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PROJECT PAPER

**Proposal and Recommendations
For the Review of the
Development Loan Committee**

GUATEMALA - Municipal Earthquake Recovery

AID-DLC/P-2184

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED
AID-DLC/P-2184
June 18, 1976

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: GUATEMALA - Municipal Earthquake Recovery

Attached for your review is the recommendation for authorization of a loan to the Government of Guatemala of not to exceed Eight Million United States dollars ($8,000,000) to assist in financing United States dollar and Central American Common Market local currency costs to carry out a program for municipal earthquake recovery - including (i) establishment of a Municipal Recovery Fund to finance rehabilitation and construction of essential municipal infrastructure, (ii) establishment of a Municipal Enterprise Fund to finance municipal projects, and (iii) establishment and implementation of a training and technical assistance program at the municipal level, ("Project").

This loan is scheduled for consideration by the Development Loan Staff Committee on Friday, June 25, 1976 at 10:00 a.m. in Room 2248 New State; please note your views are requested by close of business on Tuesday, June 29, 1976. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program Review
and Evaluation

Attachment:
Summary and Recommendations
Project Analysis
Annexes

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PROJECT PAPER

GUATEMALA - MUNICIPAL EARTHQUAKE RECOVERY

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* Are in LA/DR files.

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE (X APPROPRIATE BOX)
[X] ORIGINAL [ ] CHANGE [ ] ADD [ ] DELETE

PP

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2. COUNTRY/REGIONAL ENTITY/GRANTEE
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3. DOCUMENT REVISION NUMBER

4. PROJECT NUMBER
520-0236

5. BUREAU
A. SYMBOL: LA
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6. ESTIMATED FY OF PROJECT COMPLETION
FY 81

7. PROJECT TITLE - SHORT (STAY WITHIN BRACKETS)
Municipal Earthquake Recovery

8. ESTIMATED FY OF AUTHORIZATION/OBLIGATION
A. INITIAL MO. YR. 6 76 B. FINAL FY 78

9. SECONDARY TECHNICAL CODES (MAXIMUM SIX CODES OF THREE POSITIONS EACH)

10. ESTIMATED TOTAL COST ($000 OR EQUIVALENT, $1= Q1)

A. PROGRAM FINANCING	FIRST YEAR 77 B. FX	C. L/C	D. TOTAL	ALL YEARS E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	350			8000		8000
(GRANT)	( )	( )	( )	( )	( )	( )
(LOAN)	(350)	(1330)	(1680)	(8000)	( )	(8000)
OTHER U.S.						
HOST COUNTRY						
OTHER DONORS		910	910		3500	3500
TOTALS	350	2240	2590	8000	3500	11500

11. ESTIMATED COSTS/AID APPROPRIATED FUNDS ($000)

A. PROJECT ELEMENT	B. SECTOR	C. CATEGORY CODE	FY 77 D. GRANT	E. LOAN	FY 78 F. GRANT	G. LOAN	FY 79 H. GRANT	I. LOAN	ALL YEARS J. GRANT	K. LOAN
ST	930B	940	-	6500	-	-	-	-	-	6500
FN	930B	940		1500						1500
			-	8000	-	-	-	-	-	8000

12. PROJECT PURPOSE (STAY WITHIN BRACKETS) [ ] CHECK IF DIFFERENT FROM PID/FRP

The purpose is to restore and upgrade the capacity of the 101 municipal governments in the earthquake zone to provide the local infrastructure and services required by their inhabitants.

14. WERE CHANGES MADE IN THE PID/FRP FACESHEET DATA NOT INCLUDED ABOVE? IF YES, ATTACH CHANGED PID AND/OR FRP FACESHEET.
[ ] YES [ ] NO

15. ORIGINATING OFFICE CLEARANCE

SIGNATURE: [illegible]

TITLE: USAID/Guatemala, Director

DATE SIGNED: MO. 06 DAY 09 YR. 76

16. DATE RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MO. DAY YR.

AID 1330-4 (9-75)

B. Recommendations

The following actions are being submitted for approval within this Project Paper:

Loan	$8,000,000
(Terms: 40 years, 10 years grace period. 2% during grace -- 3% thereafter)	
Total	$8,000,000

C. Description of the Project

1. Borrower

The Borrower will be the Government of Guatemala. The proceeds of the loan will be made available to the Instituto de Fomento Municipal (INFOM), an autonomous GOG agency, which will be responsible for implementing the program and administering the loan.

2. Project Summary

a. Background and Strategy

On February 4, 1976, shortly after three in the morning, a massive earthquake made itself felt through a large portion of Guatemala, the most powerful widespread earthquake ever experienced in Central America. Over 23,000 were left dead, nearly 75,000 were injured and over a million of Guatemala's six million inhabitants were left without shelter. Of the sixteen departments affected, the Department of Chimaltenango was hit the hardest - nearly 100% of the homes were destroyed, more than one person out of ten was killed in some of its towns, 14 towns were totally destroyed and less than 30% remain standing in varying degrees in 17 other towns. In the earthquake zone, 101 municipios suffered damage.

In formulating its reconstruction plans, the GOG's underlying strategy is amply expressed by the slogan:

"Reconstruir sin dejar de producir".

Embodied within this strategy are the following three guiding principles:

- Continuation of plans and programs essential to the country's long-term economic and social development accompanied by an expansion of public investment programs for earthquake recovery;

- A reconstruction process that goes beyond replacing damaged infrastructure to significantly improve economic and social conditions for the people in the earthquake zone; and

- Participation of all Guatemalans in the self-help reconstruction effort.

b. Project Goal and Purposes

The overall goal of the project is to restore and upgrade the quality of life of the inhabitants living in the earthquake zone. Within that goal the purpose is to restore and upgrade the capacity of the 101 municipal governments in the earthquake zone to provide the local infrastructure and services required by their inhabitants. Specifically, the Project will:

i. Provide funds and economic, engineering, administrative and construction assistance to the municipalities to rebuild and improve infrastructure and services damaged by the earthquake.

ii. Restore and improve the capacity of the municipalities to carry out the functions of local government, including the management of municipal services.

iii. Expand and strengthen the capacity of INFOM to assist the municipalities.

3. Project Activities

a. Municipal Reconstruction Fund

Loan funds and GOG counterpart will be utilized to create a fund within INFOM, which will finance the construction of municipal infrastructure in the municipalities affected by the earthquake, for the purpose of restoring destroyed or damaged public services. In keeping with the objective of improving economic and social conditions in the affected area, provision has also been made for financing public services that did not previously exist. Funds will be provided to the municipalities at highly concessionary terms. Eligible projects include water, sewerage, markets, slaughterhouses, municipal buildings, electrification, waste disposal and street improvement.

b. Municipal Institutional Development

INFOM will carry out a technical assistance and training program for municipal employees to strengthen the administration of local government. This program will be directed toward improving the capacity of the municipalities to operate and maintain essential public services, increase revenue collections, and carry out all other general administrative functions. The technical assistance will be provided by field teams which will spend several days in each municipality and the training programs will be conducted at INFOM headquarters and selected regional training sites.

c. INFOM Institutional Development

The Project includes an institutional support program to strengthen the capacity of INFOM to carry out the municipal recovery and development activities. Loan and counterpart funds will be provided for adding key personnel to the INFOM staff, procurement of specialized equipment, contracting of local and foreign technical assistance and the financing of professional training abroad. The support program will concentrate on improving INFOM capacity in the areas of regional planning, evaluation, automatic data processing and environmental impact planning.

d. Municipal Enterprise Fund

A pilot program will be instituted to test the feasibility of increasing municipal revenues, through creation of small scale municipal enterprises. Initial projects will concentrate on provision of facilities that can be rented to private sector entities and establishment of municipally owned and operated small industries. These might include storage facilities, block and brick fabrication, door and window making, etc. Loan funds will also be used for an in-depth evaluation during the course of the program.

D. Summary Findings

The Project Committee has reviewed the technical, economic and financial aspects of the proposed Project. On the basis of this review and the investigations of private consultants during project design, the Committee recommends that a loan be authorized to the Government of Guatemala in an amount not to exceed $8 million.

These recommendations are based on the Committee's findings that the Project will make a substantial and timely contribution towards the improvement of the quality of life and socio-economic activities by restoring and improving municipal infrastructure in the areas damaged by the earthquake. There are no technical or administrative barriers foreseen in this Project and its implementation will be initiated as indicated in the plans included in Parts II and IV.

The Project meets all applicable statutory criteria (see Annex D), and the Mission Director's 611(e) certification is included as Annex E.

E. Issues

1. Maximizing Participation

The GOG decision to finance subprojects to the maximum extent possible through a combination of loans and grants, raises the possibility that some of the poorest municipalities may not be able to participate in the program or will be able to participate only to a limited extent. The underlying rationale for not accepting a 100% grant procedure is set forth in detail in Section II of this paper. Based on experience with a number of reconstruction approaches taken by various agencies after the earthquake, the Project Committee concurs with INFOM's decision. To provide for those municipalities that could not participate even on a concessionary grant/loan basis, INFOM has accepted the principal of 100% grants. Nevertheless, given INFOM's "banking" predilections which ordinarily serve the institution well, close monitoring will be necessary to ensure that maximum participation is obtained. Because precise criteria are difficult to formulate at this time due to the varying impact of the earthquake on municipal finances, INFOM will be required to rank municipalities after conducting extensive studies of their financial situations. This will be the basic tool for monitoring the situation.

2. Revenue Generation

Any project which deals with the municipalities in Guatemala inevitably must confront the problems caused by their low level of revenue generation. This has been a traditional constraint on municipal development which has been only partially alleviated through the creation of INFOM and the more rational use of central government transfers which resulted. There are two basic approaches for addressing the problem: improvement in tax administration and changes in tax policy will improve the situation, but only the latter will lead to a major turnaround (assuming the will is there to apply new taxes).

The Project Committee has chosen to concentrate on improved tax administration through provision of technical assistance and training to municipal employees for

a number of reasons. The objective of the loan is to provide timely assistance to earthquake devastated areas. As such, institution building and broad development goals are secondary objectives. Changes in tax policy would require Guatemalan congressional action, a process which is both time consuming and uncertain. If a Congressional change in tax policy would be an AID issue and objective (and therefore be made a condition precedent to disbursement), initiation of loan disbursements could be greatly delayed at a time when rapid implementation is essential to meeting the AID earthquake relief goals.

However, the tax policy issue will not be ignored - in spite of the constraints of the Guatemalan situation. One of the principal problems is the fact that the full dimensions of the municipal revenue problem is unclear, i.e. to what extent are these deficiences in the existing tax and fee structures, and their administration, and what extent is there simply a need for new revenue sources, either local or national. At the present time a limited study of municipal revenues is being carried out by a 3 man GOG inter-agency commission (one representative from INFOM, the Ministry of Finance and the Planning Council) with partial financing under an AID grant. The purpose of the study is to review and analyze from a legal and economic standpoint the status of locally generated municipal revenues. It is intended that the findings of this study would be useful as background information for the preparation of a draft bill for a municipal tax code. The Mission has decided that AID should not become involved in supporting any specific recommendation or in assisting in drafting any proposed legislation.

Although the results are not yet avialable, it is anticipated that the aforementioned study will go a long way toward defining the present financial condition of Guatemalan municipalities. Should there be significant gaps in the findings of the present review the Mission plans to continue to support (to the extent possible and subject to INFOM's approval) from loan or grant financing further INFOM studies of municipal revenue sources which may be required to provide a comprehensive analysis of municipal revenues. For example, it is clear that further study will probably be needed of the national taxes benefiting the municipalities.

The objective of all such studies is to provide comprehensive analysis which will: (a) review the status of municipal revenue sources, particularly the tax and fee structure, both at the local and national levels from an economic, legal and administrative standpoint; and (b) identify major deficiencies.

PART II - PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background

1. Earthquake Damage Assessment

On February 4, 1976 shortly after three in the morning, a massive earthquake made itself felt through the highlands of Guatemala, the most powerful widespread earthquake ever experienced in Central America. Over 23,000 were left dead, nearly 75,000 were injured and over a million of Guatemala's six million inhabitants were left without shelter. Of the sixteen departments affected, the Department of Chimaltenango was hit the hardest -- nearly 100% of the homes were destroyed, more than one person out of ten was killed in some of its towns, 14 towns were totally destroyed and less than 30% remain standing in varying degrees in 17 other towns. In the entire earthquake zone, all 101 municipios were affected. 1/

In general terms, it can be said that displacement of Guatemalan productive capacity (e.g., industrial, commercial, agriculture, etc.) is modest. This is particularly true for basic exports, which suffered minimal damage. On the other hand, the earthquake has caused a social problem of national proportions since it left one sixth of the population homeless and destroyed 40% of the fixed health facilities, 25% of the schools, and 40% of the buildings used for social welfare services. The picture is even worse if it is kept in mind that the greatest destruction and damage is being borne by structures servicing the poorest people. The earthquake damage is best described by sector:

1/ These data and other information describing the effects of the earthquake are derived from the following reports: World Bank, Guatemala - Impact of Earthquake, March 16, 1976; AID/ROCAP, Impact of Earthquake on February 4 on the Guatemalan Economy: A Macro-Economic Analysis, March 10, 1976 and the updated version of May 28, 1976; and, Secretaría General Consejo Nacional de Planificación Económica, Evaluación de los Daños Causados por el Terremoto, Su Impacto Sobre el Desarrollo Económico y Social, y Lineamientos para un Programa Inmediato de Reconstrucción, March 1976.

a. Housing

The heaviest damage occurred to housing affecting mainly the lowest income groups living in houses made of adobe. Since these houses were generally built without columns or reinforcing material and without the benefit of technical know-how, they had absolutely no earthquake resistance. The houses of the middle and upper income groups and the commercial structures in the capital city, on the other hand, only suffered very moderate damage or none at all.

About 59,000 housing units in metropolitan Guatemala or 40% of the city's stock was destroyed. Another 160,000 housing units were destroyed in other cities, towns, and rural areas which in total brings to about 35% of the total housing affected. A World Bank Report notes that these estimates were understated for a number of the Departments visited, the towns were virtual [illegible]. It also stresses the fact that whether [illegible] located in Guatemala City or in the general [illegible] the low income groups were the ones affected [illegible] population living in the head[illegible]

b. Infrastructure

Damage was inflicted on [illegible] port facilities, [illegible] rigation works. The [illegible] which connects Guatemala [illegible] by major landslides, [illegible] liente Bridge. In addition, [illegible] blocked by landslides [illegible] extensive initial [illegible] maintenance to keep [illegible] season. The most [illegible] other than roads [illegible] to Barrios where [illegible] destroyed.

c. Social Sectors

In the health [illegible] to hospitals, clinics, health centers and other [illegible] cilities. Of the [illegible] water supply systems [illegible] to Guatemala City [illegible] or all of their water [illegible]

The education sector was seriously affected. Of the 1,800 school buildings in the earthquake zone, about 1,200 were damaged or destroyed. Approximately, 1,800 students and 53 teachers were killed.

d. Productive Sectors

In industry, the large scale modern area located primarily around Guatemala City suffered little damage and most of it is now back in operation. Outside of Guatemala City, it is estimated that 45,000 to 50,000 artisans who were employed making pottery, textiles, silver work and other art and handicraft objects produced in the highland towns, lost all or part of their tools, materials, and their establishments.

In agriculture, the damage was minimal. Fortunately, most of the crops had been harvested and little damage was done to crop land, except for roads and irrigation works.

With respect to commerce and services, although some damage was done to modern commercial buildings, the heaviest burden was borne by small traders in the villages. Most of their shops were housed in older adobe structures with heavy tile roofs representative of the type of building most affected by the earthquake.

Tourism earnings will be reduced during 1976. The Guatemala Tourism Institute expected that by the end of Spring 1976 the entire situation would be back to a healthy growth posture; however, this optimistic projection was not realized and the Winter of 1976 appears to be a more realistic date.

Government of Guatemala Recovery Strategy

In its official report, Damage Estimates and Reconstruction Program, the Government has stated that it intends to pursue reconstruction along with the broader goals of the 1975-79 Development Plan. This means that although the effects of the earthquake will require the reformulation of public investment programs and development policies to some extent, the GOG will continue with its plans to undertake programs essential for the country's long-term economic and social development. The financial expenditures involved

in reconstruction investment are thus to be considered as additional to that originally contemplated in the Development Plan.

The Government has also stated that the reconstruction process does not necessarily entail the rebuilding and rehabilitation of damaged social and economic infrastructure as it existed before. The GOG intends to carry out a reconstruction program in the countryside which will upgrade the level of public service and the quality of life in general. This means, among other things, a housing program with improved quality and safety; incentives for new rural productive activities; and improved municipal facilities and services. The Government's program will be giving support, on a priority basis, to low-income communitites and individuals.

Finally, the GOG has declared that reconstruction will be the responsibility of all Guatemalans. Consequently, the GOG is encouraging the widest participation by key interest groups to aid in the reconstruction effort. As a first step a National Reconstruction Committee complemented by local committees has been created, to coordinate the overall recovery program.

Within these general principles, the GOG has established to date several reconstruction priorities for immediate action. Housing and complementary municipal services as well as restoration of the rural productive base are the most urgent priorities. Programs are being devised to restore to full capacity the farm sector and the artisan subsector including credit, technical assistance and marketing, making maximum use of cooperatives. Repair of the Atlantic Highway and other major highways has been initiated.

In the education sector, repair and replacement of damaged schools has begun with a large reconstruction program in the final planning stage. Medical services and disease prevention has also received attention. Plans are being completed for rebuilding health posts and at least two large hospitals in the earthquake zone. Immediate attention has been given to emergency repair of rural water and sewerage systems and further reconstruction efforts are being planned.

3. AID and Other Donor Participation in Overall Earthquake Response

a. AID Support

The GOG has requested that AID concentrate its efforts in rural areas with the IDB and IBRD assisting in Guatemala City and with larger public infrastructure projects throughout the affected area. AID support to the GOG reconstruction effort to date consists of a $25 million emergency relief grant and increased PL 480 Title II shipments. The relief grant is directed at meeting emergency and immediate rehabilitation needs such as shelter, road clearing, landslide removal, emergency water supply repair, reconstruction of classrooms, etc.

25 m
2.6 m

In addition, a PL 480 Title I sale of $2.8 million has been authorized and negotiations are currently underway. Apart from the loan proposed herein, the Mission has identified a number of areas for possible future support through reconstruction loans: rural housing ($15.0 million) and education ($10.0 million). However, a decision to proceed on these projects must await a clearer definition of needs and intentions of other donors. Possible use of the housing guaranty program is also under consideration.

15 m
10 m

The impact of the disaster on the Mission's projected FY 1977 loan program (non-formal education, $5.0 million; market towns, $3.6 million; and coop marketing, $4.2 million) is still unclear. However, it appears that the proposed market towns loan will be postponed in view of INFOM's heavy involvement in the reconstruction process. The remaining two are still under active consideration.

b. Other Donor Participation

The commitments from other donors that are expected to be realized in CY 1976 based on information from the National Economic Planning Council as of March 5, 1976, are as follows:

Organization	Amount (Millions)	Purpose
IBRD	25.0	Housing sites and services, schools and port repairs.
IDB	78.0	Rural health, hospitals, machinery, equipment and social development services.
CABEI	13.0	Reconstruction of highways and low-cost housing.
Venezuela	20.0	Housing and other uses to be determined.
TOTAL	136.0	

4. Impact on Municipalities and their Capacity to Recover

a. The Status of the Municipalities

1. Setting of Local Government

The Guatemalan Constitution of 1965 and the Municipal Code of 1957 designate the "municipio" as the lowest corporate unit for local government in the governmental hierarchy of the country. The municipio covers a geographic area similar to a U.S. county and contains a principal population center (cabecera) which is the country seat and lesser population centers called "aldeas".

The Guatemalan municipalities are divided into four (4) categories under the Municipal Code:

Category	Criteria	Number of Municipios	Average Municipal Income (1974)
I	Population more than 100,000 and Department Capitals	22	Q166,800*
II	Population 10,000 to 99,999 and ports	113	53,680
III	Population 5,000 to 9,999	96	18,340
IV	Population 1,000 to 4,999	95	11,450
		326	

*Excludes Guatemala City

Each municipality is directed by a Mayor and City Council, all of whom are elected to four year terms of office. The principal administrative positions are the secretary and treasurer. In Category IV municipalities (and sometimes III), these jobs are often combined in one official. For further details, See Municipal Government Organization, Annex H.

2. The Problems of Local Government

Inadequate provision of essential public services is perhaps the greatest problem facing municipalities in Guatemala. The installation and maintenance of basic infrastructure is expensive. Below are shown average costs for the installation of basic services calculated on 1975 price levels:

Potable Water	Q53,688
Sewer and Drainage	91,366
Public Markets	99,325
Slaughterhouse	14,634
Municipal Building	14,000

If these costs are compared with the annual municipal incomes shown earlier it is clear that the installation of any of these projects would be difficult for any but first category municipalities, in the absence of long-term, outside assistance such as that provided by INFOM.

The table on the following page shows the level of adequacy of essential public services in all municipios, except Guatemala City, prior to the earthquake. (Judgements of adequacy were made by INFOM field engineers.)

It should be noted that the figures on the following page apply only to services in the county seats. If one were to consider the adequacy of services in other county towns, the picture becomes even more serious.

The administrative problems of Guatemalan municipalities are those which are endemic to most Latin American municipalities. The major problems are outlined as follows in INFOM's Plan de Apoyo Básico - 1975.

- deficient revenue collection systems
- antiquated and difficult to administer tax rate structures
- object class budget format for expenses, showing only composite figure for salaries and operating costs.
- antiquated or non-existent accounting systems
- outdated registers
- inadequate knowledge of the administration of public services
- lack of trained personnel

ADEQUACY OF MUNICIPAL SERVICES

Type of Service	Good		Sufficient		Poor		Non-existent	
	No. Municipalities	% Total	No. Municipalities	% Total	No. Municipalities	% Total	No. Municipalities	% Total
Potable Water	117	36%	55	17%	121	37%	32	10%
Sewerage & Drainage	98	30	33	10	3	1	191	59
Public Markets	114	35	55	17	36	11	120	37
Slaughter-houses	88	27	72	22	81	25	84	26
Electrifica-tion	227	70	33	10	23	7	42	13

Source: INFOM, Política de Crédito y Programas Especiales 1976 (Dec. 1975), p. 4.

