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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 17-Apr-2025 | Report No: PIDDC01304

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Guatemala, Guatemala, Honduras	P510861	Smart Public Finances: Data-Driven Public Expenditure Management for Greater Efficiency Program	
Region	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
LATIN AMERICA AND CARIBBEAN	09-Jun-2025	28-Aug-2025	Governance
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing (IPF)	Republic of Guatemala	Ministry of Finance, SEGEPLAN	

Proposed Development Objective(s)

To enhance efficiency, effectiveness, and accountability of public expenditures resulting from data-driven PFM.

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	No
Is this project Private Capital Enabling (PCE)?	No

SUMMARY

Total Operation Cost	**50.00**
Total Financing	**50.00**
of which IBRD/IDA	**50.00**
Financing Gap	**0.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	50.00

Environmental and Social Risk Classification	Concept Review Decision
Moderate	The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Guatemala is the largest economy in Central America, with a GDP of $104.4 billion in 2023.** The country has experienced steady growth, averaging 3.2 percent annually between 2014 and 2023, outpacing the regional average, thanks to prudent fiscal and monetary management. However, this economic expansion has not led to a significant reduction in poverty. As of 2023, around 55 percent of the population lived in poverty, and the informal economy accounted for 49 percent of GDP, with 71.1 percent of the workforce employed in informal sectors[1]. Structural challenges, such as limited access to basic services and productive job opportunities, along with frequent natural disasters, are major drivers of the country's high poverty rates. Remittances, which totaled $19.8 billion in 2023 (19.4 percent of GDP), play a crucial role in sustaining household consumption. Since remittance income drives much of the country's spending, any decline in these inflows could reduce Value-Added Tax (VAT) collections, which currently generate 49 percent of the government's net income, creating fiscal vulnerabilities.

2. **Guatemala is highly vulnerable to climate and weather events, with its poorer populations most at risk.** The country ranks ninth globally for exposure to climate change impacts, driven by widespread deforestation, land degradation, slash-and-burn agriculture, and overexploitation of water resources. These factors leave Guatemalans reliant on degraded lands with low productivity, exacerbating food insecurity and vulnerability. Urbanization, rapid population growth, fragile infrastructure, limited access to clean water and health services, and insufficient capacity to manage disaster risks further increase the country's vulnerability. In 2022, Guatemala submitted its updated nationally determined contributions (NDC), aiming for an 11.2 percent reduction in emissions through measures in the land use sector, and a conditional target of 22.6 percent reductions by implementing additional measures in the energy, agriculture, and waste sectors by 2030.[2] The country also has a 2021 Long-Term Strategy.

Sectoral and Institutional Context

3. **Guatemala's main challenge is to increase infrastructure investment and social spending to boost growth and reduce poverty without jeopardizing fiscal responsibility**. Guatemala's revenue and expenditures are insufficient for the country to address its significant infrastructure deficit and accelerate poverty reduction. Between 2019 and 2023, central government revenue and expenditures averaged 15.9 percent and 17.5 percent of GDP, respectively. Public investment was low, averaging 2.7 percent of GDP, which is below the levels of comparable countries. Between 2018 and 2022, social spending (including spending on education, health, and social protection) averaged 6.5 percent of GDP and accounted for 45 percent of total expenditures. In comparison, social spending in other Central American countries and the Dominican Republic averaged 8.6 percent of GDP during the same period. Guatemala's indicators for poverty, inequality, and child

[1] The World Bank in Guatemala. (2024, October 4). World Bank. Retrieved April 1, 2025, from https://www.worldbank.org/en/country/guatemala/overview

[2] Guatemala | NDC Partnership. (n.d.). https://ndcpartnership.org/country/gtm#:~:text=Guatemala%20submitted%20its%20updated%20NDC,and%20waste%20sectors%20by%202030.

malnutrition are among the lowest in the region. Both the government and the private sector have acknowledged the need for infrastructure investment through the "*Guatemala No Se Detiene*" (Guatemala Does Not Stop) plan, and the current President pledged to construct secondary roads and maintain rural highways throughout the year.[3]

