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COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF GUATEMALA

FOR THE PERIOD FY2024-2027

May 30, 2023

Central America and Dominican Republic Country Management Unit
Latin America and the Caribbean Region
The International Finance Corporation, Caribbean Regional Unit
Multilateral Investment Guarantee Agency

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Government of Guatemala
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CURRENCY EQUIVALENTS
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USUS$1.00 = Q7.80

ABBREVIATIONS AND ACRONYMS

AML/CFT	Anti-money Laundering and Combating the Finance of Terrorism
ANADIE	National Public-Private Partnership Agency
ASA	Advisory Services and Analytics
BANGUAT	Central Bank of Guatemala
CABEI	Central American Bank for Economic Integration
CAT DDO	Catastrophe Deferred Drawdown
CCT	Conditional cash transfer
CCRIF SPC	Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company
CPF	Country Partnership Framework
CLR	Completion and Learning Review
CPSD	Country Private Sector Diagnostic
DGAE	Procurement Directorate Office
DIME	Development Impact Evaluation
DPL	Development Policy Loan
ENCOVI	Living Standards Measurement Survey
EU	European Union
FAO	Food and Agricultural Organization
FUNDESA	Foundation for the Development of Guatemala
FY	Fiscal Year
GCRF	Global Crisis Response Framework
GBC	Gender Based Violence
GCMA	Guatemala City Metropolitan Area
GDP	Gross domestic product
GFF	Global Financing Facility
GOG	Government of Guatemala
GRID	Green, resilient, and inclusive development
GVC	Global Value Chains
HCI	Human Capital Index
HLO	High Level Outcomes
HRW	Human Rights Watch
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFAD	Fund for Agricultural Development
IFC	International Finance Corporation
INE	National Statistic Agency
IMF	International Monetary Fund
IPF	Investment Policy Financing
LAC	Latin America and the Caribbean
MAPS	Methodology for Assessing Procurement Systems
MIDES	Ministry of Social Development
MIGA	Multilateral Investment Guarantee Agency
MINEDUC	Ministry of Education
MINFIN	Ministry of Finance
MSME	Micro, small, and medium enterprises
MSPAS	Ministry of Health and Social Assistance
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PLANID	National Plan for Innovation and Development
PLR	Performance and Learning Review
PPP	Public Private Partnerships
REDD+	Reducing Emissions from Deforestation and Forest Degradation
SAT	Tax Administration Superintendence
SCD-U	Systematic Country Diagnostic
SCF	Strategic Climate Fund
SEGEPLAN	National Planning Agency
SESAN	Secretariat for Food and Nutrition Security
SFMA	School Feeding Management App
TA	Technical Assistance
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UNFPA	United Nations Population Fund
UNFCCC	UN Convention on Climate Change
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
VAT	Value-added tax
WBG	World Bank Group
WCS	Working Capital Solutions
WEF	World Economic Forum
WFP	World Food Program
WTO	World Trade Organization

	IBRD	IFC	MIGA
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FY 2024-27 COUNTRY PARTNERSHIP FRAMEWORK FOR GUATEMALA

I. INTRODUCTION

1. **Guatemala has benefited from a prudent macroeconomic stance, but it faces major development challenges that are longstanding, complex, and rooted in the country's institutional evolution**. Poverty and inequality rates are among the highest in the Latin American and Caribbean region (LAC), with a large and underserved population, mostly rural and indigenous and employed in the informal sector. Only a small percentage of the population has access to formal employment, private education, health, and security. Persistent gaps in access to basic services and limited productive opportunities are coupled with declining government effectiveness and frequent natural disasters. All these factors explain the high emigration rates and the substantial dependence of the economy and its households on remittances.

2. **Guatemala nonetheless has enormous potential to generate growth and prosperity for its entire population**. It possesses a civilization spanning culture, is rich in natural resources, and in terms of biodiversity, is one of the world's megadiverse countries. Its proximity to the United States provides significant tourism and nearshoring opportunities, and with more than half of its multiethnic population under the age of twenty-nine, Guatemala could also harness the gains of a demographic dividend. Tapping this potential wealth will require the government to effectively provide services, such as health, education, and improve the infrastructure landscape, while gradually broadening the sources of fiscal revenue. Steadily building the country's governance, social and environmental credentials will help the country achieve investment grade.

3. **The proposed World Bank Group (WBG) FY 2024-27 Country Partnership Framework (CPF) aims to continue supporting Guatemala in addressing its development challenges, with a focus on inclusion and sustainability**. The WBG's strategy is articulated around three mutually reinforcing high-level outcomes (HLOs): (i) Increased human capital, (ii) Increased resilience to natural disasters and climate change, and (iii) Improved Job Opportunities. Two cross-cutting themes will complement these HLOs: *Strengthening Institutional capacity* **-** improving the availability of data, integrity, and transparency; and *Inclusion* **-** tackling discrimination and barriers for the economic empowerment of women and Indigenous people. The proposed CPF builds on the selective program established during the CPF gap years of FY 2021-23, that followed the FY17-20 CPF. During this period, the IBRD established operations to help address malnutrition, support the COVID-19 pandemic response, and promote key social and economic reforms. Since general elections are scheduled for June 2023, the bulk of existing and new operations will be implemented by a new administration, which will take office in January 2024. Nonetheless, the existing broad consensus on development priorities and the country's cumbersome approval process for all sovereign external financing justify moving forward with the proposed CPF and the preparation of the operations requested by the current administration.

4. **The WBG engagement during the proposed CPF period will remain selective, focusing on areas where strong ownership across a wide spectrum of stakeholders and strong synergies vis-a-vis other development partners exist**. All financing instruments will be considered to respond to the Government's request for World Bank (WB) assistance, including Investment Project Financing (IPF) and, if a sustainable macroeconomic framework continues to be in place, Development Policy Loans (DPLs) and Catastrophe Deferred Drawdown Options (CAT-DDO). Technical Assistance (TA) and Advisory Services and Analytics (ASA) will also be actively employed to help build institutional capacity and improve service delivery leveraging global knowledge. The International Finance Corporation (IFC) engagement in the country will continue to be focused on: (i) expanding access to finance SMEs and underrepresented groups (women, farmers, microentrepreneurs in rural areas, and Indigenous people) through financial institutions; (ii) addressing critical infrastructure needs by exploring opportunities in

urban infrastructure and PPPs; and (iii) supporting competitive and job-intensive manufacturing and agribusiness sectors. The Multilateral Investment Guarantee Agency (MIGA) will continue to seek opportunities to de-risk cross border investments in key sectors of the economy.