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These problems can be described as self-reinforcing and increasingly detrimental to the provision of public services. Inadequate budgeting procedures and antiquated tax structures inhibit investment in infrastructure. Poor accounting and tax collection procedures, inadequate record keeping and inefficient administration of public services income, thereby affecting the adequacy and coverage of public services.

b. Effect of the Earthquake

There are 101 municipalities in the earthquake area not counting Guatemala City. The following table shows the urban-rural dispersion of municipal population and the extent of housing damage.

EARTHQUAKE IMPACT ON HOUSING

Department	Number Municipios	Average Population Urban	Average Population Rural	% of Housing Destroyed
Guatemala	16	14,528	13,664	47%
El Progreso	8	2,846	7,874	79%
Sacatepéquez	16	4,939	1,832	54%
Chimaltenango	16	5,199	8,253	89%
Sololá	2	3,776	12,340	47%
Totonicapán	5	5,013	28,456	50%
Huehuetenango	2	7,706	16,445	49%
El Quiché	7	3,391	22,739	51%
Baja Verapaz	6	2,787	13,419	56%
Alta Verapaz	2	7,051	21,628	44%
Izabal	3	11,558	39,554	26%
Zacapa	9	4,160	9,378	65 %
Chiquimula	3	9,886	17,003	10%
Jalapa	4	6,678	20,868	35%
Jutiapa	2	9,884	38,786	10%
	101	6,549	17,392	

Note: Urban includes communities of 2,000 population or more.

Source: GOG 1973 Census and Consejo Nacional de Planificación Económica, Evaluación de los Daños Causados por el Terremoto, (March 1976), Cuadro No. 4.

These are rural municipalities whose budgets allowed them to provide only a minimum level of basic public services. With the earthquake, 67 municipalities lost more than half their housing structures. With the burden of reconstruction, payment of most municipal fees and taxes has been severely curtailed.

As many services were interrupted or stopped altogether with the destruction of basic infrastructure, revenues from these sources have been seriously diminished. A survey of 82 municipalities after the earthquake by INFOM estimated that approximately 70% of operating revenues have been interrupted.

The table in the next page is indicative of the extent of damage done to public services.

Despite their weakened financial position, the municipalities will, nevertheless, be forced to assume a leading role in the reconstruction effort. They must coordinate and administer the various reconstruction activities which are taking place in their jurisdictions, including the acquisition, storage and distribution of building materials, review and registering of loan applications, and inter-governmental and voluntary agency relief coordination. They are also attempting to temporarily replace basic public services by relocating and administering markets and slaughterhouses, re-establishing municipal headquarters and recovering and storing necessary registers, titles and documents, and establishing health stations and schools which may have been destroyed.

In the area of municipal administration, as distinct from public services, the survey of 82 municipalities found that, in general, municipal staffs and organization remained intact. The major problems are found in accounting and tax collection systems which have been badly disrupted. Where municipal buildings were destroyed, the survey found that most civil, land, and tax registers were lost or destroyed. In addition, office equipment, typewriters, files, desks, etc., were destroyed. A final administrative difficulty is the inability, in many cases, to pay the salaries of municipal officials who are busy in the reconstruction effort. This is the primary operating expense of a municipality. Some municipal officials

CONDITION OF PUBLIC SERVICES IN 72 HARDEST HIT MUNICIPIOS IN AFFECTED AREA

	Condition of Public Services							
	Good		Damaged		Destroyed		Did Not Exist	
	Number Municipalities	% Total	Number Municipalities	% Total	Number Municipalities	% Total	Number Municipalities	% Total
Public Markets	12	17	17	24	17	24	26	35
Slaughter-houses	6	8	18	25	31	43	17	24
Municipal Buildings	9	13	21	29	42	58	--	--
Potable Water*	--	--	--	--	54	75	--	--
Sewer & Drains**	--	--	--	--	44	61	--	--

* For the 18 remaining municipios it is not possible to distinguish between water systems which are in good condition and those partially damaged.

** It will not be until well into the rainy season that the full damage to drainage and sewer systems can be determined.

Source: INFOM

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are already working without salary although the administrative needs have actually increased with the reconstruction effort.

Given all the above described problems, the majority of the municipalities cannot implement the reconstruction program unless they receive outside assistance. This assistance must help them replace the physical facilities within which they operate and provide them with technical assistance and other support, to restore their traditional administrative functions.

5. Role of INFOM

The Institute for Municipal Development (INFOM) was established as an autonomous agency of the GOG to meet the needs of municipalities which traditionally could not provide the facilities and services needed by their inhabitants. In becoming the contact point between the central government and the municipalities for the allocation of financial and technical assistance for needed municipal projects, INFOM greatly streamlined the allocation process which has become increasingly more unmanageable as the over 300 municipalities competed for attention through the normal operating ministries. Essentially, INFOM's role is to channel central government funds to municipalities for public works projects which have had careful study and which will receive adequate supervision during construction. Over time, INFOM has also undertaken to provide technical assistance to municipalities for upgrading the quality of local governmental administration. Since its inception, INFOM has had a history of successful operations including the administration of a number of programs financed through international donor agencies. (For additional details on INFOM's organization and operation, see Annex I, INFOM Organization). Given this role, INFOM has been designated by central government authorities to channel local as well as international resources to municipalities for reconstruction.

6. Project Rationale

Within the 101 municipalities affected by the earthquake, most of the population centers were extensively damaged (many were essentially 100% destroyed), thereby eliminating almost all municipal services available to town populations as well as to the people living in rural areas. Faced with the task of restoring essential public services and devastated physical plant, the Government of Guatemala has turned to municipalities, among other institutions, to assist in the recovery effort. The county governments play the key role in developing local infrastructure and providing essential services. Their responsibilities include planning, execution and operation of basic services such as drinking water, drainage, street paving, slaughterhouses, markets and street cleaning. This project proposes to provide the municipalities with the financial and technical resources needed to repair, rebuild and maintain the services they provide their inhabitants. However, it will not be restricted to simply restoring infrastructure and services to pre-earthquake quality and availability. An effort will be made, as proclaimed by the GOG, to improve and expand the level of services.

Besides the immediate reconstruction needs, the Guatemalan municipality has historically suffered a number of serious problems. It has traditionally been dominated by the central government which has restricted its political and taxing power. Consequently, the typical municipality is small, poorly financed, managed by low-paid and untrained personnel, and suffers from a lack of continuity and direction in providing the basic services for which it is responsible. This project will also attack these longer-term problems to the extent possible within the primary recovery objective. Therefore, provision is made for improving municipal planning, revenue generation and administration through technical assistance and training.

B. Project Description

1. Project Goal and Purpose

The overall goal of the project is to restore and upgrade the quality of life of the inhabitants living in the earthquake zone. Within that goal the purpose is to restore and upgrade the capacity of the 101 municipal governments in the earthquake zone to provide the local infrastructure and services required by their inhabitants. Specifically, the Project will:

a. Provide funds and economic, engineering, administrative and construction assistance to the municipalities to rebuild and improve infrastructure and services damaged by the earthquake.

b. Restore and improve the capacity of the municipalities to carry out the functions of local government, including the management of municipal services.

c. Expand and strengthen the capacity of INFOM to assist the municipalities.

These purposes will be accomplished through a program comprised of four components:

a. A reconstruction fund for financing the replacement, repair, and expansion of municipal facilities;

b. An INFOM training and technical assistance program to strengthen the administration of municipal governments, including the operation and management of municipal infrastructure;

c. An institutional support program to strengthen the capacity of INFOM to carry out the municipal recovery and development program; and

d. A pilot activity to establish a fund to finance revenue generating municipal enterprises.

2. Re[illegible]

financing [illegible]
GOG contr[illegible]
projects [illegible]
of two [illegible]
1975 and [illegible]
ed area. [illegible]
terhouses, [illegible]
improvement [illegible]
The re[illegible]
of those [illegible]
be eligible [illegible]
that have been [illegible]
as schools and [illegible]
list. Other [illegible]
needs be [illegible]
financing [illegible]
and [illegible]
be restricted to [illegible]
ance with [illegible]
INFOM proposal [illegible]
ities (irr[illegible]
such as water [illegible]
ically [illegible]
kets.

limited to [illegible]
cluding [illegible]
tified 96 [illegible]
were not [illegible]
unconfirmed [illegible]
eligible [illegible]
101 as [illegible]
will be [illegible]
suffered by [illegible]
These [illegible]

It was originally intended that all subprojects be financed on a grant basis. However, during intensive review it was found that a total grant concept ran counter to the Government's stated policy that emergency relief and rehabilitation efforts should be largely grant financed but that reconstruction activities should include an appropriate contribution by the recipient. In addition, INFOM pointed out that damage has varied from total destruction to minor damage and the terms should be varied to accommodate this fact. In varying the terms, particularly the grant/loan ratio, care will be taken to ensure that the poorest municipalities will not be eliminated from the project. It has been agreed that INFOM will review the needs and determine the repayment capacity of all eligible municipalities. It will submit to AID an analysis categorizing all these municipalities and indicating the financing terms to be charged. In addition, any subproject in excess of $100,000 will be subject to separate review of its financing terms and approval by USAID.

Subproject Categories

The following general categories of projects are based on the illustrative subproject list. The number and types of subprojects will change during the course of implementation.

(1) Water Supply and Sewerage ($2.7 million -

The USAID program proposes to concentrate primarily in the communities of less than 2,000 population. At present the IDB is providing assistance to towns over [illegible] population. Assistance is expected to be included for these towns on the grounds that the dispersion and isolation from the other IDB work makes it uneconomical to include in the IDB Program. Under no conditions would IDB financing be supplanted or displaced by AID funds.

The proposed subprojects would include damage repairs with some extensions to areas heretofore not served. In the case of sewerage, during the latter phases of the program, selected projects for incorporation of treatment facilities will be included.

(2) Markets ($2.6 million - 38 subprojects)

This activity will include repair and replacements of existing markets and new construction where justified. For new markets, the norms and standards developed for the AID 017 loan will be followed. Three standards of design for small, medium and large markets have been prepared, and these will be utilized in this program, incorporating any planning and design changes which previous experience indicated as beneficial. Project analyses for markets will include an evaluation of the relationship of the proposed facility to the regional marketing system for determining size and location.

(3) Slaughterhouses ($779,000 - 44 subprojects)

This activity will include repairs, replacement and new construction. Three standards of design for small, medium and large slaughterhouses were prepared under the Loan 017 program and these will be followed in this Project, incorporating as well any planning and design changes which previous experience has deemed useful. The implications of the regional marketing system will be included in determining need and size.

(4) Electrification ($900,000 - 17 municipalities)

INDE (The Instituto Nacional de Electrificación), has received $1.0 million from the national government for a new transmission line and some minor system repairs in the earthquake zone. (A part of the earthquake area in the Highlands was previously served by a private electric company whose equipment was badly damaged and whose water source is inadequate to justify its replacement). Therefore, INDE negotiated the purchase of this private company's equipment and franchise. INDE has developed plans to serve this area and will construct a transmission line and replacement distribution systems in the area. It is proposed that the Fund will help finance the cost of distribution lines and equipment within the municipalities served.

In addition, INFOM has received requests for electrification from affected communities where this service is not now available. These municipalities will also be eligible for electrification.

(5) Sanitary Waste Removal ($500,000 - 16 subprojects).

This subproject includes the provision of equipment to help the municipalities collect and remove waste materials and undertake other activities to improve the general sanitation in the damaged towns. Improved disposal practices such as sanitary land fill, etc., will be encouraged to improve the general health and sanitation conditions and minimize environmental damage.

(6) Street Improvements and Drainage ($1.3 million - 29 subprojects).

This activity will include repairs to streets damaged at the time of the earthquake and during subsequent rubble removal operations. In addition, village streets will be upgraded using locally available stone or paving blocks. Street improvements will be an exception to the financing terms outlined above since it will require contribution by the primary beneficiaries, namely, the abutting property owners. Terms for this payment can be spread over 5 years at 5% interest, as is done under ongoing programs. Labor intensive methods using prefabricated concrete blocks to form the pavement surface, will be utilized.

(7) Town Halls ($888,000 - 26 subprojects)

Town Halls represent the nerve center for the performance of the important administrative and social functions of the municipality. It permits the Mayor and his staff to carry out their functions and serves as a repository for vital statistics, tax records, facilities management data, etc. In a less tangible yet equally important way, it symbolizes the sense of the community. Adequate space for these activities is essential, as well as space for selected government agency branch offices.

INFOM has prepared designs for small, medium and large town halls. Austere design standards have been followed with minimum space allocations for the administrative functions. The structures generally will consist of simple one-story, concrete block buildings with asbestos-cement roofing. Municipalities which sustained damages

to their older colonial type structures have expressed a desire to repair and retain the traditional colonial style building. Repair costs for this type of building with its colonial styling, will be eligible. In addition, office furniture and equipment for town halls ($200,000 for 93 municipalities), will be eligible for project financing.

c. Fund Administrative Support

In addition to credit, the Government contribution will cover the administration of the Fund over four years in the amount of $860,000. This represents an increase of new personnel to existing INFOM staff as follows: 10 engineering professionals, 12 engineering assistants, 5 technical support staff, and 3 secretaries. Loan funds will finance some 12 vehicles and imported office equipment in the amount of $50,000 as well as an engineering consulting firm to assist INFOM in design, monitoring and certification of subproject payments.

3. Municipal Institutional Development

In order to restore and improve the capacity of the municipalities in the affected area to carry out their traditional functions of local government, including the management of municipal services, INFOM will provide technical assistance and training to municipal personnel. Mayors, staff members, administrators of services and new employees will be included. Technical assistance will be provided in the municipality by field cadres while training will be done primarily at the INFOM offices. The use of regional training sites is being considered.

All 101 municipalities will eventually be covered during the life of the project. An initial survey of administrative deficiencies taken after the earthquake has identified 25 municipalities as needing immediate assistance. Priority will also be given to those employees responsible for supervising construction and maintenance activities. In this way, it is hoped that the facility will be operated and maintained properly and improve the coverage and quality of services being provided.

The subject-matter areas to be covered include:

Administration

- Facilities management
- Accounting
- Tax assessment billing and collection
- Registers and operating accounts
- Organization and Methods

Economics and Finance

- Review of taxing structures
- Revenue and expenditure controls
- Budget and fiscal reform

Public Services

- Technical operations, including maintenance
- Collection procedures
- Accounting

a. Technical Assistance

Technical assistance at the municipal level will be provided through field teams composed of three professionals. Their activities will be divided into two phases. First, an in-depth survey and analysis of municipal administrative capabilities will be conducted. The fact-finding will include a review of the various administrative systems including tax collections, accounting, budgeting, etc. to identify the deficiencies and establish a work plan.

In the second phase, the teams will provide on-site training in the improvement of administrative systems. This will take the form of on-the-job training which focuses on introducing improvements in a selected administrative system (accounting, tax collection, budgeting, or service administration). Subsequent follow-up visits will be made to reinforce and further explain the improvements.

b. Training Courses

There are areas of municipal administration which are standard such as tax collection systems, tax policy, budget functions, municipal accounting, and administration of certain public services. These activities lend themselves to standardized training courses. INFOM has manuals for training courses in these areas.

Training will be given in three to six week courses, primarily in the INFOM offices in Guatemala City. However, INFOM will experiment with two types of courses to be held at regional sites. Regional training is more costly to INFOM but has the advantage of taking place in an actual environment and permits those not otherwise able to be away for the full training period.

In addition, several specialized training opportunities will be offered to municipal officials. Selected municipal officials will be provided training opportunities abroad. A public relations program aimed at tax payer education and improved municipal administration will be carried out under the Project. In order for the technical assistance team to work effectively municipal officials must be sensitized as to what good administration can produce in terms of increased revenues and improved public services, to say nothing on the consequent wellbeing of the community. This motivation is generally lacking in municipal officials. Similarly, many officials are not aware of the variety of programs INFOM has to offer for their assistance. It is believed that an early effort in public relations in this regard will assist the technical assistance and training activities of the project.

c. Increased Technical Assistance and Training Capacity

One of the objectives of the Project is the permanent expansion of INFOM's capacity to provide technical assistance and training to municipal governments. Consequently, agreement has been reached with INFOM to hire additional staff for this purpose (utilizing loan funds initially) which will be retained after the life of the project. The table below shows the staffing

patterns as it presently exists along with the proposed project staff for the Technical Assistance and Training Department.

	Present Staff	Project Staff	Total
Professionals	4	13	17
Semi-professionals	8	2	10
Non-professionals	3	2	5
	15	17	32

d. Municipal Improvement Budget

The proposed life-of-project budget for this component is ($000):

	Technical Asst. Teams			Training Unit		
	AID	GOG	INFOM*	AID	GOG	INFOM*
Professional Salaries	200	78	40	195	82	39
Other Direct Costs	24	7	23	1	33	92
Travel Expenses	---	---	(10)	---	(28)	(75)
Printing	---	---	---	---	(5)	(12)
Fuel & Lubricants	---	(7)	(13)	---	---	(5)
Audio-Visual Equipment	---	---	---	(1)	---	---
Vehicles	(24)	---	---	---	---	---
TOTAL	224	85	63	196	115	131

* INFOM costs are covered by its own funds and thus are not included in the Project budget.

4. INFOM Institutional Development

As noted in Section III, A, 2, (INFOM Capacity), INFOM has developed over the years into a well-managed, competent municipal development institution. The Engineering and Technical Studies Divisions are staffed with qualified professionals and the recently created Planning Division and Municipal Technical Assistance and Training Sections have provided INFOM with added expertise in these important areas. There are, however, certain other areas where INFOM's capacity will have to be expanded and strengthened in order to meet program requirements over the next few years. Funds will be provided under this loan and from the GOG counterpart to: Add key personnel to the INFOM staff, procure specialized equipment, contract local and foreign technical assistance and finance professional training abroad. This support program will assist in developing INFOM competence in regional analysis and planning; evaluation methodology and techniques; statistics and systems analysis; automatic data processing; municipal technical assistance and training; public relations and taxpayer education; and environmental impact planning.

There is a strong interest within institutions of the Government of Guatemala to regionalize program planning and project implementation. This is due largely to the diverse ecological zones which characterize Guatemala's geography such as the dry hot Northern lowlands, the agriculturally rich south coast plantation economy, the cool, densely populated western highlands and the underpopulated, heavy rainfall areas in the Petén and the northern transversal strip. INFOM will be increasingly called upon to play an important role in the design and execution of regional development plans and will need to develop the capability to engage in regional analysis and planning activities. To do this an additional counterpart funded position will be added to the Planning Division Staff. Twenty-four man-months of long-term resident technical assistance and 6 man-months of short-term specialized technical assistance will be funded under the loan as well as 20 man-months of professional training abroad.

As described in Section IV, D, primary responsibility for program evaluation will rest within the Planning Division of INFOM. In order to assist INFOM in developing this capability, two counterpart-funded positions will be added to the Planning Division staff. Six man-months of professional training abroad in evaluation methodology and techniques will be financed under the loan. In addition, two evaluations will be loan-financed during the life of the project.

Despite the sharp increase in INFOM's budget and responsibilities in recent years, all records, including payroll, municipal finances, and basic municipal data, are processed by hand. During Intensive Review it was agreed that the use of automatic data processing was essential in order to meet the heavy record keeping and data analysis requirements expected during project implementation. INFOM officials met with Ministry of Finance personnel and obtained agreement that INFOM will be able to use the new Ministry of Finance IBM 360-20 computer for all of their data processing requirements. To assist in converting all their current records to automatic data processing and to develop their capacity to make optimum use of this new capability, two-counterpart funded data processing positions will be added to the INFOM staff. Twelve man-months of short-term technical assistance and 18 man-months of professional training abroad in statistics, systems analysis and computer programming will be financed under the loan. In addition loan and counterpart funds will be included in the Project to finance procurement of a computer terminal as well as a vehicle for the evaluation unit and additional office equipment for the Planning Division and the data processing unit.

While the initial experience gained under the new municipal technical assistance and training programs has been very positive, additional technical assistance and training will be required to bring the expanded staff to the optimum level of performance. Six man-months of short-term technical assistance and 24 man-months of professional training abroad have been programmed under the loan for this purpose. It is anticipated that part of the professional training for key INFOM staff will

be scheduled at the Texas A&M municipal administration training course with the rest of the training devoted to observation/study programs at IFAM in Costa Rica, IBAM in Brazil, and FUNDACOMUN in Venezuela.

As a strong complement to the municipal technical assistance and training program, INFOM is planning to expand its public relations program and enter into a new program of taxpayer education as described in Section II, B, 3. Four man-months of specialized technical assistance will be funded under the loan to assist INFOM in developing detailed plans for these two activities.

Loan-funded training for INFOM engineers will be provided in environmental and design and planning practices. Two participants will take a short-term (one month) indoctrination course in environmental considerations for sub-project planning and program development and another participant will take a four-month course which includes environmental instruction and observation training.

