2. Project Objectives and Components:

a. Objectives:

The Project Appraisal Document (PAD, p. iv) stated that the project development objective was to:

"(i) improve the competitiveness of rural productive supply chains with strong indigenous participation; and
(ii) to strengthen the institutional capacity of the public entities participating in the program for the adoption of a territorial management model with indigenous involvement."

The Loan Agreement (p. 5) stated that the project development objective was to:

"Assist the Borrower in: (i) improving the competitiveness of rural productive supply chains with strong indigenous participation; and (ii) strengthening the institutional capacity of the public entities participating in the Program for the adoption of a participatory territorial management model with indigenous involvement."

This Review is based on the objectives described in the Loan Agreement. While the development objectives were unchanged when the project was formally restructured in 2011 (Level 1), the indicators and intermediate outcome indicators were modified to better reflect the achievements of the project. Therefore IEG’s assessment of outcomes will be on a split basis taking into account original and revised outcome indicators.
b. Were the project objectives/key associated outcome targets revised during implementation?

Yes
If yes, did the Board approve the revised objectives/key associated outcome targets?
Yes
Date of Board Approval: 06/30/2011

c. Components:

1. Investments in Productive Supply Chains (Appraisal Cost: $53.60 million; Actual Cost: US$34.25 million). This component aimed to increase the incomes of the mostly indigenous rural population through time and space coordinated investments in favor of productive rural organizations including: market access, technical assistance, seed capital, financial services, productive infrastructure investments and access to telecommunications in the Program area. It included four sub-components:

(a) Entrepreneur Development Services. These aimed at rural productive organizations to facilitate access to markets and to link up with productive chains through market intelligence, technical assistance and seed capital. The Ministry of the Economy (MINECO) through its Vice Ministry for the Development of Micro-, Small- and Medium-Enterprises, assisted by private professional organizations, would implement the sub-component. The sub-component would: (i) finance consulting services for market intelligence and access, pre-investment studies, technical assistance in production, organization, administration, processing and commercialization, and formalization, certification and association of small enterprises; and (ii) provide seed capital to eligible producer organizations for investments and variable costs supporting the supply chain.

(b) Access to Financial Services. This aimed to support rural productive organizations by: (i) strengthening of the capacity of MINECO to help micro-enterprises to get access to financial services; (ii) technical assistance and incentives to intermediary financial institutions to adjust their services to the needs of rural productive organizations; (iii) technical assistance to rural productive organizations to comply with the requirements of financial intermediaries; and (iv) a line-of-credit to eligible financial intermediaries at market interest rates.

This sub-component (fully funded by IADB) was cancelled at the Government’s request in 2012.

(c) Access to Productive Rural Infrastructure (public and collective). This sub-component aimed to provide productive infrastructure to support both the development of new supply chain partnerships and the improvement of existing partnerships. This covers both: municipal economic infrastructure such as small irrigation systems, rehabilitation of existing roads and communications, construction of small public tourism infrastructure, business zones, telecommunication centers and markets, and improvement of electricity connections; as well as collective (private, but owned by groups of people) investments in economic infrastructure such as storage facilities and distribution centers, both of which were needed to improve the competitiveness of supply chains. The municipal investments would be financed on a matching grant basis with municipal authorities and each investment would be required to have a maintenance plan.

(d) Information and Communications Technology Investments (ICT). This sub-component aimed to improve access to and use of ICT in the departments and municipalities supported by the project. The sub-component would assist in building up key ICT in the program’s selected territories through the use of output-based aid mechanisms and to enhance the productive use of ICT infrastructure and services by productive supply chains as well as by local development organizations and indigenous people. The component was to be carried out by the Ministry of Communications, Infrastructure and Housing through the Telecommunications Development Fund and with the support of the Presidential Commission for Modernization and Decentralization of the State.

The component covered: the extension of the provision of basic infrastructure for telephony and broadband internet connectivity to small municipalities in rural areas; technical assistance services for the implementation of the works program; and training and technical assistance programs to assist use of ICT for increased productivity.

This sub-component (fully funded by IBRD) was suspended and later cancelled (June 2011) at the Government’s request, as landlines were continuously replaced by privately operated and more widespread cellular network infrastructure. With the pressing need to finance infrastructure following the devastating impacts of Tropical Storm Agatha, funds from sub-component 1(d) (about US$15.4 million) were reallocated in June 2011, mainly to sub-component 1(c), with the remainder applied to Component 2.

