1. I would like to express our appreciation to Sally Zeijlon and her colleagues for this high quality and candid CAS. I would also like to commend the extensive and pro-active participatory process which the Country Team used in formulating both CAS priorities and individual projects. High marks for some good “best practice” lessons. We believe public participation is particularly important in a post conflict country such as Guatemala where such outreach can play an instrumental role in building and broadening public and political ownership on a long-term national development agenda. As experience shows, consultation with beneficiaries also significantly enhances the likelihood of project effectiveness.

2. Guatemala’s development prospects are obviously closely linked to the success of ongoing efforts to implement fully the socio-economic, human rights, political and security related elements of the December, 1996 Peace Accords. As the CAS document states: “The key challenge for Guatemala is to sustain peace by ending the exclusion that led to conflict.” We believe that the overriding goals and objectives identified in the CAS are correct and provide a pragmatic and substantive approach to a strategy based on inclusiveness and policy making through consensus.

3. We also recognize that the Peace Accords were signed just over a year and half ago, and -- after more than thirty years of civil conflict -- it will not be easy for the Government to maintain the consensus on the many complex and politically sensitive issues addressed in the Accords. The increase in serious crime over the past year, the recent assassination of Bishop Gerardi, and ongoing weaknesses in judicial effectiveness reflect the still fragile state of internal security. Moreover, limited institutional capacity still poses a serious constraint on policy implementation. The CAS honestly notes the high risks/high rewards aspects of the challenges facing the Government and its development partners. We believe these are risks which can and should be taken at this critical juncture.

4. In agreeing with the four core priorities of the CAS, and the proposed lending program outlined in Annex B3, we applaud the strong overarching emphasis placed on social development and the reduction of poverty, including land reform, rural development and finance, and basic education. In fact, the programmatic areas identified in the
CAS as targets for Bank lending and non-lending activities appear, without exception, meritorious. We found Annex B9 on Country Performance and Country & Bank Development Priorities very informative and helpful — another “best practice” lesson for future CASs. We consider it to the Government’s credit that it recognizes the very serious problem of wide income disparities and is increasingly committed to seriously address the deep and widespread poverty found in rural areas, with its particularly heavy concentration among indigenous people and women.

5. **We believe there is a persuasive case for an increase in base-case lending to $310 million over three-years.** As noted earlier, we agree with the Bank’s assessment on the significant risks facing the CAS. We also agree with the CAS conclusion that the Bank join with its other partners in attempting to mitigate these risks.

6. We are encouraged that all projects in the current portfolio are currently rated as satisfactory, and that there have been steady improvements in the still weak implementation capacity. We view ongoing efforts to address implementation delays as important and appropriate.

7. The CAS recognizes the importance of close donor collaboration. We understand that donor partnerships are operating well on the ground, and that coordination has led to a practical division of labor with, for example, the IDB taking the lead in support for health care, a sector in which one would normally expect Bank engagement. We encourage continued close donor coordination with the Government to help ensure that external resources are effectively targeted.

8. We also welcome the efforts of the IFC and MIGA to increase their presence in Guatemala in support of private sector development. It would be a bonus if an IFC operation with direct productive opportunities for the poor could be developed.

9. The Document notes that the 1995 CAS cited fiscal policy as the Achilles heel of the economy. Unfortunately, as the current CAS emphasizes, fiscal policy remains a serious concern. Given the widespread extent of serious poverty and the disparity of incomes among the highest in the world, the importance of increasing social expenditures is starkly apparent. However, in our view, it will not be possible to meet scheduled increases in these vital social expenditures without running unsustainable deficits unless there are new resources. We would welcome comments from the IMF representative on Fund’s latest expectations in this area.