Management’s comments on the document

COUNTRY PROGRAM EVALUATION: GUATEMALA 2004-2007

(Document RE-352)

8 May 2009

1. Introduction

OVE’s comments in the document Country Program Evaluation: Guatemala 2004-2007 are an important contribution to the preparation of future Bank strategies with the country. We share OVE’s concern with ensuring that the Bank, as a development institution, establish a favorable strategic partnership, one giving rise to programs and projects that bring clear benefits to the country and help to solve the main problems it faces.

We agree on the need to support the country in protecting the most vulnerable population groups, particularly in the current world financial and economic crisis, and in providing more and better social services. We also agree on the need for targeted technical-cooperation projects and for stronger technical support.

2. OVE’s evaluation and the Bank’s new programming cycle with the country

The Bank is currently awaiting approval of the new country strategy with Guatemala for 2008-2011, which was distributed to the Board of Executive Directors on 18 December 2008. Management is working on a brief document to help place the outcome targets originally established in that strategy and the need to adapt them to the current situation in the context of the deepening economic and social crisis in the country.

This strategy, which is concurrent with the Guatemalan government’s cycle, is the product of a fertile dialogue with the country’s current administration. It reflects agreements on the main objectives that guide the IDB’s action and contribution during the period in question. One outstanding feature of the fruits of this instructive process is the evident focus on results of the Bank’s strategy with Guatemala. Indeed, both the government and the Bank are seeking to anchor the institution’s actions in a clear and prioritized series of development objectives, based on the fundamental criteria of their relevance for the country’s development and the Bank’s potential additionality in helping to attain them, given its experience, technical capacity, and financial resources.

The strategy reflects the findings of OVE’s Country Program Evaluation (CPE) for the period 2004-2007.

3. General comments on the effectiveness of the Bank’s action in Guatemala in the period under consideration

Empirical evidence and negative connotation of the statements

For reasons of brevity, not all of the aspects relating to each sector will be examined. Instead, the cases presented exemplify the need to emphasize that the document prepared
by OVE shows weaknesses in terms of the arguments and empirical causality and the tone in which the series of statements about the effectiveness of the Bank’s strategy in Guatemala is presented. In particular, given the significance of the document and its public nature, it ought to have identified the technical analyses and studies on which it based its conclusions.

In its executive summary and subsequently in the main body of the text, the report notes that “The economic and social policies of the period 2004-2007 were not sufficient to significantly expand the economic and social opportunities of the majority of Guatemalans.” This assertion is based on the recently published World Bank Poverty Evaluation (GUAPA, 2008). But that same study indicates that during the period under consideration (2000-2006 in the case of GUAPA), the country made significant progress in terms of growth and poverty reduction and improved many social indicators, particularly in important social areas such as education and life expectancy (which has been increased by two full years). That same report finds positive results in several focal points of the IDB’s action in the country, underlining, for example, the substantial improvements in fiscal transparency (which the CPE 2004-2008, on the other hand, seems to present as minor, secondary progress), the increase in social spending, the improvement in the quality of education, new maternal-infant health care programs, and the progress in the areas of competitiveness and foreign trade.

Also, in reference to the justice sector, the executive summary states that “In a second operation, the Bank tried to address the changing dynamics of the shift of violence towards the cities, with somewhat of a time lag, through a proposed loan that has not reached the disbursement stage.” Without additional clarification, this statement could leave the impression that the operation was behind schedule in its execution during the period under analysis, i.e. 2004-2007. In fact, the operation was approved by the Bank’s Board of Executive Directors on 24 October 2007.

In the fiscal area, it is also appropriate to identify the studies that were prepared regarding the Bank’s impact in the field of taxation. The statement that “The incremental tax rate (increase in gross taxation as a percentage of the increase in GDP) was closely correlated with the rate of growth in GDP (0.55)” seems common and applicable to a wide spectrum. In other words, it is a general phenomenon and not specific to the case under consideration (like the next statement in the endnotes, i.e. “This relationship is linked to the phenomenon of tax buoyancy, which consists of the procyclical behavior of the tax burden.”). Here, it would have been interesting to evaluate how a tax increase not linked to the cyclical effect could be justified, rather than emphasizing that a cyclical component exists in the increase in tax revenues, which is almost always the case.

