. Formalization of the institutional arrangement whereby FONAPAZ's director serves, ex officio, as Executive Secretary of the Executive Board.
3. Selection of the director of the Technical Unit.
4. Presentation of the selection procedure, draft contract, terms of reference and preliminary budget for hiring Secretariat and Technical Unit staff. By that same date, the positions of technical manager and finance manager are to be announced in the national press.
5. Presentation of a policy letter in which the borrower pledges to (i) continue to consolidate the democratic system to ensure a program-enabling environment; (ii) make the recurrent expenditures of social programs funded under the program a part of the policy framework governing the corresponding sector when they are consistent with those policies; (iii) effect the transfer of FSO resources as required for the program; and (iv) take measures to expedite legalization of the ERMs.
6. Presentation of the final draft of the bid documents to engage FTIs and their itemized budget.
7. Presentation of a proposal for publicity for the international public call for tenders to engage FTIs.

CONDITIONS  
PRECEDENT  
TO THE FIRST  
DISBURSEMENT  
(SPECIAL  
CONTRACTUAL  
CONDITIONS):

1. Formalization of the operating and administrative regulations for the trust fund.
2. Formalization of the program Operating Regulations.
3. Setup of the Executive Secretariat.
4. Establishment of the Technical Unit.
5. Selection of consulting firms to design and launch the management information system.
6. Establishment of guidelines for the ex post evaluation and the FTIs' terms of reference.

7. Publication of the notice for international contracting of FTIs.
8. Formal execution of the service contract between the Secretariat and the United Nations Office for Project Services (UNOPS), expressly naming the municipalities in which UNOPS will work.
9. Mechanism for disbursements to microregions in place.
10. Statement of measures that will be taken to expedite legalization of the ERMs.
11. Agreement between the Executive Board and the National Environment Commission (CONAMA) on an environmental monitoring system for projects funded under the program.

**OTHER SPECIAL  
CONTRACTUAL  
CONDITIONS:**

1. At the end of the program, any goods acquired with the loan proceeds that do not belong to the communities must be reassigned to other purposes, in accordance with Executive Board recommendations. Goods acquired by FTIs are to be reassigned only to institutions working in municipalities that have benefited from the project.
2. Contracts for first-tier services other than those intended for the first group of communities, to be commissioned through international competitive bidding, must be awarded within nine months after the program begins.

**EXCEPTIONS TO  
BANK POLICY:**

Given the distinctive nature of the method to be employed for the DECOPAZ program, institutional services of the type envisaged are in very short supply.

Based on the Bank's guidelines for selecting specialized agencies (GS-603), the finding was that: (i) UNOPS has the capacity and experience needed to apply the planned method, which other agencies do not have in the degree required; (ii) the staff that UNOPS would assign has methodological experience, a multidisciplinary profile, and singular qualifications that other agencies do not have at the level required; (iii) UNOPS is equipped to coordinate a number of individual specialists and prepare specialized consolidated reports; and (iv) services rendered in Bank-funded projects have scored an



average of "Good" or better under the Bank's system for evaluating services.

It is therefore recommended that UNOPS be contracted directly to operate as the FTI for the first group of municipalities.

**POVERTY  
TARGETING:**

The program is consistent with the high priority that the Eighth Replenishment assigns to poverty reduction, since it is geographically targeted to reach poor beneficiaries (see paragraph 2.45). With the proposed concentration of investments and technical assistance in the health and education areas, the operation is, for Eighth Replenishment purposes, targeted to the social sectors.

## I. FRAME OF REFERENCE

### A. Background

- 1.1 In terms of population and gross domestic product (GDP), Guatemala's is the largest economy in Central America. Five characteristics of the country are particularly relevant: (i) great ethnic diversity; (ii) severe and widespread poverty; (iii) uneven income distribution, income being heavily concentrated in the urban, nonindigenous population; (iv) very low social indices, and (v) rapid progress in the negotiations between the government and Unidad Revolucionaria Guatemalteca Nacional (URNG) to end 36 years of armed civil strife.
- 1.2 Some 75% of Guatemala's population are poor, and 58% live in extreme poverty. Income distribution is very lopsided and shows that rural communities, especially indigenous groups, are relatively excluded from the development process. The uneven income distribution is compounded by uneven land distribution. The concentration in access to land ownership, legal uncertainty of tenure, and lack of a land market are a major source of political friction in the country.

Population	Extremely poor	Poor	Other	TOTAL
Urban	33.7%	57.2%	42.8%	40%
Rural	71.9%	85.7%	14.3%	60%
Nonindigenous	45.2%	65.8%	34.2%	61%
Indigenous	81.3%	92.6%	7.4%	40%
TOTAL	57.9%	75.2%	24.8%	

Source: *Guatemala: An Assessment of Poverty*. World Bank. 1995

- 1.3 Fiscal policy has done little to even out economic growth through public investment outlays. The problem of a low tax base (about 8% of GDP in 1996) is compounded by inefficiencies and inequities in the allocation of public monies. Because of the inefficient delivery of services and line ministries' inability to duly execute their budgets, social investment has always been low, as national social indicators attest (see Annex II).

### B. The armed conflict

- 1.4 In a report last year to donor countries, Guatemala provided background on the origins of its civil strife. To quote from the English text of the report: "The historic causes which [led] to the internal armed confrontation in Guatemala are structural. Among them the most important are: the fragmentation and the high degree of poverty in the society; the inability of the political system to democratize its structures and to enforce respect of

human rights and equality before the law; the low degree of participation of the civil population in the decision-making processes and its limited access to the benefits of economic growth. Since the Colony up [to] the beginning of the democratic transition in 1985 - with the exception of a brief democratic interval between 1944-1954 - an authoritarian and excluding political system prevailed, characterized by a high degree of social repression, ethnic and gender discrimination, political instability, and lack of institutional mechanisms for the peaceful resolution of social conflicts through dialogue and legal channels. This political environment, together with the international climate propitiated by the cold war, fostered the rise of several guerrilla movements in 1960, which unified in 1980 as the *Unidad Revolucionaria Nacional Guatemalteca* (UNRG). The most critical period of the guerrilla fight was between 1979 and 1984. The Government's response, based on the policies of counter-insurgency and national security, only reinforced the traditional characteristics of the political system, yielding a vicious circle: on one part, the internal armed confrontation suffocated the society and in turn the limitations of the latter exacerbated the internal armed confrontation." 1/

- 1.5 Estimates put the number of Guatemalans affected by the conflict at more than three million. The conflict was most intense in Guatemala's northern and western departments, which are mostly rural areas with large indigenous populations.

Area	Rural population	Indigenous population	Extremely poor	Poor
North	82.1%	84.3%	83.4%	91.3%
Southwest (*)	76.1%	46.2%	65.0%	82.7%
Northwest	85.0%	84.6%	87.9%	93.7%
Petén	70.8%	12.7%	58.4%	75.4%

Source: *Guatemala: An Assessment of Poverty*. World Bank. 1995.

(\*) Includes Suchitepequez and Retalhuleu, which were less affected than other departments in the southwest. Because of the homogeneity of the zone, the social indicators are representative.

- 1.6 Although there are no definitive figures, estimates are that the armed conflict uprooted a considerable, if undetermined, number of people. The strife left over 150,000 dead, hundreds of children orphaned, very large numbers of women widowed, and 440 villages leveled. An undetermined number of refugees fled the country, close to 45,000 of them to refugee camps in Mexico and 2,000 to Belize. Some 30,000 refugees returned between 1985 and 1995.

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1/ Republic of Guatemala: *Towards a Firm and Lasting Peace for Guatemala*. Report to the Informal Donors Meeting. Paris, June 21, 1995.

- 1.7 The breakdown of economic and social cooperation networks was compounded by the mistrust and division within and among communities, ethnic groups, affected groups 2/ and social strata. Except for collaborative arrangements associated with military supply and control, other forms of cooperation, collaboration and social communication collapsed, eroding communities' capacity to devise solutions for their own economic development.

C. The conflict's legacy to communities

1. Capital erosion

- 1.8 Despite the emergency aid received in recent years, the conflict has left affected communities in dire straits. The physical, human, and social capital stock in these areas has been severely depleted.

a. Physical capital

- 1.9 Physical capital destruction can be grouped into four categories:
- (i) **Communications and services infrastructure:** Contrary to what has happened in other armed conflicts, relatively little communications or services infrastructure was destroyed in Guatemala, primarily because there was little to begin with. The toll has more to do with the opportunity cost of investments foregone in the area.
  - (ii) **Basic social services infrastructure:** Because education and health services came to a halt, infrastructure in those sectors (buildings, plant, and equipment) deteriorated. In the 440 or so villages directly affected by the armed conflict, schools, health units, community-service facilities and water supply and drainage systems were destroyed.
  - (iii) **Productive infrastructure:** The productive infrastructure in the northwest sustained considerable damage. With the destruction of civil and producers' associations, the collectively-owned productive infrastructure deteriorated, particularly that of successful farm cooperatives in northern El Quiché (Ixcán Grande).

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2/ In its wake the conflict has left many different groups divided by the war: refugees, returnees, the displaced and "those who stayed behind" (including the communities of peoples in resistance).

- (iv) **Housing:** While in some villages housing was destroyed outright, housing losses were also sustained as a result of voluntary or forcible abandonment.

b. Human capital

1.10 The human capital losses can be grouped as follows:

- (i) **Destruction of human capital:** The actual death toll has yet to be determined and will have to be reexamined in light of the findings of the Truth Commission. However, the evidence suggests that it was quite high. 3/ Local estimates are that from 75% to 95% of the dead were between the ages of 17 and 60 and frequently included community leaders, with higher than average formal and/or informal educations.
- (ii) **Human capital flight:** In addition to the massive uprooting of people seeking refuge, considerable human capital was lost as better-educated locals like teachers, health personnel, physicians, and so forth, fled the region out of fear.
- (iii) **No routine replenishment of human capital:** A very severe loss was sustained because of the partial suspension of investment and delivery of social services. Apart from the opportunity costs associated with lack of growth in education services, one must also factor in the decline in available human capital, because the new generations are, on average, less educated and in poorer health than the generations that preceded them. 4/

c. Social capital

1.11 Social capital, 5/ defined as the quality, depth, and extent of relations between individuals and groups, is based on the individual's trust in his or her family and community surroundings. That social capital stock, which enables a society to act in organized fashion, grows when active forms of participation to find

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3/ For example, the communities of Nebaj and Ixcán (El Quiché) and Rabinal (Alta Verapaz) are thought to have lost over 3% of the civilian population in events directly associated with the conflict, according to studies by the International Center for Research in Human Rights and the Mutual Support Group (1996) and R. Falla (1992).

4/ With the exception of people in refugee camps in Mexico who were helped by international aid programs.

5/ The theory of social capital has been advanced recently by, among others, J. Coleman, R. Putnam and F. Fukiyama.

solutions and build a consensus that benefits the commonweal are practiced. The presence of a core capital stock is critical for goods and services markets to function normally and for the public and private institutions that support those markets to be established.

- 1.12 Guatemala's social capital was severely impaired by the strategy of dismantling forms of civil association (economic, social, or political), violence, the climate of mistrust and fear, and the constraints imposed on marketing and other activities. Few organizations and mutual support systems were able to survive the conflict. For example, by the mid-1980s the violence had shut down half the 50 cooperatives that had been in place in Huehuetenango in 1979. The surviving cooperatives have been unable to rebuild their membership and thereby expand their services. The military and paramilitary presence in the embattled areas weakened the municipal governments' mediation and administrative capacity.
- 1.13 The pace at which social capital recovers depends on several factors, ranging from the location of the community and its ethnic diversity to the intensity of the armed violence in that area. For example, in Huehuetenango, poor communications (which even affected the announcement of the peace accords) and the deep-seated fear of the consequences of organizing for social and economic motives, are why associative initiatives are slow to rebuild in isolated communities. In the case of the Ixil Triangle, for example, ethnic homogeneity and a communal work ethic have moved individuals to organize more quickly to find collective solutions. On the other hand, in the lowlands in the northern reaches of the country (a colonization area since 1970) there is tremendous ethnic/cultural diversity and little networking for dialogue and consensus, which explains the deep rifts and disputes that arise as individuals compete for available resources. Displaced persons and refugees are resettling in that region, one of deeply divided communities.
- 1.14 One noteworthy aftereffect, in another sense, of the social breakdown and increase in numbers of widowed women is that women are stepping in to take the lead in preserving forms of family and community cohesion, occasionally even on a national scale. <sup>6/</sup> But while women's participation in community projects has increased appreciably, many of the leadership positions still go to men.
- 1.15 Two examples illustrate the critical role that social capital plays in post-conflict recovery. First, international and national assistance targeted mainly to groups affected by the war (refugees, returnees, displaced persons, "those who stayed behind", widows, indigenous persons, etc.) underestimated the dynamic created when

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<sup>6/</sup> Organización de Mujeres Viudas [Widows' Organization] (CONAVIGUA) and Organización de Mujeres Refugiadas [Women Refugees Organization] (Mama Maquin).

those groups coexist and exacerbated the tension, thereby weakening the effort to find collective solutions.

- 1.16 Furthermore, an inability to establish priority programs and find sustainable solutions can lead to an "induced demand" for projects. As one community leader in Ixcán put it, "What we needed was a health clinic; what they gave us was a school, and we accepted it. Now we want to see if they'll help us find a teacher." The lack of organization and local capacity severely limits maintenance programs and the ability to generate additional projects. A passive attitude sets in - patient in some, hostile in others - where a community will sit and wait for outsiders to come up with solutions.
- 1.17 The communities themselves attach great importance to social capital as a specific issue in the peace negotiations. For example, the Resettlement Agreement provides that local and regional organizations and institutions are to be further developed so that they can build consensus and plan rationally how the resources at hand should be used. Activities to strengthen the vehicles of community participation are also part of the Indigenous Agreement, the Socioeconomic Agreement, and the Agreement for Strengthening Civil Society.

d. Breakdown

- 1.18 In the 1980s the conflict took its heaviest toll in Guatemala's northern and northwestern departments, which have historically been physically, culturally, and economically isolated from the rest of the country. The nonmilitary presence of the State has been and still is minimal, except for a fragile network of public services, largely teachers and health outreach workers. And except for the infrastructure needed for military control of the area, investments in communications (roads and telephones) have been few and of relatively recent date.
- 1.19 In the wake of the violence, the isolation of communities reinforces the breakdown that began when people left. For example, some who have since come back have set up "return zones" within the country and want nothing to do with either the central government or local governments.
- 1.20 The flow of international aid has inadvertently exacerbated community breakdown. Direct aid programs have created the fiction that some kind of direct relationship exists between the communities and the so-called "international community"; in the process, the work of building institutional relationships, which are more demanding but more stable in the medium and long term, has been neglected.
- 1.21 Lacking mechanisms for cultural, economic, and institutional linkage with the rest of the country, any reliance on international

resources and volatile institutional relationships will be an exercise in frustration. The institutional and cultural bridges needed to carry out investment plans in the region have to be built, with local actors taking active part. An understanding of the breakdown and of the urgent need to rebuild ties are captured in the first chapter of the Socioeconomic Agreement, which is devoted exclusively to the agreements needed to build up participatory development at the local, regional, and national levels, involving civil society and State institutions.

D. The peace process

- 1.22 Civilian government was reinstated in 1985. While talks between the government and Unidad Revolucionaria Guatemalteca Nacional (URNG) began in 1987, it was not until 1994 that the negotiation process was consolidated. Since then, in addition to the framework accords, five agreements have been signed on the nine negotiation issues planned. The government and the URNG estimate that talks could be completed by the end of the year. The agreements are summarized in Annex VIII.

1. Strategy for building and financing the peace

- 1.23 The government has assigned top priority to building a firm and lasting peace, it being understood that observance of the agreements is a necessary but not a sufficient condition to that end. Therefore, the government's challenge is to honor the peace accords while at the same time maintaining macroeconomic equilibrium and gradually strengthening public institutions. Even in the best-case scenario, it will be some time before the effects of the reform and stepped-up public spending in the social sectors are felt.
- 1.24 The government is planning a program of coordinated and mutually reinforcing measures to meet the various demands associated with the peace process and economic development, and has requested the support of the IDB and the World Bank (WB) for a significant portion of those measures. Such is the case, for example, with programs in basic education (IDB, WB, KfW), a program to review issues associated with land access and certainty of tenure (WB) and modernization of the State (IDB, WB). Once all the agreements are signed, the government hopes to meet with international aid agencies to discuss financing for the portfolio of projects associated with the peace process. The IDB will be the facilitator for this consultative gathering.
- 1.25 As for the problem of land access and tenure, which is a major irritant in the political tensions, the government is preparing a large-scale World Bank-funded program devoted exclusively to resolving these problems, starting in 1997. Other adjunct measures could be financed by the IDB and are contemplated in its project pipeline.



- 1.26 The Community Development for Peace program (DECOPAZ) presented in this document will be an integral part of the government's plan to consolidate and strengthen democratic society, and fits in with the immediate-impact measures that will be carried out locally to further the peace process. *The government has sent the Bank a policy letter setting forth the general policy framework for implementation of the program and confirming the need for that framework for the program to go forward.*
- 1.27 DECOPAZ plays an important role in the peace measures on a number of fronts: (i) it addresses the problems of impairment of local capital expeditiously and opens avenues for a more structural but slower-paced response on the part of the State; (ii) with the program, the investments envisaged in the peace accords (education, health, housing, etc.) can be carried out in an "enabling" atmosphere in which their benefits can materialize, especially on account of the human capital and basic institutional development into which those investments will be poured; (iii) the local planning exercises should help allocate scarce budget funds more efficiently and avoid duplication of effort; and (iv) the project has been designed in accordance with the principles and guidelines set forth in the peace agreements, specifically in chapter 3 of the Agreement for Resettlement of Uprooted Populations, chapter 1 of the Agreement on Socioeconomic Issues and the Agrarian Situation, and chapters 5 and 6 of the Agreement for Strengthening of Civil Society and on the Role of the Military in a Democratic Society.

## 2. Institutional arrangements for peace

- 1.28 The peace process is being managed from the Office of the President. The Peace Commission (COPAZ) handles negotiations with the URNG. A number of agencies, special programs, and line ministries are instrumental in carrying out the peace accords, which is why the Policy Committee on Cooperation for Peace was formed. The latter is attached to the Office of the President, its purpose being to map out a strategy for organizing, administering, and executing resources and projects for peace. The Office of the Presidential Commissioner for International Cooperation for Peace coordinates internal and external support of the peace process. Once all the peace agreements have been signed, the Peace Secretariat (SEPAZ), likewise attached to the Office of the President, will be coordinating activities to implement the accords.
- 1.29 One of the special programs is the National Peace Fund (FONAPAZ), which is the agency most actively involved in carrying out programs in the former conflict zones. Created by presidential decision in 1992, FONAPAZ is a temporary institution to promote, coordinate, finance, and oversee programs and projects whose purpose is to raise the standard of living of those residing in the nine departments hardest hit by the conflict and integrate them into the social and economic development process. FONAPAZ has funded almost

all (98%) its programs with government resources and has an excellent disbursement record (90%). The programs FONAPAZ carried out between 1992 and late 1995 totaled nearly US\$55.5 million. Of that amount, 25% was executed directly; the other 75% was handled through contracts with 18 "first-tier" institutions (international organizations, local NGOs, and other public entities). 7/ This has avoided the creation of permanent bureaucratic structures and has kept administrative expenses at an average of 8% of total resources. The government's 1996 budget appropriation for FONAPAZ is US\$34 million, which is subject to special audit and oversight systems.

