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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Third Session

Rome, 1-2 December 2004

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:
CENTRAL AND EASTERN REGIONS**

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CURRENCY EQUIVALENTS

Currency unit	=	Guatemalan quetzal (GTQ)
USD 1.00	=	GTQ 8.00
GTQ 1.00	=	USD 0.125

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

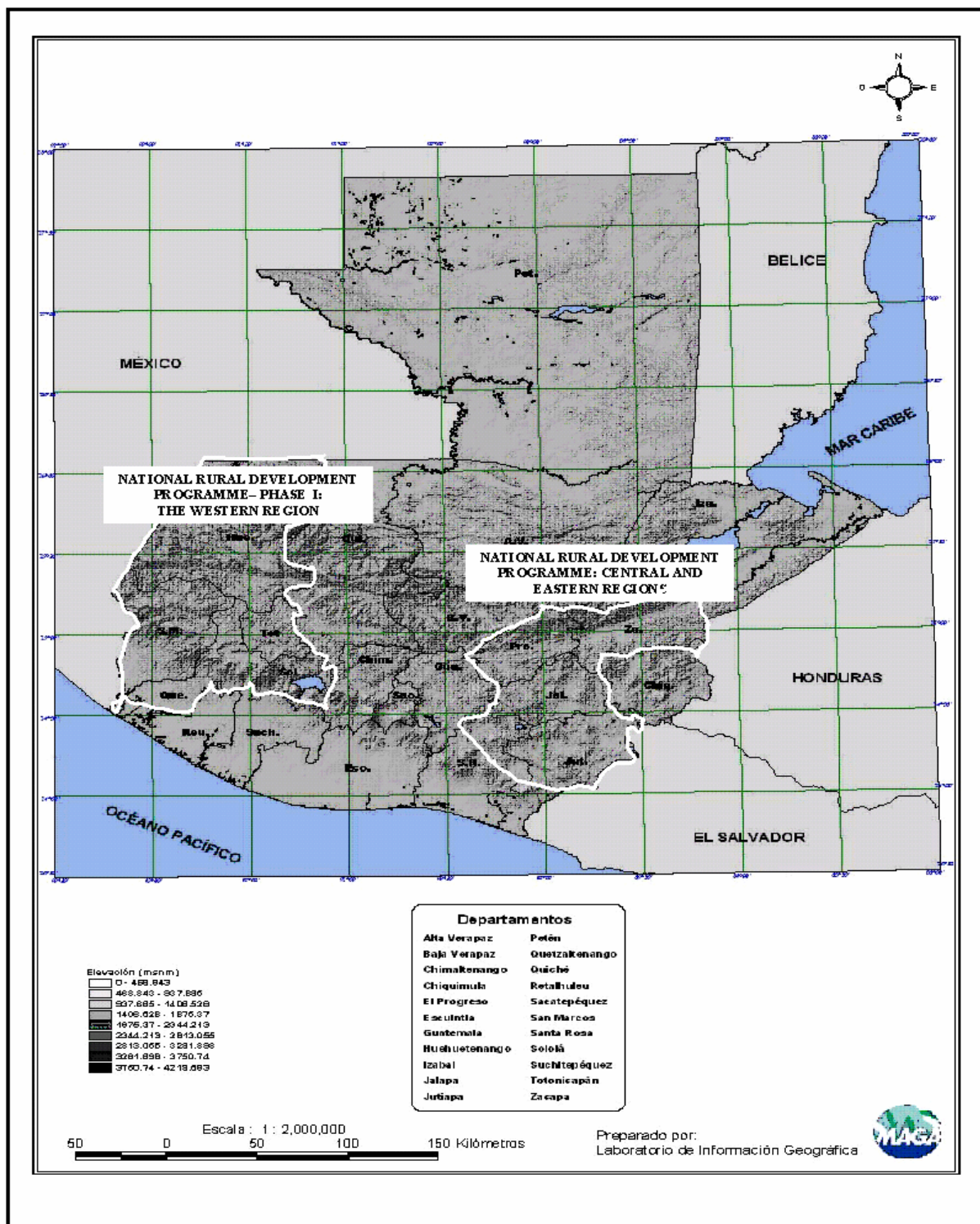
ABBREVIATIONS AND ACRONYMS

CAFTA	Central American Free Trade Agreement
COSOP	Country Strategic Opportunities Paper
FONAPAZ	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
NGO	Non-Governmental Organization
OPEC	Organization of the Petroleum Exporting Countries
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

GOVERNMENT OF THE REPUBLIC OF GUATEMALA
Fiscal Year

1 January – 31 December

MAP OF THE PROGRAMME AREA



Source: Ministry of Agriculture, Livestock and Nutrition (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:
CENTRAL AND EASTERN REGIONS

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Guatemala
EXECUTING AGENCY:	Ministry of Agriculture, Livestock and Nutrition (MAGA)
TOTAL PROGRAMME COST:	USD 38 million
AMOUNT OF IFAD LOAN:	SDR 11.35 million (equivalent to approximately USD 17 million)
TERMS OF IFAD LOAN:	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
COFINANCIER:	Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development
AMOUNT OF COFINANCING:	USD 15 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 4 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 central and eastern regions are inhabited by a *mestizo* population of Maya and Spanish descent (ladinos). The target group comprises the country's more vulnerable groups of the rural poor, including poor men and women small farmers and landless farmers (44%), microentrepreneurs and artisans (20%) and poor, landless young men and women (36%). The beneficiary group was estimated at 100 000 persons, comprising 30 000 direct beneficiaries, including 36% adult males, 38% adult women and 36% young men and women.

Why are they poor? Rural poverty is chiefly associated with lack of access to land¹, extreme fragmentation of landholdings, inefficient marketing systems and a lack of access to financial services and productive resources, particularly water and productive technologies. Women in rural areas are generally more subject to poverty, due to the effects of 35 years of 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 they expect from the programme? The programme will promote economic integration of the rural areas of the five central and eastern departments into Guatemala's social and economic development mainstream. Programme support to the participation of grass-roots organizations, coupled with activities directed towards the development and consolidation of beneficiaries' economic activities, will contribute to strengthening the self-esteem of the rural poor, particularly of rural women and young people – and thus promote empowerment of their local social and economic organizations. The programme will strengthen the productive and infrastructure resource base of 30 000 direct beneficiaries (men and women poor farmers, landless farmers and rural youth). The stimulus to the social and economic development of the region will also benefit 70 000 indirect beneficiaries, who will capitalize on social and rural infrastructure and productive investments. Thus improvements in rural health, education and communications infrastructure and basic services will bring an improvement of the living conditions in rural poor communities. The human-resource capacity of rural young women and men will be enhanced through a systematic labour-skills training programme for 8 000 rural youth. In addition, 6 000 adult and young men and women beneficiaries will be trained and supported in small microenterprise management and marketing, particularly those involved in traditional crafts manufacturing.

How will beneficiaries participate in the programme? The programme concept is to involve beneficiaries in planning, management and supervision of activities as a vital form of expression and participation, and ultimately as a way of strengthening rural civil society, and particularly indigenous organizations. The programme will support market-oriented, small rural business through technical and financial support. Since Guatemala's decentralization programme focuses on community and municipal development councils as participatory, rural development planning and budget-allocation mechanisms, programme support to both councils will enhance the role of rural grass-roots organizations, strengthening their capacity for participation in development mechanisms. The programme aims to support representative groups of beneficiaries – including small farmers, small entrepreneurs and rural youth – in developing the capacity to express their views and negotiate their demands with departmental, municipal and microregional development programmes. The programme will train beneficiaries' representatives in the skills needed to participate in the community, municipal and departmental planning councils that will be implemented as part of the decentralization law and government policy. Beneficiaries will also participate in programme monitoring and evaluation activities. Feedback mechanisms among small farmers, contracted private support organizations and the programme management unit technical staff will be established.

¹ See Appendix IV.

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CENTRAL AND EASTERN REGIONS**

I submit the following Report and Recommendation on a proposed loan to the Republic of Guatemala for SDR 11.35 million (equivalent to approximately USD 17 million) on intermediate terms to help finance the National Rural Development Programme: Central and Eastern Regions. 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 UNOPS as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY²

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 11.2 million people. Almost 60% of the population lives in rural areas and 48.6% of the national population is indigenous.
2. In December 2003, general elections were held in Guatemala for the presidency, congress and municipal governments. Oscar Berger and Eduardo Stain from the centre-right political coalition, *Gran Alianza Nacional*, were elected President and Vice-President, respectively, for a four-year period. The government of Mr Berger was inaugurated on 14 January 2004.
3. After 35 years of civil war, the Guatemalan Government and Guatemalan National Revolutionary Union signed a peace accord in December 1996, opening a new era of political and social stability, as well as an adequate framework for economic development. In 1999 Hurricane Mitch caused an estimated USD 250 million in damages in Guatemala. Owing to the resulting decline in production of coffee and reduction of exports in bananas and non-traditional products, export growth suffered and decreased by 9% in 1999. Production capacity was restored to pre-Hurricane Mitch levels by 2001. With an average growth in gross domestic product (GDP) of over 3% and an inflation rate of 7.5%, the country has maintained a stable macroeconomic course. Still, under this economic scenario, the Government faces considerable challenges in meeting the financial needs for accomplishing some of the peace-accord agreements, as well as for substantially reducing the extremely high levels of rural poverty.
4. 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 production is devoted to basic grains (maize, sorghum and beans) – the country's food staples.