5. **There are substantial risks to achieving the objectives of the proposed CPF.** *Political and Governance* risks and *Institutional Capacity for Implementation and Sustainability* are rated "High," while *Environmental and Social* risks, together with *Fiduciary and Stakeholders* risks, are "Substantial." These ratings are assessed after mitigation efforts, which include securing strong political commitment for each operation involving WBG financing and clear stewardship and leadership for their implementation, the application of strict and broad consultations across all stakeholders, embedding flexibility in the CPF's design, and earmarking resources to build institutional capacity and monitor implementation. Risks notwithstanding, the pay-off expected by implementing the proposed four-year assistance program is large given Guatemala's significant development gaps.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Sociopolitical and Institutional Factors

6. **Guatemala's democracy is young, emerging after 30-plus years of civil war that formally ended with the 1996 peace accords**. Although democracy has been upheld ever since, political fragmentation persists, with no political party having held a majority in Congress since 2003.[1] This, together with a strong-rooted distrust of the state, has kept government small and institutionally weak, making it difficult to enact or efficiently implement reforms needed to address the significant development gaps.

7. **The accountability and effectiveness of the public sector remains low**. In 2022, the Americas Society and Council of the Americas (AS/COA) ranked Guatemala 13th out of 15 Latin American countries in its ability to detect, punish, and prevent corruption. Other organizations have also reiterated their concern about government accountability, and its checks and balances.[2] In addition, low-quality data, weak merit-based recruitment and promotion processes, and high turnover in the public sector affect the quality of policy formulation and implementation.

8. **General elections are planned for June 2023, and the inauguration for January 2024**. Candidacies for the presidency, 160 deputies, and 340 mayors have been registered and the official electoral campaign period has begun, with candidates' reform platforms being announced. Although political fragmentation is expected to persist into the next administration, the six-month period between elections and inauguration provides an opportunity to engage on development priorities with key stakeholders and consolidate the proposed WBG program.

Recent Economic Developments

9. **Guatemala is an upper-middle-income country and is the largest economy in Central America, by population and economic activity.** In 2021, its population surpassed 17 million and its gross domestic product (GDP) and per capita income (GDP) were US$86 billion and US$5,025, respectively. The country has experienced a stable pace of growth (3.5 percent on average over the 2010-19 period), underpinned by prudent fiscal and monetary management and an open economy. However, it has been

[1] The party system is highly fragmented, with many parties appearing and disappearing before and after elections. A total of twenty-six parties participated in the 2019 elections. The party of President Giammattei has sixteen out of 160 congressional seats.

[2] Human Rights Watch (HRW) - Guatemala, Events of 2022: https://www.hrw.org/world-report/2023/country-chapters/guatemala; The country ranks 150th out of 180 on Transparency International's (TI) Corruption 2022 Perceptions Index.

unable to attract significant levels of foreign direct investment (FDI) or to develop a strong manufacturing or services exporting sector. The size of the state has been growing slowly, but it remains too small to provide an adequate level of basic security, health, education, social protection, and infrastructure to the population, which has traditionally sought better opportunities abroad. Remittances have over time provided the basis for a growing middle class, in turn facilitating jobs creation in non-tradeable sectors and commerce. The size of the informal economy in Guatemala is estimated to be around 49 percent of GDP (Elgin et al. 2021).

10. **Guatemala's economy has managed well the COVID-19 pandemic and the economic fallout from the Russia's invasion of Ukraine.** Guatemala experienced one of the smallest GDP contractions (-1.8 percent) in the LAC region in 2020 during the COVID-19 pandemic. Less restrictive and shorter containing measures mitigated the blow, as did the isolated nature of the rural population, which helped to contain transmissions. The economy rebounded strongly, growing 8 percent in 2021 and 4 percent in 2022, supported by record-high remittances that boosted private consumption (Annex 8 – Remittances and their impact on the Guatemalan economy). On the other hand, inflation peaked in 2022 (6.9 percent) due to higher food and fuel prices, even though Guatemala is a net food exporter and most of its energy is generated from renewable sources. Export growth was outpaced by import growth, widening the trade deficit, and narrowing the current account surplus. FDI reached a record high of 3.8 percent of GDP, driven by a one-off acquisition of a domestic telecoms firm by its partner firm. The Central Bank sterilized capital account inflows to avoid sharp appreciations, accumulating US$2.8 billion in reserves, which reached 24.7 percent of GDP. In February 2023, Fitch Ratings upgraded Guatemala's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-'. The Rating Outlook is stable, reflecting the overall macroeconomic and financial stability of the country.

11. **With very low tax-to-GDP and debt-to-GDP ratios, the public sector is small.** Tax administration improvements, most notably the introduction of e-filing and risk-based auditing, has contributed to lift the tax-to-GDP ratio from 10 to 12.4 percent during 2020-22. This is still the lowest ratio in the LAC region after Haiti, but the 2022 figure is a notable jump and represents the highest ratio achieved since the return to peace in 1996. Its sustainability, nonetheless, hinges on continued progress in modernizing tax administration and undertaking reforms to broaden the tax base. In 2022, spending grew by 1.2 percentage points to 14.7 percent of GDP, as emergency spending was partially reinstated in response to the commodity price increase. However, public spending is characterized by a high level of earmarking, rigidities, and underspending of public investment (for example, between 2019 and 2021, the average execution on public investment was 82 percent and, in 2021, it represented only 4.1 percent of total expenditures). The response to the COVID-19 pandemic and the effects Russia's invasion of Ukraine increased the public debt-to-GDP ratio from 26.5 to 29.3 percent during 2019 and 2022, still one of the lowest in the world, reflecting in part the country's reluctance to borrow for investments.