- 1.30 FONAPAZ operations fall into two main categories: (i) immediate intervention programs driven by the dynamics of the peace process and the temporary situations created as people return and become reassimilated; and (ii) social investment programs subject to a more routine planning, evaluation, execution, and supervision regimen, which compete openly with the Social Investment Fund (SIF). The programs do not necessarily function independently and their immediate agenda dominates the Fund's agenda. FONAPAZ is working to consolidate its social investment programs in order to sidestep the kind of perturbances that are characteristic of immediate investment programs and subject the programs to more rigorous auditing and monitoring systems.
- 1.31 The progress in the peace negotiations, FONAPAZ's record, its director's credibility in communities affected by the strife, and the unanimous perception that it has managed to steer clear of partisan political influence have created a wave of enthusiasm to expand operations with outside funding. However, FONAPAZ's responsiveness and pace of execution go hand in hand with certain exceptional features such as the following, to which international lending agencies would not be very receptive: (i) the preponderance of emergency measures and absence of fixed allocation criteria; (ii) the institution's tenuous legal standing; (iii) the decision by FONAPAZ's management not to institute the kind of pre-established planning systems that would impede immediate intervention; (iv) the absence of a sitting executive board; (v) the lack of a structured auditing and monitoring system, and (vi) the program's close involvement in the purchase and distribution of land.
- 1.32 For these same reasons, FONAPAZ would have to undergo in-depth institutional restructuring to serve as the program's executing

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7/ Salient among these are the following: the International Organization for Migration (45% of the operations); the National Fund for Labor and Productive Reinsertion (33%); the United Nations Children's Fund (5%); and the Development Programme for Displaced, Repatriated and Refugee Populations in Central America (PRODERE), administered by the United Nations (4.7%).

agency, which would be inadvisable if done solely for purposes of the program proposed here. There are two basic reasons: (i) the SIF's experience indicates that the process can take two years, too long an interval for an urgent transitional program; and (ii) the government sets a premium on FONAPAZ's responsiveness, and in light of the initiative's planned short lifespan, wide range of programs, and flexible procedures, sees in it an important tool for implementing the agreements.

### 3. Other important players in the reconstruction process

- 1.33 Responding to the progress in the peace negotiations, the bilateral cooperation agencies of the European Union, Germany, Norway, and Sweden, among others, have committed close to US\$250 million for ZONAPAZ, whose execution will be completed in 1997. The interventions are basically of two types. In less embattled areas, the majority are poverty-relief projects carried out by government institutions. In the areas along the northern belt, the projects are mainly emergency humanitarian aid, for the most part run by NGOs. As the negotiation process moves forward, these assistance programs are expected to expand.
- 1.34 PRODERE, a five-year program that began in 1989 to assist the economic and social reintegration of the civilian population affected by internal strife in Central America, was funded by the Italian government and carried out by UNDP/UNOPS (Office for Project Services). It focused on four municipalities in the department of El Quiché, and Mixco, a district of Guatemala City. PRODERE spent over US\$35 million on education, health, physical infrastructure and economic development and activities to protect human rights. In its later years, having learned from experience and with its financial resources dwindling, PRODERE began to promote dynamic and flexible forms of community involvement in setting priorities, planning solutions and carrying out projects, using non-PRODERE resources (SIF, FONAPAZ, the Indigenous Peoples Fund, etc.).

### E. Lessons learned

#### 1. The specific case of civil wars 8/

- 1.35 The Bank has no experience in designing and carrying out post-conflict economic and social recovery programs. Still, important lessons can be learned from post-civil-war reconstruction initiatives in Central America, Asia and Africa.

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8/ Azam, Jean-Paul et al. (1994). *Some Economic Consequences of the Transition from Civil War to Peace*. World Bank.  
Weiss-Fagen, P. (1995). *Research and Sources on War-torn Societies: A Bibliography Essay*. UNRISD.

- 1.36 **The importance of social capital:** Physical reconstruction is not enough to guarantee rapid economic recovery, as civil wars tend to weaken the State's authority, break down the institutions of civil society and generate mistrust among economic agents. Therefore, an investment has to be made to rebuild a community's participation networks and restore collective trust, while steering it in the direction of high-productivity activities.
- 1.37 **Nondiscrimination:** In communities that have been split and polarized by conflict, singling out affected groups for assistance can exacerbate existing divisions. All the agents living in a community have to be included.
- 1.38 **Neutrality, transparency and credibility:** A program's executing agency in these instances must be impartial and must be perceived as such, to get all the local players involved and working together. Information about the program (scope, access and results) must be accessible and transparent. And to gain people's trust, the program must be able to follow through quickly on the commitments it undertakes.
- 1.39 **Local capacity:** If the solutions are to be able to sustain themselves, local capacity to continue the recovery and development process will have to be generated. Explicit measures must be taken to create and strengthen local opportunities and forms of association and bolster local institutional capacity for project implementation. Participation should not be interpreted as the simple gift of unskilled labor; it should entail the active involvement of local actors (men and women alike) throughout the project cycle. Also, care must be taken to avoid supplanting local actors and institutions that either survive the conflict or emerge in the peace process.
- 1.40 **The role of women:** Women play a key role in preserving forms of social cohesiveness and solidarity, and must be actively involved in reconstruction programs.

## 2. The Guatemalan experience

- 1.41 In Guatemala, two relevant experiences can be drawn upon for the program's design: the SIF-Guatemala and PRODERE. <sup>9/</sup> The SIF's work in the war-torn areas teaches five useful lessons: (i) the SIF has had difficulty working directly with communities when local capacity is very weak; in such cases, it has turned to NGOs and other local institutions for help in identifying and executing

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<sup>9/</sup> Although these are emergency aid operations, there are valuable lessons to be drawn from the experience of the bilateral assistance programs mentioned in the description of the present situation in the conflict zones.

projects; (ii) since the SIF works with individual communities, valuable opportunities for inter-community cooperation are lost; (iii) because the SIF has a standard menu of projects it promotes, when planning mechanisms are lacking, its projects often create an "induced demand"; (iv) because of its mandate, SIF interventions cannot be intensive or be repeated in the same community, and opportunities to capitalize on learning opportunities in project preparation and execution are missed; and (v) the SIF works with Social Investment Fund Enterprises, which need not be representative of the entire community and do not necessarily remain intact once the work is completed, which means that the opportunity to strengthen local institutions is lost. 10/

1.42 The PRODERE experience underscores the importance of (i) impartiality, to elicit a broad response; (ii) the involvement of all local actors (public and private) to ensure that the programs can sustain themselves; (iii) geographic concentration, to "showcase" the advantages of working in concert; (iv) appreciating the communities' grasp of their own priorities; (v) creating local capacity through participatory planning; (vi) promoting programs to disseminate and support human rights, to help rebuild collective trust; (vii) immediate efforts to foster a direct link between the communities and other funds (one of PRODERE's mistakes was to remain an intermediary); (viii) the local language and local personnel; (ix) the value of local human capital to promote the investment processes, and (x) coordinating rather than competing with local public and private organizations (one of the mistakes PRODERE made in its early years). 11/

1.43 Two other lessons bear mentioning. First, if the program is to succeed, the local communities' management process will have to be respected and support for that process will have to be sustained. Second, involving local actors in participatory planning and building project cycle management capabilities requires larger investments than are allotted in other community participation programs. 12/

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10/ Field interviews in Huehuetenango, El Quiché, Alta Verapaz, Baja Verapaz, and Sololá. IDB-World Bank-Ruta Social appraisal for preparation of the SIF project (GU-0071).

11/ Arias Foundation et al. (1995). *Informe de la evaluación externa de PRODERE* [External evaluation report on the PRODERE program] and field interviews in Huehuetenango and El Quiché.

12/ By way of comparison, the SIF-Guatemala earmarked at least 5% to strengthen community participation, and a barrio improvement program (AR-0163) earmarked 11%, whereas PRODERE spent close to 25% of its budget for that purpose.

## II. DESCRIPTION OF THE PROJECT

### A. Objectives

- 2.1 The project objective is to rebuild the physical, human, and social capital of areas on which the armed conflict took the heaviest toll.
- 2.2 To achieve that aim, three very novel elements are being introduced with the program:
  - (i) Local beneficiaries are being delegated responsibility for selecting investment projects and deciding how they will be carried out and funded.
  - (ii) Training in project management will be through practical experience.
  - (iii) Participatory planning will cultivate a collaborative work ethic in a climate of peace.

### B. Description of the program

- 2.3 Under the program, the communities themselves will preidentify, select, plan, and carry through projects that are priorities at the local level. To do this, the program operates on the basis of (i) an efficient and transparent participatory institutional arrangement for allocating government funding to communities; (ii) a technical team to help communities (with problems in which local actors are inexperienced) determine, by consensus, what their priorities are, decide what investments to make and how to execute them; and (iii) a systematic and participatory work method that cultivates the local capacities that will further local development.

#### 1. Institutional arrangement

- 2.4 The program will be run under a participatory, impartial, representative and transparent arrangement, with temporary technical and institutional support but no permanent institutions created.
- 2.5 The plan is to set up a trust fund to administer the Community Development for Peace program (DECOPAZ), overseen by an **Executive Board** appointed exclusively for that purpose. The Executive Board will have five to seven members representing government, Guatemalan society (the private business sector, indigenous groups, sectors associated with local development and land-use planning) and those closely linked to the peace process (the Peace Secretariat and civilian representatives of the peace process). Board members and

alternates will be appointed by the President of the Republic and may not delegate their functions.

- 2.6 The Executive Board will take decisions by special majority. It will see that the program's principles are observed, approve overall budgets, supervise program progress and handle dealings with the Bank. The board will be an executive body, meeting monthly. If it sees fit, the board may invite outside advisors or participants, including a representative from the IDB team.
- 2.7 The Executive Board will have an **Executive Secretariat** for operational support, to carry out board decisions with support from a **Technical Unit**. To use FONAPAZ's experience to the program's advantage, the director of FONAPAZ will serve, ex officio, as the board's executive secretary.
- 2.8 The Technical Unit will be decentralized and have the functional autonomy needed to do its job efficiently and work one-on-one with the beneficiaries. At the local level, the Technical Unit will monitor the technical quality of projects and the program's finances. Its director will function as liaison between the decentralized units and the Executive Secretariat.

## 2. Technical assistance to communities

- 2.9 The Executive Board will engage institutions to provide training and technical assistance to the communities. They are being called first-tier institutions (FTIs) because they will be working in situ, directly with the communities. The FTIs will help the communities work together and advise and train them in how to manage the complete project cycle. The FTIs assure the process's transparency and the technical caliber of projects funded, and provide communities with technical assistance in finding other funds, programs and institutions to finance local priority projects. The FTIs will serve as liaison with the Technical Unit, which will monitor their work.
- 2.10 The FTIs will work with each community for three years and will provide training to (i) ensure full and informed participation (intensive the first year); (ii) teach communities how to prepare and carry out local projects (intensive in the second year), and (iii) establish links between local actors and development institutions and programs (intensive in the third year).
- 2.11 After some preparatory fieldwork has been done, and with FTI coordination and support, the **beneficiaries** will decide which specific investments to choose, how to carry them out and finance them. During the program, beneficiaries will receive training and technical assistance from the FTIs. And while the projects will be subject to technical inspection, the beneficiaries will form **audit committees** to directly monitor suppliers of goods and services.

- 2.12 Funds will be managed in three successive budget periods, each consisting of three stages with participatory planning: (i) preliminary planning, for Executive Board approval of a preliminary budget for each cycle; (ii) selection and development of projects, contracting with suppliers, and project execution and/or delivery of packages of services; and (iii) evaluation of achievements.

### 3. Methodological principles of community participation

- 2.13 To build up social capital, group collaboration and participation are required, necessitating (i) a series of steps to make participation possible, and (ii) economic incentives for participation. Making resources available to finance priority projects serves a threefold purpose: (1) it creates the incentives needed to involve the community in efforts to find participatory solutions; (2) it lends credibility and meaning to the consensus-building and participation process; and (3) it helps rebuild social services and promote the local private sector. By its nature, the program will work with all communities, but they will be grouped into microregions. In a typical case, a municipality will have six microregions, and each microregion will take in eight communities.
- 2.14 Organizing community participation to plan and execute investments is a novel approach to the problems caused by local actors' inexperience and the absence of the traditional institutional underpinnings. And so the FTIs have two basic and closely related functions to perform: (1) strengthening social organization, to make for an organized approach to problem-solving, and (2) helping local actors identify, develop, prepare, carry out, supervise, and apply for priority projects or service packages funded by this program and other sources.
- 2.15 Financing for packages of services is one of this program's innovative features. Social investment programs often fund works projects (schools, health units, community facilities) that are in some cases not an effective answer to education, health, and cultural development problems. The financing of service packages (schooling for a cohort of pupils, malaria eradication campaigns, mother and child nutrition programs, cultural activities, etc.) can address community problems quickly and effectively, and at the same time afford a basis for assessing the program's success in concrete terms.
- 2.16 The preparatory fieldwork and a local needs assessment in each microregion are followed by nine-month participatory planning cycles, each including preliminary planning, project development and execution, and evaluation of outcomes. Three complete cycles will be financed.



Preparatory fieldwork

- 2.17 At this stage the FTIs make contact with the communities to share information, identify local actors, instigate exercises to help them assess their needs, strengthen (through training) planning capability at the community level, and establish the work program for the microregion. Information is compiled from and provided to municipal and departmental authorities, a program is worked out to strengthen municipal planning, and avenues are created for FTIs to work with communities and municipal authorities to devise the microregional groupings. The FTI does an in-depth analysis of the information compiled about the social actors and the area's socioeconomic milieu. As part of the participatory planning, it promotes gatherings for discussion and consensus-building. One element of the local information needed is suppliers of goods and services.
- 2.18 With the communities, municipal authorities and other local actors participating, microregional meetings will be held to explain the program's principles, strengthen ties and cooperative approaches among local actors, and determine what the microregions will be; one step here will be to obtain legal status for the entities representative of the microregions [ERMs] on which the communities, municipal authorities and other local actors are to be represented. Public forums will be organized to discuss the peace accords, civil rights and civic responsibilities, human rights, and development opportunities in a context of peace, as will gatherings to drive home the importance of environmental, diversity, and gender issues in the development process, and the advantages and opportunities of working in concert to find solutions to local problems.

Needs assessment at the microregional level

- 2.19 Working from the preparatory fieldwork, the FTIs will promote practical exercises in participatory planning so that the communities (by now grouped into microregions) can agree on common objectives and priorities, learn sector-specific technical standards, make decisions on the priority allocation of resources and identify sources of financing within and outside the program.
- 2.20 The FTIs will also run municipal-level participatory planning exercises with the communities where mechanisms will be instituted for cross-community communication and communication among the various political levels (community, municipal, department, central government). Also, the FTI will compile and circulate relevant information on national policies and plans and the technical standards of the line ministries for sectors that could be priorities for the communities.
- 2.21 At the same time, local public planning agencies will be strengthened and local communities trained in participatory-planning techniques. Specifically, financing will be provided for

three years to strengthen the technical units of the municipal corporations that are the cornerstone of the decentralization process, to equip them to plan and execute public spending.

First stage in the cycle: preliminary planning

- 2.22 The communities, grouped into microregions encompassing six to eight communities each, will decide, by consensus, the priority areas of investment needed for each microregion. Drawing upon the participatory-planning exercises and based on an indicative budget, local actors will put together a microregional investment plan (with project profiles and a budget for each) to be financed with program resources. That budget will be submitted to the Executive Board for review and approval.
- 2.23 Projects and service packages in the plan may encompass more than one microregion when the microregions concerned so agree. The FTIs will help the microregions prepare profiles and their budgets and secure legal status for the entities representative of the microregions (ERMs) so that they may enter into contracts.
- 2.24 One of the FTIs' fundamental roles will be to help the microregions put together and submit packages of information, proposals and financial estimates comprising an investment plan to raise financing from other sources.
- 2.25 The FTIs will also conduct training programs, serve as facilitators in planning forums at various territorial levels, and help institute the participatory planning approach in local planning bodies and processes.
- 2.26 A crucial part of the planning process is to develop efficient channels of information and communication between territorial levels and between territories, between the public sector and the private sector, and so on. The FTIs will be expected to develop ways to improve those channels.

Second stage: project development and execution

- 2.27 The participatory consultation exercises are usually suspended once the priority investments have been decided upon. However, the program will get local actors involved in preparing, carrying out and supervising works projects and contracting goods and services. Therefore, approval of the budget (not of the individual projects) will give the communities the necessary resources so that they can then, on their own and with the help of the FTIs, devise projects, design service packages, supervise contractors, purchase goods and hire services needed for the project.
- 2.28 Approval of the budget thus becomes a spending authorization for individual projects to be approved locally. Local actors, grouped into microregions with legal status (ERMs), will have access to an

account in a local commercial bank to finance preinvestment, execution and supervision of specific projects. To ensure that projects or service packages conform to the prescribed technical and financial standards, the signature of the ERM's authorized representative and the signature of either the FTI (for projects costing up to US\$20,000) or the Technical Unit (for projects over US\$20,000) will be required to access the account. 13/

- 2.29 The FTI will function as a "shadow executing agency", there to help communities at any point in the project cycle, whether the project is part of this program or is being submitted to some other agency. The FTI will provide the microregions with advisory assistance to ensure the technical and financial soundness of projects or service packages, locate suppliers, keep accounting paperwork in order and keep the communities informed of funding available, projects financed, and the planned timetable for project execution. To expedite investment projects, handbooks and basic forms will be created to facilitate the technical and financial evaluation of projects or service packages. 14/
- 2.30 As part of the participatory exercise, the ERMs will form local audit committees to introduce the idea of systematic social audits, and will help the microregions maintain the technical and financial paperwork on the works and services and on loan recoveries under the productive-sector support component.
- 2.31 In addition to financing projects and service packages of benefit to the community as a whole, the program includes funding to support the productive sector specifically. The resource-allocation method for productive projects is slightly different from the approach used for community projects. Based on the spending limit available, the community will receive a net infusion of program funds for productive projects, on condition that the monies be administered, as a trust fund, by a formal private financial intermediary with a local presence. These funds will be loaned to local organizations that submit projects which will, in the financial institution's judgment, produce acceptable returns. The loan will be coupled with nonreimbursable resources for relevant training. With the support of the FTI, the lending component will be publicized and loan applications will be taken up to three times a year. The financial agency will manage the portfolio and recoveries, but the community will be kept informed of how the funds were used and will do the social audits to recover its capital. Loan recoveries will revert to the community.

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13/ These FTI and Technical Unit signing limits can be changed by the Executive Board, within the parameters outlined in chapter III.

14/ The handbooks and basic forms will contain valuable input from other national funds (SIFs) and international funds (SIF-Salvador and National Rehabilitation Plan, Colombia), which will hasten the start of execution.