² See Appendix I for additional information.

Commercial production comprises coffee, bananas, rubber, sugar cane and livestock. Over the last decade, the growing packing-plant sector has been exporting vegetables, fruit and flowers to the United States and other countries. Through production contracts with exporting enterprises, a sizable fraction of small farmers and indigenous communities is involved in the production of vegetables and fruit, with significant family income increments.

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

B. Lessons Learned from Previous IFAD Experience

6. IFAD has been involved in Guatemala since 1986. The Fund loan portfolio in the country totals close to USD 80 million, with total project investments of USD 120.8 million (including government and beneficiary counterpart contributions), covering six loan projects. The main lessons learned by IFAD operations include acknowledging the importance of: (i) strengthening rural producers' grass-roots organizations from the early stages of a project in order to guarantee project sustainability; (ii) training beneficiaries in all project components and activities, using a flexible approach to adapt to the social and cultural characteristics of the target population; (iii) providing rural financial services as a way of increasing access of poor peasant families to financial assets, especially poor women; and (iv) using a gender-oriented approach cutting across all components, with related activities implemented from the early stages of project design and continued throughout the duration of a project.

C. IFAD's Strategy for Collaboration with the Republic of Guatemala³

7. 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 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. IFAD country strategy in Guatemala has evolved from a project to a programme approach in an effort to: (i) focus poverty-reduction efforts on indigenous and other vulnerable rural populations; and (ii) strengthen the operational capacity of MAGA for rural development and poverty-reduction through creation of a nationwide rural development programme.

8. The current strategic framework for IFAD operations in Guatemala³ is oriented towards improvement of the social, political and economic conditions of vulnerable rural populations. The appalling poverty and social conditions of Guatemala's vulnerable groups (indigenous men, women and children) confirm the need to strengthen poverty-reduction and rural-development activities through joint operations between IFAD and the Government, and to refocus activities in the rural areas where indigenous groups are concentrated. Thus new operations will prioritize the needs of these groups. In line with this strategy, in September 2003 the Fund approved the National Rural Development Programme – Phase I: The Western Region (Loan 1274-GT), targeting the area that concentrates the largest indigenous population in the country. The present intervention will focus on poor landless or small farmers and rural women of *mestizo* origin (ladinos), settled in the central and eastern regions of the country.

³ See Appendix IV: National Rural Development Programme: Background, Rural Poverty and Land Issues.

9. This approach is in line with comments made at the Seventy-Eighth Session of IFAD's Executive Board on the country strategic opportunities paper (COSOP) for Guatemala. Recommendations made during those discussions include: (i) use of the peace accords as a vehicle for continuous support to IFAD poverty-reduction activities; (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.

10. **The Republic of Guatemala's policy for poverty eradication.** Guatemala's social policy is derived not only from the new Government's programme, but 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. The overall goal of the government social programme is to accelerate modernization of the economy, eradicate corruption, 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.

11. The main objective of the social policy is to create the conditions for lasting improvement in living standards, particularly for the poor and excluded, and to honour the peace-accord commitments. Key strategic objectives are: achieving genuine human development and 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. MAGA's strategic and policy document was presented in April 2004. Its major operational axes include: (i) competitiveness and market access; (ii) sustainable management of natural resources; (iii) food security; and (iv) legal certitude in order to comply with the peace accords and to create security of investments and assets. The latter refers to the formalization of land ownership and titling.

12. In April 2002, the Guatemalan Congress re-enacted the General Decentralization Law, the Urban and Rural Development Councils Law and the Municipal Code in order to update the regulations governing the decentralization process. The objectives of these laws not only relate to a democratic and participatory local development process, but aim to empower the inhabitants of isolated rural communities directly, particularly those with indigenous populations. MAGA, along with other public-sector institutions, had to adapt its planning processes and methodologies to existing community, municipal and departmental development councils. The new administration of the Secretariat for Planning and Programming (SEGEPLAN), responsible for the decentralization process, has ratified the high priority of this process on the new government agenda, continuing to strengthen previous decentralization efforts.

13. **Poverty-eradication activities of other major donors.** The Inter-American Development Bank (IDB), World Bank, Central American Bank for Economic Integration and European Union are the most important multilateral donors operating in Guatemala. 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, the German Credit Institution for Reconstruction, the German Agency for Technical Cooperation and the governments of The Netherlands, Italy and Spain.

14. The World Bank and IDB operations most relevant to IFAD investments are: (i) the Integrated Natural Resource Management Project for the Western Altiplano; and (ii) the Natural Resource

Management Programme for High Watersheds of Guatemala. Thus a substantial amount of investment in natural resource management will complement IFAD's operations.

15. **IFAD's strategy in the Republic of Guatemala.**⁴ Using a multi-step programme approach, the programme rationale and design are framed by: government poverty-reduction, rural- and agricultural-development policies; the commitments of the peace accords; and IFAD's institutional strategic framework for 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 aiding the Government in implementing this sequential approach to national rural development, IFAD will further enhance its catalytic role – supporting the new policy and institutional framework, and its corresponding rules and regulations, by providing the rural poor with tools for the integrated development through which 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).

16. 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, they 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 essential activities if rural poor 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 will identify appropriate solutions, given the characteristic alienation of rural poor communities from Guatemalan society. In addition, 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 sustainable improvement in their livelihoods.

PART II – THE PROGRAMME

A. Programme Area and Target Group

17. The programme area comprises the poorest rural communities and municipalities⁵ of the central and eastern regions (see map). The programme area lies in the eastern section of the Sierra Madre, a mountainous formation running from Mexico to El Salvador and covering from east to west the central section of the country. Traditional crops include *milpa* (non-share-cropping of maize and sorghum), coffee, fruit and in some areas vegetables. In semi-arid areas, peasant families raise very small herds of cattle. The majority of small farmers cultivate for family consumption, with some surplus harvest devoted to local markets. Coffee is grown in areas over 800 metres, and has evolved from traditional to organic production to obtain better prices. Newly introduced agricultural products include ornamental plants, aromatic tropical fruit and vegetables for local, regional and extra-regional export markets.

⁴ See Appendix V: Programme Design Matrix and Strategic Approach.

⁵ See Appendix VI: Programme Area: Priority Municipalities.

18. The programme's target group is estimated at 258 000 people, including 30 000 direct and 70 000 indirect beneficiaries. Direct beneficiaries include poor men and women small farmers and landless farmers (44%), microentrepreneurs and artisans (20%) and poor, landless young men and women (36%). The beneficiary group comprises 36% adult males, 38% adult women and 36% young men and women. The programme will support the latter with training in labour skills.

B. Objectives and Scope

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

C. Components

20. Programme activities have been organized into three components: (i) land-use planning and decentralization; (ii) rural business and marketing; and (iii) rural services. A gender-oriented strategy will cut across all component activities. A programme management unit (PMU) will be established, including gender, planning, monitoring and evaluation (M&E), and administrative units.

21. The **land-use planning and decentralization** component has the general goal of empowering rural poor populations and improving their self-esteem, so they may actively and systematically participate in planning the social and economic development of their communities. The component will undertake the following activities: (i) strengthen the self-management capacity of rural community organizations and consolidate local economic organizations, with particular support to rural women; (ii) provide a social and cultural development fund to support improvement of social and cultural services in the programme area; (iii) strengthen and consolidate municipal governments and the decentralization process; and (iv) conduct communication and diffusion activities. Explicit linkages have been established between decentralization support activities and MAGA institutional support to ensure the participation of grass-roots organizations.

22. The **rural business and marketing** component will support the targeted population in improving its income-generating capacities, transforming subsistence economic activities into small, profitable rural agricultural and non-agricultural businesses. The specific goal is to attain improved, effective linkages of agricultural and non-agricultural producers with local, regional, national and external markets. The strategy consists of strengthening basic factors affecting market performance and the ability of the target population to identify and profit from marketing opportunities. These include: overcoming lack of an information network by establishing a set of marketing contacts within the leading private entrepreneurial sector; providing training in management skills; and improving road, telephone and electric infrastructure. The component will monitor regional integration processes, such as the Central American Free Trade Agreement (CAFTA) and the Free Trade Area of the Americas (FTTA) trade agreement, and will support economic organizations in keeping track of sanitary production or processing requirements, so as to increase awareness and commitment among members to comply with trade regulations. Under a demand-led scheme, small farmers' associations and organizations, cooperatives and rural companies will have access to technical services to develop and/or strengthen a business-oriented, profitable initiative. The programme will enhance capacities of local organizations and small firms to identify market opportunities, develop business plans and negotiate with leading private firms, market agents and the financial sector. A regular schedule of marketing events at the local level will be promoted, together with the private sector and local and national authorities, appealing to local identity and cultural factors as a marketing advantage. Local microentrepreneur organizations will be empowered to use marketing information and events to develop and increase their marketing links, compare their products with and assess competitors' products, and identify new marketing opportunities. The programme will establish a rural

infrastructure fund (feeder roads, road repair and maintenance, telephones, Internet access, etc.) oriented towards providing a new and/or improved communication platform suitable for developing new marketing opportunities.

