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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF GUATEMALA

FOR THE

**NATIONAL RURAL DEVELOPMENT PROGRAMME – PHASE I:
THE WESTERN REGION**

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CURRENCY EQUIVALENTS

Currency Unit	=	Quetzal (GTQ)
USD 1.00	=	GTQ 7.60
GTQ 1.00	=	USD 0.13

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

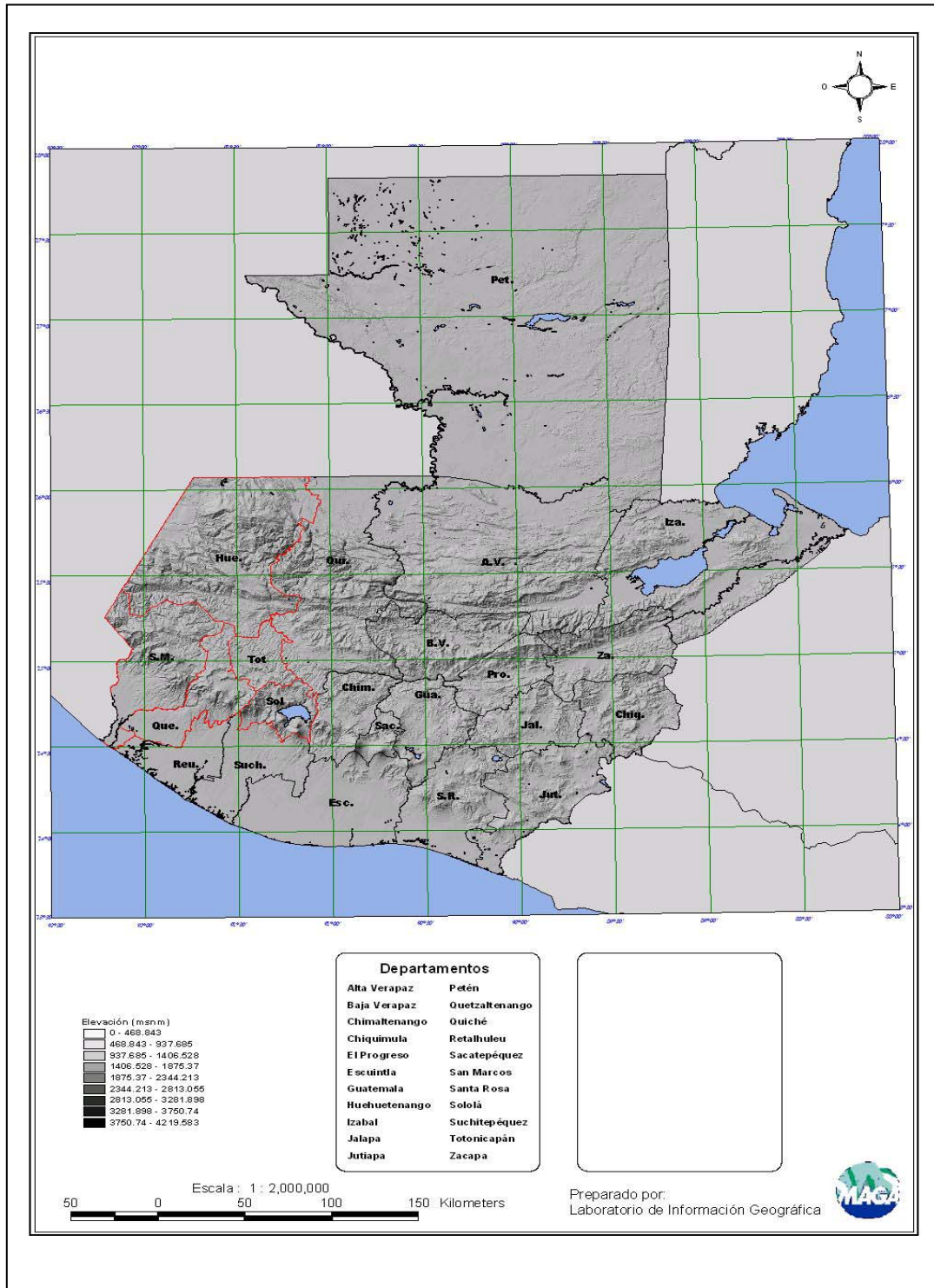
ABBREVIATIONS AND ACRONYMS

BCIE	Central American Bank for Economic Integration
COSOP	Country Strategic Opportunities Paper
FONAPAZ	Fondo Nacional para la Paz (National Fund for Peace)
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
MAGA	Ministry of Agriculture, Livestock and Nutrition
M&E	Monitoring and Evaluation
MINUGUA	United Nations Verification Mission in Guatemala
NGO	Non-Governmental Organization
OPEC Fund	Organization of the Petroleum Exporting Countries Fund for International Development
PMU	Programme Management Unit
PRODERQUI	Programme for Rural Development and Reconstruction in the Quiché Department
SEGEPLAN	Secretariat for Planning and Programming
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
URNG	Guatemalan National Revolutionary Union

GOVERNMENT OF THE REPUBLIC OF GUATEMALA
Fiscal Year

1 January - 31 December

MAP OF THE PROGRAMME AREA



Source: MAGA, Geographic Information System

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

REPUBLIC OF GUATEMALA

NATIONAL RURAL DEVELOPMENT PROGRAMME – PHASE I: THE WESTERN REGION

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Guatemala
EXECUTING AGENCY:	IFAD
TOTAL PROGRAMME COST:	USD 48 million
AMOUNT OF IFAD LOAN:	SDR 21.55 million (equivalent to approximately USD 30 million)
TERMS OF IFAD LOAN:	Intermediate
COFINANCIER:	Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development
AMOUNT OF COFINANCING:	OPEC: USD 10 million
TERMS OF COFINANCING:	20 years, including a grace period of five years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually
CONTRIBUTION OF BORROWER:	USD 6 million
CONTRIBUTION OF BENEFICIARIES:	USD 2 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROGRAMME BRIEF

Who are the beneficiaries? The target group comprises the country's most vulnerable rural poor, including small farmers (both men and women) (40%), landless farmers (10%), microentrepreneurs and artisans (30%), and landless youth (20%). It has been estimated that at least 65% of direct (19 500) and indirect (45 500) programme beneficiaries are of indigenous Mayan origin. The target group is estimated at 333 000 persons, 30 000 of whom are direct beneficiaries (62.6% men and 37.4% women).

Why are they poor? Extreme rural poverty is particularly prevalent among indigenous communities of Mayan descent. Historically, a legacy of prejudices, discrimination and social, economic and political alienation has contributed to their poverty and inequality, a situation further aggravated by still prevalent racial prejudice. In Guatemala, poverty and extreme poverty are almost synonymous with indigenous origin. Rural poverty is chiefly associated with lack of access to land, extreme fragmentation of land holdings, inefficient marketing systems and lack of access to financial services and productive resources, particularly water and productive technologies. The wide range of different languages and dialects further compromises the social and economic integration of indigenous communities. Rural women are generally more prone to poverty as a result of the armed conflict that left 100 000 women widowed and 250 000 orphans. This factor, among others, has contributed to an increase in the incidence of woman-headed households in rural areas.

What can beneficiaries expect from the programme? The programme will promote the integration of rural areas in the five western departments into the mainstream of Guatemala's social and economic development. It will support the participation of base organizations and the development of beneficiaries' economic activities, thereby strengthening self-esteem among indigenous groups, rural women and youth, and empowering their social and economic organizations. The productive and infrastructure resource base of 30 000 direct beneficiaries (men and women rural poor farmers, landless farmers and rural youth) will be strengthened under the programme. The resulting stimulus to the region's social and economic development will help a further 100 000 indirect beneficiaries, who will capitalize on the social and productive investments. Developments in rural health, education, communications infrastructure and basic services will help improve the living conditions of rural poor indigenous and non-indigenous communities. The human resource capacity of 6 000 rural youth (women and men) will be enhanced through a systematic skill-training programme. Also, 9 000 beneficiaries (from all categories) will be trained and supported in small microenterprise management and marketing, particularly those involved in indigenous and traditional handicraft manufacture.

How will beneficiaries participate in the programme? The core concept of the programme is the involvement of beneficiaries in the planning, management and supervision of activities so that they can fully participate in the programme and express their own concerns and needs. Ultimately this will strengthen rural civil society, particularly indigenous organizations. Feedback mechanisms will be established among small farmers, programme-contracted private support organizations and technical staff from the programme management unit (PMU). Among the beneficiaries, the programme aims to support representative groups (such as indigenous communities, small farmers, microentrepreneurs and rural youth), with the capacity to express their views and negotiate their demands with departmental, municipal and micro-regional development programmes. The programme will provide target group representatives with the training to enable them to participate in community, municipal and departmental planning councils. These councils are part of decentralization legislation and Government of Guatemala policy. Beneficiaries will also participate in programme monitoring and evaluation (M&E) activities.

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THE WESTERN REGION**

I submit the following Report and Recommendation on a proposed loan to the Republic of Guatemala for SDR 21.55 million (equivalent to approximately USD 30 million) on intermediate terms to help finance the National Rural Development Programme – Phase I: The Western Region. The loan will have a term of 20 years, including a grace period of five years, with an interest rate of one half of the reference interest rate per annum as determined by the Fund annually. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The Republic of Guatemala is located in Central America and borders El Salvador to the south, Honduras to the east, Belize to the north-east and Mexico to the north-west. It covers an area of 108 889 km², and has a population of 10.8 million people. Almost 60.0% of the population live in rural areas and 48.6% of the country's population are of indigenous origin.

2. After 35 years of civil war, the Government of Guatemala and the Guatemalan National Revolutionary Union (URNG) signed a peace accord in December 1996, opening a new era of political and social stability, and providing an adequate frame for economic development. In 1999, Hurricane Mitch caused damage of an estimated USD 250 million in Guatemala. This provoked a decline in coffee production and a reduction in exports of bananas and non-traditional products, and as a result export growth fell by 9% in 1999. Production capacity had been restored to pre-Mitch levels by 2001. With an average gross domestic product (GDP) growth rate of over 3% and an inflation rate of 7.5%, the country has maintained a stable macroeconomic course. Still, within this economic scenario, the Government faces considerable challenges in terms of finding the financial resources to accomplish some of the peace accord goals and substantially reduce the extremely high levels of rural poverty.