12. **GDP growth is projected to converge to 3.5 percent in the medium term.** Growth in both domestic and external demand is projected to moderate as external conditions tighten, given lower expected growth rates in the United States, and as the fiscal stimulus is scaled back and monetary policy is tightened. It will be primarily driven by inflows of workers' remittances. The current account surplus is forecasted to narrow as recovery in domestic demand drives up import growth, and import prices remain high. The fiscal deficit is projected to moderately decrease starting in 2023 and continued fiscal consolidation is expected to reduce debt gradually. Monetary policy, which is characterized by a soft peg to the dollar and inflation targeting, is projected to tighten in response to inflationary pressure.

Table 1. Guatemala—Key Economic Indicators, 2018-2025

	2018	2019	2020	2021	2022e	2023p	2024p	2025p
Real Economy	As percent of GDP (unless otherwise indicated)							
GDP per capita (2015 USD)	4163.1	4262.6	4124.3	4388.0	4502.2	4582.0	4671.2	4763.5
Real GDP (percent change)	3.4	4.0	-1.8	8.0	4.0	3.2	3.5	3.5
Consumption	98.5	98.9	99.6	100.1	100.1	99.9	99.6	99.1
Investment	13.9	14.6	13.9	15.6	16.1	16.7	17.3	18.0
Exports	21.0	20.3	19.1	19.7	20.1	20.1	20.0	20.0
Imports	33.7	34.0	32.7	36.9	37.9	38.2	38.3	38.5
CPI (average, percent change)	3.8	3.7	3.2	4.3	6.9	5.5	4.3	3.7
Fiscal Accounts	As percent of GDP							
Central Government								
Expenditures	13.2	13.4	15.6	13.5	14.7	14.6	14.4	14.0
Revenues	11.3	11.2	10.7	12.3	13.0	13.0	13.1	13.2
Primary Balance	-0.3	-0.6	-3.2	0.5	-0.1	0.0	0.3	0.7
Overall Balance	-1.9	-2.2	-4.9	-1.2	-1.8	-1.6	-1.3	-0.8
CG Gross Debt	26.5	26.5	31.6	30.8	30.6	30.0	29.7	27.9
Balance of Payments	As percent of GDP (unless otherwise indicated)							
Current Account Balance	0.9	2.4	5.1	2.5	1.1	1.5	1.1	1.4
Imports	27.9	24.8	32.1	37.9	38.1	38.1	38.0	27.9
Exports	17.6	16.3	17.8	20.1	20.1	20.3	20.4	17.6
Foreign Direct Investment, net	1.1	1.0	1.0	3.8	1.3	1.3	1.4	1.4
Remittance inflows	12.7	13.7	14.7	17.7	19.4	20.0	19.6	19.3
Gross Reserves (in billion US$, eop)	13.5	15.3	18.5	21.3	22.3	23.3	24.3	25.3
as % of GDP	17.4	18.4	19.8	24.0	24.7	24.1	23.8	23.5
Public External debt	11.5	11.8	13.6	12.9	12.3	11.3	10.4	9.8
Exchange rate (average)	7.5	7.7	7.8	7.7	7.7	7.8	7.9	7.9
Memorandum items								
Nominal GDP (in billion USD)	73.3	77.2	76.9	86.2	92.6	98.2	103.6	109.3

Source: Banguat, IMF, and WBG staff calculations

Poverty and Shared Prosperity

13. A small and ineffective state, lack of education and job opportunities, and frequent natural disasters have contributed to a continuing high incidence of poverty. Simulations for 2019 – before the onset of the pandemic - suggest that about 54 percent of the population was below the poverty line (US$6.85 2017 purchasing power parity per day), only slightly below the 55.4 percent in 2014, the last official poverty estimate.[3] The 2018 population census provides some basic social indicators that allowed to confirm the estimated moderate decline in the multidimensional national poverty rate from 27.8 percent in 2014 to 24.4 percent in 2018.[4] The significant increase in remittances and sustained economic growth over 2014-19 contributed to poverty reduction, but a decline in labor income (across all education levels) curbed progress. During this period, inequality is estimated to have increased from a Gini of 0.483 to 0.541, remaining high by global standards but slightly lower than the LAC region average. Guatemala is characterized by a high level of ethnic, social, and economic exclusion, particularly in the northern and northwest regions of the country (Annex 9 – Why is growth not translated into poverty reduction in Guatemala?).

14. Human capital outcomes lag those of the LAC region, particularly for vulnerable households. Guatemala's Human Capital Index (HCI) score rose from 0.44 to 0.46 between 2010 and 2018, yet the country's overall HCI score remains far below the LAC average.[5] An HCI score of 0.46 indicates that a child born in Guatemala in 2018 would be expected to reach only forty-six percent of what lifetime productivity would have been had it enjoyed complete education and full health. Human capital indicators

[3] The most recent Living Standards Measurement Survey (ENCOVI) was collected in 2014, making that the latest year with an official poverty estimate. While data limitations complicate the analysis of poverty dynamics in Guatemala for 2015-2021, micro-simulations made by the WBG are being used to estimate and project poverty, which has been checked for consistency with some of the social indicators emerging from the 2018 census.

[4] Because the 2018 Census includes only a few socioeconomic (as opposed to demographic) indicators, this multi-dimensional poverty headcount rate (de la Fuente & Gomez 2014, 2018) significantly underestimates deprivations (i.e., education, living standards), if compared to the traditional OPHI (Oxford Poverty and Human Development Initiative) indicator.

[5] WBG Human Capital index available at https://data.worldbank.org/indicator/HD.HCI.OVRL?locations=GT

are shallow among Indigenous peoples and Afro-descendants, who represented around forty-four percent of the population in 2018.[6] In the more remote areas, these indicators suggest a regional dispersion of human capital outcomes, highly correlated with levels of poverty. Moreover, these indicators approach the levels of several low-income countries[7] in Sub-Saharan Africa.