2. Strengthening of the territorial public management capacities for competitiveness (Appraisal Cost: $3.50 million; Actual Cost: US$8.96 million). This component aimed to introduce in the institutions involved in the program a new model of public management focused on territorial development. The component has four sub-components: (i) Development of the Territorial Management Model for rural development; (ii) implementation of the model in selected Departments; (iii) access to territorial strategic information through an integrated and decentralized territorial strategic information system; and (iv) disclosure, awareness and training.

3. Management, Monitoring and Evaluation (Appraisal Cost: $2.80 million; Actual Cost: US$1.32 million). This
component was to ensure program management capacity was in place and that an effective monitoring and evaluation system was established and maintained.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

**Project Cost.** Total project cost at appraisal was expected to be US $60.00 million. Actual project cost was US$45.45 million. The difference is mainly due to the decision of the Inter-American Development Bank to withdraw US$13.4 million from the project.

**Financing.** The Project was financed through an IBRD Loan of US $30.00 million; and an Inter-American Development Bank Loan of US$30.0 million. Actual amounts disbursed were US$28.59 million and US$16.14 million for the IBRD and the IADB loans, respectively. The IADB decided not to extend its Loan beyond January 2013 when the Bank extended to closing date and pulled back a total of US $13.4 million or 45% of its Loan.

The Presidential Secretariat for Planning and Programming received US $6.0 million Grant from the Swedish International Development Cooperation Agency (SIDA) to provide bridging finance when project effectiveness was delayed by 16 months. At the time of restructuring (June 30, 2011) US$2.58 of IBRD funds were disbursed which represents 9% of the total IBRD disbursed amount (US$ 28.59 million).

**Borrower Contribution.** No counterpart funding was expected from the Government.

**Dates.** The project closed 23 months later than planned. Its effectiveness was delayed for 16 months after Board approval because the new Government that took office in January 2008 "did not agree with the project's design and implementation arrangements (ICR, para 28)." Given this delayed start, the Mid-term Review was conducted in June 2011 compared to a planned date of April 15, 2009.

The project was restructured six times, one of which was at Level-1, the others Level-2, as follows:

1. Level-2, April 8, 2009 in order to amend and restate Loan Agreement; amend disbursement categories to allow the financing from Loan proceeds of consultants, operational costs, management costs, and training for the co-executing agencies of the project; and correct two minor errors in the Loan Agreement.
2. Level-1, June 30, 2011 in order to reallocate funds to finance rehabilitation of infrastructure damaged by Tropical Storm Agatha on May 9, 2010. This triggered the Involuntary Resettlement Policy (OP 4.12); expansion of the project nation-wide, and revision of project result indicators and targets.
3. Level-2, November 3, 2012 in order to extend the closing date by 12 months, from February 1, 2013 until January 31, 2014.
4. Level-2, March 29, 2013 in order to modify project implementing arrangements; extend the project closing date by six months; reallocate Loan proceeds; modify the project’s disbursement arrangements; and revise indicator targets for outcomes.
5. Level-2, October 18, 2013 in order to reallocate Loan proceeds across categories; increase the disbursement ceiling for Category (1), corresponding to project sub-component 1(a) implemented by the Ministry of the Economy, and Categories (4) and (5), corresponding to project Components 2 and 3 implemented by the Presidential Secretariat for Planning and Programming.
6. Level-2, June 6, 2014 in order to extend the closing date by 5 months.

3. Relevance of Objectives & Design:

a. **Relevance of Objectives:**

**Before Restructuring**

Guatemala is the Latin American country with the highest degree of inequality. The proportion of population living in rural areas (61%) and the proportion of the population which is indigenous is also very high (39%). Seventy-four percent of the rural population is poor, 24% extremely poor and 43% illiterate. Eighty percent of indigenous peoples live in the rural areas where they account for 52% of the population.

At appraisal, objectives were highly relevant to the Government’s rural territorial development agenda as well as its goals related to poverty reduction and inclusiveness. The project was expected to have a positive impact on increasing the competitiveness of rural-based productive activities which in turn would impact enterprise expansion and export growth, thus helping to exploit the potential benefits to Guatemala of the newly ratified Central American Free Trade Agreement.

At completion, objectives continue to be highly relevant to the Government priorities. Objectives are in line with the National Agenda for Competitiveness 2012-2021 which considered the improvement of productive and market
Linkages and strengthening of rural producer organizations’ capacity as key priorities to improve the competitiveness of rural enterprises. Objectives also are in line with the long-term National Development Plan (K’atun Nuestra Guatemala 2032) which calls for promoting productive linkages using the same approach of the project known as encadenamientos productivos.

Objectives were in line with the World Bank Country Assistance Strategy for Guatemala (CAS, FY2005-2008) that called for reducing poverty and inequality; and fostering sustained, equitable growth. Objectives remain relevant and continue to be in line with the World Bank’s Country Partnership Strategy for Guatemala (CPS, 2013-2016) which called, among other things, for supporting the growth of rural small businesses through direct investments, capacity-building, and the creation of a more supportive business environment.