With regard to infrastructure, the CPE says that “In recent years, Guatemala has tended to turn to financing from the Central American Bank for Economic Integration (CABEI) for investment projects, particularly for infrastructure, given that CABEI is more innovative and flexible in its modus operandi.” In this case, it could be very useful for a future program with the country if OVE were to give examples in its report of just how CABEI is more innovative and flexible so that Management could apply them as lessons learned. In this regard, the Bank has been strict in demanding compliance with its policies on environmental and social safeguards and in monitoring the pertinent fiduciary aspects, so
as to preserve the integrity of its actions and avoid the risk to its reputation that could arise from operations that deviate from those policies. Furthermore, in the field of energy, it is striking that the project for electric interconnection between Guatemala and Mexico is not mentioned in the evaluation, even though it was executed during the strategy in question. This is an omission that diminishes the Bank’s contribution not only to boosting the country’s competitiveness but also to reducing poverty. The project is currently in the final construction phase and technical tests have been conducted so that it can be brought on line in the coming months. The government has already signed agreements with Mexico to purchase power at very favorable prices, representing significant savings.

In the field of competitiveness, no foundation is provided for the analysis that led OVE to affirm that “… the results of the increase in exports attributable to the foreign trade support program had a smaller quantitative influence in terms of obtaining the export results.” Its evaluation of the results of PARPA presents similar difficulties.

With regard to productive development, the evaluation says that ”A good part of the operations envisaged in the strategy were not approved, particularly programs to incorporate indigenous groups into the productive process …” This assertion is not correct. It gives the impression that OVE “sectorized” the programs and did not examine the overall situation of the Bank’s operations. Program GU-L1006 (PDER) was approved in 2006 and provides direct support for the productive processes of indigenous communities.

With regard to the environment, the report indicates that “the Bank’s intervention in Petén does not offer a strategic proposal of the magnitude necessary to make a significant contribution to the objective of reversing degradation of the environment and the cultural heritage.” It also says that Petén has “… the highest rates of loss of forest cover …” To place this second statement in the proper context, the fact that Petén is the largest department with the most forest cover should be mentioned and the information should include the relative loss of forest cover in comparison with other Guatemalan departments. The section on the Trifinio region mentions that “… studies conducted for the Trifinio Strategic Plan report forest cover of just 34.3% …” It seems inappropriate to make this comment without putting it in context and taking into account the topographical and climate conditions of the zone. It does not seem reasonable to aim for coverage of 50% or 100% given the costs that would be involved.

The CPE also indicates that the results of program GU-0081 (sustainable development of Petén) have been limited. However, a review of the indicators shows that all the development objectives were attained, except for the increase in income. This last indicator was not measured at the end of the program because it was going to be measured as part of the baseline for the new program, GU-L1002. Methodologically and technically, it was not worthwhile to take a measurement just after the program ended. Accordingly, it would be interesting to know what the CPE used as the basis for its statement that the results were limited. With regard to the regularization of land ownership, an argument is presented that could be compromising. As the document is currently worded, it could appear to be arguing that cadastre programs, particularly those benefiting small producers, should not be carried out. However, one of the objectives of programs of this kind is precisely to invigorate the land market.
In addition to these comments, it is important to emphasize the role played by the Bank in the management of natural resources and biodiversity protection in Petén. Although the “program for the sustainable development of Petén" (GU-0081) was ending in 2007 (the year in which OVE’s evaluation period ended), the new operation GU-L1002 (1820/OC-GU), the regional technical-cooperation program RG-T1201, GEF project GU-X1001, and the MIF technical-cooperation project GU-M1018 were designed and approved in that period (a total of US$35.4 million) to address different aspects of the strategic plan for the region. Moreover, in September 2007, the government asked the Bank for support in continuing with the cadastre, focusing efforts on protected areas. Much of the design and experience of loan GU-0081 was used as input in designing that operation. A number of development institutions (USAID, KfW, CATIE, TNC, WCS, and others) have been working in the zone and they all use the Bank’s work as a technical and strategic standard of reference. This combined effort involving different Bank instruments (loans, technical-cooperation funds, and MIF funds) would not have been possible before operation GU-0081, which paved the way and generated the necessary dialogue and awareness-raising.

Last, with regard to the cleanup of Lake Amatitlán, shortcomings in the design of the project “that explain the environmental difficulties in the watershed” are mentioned. It should be pointed out that many of these shortcomings will be studied under the program, particularly with respect to the capacity for planning, oversight and control, and technical support for the municipalities. Management plans for protected areas and illegal settlements will form a part of the study to stabilize the bed of the Villalobos River.