3. The agricultural sector accounts for 24% of GDP, employs 53% of the labour force and accounts for over half the country's total export earnings. Approximately 70% of the agricultural area under cultivation is devoted to basic grains (maize, sorghum and beans), the country's food staples. Coffee, bananas, rubber, sugar cane and livestock are produced on a commercial scale. Over the last decade, a growing number of packing plants have begun to export vegetables, fruits and flowers to the United States and other countries. Through production contracts with exporting enterprises, a significant proportion of small farmers and indigenous communities are involved in vegetable and fruit production, bringing substantial increases in household income.

¹ See Appendix I for additional information.

² Republic of Guatemala Country Strategic Opportunities Paper (COSOP). April, 2003.

Land ownership has a markedly skewed distribution: 2.5% of the country's farms control 65% of the agricultural land, while 88% of all farms, of an average size of 1.5 ha, occupy 16% of the land. Approximately 40% of the economically active rural population do not own land.

B. Lessons Learned from Previous IFAD Experience

4. IFAD has been involved in Guatemala since 1986. The Fund loan portfolio in the country totals close to USD 50 million, with total project investments (including government and beneficiary counterpart contributions) of USD 88.8 million, covering five projects/loans. The main lessons learned by IFAD operations include acknowledging the importance of: (i) strengthening rural producers' base organizations from the early stages of a project, in order to guarantee project sustainability; (ii) training of beneficiaries in all project components and activities, using a flexible approach to adapt to the social and cultural characteristics of the target population; (iii) the provision of rural financial services as a way of increasing credit access of poor peasant families, especially poor women; and (iv) a gender-oriented approach cutting across all components, with all related activities implemented from the early stages of project design and continued for the duration of the project.

C. IFAD's Strategy for Collaboration with Guatemala

5. Over the last seven years, IFAD country strategy has aimed at poverty reduction while supporting the pacification, reconstruction and development of war-torn areas. Since 1995, from the onset of the peace negotiations, IFAD and the Government have been operating in war-affected areas. The National Fund for Peace (FONAPAZ), created by the peace accords, is the institution responsible for implementing ongoing IFAD projects in war-affected departments. Now, under the more democratic political scenario created by the peace accords, efforts have been redirected towards a programmatic, nationwide and comprehensive approach to rural poverty and rural development.

6. The current strategic framework for IFAD operations in Guatemala² is oriented to the improvement of the social, political and economic conditions of vulnerable rural populations. The appalling poverty and social conditions of Guatemala's vulnerable groups (men, women and children of indigenous origin) ratify the need to strengthen poverty reduction and rural development actions in joint operations between IFAD and the Government, and to refocus activities in the rural areas where this group is concentrated. Therefore, while very small and landless farmers, and rural women remain part of the target group, the scope of new operations will widen to prioritize the needs of the most vulnerable rural group, i.e. indigenous communities.

7. This approach is in line with comments on the country strategic opportunities paper (COSOP) for Guatemala made at the Seventy-Eighth Session of IFAD's Executive Board. Recommendations made during these discussions include: (i) the use of the peace accords as a vehicle for continuous support for IFAD poverty reduction actions; (ii) crop diversification and organic coffee cultivation to improve peasant income; and (iii) support to local development councils as a way of empowering indigenous and poor peasant organizations.

8. IFAD country strategy in Guatemala has evolved from a project to a programme approach in an effort to: (i) focalize poverty reduction efforts on indigenous and vulnerable rural populations; and (ii) strengthen the rural development and poverty reduction operational capacity of the Ministry of Agriculture, Livestock and Nutrition (MAGA) through the creation of a nationwide rural development programme.

D. Guatemala's Policy for Poverty Eradication³

9. Guatemala's social policy is derived not only from the current Government's political position, it is also directly related to commitments included in the peace accords of December 1996 to be implemented under the supervision of the United Nations Verification Mission in Guatemala (MINUGUA). The aim of the current government administration's social programme is to accelerate the modernization of the economy, break the pattern of impunity and create a public sector that operates under the rule of law. Other items on the Government's agenda are the pursuit of justice, security and well-being for its citizens, with an emphasis on decentralization, civil-society participation and poverty eradication.

10. The general objective of government social policy is to create conditions for lasting improvements in living standards, particularly for the poor and the excluded, and to honour the peace accord commitments. Key strategic objectives are: achieving genuine human development, poverty reduction, strengthening and broadening public participation, and fostering decentralization. Thematic areas in which these four objectives will be pursued are: education, health, housing, multiculturalism and intercultural communication, employment, gender, vulnerable groups, agriculture and the environment. As part of the peace accords and under the coordination of the United Nations Development Programme (UNDP), the Intersectoral Dialogue Table for Rural Development has started its operations, setting the basis for an agreed agenda among the government, private sector, civil-society and base organizations.

11. In April 2002, the Guatemalan Congress re-enacted the General Decentralization Law, the Urban and Rural Development Councils' Law and the Municipal Code, all three directly intended to update the regulations of the government's decentralization process. The objectives of these laws relate not only to a democratic and participatory local development process, but aim directly to empower the inhabitants of isolated rural communities, particularly those with indigenous populations. MAGA, along with other public sector institutions, had to adapt its planning processes and methodologies to the instituted community, municipal and departmental development councils.

E. Poverty Eradication Activities of Other Major Donors

12. The Inter-American Development Bank (IDB), World Bank, BCIE and European Union (EU) are the most important multilateral donors operating in Guatemala. The IDB has the largest portfolio of loans and operations (for 2001-03) totalling over USD 565.2 million. The World Bank portfolio totals over USD 355.1 million with investments in basic education, social infrastructure, post-Hurricane Mitch reconstruction, land fund and land administration activities, rural feeder and main roads, and private sector participation in public infrastructure. Bilateral donors include Japan (the major donor in the country), the United States Agency for International Development (USAID), German Credit Institution for Reconstruction, German Agency for Technical Cooperation, and the Governments of The Netherlands, Italy and Spain.

13. The more relevant among recent (2003) World Bank and IDB operations are the: (i) Integrated Natural Resource Management Project for the Western Altiplano (MIRNA), financed by the World Bank and MAGA with a total budget of USD 54.3 million, to be implemented over five years, and covering the same area as the present IFAD operation, and in addition the department of Quiché. Its components include: environmental services, conservation of bio-diversity and sustainable production; and (ii) Natural Resource Management Programme for High Watersheds of Guatemala, financed by IDB and MAGA at a total cost of USD 44.4 million with a six-year implementation time. This programme has national coverage and will include three departments covered by the IFAD programme (San Marcos, Sololá, and Totonicapán), operating in watershed areas located 1 200 metres

³ See Appendix V for additional information.

above sea level. Its components include the development of local environmental management capacity, investments in natural resource conservation, reduction of vulnerability to risks and environmental services. Thus, a substantial amount of investments in natural resource management will be a useful complement to IFAD's operations.

F. Programme Rationale

14. Using a multi-step programme approach, programme rationale and design are framed by Government poverty reduction, rural and agricultural development policies, the commitments included in the peace accords and IFAD's institutional strategic framework 2002-06, as expressed in the Guatemala COSOP. Within this context, poverty reduction strategies for the rural poor and extremely poor will extend beyond improving the income-generating capacity of the target population to a more comprehensive approach, which will take into account the historic abandonment of indigenous populations. By supporting the Government in implementing this sequential approach to national rural development, IFAD will further enhance its catalytic role in supporting the new policy and institutional framework, and its corresponding rules and regulations, by providing the rural poor with the tools for integrated development so that they can overcome their poverty. To achieve the goal of sustainable rural development, four strategic operational axes will be put in place: decentralization, competitiveness, social investments and institutional linkages. In this respect, the programme's operational structure and components have been designed using a matrix that relates IFAD's strategic framework for poverty reduction to that of the Government (see Appendix IV).

15. The programme approach to rural development and decentralization will focus its efforts on reaching minority groups in the target area. Indigenous populations with lower educational levels and very limited access to productive resources require particular attention. For instance, these groups may require literacy programmes to prepare them for training in production and labour skills. Contacts have already been established with the Ministry of Education's Adult Literacy Programme to support education efforts in the programme's rural areas. Education and training are required activities, if indigenous groups are to improve their income-earning potential, either through improved agricultural and non-agricultural production, or through obtaining higher income jobs within or beyond rural areas. In this respect, the programme will address the challenges of **multiculturalism** and **intercultural communication** and identify appropriate solutions, given the characteristic alienation of indigenous communities from Guatemalan society. Services, participatory mechanisms and information provided to indigenous communities will be bilingual, thereby providing equal opportunities for all beneficiaries. This will be an important first step in empowering this segment of the rural population and helping them achieve a sustainable improvement in their livelihood.

PART II – THE PROGRAMME

A. Programme Area and Target Group

16. The programme area comprises five departments (Huehuetenango, San Marcos, Quetzaltenango, Totonicapán and Sololá) in the western region of the country (see map of the programme area), covering the poorest⁴ rural communities and municipalities of Guatemala. Over 60% of the country's indigenous population is concentrated in this region. Traditional crops include *milpa* (a combination of maize and sorghum), potatoes, fruits and vegetables. In the Cuchumatanes plateau, peasant families raise small flocks of sheep and throughout most of the region small farmers keep very small herds of cattle. The majority of small farmers cultivate for family consumption and surplus harvest (in good climatic years) is destined for local markets. The area is located over the Sierra Madre, a mountainous formation running from Mexico to El Salvador, and covering the central section of the country from west to east.

⁴ See Appendix VI

⁵ Landless farmers are defined as those who farm on rented or borrowed land, mainly for family consumption.

17. The programme's target group is estimated at 333 000 people, comprising 30 000 direct and 100 000 indirect beneficiaries (including 62.6% men and 37.4% women). It has also been estimated that at least 65% of the programme's direct (19 500) and indirect (45 500) beneficiaries (men, women and children) are of indigenous origin. The composition of the target group includes small poor farmers, both men and women, (40%), landless farmers⁵(10%), microentrepreneurs and artisans (30%) and landless youth (20%). The programme will support the latter with training in labour skills.

B. Objectives and Scope

18. The programme aims to reduce poverty levels and address the exclusion and discrimination suffered by the poorest indigenous and non-indigenous groups in Guatemala. Its general objective is the active and equitable (gender-focused) participation of all stakeholders in the development and transparent implementation of pro-poor national rural development policies and the institutional framework.