Detailed Budget for INFOM Institutional Development

A. Personnel (Counterpart funds)

1. Planning

1 Regional Planner at $8,000/yr for 4 yrs.	$ 32,000

2. Evaluation

2 Evaluation Specialists at $8,000/yr for 4 yrs.	64,000

3. Data Processing

2 Data Processing Specialists at $5,500/yr for 4 yrs.	44,000
	$ 140,000

B. Technical Assistance (Loan funds)

1. Planning

1 Regional planner at $25,500/yr for 2 yrs.	$ 51,000
Short-term specialized T.A. - 6 mm at $2,500/mo.	15,000

2. Evaluation

Short-term T.A. - 6 mm at $2,500/m	15,000
External evaluations - 2 at $10,000/each	20,000

3. Data Processing

Short-term T.A. - 12 mm at $2,000/mo	24,000

4. T.A. & Training

Short-term T.A. - 6 mm at $2,500/mo	15,000

5. Public Relations and Taxpayer Education

Short-term T.A. - 4 mm at $2,500/mo	10,000
	$ 150,000

C. Professional Training Abroad (Loan funds)

1. Regional Planning

20 mm at $1,500/mo	$ 30,000

2. Evaluation Methodology and Techniques

12 mm at $1,500/mo	18,000

3. Statistical and Systems Analysis/ Data Processing	
18 mm at $1,500/mo	$ 27,000
4. Municipal Technical Assistance and Training	
24 mm at $1,500/mo	36,000
5. Environmental Considerations in Project Planning	
6 mm at $1,500/mo	9,000
	$120,000

D. Specialized Equipment (Loan Funds)

1. Computer terminal	$ 30,000
2. Vehicle for Evaluation Unit	8,000
3. Typewriters, calculators, etc.	2,000
	$ 40,000

5. Municipal Enterprises Fund

a. Introduction

As discussed previously, the low level of revenues generated by the municipalities for operating expenditures and investment in public services and facilities was a severe problem in the devastated area even before the earthquake. The situation has deteriorated even further since, with locally generated revenues frequently insufficient to pay basic municipal operating expenses. As a result of the earthquake, the municipalities are requesting assistance to meet some of the pressing demand for materials and services required for reconstruction. INFOM has requested assistance in establishing a Fund for making loans to municipal governments for establishing small enterprises.

The idea of municipal enterprises is not new. Some 50 municipal pharmacies have been in operation for several years, providing a limited line of basic medical supplies at reasonable cost. Also in some municipalities, space has been rented in municipal buildings for commercial enterprises. In the municipality of San Marcos, funds were borrowed from INFOM to revitalize a municipally owned coffee farm with positive results (Q30,000/year net increase in municipal revenues). At the same time, however, there are several fundamental issues which remain unanswered concerning such a Fund. The basic one is whether or not municipal governments have sufficient entrepreneurial spirit and management capacity to operate enterprises on a profitable basis so they are not a drain on general revenues. As has been pointed out elsewhere, management is local government's persuasive weakness. A second major issue is whether or not such a Fund will be profitable enough to be self-sustaining. To seek answers to these questions, it has been agreed to proceed on a pilot basis with the establishment of a fund and evaluate the results both during and at the end of the program.

b. Fund Operations

A fund totaling $434,000 will be established in INFOM made up of $134,000 from the loan and the balance

from counterpart.

Any municipal [illegible] in the [illegible] zone could be potential borrowers. All projects to be financed will indicate substantial [illegible] in order to assure a net increase in [illegible]. All sub-loans will contain an agreement that the municipality will not restrict the participation of other [illegible] in similar business. Authorities [illegible] should be simple to operate and manage. All projects will be financed on a loan basis. Financing terms will be [illegible] interest with [illegible] to the project. [illegible] establishment [illegible] rented to the public [illegible] storage facilities, [illegible] facilities, and [illegible] and operated [illegible]

[illegible]

At [illegible] presented [illegible] on the following [illegible] projects [illegible] year period. [illegible] are:

[illegible]

be on [illegible] nificant [illegible] the private [illegible] needed facilities [illegible] lease or rent [illegible] given commodity [illegible] would be eligible for [illegible] facilities [illegible]

[illegible]

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[illegible] FUND

[illegible] LIST

PROJECT	COST PER UNIT	NUMBER OF PROJECTS	TOTAL COST
Loan Funded Projects			
Dry Storage Facilities	[illegible]	4	[illegible]
Workshop Facilities	[illegible]	3	[illegible]
Truck Parking Facilities	[illegible]	4	[illegible]
Sub-Total	[illegible]	11	[illegible]
Counterpart Projects			
Block Fabrication	7,000	20	140,000
Brick Fabrication	3,000	6	21,000
Carpenty (Door & Window Frames)	12,500	2	25,000
Produce Packing Box Manufacture	22,000	2	44,000
Refrigerated Storage Facilities and Ice Manufacture	25,000	2	50,000
Truck Parking Facilities	5,000	4	20,000
Sub-Total	75,000	36	300,000
TOTAL PROJECTS	114,000	48	434,000

The requirements for dry storage space in the rural areas is great. The limited amount of private grain storage is concentrated in grain milling facilities and on larger fincas and public grain storage in the devastated area is limited to the National Marketing and Price Stabilization Agency (INDECA). There is a need for additional storage space where grain traders can accumulate and protect sufficient stocks for onward transportation to larger commercial outlets. Dry storage space for other materials is also in short supply.

With respect to small industry and commercial establishments, one of the principal limiting factors in their growth in the rural areas has been the relatively large capital outlays required to establish a business. The municipalities have the capacity to finance the construction of facilities and installation of utilities, which is beyond the capability of many would-be entrepreneurs.

The truck parking areas will respond to several needs. Presently trucks park in the town center causing street congestion and traffic problems. When loaded trucks are parked overnight in the center of town, merchandise is often stolen from the unprotected vehicles. In a few municipalities, fenced and guarded parking areas have provided relief from both traffic congestion and theft and have also provided a steady source of municipal revenues with little administrative overhead.

ii. Municipality Owned and Operated Small Industries.

This element includes facilities to be operated by Municipal governments and will be funded by counterpart funds. The municipal enterprises to be financed will be concentrated in the area of building materials and supplies and include:

- Manufacture of concrete blocks and bricks;
- Fabrication of doors and window frames;
- Fabrication of produce packing boxes;
- Refrigerated storage and ice plants.

The demand for building materials far exceeds the current supply. With over 150,000 houses to be rebuilt in the devastated rural areas, the high level of demand is assured for years to come. With respect to produce packing boxes, some municipalities own forests which could be rationally exploited for the manufacture of packing boxes which would greatly enhance produce marketing operations in view of the high losses sustained through current packaging and transport practices.

Refrigerated storage and ice plants are almost non-existent in the devastated area with resultant high loss from spoilage of fruits, vegetables and animal products. The lack of adequate cold storage also forces producers to sell at deflated prices when there is a flood on the market at peak production periods. The hygienic benefits derived from proper cold storage of meat and milk products must also be considered as extremely important.

c. Fund Budget

	AID	GOG	TOTAL
Credit	134	300	434
Technical Assistance	---	80	80
Evaluation	66	---	66
Training	---	10	10
Equipment	10	10	20
Administration	---	80	80
TOTAL	210	480	690

The total budget for this component of the project amounts to $690,000. The credit fund is estimated at $434,000. For technical assistance to the municipalities and for the technical management of the Fund, INFOM will create a section within the Budget and Economic Analysis Division staffed by a commercial Loan Officer, a

Financial Analyst, an Industrial Engineer and a Mechanical Engineer. Their functions will include the establishment of the Fund, the development of proposals and projects and general supervision as its progresses.

A key element of this undertaking will be continual evaluation in view of its experimental nature. Funds for evaluation will be used to review the demand for various municipal enterprises and appraise the methods used to initiate and implement such efforts.

Funds for training municipal managers, some equipment and administrative overhead are included.

An advisor will be contracted to help set up the fund, identify staff requirements, design procedures, establish policies and do an initial financial analysis and projection.

PART III - PROJECT ANALYSES

A. Technical Analyses

1. INFOM Capability

a. Operations and Engineering

INFOM has a successful history of administering and implementing programs similar in scope, magnitude and complexity to the one proposed herein. These past and ongoing projects were funded both by internal (GOG) and external sources (AID and IDB loans). As a result of these programs, INFOM has developed internal operating procedures and the technical capacity to successfully implement them on schedule. Annex I describes the current organization of the INFOM's Division of Municipal Works, which comprises the engineering capability of INFOM. The organization consists of 27 engineers, 4 architects and 20 technical assistants. Supporting this basic engineering capability are surveyors, draftsmen, and secretaries. Fourteen of these engineers and eleven technical assistants are assigned to the construction and supervision section. Four engineers, four architects and six technical assistants work in the two sections of Planning/Design and Cost Estimating and Budgeting. Five engineers and three technical assistants are involved with operations and maintenance, and the remaining four engineers fill the division's supervisory and administrative roles.

Annex I, Exhibit 3 summarizes the number of subprojects, together with their combined monetary value and by type and source of funding, that the Division of Municipal Works implemented during calendar years 1974 and 1975. During this two-year period, this Division executed a total of 346 subprojects with a value of $7.3 million, distributed between GOG ($4.9 million), IDB ($0.3 million), and AID ($2.1 million). This represents an annual workload of approximately 175 subprojects worth $3.65 million.

During the implementation of AID Loan 017, INFOM demonstrated a highly professional and dedicated capability to plan, design, construct and complete the

subproject works. INFOM's effort must be given the highest of praise considering that the initial program concept could not be implemented due to problems in the local construction industry. When invitations for construction bidding resulted in lack of responses, INFOM responded promptly, in spite of its own workload with force accout procedures and staff and is completing the program in a professional manner. The structures built under this program survived the earthquake with only minimal and negligible damages, a further testimonial of the quality and effectiveness of the INFOM's capability.

During the proposed loan implementation period (1977-1980) INFOM will be engaged in a number of reconstruction activities as indicated in Exhibit I. 3., Annex I.

Included in this proposed four-year program are approximately 700 subprojects having a value of $27.6 million. This is representative of an annual workload of approximately 175 subprojects valued at about $7 million. For 1976, INFOM is projecting a total workload of about $6 million with additional emergency relief funds provided to it by the GOG and AID. While these combined programs represent a substantial workload, USAID is confident that INFOM has the capacity to expand its organization to carry them out effectively.

INFOM recognizes the need to increase its staff to strengthen its capacity to implement projected workloads for the coming years. Exhibit I.1 of Annex I reflects the present organization of INFOM and a distribution of personnel to service the IDB and AID financed programs. INFOM also proposes to assign one of its engineers to serve as the Engineering Coordinator specifically for the implementation of the AID program.

In specific terms, there is a need to create 60 new positions, of which 32 will be professional, to carry out the increased workload. This represents a 23% increase of the current workforce of 259 employees. The new positions are distributed among the four major project elements as follows:

Reconstruction	30
Municipal Enterprise	6
Institutional Development	7
Municipal Training & TA	17
Total	60

Considering INFOM's existing expertise and demonstrated capability, these additions in staff should provide the appropriate personnel for fulfilling its objectives and effectively responding to the added workload of the projected externally financed programs. Its salary scale is competitive with both the private sector and government salaries ($600-$700 per month for engineers). It foresees no problem in meeting its staffing requirements and an independent check with the local professional community confirms this opinion.

Technical assistance will be required for monitoring and review services discussed earlier under the implementation of subprojects. Training for INFOM engineers is proposed in environmental review and evaluation methods including both short-term and intermediate-term courses for selected engineers and planners.

b. Technical Assistance and Training

Prior to 1975, the technical assistance function of INFOM was implemented only on a limited basis. However, in June of last year a small technical assistance unit was created in the Planning Division. This reflected a growing appreciation on the part of INFOM in the importance of technical assistance and a recognition of its responsibility for assisting the municipalities with other than project construction. In February, it was given departmental status in the Studies Division. This unit recently completed a secondary survey of municipal administrative problems, and also prepared a detailed program of its activities for 1976 (included in INFOM's Política de Crédito y Programas Especiales) and completed manuals for the new municipal training course. In January this unit trained one full group of municipal officials and started a second course, but it was interrupted by the earthquake.

2. Municipal Revenues

a. Revenue History

There are 326 municipalities in Guatemala, including Guatemala City. A review was made of their revenues, excluding Guatemala City and three municipalities which for all practical purposes are extensions of Guatemala City (Mixco, Chinautla and Villa Nueva). Although severe limitations on the analysis were imposed by the inadequacy of the data base, it was possible to derive a number of insights on the municipal revenue situation.

1974 is the most recent year for which information is tabulated on the amount of revenue generated locally by the municipalities. These data are considered accurate and reasonably complete. Unfortunately, actual Central Government transfers to individual municipalities have not been tabulated and therefore only a part of the picture is available. Information on INFOM's loans and companion grants to the municipalities for capital projects is readily available, but the figures on the actual amounts transferred to the municipalities under the various special government "pass-through" taxes could not be assembled in the time available. In lieu of actual transfer information, amounts budgeted for transfers were used. This gives some insight into the general revenues picture, but requires that the findings be heavily qualified.

b. Summary Findings

In examining the revenue condition of the four classes of municipalities, there was little correlation between municipal revenue per capita and the "category" of a municipality, especially as far as "First Category" municipalities are concerned, i.e. those which meet either of two requirements: At least 100,000 inhabitants; or departmental capitals. (There are only two municipalities in Guatemala with more than 100,000 inhabitants -- Guatemala City and its suburb municipality Mixco, which is not officially designated a first category municipality.) The remaining 21 of Guatemala's 22 first class municipalities hold the distinction of being first class municipalities by reason of their being departmental capitals and

not by reason of their population. The fact that a given municipality is the seat of government for a whole department by no means implies that it is well off. Salama and El Progreso for example could hardly be described as anything more than small rural towns, yet both are departmental capitals and are automatically classified as first class municipalities.

Total revenue collected in 1974 in the 322 municipalities was $7,879,983. With a population of 4.3 million, this works out to an average of $1.93 per person. Total Central Government transfers (excluding special loans and grants for capital projects) budgeted for these municipalities in 1974 was $1,979,463, or an average of .46¢ per person. It appears that the total income of the 322 municipalities in 1974 was approximately $10 million, with about four dollars out of every five generated locally. In per capita terms, total municipal income works out to average of slightly less than $2.40 per person.

There are altogether 152 municipalities in Guatemala (47% of the total 326) where the local government collected less than one dollar per resident in 1974 and the majority of the municipalities (250 out of 326, or nearly 80%) collected less than two dollars per resident.

The geographic distribution of the poorest municipalities does not follow Indian/Ladino lines. The departments of Huehuetenango and El Quiché for example have overwhelming indigenous populations and each has only one municipality with per capita revenue in excess of $2.00, but at the other end of the country the predominantly Ladino departments of Zacapa and El Progreso are in the same shape, each having only one municipality collecting more than $2.00 per resident.

The revenue analysis indicates that there are great disparities in per capita revenue among the municipalities. The two extremes are Tajumulco in the far western department of San Marcos with per capita revenue of .29¢, and San José in the Petén with per capita revenue of $17.15. (It should be noted that San José is the smallest municipality in Guatemala, with a populationof only 562.)

A striking contrast exists in the department of Sacatepequez where Antigua, with 26,631 inhabitants, has per capita revenue of $8.33, and the mountaintop Indian village of Santa María de Jesús only four miles away, with 7,142 inhabitants, has per capita revenue of .35¢. (It should be noted that Antigua collected a 25¢ vehicle entry fee with the objective of capturing tourist revenue, but this collection was ruled unconstitutional in 1975 and municipal revenue thereafter dropped considerably. It is now estimated to be approximately $6.50 per capita.)

c. Conclusions

Against the above described background of low level revenue generation, we need to consider the municipalities' potential for repaying loans which would be made to finance the various reconstruction sub-projects. Even without a complete analysis of the general revenue conditions of all municipalities in the country, it is clear that those affected by the earthquake are in the worst shape and therefore must be provided a range of repayment terms which will allow a particular municipality to successfully finance the infrastructure needed to replace that lost during the earthquake. In addition to realistic repayment terms, funds must be available to the municipality to cover operations and maintenance costs associated with the project.

As was done on each of the sub-projects under the previous AID loan, INFOM will conduct an evaluation of each municipality's financial viability in reference to the sub-projects proposed. In recognition of the severely aggravated financial conditions in the earthquake zone, INFOM will soften the loan repayment terms as described previously in Part II. By increasing the grant element of sub-projects in the more impoverished and devastated municipalities and softening the loan terms, INFOM will insure that all municipalities can afford the reconstruction of their minimum essential infrastructure.

3. Environmental Considerations

a. Proposed Project Activities

The physical components of the project encompass the restoration and improvement of municipal infrastructure and services in the devastated areas. The subproject list envisions the design and construction of such rural infrastructure and service activities as community water supplies, sewerage and sanitary waste disposal, public markets and slaughterhouses, street improvements, storm drainage, electrification, and community/municipal administration buildings. The subprojects represent physical construction based on simple designs and limited magnitudes with the facilities being implemented in small numbers in many different locations.

The following is a brief review of relevant environmental considerations for the types of subprojects proposed.

Water supplies - The safety, quality and reliability of water sources and systems of transmission must be preserved. Protecting ground water and surface water sources and applying simple chlorination would be design considerations and are within the operational capabilities available.

Sewerage and Sanitary Waste Disposal - Waste collection and method of disposal must be examined for the implications on the environment. Given prevailing conditions, only simple and primary treatment would be considered with appropriate safeguards for waste transmission and disposal. Simple treatment processes to be considered include Imhoff tanks, and where site and land availability permit, treatment by means of oxidation ponds. Disposal alternatives would be chosen to minimize health hazards and control downstream environmental degradation.

Public Markets and Slaughterhouses - Public markets must be located so as to meet functional demands but with a minimum of disturbance to the surrounding environment. Water supply and liquid waste disposal fa-

cilities must be included to meet sanitary requirements. Design considerations must also include provisions for solid waste collection and removal.

Storm Drains and Street Improvements - In developing storm drains and street improvements, parallel and lateral cross-drainage must be located with appropriate retardation measures to minimize erosion and scour and the flow discharge routed to control flooding.

b. Environmental Assessment

The proposed project has been reviewed for its potential environmental impact and a preliminary assessment indicates that no undesirable ecological changes will result from its implementation. Due to the small scale of the proposed projects, the environmental impact is expected to be negligible. Except for minor disturbances, primarily resulting from earth movement during construction operations, no permanent damaging or undesirable environmental implications can be foreseen. Rather, the proposed subprojects are planned to contribute towards an improved human environment and quality of living for the target beneficiaries.

For subprojects, such as municipal buildings and electrification improvements, no damaging environmental implications can be foreseen, other than the minor disturbances which can be experienced during construction and which will be eliminated upon subproject completion. Electrification improvements envision secondary transmission and distribution only and do not contemplate power generation. Siting and location of the facilities and related appurtenances will consider the best tradeoff to meet operational functional needs and respond to detrimental environmental implications, if any. Selected training in the analysis and review of environmental implications and considerations in project planning and implementation has been incorporated in the training component.

B. Financial Plan and Analysis

1. Financial Summary

The proposed $8.0 million loan will include a 10-year grace period at 2% interest and a 30-year repayment term at 3%. These most concessional terms are considered essential in a time when the GOG is being forced to obtain large amounts of external financing to reconstruct areas devastated by the earthquake of February, 1976. The $8.0 million AID Loan will be augmented by $3.5 million in GOG counterpart funding, bringing the project total to $11.5 million. The AID funds will be loaned to the GOG who will in turn grant them to INFOM. (See Economic Analysis Section, Item 3, for a discussion of the GOG's debt servicing capacity and ability to repay this loan.) The funds will be made available to the municipalities in the areas most affected by the earthquake with a ratio of approximately 80% grant and the remainder being loaned at concessionary terms (a list of subprojects is included in Annex N). As a result, up to $1.7 million of the Municipal Reconstruction Fund would be relent to municipalities at interest rates of 4½-5%, for periods ranging up to 25 years. INFOM's current policy is to include grace periods of sufficient duration to cover construction time, especially on non-revenue producing type projects. However, because of the earthquake, INFOM will allow additional time and is willing to vary other repayment terms based on need.

The following tables illustrate the financial aspects of the project, in thousands of dollars.

Table A is a summary of the sources and uses of funds for the project. As indicated in this table, AID will finance 70% of total project costs, and remaining 30% will be Government of Guatemala counterpart contributions.

Table B illustrates the relative annual project contributions required by AID and the Government of Guatemala. This relationship of AID and GOG inputs is stated by component to illustrate the proportionate investment of each Government to major project activities.

Table C [illegible] for the [illegible] by major [illegible] ities which [illegible] inputs have been [illegible] output budgets [illegible] lated and [illegible] monitoring [illegible]

Subprojects (Recon[illegible] Fund	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Subloans (Intermediate Fund)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Technical Assistance	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Training	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equipment	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Engineering [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Administr[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible] PROJECT DISBURSEMENTS

	[illegible]		[illegible]		1979		[illegible]		TOTAL	
	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,725	499	1,7[illegible]	445	6,754	2,050
Municipal Reconstruction Fund	1,170	510	2,[illegible]	[illegible]	1,701	399	1,675	395	6,620	1,750
Municipal Enterprise Fund	20	50	24	100	24	100	66	50	134	300
2. TECHNICAL ASSISTANCE	120	20	120	30	100	50	76	58	416	158
3. TRAINING	95	10	75	20	75	30	70	32	315	92
4. EQUIPMENT MATERIALS	200	50	15	30	---	20	---	20	215	120
5. ADMINISTRATION	---	270	---	270	---	270	---	270	---	1,080
6. ENGINEERING SUPERVISOR	75	---	75	---	75	---	75	---	300	---
	1,680	910	2,383	896	1,975	869	1,962	825	8,000	3,500

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TABLE C

INPUT/OUTPUT TABLE

INPUT/OUTPUT	MUNICIPAL RECONSTRUCTION FUND		MUNICIPAL ENTERPRISE FUND		INFOM INSTITUTIONAL DEVELOPMENT		MUNICIPAL INSTITUTIONAL DEVELOPMENT		TOTAL	
	AID	GOG	AID	GOG	AID	GOG	AID	GOG	AID	GOG
1. Credit	6,620	1,750	134	300	-	-	-	-	6,754	2,0[illegible]
2. T. A.	---	---	66	80	150	-	200	78	416	158
3. Training	---	---	-	10	120	-	195	82	315	92
4. Equipment	140	60	10	10	40	10	25	40	215	120
5. Administration	---	860	-	80	-	140	-	-	---	1,08[illegible]
6. Engineering Consultant Services	300	---	-	-	-	-	-	-	300	---
TOTAL	7,060	2,670	210	480	310	150	420	200	8,000	3,50[illegible]

2. GOG Counterpart Availability

Although the proposed loan will be implemented in a favorable economic environment and will place no strains on the country's debt service capacity, there is the question of whether or not the GOG will be able to provide the necessary counterpart.