15. **During the COVID-19 crisis, poverty incidence rose to 59 percent in 2020, an estimated 4.8 percentage point increase.** The rise would have been larger had it not been for the government's expedited response in expanding the social safety net and its commitment to mitigate the social and economic consequences of COVID-19. The scope of this expansion was unprecedented**.**[8] Public social spending increased from 8.5 percent of GDP in 2019 to 10 percent of GDP in 2020, when public revenues plummeted by 0.5 percent of GDP and the fiscal deficit rose to 4.9 percent of GDP. This represented one of the world's largest expansions of cash transfer programs during the first year of the pandemic and a historical event for Guatemala (World Bank 2022). It is estimated that most of the increase in social spending, about 1.1 percent of GDP, was channeled through investments in social assistance, such as the *Bono Familia* conditional cash-transfer program, which was scaled up by a factor of twenty relative to pre-pandemic levels, extending coverage from five percent to about eighty percent of the eligible population. However, the expansion of social assistance during the pandemic was temporary, and the country returned to the low level of social protection spending before the pandemic (around two percent of GDP, the lowest level in Central America).

16. **Guatemala's under five child malnutrition rate is among the ten highest worldwide.** Despite recent government efforts to prioritize early childhood interventions, at 47 percent, the stunting rate remains particularly high and could worsen in a context of food insecurity and high food prices[9] (Vargas, Azunaga, & Almeida, 2022). Stunting is associated with increased morbidity and mortality, poor physical growth, and impaired brain and cognitive development. In several of the poorest northern municipalities, the share of households with stunted children under five often approaches 90 percent.

17. **Education outcomes are significantly lower than in neighboring countries**. At three percent of GDP in 2018, public expenditure on education in Guatemala is less than half the average spending on education in LAC (Ulka & Zaourak 2021).[10] Not surprisingly, learning poverty reaches 67 percent, indicating that almost 7 in in 10 children do not achieve minimum reading proficiency by the end-of primary age (adjusted by out-of-school children).[11]

18. **Social and economic exclusion by race and gender is also marked.** Guatemala ranks among the lowest in the United Nations Development Program (UNDP) Gender Inequality Index, standing at 127th out of 189 countries. Women, Indigenous people, and Afro-descendants tend to perform poorly in labor-market outcomes, have limited access to basic services, exhibit high food insecurity, and are weakly connected to markets and economic opportunities (including low access to digital technologies). Even

[6] Guatemala is the LAC country with highest percentage of Indigenous people in relative terms as they comprise 44% of the total population (after Bolivia with 41.5%). Indigenous people in Guatemala are still mainly rural, with 57% of rural versus 43% rural non-Indigenous population. There are 24 different Indigenous people groups in Guatemala: 22 Mayan (Achi', Akatec, Awakatec, Chalchitec, Ch'ortí, Chuj, Itzá, Ixil, Jacaltec, Kaq- chikel, K'iche, Mam, Mopan, Poqomam, Poqomchí, Q'anjob'al, Q'eqchí, Sakapultec, Sipakapense, Tektitek, Tz'utujil and Us- pantek), one Garífuna (also Afro-descendant), one Xinca and one Creole or Afro-descendant peoples.
[7] https://designstudio.worldbank.org/maps/2021/76397/index.html.
[8] The government's response was swift and focused on protecting the poor and vulnerable. However, the program's expansion ended in December 2020 and the country is now back to the extremely low levels of coverage of cash transfer programs, even lower than pre-COVID (CCT *Bono Social* covered 130,000 households in 2019 and 100,000 in 2021).
[9] Banguat notes food price inflation – currently 13.3% y-o-y – has consistently outpaced general inflation levels reported in the CPF (6.9% y-o-y in the CPF, with current Banguat estimates at 9.35% as of January 2023).
[10] PISA-D report : http://www.mineduc.gob.gt/digeduca/documents/pisa/InformePISADGuatemala.pd
[11] Source: Human Capital Review for Upper Middle-Income Countries in Central America, 2022.

though there have been some improvements in development indicators, key gaps remain.[12] Indigenous people and Afro-descendants continue to exhibit higher levels of nonmonetary poverty and lower living standards than the rest of the country's population. In addition, Guatemala continues to have the LAC region's lowest female labor-force participation rate, which stood at 32 percent in 2018 despite years of steady economic growth, improvements in educational attainment among women, and falling fertility rates. Gender gaps are also evident in social and political participation, the uneven distribution of domestic work, and high exposure to gender-based violence (Almeida & Violaz 2022).

19. The pandemic also reversed progress in terms of human capital accumulation and exacerbated food insecurity in Guatemala. At -0.74, the pandemic-induced human capital losses in Guatemala, as measured by the HCI, are among the largest in Central America, affecting as many as half of all households in mid-2020. In addition, the pandemic's impact on food insecurity and school attendance in Guatemala appears to have been among the LAC region's most severe, and the significant learning losses will have negative long-term consequences for human capital and productivity. Across a wide range of economic and social indicators, the impact of the crisis has been systematically worse for women, people with lower levels of education, rural households, and Indigenous people and Afro-descendants. Efforts to recover these losses continue to be hindered by the slow pace of COVID-19 vaccination, including that of children—as of December 2022, less than 50 percent of population had received double doses, according to the World Health Organization.

20. Given the devastating impacts of extreme weather events and other natural disasters, progress in preparing for these shocks has been limited. Disasters have reversed hard-won gains in human capital, destroyed infrastructure, reduced agricultural output, intensified food insecurity, spread vector- and waterborne diseases, and disrupted the provision of essential services. Recent estimates suggests that the Eta and Iota hurricanes in 2020 caused infrastructure-related losses of close to 0.56 percent of GDP, as well as agriculture-related losses of close to 0.20 percent of GDP.[13] The most vulnerable groups are also the most exposed to disaster-related shocks, which contribute to household poverty, increasing social exclusion and encouraging emigration.[14]

21. Preexisting fiscal, infrastructure, and business-environment challenges have worsened since 2015 and continue to impose constraints on high-quality job creation. Between 2015 and 2017, public investment in transportation infrastructure continued its long-term decline, reaching a historical low of 0.4 percent of GDP in 2017. While public investment levels have since recovered, critical infrastructure has deteriorated. Combined with a lack of private-sector dynamism, low infrastructure quality has contributed to the decline in total factor productivity observed over the last six years (World Bank, 2022).