C. Components

19. Programme activities have been organized into four components, specifically: (i) Local Development Participation and Decentralization; (ii) Marketing and Rural Business; (iii) Rural Technical Services; and (iv) MAGA Institutional Strengthening. A gender-oriented strategy will cross-cut all component activities. A PMU will also be established, including gender, planning, M&E, and administrative units.

20. The **Local Development Participation and Decentralization** component has a general goal of empowering rural poor indigenous and non-indigenous populations and improving their self-esteem so that they can actively and systematically participate in the planning of the social and economic development of their communities. The component will undertake the following activities: (i) strengthening the self-management capacity of community organizations; (ii) strengthening and consolidating local economic organizations, with particular support to indigenous and non-indigenous rural women; (iii) strengthening and consolidating the municipal decentralization process; (iv) implementing a reproductive health programme for indigenous women; (v) provision of a social pre-investment and investment fund, to support social investments requested by rural communities; (vi) conflict resolution activities in rural communities; and (vii) strengthening the training capacity of basic and secondary Mayan technical institutes supported by the Instituto de Investigación de Desarrollo Maya (IIDEMAYA). Explicit linkages have been established between decentralization support activities and MAGA institutional support in order to ensure the participation of base organizations.

21. The **Marketing and Rural Business** component aims to link agricultural and non-agricultural producers effectively to local, regional, national and external markets. The component will provide: (i) local, national and external market information and intelligence; (ii) identification of local/national production mechanisms, including packing (processing), and marketing chains/clusters for locally produced agricultural and non-agricultural products; and (iii) training in marketing techniques. The component will support: organization of and participation in local, national, regional and external fairs; buyer/producer negotiation tables; counselling/training/support for contract production with local packing firms, industrial processors, wholesalers and retailers; and the identification of contacts in foreign markets.

22. The **Rural Technical Services** component supports the target group by improving its income-generating capacity and transforming subsistence economic activities into profitable agricultural and non-agricultural small businesses. The component will provide beneficiaries' economic organizations with systematic access to rural technical services supporting agricultural, livestock, forestry, microenterprise and artisanal activities in a demand-led, participatory and market-oriented operative strategy. All activities implemented by the component will be outsourced to qualified private service

providers, (such as non-governmental organizations (NGOs), foundations, base organizations and consultants), who will preferably be locally-based and contracted by transparent bidding procedures. Service providers will use participatory methodologies to identify and systematize the activities of beneficiaries' economic organizations in a demand-led operational scheme, with field personnel trained in gender issues and fluent in local Mayan dialects. The component will undertake the following activities: (i) establishment of a technical assistance fund to finance agricultural and non-agricultural technical support services for beneficiaries' economic organizations; (ii) establishment of a productive capitalization fund, to finance associative small-scale irrigation projects, marketing infrastructure, and repair and maintenance of rural roads; (iii) promotion of support mechanisms to facilitate access to public and private financial services; and (iv) promotion of labour skills training for landless youth. The programme will not include financial support for natural resource and environmental management, given the significant amount of resources already available in the programme area through MAGA, World Bank and IDB natural resource programmes. The programme will establish coordination mechanisms and working agreements.

23. The **MAGA Institutional Strengthening** component aims to support MAGA in the design and implementation of a new institutional model capable of efficiently meeting the rural development and poverty reduction goals set by the Government. Lessons learned by IFAD in the implementation of the National Fund for Sustainable Rural Development Project in Honduras, the technical assistance fund programme for the Departments of León, Chinandega and Managua in Nicaragua and the Reconstruction and Rural Modernization Programme in El Salvador will provide valuable information on possible legal and operational structures for the Guatemalan agricultural sector. The following sequential activities will be implemented under the component: (i) sector institutional diagnosis and risk assessment of government and civil-society policy formulation capacity; (ii) rural development and poverty reduction policy formulation; (iii) design and implementation of the National Rural Development Programme institutional framework; (iv) design and support for the implementation of instruments for rural development; and (v) developing and strengthening operational linkages between MAGA's National Rural Development Programme and the Government's decentralization policies through community, municipal and departmental development councils.

24. Given the pro-poor nature of the National Rural Development Programme and the required consensus to innovate Guatemalan rural institutional framework, the Government and IFAD will implement a built-in mid-term reality check to assess progress made by this component in terms of shaping a new policy and institutional framework. If this check is found satisfactory, programme implementation and administration will be transferred to the new institutional setting. If not, the programme will be revised before continuing with Phase II and Phase III.

25. The **gender strategic approach** of the programme aims to create the conditions for: (i) equitable access for rural women (particularly those of indigenous descent) to all programme, training, productive and investment opportunities; (ii) implementing activities aimed at narrowing the educational/training gap between rural men and women; and (iii) supporting full participation of rural women in economic organizations. As a result, the programme should achieve a significant improvement in the self-esteem of rural women, and in their productive/entrepreneurial and income-generating capacity. A variety of gender-oriented operational activities will be implemented and/or financed under the programme. These include: the selection of gender-sensitive programme staff; systematic gender training for PMU staff and service providers; application of gender-oriented strategies and methodologies in all programme components; leadership training for women members of local organizations; women's active participation in social and economic organizations; strengthening local women's reproductive health programmes; a gender assessment to be undertaken during the first year of activities, and design and implementation of other required gender related field studies; support to a gender-oriented M&E system; and promotion of communities' domestic time-saving investments for rural women engaged in economic activities.

D. Costs and Financing

26. The total programme cost is estimated at USD 48 million (Tables 1 and 2). Financing of programme costs will be as follows: an IFAD loan of USD 30 million (62.5% of total costs); a loan from the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development for USD 10 million (20.8%); Government counterpart contribution of USD 6 million (12.5%); and beneficiaries' in-kind contribution of USD 2.0 million (4.2%). The programme will be implemented over six years. The cost of each component is as follows: local development participation and decentralization, USD 10.7 million (representing 22.4% of total programme costs); marketing and rural business, USD 12.6 million (26.3%); rural technical services, USD 15.7 million (32.8%); and MAGA institutional strengthening, USD 2.2 million (4.7%). The PMU has a total cost of USD 6.5 million (13.7%), including M&E (USD 1.3 million) and gender strategic activities (USD 2.1 million).

TABLE 1: SUMMARY OF PROGRAMME COSTS^a
(USD '000)

Components and PMU	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Local Development Participation and Decentralization	9 751	101	9 851	1	22
1. Component management	1 408	15	1 423	1	3
2. Social investment funds	2 987	---	2 987	0	7
3. Strengthening municipal government	766	86	852	10	2
4. Strengthening economic organizations	801	---	801	0	2
5. Strengthening base organizations	3 789	---	3 789	0	9
B. Marketing and Rural Business	11 583	190	11 773	2	27
1. Component management	677	40	717	6	2
2. Market intelligence unit	538	109	646	17	1
3. Business development unit	1 196	42	1 238	3	3
4. Marketing infrastructure	9 172	---	9 172	0	21
C. Rural Technical Services	13 703	628	14 331	4	33
1. Component management	1 165	74	1 239	6	3
2. Technical support services	4 547	494	5 042	10	11
3. Training	623	---	623	0	1
4. Institutional contracts	540	60	600	10	1
5. Productive capitalization fund	6 828	---	6 828	0	16
D. MAGA Institutional Strengthening	1 761	292	2 053	14	5
1. Component management	738	144	882	16	2
2. Institutional diagnosis	59	11	70	15	0
3. Institutional framework, of rural development programmes	656	97	753	13	2
4. Implementation of rural development instruments	103	18	121	15	0
5. Strengthen MAGA's participation in rural development councils	205	23	228	10	1
E. Programme Management Unit	5 501	414	5 916	7	13
1. Management unit	2 673	149	2 822	5	6
2. Planning, M&E unit	1 099	117	1 216	10	3
3. Gender activities	1 730	148	1 878	8	4
Total base costs	42 299	1 626	43 925	4	100
Physical contingencies	817	103	920	11	2
Price contingencies	3 059	96	3 155	3	7
Total programme costs	46 175	1 825	48 000	4	109

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components and PMU	IFAD		GOG		OPEC Fund		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Local Development Participation and Decentralization	7 343	68.2	1 416	13.2	2 000	18.6	-	-	10 759	22.4	114	9 952	693
1. Component management	1 513	96.9	49	3.1	-	-	-	-	1 561	3.3	17	1 496	49
2. Social investment funds	859	26.6	867	26.9	1 500	46.5	-	-	3 226	6.7	-	2 985	241
3. Strengthening municipal government	866	89.6	101	10.4	-	-	-	-	966	2.0	97	768	101
4. Strengthening economic organizations	812	90.0	90	10.0	-	-	-	-	902	1.9	-	812	90
5. Strengthening base organizations	3 294	80.3	309	7.5	500	12.2	-	-	4 103	8.5	-	3 891	212
B. Marketing and Rural Business	4 174	33.0	1 467	11.6	6 500	51.4	500	4.0	12 641	26.3	212	11 771	659
1. Component management	763	96.4	29	3.6	-	-	-	-	791	1.6	45	718	29
2. Market intelligence unit	659	92.6	53	7.4	-	-	-	-	712	1.5	120	539	53
3. Business development unit	1 288	93.5	89	6.5	-	-	-	-	1,377	2.9	47	1 241	89
4. Marketing infrastructure	1 464	15.0	1 297	13.3	6 500	66.6	500	5.1	9 761	20.3	-	9 273	488
C. Rural Technical Services	10 262	65.2	2 482	15.8	1 500	9.5	1 500	9.5	15 744	32.8	711	13 928	1 104
1. Component management	1 311	95.5	62	4.5	-	-	-	-	1 373	2.9	83	1 228	62
2. Technical support services	5 158	90.1	568	9.9	-	-	-	-	5 726	11.9	561	4 597	568
3. Training	634	90.0	70	10.0	-	-	-	-	705	1.5	-	634	70
4. Institutional contracts	603	90.0	67	10.0	-	-	-	-	670	1.4	67	536	67
5. Productive capitalization fund	2 555	35.1	1 714	23.6	1 500	20.6	1 500	20.6	7 269	15.1	-	6 933	337
D. MAGA Institutional Strengthening	2 086	92.2	176	7.8	-	-	-	-	2 262	4.7	323	1 763	176
1. Component management	894	92.5	73	7.5	-	-	-	-	967	2.0	158	736	73
2. Institutional diagnosis	68	90.8	7	9.2	-	-	-	-	75	0.2	11	57	7
3. Implementation of rural development institutional framework.	761	91.2	73	8.8	-	-	-	-	834	1.7	108	653	73
4. Imp. of rural development instruments	119	90.7	12	9.3	-	-	-	-	132	0.3	19	100	12
5. Strategic particip. in rural development councils	244	95.7	11	4.3	-	-	-	-	255	0.5	26	218	11
E. Programme Management Unit	6 136	93.1	458	6.9	-	-	-	-	6 594	13.7	466	5 670	458
1. Management unit	2 942	93.7	196	6.3	-	-	-	-	3 138	6.5	168	2 774	196
2. Planning, M&E unit	1 247	93.2	92	6.8	-	-	-	-	1 338	2.8	131	1 116	92
3. Gender activities	1 947	91.9	171	8.1	-	-	-	-	2 118	4.4	167	1 780	171
Total programme costs	30 000	62.5	6 000	12.5	10 000	20.8	2 000	4.2	48 000	100.0	1 825	43 084	3 091