After Restructuring
High
Objectives remained the same without change, hence relevance of objectives continue to be highly relevant.

b. Relevance of Design:
Before Restructuring
Substantial
- Design included a clear statement of objectives. It featured a coordinated multi-sectoral approach to remove constraints on competitiveness at the farm and territorial levels. It also focused on directing productive investments to and within priority regions where poverty rates and population densities are particularly high.
- To achieve the two stated objectives, design featured two components that were disjointed in their implementation to enable building capacities for territorial planning/management and reduce complexity.
- The first component would contribute to achieving the first objective through time and space coordinated investments in favor of productive rural organizations including: market access, technical assistance, seed capital, financial services, productive infrastructure investments and access to telecommunications in the project area. These activities were expected to improve competitiveness and increase the incomes of the mostly indigenous rural population.
- The second component would contribute to achieving the second objective through introducing a new participatory model of public management focused on territorial development in order to influence national and sector policies as well as public investment priorities. This had the potential to foster a more efficient way to mobilize territorial resources as a focus on national strategic objectives, and competitive advantages. The third component was focused on project management.
- Overall, design was complex and relied on business plans to align specific and broad investments to improve enterprise competitiveness in key territories. However, using business plans as an instrument to align both types of investments (specific and broad) added complexity to implementation. In addition, there are doubts about the relevance of the ICT sub-component (1d) since the inclusion of this sub-component in the project design was based on an incorrect conclusion by one of the studies used at the preparation stage. This study concluded that public investments were needed in telecommunications owing to market failures; however, as this turned out not to be the case, this eventually led to the cancellation of sub-component 1(d) during implementation. Finally, the results framework did not provide clear links between project inputs, outputs and expected outcomes; it required several revisions during implementation.

After Restructuring
Substantial
At restructuring some changes were introduced to project design including: reallocating funds mainly from uncommitted resources under sub-component 1(d) to finance rehabilitation of infrastructure (mainly bridges) damaged by Tropical Storm Agatha; activating Involuntary Resettlement Policy (OP 4.12); expanding project coverage to become nation-wide; and revising project result indicators and targets. According to the restructuring paper (p. 1): “many of the activities envisioned under sub-component 1(d) at the time of appraisal have been accomplished through private sector investments and accordingly most of this sub-component’s expected results have been met.” Other than this, all elements of the original design were kept the same as before restructuring.

4. Achievement of Objectives (Efficacy):

“Assist the Borrower in: (i) improving the competitiveness of rural productive supply chains with strong indigenous participation; and (ii) strengthening the institutional capacity of the public entities participating in the Program for the adoption of a participatory territorial management model with indigenous involvement.”

Before Restructuring
(i) Improving the competitiveness of rural productive supply chains with strong indigenous participation. Modest.
Outputs
The ICR did not report any outputs prior to restructuring. The Restructuring Paper (p. 2) reported that 45 sub-projects had been approved and 34 have had contracts signed.

Outcomes
The ICR provided no evidence on achievements prior to restructuring. However, the Restructuring Paper (p. 2) reported that implementation was significantly slow due to delays between approval of sub-projects and signing of contracts with service providers to begin implementation.

(ii) **strengthening the institutional capacity of the public entities participating in the Program for the adoption of a participatory territorial management model with indigenous involvement.** **Substantial.**

Outputs
The ICR did not report outputs prior to restructuring. According to the Restructuring Paper (p. 2) the participatory planning process funded under Component 2 was close to completion in seven out of eight departments in the project area. Furthermore, municipal development plans have been finalized in 91% of the 161 municipalities in the project area.

Outcomes
The project made significant achievements as indicated above. The success of the project resulted in the requested by the Government to expand activities of the territorial participatory planning process over all rural municipalities.

After Restructuring
(i) **improving the competitiveness of rural productive supply chains with strong indigenous participation.** **Modest.**

Outputs
- By project completion 216 partnerships were established (target achieved, original target: 300, revised target: 200) between organized producers and commercial buyers and service providers. Of these, 27 were Business Strengthening Plans and 189 were Business Partnerships (15 were cancelled during implementation).
- A total of 50 bridges were built (19 were funded by IBRD and 31 by IADB) providing access to an estimated 160,367 beneficiaries. The ICR did not provide further information on other infrastructure works. The funds for public infrastructure investments under sub-component 1(c) were used only to rehabilitate bridges and not to rehabilitate feeder roads or build other public infrastructure as envisaged in the PAD. This change resulted from the damages caused by Tropical Storm Agatha in 2010.
- The project aimed to strengthen the organization of producer groups within 12 sub-sectors. The sectoral distribution was as follows: (i) fruits and vegetables (44.3% of total investment); (ii) coffee (28.5%); (iii) basic grains (6.5%); (iv) forestry (3.9%); (v) beekeeping (3.8%); (vi) cocoa (2.7%); (vii) livestock (2.2%); and (viii) others. It cofinanced 189 productive sub-projects on a matching grant basis. This was to help producer organizations to increase production/productivity and work more effectively and efficiently with their market partners in long-term market relations.

