1. Country and Sector Background

Guatemala has the second worst GINI coefficient among 64 low to middle income countries which is accompanied by widespread poverty akin to that of much poorer nations. In 1989, the poorest 40 percent of the population shared barely 8.5 percent of income while the top 10 percent received almost 47 percent of income. Poverty is concentrated in rural areas, among indigenous peoples and skewed toward women. It afflicts over 75 percent of the population, 86 percent of the rural population, 93 percent of indigenous people and 70 percent of female-headed households (49 percent of which live in extreme poverty). Geographic isolation and the effects of prolonged conflict on their assets and communities compound the poverty affecting rural people. Poverty in Guatemala stems in part from unequal access to productive assets, notably land, and chronic low investment in human capital. At last count, 2.5 percent of farmers controlled 65 percent of the land, while 16 percent of the land was cultivated by 88 percent of farmers. Credit is scarce in rural areas for all but the largest producers. There is a historic lack of investment in public and private investment in basic rural infrastructure - roads, electricity, communications, water and sanitation. Education and health have received less than half the regional average share of GDP for decades, and this spending has had an urban bias.

The CAS emphasized the need to assist Guatemala in making the peace stick by supporting efforts to form an inclusive nation. To this end, the CAS emphasizes support for two development priorities which are directly related to the proposed project. First, building social cohesion and strengthening participatory decision-making by choosing, designing and implementing subprojects in ways that foster inclusion through decentralized decision-making, implementation and informed participation of beneficiaries and strengthening communities. Second, reducing poverty and exclusion by concentrating lending on improving access to sustainable productive
activities, expanding delivery of basic services and targeting the social safety net to the poorest members of society. These priorities are being supported by a lending program that includes Basic Education Reform, Rural and Main Roads, Low-Income Barrios, Reconstruction and Local Development and the proposed FIS II project. The FIS is one of the key components of the social safety net because of its participatory decision-making and its ability to reach remote impoverished areas with priority small-scale investments in social and economic infrastructure and services. It complements the work of the National Peace Fund (FONAPAZ) by reaching poor areas not included in the former conflict areas (ZONAPA).

2. Project Objectives

The project would be the Bank’s second loan to the SIF. It would continue to support the Government’s poverty alleviation efforts, target its investments to the poorest areas and population groups in the country, and contribute to participatory decision-making and decentralization by strengthening the capacity of community-based organizations and local governments to define problems, prioritize needs, plan and implement small-scale community-based subprojects and ensure project sustainability by developing adequate arrangements for subproject operations and maintenance. The project would finance: (a) high priority social and economic infrastructure and complementary goods and services including the establishment and strengthening of village banks similar to those financed under the first project in which women are the principal beneficiaries; (b) training and consultant assistance to support capacity building in the communities; and (c) strengthening the central and regional offices of the FIS, closer coordination with local governments and line ministries, ex post evaluation of completed subprojects and beneficiary assessment, and the development of a coherent framework for the social safety net. Progress toward these development objectives will be monitored and assessed according to the key performance indicators outlined in Annex 1 of the PAD.

3. Project Description

The project, whose total cost is estimated at US$64.0 million would be implemented over a four-year period starting in 1999 and would have three components:

A. Community-Based Subprojects: (1) Social and Economic Subprojects. The project would support a wide range of community-based demand-driven proposals including pre-feasibility studies for small-scale infrastructure and services such as schools, health posts, water supply, sanitation and latrine systems, bridges and access roads, seed credit for community banks and other productive activities based on targeting and subproject selection criteria and procedures set out in the Operational Manual and Project Implementation Plan (PIP). Community Banks would be limited to US$2.0 million total.

B. Community Training: The project would provide training linked to individual subprojects to beneficiaries, staff of line ministries, municipalities, and NGOs in participatory planning, problem prioritization, subproject operations and maintenance, and environmental issues.

C. Institutional Development. To improve the quality of subprojects and FIS targeting and responsiveness to beneficiary communities, the project would
support the decentralization of FIS operations, training and consultant assistance in participatory and strategic planning at the community level, environmental concerns, community maintenance of subprojects, community banks and efforts to increase the participation of women in FIS projects. The project would also finance at least one project evaluation each year, a modest amount of equipment and vehicles for subproject supervision and decentralized operations; and development of a coherent framework for the social safety net.

4. Proposed Project Financing

Project costs are estimated at US$64.0 million. Bank financing would be for US$50.0 million, the central Government would finance US$ 7.0 million, and the beneficiaries would finance the remaining US$7.0 million.