In recent years the size of the public sector has remained practically unchanged in relation to the economy as a whole. Public sector revenues have been about 11% of the GNP, but after a modest peak in 1972 have tended to decline and are estimated to be about 10.6% in 1976. The deterioration was mostly attributed to an inelastic response of central government revenues to increases in output and incomes. In general, public sector expenditures have tended to follow the same pattern as revenues while capital expenditures have fluctuated widely (as a proportion of GNP). The overall fiscal deficit has experienced uneven swings and since 1971 has been financed mostly from internal sources.

Central Government operations (which account for about 80% of public sector revenues and expenditures) have traditionally been modest. The ratio of central government revenues and expenditures to GNP is the lowest in Central America. From 1969-73 the growth of Central Government revenues fell behind the growth of GNP and their ratio fell from 8.9% of GNP in 1969 to 8.4% in 1973. Outlays for fixed capital have also been low when compared to gross domestic investment.

These trends underwent considerable changes in 1974, with revenues rising by 19% due mostly to higher yields on internal trade and stamp taxes. Currency expenditures increased by 27% and capital expenditures were also up sharply. There are several new factors which must be considered in making revenue projections, and these have been incorporated into the projections.

First, in September, 1974, the GOG introduced a tax package which although heavily regressive, most observers feel will raise more revenue. Next, a USAID-financed cadaster survey will be completed at the end of 1976 and this will expand the land tax base and have a favorable

effect on revenues. Largely as a result of these reforms but also owing to improved tax collections, total current revenue receipts increased 34% between the first semester of 1974 and 1975. Finally, it appears that there may be a commercial quantity of oil in Guatemala - conceivably enough to meet internal requirements and even enough for exports. Since the GOG will be receiving at least 51% of the petroleoum (at the well head), we can anticipate a considerable increase in Central Government revenues. However, confirmed estimates of oil reserves are not yet available, so the full impact on revenues cannot be determined.

With the above serving as background we can place the GOG counterpart requirements in perspective. According to the financial plan, the GOG will have to provide $3.5 million in counterpart over the four-year disbursement period, or a little less than $1.0 million annually starting in CY 1977. This counterpart would represent only a small percentage (less than ½%) of the 1977 budget, and such an increase should not be difficult for the GOG. This increase would represent only ½% of GOG current revenues and about ½% of total revenues. In view of the country's overall economic prospects we do not believe the GOG will have any difficulty in meeting the loan requirements.

A final consideration is that the GOG has traditionally placed a high priority on USAID loans and has provided the required resources in a timely manner. We have been given reasons to believe that the same high priority will be maintained for the proposed loan.

3. INFOM Financial Position

Exhibit 1 of Annex L, consolidated Balance Sheets for 1973 through 1975, contains certain financial indicators in the lower margin. These indicators reveal a very low debt-to-equity ratio as well as a low return on capital employed. This is a good measure of past GOG support to the institution as well as current viability. These balance sheets reflect a growth of 12.3% during the three-year period. Of this growth, a majority is attributable to debt financing and annual GOG subsidies. Without these subsidies, the balance sheet growth would have been reduced to 7.1%, net of any earnings on the subsidies.

Exhibit 2 of Annex L, Consolidated Income Statement for the years 1973 through 1975, shows an average annual income of $46,600 during the three-year period. This income is attributable to two major sources. The first of these is the GOG subsidies discussed above, the second being the low incidence of bad debts on the municipal sub-loans. As mentioned in Annex L page 1, INFOM is able to collect payments due by the Municipalities, because GOG transfers to the municipalities are funneled through INFOM. This procedure reduces the incidence of the municipal defaults on subloans and thus the necessity of establishing a bad debt reserve.

The last section of this analysis deals with the Projected Cash Flow Statements attached as Exhibits 3 through 6 in Annex L. Exhibit 3 reflects the basic Cash Flow Projections for INFOM's General Account, AID Loan 520-L-017 reflows and the new Reconstruction Fund. The basic projections for the INFOM General Account were prepared by INFOM in connection with the GOG's five-year development plan. As reflected in the Cash Flow Projection, it appears unlikely that INFOM will experience any liquidity problems during the disbursement period of this loan.

Exhibit 4 through 6 of Annex L are projected Cash Flow Models of the $8.4 million in reconstruction funds. These three projections include various assumptions as to grace periods, interest rates, and loan terms to the municipalities. Of the three, Exhibit 4 would be the most profitable to INFOM and Exhibit 6 the least. Given the criteria that INFOM will relend and grant subloan reflows in the same ratio used with the first subloans, the lending pool from this project will become insignificant by the third full rollover. By relending a portion of the funds to the municipalities at concessional terms, INFOM will preserve the integrity of their normal lending and development program and relationships with the municipalities until conditions are restored to normal in the earthquake damaged areas.

C. Social Analysis

1. Project Beneficiaries

The damaged area resulting from the earthquake includes the highland regions north and west of Guatemala City and the strip along the Motagua River Vally running eastward from the highlands to the Atlantic Coast. The quake spread ruin accross about 3,550 square miles of the most densely populated part of the country. The 101 municipalities in the sixteen departments affected were among the poorest in the country particularly those located in the departments of Chimaltenango, El Progreso, Sacatepequez, Guatemala, El Quiché, Baja Verapaz, Zacapa and Jalapa. The Rural Poverty Index developed by the Mission to aid in the definition of AID's target group confirms the fact that those living in the affected area are among the most destitute in the country. It is this target group that will be reached through the restoration and further development of the municipalities.

These people constitute a large part of the overall target group of the country and were so identified in the rural development portion of the GOG 1975-79 Plan as rural families having an annual family income of less than $400. Generally this target group has not fully participated in significant rural socio-economic development because of physical, cultural and economic isolation which now has been further aggravated by the events of February 4. The high incidence of illiteracy and cultural/language differences have provided continuing barriers to obtaining and applying the resources necessary for development.

The well-being of these individuals is highly dependent upon the quality and strength of socio-economic activities taking place within the rural production/consumption zone of influence within which they live. These zones are each made up of a principal city (cabecera) and its surrounding rural hinterland. The socio-economic activities are in turn dependent upon the human, physical

and natural resources within the zone and the state of development of the infrastructure through which they interact. The individual efforts, progress and future well-being of the target group in these zones will be severely restricted unless the infrastructure of the zones is rebuilt. Services to the municipal population should be substantially improved.

The following table schematically demonstrates some of the most dramatic economic and social benefits to be derived from this project along with the broad categories of beneficiaries receiving them. Subproject economic benefits can be thought of as either cost/price reducing or economic growth stimulating. Examples of cost and price reducing benefits arising from provision of markets are reduced overhead because sales locations are provided at reasonable cost. Many of the benefits to be derived from electrification and potable water relate to the fact that they are indispensable inputs to entrepreneurial activity and thus serve to attract business and services to a town. Growth of this sort of small business sector tends to provide more goods and services to the consumer.

The social benefits derived from subprojects primarily accrue from improved health and living conditions. Sewer systems, potable water, and garbage collection are public services which are designed, by their nature, to meet public health needs. Sanitary conditions in the local slaughterhouse affect the quality of meat which is consumed. A village water system which, at best enters the home and at least reaches a nearby fountain--neither of which conditions prevail in many affected towns where the women walk to and from springs with water pots--provides an indispensable improvement to the quality of life in the affected area. The same is true of the variety of benefits to be derived from electrification.

The most direct and immediate economic benefits of all sub-projects will be derived by those people who are employed to construct them.* Sub-project financing and construction will benefit the municipality by increasing municipal revenues, and/or enabling the municipality to provide better public services.

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*A more detailed description of the employment effects of the project is provided in Part III, D, "Economic Analysis".

PROJECT BENEFITS - ECONOMIC

Type of Sub-Project	Nature of Benefit	Beneficiary
Public Market	Low overhead costs	Retailer
	Low transport costs	Vendor, Farmer
	Centralized location	Vendor, Farmer
	Low prices	Consumer
Slaughterhouse	Low transport costs	Farmer
	Low cost service through subsidized plant	Farmer
	Low prices	Consumer
Electrification	Low cost power to alternate sources	Vendor
	Necessary input to various enterprises	Entrepreneur
	Necessary input to various appliances	Appliance Vendors & Purchasers
	Necessary input to telecommun.	Community
Potable Water	Necessary input to business and services	Entrepreneur
	Primary amenity to attract new business	Entrepreneur & Community

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PROJECT BENEFITS - SOCIAL

Type of Sub-Project	Nature of Benefit	Beneficiary
Public Market	Centralized meeting place	Shopper
Slaughterhouse	Better health conditions	Consumer
Electrification	Lighting Refrigeration Other appliances Public Lighting	Community Community Community Community
Potable Water	Improved public health Convenience	Community Housewives
Sewer and Drains	Improved public health Prevent land erosion	Community Community
Municipal Building	Civic price Political participation	Community Community
Garbage Collection	Improved public health	Community

2. The Role of Women

The project would have the following hypothesized impact on women and on their role in rural society.

The introduction of potable water systems which either enter the home or extend to centralized locations will no longer require carrying water from springs or water tanks. Presently it is the women who carry water, either for cooking or cleaning. Water must be carried in pots many times a day. Clearly, potable water systems will add a tremendous convenience in the daily activities of women and have positive impact on their lives.

The vast majority of sellers in public markets (indeed, all sellers in some markets visited during the intensive review) are women. Consequently the users of one of the project's major sub-projects, public markets, are direct project beneficiaries. New and reconstructed public markets provide space and an advantageous sales location, at low cost, to women. Through this opportunity not only does family income increase but women take on an active role in local economies.

Insofar as women are employed as municipal officials the project will directly affect the educational level of women through training and technical assistance. Women working as municipal officials also raise the level of political influence and participation of women. Although the employment of women in municipalities is not very high, where it exists (we did find women treasurers and secretaries in municipalities visited) the role of women is impacted upon by this project.

Electrification of homes permits the use of home appliances. In families in the affected area for whom the price of such appliances is not prohibitive, their introduction will have a beneficial impact on the lives of women for such chores as cooking and washing.

In the Guatemalan family structure, health is of primary concern to women. Some of the sub-projects of this loan are designed to improve health conditions, i.e. sewers, potable water, garbage collection, and, slaughterhouses. Thus any impact on family health has an indirect impact on women, since it is the women who must care for the ill.

D. Economic Analysis

This section will cover (1) the state of the economy before the earthquake; (2) estimated damage to facilities resulting from the quake; (3) the economic impact of the quake on GDP, employment, balance of payments, budget and social welfare; (4) projected ratio of debt servicing to exports of goods and services; (5) the basic economic rationale for the project; and (6) the estimated impact of the proposed project on employment and migration to the capital city. Additional information on a macro economic evaluation are contained in Clark Joel's "Impact of the Earthquake of February 4 on the Guatemalan Economy - A Macro Economic Analysis", attached as Annex M.[1/]

1. Background

a. The Economy Before the Quake

The earthquake of February 4 found the Guatemalan economy in a relatively good shape even though 1975 was a year of recession, with real GDP growth estimated at only 1.7% in real terms. Fortunately, the 1975 setback was only temporary since real GDP growth was 6.8% in 1973, 5.5% in 1974, and was projected to recover to 6.4% in 1976. Guatemala's balance of payments position was favorable as a result of a combination of factors: Relatively good prices for the country's primary export products, including meat, sugar, coffee, cotton and bananas; a tourism boom; and substantial increases in net capital inflows, particularly on private account. The latter are attributable, in large part, to the substantial investments realized by EXMIBAL (exploitation of nickel deposits) and Shenandoah and other oil firms for petroleoum exploration. Guatemala gained $83 million in foreign exchange reserves in 1973, lost $14 million in 1974, and added another $106 million to its reserves in 1975. The pre-earthquake central bank

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1/ Held in the official Loan file.

projection was for another gain of $86 million in 1976 (see Supplemental Annex, Table 6). The ratio of annual debt service charges to export of goods and services was low. It stood at 2.2% in 1975 and was projected at 2.2% for 1976.1/

The pre-earthquake 1976 budget showed a deficit of Q157 million (see Table 4 of Annex M). However, no difficulties were anticipated in financing this deficit through foreign loans and donations ($76 million) and bond sales ($81 million).

These favorable economic indicators and the balance of payments position should not, however obscure the fact that Guatemala is an underdeveloped country having a high incidence of poverty in the traditional agricultural sector and inadequality in the distribution of incomes and wealth. According to estimates of the FAO Advisory Group for Central American Integration (GAFICA), the poorest 50% of the population commanded only 13% of the GDP in 1970, and had a per capita income of only $73 in that year (in terms of 1960 quetzales).2/

1/ Excluding debt service charges on future borrowing required to meet the goals of the five-year development plan, as the latter was not available. See Table 10 of Annex M.

2/ FAO Advisory Group for C.A. integration (GAFICA), Plan Perspectivo Para el Desarrollo y la Integración de la Agricultura en Centroamérica, Guatemala: Documento GAFINT, March 1972, page 33. Reproduced on page 25 of SIECA study, El Desarrollo Integrado de Centroamérica en la Presente Década, October 1972.

b. Estimated Physical Damage

The earthquake of February 4 wrought unprecedented destruction in social infrastructure not only because of its high intensity (7.5 on the Richter scale) but also because the area most affected by the earthquake (Chimaltenango-El Progreso corridor) was generally the poorest region of the country and therefore physical infrastructure was least able to survive under such forces. The area devastated covered 2,700 square miles, and the earthquake left 23,000 dead, 76,000 injured and 1.1 million people homeless.

In absolute terms the greatest destruction was suffered by private housing, particularly adobe brick housing of the poor which because of inadequate poor design and materials had little seismic resistance. The government estimated that 258,000 houses were damaged and destroyed, and places the value of these houses at $600 million (Table 1 of Annex M). The second area most severely affected is that of social infrastructure, consisting mainly of schools, hospitals, health clinics, water and sewerage systems, streets and government and municipal buildings (Table 1). The government's official damage estimate for this sector is $220 million. A breakdown of the official damage estimate is as follows:

Private housing (inclusive of rubble removal)	$613.6 million
Durable Consumer Goods	55.8 million
Social Infrastructure	219.9 million
Physical Infrastructure	77.4 million
Productive Sectors	54.3 million
Total	$1021.0 million

SOURCE: National Economic Planning Council (NEPC)
(For details, see Table 1 of Annex M)

A review of the [illegible] estimates by [illegible] economists [illegible] suggest that they may be on the high side, [illegible] of the [illegible] damage estimate. We feel that the [illegible] to private housing should be [illegible] million (table 2 of Annex M). The government itself has indicated that its estimate [illegible] facilities destroyed [illegible] improved structures [illegible] Moreover, adjustment [illegible] for [illegible] ments received [illegible] projects at [illegible] million [illegible] adjustments, [illegible] repairing the damage [illegible] million (see Annex [illegible]).

Regardless of the [illegible] be no question that the [illegible] that it will [illegible] infrastructure, and [illegible] people who [illegible]

2. [illegible]

The government [illegible] a positive impact on both [illegible] (GDP) and the level of [illegible] indicates a [illegible] estimated [illegible] increase [illegible] 213%) and to a [illegible] (largely constr[illegible] M). We estimate [illegible] and have scaled [illegible] 9% (same table).

There are [illegible] are in agreement [illegible] long-run, the [illegible] will be [illegible] in constr[illegible] struction materials [illegible] stantially. However [illegible] employment [illegible] areas are [illegible]

the construction industry. Visits to devastated towns around Guatemala City indicate that job losses resulting from the destruction of their place of employment have been significant. This, as well as the destruction of private housing has temporarily increased the flow of migrants to Guatemala City. The population of the capital, which increased at an annual rate of 4 to 5 percent before the arthquake, is expected to expand even more in 1976.

The earthquake is expected to have little effect on exports,[1/] but to increase imports by some 29% as a result of the substantial increase in requirements for construction materials, equipment needed to repair water and sewerage systems, power generation, and replacement of inventories. The deficit on current account, projected by the Central Bank at $208 million before the earthquake, is now expected to increase to $400 million (Table 6 of Annex M). To a limited extent, this increase will be compensated by increases in capital inflows. The balance of payments projected for 1976 indicates a net loss of $40 million in foreign exchange reserves (same Table). Fortunately, Guatemala's foreign exchange reserves are adequate to withstand this drain. Gross international reserves stood at $373.2 million at the end of February 1976, up from $248.7 million a year earlier.[2/]

The earthquake resulted in a hefty $188 million increase in the Central Government's projected budget to defray reconstruction expenses (Table 4 of Annex M). The government plans to cover the resulting $345 million total budgetary deficit through $142 million in foreign loans and donations, and $203 million in bond sales (of which

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1/ Except on tourism. Net earnings from tourism are projected at $13 million below the level projected for 1976 before the quake.

2/ Source: International Monetary Fund, International Financial Statistics, April 19, 1975 and April 19, 1976 issues.

$122 million represent additional bond issues to finance reconstruction). Reconstruction bonds have a maturity of 15 years and carry an interest rate of 8%. About $45 million of the reconstruction bonds are to be sold through obligatory purchases by individuals and firms, with a progressive scale based on individual earnings. The balance is to be offered through normal channels, with perhaps a portion sold overseas at a bonus rate of 12%. Still, it seems doubtful that the government will be able to raise over Q200 million in bond sales in 1976 (up from Q36 million in 1975). Some of the planned increase in reconstruction expenses may have to be deferred to the following year.

The GOG's projection of debt service charges through 1980 appears in Table 10 of the Annex M. The projected ratio of debt service charges to exports of goods and services is expected to reach only 3% in spite of the substantial increase in reconstruction loans to be contracted because most of the new loans will be on concessionary terms with grace periods running well beyond 1980. The government did not make projections of debt service charges beyond 1980. However, we have projected debt service charges on the new loans just contracted (listed in Table 7 of Annex M) and found that in 1990, after expiration of the grace periods, interest and amortization payments on the total external public debt would still amount to only 2.0 to 2.5% of projected exports of goods and services (Table 10 of Annex M). Obviously, some new loans will be negotiated between now and 1990 so that the actual ratio may well be higher. However, if the Government of Guatemala continues to follow a prudent borrowing policy and relies mainly on concessionary sources of finance, major difficulties in debt servicing are not anticipated.

3. Subproject Economic Evaluation

The quantification of social benefits and calculation of internal rates of return for the various types of sub-projects proposed under the loan are not included herein because such calculations have only limited validity for projects in the area of social infrastructure (i.e., municipal buildings, drainage works, etc.). For those recovery sub-projects which

can be evaluated under normal circumstances, i.e. markets, electrification, etc., calculations are not presented herein because the tremendous socio-economic upheaval caused by the complete destruction of many of these towns makes it unfeasible to establish reliable demand patterns in the time available and to project the future character of the local economies. When more of the elements of social infrastructure are again in place and playing their essential and interrelated roles, reliable evaluations can be made. Evaluations of revenue generating sub-projects will be made by INFOM during the project design stage to insure that they are adequately sized to handle the demands for services which they will provide during their economic life. INFOM has the technical capacity to implement these evaluations during the project design phase and did a commendable job in this area under the previous AID Loan 017.

4. Project Impact on Employment

The main economic justification of the project is the positive impact of the facilities described above on productivity, costs, health and convenience. However, there will also be a significant effect on employment during the construction period.

The effects on employment can be broken down into three categories: i) on site employment in the construction industry (masons, bricklayers, carpenters, etc.); ii) secondary employment in the construction materials industry; and iii) tertiary employment in other industries resulting from additional expenditures of workers employed in the construction and construction materials industry.

i. Primary Effects: The typical procedure for estimating the primary effects is the wage bill approach, i.e. estimate the labor costs of the project and divide by the average earning per worker. On the basis of cost estimates by INFOM and judgments by ROCAP/USAID engineers, we have estimated that the total wage bill would represent about 40% of the total amount spent on construction. Total expenditures under this project are $11.5 million, of which some $2.5 million would be for administration, training, equipment and supplies.

The amount spent on the construction and equipping of various facilities is estimated at about $9.0 million. The total wage bill is therefore about $3.6 million (40% of $9.0 million).

The estimated daily wage per working day in the municipalities (villages and small towns, but excluding the capital city), inclusive of fringe benefits, is presently estimated at $4.00 per working day. This represents a weighted average between skilled and unskilled workers. We raised this figure to $5.00 in our calculation to allow for future wage increases as construction activity swings into high gear. On the assumption of 277 working days per year,1/ the average annual wage per worker would be:

$$\$5.00 \times 277 \text{ days} = \$1,385$$

Total employment is therefore:

$$\frac{\$3,600,000}{\$1,385} = 2,600 \text{ man/years}$$

Thus, over the construction period, 2,600 man-years of employment will be generated on site.

ii. Secondary Employment: In previous studies, employment in the construction materials industry has been estimated by using the rule-of-thumb that one secondary job in construction materials is created for every two direct jobs in housing construction.2/ On the basis of

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1/ Calculated as follows:

Sundays	52 days
Saturdays (½ day)	26 days
Holidays	10 days
Total paid non-working days	88 days
Number of work days per year (365-88)	277 days

2/ See Capital Assistance Papers for Low Cost Housing for Nicaragua (February 12, 1974), page 101, and for Panama (May 18, 1972) page 60.

this assumption, another 1,300 man/years of employment in the construction materials industry would be associated with the 2,600 man/years directly generated in the construction industry.

iii. Tertiary Employment: We have no reliable data with regard to the ratio of primary and secondary to tertiary job creation. On the assumption of an employment multiplier of 2, i.e. that one job in the tertiary or other sectors (e.g. agriculture, services, private housing construction, manufacturing) will be generated for each direct job generated in the construction and construction materials industry, we added another 3,900 man/years of employment during the construction period.

