

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: 95324

Project Name	GUATEMALA EITI: POST-COMPLIANCE I
Region	LAC
Country	Guatemala
Sector(s)	Energy and Extractives
Theme(s)	Transparency and accountability
Lending Instrument	Investment lending (grant)
Project ID	P152806
Borrower(s)	Government of Guatemala
Implementing Agency	COPRET
Environmental Category	C
Date PID Prepared	March 10, 2015
Estimated Date of Approval	April 1, 2015
Identification/Concept Review Decision	March 18, 2015
Bank Approval	March 28, 2015

I. Introduction and Context

A. Country Context

1. **Guatemala has made considerable development progress since emerging from civil war in 1996, but it is still struggling with a challenging history of conflict, exclusion, and inequality.** Noteworthy achievements have been made with regard to consolidating peace, building democratic institutions, and ensuring economic and political stability. The country is the largest economy in Central America, and considered a middle-income country with a GNI per capita of \$3,340 in 2013. Economic performance has been relatively stable considering regional comparison; however, the State is still struggling with persistent social and economic challenges, including crime and violence. Over half the population falls below the poverty line and the country ranks third lowest in Latin America, according to UNDP's 2014 Human Development Index, with a ranking of 125. Poverty and low social indicators are particularly troubling among the indigenous population who represent half the nation's 15.5 million people. Women in particular are falling behind in access to education, services, and economic opportunities.

2. **A low level of revenue mobilization has constrained the ability of the state to steer**

development and social policy. Guatemala has one of the lowest tax revenues in the region, and the lowest per capita spending on social sectors.¹ The current Government, elected in 2011, committed itself to an ambitious agenda that aims to address key development challenges facing Guatemala. These included improving social development, accelerating economic growth, ensuring productive and social infrastructure for development (especially in rural areas). The Government has also placed strong emphasis on promoting transparency. With elections coming up in September 2015, there is a need for the Government of Guatemala to continue its efforts to reduce extreme poverty and promoting transparency and accountability.

B. Sectoral and Institutional Context

3. **Increased investments over the past decade, combined with higher commodity prices in the past several years, have led to a steady expansion of the extractives sector (both mining and hydrocarbons) in Guatemala.** Despite considerable resource deposits, the extractives sector in Guatemala has not historically been a major contributor to the national economy, accounting for less than 3% of GDP. Mining sector activity is driven primarily by large-scale foreign investments in metallic minerals projects (gold, silver, nickel, tin), nearly all of which were established following the conclusion of the civil war. Mining production has increased significantly over the past seven years, owing to increased output from two single mines operated by foreign firms. The hydrocarbons sector has been active for the past 60 years, with 90% of production originating from the one region by one foreign firm (production of 3.7 million barrels in 2011). Currently there are also discussions of linking Mexico and Guatemala with a gas pipeline to respond to increasing domestic demand.

4. **Since 2010, the government has been actively implementing the Extractive Industries Transparency Initiative (EITI), in partnership with companies and civil society.** The country announced its candidacy status in March 2011. The institutional framework for the implementation of EITI was established by decree in May 2012. This decree establishes the EITI-Guatemala National Working Commission (“Comision Nacional de Trabajo del EITI-Guatemala”) as the multi-stakeholder group (MSG) chairs by the Vice-President of the Republic and the Vice-Minister of Mines. Guatemala was validated as an EITI compliant country in March, 2014. Guatemala was however “temporarily suspended” from the EITI as of February 26, 2015 due to the failure to publish the 2012 report by December 2014. This suspension will be lifted once this report is published, which is estimated to take place at the end of May, 2015.

C. Relationship to CAS

5. The proposed project is well aligned with priority themes under the 2013-2016 Country Partnership Strategy (CPS) approved in 2012. Under the CPS, the World Bank has committed to provide support to the Government towards consolidating gains in expenditure transparency, as well as the Government's efforts to fight corruption, under *Result Area 1: Create Fiscal Space and improve transparency in the budgeting process.* The 2013-2016 CPS

¹ Country Partnership Strategy 2013-2016 (World Bank)

also highlights the importance of strategic non-lending assistance packages in support of key Government priorities.

II. Proposed Development Objective(s)

6. The Development Objective is to strengthen the capacity of the EITI Secretariat, the multi-stakeholder group and civil society to implement the Extractive Industry Transparency Initiative (EITI).