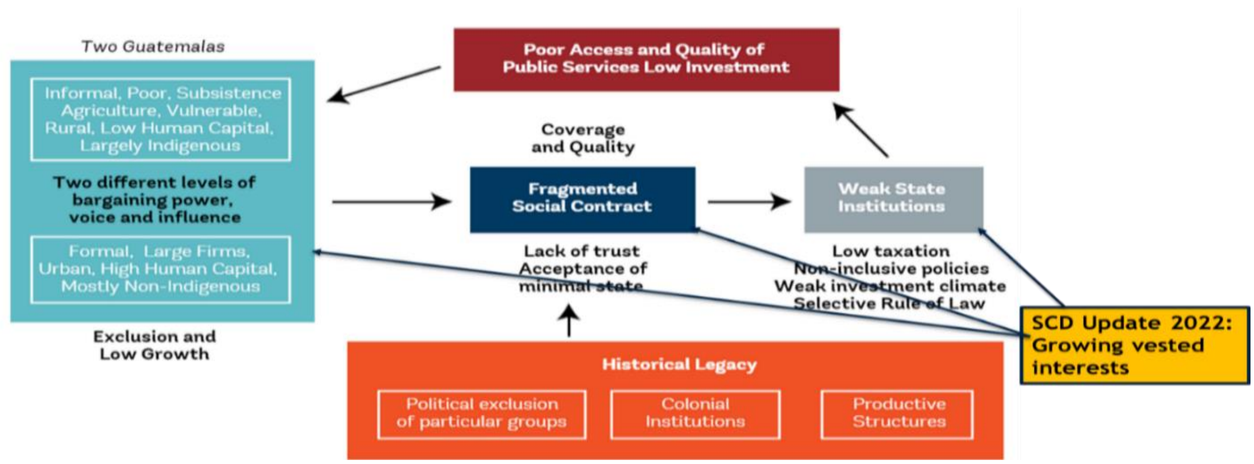
22. In 2021, the economic recovery and remarkable remittance growth are expected to have contributed to lowering the poverty incidence. However, during 2022, the price hike, particularly in food and transport, limited the purchasing power of households, curbing further progress in poverty reduction. Preliminary estimates show that in 2022, poverty will decline modestly to 55.3 percent (under the U$6.85/day 2017 purchasing power parity line), the level observed in 2014. Going forward, a more pronounced slowdown of the United States economy, in line with a somber global outlook, may lead to reduced remittances, further hindering poverty reduction.

[12] Between 2015 and 2019, school enrollment rates and child immunization rates increased, while the homicide rate declined; meanwhile, remarkable progress was achieved in strengthening the legal framework against gender-based violence (SCD 2022).
[13] World Bank estimation based on event-specific Damage and Loss Assessments (DALAS) from ECLAC and Post-Disaster Needs Assessments (PDNA) from WB/UN/EU.
[14] Baez et al. (2015) found that the rainfall caused by the Tropical Storm Agatha in 2010 reduced per capita consumption by 12.6 percent, raising poverty by 5.5 percentage points (an increase of 18 percent). Moreover, the negative effects of the shock affected other welfare aspects. Households cut back on food consumption (10 percent) and reduced expenditures on basic durables.

Development Agenda

23. Guatemala's development has been hindered by two interlinked features: a fragmented social contract and weak and exclusionary institutions. The country's fragmented social contract results in a "low-level equilibrium" with limited public services and fragile institutions, whereby governments cannot achieve results from public spending that, in turn, generates an incentive for the population to avoid paying taxes. Vested interests benefitting from the allocation of economic arrangements prevent the implementation of much-needed reforms that could promote more inclusive growth and more accountable management of public resources. Economic growth is further restricted by the limited capacity of the state to improve infrastructure and enforce the rule of law. Guatemalans must either do without services or pay high out-of-pocket bills for basic services such as education, health care, transportation, and security that the government should provide (Figure 1). The net result has been considerable inequality of outcomes between different segments of the population and across the country, starting in childhood and continuing into adulthood, as well as the perpetuation of high poverty and growing impunity. This has also helped erode trust of most Guatemalans in public institutions.

Figure 1. A fragmented social contract and interplay between institutions and outcomes



Source: S. M. Sanchez, Kinnon & Lopez [2017].

24. The 2022 Systematic Country Diagnostic Update (SCD-U) identified five key development challenges for Guatemala. They constitute a mix of long-standing and emerging priorities that are interconnected and call for action on many fronts. Tackling these challenges may help the country break out of its current low-development equilibrium and set it on a path to reach investment grade like some of its "aspirational" peers, such as Chile, Jordan, Panama, and Latvia, which achieved socioeconomic results the country could emulate (Hulya & Zaourak 2021). The five challenges are:

i. *Mobilizing greater fiscal revenue, which will be essential to achieve Guatemala's development goals.* The government has opportunities to strengthen public expenditure efficiency and transparency. To meet the country's large and growing social spending and investment needs, public revenue must increase beyond the 2015-19 average of 11.3 percent of GDP—just half the regional average.

ii. *Reducing child malnutrition and supporting early childhood development, which will be vital to accelerate human-capital formation sustainably.* Geographic targeting is especially important, as chronic malnutrition and related challenges are heavily concentrated in underserved areas, poor and marginalized communities, and among Indigenous people and Afro-descendants.

iii. *Reversing learning losses, lowering dropout rates, and supporting lifelong skills development, which will be needed to limit the socioeconomic scarring effects of the Covid-19 crisis.* Lower-income households in remote and digitally isolated areas have experienced some of the most severe learning losses during the pandemic.

