

**GUATEMALA**

**COUNTRY DEVELOPMENT  
STRATEGY STATEMENT**

**FY 82**

**January 1980**

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## I. ANALYSIS

### A. Analytical Description of the Poor

Three out of every four Guatemalans are poor, according to accepted international definitions of poverty. 1/ The last nationwide census (1973) showed fully two-thirds of the population living in rural areas. Only the capital, Guatemala City, the South Coast agricultural center of Escuintla or the mountain city of Quetzaltenango can be considered urban areas. Of the some 4-1/2 million people living in the rural areas, about 2-1/2 million are Indians, the vast majority of whom live in the plateau and mountainous area to the northwest and north of the capital called the Highlands or Altiplano. Even though the Highlands are dotted with smaller cities and towns, living conditions there closely parallel those of the purely rural areas in terms of infrastructure, access to services and employment opportunities.

It is safe to say that, with the exception of the urban slums which have expanded around the capital city following the 1976 earthquake, to speak of poverty in Guatemala is to speak of the rural areas

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1/ Based on ILO Poverty Line estimated for LA at \$320 in 1972 prices. Calculated as follows:

- Estimated 1978 GDP - \$6.2 billion
- Central Bank GDP Deflator for 1972-78 = .52
- GOG/IBRD estimate that only 33% of GDP accrues to bottom 75% of population (5 million).

Thus,  $\frac{\text{GDP } 78}{3} \times \text{Deflator} \div \text{Poor Population} = \$215 \text{ Per capita income of poor majority}$

-- to speak of abject poverty is to speak of the Highlands. It is the Highland areas that the USAID has chosen as the target for its program during the planning period covered here. The reasons for the choice will be discussed in the Strategy section which follows.

For the purpose of our analysis, the Highlands are considered to be nine Departments of the Republic: Chimaltenango, Sololá, Huehuetenango, Quetzaltenango, Totonicapán, El Quiché, Baja Verapaz, Alta Verapaz and the mountainous area of San Marcos. There are an estimated 2-1/2 to 3 million residents in the Highlands, giving it a population density of 169 persons per square kilometer, slightly higher than that of Haiti.

The Director of Programs for the Social Sectors of the National Economic Planning Council recently described the living conditions of the Highland farmer in this dramatic, but accurate, profile of the average Guatemalan of the Altiplano:

"He lives in a rural area -- is an Indian whose livelihood is agriculture -- but agriculture practiced on less than one hectare of land to which he probably does not have a title. He has a family of five or six who, together with other relatives from his extended family, live in a tiny shack built of adobe or sticks covered with mud. They probably have no source of potable water nearby and have neither electricity, nor latrine. In the event of sickness, only on rare occasions does he have access to medical attention or to a health post. His wife gives birth without medical assistance of any kind... Those of his children who survive to age 7 may be able to attend primary school from one to three

years, if they are male. If they are female, they will attend for less time... Fifty percent of the children in the community where he lives die of preventable infectious or contagious disease. Only half of the children have received any sort of vaccination. The food which he raises is inadequate to meet the nutritional needs of his family and, at some point during the year, insufficient in terms of quantity. All of the children in his village suffer from some level of malnutrition and are easy prey to any epidemic." 1/

What does this profile mean when statistically applied to the mass of poor in the Highlands in terms of income, employment, availability of arable land, social needs and services to meet those needs? One study, done in 1977, concluded that per capita income in the Highlands was between \$125 and \$138 annually. 2/ This was the period immediately following the earthquake when employment in reconstruction helped the relative income situation of large numbers of rural poor who worked for wages in off-farm employment -- many receiving cash incomes for the first time. This income source has virtually disappeared as reconstruction projects have been completed. Current estimates of unemployment and underemployment in the rural areas range as high as 42% of the rural labor force.

From January to March each year, as many as 500,000 workers, mostly from the Highlands, migrate to the South Coast to pick coffee

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1/ Plan de Acción Social, Consejo Nacional de Planificación Económica, diciembre 1979.

2/ Economic Assessment of the CACM Region as of August 1977, Clark Joel, ROCAP, August 29, 1977, p. 33 ff.

and cotton or to cut sugar cane on the large commercial farms, returning to the Highlands when the harvest season ends. For many, it is their only opportunity to earn cash income. Even then, the wage scales are pitifully low. At the minimum wage, farm workers covered by social security earn a median monthly salary of \$45; those not covered by the system earn about \$30 per month. Women and children working in agriculture may receive as little as 50 ¢ to \$1.00 per day. A few large landowners have recently begun paying up to \$2.50 per day, usually to their best picker or cane cutters.

Probably the most critical measure of poverty in the AID target area is the relationship of arable land to population. In 1975, the national average of land, whether arable or not, was approximately 2.5 acres per rural person. In the Highlands, the average was 1 acre per rural person. The land classified as arable or potentially arable in the Highlands varies by department from a high of 2.5 acres per person in Alta Verapaz to a low of one-third of an acre in Totonicapán. The proportion of arable land classified as "good" averages out to only .02 acres per person. The result is that nine out of ten people live on plots of land too small to provide income sufficient to meet their basic needs.

The National Economic Planning Council informs us that the average life expectancy in Guatemala is now 60 years among urban, non-Indians and 49 years among rural Indian ethnic groups. Guatemala's overall mortality rate is 15 per 1,000 -- one of the highest in Latin America. Infant mortality is reported at 79 deaths per 1,000 live births, but observers such as the Central American Institute for Nutrition estimate that actual infant mortality may be as high as 100 per 1,000 live births, because deaths, especially those of infants, often go unregis-

tered in rural areas. The child mortality rate among Indians is 1.7 times greater than the rate among non-Indians.

The leading causes of mortality and morbidity are enteric diarrhea and respiratory diseases. The two illnesses are responsible for 50% of the deaths that occur. Both are preventable, given adequate sanitation, potable water and shelter. Again, mortality rates in the Highlands are double, or more than double, the rate of the metropolitan area of Guatemala City.

Overall health service coverage in Guatemala is estimated at 30% of the population, but only about 15% of the lowest income group living in the rural areas is reached. A substantial part of the total illness in the rural sections is directly attributable to poor environmental sanitation, particularly to the lack of clean water supplies, but extending to lack of latrines, poor waste disposal and generally bad sanitation practices. Only 2% of houses in small rural towns are connected to any sort of a water system and hardly any are connected to sewer systems.

Nutritional studies, using the Gómez classification of malnourishment, indicate that some 81% of the "most at risk" population (children under 5 years of age) can be considered malnourished, with 30% falling in the categories of severe malnourishment. It is estimated that the poorest half of the population suffers from a deficit of 40% of the minimum daily caloric requirement and a protein deficit of almost 50% of the minimum daily requirement.

Approximately 3.6 million of the 6.6 million Guatemalans (55%) are illiterate. Only one-fourth of the population has had even 1 to 3

years of schooling. Recent figures provide a deeply disturbing picture of the educational situation: 66% of all children in the 7-14 year-old age group live in rural areas -- two thirds of them do not attend school. In the Highlands, conditions are worse -- 90% of the children 7 to 14 years old do not attend any school. At the secondary school level, nationwide, only 12% of all youth in the 15 to 20 year-old age group attend high school or vocational school.

The predominance of adult illiteracy, as well as the large number of rural children with limited or no educational opportunities, creates special problems for the implementation of developmental programs focused on rural areas. The need for rural non-formal education programs is becoming increasingly apparent as the GOG tries to reach small farmers with agricultural information. Non-formal systems of instruction are equally important if the rural health program is to expand its health delivery coverage to any significant extent.

Prior to 1976, the housing deficit in Guatemala was estimated at 480,000 units. The 1976 earthquake destroyed or damaged another estimated 258,000 houses, 58,000 of them in Guatemala City. In addition to the existing deficit and the loss of some 200,000 units in the quake, the area outside of the capital suffers from the worst sort of substandard housing. At the time of the last census, more than 71% of rural houses had no utility connections of any kind; almost half of the units had three or more occupants per room and more than a third were built of impermanent material. The earthquake which followed the census further aggravated the problem.

The role of Guatemalan women in society, and particularly in the economic realm, is subordinated to the dominance of the male element as it is in many Latin countries. Indeed, except for a vice-minister here, or a governor there, most women in the Guatemalan elite (which sets the social norm) do not make a perceptible contribution to economic development. Their participation is small in government, politics or production. According to official estimates, the overall female labor force participation rate is approximately 14%; however, the actual participation rate is thought to be much higher.

It is among the rural poor majority, from which our target group has been selected, that women play the most active economic role, particularly among the Indian communities where much of the worst poverty is located. In this sector, actual and vestigial cultural forces, reinforced by economic necessity, tend to encourage a high degree of economic participation among women. They produce and market most of the handicrafts and play a key role in the retailing of the agricultural production of small farmers. These activities occupy 1 to 3 days per week on a regular basis and are a critical factor in the economic maintenance of many families. They may, by reason of inheritance or widowhood, own and operate farms; and they have a significant voice in development-related family decision making -- e.g., whether or not to make a major productive or consumer investment, how long to keep which children in school, what nutrition or health care to purchase with disposable income, whether or not to contracept, even, perhaps, what to plant and where to sell it.

B. Identification of the Causes of Poverty

Macro-Economic Overview

Since 1970 the Guatemalan economy has experienced impressive growth, ranging between 5-7% annually in real terms. This has been largely due to favorable world prices for traditional exports, particularly coffee, and the opportunities for non-traditional exports afforded by the Central American Common Market. In addition, the 1976 earthquake stimulated a construction boom which has induced higher levels of employment and investment. Over the period, domestic investment, as a percentage of GDP, has ranged from 14% to 19% and most of this investment has taken place in the commercial and industrial sectors. As a consequence, open unemployment has probably declined over the period from 13% in 1973 to roughly 9% in 1978. However, underemployment remains a serious structural problem, particularly in rural areas. Until the beginning of the oil crisis in 1973, domestic prices were stable, due in large part to the conservative fiscal and monetary policies of the government, but, since then, inflation has steadily increased and is currently estimated to be between 11-15% per annum, mainly due to higher prices for imports. Despite pressures placed on the balance of payments by higher priced oil imports and other products, the deficit on current account has not been serious. In fact, capital account surpluses have consistently been sufficient to cover the deficit and permit accumulation of foreign reserves. Official foreign reserves have quadrupled since 1974, totalling over \$700 million for 1979, equivalent to seven months of normal imports. Thus, the economy over the past decade has generally performed well in terms of economic growth, urban employment and Guatemala's balance of payments situation. Despite this impressive

overall performance, sustained over a ten-year period, most Guatemalans are still poor. The benefits of growth have not accrued evenly to the general population and the resulting unequal distribution of income has been further aggravated by inflationary price increases of processed and manufactured goods, causing a further deterioration in living standards.

In order to isolate the factors responsible for continuing and, possibly even increasing poverty, we have tried to identify several of the principal structural and institutional causes for Guatemala's generally poor showing in terms of growth with equity.

#### The Traditional Agricultural Sector

One of the most important factors in the continuing poverty of the Highlands results, as we noted earlier, from the extremely high population density of the area. Although the land resource in the Highlands is limited and of poor quality, it was sufficient, up until a few decades ago, to support the subsistence economy of the traditional Indian. This is no longer true. The rugged topography and unfertile soil combined with the high birth rate and reduced mortality rate have resulted in the proliferation of minifundios, low productivity and the degradation of soil and forest resources. In spite of these conditions, the indigenous members of the target group are bound by tradition and culture to the Highlands. They resist the idea of migration, even seasonal migration, to employment opportunities outside of the area, even though many have been forced by economic necessity to leave.

With an average of one acre per person in the Highlands, the farmer works an area too small, using his present farming techniques,

to provide sufficient income to meet the basic needs of his family. Further obstacles to improvement of income earned from traditional agriculture are the insistency by the small farmer on concentration of production in basic grains which are low income-generating crops, the lack of adequate agronomic technologies and extension services to stimulate production of higher value crops, such as fruits and vegetables. poor access to the domestic marketing systems and the absence of access to export markets.

If he is to meet the needs of his family, the Altiplano farmer must seek increase his income through changes in productivity or in the value of crop mix, supplement his income through cottage industry or off-farm work or seek more land or other employment elsewhere. Should he seek part-time employment in urban areas, a new series of difficulties confront him in the form of limited job opportunities in industry, low wages in commercial agriculture and social and cultural barriers resulting from his lack of education, inferior language ability in Spanish and generally low level of marketable skills. The Government, while not the cause of his poverty, historically, did little to alleviate it or to help him achieve the health and educational levels necessary to allow him to improve his own lot.

#### Commercial Agriculture

Commercial agriculture provides seasonal employment for almost half a million rural poor, but, unfortunately, the sector continues to pay extremely low wages. The minimum wage scale for rural labor is \$1.05 a day and there is constant, often violent pressure brought to bear against labor leaders, organizers and members by influential ele-

ments of the society when attempts are made to strengthen the campesino labor movement or to secure wage increases.

