Board Meeting of July 14, 1998
Statement by Joaquim Carvalho

Guatemala: Country Assistance Strategy

We find this Country Assistance Strategy for Guatemala consistent with the government’s objectives of transforming the country to a more inclusive nation by reducing poverty; improving economic management; modernizing the public sector to make it more effective; and strengthening social cohesion by involving stakeholders in the decision making process. After the end of armed conflicts that lasted for 36 years, Guatemala has started to make steady progress toward macroeconomic stability. Moderate economic growth rates have been registered, while the inflation rate has been brought down from 60 percent in 1990 to 7.1 percent in 1997, and the foreign exchange rate stabilized. Notwithstanding these impressive achievements, however, the country is confronted with a number of economic challenges, especially in the areas of poverty reduction and efficient delivery of social services.

We concur with the staff’s assessment that in order to consolidate the peace process in post-conflict Guatemala, there is a need to broaden the basis for growth and to reduce poverty, particularly among the rural and indigenous peoples. The multi-directional approach to poverty reduction that the country is pursuing is a step in the right direction. In this connection, we are impressed by the government’s proposed plan to increase social expenditure by 50 percent, particularly for health and education programs, with the objective of increasing literacy from 55 to 70 percent and halving infant and maternal mortality rates by the year 2000.

In order to tackle the issue of poverty alleviation decisively, the problem of access to land for the poor must be addressed. More than half of the rural population are working as farm hands in large farms. In this regard, we are pleased with the steps being taken to assist the government to address the issue of land ownership and tenure in the country. Additionally, we note the government’s recognition of the need to provide credit for the poor farmers through the proposed rural financing scheme. We also welcome the efforts being made to encourage non-agricultural activities that can help in reducing the pressure on the land while at the same time generating more income for the poor.
To ensure an efficient delivery of social services and a proper functioning of the safety nets, priority should be given to modernizing the public sector, combating corruption, and setting up social funds. Achieving these objectives will entail intensifying tax collection efforts in order to generate the necessary funds for public investment and for the maintenance and operation of infrastructure, among other things.

With regard to private sector development, we welcome the government’s plan to encourage private participation in the provision of infrastructure, improve access to investment financing and reduce regulatory impediments to private investment. Given the important role that the private sector plays in poverty reduction, we support the efforts of the Bank Group to develop this sector to become the engine of growth in Guatemala. The strong presence of IFC in the country, especially in the energy and infrastructure sectors is evident and we hope that the Corporation will continue its efforts in assisting the government in implementing its privatization program. We are also gratified to note the role MIGA is playing in encouraging the flow of foreign direct investment through guarantees and technical services.

The nine projects in the IBRD’s portfolio for the country were rated satisfactory, with a total commitment of US$ 230.5 million, of which US$ 171.2 million remains undisbursed. While we note that efforts are being made to address the problems of counterpart funding, institutional capacity constraints, and delays in the government approval process, we expect that more attention will be directed to these areas. Delays in the implementation of Bank projects in the country, as revealed in table 2, are a cause for concern. Out of the five projects totaling US$ 156.6 million approved last year, only US$ 1.3 million was disbursed as at June 1998. It is our hope that the proposal for accelerating disbursements outlined in the paper will provide a good framework for addressing this issue.

We note the presence of a number of multilateral and bilateral donors in Guatemala and the important aid coordination role that the Bank is playing. A clear division of labor among the development partners is evident and we hope that the comparative advantages of each donor will be exploited to the maximum.

Finally, we welcome the candor reflected in the CAS, its strong ownership by the government and the high level of participation by the stakeholders. We also commend management and staff for their contribution to the peace process and wish the Government of Guatemala success in its efforts to build a more inclusive nation.