Outcome
- The project predominantly benefited indigenous populations. At project closing, the number of direct beneficiaries was about 20,000, falling short of the target of 30,000; yet 90% of partnership beneficiaries were indigenous people (target: 80%), and 34% were women. The number of indirect beneficiaries of the partnerships was estimated to be 108,690.
- Project investments led to an increase in the net sales of Rural Producer Organizations (RPOs). For example, 19 fruits and vegetables RPOs supported by the project saw a total increase of 39% in their net sales. Also, 7 coffee RPOs saw a total increase in net sale of 24%; 3 basic grains RPOs achieved a 9% total increase in net sales; and 3 Wood processing RPOs achieved an 11% total increase in net sales.
- The increase of total sales of the rural productive supply chain partnerships reached US $16.31 million during the project period (32% achievement rate against an original target of US $50 million; and 47% achievement rate against a revised target of US $35 million). This increment was mainly attributed to increases in yields, expansion of cultivated area, improvements in product quality (and consequently price), and additional crop/processed product capacity. In addition, a number of benefits were expected to positively impact competitiveness, however, these were not estimated by the project. These include benefits arising as Rural Producer Organizations achieved or maintained access to important markets by obtaining essential food safety certifications such as Global GAP. Also, the investments in 50 bridges contributed to supply chain competitiveness through maintaining market access and generating time savings that were expected to translate into broader gains to rural communities.
While the project made considerable achievements towards improving competitiveness of supply chains including increasing the total value of sales, increasing the time savings, and maintaining market connectivity, it missed its target for this outcome. The underachievement of this outcome stemmed mainly from implementation delays where according to the ICR (para 22): "61% of the disbursements to support business partnerships were made in 2013 and 2014." Also, exogenous factors adversely affected the performance of five partnerships: disease outbreaks (rust in coffee and thrips in cardamom) combined with a drop in prices reduced their end-of-project sales value. It is also worth noting that after tropical storm Agatha, activities focused on bridge rehabilitation/rebuilding on a nationwide scale.

(ii): strengthening the institutional capacity of the public entities participating in the Program for the adoption of a participatory territorial management model with indigenous involvement. Substantial.

Outputs
- By project completion the decentralized strategic territorial information management system was operational in 8 administrative Departments (target: 3) and provides service coverage nationally.
- By project completion, 328 municipalities out of 334 (98% achievement rate compared to a target of 90%) have a Municipal Development Plan, prepared in a technical participatory manner, within the context of the Municipal Development Councils.
- By project completion 91% (target: 33%) of departments covered by the project have Departmental Development Plans.
- 500 municipal staff received training on Management for Results, 150 local government plans were formulated, 30 Municipalities formed territorial management plans with comprehensive vision for land management, and 3 regional development plans.
- 10 Databases were developed for territorial information gathering and 64 (out of 138) territorial economic development strategies in municipalities were prioritized.
- 47 maps and 12 data bases were created using Geo-referential Information System (GIS) in the process of constructing territorial and Departmental plans.

Outcome
The project introduced the Territorial Management Model based on participatory principles as a pilot. The success of the pilot led to the expansion of the project's area nationwide. The project supported the formulation of the National Development Plan known as "K'atun Nuestra Guatemala 2032". This plan provided support in development of five development axes, 36 priorities, 80 goals, 122 results, and 717 distinctive hallmarks/strategic orientations. In addition, the project supported an integrated and decentralized territorial strategic information system. This system now provides extensive geographic, statistical information and spatial data on a public platform (ide geoportal) generated by the Presidential Secretariat for Planning and Programming.

The project exceeded its target on the proportion of municipal projects that stemmed from the participatory planning process promoted by the project. The outcome was 35% of municipal projects compared with the original target of 5%, and the revised target of 25%. While it is still early to assess the full impact of the project supported activities, the available evidence point to the success of the project in facilitating development an improved National Planning System and the generation of a culture of planning at the local level.