#### The Modern Industrial Sector

The production of this sector, which is largely composed of import-substitution consumer goods, chemicals and industrial minerals, relies on capital-intensive techniques, importing most of its intermediate and capital goods. The sector employs only 4% of the economically active population. With few exceptions, these industries are concentrated in and around the capital city. The marginal capital/labor ratio for Guatemalan industry was recently estimated to be \$10,700 per new job created. The capital-intensive character of production has meant higher wages for those fortunate enough to find jobs, but has done little to reduce the growing numbers of unemployed. Pressures applied to efforts at organization by the labor force are similar to those faced by agricultural workers.

#### Tourism

Tourism is one of the fastest growing sectors in the Guatemalan economy and now ranks second only to coffee exports as a generator of foreign exchange. Since it is a relatively labor-intensive industry, it offers potential, but the sector, at this point, does not offer employment to the unskilled immigrant from rural areas. Nevertheless, the growth of tourism does have important implications for small-scale rural-based artisan enterprises. Tourist markets represent a significant portion of the overall demand for traditional Highland Indian handicrafts and offer a good possibility for increased future earnings by the artisans of the Altiplano.

Redistributive Mechanisms

In the extremely conservative view of both the Guatemalan Government and much of Guatemala's middle- and upper-income classes, reflecting their firm commitment to laissez-faire capitalism, the traditional role of the Government is to insure domestic peace, conduct foreign relations, carry out a small program of public administration and provide the minimal social services. Yet, the demand by the rural population for central government resource transfers to the rural areas in the form of public infrastructure and social services has grown rapidly in the last ten to twenty years while the change in the attitude of the nation's ruling classes toward large government has not kept pace.

There still exist strong reservations about incurring large foreign debt and there is political resistance to large increases in public expenditures reflecting widespread misgivings as to the Government's ability to manage increased receipts and programs for development. As a result, the relative size of Guatemala's public sector, that is, the ratio of Government expenditures to national income, still remains one of the smallest in Latin America.

In spite of the relative size of the public sector, government fiscal policies still represent a potentially powerful redistributive mechanism in the society. Changes in tax revenue structure and the pattern of government expenditures could bring about significant transfers of income and productive resources among social groups and certainly shape the development of the economy. Hence, the distribution of income and the rate of income growth will be affected in the

long run by policies and decisions of the public sector. An excellent example of such a policy is the recently passed Decentralization Law which provides significant fiscal incentives to small industries willing to locate outside of the Guatemala City area in the hope of stimulating new businesses and creating new employment opportunities.

With regard to tax revenues, the system could be characterized as lacking buoyancy, i.e., the growth of government revenues lags behind the growth of the economy. The tax structure is heavily dependent upon indirect taxes, roughly 80%, the remainder coming from direct taxes on income. Of this, a large proportion is paid by industry and only a nominal amount raised through taxes on personal income. The dependence upon indirect taxes makes the tax structure highly regressive, raising questions of equity and the impact of taxes on income distribution. The reliance on indirect taxes also accounts for the inability of revenues to keep pace with the economy, much less increase the relative size of the public sector through improved revenue capacity.

#### Cultural and Social Divisions

The social organization of the rural Highlands is a more or less rigidly class-stratified arrangement which parallels the basic divisions of the ethnic groups. One group consists of the Ladino elite. Generally, they are the social and political leaders of the community and set the styles in dress, recreation and social activity. Their political power has weakened considerably since townships were given the right to elect a local government, but they continue to maintain at least tacit control of the economic, social and religious affairs of the community.

Ladinos and transitional Indians, who generally reside in the municipal capitals and the larger nucleated villages, form a second group. Ladinos in this group generally enjoy access to better housing and social services. They make their livelihood from a variety of small commercial and service enterprises, such as storeowner, truck driver, etc., or as semi-professionals, such as administrative clerks, nursing auxiliaries or school teachers. The transitional Indians in this group have either taken up occupations similar to those of the Ladinos or are the owners of small-scale land holdings. Almost all are conversant in Spanish. The Ladinos in this group have received some formal schooling, many having completed primary school, and they encourage their children to continue their education beyond the sixth grade, if possible. Many transitional Indians, on the other hand, are illiterate, although they are perfectly conversant in Spanish and have developed a facility for dealing in the market economy. They do see the value of formal education for their children and encourage them to stay in school, at least through the primary grades.

The third class is composed of the large mass of Indian peasants who earn their living as landless day laborers and subsistence farmers. Very few have had any formal education. Of those who have been to school, many have regressed to illiteracy. Many of the men are conversant in Spanish and deal effectively in local markets. Although the Indian peasant recognizes the value of formal education for his children, the ability of the child to contribute to the home economy as part of the extended household is often considered more important than schooling. As a result of this, as well as the fact the the child often

does not speak Spanish, few progress beyond the third grade and are thus inhibited from adapting to the Ladino culture.

Summary of the Causes of Poverty in the Highlands

In summary, the principal reasons that the rural poor remain poor in spite of Guatemala's growing and relatively healthy economy are:

-- Extremely high population density in the Highlands with little arable land per person available.

-- Excessive concentration on the cultivation of low-income crops, mainly basic grains.

-- Low productivity in traditional agriculture.

-- Inadequate agronomic information and inputs and a lack of ready domestic and export markets for higher income crops.

-- Resistance, based upon social organization, culture and tradition, to moving to potentially more productive areas.

-- Very low wage rates paid by commercial agriculture and an extremely low minimum wage established by the Government.

-- Investment incentives which favor more capital-intensive, urban-based enterprises, rather than labor-intensive industry or agriculture which would provide employment and income to the target group.

-- Redistributive mechanisms which favor the urban middle and upper classes at the expense of the rural poor, mainly in terms of lower resource transfers from the central government budget to rural infrastructure and social services.

-- Cultural and social divisions which mitigate against the adoption of improved agricultural health and educational practices and reinforce social and cultural isolation.

Attempts to Adaptation to a Changing Environment

Increasing numbers of Highland poor are attempting to break out of their poverty and improve their income positions in a variety of ways; some are supplementing incomes earned in traditional agriculture by participating in small industry or handicraft production; others are shifting from traditional agriculture to more modern agricultural techniques and to higher value crops.

Some 26,000 small farmers in the Highlands target area are currently growing and marketing high-value, labor-intensive crops. These farmers often earn three to four times more income per person-year of labor than their neighbors working at the subsistence level. They also employ twice the amount of labor as do farmers producing basic grains.

Many of those who are unable to earn adequate incomes in the Highlands through improvement in cropping patterns or shifts to non-farm activity migrate seasonally, for as long as three months, to take advantage of employment opportunities on commercial farms along the South Coast. Others, despite their definite preference for residence in the Highlands, have migrated permanently to the South Coast, to the Government-sponsored colonization projects in the Northern Transversal Strip or the jungles of the Petén, seeking enough land to provide them with an adequate living standard. Still others, although with great difficulty, have left the social organization of their indigenous communities and have migrated to urban areas. However, due to the capital-intensive nature of industry in the city, insufficient opportunities exist for improving their quality of life by migrating to the urban areas in search of employment. Historically, the largest component of the target group migrating to the cities have been women seeking jobs as domestic servants.

Some of these attempts at adaptation offer real potential for improving the living standards of the rural poor. The four most promising of these form the basis of the AID strategy: transition from traditional to modern farming; diversification of production to higher income crops or crop and animal mixes; development of off-farm employment opportunities and small industries; and, migration from the Highlands to the land settling programs in the Franja Transversal del Norte and the Petén.

C. Progress, Commitment and Human Rights

1. Trend in the 70's

a. Introduction

The decade of the seventies saw considerable positive change in the position of the Guatemalan Government regarding economic and social development. In 1971 the GOG elaborated a new five-year Development Plan which for the first time recognized the serious inequities in income and other indicators of well-being that existed between the modern sector and the traditional subsistence agrarian economy. Also for the first time, the plan articulated the necessity of direct government intervention to address these inequities. In the two subsequent Development Plans these principles have received increasing emphasis and support. However, given the political, social and economic antecedents of Guatemala, the petroleum crisis of 73-74 and the major earthquake of 1976, it should not be surprising to note that the GOG had only limited success in achieving the objectives of these Plans. Nevertheless, important reforms were achieved and real progress is being made.

Since 1974 the absolute amount of actual public sector investment expenditures directed at rural development increased four-fold, from \$29 million in 1974 to \$116 million in 1979. Investments in rural development (see Table 1 and Graph 1) as a proportion of total public sector investments fluctuated widely from a high of 31% in 1975 to a low of 13% in 1979. This significant drop in one year is the result of total investments tripling (much of it attributable to the power and communications sectors) without a commensurate increase in rural development investments. However, since 1976 there appears to be a clearly increasing proportion of investments directed at the rural sector. (See Graph 3). Analyzing only the investments in the health, education and agriculture sectors, it is apparent that the rural areas are receiving an increasing share of total investments, i.e., in 1974 rural sector investments represented 52% of the total in these sector while in 1979 the percentage was 88%. Analysis of total public sector expenditures (investments plus operations) shows similar trends.

b. Cooperative Movement

In the early seventies, there was overt Government hostility towards the cooperative movement. The movement was rapidly disintegrating and becoming increasingly less effective in providing resources and services with resulting disenchantment in the eyes of current and potential members. However, with the Laugerud Administration in 1974, the Government reversed its position and began to provide active support, with AID assistance, to the cooperative movement. Today, the movement is vigorous and growing and has become a forceful representative of the campesino within Government deliberations on agriculture

sector policies. Cooperative membership, 14,784 in 1970 has now reached 28,000. In the current GOG Development Plan, the cooperatives appear as a major channel for public sector resources aimed at development of the small farm agriculture sector. In keeping with this approach, in 1979 the GOG created a new cooperative development institute (INACOP) to promote, train and provide technical assistance for the cooperative movement.

c. Restructuring of Public Agriculture Sector

In the early 1970's, AID assisted the GOG in restructuring and developing the public agricultural sector to better serve the small farm sector. BANDESA, the agricultural development bank, with initial AID funding and follow-up loans from the IDB has increased its small farmer credits from almost nothing to \$29 million in 1979. The Institute for Agricultural Science and Technology (ICTA), one of the region's most effective national agricultural research institution, works almost exclusively on small farmer crops. DIGESA, the agricultural extension service, serves primarily the small farm sector. To address the land problem, in 1975 the Government undertook an initial land settlement effort in the north-central part of the country (Northern Transversal Strip) -- Guatemala's agricultural frontier. However, until 1978, progress on this program was slow, in large part because of the reconstruction demands placed on the GOG by the 1976 earthquake. With the reconstruction effort essentially completed and the change in administration in July 1978, the colonization program received new impetus. As indicated below, this program has taken on an increased priority as a result of Central American political events in 1979.

d. Progress in Health and Education

There have also been some important reforms and progress in the health and education sectors in the last ten years. There has been new acceptance of a health delivery mechanism involving paramedics, preventive medicine and use of health posts as a means of better addressing the health and nutrition problems of the rural poor (as opposed to previous health policies favoring more doctors, curative medicine and hospitals). Almost 100% of the 636 health posts and health centers now in existence were constructed after 1970. A recently completed AID-financed paramedic school is graduating 80 students per year and the Ministry is expanding its training facilities for auxiliary nurses.

In education, the GOG initiated a major program using different communication mixes which has drawn worldwide attention. The approach, which utilizes mass media techniques reinforced by outreach systems, provides broad technical assistance coverage to the Highland poor. While the assistance is not intensive, a single agent does manage to reach about 300 families. In non-formal education, the GOG is incorporating and integrating the non-formal education activities of seven distinct GOG ministries working in five Highland departments. Some 300 trained rural promoters and 500 campesino volunteers represent a considerable investment and an important Government outreach mechanism. In terms of rural primary education, a new, more relevant and pragmatic curriculum has been developed, and the GOG is currently investing increasing resources in rural school construction, primary school textbooks, teacher training and distribution of teacher training materials.

There have also been encouraging signs in the area of population planning. Historically, family planning in Guatemala has largely been the prerogative of APROFAM, the local IPPF affiliate. However, despite noteworthy advances by APROFAM in expanding the availability of family planning services through private sector, community-based contraceptive distribution activities, optimum coverage in rural Guatemala requires the utilization of the Ministry of Health's widespread infrastructure of health posts and service delivery outlets. As the Ministry's position vis-à-vis family planning vacillated between tacit acceptance and complete disassociation, programs integrating provision of contraceptives by APROFAM to the MOH with distribution to users through the MOH network of health facilities operated precariously.

Against the background of an earlier GOG decision to completely halt the dispensing of contraceptives at health posts, the Minister of Health, in a dramatic reversal, recently requested that his Ministry be a party, together with APROFAM, to a new AID family planning project. This decision heralds a turning point in GOG policy toward family planning; and represents a reversal in the GOG's stance of disassociation from family planning activities. For the first time, the MOH will be actively and officially involved in family planning and will officially sanction the delivery of family planning services by paramedical as well as medical personnel.

