7-28-2005

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LADB Latin America Data Base
News & Educational Services
NotiCen
LADB Article Id: 52007
ISSN: 1089-1560

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Category/Department: Guatemala
Published: 2005-07-28

The Inter-American Development Bank (IDB) has recently published its report Country Program Evaluation Guatemala 1993-2003. Although it covers a decade now two years gone, the publication date is April 2005. Scathing in its critique of the Guatemalan government's handling of IDB funds, the report has received little attention in the national media. The evaluation also ripped the bank's management.

The IDB currently has US$876.4 million in outstanding loans to Guatemala, representing, on average for the decade covered, 64% of all multilateral loans to the country. The loans were mainly for projects related to economic growth in the energy and financial sectors and in foreign-trade promotion. A smaller proportion went to social projects and about 4% to governance and state-reform projects. The results of the evaluation constitute a devastating indictment of the government's handling of the funds.

The 81-page report specifically mentions corruption only once, but the document is peppered with references to "irregularities," "governance complications," and "inefficient public spending." Of 19 projects studied, all were noted as at risk because of "unsatisfactory implementation progress," "improbable development outcomes," "defects in one or more of the underlying assumptions," or some combination of these factors.

Guatemala, worst of all

These findings led auditors to determine that Guatemala had earned the distinction of having the worst of the IDB's portfolios, aided and abetted by the bank itself. During the period studied, fewer than half the required 112 technical and financial visits were carried out. Between 1998 and 2002, financial audits that were done found irregularities. Said the report, "Problems in the (bank's) Country Office, now being addressed were long in making, implying that Guatemala and the Bank should clarify how they were allowed to come to pass. Society would benefit from a transparent sorting out of the distribution of benefits and losses of the restructuring or cancellation of under-performing operations or components thereof."

In a discussion of Guatemala as a country with "unusual difficulties," the reports cites a deficit in public investment, "a weak government sector, and inefficient public expenditure that has not been directed toward the poor...a model of growth in need of renewal as to the sources of growth and a pattern of economic expansion benefiting relatively few." The report notes, "Many of the factors and conditions that gave rise to the internal armed conflict remain."

Faulting the bank for the mess, the study found that "37% of the work load on three executing agencies in Guatemala were dedicated to satisfying the requirements of the IDB during the years

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2000-2003," creating an "appearance of control that in reality the Bank did not have." Beyond the deployment of human resources, the report suggests that the distribution of funding might also have contributed to the poor return on investment. With the bulk of the money going to economic-growth projects and only 4.2% toward governability and state reform, IDB starved anti-corruption and similar projects.

Examples of failure

The report cites examples of how these factors combined to produce negative outcomes. One was a customs-modernization project approved in 1994 to deal with the massive corruption in that area. The report found that the project "took eight years and two extensions to implement, was modified without Headquarters consent, and was closed with a 2004 project completion report that provides no information on the impact or the evolution of outcome indicators consistent with the objectives." One of the objectives of the project was to increase tariff collections. During the project period, collections as a share of total imports fell.

The Central America Report (CAR) noted that corruption in the form of understating values, triangulation of commerce, and other forms of tax evasion involving customs continue. A second example of negative impact of IDB funding was the 1993 Financial Sector Modernization Program. The program had four components: public-sector financial policy, expansion of financial services, strengthening regulation, and modernization of financial supervision. The program did expand financial services but was found unlikely to create regulations because of strong commercial bank opposition.

The report observed, "Indeed a banking crisis in the late 1990s illustrates the nonfulfillment of these conditions. Although the program's conditionality regarding supervision was met in part, the key objective of increasing the operational autonomy of the superintendence, however, was not met." The result was that when capital began flooding the country after the December 1996 signing of the Peace Accords, a poorly regulated credit boom left banks insolvent. The central bank, Banco de Guatemala (BANGUAT), had to step in, incurring a financial burden of about US$470 million, or 2% of GDP. Taxpayers shouldered not only that load but also the US$132 million cost of the loan that financed the program. (see NotiCen, 2001-03-29).

In Guatemala, the media and government have reacted to the report with relative silence. The government issued a statement agreeing. "We consider that a good part of these conclusions are valid," it said, but laid most of the blame on the fact that the reporting period covered four different governments, the changes in the country from the Peace Accords, and the IDB's loan conditions, which, said the government statement, complicated the implementation of the projects. Management defends against its own report CAR has requested interviews with both the government and the IDB. The weekly publication has reported that neither has responded.

The IDB, however, has responded to its own report. On July 20, it issued Management's Consolidated Comments on [Office of Evaluation and Oversight] OVE's Country Program Evaluation Guatemala 1993-2003. The document takes issue with the report, particularly where it criticizes IDB management. The management response takes the report to task on several issues.

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Where the report urges the bank to review the Guatemala portfolio to "determine the true priorities of today and to dispose of elements no longer urgent," management insists that "[S]uch reviews have normally been undertaken at least once a year, and in addition during 2004 a special exercise of Sector Missions for portfolio review was put in place." Where the report criticizes the efficiency of the bank, management counters that projects take longer in Guatemala because of "a very slow process of negotiation required for obtaining Congressional approval in that country."

Management also said it had incorporated the issue of portfolio performance in the next Country Program. On the issue of "irregularities," management took strong exception to the report's assertion that program-delivery irregularities were allowed to continue over time. "Management is not disputing the fact that irregularities were detected. However, actions were taken to remedy such irregularities. In particular, after discovering grave irregularities in two projects, RE2 management launched internal investigations and, based on their findings, requested the intervention of the Bank's Oversight Committee of Fraud and Corruption, which conducted independent reviews confirming grave irregularities had occurred.

The recommendations of the Committee were implemented in their entirety," said the response. Overall, management said it had implemented all recommendations of the Auditor General's Reports of the 1993 audit and 90% of those for audits of 1998, 2000, 2002, and 2004. Of the remaining recommendations, all but two are in process of implementation. "In addition, Country Portfolio Review Missions followed up on the problem projects and recommended action plans. Therefore, Management has taken remedial actions over time to correct detected irregularities in project implementation in Guatemala," the management response concluded.

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