E. Procurement, Disbursement, Accounts and Audit

27. Procurement of goods, civil works and consultancy services financed by the IFAD loan will be undertaken in accordance with national legislation and the procurement guidelines of IFAD and the cooperating institution. Vehicles and equipment will be procured through international and local competitive bidding as stipulated in the loan agreement. Private rural development agencies and technical assistance will be contracted through local bidding, using procedures acceptable to IFAD and in agreement with the Government's service purchasing regulations. The Government and UNDP will enter into a subsidiary agreement to procure goods and services and recruit technical assistance and local staff.

28. Disbursements for operating costs, salaries, and small works costing less than USD 10 000 will be made against statements of expenditure (SOEs). Payment to local contractors involved in development activities and technical assistance will require detailed documentation. A special account with an authorized allocation of USD 2.5 million will be opened at the Central Bank of Guatemala. The programme director will submit withdrawal applications to the cooperating institution (UNOPS), who will verify the eligibility of expenses incurred and will then request the disbursement of funds from IFAD's related loan account.

29. Upon loan effectiveness and prior to making the second deposit into the special account from loan proceeds, the programme will set up accounting and internal control systems, satisfactory to IFAD, which will be installed by a specialized local accounting firm. Accounting will be by component and category, and according to government expense classification procedures.

30. An audit firm, satisfactory to IFAD, will be selected to undertake annual financial and management audits and will be financed by the programme. Contracted agencies will keep separate accounts for programme-related expenditures.

F. Organization and Management⁶

31. By agreement with the Government, the programme will be implemented by MAGA. The programme will be initiated under operational and administrative arrangements similar to those of previous IFAD/MAGA-financed projects. At programme start-up, a steering committee will be established, which will be responsible for policy and administrative control, approval and supervision of annual operating plans and budgets, and also for overall programme guidance. The Minister for Agriculture or a representative will chair the committee. Other committee members will include: representatives from the Ministry of Finance and the Secretariat for Planning and Programming (SEGEPLAN), one representative from departmental development councils and two representatives of municipalities from the programme areas, all elected annually on a rotational basis. Programme beneficiaries will have five representatives (men and women): one from peasant organizations; one from Mayan indigenous organizations; and three from local beneficiaries organizations, democratically elected among leaders of local organizations, which will ensure balanced gender and ethnic representation for a two-year rotational period.

32. After careful analysis of the alternatives, a decentralized PMU with five departmental offices and a liaison office in Guatemala City was considered the most appropriate. In this way, closer relationships will be established with local government and communities, at a lower supervision and personnel displacement cost, despite the higher initial implementation and maintenance costs. Under this scheme a PMU with financial and administrative decentralized autonomy will be established in the city of Quetzaltenango, which is located in the Phase I programme area. The PMU's responsibilities

⁶ See Appendix VII

¹ Land holdings are classified by the Agricultural Census into four categories: micro-land holding, sub-family, family and multi-family based on the potential economic output of the land.

and authority will be delegated by MAGA. The programme will be organized through five departmental offices, one in each participating department. Offices have been distributed by political/geographical location, based on the decentralization structure at the community, municipal and departmental level and also according to the level and distribution of the target group in each area of influence.

33. The PMU will have a planning and supervisory role, while all field activities will be implemented by contracted national, state and local consulting enterprises, professional groups, private and government foundations and NGOs, which will provide training, and productive and financial services to programme beneficiaries. All contracts will be based on competitive bidding processes following the regulations of the cooperating institution, the Government and IFAD.

G. Economic Justification

34. The programme will promote the economic integration of the five western departments' rural areas into Guatemala's developmental mainstream. Furthermore, programme support for base organization participation in decentralization efforts coupled with assistance for the development and consolidation of beneficiaries' economic activities will help strengthen the self-esteem of the rural poor, particularly that of indigenous communities, rural women and youth. This in turn will promote the empowerment of their local social and economic organizations.

35. The programme will strengthen the productive and infrastructure resource base of 30 000 direct beneficiaries (men and women rural poor farmers, landless farmers and rural youth) located in the region. The stimulus to the region's social and economic development will indirectly benefit 100 000 beneficiaries, who will capitalize on the coordinated social, productive and communication investments arising from the consolidated institutional planning of community, municipal and departmental development councils. Thus improvements in rural health, education, basic services and communications infrastructure will raise the living standards of rural poor indigenous and non-indigenous communities. The human resource capacity of the target group, particularly that of indigenous communities and young rural women and men, will be enhanced through the systematic training in labour skills of 6 000 rural youth. A further 9 000 adults and youth will be trained and supported in small microenterprise management and marketing, particularly those involved in indigenous and traditional handicraft manufacturing. It has been estimated that at least 12 000 beneficiaries will directly benefit from marketing and technical agricultural assistance programmes, including at least 2 200 rural women and women heads of household. A total of 24 000 families will directly benefit from non-reimbursable productive investments in small-scale irrigation projects, classification and marketing infrastructure, and improvements to the region's rural road network. This will improve their marketing and income-generating capacity.

H. Risks

36. Compliance with the peace accords is legally binding for any government administration. Thus, agreements included in the accords – systematically monitored by the United Nations system – provide an adequate safeguard against major policy changes for the full programme implementation period. The programme will support the Government in overcoming weaknesses in its policies and delivery mechanisms for poverty reduction, and rural and agricultural development. It will also assist the Government in generating pro-poor policy safeguards and mitigating mechanisms through the enhanced capacity of local rural base and civil society organizations. In this way, the programme will provide resources for strengthening the institutional framework of MAGA and the Government, and promoting current decentralization policies and actions.

I. Environmental Impact

37. The programme has been classified as Category B, based on the fact that potential impacts identified can be addressed through environmentally sensitive recommendations and interventions. Two forthcoming interventions will provide widespread investment in natural resource and high watershed management in the programme area. These are: (i) the Integrated Natural Resource Management Project for the Western Altiplano financed by MAGA and the World Bank, at a cost of USD 54.3 million and with a five-year implementation period; and (ii) the Natural Resource Management Programme for High Watersheds of Guatemala financed by MAGA and IDB at a cost of USD 44.4 million and with a six-year implementation period, to be initiated in mid and late-2003 respectively. The IFAD programme will include an officer to liaise with both these interventions so that IFAD activities are jointly planned and fully coordinated with those undertaken by the World Bank and IDB.

J. Innovative Features

38. The programme's design and operational scheme includes five innovative features: (i) use and consolidation of government decentralization processes and mechanisms as tools for empowering indigenous and non-indigenous rural poor; (ii) linking policy dialogue and institutional strengthening to rural development instruments and field operations; (iii) use of market opportunities and information as the entry point for the programme's technical support services and investment resources; (iv) use of multicultural targeting instruments to identify the limitations and local requirements of each sub-group of beneficiaries, (both for Mayan sub-ethnic groups and non-indigenous rural poor), and to generate a specific menu of programme activities, tailor-made to the characteristics and goals of each; and (v) specific attention to developing the potential of rural youth and their systematic training in labour skills relevant to the regional and national labour market.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

39. A loan agreement between the Republic of Guatemala and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

40. The Republic of Guatemala is empowered under its laws to borrow from IFAD.

41. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

part iv – recommendation

42. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Guatemala in various currencies in an amount equivalent to twenty-one million five hundred and fifty thousand Special Drawing Rights (SDR 21 550 000) to mature on or prior to 15 August 2023, and to bear an interest rate of one half of the reference interest rate per annum as determined by the Fund annually, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 27 August 2003)

1. **Cofinancing.** The Government of the Republic of Guatemala (the “Government”) expects to obtain a loan from the OPEC Fund in the amount of approximately USD 10 million to assist in financing the programme in accordance with the conditions set forth in an agreement to be concluded between the Government and OPEC.
2. **Programme account.** The PMU will open and maintain a current account for programme operations at a bank located within the programme area and agreed upon by the Government and IFAD.
3. **Availability of loan proceeds.** To carry out the programme, the Government will make the loan proceeds available to MAGA in accordance with the annual workplans and budgets and its customary national procedures for development assistance.
4. **Transfer of funds.** To carry out the programme, MAGA will transfer available funds and other resources to the PMU in accordance with the annual workplans and budgets.
5. **Counterpart funding.** The Government will make available to MAGA, during the programme implementation period, counterpart funds from its own resources for a total amount of up to USD 6 million, in accordance with its customary national procedures for development assistance.
6. **Additional circumstance for suspension.** IFAD may suspend, in whole or in part, the right of the Government to request withdrawal from the loan account in the event the programme’s implementation manual, or any of its provisions, has been transferred, waived, suspended, revoked, amended or otherwise modified without the prior consent of IFAD, and the latter has determined that such transfer, waiver, suspension, revocation, amendment or other such modification has had, or is likely to have, a substantial negative impact on the programme.
7. **Programme implementation manual.** The PMU will prepare a draft implementation manual and submit it to MAGA for approval. Before giving such approval, MAGA will forward the draft manual to IFAD. The PMU will adopt the implementation manual in the form approved by IFAD.
8. **Conditions precedent to effectiveness.** Effectiveness of the loan agreement will be subject to fulfilment of the following conditions precedent:
 - (a) MAGA has duly established the PMU;
 - (b) MAGA has duly appointed the programme director with the prior non-objection of IFAD;
 - (c) the loan agreement has been duly signed, and such signature and performance by the Government of its obligations thereunder have been duly authorized and ratified by all necessary administrative and governmental procedures; and
 - (d) the Government has delivered to IFAD a favourable legal opinion issued by the Office of the Attorney General (*Procuraduría General de la Nación*), in form and substance acceptable to IFAD.