4. **A 2025 World Bank assessment of Guatemala's PFM ecosystem highlights significant challenges in achieving effective and efficient fiscal management.** While progress has been made in some areas, the lack of an integrated approach to fiscal policy, planning, budgeting, and public investment undermines the proper allocation of resources. Key processes, such as planning and budget formulation, are marred by major deficiencies that affect execution and the quality of available data. Although a large volume of fiscal data exists, it is underutilized due to limited interoperability between systems. Data transfer is possible, but full integration of transactions with the central system remains a challenge. Additionally, the budget classification and chart of accounts do not align with international standards, which complicates data consolidation and undermines the quality of fiscal reporting. The technology situation is also concerning; IT infrastructure need replacing, many financial management components are outdated, and there is no contingency plan for critical information services. Additionally, the lack of a data analytics strategy and fragmented information portals impede informed decision-making. Comprehensive reform is needed to align systems, fiscal policy, and information management for better fiscal performance and sustainable public finances.

5. **A survey conducted by the World Bank[4] shows that Guatemala employs a mix of descriptive, diagnostic, and predictive analytics across some of its management information systems (MIS), particularly in the TaxMIS and EdMIS.** However, the use of predictive analytics is limited in other areas such as HRMIS, e-Procurement, PFMIS, and HealthMIS, which currently rely only on descriptive analytics. This indicates significant potential for advancement by incorporating predictive analytics in these areas to enhance decision-making, optimize resource allocation, and improve government functioning. Nevertheless, Guatemala faces challenges in developing analytical capabilities, including a lack of structured career development opportunities and proficiency assessments for data analysts in the public sector. Additionally, data infrastructure needs improvement, with significant variability in digitalization levels across sectors and issues of data fragmentation and isolated systems. The absence of formal data access protocols in some systems further limits data sharing and integration, hindering comprehensive analytics and evidence-based decision-making.

Relationship to CPF

6. **The proposed operation aligns with the World Bank Group's Country Partnership Frameworks (CPF) for the Period FY2024-2027.[5]** It supports *HLO2 - Objective 3: Improving capacity for the management of disaster risk and natural capital* by strengthening institutional capacity and improving public spending efficiency. This includes governance enhancements for more effective disaster prevention and response.

C. Proposed Development Objective(s)

To enhance efficiency, effectiveness, and accountability of public expenditures resulting from data-driven PFM.

Key Results (From PCN)

7. **The following outcome indicators are proposed to measure PDO achievement:**

- Increased percentage of budget allocations linked to result indicators.

[3] Banco Mundial (2024), *Revisión de las Finanzas Públicas de Guatemala*, ©Banco Mundial.
[4] The Government Analytics Survey was conducted in 20 countries of the LAC region. It consisted of seven questionnaires: Six MIS-level questionnaires focused on each MIS (EdMIS, HealthMIS, HRMIS, e-Procurement, PFMIS, and TaxMIS) and one additional country-level questionnaire focused on initiatives for cultivating the analytical capabilities of public servants.
[5] Report No. P500103.

- Improved selection and reduced deviation in the implementation of public investment projects as measured by average over costs and overtime.
- Budget credibility, predictability and control during budget execution.
- Fiscal savings from increased productivity in human resource management, assets and public procurement.
- Increased use of data analytics to inform resource allocation decisions.

D. Concept Description

8. **The proposed operation, as part of the Regional Multi-phase Programmatic Approach (MPA), will focus on setting the foundations for smart PFM, reestablishing and building a sustainable and secure PFM information ecosystem, and developing data analytics capabilities in the central government.** The project consists of three components aligned with the MPA. Component 1, "Setting the Foundations for Smart PFM" corresponds to the homonymous program Pillar 1, which seeks to enhance core PFM processes, methodologies, and integration within the PFM ecosystem, thereby improving the efficiency and effectiveness of public service delivery. Component 2, "Building a Secure and Sustainable Information Ecosystem" aligns with the homonymous program Pillar 3, aiming to modernize IFMIS, enhance PFM interoperability, and establish robust information security and business continuity systems. Component 3, "Developing Data Analytics Capacity and Knowledge Sharing" aligns with the homonymous program Pillar 4 by strengthening governance and program management, building capacity in PFM and analytics, and promoting knowledge exchange, which supports effective change management and ensures the sustainability of PFM reforms.