- 2.32 As the projects are being prepared and carried out, training and technical assistance will be provided to strengthen the local institutions that will promote or carry out participatory development activities, and will remain in the region when the project ends. Meetings will be held for the various microregions and municipalities associated with the program to share their participatory planning experiences with each other and with other local development programs.
- 2.33 While the program neither can nor should be expected to answer every local investment need, it must encourage autonomy and the growth of institutions so that the local development process can sustain itself and endure. The communities must, therefore, have technical assistance to help them tap into other sources of financing for priority investments not funded directly under the proposed program. This assistance, provided by FTIs, will give the communities access to assistance offered by agencies like the SIF, FONAPAZ, the ministries of health and education, agencies in charge of building and maintaining public works, financial institutions, producers' associations, etc.

Third stage in the cycle: evaluation of accomplishments

- 2.34 The evaluation of accomplishments is the end point of one budget cycle and the starting point for the next. The FTIs will assist the microregions with the evaluation and ensure that the findings are factored into new planning exercises.
- 2.35 With the FTIs' help, information on outcomes will be circulated in the microregion, as a crucial element in illustrating the potential of work in concert and making this known nationwide. Given the importance of mass communication as a development tool, funding will be provided for national information and publicity programs.

C. Categories eligible for funding

- 2.36 The program will finance (i) the costs of its own administration, including the Executive Board, Executive Secretariat and Technical Unit (US\$4.9 million); (ii) training and technical support for communities, provided by FTIs (US\$10.6 million); (iii) preinvestment and execution of projects involving investments in human and physical capital and support for the productive sector (US\$38.8 million); and (iv) administration and supervision costs (US\$0.5 million). The equivalent of US\$800,000 has been budgeted for contingencies.
- 2.37 To encompass the widest possible range of projects eligible for funding under the program, three broad categories of investments in human and physical capital and productive-sector support are planned (US\$38.8 million):

- (i) **Projects and service packages for delivery of basic social services in health and education (US\$19.4 million)**, such as school construction, education services, scholarships, inoculation campaigns, mother and child care programs, child nutrition programs, programs to eradicate rabies, repairs to health clinics, water and sanitation programs, etc. (50% of the investment funding approved for each microregion).
- (ii) **The communities' priority programs and projects (US\$9.7 million)**, such as various activities associated with the delivery of social services, productive projects, promotion of justice, cultural development, community facilities, recreational areas, etc. (25% of the investment funding approved for each microregion).
- (iii) **Support for productive projects (US\$9.7 million)** that meet the tests of financial viability, submitted by producers' associations, cooperatives and other associations that support the local productive sector (25% of the investment funding approved for each microregion). These funds will be allocated in the form of loans from the community to local organizations and will be coupled with nonreimbursable funds for project-related technical assistance. Loan recoveries will revert to the community to finance projects that are local priorities, one of which may be to reactivate the line of credit.

Criteria for projects to qualify for financing

- 2.38 The program's Technical Unit will review project technical requirements to make certain they are feasible.
- 2.39 For the social services projects and packages and other programs for the communities to decide, the proposals must (i) be designated as priorities in the participatory planning meetings held at the microregional level; (ii) be specific solutions that target problems identified at the local level; (iii) entail community involvement in the project's execution, administration and monitoring; (iv) be technically and financially feasible; (v) comply with the national policies and technical standards of the corresponding ministries; (vi) satisfy the technical construction prerequisites determined by the Technical Unit; (vii) include a plan for maintenance and sustainability; (viii) include a plan for sharing information and coordinating with the corresponding line ministries; (ix) include an environmental brief, patterned after the model developed by the Technical Unit, with appropriate environmental control and mitigation measures; and (x) be submitted by the representatives of the microregion, with the FTI's technical opinion and the Technical Unit's technical clearance.

- 2.40 Projects that qualify under the program to assist productive projects will be those that (i) produce a return under market conditions; (ii) are presented by organizations (for example, cooperatives, associations, NGOs); (iii) are approved by a local loan committee, composed of representatives from the microregion; (iv) can carry a loan at an interest rate of no less than the marginal deposit rate on the national market plus the spread charged by the financial institution for managing the portfolio; and (v) can be recovered within 12 months at most (depending on the recovery records from the first budget cycle, the repayment period may be extended in later cycles, but is never to exceed 24 months).

D. Scale of the program

- 2.41 Given the severe decapitalization and meager social investment in strife-torn zones, the outlays needed in those areas are considerable. <sup>15/</sup> In keeping with the investment plans to fulfill the peace agreements and given the as-yet scant institutional capacity for a project of this type, the government has assigned the program a budget of US\$55.6 million, 90% of which will be financed by the IDB. Net of the program's administrative costs and contingencies, funding available for communities, including the various forms of technical assistance and project financing, totals US\$49.5 million.
- 2.42 For the local capital-building exercises to be effective, an annual per capita capitalization target was set (for three consecutive years) at about 30% of average annual per capita income. <sup>16/</sup> In the areas hardest hit by the conflict, that income is estimated to be US\$150. Assuming annual per capita transfers of US\$42 (US\$126 per capita over a three-year period) and the US\$49.5 million available, the program will benefit an estimated 390,000 people.
- 2.43 Depending on the outcome of the first stages of the program, the government is considering the idea of expanding it into other municipalities, with additional national and international funding.

E. Targeting

- 2.44 The program targets the zones most affected by the armed conflict, where demands created by social processes associated with the

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<sup>15/</sup> As stated in document GU-0071 (SIF), as of the start of the decade the government estimated the social debt at US\$2 billion. In a conservative scenario that ascribed 25% of these needs to the conflict zones, the pressing social investment needs of those areas would tally US\$500 million.

<sup>16/</sup> The purpose of the capitalization target is to achieve the overall purpose of effective capitalization without exceeding the communities' real absorptive and allocative capacity.

coming of peace (returning residents, displacement, etc.) are the heaviest, the need for reconstruction and social articulation is greatest, and the destruction of fixed assets has been most severe. According to the available figures (see Annex II), these areas are concentrated in the northern and northwestern sectors of the country; the toll was particularly heavy in Alta Verapaz, El Quiché, and Huehuetenango.

- 2.45 With due regard to municipal indicators and to avoid duplication of effort, the program will target the municipalities in northern Huehuetenango, severely affected by the conflict, into which large numbers of returnees are flowing (45% of the national total) and where social development indices are low. The vast majority of Huehuetenango's population are rural (85%) and indigenous (82%); 92% are poor. The 13 preselected municipalities and their social indices appear in Annex II. Because of questions about the reliability of rural population data, especially in the conflict zones to which people are returning, the work will get under way in 13 municipalities where the actual population (390,000) is believed to exceed current statistics (280,000). Should there be fewer than 390,000 people, adjoining municipalities will be added until the 390,000 target is reached.
- 2.46 In the selected municipalities the program will work with all communities, but in groups of six to eight communities (a microregion), and will not discriminate in any way. The microregion will be the basic geographic unit of work. According to preliminary estimates, some 468 to 624 communities, grouped into 78 microregions, will be served.
- 2.47 The program will start out in the five Huista municipalities (Jacaltenango, Nentón, Concepción Huista, San Antonio Huista and Santa Ana Huista). Since the population of the Huista municipalities (17,000) is below the estimate for the average municipality (30,000), the FTI assigned to the region will cover two more municipalities so that the first-tier services are used to maximum advantage. Work will get under way in all the municipalities in the first year and will last three years; accordingly, the program as a whole will be completed within four years.

### III. PROGRAM IMPLEMENTATION

#### A. Implementation arrangements

##### 1. Operating approach

- 3.1 The program will fund global investments to be governed by selection criteria and operating procedures set forth in a set of Operating Regulations. This chapter summarizes the main features of such regulations, which will be designed with enough flexibility to enable the program to be adjusted in progress, within general parameters.

##### 2. Central concept

- 3.2 The program has a two-pronged implementation strategy. The beneficiaries, assisted by first-tier institutions (FTIs), will be delegated the job of selecting, carrying out and financing specific investments. Meanwhile, overall budgets will be decided at an executive level, which will monitor the quality of investments and handle dealings with the Bank.
- 3.3 In keeping with the program's central idea of delegating operational decisions to the beneficiaries themselves, a budget will be approved for them to finance training and investments in human, physical and productive capital. The Regulations will include technical standards for investments and a list of ineligible categories (arms, land, roads, harvesting of basic commodities, etc.).

##### 3. Commencement

- 3.4 The program will begin when the trust fund and the Executive Board (including the Executive Secretariat and its Technical Unit) have been set up, the Operating Regulations have been formalized, and the first FTI, which will work with the first group of municipalities, has been contracted. These measures are conditions precedent to the first disbursement of the loan proceeds.

##### 4. Early startup

- 3.5 The government has indicated its intention to conclude contracts with the FTI for the first group of municipalities before the loan is approved, using its own funding (which will be reimbursed if the procedures followed are acceptable to the Bank). If the early startup materializes, the first FTI will begin work in December 1996 and finish in December 1999. The next FTIs will be hired after an international call for bids (June 1997) and will finish three years later.



B. Institutional structure

1. Central management

a. The Executive Board

- 3.6 Although the Executive Board will operate through its Executive Secretariat, it will have line functions in the trust fund's administration. It will meet monthly to (i) select municipalities to participate in the program; (ii) supervise the Executive Secretariat's work; (iii) approve recommended selections of first-tier institutions; (iv) approve global budgets for each microregion; (v) constantly monitor the program (necessitating field trips); (vi) see to it that the Operating Regulations are kept up to date; and (vii) publicize the program's results. ***The Operating Regulations will have to be formalized before the Bank's loan can be disbursed. The Executive Board must have the Bank's prior consent before amending the Operating Regulations in any respect. The trust fund must have been formally established and the Executive Board formed (with the corresponding draft regulations) before the program is placed before the Bank's Board of Executive Directors for consideration.***

b. The Executive Secretariat

- 3.7 The Executive Secretariat will carry out the Executive Board's decisions and represent it vis-à-vis the borrower, the Bank, and executing agencies. Answering to the chairman of the Executive Board, it will see to it that the Operating Regulations and terms of loan contracts with the Bank are observed.
- 3.8 The Secretariat will be composed of one executive secretary, two alternates, and administrative personnel. Its functions will be to (i) request disbursements from the Bank and make the corresponding transfers; (ii) select local financial institutions to manage the microregion's special accounts and enter into contracts with them; (iii) see that the Operating Regulations are observed; (iv) serve as liaison with the Bank; and (v) supervise the Technical Unit. ***Before the program can be submitted to the IDB's Board of Executive Directors, the institutional arrangement whereby the director of FONAPAZ will serve as Executive Secretary for the Executive Board must be made official. The formation of the Executive Secretariat will be a condition precedent to disbursements from the IDB loan.***

2. Management of program execution

a. The Technical Unit

- 3.9 The Secretariat will have a Technical Unit to administer program implementation. Its director will take part in all the Executive Board's operational meetings. The Technical Unit will independently (i) evaluate the packages that communities submit to

the Executive Board for approval of lump-sum budgets and the microregions' projected expenditures; (ii) evaluate the technical side of project submissions; (iii) update and interpret project technical criteria; (iv) monitor the selection and payment of suppliers of goods and services; (v) sign checks and contracts needed to finance works whose costs exceed US\$20,000; (vi) prepare and submit disbursement requests and reports to the Executive Secretariat; and (vii) submit reports to the Executive Board on the program's progress at the local level.

- 3.10 The Technical Unit will have its main office in the program area, but will also have a permanent presence in Guatemala City for dealings with the Secretariat, the Executive Board and the Bank (for disbursements only). The unit will have two sections: financial management and technical monitoring. *Agreement was reached with the government on selection of the Technical Unit's director before the operation was submitted to the Board of Executive Directors. The setting up of the Technical Unit will be a condition precedent to the first disbursement from the Bank loan.*
- 3.11 *Before the operation is presented to the Bank's Board of Executive Directors, the government will submit the following to the Bank: the selection procedure; a draft contract; terms of reference; and the budget for hiring the staff of the Executive Secretariat and the Technical Unit. Also by that date, an announcement will have been prepared for the national press to advertise the positions of technical manager and finance manager.* The Technical Unit will be considered to be in place when (i) at least the director, finance manager and technical manager have been hired and are at work, and (ii) its main office has been set up in the program's impact area, outfitted with the necessary equipment and support personnel.

### 3. First-tier activities

#### a. The FTIs' responsibilities

- 3.12 First-tier institutions (FTIs) will be engaged for direct supervision of local project implementation and technical assistance. Professional service contracts will be concluded between the Executive Secretariat (on behalf of the Executive Board) and the FTIs, which will apply the guidelines set out in the Operating Regulations and follow the methodology guidelines established in their terms of reference. The contracts concluded with the FTIs will stipulate that payments are to represent actual costs plus overhead.
- 3.13 The FTIs' basic responsibilities are to (i) compile the basic information presented in the municipal record; (ii) organize and train communities, including assistance in creating legal entities representing the microregions (ERMs); (iii) monitor and assist with the selection of projects and suppliers; (iv) cosign contracts with the ERM when the amount involved is below US\$20,000; (v) monitor

project preparation and execution; (vi) authorize disbursements and, in combination with the ERMs, disburse funds for projects costing less than US\$20,000; and (vii) in consultation with municipal and community representatives, prepare the progress and financial reports required to justify IDB disbursements.

b. The budget cycle

- 3.14 Once the FTIs have compiled basic information on the municipality, the communities have been organized into microregions, the ERMs have been legally established, community priorities have been established for each cycle and the corresponding project profiles prepared, the package will be submitted to the Executive Board for approval of the lump-sum budget for the respective cycle, and to include in its projections the expenditures for each microregion. The Executive Board will have 45 days from the time it receives a package to determine the microregion's total budget for each cycle and request from the Bank the disbursement to cover the projected expenses.
- 3.15 Once the budget and expense projections have been approved, the microregions will have the authority to approve all the projects. To ensure technical quality, a discretionary limit equivalent to US\$20,000 will be set; up to that amount, microregions may evaluate projects and make loans without having to formally consult the Technical Unit, but with the technical backing of the FTI (which, with the ERM representatives, will cosign checks for projects costing up to US\$20,000). The Technical Unit will perform an analysis, confirm technical viability and cosign checks only for projects costing between US\$20,001 and US\$250,000. For projects with higher costs, the Secretariat must first confirm the Technical Unit's technical clearance and only then will it authorize that unit to sign the checks. Projects over US\$500,000 will not be financed. These ceilings also apply to credits approved under the productive component. The FTI and Technical Unit discretionary limits may be adjusted by the Executive Board, within general parameters agreed on with the Bank.

c. The productive component

- 3.16 Based on the approved budget, the microregion will receive the funds earmarked for the productive sector. Once funds have been transferred to the microregion, they belong to the microregion, but will be administered by a local financial institution hired for the purpose. With the help of the FTI, every four months the ERM will publish announcements inviting private associative entities active in the municipality (associations, credit unions, producers' cooperatives, etc.) to apply for loans, which may also include a nonreimbursable component for training that can not exceed the loan amount. Applicants will have 45 days from the first announcement to submit completed applications to the local financial institution designated to examine them. The financial institution will have 30

days to decide whether a proposal is financially viable and forward its opinion to the loan committee appointed by the ERM. That committee, in turn, will have five working days to approve or deny loans requested for financially viable proposals only. Once a loan has been approved, the applicant will have 30 days to conclude the necessary contracts with the local financial institution, which will manage the portfolio on the microregion's behalf. All disbursements will have to be made according to the approved timetable and within the disbursement period of the IDB loan.

- 3.17 The local financial institution will be fully responsible for administering the loan portfolio, but must also periodically inform the ERM and the Technical Unit of its portfolio evaluation, which the ERM will circulate within the microregion. The microregion will own all recovered funds and will be free to administer them as it sees fit; it may allocate them to finance projects of collective benefit or new productive projects under what it considers to be the most suitable lending arrangement.

d. Duration of the intervention

- 3.18 The FTIs will remain in each municipality for three years. The preparatory fieldwork will take between three and nine months, depending on the degree of preliminary community organization among the beneficiaries. The process could take as little as three months in the more organized microregions. Once this preparatory work is completed, there will be at least three budget cycles (each lasting nine months) during which investment and productive projects will be financed. Even if funds allocated for those projects are exhausted before the three years are up, the FTIs will remain in the municipalities to provide training to the microregions, advise them on how to use the loan funds, and help them secure funding from other public and private sources.

e. Characteristics of the FTIs

- 3.19 The FTIs, which may be either local or international institutions, must have extensive experience with participatory planning programs in Guatemala and have (either in-house or by subcontracting) the technical support required to coordinate and manage the project cycle and provide training. Given the kind of work they will be doing, the FTIs must put together multidisciplinary teams. The participatory method requires that core personnel be locals for the most part. The team must include a group of local promoters, of both sexes, to move the planning process along. Local personnel are vital to achieving the program's objectives for three reasons: (i) they have firsthand knowledge of the local situation and its linguistic and cultural characteristics; (ii) the program is intended to build up local capacities, not displace them; and (iii) the objective of developing and promoting local project processing and management capacity is served.

- 3.20 Among other things, the FTIs must (i) be impartial and able to elicit interest; (ii) have sufficient institutional organization and capacity to do the fieldwork and prepare the operational and financial monitoring reports that the IDB requires on a regular basis; (iii) know the area in which they will be working; and (iv) demonstrate experience with participatory-development methods for the human and social capital development planned under the program and with management of the entire project cycle.

4. Suppliers of goods and services

- 3.21 The FTI advises a microregion's representatives when they contract private suppliers for (i) training in specific subjects; (ii) project preparation; (iii) construction work; (iv) operation and maintenance; (v) equipment; (vi) loan-portfolio management; and (vii) services to analyze productive projects and operate the program's local accounts.

5. Beneficiaries' responsibilities

- 3.22 The microregion will be the basic work unit, geographically configured to comprise groups of communities as determined by the communities themselves, in consultation with municipal authorities and with the help of FTIs. Each microregion will (i) participate in initial participatory planning, training and project-prioritization activities; (ii) set up a local entity with legal status (ERM) authorized to commit and expend the microregion's budget; (iii) cooperate with the FTIs and participate in the preinvestment phase and the selection, contracting, and supervision of suppliers of goods and services; (iv) authorize, with either the FTI or the Technical Unit, as the case may be, the disbursement of funds (signing of checks); (v) form teams to oversee the delivery of goods and services; (vi) see that items acquired are properly operated and maintained; (vii) in consultation with the FTI, prepare the physical progress and financial reports required to justify IDB disbursements; and (viii) contribute, either in cash (raising funds from the municipality or from other programs) or in kind (skilled or unskilled labor, land, etc.) at least 10% of the value of the microregion's budget.
- 3.23 The legal establishment of the ERMs is crucial, since this is one condition for approval of the microregion's overall budget and projected expenditures and for carrying out initiatives at the local level. This means it must be registered in the municipality and have legal status at the departmental level. *As a condition precedent to the first disbursement, the government will outline the measures it proposes to take to expedite the approval process at the central level.*
- 3.24 Once the projects' technical viability has been established, the microregions, assisted by their FTIs, will select and contract with

suppliers of goods and services. The Technical Unit will monitor those processes continually.

C. Financial arrangements

1. Disbursements

- 3.25 Disbursement requests for local investment outlays will be based on spending projections for the coming four months. These forecasts will be based on budgets and spending projections prepared by the microregions for each budget cycle (each cycle's budget must be approved). The budgets and forecasts will be prepared with the help of the FTIs and be reviewed and consolidated by the Technical Unit. The projections will be part of the package that the Executive Board is to approve.
- 3.26 The Operating Regulations will contain a detailed description of the procedure to be followed to justify expenditures at the local level, which will require presentation of a list of expenses backed up by receipts and vouchers on file in the Technical Unit. These lists will include the name of the payee; the amount and date of payment; the category of expenditure; the beneficiary microregion (assigned number); the corresponding FTI and ERM; the amount assigned to the microregion, and cumulative disbursements to the microregion to date.

