I. Introduction and Context

Country Context

1. With a population of 14.76 million (2011) and GDP of US$46.9 billion (2011), Guatemala has the largest population and the largest economy in Central America. While the global economic crisis slowed GDP growth to 0.6% in 2009 –Guatemala’s worst economic performance in two decades - the national economy has since recovered and achieved 2.9% and 3.9% growth in 2010 and 2011, respectively. GDP growth since the crisis has been underpinned by robust exports, solid consumer spending and remittances from nationals living in North America. Exports of goods and services have remained strong, at 27.1% of GDP in 2011, as have workers’ remittances (an important source of capital) at 9.4% of GDP (2011). Inflation was stable in 2011 and 2012, and is projected to remain within the central bank’s target range of 3.5% - 5% through at least 2016. However, given that the United States is Guatemala’s largest source of worker remittances and largest trading partner (receiving just under 40% of Guatemala’s exports), a risk to the country’s growth is uncertainty about potential economic impact from the US sluggish recovery.
2. Its size notwithstanding, Guatemala has important challenges ahead: with 54 percent of its population living in poverty, Guatemala is one of the poorest and most unequal countries in Latin America. Per capita GNI (PPP) for 2011 was US$4,760; above neighboring Nicaragua ($3,730) and Honduras ($3,820), but less than half that of Costa Rica ($11,860) and less than El Salvador ($6,640) and Belize ($6,090). The country ranks second to last in Latin America according to UNDP’s 2013 Human Development Index, despite having a higher income per capita than other Latin American countries. Despite progress on democratic consolidation, poverty and inequality remain high and social indicators (health, nutrition, education) remain low compared to countries of similar income levels. The presence of high crime and violence rates poses an additional threat to the country’s development potential. A recent Bank study estimated that bringing Guatemala’s homicide rate down by just 10 percent could boost per capita income by 0.7 percent. In addition, Guatemala ranks fifth among countries with the highest economic risk exposure to three or more natural hazards and 83.3% of its GDP is located in areas at risk.

**Sectoral and Institutional Context**

3. Years of violent conflict and vulnerability to natural disasters had an impact on the spatial organization of the main urban concentration in Guatemala. Substantial rural to urban migration occurred over the past three decades, mostly towards the Guatemala City area. Migration has been driven primarily by the 36 year-long civil war, natural disasters, and economic crises. Guatemala’s urban population became a majority in 2012 (51%) for the first time; and the urbanization growth rates (which reached 3.3% between 2000 and 2010) are expected to continue to increase rapidly until 2015. Most migrants have moved to the area surrounding Guatemala City seeking economic opportunities; creating informal settlements, many of which are in risk prone areas, lacking basic services and poorly connected to jobs and economic activities. As a result, the number of people living below the poverty line in urban areas has been on the rise, particularly in the Guatemala City Metropolitan Area (GCMA).

4. With a population of approximately 3.2 million (or 21% of the total), the GCMA has the highest concentration of poor people per square meter in the country while at the same time it is the most important economic region in Guatemala. The share of people living below the poverty line in the four municipalities within the GCMA (Guatemala, Chiautla, Mixco and Villanueva) that account for 70% of the total metropolitan area population increased from 9% in 1994 to 13.5% in 2002. Simultaneously, the GCMA concentrates 60% of the country’s industry and generates 60% of the national GDP, making it the strongest economic region in Guatemala.

5. This imbalance is common in many Latin American capitals where rising urbanization has corresponded with economic prosperity within the central districts but is coupled with high poverty levels and vulnerability in the outskirts. The rapid growth of Guatemala City has been mostly horizontal, without increases in density, and has resulted in sprawl and growth of peri-urban areas, especially to the south. Indeed, most of the population growth in the GCMA is expected to occur within the municipalities south of Guatemala City, which traditionally have had less technical and financial capacity to plan and respond to increased demand for basic urban services. Estimates suggest that between 2010 and 2020 the population of the municipalities surrounding Guatemala City will grow by 20%, while the core area of the Guatemala City municipality will grow only by 1%. Apart from the challenges to provide adequate services, local governments have struggled to create the conditions to generate economic prosperity and jobs, particularly for the younger residents who represent 53% of Guatemala’s population (compared to 37% in other low and
middle income countries).

6. Six municipalities to the south of the GCMA recently formed the Mancomunidad del Sur, as a joint effort to address common problems and improve the living conditions of the urban poor. In August 2012, six municipalities within the GCMA formed the Mancomunidad del Sur (MS) – an association of six municipalities – to coordinate efforts and work together towards common economic development goals (See map in Annex 3). Mancomunidades are traditionally formed to implement local economic development initiatives or infrastructure projects with a supra-municipal scope. In this case, the MS includes the municipalities of Mixco, Amatitlán, Villa Nueva, San Miguel Petapa, Santa Catarina Pinula, and Villa Canales; which face similar urban challenges, including: (i) high rates of urban population growth resulting in rapid formation of informal settlements, (ii) low coverage of basic services provision (sanitation coverage varies between 47%-91%, and only 35% of total waste is systematically collected), (iii) high proportion of the population in at-risk areas (steep slopes) and prone to natural disasters, (iv) high levels of congestion on the main roads connecting the neighborhoods to downtown Guatemala City, and (v) increased criminal activity.

7. The government of Guatemala has requested funding from the Bank to improve the living conditions of the urban poor in the outskirts of the GCMA through the proposed Guatemala Urban Infrastructure Project. The proposed operation will build upon the Barrio Seguro and Municipio Seguro initiatives, launched by the Government of Guatemala in 2012 to address crime and violence in urban areas. These initiatives are led by the Ministry of Interior and the Ministry of Social Development and form an integral part of the Pact for Security, Peace and Justice, one of the three pacts announced by the Administration. The Safe Municipalities and Neighborhood Program that has emerged from the Pact adopts a comprehensive approach targeted at high-crime neighborhoods which includes social programs, infrastructure investments and crime and violence prevention. The underlying idea is that improving the socioeconomic conditions of targeted areas will promote social peace.