## 2. After Nicaragua and El Salvador

If the 70's can be considered a period of gradual positive evolution of the GOG's commitment to addressing the problems of the poor, the year

1979 may eventually be viewed as a major turning point. The events in Nicaragua and El Salvador, as well as increasing land invasions by campesinos in the northern departments of Guatemala sometimes involving violent confrontations and campesino deaths, have served to heighten GOG sensitivities to the potential political problems of continued socio-economic inequities. There are clear indications that increasing numbers of people in the public as well as the private sector no longer view the maintenance of the status quo as a viable alternative. The choices are now seen by many decision-makers as either a continued heightening of political violence or social and economic integration of those heretofore disenfranchised through reforms and programs directed at the causes of discontent. As a result, there appears to be a new political will to address the needs of the poor and to create a government more responsive and responsible to the full spectrum of society. It is important to note that there also appear to exist serious self-doubts as to whether the Government has the capacity of implement reforms and programs in time to head-off violent political conflict. Similar concerns are held by the private sector, as evidenced by "post-Nicaragua" capital flight, estimates of which vary from \$60-\$100 million in 1979.

FTN

In spite of these fears, the principal Government reactions have been constructive and concrete. President Lucas has personally given highest priority and urgency to the resolution of the land tenure and distribution problems and the realization of what the Development Plan calls a "rural transformation". He has called for acceleration of the development and settlement of the Franja Transversal del Norte (FTN)

as the keystone to the administration's efforts in this area. As a direct consequence of the President's interest in the FTN, the past year has seen a considerable increase in the GOG's human and financial resources devoted to the FTN settlement program. In 1979 the agrarian reform institute (INTA) distributed over 13,000 titles to landless Highland campesinos for parcels averaging 10-15 hectares; a significant construction program for penetration and access roads and other infrastructure is underway; research on crops appropriate for the region has been initiated and appropriate seeds are being distributed to settlers; the military is assisting in transportation of agricultural inputs and produce in the area and is providing basic health services. At the same time that the colonization program tends to relieve some of the land problems in the Highlands, it creates potential new problems for the GOG in the FTN area. The rapid growth of spontaneous as well as organized colonization in this area is resulting in greatly increasing demands and pressures being placed on the GOG for services and infrastructure. The public sector is currently making every effort to keep pace with these demands. Fully 25% of the agriculture sector budget is directed at colonization activities. Nevertheless, there is a real danger that unsatisfied demands on the public sector could lead to discontent and even political violence if the GOG is unable to respond adequately to these demands. In recognition of this, the GOG is soliciting increased international donor assistance to accelerate and expand public sector investments in the colonization areas.

#### Agrarian Reform Law

In addition, the GOG is presently working on new agrarian reform legislation to replace the original law passed in 1962. The new

legislation, as currently envisioned, would improve the GOG institutional structure and provide increased powers and sanctions to implement the legislation. Some of the more important features of the proposed legislation are:

- a. Creation of a National Land Institute (INA). This will combine the functions of INTA and the Department of Colonization of the Petén Development Institute (FYDEP) into a single institution and relieve FYDEP of its responsibilities for distribution of land.
- b. Authorize the issuance of bonds by INA for purpose of carrying out land purchase and redistribution programs.
- c. Strengthen the provisions of the old law for lending and collecting idle land tax and raises the tax rate.
- d. Broadens and strengthens the authority of expropriation of land for settlement purposes and public use.
- e. Obligates INA to distribute lands to small farmers and landless poor families.
- f. Obligates INA to establish and carry out a rural cadaster.

### Social Action Plan

In December 1979, the Planning Council submitted for Congressional and Presidential approval a "Social Action Plan" which is conceived as an immediate response to the perceived "crisis which is facing the country". This Plan underscores the serious shortcomings in meeting the basic needs of the poor and the likelihood that, given current conditions in Central America, increasingly radical solutions for satisfying these needs can be expected. The Social Action Plan places highest priority on those programs which impact on the poor and outlines immediate actions required to improve and accelerate the execution of such programs. The short-term objectives of the Plan emphasize the rapid generation of new employment opportunities through housing and other construction programs (e.g., labor-intensive feeder roads). Over the longer term, the Plan calls for administrative reforms to improve the Public Sector's capacity as a promoter of development and to optimize the use of available development resources. The Social Action Plan is a reformist document produced by a central and important element of the GOG. If formally adopted, it will represent an extremely significant policy statement and an official mandate from the highest political levels.

### Other Initiatives

Other indications of growing reformist attitudes within various institutions include a recent Congressional initiative which bluntly outlines political and socio-economic inequities and immediate actions required to address them. Furthermore, although not yet publicly announced, there is talk of a private sector plan being prepared by the Chambers of Commerce and Industry to stimulate broader participation in the benefits of private sector growth.

Effective implementation of these plans and programs will require increased public sector revenues and investments. Currently the GOG tax system captures a relatively small percentage, approximately 9% of the GDP. This has been identified by several donors as one of the constraints to any development effort. To increase its ability to obtain internal financing for development, the GOG is presently seeking to improve the efficiency and equity of its tax system. AID has been specifically requested to assist in this effort in the areas of the national cadaster, tax collections and audit. Eventually, more politically difficult reforms may be necessary, particularly if world prices decline for major export crops, which are the most important earners of tax revenues. There appears to be increasing recognition of this and a desire to take at least some important initial steps to improve the tax situation.

All of these initiatives are recent and are borne of a pragmatic desire to maintain stability and moderation in the political arena. Taken together, they reflect a heightening resolve and urgency to address the problems and causes of poverty as a means of averting the type of violent political conflict recently seen in Nicaragua and El Salvador.

D. Host Country Development Plan and Budget

The current 1979-1982 Development Plan is similar to the prior two Plans (1971-1974 and 1975-1979) in its focus on the problems of the poor. It is exceptionally candid in its assessment of the problems associated with skewed income distribution, educational and health levels and patterns of land distribution. It is also surprisingly frank and

self-critical in its assessment of the GOG's historical lack of success in dealing with such problems. It makes a strong statement in favor of the needs for greater public sector intervention to ensure that the benefits of economic growth are distributed more equitably among all segments of society.

Under the label of "rural transformation", the Plan lays out a long-term strategy aimed at increasing employment alternatives in the rural areas through diversification of the economy into higher value agricultural crops and agro-industrial products of increasing value which are also intensive users of labor. Domestic industrial production is to be reoriented to emphasize use of labor resources and lessen its relative capital intensity, especially in new industries which will be required to produce agricultural inputs and in new agro-industries. This development strategy will require the formulation of policies and execution of projects in a decentralized fashion to support identified agricultural potential.

The important step recently taken to implement the strategy is the passage of a new Industrial Decentralization Law. The Law establishes four fiscal zones in order of priority, with the Department of Guatemala receiving the lowest and the poorest 15 departments, including those of the Highlands, receiving the highest priority. A set of variable fiscal and other incentives are provided to industries willing to locate in the departments accorded highest priority. These include: tax relief of 70% to 100% for periods up to 10 years depending on location in terms of departmental groupings and size of industry; relief from import tax on equipment and raw materials for small indus-

tries; priority consideration and access to national programs of industrial finance, technical assistance and pre-investment studies.

The Plan projects total fixed capital investments for the four-year period of about \$6.6 billion (current dollars -- GOG inflation estimate is 4.8% per year over the period). Of this total, \$1.4 billion represents public sector fixed capital investment which would be complemented by about \$600 million of public sector credits -- principally for housing, agriculture and industry.

The new GOG Plan is fully consistent with AID policy objectives. In the past, the GOG has consistently been an under-achiever in terms of accomplishing its development goals. However, given the current environment, there is a unique opportunity and increasing public and private sector support for imposing the prerequisite public administration reforms and tax measures which will be needed to finance and successfully implement the Development Plan.

#### E. Absorptive Capacity

The GOG's successive Development Plans, as well as its annual budgets, have consistently been optimistic relative to the public sector's capacity to implement them. For the past 6 years the amount expended on capital investment has averaged 26% less than the amount budgeted. This difference between funds programmed and expended is largely the result of two factors: institutional constraints and a set of overly complex administrative laws and regulations.

Critical institutional weakness in the area of project design and execution can be mainly attributed to inadequate public sector man-

power training. Historically low public sector salaries, which make it difficult to obtain and hold qualified personnel, have contributed to the problem. Development plans and goals are carefully elaborated, but the GOG has not performed well in following through on the next step of translating these into actionable programs and projects. This applies to small farmer development projects as well as politically-important large-scale showcase projects. The need to resolve these weaknesses is well recognized and is mentioned in both the Development Plan and the more recent Social Action Plan as a critical prerequisite to successful achievement of the GOG's development goals. Several important sections have already been taken. The GOG has programmed \$41 million for salary increases in 1980 which will provide an average increase of 18% in salary levels. This increase will primarily benefit mid-level administrators and technical personnel, levels at which the institutional expertise has been traditionally weak. The GOG has recently embarked on an extensive program to upgrade the quality of public sector employees through advanced training, partly by means of committing \$2.0 million of its own resources for the purpose under an AID 607 agreement. Several GOG entities, (INFOM, public agriculture sector) have also initiated in-service training programs to improve project design, project management and general administrative capacities. The National Economic Planning Council has signed an agreement with IDB to finance feasibility and project pre-investment studies in order to develop a shelf of projects.

A second important factor which explains the GOG's poor implementation record is its system of administrative procedures. For example, the current Ley de Compras establishes a system of controls over

procurement which often result in serious implementation delays. Creation of a new personnel position in a government entity requires at least six months to process. Likewise, a minor budget modification can take as long as six months to accomplish. Many of the implementation delays encountered in the GOG's investment programs can be attributed to these types of administrative bottlenecks. The GOG has initiated several actions to overcome these types of administrative constraints. With AID assistance, the GOG created a special Projects Control Unit (UNICOP) in the Presidency to facilitate project execution. The Congress is presently reviewing the Ley de Compras with a view to streamlining the contracting and procurement process. The Ministry of Finance has requested AID assistance to develop a new External Finance Division which would assist executing agencies in overcoming administrative problems on externally-financed projects. The Planning Council has created a new division to study public sector administrative systems and recommend improvements. All of these initiatives reflect the GOG's recognition of the problem and desire to improve its absorptive capacity. Most of these reforms are still in their initial stages but, if successfully carried out, could contribute significantly to improving the GOG's performance in project implementation.

At current levels of external donor assistance, the Mission does not view the counterpart financing capabilities of the GOG as a constraint on absorptive capacity. Disbursement financed by external debt represented only 7% of total disbursements during the period 1970-1976. This percentage increased during the 1977-1979 period, primarily resulting from externally-financed disbursements on hydroelectric proj-

ects, and in 1979 is currently estimated at 21%. This is still low, however, and given the GOG's current debt service ratio (approximately 2%), the GOG's capacity to borrow and provide necessary counterpart would not appear to be approaching its limit.

F. U.S./Guatemala Economic Relations

The United States and Guatemala continue to maintain close economic ties as reflected by international trade patterns and capital movements. The U.S., as Guatemala's principal trading partner, represents one-third of the Guatemalan export market while U.S. imports account for fully one-third of the country's total imports. Guatemalan exports to the United States consist principally of primary products, such as coffee, cotton, sugar and meat. However, the recent oil discoveries and the completion of the Rubelsanto oil pipeline offer excellent prospects of oil exports in the next few years. Currently, there is intense exploration activity in the Northern Transversal Strip and the Petén by a number of the major oil companies which will help to determine the full extent of Guatemala's oil deposits. U.S. exports to Guatemala, on the other hand, are considerably more diversified, ranging from basic grains and farm inputs to industrial machinery and consumer goods. In general, the U.S. realizes a current account surplus in its trade with Guatemala, contributing favorably to the U.S. balance of payments situations.

In addition, there are over 150 multinational firms in Guatemala with U.S. equity participation. The attractive investment climate in Guatemala has consistently generated a positive net flow on the country's capital account more than sufficient to compensate for current

account deficits which in recent years has led to a remarkable growth in official reserves.

#### Guatemala Perspective on CACM

It is generally recognized that much of the industrialization that has occurred in Guatemala over the last twenty years is attributable to the formation of the Central American Common Market. A combination of external tariff protection and fiscal incentives has favored the growth of light industry producing primarily consumer goods. Guatemala has no general policy vis-à-vis the CACM concerning agricultural products. For fruits and vegetables, there have been significant exports to El Salvador; however, in the case of wheat there is no desire to trade with the CACM. When there is a deficit in basic grains, Guatemala generally prefers to import from lower cost suppliers, such as the United States. In general, trade among CACM members grew most rapidly during the first decade of the CACM, around 30% per annum. However, this growth rate dropped to roughly 11% during the second decade suggesting rapid exhaustion of regional import substitution opportunities. With respect to trade balances with other CACM members, Guatemala has consistently achieved significant trade surpluses vis-a-vis the other members, an indication that Guatemala has probably benefitted most from the trade arrangement.

#### Support for CACM Institutions

Given the economic benefits which Guatemala has enjoyed through the CACM, it is generally accepted that Guatemala will support treaty renewal in 1981. There are also other indications of Guatemala's support for CACM. Recently, Guatemala granted Nicaragua generous export credits

in order to reinforce trade relationships. Earlier this year, the Guatemalan Foreign Minister made overtures to the Dominican Republic concerning possible membership in the CACM. Finally, Guatemala continues to provide host country support to SIECA.