5. Efficiency:

Economic and Financial Efficiency

Ex ante
- Indicative economic and financial estimates were calculated for ten community/group entrepreneurial sub-project models including: handicrafts production and marketing; coffee post-harvest processing and marketing; coffee production and marketing; lettuce packing and marketing; snow-peas packing and marketing; snow-peas production and marketing; greenhouse tomato production and marketing; creole lemon drying and marketing; creole lemon production and marketing; and honey production and marketing.
- The average Economic Rate of Return (ERR) was estimated to be 13% for entrepreneurial sub-project models, and 13% for public infrastructure sub-project models over a ten year investment horizon. Aggregate Economic Net Present Value (NPV) was expected to be US$2.2 million based on a beneficiary population target of 10,000 families and a discount rate of 15%; aggregate employment generated was projected to be equivalent to 3,000 person/years.
- The Financial Rate of Return (FRR) was estimated to be 13% for entrepreneurial sub-project models and 9% for public infrastructure sub-project models. Aggregate Financial NPV would be US$6.7 million based on a beneficiary population target of 10,000 families and a discount rate of 15%; and aggregate Fiscal NPV would be US$4.8 million.

Ex post
- The project approved a total of 189 business plans in 12 sub-sectors worth US$ 15.22 million (including counterpart funds). The sectoral distribution was as follows: (i) fruits and vegetables (44.3% of total investment); (ii) coffee (28.5%); (iii) basic grains (6.5%); (iv) forestry (3.9%); (v) beekeeping (3.8%); (vi) cocoa (2.7%); (vii)
livestock (2.2%); and (viii) others.

- From the 189 business plans, 15 sub-projects were cancelled after the investment, and 52 had not yet completed their first cycle of production and their sales were not considered. In addition, the following types of sub-projects were discarded: (i) sub-projects that had only received technical assistance (not seed capital or financing for productive infrastructure) and (ii) sub-projects belonging to sub-sectors that contribute to less than 2% of the aggregate investments of all productive sub-projects financed. Of the remaining 87 sub-projects, a random sample of 39 was chosen through a stratified selection process based on sub-sectoral and geographical distribution where a detailed ex-post cost-benefit analysis was conducted.

- The ex-post cost-benefit analysis was based on projections of a 10-year incremental net benefit flow projections. The analysis assumed that the increased net income obtained by producer groups as a result of the investments financed by the project—primarily arising from increases in productivity (yield), cultivated area, volume of marketed product, and/or improvement in product quality (unit price)—would be maintained during the 10-year period.

- Economic Analysis. Over the 10-year period, the ERR of productive sub-projects amounts to 28%, and the aggregate NPV was US$ 4.98 million. Considering other project costs (project management and monitoring proportionate to the investment analyzed) the ERR and NPV were 25% and US$ 4.43 million, respectively (US$ 656 per average beneficiary). In this last scenario, applying the 20% reduction of net incremental incomes to test the robustness of the efficiency indicators reduces the ERR to 19%, the NPV to US$ 2.24 million, and the average NPV per beneficiary to US$ 332.

- Financial Analysis. Over the 10-year period of the analysis, the FRR for productive sub-projects was estimated to be 20% and the aggregate financial NPV is estimated at US $ 2.45 million, or US$ 363 per beneficiary. In a second scenario, in which costs of family labor valued at market wage rates and the 10% beneficiary in-kind contribution to technical assistance are eliminated, the FRR increases to 36%, the aggregate NPV was US $ 8.0 million, and the average NPV was US $ 1,186 per beneficiary.

- For the bridge infrastructure rehabilitated after tropical storm Agatha the ERR was estimated to be 118% and the NPV at US$ 40.6 million. The analysis could have been more informative by providing some measure of cost-effectiveness.

**Administrative and Institutional Efficiency**

The project closed late by 23 months. This delay happened when a new Administration took office and questioned key elements of the project. Also, subsequent implementation delays resulted from several factors including: budgetary constraints; changes in responsibilities between and within agencies; instability of project staff, and procurement delays which according to the ICR (para 44) "had significant implications on project implementation and outcome achievement."

Efficiency is rated substantial despite shortcomings in administrative and institutional efficiency.

<table>
<thead>
<tr>
<th>Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:</th>
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<tr>
<td>Rate Available?</td>
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<tr>
<td>Appraisal</td>
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<td>ICR estimate</td>
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* Refers to percent of total project cost for which ERR/FRR was calculated.

**6. Outcome:**

**Before restructuring against original outcome indicators:**

Relevance of objectives was rated high, while relevance of design was rated substantial despite weaknesses in the Results Framework. Efficacy of the first objective was rated modest due to limited implementation progress. Efficacy of the second objective was rated substantial as the project made considerable achievements towards meeting the targets associated with this objective. Efficiency was rated substantial despite shortcomings in administrative and institutional efficiency.

