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PROJECT COMPLETION NOTE

ON A

LOAN

IN THE AMOUNT OF US\$32.8 MILLION

TO THE

REPUBLIC OF GUATEMALA

FOR THE

WESTERN ALTIPLANO NATURAL RESOURCES MANAGEMENT PROJECT  
(LOAN 7175 - GU)

June 24, 2005

Environmentally and Socially Sustainable Development Sector Management Unit (LCSES)  
Central America Country Management Unit (LCC2C)  
Latin America and the Caribbean Region (LCR)

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## **CURRENCY EQUIVALENTS**

(Exchange Rate Effective: June 23, 2005)

Currency Unit = Guatemalan Quetzales (Q)  
Quetzal 1 = US\$0.13  
US\$ 1 = Q\$ 7.63

## **FISCAL YEAR**

January 1 – December 31

## **ABBREVIATIONS AND ACRONYMS**

CAS - Country Assistance Strategy  
CONAP - National Protected Areas Commission  
GoG - Government of Guatemala  
INAB - National Forestry Institute  
MAGA - Ministry of Agriculture, Livestock, and Food  
MARN - Ministry of Environment and Natural Resources  
MEF - Ministry of Finance  
SEGEPLAN - Secretary of Planning

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**PROJECT COMPLETION NOTE**  
**GUATEMALA**  
**WESTERN ALTIPLANO NATURAL RESOURCES MANAGEMENT PROJECT**  
(Loan –7175 GU; Project ID: P064883)

**A. KEY LOAN DATA**

Loan Amount: US 32.8 million  
Board Approval Date: 05/27/2003  
Expected Effectiveness Date: 04/15/2004  
Cancellation Date: 12/27/2004

**B. BACKGROUND**

1. The Western Altiplano is characterized culturally by its majority indigenous (Mayan) population, and geographically as encompassing the departments of Sololá, El Quiché, Totonicapán, Quetzaltenango, San Marcos, and Huehuetenango. The region has a GDP per capita that is one fifth of the national average and (with the exception of the department of Quetzaltenango) has the highest incidence of social exclusion nationwide. Almost 60% of the economically active population is engaged in smallholder agriculture and reliant upon an increasingly degraded and declining natural resources base.

**C. FEATURES OF THE PROJECT**

2. The Western Altiplano Natural Resources Management project (MIRNA) supported both the Peace Accords and the Guatemala Country Assistance Strategy (CAS), prioritizing: (a) establishment of social cohesion and strengthening participatory decision-making processes; (b) poverty reduction in rural areas; (c) modernization of the public sector; and (iv) environment protection. The project emphasized the inclusion and participation of indigenous people and communities. As 95% of the population of the project area is Mayan, the project was considered an indigenous (Mayan) peoples development project.
3. Project design was built on the fundamental principals of successful natural resource management projects identified by the Bank's experiences and on the positive pilot community forests/natural resources planning and management experiences of local governments and NGOs, other international donors, and GoG agencies in the Western Altiplano. The project, among others, supported mainstreaming these successful models within the GoG's line agencies (MAGA, MARN, CONAP, and INAB).
4. Project Development Objectives. The project aimed to improve the management and conservation of natural resources and biodiversity and the incomes of the people who depend upon these resources, in the Western Altiplano of Guatemala. The project would have helped alleviate rural poverty, reduce pressures upon and improve management of the natural resources base by: (a) increasing social capital around natural resources management, through support to communities, organizations and local authorities (traditional and municipal) to jointly define and implement a local development vision which takes natural resources management and sustainability objectives into account; (b) increasing opportunities to sustainably improve

productivity and diversity farming and other (non-farm) livelihood systems; (c) extending and strengthening ongoing efforts of indigenous communities to establish permanent conservation areas within broader zones of biodiversity of global importance and to maintain the habitats which sustain this diversity; and (d) establishing and piloting a framework for environmental services markets to sustain local incentives for conservation.

5. Project Components. The total project cost was US\$55.6 million, of which the World Bank would finance US\$32.8 million, Government of Guatemala \$8.6 million, the GEF US\$8.0 million, and project beneficiaries an estimated \$6.2 million. The project had four main components:
- (a) Component I: Sustainable Livelihood (73% of total project cost) was oriented toward improving the welfare of the rural poor through promotion of sustainable use and conservation of natural resources. The component consisted of two subcomponents: Subproject Grants and Local Institutional Strengthening. The former would have provided grants to rural community associations in the 54 targeted municipalities to finance an estimated 760 small-scale sustainable production, natural resources management or conservation subprojects, identified by these groups as priority investments to improve community well-being. This subcomponent would also provide those cross-cutting services required to ensure the functioning and impact of the local capacity building and subproject grants subcomponents, including land and resource access conflict resolution assistance, strategic regional services such as technical assistance for marketing and commercialization and organizing farmers' organizations, and training for municipal-level promoters, leaders, and service providers. The latter would have provided grant resources to participating municipalities to finance specialized technical assistance, training and other services as needed.
  - (b) Component II: Biodiversity Conservation (12% of total project cost) was to finance activities to strengthen local and national capacity to conserve national habitats containing globally important biodiversity and other areas providing locally and nationally important environmental services. The component comprised activities for: (i) Protection of sites of Global importance to strengthen local and national institutional capacity for conservation and co-management of natural resources in target areas; (ii) Intercultural Environmental Education to increase public awareness of environmental issues, values, and management practices and knowledge sharing across the Western Altiplano region; and (iii) Biodiversity Conservation Monitoring and Evaluation to strengthen National Protected Areas Commission's biodiversity M&E capacity by establishing a comprehensive biodiversity information system for the Western Altiplano.
  - (c) Component III: Environmental Services Markets (4% of total project cost) would have:
    - (i) developed the framework for policies and markets for environmental services through the elaboration of a National Strategy for Environmental Services; (ii) provided local and foreign technical assistance for research and special studies and training for local and national officials working in areas related to development of environmental services policy, legal framework and pilot programs; and (iii) designed and implemented pilot projects aimed at developing capacity, methodologies and instruments for market-based incentives for provision of environmental services.