#### Guatemala's Chances of Entering the World Market

The current market distribution of Guatemala industrial exports indicates strong dependence on the regional. For example, in the three-year period ending in 1977, only 15% (\$27 million) of industrial exports went to world markets while 85% (\$155 million) was directed to the CACM. This contrasts strongly with the trade pattern for non-industrial exports over the same period. It is estimated that 94% (629.6 million) of non-industrial export went to world markets as compared to only 6% (\$40 million) to CACM countries. Furthermore, the rate of growth of exports to the rest of world now exceeds the rate of growth of exports within the CACM. This is indicative of Guatemala's traditional comparative advantage in agricultural exports contrasted with industrial exports which continue to depend on regional tariff protection. The result has been that agricultural exports, which are non-protected and taxed, have provided the foreign exchange to purchase industrial capital and intermediate goods necessary for the industrialization process. This process has been capital intensive and oriented to consumer goods production. However, the protected Common Market has not induced sufficient economies of scale in production nor generated sufficient incentives to compete in world markets. As a consequence, the Common Market generated a net of only an estimated 25,000 new jobs. A tendency towards gradual industrial stagnation due to exhaustion of

regional import substitution possibilities would obviously limit prospects for increased regional employment. A CACM policy of export promotion with emphasis on agro-industrial development has been endorsed by Guatemala and may well offer the best hope in the medium term for penetrating world markets. An expanded agro-industry development effort could lead to better utilization of the rural labor force; require less capital cost and could increase land productivity, etc. This policy could greatly improve CACM linkages to the rural poor and accelerate regional development in general.

## II. STRATEGY

### A. Overview

AID's development assistance strategy is to assist the GOG, within the context of its current Four-Year Development Plan, to increase the income and satisfy the basic human needs of the AID target group.

The target group, described in detail in Section I, reflects a further geographic concentration over last year's CDSS. The Mission made a conscious decision several years ago that AID programs could not reach all of the poor in Guatemala. They are too dispersed, too heterogeneous in terms of constraints to income improvement and reception of services to provide basic needs and they are too large a total group in proportion to the resources that AID may be expected to provide to Guatemala. Consequently, in 1976 we chose the poorest 206 municipios as identified by the Mission's rural poverty index. These included the population in the Central and Western Highlands, the Northern Transversal Strip and poverty pockets in the Eastern departments of the country.

Because of the funding constraints foreseen for FY 1980 and 1981, we have been forced to narrow the target group to the poor living in 140 municipios in the Highlands and those who choose to migrate to colonization areas in the Northern Transversal Strip and the Petén. In terms of target population, this represents a reduction of 23% -- from 447,000 families to 344,000 families.

The target area includes some 55% of the country's total rural population and about 65% of the rural Indian population. The reduction in geographic coverage also accords with the Mission's integrated development approach by permitting greater spatial concentration and complementarity of resource investments. Finally, geographic concentration will contribute to greater efficiency in USAID management at the projected resource levels and at reduced staffing levels.

AID's long-term development goals in this country, which are fully consonant with those of the Guatemalan Government, are to:

1. Increase the productive resource base of the target group;
2. Increase efficiency of the target group in the use of its productive resources; and,
3. Increase the access of the target group to relevant social services.

In order to achieve maximum development impact from the AID assistance program, the Mission has adopted an integrated regional development strategy. The choice of this strategy reflects the Mission and GOG desire to improve planning effectiveness and achieve greater efficiency in the allocation of development resources, while at the same

time provide greater opportunities for local participation in the development process. This strategy will assist the GOG to develop its regional development planning and implementation capacity so that internal and external resources are more effectively channelled to the target area. Administratively, the regional approach provides a logical frame of reference for data collection and analysis and provides a convenient geographic base for coordinating implementation activities of the various line ministries.

Integrated regional planning takes into account three dimensions of the planning process. First, there are the spatial relationships which delineate the rural economy and its links to urban centers. This will involve the application of central place theory to identify market towns and natural trade centers. Based on productive linkages and hierarchies of services, discrete projects can be formulated which will stimulate the rural economy. In addition, the regional geographic focus will enable the GOG to take better advantage of the cross effects that exist among projects. Secondly, public services and infrastructure can be analyzed in terms of functions and certain functional complementarities can be incorporated into project design and execution. Finally, there is sequential planning which involves the proper phasing of project activities and outputs so as to meet program objectives in a more efficient manner. A more optimal staging of interrelated projects will help avoid program bottlenecks and ensure that developmental constraints are addressed in a systematic way. The Mission believes that planning in this fashion will generate a more adequate criteria for investment decisions and better utilize development resources.

B. Integrated Regional Development Strategy

As indicated in our previous discussion of GOG commitment, rural development, with emphasis on AID's target area, has assumed first priority in the GOG's investment program and increased financing is being sought internally as well as externally to implement these programs. However, with increasing resource flows in the target area, the demands on the GOG's limited capacity to plan, coordinate and implement rural development investments becomes greater and more complex. If duplication and marginal investments are to be avoided and the greatest possible complementarity of investments is to be achieved, the GOG must be able to plan and administer resource flows in an integrated fashion.

The National Economic Planning Council will play a key role in carrying out the proposed development strategy by:

- Assessing needs and requirements for rural development.
- Developing a master rural development plan for investments in all sectors in the target area.
- Insuring that programs and projects of executing Ministries and agencies are in accord with the Master Plan.
- Monitoring national and sectoral budget planning.
- Ensuring coordination of external donor activities.

By legislation, the National Economic Planning Council (NEPC) has sufficient authority to carry out these functions. It is responsible for the Development Plan and reviews and approves Ministry programs, projects and budget submissions. The NEPC also reviews and approves all external financing agreements. At present, the NEPC's capacity to exercise

these powers efficiently is limited by the lack of an adequate data base and investment programming mechanism. Nevertheless, the NEPC seeks to ensure that individual projects, investment programs and annual budgets are in general accord with the objectives of the Development Plan and has, in fact, in several instances, cancelled or significantly modified projects and budgets of line Ministries which are not consistent with this criteria. However, the NEPC has been unable, up to this point, to analyze such documents in terms of their spatial and functional priorities and complementarity at the local level.

To improve the Planning Council's effectiveness, the Mission is financing an "Integrated Area Development Study" in the target area which is being implemented by the NEPC in conjunction with the Municipal Development Bank (INFOM) and the Ministry of Agriculture. The study will provide an estimate of agricultural potential and an inventory of supporting infrastructure requirements and services at the municipal level. On the basis of local agricultural potential, demographics and natural trade areas identified in the study, the NEPC will develop a regional development investment plan(s) for the target area designed to address critical infrastructure, resource and service gaps required to take maximum advantage of economic potential. This investment plan will be based on the spatial concept of a hierarchy of market towns and service centers serving their respective hinterland areas. AID is financing a similar study for the Franja Transversal del Norte. To further refine the NEPC's data base for planning of integrated regional development programs, the Mission is financing an urban poverty study of Guatemala City and secondary cities in the Highlands. This study, which will complement

the Integrated Area Development Study, is examining population and urban growth trends, migration patterns, urban employment and urban housing and services. The study will assist in identifying the unique relationship of secondary cities in the Guatemalan Highlands to surrounding rural areas as a source of employment and services.

It would appear that the other donors are moving towards a regional development approach as well. IDB, for example, has financed two important studies; one on regional growth poles and the other on the Chixoy watershed area. Applying this integrated regional development approach to its planning, program development and budget and project review functions will enable the NEPC to stimulate greater integration in planning of development activities at the local (municipal) level, both in AID's target departments as well as in the Northern Transversal Strip. The NEPC will also be better able to coordinate external donor investments, so that mutually supportive parallel financing arrangements will be feasible.

Effective implementation of an integrated regional development strategy will require strong administrative support and close coordination of relevant line ministries and implementing agencies. As already noted, the capacities and inter-institutional linkages of these GOG institutions have historically been weak. Although the GOG has taken some steps towards decentralization, a fully decentralized planning and administrative institutional framework is not foreseen in the medium term. Nevertheless, the GOG is moving towards a regionalization of its administrative structures and most national ministries now have established and delegated authority, in varying degrees, to field offices. The

Ministry of Agriculture now has seven agricultural regions with offices in each. The Ministries of Education, Health and Public Works are also organized along regional or departmental lines. Thus, while the administrative structure of most of these institutions provides an appropriate framework for local coordination and implementation of the regional development strategy, improvement of institutional capacities is critical to the Mission's strategy. The USAID program, therefore, calls for continued assistance aimed at upgrading human resources in the public sector and developing appropriate policies and institutional reforms in support of regional development activities. For instance, AID is financing a major training effort in the Public Agriculture Sector, including in-service and off-shore training programs. The currently active loan to INFOM includes a major institutional development component. The Mission is presently developing an administrative reform project with the Ministry of Education. Similar assistance is programmed for the health sector.

As the data base becomes available, initially the Mission proposes a series of AID-financed investments as a means of developing the requisite institutional capacities to implement a regional development approach. The proposed FY 1982 program in land resources and rural infrastructure will likely be the first major effort in this regard. This program will specifically finance several functional activities designed to improve agricultural productivity in the target area including, soil conservation, irrigation, forest management, access roads and municipal facilities (e.g., storage, markets, etc.). Depending upon funding availabilities, the Mission will select one or more natural production and

trade areas in which to implement the project and will prepare regional multi-sector investment plans for each, based on the municipal level data provided by the Integrated Area Studies. The Mission, working with the Planning Council, will then identify complementary on-going or planned investments of the GOG, AID and other donors directed at these areas and seek to program (or reprogram, to the extent possible) resources within the framework of these investment plans. This would represent the first effort of this type in Guatemala to coordinate investments at the local level within the context of a common integrated regional development plan. Implementation of the AID resource investments, as well as those of the GOG and other donors in the selected region(s), would be carried out by the regional or departmental offices of the relevant ministries. As the capacities of the NEPC and implementing institutions are developed, it is anticipated that other donor and internally-financed investments in the entire target area will be programmed and implemented by the GOG on the same basis.

#### Targets

The Mission targets related to its regional development strategy are as follows:

1. Generate a reliable statistical base and analytical tools to be used for policy formulation, budgeting and planning purposes.
2. Improve the quality of personnel working in public sector institutions responsible for providing services to rural areas through in-service and advanced training.
3. Expand services essential to rural development to localities identified as not presently being reached, but which have potential for economic improvement.

4. Encourage further decentralization of administration of public sector institutions and streamline the bureaucratic procedures utilized in implementing activities designed to provide services to rural areas.

C. Functional Integration Strategy

Within the overall framework of its regional development strategy, the Mission has selected a mix of complementary program elements designed to address the critical constraints to achieving the Mission's three long-term development goals. The following paragraphs describe each of the Mission's proposed program elements and their functional relationships in terms of these development goals.

1. Increase the Productive Resource Base of the Target Groups

Given the high rates of underemployment and seasonal unemployment in the target area, it is clear that the major relative resource scarcities are in land and capital. In order to stimulate increased employment, production and income, these two resources must be addressed.

The amount of arable land in the Highlands is, of course, fixed and has long been fully cultivated. Nevertheless, the land base is a function not only of size, but quality which can be affected by appropriate investments. The present low productivity of land in the Highlands target area and increasing population pressures sets the stage for a progressively worsening cycle of overuse and deterioration of the natural resource base. Pilot projects, which include capital financing for improvements of the land base, i.e., soil conservation and irrigation, have been initiated with AID support. These activities will be

continued, expanded and broadened to include forest management during the planning period.

In spite of potential improvements in land quality in the Highlands, the fixed land base is still not sufficient to support that area's growing population. Thus, in order to increase the amount of land available to the target group, AID is supporting the GOG's colonization program in the Northern Transversal Strip (FTN). The GOG estimates that the FTN and new land areas to be opened up in the Petén could provide 100,000 to 150,000 families with holdings of 15-25 hectares each. Movement of families from the target area will also increase land availabilities for those remaining in the target area, although such gains may only be temporary unless the rate of population growth is reduced.

The traditional problem of directed colonization under government sponsorship has been its high cost per settler and the large administrative structure developed by the institutions undertaking such efforts. The Mission is currently financing a pilot project in the Northern Transversal Strip to test an alternative colonization model administered through private sector cooperatives to reduce costs and give the settlers more voice in deciding on the form of cooperative organization and type of services they will require for productive use of this enlarged land base. The GOG role in this model is to facilitate the efforts of the cooperatives where possible and to provide the settlers with traditional public sector support services and infrastructure, e.g., roads, schools, health facilities, agricultural credit and technical assistance.

AID will continue to support the GOG's colonization efforts during the planning period, building on the experience of the current program to expand the program in the FTN, as well as the Petén, and will assist to further develop GOG and cooperative capacity to implement such activities. The GOG is also exploring the possibility of additional financing from the IDB and IBRD to support its colonization effort. It is anticipated that such financing, if forthcoming, would concentrate on expanding the infrastructure base and support services of the GOG in the Western FTN as a follow-on to the initial colonization activities.