23. The **rural 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 in support of 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 – non-governmental organizations (NGOs), foundations, grass-roots organizations and consultants – who will preferably be locally based and contracted by transparent bidding procedures. Service providers will identify and systematize the activities of beneficiaries' economic organizations in a demand-led operational scheme, using participatory methodologies and with field personnel trained in gender issues. The component will undertake the following activities: (i) institute technical-assistance services for beneficiaries' agricultural and non-agricultural economic organizations; (ii) develop a labour-skills training programme for landless young men and women; (iii) develop and strengthen strategic alliances with private-sector enterprises; (iv) establish a productive development fund to finance associative productive investments (small-scale irrigation projects, marketing infrastructure, etc.); and (v) establish an environmental conservation fund to finance small-scale soil and water management works and microwatershed conservation activities.

24. The programme's **strategic gender approach** aims to create the conditions for: (i) equitable access for rural women to all programme training, productive and investment opportunities; (ii) implementation of activities aimed at narrowing the educational/training gap between rural men and women; and (iii) 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 under the programme. These include: systematic gender training for PMU staff, service providers and economic organizations; application of gender-oriented strategies and methodologies in all programme components; leadership training for women members of organizations; promotion of active participation by women in social and economic organizations; 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 on behalf of rural women engaged in economic activities.

25. The programme will support access of the target population to local, rural **financial services** through several instruments. Agricultural and non-agricultural microentrepreneurs, organized in small firms, will increase their chances of meeting the requirements of formal financial institutions by presenting sound financial proposals and by reaching a minimum asset level through capitalization with non-reimbursable investment funds. The by-laws of these funds will emphasize transparency and equity, as well as profitability and market orientation for asset financing, ensuring the allocation of funds to investments in new, profitable businesses until their technological and managerial levels have reached maturity. Coordination and communication with the financial sector will be ensured through establishment of consultative groups at the local level: the programme will invite marketing agents and financial institutions to express their views, expectations and concerns on the use of the investment fund. This will avoid undermining the development of rural microfinance institutions in the programme area or activities of the *Banco de Desarrollo Rural* addressed to the target population. The consultative groups will also help identify key interventions and/or market failures that may be dealt with through these ad-hoc mechanisms. Groups, organizations and small firms will be able to develop efficient financial management through training in the characteristics, requirements, advantages and disadvantages of credit and savings instruments provided by financial institutions. The

budget of the National Rural Development Programme – Phase I: The Western Region includes an allocation for facilitating access to rural financial services. These funds will also finance technical support, institutional strengthening and consolidation of procedures and best practices to benefit institutions of the National Rural Development Programme: Central and Eastern Regions.

D. Costs and Financing

26. The total programme cost is estimated at USD 38 million (Tables 1 and 2). Financing of programme costs will be as follows: an IFAD loan of USD 17 million (45% of total costs); a loan from the OPEC Fund for International Development for USD 15 million (40%); a counterpart contribution by the Government of USD 4 million (11%); and beneficiaries' in-kind contributions of USD 2 million (5%). The base cost of each component is as follows: land-use planning and decentralization, USD 5.3 million (representing 15% of total programme costs); rural business and marketing, USD 7.1 million (20%); and rural services, USD 18.5 million (51%). The PMU has a total cost of USD 5.3 million (15%), including M&E (USD 1.1 million) and strategic gender activities (USD 1.5 million). The programme will be implemented over six years.

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

Components and PMU	Local	Foreign	Total	% Foreign Exchange	% of Base Cost
Land-Use Planning and Decentralization					
1. Strengthen community organizations	1 740	131	1 872	7	5
2. Social and cultural development fund	2 472	---	2 472	--	7
3. Strengthen municipal governments	276	189	465	41	1
4. Communication and diffusion	427	58	485	12	1
Subtotal Land-Use Planning and Decentralization	4 915	378	5 293	7	15
Rural Business and Marketing					
1. Promotion and business contacts	2 290	199	2 490	8	7
2. Investment fund for public marketing infrastructure	4 585	14	4 600	--	13
Subtotal Rural Business and Marketing	6 875	214	7 090	3	20
Rural Services					
1. Technical-assistance services	7 532	399	7 931	5	22
2. Labour-skills training	3 169	21	3 190	1	9
3. Strategic alliances with private sector	499	88	587	15	2
4. Productive development fund	5 670	---	5 670	--	16
5. Environmental conservation fund	1 068	---	1 68	--	3
Subtotal Rural Services	17 938	508	18 446	3	51
Programme Management Unit					
1. Programme administration	2 384	276	2 660	10	7
2. Planning, monitoring and evaluation unit	1 030	103	1 133	9	3
3. Gender unit	1 341	185	1 526	12	4
Subtotal Programme Management Unit	4 756	563	5 319	11	15
Total Baseline Costs	34 484	1 663	36 148	5	100
Physical contingencies	296	13	309	4	1
Price contingencies	1 465	79	1 543	5	4
Total Programme Costs	36 245	1 755	38 000	5	105

^a Discrepancies in totals are due to rounding.

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

Components and PMU	IFAD		OPEC Fund		Beneficiaries		Government		Total		Foreign	Local (Excl.)	Duties and
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Exchange	Taxes)	Taxes
Land-Use Planning and Decentralization													
1. Strengthen community organizations	896	45	751	37	--	--	369	18	2 016	5	138	1 858	20
2. Social and cultural development fund	2 217	90	---	--	255	10	--	--	2 472	7	--	2 472	--
3. Strengthen municipal governments	382	80	98	21	--	--	--	--	480	1	194	286	--
4. Communication and diffusion	391	74	---	--	--	--	141	27	532	1	62	455	14
Subtotal Land-Use Planning and Decentralization	3 886	71	849	15	255	5	509	9	5 499	15	394	5 071	34
Rural Business and Marketing													
1. Promotion and business contacts	1 549	54	111	4	--	--	1 191	42	2 851	8	219	2 413	220
2. Investment fund for public marketing infrastructure	1 403	30	2 768	60	443	10	--	--	4 614	12	16	4 598	--
Subtotal Rural Business and Marketing	2 951	40	2880	39	443	6	1 191	16	7 466	20	235	7 011	220
Rural Services													
1. Technical-assistance services	3 610	42	4 195	49	--	--	708	8	8 514	22	424	8 058	32
2. Labour-skills training	867	25	2 601	75	--	--	--	--	3 468	9	22	3 446	--
3. Strategic alliances with private sector	429	69	152	24	--	--	42	7	623	2	93	530	--
4. Productive development fund	1 126	20	3 402	60	1 142	20	--	--	5 670	15	--	5 670	--
4. Environmental conservation fund	267	25	641	60	160	15	--	--	1 068	3	--	1 068	--
Subtotal Rural Services	6 299	33	10 991	57	1 302	7	750	4	19 343	51	539	18 772	32
Programme Management Unit													
1. Programme administration	1 979	71	--	--	--	--	827	30	2 805	7	281	2 466	59
2. Planning, monitoring and evaluation unit	865	71	--	--	--	--	358	29	1 222	3	108	1 105	9
3. Gender unit	1 020	61	280	17	--	--	365	22	1 665	4	199	1 439	27
Subtotal Programme Management Unit	3 863	68	280	5	--	--	1 549	27	5 692	15	587	5 011	95
Total Programme Costs	17 000	45	15 000	40	2 000	5	4 000	11	38 000	100	1 755	35 864	381

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

27. Procurement of goods, works and consulting services financed by the IFAD loan will be undertaken in accordance with the procurement guidelines of IFAD and the cooperating institution, and in conformity with national legislation. 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 conforming to the Government's service purchasing regulations. The Government and a reputable international or regional development agency will enter into a subsidiary agreement to procure goods and services and recruit technical assistance and local staff.

28. Disbursements for operating costs, expenditures incurred within the rural investment fund and costing less than USD 10 000 equivalent, or against other expenditures as agreed by IFAD, will be made against statements of expenditures. Other types of expenditures will require detailed documentation. A special account with an authorized allocation of USD 1.4 million will be opened at the Central Bank of Guatemala. The programme director will submit withdrawal applications to the cooperating institution (UNOPS), which will verify the eligibility of expenses incurred and request the disbursement of funds from IFAD's related loan account.

29. Six months after loan effectiveness, at the latest, the programme will set up accounting and internal control systems satisfactory to IFAD, to 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 Management

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 start-up, a programme steering committee will be established, which will be responsible for policy and administrative control, approval and supervision of annual operating plans and budgets, and overall programme guidance. The Minister for Agriculture or a representative will chair the committee. Other committee members will include: representatives of the Ministry of Finance and SEGEPLAN, one representative of departmental development councils and two representatives of municipalities in the programme area, all elected annually on a rotational basis. Programme beneficiaries will have five representatives (with at least two women) from local beneficiary organizations. These will be democratically elected from among the leaders of local social and/or economic organizations, which will ensure balanced gender representation for a two-year rotational period.