Component 1: Setting the Foundations for Smart PFM

9. **Subcomponent 1.1: Strengthening core PFM functions.** This subcomponent aims to consolidate and advance PFM reforms in core functions such as budgeting, treasury, debt management, and accounting, addressing opportunities and weaknesses identified in the diagnostic. It seeks to incorporate a medium-term vision into financial management and strengthen the links between planning and fiscal policy. Additionally, it aims to improve the budget formulation process by integrating physical and financial information and incorporating performance indicators. The subcomponent includes the progressive implementation of International Public Sector Accounting Standards (IPSAS), enhancing the link between financial and physical information, expanding the use of the Treasury Single Account (TSA) for efficient financial asset management, and improving transparency and accountability. The approach involves adopting a comprehensive vision of PFM and ensuring accurate and timely recording of financial transactions in line with international standards.

10. **Subcomponent 1.2: Strengthening administrative and resource management functions and integration within the PFM ecosystem.** This subcomponent aims to enhance public investment and asset management, workforce and wage bill management, and public procurement. These functions are integral to fiscal sustainability and expenditure efficiency, as they exchange information with core PFM functions at various stages of the budget cycle. The subcomponent also seeks to improve the integration and interoperability of public financial information across different PFM subsystems, ensuring that governing bodies and ministries, departments, and agencies (MDAs) have access to accurate and timely data. By addressing the information needs of these entities, the subcomponent aims to support informed decision-making and enhance overall fiscal management.

11. **Subcomponent 1.3: Strengthening the capabilities to produce and use data to support evidence-based decision making.** This subcomponent aims to enhance the quality of financial information available for decision making through improving the production and use of information and data analytics within the Ministry of Finance. It aims to establish a clear and consistent data governance processes, implementing standardized methodologies for data collection and analysis, ensuring rigorous data quality and integrity checks, fostering a culture of data-driven decision-making, providing continuous training and development for staff on analytical techniques, and promoting cross-government collaboration to share insights and refine analytical approaches.

12. **Subcomponent 1.4: Strengthening instruments and capabilities that support fiscal transparency.** This subcomponent aims to enhance fiscal transparency by addressing both the supply and demand sides of financial information. It aims at implementing comprehensive and clear reporting standards for public finances, ensuring timely and accessible publication of budgetary and financial information, and fostering an open dialogue with stakeholders, including civil society and the private sector. This involves ensuring that financial data is accurately recorded, managed, and made accessible to the public, thereby fostering accountability and trust in public financial systems. By improving the quality and availability of financial information, this subcomponent seeks to increase public awareness and engagement in fiscal matters.

Component 2: Building secure and sustainable information ecosystems for smart PFM

13. **Subcomponent 2.1: Strengthening Core PFM Information Systems.** This subcomponent focuses on modernizing management information systems to automate core PFM processes, including planning, budgeting, treasury and debt management, accounting, and fiscal reporting, with the goal of enhancing fiscal planning, control, and reporting across all government sectors. It also involves implementing performance management systems to track financial results and ensure alignment between expenditures and government priorities. Additionally, efforts will be made to update financial management systems to enable seamless data exchange and coordination, thereby further improving system integration.

14. **Subcomponent 2.2: Modernizing Peripheral Systems and Improving Ecosystem Interoperability.** This subcomponent focuses on modernizing peripheral systems to enhance integration and interoperability within the broader financial management ecosystem. It aims to upgrade and modernize payroll and HRMIS to improve efficiency. The subcomponent also involves implementing an integrated platform for managing public investments, ensuring seamless connections between project planning, execution, and monitoring. Additionally, efforts will be made to enhance the *Guatecompras* system to streamline procurement processes, incorporating transactional management features to improve monitoring and efficiency. Finally, the modernization of the asset management system will provide up-to-date information to improve the efficiency and sustainability of public non-financial assets.