APPENDIX I

COUNTRY DATA

GUATEMALA

Land area (km² thousand) 2001 1/	108	GNI per capita (USD) 2001 1/	1 680
Total population (million) 2001 1/	11.69	Inflation, consumer prices (annual %) 2001 1/	8
Population density (people per km²) 2001 1/	108	Exchange rate: USD 1 =	GTQ 7.60
Local currency	Quetzal (GTQ)		
Social Indicators			
Population (average annual population growth rate) 1995-2001 1/	2.6	Economic Indicators	
Crude birth rate (per thousand people) 2001 1/	33	GDP (USD million) 2001 1/	20 496
Crude death rate (per thousand people) 2001 1/	7	Average annual rate of growth of GDP 1/ 1981-1991	1.4
Infant mortality rate (per thousand live births) 2001 1/	43	1991-2001	4.1
Life expectancy at birth (years) 2001 1/	65	Sectoral distribution of GDP 2001 1/	
Number of rural poor (million) (approximate) 1/	8.4	% agriculture	23
Poor as % of total rural population 1/	71.9	% industry	19
Total labour force (million) 2001 1/	4.35	% manufacturing	13
Female labour force as % of total 2001 1/	30	% services	58
Education			
School enrolment, primary (% gross) 2001 1/	102 a/	Consumption 2001 1/	
Adult illiteracy rate (% age 15 and above) 2001 1/	31	General government final consumption expenditure (as % of GDP)	8
Nutrition			
Daily calorie supply per capita, 1997 2/	2 430	Household final consumption expenditure, etc. (as % of GDP)	86
Malnutrition prevalence, height for age (% of children under 5) 2001 3/	46 a/	Gross domestic savings (as % of GDP)	6
Malnutrition prevalence, weight for age (% of children under 5) 2001 3/	24 a/	Balance of Payments (USD million)	
Health			
Health expenditure, total (as % of GDP) 2001 1/	5 a/	Merchandise exports 2001 1/	2 466
Physicians (per thousand people) 1999 1/	n/a	Merchandise imports 2001 1/	5 607
Population using improved water sources (%) 2000 3/	92	Balance of merchandise trade	-3 141
Population with access to essential drugs (%) 1999 3/	50-79	Current account balances (USD million)	
Population using adequate sanitation facilities (%) 2000 3/	81	before official transfers 2001 1/	-2 270
Agriculture and Food			
Food imports (% of merchandise imports) 2001 1/	14	after official transfers 2001 1/	-1 238
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	1 560	Foreign direct investment, net 2001 1/	n/a
Food production index (1989-91=100) 2001 1/	138	Government Finance	
Cereal yield (kg per ha) 2001 1/	1 826	Overall budget deficit (including grants) (as % of GDP) 2001 1/	n/a
Land Use			
Arable land as % of land area 2000 1/	13	Total expenditure (% of GDP) 2001 1/	n/a
Forest area as % of total land area 2000 1/	26	Total external debt (USD million) 2001 1/	4 526
Irrigated land as % of cropland 2000 1/	7	Present value of debt (as % of GNI) 2001 1/	24
		Total debt service (% of exports of goods and services) 1999 1/	9
		Lending interest rate (%) 2001 1/	19
		Deposit interest rate (%) 2001 1/	9

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

PREVIOUS IFAD FINANCING IN THE REPUBLIC OF GUATEMALA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
Generation and Transfer of Agricultural Technology and Seed Production Project	IDB	IDB	I	11 Sep 84	08 Mar 85	31 Dec 94	L - I - 154 - GM	SDR	4 950 000	94
Zacapa-Chiquimula Smallholders' Rural Development Project	IFAD	UNOPS	I	07 Dec 89	21 Mar 91	31 Dec 98	L - I - 251 - GM	SDR	5 300 000	99
Cuchumatanes Highlands Rural Development Project	IFAD	UNOPS	I	11 Dec 91	10 Dec 93	31 Mar 01	L - I - 296 - GM	SDR	5 500 000	99
Programme for Rural Development and Reconstruction in the Quiché Department (PRÓDERQUI)	IFAD	UNOPS	I	04 Dec 96	18 Dec 98	30 Jun 04	L - I - 435 - GT	SDR	10 450 000	18
Rural Development Programme for Las Verapaces	IFAD	UNOPS	I	08 Dec 99	06 Sep 01	31 Mar 12	L - I - 518 - GT	SDR	10 850 000	9

LOGICAL FRAMEWORK
National Rural Development Programme (2003-15)

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Development Goal Levels of poverty, exclusion and discrimination among Guatemala's poorest indigenous and non-indigenous population are reduced.</p>	<ul style="list-style-type: none"> • Rural poverty levels reduced by 50% (2015) • Human development index increased in accordance with national development goals (2015) 	<ul style="list-style-type: none"> • National Institute for Statistics (INE), SEGEPLAN • UNDP Development Index • Performance-Based Allocation System (PBAS) 	
<p>Objective of the Programme (6-12 years) All programme stakeholders participate actively and equitably (gender-focused) in the development and transparent implementation of the pro-poor national rural development policy.</p>	<p>Selection of Indicators:</p> <ul style="list-style-type: none"> • Selected PBAS indicators have improved • Transparency index of major public stakeholders equals or outperforms international standards for the region • 70% of the three-tiered council system implements locally approved development plans • 70% of rural poor beneficiary organizations participate in the design, planning and implementation of rural development and poverty reduction programmes • Private and public investments increased by 40% in the poorest areas of the programme region • Gender issues brought forward by community-based organizations incorporated in the National Rural Development Programme • Market-oriented and profitable activities by men and women have generated income increases in at least 50% of rural poor households • Reduction of unemployment to national average among rural youth in the programme region • Transaction and transportation costs of goods and services are reduced by 25% • Reproductive health indicators improved by 30% • Productive areas with environmental measures increased by 30% 	<ul style="list-style-type: none"> • Census and survey • M&E reports and baseline survey • Impact and millennium goal studies by MAGA and SEGEPLAN • PBAS • Case studies • Audits • Reports of national Ombudsperson 	<ul style="list-style-type: none"> • The Government of Guatemala institutionalizes the National Rural Development Policy and the corresponding institutional framework
<p>Purpose of Phase I (6 years) All stakeholders' capacities are enhanced and the rural poor are empowered to participate actively in the rural poverty reduction and decentralization process in the western region by:</p> <ul style="list-style-type: none"> • incorporating the rural poor in decentralized development structures 	<ul style="list-style-type: none"> • 80% of target communities and 90% of the 51 municipalities and the five department councils count with a pro-poor long-term participatory strategic development plan including gender focus and environmental impact assessment • 60% of beneficiary organizations represented in local decision-making mechanisms, institutions, local councils, etc • 45% of beneficiary economic organizations have women in leadership positions 	<ul style="list-style-type: none"> • Baseline study • Project impact studies • Records of systemization • Social audit reports 	<ul style="list-style-type: none"> • Congress approves the National Regional Development Framework as set in peace accords • The Executive Branch assigns the resources to implement the National Rural Development Policy.

<ul style="list-style-type: none"> • developing improved income-generation opportunities • the inclusion of rural poor women in the local economy focusing on the correction of gender imbalances • strengthening MAGA's pro-poor regulatory and service delivery capacities 	<ul style="list-style-type: none"> • 20 municipalities have employed women in leading positions. • 80% of social audits made by beneficiaries accepted by local institutions • Approx. 30 000 rural poor (65% indigenous and 37% women) benefit through the productive and non-productive services and activities offered by the programme • 2 200 rural economic profitable activities managed by 5 000 women • 60% of youth employed and 60% with profitable and sustainable businesses • Draft of a National Rural Development Policy presented to and processed by round tables and Congress • Gender issues and environmental considerations incorporated into the National Development Policy • Degree of approval of programme proposal by respective authorities and corresponding service delivery 		
<p>Output 1: Local Development Participation and Decentralization</p> <ul style="list-style-type: none"> • Beneficiary organizations, municipalities and the councils at different levels (department, municipal, village level) are strengthened to develop and participate in the decentralized planning and decision-making process for social and economic development 	<ul style="list-style-type: none"> • 900 economic organizations built-up or/and reinforced • 450 formal economic organizations have women leaders in management • 70% of beneficiary organizations with management system linked to public and private institutions • 80% of the communities familiarized with decentralized management methodologies • 40 municipal governments and 40 councils (CDM) familiarized with improved management system, administrative and fiscal procedures • 51 municipal governments and 180 councils (CDC, CDM) familiarized with the elaboration of a participatory strategic development plan including gender focus and environmental impact assessments • 51 municipalities have access to the National Geographical Information System • 4 000 youth are prepared to participate in the labour market 	<ul style="list-style-type: none"> • Monitoring reports • Supervisory field records • Case studies • Records of municipalities and councils • Minutes of meetings 	<ul style="list-style-type: none"> • Funding of local government structures (e.g. municipal and departmental councils) is secured
<p>Output 2: Marketing and Rural Business</p> <ul style="list-style-type: none"> • Market linkage capacity for the entire beneficiary population and its economic organizations is fostered, conditions and opportunities for profitable, market oriented and sustainable activities for rural women created 	<ul style="list-style-type: none"> • 50% of the beneficiaries have access to new market infrastructure • 30% of beneficiary communities connected by new or improved roads • New marketing channels created • Market information, opportunities and prices delivered on time and with international quality standards to beneficiaries • 50 negotiation tables in operation among producer/buyers • 70 economic organizations (35% directed by women) with improved negotiation and marketing capacities created 	<ul style="list-style-type: none"> • Monitoring reports • Supervisory field records • Case studies • Systematization reports 	<ul style="list-style-type: none"> • Central America Free Trade Agreement (CAFTA) conditions continue to be favourable for export of produce from the western region