iv. *Sustained reforms to the business environment could attract more investment and create better jobs in urban and rural areas.* Reforms designed to encourage investment and boost economywide productivity, particularly to revamp the outdated infrastructure, and to create a more favorable regulatory climate to attract and retain foreign investment, increasing Guatemala's participation in near-shoring value chains, and encouraging entrepreneurship and innovation. Better jobs will also contribute to addressing key drivers of migration and help retain a skilled workforce.

v. *Bolstering disaster resilience, which will be vital to accelerate growth and protect inclusive development*. While the Government has continued devoting significant resources to disaster relief, an integrated disaster risk management strategy will be necessary to address vulnerabilities and focus on prevention.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

Government Program

25. **The current administration took office in January 2020, right before the COVID-19 pandemic struck**. It swiftly focused on addressing the public health crisis, protecting the vulnerable, and supporting the economic recovery. Despite fragmentation, the administration secured Congressional approval for several significant reforms, including: (i) a one-time year-long safety net (*Bono Familia*), with an unprecedented level of coverage of the poor and vulnerable; (ii) private-sector reforms, such as a new leasing and housing law and an insolvency law; and (iii) a mechanism to invest the 2021 budget surplus in road infrastructure. Notably, the administration also increased the budget allocation for a National Food and Nutrition Security Plan.

26. **The Government of Guatemala's development priorities are framed in multiyear national plans that are aligned with both the WBG's goals to reduce poverty and share prosperity as well as the global efforts to reduce inequality and achieve the UN 2030 Sustainable Development Goals (SDGs).** These priorities include the 2032 *K'atun* National Development Plan (2014), the Innovation and Development Plan of Guatemala (PLANID 2020-2024, GoG, 2021) and the COVID-19 joint public-private economic and social recovery plan, known as *Guatemala no se detiene* (Box 1). These three plans acknowledge the need for: efficient and sustained public investment in human capital, particularly among poor and marginalized groups; a decentralized, accountable, and transparent government to ensure an adequate supply of basic services and respond to the needs of citizens; and fostering a dynamic private sector supported by a favorable business climate and labor market. The government that will be elected this year is likely to present a program that will maintain consistency with these three strategies.

Box 1. *Guatemala no se Detiene* - Public-Private Dialogue as a Catalyzer of Policy Change, Business Dynamism, and Increased Social Investment

The socioeconomic crisis caused by the COVID-19 pandemic drew attention both to the immediate risks associated with economic, social, and political vulnerabilities and to the deep-seated structural factors that have hindered the sustainable development of the Guatemalan economy for many decades. Persistent social inequalities and infrastructure deficits due to low and inefficient public investments were starting to impact the cost of doing business of large private sector interests. In this context, a 15-year public-private economic and social recovery was launched in 2021. The plan seeks to stimulate a transformation of the business environment based on consensus strategies between key stakeholders of the economy. FUNDESA, a private sector foundation for the development of Guatemala, is the main driving force and coordinating body of this plan. The plan has five pillars—investment promotion; human capital; infrastructure; tourism; and legal certainty—to support economic growth and generate jobs. The WBG is seen as a strategic partner to support the implementation of parts of this plan. Given the strong public-private backing, it is envisaged that this plan will become the country's most pragmatic medium to long-term platform to maintain reform momentum across administrations.

Alignment of the Proposed CPF and Lessons learned

27. A three-year CPF gap (FY 2021-23) emerged after the last 2017-20 CPF because of the COVID-19 pandemic. The proposed CPF builds on a strong country dialogue that led to a moderate scale-up of the program during these CPF gap years. During this period, the country responded to the COVID-19 outbreak, natural disasters (including the back-to-back Eta and Iota hurricanes of November 2020), and ood and fuel price-hikes experienced by the global economy in 2022-23. During this period the World Bank Board approved three operations for a net commitment of US$900 million, including a programmatic Development Policy Lending (DPL) series of two Crisis Response DPLs (P173698 and P175979), which have both been approved by Congress (DPL1 has fully disbursed and DPL2 is expected to be fully disbursed by end of FY23), and a Modern and Resilient Agri-food Value Chains IPF (*GuateInnova*, P173480), which is awaiting congressional approval and is expected to become effective in FY24. Furthermore, the current administration requested in 2022 the preparation of three additional operations—two IPFs focused on urban and rural infrastructure resilience, and a CAT-DDO—expected to be submitted for the WBG Board's consideration by end of 2023. Additionally, the US$100 million Healthy Growing IPF (*Crecer Sano*, P159213, approved in 2017) began disbursing in FY22, and by March 2023 was 27 percent disbursed. During this period, the World Bank also mobilized several grants to support climate mitigation efforts and capacity building to improve tax collection.

28. IFC also mobilized significant support to micro, small, and medium-sized enterprises (MSMEs) during the FY 2021-23 gap period. Support focused on increasing the financial sector lending capacity to micro, small, and medium-sized enterprises (MSMEs), for these to manage the economic impact of COVID 19, processed under the Working Capital Solutions (WCS) Crisis Response Facility. Under this capacity, IFC provided a US$100 million to Banco Industrial. IFC also continued to expand access to finance for women and rural populations with a new US$35 million loan to *Fundación Génesis Empresarial*, a nonprofit organization and Guatemala's leading microfinance institution. In addition, IFC supported *Banco GyT* with a US$80 million loan to expand its MSMEs and Climate Smart portfolio (green buildings in urban areas and energy efficiency subprojects, among others).