Outcome was rated moderately satisfactory.

**After Restructuring against revised/new outcome indicators:**

Relevance of objectives was rated high, while relevance of design was rated substantial. Efficacy of the first objective was rated modest because it achieved only 47% of its final target on sales. Efficacy of the second objective was rated substantial. The project exceeded its target as 35% (revised target: 25%) of municipal projects stemmed from...
the participatory planning process promoted by the project. Efficiency was rated substantial despite shortcomings in administrative and institutional efficiency.

Outcome was rated moderately satisfactory.

As the outcome rating before and after restructuring was unchanged the weighted outcome rating is Moderately satisfactory.

**a. Outcome Rating:** Moderately Satisfactory

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### 7. Rationale for Risk to Development Outcome Rating:

The risk for development outcome is moderate.

- The future capacity of the Presidential Secretariat for Planning and Programming to continue strengthening the National Planning System is uncertain, particularly at the regional level. During project implementation the Presidential Secretariat for Planning and Programming relied on hiring 100 external consultants using project funds to support activities under component 2. After project completion, only 35 consultants were absorbed by the Presidential Secretariat for Planning and Programming to allow it to continue strengthening the National Planning System including deepening results-based budgeting/planning. While the reallocation of IADB funds would help sustain capacity in the short term, Government budgetary support will be needed for medium- and long-term sustainability.

- The capacity of municipalities to maintain public infrastructure is uncertain. While 100% of the municipalities that were beneficiaries of the investments for the reconstruction of bridges signed maintenance plans, many regions will require technical assistance at the national level to carry out these plans.

- The sustainability of partnerships and investments through business plans requires additional resources. According to the ICR (para 57) support to improve competitiveness in agro-supply chains would be sustained through the follow-on World Bank funded project (GT Enhancing SME Productivity Project, P112011).

**a. Risk to Development Outcome Rating:** Moderate

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### 8. Assessment of Bank Performance:

**a. Quality at entry:**

The Government of Guatemala requested the World Bank and the Inter-American Development Bank to provide loans towards the financing of the first phase of its rural economic development program.

- The project was prepared in 10 months by two task team leaders from the agriculture and transport units at the World Bank supported by specialists in transport, municipal and rural development, finance and telecommunications, among others.

- While preparation was hindered by refusal of the Presidential Secretariat for Planning and Programming to allow field visits, the team overlooked the need for stronger plans to build capacity in implementing agencies combined with a more detailed mechanisms for inter-agency coordination of activities. Appraisal benefited from analytical studies and prior Bank experience in implementing projects in Guatemala as well as other Latin American countries including Columbia, Peru, and Chile, and the experience of other donors such as IADB and USAID.

- Eleven risks were identified at appraisal, but mitigation measures lacked specific actions. The risk of political interference in staff selection was not foreseen or incorporated in conditionality.

- M&E arrangements had design shortcomings.

**Quality-at-Entry Rating:** Moderately Satisfactory

**b. Quality of supervision:**

Bank supervision conducted two missions per year jointly with IADB (but only until 2013) and included an appropriate mix of specialist inputs. The project was implemented under a challenging political environment, particularly before 2012. Implementation coincided with tropical storm Agatha in 2010 which caused wide-spread infrastructure damage. Supervision missions helped to identify implementation bottlenecks and provided timely support to overcome operational challenges. The project team emphasized improvement and self-learning in all aspects of implementation. The Bank team was proactive and restructured the project six times to adapt to changing circumstances on the ground. However, supervision should have addressed shortcomings in the results framework to better capture the outcomes of rehabilitation efforts under component 1.

**Quality of Supervision Rating:** Moderately Satisfactory
9. Assessment of Borrower Performance:

a. Government Performance:
The change in the political climate caused project approval to be delayed for more than a year in the Guatemalan Congress, and subsequent project implementation suffered significant delays after a new administration took office in 2008 and questioned key elements of the project design. The mistrust of the administration caused changes in project staff, responsibilities within and in-between the implementing agencies, and limited fiscal space to operationalize the project. The ICR (para 61) described the time between 2008 until 2012 as a “period of greatest instability for the project.” In the final 2.5 years of the project the Government showed more support and commitment that resulted in improved administrative efficiency that enabled the acceleration of implementation.

Government Performance Rating: Moderately Unsatisfactory

b. Implementing Agency Performance:
The project was implemented by three agencies: the Presidential Secretariat for Planning and Programming, Ministry of the Economy, and the National Peace Fund. The project started with one Implementation Unit at the Presidential Secretariat for Planning and Programming then two units were added to each of the co-executing agencies. These were created through the first project restructuring in 2009.