32. To harmonize activities and rural development instruments, a coordination committee will be established between the programme's western and central and eastern regions operations. The committee will be chaired by the Coordinator of Projects, External Cooperation and Trust Funds Unit from MAGA, and will have the participation both directors and technical sub-directors. It will meet at least three times a year. IFAD's project directors operating under MAGA and FONAPAZ will meet at least once a year to harmonize the development instruments, exchange experiences and identify and scale up good practices.

33. A decentralized PMU in Jalapa was considered the most appropriate for programme geographical coverage, being located near the geographical centre of the programme area. In this way,

closer relationships will be established with local government and communities, with lower supervision and personnel displacement costs. The PMU's responsibilities and authority will be delegated by MAGA, with decentralized financial and administrative autonomy. The programme will be organized through four departmental offices in El Progreso, Zacapa, Jutiapa and Jalapa. The latter, as well as being programme headquarters, will serve municipalities in the department of Santa Rosa.

34. 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

35. The programme will promote economic integration of the rural areas of the five central and eastern departments into Guatemala's development mainstream. Further, programme support for the participation of grass-roots organizations 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 rural women and young people. This in turn will promote the empowerment of their local social and economic organizations.

36. The programme will strengthen the productive and infrastructure resource base of 30 000 direct beneficiaries (men and women poor farmers, landless farmers and rural youth). The stimulus to the region's social and economic development and decentralization processes will indirectly benefit another 70 000 beneficiaries, who will capitalize on the coordinated social, productive and public-service 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 communities.

37. The human-resource capacity of the target group, particularly that of poor rural communities and young women and men, will be enhanced through the systematic training in labour skills of 8 000 rural youth. A further 6 000 adults and young people will be trained and supported in small microenterprise management and marketing, particularly those involved in transformation processes and traditional crafts manufacturing. It has been estimated that at least 13 000 beneficiaries will directly benefit from marketing and agricultural technical-assistance programmes, including at least 2 600 rural women and woman heads of households. A total of 19 000 families will directly benefit from non-reimbursable productive investments in small-scale irrigation projects, classification and marketing infrastructure, and improvements in the region's communications and rural road network. This will improve their marketing and income-generating capacity.

38. Programme activities will include a total of 480 rural communities in 40 municipalities. Activities to strengthen the decentralization process will benefit 40 municipal and 300 community development councils. Development of agricultural and non-agricultural, small- and medium-sized rural businesses – innovative, profitable and market-oriented – will benefit 17 700 rural men and women. Such innovative activities will substantially increment current family income and generate employment (Table 3).

Table 3. Economic Indicators of Proposed Agricultural and Non-Agricultural Activities

Type	Activity	Generation of Employment		Net Income USD/ha/season	Internal Rate of Return %
		Daily Wages Wages/ha/season	Jobs No. of positions		
Agricultural	Mini-vegetables	586	2.4	5 490	n/a
	Onions	357	1.5	3 286	n/a
	Organic gourmet coffee	165	0.7	2 781	50
	Papaya	122	0.5	3 974	256
Non- Agricultural	Fruit and tree nursery	380	1.6	5 997	150
	Vegetable packing	2 623	10.9	59 125	134
	Rural tourism	212	0.9	11 550	32

H. Risks

39. 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 development. It will also assist the Government in generating pro-poor policy safeguards and mitigating mechanisms through the enhanced capacity of rural, local grass-roots and civil-society organizations, thus strengthening current decentralization activities.

I. Environmental Impact

40. The programme has been tentatively classified as category B in view of its natural resource conservation activities and the fact that the identified potential impacts will be addressed through environmentally sensitive interventions and investments. The activities under the Rural Services component will help recover some of the areas in danger of degradation and will also promote the rational use of natural resources in selected microwatersheds. Natural resource and environmental conservation activities will be supported by an environmental conservation fund, operated through municipal and community development councils.

J. Innovative Features

41. The programme's design and operational scheme include five features that are innovative in the country: (i) use and consolidation of government decentralization processes and mechanisms as tools for empowering the rural poor; (ii) linking of policy dialogue and institutional strengthening to rural development instruments and field operations; (iii) a phased plan for a unified approach to rural development; (iv) use of market opportunities and information as the entry point for the programme's technical-assistance services and investment resources; and (v) specific attention to developing the potential of rural youth, including their systematic training in labour skills relevant to the regional and national labour market.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

42. 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.

43. The Republic of Guatemala is empowered under its laws to borrow from IFAD.
44. I am satisfied that the proposed loan will comply with the *Agreement Establishing IFAD*.

PART IV – RECOMMENDATION

45. 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 eleven million three hundred and fifty thousand Special Drawing Rights (SDR 11 350 000) to mature on or prior to 15 February 2025 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 26 November 2004)

1. **Cofinancing.** The Government of the Republic of Guatemala (the “Government”) intends to obtain from the OPEC Fund for International Development a loan in the amount of approximately USD 15 million to assist in financing the programme under terms and conditions stipulated in an agreement to be entered into by the Government and OPEC.
2. **Programme account.** The PMU, in accordance with applicable national legislation, will open and maintain at a bank in the programme area agreed upon by the Government and IFAD a current account in Guatemalan quetzales for programme operations. The programme director and the chief administrative/financial officer of the PMU or their respective delegated officers, duly authorized by the Minister of Agriculture, Livestock and Nutrition, will be fully authorized to administer and operate this account.
3. **Availability of loan proceeds and other funds.** To finance implementation of the programme, the Government will make the proceeds of the loan, and – as applicable – those of the OPEC loan, available to the Ministry of Agriculture, Livestock and Nutrition (the “Ministry”) and any other programme party as set forth in the annual workplans and budgets (AWP/Bs) and the customary procedures of the Government in respect of development cooperation.
4. **Counterpart funds.** The Government will make available to the Ministry and any other programme party, during the programme implementation period and promptly as necessary, counterpart funds out of its own resources for the IFAD loan and the OPEC loan in an aggregate amount of approximately USD 4 million, as set forth in the AWP/B and the customary national procedures of the Government in respect of development cooperation.
5. **Additional events of suspension.**
 - (a) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the audit has not been conducted satisfactorily within the six months following the date for such purposes.
 - (b) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account in the event that: (i) it has determined that the material benefits of the programme are not reaching adequately the target group or are benefiting persons other than the target group; and (ii) the programme implementation manual, or any of its provisions, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.
6. **Programme implementation manual.** The PMU will prepare a draft implementation manual and will submit it to the Ministry for approval. Prior to approving the manual, the Ministry will forward a copy of the draft manual to IFAD. The PMU will adopt the manual in the form approved by IFAD.
7. **Participation of women and beneficiary indigenous populations.** The Ministry will ensure that women and indigenous populations are fully involved in and benefit from all programme activities carried out during the programme implementation period. To this end, the Ministry will ensure that: (a) the gender approach is borne in mind in all programme activities; (b) training activities

include a gender awareness programme for the PMU, programme staff, service providers, municipal corporations and grass-roots organizations; (c) support is provided for actions that reduce and enhance domestic work performed by indigenous and non-indigenous women in programme communities and organizations; and (d) the interests of indigenous beneficiary populations are respected and, to that end, it will ensure that: (i) the rights of the indigenous beneficiary populations are duly respected; (ii) communities of indigenous beneficiary populations participate in policy dialogue and local government; and (iii) the programme does not lead to usurpations in traditional territories used or occupied by indigenous communities.

8. **Environmental impact and sustainability.** The Ministry will seek to ensure at all times the rational use and conservation of natural resources by means of appropriate environmental standards and recommendations. To ensure more efficient use of natural resources, land-use planning will be established at the local level. At the start-up of programme implementation, the planning, monitoring and evaluation unit will present to IFAD and the programme steering committee a proposal for monitoring and evaluation. This unit will provide an annual evaluation to the programme director and the PMU.

9. **Conditions for effectiveness.** The following are specified as conditions precedent to the effectiveness of the loan agreement:

10.