7. Key results expected:

- **Indicator One:** Publication of the EITI report (covering 2013 revenues) in compliance with the EITI Standard.
- **Indicator Two:** Wide dissemination and media coverage of the EITI report published covering 2012 and 2013 revenues.

III. Preliminary Description

8. The grant will be a recipient executed TA, funded through EITI MDTF (\$300,000). The duration would be an estimated 9 months from the start of effectiveness, but closing date can be no later than December 31st, 2015, since this has to comply with the closing of the EITI MDTF.

9. The Grant will provide the Government of Guatemala through the national EITI secretariat with financial and technical support to implement the Extractive Industry Transparency Initiative (EITI) through December 2015. The proposed grant is \$300,000 to be executed by the Government of Guatemala. Counterpart funding of \$160,000 has been approved by the Government of Guatemala.

10. The grant will be implemented by COPRET, under the Vice President's office. COPRET is formally part of the executive branch of the Guatemalan Government, established in 2012 by decree to support the actions of ministries and institutions of the executive branch to implement the measures derived from international conventions on transparency, anti-corruption and e-government initiatives. The Vice President is the official EITI Champion, while the Vice-Minister of Mines is the EITI Coordinator.

Project components:

11. **Component 1 - Production and dissemination of Guatemala EITI Reports (US\$120K):** According to the EITI Standard, countries need to produce timely (annual) EITI reports (Requirement 2), including contextual information (Requirement 3), that the EITI report is “comprehensible, actively promoted, publicly accessible, and contribute to public debate” (Requirement 6). Specifically, the grant will therefor support: (a) *Hiring of the independent reconciler for the production of the EITI Guatemala report:* (covering fiscal year 2014, to be published before December 31, 2015). The main output will be the reconciliation report, consistent with the EITI Standard, containing clear recommendations of how

to enhance transparency and accountability of the extractive industries in Guatemala: and (b) *Communication and dissemination of the Guatemala EITI report covering FY 2012 and 2013*: (produced in 2014). This would include the production of info-graphics, production and printing of a summary report, translation to local Mayan languages of summary report and other materials as needed, and outreach activities in district and municipalities in producing regions.

12. Component 2 - Supporting civil society to participate effectively in Guatemala EITI (US\$60K): The EITI Standard requires that the government works with companies and civil society to implement the EITI, and that these groups are “fully, actively, and effectively engaged” in the initiative (Requirement 1.3). Specifically, civil society has a role to play as an actor on the multi-stakeholder group, as well as in society at large to analyze EITI reports and advocate for enhanced transparency and accountability. The specific activities supported through the grant will include: (a) *Training and engagement with CSOs on EITI, EITI report analysis, and policy advocacy*: This component would support training and practical application regarding report analysis; and policy advocacy; and (b) *Pilot studies and projects to support monitoring of the dissemination and use of revenues at the local level*: With the objective to apply the knowledge acquired through the above trainings, this sub-component will support the production of action research conducted by Guatemalan CSOs regarding the distribution and use of revenues at the local level, or other social audit research and documentation.

13. Component 3 - Support to the Functioning of the National Secretariat (US\$120K): While the government counter-funding will cover the operating costs of the National Secretariat, this sub-component will focus on improving the performance and the results of the initiative and training for MSG members. Specifically, this component would support: (a) *Compliance study*: The EITI International Secretariat recommends that countries conduct their own validation study (official validation is every five years) to document progress and compliance with the EITI Standard. The output will be a study that will be discussed with the MSG, and an action plan to improve performance; (b) *Training and capacity building for MSG members*: As the new Standard is being rolled out, and new countries in LAC are joining the initiative (Colombia, Honduras, etc.), there is a lot of room for peer-to-peer learning. This sub-component will support expenses related to attending such training events, as necessary; (c) *Grant Audit*: As required by the World Bank, an audit of Financial Statement of the grant has to take place. Such audit shall cover the entire period during which withdrawals from the Grant Account were made

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	

Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

V. Financing (in USD Million)

Total Project Cost:	USD 0.46	Total Bank Financing:	UDS 0.3
Total Co-financing:	0.16	Financing Gap:	None
Financing Source: EITI MDTF			USD 0.3
BORROWER/RECIPIENT			USD 0.16
Total			USD 0.46

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