2. Disbursement and commitment periods

- 3.27 Since the work in all the municipalities will be under way within the program's first six months, with three-year interventions in each municipality, the disbursement period for the program as a whole has been set at four years. This allows a six-month margin to complete an impact evaluation and reassign goods and other asset items used by the administrative institutions. ***The disbursement period will be four years and the expected commitment period three years and six months.***

3. Flow of funds

- 3.28 Since a significant share of the loan proceeds will come from the Fund for Special Operations (FSO) in local currency, there is a risk that the program might be affected by monetary control measures. ***The borrower has pledged to make these transfers as required for the program (policy letter).***
- 3.29 Using the spending projections prepared by the microregions with the help of the FTIs, the Technical Unit will prepare and sign disbursement requests for Secretariat signature (on behalf of the Executive Board) and will forward them to the Bank. The microregions will have accounts in the local commercial banking system, through which the board will disburse approved funds. The accounts will be in the name of the ERM, which (together with the FTI or

Technical Unit, as the case may be) will make out checks to suppliers. The FTIs are to help the microregions keep accounting records and justify (through payment statements) the use of funds to the Technical Unit. *The mechanism for disbursing funds to the microregions must be in place before the loan proceeds can be disbursed.*

- 3.30 In keeping with the core concept of delegating responsibility to the beneficiaries, the latter will identify and approve projects and select, contract and pay suppliers on their own. The Technical Unit will monitor but not control these procedures and will do an ex post financial check. Since the FTIs will monitor and help apply these procedures, they will be penalized (termination of contract) if repeated operating inconsistencies are discovered that result in ineligible expenditures being funded (based on incorrect selection procedures; projects costing up to US\$20,000 that are not viable; items on the ineligible list, or the inability to produce vouchers). The value of ineligible expenditures will be deducted from the overall budget of the corresponding microregion.

D. Procurement

1. Tendering procedures

- 3.31 Goods and services will be procured and construction work contracted in accordance with the procedures stipulated in Annex D to the loan contract. International competitive bidding will be compulsory when the amounts involved are over US\$200,000 for services, US\$250,000 for goods, and US\$1,000,000 for construction work. These thresholds are based on the Bank's experience in the country. The only tendering mode that will require prior Bank approval is international competitive bidding; the other processes will be reviewed ex post facto.
- 3.32 Tendering for services involving lesser amounts will be as follows: (i) direct contracting for services costing up to US\$20,000 in Guatemala City and up to US\$10,000 locally (Huehuetenango); (ii) shopping (where the contract will go to the best of at least three offers solicited) for services up to US\$200,000 in Guatemala City and up to US\$150,000 locally; and (iii) local competitive bidding for services up to US\$200,000 locally.
- 3.33 For goods valued below the thresholds stipulated in paragraph 3.39, the limits will be as follows: (i) direct purchase for procurements of up to US\$20,000 in Guatemala City, US\$30,000 for the FTIs' equipment, and US\$10,000 for local purchases (Huehuetenango); (ii) local shopping (where the contract is to go to the best of at least three proposals) up to US\$150,000 in Guatemala City and locally; and (iii) local competitive bidding on local procurements up to US\$250,000. Contracts for less than US\$50,000 may be by force account.

- 3.34 There will be no contracting for construction work in Guatemala City. Tendering for local construction work for amounts below the thresholds in paragraph 3.31 will be as follows: (i) direct contracting when the project costs US\$30,000 or less; (ii) shopping (where the contract is to go to the best of at least three offers) for contracts up to US\$750,000, and (iii) local competitive bidding for contracts up to US\$1,000,000.
- 3.35 The Bank's prior approval will be required for (i) local and international competitive bidding and (ii) contracting for consulting services costing over US\$20,000 by the Executive Board, Executive Secretariat, and Technical Unit. In every case, the technical report on the contract award or proposed award, and supporting documents, are to be sent for the Bank's information and/or approval.
- 3.36 Since the position of Technical Unit director calls for strong technical credentials, demonstrated field experience in Guatemala, and administrative and management skills, this official will be selected from a short-list of three candidates approved by the Bank. *Selection of the Director of the Technical Unit will be a condition precedent to presentation of the program to the Board of Executive Directors.*

## 2. First-tier services

- 3.37 Given the unique method to be used for the DECOPAZ program and the planned dual function of the FTIs, i.e., to employ the participatory planning method and oversee project cycle management, institutionalized services of this type were found to be in very short supply.
- 3.38 After analyzing what is available and conferring with the government, the project team is recommending that to get the program started, UNDP/UNOPS be hired, without a competition, to serve the first 150,000 beneficiaries (five municipalities of average size). In keeping with the Bank's guidelines for selecting specialized agencies (GS-603), the project team established UNOPS's technical superiority by comparing its qualifications and experience with those of other agencies in Guatemala.
- 3.39 The project team concluded that (i) UNOPS has the capacity and demonstrated experience needed for the planned method, which other institutions do not have to the degree required; (ii) the staff that UNOPS would assign is experienced in the method and has the multidisciplinary profile and unique qualifications not found in other agencies to the degree required; (iii) UNOPS can effectively coordinate a number of individual specialists and can prepare specialized, consolidated reports; and (iv) UNOPS's services in Bank-funded projects have scored an average of "Good" or better under the Bank's system for evaluating services. *Conclusion of the service contract between the Secretariat and UNOPS will be a*



*condition precedent to the first disbursement of the loan proceeds. The contract is to mention, by name, the municipalities in which UNOPS will operate.*

- 3.40 Although the analysis of other FTIs available found none equipped to provide all the needed services, it also found that a number would be in a position to do so if they were to work in combination with other institutions that are strong where they are not, or could augment and strengthen their own technical teams. For example, an FTI that is prepared to provide field services but does not have sufficient experience in project cycle management could either team up with another FTI that does have the experience, or reorganize itself to add that area and hire the corresponding technical personnel. *To allow a reasonable interval for such consortia to be set up or for institutions to strengthen weak areas, the board will have nine months, as from the effective date of the loan contracts, to conclude service contracts with other FTIs. The contracts with the FTIs must mention by name the municipalities in which they will work.*
- 3.41 International competitive bidding will be conducted for the first-tier services for the second group of municipalities. The institutions preidentified during the analysis are expected to participate, as are others. To coordinate contracting done following international competitive bidding, the goal being to execute contracts with the FTIs within six months after the date of signature, *the following will be required before Board presentation: (a) the draft bid documents (terms of reference, draft contract and evaluation procedure) and itemized budget estimate are to be submitted to the Bank before presentation of the program to the Board of Executive Directors; and (b) publicity about the bid call is to be launched before the first disbursement.*
- 3.42 Diversification in FTI service delivery is desirable in order to spur competition and improve the quality of services and acquaint institutions working locally with new methods. Therefore, UNOPS is not expected to participate in the program in the other municipalities, which will be served by FTIs that win contracts on the basis of international competitive bidding. The analysis done during preparation of this operation to ascertain what institutions were available came up with at least three that should be able to form consortia to carry through the program in the other municipalities.

### 3. Local expenditures

- 3.43 To help the microregions select and contract for goods and consulting services, the FTIs will, as part of the initial field-work, draw up rosters of persons and entities active on the local scene for preinvestment, construction, supervision, supplies of goods and materials, training, analysis of productive projects, and operation of bank accounts into which the funds assigned to each

municipality will be deposited. The rosters will be approved by the Technical Unit.

4. Evaluation of proposals

- 3.44 To expedite the bid evaluation process, the corresponding indicative budget will be included in the invitation to bidders; the Technical Unit will update the price list at least every three months; and the Operating Regulations will include standard specifications for investment packages and basic guidelines for the evaluations. To facilitate the contracting of suppliers, the Regulations will also include forms of contract for each type of procurement.

5. Ownership of purchased goods

- 3.45 Goods purchased with program resources will belong to the Executive Board, the institutions, municipalities and microregions that receive them. Goods in the program area will be transferred to the beneficiary municipalities. *At the end of the program, any goods acquired with the loan proceeds that do not belong to the communities must be reassigned to other purposes, in accordance with Executive Board recommendations. Goods acquired by FTIs are to be reassigned only to institutions working in municipalities that have benefited from the project. Within 90 days of the end of the contract with the FTI, the board is to have determined the disposition of the corresponding items. For all other goods, the board is to inform the Bank of their disposition at least 60 days before the end of the IDB loan disbursement period.* As for goods purchased by ERMs, the latter will have the authority to decide their disposition. In the productive component, loan recoveries will belong to the ERM and goods acquired will belong to the respective borrowing entity.
- 3.46 Ownership of immovables (water supply systems, schools, health clinics, etc.) may pass from the microregions to public agencies (ministries, departments or municipalities) so that they may be added to the corresponding agency's system, for operation and maintenance.

6. Ownership of land

- 3.47 In the case of capital investments, in order to get the Technical Unit's technical endorsement the microregion must show that it has due access to the property on which it plans to build, along lines similar to SIF requirements.

7. Work done by force account

- 3.48 Up to 30% of the total amount allocated to each microregion for investments can be done by force account, provided the investment outlays are for minor works that the municipalities and/or

microregions have the capacity to carry out on their own (at a cost equal to or less than the benchmark costs set by the Technical Unit) or when the purpose of the training is to acquire that capacity. The Operating Regulations will include indicative unit prices for works of this type, which will apply to work done on force account and to construction work done by private entities.

8. Procurement information system (PRISM)

- 3.49 The project team is recommending that the Bank waive PRISM requirements, such that reports would provide summary information on the microregions' procurement. This approach is warranted because (i) there will be a large number of very small procurements, and (ii) a decision has been made to use local currency resources in the Bank's financing package. For one thing, the workload that PRISM reporting requirements would create for the Bank's Country Office would be excessive, and, in any event, the data will appear in the periodic reports and disbursement requests; matters also would be needlessly complicated because expenditures using OC funds would have to be distinguished from those made with FSO funds (since the report is not used for local-currency expenditures, and most of the loan package is made up of FSO resources in local currency).

E. Operational limits

- 3.50 The operational limits, which will be formalized in the final version of the Operating Regulations, are summarized below:

Limit	Amount	Level of authority
Maximum allotment per micro-region for each eight-month budget cycle	US\$30 per capita	Board may approve change of up to 20% of aggregate per cycle
Ceiling for funding allocated for a single project	US\$500,000	With Bank approval, Board may approve larger projects encompassing more than one microregion
ERMs' discretionary limit to confirm technical viability of a project with clearance from FTI, with which it will sign contracts and checks	US\$20,000	Board may approve change of up to 50%
ERMs' discretionary limit to confirm credit eligibility	US\$250,000	
Technical Unit's discretionary limit to confirm technical viability of a project and sign contracts and checks with FTIs	US\$250,000	
Minimum allotment to productive component per microregion per cycle	25% of total allotted for each budget cycle	Board may approve change of up to 5% of total allotted per cycle
Minimum allotment to health and education per microregion per cycle (incl. water and sanitation)	50% of total allotted for each budget cycle	Board may approve change of up to 5% of total allotted per cycle
Minimum allotment per cycle for microregion to use at its discretion	25% of total allotted for each budget cycle	Board may approve change of up to 5% of total allotted per cycle
Maximum annual disbursement in a microregion per cycle	45% of total allotted for three years	Board may approve change of up to 15% of total allotment
Minimum annual disbursement in a microregion per cycle	25% of total allotted for three years	Board may approve change of up to 15% of total allotment
Penalty for failure to comply with annual minimum use rate	10% of total allotted for three years	Board may approve change of up to 15% of total allotment
Ceiling for force-account execution in each municipality	15% of total allotment'	Board may approve change of up to 15% of total allotment
Minimum to be supplied by community (labor)	10%	Board may approve change of up to 10% of total allotment

## F. Program implementation

### 1. Implementation timetable

- 3.51 Year 1 disbursements will basically go toward (i) establishment of the Executive Board, Secretariat, and Technical Unit; (ii) mobilization of the three FTIs; and (iii) one budget cycle for the first group of municipalities. Disbursements will peak in the second year, mainly because the budget cycles of all three groups of municipalities will be under way. In the fourth and final year, the disbursements will be smaller and will go toward the last budget cycle in two groups of municipalities and dismantling the administrative apparatus.

**INVESTMENT TIMETABLE**  
(in millions of U.S. dollars)

Funding source	Year 1	Year 2	Year 3	Year 4	Total
IDB/FSO	8.91	11.55	11.55	0.99	33.00
IDB/OC	0.02	8.10	4.92	3.96	17.00
Local counterpart	0.71	2.47	1.99	0.31	5.56
Total	9.65	22.12	18.47	5.33	55.56
Percentage	17.4%	39.8%	33.2%	9.6%	100.0%

3.52 Since the local contribution will be computed as a fixed percentage of funding expended for the investment component (13.75%), the *pari passu* (disbursement rate) with respect to the Bank's total contribution may fluctuate from one year to the next. The 10:90 ratio between local counterpart and loan funds will apply only in the last year.

3.53 To honor the commitment to make the local-currency FSO resources available as needed for the program, and irrespective of other monetary policy considerations, the government has indicated its intention to use most of the FSO resources in the first three years, spread out more or less evenly; the investment timetable reflects this.

G. Maintenance and sustainability of investments

3.54 To ensure the investments' sustainability, only projects with a viable operation and maintenance (O&M) plan will be funded. <sup>17/</sup> The evaluation of physical investment projects will include an examination of measures proposed to guarantee that the items purchased with program resources will be properly operated and maintained. These costs may be financed with program resources during the three years the program is under way in each municipality. Should they rely on current resources of the corresponding line ministries, then it must be shown that those ministries undertake to pay O&M costs.

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<sup>17/</sup> The FTI will determine whether this requirement has been met in the case of projects costing less than US\$20,000 (with an *ex post* review by the Technical Unit, which will also determine compliance in the case of projects costing more than US\$20,000).

H. Oversight and supervision

1. Internal oversight

- 3.55 The program will be monitored internally on several levels. The Executive Secretariat will supervise the Technical Unit and will rely on the latter to oversee the work of the FTIs, which in turn will supervise the ERMs and suppliers.
- 3.56 A comprehensive management information system will be set up that closely references, at all implementation levels, the functions and responsibilities of the various program elements to (i) performance indicators; (ii) impact indicators, and (iii) related programs operating in the area. The management information system is a key tool for evaluating the program's progress and being able to introduce, in a sustained manner, adjustments as needed. *Therefore, selection of consulting firms to help the Executive Board design and launch the management information system will be a condition precedent to the first disbursement.*
- 3.57 The basic concept is to substantially delegate to the FTIs responsibility for direct oversight of the ERMs' activities in carrying out the program. The FTIs will be a constant presence, there to provide advisory assistance in the identification, preparation and execution of investment and credit projects.
- 3.58 To oversee the work of the FTIs effectively, without interfering in the functions they have been delegated, and to discharge its operational responsibilities efficiently and without holding up the program, the Technical Unit will maintain a permanent presence in the program area, locating its main office there. It also will have mobile equipment that will circulate among the microregions continually. The Technical Unit will oversee the FTIs' work through constant monitoring coupled with specific interventions: (i) review of the ERMs' project packages and spending projections; (ii) technical review of projects costing over US\$20,000; (iii) ex post review of procurement processes and payments to suppliers for projects under US\$20,000; and (v) review of supporting documents that are to justify the Bank's disbursements.
- 3.59 The Technical Unit will submit monthly financial reports (consolidated for all the subregions) and annual reports on procurement, physical progress, the maintenance plan, financial execution and the intervention's local development impact. Because there are so many microregions in the program zone, spread out over a wide geographic area and difficult to reach, the Technical Unit's terms of reference were designed to simplify the monitoring and review reports as much as possible. With this the Technical Unit should be better able to focus on clearing up problems and tracking accomplishment of the program's development objectives.

- 3.60 For the monitoring system to work, the Secretariat will have to react quickly to omissions and delays in the filing of reports. Rapid response is particularly important in the case of disbursement justifications, since any delays here will hold up disbursements. *To avoid any unnecessary implementation delays in microregions that comply with the program's guidelines, it was decided that disbursements in each microregion would be made conditional upon the microregion's timely delivery of support documents (accounts of payments). This condition will apply even when the borrower could replace the overdue justifications (with others resulting from investments advanced).*
- 3.61 The FTIs will prepare quarterly and annual reports illustrating the program's physical and financial progress locally (the guidelines for those reports will be set forth in the Operating Regulations). In general, the reports are to tally purchases with payments and physical progress. Also, the FTIs will keep records and supporting documents of transactions done jointly with the ERM's. The Technical Unit will use these reports and the findings of its own evaluations when preparing the reports it sends to the Secretariat.
- 3.62 Upon the program's completion in each municipality, its FTI will submit an ex post report as part of its final report. This ex post account will be based on the information compiled at the start of the intervention in the municipality and at the end of each year of the program, compared to the situation at the end of the full three years. The respective service contracts will include guidelines for the ex post report that each agency is to submit; the FTIs' terms of reference will include detailed instructions on how to prepare the report. *Establishing the guidelines for the ex post evaluation and the FTIs' terms of reference are conditions precedent to the first disbursement of the loan proceeds.*
- a. Ex post evaluation
- 3.63 Given the innovative nature of the project, an ex post evaluation would need to be done of its results and impact. Within six months after the last disbursement from the loan, the Executive Board is to submit such a report to the Bank's satisfaction. The program will provide funds for the board to engage an outside consultant to do the evaluation.
- b. IDB monitoring
- 3.64 The Bank's Country Office in Guatemala will inspect and supervise the program. *To that end, the Bank will hire a consultant to assist the sector specialist with his/her routine functions and will constantly monitor the program.* The consultant will be assigned full-time during the first two years of the program and will work closely with the Secretariat during all stages of program implementation. The Executive Board is expected to invite the consultant to sit in on operations meetings as an observer. Since

the beneficiaries are being delegated the authority to identify, contract for, and execute their own investments, and in view of the decision to locate the Technical Unit's headquarters in the program area, the consultant will have to make field trips at least once a month, averaging at least five days.

- 3.65 In light of the program's innovative features and the volume of decisions that will be taken locally - likewise a novel element for the Bank, a working team of Headquarters and Country Office technical officers has been set up to help with and monitor the program (Annex VI). The team's work will be coordinated by the Office of the Deputy Manager for Region 2. This unusually heavy supervision on the Bank's part will entail a higher-than-average cost; it is understood that the arrangement is an exceptional one.
- 3.66 A project progress mission will be conducted to coincide with the contracting of the last FTIs. That mission will update the execution timetable and, based on the experience acquired thus far in the program, will determine what changes, if any, need to be made to the Operating Regulations or loan contract covenants to ensure that the program runs smoothly.
- 3.67 Midway through the program, at the start of year 3, a comprehensive review will be done to assess the program's performance and initial impact. The review will focus on (i) the FTIs' preliminary performance; (ii) the suitability of the institutional arrangement and its capacity to respond efficiently; (iii) the beneficiaries' perception of the program and the quality of the FTIs' technical assistance; (iv) the profile of projects financed and their relevance as solutions to local problems; (v) development of avenues of participation and collaboration among public institutions, private agencies and civil associations at the local level; and (vi) the preliminary impact the program has had in terms of developing local project planning and implementing capacity. During the review, any idle resources will be reassigned, potential obstacles to the program's progress identified, corrective measures taken, and the execution timetable revised.