In sum, the employment effects of the project are estimated as follows:

	Man/Years During Construction Period
Primary effect	2,600
Secondary effects (construction materials)	1,300
Tertiary effects (all other industries)	3,900
Total	7,800

If the actual construction is spread over a three-year period, the 7,800 man/years would actually mean the equivalent of 2,600 full-time jobs over the three-year construction period.

iv. Project Impact on Migration to the Capital City

Another important side effect of the project is the contribution that it is likely to make to slowing the migration of population to the capital city by restoring municipal services, raising employment opportunities in the municipalities (e.g. through rural electrification projects, construction of markets and slaughterhouses) and by improving health conditions and basic amenities (e.g. through water works and sewerage).

Along with GOG housing reconstruction credits and loans to small enterprises affected by the quake, the proposed loan will enhance the desirability of remaining in the rural areas and small towns, and hence reduce the impulse to migrate to the congested capital city. The employment impact of the project during the construction period will reinforce this effort.

PART IV - PROJECT PLANNING AND IMPLEMENTATION

A. Project Implementation Agency

INFOM will administer the Project with responsibility to see that all activities are carried out properly and on time. INFOM has administered and executed other programs, nationally and externally financed, similar in scope, magnitude, and complexity to this Project. Most activities will be carried out directly by INFOM personnel. It will contract with private construction firms for the construction of some of the municipal facilities and will rely on the Institute Of National Electrification (INDE) to design, construct, and operate the electrification subprojects.

Although INFOM plans to contract subproject construction to the maximum extent possible, staffing requirements have been estimated on the basis that most of the construction will be carried out by force account in view of the present heavy demands on the construction industry. Furthermore, experience under Loan 017 has demonstrated that construction firms under normal circumstances have little interest in bidding on small projects outside of the major urban areas. The Mission has had extensive experience with INDE under Loan 019 and confirms the excellent reputation of its engineering department. INDE developed the preliminary design and cost estimates on the electrification subprojects.

Within INFOM, the Manager will be designated the Project Manager to insure timely and effective implementation by the various INFOM Divisions involved. The heaviest workload will fall on the Municipal Works Division whose capacity has been discussed in the Technical Analysis Section. A Project Engineer will be designated in this Division and provision has been made to increase the staff to accommodate the larger workload. The Studies Division will also have a major role since it will be carrying out the Municipal Institutional Development component of the Project. The chief of this Division will be responsible for implementation. This Division has already been carrying out similar activities on a limited basis under the recent AID Loan. A new four man unit will be established in the Studies Division to carry out the Municipal Enterprise

Fund. An advisor will be contracted to help set up the fund, establish procedures, policies, etc. Finally, limited technical assistance, training and equipment will be provided to the Planning and Administration Divisions.

B. Implementation Plan

It is expected that the loan will be authorized by June 30, 1976. Allowing three months to prepare and negotiate the loan agreement, the loan is expected to be signed by September 30. Ratification of a loan agreement in Guatemala has historically been a source of delay. Therefore, initial conditions precedent, although simple, are not expected to be met before January 31, 1977. In the meantime, once the loan agreement is signed INFOM will begin processing sub-loans, hiring the necessary staff, and preparing the documents needed to satisfy the initial conditions for each of the major loan components. All conditions precedent for the specific components should be met by March 31, 1977. The first sub-loan should be approved thereafter and first disbursement to the Reconstruction Fund and for Technical Assistance, training and staff additions for the Municipal Enterprise Fund, and institutional development activities will start by May 30, 1977. Significant disbursements will not begin for at least 6 months when construction under the sub-loans gets fully underway. Joint evaluation will take place as outlined in the Evaluation Plan. It is expected that the loan will be fully committed within three and one-half years (July 31, 1980) after initial conditions precedent are met and fully disbursed within four years (January 31, 1981).

C. Procurement, Disbursements and Reporting

1. Procurement

Procurement will be authorized from Code 941 and CACM countries. Sub-borrowers (municipalities) will procure directly under INFOM's supervision or INFOM will act as a procurement agent for the municipality. The majority of such procurement is expected to be local procurement of building materials and labor for small civil work projects. All procurement for INFOM's own account will be conducted in accordance with AID Capital Project Guidelines.

2. Disbursement

Disbursement of loan funds for dollar costs will be effected through the AID Letter of Commitment procedures or such other procedures as AID considers appropriate. For those project elements financed by joint contributions, AID will reimburse against a fixed percentage based upon the level of AID participation in the joint fund for all allowable certified vouchers presented for reimbursement. Other allowable local currency project costs will be financed using certified vouchers and usual DRA reimbursement procedures.

Certification for consulting engineering services will be made by INFOM prior to payment by AID. INFOM will be advised through an implementation letter that consulting engineering services performed after the signing of the Loan Agreement but before satisfaction of conditions precedent will be eligible for reimbursement with loan funds, subject to the provision that AID would be under no obligation to finance such costs in the event the conditions precedent are not satisfied.

Certification for construction payments and sub-project completions under the Funds will be made by INFOM and the engineering consultant prior to reimbursement by AID.

During the project design period several discussions were held with INFOM to develop appropriate payment and disbursement procedures. Considerable efforts were made in examining the potential benefits of applying the AID Fixed Amount Reimbursement method of payment for project expenditures. It was decided that the standard FAR method would not be practical for the following reasons:

- The reconstruction work proposed for sub-projects under the loan will involve a large number of building repairs and system renovations (i.e., water, drainage, streets, etc.) characterized by particular scopes of work and differing substantially in sub-project costs. In addition, many replacement structures will have to be adapted to accommodate the physical constraints (property lines, orientation, etc.) imposed on the previous structure. To implement these works, a system of project-specific payments, instead of FAR, must be used. For the replacement of damaged buildings with structures of standardized designs, the FAR system would be in theory appropriate. However, since INFOM would also have to use a project specific payment system for the rest of the work, the system of control and payment would be further complicated and nothing would be gained.

- Since physical damage from the earthquake was so extensive, reconstruction activities have multiplied several fold (see Annex M, Macro-Economic Analysis of Earthquake Impact). This large-scale reconstruction effort has placed severe strains on the pool of skilled labor, transportation and construction materials. Prices of these needed inputs have changed rapidly and availability and deliveries have been upset. Because of the amount of rebuilding to be done, this unstable condition is expected to continue in effect for at least two years. Under such conditions of rapidly changing labor and materials availabilities, prices will remain in flux and therefore projects estimates would be difficult to rationalize in such a way that a FAR payment could be justified in the eyes of the borrower and the lender.

After reviewing the objectives of AID in employing the FAR-type system INFOM and USAID agreed that a modified approach to the concept would be used on new construction which would give both AID and the Borrower reasonable protection against the erosion of inflation. It was decided that when project design is completed and subproject cost determined, AID and INFOM will agree on a fixed amount to be budgeted for that activity. When a subproject is completed, AID will pay a percentage based on the ratio of AID contributions to the Fund. Any cost overruns to the agreed upon design will be borne by INFOM. If INFOM is able to complete the project at a cost lower than that agreed upon, it would still be paid the original amount.

3. Project Reporting

INFOM will submit monthly progress reports to USAID covering the operations of the Reconstruction Fund and quarterly reports on the Municipal Enterprises Fund and the institutional development activities of the Project. A summary annual report of sub-loan construction progress and institutional development achievement will be prepared by INFOM and submitted to AID. These reports will be reviewed by the Office of Rural Development and will be potential agenda items for joint project implementation discussions.

D. Evaluation Plan

Joint AID/INFOM evaluations of the activities of the Reconstruction Fund, the Municipal Enterprises Fund, Municipal Institutional Development, and INFOM Institutional Development will be undertaken twice during the implementation of this project. The evaluations will review the four components of the Project in terms of performance against purposes and projected outputs.

The first evaluation will take place toward the end of the second year of the project. By that time all four components will have functioned for at least one full year, thus providing sufficient experience for a meaningful review. This evaluation will provide the feed-back and guidance required to improve project implementation. The final evaluation will take place at the end of the fourth year of the project and will assess the degree to which accomplishments and impact on target beneficiaries achieved the objectives established in the End of Project Status.

In addition to the joint evaluations described above, this project will institutionalize an evaluation capacity within INFOM. The INFOM evaluation program will focus on two major areas:

1. The effectiveness of INFOM project management and operations;

2. The economic and social benefits derived from reconstruction sub-projects, municipal technical assistance and training and municipal enterprises sub-projects.

Responsibility for evaluation will be retained by the expanded Planning Division of INFOM. Local and foreign technical assistance will be funded under the loan to assist in this effort. As a first step, a two-week loan-financed seminar will be held for key INFOM management personnel to review INFOM programs and develop an overall evaluation plan. Periodic follow-up technical assistance will be provided to refine and adjust the evaluation system to INFOM's needs.

The evaluation system will build upon the current sub-project assessment procedure and will also utilize the base-line data on municipal services, administration and finances collected by the technical assistance field units. Measurements of the effectiveness of the technical assistance and training efforts will be devised and methods for determining the impact of sub-projects on the municipal population will be established.

The Evaluation Section of the Planning Division will not be involved in the sub-project approval and implementation process nor in the execution of the technical assistance and training programs but would assess the effectiveness of these activities and look for ways to improve INFOM's performance and the impact of that performance on the people residing in the municipalities.

E. Project Monitoring

The implementation of this project is not expected to present any difficulties nor require an unusual monitoring role for the mission. The Rural Development Division will have the responsibility for maintaining direct contact with INFOM and project consultants. It will also be responsible for recommending mid-course adjustments required to accomplish the objectives of the Project. Close support will be provided by the Loan Division and the Offices of Engineering and the Controller. All participating offices will perform their respective functions under the guidance of the USAID Director.

F. Conditions Precedent and Covenants

1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under the loan, Borrower shall, except as AID may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

a. An opinion of the Ministerio Público or of other counsel acceptable to AID that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms.

b. A statement of the names of authorized Borrower representatives for Loan implementation purposes, and a specimen signature of each person specified in such statement.

c. An executed agreement between the Ministry of Finance and INFOM which provides inter alia:

(i) That all funds disbursed by Borrower and AID to INFOM will be considered a capital transfer by the Borrower.

(ii) The terms and conditions which govern the use of Project funds by INFOM and its duties and obligations in the implementation of the project.

d. Evidence that INFOM has contracted with a qualified independent engineering consulting firm satisfactory to AID to provide the following technical services for the program:

(i) Review and approval of final engineering plans, specifications and bidding documents.

(ii) Approval of contract awards for construction materials and services.

(iii) Technical inspection of projects during construction as a basis for certifying all construction disbursement requests before submission to AID.

2. Conditions Precedent to Disbursement for Other Than Engineering Consulting Services

Prior to any disbursement or to the issuance of any Letter of Commitment other than for Engineering Consulting Services, the Borrower shall furnish to AID in form and substance satisfactory to AID:

[illegible]

a. A [illegible] evidencing the annual GOC contribution which will be made to support the Project;

b. A detailed phase-phased implementation plan covering:

(i) All activities to be completed during the life of the Project;

(ii) Proposed [illegible] requirements;

(iii) Technical assistance and staffing for each component;

c. A schedule of suggested financing terms for project municipalities.

3. Condition Precedent to Disbursement for Municipal Enterprise Fund

Prior to any disbursement or to the issuance of any Letter of Commitment for any activity of the Municipal Enterprise Fund the Borrower shall furnish to AID in form and substance satisfactory to AID the credit policies and subloan approval procedures to be utilized for financing subprojects under the Fund.

4. Covenant

The Borrower covenants and agrees that the Borrower shall:

a. Provide and utilize for the Project no less than the equivalent of $3.5 million and such other resources as would be necessary for the successful completion of the project.

b. Insure that not more than twenty percent (20%) of the total resources of the Municipal Reconstruction Fund are invested in town halls.

RESPONSE TO DAEC MESSAGE

TO AMEMBASSY GUATEMALA PRIORITY 4407

SUBJECT: DAEC REVIEW OF MUNICIPAL EARTHQUAKE RECOVERY LOAN PRP.

1. THE DAEC APPROVED THE PRP FOR UP TO 8 MILLION DOLLARS AND AUTHORIZED THE MISSION TO CARRY OUT INTENSIVE REVIEW AND TO PREPARE A PROJECT PAPER FOR SUBMISSION IN JUNE 1976.

2. THE FOLLOWING DECISIONS WERE REACHED DURING THE DAEC:

A. SUBPROJECT STRATEGY. THE DAEC CONCLUDED THE PP SHOULD CONTAIN A STRATEGY FOR THE DISTRIBUTION OF FUNDS AMONG THE EARTHQUAKE AFFECTED MUNICIPALITIES TAKING INTO ACCOUNT BOTH THE MUNICIPALITIES AND THE NATURE OF THE SUB-PROJECTS. HIGHEST PRIORITY SHOULD GO TO THOSE ACTIVITIES BEARING MOST DIRECTLY ON THE QUALITY OF LIFE OF THE TARGET POPULATION - IT WAS SUGGESTED HIGHEST PRIORITY BE GIVEN TO SERVICES IMPACTING ON HEALTH, SUCH AS WATER AND SEWERAGE SYSTEMS. CONCERN WAS EXPRESSED OVER INCLUDING AN EXCESSIVE PORTION OF FUNDS FOR TOWN HALLS OR GENERAL ADMINISTRATIVE BUILDINGS. AN UPPER LIMIT OF 20 PERCENT WAS DEEMED APPROPRIATE. HOWEVER, IF DURING THE DEVELOPMENT OF THE PP IT IS DETERMINED A GREATER PERCENTAGE OF THE LOAN SHOULD BE PROGRAMMED FOR ADMINISTRATIVE BUILDINGS, THEN THE PP SHOULD PROVIDE EXTRAORDINARY JUSTIFICATION FOR ANY AMOUNT ABOVE 20 PERCENT. IF PART OF THE TOWN HALL COMPLEX IS USED TO PROVIDE SOCIAL SERVICES SUCH AS ACCOMODATIONS FOR TOWN MEETINGS, HEALTH STATIONS, ETC. SUCH ELEMENTS WOULD BE REGARDED FAVORABLY AS PART OF THE JUSTIFICATION, FINALLY, THE DAEC HAD NO OBJECTION IF THE LOAN PROVIDED SERVICES NOT AVAILABLE BEFORE THE EARTHQUAKE (I.E. NOT JUST RECONSTRUCTION OF WHAT EXISTED BEFORE), IF THE NEED FOR THESE SERVICES WAS CLEARLY DEMONSTRATED; FOR EXAMPLE, AN EXPANDED WATER SYSTEM OR A LARGER MARKET PLACE.

2. A. RESPONSE: AS DISCUSSED IN PART IV, INFOM IS IN AGREEMENT WITH DAEC CONCLUSION THAT FUNDS AND SUBPROJECT ASSIGNMENTS WOULD BE MADE GIVING HIGHEST PRIORITIES TO MUNICIPALITIES MOST SERIOUSLY AFFECTED BY THE EARTHQUAKE WITH SERVICES IMPACTING ON HEALTH, I.E., WATER AND SEWERAGE,

RECEIVING FIRST PRIORITY FOR IMPLEMENTATION. INFOM IS IN AGREEMENT THAT PORTION OF FUNDS APPLIED TO TOWN HALLS OR GENERAL ADMINISTRATIVE BUILDINGS BE LIMITED TO NO MORE THAN 20 PERCENT. FOLLOWING PRIORITIES OF REPAIRING AND RESTORING ESSENTIAL SERVICES DAMAGED BY EARTHQUAKE AND TO EXTENT JUSTIFIED, EXPANDED SERVICES AND SERVICES NOT AVAILABLE BEFORE THE EARTHQUAKE WOULD BE INCLUDED AS ELIGIBLE SUBPROJECTS.

B. FIXED COST REIMBURSEMENT. THE DAEC FELT STRONGLY THAT THE MISSION SHOULD INVESTIGATE AND MAKE EVERY ATTEMPT TO UTILIZE THE FIXED COST REIMBURSEMENT METHOD WHENEVER FEASIBLE.

2. B. RESPONSE: DISBURSEMENT PROCEDURES, AND SPECIFICALLY THE USE OF THE FAR METHOD, WAS THE SUBJECT OF TWO NEGOTIATING SESSIONS WITH INFOM. IT WAS AGREED THAT THE STANDARD FAR PROCEDURE COULD NOT BE UTILIZED BUT A MODIFIED VERSION WOULD BE EMPLOYED. COSTS OF BUILDING MATERIALS AND SKILLED LABOR ARE CHANGING RAPIDLY IN THE FACE OF HEAVY RECONSTRUCTION DEMAND, AND THIS PERIOD OF FLUX IS EXPECTED TO CONTINUE FOR MOST OF THE DISBURSEMENT PERIOD. A SIGNIFICANT AMOUNT OF SUBPROJECT CONSTRUCTION WILL INVOLVE REPAIRS OR WORK FOR WHICH STANDARD DESIGNS CANNOT BE DEVELOPED (WATER SYSTEMS). BECAUSE OF HEAVY RELIEF EXPENDITURES, INFOM DOES NOT HAVE WORKING CAPITAL NOR DOES IT WISH TO BE PUT AT THE MERCY OF THE GOVERNMENT IN WAITING FOR ITS CONTRIBUTION. THERE IS NO DOUBT THAT THE COUNTERPART WILL BE PROVIDED, BUT INFOM DOES NOT WANT TO INCUR DELAYS IN IMPLEMENTING THE PROGRAM DUE TO CUMBERSOME GOG BUDGETARY PROCEDURES. A MODIFIED FAR WILL BE EMPLOYED WHEREBY SUBPROJECT COSTS TO BE REIMBURSED WOULD BE FIXED AT THE TIME PROJECT DESIGN AND ESTIMATE ARE COMPLETED. A FIXED PERCENTAGE OF THESE COSTS WOULD THEN BE PAID UPON COMPLETION OF THE SUBPROJECT.

C. EXTENT OF DEVELOPMENT ACTIVITIES AND PROJECT LIFE. THE PRP CONTAINS BOTH RESTORATION AND DEVELOPMENT COMPONENTS. WHILE THE DAEC WAS FULLY IN ACCORD WITH THE DEVELOPMENT ASPECTS OF THE PROJECT, IT EXPRESSED CONCERN OVER THE POSSIBILITY OF EFFECTIVELY IMPLEMENTING WITHIN THE SCOPE OF THIS PROJECT ALL THE DEVELOPMENT ACTIVITIES PROPOSED FOR IMPROVING THE CAPACITY OF INFOM AND THE MUNICIPALITIES TO PLAN, MANAGE AND FINANCE MUNICIPAL SERVICES. THEREFORE, DURING THE PREPARATION OF THE PP, THE LIFE OF PROJECT SHOULD BE REVIEWED

TO DETERMINE IF 3 1/2 YEARS IS SUFFICIENT TIME TO IMPLEMENT THE DEVELOPMENT ASPECTS OF THIS LOAN. THE DAEC EXPRESSED THE OPINION THAT A LONGER PERIOD OF TIME WOULD ALLOW FOR DEVELOPMENT OF MORE MEANINGFUL PROGRESS INDICATORS BY WHICH TO MEASURE PROJECT SUCCESS IN RESPECT TO THE DEVELOPMENT COMPONENTS.

2. C. RESPONSE: MISSION AND INFOM IN AGREEMENT WITH DAEC CONCERN ABOUT PROPOSED PROJECT LIFE AND HAVE AGREED THAT FOUR YEAR IMPLEMENTATION PERIOD JUSTIFIED.

D. COUNTERPART FUNDS. THE DESIRABILITY OF A MINIMUM 25 PERCENT CONTRIBUTION WAS REVIEWED. IN LIGHT OF THE LONG HISTORY OF WEAK SELF-HELP EFFORTS, THE DAEC WOULD BE WILLING TO CONSIDER A 30 PERCENT CONTRIBUTION. NEW POLICY INITIATIVES OR SHIFTS IN FUNDING BY THE GOG TO STRENGTHEN MUNICIPAL REVENUES COULD ALSO BE CONSIDERED AS GOG CONTRIBUTION TO THE PROJECT.

2. D. RESPONSE: MINISTRY OF FINANCE HAS AGREED TO $3.5 MILLION IN COUNTERPART FUNDS WHICH PLACES THE GOG CONTRIBUTION AT 30 PERCENT.

E. INDUSTRIAL DEVELOPMENT FUND. THE DAEC WAS CONCERNED WHETHER INFOM IS THE APPROPRIATE INSTITUTION TO ADMINISTER THIS FUND IN VIEW OF ITS PUBLIC SECTOR ORIENTATION. THIS SHOULD BE EXAMINED IN THE COURSE OF THE INTENSIVE REVIEW AND THE RESULTS DISCUSSED IN THE PP.

2. E. RESPONSE: PREVIOUS CONCEPT OF AN INDUSTRIAL DEVELOPMENT FUND WAS MODIFIED DURING INTENSIVE REVIEW AND RESULT IS THE MUNICIPAL ENTERPRISE FUND AS DESCRIBED IN PART II.

F. LOAN AMOUNT. DEPENDING ON THE GOG CONTRIBUTION, THE CAPACITY OF INFOM AND THE DEMAND, THE DAEC WAS WILLING TO CONSIDER A LOAN AMOUNT OF UP TO 8 MILLION DOLLARS.

2. F. RESPONSE: THE MISSION FEELS THAT THE PROPOSED $8 MILLION LOAN IS JUSTIFIED AND SUFFICIENT WHEN COMBINED WITH GOG COUNTERPART TO ACHIEVE THE OBJECTIVES OF THE PROGRAM.