29. The CPF builds on the lessons learned reflected in the Completion and Learning Review (CLR) covering the FY 2017-20 CPF implementation period. The CLR rates as moderately satisfactory the progress towards achieving the objectives included in the FY 2017-20 CPF (Annex 2). It notes that that the program was useful in stimulating a critical dialogue on chronic malnutrition, domestic resource mobilization and disaster risk management but that several key objectives tied to the IPF program were not attained due to a lack of political commitment to approve and/or implement the proposed IPFs. These lessons are reflected in the proposed CPF to help avoid the difficulties that arose under the FY 2017-20 CPF with the 2019 PLR revising 6 of the 10 outcome indicators and 11 of the 25 supplemental indicators:

i. *Strong leadership and political commitment are essential to ensure the WBG's impact*. Congress approved all budget support operations (three DPLs, one of which was a CAT DDO) prepared during the 2017-20 CPF period and the FY 2021-23 gap years. In this context, MINFIN successfully led the design, implementation, and broad ownership of reforms aimed at mitigating the social and economic impact of natural disasters, enhancing public sector transparency, and increasing domestic resource mobilization. On the other hand, three out of four IPFs in the FY 2017-20 CPF could not secure Congress approval, pointing at the importance to engage proactively and persistently during project preparation at the highest levels of the legislative and executive to ensure ownership and create the political space for approval. This approach has already been applied in the design and preparation of proposed pipeline IPFs, which have secured champions in Congress, and across public and private sector spheres.

ii. *The risk remains that despite all efforts some operations might still not become effective; this risk requires skillful management but should nonetheless be factored in as the unfortunate "cost of doing business" in Guatemala*. Even if some operations do not become effective, counterparts' preparation efforts are still worth the efforts as they have shown to help build capacity (and consensus) to implement important reforms. A case in point is the Urban Resilience operation, originally approved by the Board in FY17 (US$45 million Urban Infrastructure and Violence Prevention, P143495), that was cancelled in FY20 after Congress failed to approve it. The current authorities have recently requested the Bank to update and approve it again, in no small part due to the capacity and consensus building that has been carried out since FY17.

iii. *However, there is still much the authorities and the WBG can do to strengthen implementation arrangements for IPFs.* The only active IPF (*Crecer Sano*) have experienced significant implementation delays due to Guatemala's low institutional capacity and poor coordination across implementing agencies. In this context, the proposed pipeline IPFs will be accompanied by enhanced implementation support, including local TTL presence when deemed appropriate. The fact that *Crecer Sano* has started to effectively disburse long after Board approval demonstrates that persistent efforts can yield results and that, in this case, maintaining an active and constant dialogue even for a non-disbursing operation can yield impactful results.

iv. *In a complex environment, WBG TA and ASA will remain a key channel for ensuring and expanding policy dialogue and supporting future reforms and investments.* The FY17-20 CPF was hampered by political fragmentation in Congress, which derailed the effectiveness of three IPFs and stalled the implementation of another IPF, as explained above. However, the intensive use of TA and ASA was a critical factor in supporting the achievement of several CPF outcomes and building the foundation for post-pandemic progress. Targeted and continued TA and ASA in sectors, such as tax administration, disaster risk management, public-private partnerships (PPP), and social protection, will remain critical to achieve the results sought under the proposed CPF.

30. The proposed CPF benefitted from thorough consultations on Guatemala's development challenges. The preparation of the SCD-U and this CPF offered an opportunity to consult in-country with key stakeholders, including academics, civil society, opinion makers, the private sector, politicians, and the donor community (the "Group of 13" or G-13, a forum of countries and multilateral organizations representing the largest development partners to Guatemala). These discussions were critical to validate the diagnosis and receive feedback on the proposed FY 2024-27 CPF priorities, as well as the results from the latest Country Opinion Survey[15]. Visits by members of the WBG senior management team (in April and December 2022), and by a group Executive Directors (February 2023) helped to stress at the highest levels the need to swiftly confront the issues described by the proposed HLOs and Objectives, and to confirm the WBG's strong commitment to support the country in these areas.

31. General elections are scheduled for June 2023 and a new administration set to take office in January 2024. This means that the implementation period of the proposed FY 2024-27 CPF will start at the tail end of the current administration and will cover the full period of the new one. A Performance and Learning Review (PLR) in FY 2025 will provide the platform for adjusting the program to emerging priorities.

[15] The Guatemala Country Opinion Survey Report launched on FY 22. The report is available in: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099649501132337601/idu0d158355a0e6b9049e409c55042c47cd52073

Overview of World Bank Group Country Partnership Framework

32. **The WBG program will be based on the application of three selectivity filters**. The first is to address where possible the areas and institutional constraints identified in the SCD-U. A second is to limit the scope of the WBG's program to areas where the Bank has the adequate capacity and country-specific knowledge. A third filter is "effective" demand for WBG support, which should involve a clear commitment from the Executive, support from the Legislative branches and some consensus among key stakeholders—this may require frequently reassessing the authority's commitments, including the intention of Congress to approve new loans. Cautiously applying these filters will require strong WB, IFC and MIGA collaboration to ensure full complementarities, and a sequencing of instruments. This could mean beginning with knowledge and advisory products to inform the subsequent deployment of financing solutions.

33. **In large part, the selectivity filters applied during FY21-23 gap years, contributed to this proposed CPF seeking to make measurable contributions to improving three HLOs through five objectives and two cross-cutting themes.** *HLO 1—Increased Human Capital* aims to improve child nutrition and development, expand coverage of social safety nets, and improve access to improved infrastructure and basic services such as health, social protection, water, and sanitation services. *HLO 2—Increased Resilience to Natural Disasters and Climate Change* aims to enhance disaster risk and natural capital management capacity as well as resilience to climate shocks through improved disaster response policies, forestry management and better infrastructure. *HLO 3—Improved Job Opportunities* aims at increasing employment through a more efficient public spending that leads to improved public investments, jobs, and economic opportunities in rural and urban areas. Synergies across HLOs and objectives will help to maximize the combined effects of the WBG program in line with the green, resilient, and inclusive development (GRID) approach. Most objectives will contribute to more than one HLO but are assigned where impact is expected to be greatest. Highly vulnerable areas will be prioritized, such as those with elevated poverty rates, those where Indigenous people represent more than 50 percent of the population, and those vulnerable to natural hazards[16]. The three HLOs are underpinned by two cross-cutting themes: Institutional capacity – improving the availability of data, integrity, and transparency; as well as Inclusion – tackling discrimination and exclusion barriers affecting mainly women and Indigenous groups and promoting their economic empowerment. The Results Matrix (Annex 1) contains indicators to track progress on the five objectives.