	<ul style="list-style-type: none"> • 2 500 beneficiaries with improved marketing capacities • 250 leaders trained in marketing rural business • 8 400 women in a position to operate their own business 		
<p>Output 3: Rural Technical Services</p> <ul style="list-style-type: none"> • Organizations of micro-enterprises, unemployed youth, men and women farmers, artisans obtain access to demand-led market-oriented services, thereby enabling the transformation of their economic subsistence activities into profitable businesses 	<ul style="list-style-type: none"> • 24 000 beneficiaries have access to private rural services (7 000 women) • 70% of productive activities/projects in implementation in relation to demand driven proposals • Degree of integration into rural services of gender-related activities and coping strategies of the Mayan community • Rural service providers have included environmental impact approaches in their service • After the second year, 6 000 landless youth (60% of whom will be women) will have benefited from training programmes in technical labour skills (60% indigenous) and acquired the capacity to open microbusinesses • Degree of performance of the different Rural Productive Funds • 20% of beneficiaries have access to financial services 	<ul style="list-style-type: none"> • Monitoring reports • Supervisory field records • Case studies • Systematization reports 	<ul style="list-style-type: none"> • Functioning of an appeal structure for oversight and conflict resolution for service delivery is respected • Labour market imperfections do not impede absorption of trained youth • Environmental protection programmes by other state organizations are supporting the programme
<p>Output 4: MAGA Institutional Strengthening</p> <ul style="list-style-type: none"> • MAGA institutional and operational capacities are strengthened to regulate and deliver decentralized pro-poor services in the western region creating equal opportunities for women and men, correcting gender imbalances 	<ul style="list-style-type: none"> • Instruments, tools and mechanisms for the management of decentralized pro-poor services elaborated and tested in the western region • Degree of gender orientation in service delivery • Rural development policy linked to other state environmental programmes • MAGA's representation on regional development policy in the western region • Degree of incorporation of the community/municipality development plans in the working plans of MAGA in the western region and vice versa 	<ul style="list-style-type: none"> • Consultants' reports • Annual report of the Ministry • Regular reports by the PMU or Country Portfolio Manager (CPM) 	<ul style="list-style-type: none"> • National Institute for Rural Development (INDR) created and operational for development and service delivery of the National Rural Development Policy by mid-Phase I
<p>Output 5: Programme Management</p> <ul style="list-style-type: none"> • The PMU has developed an effective project management system for participatory planning, monitoring and decision-making as a model for decentralized local governance and rural development. 	<ul style="list-style-type: none"> • Annual workplan agreed by all involved parties every year • Documentation system of impact and knowledge management system established • Established monitoring guidelines applied by defined users periodically and results documented systematically • Programme plans and monitoring reports are part of the 51 municipal and five departmental planning and monitoring systems initiating after year three. 	<ul style="list-style-type: none"> • Regular programme report • Records of the M&E system • Report of annual monitoring • CPM report 	<ul style="list-style-type: none"> • Rural development activities by other development institutions (rural transport, health, social funds, etc.) support the operation and maintenance of the programme activities

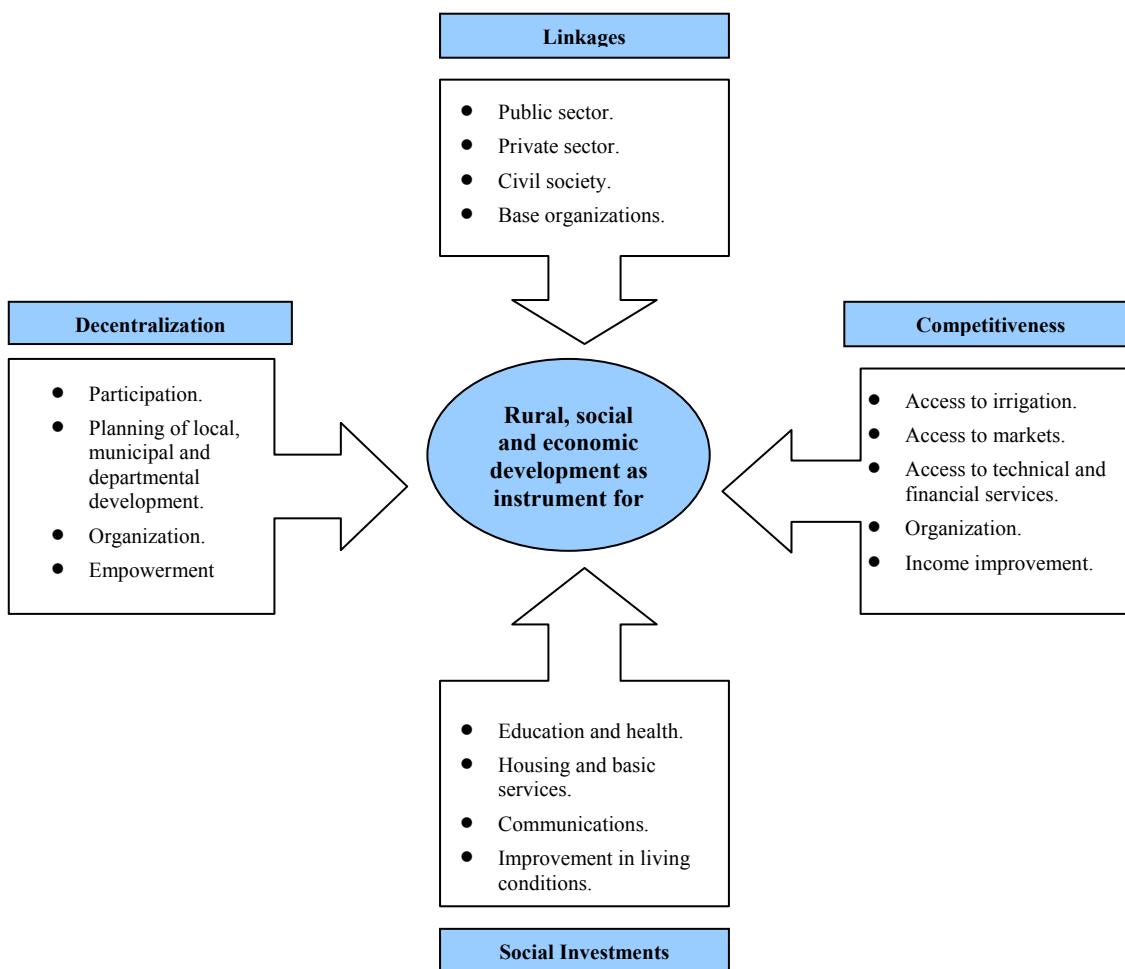
ACTIVITIES FOR COMPONENTS¹		
Local Development Participation and Decentralization	Rural Technical Services	Programme Management (Planning and M&E)
<ul style="list-style-type: none"> • To develop and implement social and economic gender-focused development plans for community organizations • To support the management of base organizations, with particular emphasis on leadership roles for indigenous women • To support the elaboration of gender-focused development plans for municipal government • To create linkages among the plans prepared by beneficiary organizations, communities, municipalities and departments • To create participatory coordination and cooperation mechanisms among community organizations, municipalities and departments • To provide a social investment fund for social and educational programmes • Identification, formulation and implementation of social development projects <p>Marketing and Rural Business</p> <ul style="list-style-type: none"> • To provide <ul style="list-style-type: none"> ○ market information and intelligence ○ innovative/new market opportunities ○ market analysis and forecasting of markets and prices • Training and technical support in marketing and rural business with a special focus on profitable economic activities by women • To provide guidance on the planning and operation of the Rural Technical Services Component • To assist the transformation of non-profit producer organization into profit-oriented organizations 	<ul style="list-style-type: none"> • To identify and systematize the demands of beneficiary organizations • To select, contract and supervise rural private service enterprises • To train rural private service enterprises • To facilitate access to rural financial services • To establish and manage the different funds available to the beneficiaries. • To establish coordination mechanisms with other development institutions in the field of natural resource management • To organize and implement training programmes in labour skills for rural youth • To support skilled youth in establishing their own enterprises • To systemize and document technical and innovative experience <p>MAGA Institutional Strengthening</p> <ul style="list-style-type: none"> • To implement an institutional diagnosis • To assist in policy formulation • To support the design of the National Rural Development Programme • To elaborate and implement instruments for pro-poor rural development including environmental assessment and planning tools. • To create linkages among MAGA, community, municipal and departmental structures and the councils • To establish a coordination and information unit for decentralization • To support the Ministry's Unit of Gender, Women and Youth 	<ul style="list-style-type: none"> • To organize and implement procedures and participative mechanisms for the functioning of the PMU • To establish and implement a functioning planning and M&E system, including systematization and documentation • To mitigate assumptions and risks • To establish coordination mechanisms and linkages among the programme, MAGA and the decentralized decision-making structures • To facilitate processes related to the design and implementation of the National Rural Development Policy

APPENDIX IV

PROGRAMME DESIGN MATRIX

Programme Strategic Operational Axes	<i>IFAD Strategic Framework 2002- 2006</i>			Outputs
	Human and Social Assets	Productive Assets and Technology	Financial Assets and Markets	
Decentralization	Strengthening the capacity of the rural poor and their organizations	Decentralization of MAGA and its services	Development of local markets	Empowerment
Competitiveness	Strengthening the income-generating capacity of the poor	Access to local rural technical support services, irrigation and markets	Access to local rural marketing support services and financial services	Improved income
Social Investments	Access to health, education and basic services	Improved educational levels to facilitate access to productive technologies	Improved educational levels to facilitate access to financial services	Better living conditions, better educational levels, empowerment
Institutional Linkages	Investments in social services	Harmonization of investments in productive infrastructure	Investments in marketing infrastructure	Articulated investments in rural areas

PROGRAMME STRATEGY AND DESIGN



A PATH FOR PEACE

1. In December 1996, the Government of Guatemala and URNG signed a set of historic accords ending 36 years of internal war. Within the frame of the Accord for Long and Lasting Peace and a comprehensive set of sub-accords, both parties agreed to undertake substantial constitutional and legal modifications to the country's legal system in order to establish a democratic society with full participation of the historically marginalized poor and indigenous minority. Areas covered by the peace accords include human rights, resettlement of war-displaced populations, establishment of a commission for the clarification of human rights violations, recognition of indigenous identity and rights, social and economic policies, the rural/agricultural situation, social investments and constitutional reforms.