5. Project Implementation

The Implementation period is four years, 1999-2003. FIS would be responsible for the overall project management, including promotion, appraisal, financing, and supervision of subprojects. FIS was established in 1992, and became operational in 1993/94 with the support of the Bank (Ln. 3534-GU) in 1993. Subprojects requested by the communities would be evaluated by FIS, and implemented by local contractors or NGOs, which meet agreed eligibility criteria. The community bank activities would be channeled by FIS through experienced NGOs, which would manage credit and training programs. Training related to community strengthening, including the operation and maintenance of completed subprojects, would be contracted out, mainly to NGOs.

Many of the subprojects identified by the communities involve investments which are traditionally the responsibility of the Ministries of Health (MOH), Education (MOE), and Communication, Transport and Public Works (MCTOP). FIS has interagency agreements with all of these to ensure that subprojects are appropriate, and are not duplicating line ministry activities, as well as to ensure the line agency’s ability and willingness to fund recurrent costs not covered by the beneficiary communities. In addition, FIS has official agreements on coordination and cooperation with the other social funds. During project preparation, the status of the agreements and FIS experience to date were reviewed to identify ways to ensure more effective interagency coordination.

Overall coordination and policy guidance would be provided by the Social Cabinet through the Office of the Vice President of Guatemala, as well as by the FIS Board of Directors (chaired by its Executive President, and including its General Manager and four members appointed by the President of Guatemala).

Project accounts adequate to generate timely and reliable financial information would be maintained throughout the project and financial audit reports, prepared by an independent auditor acceptable to the Bank, would be submitted to the Bank at the end of each year to verify the maintenance of such financial records in accordance with Bank standards. In addition, the same auditor would prepare quarterly audit reports of a sample of subprojects in execution and completed, covering both their processing and implementation.

FIS would prepare semiannual progress reports, including the updated list of agreed performance indicators, and provide copies to the Bank to be discussed during project supervision and implementation reviews. The indicators were
agreed as part of the PIP. Annual project implementation reviews would assess the quantity and quality of FIS’ operations, as well as the work program for the following calendar year and its recurrent and capital budget implications. Annual ex-post evaluations of completed subprojects and beneficiary assessments would be carried out as part of the annual implementation review.

6. Project Sustainability

Sustainability of subprojects would be ensured through: (a) cooperation with line ministries and agreement on their responsibility for operation of some completed subprojects (as described in agreements between FIS and those agencies); (b) comprehensive program of beneficiary community training in social management and operation and maintenance of all infrastructure subprojects, including establishment of user groups/committees and provision of toolkits for water supply, sanitation, and access road subprojects; and (c) screening of intermediary organizations for the community bank program, to ensure adequate institutional capacity to manage these activities.

7. Lessons Learned from Past Operations in the Country/Sector

The project design reflects SIF experience in Latin America discussed in recent World Bank and IDB reports, as well as the findings of the FIS annual review mission of May 1997. The World Bank report stresses the need for SIFs: (i) to focus on well-defined subprojects; (ii) to be an integral part of the Government’s economic and social policy; (iii) to be operationally efficient; (iv) to obtain feedback through proper monitoring and evaluation; (v) to be transparent and accountable; (vi) to ensure proper targeting; and (vii) to aim at subproject sustainability. The IDB report found that SIFs: (i) are efficient, transparent, and relatively free from political interference; (ii) have helped to improve the living conditions of the poor through the provision of social and economic infrastructure. The SIFs should not replace the public sector; they should reinforce rather than supplant state institutions in the social sectors. In general, SIFs should (i) allocate more resources to training and community development; (ii) integrate environmental concerns in their operations; and (iii) give greater emphasis to the involvement of women as beneficiaries. SIFs have the potential to play a catalytic role in reaching poor communities with no access to credit when they have a comparative advantage in the selection and control of credit intermediaries.


9. Environmental Aspects

The project would have no significant environmental risks. Standard safety and environmental assessment procedures have been developed and were reviewed during preparation. An improved environmental assessment mechanism is being established. Training in the new procedures will be financed by the project.

10. Program Objective Categories. The primary categories are: physical and institutional building.

Contact Point: Ing. Alvaro Hugo Roda
Executive President
The World Bank
Fondo de Inversión Social (FIS)
Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

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Annex

Because this is a Category B project, it may be required that the borrower prepare a separate EA report. If a separate EA report is required, once it is prepared and submitted to the Bank, in accordance with OP 4.01, Environmental Assessment, it will be filed as an annex to the Public Information Document (PID).

If no separate EA report is required, the PID will not contain an EA annex; the findings and recommendations of the EA will be reflected in the body of the PID.