

VI. CONCLUSIONS AND MAJOR RECOMMENDATIONS

Actions to be Taken by the Government

68. In order to mount a well-focussed longer-term social investment program, the Guatemalan authorities will have to implement the key policies suggested in the Public Sector Expenditure Review, i.e. (a) mobilize additional resources, (b) allocate more resources to the social sectors, and (c) implement existing programs more effectively.

69. An area of particular weakness on which action is needed is health, nutrition, and food aid. One of the central conclusions of the present report is the need for the Government to lay the groundwork over the next six months for a much better targeted and integrated approach which combines health, nutrition and food aid and focuses them on the most vulnerable poverty groups. To do so it will be necessary to set up working groups (as described in para 30) which will prepare a strategy, an evaluation of existing operations, and an estimate of additional resources required to carry out an integrated program. At the same time, the possibility will be studied to have municipalities and community groups assume increased responsibility for health and nutrition programs in the rural poverty areas on a permanent basis.

70. In the area of education, primary education programs are relatively well funded, but there is the need to implement existing programs and projects more effectively. A very interesting project for pre-primary education is being prepared which will have to be implemented primarily by parents and community groups at the grassroots level. Speedy preparation of this project deserves priority. The project will merit the financial support of the donor community.

71. A major signal to the donor community that the Government is committed to implement the social investment strategy effectively would be to speed up greatly the approval by the Congress of already signed loans such as the US\$29 million IBRD loan to the Municipality of Guatemala City and the US\$30 million IBRD Primary Education Loan. Another positive signal would be the allocation in the 1990 budget of increased resources to the social sectors.

72. As noted in the report, as a result of the 8 percent Constitutional revenue-sharing provision and the enlarged activities of NGOs and other forms of associations, new demand-driven funding chains for the poor rural communities have opened up. This provides the opportunity to complement in the areas of health, nutrition and education the actions of the line Ministries whose capacity to provide services to the poor rural communities is limited. The report therefore recommends the creation of a Social Investment Fund, that would channel additional domestic and external resources to both the municipalities and the NGOs and other associations working at the local level. The Government should take the steps outlined in paras. 62-64 to establish the Fund and enable it to start operations at an early date. Suggested target dates to accomplish this could be: (i) preparation of draft legislation to create the Fund and submission to the Guatemalan Congress by September 1st, 1989; (ii) preparation of draft

operating manuals and criteria of the Fund by September 1st, 1989; (iii) Congressional approval and legal creation of the Fund by March 1st, 1990; and (iv) start of operations of the Fund by May 1st, 1990.

Suggested Support by the Donor Community

73. If the Government is to be successful in integrating its health, nutrition and food aid activities and target them more effectively, it will require that the donor community coordinate its actions in this field more closely than in the past. It is suggested that the major agencies involved in these programs, USAID, the World Food Program, IDB, the European Community, UNDP and the World Bank form a working group which would assist the Guatemalan authorities in this task and would help them prepare a health and nutrition sector program. This program could form the basis for a possible sector operation to be supported by a group of donors.

74. Once the Social Investment Fund has been created and the Government has demonstrated its commitment to the proposed social investment strategy, the donor community should be prepared to channel most of its assistance for the municipalities in the rural and low income urban areas, the NGOs and special credit programs directed at productive and poverty-oriented activities through the Social Investment Fund.

75. The donor community should also be prepared to provide technical and financial assistance for the further preparation of the social investment program.

GUATEMALA

PRODUCTIVE AND SOCIAL PROJECTS:
EXISTING PROGRAMS

1. This Annex provides a summary of the main programs undertaken by the Government, cooperatives and NGOs in the financing of productive and social investments in Guatemala.