G. WOMEN IN DEVELOPMENT. THE PP WILL INCLUDE A DISCUSSION ON THE EXPECTED EFFECT OF THIS LOAN ON WOMEN.

2. G. RESPONSE: A DISCUSSION OF THE PROJECT AND ITS IMPACT ON WOMEN IN DEVELOPMENT IS INCLUDED IN PART III.C.3.

H. ENVIRONMENTAL IMPACT. DISCUSSIONS WILL BE INCLUDED IN THE PP FOR PROPOSED CONSTRUCTION ACTIVITIES BY INFOM DIRECTLY AFFECTING THE ENVIRONMENT SUCH AS SLAUGHTERHOUSES, MARKET-PLACES. A REVISED IMPACT STATEMENT IS NOT REQUIRED FOR THIS LOAN.

2. H. RESPONSE: A DISCUSSION OF THE PROPOSED CONSTRUCTION ACTIVITIES AND THEIR ENVIRONMENTAL IMPACT IS INCLUDED IN PART III.A.4.

I. INSTITUTIONAL CAPACITY OF INFOM SHOULD BE EXAMINED DURING THE PP TO ASSURE THAT IT WILL BE CAPABLE OF ASSUMING THE TASKS CONTEMPLATED BY THE LOAN IN VIEW OF ITS RESPONSIBILITIES FOR RUBBLE REMOVAL AND WATER AND SEWER CONSTRUCTION UNDER THE THREE IDB LOANS.

2. I. RESPONSE: THE INSTITUTIONAL CAPACITY OF INFOM IS DISCUSSED IN PART III.A.1 AND WILL BE STRENGTHENED AS DESCRIBED IN PART II.B.5.

J. ONGOING LOAN PROGRAM. THE PP SHOULD INCLUDE A DISCUSSION OF THE ONGOING USAID LOAN PORTFOLIO INCLUDING HOW CURRENT LOANS HAVE BEEN AFFECTED BY THE EARTHQUAKE. OF PARTICULAR INTEREST IS ANY REPROGRAMMING NECESSARY TO RESPOND TO EARTHQUAKE RECONSTRUCTION NEEDS OR FUNDS THAT MIGHT BE AVAILABLE FOR REPROGRAMMING.

2. J. RESPONSE: A DISCUSSION OF THE EARTHQUAKE'S IMPACT ON THE ONGOING LOAN PORTFOLIO AND REPROGRAMMING NECESSARY TO RESPOND TO IT IS INCLUDED AT THE END OF THIS SECTION.

K. SEISMIC DESIGN. TO THE MAXIMUM EXTENT POSSIBLE ALL BUILDINGS SHOULD BE CONSTRUCTED OF SEISMIC RESISTANT MATERIALS AND DESIGNED TO MINIMIZE INJURY IN THE EVENT OF FUTURE EARTHQUAKES.

2. K. RESPONSE: THE SUBPROJECTS CONSTRUCTED BY INFOM UNDER LOAN 017 REMAINED SUBSTANTIALLY UNAFFECTED DURING THE EARTHQUAKE (THE INFOM MARKET IN SUMPANGO WAS ABOUT THE ONLY BUILDING LEFT STANDING) AND A PROJECT CONSULTING ENGINEERING FIRM WILL BE MADE AVAILABLE TO HELP INFOM CONTINUE ITS HIGH QUALITY, SEISMIC RESISTANT CONSTRUCTION METHODS.

L. FINANCIAL CAPACITY OF MUNICIPALITIES. THE ABILITY OF THE MUNICIPALITIES TO ASSUME REPAIR AND MAINTENANCE COSTS FOR NEW INFRASTRUCTURES SHOULD BE DISCUSSED IN THE PP. USER RATES FOR REVENUE GENERATING SUBPROJECTS SHOULD BE SUFFICIENT TO COVER OPERATIONS AND MAINTENANCE.

2. L. RESPONSE: BEFORE APPROVING ANY SUBPROJECT INFOM ENSURES THAT THE MUNICIPAL GOVERNMENT WILL HAVE SUFFICIENT INCOME TO OPERATE AND MAINTAIN THE SUBPROJECT. MOST SUBPROJECTS REQUIRING HEAVY OPERATING AND MAINTENANCE COSTS ARE REVENUE GENERATING PROJECTS. IN THESE, INFOM ATTEMPTS TO ENSURE THAT USER CHARGES ARE SUFFICIENT TO COVER OPERATING COSTS. IN THOSE CASES WHERE THIS IS NOT POSSIBLE THEN IT ASSURES THAT INCOME FROM GENERAL REVENUES ARE AVAILABLE. IN THIS PROJECT POTENTIAL LACK OF OPERATING COSTS ARE NOT A PROBLEM BECAUSE INFOM WILL ADJUST FINANCING TERMS TO ENSURE THAT THE MUNICIPALITY WILL HAVE SUFFICIENT REVENUES TO COVER OPERATING AND MAINTENANCE COSTS AS WELL AS REPAY ANY LOAN ELEMENT. THIS MAY INVOLVE CHANGING THE GRANT/LOAN RATIO, EXTENDING REPAYMENT PERIODS, ETC.

M. AN ATTEMPT WOULD BE MADE TO FUND UP TO 8 MILLION DOLLARS FROM SDP, BUT THE PP SHOULD INDICATE THAT AMOUNT WHICH MIGHT BE FUNDED FROM OTHER CATEGORIES (F AND N HEALTH) SHOULD THE NEED ARISE.

2. M. RESPONSE: THE MISSION PREFERS THAT THE PROPOSED $8 MILLION LOAN BE FUNDED FROM SPECIAL DEVELOPMENT FUNDS; HOWEVER, IF NECESSARY $1.5 MILLION FOR MARKETS AND SLAUGHTERHOUSES COULD BE FUNDED FROM FOOD AND NUTRITION FUNDS.

SUPPLEMENTAL RESPONSE TO ITEM 2.J OF DAEC CABLE

SUMMARY EARTHQUAKE IMPACT ON LOAN PORTFOLIO

1. IN ADDITION TO THE TWO RECENTLY SIGNED AID LOANS TOTALING $20 MILLION (LOAN 025 - RURAL PRIMARY EDUCATION AND LOAN 026 - SMALL FARMER DEVELOPMENT), THERE ARE SEVEN OLDER ACTIVE AID LOANS IN GUATEMALA WITH A COMBINED UNDISBURSED BALANCE OF $9.3 MILLION. FIVE LOANS ARE SCHEDULED TO TERMINATE DURING CY 1976, AS INDICATED BELOW:

LOAN	BALANCE 000 AS OF 02/29/76	TDD
015 EDUCATION	$1330	12/31/76
018 RURAL DEVELOPMENT	1080	12/31/76
019 RURAL ELECTRIFICATION	993	09/30/76
020 HEALTH I	884	07/31/76
021 HEALTH II	2987	12/31/77
023 TAX II	573	12/31/76
024 COOPS	1580	12/31/77
TOTAL	$9427	

2. LOAN 015 - PRIMARY EDUCATION - DAMAGE ASSESSMENT: MINED REPORTED THAT FIFTY-FIVE TEACHERS WERE KILLED IN THE AREA AFFECTED BY THE EARTHQUAKE AND SOME 3,012 PRIMARY CLASSROOMS WERE DESTROYED OR DAMAGED. FOUR OUT OF FIVE OF THESE CLASSROOMS WERE LOCATED IN RURAL AREAS, WITH THE DEPARTMENTS OF CHIMALTENANGO AND GUATEMALA ACCOUNTING FOR THE HEAVIEST DAMAGE (413 AND 519 RURAL CLASSROOMS RESPECTIVELY). THE SCHOOL POPULATION SERVED BY THESE CLASSROOMS IS 94,580. OF THE 38 PRIMARY SCHOOLS AND ONE NORMAL SCHOOL IN OPERATION AT THE TIME OF THE EARTHQUAKE WHICH HAD BEEN FINANCED UNDER THE LOAN, THERE WAS SLIGHT DAMAGE TO ONLY TWO. IN ONE INSTANCE, THE WALL OF AN ADJACENT BUILDING FELL DAMAGING A SUPPORT COLUMN. IN THE OTHER, A CRACK OPENED IN THE EARTH UNDER THE CORNER OF A SCHOOL IN GUATEMALA CITY, DISPLACING A SMALL SECTION OF ONE CLASSROOM BY EIGHT INCHES. THESE SCHOOLS ARE ALL FUNCTIONING, HOWEVER AND THEIR STRUCTURAL PERFORMANCE SILENCED SOME OF THE EARLIER CRITICISM TO THE EFFECT THAT THEY WERE "OVERDESIGNED". PEMEP'S OFFICES IN GUATEMALA CITY SUFFERED ONLY MINOR DAMAGE, BUT MANY MINED OFFICES (MOSTLY IN RENTED

BUILDINGS) WERE EXTENSIVELY DAMAGED. A DETAILED SURVEY OF ALL EDUCATIONAL FACILITIES IN THE AFFECTED AREA IS UNDERWAY BY THE PLANNING COUNCIL WITH TECHNICAL ASSISTANCE FROM CONESCAL. SINCE ALL LOAN FUNDS ARE ESSENTIALLY COMMITTED TO FINANCE THE REMAINING LOAN ACTIVITIES, NO REPROGRAMMING ALTERNATIVES WERE FORESEEN.

3. LOAN 018 - RURAL DEVELOPMENT - THIS $23 MILLION LOAN, THE LARGEST LOAN IN THE PORTFOLIO, IS MORE THAN 95 PERCENT DISBURSED. MOST OF THE FUNDS DISBURSED UNDER THE LOAN HAVE BEEN USED FOR CREDIT PROGRAMS, TECHNICAL ASSISTANCE AND HUMAN RESOURCES DEVELOPMENT AND HENCE THERE WERE FEW LOAN-FINANCED PHYSICAL FACILITIES IN EXISTENCE AT THE TIME OF THE EARTHQUAKE. OF THE SIX AGRICULTURAL TRAINING CENTERS WHICH WERE CONSTRUCTED HOWEVER, ONLY ONE (IN ZACAPA) SUFFERED ANY DAMAGE. THIS CENTER SUFFERED MINOR DAMAGE AND IT APPEARS THAT REPAIRS CAN BE EASILY EFFECTED. NONE OF THE THREE COMPLETED PRIVATE SILO PROJECTS NOR THE FOUR SILOS UNDER CONSTRUCTION SUFFERED DAMAGE. THERE ARE REPORTS THAT A FEW OF THE MORE THAN 100 LOAN FINANCED VEHICLES WERE BADLY DAMAGED DURING THE EARTHQUAKE. THE $1 MILLION BALANCE OF THE LOAN IS COMMITTED TO FINANCE FURTHER INSTITUTIONAL DEVELOPMENT ACTIVITIES AND ALSO TO FINANCE EXPANSION OF A HANDICRAFTS TRAINING CENTER. NO PROBLEMS ARE FORESEEN IN DISBURSING THE FULL AMOUNT OF THE LOAN PRIOR TO THE TDD AND NO MODIFICATIONS OF REMAINING PROJECT ACTIVITIES APPEAR WARRANTED.

4. LOAN 019 - RURAL ELECTRIFICATION - ALTHOUGH THERE WAS NO DAMAGE OF ANY CONSEQUENCE TO THE TRANSMISSION LINES, DISTRIBUTION SYSTEMS OR SUBSTATIONS CONSTRUCTED TO DATE UNDER THE PROJECT, THE SCHEDULE OF PROJECT ACTIVITIES HAS BEEN DELAYED SOMEWHAT. THE ENERGIZATION OF THE COMPLETED SECOND VERAPAZ DISTRIBUTION NETWORK HAS HAD TO BE POSTPONED BECAUSE OF EXTENSIVE DAMAGE IN THE VILLAGES AND TOWNS WHICH WERE TO HAVE BEEN SERVED BEGINNING LAST MONTH. COMPLETION OF THE SANARATE SUBSTATION HAS ALSO BEEN DELAYED BECAUSE ACCESS TO THE SITE VIA THE ATLANTIC HIGHWAY WAS SEVERELY DISRUPTED FOR ALMOST THREE MONTHS. DELIVERIES OF EQUIPMENT FOR THE SAN MARCOS SUBSTATION ARE PROCEEDING SATISFACTORILY, BUT OF COURSE NO ASSURANCE CAN BE GIVEN THAT FORCE MAJEURE EVENTS SUCH AS DELAYS AT PUERTO SANTO TOMAS WILL NOT ALTER THIS SITUATION IN THE THREE MONTHS REMAINING TO COMPLETE THE PROJECT. IT IS EXPECTED THAT THE $993,000 BALANCE OF THE LOAN WILL BE DISBURSED PRIOR TO THE TDD BUT THE OVERALL SITUATION PRECLUDES A FIRM COMMITMENT TO THIS EFFECT.

5. LOAN 020 - RURAL HEALTH SERVICES I - THIS LOAN IS IN THE FINAL STAGE OF DISBURSEMENT. THE TDD IS LESS THAN TWO MONTHS AWAY AND THERE IS A BALANCE OF $884,000 TO BE DISBURSED ALMOST ALL FOR EQUIPMENT DELIVERIES. ALL FUNDS ARE COMMITTED TO SPECIFIC PROCUREMENT ACTIVITIES, THE LARGEST SINGLE ITEM BEING A $325,000 CONTRACT FOR 25 AMBULANCES TO BE USED IN THE RURAL AREAS. THE FIRST GROUP OF AMBULANCES HAVE ALREADY BEEN MANUFACTURED AND NO PROBLEMS ARE FORESEEN IN DELIVERING THE AMBULANCES AS PLANNED (OVERLAND THROUGH MEXICO) PRIOR TO THE TDD JULY 31.

6. LOAN 021 - RURAL HEALTH SERVICES II - THE QUIRIGUA TRAINING CENTER SUFFERED ABOUT $50,000 WORTH OF DAMAGE DURING THE EARTHQUAKE. AN AID ENGINEER RECENTLY INSPECTED THE CAMPUS AND IS PREPARING DETAILED RECOMMENDATIONS FOR REPAIRS. THE FEASIBILITY OF COMBINING REPAIR WORK WITH THE ORIGINALLY PROGRAMMED THIRD PHASE OF THE PHYSICAL IMPROVEMENT PROGRAM IS ONE ALTERNATIVE CURRENTLY UNDER CONSIDERATION. UNDER THE HOSPITAL IMPROVEMENT COMPONENT OF THE LOAN, A $400,000 CONTRACT FOR THE RENOVATION OF THREE HOSPITALS WAS SIGNED SHORTLY AFTER THE EARTHQUAKE. THESE HOSPITALS ARE LOCATED OUTSIDE THE AREA AFFECTED BY THE EARTHQUAKE. THE REMAINDER OF THE HOSPITAL IMPROVEMENT PROGRAM IS BEING REASSESSED TO TAKE EARTHQUAKE DAMAGES INTO ACCOUNT AND THEIR REPROGRAMMING IMPLICATIONS AND TO COORDINATE EFFORTS UNDER THE IDB'S TWO NEW LOANS IN THE HEALTH SECTOR.

7. LOAN 023 - PROPERTY TAX DEVELOPMENT II - THE LATEST CONSULTANT'S REPORT ON THIS PROJECT INDICATES THAT FIELD WORK SCHEDULE HAS BEEN SET BACK BY THE EARTHQUAKE. OVERALL, HOWEVER, 85% OF THE ORIGINAL FIELD WORKPLAN IS COMPLETE AND THERE SHOULD BE NO PROBLEM FINISHING REMAINING AREAS BEFORE THE TDD AT THE END OF THIS YEAR. IN ANOTHER PHASE OF THE CADASTER PROJECT, A PERSISTENT BOTTLENECK IS ABOUT TO BE RESOLVED. AFTER MANY MONTHS OF EFFORTS, ARRANGEMENTS HAVE BEEN MADE TO OBTAIN REQUIRED COMPUTER SERVICES FROM THE PRIVATE SECTOR RATHER THAN FROM THE FINANCE MINISTRY COMPUTER DEPARTMENT. IT IS TOO SOON TO ESTIMATE WHETHER THE BACKLOG OF COMPUTER WORK CREATED BY THE PREVIOUS UNSATISFACTORY ARRANGEMENT WILL BE WORKED OFF BY THE END OF 1976 BY SWITCHING TO THE PRIVATE COMPUTER SERVICES.

8. LOAN 024 - RURAL CREDIT AND COOPERATIVES DEVELOPMENT - SINCE THE NEARLY $3 MILLION DISBURSED TO DATE UNDER THIS

LOAN WAS USED FOR PRODUCTION CREDIT, THERE WERE NO LOAN 024 FINANCED FACILITIES DAMAGED AT THE TIME OF THE EARTHQUAKE. THE TWO FEDERATIONS AND THE PENNY FOUNDATION HAVE BEEN VERY ACTIVE IN RECONSTRUCTION EFFORTS BECAUSE MANY OF THEIR MEMBERS LIVED IN THE MOST DAMAGED AREAS. IN RESPONSE TO THE NEEDS GENERATED BY THE EARTHQUAKE, THE FEDERATIONS SOUGHT AND HAVE RECEIVED FROM THE MISSION, AN INTERPRETATION THAT THE 10% FACILITY FOR SOCIAL DEVELOPMENT ACTIVITIES UNDER EACH LOAN MAY BE USED FOR THE REPAIR OF EARTHQUAKE DAMAGED DWELLINGS. THE FEDERATIONS HAVE SUBSTANTIAL INVENTORIES OF FERTILIZER ON HAND AND HENCE IT IS UNLIKELY THERE WILL BE FURTHER LOAN DISBURSEMENTS UNTIL LATE 1976 OR EARLY 1977 WHEN ADDITIONAL PRODUCTION INPUTS WILL BE NEEDED. ASIDE FROM USING THE SOCIAL DEVELOPMENT FACILITY FOR HOUSING REPAIRS, THE COOPERATIVES HAVE NO OTHER PLANS TO CHANNEL REMAINING LOAN FUNDS INTO RECONSTRUCTION ACTIVITIES OR TO OTHERWISE MODIFY THE PROJECT.

9. LOAN 025 - RURAL PRIMARY EDUCATION - AS DESCRIBED IN RECENT CABLES, THE EARTHQUAKE CAUSED CONSIDERABLE DELAYS IN THE PREPARATIONS REQUIRED TO MEET CONDITIONS PRECEDENT TO DISBURSEMENT, ESPECIALLY CONCERNING THE REQUIREMENT FOR CONGRESSIONAL RATIFICATION. THE CONGRESS WAS PREOCCUPIED WITH EMERGENCY EARTHQUAKE RELIEF LEGISLATION AND THEREFORE COULD NOT COMPLETE THE REQUIRED LOAN REVIEW AND APPROVAL PROCEDURES. AN EXTENSION WAS GRANTED TO OCTOBER 15, 1976 TO COMPLETE THE CONDITIONS PRECEDENT. CONSIDERATION HAS BEEN GIVEN TO THE OPTIONS FOR REPROGRAMMING A PORTION OF THE FUNDS AVAILABLE FOR NEW SCHOOL CONSTRUCTION. UNDER ACTIVE CONSIDERATION IS A PROPOSAL TO HELP THE BADLY DAMAGED AREAS BY GIVING THEM A HIGHER PRIORITY FOR NEW SCHOOL CONSTRUCTION. IF THIS PROPOSAL PROVES TO BE SOUND, IT WOULD RESULT IN A SHIFT OF APPROXIMATELY ONE MILLION DOLLARS TO THE DAMAGED AREA. THIS SHOULD BE ADEQUATE BECAUSE AID GRANT ASSISTANCE IS ALREADY CONTRIBUTING APPROXIMATELY 450 PREFABRICATED CLASSROOMS TO THE SAME AREA.

10. LOAN 026 - SMALL FARMER DEVELOPMENT - THIS LOAN WAS SIGNED SHORTLY AFTER THE EARTHQUAKE AND COULD BE SLIGHTLY DELAYED IN MEETING CP'S IF THE GUATEMALAN CONGRESS IS UNABLE TO RATIFY IT ON TIME. WHILE THE NATURE OF THE LOAN PRECLUDES GENERAL REPROGRAMMING TO BENEFIT PRINCIPALLY THE EARTHQUAKE AFFECTED AREAS, CONSIDERATION IS BEING GIVEN TO THE RELOCATION OF LOAN SUBPROJECTS (RURAL ACCESS ROADS, FOR EXAMPLE) TO THE MAXIMUM EXTENT FEASIBLE WITHIN THE DAMAGED ZONE.

11. AS A MATTER OF FURTHER INTEREST, THREE RECENTLY TERMINATED LOANS SHOULD BE BREIFLY MENTIONED. RE LOAN 016 - FEASIBILITY STUDIES II, WHICH TERMINATED ON 12/31/75; UNDER RESIDUAL GOG FINANCING, THE CONSULTANT ON THE AIR TRANSPORTATION MASTER PLAN IS INCORPORATING FINDINGS AND COMMENTS ON EARTHQUAKE RELATED ISSUES INTO THE FINAL STUDY REPORT. RE LOAN 017 - MUNICIPAL DEVELOPMENT, WHICH ALSO TERMINATED ON 12/31/75; SOME RESIDUAL CONSTRUCTION IS STILL UNDERWAY. THERE ARE SCATTERED REPORTS THAT A FEW PUBLIC WORKS PROJECTS SUCH AS MARKETS AND HEALTH POSTS BUILT UNDER THE PROGRAM SUFFERED MINOR DAMAGE. THERE ARE NO REPORTS THAT ANY OF THESE STRUCTURES WERE EVEN MODERATELY DAMAGED, A DIRECT RESULT OF THE HIGH CONSTRUCTION STANDARDS USED IN THE PROJECT. RE LOAN 022 - FIASA II, WHICH TERMINATED ON 3/31/76; THE BANK CONTRIBUTED TOWARDS THE RECONSTRUCTION EFFORT BY SUPPORTING A SUBLOAN FOR A MAJOR BRICK FACTORY EXPANSION AND THE IMPORTATION OF BADLY NEEDED CONSTRUCTION EQUIPMENT.

MINISTERIO DE
FINANZAS PUBLICAS

GUATEMALA, C. A.

Resolución 01130

Registro

Guatemala, 25 de mayo de 1976.