I. Auditing

- 3.68 *The program's financial statements are to be submitted annually, within 120 days after the December 31 fiscal year-end. They are to be certified by an independent firm of public accountants acceptable to the Bank.* The first financial statements will be for the fiscal year ending December 31, 1997.

J. Financing plan

1. Bank financing

- 3.69 The resources for the IDB loan will come from two sources: the Fund for Special Operations in local currency (US\$33 million) and



the ordinary capital, under the Intermediate Financing Facility (US\$17 million). Since the program will benefit mainly low-income people, the Bank will finance up to 90% of the total cost. Because of the global nature of the investment component, the allowance for contingencies pertains only to administration and technical assistance from the first-tier services (US\$776,000).

- 3.70 Pursuant to policy FN-507-1 approved on September 25, 1996, the government has selected U.S. dollars as the currency of financing.

2. Local contribution

- 3.71 The local contribution has been set at a minimum of US\$5.6 million equivalent, which will be used exclusively to finance the investment and credit component.

3. The beneficiaries' contribution

- 3.72 *Beneficiary contributions equal to up to 10% of the program's total cost may be recognized.* The contributions may be in cash or in kind (land). Since the cost of unskilled and skilled labor alike will be eligible, the value of the time beneficiaries devote to planning, monitoring the project cycle, inspecting works, and preparing reports will be considered part of their contribution. The Operating Regulations will include indicative values to allot to the time put in on each type of intervention.

**Cost table**  
(in millions of U.S. dollars)

Cost category	IDB/FSO	IDB/OC	IDB TOTAL	LOCAL CONTRIBUTION	TOTAL	%
Administration	3.2	1.7	4.9	0.0	4.9	9%
First-tier services	7.0	3.6	10.6	0.0	10.6	19%
Investments and credit	21.9	11.3	33.2	5.6	38.8	70%
Contingencies/escalation	0.5	0.3	0.8	0.0	0.8	1%
Inspection and supervision	0.3	0.2	0.5	0.0	0.5	1%
Total	33.0	17.0	50.0	5.6	55.6	100%
Percentage	59%	31%	90%	10.0%	100.0%	

#### IV. VIABILITY, BENEFITS, AND RISKS

##### A. Institutional viability

###### (i) Institutional strategy

- 4.1 The specific merit of the proposed institutional arrangement is that it gives the program the responsive institutional underpinnings it needs to complete the proposed activities effectively, but ensure that it will be extinguished when the program ends (the "exit strategy"). On the other hand, setting up a new, temporary infrastructure also poses a risk of startup delays. Countering this risk are the exceptional arrangements that have been devised for extremely proactive supervision on the Bank's part.
- 4.2 The program's institutional structure is a temporary one, but there will be systematic actions to strengthen local institutions and associations that support the development process.

###### (ii) Availability of first-tier entities

- 4.3 The program's success will hinge heavily on the swift mobilization of first-tier institutions that are equipped to apply the specific DECOPAZ methodology.
- 4.4 Given the dearth of potential first-tier entities, it is recommended that UNDP/UNOPS be hired directly, while an international call for bids is launched for the other services contracts. If no acceptable offers are received, the institutional viability of the program will be seriously compromised; but at least three qualified agencies are expected to bid. It is hoped that in the interval between the analysis and the presentation of bids, the companies will be able to ally themselves with other agencies whose capabilities complement their own, devise subcontracting arrangements, or bolster their in-house capacity.

###### (iii) Beneficiaries' implementing capacity

- 4.5 The guiding principle in the program's design was that local stakeholders know what their communities need. What they require is technical support to convey their needs methodically and explore the technical and financial options available to resolve their problems. The program seeks to fill this need by setting up a technical support team to help and train communities and local institutions to identify local requirements, devise solutions, carry through the actions decided upon, and monitor the process.
- 4.6 The practical viability of interventions in communities will hinge more than anything else on how well each microregion manages to

work in consensus, establish financial capacity (and an entity), and build implementing capacity. It is likely that some microregions will find it harder than others to work out such consensuses and identify individuals capable of overseeing project execution. These constraints are all the more an issue given the huge transfers of funds anticipated.

- 4.7 To contend with these organizational and operational constraints, the program provides for the following: (a) the constant presence, over three years, of first-tier agencies; (b) funding for training programs on topics that the communities consider priorities; (c) budget procedures that allow funds not otherwise being used to be readily switched to other purposes; and (d) introduction of an institutional arrangement that enables microregions to proceed separately, at their own pace.

(iv) Transparency and monitoring

- 4.8 An internal system of checks and balances will be in place, as will an information and publicity system to promote transparency at every level.
- 4.9 The monitoring system designed for the program will allow methods and operational elements to be adjusted on the basis of interim implementation outcomes. The continual-supervision arrangement devised is more intensive than for the average Bank operation.

B. Technical viability

- 4.10 Lessons learned from international and Guatemalan experiences with socioeconomic recovery in post-conflict periods were taken very much into account when designing the proposed program. In particular, the nondiscrimination approach to services for the local population and the use of planning and participatory methods build on the positive experience of previous programs in Guatemala. Moreover, the design was arrived at after an extensive process of local consultations.
- 4.11 The program calls for the use of packages of services and standard technical rules, and cost and financial analysis parameters, to expedite project preparation, evaluation, and supervision without sacrificing quality at any stage.
- 4.12 One instrument that will strengthen the participatory process and keep it transparent is the dissemination of information on the process itself, the program, and what can be accomplished through concerted action. There will be forums at the local, municipal, departmental, and national levels for discussion of the program, and a public information program.

C. Sustainability

- 4.13 This is a unique opportunity to devote funds to the development of participatory planning, and the success of the initiative will depend on how it dovetails with the work of public and private agencies at different regional levels. With that in mind, the program seeks to help communities become increasingly self-reliant in this respect and to build up institutions that will make the development process sustainable and lasting at the local level.
- 4.14 For this reason, an explicit effort is being made to tie local problem-solving in with municipal and departmental development programs and policies. Furthermore, to make sure that local investments are concordant with the government's policy, 50% of the aggregate investment funding allotted to each beneficiary group is to be used for health and education initiatives - areas which are priorities in the government's social policy, and in keeping also with the guidelines set out in the peace agreements.
- 4.15 One core technical requirement of the projects are arrangements to ensure that they are sustainable and will be maintained. The proposed program requires adherence to national standards in place for the respective sectors, so projects can be included in budgets of the respective ministries, and coordination with the line ministries, for their incorporation into regular State programs. In pursuit of the principle of consistency of national and local policies, the government has pledged to fold these recurrent expenditures into its ordinary budget. However, the program leaves open the door for private project-maintenance schemes, if the community can identify such options and there are assurances that they will work.
- 4.16 The program of support for the production sector will be viable, based on its own portfolio-recovery merits and its capacity to build more structured client relationships with local banks.

D. Environmental viability

- 4.17 The Bank's Environment Committee, at its meeting on February 20, classified the program as a Category III operation. An environmental quality control system that is to be built into every stage of the project cycle for all projects seeking funding will be a fundamental element of their technical viability. From this standpoint, any project coming in for financing will, in and of itself, benefit the environment. The National Environment Commission (CONAMA) has given clearance for the design of an environmental monitoring system specific to this program, which could be approved as a package. It will follow general Social Investment Fund guidelines but leave more flexibility for adding projects that have not been marked out in advance.

- 4.18 *Formulation of an agreement between the Executive Board and CONAMA as to the environmental quality monitoring system, in accordance technical guidelines established by the Bank, is a condition precedent to the first disbursement.* The system will include the presentation of project monitoring guides and manuals, and a program is to have been carried out to explain and give training on use of the manuals by the Technical Unit and the FTIs.
- 4.19 The following provisions are being made to ensure the environmental quality of projects financed: (i) assignment of an environmental specialist to the Technical Unit; (ii) annual reviews of guides and manuals; (iii) programs to explain procedures to suppliers; (iv) financing, by the Technical Unit, of two annual visits by CONAMA technical officers to assess the workings of the environmental monitoring system; and (v) addressing environmental protection issues as an integral part of participatory planning exercises.

E. Participation of women

- 4.20 One clear lesson learned is that women are pivotal to local conciliation and participation processes. The planning exercises encourage women to take an active part in seeking solutions to community problems; one avenue of such involvement is work with the representative microregion associations (ERMs). With this in mind, it is a requirement of the program that each first-tier entity's technical team include a gender specialist, to encourage women's input at every stage of the participatory planning and implementation process. Another tool for involving women will be mixed community-action teams to give women an active role in local forums. The work methodology includes specific tools to raise gender awareness and persuade women to take part.

F. Benefits

- 4.21 Promoting a culture of concerted action that can temper violence yields considerable economic benefits, but they are not easy to quantify. According to a recent study, <sup>18/</sup> the cost of violence in Latin America in the 1980s was nearly 1% of GDP. The study links social capital and numbers of violent deaths; the correlation for Colombia is patently negative. There is evidence to suggest that the findings may be valid for Guatemala. The study concludes that "the most effective, economical, and democratic form of eradicating [violence] is social control that comes out of the people, from the some that trust the others. Mending the torn social fabric is the greatest public policy challenge facing Latin America today."

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<sup>18/</sup> Londoño, J.L. *Violencia, psichis y capital social: Notas sobre América Latina y Colombia*. World Bank and Universidad de los Andes, 1996.

- 4.22 Putting human-rights promotion and the facilitation of collaboration and participation into cost-benefit terms is a complex task. Nevertheless, a recent study <sup>19/</sup> unearths no empirical indication of a negative connection, and to the contrary underscores the economic importance of human rights. This importance derives from (i) the intrinsic value of human rights, (ii) their capacity to create political incentives to seek out solutions that can afford economic security to the majority, and (iii) what they can do to improve the understanding and formulation of economic priorities.
- 4.23 Reconstruction processes in Africa, notably in Ethiopia and Uganda, confirm how critical the rebuilding of social capital is in economic recovery, to replace a culture of mistrust among economic agents affected by the conflict. <sup>20/</sup> Trust - even more than the rebuilding of physical infrastructure - is the true prerequisite to induce private operators to spearhead economic recovery efforts. Where there are no participatory or collaborative networks to plan collective solutions and gain market access, the transaction costs of economic agents are driven up, whereas action taken to reverse that trend helps economies run more efficiently.
- 4.24 The strife left a legacy of exiguous stocks of social, human, and physical capital, which in turn trigger a vicious circle: transfers to local communities, and investments at that level, have scant impact, and human and social capital alike take a very long time to rebuild. Physical reconstruction is at once a challenge and an opportunity to set off a virtuous circle of social investment that can spur the creation of local human capital stock and the development of core social capital. The proposed program is designed to address the needs of nearly 390,000 individuals with very high social and economic exclusion indices. The provision of social services and opportunities for local economic development represent a singular effort to help these communities share fully in the national development process.
- 4.25 It would appear that when communities have a say in active planning processes, investments end up being more efficient, because they are relevant and sustainable and elicit a sense of ownership. <sup>21/</sup> And there is further evidence of what active and

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<sup>19/</sup> Sen, Amartya. "Human Rights and Economic Achievements". June 1995.

<sup>20/</sup> World Bank. "Some Economic Consequences of the Transition from Civil War to Peace." December 1994.

<sup>21/</sup> Hence the move, of late, by international organizations to encourage participatory approaches in their projects, and make sure that civil society has a part in their programs. Unfortunately there are as yet few studies documenting a cost-benefit relationship for this approach.

ongoing community involvement can accomplish in project selection and implementation processes. 22/

- 4.26 The relationship between economic development and expanding human capital stock has been underscored in much recent literature, with particular emphasis on education's role in the equation and, more recently, on "health capital". 23/ The proposed program pushes strongly for concrete solutions whose impact can be felt quickly, to help build local human capital, including attention to education and health.

G. Risks

1. Risks associated with the peace process

- 4.27 Though the program would start out under the umbrella of accords already signed, its success will ultimately hinge on the firm rooting of peaceful coexistence. According to the government, the program will be an integral part of its plan for consolidation and strengthening of democratic society. The government's policy letter confirming this undertaking will be part of the loan contract.

- 4.28 The proposed program seeks to tighten linkages and help forge new ties between civil society and a new State. It is hoped that, with support from public-sector modernization programs, the State will embark upon an efficient and equitable transformation process whereby the entire populace can share in the fruits of development. Were this not to happen, even if successful the program would translate into an additional frustration for its beneficiaries.

2. Consistency of the proposed program and the Social Investment Fund (GU-0071), and coordination of the two operations

- 4.29 Given the nature of the reconstruction process, there are solid grounds for a transitory program like the one proposed herein, targeted directly to conflict zones and embodying principles and methodologies that are suited to such circumstances. Annex V contrasts the DECOPAZ and SIF programs.

- 4.30 Guatemala's public and private investment needs, and particularly the outlays required in zones affected by the conflict, are so massive that there will be no redundancy in financing both the proposed program and the SIF. On the contrary, in areas in which

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22/ A case in point is the Saemaul Undong in Korea, which began as an experiment in 1971 with the distribution of cement for priority rural projects and by the 1980s blossomed into a successful program encompassing urban areas as well.

23/ Knowles and Owen. "Health capital and cross-country variation in income per capita in the Mankiw-Romer-Weil model". July 1994.

both would operate, the program described here should expedite SIF programs and help do away with FIS inefficiencies and duplication.

3. Risks associated with the implementation approach adopted

- 4.31 The program is to be carried out by a network of temporary institutions supplemented by hired first-tier institutions (FTIs). The benefits that this temporary structure will yield will depend on the quality of the technical support engaged. The program has the funds to hire first-rate firms and agencies, and has provisions for suspending contracts in the event of nonperformance and for ongoing quality monitoring of local activities.
- 4.32 In light of the dearth of institutions that would provide first-tier services for the program, the call for proposals will be arranged with sufficient lead time, and with sufficient information, to give firms or institutions time to build up their in-house capacity or create interagency consortia capable of delivering the required services.
- 4.33 This is an innovative program, with a completely new institutional structure. For that reason, particular care will need to be taken with its institutional organization, staff training, devising of new procedures, and so on. To that end, unusually heavy support would be afforded by the Bank's technical team at the outset of the program and for its monitoring. Likewise, there will be an ongoing supervision system, and rules and procedures flexible enough so the program can be adjusted in progress.
- 4.34 One final important consideration is that the first-tier entities (FTIs) will have a strong institutional presence that will appear suddenly on the scene. Accordingly, the planned ongoing monitoring will ensure that these entities work with local public and private institutions but do not displace (and are not perceived as displacing) them, so as not to create friction in the community. For one thing, the FTIs' technical authority will be limited, and the information and publicity programs will do much to ensure that the FTIs' role is completely transparent at the local level.



## Costs and Disbursement Plan

BASIC ASSUMPTIONS			
Municipalities	13		
Municipality Population average	30000		
Microregions by municipality	6		
Population by microregion	5000		
Direct Beneficiaries Total	390000		
Average Income per capita	150		
Investment location	%		
Social Projects	50%		
Productive Sector Support	25%		
Free allocation	25%		
First Level Entities (EPP)	3		
Technical Unit	1		
Program Duration	4	Annual investment per capita	\$33
		Facilitation per capita	\$9
Unexpected investments		Net Capitalization Index	22%
In Technical Assistance and Management	5.0%	Gross Capitalization Index	28%

Category	COSTS		TOTAL
	IDB	Local Contribution	
<b>I Investment</b>	<b>\$33,204,802</b>	<b>\$5,555,556</b>	<b>\$38,760,358</b>
1.1 Social Projects	\$16,602,401	\$2,777,778	\$19,380,179
1.2 Productive Sector Support	\$8,301,201	\$1,388,889	\$9,690,089
1.3 Free Allocation	\$8,301,201	\$1,388,889	\$9,690,089
<b>II First Level Entity Technical Assistance</b>	<b>\$10,603,810</b>		<b>\$10,603,810</b>
2.1 Sustainable Community Development Facilitation	\$7,379,099		\$7,379,099
2.2 Direct Training Facilitation	\$1,767,320		\$1,767,320
2.3 Equipment	\$1,457,391		\$1,457,391
<b>III Administration</b>	<b>\$4,915,426</b>		<b>\$4,915,426</b>
3.1 Board of Directors and Executive Secretary	\$1,303,232		\$1,303,232
3.2 National Technical Unit	\$3,612,194		\$3,612,194
<b>IV Unexpected Investments</b>	<b>\$775,962</b>		<b>\$775,962</b>
<b>V Inspection y Vigilancia</b>	<b>\$500,000</b>		<b>\$500,000</b>
<b>TOTAL</b>	<b>\$50,000,000</b>	<b>\$5,555,556</b>	<b>\$55,555,556</b>

COSTS BY SOURCE (In US\$ Millions)						
Category	IDB/FOE	IDB/OC	TOTAL IDB	LOCAL	TOTAL	%
I Administration	3.2	1.7	4.9		4.9	9%
II First Level Technical Assistance	7.0	3.6	10.6		10.6	19%
III Credit and investments	21.9	11.3	33.2	5.6	38.8	70%
IV Unexpected Investments	0.5	0.3	0.8		0.8	1%
V Inspection y Vigilancia	0.3	0.2	0.5		0.5	1%
<b>TOTAL</b>	<b>33.0</b>	<b>17.0</b>	<b>50.0</b>	<b>5.6</b>	<b>55.6</b>	<b>100%</b>
<b>TOTAL</b>	<b>69%</b>	<b>31%</b>	<b>90%</b>	<b>10%</b>	<b>100%</b>	

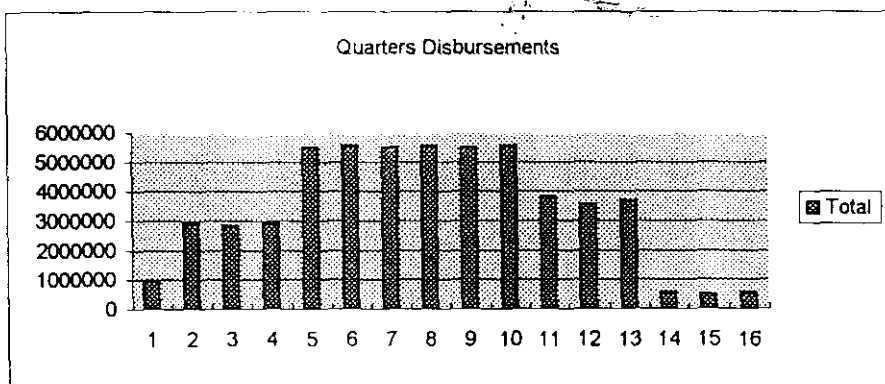
Quarters	Inv Grp1	Inv Grp 2	Inv Grp3		EPP 1	EPP2	EPP3		Administ	Inexpect	Inspection	Total
1					671575				307214			978789
2	1656426				335787	273932	273932		307214		62500	2909791
3	1656426				335787	273932	273932		307214			2847291
4	1656426				335787	273932	273932		307214		62500	2909791
5	1656426	1325140	1325140		335787	273932	273932		307214			5497571
6	1656426	1325140	1325140		335787	273932	273932		307214		62500	5560071
7	1656426	1325140	1325140		335787	273932	273932		307214			5497571
8	1656426	1325140	1325140		335787	273932	273932		307214		62500	5560071
9	1656426	1325140	1325140		335787	273932	273932		307214			5497571
10	1656426	1325140	1325140		335787	273932	273932		307214		62500	5560071
11		1325140	1325140		335787	273932	273932		307214			3841146
12		1325140	1325140			273932	273932		307214		62500	3567859
13		1325140	1325140			273932	273932		307214	193990		3699349
14									307214	193990	62500	563705
15									307214	193990		501205
16									307214	193990	62500	563705