With regard to education, the document fails to mention that thanks to the operations carried out by the Bank in this sector in 2004-2007 and as a result of them, the Ministry of Education will spend about US$40 million (under the Mi Escuela Progresa program—GU-L1023) on four activities that are essential to reforming the sector: (1) improvement in reading, writing, and mathematics in the first three grades of primary school; (2) expansion of preschool education; (3) expansion of bilingual, intercultural education; and (4) reforms to school management systems, with specific actions such as the creation of school networks for multigrade rural schools, the introduction of the position of school principal, and the establishment of incentives for rural teachers. These areas, in turn, form a part of the 2008-2012 education policy, which was partly based on findings obtained through Bank projects, and provide a vital impetus for the consolidation of efforts to improve the quality and scope of the system.

Thus, contrary to what the CPE indicates, the Bank’s action in the sector was strategic and relevant for decision making by the Ministry of Education and the Bank. The outputs generated during the period today provide a roadmap for the actions of the ministry and other government agencies in the field of school infrastructure and are the foundation for prioritizing interventions used by other multilateral financing or cooperation agencies such as the World Bank, KfW, AECID, and USAID. Also, the information platform established by the Bank’s operations is used today to monitor government goals in education and will also be used as the platform for evaluating the Mi Escuela Progresa program.
In the health sector, the CPE does not present the basic details or the impact evaluation methodology that led OVE to conclude that the Bank’s programs did not have a statistically significant impact on final indicators, such as the infant mortality rate, inasmuch as this assertion does not coincide with the countrywide figures for this indicator. According to the most recent World Bank report, the infant mortality rate has fallen by 22% in six years, and the mortality rate among children under 5 has fallen similarly. Also, and despite the conclusiveness of the data mentioned, in its evaluation, OVE should perhaps have considered that the results in terms of prevention become particularly noteworthy in the medium to long terms. In addition, when evaluating the services model chosen to coordinate the Bank’s actions in Guatemala in the health sector, the country’s idiosyncrasy should not be obviated: for instance, the extent of population dispersion, the difficulty of access to some of the poorest population groups, and the limitations on the provision of health care services posed by the absence of a critical mass and economies of scale.

With regard to the comments on fiduciary aspects, it is worth noting that the analysis and development of financial and procurement areas reflect very dissimilar situations and should therefore be dealt with separately based on their specific development and advances. The national procurement system has made less progress in recent years, but significant headway has been made in the area of financial management, which should be included in the evaluation.

**Targeting**

The report notes that “Although the level of targeting has improved recently, disaggregated budget information from the Ministries of Education and Health indicates that the departments with the largest percentages of their population in the prioritized municipalities did not receive a substantial increase in the percentage of resources.” This conclusion diverges from GUAPA 2008, and points once again to the difficulty of linking the statements in the CPE to empirical data that support them. OVE’s report mentions just one recent improvement in the targeting of public social spending, but the period analyzed by GUAPA 2008 goes up to 2006, i.e. one year before the period evaluated by OVE, so the arguments are, at a minimum, divergent. Actually, the World Bank report states that better targeting in the social sectors has begun to be apparent and that in terms of changes in the levels of poverty and social indicators, Guatemala has performed comparatively much better than other countries.

That same report also establishes that in terms of annual average change, Guatemala’s progress is noteworthy, particularly in education and water and sanitation, and indicates that those changes are, in relative terms, much better than those experienced worldwide in the last 25 years.

---

1 The infant mortality rate fell from 39% in 2000 to 30.4% in 2006. Mortality among children under 5 has fallen from a high of 53% in 2000 to a still high, but much lower, 41% in 2006.
Furthermore, with regard to operations with sovereign guarantees, the programs are highly targeted sector by sector, with the Bank’s action focusing on the fiscal and health care fields (with the loans for these two areas accounting for close to 40% each or about 75% of all loans approved during the strategy period).

4. Comments on the analysis of the types of loans

Policy-based loans (PBL) and investment loans do not have the same objectives. Each type of instrument has been designed for a specific purpose. PBLs are a financing category intended to provide fungible resources to back an agreed program of policy reforms or institutional change in a sector or subsector, helping the borrower to formulate and implement reforms that contribute to sustainable growth and poverty reduction while also covering actual or forecast requirements for financing of national or external origin.