15. **Subcomponent 2.3: Developing a Modern Data Analytical Platform.** To support better decision-making, this subcomponent aims to develop and implement a modern analytical platform that will enhance the government's ability to access, analyze, and act on public financial data. The subcomponent includes investments in data integration tools, which aim to aggregate data from various sources into a unified repository; data storage solutions, such as data warehouses or data lakes, designed to store large volumes of structured and unstructured data efficiently; and data processing engines, which enable the transformation and analysis of data at scale. Additionally, the platform includes advanced analytics tools, such as machine learning and artificial intelligence algorithms, to uncover insights and patterns within the data. Additionally, visualization tools are also essential, providing intuitive and interactive dashboards and reports to help users interpret and communicate findings effectively.

16. **Subcomponent 2.4: Implementing an Integrated Information Security and Business Continuity System.** This subcomponent focuses on implementing a business continuity management system (SGCN) and an information security management system (SGSI) for PFM. The goal is to manage risks proactively to maintain a tolerable risk level and ensure that critical processes and services can continue to function during disruptive incidents. It aims to strengthen information security capabilities, incorporate security into strategic governance, and create a dedicated role for information security. Additionally, it involves identifying critical business assets, managing associated security risks, implementing secure software development processes, and enhancing the operation of IT systems to protect information availability, confidentiality, and integrity.

Component 3: Developing data analytics capacity and knowledge sharing

17. **Subcomponent 3.1: Supporting Public Financial Management Governance and Change Management.** This subcomponent is focused on strengthening the governance structure within public financial management. It aims to

establish a comprehensive governance model and explore various approaches to ensure the long-term sustainability of public financial management reforms.

18. **Subcomponent 3.2: Strengthening Capacity in Public Financial Management and Analytics.** This subcomponent focuses on establishing a permanent capacity-building program to strengthen the skills of public servants in areas such as public financial management, analytics, and modern decision-making tools. It aims to create a continuous program to enhance the capabilities of public sector employees while also establishing an innovation lab to explore and implement new financial management tools and practices.

19. **Subcomponent 3.3: Promoting Knowledge Exchange and Cooperation.** This subcomponent aims to enhance collaboration and learning by supporting knowledge exchange between government entities and external donors. It focuses on establishing communities of practice that promote collaboration and the sharing of knowledge between different government agencies and stakeholders. The subcomponent also seeks to facilitate the exchange of successful financial management practices and proven solutions across government entities. Additionally, it will engage with international donors and partners to bring in external expertise and learn from the experiences of other countries in public financial management.

Legal Operational Policies

Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

20. **The environmental and social risk rating for the Program Phase 1 is considered Moderate at this stage.** The environmental risk is Moderate. Phase 1 activities are not expected to generate adverse significant environmental risks and impacts. Based on current available information, key environmental risks and impacts are related to potential generation of amounts of electronic waste (e-waste) from outdated electronics and the IT equipment to be acquired for the Program after their lifespan is depleted, occupational health and safety hazards for the workforce, and the higher energy consumption. Possible negative impacts are expected to be minor, site-specific, temporary, and fully reversible or mitigable. The social risk is Low. The proposed Program is expected to generate mostly positive social impacts. Program interventions are expected to help protect past gains from reductions in poverty and inequality and support the sustainability of the country's overall future development progress. The main social risks include: (i) potential job loss in the public sector as a result of increased productivity in human resource management; (ii) resistance to proposed project activities and push back from some stakeholder groups which may be affected by the transition to smart PFM; and (iii) possible exclusion of vulnerable groups through technology biases by developing a robust data analytics platform and integrating more data and analytics in public decision making processes. The environmental and social risk rating will be reviewed during the preparation stage as more information about the Program's procurement activities becomes available.

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APPROVAL

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