Señor Edward W. Coy
Director de la AID en Guatemala
Embajada de los Estados Unidos
C i u d a d.-

Estimado señor Director:

Como representante del Gobierno de la República ante los Organismos Financieros Internacionales, confirmo por este medio nuestras conversaciones y solicito de la manera más atenta que la Agencia a su digno cargo nos otorgue financiamiento hasta por el equivalente de US$8.0 millones que será reforzado por una contrapartida en moneda nacional durante la vigencia del programa no menor de Q3.5 millones. Los fondos del referido programa serán destinados para que en base al estudio técnico elaborado se resuelva la ingente necesidad que confrontan aproximadamente 100 municipalidades de la República que sufrieron daños considerables totales en sus servicios públicos esenciales y en su infraestructura básica por el terremoto del 4 de febrero del año en curso.

El Gobierno Central será deudor directo ante AID de los referidos fondos los que serán trasladados al Instituto de Fomento Municipal para que, en su calidad de organismo especializado en problemática municipal, administre dichos recursos en términos ampliamente concesionarios y de acuerdo a las prioridades establecidas en el estudio técnico mencionado.

Al anticiparle nuestra amplia colaboración en el referido programa, y en espera de una resolución favorable a nuestra solicitud, hago propicia la oportunidad para reiterarle mi distinguida consideración y suscribirme su muy atento y seguro servidor.

Lic. JOSE LAWSCHT RODIL
MINISTRO DE FINANZAS

cc: Sr. Gerente INFOM
Sr. Secretario General CONAPLAN

JLS/mtcc

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

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ANNEX "C"
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May 12, 1976

Mr. Marshall D. Brown
Assistant Director
for Development Finance
Office of Development Resources
Bureau for Latin America
Department of State
Agency for International Development
Washington, D.C. 20523

Dear Mr. Brown:

Thank you for your letter of May 7, regarding possible Eximbank interest in participating in a proposed AID loan for disaster relief in Guatemala. This agency is not now prepared to undertake commitments of this nature, but has no objection to such financing by AID.

Sincerely yours,

Albert H. Hamilton
Government Affairs Officer

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Edward W. Coy, the principal officer of the Agency for International Development in Guatemala, having taken into account, among other things, the maintenance and utilization of projects in Guatemala previously financed or assisted by the United States, do hereby certify that in my judgment Guatemala has both the financial capacity and the human resources capability to effectively utilize and maintain the facilities and equipment provided as part of this capital assistance project, Municipal Earthquake Recovery Loan.

This judgment is based upon the improving implementation record of AID-financed projects in Guatemala and the quality of the planning which has gone into this new project.

(signed) Edward W. Coy

(date) June 8, 1976

AID 1020-28 (1-73)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Project Title & Number: _____

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
Restore and upgrade the quality of life of the inhabitants living in the 101 municipalities of the earthquake zone.	Restored and improved services being received by 1,250,00 inhabitants. Increased employment 2,600 individuals Improved general municipal Administration.	INFOM Reports INFOM Reports INFOM evaluation based on initial municipal assessment.	Positive GOG municipal strategy.

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AID 1020-28 (10-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ___ to FY ___
Total U.S. Funding ___
Date Prepared: ___

Project Title & Number: ___

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: (B-1)	Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)	(B-3)	Assumptions for achieving purpose: (B-4)
Restore and upgrade the capacity of the municipalities in the earthquake zone, to provide services. 1. Rebuild, improve and expand infrastructure and services. 2. Restore and improve the capacity of the municipalities to carry out their functions. 3. Strengthen and expand the capacity of INFOM to provide financial and technical assistance to the municipalities.	1. (a) At least 200 facilities built and operating. (b) At least 6 municipal enterprises built and operating. 2. (a) At least 80 municipalities using an improved system for financial management (collecting, levying, budgeting). (b) At least 80 municipalities using improved accounting record systems. (c) At least 80 municipalities using improved programming practices. (d) Trained personnel on board for operating and maintaining about 200 municipal facilities including market, slaughterhouse, water sewerage systems, etc. 3. (a) Permanent, functioning staff capacity for: Information collection and analysis, tax policy and administration, financial management and evaluation. (b) Permanent, functioning technical assistance capacity established. (c) Permanent, functioning training capacity established. 4. Information concerning the feasibility and convenience of utilizing municipal enterprises as municipal operating expenses.	1. INFOM reports and on-site inspection. 2. INFOM reports. 3. INFOM reports. 4. Results of evaluation of at least 6 projects.	1. No shortage of construction skills and materials. 2. INFOM will be willing to hire technical advisors. 3. Municipality willing to accept TA and training in a designated field. 4. INFOM salary structure adequate.

AID 1020-28 (1-73)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: _____

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

NARRATIVE SUMMARY Project Outputs: (C-1)	OBJECTIVELY VERIFIABLE INDICATORS Magnitude of Outputs: (C-2)	MEANS OF VERIFICATION (C-3)	IMPORTANT ASSUMPTIONS Assumptions for achieving outputs: (C-4)
A. Municipal Reconstruction Fund 1. Sub-projects, processed and operating. B. Municipal Institutional Development 2. Training group established as a permanent function within INFOM. 3. Expanded technical assistance group. 4. A Public Relations group trained and operating utilizing improved techniques. 5. Trained municipality personnel engaged in doing municipality work. C. INFOM Institutional Development 6. Improved planning and evaluation. 7. Installed data processing system. D. Municipal Enterprise Fund 8. Compiled information as to the feasibility and convenience of utilizing municipality enterprises for obtaining municipality operating funds.	1. a) CY 77 at least 50 b) CY 78 at least 75 c) CY 79 at least 63 d) CY 80 at least 62 2. At least 12 officials given training in at least the following areas: (a) Regional and municipality planning. (b) Information collection and analysis. (c) Tax policy and administration. (d) Financial management. (e) Evaluation. 3. At least 19 trained officials providing TA services to the different municipalities. 4. At least 3 officials utilizing improved PR techniques. 5. a) CY 77 at least 85 b) CY 78 at least 200 c) CY 78 at least 125 d) CY 79 at least 125 6. At least 9 officials trained including 3 new staff members. 7. At least 4 officials trained including 2 new staff members. 8. Results and recommendation of an evaluation of at least 6 active projects.	INFOM records and reports	

AID 1020-28 (1-73)
SUPPLEMENT 1

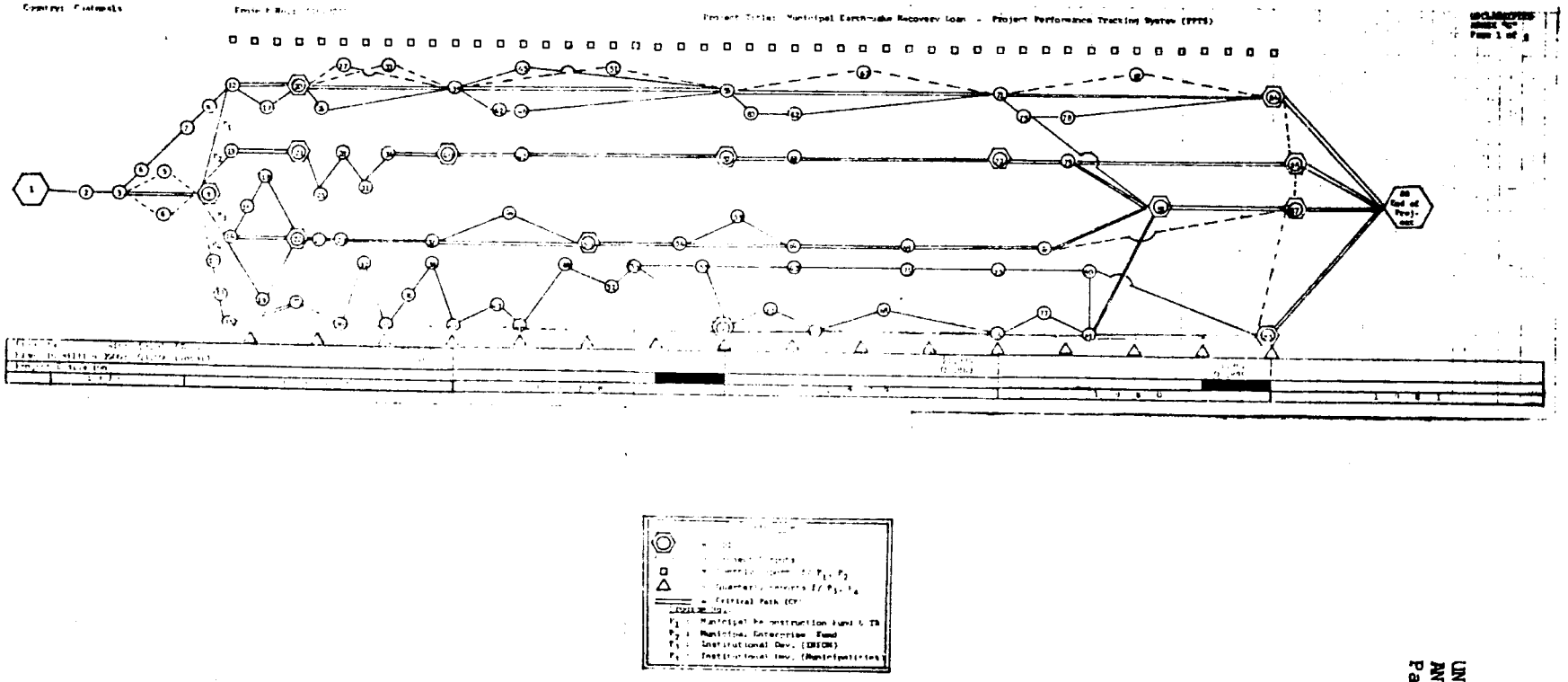
PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs: (D-1)	Implementation Target (Type and Quantity) (D-2)	(D-3)	Assumptions for providing inputs: (D-4)
		AID Records GOG Budget reports	GOG complies with counterpart agreement.

	AID	GOG
Credit	$754	2050
Technical Assist.	416	158
Training	315	92
Equipment	215	120
Administration	---	1080
Engineering Consult. Services	300	---
TOTAL:	$8000	$3500



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PROJECT PERFORMANCE TRACKING SYSTEM (PPTS)

Activity No.	Date PERT	Date CPI	Narrative	Action
	1976			
1	06-30	-	PP Review and loan agreement authorized	AID/W
2	08-15	-	Prepare loan agreement and submit to GOG/INFOM	INFOM/AID
3	09-30	-	Negotiate and sign loan agreement	INFOM/GOG/AID
4	10-29	-	Establish procedure for subloan policy	INFOM
5	11-25	-	Contract consulting engineering firm	INFOM
6	11-25	-	Execute agreement with Ministry of Finance for use of funds	INFOM
7	12-30	-	Submit projects for AID approval	INFOM/AID
	1977			
8	01-20	-	Selection and contracting of additional personnel for MRF	INFOM
9	01-31	03-01	Initial general requirements met	INFOM
10	02-10	-	Instructors for P_4 selected and contracted	INFOM
11	02-25	-	Municipal survey revised	INFOM
12/15	03-31	-	Specific program activities requirements met (P_1, P_2, P_3, P_4)	INFOM

Activity No.	Date PERT	Date CPI	Narrative	Action
16	04-05	-	Select and contract consulting firm for planning and evaluation	INFOM
17	04-20	-	Contract construction services	INFOM
18	04-22	-	Prepare training and technical assistance plan	INFOM
19	04-22	-	Select and hire personnel for INFOM's IDP	INFOM
20/22	05-30	07-01	First disbursement to MRF, MEF and start first training program for INFOM	INFOM/AID
23	06-02	-	Development of curricula completed	INFOM
24	06-30	-	Construction of 50 projects started	INFOM
25	06-30	-	Select/contract consultant to assist in new MEF	INFOM/AID
26	06-30	-	Conduct first in-service training for INFOM's personnel	INFOM
27	06-30	-	50% of vehicles/equipment procured	INFOM/AID
28	06-30	-	Equip and staff unit to administer MEF	INFOM
29	07-02	-	Improve methodology for planning/evaluation	INFOM
30	07-02	-	Selection of municipal officers completed	INFOM
31	07-05	-	Prepare subloan procedures	INFOM

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Activity No.	Date PERT	Date CPI	Narrative	Action
	1977			
32	07-05	-	Survey/analysis of 25 municipalities completed by cadres	INFOM
33	09-15	-	Continue engineering supervision for first 50 subprojects under construction	INFOM
34	09-25	-	Identification of projects to be considered	INFOM
35	10-01	-	Training of municipal officers starts	INFOM
36	10-05	-	Selection of mayors for U.S. training completed	INFOM
37	11-02	-	Conduct second in-service training for INFOM personnel	INFOM
38	11-02	-	Results of survey/analysis used by cadres during in-service training of selected municipalities	INFOM
39	12-31	-	First group of 50 subprojects constructed	INFOM
40	12-31	2-1-78	Feasibility of 48 projects determined and approved by AID	INFOM/AID
41	12-31	-	Total of 85 new municipal officers trained during 1977	INFOM

Activity No.	Date PERT	Date CPI	Narrative	Action
	1978			
42	02-25	-	Construction services contracted for 75 projects	INFOM
43	02-28	-	Selection of 200 municipal officers completed	INFOM
44	03-15	-	Continuing consulting services	INFOM
45	03-22	-	Remaining 50% of vehicles and equipment procured	INFOM/AID
46	03-23	-	Construction of 75 new projects starts	INFOM
47	03-24	-	Ten (10) subloans for projects to be financed under MEF approved	INFOM/AID
48	03-25	-	Training of second group of 200 municipal officers starts	INFOM
49	05-05	-	Follow-up visit by consultants to INFOM	INFOM
50	07-15	8-16-78	Reorganization plan of INFOM completed	INFOM
51	07-20	-	Continuing of engineering consulting services	INFOM
52	07-22	-	Selection of mayors for U.S. Training completed	INFOM
53	08-14	-	Implementation by INFOM of consultant's recommendations	INFOM

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Activity No.	Date PERT	Date CPI	Narrative	Action
54	10-15	-	Conduct third in-service training for INFOM's personnel	INFOM
55	11-05	-	Verification by AID of consultant's recommendations	AID/INFOM
56	12-31	-	Second group of 75 subprojects constructed during 1978	INFOM
57	12-31	2-1-79	First group of 10 subprojects financed under MEF for municipal-owned and operated small industries constructed and evaluation of experience during 1978 completed	INFOM
58	12-31	2-1-79	Total of 200 new municipal officers trained during 1978 and first bi-annual special evaluation of project completed	AID/INFOM
	1979			
59	01-15	-	Continuing consulting services	INFOM
60	01-15	-	Construction services contracted for 63 projects	INFOM
61	02-28	-	Selection of 3rd. group of 125 new municipal officers to be trained during 1979 completed	INFOM
62	03-01	-	Construction of 63 new projects starts	INFOM
63	03-15	-	Second group of 18 projects financed under MEF approved	INFOM/AID

Activity No.	Date PERT (1979)	Date CPI	Narrative	Action
64	03-15	-	Conduct third in-service training for INFOM's personnel	INFOM
65	03-20	-	Follow-up visit by consultant to INFOM	INFOM
66	04-05	-	Training of third group of 125 municipal officers starts	INFOM
67	06-15	-	Continuing of engineering consulting services	INFOM
68	06-20	-	Selection of mayors for U.S. training completed	INFOM
69	07-25	-	Conduct fourth in-service training for INFOM's personnel	INFOM
70	07-25	-	Evaluation of Institutional Development by consultant	INFOM
71	12-31	-	Third group of 63 subprojects constructed during 1979	INFOM
72	12-31	2-1-80	Second group of 18 subprojects financed under MEF for municipal lease and/or owned facilities constructed and evaluation of experience during 1979 completed	INFOM
73	12-31	-	Implementation of recommendations of consultant adopted	INFOM
74	12-31	-	Total of 125 new municipal officers trained during 1979 completed	INFOM

Activity No.	Date PERT	Date CPI	Narrative	Action
	1980			
75	01-20	-	Construction services contracted for 62 new projects	INFOM
76	03-05	-	Conduct fifth in-service training for INFOM's personnel	INFOM
77	03-05	-	Selection of mayors for U.S. training completed	INFOM
78	03-20	-	Construction of 62 new projects starts	INFOM
79	03-20	-	Third group of 20 projects financed under MEF approved	INFOM/AID
80	04-30	-	Joint evaluation IDP completed	INFOM
81	04-30	-	Training of fourth group of 125 new municipal officers starts	INFOM
82	06-30	-	Continuing engineering consulting services	INFOM
83	07-31	09-01	TERMINAL COMMITMENT DATE	INFOM/AID
84	12-31	2-1-81	Fourth group of 62 subprojects constructed during 1980	INFOM
85	12-31	2-1-81	Total of 125 new municipal officers trained during 1980 and second bi-annual special overall evaluation of project performance completed	AID/INFOM

Activity No.	Date PERT	Date CPI	Narrative	Action
	1980			
86	01-31	3-1-81	Third group of 20 subprojects financed under MEF for municipal lease and/or owned facilities constructed and overall evaluation of performance during project completed	INFOM
	1981			
87	01-31	03-01	TERMINAL DISBURSEMENT DATE	INFOM/AID
88	06-30	-	Completion of projects under construction and other activities under the project. Liquidation.	INFOM/AID

Previous AID Assistance

USAID signed the first Loan (AID 520-L-017, Small Municipalities Development Loan, US$2.1 million) with the Government of Guatemala through the Institute for Municipal Development, INFOM, on December 3, 1970. Prior to that date the Interamerican Development Bank has made two loans to INFOM totaling $6,520 for water supply and sewage systems.

The original purposes of this first AID loan to INFOM were limited to improving the basic public services in the smallest and weakest municipalities. The loan emphasis was on improving economic and social infrastructure with a limited list of eligible sub-projects such as markets, slaughterhouses, health posts, water and drainage systems, a requirement that they be solid projects in financial terms, and yet providing for softer terms than those available under INFOM's normal lending program, and eventually arranging a 45% subsidy to encourage wider participation by the poorest municipalities.

This first loan called for a counterpart contribution from the Central Government of $1.5 million for construction and $0.5 for administration, however the Government of Guatemala exceeded its contribution in 1975 by $200,000 and programmed for 1976 $300,000 additional funds. Construction under this loan did not begin until August 1973 due to a series of legal and administrative problems. INFOM expects to complete the last project in August 1976 bringing the number of projects financed under the loan to 153.

During the life of this first loan, USAID was also concerned with institutional development, integration of programs and activities, and direct community participation in project selection and execution. Grant funds were used to strengthen the capabilities of INFOM as well as INAD (Instituto Nacional de Administración para el Desarrollo) to enhance their capacity to assist the municipalities. INAD was provided grant funds to carry out training programs for municipal officials and to set up regional municipal associations and offices in different locations of the country. Grant funds were also utilized for INAD to prepare manuals that would provide

basic administrative guidelines for municipal officers. A separate grant to INFOM funded contracts with IBAM (Brazilian Institute for Municipal Administration), to prepare a diagnostic study of INFOM, and STC (Servicios Técnicos del Caribe) to assist INFOM directly in a more limited and specific study of its management and administrative procedures. This technical assistance resulted in improvement of the internal functions of INFOM and generated a basic re-examination of its role and activities that concluded with a total reorganization of the Institution. The process of internal adjustment and improvement is being carried by the recently (1975) created staff planning unit, which is continually conducting diagnostic studies, reviewing INFOM's past performance, raising basic questions, and formulating firm and specific recommendations for new and different approaches to resolve problems encountered by INFOM and the municipalities.

In order to increase INFOM's focus on and response to municipal problems, USAID in FY 1975 funded a project for the establishment of a Training Unit within INFOM, composed of four professionals and appropriate supporting staff to design and implement a continuous series of training courses for municipal officials in all aspects of municipal management and administration of public services under efficient and sanitary conditions. This same package funded a Municipal Technical Assistance Field Unit composed of several INFOM experts that are responsible for the review of municipal administration and financial procedures; design and introduction of improved administrative procedures; identification of priorities for use of municipal revenues and assistance in the preparation of the new municipal budget; in-service training and establishment of a system for permanent feedback of relevant information on municipal problems to INFOM's central headquarters. This same TA program provided for the constitution of a team of professionals to prepare a Municipal Tax Code. The Tax Code diagnosis that is under final review would provide for a more realistic tax structure in the municipalities.

Since the earthquake, USAID has collaborated with INFOM on a number of projects to restore public services in the rural areas. On April 19, USAID signed a Grant-in-Aid with INFOM to transfer 97 portable water tanks for the purpose of meeting the need for potable water in the areas

of the country where the existing water systems had been destroyed or damaged. The tanks have been providing service at 30 locations in Guatemala City and at 64 different locations in rural Guatemala.

Since more than 70 water systems in the municipal capitals suffered serious damage during the earthquake, the need for emergency repairs is being resolved in part by a USAID grant ($100,000) to provide INFOM with the resources required to assist the municipalities in making emergency repairs to the existing water systems that will keep them functioning in the best possible manner until they have undergone complete repair or until a new system has been constructed. This program, which started in April, includes purchase of materials required to make emergency repairs and funds to employ labor.

Besides the water tanks, and the emergency repair programs, AID signed a second Grant-in-Aid to transfer title for 250 community tool sets and equipment to INFOM. These tools will be used by INFOM to assist in the continuing program of rubble removal and general clean-up and the repair and reconstruction of housing in the rural areas.

A second recovery grant ($1,950,000) was signed during the second week of May for the purpose of making available to INFOM resources to assist the municipalities that suffered severe earthquake damage to recover and reinitiate public community services. The activities to be undertaken by INFOM in each municipality will include cleaning, repair and restoration of streets; removal of rubble; restoration of surface drainage to prevent impounding of rain water; repairs of underground sewage and storm drainage systems; demolition of public buildings that constitute a public hazard; erection of roofs for municipal public water sources, temporary markets; construction of retaining walls where required to prevent further destruction and protection of population and other critical temporary reconstruction activities.