	Inv Grp1	Inv Grp 2	Inv Grp3	Inv Tot	EPP 1	EPP2	EPP3	EPP's	Administ	Inexpect	Inspection	Total
Year 1	4969277	0	0	4969277	1678937	821795	821795	3322527	1228857	0	125000	8645680
Year 2	6625702	5300562	5300562	17226826	1343149	1095727	1095727	3534603	1228857	0	125000	22115288
Year 3	3312851	5300562	5300562	13913975	1007362	1095727	1095727	3198616	1228857	0	125000	18466647
Year 4	0	1325140	1325140	2650281	0	273932	273932	547864	1228857	775962	125000	5327963
<b>TOTAL</b>	<b>14907830</b>	<b>11926264</b>	<b>11926264</b>	<b>38760358</b>	<b>4029448</b>	<b>3287181</b>	<b>3287181</b>	<b>10603810</b>	<b>4915426</b>	<b>775962</b>	<b>500000</b>	<b>55555556</b>
Subtotals				38760358				10603810	4915426	775962	500000	55555556

Local Contributions in Investments

14%

DISBURSEMENTS BY SOURCE (US\$ Millions)					
Resources	Year 1	Year 2	Year 3	Year 4	TOTAL
IDB/FOE	8.9	11.6	11.6	1.0	33.0
IDB/OC	0.0	8.1	4.9	4.0	17.0
Local	0.7	2.5	2.0	0.4	5.6
<b>TOTAL</b>	<b>9.6</b>	<b>22.1</b>	<b>18.5</b>	<b>5.3</b>	<b>55.6</b>
%	17.4%	39.8%	33.2%	9.6%	100.0%



REFERENCE CASE

GUATEMALA  
TABLE 1: REGIONAL SOCIOECONOMIC INDICATORS

REGIONS	Population	Rural		Poverty		Indigenous		1989 Coverage		
		Population		Extreme	Poverty	Indigenous	Poverty	Extreme	Water	Sanitation
		%	%	Poverty	%	Population	%	Poverty	Supply	%
1 Metropolitan	21.3	25.7	29.3	54.2	9.7	82.2	61.2	78.2	66.4	
2 Northern	8.2	82.1	83.4	91.3	84.3	94.9	88.4	45.6	10.7	
3 Northeastern	9.0	78.1	51.4	69.3	8.7	91.6	82.9	66.5	29.1	
4 Southeastern	8.6	79.2	64.8	79.7	71.7	95.5	86.6	61.3	21.1	
5 Center	11.3	55.3	56.5	76.0	36.4	90.2	72.3	69.7	34.3	
6 Southwestern	25.4	73.1	65.0	82.7	46.2	91.0	76.5	45.6	23.6	
7 Northwestern	13.6	85.0	87.9	93.7	84.6	96.8	91.2	48.4	7.5	
8 Peten	2.3	70.8	58.4	75.4	12.7	92.8	77.4	38.9	8.6	
Total	100.0	63.3	57.9	75.2	36.3	92.6	81.3	64.0	31.7	

REGIONS	Health Indicators			Poverty		Education (5)			
	Infant Mortality	Malnutrition	Maternal	Poverty		Net Preschool	Net Primary	Net Secondary	Illiteracy
	1988 (1)	1986-1987	Mortality	Headcount (4)					
	%	%	(2)	%	%	%	%	%	%
1 Metropolitan	51.0	29.0	7.0	54.2	39.5	88.9	34.7	18.0	
2 Northern	62.0	38.0	19.0	91.3	10.7	41.1	4.0	61.0	
3 Northeastern	53.0	26.0	9.0	69.3	9.7	71.2	11.6	34.0	
4 Southeastern	66.0	34.0	10.0	79.7	8.0	78.5	9.4	33.0	
5 Center	69.0	32.0	11.0	76.0	15.6	72.4	11.6	30.0	
6 Southwestern	72.0	39.0	11.0	82.7	13.7	69.3	9.8	41.0	
7 Northwestern	56.0	44.0	23.0	93.7	9.6	46.5	4.2	59.0	
8 Peten	57.0	23.0	23.0	75.4	8.2	58.5	6.7	32.0	
Total					100.0	63.3	57.9	75.2	

and live births.  
to 36 months.  
el/ pregnancy per 10,000 live births  
la: An Assessment of Poverty. WB 1995  
ool from 5 to 6 years old, Primary from 7 to 12 and Secondary from 13 to 19.

**GUATEMALA**  
Table 2: Departmental Level Social Exclusion Indicators \*\*

DEPARTMENTS	SYNTHETICAL INDEX ACCORDING TO THE SOCIAL EXCLUSION COMPONENTS															
	DIRECT SOCIAL EXCLUSION INDEX						INDIRECT SOCIAL EXCLUSION INDEX						COMPONENTS			
	SOCIAL EXCLUSION INDEX	Poverty	Child Malnutrition	Non condition voters	Illiteracy	Density of road carr/Km2 and 100 hab	Economic Precarity	Discrimination	Sanitation Precarity	Women Margination	Cultural Margination	Territorial Indigence	IP1 Employment and Income	ISS Health and Social Services	IEC Education	Infrastructure and Terr Order
	(1)**						(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Metropolitan																
Guatemala	3.22	4.82	3.81	3.49	2.30	2.00	3.36	1.97	3.82	2.98	2.67	4.16	3.03	4.56	2.92	2.92
Northern																
Baja Verapaz*	6.14	8.50	5.93	5.73	7.74	7.00	6.87	4.51	4.70	4.67	6.57	5.28	6.21	5.06	7.05	4.67
Alta Verapaz	7.37	8.22	5.91	10.00	9.74	8.75	5.99	9.07	5.85	4.86	6.76	6.21	5.41	6.67	7.62	4.67
Northeastern																
Izabal	5.76	6.36	3.90	6.87	6.62	10.00	4.79	3.83	4.96	4.48	6.20	5.36	4.28	5.62	6.45	4.67
Zacapa	4.65	6.89	3.73	2.24	4.62	6.50	5.92	1.08	4.60	4.73	5.77	5.10	5.31	4.91	5.97	3.67
El Progreso	4.67	7.68	4.09	2.06	5.03	5.25	6.06	0.94	4.44	5.16	5.79	5.09	5.38	4.91	6.07	3.67
Chiquimula	5.45	7.48	5.19	4.78	7.05	4.25	5.79	3.35	5.21	5.25	6.00	5.82	5.53	6.14	6.64	4.67
Southeastern																
Santa Rosa	4.93	6.98	4.26	3.80	5.49	5.50	6.10	2.46	4.32	4.26	5.92	5.13	5.73	4.91	6.29	4.67
Jutiapa	4.44	7.79	3.84	2.50	6.53	0.00	6.54	1.39	4.08	5.77	4.97	5.38	6.39	5.61	5.93	4.67
Jalapa	5.35	8.67	5.82	5.69	5.82	1.25	6.35	3.68	4.59	5.83	5.78	5.57	6.04	5.79	6.63	4.67
Center																
Sacatepequez	5.67	7.31	6.30	4.67	3.66	2.00	4.80	4.35	4.62	4.49	5.01	4.52	4.15	5.46	5.16	3.67
Escuintla	4.93	7.16	3.98	6.57	5.43	2.75	4.62	4.14	5.03	3.37	4.82	5.29	4.21	6.24	5.65	3.67
Chimaltenango	4.76	7.56	8.05	4.67	6.33	1.00	5.26	5.71	5.26	7.27	5.99	5.29	4.84	6.46	6.57	4.67
Southwestern																
Quetzaltenango	5.34	6.78	6.90	4.98	5.01	5.50	5.73	4.29	5.05	4.63	4.65	5.24	5.22	5.54	4.75	4.67
Retalhuleu	5.27	7.38	5.37	3.89	5.62	6.25	6.05	3.46	5.19	3.81	5.70	5.46	5.58	5.99	5.97	4.67
Suchitepequez	5.61	7.18	6.42	4.24	6.50	5.50	6.17	3.82	5.67	4.00	6.16	5.87	5.79	6.88	6.58	4.67
Solola	6.94	8.13	10.00	7.43	7.67	4.75	6.01	7.43	6.90	4.97	6.76	6.32	5.37	7.87	7.17	4.67
Totonicapán	6.62	6.94	9.43	8.85	7.09	5.00	6.30	7.93	5.98	5.68	6.20	5.90	5.75	7.31	6.84	4.67
San Marcos	6.34	8.09	7.07	5.89	7.05	6.50	6.50	6.50	5.37	5.33	5.64	5.81	5.93	6.27	6.05	4.67
Northwestern																
Huehuetenango	7.17	8.21	7.99	7.79	8.55	7.00	5.87	7.95	6.13	5.80	6.50	6.29	5.37	7.25	7.00	6.67
Quiché	8.03	9.03	8.19	9.66	10.00	9.75	6.40	9.44	6.21	5.77	7.47	6.67	5.72	6.85	8.05	5.67
Petén	5.69	7.20	4.60	6.40	2.83	6.50	5.56	5.84	4.89	7.33	5.88	5.53	6.36	5.65	6.35	6.67

nd takes ZONAPAZ DEPARTMENTS.  
Departmental Level Social Exclusion Analysis. FLACSO, UNOPS, PNUD, PRODERE. 1995.  
cal Notes are available in the RE2/SO2 archives at IDB

GUATEMALA  
TABLE 3: SOCIODEMOGRAPHIC INDICATORS OF THE 50 ZONAPAZ MUNICIPALITIES  
WHICH HAVE THE MOST UNFAVORABLE CONDITIONS<sup>(1)</sup>

No.	Municipality Number	Departamento	Municipalities	Return	SIF Poverty	Poverty Reduction Focalization	Density hab/km <sup>2</sup>	% Rural Population	1995 Election Voters	Total
				(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	1308	HUEHUE	Soloma	0.61	0.09	0.16	0.38	0.26	0.07	1.64
2	1326	HUEHUE	Barillas	0.05	0.24	0.14	0.84	0.20	0.20	1.66
3	1313	HUEHUE	San Miguel Acatán	0.39	0.28	0.08	0.55	0.18	0.18	1.67
4	1311	HUEHUE	La Libertad	0.71	0.19	0.13	0.34	0.16	0.17	1.69
5	1317	HUEHUE	Santa Eulalia	0.78	0.04	0.10	0.73	0.09	0.07	1.82
6	1206	SN.MARC	Concepción Tutuapa	1.00	0.30	0.17	0.24	0.03	0.09	1.83
7	1408	QUICHE	San Antonio Ilotenango	1.00	0.21	0.02	0.43	0.14	0.20	2.00
8	1612	ALTAVER	Cahabon	0.24	0.01	0.17	0.83	0.15	0.61	2.02
9	1318	HUEHUE	San Mateo Ixtatán	0.49	0.09	0.10	0.86	0.20	0.30	2.03
10	1312	HUEHUE	La Democracia	0.34	0.60	0.53	0.30	0.06	0.23	2.06
11	1409	QUICHE	San Pedro Jocopilas	1.00	0.23	0.03	0.26	0.06	0.50	2.09
12	1615	ALTAVER	Fray Bartolomé de las Cas	0.15	0.08	0.67	0.90	0.20	0.15	2.15
13	1314	HUEHUE	San Rafael La Independencia	0.83	0.13	0.06	0.47	0.18	0.48	2.16
14	1415	QUICHE	Uspantán	0.63	0.14	0.25	0.96	0.17	0.01	2.16
15	1416	QUICHE	Sacapulas	0.98	0.23	0.24	0.56	0.14	0.05	2.20
16	1209	SN.MARC	Tajumulco	1.00	0.40	0.16	0.60	0.02	0.02	2.20
17	1420	QUICHE	Ixcán	0.02	0.15	0.52	0.90	0.11	0.51	2.21
18	1325	HUEHUE	San Sebastián Coatán	0.66	0.02	0.30	0.68	0.09	0.50	2.24
19	1403	QUICHE	Chinique	0.44	0.49	0.05	0.64	0.35	0.31	2.28
20	1330	HUEHUE	Santiago Chimaltenango	1.00	0.08	0.06	0.13	0.76	0.27	2.29
21	1305	HUEHUE	Nentón	0.07	0.11	0.14	0.91	0.14	0.81	2.29
22	1322	HUEHUE	Concepción Huistá	0.56	0.51	0.07	0.57	0.51	0.10	2.31
23	1304	HUEHUE	Culico	0.73	0.47	0.27	0.77	0.06	0.02	2.32
24	1412	QUICHE	Joyabaj	1.00	0.38	0.04	0.66	0.17	0.08	2.33
25	1315	HUEHUE	Todos Santos Cuchumat	0.32	0.33	0.16	0.74	0.17	0.63	2.33
26	1316	HUEHUE	San Juan Atitlán	1.00	0.01	0.07	0.39	0.15	0.73	2.35
27	1319	HUEHUE	Colotenango	0.73	0.32	0.11	0.22	0.14	0.84	2.36
28	1323	HUEHUE	San Juan Ixcay	1.00	0.34	0.09	0.76	0.15	0.03	2.38
29	1327	HUEHUE	Aguacatán	1.00	0.36	0.26	0.59	0.17	0.06	2.43
30	1410	QUICHE	Cunén	1.00	0.45	0.03	0.58	0.20	0.21	2.46
31	1320	HUEHUE	San Sebastián Huehuetá	0.88	0.18	0.09	0.48	0.08	0.78	2.47
32	1204	SN.MARC	Comitancillo	1.00	0.67	0.40	0.14	0.05	0.25	2.51
33	1302	HUEHUE	Chiantla	0.86	0.42	0.28	0.62	0.17	0.17	2.51
34	1309	HUEHUE	Ixtahuacán	0.46	0.48	0.27	0.57	0.18	0.56	2.52
35	1608	ALTAVER	Senahú	1.00	0.05	0.34	0.52	0.08	0.53	2.53
36	1708	PETEN	Dolores	0.20	0.46	0.67	0.97	0.23	0.01	2.54
37	805	TOTONIC	Momostenango	1.00	0.56	0.43	0.27	0.17	0.10	2.54
38	1207	SN.MARC	Tacaná	1.00	0.53	0.56	0.40	0.06	0.04	2.59
39	1614	ALTAVER	Chahal	0.95	0.02	0.18	0.87	0.05	0.54	2.61
40	1215	SN.MARC	Malacatán	1.00	0.49	0.57	0.04	0.25	0.30	2.63
41	803	TOTONIC	San Francisco El Alto	1.00	0.73	0.20	0.19	0.12	0.40	2.65
42	802	TOTONIC	San Cristóbal Totonicapán	1.00	0.55	0.44	0.03	0.25	0.40	2.66
43	1504	BAJAVER	Cubulco	1.00	0.10	0.37	0.75	0.25	0.21	2.68
44	1307	HUEHUE	Jacaltenango	0.51	0.38	0.39	0.54	0.37	0.49	2.68
45	806	TOTONIC	Santa María Chiquimula	1.00	0.57	0.43	0.10	0.11	0.48	2.68
46	1310	HUEHUE	Santa Bárbara	1.00	0.04	0.11	0.61	0.12	0.80	2.69
47	1306	HUEHUE	San Pedro Necta	0.76	0.55	0.13	0.42	0.14	0.70	2.69
48	706	SOLOLA	Santa Catarina Ixtahuacán	1.00	0.52	0.46	0.39	0.11	0.25	2.73
49	1224	SN.MARC	San José Ojelenam	1.00	0.87	0.54	0.08	0.11	0.14	2.73
50	1611	ALTAVER	Lanquín	1.00	0.06	0.32	0.81	0.14	0.43	2.76

(1) This sociodemographic indicators exercise of the municipalities of the ten ZONAPAZ Departments of Guatemala shows in a ponderation way made with the data obtained in the sources that are mentioned below. For the exercise was used a scale from 0 (less favorable) to 1 (more favorable). The objective of this exercise is to show which are the municipalities that in conjunction of all the mean indicators measured have the less favorable situation in comparison with the rest of them.

(2) Return: Comisión Nacional para la Atención de Refugiados, Repatriados y Desplazados CEAR. It takes all the returns that had already take place and the ones that are going to be done between the second semester of 1996 and the first semester of 1997. Updated until 08/1996.

(3) SIF Poverty: The poverty map utilized for the Guatemalan Social Investment Fund. August 1996.

(4) Poverty Focalization: The geographical priorities are a result of the accords that were established in the Seminar "Unificación de Métodos para la Focalización de Áreas y Grupos Prioritarios para el Combate y la Reducción de la Pobreza", that took place on July 23th of 1993, that was organized por el Proyecto SEGEPLAN/NUJ-GUA 91/023.

(5) Population Density per Km2: Strategy Guidelines for the Territorial Order. SEGEPLAN/GTZ, Guatemala, Volume II, November 1995.

(6) % of Population published for the National Statistics Institute INE in the 1994 national survey that is considered as Rural Population.

(7) Tribunal Supremo Electoral, República de Guatemala, Centro América, Elecciones de noviembre, 1995 for President and Vicepresidents.

THE MUNICIPALITIES THAT ARE SHADED ARE THE ONES THAT BELONG TO THE DEPARTMENT OF IZABAL.

GUATEMALA  
DEPARTMENT OF HUEHUETENANGO

TABLE 4: SOCIOECONOMIC INDICATORS OF THE DELIMITED AREA FOR THE IMPLEMENTATION OF DECOPAZ <sup>(1)</sup>

Municipalities	POPULATION					POVERTY		RETURN
	Population	Rural Population (%)	Indigenous Population (%)	Territorial Extension (Km2)	Population Density (por Km2)	Number of communities	Poverty Reduction Focalization	Returned Location
	(2)	(2)	(2)	(2)	(2)	(2)	(4)	(3)
5 Nentón	21,756	92	77	787	25	36	26	4,202
7 Jacaltenango	30,198	71	99	212	142	27	74	187
8 Soloma	34,936	86	90	140	250	16	28	81
3 San Miguel Acatán	20,326	88	90	152	134	47	14	483
4 San Rafael La Independencia	10,760	85	97	64	168	21	10	30
7 Santa Eulalia	32,210	81	99	292	110	58	19	32
8 San Mateo Ixtatán	24,145	90	94	560	43	23	18	251
2 Concepción Huistá	18,010	56	92	136	132	16	12	94
3 San Juan Ixcay	18,950	92	100	224	85	38	17	0
4 San Antonio Huista	10,197	56	21	156	65	14	98	131
5 San Sebastián Coatán	16,088	93	95	108	149	37	55	66
6 Barillas	42,304	76	80	1112	38	106	25	5,609
1 Santa Ana Huista	5,018	68	18	145	35	11	54	697
<b>DECOPAZ REGION</b>	<b>284,898</b>	<b>81<sup>(7)</sup></b>	<b>87<sup>(7)</sup></b>	<b>4,088</b>	<b>70</b>	<b>450</b>		<b>11,853</b>
	30%			55%		34%		87%
<b>HUEHUETENANGO</b>	<b>984,414</b>	<b>85</b>	<b>66</b>	<b>7,400</b>	<b>130</b>	<b>1,316</b>		<b>13,600</b>

(1) This table shows the socioeconomic indicators of the thirteen municipalities delimited as the area where the program is going to be implemented. This decision was made based in a indicators analysis of the ZONAPAZ area in the above tables and on meetings held with Guatemalan Government authorities.

