ROAD REHABILITATION AND MODERNIZATION PROGRAM, PHASE II

(GU-0130)

EXECUTIVE SUMMARY

Borrower:	Republic of Guatemala	
Executing agency:	Ministry of Communications, Infrastructure, and Housing (MICIVI)/Roads Directorate (DGC)	
Amount and source:	IDB (OC)*:	US$ 150 million
	Local counterpart contribution:	US$ 32 million
	Total:	US$ 182 million

*Up to US$25 million of the loan will benefit from partial financing of interest using Intermediate Financing Facility (IFF) resources.

Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars, Single Currency Facility

Objectives: The objectives of the proposed program are to: (i) continue rehabilitation and maintenance efforts on Guatemala's network of highways and rural roads, by funding investments over the period 2000-2003; and (ii) consolidate road-subsector reform and modernization initiatives pursued thus far by the Guatemalan government with a view to concentrating coordination, strategic planning, and sector policy functions in MICIVI along with responsibility for works monitoring and supervision and the contracting out of roadwork and maintenance to private firms.

Description: The proposed four-year program would be a time-slice operation, drawing on the experience gained in the program currently under way. It will be made up of three components: (i) support for rehabilitation and improvement of about 450 km of roads and highway corridors (US$96 million); (ii) funding to rehabilitate approximately 350 km of roads in rural areas (US$41.9 million); and (iii) support for consolidation of road-sector institutional reforms (US$4.5 million).

Projects for year 1 of the operation have been selected, and engineering, economic, and environmental studies for these projects are ready. Project selection for years 2 and 3 of the program will be guided by criteria agreed on with the Bank.

The Bank's country and sector strategy: The program proposed by the Government of Guatemala is concordant with the Bank's country strategy, development of a sound road infrastructure being a cornerstone of the Bank's strategy guidelines for its operations in Guatemala. The strategy, set out in the country paper, entails support for: (i) incorporating poor indigenous groups and rural dwellers into the sustained development process, primarily by way of community participation programs that can help accelerate and consolidate the peace process; (ii) expansion and improvement of social services, through programs to broaden coverage and enhance the quality and efficiency of basic social services; (iii) modernization of the State, by supporting reforms to equip the three branches of government to operate more efficiently, deliver better (and better regulated) utility and other public services, and restructure government expenditure and controls of the public finances; and (iv) growth and advancement of the production sectors through actions to foster efficient capital flows and make Guatemalan products more globally competitive.

Environmental and social review: The roads slated for rehabilitation and improvement in the proposed program are already in operation, in developed areas already worked on, so the program would have no significant adverse environmental or social impact: its effects will be localized, foreseeable, and mitigatable. The rehabilitation work will be fairly straightforward, will not require resettlement of residents, and will leave the current routing unchanged. Environmental and social impact assessments were done for the four projects chosen for year 1: overall, according to their findings, these projects will have a positive impact. Their slight adverse effects on the environment would range in intensity, extension, and duration from medium to low; furthermore, they are reversible and geographically confined. The studies likewise show that none of the projects comprising the program provide for new developments in the respective service areas: the proposed works will improve access to what are already consolidated agricultural and urban areas. The designs produced include appropriate environmental protection precautions and budgets to mitigate environmental and social impacts.

Benefits: The proposed roadwork will give producers easier access to nearby agricultural markets and bring down vehicle operating costs, as rehabilitation projects improve the condition of roads. More serviceable roads also means shorter travel times for automobile and bus passengers, which among other benefits should foster sustainable tourism in rural areas. When farmers and passengers to whom vehicle operating costs are passed on belong to low-income groups, the program's economic benefits will go hand in hand with the social benefit of improved income distribution in the roads' service areas.

Risks: The proposed operation poses no substantive risks. The risks typical of this kind of program, having to do with continuity and standard of maintenance of the road system and weaknesses in structures in place to fund, plan, and manage road maintenance, have been mitigated thanks to the accomplishments of phase I of the program, currently under way. By helping to consolidate road-sector reforms, the institution-strengthening component of the proposed operation will further mitigate the aforementioned risks.

Special contractual clauses:

A. Conditions precedent to the first disbursement

The DGC is to provide the Bank with: (i) a detailed action plan for the program's implementation, showing the proposed organization structure, describing support that will be forthcoming from each DGC operations area, and demonstrating that the program coordinator has been hired with the Bank's concurrence (paragraph 3.2 of the proposal which follows); and (ii) evidence that the road maintenance fund continues to operate with an adequate level of autonomy, a clear mandate, and sufficient resources for execution (paragraph 3.7).

B. Other special contractual clauses

a. Before awarding contracts for program works, the executing agency must demonstrate that consultants have been engaged to supervise the works (paragraph 3.9).

b. Eligibility of projects for years 2 and 3 of the program will be subject to verification, during the respective annual monitoring meetings, that the conditions agreed on with the Bank are being fulfilled (paragraph 3.7).

c. In order to address the program's social and environmental aspects, the loan contract will include a clause similar to clause 4.05(b) of the current contract, with changes that reflect the obligation to conduct socioeconomic impact assessments and public consultations in the projects' service area; the hiring of a specialist on social issues; and the commitment to apply the policy on involuntary resettlements, if required in any of the projects.

The loan contract also will include standard Bank conditions regarding, *inter alia*, technical and environmental requirements,

	audits, reports, inspections, evaluations, maintenance, hiring of consultants, and procurement.
Social equity and poverty reduction classification:	This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, the operation qualifies as a poverty targeted investment (PTI): according to the analyses done, over 50% of the prospective beneficiaries have incomes below the poverty line (see paragraph 4.17). The borrower, at its request, would be using part of the 10 percentage points in additional financing corresponding to the PTI classification.
Exceptions to Bank policy:	None
Procurement:	Works, consulting, and equipment procurement contracts funded with Bank resources are to be awarded through competitive bidding, following Bank rules and procedures in that regard. International competitive bidding will be mandatory for the procurement of goods valued at the equivalent of US$300,000 or more and for works projects costing the equivalent of US$3 million or more. A bidder prequalification system will be used for projects costing the equivalent of US$5 million and up. International calls for proposals must be held for consulting services over US$200,000 equivalent (paragraph 3.11).