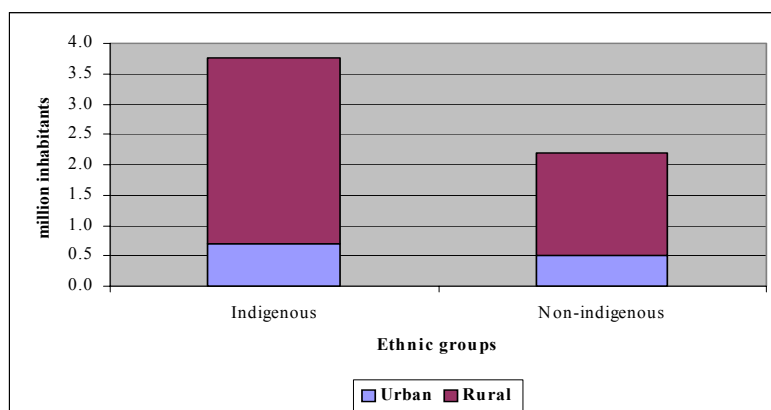
2. The social and economic development of rural areas and the reduction of rural poverty are among the most important issues included in several of the agreements between the Government and URNG. A Land Fund has been established and partially financed with the aim of facilitating the access of poor, landless and displaced groups to agricultural land. A multisectoral negotiating round table, created by the peace accords and supervised by UNDP, is currently engaged in the discussion of a National Rural Development Policy and the institutional structure required for its implementation. Agreement by IFAD/MAGA to implement the National Rural Development Programme is considered part of the institutional requirements to fulfil the goals of the peace accords both in spirit and action.

POVERTY AND GENDER IN GUATEMALA

1. Over the last decade, poor families in Guatemala accounted for 65% of the total population and 87% of the rural population. The incidence of rural poverty rises in areas with a high concentration of indigenous groups, where more than 90% of the population live below the poverty line (compared to 66% of the non-indigenous population). Approximately 40% of the total population are illiterate, and 60% of these are women. Furthermore, 60% of the indigenous population are illiterate, as compared with 24% of the non-indigenous population.

2. Rural poverty is particularly intense among indigenous communities of Mayan descent. Among the social and economic causes of their poverty is the prejudice, discrimination and exclusion they have suffered for generations. Significantly, in Guatemala, poverty and extreme poverty are almost synonymous with being of indigenous origin. In addition, rural poverty is chiefly associated with lack of access to land, fragmentation of land holdings, inefficient marketing systems and lack of access to productive resources, particularly water and productive technologies. Poverty among these communities is further aggravated by their lack of access to financial services and linkages with the agribusiness sector, and by the deterioration of natural resources mainly through deforestation, soil erosion and fertility losses.

Distribution of Urban and Rural Poor



3. Rural areas with a high percentage of indigenous communities are the poorest in the country. The poorest municipalities are located in the north and south-east regions of Guatemala, followed by the north-west region. The north-east region comprises the departments of Huehuetenango and Quiché and the south-east region, San Marcos, Quezaltenango, Totonicapán and Sololá, all of which are populated predominantly by Mayan ethnic groups. Other indigenous groups are located in the departments of Chiquimula, Jalapa and Jutiapa in the south-west region and in Quiché and Las Verapaces, where the two ongoing IFAD projects are being carried out.

Incidence of Extreme Poverty in Indigenous Populations

Departments	% of Indigenous Population	Extreme poverty %
San Marcos	25 – 49.9	61.07
Totonicapán	75 – 100	55.62
Huehuetenango	50 – 74.9	37.15
Sololá	75 – 100	32.62
Quetzaltenango	50 – 74.9	22.42

Source: Verification Report. UN Verification Mission of the Peace Accord - MINUGUA

APPENDIX VI

4. Inequality is one of the main characteristics of poverty and rural poverty in Guatemala. The Gini coefficient was estimated by UNDP (2001) at 0.56 placing Guatemala in thirteenth position among the 111 countries evaluated. The exclusion of indigenous groups from the social, economic and political mainstream is among the historical causes of poverty and inequality, a situation compounded by continuing prevalent racial prejudices.

5. There are four recognized ethnic groups in Guatemala: Ladina (mixture of Spanish and indigenous origin), Mayan (the largest ethnic group), Garifunas (small group restricted to the Atlantic coast) and Xincas (small group living on the south-east Pacific coast). The prevalence of different languages and dialects further compromises the social and economic integration of indigenous communities. There are five linguistic branches of Maya and 21 linguistic communities (equivalent to dialects) distributed throughout the country. In many cases, older men and most of the women are monolingual, restricting both their communication capacity and their integration into rural society.

6. Access to education also reflects discrimination against the Mayan population: 62.3% of children aged seven to 14 not attending school are indigenous; 1.3 years is the schooling average for indigenous people, compared with 2.3 years for non-indigenous; only 43% of indigenous women complete primary education, 5.8% secondary, and only 1.0% complete third-level education.

7. The Mayan population has religious and cultural links with the land and its ancestral heritage is closely associated with corn and bean production as both family food and ceremonial crop. The livelihood patterns of indigenous populations and non-indigenous rural poor present a combination of economic activities, but are predominantly agricultural. Complementary activities are small enterprises involved in handicrafts (15%), retail business (12%) and services (10%). While members of indigenous communities represent close to 48% of the country's population, they own only 23.6% of the agricultural land.

8. The average land holding of indigenous agricultural producers ranges from 0.34 ha, (falling into the classification category of micro-land holdings) to 2.0 ha (corresponding to a sub-family land holding). The systematic decline of the agricultural sector and the crisis in international coffee prices have provoked a significant decline in the income and nutritional levels of the indigenous rural poor. While only 22% of the non-poor population work in agriculture, 58% of the indigenous rural poor are involved in agriculture either as subsistence producers or as seasonal salaried workers. It has been estimated by MAGA that at least 200 000 seasonal jobs have been lost due to the coffee crisis. This has particularly affected indigenous workers from the altiplano region.

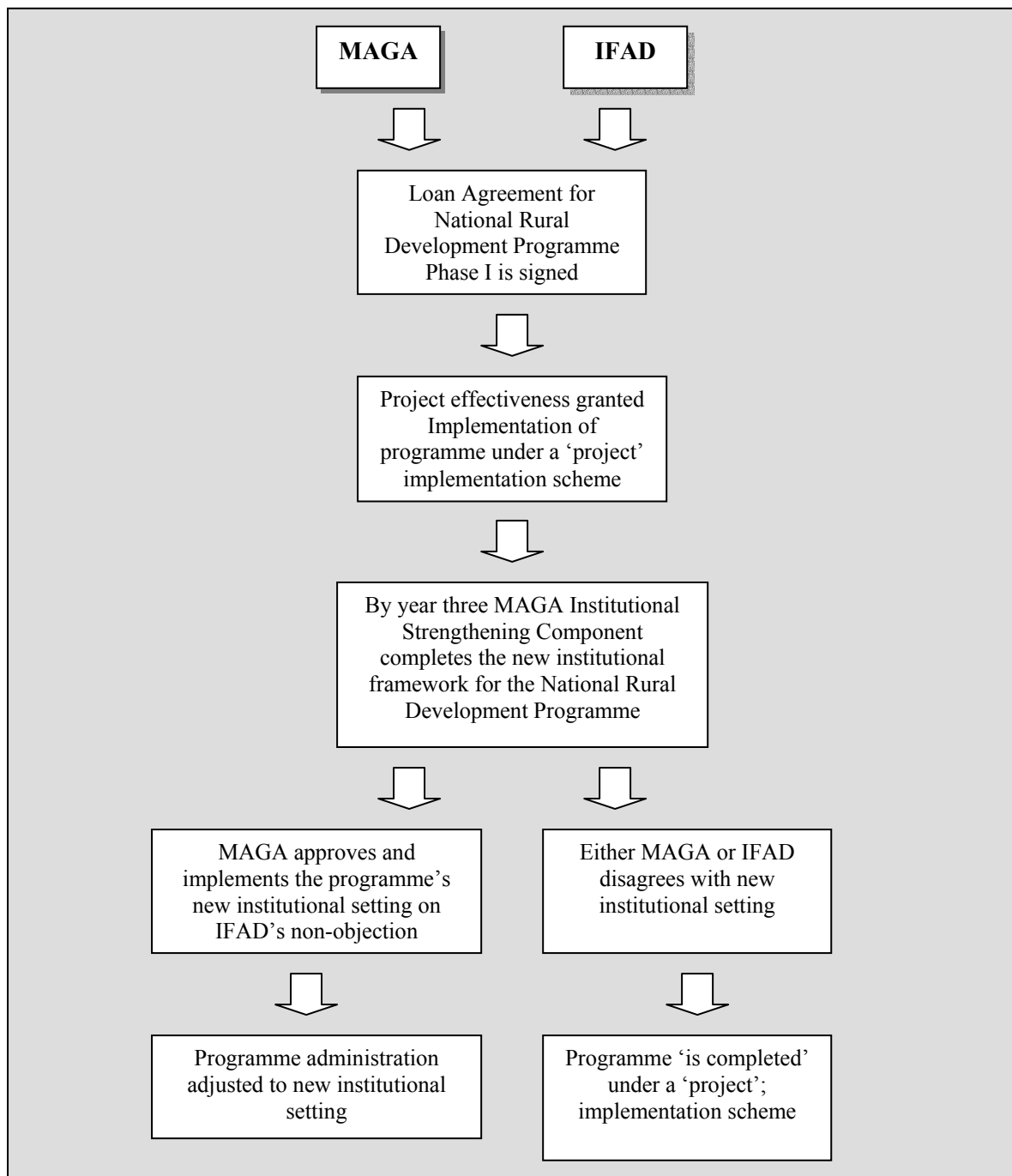
9. Women in rural areas are generally more prone to poverty than either rural men or urban women. The conditions of rural women in Guatemala have worsened as a result of the armed conflict, which left 100 000 women widowed and 250 000 orphans. This factor, among others, has contributed to an increase in the incidence of woman-headed households in rural areas. Women are highly involved in agricultural production as both individual producers or as part of the family workforce, however they seldom participate in local economic organizations. The patriarchal nature of rural society implies a circumscribed role for women and this is reflected in the high incidence of illiteracy, low levels of education and land ownership, limited access to technical and financial services, and the very high birth rate experienced by rural women.