(2) According to the field work realized by FUNCEDE in 1994 and that was published in the Municipalities Diagnosis and Development Framework of Huehuetenango.

(3) Comisión Nacional para la Atención de Refugiados, Repatriados y Desplazados CEAR. It includes the people that has already returned and the ones that will return by the final of first semester of 1997.

(4) Poverty Focalization: The geographical priorities are the result of the established accords in the Seminary "Unificación de Métodos para la Focalización de Areas y Grupos Prioritarios p Reducción de la Pobreza", realized in 1993 and organized by SEGEPLAN/PNUD GUA-91/023 project. From 1 to 69 are first priority. From 70 to 147 are second priority. From 148 to 330 are third priority.

(5) Tribunal Supremo Electoral, República de Guatemala, Centro América. November 24th of 1995. General Elections of 1995. President and Vice-President Election Results.

(6) Ministerio de Educación de Guatemala, 1996 Schoolar Year Data.

(7) Population Wiegthed Average.

GUATEMALA  
DEPARTMENT OF HUEHUETENANGO

TABLE 4: SOCIOECONOMIC INDICATORS OF THE DELIMITED AREA FOR THE IMPLEMENTATION OF DECOPAZ <sup>(1)</sup>

Municipality Number	Municipalities	INFRASTRUCTURE			EDUCATION		HEALTH	
		Houses with electricity (%)	Houses with water supply (%)	Sanitation and Letrification (%)	Illiteracy (%)	Primary Education Coverage (%)	Health Centers	Doctors
		(2)	(2)	(2)	(2)	(6)	(2)	(2)
1305	Nentón	10	60	59	54	37	5	1
1307	Jacaltenango	14	70	47	37	68	5	3
1308	Soloma	49	27	55	75	56	1	4
1313	San Miguel Acatán	19	21	35	75	33	1	1
1314	San Rafael La Independencia	41	55	69	75	15	1	ND
1317	Santa Eulalia	9	14	55	87	52	2	1
1318	San Mateo Ixtatán	25	29	31		35	1	1
1322	Concepción Huistá	25	43	38	59	42	2	ND
1323	San Juan Ixcay	20	33	14	77	55	1	ND
1324	San Antonio Huista	21	70	50	35	74	1	1
1325	San Sebastián Coatán	12	31	45	87	29	1	ND
1326	Barillas	19	28	55	87	50	3	7
1331	Santa Ana Huista	31	86	52	31	36	1	1
DECOPAZ REGION		23	44		55			
HUEHUETENANGO		26	48		52			

## THE TWELVE PEACE AGREEMENTS

### The First Round: Three Signed Agreements

1. **Framework Agreement for the Resumption of the Negotiation Process** (January 10, 1994): established a general framework for the resumption of peace talks, and promoted civil-society involvement in the peace process, albeit not as a party in the negotiations.
2. **Global Agreement on Human Rights** (March 29, 1994): a general commitment on human rights, and creation of the United Nations Mission on Verification of Human Rights, which started work in October 1994.
3. **Agreement on the Schedule of Negotiations** (March 20, 1994): set out nine negotiation issues and a tentative timetable (target completion date, December 1994).

### Five Signed Agreements for a Firm and Lasting Peace

1. **Agreement for the Resettlement of Populations Uprooted by the Armed Confrontation** (June 17, 1994): establishes conditions for the return, settlement, and integration of refugees, returnees, and displaced persons, and sets up a representative Technical Commission to implement the Agreement.
2. **Agreement on the Establishment of the Commission for the Clarification of Human Rights Violations and Acts of Violence** (June 23, 1994): along with its main report, the Commission is to present recommendations on preserving the historic memory and strengthening democracy. Its report will not be legally binding and will not individualize responsibilities.
3. **Agreement on the Identity and the Rights of Indigenous Peoples** (March 31, 1995): recognizes the identity, culture, and rights of Guatemala's indigenous peoples, most of whom are Mayan, and establishes technical commissions to implement agreements.
4. **Agreement on Socioeconomic Issues and the Agrarian Situation** (May 6, 1996): establishes a broad economic development program with specific targets for boosting tax revenues and public spending on health, education, and housing through the year 2,000; announces the creation of a land fund and intention to develop a secure legal framework for land tenure; establishes means of fostering effective decentralization and strengthening local governments and local participation.



5. **Agreement on the Strengthening of the Civil Power and the Role of the Military in a Democratic Society** (September 19, 1996): establishes a work program for strengthening the executive, legislative, and judicial branches. Limits the functions of the Armed Forces and establishes a reduction-in-strength program. Establishes a program to reorganize police forces and build professional corps; creates a Security Advisory Council with broad civilian input.

**Four Agreements Pending**

1. Conditions for reintegration of the guerrilla forces and definitive cease-fire agreement (in progress)
2. Constitutional reforms and electoral regime
3. Timetables for implementation, compliance, and verification of the agreements
4. Signature of the Peace Accord and start of demobilization.

# TRADITIONAL SOCIAL INVESTMENT FUND (FIS) AND DECOPAZ PROGRAMS COMPARED

Pa

## MAIN FEATURES AND DIFFERENCES

Proposed program	Traditional FIS
Infrastructure or packages of services intended to solve specific community (e.g., funding for medical care for a vulnerable group, or education serv	Local infrastructure works
Allotment of a sum to fund solutions.	Awarding of works contracts
Open menu (with negative list) and predefined selection process. Contents are adapted in each case, with a minimum mandatory share for educa	Predefined menu of projects
health.	
Group of communities	Individual communities, working separately
Allows for economies of scale in service delivery, and builds on advantages	
intercommunity work	
Present in each set of communities for three years	Projects done once only in each community
At least three successive annual "local solution" (infrastructure, service	Learning is not capitalized on
planning and financing exercises	
Relatively concentrated regionally	Infrastructure built in many communities
Shows results of efficient interaction of public spending and local p	
initiative	
Overall investment plans are approved. Communities then approve individual projects, with clearance from decentral	Individual projects approved
Approved centrally	
Disbursement of program funds	Disbursement of FIS investment funds only
Disbursement of other funds (ministries, FIS, FONAPAZ, etc.)	
Physical reconstruction and service delivery is an opportunity to foster of community work networks that transcend implementation of this particula	Community involvement is a means of implementing works
Solution-seeking process is as important as the solutions funded.	
Institution-strengthening for local public agencies (local and municipal boards) and private organizations (local civil society)	Most strengthening is in SIF institutional structure
Services subcontracted to promote the program	
Unskilled labor and local materials	Unskilled labor and local materials
Active involvement of local agents and promoters (men and women) in entire cycle is considered part of the local contribution.	

MAIN FEATURES AND DIFFERENCES		
Location	Traditional FIS	Proposed program
Urban sector	No support programs	Programs to promote local private entrepreneurship at the local level
	By poverty levels	According to destruction/violence associated with the confrontation  Since the conflict has taken the greatest toll on north and northwest Guatemala, it can be expected that the program will target the poorest regions of the country.

## DECOPAZ PROGRAM

## PROCUREMENT PLAN

(in thousands of U.S. dollars)

Main procurements for the program	Financing	Procurement mode	Pre-qualification	Expected SPN publication date
<b>1. Program administration</b>				
Consultant support for Board, Secretariat, Technical Unit operations Cost: US\$800.0 Average cost: US\$40.0	IDB 100%	1. LCB over US\$200.0 2. Short-list, US\$20.0 to US\$199.9 3. DC below US\$19.9 4. For Director of Technical Unit (total cost: US\$320.0), short-list	Yes Yes No	N/A
Consulting firms for publicity, system design, etc. Total cost: US\$200.0 Average cost: US\$30.0	IDB 100%	1. ICB above US\$200.0 2. Short-list, US\$30.0 to US\$199.9 3. DC below US\$29.9	Yes	N/A
Equipment for Board, Secretariat, Technical Unit Total cost: US\$300.0 Average cost: US\$35.0	IDB 100%	1. ICB above US\$250.0 2. LCB, US\$150.0 to US\$249.9 3. SH, US\$20.0 to US\$149.9 4. DC below US\$19.9	No	N/A
<b>2. Beneficiary training</b>				
Two service contracts with first-tier entities Total cost: US\$6,200.0	IDB 100%	1. ICB above US\$200.0	Yes	IV/96
Service contract with UNDP/UNOPS Total cost: US\$3,200.0	IDB 100%	Direct contracting	N/A	N/A
Equipment for work of first-tier entity Total cost: US\$1,300.0 Average: US\$35.0	IDB 100%	1. ICB above US\$250.0 2. LCB, US\$151.0 to US\$249.9 3. SH, US\$30.0 to US\$150.0 4. DC below US\$29.9	N/A	N/A
<b>3. Beneficiary contributions</b>				
(i) Goods Total value: US\$10,000.0 Average: US\$25.0	IDB 90% Local 10%	1. ICB above US\$250.0 2. LCB, US\$151.0 to US\$249.9 3. SH, US\$10.0 to US\$150.0 4. DC under US\$9.9 5. FA under US\$50.0 (ceiling: 30% of total)	Yes (registration system)	N/A
(ii) Construction work Total value: US\$15,000.0 Average: US\$50.0	IDB 90% Local 10%	1. ICB above US\$1,000.0 2. LCB, US\$750.0 to US\$1,000.0 3. SH, US\$30.0 to US\$749.9 4. DC below US\$29.9 5. FA below US\$50.0 (ceiling: 30% of total)	Yes (registration system)	N/A
(iii) Service contracts for training, preinvestment, supervision, financial management Total value: US\$4,500.0 Average: US\$25.0	IDB 90% Local 10%	1. ICB above US\$250.0 2. LCB, US\$151.0 to US\$249.9 3. SH, US\$10.0 to US\$150.0 4. DC below US\$9.9	Yes (registration system)	N/A

Main procurements for the program	Finan- cing	Procurement mode	Pre- quali- fica- tion	Expected SPN publica- tion date
(iv) Loans to associations, companies and private groups <b>Total value:</b> US\$9,700.0 <b>Average:</b> US\$100.0	IDB 90% Local 10%	Borrowers to apply market procedures for investments in productive projects	No	N/A

ICB international competitive bidding  
LCB local competitive bidding  
SH shopping  
DC direct contracting  
FA force account

COMMUNITY DEVELOPMENT FOR PEACE PROGRAM  
LOAN GU-0099

Technical Support for Program Implementation

An IDB technical team would need to be assigned to perform specific support work for this operation, given the nature of the program, the learning opportunities it will present as far as new work methodologies are concerned, in the course of its execution, and the very high priority accorded by the Guatemalan authorities and the Bank to its rapid startup.

SHORT TERM

An IDB team should be assigned as soon as the document has been reviewed and discussed in the Loan Committee, to provide support until the conditions precedent to disbursement are fulfilled. The team would work intensively with DECOPAZ Technical Unit officers to devise institutional and operating arrangements needed to set the operation in motion.

The IDB team should consist of two specialists from the Region 2 Social Programs Division, and two specialists from the Country Office in Guatemala.

Specialists assigned from IDB headquarters in Washington

The two specialists from headquarters would be assigned to this project as their priority, and devote to it not less than the time required for a new project.

The profiles of these specialists would be as follows:

- An operations specialist well versed in IDB operations at headquarters and in the Country Offices, with experience in the execution of community participation programs at the local level.

**Responsibility:** Provide technical assistance and support to the government in the work needed to start up the program (conditions precedent to disbursement) and implement it.

- A sector specialist with expertise in principles of local community planning methods.

**Responsibility:** Help local technical officers define methodology aspects associated with community participation and planning processes, issue calls for offers for technical assistance, and draft manuals and methodology guidelines.

These two specialists will go to Guatemala at least once a month to work with the local team and the government.

Specialists assigned from the Guatemala Country Office

The Country Office team will work intensively alongside local Guatemalan entities involved in the program. The program will be their priority assignment.

- A sector specialist will lend support in all functions needed to quickly put the program in motion (determination of financial, methodological, and legal principles for IDB work and institutional relations required to carry through the project).

- A local expert to help the sector specialist in specific tasks, who has experience in IDB Country Offices and in community development programs in Guatemala. This expert will train the program's executing and subexecuting agencies in IDB principles, working approaches and actions.

The four-person team will report to the Guatemala Country Office. Working with the country authorities, it will produce an operating manual, technical approval guidelines, monitoring manuals, forms of contract, and documents needed to streamline program execution at the local level.

The team is to identify a consultant to help the sector specialist monitor the program once it begins. The team will draw up the consultant's terms of reference.

**LONG TERM**

Country Office responsibilities for the program

- The sector specialist will monitor the program.
- The DECOPAZ program consultant will:
  - Assist the sector specialist in monitoring the program.
  - Report directly to the sector specialist.
  - Periodically visit the microregions and projects under way in each.
  - In order to perform on-site monitoring duties, travel to the work zone at least once a month and remain there for at least five days, to view the technical, financial, and operational status of the project.
  - Help the first-tier entities and Technical Unit resolve problems.
  - Report monthly to IDB headquarters and the Country Office on program progress.
  - Provide all input necessary to expedite program implementation and disbursements.

The consultant will be engaged for the first two years. Depending on program progress and outcomes, the Chief of the Social Programs Division (RE2/SO2) and the Representative for Guatemala will decide whether the consultant's services will be needed for two additional years.

Responsibility of the Region 2 Social Programs Division

In addition to the scheduled monitoring and evaluation visits, the specialist assigned from Bank headquarters will go to Guatemala every two months during the first year of the program and every three months during the second year. In Guatemala he or she will work with the local specialists and the government team on implementation matters. This specialist also will draw up an aide-mémoire recounting the outcome of the visits (scope of the program, progress made, problems encountered, changes suggested, etc.). A decision as to the frequency of visits for the third and fourth year will be made when it is seen how the program progresses.

Given the importance of this program for the Region 2 Social Programs Division, the Division Chief will go to Guatemala twice a year during the first two years to discuss the program's status with the Representative, meet with the team implementing the program, and propose any changes needed. As the program moves forward the frequency of these visits will also be assessed.



Community Development for Peace program (GU-0099)  
Weeks of IDB technical support required each year

IDB TECHNICAL SUPPORT*	1996	1997	1998	1999	2000
IDB Representative in Guatemala	1	2	2	1	1
RE2/SO2 Division Chief	0	1	1	1	1
Operations specialist	10	18	10	5	5
Sector specialist	10	10	10	5	5
Local specialist	10	10	10	5	5
Local support	10	4	4	2	2
Consultant**	0	52	52	52	52
Specialized consultants (3) ***	0	0	9	0	0
Total	41	97	98	71	71

\* In addition to its technical support for the program, the Bank will conduct a review mission eight months after the program begins, to assess it and recommend any changes needed. It also will conduct a midterm review at the program's midpoint.

\*\* An additional budget is needed to hire the consultant, including travel and per diems for trips within Guatemala. The corresponding funds would need to be allotted to the Country Office.

\*\*\* To be hired for the midterm review mission, for three weeks' work each. Consultancy areas: community perceptions of the program; quality and efficiency of construction work; environmental impact.

# PERFORMANCE INDICATORS FOR FIRST-TIER INSTITUTIONS (FTIs)

YEAR 1	
Year 1 main objectives:	
- Develop new avenues of participation	
- Prepare communities for instilling and working with a local collaboration culture	
Work program by microregion	
Work program to strengthen the municipal planning process	
Meetings held with departmental, municipal, and community authorities to present the program and devise concerted work plans	
First town meeting held to present program to the local community	
First participatory community diagnoses finished	
Microregionalization process finished with representative microregional entities (ERMs) set up with corresponding official record	
ERM with approved bylaws	
Women's Committees set up in each ERM	
ERM boards elected, duly representative of local sectors (eg sex, ethnic background, trades and professions)	
Dissemination of information on national policies and plans, technical standards of ministries and community priority sectors	
Lists of suppliers of goods and services drawn up by microregion and municipality	
Every community has received training to identify its needs and possible solutions, on the project cycle, on project maintenance and sustainability	
First investment plans produced by each ERM based on a local participatory planning exercise	
First investment plans presented to Executive Board for approval of respective budget	
ERMs legalized	
Bank accounts opened for each microregion and training plan agreed on for account management and startup	
Meetings with communities to provide full information on funds, projects financed, and timetable for program implementation	
Training plans for project cycle management done in concert with the FTI	
Presentation of project proposals to Technical Unit for technical and financial review	
100% of projects presented to Technical Unit approved	
80% of projects for first investment plan presented are contracted out and under way	
15% of projects presented by women	
10% of projects aim to strengthen local ethnic culture and identity	
At least 50% of productive projects are successful	
50% of projects completed already have an operation and maintenance (O&M) committee in operation	
First investment plan drawn up collectively, for presentation to other sources of funding	

Planning	TA and training plan for municipal planning bodies approved by local authorities
	Expanded Municipal Technical Unit (UTM) set up
	Technical Commissions established and working in municipalities
	Municipal development plan drafted, circulated, and discussed
	Work plan and timetable for dissemination of information on peace agreements, citizen responsibilities, human rights, gender, environment, and cultural diversity drawn up with local authorities
	TA plan to strengthen local development agents drawn up as collective effort
	TA and training plan for departmental planning bodies approved by departmental authorities
	<b>YEAR 2</b>
	<b>Year 2 main objectives:</b> <ul style="list-style-type: none"> <li>- Consolidate new participation avenues and collaborative culture</li> <li>- Consolidate local project-cycle management capacity</li> </ul>
Implementation	Close of first project cycle with participatory evaluation of outcomes
	Close of first project cycle supported by other funding sources, with participatory evaluation of outcomes
	Wide circulation of evaluation findings
	Incorporation of lessons learned into the second local participatory planning exercise
Implementation	Second participatory community diagnosis to identify needs, priorities, and possible solutions
	Progress on program presented in the second town meeting
	Second TA and training plan agreed upon with each ERM and municipal authority
	Second investment plan produced by each ERM after a local participatory planning process
	Second investment plan presented to Executive Board for approval of respective budget
	Meetings concluded with communities to provide full information on funds available, projects financed, expected program completion timetable
	100% of project profiles for second investment plan completed and sent to Technical Unit for technical and financial opinion
	100% of second package of projects have signed contracts
	100% of second package of projects under way
	80% of finished projects with operational O&M committees
	At least 60% of productive projects completed successfully
	15% of projects presented by women
	10% of projects aimed at strengthening local ethnic culture and identity
	Second collaboratively devised investment plan presented to other funding sources