- (a) the Ministry has duly appointed the programme director, with the prior no objection of IFAD;
- (b) the Government has duly opened the special account and the programme account;
- (c) the PMU has been duly established;
- (d) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
- (e) the Government has presented to IFAD a 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) 2002 1/	108	GNI per capita (USD) 2002 1/	1 760
Total population (million) 2002 1/	11.99	GDP per capita growth (annual %) 2002 1/	-0.4
Population density (people per km²) 2002 1/	111	Inflation, consumer prices (annual %) 2002 1/	8
Local currency	Quetzal (GTQ)	Exchange rate: USD 1 =	GTQ 7.60
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	2.6	GDP (USD million) 2002 1/	23 277
Crude birth rate (per thousand people) 2002 1/	33	Average annual rate of growth of GDP 1/ 1982-1992	2.2
Crude death rate (per thousand people) 2002 1/	7	1992-2002	3.9
Infant mortality rate (per thousand live births) 2002 1/	36	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	65	% agriculture	23
Number of rural poor (million) (approximate)	n/a	% industry	19
Poor as % of total rural population	n/a	% manufacturing	13
Total labour force (million) 2002 1/	4.52	% services	58
Female labour force as % of total 2002 1/	30	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	8
School enrolment, primary (% gross) 2002 1/	103 a/	Household final consumption expenditure, etc. (as % of GDP)	85
Adult illiteracy rate (% age 15 and above) 2002 1/	30	Gross domestic savings (as % of GDP)	7
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2002 1/	2 232
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	46 a/	Merchandise imports 2002 1/	6 078
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	24 a/	Balance of merchandise trade	-3 846
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	5 a/	before official transfers 2002 1/	-4 253
Physicians (per thousand people)	n/a	after official transfers 2002 1/	-1 193
Population using improved water sources (%) 2000 3/	92	Foreign direct investment, net 2002 1/	110
Population with access to essential drugs (%) 1999 3/	50-79	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	81	Overall budget deficit (including grants) (as % of GDP) 2002	n/a
Agriculture and Food		Total expenditure (% of GDP) 2002	n/a
Food imports (% of merchandise imports) 2002 1/	13	Total external debt (USD million) 2002 1/	4 676
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	1 345 a/	Present value of debt (as % of GNI) 2002 1/	19
Food production index (1989-91=100) 2002 1/	140	Total debt service (% of exports of goods and services) 2002 1/	7
Cereal yield (kg per ha) 2002 1/	1 727	Lending interest rate (%) 2002 1/	17
Land Use		Deposit interest rate (%) 2002 1/	7
Arable land as % of land area 2001 1/	13		
Forest area as % of total land area 2000 1/	26		
Irrigated land as % of cropland 2001 1/	7		

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

1/ World Bank, *World Development Indicators* CD ROM 2004.

2/ UNDP, *Human Development Report*, 2000.

3/ UNDP, *Human Development Report*, 2004.

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)
154 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%
251 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	100%
296 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%
1008 Programme for Rural Development and Reconstruction in the Quiché Department (PRODERQUI)	IFAD	UNOPS	I	04 Dec 96	18 Dec 98	30 Jun 07	L-I-435-GT	SDR	10,450,000	34%
1085 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	19%
1274 National Rural Development Programme - Phase I: Western Region	IFAD	UNOPS	I	11 Sep 03			L-I-614-GT	SDR	21,550,000	

LOGICAL FRAMEWORK

National Rural Development Programme-Central and Eastern Regions (2004-2010)

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Development Goal</p> <p>Levels of poverty, exclusion and discrimination of the poorest indigenous and non-indigenous population of Guatemala are reduced.</p>	<ul style="list-style-type: none"> • Rural poverty levels reduced by 50% (2015) • Human development index increased in accordance to national development goals (2015) 	<ul style="list-style-type: none"> • INE, SEGEPLAN • UNDP Development Index • PBAS 	
<p>Purpose</p> <p>All stakeholders' capacities are enhanced and the rural poor are empowered to participate actively in the rural poverty reduction and the decentralization process of the Central and Oriental Region by:</p> <ul style="list-style-type: none"> • incorporating the rural poor in decentralized development structures • strengthening Human Resources • developing improved income generation opportunities • the inclusion of rural poor women in the local economy focusing on the correction of gender imbalances 	<ul style="list-style-type: none"> • 60% of households with improvements in household assets ownership • Reduction in the prevalence of child malnutrition (weight for age). • 65% of attended communities and municipalities and all department councils in Programme area 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. • 30% economic formal organizations have female leaders in their management • 50% of microenterprises reinvesting fund proceeds • 80% de microentrepreneurs increase their labour demand • 35% rural economic profitable activities managed by women. • 38% of women with improved access to rural services like land titling,, credit, technology • 20% of beneficiaries opened new market channels • 45% of women reduce their workload • 45% of attended youth employed and 10% with profitable and sustainable business • 30% of microenterprises access formal credit. • Productive areas with environmental measures increased by 30% 	<ul style="list-style-type: none"> • Base Line study • Project impact studies • Records of systemization • Social audits reports. • Case studies • Pro Gender Studies. 	<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. • Rural development activities by other development institutions (Rural Transport, Health, Social Funds, etc.) support the operation and maintenance of the Programme activities.
<p>Output 1: Land Use Planning 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"> • 40 municipalities with improved technical and management capacities • 300 communities with improved planning skills for rural development. • 40 municipalities and 280 communities count with rural development plans. • 285 community development plans included in 40 municipal development prepared by COMUDE • 60% of the communities present via their local council system projects to the municipalities 	<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, etc.) is secured

	<ul style="list-style-type: none"> • 160 communities count with a functioning council and social auditing system • 40 municipalities implement their Municipal Development Councils – COMUDE • 285 community development plans included in 40 municipal development plans • 25% of the members of economic organizations are women • 40 municipalities access to Geographical Information System 		
<p>Output 2: Human Resource Strengthening</p> <ul style="list-style-type: none"> • Level of education and technical/ management skills of beneficiaries and technicians of service providers improved 	<ul style="list-style-type: none"> • 8000 youth are prepared to participate in the market (50% women). • 60% of beneficiaries participating in the Human Resource Development programme have better productive and organizational skills. • 20 service provider trained • 800 leaders trained in marketing rural business • 4000 beneficiaries alphabetized (60% women, 10% indigenous) 	<ul style="list-style-type: none"> • Monitoring reports • Supervisory field records • Case studies 	<ul style="list-style-type: none"> • Labour market imperfections do not impede absorption of trained youth
<p>Output 3: Rural Business and Marketing</p> <ul style="list-style-type: none"> • Market linkage capacity for all 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"> • 19 000 beneficiaries supported in rural business and marketing activities • 40 negotiation tables among producer-buyers in operation • 170 organizations represented in regional and international trade fairs. • 30 beneficiaries' groups participate in trade/marketing tables and 100 accomplish business transactions. • Market information service in operation • At least 20 municipalities improve their communications net-work (rural roads and telephone services) • 380 women in condition to operate their own business 	<ul style="list-style-type: none"> • Monitoring reports • Supervisory field records • Funds reports. • Case studies • Systematization reports 	<ul style="list-style-type: none"> • NAFTA conditions continue to be favourable for export
<p>Output 4: Rural Services</p> <ul style="list-style-type: none"> • Beneficiaries are accessed by demand-led market oriented services for the transformation of their subsistence economic activities into profitable businesses 	<ul style="list-style-type: none"> • Approx. 19 000 rural poor (36% women and 10% indigenous) benefit through the productive and non-productive services and activities offered by the Programme • 65% of producers improve their economic and non-economic business results • 60% of producers initiate new and innovative business or trade relations • 65% of the demand-driven projects are productive considering gender and environmental aspects • 50% of beneficiary organizations with access to Productive Development Fund • 10% of producers develop technological and management leadership • Rural service providers have included environmental impact approaches in their service. • 20% of beneficiaries have access to financial services 	<ul style="list-style-type: none"> • Monitoring reports • Supervisory field records • Funds reports • Case studies • Systematization reports 	<ul style="list-style-type: none"> • Environmental protection programmes by other state organizations are supporting the Programme

Activities by Components

<u>Land Use Planning and Decentralization</u>	<u>Rural Business and Marketing</u>	<u>Rural Services</u>
<ul style="list-style-type: none"> • Strengthening local communities' organizations <ul style="list-style-type: none"> - Preparations of participatory rural diagnosis and community strategic development plan. - Strengthening the diagnostic, planning and social audit capacities of Communal Development Councils – COCODE. - Labour skill training for 8000 young men and women - Basic lecture and writing for 4.000 adult men ad women. - Implementation of a Social Investment Fund. • Strengthening and consolidating local economic organizations <ul style="list-style-type: none"> - Training in organizacional strengthening - Training in small rural business management - Training in communication techniques for small business management - Training in gender, leadership and self-esteem. - Training in monitoring and evaluation • Strengthening the decentralization process (in municipalities) <ul style="list-style-type: none"> - Strengthening the administrative capacity of municipal governments - Training in rural development, management, decentralization, participation and gender - Strengthening the municipal computerized information systems. - Use and management of local Geographic Information System as a planning tool for social and economic development. - Communication and diffusion 	<ul style="list-style-type: none"> • Promotion of business contacts and strategic alliances between local economic organizations and private sector. <ul style="list-style-type: none"> - Organizations of local fairs and negotiating tables. - Support to the participation of local entrepreneurs in national and international fairs. - Promotion and development of local identity products (denomination of origin). - Organization of a product information and quality control networks. - Training of local technician and directives of local economic organizations in business management, marketing and quality control. - Creation of departmental consultative tables with the productive and financial private sector - To establish and manage the Investment Funds. <p style="text-align: center;">To support basic marketing infrastructure (rural roads, communications, etc.).</p>	<ul style="list-style-type: none"> • Organization and Implementation of Technical Assistance <ul style="list-style-type: none"> - Identification of service providers. - Selection and contracting service providers. • Operation of technical assistance services <ul style="list-style-type: none"> - For formation of rural business - For business management - For specialized technical assistance. • Strategic alliances with private sector enterprises • Access support to other public and private services. • To establish and manage the funds available for the beneficiaries: <ul style="list-style-type: none"> - Productive Development Fund - Rural Business initiation. - Natural Resource Management Fund. • Train enterprises in technical and management matters. • Validate agricultural and non-agricultural technologies. • Support access to rural financial services <p style="text-align: center;">Systematize selected experiences and processes</p>