- **The Presidential Secretariat for Planning and Programming** was a facilitating agency that also played a role in implementing component 2 of the project. At the beginning of implementation it suffered from poor coordination and frequent changes in personnel. In 2008 the agency was subject to an external financial audit that resulted in a six-month freeze in its activities. In 2009 new leadership was appointed and the agency resumed its activities. The Presidential Secretariat for Planning and Programming hired experts to provide supervision support for the National Peace Fund which was responsible for implementing the infrastructure projects.

- **The Ministry of Economy** was responsible for implementing component 1. From effectiveness until 2012 implementation suffered from changes in leadership and staff, shifting responsibilities, and lack of clear procedures to guide implementation. More stability was achieved in 2013-2014 where staffing issues were resolved and clear procedures were established. Implementation delays and the Ministry of Economy’s decision not to go-ahead with sub-component 1(b) (Access to Financial Services) led IADB to cancel US$ 13.3 million out of its US$ 30 million loan.

- **The National Peace Fund** was responsible for the implementation of infrastructure investments. Its performance was hindered by administrative bottlenecks and frequent disagreement with the Ministry of Economy over implementation of infrastructure investments linked to the business plans. The Fund oversaw the construction/rehabilitation of bridges, but only managed to construct 50 of the 88 bridges planned because 38 were not approved by the Investment Coordination Committee due to missing documentation, among other factors. Its inefficiencies led to its dissolution by the Government in early 2013 and its project portfolio was transferred to the Ministry of Economy from April 2013.

- As a result of these difficulties in the implementing agencies, the project’s performance was hindered especially activities under Component 1. By late 2012 and up to project completion, the staffing stability at the Ministry of Economy contributed to the strong performance and important outcomes particularly under Component 1 during that period. Positive improvements included putting in place procedures that provided clarity and contributed to smooth implementation of Business Partners; also changes in the Operational Manual provided flexibility for the Ministry of Economy to engage with a wider number of service providers.

Implementing Agency Performance Rating: Moderately Unsatisfactory

Overall Borrower Performance Rating: Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:
The results framework had two primary outcome indicators and seventeen intermediate outcome indicators to assess achievements. The M&E system was housed at the Presidential Secretariat for Planning and Programming,
and the individual co-implementing agencies provided M&E data to the central system. The M&E system was implemented through a SAP Business Object Platform. Even so, the design has several shortcomings.

b. M&E Implementation:

The Results Framework was revised through a Level 1 Restructuring approved by the Board on June 30, 2011 where one outcome indicator was dropped (30% of the municipal planning offices have a territorial management plan), and a new one added (at least 5% of municipal projects in the 2012 budget stem from the participatory planning process). These changes were relevant to better assess the project’s outcome rather than outputs and to capture the impact of people’s participation. Also, eight intermediate outcome indicators were added, three revised, five dropped, and eight original indicators were retained. However, changes did not include any indicators to capture the impact of rehabilitation/reconstruction of bridges despite a substantial reallocation of funds from sub-component 1d).

- The original outcome indicator for the first development objective, measured only as a function of the incremental sales of the Rural Producer Organizations supported through Business Plans, was revised downwards in 2011 and reworded.
- In addition, the fourth project restructuring, approved on March 29, 2013, revisited the target values for the two outcome indicators (the target value of the sales indicator was reduced from US $50 million to US$35 million to better reflect the project’s new budgetary situation after the cancellation of nearly half of IADB’s loan; while the target value for the other indicator was increased from 5% to 25%, as the initial figure had already been surpassed), revised six intermediate outcome indicators (rewording them or changing the target values), and split one intermediate outcome indicators into two. Adjustments to intermediate outcome indicators in both restructurings were relevant because they reflected cancellation of sub-components, delays in project effectiveness, and reallocation and/or partial cancellation of funds within sub-components.
- The SAP Business Object Platform allowed 24 hours access to relevant project information and enabled close monitoring of the intermediate outcome indicators including the geo-referencing of business plans. However, the system had its limitations when it came to generating real-time information on project outcomes.

c. M&E Utilization:

The Presidential Secretariat for Planning and Programming consolidated progress reports on time and made them available on the project’s website. Information flow between the Ministry of Economy and the Presidential Secretariat on Planning and Programming improved during the last two and half years of implementation. This allowed updating key information on business plans in the Business Object Platform. The ICR does not provide further information on the extent M&E was used to manage the project or inform critical decisions.