	TA and training plans approved by each microregion and each municipal authority
	Boards of Directors of each ERM renewed by elections
	Active women's committee in each ERM
	Evaluation concluded of progress of programs done to strengthen the state of law (e.g., legal aid clinics, and incorporation of results into a new work plan
	Evaluation concluded of programs on gender, civics, peace agreements, and findings incorporated into new municipal work plan
	Finalization of first municipal development plan
	Preparation of municipal investment plan, worked out jointly
	Mobilization of funds for municipal projects
	Municipal plan presented to Departmental Urban and Rural Development Council (CODEDUR)
on	Gathering held for exchanges between microregions
	Gathering held for facilitators to share experiences
n of invest- n	Start of participatory evaluation of results achieved in second project cycle
	<b>YEAR 3</b>
	<b>Main year 3 objectives:</b>
	- Consolidate participation avenues and collaborative culture
	- Consolidate capacity of local actors to take independent initiatives and manage participatory planning processes and the project cycle
n of invest- n	Completion of participatory evaluation of outcomes of second project cycle, and wide dissemination of same in the communities
	Program status report presented at the third town meeting
	Wide dissemination of evaluation findings and incorporation of lessons learned into the third local participatory planning exercise
est- n	Third participatory community diagnosis to identify needs, priorities, and possible solutions
	Third investment plan produced by ERMs based on a local participatory planning process
	Third investment plan presented to Executive Board for approval of budget
	Wide publicity in communities about funding available, projects financed, and planned timetable
	100% of projects in third investment plan developed and evaluated by Technical Unit
	100% of third package of projects with signed contracts
	100% of third package of projects under way
	15% of projects presented by women's groups
	At least 70% of productive projects are successful
	10% of projects are to strengthen local ethnic culture and identity
	100% of projects finished have O&M committees in operation
	Third investment plan, drawn up collectively, presented to other funding sources

n	TA and training plans approved by each microregion and municipal authority
	ERM boards of directors renewed through elections with broad participation by local sectors (e.g. women)
	An active women's committee in each ERM
n	Evaluation completed of progress on new initiatives strengthening the rule of law (e.g. legal aid clinics)
	Evaluation of the training program on gender, peace accords, civic obligations, with findings built into annual municipal and local planning
	Review of municipal development plan completed
	ERMs starting liaison work and initiatives with monitoring and marginal support from F-TI
	ERMs developing project profiles with monitoring and marginal support from F-TI
	ERMs executing projects with monitoring and marginal support from F-TI
	ERMs contracting for specialized advisory and technical assistance services with monitoring and marginal support from F-TI
	ERMs hiring project executing agencies with monitoring and marginal support from F-TI
	Expanded Municipal Technical Unit developing projects with monitoring and technical support from F-TI
	Catherings held for microregion boards to share information at departmental level
	Catherings held for facilitators to share experiences
	Final evaluation of the program and publicity about outcomes
n	Fourth town meeting to discuss program outcomes
	Results incorporated into fourth investment plan for presentation to other funding sources

## KEY PERFORMANCE INDICATORS FOR 1997-2000

Indicator	Source	Purpose of indicator	1997	1998	1999	2000
Number of municipalities in the program	MIS	Determine coverage of program	13	13	13	8
Number of ERMs in the program	MIS	Ascertain FTI performance	30	78	78	4
Number of investment plans presented by ERMs	MIS	Determine impact of training on local participatory planning	30	117	87	9
Number of projects budgeted	MIS	Determine evaluation capacity of FTIs and Technical Unit	210	819	609	6
Total value of projects approved	MIS	Determine project processing capacity	US\$5.2 million	US\$17.9 million	US\$14.5 million	US\$2.76
Allocation of investment	MIS	Determine project processing capacity: establish relationship between expectations and reality	50% social projects; 25% support for productive sector; 25% unrestricted	50% social projects; 25% support for productive sector; 25% unrestricted	50% social projects; 25% support for productive sector; 25% unrestricted	50% social projects; 25% support for productive sector; 25% unrestricted
Percentage of funding for women's projects	MIS	Determine investments' capacity to fulfill program purposes	15%	15%	15%	15%
Percentage funding for projects affirming local cultural diversity	MIS	Determine investments' capacity to fulfill program purposes	10%	10%	10%	10%
Number of projects rejected by Technical Unit and returned for technical review	MIS	Determine quality and capacity of Technical Unit processing functions	15	45	30	5
Number of projects contracted out	MIS	Determine capacity of FTIs/ERMs to run management process	160	750	629	15
Value of projects contracted out	MIS	Determine capacity for running management process	US\$4 million	US\$16.4 million	US\$15.6 million	US\$4.8
Number of contracted projects costing 10% + more than estimate at appraisal stage	MIS	Evaluate costing system estimates	20	80	60	6
Number of project starts	MIS	Determine FTI/ERM project processing capacity	150	710	600	17
Value of projects started	MIS	Determine FTI/ERM project processing capacity	US\$3.5 million	US\$15.5 million	US\$15 million	US\$6.8

Indicator	Source	Purpose of indicator	1997	1998	1999	2000
Cumulative number of projects suspended on account of executing agency nonperformance	MIS	Determine efficiency of control and monitoring systems	15	25	30	2
Number of projects completed	MIS	Determine FTI/ERM/Technical Unit processing capacity	135	640	540	15
Value of projects completed	MIS	Determine FTI/ERM/Technical Unit processing capacity	US\$3 million	US\$14 million	US\$13.7 million	US\$6 million
Number of completed projects costing 10% + more than estimate during contracting process	MIS	Determine number of projects requiring reallocations owing to cost overruns. Feed data back into costing system estimates	15	70	60	2
Number of municipal diagnostic studies completed	MIS	Gauge FTI performance	5	8	0	0
Number of town meetings held to discuss the program	MIS	Gauge FTI performance	13	13	13	8
Number of beneficiaries of investments under the program	MIS	Determine size of target population benefiting from program investments	390,000	390,000	390,000	240,000
Number of Executive Board meetings	Annual report	Ascertain whether Executive Board is fulfilling its mandate	12	12	12	12
Number of Executive Board inspection visits	Annual report	Ascertain whether Executive Board is fulfilling its mandate	3	3	3	3

INTER-AMERICAN DEVELOPMENT BANK  
**MEMORANDUM**

Original: Spanish

File classification:

Date: October 21, 1996

To: Nancy Birdsall  
Executive Vice President

From: Miguel E. Martínez  
Manager, Regional Operations Department 2

Subject: GUATEMALA. Community Development for Peace program (GU-0099).  
Fulfillment of condition for presentation of the operation to the  
Board of Executive Directors

In accordance with the loan document for the above-referenced program, which was placed before the Loan Committee for consideration on October 17, and to satisfy a condition precedent to distribution of the program proposal to the Board of Executive Directors for consideration, the Government of Guatemala has furnished a policy letter (copy attached) in which it undertakes to

- (i) maintain the process of consolidating democracy, to ensure an enabling environment for the program;
- (ii) build recurrent expenditures for social programs funded by the program into the policy frameworks of the sectors involved, where the initiatives are concordant with sector policies;
- (iii) effect transfers of FSO funds on the date the Bank directs that payments be made; and
- (iv) take steps to expedite the process of legalizing entities representative of microregions (ERMs).

The policy letter satisfies, through express undertakings, all of the points agreed upon. In accordance with instructions conveyed in the Loan Committee, committee members were asked to review the policy letter and indicate their concurrence for distribution of the document.

[signatures]

OCE	Office of the Chief Economist
CON/CTR	Office of the Controller
SDS/SDS	Office of the Manager
DPP/DPP	Office of the Manager
LEG/LEG	Office of the Manager
RE3/RE3	Office of the Manager
REL/REL	Office of the Manager

cc: RE2/DEP Representative (COF/GU)  
CHF/SO2 Project team



Original: Spanish

**MINISTRY OF FINANCE  
GUATEMALA**

Guatemala City  
October 21, 1996

Mr. Enrique Iglesias  
President  
Inter-American Development Bank  
Washington, D.C.

Dear Mr. Iglesias:

**I. BACKGROUND**

Consolidation of the peace process is a top priority of the Government of President Alvaro Arzú. Over thirty years of armed civil strife in Guatemala have taken a heavy toll on the Guatemalan people, among them very vulnerable groups such as indigenous residents of the altiplano, and particularly women and children, whose poverty levels are among the highest in Latin America.

The decades of conflict have left their mark on the economy and on national social indexes, above all in rural areas which are home to most of the communities directly affected by the strife. But these were not the only effects: centuries-old cultural and religious traditions have been disrupted by migrations to Mexico and internal displacement of groups fleeing the violence. The Guatemalan Government has been striving to ease the way for those who left their homes to return and rejoin their communities. To date, some 30,000 of those who fled to Mexico have come back and are settled on farms purchased and adapted by the Government to help them assimilate into the national economy. Under the terms of recently signed peace agreements, a further 15,000 to 20,000 Guatemalans still living outside the country will return.

One important element in these efforts is the National Peace Fund (FONAPAZ), which has been working in the area known as ZONAPAZ – the nine departments in the conflict zone which were directly marked by violence: Quiché, Chimaltenango, Totonicapán, Sololá, San Marcos, Petén, Alta Verapaz, Baja Verapaz and Huehuetenango. Here, FONAPAZ has been running programs with national agencies like the Special Commission for Aid to Repatriated Persons (CEAR), and international organizations such as the United Nations Development Programme (UNDP), the Organization on International Migration (OIM), and the United Nations Children's Fund (UNICEF).

The process leading up to signature of the peace accord is now well along, and there is an urgent need to help the affected populations satisfy their most pressing needs. This will entail building and repairing basic health and education infrastructure, instilling an awareness of the importance of protecting the environment and working to

that end, recapitalizing local economies through productive projects, and strengthening local capacity so that communities can themselves identify needs and select and prioritize solutions. This will be done by creating new programs targeting the communities on which the armed conflict took the heaviest toll, to help come up with innovative methodologies for community organization and participation.

## II. STATUS OF THE PEACE PROCESS

The peace process is being spearheaded by the Office of the President of the Republic, through the Peace Commission (COPAZ), whose members are at the negotiating table with representatives of Unión Revolucionaria Nacional Guatemalteca (URNG). COPAZ has held talks with key sectors of the country, and represents the nation's interests in terms of the commitments needed to forge a definitive agreement.

The signature of the Agreement for a Firm and Lasting Peace will formally mark the nation's commitment to consolidate democracy, observe the law, and respect human rights. It will likewise evidence a commitment to build a future that can offer greater opportunity to all Guatemalans, share the fruits of development more equitably, and foster a more inclusive and participatory political system.

It has taken six years of intense negotiations to reach a peaceful end to the conflict. The active involvement of every sector of Guatemalan society in the negotiation process affords assurances that the peace accords will reflect a consensus as to the course that Guatemalan society should take. The peace agreements thus afford a historic opportunity for Guatemalans to leave behind the confrontations of the past and embark on a new path, with renewed resolve to move the nation forward with a reconciled society.

The proposed peace agreements fall into two groups: substantive accords and operational agreements. The substantive accords are the Global Agreement on Human Rights, Agreement for the Resettlement of Uprooted Populations, Agreement on the Identity and Rights of Indigenous Peoples, Agreement on Socioeconomic Issues and the Agrarian Situation, and Agreement on Strengthening Civil Society and on the role of the Military in a Democratic Society. These instruments have been signed and are awaiting implementing agreements to set them in motion. Those arrangements are currently being negotiated, and should be in place by the end of 1996.

The administration of President Alvaro Arzú has instituted a plan to monitor the peace agreements, setting up a Political Council to oversee the "cooperation for peace" process. The objective is to coordinate cooperation for the peace process, budgeting, and compliance, and adjust the government's agenda to the new climate of peace in the country. The Council is chaired and coordinated by the Vice President of the Republic. Its other members are the President of COPAZ, the Presidential Commissioner for International Cooperation for Peace, the Minister of Finance, the Minister of External Relations, the President of the Bank of Guatemala, the Secretary General for Economic Planning, the Chief of Staff of the President's Office, and the Executive Director of FONAPAZ.

### III. SITUATION IN THE AREA IN WHICH THE "COMMUNITY DEVELOPMENT FOR PEACE" (DECOPAZ) PROGRAM WOULD BE CARRIED OUT

From among the areas of Guatemala requiring priority assistance, the program will target municipalities in the department of Huehuetenango, which is home to some 390,000 people who have been most severely affected by the conflict. Most of the population is indigenous, and 85 percent are extremely poor, with an annual per capita income of US\$171.

In the 8,700 communities in the ZONAPAZ area, health and education infrastructures have been debilitated and electricity service is sparse. The few access roads in operation are in very poor repair, and production infrastructure is rundown.

One feature of the peace agreements is their strong advocacy of community-based efforts to recapitalize local economies, underscoring the importance of organizational development and community participation as foundations for building organizations that can truly convey and respond to community needs, and can promote activities to rebuild trust; in other words, organizations that can help a community identify and prioritize its needs, and which are prepared to work to improve the lot of community residents.

In pursuit of the aim of strengthening the democratic framework and forging a firm and lasting peace, the Government of Guatemala proposes to implement a Community Development for Peace (DECOPAZ) program, to effectively articulate the efforts of international cooperation agencies, national agencies and organizations, and communities, the latter grouped into "microregions" with legal status, so that they can use their own funds and implement projects with community social audit arrangements.

The methodology envisaged for the DECOPAZ program is a novel one for the Government and for the international community alike. At the outset, the plan is to channel funds directly into the communities, which will identify and carry through their own programs, with support from first-tier institutions for project development, preinvestment studies, accounting for and administering funds, and so on. In its four-year lifespan, it is hoped that the program will revitalize the local economy and substantially improve living conditions of the target population.

### IV. COMMITMENT TO INCORPORATE CURRENT EXPENDITURES ON SOCIAL PROGRAMS FINANCED UNDER THE DECOPAZ PROGRAM INTO THE POLICY FRAMEWORKS OF THE SECTORS INVOLVED

The object of the DECOPAZ program is to address the most pressing needs of residents of areas affected by the armed conflict, through initiatives that the communities themselves would identify, prioritize, and implement. This innovative approach, and the move to honor specific commitments in the peace agreements, is crucial for the Guatemalan government, as the 1997 social spending budget attests: of the Q.3,733,300,000 budgeted for social spending that year, Q.1,023,600,000 will be channeled through the social funds. The US\$700,000-equivalent

counterpart required for the DECOPAZ program for 1997 would come from this budgetary allocation.

General responsibility for the program will rest with an Executive Board appointed by the President of the Republic. Comprising the Board will be representatives of government and Guatemalan society; its work will be coordinated by the Minister of Finance. The Board is to be assisted by an Executive Secretariat; the Executive Secretary will be the Executive Director of FONAPAZ, ex officio, or other official selected to assure the success of the program. Proceeds of the IDB financing will be channeled through a trust fund set up specifically for the program. The Government is committed to providing the full support needed for this temporary facility throughout the life of the program, and to ensuring that all IDB funds, as well as counterpart funds making up 10% of the total investment cost, are channeled into the aforementioned trust fund.

In concert with the Ministry of the Interior, the municipalities selected for the program and the FONAPAZ technical team have devised an arrangement whereby communities would band together formally into "micro-regions", with legal status. Any community that so requests could join such a microregion. Representatives of microregion member communities will decide what form of organization they wish to set up, and seek assistance from the first-tier institution for the legalization formalities. The Government pledges to take steps to expedite the process of securing legal status for these new organizations.

The Government further undertakes to help the communities sustain projects funded under the DECOPAZ program, when they are concordant with policies in place in the sector in question, by means of the national budget, through a gradual boosting of tax revenues envisaged in the peace accord framework. FONAPAZ and the line ministries already have in place framework agreements to monitor such projects; these agreements embody the Government's and FONAPAZ's undertakings to ensure that the projects will be sustainable.

#### **V. COMMITMENT TO DISBURSE FSO FUNDS AS REQUIRED FOR THE PROGRAM**

The Government's commitment in this regard takes the form of an allocation for local counterpart funding for the DECOPAZ program in the 1997 budget. According to the terms of the draft loan contract, the counterpart requirement in 1997 is the equivalent of about US\$700,000. Allotments in the following three years will take the total to US\$5.6 million, this constituting the full local counterpart to the financing. The Government likewise pledges to make the FSO local-currency funds available on the value date of the IDB's payment order, in accordance with the program needs. To that end, the Bank of Guatemala will make provision for the use of such funds in its monetary program for the coming years.

Funds disbursed in the first year will mainly defray the cost of setting up the Executive Board and Technical Unit, and the first phase of projects in the first group of five municipalities. Disbursements will be heavier the second year, as all three groups of municipalities implement projects concurrently, and will fall back again in the third

and fourth years, when many projects will be winding up for program purposes and will be folded into the budgets of ministries or other government agencies.

It should be noted that program monies expended for support for first-tier institutions and their operation will not be FSO funds. The Government of Guatemala will continue to make the necessary efforts to secure, to the extent possible, grant funds from the international community to pay for such support, so that the program's investment capacity can be fully realized.

#### VI. PROGRAM AREA

As was noted above, the program will focus on the department of Huehuetenango, in which the armed conflict took the greatest toll. It will be carried out in two phases. The first stage will target the municipalities of Nentón, Jacaltenango, Concepción Huista, Santa Ana Huista, and San Antonio Huista, with average populations of 30,000. At a second phase, other municipalities in the region will be brought in, until the full target population is encompassed.

#### VII. CONCLUSION

We believe the DECOPAZ program to be an innovative way for the Inter-American Development Bank to directly reach affected communities, and for the Government of Guatemala to assist the neediest and most vulnerable groups in the country. As the armed conflict is left behind and peace-building initiatives take hold, this program can be a vital instrument, and we pledge to do everything necessary to honor the commitments set out in this document. We reiterate our commitment to seeing the program carried through in an environment conducive to the strengthening of democracy and the building of firm and lasting peace in Guatemala.

We are grateful to the Inter-American Development Bank for its efforts to help advance the peace process in our country, and hope that we may count upon its financial support for the DECOPAZ program.

Sincerely,

[signature]  
Emilio Wong León  
Deputy Minister  
of Finance, a.i.

[seal]  
Ministry of Finance  
Guatemala

[signature]  
Willy Zapata Sagastume  
President  
Bank of Guatemala

PROPOSED RESOLUTION

GUATEMALA. LOAN No. /SF-HO TO THE REPUBLICA DE GUATEMALA  
(Program of Community Development for Peace)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Guatemala, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program of Community Development for Peace. Such financing will be for the amount of up to the equivalent of US\$33,000,000 in Guatemalan quetzales, chargeable to resources of the Bank's Fund for Special Operations, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.

Appendix II  
RGII-GU057P  
GU-0099  
Original: Spanish

PROPOSED RESOLUTION

GUATEMALA. LOAN \_\_\_/OC-GU TO THE REPUBLICA DE GUATEMALA  
(Program of Community Development for Peace)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Guatemala, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program of Community Development for Peace. Such financing will be for the amount of up to US\$17,000,000 in dollars of the United States of America, chargeable to the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.

Appendix III  
RGII-GU058P  
GU-0099  
Original: Spanish

PROPOSED RESOLUTION

GUATEMALA. PARTIAL PAYMENT OF INTEREST ON LOAN No. \_\_\_\_/OC-GU  
TO THE REPUBLICA DE GUATEMALA  
(Program of Community Development for Peace)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as administrator of the Intermediate Financing Facility Account, hereinafter referred to as the "account", to enter into such contract or contracts as may be necessary with the República de Guatemala, as Borrower, and to adopt other pertinent measures to use the resources of the account to pay a part of the interest due by the Borrower on outstanding balances of the loan authorized by Resolution DE- /96, in accordance with the provisions set forth in Document FN-263-2, as amended, approved by the Board of Executive Directors on December 21, 1983.