It is clear, however, that even with the land opportunities offered in the FTN and Petén, along with land improvement efforts in the Highlands, the agricultural sector will not be able to provide sufficient employment for the rapidly growing Highlands labor force. Rural non-farm enterprise in the long-term must provide employment alternatives to absorb the labor overflow from the agricultural sector. As in the small farm sector, one of the serious constraints to expansion of small non-farm enterprise is a scarcity of capital. The Mission has recently initiated a small enterprise credit program with the National Finance Corporation (CORFINA) and will continue to support this activity during the planning period in order to increase the capitalization of small entrepreneurs.

#### Targets

The targets related to this developmental goal are as follows:

a. Colonization -- Demonstration of a successful colonization model for 5,000 families and replication of the program for an additional 12,000 families.

b. Land Quality Improvement -- 15,000 hectares improved through soil conservation, small-scale irrigation and forest management practices.

c. \$7.5 million expansion in credits to small-scale enterprises providing 6,000 new jobs.

2. Increase Efficiency of the Target Group in the Use of Available Productive Resources

The ability of the target group to increase its income is dependent upon efficiencies in the utilization of resources as well as upon improvements in the resource base. One of the important determinants of efficiency is the application of appropriate production technology for both on-farm and off-farm endeavors. The Mission's strategy, therefore, places heavy emphasis on research and development of technologies appropriate to farm and non-farm production in the Highlands target area. Agricultural production in the target area is presently concentrated on the traditional crops of corn and beans. Although these crops are important in terms of rural diets, they absorb relatively little labor and, even given the most optimistic projections of yields, cannot provide acceptable income levels on small land parcels. Fruits, vegetables and certain intensive livestock enterprises offer greater opportunity for more intensive use of labor and greater returns per unit of land and labor employed. The Mission, therefore, has programmed assistance to support GOG research and development of production and farm

management technologies related to these crops. The GOG has also initiated, with AID support, a program of applied research and development of technologies for small-scale non-farm enterprises. This research and development will concentrate on improving the efficiencies of existing small enterprise activities (e.g., small farm tools, agribusiness) which would offer increased market opportunities for small enterprise production.

Efficiencies in production are also dependent on the quality of human resources. New or improved work-related skills can increase productivity and also provide expanded employment alternatives for the rural poor. To develop the human resources in the target area, the Mission has programmed assistance to support a broad range of non-formal education and extension programs. Such programs have already proven effective as a means of upgrading human resources in traditional rural areas. In 1973 the LAC Bureau initiated a successful pilot Basic Village Education program which was followed by an expanded program in non-formal education currently underway. The Mission plans to continue assistance in this area during the planning period with the objective of further increasing coverage of the non-formal system. The Mission also plans to assist the GOG in improving the capacity and effectiveness of the Ministry of Agriculture to disseminate information on improved farm production and management technologies, particularly those relating the diversified crop production. Assistance will also be provided to the National Finance Corporation (CORFINA) to disseminate appropriate technologies and provide management training and technical assistance services to small-scale entrepreneurs.

Literacy also can make an important contribution to the quality of human resources by increasing access to and acceptability of new technologies and has a proven relationship to income-earning capacity. In formal education, AID is providing assistance to the GOG to increase access to primary education by improving the capacity, internal efficiencies and relevance of the rural primary education system. With respect to relevance, major emphasis will be placed on basic vocational skills training related to rural production. Over the planning period, the AID program will concentrate increasingly on the "software" elements of the system relying on the assistance of other larger donors to provide the increased physical plant needed to expand the system. AID assistance will focus heavily on developing the human resources of the MOE (training of teachers and administrative personnel), further development of relevant teaching materials curriculum and a major technical assistance package to develop a bilingual education program at the pre-primary and first and second grade levels.

A number of factors external to the productive enterprise also affect production efficiency in the Altiplano. In large measure, these factors involve public sector infrastructure and services. Expanded production of higher value cash crops implies the need for improved marketing infrastructure and services, access roads and electric power. Likewise, increased decentralization of industry requires increased supportive municipal services, energy and transportation infrastructure. Resolution of these external constraints to increased on- and off-farm productivity present a major element in the Mission strategy. Accordingly, the Mission's proposed 1982-1985 program will pro-

vide support for the GOG development goal of increasing investments in rural infrastructure. AID assistance will focus on small-scale infrastructure leaving the financing of major investments to the international development banks. A major objective of this assistance will be the development of institutional capacities of the Municipal Development Bank (INFOM), the Ministry of Public Works and municipal governments to implement critical small-scale infrastructure projects, e.g., access roads, markets, municipal facilities, industrial parks and electric power distribution systems. In order to maximize the secondary benefit of these activities, i.e., rural employment, emphasis will be placed on labor-intensive construction techniques, particularly with respect to access roads. Certain private sector support facilities also affect production efficiency, in particular those related to marketing. To improve marketing of non-traditional crops, the Mission has programmed assistance to cooperatives to construct market facilities and develop more efficient market channels. Increased marketing efficiency of these crops is critical in order to realize the full potential benefits of improvements in the land base and agricultural production technology.

#### Targets

Mission targets related to the goal of increased efficiencies are as follows:

- a. Diversified Crop Technology -- increase the number of target farmers growing high-value, labor-intensive crops from 26,000 to 100,000 over the planning period,
- b. Small Enterprise Technology -- finance 5,500 small rural enterprises over the life of the activity; 2,000 small entrepreneurs

receive management training through 100 short courses; 30 credit agents trained and offering assistance to small business operators; CORFINA making 1,000 loans annually averaging \$1,500 each.

c. Education -- increase target area enrollments by 12% over that of 1979; increase retention rate up to 20% over 1979 for monolingual Indian children in pre-primary through second grade; increase coverage of bilingual education program from 3% to 5% and expand scope of program from pre-school to first two grades.

d. Non-Formal Education and Extension -- coverage of 30% of the target population or some 250,000 people by 1980; provide training in non-formal education to 60,000 persons through four new field offices and three radio stations in 1980.

e. Rural Public Sector Infrastructure -- 75,000 new rural electric system hook-ups; construction of rural access roads at rate of 200 Kms. per year; investment in municipal infrastructure increased from \$10 million per year to \$25 million per year.

3. Increase the Access of the Target Group to Relevant Social Services

In the longer term, increases in relative incomes resulting from programs in the productive sectors will enhance the ability of the poor majority to satisfy the full array of basic human needs. Nevertheless, the Mission and the GOG have identified certain immediate and critical needs which impact directly on the well-being of the poor majority and thus warrant direct interventions through the social sectors. These needs are fully described in the foregoing description of

the poor majority. The Mission's strategy for addressing these needs is to increase access of the poor majority to relevant social services; specifically, those related to health, nutrition, family planning and shelter.

a. Health

Despite efforts to improve health conditions in rural areas, data indicate that the situation is worsening. Aside from the constraint posed by limited financial resources, there are significant institutional deficiencies in terms of human resources and organization which limit the MOH's ability to provide an effective and efficient integrated health delivery system which could address the needs of the rural poor. These deficiencies are particularly apparent at the lower end of the MOH institutional structure, i.e., in the rural outreach system. That portion of the system below the level of the rural hospital (health center, health post and community level) is seriously lacking in terms of trained medical auxiliaries, supervisory personnel, and management and administrative systems. The lack of administrative management capability has impeded progress in the major areas where significant opportunities exist for improving rural health conditions; i.e., (1) coverage of the system; (2) quality and relevance of existing services; and, (3) the provision of environmental sanitation facilities,

Accordingly, the Mission's program in the health sector is designed to expand the outreach and effectiveness of the GOG's rural health system and to improve the sanitary environment of the rural poor. Several important elements are already in place, or being developed, including training facilities for personnel and a network of 636

health centers and health posts. The Mission's objective during the planning period is to institutionalize the concept of integrated primary health care by establishing a community-based delivery capability supported by these health posts and MOH auxiliary health personnel. The Mission's strategy involves: (1) the institutionalization of the GOG's plan for extension of health services by equipping and staffing health posts in three departments; (2) implementation of community-level sub-projects in environmental sanitation and primary health services with emphasis on preventative medicine; and, (3) replication of the integrated health system in other areas and a continuation of the training program, activities in primary health care and monitoring of the system.

b. Nutrition

The Mission views the low nutrition levels of the target groups as a multi-sectoral problem which is a function of income, availability of preventive health services, environmental sanitation, family education and population growth. Accordingly, Mission initiatives in the area of nutrition form an integral part of a number of the proposed activities. For example, nutrition education will be a major element of the medical auxiliaries' activities and nutrition information will be included in the non-formal education programs. The proposed increased emphasis on rural water supplies is also designed to reduce the high rates of diarrheal disease and thereby address the malnutrition problem. The direct input of P.L. 480, Title II resources will decline slightly during the planning period as the GOG's national nutrition policy results in projects utilizing locally-produced foods for supplemental feeding of the "at risk" population. In 1978, the

GOG assumed complete responsibility for the school feeding program, allowing CARE and CRS to focus on Maternal-Child Health Care programs and Food for Work projects. Between CARE and CRS, almost one-quarter of a million people are benefitted. In addition, CARE has organized a Food for Work project involving Peace Corps, the Ministry of Agriculture and the communities in reforestation. Over one million seedlings were planted under this program.

c. Population

A recent Ministry of Health decision to participate with AID and APROFAM, the private family planning association, in a tripartite family planning project constitutes a dramatic departure from the GOG's prior position on family planning, which had been characterized by varying degrees of disassociation and even occasional anti-family planning polemics. The proposed project will formally involve the MOH in the active implementation of family planning activities. Moreover, the dispensing of contraceptives by para-medical personnel will be given official sanction, making possible the utilization of the Ministry's rural health delivery system, as well as the organizational infrastructure of private sector institutions such as cooperatives, to expand the availability of family planning services.

In taking advantage of the positive shift in the GOG position on family planning during the planning period, the Mission will encourage a progressively greater role by public sector institutions as active participants in family planning programs. At the same time, we will continue to support APROFAM as a center of expertise. The expansion of availability of family planning services and information among

the poor majority will encompass the indigenous as well as Ladino populations, with special emphasis on the indigenous population, who have always exhibited a markedly lower degree of receptivity to family planning.

d. Shelter

In the GOG's "Social Action Plan", shelter programs are given highest priority as a means of stimulating employment in the short term. The Plan calls for reprogramming of on-going housing programs to emphasize low income shelter solutions and to accelerate the rate of housing construction from 5,000 units/yr. to 25,000 units/yr. AID currently has contributed \$19 million of regional HIG resources to a \$30 million CABEI housing loan to Guatemala's National Housing Bank (BANVI). Construction on this project is not yet underway and it is possible that CABEI and AID may be requested by the GOG to approve a reprogramming of these funds to meet the needs of the Social Action Plan. The Mission recommends that every effort be made to accommodate such a request should it materialize.

The AID-financed Urban Poverty Study, currently underway, will provide the basis for the Mission's shelter program. During the planning period the Mission's shelter strategy is to use HIG and grant funds to: attract savings and other funds available in the private capital market so as to provide BANVI with a more reliable source of funds for its low-income shelter programs; provide technical assistance and training to strengthen both BANVI's and the National Federation of Housing Cooperatives (FENACОВI) institutional capabilities to promote and implement low-cost shelter programs, as well as to collaborate

more effectively with each other and with private housing finance institutions; and, increase the level of private sector shelter activity, primarily with regard to satisfying the demand of lower income groups and also with a view to expanding formal sector shelter activity outside Guatemala City, initially in secondary cities.

It is expected that, as the measures to strengthen the housing finance system begin to take effect, AID strategy will concentrate on and emphasize the objectives of expanding formal sector shelter activity in secondary cities, market towns and small rural settlements. Such a strategy will involve continued assistance to the housing cooperative movement, financing for the provision of individual or collective basic services such as water and waste control, small home improvement credit programs, and cooperative sites and services projects in rural towns. AID's emphasis on secondary cities and cooperative shelter programs complements the investments of other donors, in particular IBRD, who are concentrating on shelter financing in the capital city. The IBRD is presently negotiating new financing which focuses on upgrading the squatter settlements which arose after the 1976 earthquake.

The Mission's targets related to social services are as follows:

-- (i) access to health services will be expanded from 30% of the population covered to 60% during the next five years; (ii) access (household connection) to water will increase from 10% to 20% of the rural population; (iii) the number of latrines will triple over the 5-year period in the rural areas; (iv) reduction in the incidence

of malnutrition in the pre-school age population and in pregnant and nursing mothers by 30%; and, (v) reduction in the infant mortality rate from 79/1,000 to 60/1,000.

-- Reduction of birthrate from 44/1,000 to 39/1,000 and to increase the percentage of women in fertile age who are actively contracepting from 13% to 18%.

-- (i) water and sewer hook-ups and other urban services for 16,000 families; (ii) low-cost cooperative housing projects for 2,000 families; and, (iii) home improvement loans for 2,000 families.