M&E Quality Rating: Modest

11. Other Issues

a. Safeguards:

The project was classified as a category “B” under OP/BP 4.01 Environmental Assessment. At the preparation stage it also triggered OP 4.20 Indigenous Peoples (now being revised as OP 4.10). Involuntary Resettlement (OP/BP 4.12) was activated during the 2011 project restructuring when substantial reconstruction of bridges was added to project activities. An Environmental Management Framework was prepared in accordance with the requirements of OP 4.01. While OP 4.09 Pest Management was not triggered, the framework and its implementation emphasized integrated pest management. Environmental monitoring started slowly but performance improved after hiring qualified environmental staff at the Ministry of the Economy in addition to an external service provider. The Ministry of the Economy integrated environmental management across the sub-project cycle and made payments and/or disbursements conditional on environmental compliance. Also, to ensure safeguards compliance, monitoring of specific indicators to measure environmental compliance of investments in Business Plans were added to the Results Framework at the time of the 2011 restructuring. There was no Involuntary Resettlement Plan. The ICR does not provide specific information on safeguard compliance except stating that: “the Bank found all of these safeguards to be satisfactory (ICR, page 11, para 4).” In a further communication the project team explained that the project fully complied with the Bank’s safeguard policies.

b. Fiduciary Compliance:

Financial Management. Financial management faced difficulties during the period from 2009 and 2010. This led to delays in providing timely and accurate financial information conforming to Bank standards. These difficulties were later addressed after a Financial Management Plan agreed upon with the Bank was implemented. The ICR (page 11, para 6) reported that overall financial management was rated moderately satisfactory and audits were unqualified.
**Procurement.** Procurement was initially weak because of delays in contracting consultants and preparing procurement plans. As implementation progressed, good overall capacity was developed and procurement planning improved. In 2014, a new national contracts' law was approved. This required the project to rehire consultants under new terms of reference and payment structures. This process took two to three months of laborious administrative work and it negatively affected the hiring and payment of project teams. In a further communication the project team reported that there were no incidences of mis-procurement.

c. Unintended Impacts (positive or negative):

d. Other:

<table>
<thead>
<tr>
<th>12. Ratings:</th>
<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcome:</strong></td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td></td>
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<tr>
<td><strong>Risk to Development Outcome:</strong></td>
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<td>Moderate</td>
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<tr>
<td><strong>Bank Performance:</strong></td>
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<td><strong>Borrower Performance:</strong></td>
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<td><strong>Quality of ICR:</strong></td>
<td></td>
<td>Satisfactory</td>
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**NOTES:**
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**
The ICR has five lessons, and most important three follow with some adaptation of language:
- **To reduce political interference, transparent and competitive staff selection procedures and performance evaluations need to be included in the agreements for project implementation.** Political instability and interference, with the resulting staff changes, affected project implementation. In anticipation of such challenges, it is critical to include mitigation measures, to the extent possible, during project preparation. In similar projects supported by the World Bank in Latin America, transparent and competitive staff selection procedures and performance evaluations are included in the agreements for project implementation.
- **Improving women's participation requires specific strategies, including differentiated support.** Specific strategies should be considered to foster women's participation, such as establishing a specific business line to support the types of businesses opportunities that traditionally attract a high level of interest among women. On the other hand, implementing dissemination events specifically directed at women is a good practice in demand-driven interventions as well as making targeted/customized gender sensitive training available for Rural Productive Organizations.
- **Setting realistic outcome indicators aligned with "upgrades /improvements" supported through the project is critical for success.** Over-ambitious targets and imperfect indicators can pose significant challenges to judging a project's success. The increase in sales indicator (expressed in value terms) is a challenging indicator of competitiveness in demand-driven projects, as the exact size of the gains to be made by the project investments (in value terms) are difficult to know *a priori* and many exogenous factors may influence its increase. Overall, outcome indicators aligned to sustainable gains at the level of increased productivity, increased efficiencies, quality improvements, and reduction of post-harvest loses are very appropriate for projects that support improvements in agricultural enterprises.

**14. Assessment Recommended?**  ● Yes  ○ No
Why? The significance of these projects to the region is well known and would justify further investigation as to the strengths and weaknesses of the approach, especially as this approach is rolled out to other regions.

15. Comments on Quality of ICR:

The ICR is very well written, provides a very thorough coverage of project activities and reports candidly on most shortcomings and difficulties encountered. The supporting annexes are excellent and accord with the main report. The lessons reflect the project’s experience. While the ICR provides a logical discussion of project outcomes, the discussion is slightly skewed towards discussing components. The ICR also had one shortcoming: the assessment of outcomes using the split rating approach that does not follow ICR guidelines. Also, the ICR data sheet reported the original effectiveness date as 11/26/2007 and original closing date as 01/31/2013, however, according to the PAD (p. ii) these should be 07/31/06 and 01/31/2012 for effectiveness and closing dates, respectively.

Quality of ICR Rating: Satisfactory