A. Government Programs

2. The Guatemalan Government, assisted by both bilateral and multilateral agencies, has sought to support and replicate efforts made by NGOs, cooperatives and other types of associations in the funding of productive and social projects through the following programs that can be summarized as follows:

SIMME (Sistema Multiplicador de Microempresas)

3. This program has a specific target of reaching 40,000 beneficiaries, mostly in urban areas (primarily Guatemala City) by 1990. Beneficiaries are poor, small productive micro-entrepreneurs (tailors, ice cream vendors, etc.). It excludes commerce which is an important economic activity and an important source of income for the poor (the proposed Social Investment Fund would finance commerce). The SIMME program, which operates through six NGOs, has been successful in reaching, so far, 3,600 beneficiaries and disbursing US\$4.6 million. It is currently negotiating up to US\$13 million in additional funds with the objective of reaching 17,000 beneficiaries in 1989. Its perceived weaknesses are (i) it seems to have stressed quantity over quality, resulting in arrears of 13% initially, reduced to a still high 8.6%; (ii) it works through an apparently weak financial institution, Banco de los Trabajadores; and (iii) it is perceived by NGOs to be too overly political.

4. However, SIMME exists, will continue and the way for the Fund to cooperate with SIMME would be to select intermediary NGOs (IDB finances this program but has selected two NGOs out of six in 1988. They are contemplating programs with four more NGOs in 1989.) The Fund should operate similarly. If NGOs participating in the SIMME program request financing from the Fund they would need to adhere to the Fund's selection criteria. In fact, the Fund would be complementary to SIMME, i.e., (i) it would operate much more in rural areas while SIMME operates mostly in urban areas, and (ii) it would finance comprehensive programs involving social projects in addition to purely productive projects.

5. IFDI. A joint effort by the Ministry of Finance and UNDP, IFDI is primarily a project development facility helping local communities, entrepreneurs, NGOs formulate and prepare projects for presentation to financial institutions. When necessary, it also provides funds for the actual projects. IFDI processes requests from municipal and local groups seeking credits for agricultural production, processing and marketing and rural craft industries such as clothing manufacturing. In 14 months of

project evaluation, low income because of production of low-yielding traditional crops on small plots of land, and lack of financial controls and audits leading in some cases to abuse by a limited number of members. Savings and loans cooperatives also face difficulties with average arrears of 25% from their members. Cooperatives have the desire to improve their operations and are receiving funding from the Government (a US\$300,000 revolving fund through BANDESA), from AID (a US\$10 million grant for recapitalization and technical assistance), and IDB.

10. There have been a number of striking successes such as the Cooperative Cuatro Pinos which has been very successful in producing and directly exporting high-return non-traditional crops such as snowpeas, string beans, broccoli and cauliflower to Europe and to the U.S. By producing these crops with the appropriate technology on irrigated and rainfed terraced land, over 1,600 small farmers have multiplied their income 3-5 times. Although this is an exceptional case, the objective of the Fund in the cooperative area would be to try to reach similar success by identifying a number of individual cooperatives with projects involving both a productive component and institutional improvement.

C. NGOs

11. Today, NGOs in Guatemala are more numerous and sophisticated than ever before. There are over 200 NGOs nationwide of which about 15 invest more than US\$1 million each annually.

12. NGOs have a significant presence in the Guatemalan economy. They are estimated to have invested close to US\$30 million in the country in 1988. A rough average estimate of the sectoral investments made by 54 of the larger NGOs per sector in 1988 is as follows:

	<u>US\$ Million</u>
Education and Health	13.3
Infrastructure	5.8
Agriculture and Microenterprise	<u>7.3</u>
Total	29.4

13. It is estimated that about one third of NGOs resources (about US\$10 million) came from bilateral and multilateral aid, a significant portion of which is channelled through some of the above-described Government programs and two thirds from private sources (i.e. worldwide operating NGOs such as Foster Parents Plan International financing their Guatemala branch).

PROPOSED OPERATING PROCEDURES OF THE SOCIAL INVESTMENT FUND

1. The Social Investment Fund will make its objectives and scope of operations known to the Municipalities, NGOs, cooperatives, other types of associations and Government credit programs active at the local level.