The particular features of PBLs that differentiate this financial instrument from investment loans are as follows: (a) the loan proceeds are disbursed on the basis of compliance with agreed conditions and not on the basis of specific costs, which is basic, since it allows the Bank to make a contribution and cooperate with the government in the reform design process; and (b) the size of the loan is not necessarily related to the cost of the policy reforms or institutional changes supported by the PBL, but rather to development financing requirements.

The purpose of a PBL operation is to support the process of good policy formulation, while at the same time offering a structure of incentives to implement the resulting agendas for reform or institutional change in a timely manner. PBLs should seek to build a country’s capacity to lead and manage the policy reform and institutional change processes while simultaneously reducing the transaction costs related to external assistance and offering timely disbursement of funds for the national budget.

The CPE’s analysis of these aspects appears to insinuate that the reason why loans of this kind were chosen is because they are less closely supervised (see page ii, which includes a paragraph that reads as follows: “(iii) some efforts to improve supervision of investment projects by the Bank, although their share of disbursements has fallen to less than 50% of the total during the period, replaced by larger disbursements of unrestricted loans (policy-based loans (PBLs) and programmatic PBLs).” In fact, the type of instrument was selected in response to the types of programs to be implemented, their characteristics, and objectives.

Under this point, the Bank has undertaken a thorough and meticulous monitoring of PBLs, not just through the conditions precedent to disbursement that this type of loan requires, but also through different technical-cooperation exercises to build up the country’s institutional capacity and to support the executing agencies in their proper execution.

In addition, it appears that sufficient importance has not been attached to the achievements of these loans. For example, in the case of the program to reform public financial management (GU-L1005), only passing mention is made of the achievements (page 21), without pointing out their relevance. (Only in endnote 95 do we find a terse but illustrative explanation: “The law to combat tax evasion included in the loan conditions made it possible to reduce evasion of the VAT from 34.1% in 2005 to
26.1% in 2007, according to the Office of the Superintendent of Tax Administration (SAT), for a VAT productivity rate of 50% (collection rate over tax rate), which is 5.7 percentage points higher than in 2005. This reduction in the evasion rate exceeds the minimum reduction target established in the conditions of the PBL (2%). Also, the achievements of the health sector loan appear to be misrepresented. With a view to incorporating the lessons learned with the strategy evaluation, it would be useful not only to point out the areas for improvement, but also to underline with the same clarity the strong or well-conceived aspects of the strategy.

The Bank’s strategy with the country proposed an operations program consisting mainly of investment loans and, alternatively—and based on preestablished conditions—of a single unrestricted loan (the PBL to improve social spending, already a part of the portfolio at the time the strategy was approved). Contrary to what the OVE document indicates, investment loans were the Bank’s explicit preference in its strategy and in no way was that preference aimed at proposing operations with less control over disbursements as the OVE text appears to suggest. During the implementation period, investment loans were the first preference (in the 2004-2007 strategy period seven loans of this type were approved for a total of US$240 million). The time and resources spent by the Bank on these operations indicate the preferences clearly (not the amounts, which in this case are not a good indicator of those preferences).

The 1993-2003 CPE referred to the high transaction costs for Guatemala of operating with the Bank and recommended the adoption of options to address this issue. At the start of the 2004-2007 strategy, the Guatemalan authorities informed the Bank of their concern over the slow pace of portfolio execution, the high transaction costs, and its decision not to approve any further investment operations. As an alternative, it proposed that the Bank promote fast-disbursing operations that would be better tailored to its needs. This new approach meant that nearly two years passed with no approvals, which then resumed in the third quarter of 2005. In the rest of the 2004-2007 strategy period, the Bank approved the seven projects mentioned above. There is no distancing from the traditional model. Rather, through supplementation with PBLs, a balance was established with operations that made sense on account of their content and timeliness. This balance made the Bank’s role in the country relevant again and positioned it as the top credit option for Guatemala, as the OVE document recognizes. Identifying a “model” based on the numerical impact of the disbursements of the two sector programs provides only a partial impression.

Also, the OVE evaluation should view the country strategy not as the product of a “model” for relations but as an ongoing and dynamic exercise that is updated and adapted on the basis of the political, economic, and social conditions in the country.

5. Communications strategy

Given that the CPE is a public document and given the Bank’s relevance and visibility in the country and the potential implications that the interpretation of the document could have for the Bank and the Guatemalan government during the period analyzed, it is strongly recommended that OVE prepare a communications strategy for the document in order to manage the reputational risk that publication of the report in its current form could represent.