<p><u>Gender activities</u></p> <ul style="list-style-type: none"> • Diffusion and promotion for rural women: <i>posters, radio programming, fairs, etc.</i> • Gender awareness and training activities <ul style="list-style-type: none"> - Gender awareness sessions for CODECO, COMUDE, and local economic organizations. - Training in gender to MAGA Departmental Gender Delegates. - Training in gender to all programme staff and field personal • Leadership and self-esteem training. • Domestic time saving investments <ul style="list-style-type: none"> - Child nurseries for working mothers involved in the programme economic organizations. - Appropriate technologies • Pro-active activities for rural women <ul style="list-style-type: none"> - Support to land titling processes for rural women. - Positive discrimination for organized women accessing the programme social, productive and environmental funds. - Basic lecture and writing for adult women - Promoting gender equity in rural economic organizations 		
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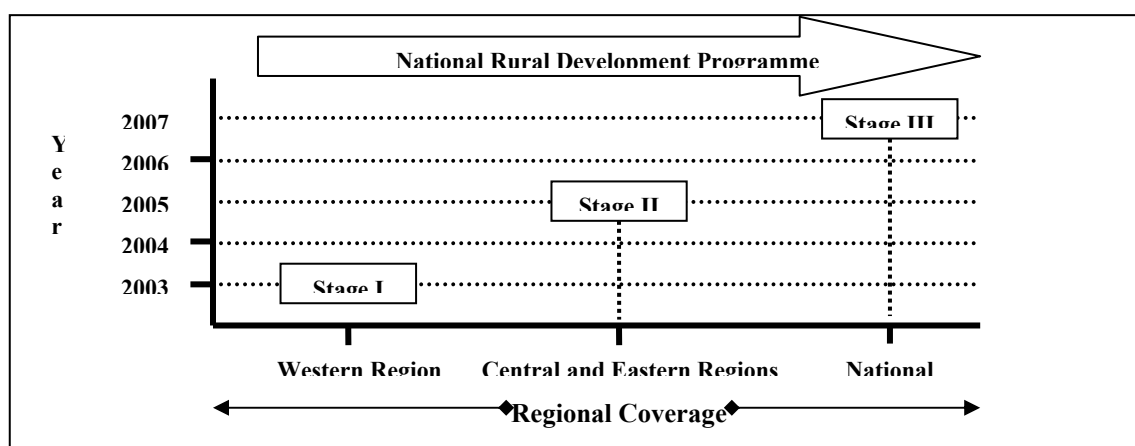
**NATIONAL RURAL DEVELOPMENT PROGRAMME:
BACKGROUND, RURAL POVERTY AND LAND ISSUES**

A. Background

1. During the last seven years IFAD country strategy aimed at poverty reduction while supporting the pacification, reconstruction and development of war torn areas. Thus, since 1995, from the onset of the peace negotiations, IFAD and the Government started operations in war affected areas. The National Fund for Peace, created by the peace accords is the institution responsible for implementing current on-going IFAD projects. Under the more democratic political scenario created by the peace accords, efforts have been re-directed toward a programmatic nation-wide comprehensive approach to rural poverty and rural development. The Government Plan 2004 – 2008 includes as high priority items: (i) the reduction of poverty and extreme poverty; and (ii) social and economic development of rural areas. Thus the current strategic framework for IFAD operations in Guatemala⁶ is oriented to the improvement of the social, political and economic conditions of vulnerable rural populations.

2. Thus IFAD country strategies based on government policies and the preliminary conclusions of the Intersectoral Dialogue Table for Rural Development, implemented under the peace accords it was agreed that IFAD lending programme should be directed toward the creation and consolidation of the *National Rural Development Programme* under MAGA responsibility and with a phased approach. The first operation already approved by IFAD Board in December, 2003 the “*National Rural Development Programme - Phase I: Western Region*” covers the departments with the poorest municipalities of Guatemala (Huehuetenango, San Marcos, Quetzaltenango, Totonicapan and Solola), which also concentrate over 60% of the country indigenous population. The present second operation “*National Rural Development Programme: Central and Eastern regions*” will cover poor municipalities and departments (El Progreso, Jalapa, Zacapa, Jutiapa and selected poor municipalities of Santa Rosa) that include an important (30%) segment of the country rural poor. The third operation, “*National Rural Development Programme: The Country*” will complete the coverage of the country most important areas concentrating indigenous communities and rural poor. The *National Rural Development Programme* will be an integral part of MAGA institutional structure with budgetary and operational sustainability Diagram 1.

Diagram 1: National Rural Development Programme: Schedule of Implementation



⁶ IFAD. 2003. Guatemala: Country Strategic Opportunities Paper – COSOP. January, 2003.

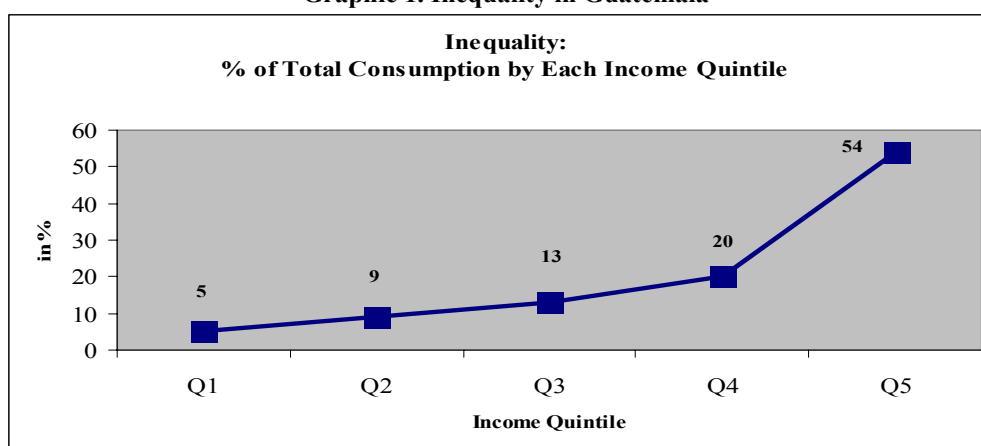
APPENDIX IV

3. Proposed efforts require the construction and strengthening of strategic institutional partnerships within the government public sector and other multilateral and bilateral donors but particularly with grass root civil and society organizations. IFAD country operations are seeking the cooperation and active participation of beneficiary groups, as well as from local and national public and private organizations working with vulnerable populations. The decentralization efforts of the Government provide an adequate vehicle to establish a more democratic demand-led participatory approach to rural poverty reduction.

B. Rural Poverty

4. Guatemala has the third highest degree of income inequality — exceeded only by Brazil and Pakistan — among low to middle-income countries world-wide. The Gini coefficient using consumption is 48 and using income 57. The poorest quintile of the population accounts for 5% of the consumption, while the richest quintile accounts for 54% of total consumption (Graphic 1).

Graphic 1. Inequality in Guatemala



Source: World Bank. 2003. Poverty in Guatemala. Report No. 24221-GU.

5. Over the last decade, the percentage of poor families in Guatemala was 56% of the total population (6,4 million people) and 74% of the rural population and 16% were extremely poor. These figures are higher in the indigenous areas where more than 76% of the population lives under the poverty line (compared to 41% of the non-indigenous population). Rural extreme poverty affects with high intensity to the indigenous communities of Maya descent. A historical heritage of prejudices, discrimination and exclusion are among the social and economic causes of this situation (Table 1).

**Table 1. Evolution of Poverty and Extreme Poverty 1989 – 2002
(in %)**

Categories		Poverty			Extreme Poverty		
		1989	2000	2002	1989	2000	2002
Total		62,8	56,1	57,0	18,1	15,7	21,0
Sex	Male	64,3	57,7	57,0	18,2	16,7	23,0
	Female	52,8	47,4	53,0	17,0	9,8	15,0
Area	Urban	27,6	27,1	28,0	4,3	2,8	5,0
	Rural	81,3	74,5	72,0	25,3	23,8	31,0
Ethnic group	Indigenous	88,0	76,0	72,0	32,3	26,4	31,0
	Non-indigenous	47,2	41,4	44,0	9,2	7,7	13,0

Source: UNDP. 2004. Análisis de la Situación del País.

6. Guatemala also has one of the lowest schooling coverage in Latin America, except for Haiti and Honduras. Approximately 40% of the country total population are illiterate, but 60% of them are

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women. Also, 60% of the indigenous population is illiterate as compared to 24% for the non-indigenous population. Infant mortality is 43 per 1 000 live births and maternal mortality is 110 per 100 000 live births. Approximately 16% of infants suffer from low birth weight and approximately 50% of children are malnourished.