#### D. Special Concerns

##### 1. Environment

Environmental concerns to soil depletion and deforestation are an integral part of the Mission's strategy related to increasing the productive base of the target group as indicated above. In addition to these activities, however, the Mission plans to support GOG efforts in addressing other environmental concerns over the planning period, e.g., pollution. The Mission specifically proposes to provide technical assistance and institutional development support to assist in elaborating and implementing environmental legislation which is currently being prepared for submission to the GOG Congress. This legislation will establish a secretariat to study environmental problems, identify priorities, establish environmental standards and regulations and coordinate the implementation of environmental programs with relevant GOG entities, e.g., the Forest Management Institute (INAFOR) and Ministries of Agriculture and Health. The AID/W-financed environmental profile, current-

ly being carried out, will thus be extremely useful in providing an initial data base for the proposed secretariat as well as for the Mission in designing environmental activities.

## 2. Tax Reforms

The GOG commitment to expanding the role of the public sector in order to stimulate greater socio-economic equity implies an increase in the size of the GOG public sector and an increase in public sector revenues. In recognition of this, the GOG has initiated actions and is seeking AID assistance to increase the efficiency and equity of the GOG tax system. While the initial steps of the GOG relate to tax assessment collection and audit procedures, it is clear that, to provide sufficient internal financing for a rapid expansion of its rural development efforts, the tax system will have to be modified to capture a greater percentage of GDP. Given the fundamental importance of tax reform to AID and GOG development objectives, the Mission is programming resources to provide technical assistance to the GOG in this effort.

## 3. Energy

The GOG planning efforts and investments related to hydroelectric power and petroleum are being fully supported by other donors and the private sector. The Mission is therefore limiting its assistance in the area of energy to that which relates directly to the target group. Thus, the Mission strategy is to support the expansion of the electrical power distribution system to low-income users and to finance research and development on appropriate energy technologies for the rural areas. To the extent that energy is determined to be a critical constraint to expansion of small-scale rural enterprise, or to improved

farm management it will be incorporated into the appropriate technology research and development programs financed by the Mission. Mission assistance programmed for improving forest management in the target area will place heavy emphasis on the wood-fuel aspect of the problem, since Guatemala is the Central American country most heavily dependent upon this type of energy. Decreasing availability of fuel-wood and increasing costs of petroleum energy sources are a severe problem in parts of Guatemala. Due to the decreasing availability of fuelwood, Guatemala has been chosen as one of the major sites for research and demonstration activities under ROCAP's regional Fuel-Wood and Alternative Energy project which will be implemented by ICAITI, located in Guatemala and CATIE, located in Costa Rica. One other regional organization located in Guatemala and several local organizations will cooperate in the project. SIECA will provide economic data; CEMAT, Central American Institute for Appropriate Technology, and Choque, an experimental station in Quetzaltenango, will assist in the stove technology; University of San Carlos and INSIVUMEH, the meteorological institute, will work in the area of solar energy and INAFOR, the National Forestry Institute, will cooperate with CATIE in the development of fast growing tree species.

#### 4. Women in Development

Until now, very little research has been done on the status of women in Guatemala and public and private sector WID activities. In an effort to bridge this information gap, the Mission plans to carry out a study in FY 1980 which will analyze socio-economic data on women, inventory organizations' WID activities and make recommendations for a bilateral program. As part of the FY 1981 OPG program the Mission plans to include at least one WID project, based on the results of this study.

A Mission project team was established recently and has been working with several local women's organizations to establish a confederation. The team will be responsible for ensuring that the Mission's proposed grant and loan projects integrate components which will directly benefit and improve the status of women.

E. Other Donor Coordination

The current loan portfolio of the principal multi-lateral lending institutions in Guatemala totalled \$500 million at the end of 1979. Of this amount, the IDB has a portfolio of active loans totalling \$265 million; IBRD \$194 million; and CABEI \$41 million. Approximately 44% of this total has been provided for hydroelectric power generation, 4% for power transmission; 12% for education and health programs; 6% for telecommunications; and, 5% for road construction. In addition, commitments by other donors for technical assistance currently exceeded \$10 million a year. Besides AID, which provides 25% to 30% of total technical assistance funds, UNDP is providing an average \$2 to \$3 million annually to assist a variety of Guatemalan institutions in the areas of national planning and programming, statistics, budget development, management of petroleum resources and industrial planning. UNICEF and UNESCO are supporting non-formal education projects, and the OAS has programmed grants of \$725,000 and \$750,000 for 1980 and 1981 to fund small industry and handicraft development, educational research, regional development and arid parts of the Highlands and pre-feasibility studies in priority areas indicated by the National Development Plan.

The West German Government is also active in Guatemala and has provided technical assistance to develop a master plan for hydro-power generation.

An informal division of responsibility has traditionally existed among the major donors. Within this context, the IDB has concentrated on urban infrastructure, transportation, hydroelectric power generation and higher education; IBRD on telecommunications, ports, hydroelectric power generation and secondary education; CABEI on tourism infrastructure, housing telecommunications and roads; and AID on small farm agriculture, primary and non-formal education and rural health.

However, recent Central American political events have stimulated increased interest within the GOG in accelerating its rural development efforts. This coincides with the new mandates of the major donors such as the IDB and World Bank to direct greater amounts of resources at the problems of the rural poor. The recent entry of these major donors into areas of priority AID concern such as rural health and nutrition, primary education, rural housing and small farm production, as well as their apparent willingness to attempt higher risk programs in some of the poorest areas of the country, has created the potential as well as the need for closer collaboration with AID.

Because AID's financial resources are modest in comparison to those available from the International Development Banks, our strategy is to create or strengthen the capacity of Guatemalan institutions both public and private, to replicate on a wider scale with other donor funding, low-cost rural outreach projects which have been proven successful using AID risk capital.

In addition, our in-country field staff, along with AID's extensive experience as leader in rural development, gives us the unique

capability to support innovative activities which embody new concepts or developmental approaches, or in which experimental delivery systems are introduced and new technologies are tested.

This AID strategy has already achieved notable results. The regional-satellite rural school model, successfully completed on a pilot basis under a prior AID loan, has become institutionalized within the MOE. The World Bank has recently begun negotiations with the MOE to expand the coverage of this cost-effective program nationwide. The World Bank's entry into rural primary education will relieve AID of the financial burden of even this type of small-scale infrastructure investments in the education sector and will permit us to concentrate our limited resources on the difficult areas of bilingual and basic skills training as well as administrative reform of the MOE.

The AID colonization model of organizing settlement of Highland Indians in the Northern Transversal Strip, which relies heavily on the active participation of Guatemala's cooperative federation, and allows the settlers the right to determine for themselves the form of cooperative organization most suitable to their socio/cultural characteristics and local use constraints, has since been adopted by the GOG as the model for future development of the FTN and southern Peten. The IDB is currently considering a major \$15-20 million loan to replicate the AID model in the Western Transversal Strip.

AID has recently been exploring with the IDB the possibility of alternative financing mechanism to support the GOG's regional development efforts in the Western and Central Highlands. While joint fi-

nancing does not appear to be a viable method of cooperation given AID and other donor regulations, design and implementation requirements and financial controls, parallel financing may present a practicable approach for increasing international donor coordination, improving implementation efficiencies, and reducing duplication of resource inputs.

An IDB team visit is currently scheduled for early CY 1980 to work with AID and the Ministry of Agriculture to develop a comprehensive program to improve small farmer incomes in the Western and Central Highlands by stimulating diversification of production away from basic grains to high value labor-intensive crops such as fruits and vegetables. This program will require significant public sector investment (interlinking components of which will be supported by AID and IDB) in adaptive research and extension, new on-farm technologies including irrigation and soil conservation, credit, transportation facilities and regional markets.

The IDB and OAS are also financing a series of planning studies for future regional development programs in the Rural Highlands. These studies will draw heavily on the on-going AID Integrated Area Development Studies. This AID-financed study, which will be completed in 1980, will compile a comprehensive resource data base and analyze the socio-economic relationship between market towns, secondary cities and their surrounding rural hinterlands; and identify gaps in rural infrastructure and services necessary to stimulate regional economics development. This analytical data base and programming mechanism will help ensure that future international donor investments in the target area are planned and implemented in accordance with a common set of priorities and will, thus, provide for increased opportunities for parallel fi-

nancing in the context of an overall integrated regional development effort.

The Mission finally sees significant opportunities for enhanced coordination of PVO and Peace Corps programs in Guatemala, given their orientation and unique capacities for implementing grass roots development activities.

The Mission has thus initiated in collaboration with Project HOPE and the Peace Corps the elaboration of an integrated rural development project to be carried out in San Marcos, one of the poorest departments in the Guatemalan Highlands. As an initial step, the Mission is financing a joint Project HOPE-Peace Corps study of development constraints and potential opportunities to increase rural incomes and provide essential social services in this department. The results of this study will form the basis for the design of an integrated rural development project to be financed by AID and implemented jointly by Project HOPE and the Peace Corps.

The Peace Corps has agreed to recruit and assign technically qualified Peace Corps volunteers to carry out its responsibilities under the project.

#### F. Efficiency Measures

The Mission has examined the full range of efficiency measures suggested by AID/W in the CDSS instruction and as indicated earlier, has refocused its strategy in an attempt to insure maximum program impact in spite of reduced staff and funding levels. A phase-out of this Mission does not appear to us to be in the interest of the U.S. Government at

this point in the political and economic history of Guatemala and of Central America. In fact, the reduction of the funding level to one which makes the U.S. assistance program all but inconsequential in terms of influence seems politically shortsighted at this juncture.

We have narrowed the geographic target area to include the portion of the poorest rural dwellers that we can deal with effectively given the constraints cited. At the current funding level, a reduction in the number of sectors programmed for assistance is a very real possibility. In essence, the program at the level proposed for 1980-1981 would alternate loans from sector to sector annually, with perhaps a health loan in FY 1980, followed by an agricultural production loan in FY 1981 and an education loan in FY 1982. If funding were not a constraint, we would be reluctant to eliminate a sector such as education or health since they are important elements of the strategy to lead the way in demonstrating the feasibility of new and innovative approaches to providing basic services.

We will be increasing other donor coordination as described in the previous section and, hopefully, initiating parallel funding with at least one of the major multilateral lenders. While we do see opportunities for improved cooperation and collaboration with intermediary organizations, we will continue to work primarily through the appropriate Guatemalan institutions. The Mission is in the process of designing a loan utilizing Title XII institutional resources; however, we do not think that Title XII personnel are substitutable for U.S. direct-hire Mission staff. University personnel are highly equipped to assist in program implementation in the technical sense, but they do not replace

AID people in the management of projects. The two activities are very distinct and call for different sets of training, skills and prior experience. Although the Mission will continue to fund PVO programs, because of decreased funding levels such funding will generally be limited to those of a pilot experimental or "target of opportunity" nature. The Mission has found that PVOs are not an efficient channel for major resource flows, but rather are extremely labor-intensive per dollar of assistance in terms of Mission management time. And, while effective in carrying out small-scale projects with grass-roots organizations, their reach is limited. Rural transformation on a broad scale can only be accomplished by the policies and programs of the public sector.

If financing for the proposed integrated regional development program or funding for GOG reform efforts is forthcoming, we will certainly be developing a number of larger projects, incorporating cross sectoral elements directed at one or more of the goals -- improving or expanding the resource base; improving productivity or providing basic services. Finally, there are definite possibilities for utilization of host country analysis, particularly university and regional sources, for many of the studies and analyses that the Mission requires. At this point, we do not see a precise role for these elements in the management of AID projects. Among the studies for which we will be seeking assistance from local or regional sources over the coming year are: inflation in Guatemala and its impact on the rural poor; income distribution in the target area; housing and other infrastructure needs in secondary cities and rural areas; and, income effects of public sector fiscal policy.

### III. ASSISTANCE PLANNING LEVEL

As described in the foregoing section on strategy, at least two new and significant factors are at play this year which were not present at the writing of the prior CDSS: much stronger and more tangible evidence of a shift in attitude by influential elements of the GOG regarding reforms and action programs needed in the rural areas; and, a "belt-tightening" strategy by the Mission, forced by funding cuts, which has resulted in a reduction of the geographic areas targeted for assistance.

Because of the uncertainty still surrounding the extent to which the GOG will follow through on its reform programs, USAID/Guatemala is faced with three funding modes:

#### Level I

The current low level, which we consider a token program. This level maintains U.S. aid presence, but relegates the AID program to about the level of the UNDP technical assistance effort or the assistance offered by the West German Government, with roughly a corresponding reduction in influence.

#### Level II

A mid-level, at which the AID program would be able to provide modest support to the GOG's integrated regional development efforts in the Highlands and would be able to assist in a limited number of reform activities proposed by the Social Action Plan.

#### Level III

An expanded level for a program under which we would be able to carry out the basic integrated rural development strategy and provide

financial and technical assistance to help the GOG to accelerate major reforms and rural development efforts.

It is more than slightly ironic that at a point in Guatemala's recent history when the country seems most susceptible to social unrest and instability and the GOG at last seems to have something approaching an acceptable degree of commitment to taking steps to alleviate rural poverty, the U.S. is engaged in a major reduction of its economic assistance program. If the reform rhetoric and planning reach the stage of specific action programs, this Mission will be unable to take an active role given its present level of funding. To support such a reform program in any timely and meaningful way would require an initial level of \$16 to \$20 million annually for FY 1980 and 1981, increasing to between \$18 to \$22 million annually over the planning period.