Relationship to CAS

8. The proposed Project supports the two strategic objectives articulated in the World Bank’s Country Partnership Strategy (CPS) for Guatemala for 2013-2016: (i) strengthening public policies for social development; and (ii) promoting inclusive and sustainable economic growth that also includes a focus on disaster risk management. It also advances the two CPS-identified cross-sectional themes: citizen security and gender. Specifically, this Project would build government capacity towards increased investment in basic services and housing for the urban poor, and support local capacity to engage in crime and violence prevention activities. Additionally, this Project is consistent with the CPS objective to strengthen the World Bank’s engagement in improving housing and social infrastructure to improve economic opportunities and security in vulnerable areas.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

9. The proposed Project PDO is to improve the quality of life of citizens in selected, vulnerable urban communities located in the Mancomunidad del Sur (MS) through increased access to basic infrastructure and interventions targeted to reduce vulnerability to natural disasters and crime and violence.

Key Results (From PCN)
10. The main PDO indicators for the proposed Project are the following:

- Number of direct Project beneficiaries (social interventions and infrastructure investments), of which are female (percentage).
- Number of households in selected urban neighborhoods with access to improved water sources and/or improved sanitation.
- Number of households in selected urban neighborhoods with access to paved, all season roads.
- Number of sub-projects that include disaster risk mitigation measures.
- Percentage of beneficiaries that feel safe in targeted poor urban neighborhoods.

III. Preliminary Description

   Concept Description

11. Description: To address the interrelated challenges that characterize the economically and socially vulnerable communities rapidly expanding on the outskirts of the metropolitan area, in the Mancomunidad del Sur (MS), the Project proposes a multi-layered approach that combines: interventions targeted towards mitigating crime and violence, upgrades to quality of and access to basic infrastructure, and interventions to address the vulnerability of these areas to natural disasters. The Project envisages investing both in 'hard' infrastructure upgrades and 'soft' activities (e.g., training in conflict resolution) that would reduce crime and violence and risk of natural hazards, as well as improve quality of services accessible to citizens.

12. The Project offers an innovative and needed framework for improving conditions in crime and violence-afflicted, poor urban communities. The Bank is well placed to support an integrated approach to urban upgrading that addresses social vulnerability given its previous experience supporting the implementation of similar projects in Latin America. These projects include the Honduras Barrio Ciudad Project (P088319), the Honduras Safer Municipalities Project (P130819), the Jamaica Inner City Basic Services for the Poor Project (P091299), and the Bolivia Urban Infrastructure Project (P083979). One key difference between these previous experiences and the proposed Project is the intended supra-municipal approach of the proposed operation. Working with an integral MS vision rather than only at municipal level is expected to enhance the Project’s ability to find synergies between the neighborhoods (notably in economic development and crime and violence prevention) and improve the spatial organization of the Guatemala City Metropolitan Area. Such an exercise would constitute a first attempt towards integrated planning between the municipalities in the outskirts of Guatemala City. If successful, this Project could serve as a 'pilot' which could be replicated and expanded to other municipalities in Guatemala.

13. To achieve the PDO, the Project would screen candidate neighborhoods to be targeted by the Project on the basis of 'eligibility criteria' that include: demographics (economic and social indicators), crime and violence statistics, and access to infrastructure. The Project would leverage information from the urban spatial plan, comprised of geo-referenced cartography that will integrate information on land use (including informal settlements), natural hazards, key infrastructure (streets, water and sanitation networks, public transport routes) densities, and GIS-based data on crime and violence for the municipalities within the MS. The team anticipates that the data will show that the most vulnerable communities are characterized by a statistically significant correlation between high crime and low access to public infrastructure/services.
14. Selected neighborhoods will prepare proposals for financing on the basis of community-driven diagnosis to identify infrastructure needs and priorities as well as the main drivers of vulnerability. Proposals will be further discussed and developed with the MS and the relevant municipality to ensure consistency with the municipal and regional development plans. The agreed neighborhood proposals – or neighborhood plans – which will include a combination of infrastructure works and social interventions for project financing will be the main unit of analysis for costing and for safeguards assessment. The list of infrastructure works in each neighborhood plan will be packaged to be procured under one contract to simplify implementation, which should occur with community supervision and monitoring. Social and capacity building interventions would be provided in coordination with the infrastructure works and other agencies and/or ministries.

15. The proposed Project is expected to have three components:

16. Component 1: Integrated Urban and Social Interventions. This component would finance comprehensive packages including infrastructure improvements as well as social interventions to respond to vulnerability to crime and violence and natural disasters. The interventions could include, inter alia, street and sidewalk paving, installation of public lighting, drainage connections, stabilization walls, improvement of public spaces, community infrastructure, reforestation, skills-training programs, community-driven maintenance, and gender-based violence prevention activities, among others.

17. Component 2: Technical Assistance and Capacity Building. The proposed component would finance technical assistance and capacity building to municipalities and the MS to strengthen regional and municipal planning processes and urban management, and to design crime and violence prevention strategies and community-driven approaches for disaster risk reduction and asset maintenance.

18. Component 3: Project Management Monitoring and Reporting. This component would finance the set-up and staffing of a Project Implementation Unit (“PIU”) in the Implementing Agency, plus the necessary technical assistance, capacity building and equipment necessary for project implementation, monitoring, evaluation and reporting.

IV. Safeguard Policies that might apply

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VI. Contact point

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