2. The two operating departments of the Fund are expected to adopt the following procedures:

A. The Social Infrastructure Department would:

- (i) negotiate participation agreements with interested municipalities, under the terms of which they would accept the Fund's policies and criteria regarding priority areas for investment and agree to permanent external audits and supervision;
- (ii) The Mayor and the Municipal Development Council in case it is already in operation, would select the priority projects for which Fund financing is sought;
- (iii) INFOM or another qualified entity or firm, selected by the municipality and approved by the Fund, will assist the Mayor and Municipal Development Council in the preparation of the municipality's proposals in accordance with the Fund's criteria, contained in its operating manual;
- (iv) the municipality would present its project proposal to INFOM or another qualified institution, which would pass judgement on its eligibility. These technical agents would have to give their views within a limited time (say 3 weeks), after which the proposal could be submitted directly to the Fund's Social Infrastructure Department;
- (v) The Social Infrastructure Department would appraise the proposed project and if it finds it acceptable, would recommend that the General Manager of the Fund approve it. Unusually large or innovative projects might require the approval of the Board of Directors; small projects, up to an amount to be periodically determined by the Board of Directors, could be approved by the Assistant Manager in charge of the Social Infrastructure Department or by the Manager of one of the Fund's regional offices;
- (vi) In the course of appraising the project, the Fund's staff would make sure that the costs are in line with cost information contained in the data bank with respect to other projects, particularly those being financed in the same municipality;

- (vii) In case the proposed project is not approved, the Mayor and the Municipal Council will be informed through INFOM (or another technical agent which has been selected) with suggestions for its reformulation and possible resubmission;
- (viii) In case the proposal is approved, the Mayor and Municipal Council will be notified through INFOM (or another technical agent) and the Central Bank authorized to credit the account of the municipality with a portion of the amount needed to finance the project (using the 8% channel);
- (xi) The municipality would begin the execution of the project by force account or by contract (as the case may be);
- (x) INFOM (or another technical agent authorized by the Fund) would supervise the execution of the project, submitting periodic progress report to the Social Infrastructure Department. If implementation is satisfactory, Fund management would authorize further disbursements to the municipality's account with the Central Bank;
- (xi) The Fund would engage independent public accountants who would perform the audit function on a permanent basis.

B. The Department for Productive and Social Projects would:

- (i) Receive from intermediaries their financing programs. Eligible intermediaries would be NGOs, cooperatives, farmers' and public producers' associations or some public entities (such as IFDI, USPADA, etc.) which have close contacts at the local level.
- (ii) These intermediaries could present programs containing one or more of the following components: a) a revolving credit to fund small agricultural operations such as mini-irrigation, handicraft production, tailors, mechanics, repair shops etc.; b) a separate, larger productive project such as a cooperative, investing in a fruit collection and packing center; c) a social component, including health, nutrition, education and social infrastructure projects; and d) technical assistance to the intermediaries and the final beneficiaries.
- (iii) The Fund would finance these programs by making loans for productive projects and grants for social projects and grants for social projects. In most cases technical assistance for the intermediaries and final beneficiaries would be provided on a grant basis.
- (iv) The Board of Directors of the Fund would approve the financing of programs and of very large innovative projects, but would delegate to the General Manager, Assistant Manager and the Managers of local offices of the Fund, the power to approve other programs and projects, below amounts to be periodically determined.

- (v) The intermediary institutions will have to see to it that appropriate procurement procedures are agreed on during project preparation. In view of the fact that there is likely to be a great number of small contracts for the purchase of goods and services, it is suggested that the system of competitive shopping, involving a minimum of three quotations, be adopted. Where the intermediary is a public entity and the contracts are of larger size, public competitive bidding might be required.