At this level, (Level III), AID would be able to make a significant contribution in terms of a program which would (1) create a GOG capacity to analyze constraints, identify solutions and plan a regional development effort; (2) carry out a number of demonstration projects in regional integration which would be models for future GOG initiatives. This experience would provide the GOG with improved planning capacity and project-acquired experience which would allow it to elicit and effectively utilize funding from other international donors. Such a level would also allow the Mission to allocate resources to special efforts the GOG might give to major social reform programs in either rural or urban areas under the proposed Social Action Plan.

A continuation at the level of the funding currently proposed for Guatemala by AID/w for FY 1980, 1981 will mean, in effect, a token program

which, if very narrowly concentrated geographically, can assist in development for a few of the poorest municipios and provide limited support to the land colonization program in the FTN and the Petén. It will not permit execution of a fully integrated regional development program and would force us to eliminate or radically reduce activities in one or more sectors each year. It will not provide funding in time or of a magnitude sufficient to aid the Government to carry out the aims of the National Development Plan, nor assist in the Social Action Plan for immediate- and medium-term programs for the rural poor; neither will it provide any indication of U.S. interest in or support for GOG effort in correcting social inequities. Such a level would allow the Mission to meet only the on-going requirements of the current grant program, undertake a single loan annually at a level of about \$5 to \$6 million and initiate a maximum of perhaps two new grants a year.

HIG and P.L. 480, Title II resources will be important complement to other rural programs planned for the Highland regions. HIG will be used to upgrade rural communities and secondary cities and provide labor-intensive employment opportunities in the rural areas. P.L. 480, Title II commodities will continue at the same or a slightly decreasing level of between \$4 and \$4.5 million a year.

The AAPL established by AID/W should be sufficient to carry out the proposed program at Level III and would mean a loan program of some \$20 million annually and \$2.5 to \$3.0 million per year in grants.

In FY 1980, a rural health effort is planned. The activities will emphasize construction of community level water systems, environmental sanitation and health outreach efforts focusing on preventive medicine.

Auxiliary nurses and outreach personnel will receive training in preventative primary health care and health and nutrition education. A follow-on effort covering the same activities but in a different area of the Highlands is planned for 1985. In FY 1981, efforts at the diversification of crops are planned. Further programs directed at improving productivity are scheduled for FY 1984 and 1985, when agribusiness, crop diversification and activities to stimulate the export of diversified crops will be undertaken.

Secondary cities will be targets for development in 1983 and the Mission anticipates major funding requirements for land settlement and ancillary services (in 1982 as more migrants leave the Highlands and attempt to resettle in the Northern Transversal Strip or the Petén). Education communication in formal and non-formal education programs are scheduled for 1983 and 1985. An integrated regional development program is planned for the area of the Chixoy watershed in 1986. USAID also plans to assist in the creation of a Women's Development Foundation in 1983 which will undertake a variety of programs intended to improve the economic and social condition to women in Guatemalan society.

#### Staffing Levels

The Mission has received a reduction of four direct-hire U.S. positions for FY 1980 -- from 20 to 16. At a continuing funding level of about \$8 million per year, this personnel pattern would be sufficient to manage and execute the program. However, at the level proposed to carry out a meaningful regional development program, i.e. about \$20 million a year, a staff of at least nineteen U.S. direct-hire would be required, or the Mission's ability to respond to PVO requests for OPGs

will be impaired and the management of other projects would be unacceptably thin. This would be a doubling of the current funding level using the same number of staff as are now on-board.

USAID STAFF

<u>U.S. Direct Hire</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>	<u>84</u>	<u>85</u>	<u>86</u>
Director	3	2	3	3	3	3	3	3
Program	3	2	3	3	3	3	3	3
Loan	3	3	3	3	3	3	3	3
Engineering	1	1	2	2	2	2	2	2
Agriculture	4	4	4	4	4	4	4	4
Education	2	1	2	2	2	2	2	2
Health/Population	2	2	2	2	2	2	2	2
Executive	<u>2</u>	<u>1</u>						
TOTAL	20	16*	20	20	20	20	20	20

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\* If proposed reduction of four positions is required.

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<u>Local National</u>	<u>79</u>	<u>80</u>	<u>81</u>	<u>82</u>	<u>83</u>	<u>84</u>	<u>85</u>	<u>86</u>
Direct	36	37	38	38	38	38	38	38

RESOURCE TABLE

(\$ Millions)\*

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
I. Improvement in Productive Resource Base of the Target Group					
A. <u>Colonization</u>	<u>20.0</u>				
1. Project Technical Assistance	1.0				
2. Cooperative Facilities and Services	6.0				
3. Farmer Credit	6.0				
4. Technology Development	1.0				
5. Roads and Social Infrastructure	6.0				
B. <u>Natural Resources and Improved Use of Land</u>					<u>11.0</u>
1. Project Technical Assistance					2.0
2. Small-Scale Irrigation					4.0
3. Soil Conservation					3.0
4. Forest Management					2.0
C. <u>Basic Infrastructure</u>		<u>8.0</u>			<u>5.0</u>
1. Public Infrastructure					2.5
2. Access Roads					2.5
3. Municipal Services		8.0			
II. Improve Efficiency of Target Group in the Use of Available Productive Resources					
A. <u>Intensified Production of High-Value Crops</u>		<u>6.0</u>	<u>20.0</u>	<u>6.0</u>	<u>4.0</u>
1. Project Technical Assistance			2.5	1.0	
2. Technology Development			1.5		

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\* Forward funding shown for all grants starting during the planning period.

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
3. Technology Extension			4.0	2.0	1.5
4. Credit			11.0	1.0	2.5
5. Input Supply System			1.0		
6. Marketing				2.0	
7. Other Rural Enterprises		6.0			
<u>B. On-Going Projects Started Before Planning Period</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>		
<u>C. Program Development &amp; Support</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
<u>III. Increase Access of the Target Group to Relevant Social Services</u>					
<u>A. Non-Formal Education</u>		<u>2.5</u>		<u>6.0</u>	
1. Technical Assistance		0.5		1.0	
2. Education Communications		1.0		5.0	
3. Multi-Sector NFE Integration		1.0			
<u>B. On-Going Projects</u>	<u>1.0</u>	<u>1.0</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>
<u>C. Program Development and Support</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
<u>D. Increase Access to Potable Water</u>				<u>4.0</u>	
1. Technical Assistance				1.0	
2. Water Systems				3.0	
<u>E. Improve Preventive Outreach System</u>				<u>3.0</u>	
1. Training				2.0	
2. Equipment for Health Posts				1.0	
<u>F. Improve Training Capacity</u>				<u>1.0</u>	
1. Village Health Workers				1.0	
<u>G. On-Going Projects</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.5</u>	<u>0.5</u>
<u>H. Program Development and Support</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
I. <u>Population</u>		<u>2.0</u>			
1. Expand Public and Private Sector Availability of Family Planning Services		2.0			
J. <u>On-Going Grants</u>	<u>0.6</u>	<u>0.6</u>			
K. <u>Program Development and Support</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
L. <u>Special Development Activities</u>	<u>0.1</u>	<u>3.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
1. Special Development Fund	0.1	0.1	0.1	0.1	0.1
2. Women in Development Foundation		3.0			
M. <u>Program Development and Support</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
TOTALS	<u>23.1</u>	<u>24.6</u>	<u>22.1</u>	<u>21.8</u>	<u>21.8</u>

SUMMARY BY APPROPRIATION ACCOUNT

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
AG, RD & N	20.5	14.5	20.5	6.0	20.0
EH	1.0	3.5	0.6	6.7	0.7
HE	0.4	0.4	0.4	8.5	0.5
PN	0.6	2.6	--	--	--
SD	0.1	3.1	0.1	0.1	0.1
Sub-Total	22.6	24.1	21.6	21.3	21.3
PD&S	0.5	0.5	0.5	0.5	0.5
HIG	--	--	--	--	--
P.L. 480, Title II	4.7	4.5	4.5	4.0	4.0
TOTAL	27.8	29.1	26.6	25.8	25.8

Table 1  
Government of Guatemala  
Public Sector Investment Expenditures  
Analysis of Budgeted and Actual  
1974-1980  
(\$000)

	1974		1975		1976		1977		1978		1979		1980	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Total Public Sector Investment Expenditures	128,936	103,664	115,932	94,988	376,829	256,753	320,921	226,342	371,702	259,421	394,108	275,876	484,302	484,302
1. Health Sector - Total For Sector In Rural Area -	5,289	4,215	3,660	2,593	15,260	2,523	19,757	7,255	18,577	5,161	28,287	17,458	33,967	33,967
		4,215		2,593		2,523		7,255		5,161		15,252	32,387	32,387
2. Agriculture Sector - Total For Sector In Rural Area -	22,814	21,661	18,596	14,924	11,586	10,563	13,293	8,510	28,035	21,390	33,160	26,659	33,322	33,322
		7,794		9,337		8,930		5,096		12,588		23,940	25,320	25,320
3. Education Sector - Total For Sector In Rural Area -	7,273	4,654	3,998	3,338	5,015	4,340	3,839	2,240	4,431	2,232	7,473	2,753	10,804	10,804
		3,814		3,281		3,205		1,902		1,719		1,933	10,011	10,011
4. Energy Sector (Rural Systems Only) Instituto Nacional de Electrificación (INDE) -	8,289	7,669	9,378	8,955	10,566	9,408	10,174	8,857	14,901	10,908	11,037	8,905	10,428	10,428
5. Decentralize Agencies:														
-Instituto de Fomento Municipal (INFOM) -	3,760	4,087	3,733	3,273	9,930	6,282	13,617	7,933	14,739	8,616	15,854	9,992	18,552	18,552
-Instituto Nacional de Transformación Agraria (INTA) -	847	590	614	602	637	647	3,310	2,060	2,347	1,741	7,817	6,283	11,497	11,497
-Empresa de Fomento y Desarrollo del Petén (FIDEP) -	864	403	950	934	3,826	3,818	3,183	3,103	3,189	3,321	3,179	3,112	4,342	4,342
-Secretaría de Bienestar Social -							4,099	4,099	2,388	743	2,068	1,333	1,046	1,046
-Desarrollo de la Comunidad -	285	273	187	187	1,100	1,032	1,000	893	845	793	912	861	1,845	1,845
Total Expenditures (1-5)	49,541	43,552	40,917	34,806	57,938	37,913	72,277	44,952	89,232	54,927	109,807	77,380	126,003	126,003
Total Rural Expenditure	28,845	28,182	28,182	28,182	35,167	35,167	41,200	43,592	43,592	43,592	43,592	71,835	115,608	115,608

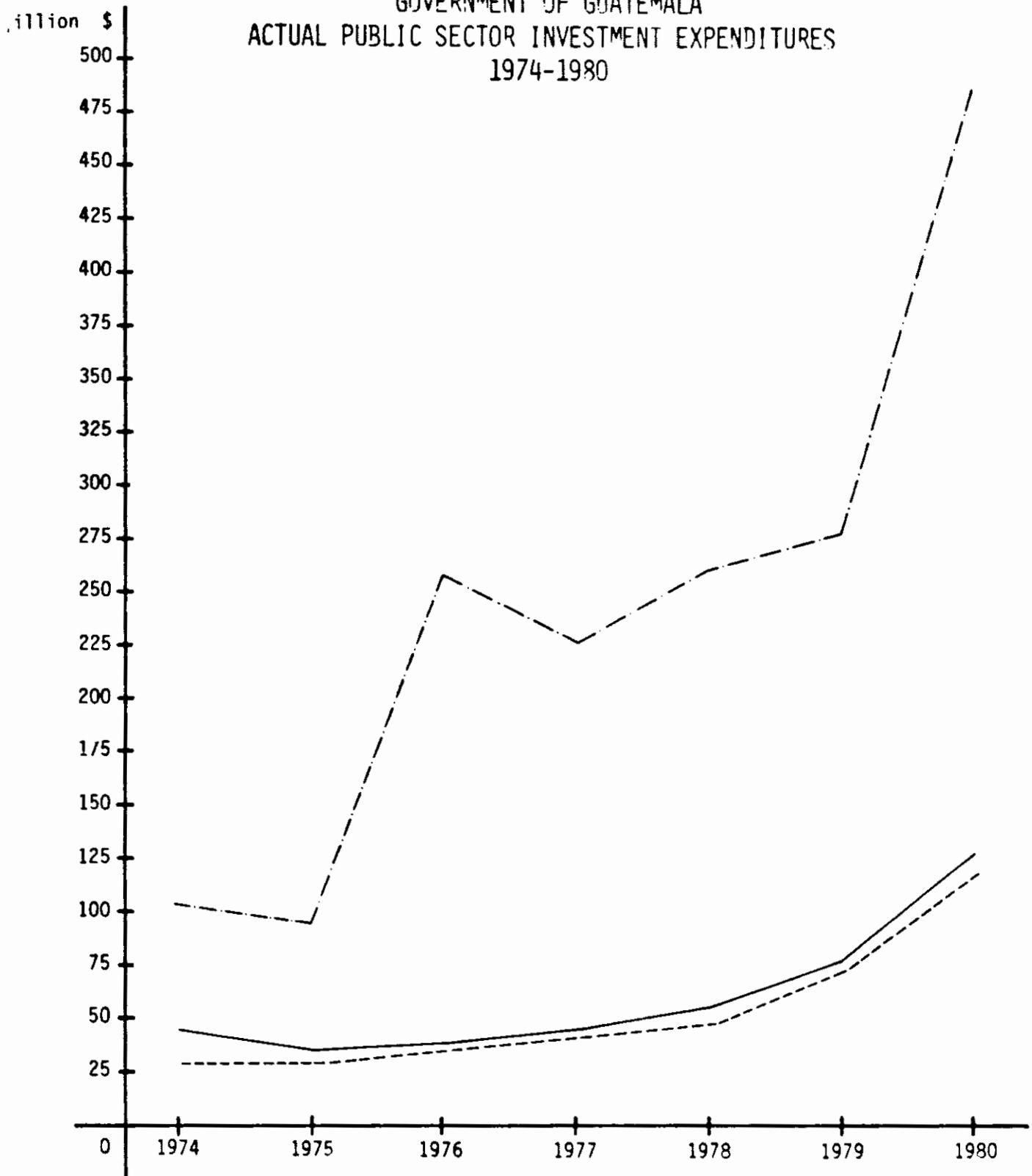
Estimated amounts.