At last it is important to note that the on-going technical assistance program has reinforced the technical capabilities of the personnel of INFOM and those

of the municipal officials, obtaining for the first time the concern of the Institute in the investigation of problems encountered by INFOM and the municipalities, which in turn benefits and strengthens their capability. The new institutional capability has been demonstrated during the period after the earthquake, by keeping all on-going programs moving and by assimilating two Grants-in-Aid and two grant projects to participate in the reconstruction of the municipalities destroyed by the earthquake.

INFOM

FOUR YEAR CASH FLOW PROJECTIONS
Fiscal Years Ending 12/31/76 Thru 12/31/79

	1976	1977	1978	1979
Beginning Balance	2,906	2,533	2,369	2,219
Funds Derived From:				
Interest Collections Loans	511	492	518	541
Principal Collections	1,513	1,670	1,767	1,788
Reconstruction Fund	-----	1,680	2,520	2,100
Undisbursed Balance-AID Loan 017	718	-----	-----	-----
Interest on Investments	110	142	113	114
Sale of Chemical Products	106	134	170	207
Service Charges	219	241	265	291
GOG Appropriated Funds	1,504	1,275	1,275	1,275
Liquor Taxes	485	490	503	518
Other	82	94	109	123
Total Availability	8,154	8,751	9,609	9,176
Funds Used For:				
Admin. Costs	1,166	1,266	1,367	1,476
Public Debt Servicing	467	476	489	507
Interest Expense AID Loan 017	23	23	23	23
Other Costs	205	164	200	237
Sub-Loans	2,400	2,209	2,389	2,345
Grants	1,360	2,244	2,922	2,599
Total Utilization	5,621	6,382	7,390	7,187
Ending Balance	2,533	2,369	2,219	1,989

Note: All data excerpted from INFOM,s Four Year Cash Flow Projections except that consideration has been given to the Cash Flow effects of AID Loan 017 rollovers and the reconstruction fund proposed by this project paper.

MUNICIPAL RECONSTRUCTION LOAN
$ 8.4 MILLION RECONSTRUCTION FUND

10-YEAR CASH FLOW PROJECTION

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Beginning Balance	-.-	7	24	42	59	67	66	64	62	60
Funds Derived From:										
Reconstruction Fund	1,680	2,520	2,100	2,100	-.-	-.-	-.-	-.-	-.-	-.-
Interest Collections	7	24	42	59	67	66	64	62	60	58
Principal Collections	-.-	-.-	-.-	10	26	52	72	77	78	79
Total Availability	1,687	2,551	2,166	2,211	152	185	202	203	200	197
Funds Used For:										
Sub-Loans from Reconstruction Fund	336	504	420	420	-.-	-.-	-.-	-.-	-.-	-.-
Grants from Reconstr. Fund	1,344	2,016	1,680	1,680	-.-	-.-	-.-	-.-	-.-	-.-
Sub-Loans from Principal Collections	-.-	-.-	-.-	2	5	10	14	15	16	16
Grants from Principal Collect.	-.-	-.-	-.-	8	21	42	58	62	62	63
Sub-Loans from Earnings	-.-	1	5	8	12	14	13	13	12	12
Grants " "	-.-	6	19	34	47	53	53	51	50	48
Total Utilization	1,680	2,527	2,124	2,152	85	119	138	141	140	139
Ending Balance	7	24	42	59	67	66	64	62	60	58
Average Portfolio - End-of-Year	168	589	1,054	1,472	1,671	1,642	1,598	1,549	1,499	1,448

NOTE: See assumptions on following page.

UNCLASSIFIED

ASSUMPTIONS

1) Reconstruction funds (exclusive of engineering and consulting fees), will be drawn down as follows:

1st year	20%	$	1,680,000
2nd year	30%		2,520,000
3rd year	25%		2,100,000
4th year	25%		2,100,000
	100%	$	8,400,000

2) 20% of drawdowns and rollovers will be lent to municipalities and 80% will be granted.

3) Sub-loans will average 25-year terms including a 3-year grace period. Interest will be at 4%.

4) Administrative Expenses: None. To be subsidized by the GOG.

5) All principal collections will be invested in the year of collection.

6) All interest collections will be invested the year following that in which collected.

7) The reconstruction fund was rounded of to the nearest 100 thousand for a total of $8.4 million.

MUNICIPAL RECONSTRUCTION LOAN
$ 8.4 MILLION RECONSTRUCTION FUND

10 - YEAR CASH FLOW PROJECTION

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Beginning Balance	-.-	11	37	65	91	102	100	96	93	89
Funds Derived From:										
Reconstruction Fund	1,680	2,520	2,100	2,100	-.-	-.-	-.-	-.-	-.-	-.-
Interest Collections	11	37	65	91	102	100	96	93	89	86
Principal Collections	-.-	-.-	14	42	72	100	120	123	127	130
Total Availability	1,691	2,568	2,216	2,298	265	302	316	312	309	305
Funds Used For:										
Sub-Loans from Reconstruction Fund	420	630	525	525	-.-	-.-	-.-	-.-	-.-	-.-
Grants from Reconstr. Fund	1,260	1,890	1,575	1,575	-.-	-.-	-.-	-.-	-.-	-.-
Sub-Loans from Principal Collect.	-.-	-.-	3	10	18	25	30	31	32	32
Grants " " "	-.-	-.-	11	32	54	75	90	92	95	98
Sub-Loans from Earnings	-.-	3	9	16	23	25	25	24	23	22
Grants	-.-	8	28	49	68	77	75	72	70	67
Total Utilization	1,680	2,531	2,151	2,207	163	202	220	219	220	219
Ending Balance	11	37	65	91	102	100	96	93	89	86
Average Portfolio - End-of-Year	210	737	1,309	1,815	2,043	1,992	1,927	1,859	1,789	1,712

NOTE: See assumptions on following page.

ASSUMPTIONS

1) Reconstruction funds (exclusive of engineering and consulting fees) will be drawn down as follows:

1st year	20%	$ 1,680,000
2nd year	30%	2,520,000
3rd year	25%	2,100,000
4th year	25%	2,100,000
	100%	$ 8,400,000

2) 25% of drawdowns and rollovers will be lent to municipalities and 75% will be granted.

3) Sub-loans will average 20-year terms including a 2-year grace period. Interest will be at 5%.

4) Administrative Expenses: None. To be subsidized by the GOG.

5) All principal collections will be invested in the year of collection.

6) All interest collections will be invested the year following that in which collected.

7) The reconstruction fund was rounded of to the nearest 100 thousand for a total of $8.4 million.

MUNICIPAL RECONSTRUCTION LOAN
$ 8.4 MILLION RECONSTRUCTION FUND

10-YEAR CASH FLOW PROJECTION

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Beginning Balance	-.-	3	9	16	22	25	25	25	24	24
Funds Derived From:										
Reconstruction Fund	1,680	2,520	2,100	2,100	-.-	-.-	-.-	-.-	-.-	-.-
Interest Collections	3	9	16	22	25	25	25	24	24	23
Principal Collections	-.-	-.-	-.-	-.-	-.-	4	13	23	31	34
Total Availability	1,683	2,532	2,125	2,138	47	54	63	72	79	81
Funds Used For:										
Sub-Loans from Reconstruction Fund	168	252	210	210	-.-	-.-	-.-	-.-	-.-	-.-
Grants from Reconstr. Fund	1,512	2,268	1,890	1,890	-.-	-.-	-.-	-.-	-.-	-.-
Sub-Loans from Principal Collections	-.-	-.-	-.-	-.-	-.-	-.-	1	2	3	3
Grants from Principal Collect.	-.-	-.-	-.-	-.-	-.-	4	12	21	28	31
Sub-Loans from Earnings	-.-	-.-	1	2	2	3	3	3	2	2
Grants " "	-.-	3	8	14	20	22	22	22	22	22
Total Utilization	1,680	2,523	2,109	2,116	22	29	38	48	55	58
Ending Balance	3	9	16	22	25	25	25	24	24	23
Average Portfolio - End-of-Year	84	294	526	737	844	843	834	816	790	761

NOTE: See assumptions on following page.

UNCLASSIFIED

ASSUMPTIONS

1) Reconstruction funds (exclusive of engineering and consulting fees), will be drawn down as follows:

1st year	20%	$	1,680,000
2nd year	30%		2,520,000
3rd year	25%		2,100,000
4th year	25%		2,100,000
	100%	$	8,400,000

2) 10% of drawdowns and rollovers will be lent to municipalities and 90% will be granted.

3) Sub-loans will average 30-year terms including a 5-year grace period. Interest will be at 3%.

4) Administrative Expenses: None. To be subsidized by the GOG.

5) All principal collections will be invested in the year of collection.

6) All interest collections will be invested the year following that in which collected.

7) The reconstruction fund was rounded of to the nearest 100 thousand for a total of $8.4 million.

ILLUSTRATIVE SUBPROJECT LIST

Summary

Activity	Amount
Markets	Q.2,627,000
Slaughterhouses	779,000
Town Halls	860,000
Street Improvements and Drainage	1,305,000
Water Supply	1,180,000
Sewerage	1,530,000
Sanitary Waste Removal	400,000
Municipal Office Equipment	200,000
Electrification	900,000
TOTAL	Q.9,871,000

OBRAS POSIBLES DE CONSIDERAR DENTRO NUEVO PROGRAMA AID

	MERCADO		RASTRO		EDIFICIOS MUNICIPALES		ADOQUINADO		ACUEDUCTO		ALCANTARILLADO		EXTRACCION BASURA	
DEPARTAMENTO	No.	Costo	No.	Costo	No.	Costo	No.	Costo	No.	Costo	No.	Costo	No.	Costo
Guatemala	3	310	4	50	1	45	6	225	2	100	5	505	----------	
Chimaltengo.	8	500	11	183	-	--	5	220	3	160	5	305	1	40
Sacatepéquez	3	345	5	90	-	--	4	100	4	145	3	145	1	60
El Progreso	5	255	3	55	3	85	1	50	3	90	3	75	1	20
Zacapa	1	20	4	77	-	--	1	80	4	165	3	70	1	40
Izabal	2	45	1	50	2	50	1	80	2	50	1	40	1	40
Jalapa	2	95	3	55	1	30	1	60	-	--	1	70	1	40
Baja Ver.	3	225	1	25	5	150	1	60	1	60	-	--	1	20
Alta Ver.	1	150	1	14	3	100	2	70	1	40	-	--	1	20
Sololá	2	20	1	5	5	130	1	70	2	75	-	--	2	30
Totonicapán	3	280	2	40	1	25	3	110	1	40	-	--	1	30
Huehuetenango	2	240	2	40	3	195	1	60	2	120	2	125	1	40
El Quiché	3	112	6	95	2	50	2	120	3	135	4	195	1	20
T O T A L	38	2627	44	779	26	860	29	1305	28	1180	27	1530	13	400

TOTAL DE OBRAS: 205 - Municipios 94

COSTO DIRECTO TOTAL: 8,681.

CIFRAS EN MILES DE QUETZALES

*NO SE INCLUYE ELECTRIFICACION NI EQUIPAMIENTO MUNICIPAL

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. BASURA
ALTA VERAPAZ:								
Cobán	11,880	150 /2		45 /1	40 /3			20 /3
San Cristobal Ver.	5,008		14 /3	30 /2	30 /3			
Santa Cruz Ver.	834			25 /2		40 /2		

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. BASURA
BAJA VERAPAZ:								
Salamá	5,592	80 /1	25 /2		60 /3			20 /3
Cubulco	5,675	65 /2						
Granados	464			30 /2		60 /1		
Purulhá	1,378			30 /2				
Rabinal	4,680	80 /3						
Sta. Cruz El Chol	839			30 /2				
San Jerónimo	1,911			30 /2				
San Miguel Chical	2,148			30 /2				

/1 Reparación y Ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO.,MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTARILLADO	EXTRAC. BASURA
CHIMALTENANGO:								
Chimaltenango	13,147	200/2	20/1		100/3			40/3
Acatenango	1,656					40/1	35/2	
Comalapa	7,195	20/1	15/1				120/3	
El Tejar	2,330	15/1						
Parramos	2,518		15/2			100/3		
Patzún	8,344		20/2		20/3			
Patzicía	3,709	70/2	15/2		40/3			
Santa Apolonia	521		8/2			20/1	25/3	
San Andrés Itzapa	6,266	60/2	15/2					
Santa Cruz Balanyá	1,971		15/2				40/2	
San José Poaquil	2,161	5/1	10/2				85/2	
San Martín Jilotepeque	3,7[illegible]0	30/1	25/2		30/1			
Tecpán Guatemala	5,868	100/2	25/2		30/1			

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION UPBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTARILLADO	EXTRAC. BASURA
EL PROGRESO:								
El Progreso	4,010	80/2	25/2		50/3			20/3
Morazán	1,583	30/3	15/2				35/2	
Sn.Agustín Acasag.	3,225	60/3						
Sn.Cristobal Acasag.	541			30/2		20/1	20/2	
El Jícaro	1,907	15/1						
Sansare	1,768					40/1	20/2	
Sanarate	2,729	70/2	15/2	30/2				
Sn.Antonio La Paz	937			25/2		30/1		

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. BASURA
EL QUICHE:								
Santa Cruz del Quiché	7,689		10 /1		60 /3		40 /1	20 /3
Chinique	848	22 /3	15 /2					
Joyabaj	2,369	60 /2	15 /2				55 /3	
Sacapulas	1,466					25 /1		
San Andrés Sajbabajá	732					70 /3	40 /3	
San Pedro Jocopilas	938	30 /3	15 /2	25 /2		40 /1		
Santo Tomás Chichi.	667		25 /2		60 /3			
Zacualpa	1,468		15 /2	25 /2			60 /2	

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

		OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
DEPTO. MUNICIPIO	POBLACION URBANA	MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. BASURA
GUATEMALA:								
Amatitlán	15,372	150 /2			/3		50 /1	
Fraijanes	2,993						70 /3	
Mixco	10,861				/3			
San Juan Sac.	6,684	100 /2			40 /3			
San José del Golfo	794		10 /3			50 /1	30 /3	
San Miguel Petapa	2,667				15 /3			
San Pedro Sac.	4,920	60 /2	20 /2	45 /2	40 /3			
San Pedro Ayampuc	3,434		10 /2					
San Raymundo	2,018		10 /2			50 /1	30 /1	
Villa Nueva	12,355				40 /3		325 /3	

* Complementa aporte Gobierno

/1 Reparación y ampliación
/2 Restitución completa
/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. BASURA
HUEHUETENANGO:								
Huehuetenango	11,774	200 /2	30 /2	60 /1	60 /3			40 /3
Aguacatán	5,438	40 /3		30 /2		70 /3		
Colotenango	744			25 /2		50 /3		
Malacatancito	888		10 /2				35 /3	
San Mateo Ixtatán	1,834			25 /2				
San Pedro Soloma	2,109			30 /2			90 /3	
Sn. Rafael Pétzal	825			25 /2				

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. EXTRAC.
JALAPA:								
Jalapa	13,819	15 /1	25 /2		60 /3			40 /3
Mataquescuintla	3,156	80 /2	15 /2	30 /2				
San Pedro Pinula	2,176		15 /2				70 /3	

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTO EN MILES DE QUETZALES

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OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	PASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTARILLADO	EXTRAC. BASURA
IZABAL:								
Puerto Barrios	19,696	30/1	50/2	25/1	80/3			40/3
Los Amates	1,841					10/1	40/2	
Morales	2,574	15/1		25/1		40/2		

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO.,MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTARILLADO	EXTRAC. BASURA
SACATEPEQUEZ:								
Antigua Guatemala	17,692	300/2	30/2		30/3			60/3
Ciudad Vieja	7,205				20/3	25/1		
Magdalena Milpas Altas	2,014		15/2					
Santiago Sacatepéquez	2,194					20/1		
Sn.Antonio Aguas Cal.	3,180		15/2					
San Bartolomé M.A.	878		15/2				25/3	
Sta. Catarina Barahona	1,146						40/1	
Sto.Domingo Xenacoj	2,617	30/2	15/2					
Sn.Lucas Sacatepéquez	2,194				30/3	20/1		
Sta. María de Jesús	7,067	15/1				80/1	80/3	
Sumpango	7,389				20/1			

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

		OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
DEPTO. MUNICIPIO	POBLACION URBANA	MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. BASURA
SOLOLA:								
Sololá	3,838		5 /1		50 /3			20 /3
Concepción	812			25 /2		35 /1		
Nahualá	1,728			30 /2				
Panajachel	2,237				30 /3	40 /1		10 /3
Santa Catarina Pal.	1,000			25 /2				
San Antonio Palopó	1,804	20 /2		25 /2				
Santa Lucía Utatlán	662			25 /2				

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

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OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTAR.	EXTRAC. BASURA
TOTONICAPAN:								
Totonicapán	8,727	200 /2	25 /2		60 /3			30 /3
Momostenango	5,298	60 /1			30 /3			
San Cristobal Toto.	4,018	20/ 1						
San Foo. El Alto	1,964		15 /2		20 /3			
Sta. Lucía La Ref.	327			25 /2		40 /3		

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

COSTOS EN MILES DE QUETZALES

OBRAS POSIBLES DE CONSIDERAR DENTRO DEL PROGRAMA AID

DEPTO. MUNICIPIO	POBLACION URBANA	OBRAS CONSIDERADAS Y SU COSTO APROXIMADO						
		MERCADO	RASTRO	EDIFICIO MUNICIPAL	ADOQUINADO	ACUEDUCTO	ALCANTARILLADO	EXTRAC. BASURA
ZACAPA:								
Zacapa	12,703		25/2		80/3			40/3
Cabañas	2,095		15/2					
Gualán	5,220		22/2					
Huité	1,447		15/2			30/1	35/3	
Río Hondo	1,465					75/1		
San Diego	271						15/3	
Teculután	2,321					30/1	20/1	
Usumatlán	1,004	20/1				30/1		

/1 Reparación y ampliación

/2 Restitución completa

/3 Construcción nueva (anteriormente no existía)

DRAFT PROJECT DESCRIPTION

The project consists of a combined program to restore and upgrade in its essential aspects the quality of life of the inhabitants living in the 101 municipios in the area affected by the earthquake of February 4, 1976. The Project is expected to reach these objectives through its implementation by the Instituto de Fomento Municipal (INFOM). In specific terms the project will:

a. Provide funds and economic, engineering, administrative and construction assistance to the municipalities to rebuild and improve infrastructure and services damaged by the earthquake.

b. Restore and improve the capacity of the municipalities to carry out the functions of local government, including the management of municipal services.

c. Expand and strengthen the capacity of INFOM to assist the municipalities.

Goods and services eligible for financing with loan funds under the project are generally described below:

1. Municipal Recovery Fund: Technical assistance, personnel, meterials, equipment and services to implement the construction and repairs of municipal infrastructure.

2. Municipal Enterprise Fund: Technical assistance, personnel, materials, equipment and services for implementing municipal subprojects.

3. Training and Technical Assistance: Technical assistance, personnel, materials, equipment and services for strengthening the capacity of INFOM and the municipalities to implement their programs and assigned duties.

The Project activities will be implemented within municipalities in the areas affected by the earthquake. The total cost of the Loan project is estimated at $11,500,000 of which $8,000,000 will be financed with Loan funds disbursed over the four year life of the Project. The Govern-

ment of Guatemala will contribute a minimum of $3,500,000. INFOM will provide administrative and organizational support to the program over the life of the project.

DRAFT LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds
GUATEMALA: Municipal Recovery Loan

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, Agency for International Development (A.I.D.), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Part I, Chapter 2, Title VI of said Act to the Government of Guatemala ("Borrower") of not to exceed EIGHT MILLION United States dollars ($8,000,000) to assist in financing United States dollar and Central American Common Market local currency costs to carry out a program for municipal earthquake recovery - including (i) establishment of a Municipal Recovery Fund to finance rehabilitation and construction of essential municipal infrastructure, (ii) establishment of a Municipal Enterprise Fund to finance municipal projects, and (iii) establishment and implementation of a training and technical assistance program at the municipal level, ("Project"). The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the Loan to AID in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to AID in United States dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Source and Origin

Goods, services (excluding ocean shipping) and marine insurance financed under the loan shall have their source and origin in countries which are members of the Central American Common Market or in countries included in Code

941 of the AID Geographic Code Book. Marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in Code 941 of the AID Geographic Code Book, excluding countries which are members of the Central American Common Market.

3. Local Currency

United States dollars utilized under the Loan to finance authorized local currency costs shall be made available pursuant to procedures satisfactory to AID.

4. Other Terms and Conditions

a. Prior to the first disbursement of Loan funds or issuance of commitment documents, the Borrower shall, except as AID may otherwise agree in writing, submit in form and substance satisfactory to AID:

(i) An agreement executed between the Ministry of Finance and INFOM which provides *inter alia*:

(a) That all funds disbursed by Borrower and AID to INFOM will be considered a capital transfer by the Borrower.

(b) The terms and conditions which govern the use of Project funds by INFOM and its duties and obligations in the implementation of the project.

(ii) Evidence that satisfactory arrangements have been made by INFOM to obtain engineering consultant services for the project.

b. Prior to the first disbursement of Loan funds or issuance of commitment documents for other

than technical assistance, Borrower shall, except as AID may otherwise agree in writing, submit in form and substance satisfactory to AID:

(i) A detailed Financial Plan evidencing the annual GOG counterpart contributions which will be made to support the Project.

(ii) A detailed time-phased Implementation Plan covering all activities to be completed during the life of the project.

(iii) Evidence that the Borrower has made arrangements satisfactory to AID to obtain technical services other than engineering required for project implementation.

(iv) A schedule of proj ct municipalities indicating the assignment of resource transfer categories and subproject lending terms.

5. Except as AID may otherwise agree in writing, Borrower shall covenant with AID that it will:

a. Provide and utilize for the Project financial and other resources compatible with the Plan attached as Annex II to this Loan Agreement.

6. The Loan will be subject to such other term and conditions as AID may deem advisable.