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Table 1. PROJECTS IN THE MINISTRY OF HEALTH BY DONOR, 1988-1991 (Million of Quetzales)

	Donor	1988	1989	1990	1991
A. Projects in Execution		69.8	102.1	26.1	25.3
Health		59.6	52.7	16.4	16.8
Imm. & Infant Surv.	USAID	7	10	10	10
Family Planning Prog.	USAID	0.7	0.7	0.7	0.7
Water, Health, Fam. Plng.	UNICEF	0.8	0.5	0.5	0.5
Study Malaria Control	USAID	0.4	0.4		
Equip. Roosevelt Hosp.	FRANCE	1.2			
Equip. Quetz. Hosp.	FRANCE	17.1	6.9		
Const. & Maint. Hosp.	IDB	19.6	24.7		
Const. Clin. & Posts	IDB	4.7	2.1		
Sup. & Manag. Const.	IDB	2.4	1.9		
Const. & Equip. H. Torax	Bk. Eur.	3.2	0.7		
Const. & Repair H. Centers	USAID	2.7	4.8	5.2	5.6
Water & Sanitation		10.2	49.4	9.7	8.5
UNEPAR	KFW		8.5	8.5	8.5
UNEPAR	IDB		26.5		
DSA: Rural Water Sup.	USAID	4.6	4.9		
DSA: Rural Water Sup.	USAID	4.6	4.9		
DSA:Rural Water Sup.	USAID	0.5	0.5	0.6	
DSA:Rural Water Sup.	USAID	0.5	0.5	0.6	
Water Small Communities	UNICEF		3.6		
B. Projects in Negotiation			18.21	31.75	73
Health			18.21	19.25	35.5
Malaria Control	IDB		5.25	5.25	10.5
Rural Health care strength.	ITALY		11	11	22
Equip. Antirrabic Lab.	USAID		0.46		
Health education	USAID		1.5	3	3
Water & Sanitation				12.5	37.5
Rural Aqued. V stage	IDB			12.5	37.5
C. Projects Looking for Finan.			38.5	38.5	38.5
Inf. Surv. Program			3.9	3.9	3.9
Family Plan. Progr.			0.9	0.9	0.9
Oral Health Program			5.5	5.5	5.5
Nut. Recuper. & Educ. Ser.			1.9	1.9	1.9
Mosquito Aedes Control			1.9	1.9	1.9
Rural Hea			1.6	1.6	1.6
Nat. System Food Distr.			11.3	11.3	11.3
Reconst. Hosp. Aquisate			3.3	3.3	3.3
Const. Equip. Posts			8.2	8.2	8.2

There are numerous other small projects in the MOH which have not been included for lack of information. Other donors include OPS/DMS, PNUD, PNUAP, Rotary International, USAID, UNICEF, IDB. The MOH is now in the process of inventoring and evaluating the impact of all foreign aid.

Table 2. Program Food Aid
Projected Budgets 1989-1993, Guatemala
(\$000)

	1989	1990	1991	1992	1993
CARE^a					
MCH (270,000)***					
Food	6,000	6,000	6,000	6,000	6,000
Handling	2,100	2,100	2,100	2,100	2,100
Program ^a	1,263	534	588	685	696
Total	9,363	8,634	8,688	8,785	8,796
FFW					
Secondary Cities (65,000 direct and indirect beneficiaries)					
Food	624	721	357 ^b		
Handling	1,900	1,900	1,900		
Program	784	803	801		
Total	3,308	3,424	3,058		
Agroforestry (75,000 direct and indirect beneficiaries through 1991)					
Food	259	259	259	259	259
Handling	1,100	1,100	1,100	1,100	1,100
Programming	494	358	405	411	466
Total	1,853	1,717	1,764	1,770	1,825
Total FFW	5,161	5,141	4,822	1,770	1,825
PMA^c					
School (660,000 normal of which 30,000 further supplemented)					
Food	6,685	6,685			
Government	3,272	3,272			
Total	9,957	9,957			
MCH (140,000)					
Food	3,322	3,322			
Government	1,616	1,616			
Total	4,938	4,938			
FFW (420,500 direct and indirect beneficiaries through 1991)					
Food	6,871	6,871	6,871	2,502	2,502
Government	6,855	6,855	6,855	2,205	2,205
Total	13,726	13,726	13,726	4,707	4,707

CRS/Caritas Nacional

MCH (68,000) and Other Child Feeding (3,600)

Food	696 ^d
Other	442

Total	1,138 ^e
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FFW (28,000 direct and indirect beneficiaries, San Marcos only)

Food	131 ^f
Other	8

Total	139
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Caritas Arquidiocesana (64,000)^g

Food	3,286
Program???	