**Table 2**  
**Government of Guatemala**  
**Total Public Sector Expenditures (Investment and Operating Costs)**  
**Analysis of Budgeted and Actual**  
**1974-1980**  
**(\$000)**

	1974	1975	1976	1977	1978	1979	1980						
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted						
<b>Total Public Sector Investment Expenditures</b>	<b>338,522</b>	<b>305,990</b>	<b>370,501</b>	<b>344,003</b>	<b>680,350</b>	<b>549,036</b>	<b>715,694</b>	<b>599,296</b>	<b>835,513</b>	<b>697,148</b>	<b>917,532</b>	<b>724,850</b>	<b>1,126,285</b>
1. Health Sector -													
Total for Sector	32,979	31,061	38,834	35,749	55,274	40,365	70,324	54,450	73,924	57,518	98,125	83,593	110,759
In Rural Area -	15,155	16,221	17,643	25,044						23,803		39,078	68,942
2. Agriculture Sector													
Total for Sector	33,207	31,383	32,370	27,721	29,172	26,156	36,913	28,662	50,415	41,138	70,234	59,951	76,456
In Rural Area -	13,379	16,393	19,755	19,828						27,812		41,575	54,788
3. Education Sector -													
Total for Sector	54,261	50,474	55,760	53,559	67,558	65,799	78,395	72,118	93,001	80,891	129,612	118,663	148,463
In Rural Area -	16,081	16,676		19,450						21,819		26,319	39,606
4. Energy Sector (Rural Systems Only) Instituto Nacional de Electrificación (INDE) -													
5. Decentralize Agencies	9,332	8,819	10,555	10,298	12,151	9,899	11,700	10,186	16,676	12,544	12,716	10,241	12,222
- Instituto de Fomento Municipal (INFOM) -	5,051	5,244	5,909	5,130	13,327	9,535	16,740	11,144	20,158	13,102	25,454	16,316	29,672
- Instituto Nacional de Transformación Agraria (INTA) -	5,833	5,382	5,763	5,484	7,238	6,788	10,233	9,019	11,959	10,676	18,649	17,082	22,926
- Empresa de Fomento y Desarrollo del Petén (FYDEP) -	2,164	2,268	2,866	3,666	5,207	5,092	5,291	5,415	5,970	5,791	6,393	6,201	7,334
- Secretaría de Bienestar Social -	2,768	2,588	3,880	3,655	4,287	4,203	9,040	8,808	7,664	5,443	6,774	6,164	6,550
- Desarrollo de la Comunidad -	1,116	1,064	1,433	1,274	2,553	2,403	2,500	2,202	2,331	2,080	2,362	2,168	3,203
<b>Total Expenditures (1-5)</b>	<b>146,911</b>	<b>138,283</b>	<b>157,370</b>	<b>146,536</b>	<b>196,767</b>	<b>170,240</b>	<b>243,156</b>	<b>202,004</b>	<b>282,098</b>	<b>229,183</b>	<b>370,319</b>	<b>320,379</b>	<b>417,885</b>
<b>Total Rural Expenditure</b>	<b>69,980</b>	<b>78,797</b>	<b>94,768</b>	<b>112,244</b>	<b>123,070</b>	<b>165,144</b>	<b>245,543</b>						

\* Estimated amounts.  
 1/25/80 sr

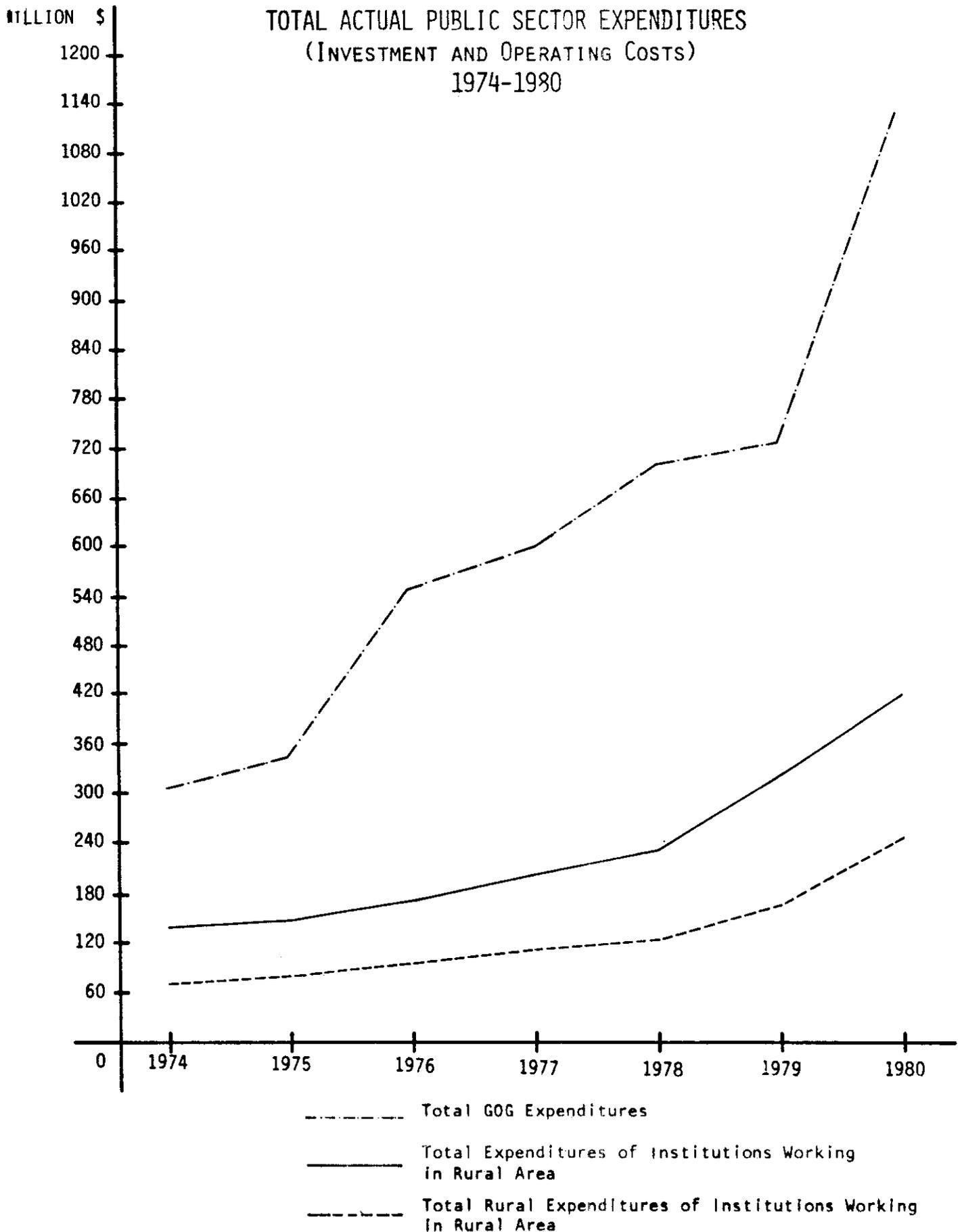
GRAPH 1  
 GOVERNMENT OF GUATEMALA  
 ACTUAL PUBLIC SECTOR INVESTMENT EXPENDITURES  
 1974-1980



- Total GOG Investment Expenditures
- Total Investment Expenditures of Institutions Working in Rural Area
- Total Rural Investment Expenditures of Institutions Working in Rural Area

Source: Table 1.

GRAPH 2  
 GOVERNMENT OF GUATEMALA  
 TOTAL ACTUAL PUBLIC SECTOR EXPENDITURES  
 (INVESTMENT AND OPERATING COSTS)  
 1974-1980

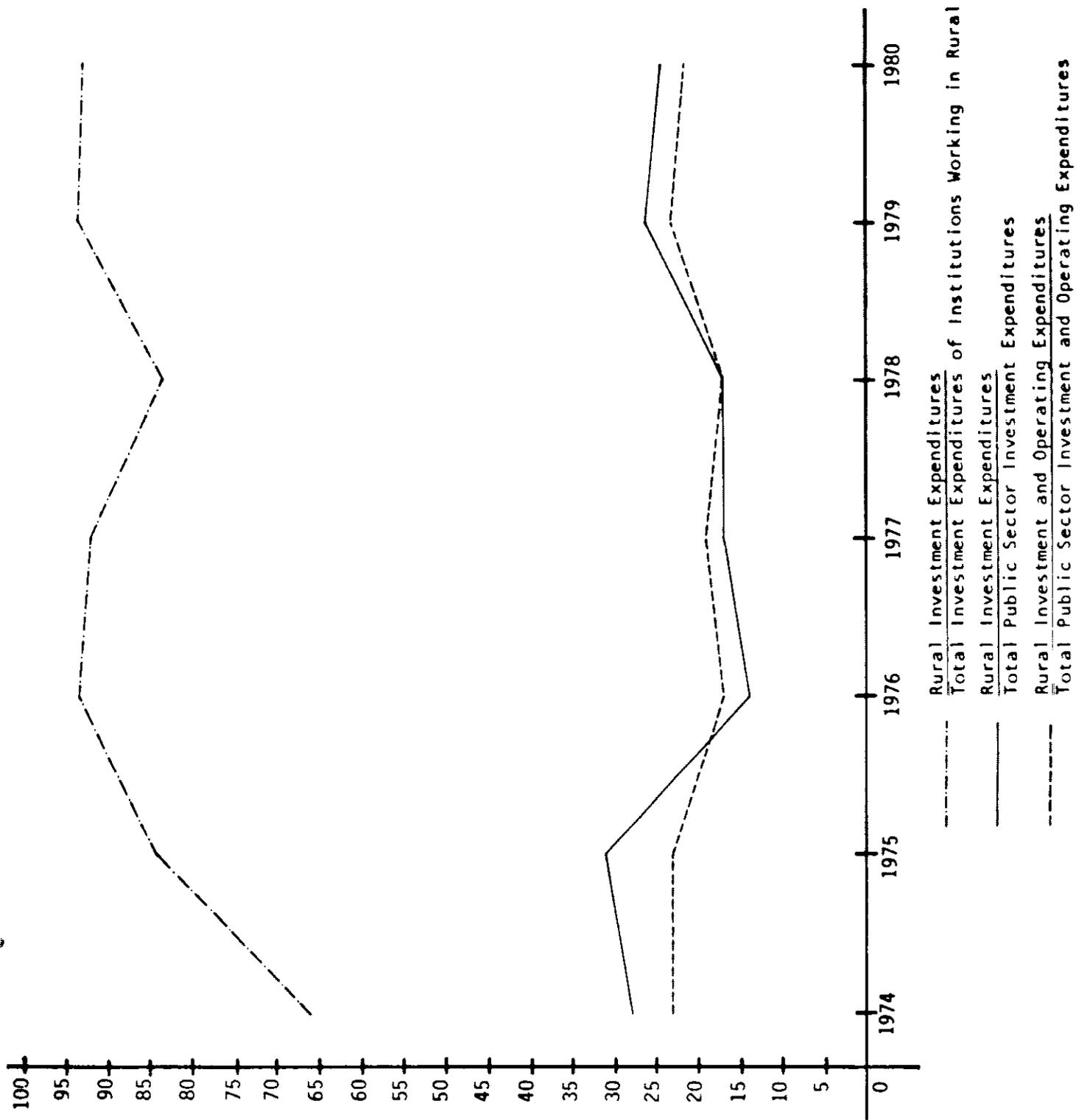


Source: Table 2.

GRAPH 3

GOVERNMENT OF GUATEMALA

RURAL EXPENDITURES - PERCENTAGE RELATIONSHIPS 1974-1980



Source: Tables 1 and 2.