10. Based on World Bank poverty studies and household surveys, the rural poverty line was estimated at USD 1.40 per person/day and the extreme poverty line at USD 0.80 per person/day. Approximately 60% of the country's households live below the poverty line.

ORGANIZATION AND MANAGEMENT

1. In agreement with the Government, the programme will be implemented by MAGA. The programme will be initiated under operational and administrative arrangements similar to those of the IFAD-financed Cuchumatanes Highlands Rural Development Project. An institutional framework for the National Rural Development Programme proposal should be completed as a result of the MAGA Institutional Strengthening Component after two and a half years of activities. Following approval of the proposed institutional framework by the Government and MAGA, and in agreement with IFAD and the cooperating institution, programme implementation and administration will be transferred to this new institutional setting. If no final agreement on the proposed institutional framework is reached at the Government and MAGA level or with IFAD and the cooperating institution, programme implementation will continue under the initial operational and administrative arrangement (Diagram 1).
2. A Steering Committee will be established with responsibility for policy and administrative guidance on programme activities. This governing structure will be incorporated into the new MAGA institutional framework, and will cover the duration of the programme. The Minister for Agriculture or the Vice-Minister will chair the Steering Committee. Other committee members from the Government will include one representative from SEGEPLAN and one from Ministry of Finance, one from MAGA, nominated by the Ministry, one private sector representative (local/national producers' organizations, exporters' associations or non-profit private sector organizations), one representative from the departmental governments and two from mayors from programme areas, all elected annually on a rotational basis. Programme beneficiaries will have one representative (man/woman) from each department democratically elected among leaders of local organizations, ensuring balanced representation in terms of gender and ethnicity, on a two-year rotational basis. The Steering Committee will be responsible for approval and supervision of annual operating plans and budgets, and overall programme guidance. It will meet at least twice a year.
3. A Coordinating Committee for IFAD projects implemented under FONAPAZ will be created to harmonize methodologies, strategies and operational tools. This Committee will be composed of representatives of the Minister for Agriculture and the Director General of FONAPAZ, the directors of the Project for Rural Development and Reconstruction for the Quiché Department (PRODERQUI) and the Rural Development Programme for Las Verapaces, and the director of the present programme. An organizational chart for the National Rural Development Programme – Phase I is presented in Diagram 1.
4. Service contracts will be signed, when necessary, with private and governmental national and/or local institutions, foundations, consulting firms and NGOs. Working and/or coordination agreements will be signed with the Ministry of Education and the Technological Institute for Technical Training (INTECAP) for adult literacy and the labour skill-training programme. Additional working agreements will be signed with major environmental investment projects to facilitate cooperation and coordination among activities in common geographical areas. National, state and local consulting enterprises; professional groups; private and government foundations; and NGOs will be contracted as necessary to provide training and productive services to programme beneficiaries. All contracts will be based on competitive bidding processes following IFAD, cooperating institution and government regulations.
5. Four alternative operational schemes and locations were considered during the design of the programme management unit, with the aim of optimizing its efficiency. The advantages and disadvantages of each alternative were examined. Finally, a decentralized PMU with five departmental offices and a liaison office in Guatemala City was considered the most appropriate, as this arrangement will facilitate close relations with local governments and communities and will imply lower supervision and personnel displacement costs, despite the higher implementation and maintenance costs (see Table).

Diagram 1: National Rural Development Programme Implementation Scenarios



**Diagram 2: National Rural Development Programme – Phase I
Organizational Chart**

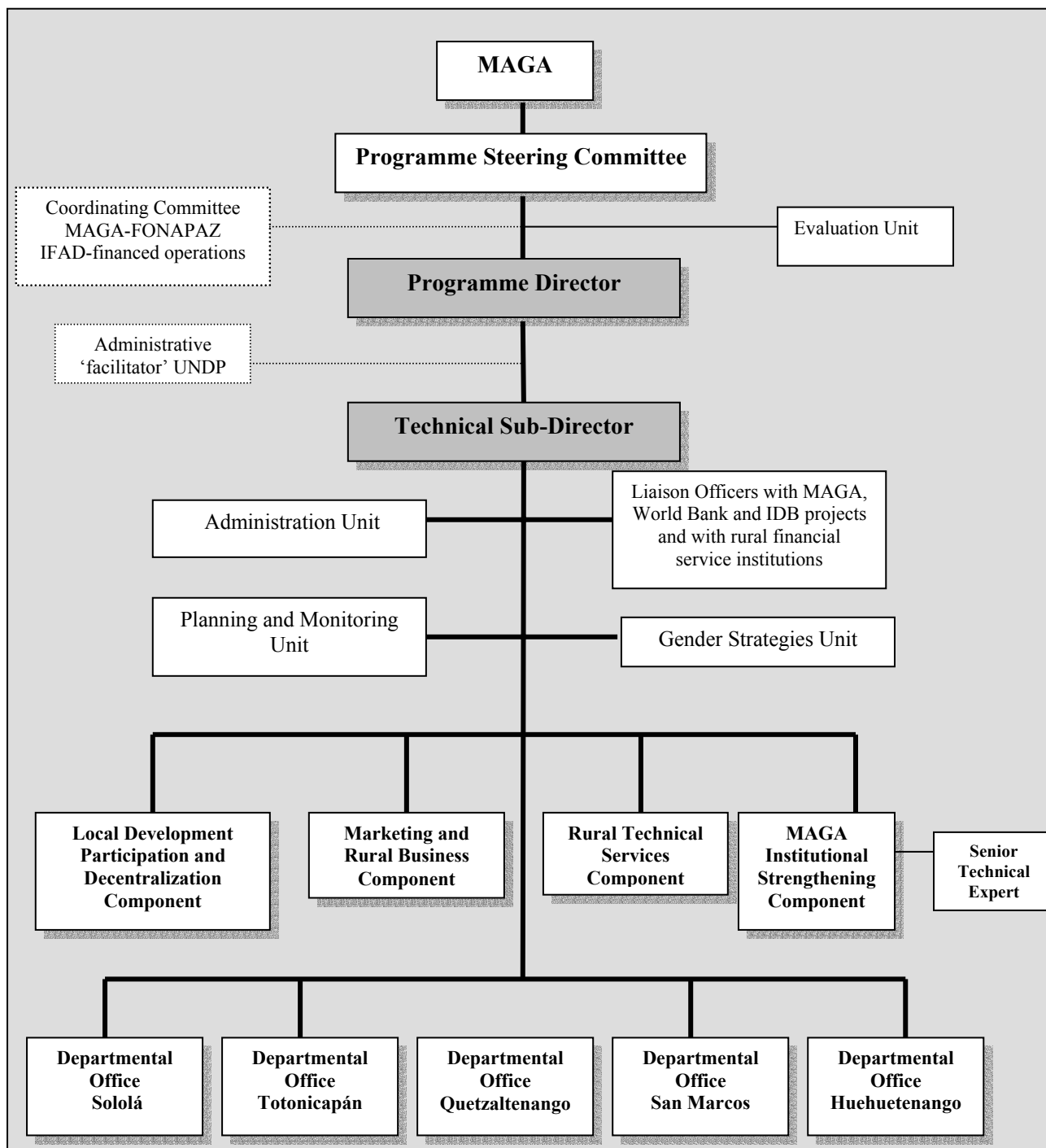


Table 1: Management-Efficiency Analysis to Determine the PMU Structure

PMU Structure	Characteristics	Advantages	Disadvantages
Centralized	PMU located in Guatemala City with mobile units covering activities in five departments	<ul style="list-style-type: none"> • Lower implementation costs by sharing MAGA office infrastructure and services • Close to MAGA decision-making processes • More effective action of MAGA Institutional Strengthening Component 	<ul style="list-style-type: none"> • Removed from rural communities and municipal governments • Higher supervision costs • Higher personnel displacement costs • Limited contacts with local, private and state institutions
Partly Centralized	PMU located in Guatemala City with five departmental offices	<ul style="list-style-type: none"> • Low implementation costs by sharing MAGA office infrastructure and services • Close to MAGA decision-making processes • More effective action of MAGA Institutional Strengthening Component 	<ul style="list-style-type: none"> • Programme director and PMU core staff removed from rural communities, municipal governments and local institutions • Higher PMU core staff displacement costs
Totally Decentralized	PMU Located in Quetzaltenango with five departmental offices	<ul style="list-style-type: none"> • Close to rural communities and municipal governments • Lower supervision costs • Lower personnel displacement costs • Intensive and systematic contacts with local private and state institutions 	<ul style="list-style-type: none"> • High PMU implementation and maintenance costs • Removed from MAGA decision-making processes • Least effective action of MAGA Institutional Strengthening Component
Partly Decentralized	PMU Located in Quetzaltenango with five departmental offices and a liaison office in Guatemala City	<ul style="list-style-type: none"> • Close to rural communities and municipal governments • Lower supervision costs • Lower personnel displacement costs • Intensive and systematic contacts with local private and state institutions • More effective action of MAGA Institutional Strengthening Component 	<ul style="list-style-type: none"> • High PMU implementation and maintenance costs

6. The PMU will have financial and administrative autonomy and will be established in the programme area, tentatively in the city of Quetzaltenango. Its responsibilities and authority will be delegated by MAGA. The programme will establish a liaison office in Guatemala City, staffed by personnel from the MAGA Institutional Strengthening Component and a liaison officer for MAGA/World Bank/IDB environmental projects. The programme will be organized through five departmental offices.

7. Regional and local fund approval committees will be established to deal with requests from economic organizations to access the programme's technical assistance, productive investments and/or the guarantee fund. The Regional Committee will be chaired by the programme director, and will be composed of the technical sub-director, the coordinators for the Marketing and Rural Business Component and the Rural Technical Services Component, a representative from MAGA, nominated by the Steering Committee and two elected mayors. Five representatives (men/women) from each department will represent the beneficiaries and these will be democratically elected among leaders of local organizations, respecting balanced gender and ethnic representation and functioning on a one-year rotational basis. The Local Committee will be chaired by the technical sub-director, and will be composed of the coordinators of the Marketing and Rural Business and the Rural Technical Services Components, and two beneficiaries. Two mayors will also be elected to the Local Committee to represent all municipal governments involved in the area.