Cogaat (116,400 direct and indirect beneficiaries)

Food	2,823	2,823	2,823	2,823	2,823	2,823
German Pers. ^h	650	650	650	650	650	650
Program	1,210	1,210	1,210	1,210	1,210	1,210

Total	4,683	4,683	4,683	4,683	4,683	4,683
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PL480 Title I ⁱ	18,000	18,000	18,000	18,000	18,000	18,000
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*** In parenthesis is the number of beneficiaries, based on the following assumptions. MCH and school feeding programs feed only one beneficiary per ration. FFW projects feed 5 people in family per ration. One PMA FFW project also contains some non-family beneficiaries who were counted only as individuals.

a. Does not include participant contributions of \$0.10 per month.

b. source: CARE Multi year operating budget except urban food program food value from Mike Goldberg, CARE Urban FFW Program. Supposedly, these figures include cost of materials even through previous material costs have been considerably higher.

c. source: World Food Program project documents

d. based on 1987 data, Pines, 1988.

e. does not include costs of Catholic Church personnel but does include \$58,800 contributions from beneficiaries.

f. 1987 data from Pines, 1988.

g. from Caritas Arquidiocesana Annual Report, 1987. Unknown quality of data. Pines (1988) reports, for instance, that beneficiaries number 330,000. No data available on administrative costs, targeting, or other program information.

h. Source: Wolf-Dieter Muller, Program Director, COGAAT. German personnel costs are off budget (and unknown to Muller); estimated to be \$50,000 per person per year.

i. Non-programmed food aid. Millers buy wheat directly from US exporters and repay Government for value of commodity plus shipping.

Table 3

Summary of Food Aid Programs, 1988
(US \$000)^a

	MCH	FFW	SCHOOL	Total
Beneficiaries (Direct and Indirect)	478,000	704,900	660,000	—
Food	10,018	10,708 ^b	6,685 ^d	27,411 ^b
Other Costs	5,421	13,001 ^c	3,272 ^d	21,694 ^{c,d}
Total Costs	15,439	23,709 ^c	9,957 ^d	

a. Programmed food aid only. Excludes \$18 million of PL480 Title I food aid and emergency food aid (no available figures).

b. includes COGAAT FFW food which is purchased locally, worth \$2,823,000 but excludes food aid through Caritas Arquidiocesana worth \$3,286,000.

c. excludes most non-food costs of FFW program of CRS/Caritas which were not reported.

d. excludes \$10 million from Ministry of Education budget

Table 4
Education Sector Projects by Donor: 1986-1995
Pre-Primary and Primary Level
(millions US \$)

Name and Period	Donor	Total Cost		Undisbursed		1988		1989		1990		1991		1992		1993		1994		1995	
		Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign
In Execution																					
Basic Education I (1983-1989)	WB		16.50	1.66	7.20	0.64	3.77	0.64	2.90	0.38	0.53										
Basic Education II (1988-1995)	WB	38.27	30.00	38.27	30.00	0.00	0.00		0.60		2.40	7.20	7.50			6.80	4.80		1.20		
PROCEBI (1985-1989)	USAID	9.40	13.50	3.00	6.50	1.62	0.62	1.50	4.20	1.50	4.26										
PROCEPIR (1983-1989)	IDB	7.20	28.00	5.39	19.24	1.61	0.78	5.39	19.24												
SIIMC II part (1988-1991)	Total	1.84			1.65		0.19		0.67		0.57	0.36									
	UNESCO		1.63																		

Source: MOE.