- (d) Component IV: Administration, Supervision, M&E (10% of total project cost) would have financed: (i) project administration and planning; (ii) program monitoring and evaluation; (iii) incremental PCU salaries and operating costs, vehicles and equipment; and (iv) such studies as required for purposes of project implementation and follow up, including the development of investment proposals.

#### **D. REASONS FOR CANCELLATION OF THE LOAN**

6. The principal factors that led to the cancellation of the Western Altiplano Natural Resources Management Project were: (i) government's failure to gain consensus and obtain the legislative approvals required for project effectiveness prior to the national elections and change of administrations and (ii) the very difficult fiscal situation the new government inherited, requiring austerity measures that forced the sectoral ministries to reassess their priorities.
7. The project was approved by the World Bank Board on May 27, 2003 which was six months prior to national elections. In Guatemala, it is the role of the legislative branch (the Congress) to approve government's budget and this mandate extends to the approval of all external loans and credits and thus to the approval of any World Bank-financed loan agreement. Loan signing by government is conditioned on this prior legislative approval.
8. The importance of obtaining legislative approval for the project loan agreement prior to the elections was foreseen. An action plan was developed and implemented by the project counterpart (Ministry of Agriculture, Livestock, and Food or "MAGA") to ensure that this would occur. The action plan was successful to the extent that all internal government clearances required for the submission to the Congress of the project loan agreement were obtained in a timely fashion. However, the legislative agenda in the last months before the election was dominated by issues related to the passing of the government's 2004 fiscal year budget (FY 2004) and, due to the political timing, the Congress was unable to achieve the consensus required to pass the budget. As a result, the project loan agreement was not taken up for discussions either before or after elections in the outgoing Congress.
9. The new government Administration took office in January 2004 and the newly appointed Minister of MAGA from the outset demonstrated a high level of commitment to the project and ensuring its effectiveness prior to the Bank's eighteen month deadline (November 27, 2004). However, during the new government's first year, much of its energies had to focus on addressing serious fiscal troubles, as a Constitutional Court decision in early 2004 struck down the presumptive income tax, the *Impuesto a Empresas Mercantiles y Agrícolas* (IEMA) which, in 2003, had generated about half of all revenues from enterprises (subsequently, in late 2004, the Court also struck down a tax on petroleum and derivatives). These decisions, coupled with large spending commitments by the outgoing administration, led to tax collection and fiscal deficit projections for 2004 of under 9 percent of GDP and 4.5 percent of GDP. To address this impending crisis, the government worked to obtain consensus on drastic actions on both the expenditure and revenue fronts. On the former, it enacted substantial expenditure cuts (3 percent in nominal terms) in all areas of the budget, with the exception of spending on education, health, and housing, which grew by about 4 percent.

10. During this period, the legislative agenda was also focused on resolving the pending crisis to the exclusion of all other but the highest priority legislation. For most of the first 2004 session of Congress, the country operated on continuing budget resolutions with no new commitments being taken on until the new budget could be passed. In the midst of this difficult situation, the project counterpart (MAGA) actively worked with the Congress and relevant project actors (other Ministries, mayors and congressional representatives from the project area, civil society organizations) to have the project approved. They proactively sought out and obtained grant financing (from USAID) to finance activities related to meeting project effectiveness conditions and to hold workshops and seminars for key legislators and executive branch members in order to communicate to them the importance of approving the loan agreement.
11. In May 2004, the Bank sought and received from the Minister of MAGA a formal communication on government's continued interest and commitment to having the project loan approved and made effective. The communication from MAGA specifically noted the urgency of obtaining Congressional approval and of achieving effectiveness prior to the eighteen-month deadline. It also informed the Bank of MAGA's strategy with the Congress and action plan for meeting project effectiveness conditions.
12. In the Bank's August 2004 meetings with the Executive and the national planning agency (SEGEPLAN) on the new County Assistance Strategy being developed, government presented to the Bank their new Rural Development Strategy. The Bank noted with satisfaction at that time that the proposed Western Altiplano Natural Resources Management Project was not only fully consistent with the Rural Development Strategy, but that it was also a vehicle for delivering a very substantial percentage of the targets set by the Strategy. Following these meetings, both the Office of the Vice President charged with implementing the government's rural development strategy and the head of SEGEPLAN became active in seeking support in the Executive and the Congress for project approval.
13. Unfortunately, despite this support for the project, the very difficult fiscal situation the government inherited and the focus on reducing spending to reduce the deficit, resulted in difficult choices having to be made by the sectoral ministries. Given the austerity policies being enforced by MEF, the Minister of Agriculture had to choose between the Western Altiplano Natural Resources Management project and a US\$100 million Land Administration program that the Ministry saw as the centerpiece of its agricultural program. The eighteen-month deadline was passed and the Bank, on December 6, 2004, informed Government that the loan was to be cancelled. On December 27, 2004, the formal notice of cancellation was sent to government.

#### **E. SOME LESSONS LEARNED**

14. In countries where legislative approval of loans and credits is required, the Bank should be cautious in approving projects within six months of a general election and recognize that, even with the existence of a credible action plan, the risks of unforeseen events preventing timely legislative approval are high.