7. Rural areas with high percentage of indigenous communities are the poorest of the country. The poorest municipalities are located in the north and south east regions of Guatemala, followed by the northwest region. The north east region comprises the departments of Huehuetenango and Quiche and the south-east region San Marcos, Quezaltenango, Totonicapan and Solola, all of them populated predominantly by Maya ethnic groups (covered by the programme Phase I). Additional indigenous groups are located in the departments of Chiquimula, Jalapa and Jutiapa in the south-west region (covered by the present project) and in Quiche and Las Verapaces, in which two on-going IFAD financed projects, are located (PRODERQUI and PRODECER).

8. Rural poverty is chiefly associated with lack of access to land, fragmentation of landholdings, inefficient marketing systems and a lack of access to productive resources, particularly water and productive technologies (Table 2). Additionally, this population lack of access to financial services, linkages with the agribusiness sector and the deterioration of the natural resources mainly through deforestation, soil erosion and fertility losses.

Table 2. Rural Poverty by Land Status and Main Source of Income

	% of rural population	% of rural poor	Poverty rate %
All rural	100	100	75
Landowners	54	59	82
0 – 1 hectares	32	35	81
1 – 2 hectares	10	12	87
2 – 5 hectares	7	7	80
5 – 15 hectares	3	3	74
> 15 hectares	2	2	74
Tenants	19	20	80
Landless households			
Agricultural day labourers	8	8	76
Non-agricultural labourers	19	13	49

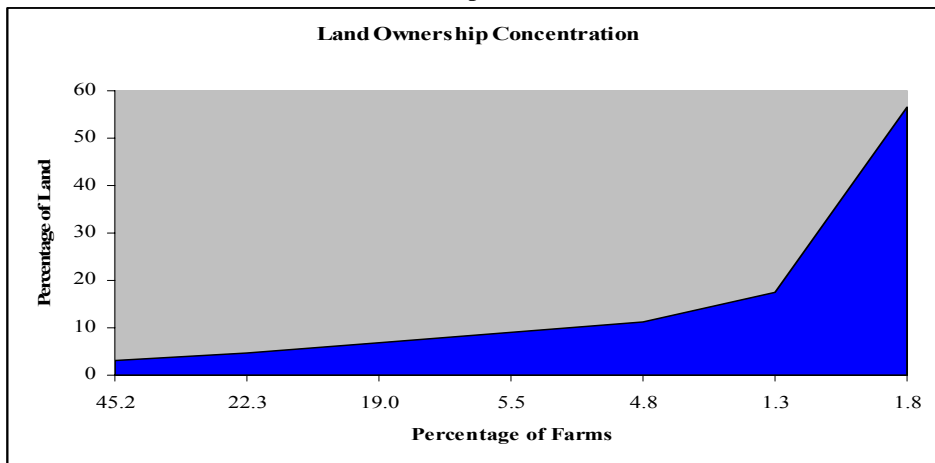
Source: World Bank. 2003. Poverty in Guatemala. Report No. 24221-GU.

C. Land Issues

9. Guatemala presented a historically a markedly skewed land distribution pattern. Data from the Agricultural Census of 2004 shows that 1.8% of the country's largest farms, control 56,6 % of the agricultural land, while 67.5 of the smallest farms occupies only 16% of the land (Graphic 2). The Gini coefficient estimated with Census data was 0.84. The new Agricultural Census show that 86,5% of the farms of the peasant sector have a size that range from 0,5 to 3,5 ha. The country wide average farm size has been systematically reducing varying from an average of 10.6 ha in 1950, 7.7 ha in 1979 to 4.44 ha in 2003 (Graphic 3). The reduction of average land size could be an indicator of a tendency toward minifundia, reducing the economic productive capacity of family farms. A total of 814.000 farms (98%) covering 4.5 million ha are individually and privately owned, with 17.000 farms (2%) owned by formal and informal societies, organizations, communities and cooperatives.

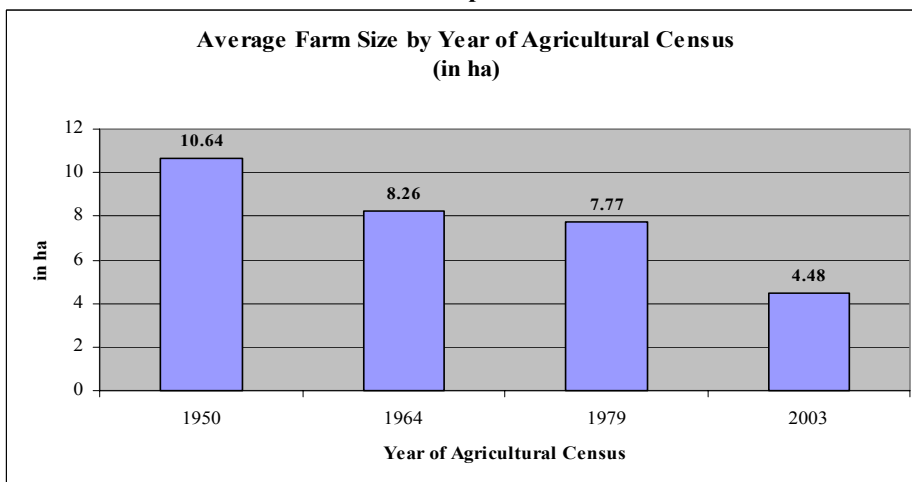
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Graphic 2



Source: Prepared by the Formulation Mission with data from the 2004 Agricultural Census.

Graphic 3



Source: Prepared by the Formulation Mission with data from the 2003 Agricultural Census.

10. The lack of legal documented ownership of the land is considered a serious problem in Guatemala. It has been estimated that less than 40% of peasant farmers have legally valid titles to their land. Land titling and legal formalization of land ownership has been identified as a high priority issue in MAGA new policy agenda. Close to 95.000 farms are accessed through various forms of land rental arrangements with a total area of 310.000 ha. It has been estimated that close to 40% of the economically active rural population do not own land.

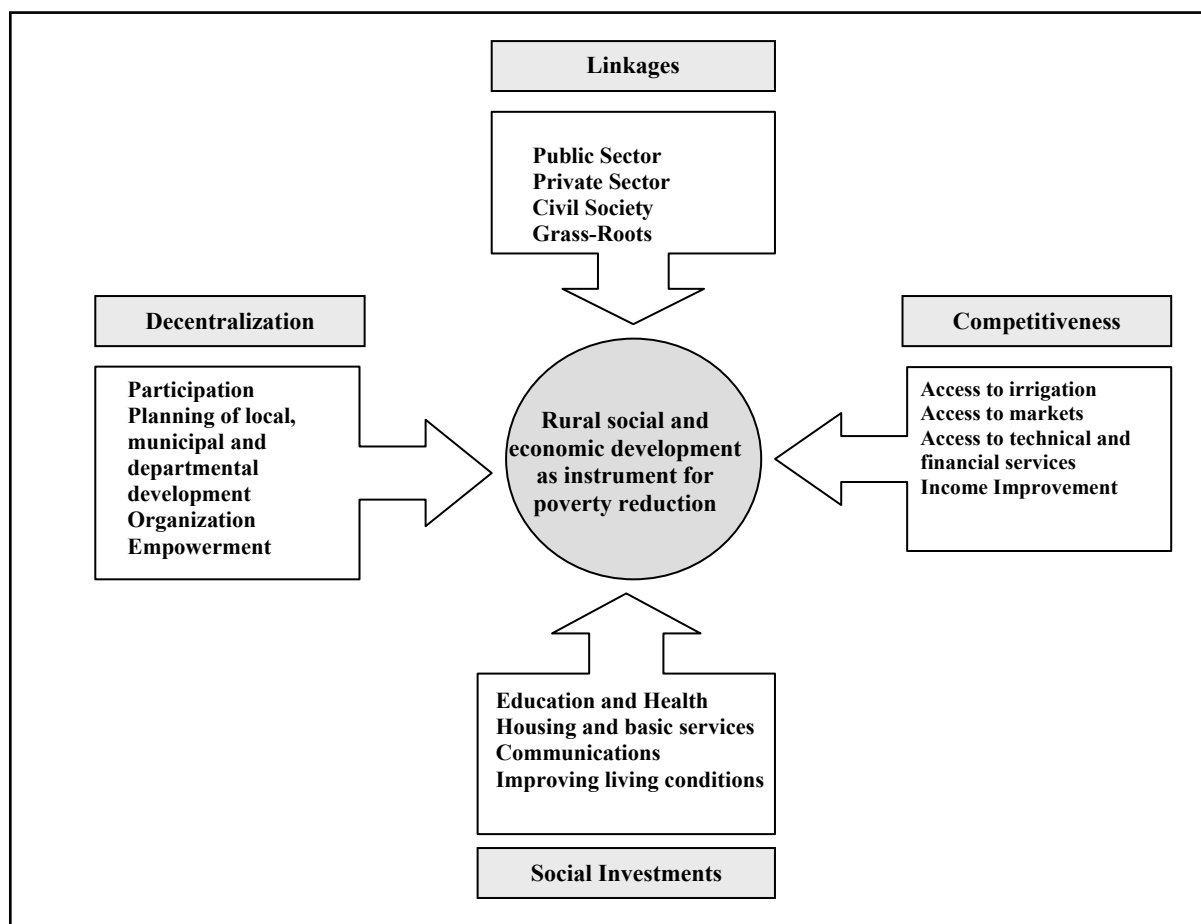
11. After the Peace Accords a Land Fund was established and partially funded with the aim of facilitating the access of poor, landless and displaced population to agricultural land. A multi-sectoral negotiating table, created by the Peace Accords, and supervised by UNDP, is also currently engaged in the discussion of a National Rural Development Policy, the required institutional structure required for its implementation and the solution of land issues. In agreement with MAGA, and to avoid duplication of activities, the programme will coordinate and establish partnerships with the following on-going institutions: (i) land distribution carried out by FONTERRA; (ii) land titling and legal formalization of land ownership under MAGA and (iii) grass-roots Maya and civil society organizations land distribution efforts (ILC partner organizations, Unión Verapacence de Organizaciones Comunales – UVOC and Asociación de Comités de Desarrollo Campesino – CODECA). The programme has budgeted budgetary support for land titling for rural women.

PROGRAMME DESIGN MATRIX AND STRATEGIC APPROACH

Programme Design Matrix

Programme strategic operational axes	IFAD Strategic Framework 2002 – 2006			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 education facilitate access to productive technologies	Improved education facilitate access to financial services	Better living conditions Better educational levels Empowerment
Institutional Linkages	Investments in social services	Harmonic investments in productive infrastructure	Investments in marketing infrastructure	Articulated investments in rural areas

Programme Strategic Approach



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PROGRAMME AREA: PRIORITY MUNICIPALITIES

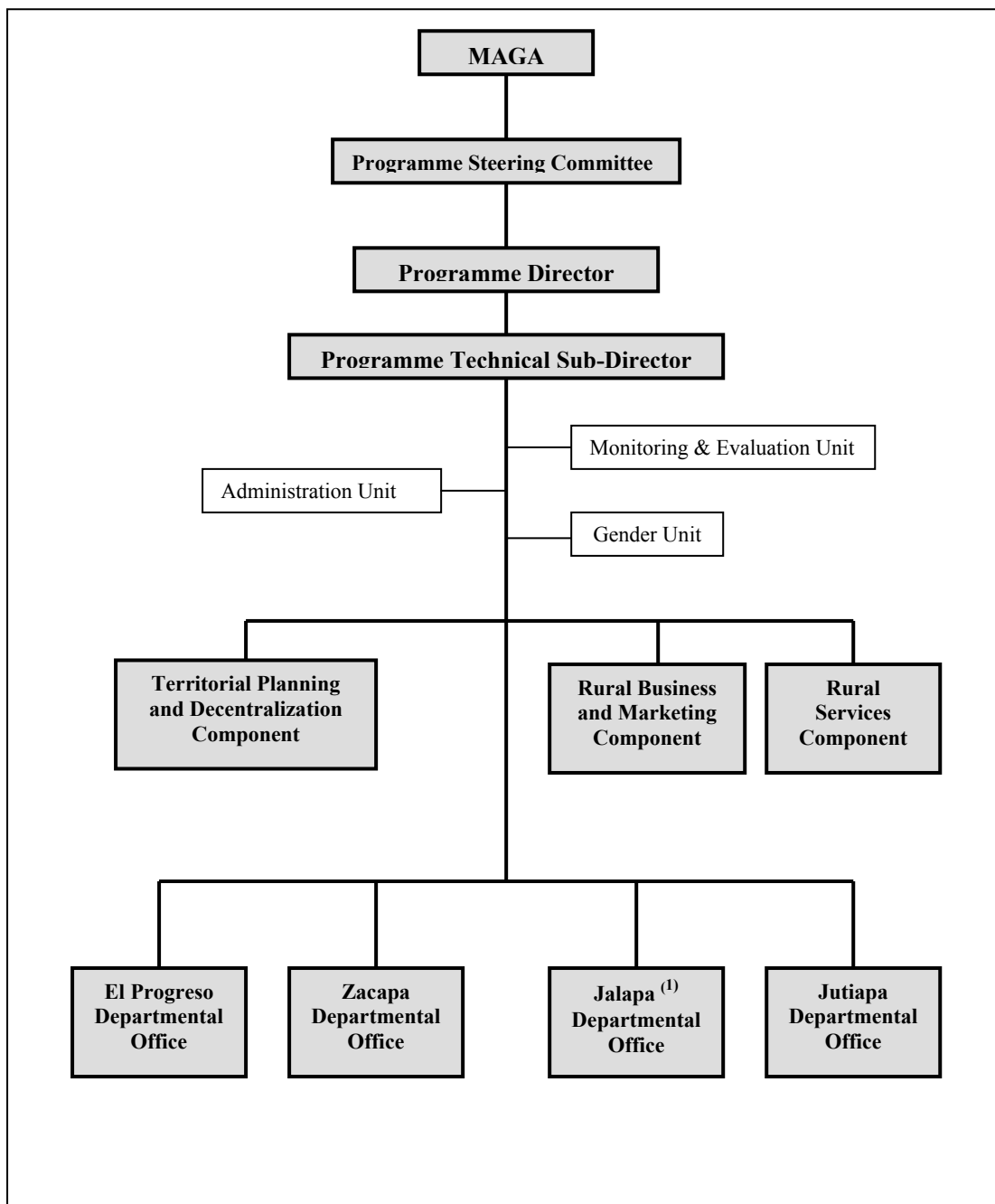
Department/municipality	Population	Rural Population		% Poverty	% Extreme Poverty
		N°	%		
<i>El Progreso</i>	143 197				
Guastatoya	17 653	11 018	62.4	45-60	16.20
Morazán	11 200	8 600	76.8	45-60	10.19
San Agustín Acasaguas.	36 135	29 765	82.4	60-75	17.63
San Cristóbal Acasaguas.	6 638	5 092	76.7	60-75	31.50
San Antonio la Paz	17 956	15 335	85.4	60-75	21.69
El Jícaro	12 580	9 175	72.9	60-75	37.03
Sansare	11 127	8 088	72.6	60-75	34.25
<i>Jalapa</i>	270 055				
Jalapa	122 483	87 204	71.2	60-75	27.23
San Pedro Pinula	44 757	41 218	92.1	75-99	29.95
San Luis Jilotepeque	26 265	14 188	54.0	75-99	43.00
San Manuel Chaparrón	8 725	5 935	68.0	75-99	42.53
San Carlos Alzatate	14 182	10 310	72.7	60-75	50.30
Monjas	28 820	15 976	55.4	75-99	31.84
Mataquescuintla	39 887	31 682	79.4	60-75	14.02
<i>Jutiapa</i>	386 909				
Jutiapa	94 213	75 215	79.8	60-75	20.89
El Progreso	22 221	12 845	57.8	45-60	13.01
Santa Catarina Mita	28 109	20 192	71.8	60-75	34.73
Agua Blanca	16 733	13 924	83.2	75-99	56.03
Asunción Mita	47 783	33 365	69.8	45-60	11.57
Yupiltepeque	11 774	9 184	78.0	60-75	9.90
Jerez	6 330	4 887	72.2	60-75	25.38
El Adelanto	5 749	3 596	62.5	75-99	19.15
Zapotitlán	8 504	6 588	77.5	75-99	22.89
Comapa	24 288	22 547	92.8	75-99	34.63
Jalpatagua	25 346	21 497	84.8	60-75	31.07
Conguaco	15 681	13 919	88.8	75-99	36.58
Moyuta	36 403	33 408	91.8	60-75	23.93
Pasaco	8 406	6 582	78.3	75-99	50.82
San José Acatempa	11 348	9 284	81.8	60-75	23.00
Quezada	17 989	15 652	87.0	45-60	15.13
<i>Santa Rosa</i>	319 814				
Oratorio	19 944	16 162	81.0	60-75	18.90
Santa María Ixhuatan	21 962	18 210	83.0	75-99	45.54
Casillas	22 926	20 792	90.7	60-75	19.85
Santa Rosa de Lima	15 382	13 253	86.2	45-60	13.79
Nueva Santa Rosa	35 791	29 774	83.2	45-60	14.63
San Rafael las Flores	8 071	5 490	68.0	45-60	7.09
<i>Zacapa</i>	212 794				
Gualán	47 535	38 657	81.3	60-75	27.44
Usumatlán	10 630	8 737	83.0	45-60	10.69
San Diego	6 375	5 782	90.7	45-60	10.51
Huité	10 194	7 124	70.0	60-75	40.76

Source: INE/CELADE. Estimaciones de población por municipios y departamentos de Guatemala. Abril 1997. Estimaciones para el año 2002.

SEGEPLAN. Mapas de Pobreza de Guatemala. Agosto, 2001.

¹ Priority municipalities were those with an incidence of more than 45% of rural poverty.

PROGRAMME ORGANIZATION AND MANAGEMENT



⁽¹⁾ Programme Headquarters. Selected municipalities of Santa Rosa attended by the Jalapa Office.