Table 2. CPF 24-27: High-level Outcomes and CPF Objectives

High-Level Outcomes (HLO)		
HLO 1: Increased Human Capital	**HLO 2: Increased Resilience to Natural Disasters and Climate Change**	**HLO 3: Improved Job Opportunities**
CPF Objectives		
Objective 1: Reduce malnutrition and enhance child development among poor and vulnerable children.	**Objective 3:** Improving capacity for the management of disaster risk, and natural capital under a changing climate.	**Objective 4:** Improving the quality and quantity of jobs.
Objective 2. Improving access to social protection and basic services.		**Objective 5:** Improving effectiveness of public investment and revenue mobilization, and data quality.
Cross-cutting Themes		
Institutional Capacity Focusing on availability of data, integrity, and transparency.	**Inclusion** Tackling discrimination and economic empowerment barriers for women and Indigenous people.	

[16] Interactive map showing HCI disaggregated across departments available at https://designstudio.worldbank.org/maps/2021/76397/index.html

HLO 1: Increased Human Capital

Objective 1. Reduce malnutrition and enhance child development among poor and vulnerable children

Key Challenges	IBRD Lending
One of the highest inequality and stunting rates in LCR. Malnutrition rates affect 47 percent of children under five. Structural weakness of Health Ministry: Strong limitation to expand the primary health system (human resources, infrastructure, equipment, and supplies) due to rigid budgets and collective agreements with unions. Lack of legal certainty: Legal vacuum to make coordinated investments in water and sanitation. Effectiveness of public spending: Lack of relevant and timely statistical information systems. Absence of a Single Registry of Beneficiaries to better target the Social Safety Nets and Conditional Cash Transfers.	**Ongoing:** - US$100 million *"Crecer Sano"* (P159213) - US$150 million Responding to COVID-19: Modern and Resilient Agri-food Value Chains (*GuateInnova*, P173480) - **Pipeline:** - DPL Series in 2024 **ASA and TA** **Ongoing:** - Dime National School Feeding Program Evaluation - Food Security and Agriculture in Central America programmatic ASA (P179166) • Guatemala HD Strengthening Safety Net Monitoring. TA on social safety nets linked to Crecer Sano

34. **Guatemala has made significant progress on several health indicators in the last 25 years, but chronic malnutrition remains high and impacts mostly Indigenous people.** A nutrition survey conducted by the Great Crusade for Nutrition in 2022 found that 47 percent of children under five are undernourished, making Guatemala's rate of chronic malnutrition in children the highest in LAC and among the highest in the world, exceeding the rates in countries with significantly lower per capita incomes, such as Bangladesh, Ethiopia, and Vietnam. The economic cost of stunting is remarkably high, with estimates showing that, on average, the GDP per capita income penalty from stunting is around seven percent (Galasso &Wagstaff 2018). While chronic malnutrition decreased between 1995 and 2015, from 55 to 47 percent (according to National Maternal and Child Health Surveys, *Encuesta Nacional de Salud Materno Infantil 2014*, ENSMI, which represent the latest data on the issue), it has remained stagnant since then. Additionally, Guatemala has been identified by the World Food Program (WFP) and the Food and Agriculture Organization (FAO) as one of six countries worldwide with populations in catastrophe/famine conditions with risks that the situation could deteriorate further.[17]

35. **The CPF will combine financial and analytical resources to assist Guatemala to continue prioritizing the implementation of comprehensive programs seeking to accelerate the reduction of malnutrition**. The principal World Bank activity to tackle malnutrition will be the continued implementation of the *Crecer Sano* Project, whose objective is to improve selected practices, services and behaviors known to be key determinants of chronic malnutrition (with an emphasis on the first 1,000 days of life), and which, as of March 2023, was 27 percent disbursed. Grants, such as the Global Financing Facility (GFF), will also provide technical assistance to improve results-based financing of this project to: (i) promote the use of health services, including timely prenatal care; (ii) promote behavioral changes,

[17] Integrated Food Security Phase Classification Snapshot: https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/IPC_Guatemala_AcuteFoodInsecurity_2021May2022Jan_Snapshot_English.pdf

including exclusive breastfeeding during the first six months of life; (iii) improve the Conditional Cash Transfer (CCT) Program in the intervention areas, strengthening the link to health and education outcomes among poor and vulnerable children. Additionally, the Response to COVID-19: Modern and Resilient Agri-food Value Chain Project (*GuateInnova*), will help strengthen the capacity of the food system to provide access to safe and healthy diets. A future DPL series may continue to support regulations to address acute malnutrition. For example, the last DPL (Crisis Response DPL2, P175979) supported the deployment of health brigades capable of providing rapid screening for acute malnutrition, treatment as needed, and supplements for prevention as well as measures to promote and institutionalize culturally sensitive health care services for Indigenous people by implementing a national policy to support midwives (*Política Nacional de Comadronas de los Cuatro Pueblos de Guatemala*). Finally, ongoing programmatic ASA (*Food Security in Central America,* P179166) will conduct a rapid assessment of food and fertilizer prices that could inform activities to repurpose agricultural support policies and programs. This work is being coordinated with other development partners including FAO, WFP, the Interamerican Institute for Cooperation on Agriculture (IICA) and Central American Bank for Economic Integration (CABEI).

Box 2. The 2020-2024 Great National Crusade for Nutrition & National School Feeding Program

The Great National Crusade for Nutrition (*Gran Cruzada Nacional por la Nutrición*), launched by President Giammattei in 2021, can serve as a cornerstone in the country's effort to combat malnutrition. This national strategy aims to reduce malnutrition, with emphasis on the poorest and most vulnerable, implementing a comprehensive approach that brings different stakeholders together: government (central and municipal), private sector, NGOs, international cooperation (including the World Bank), academia, faith-based organizations, and civil society.

Promising steps in the national fight against malnutrition included improvements in the Ministry of Health and Social Assistance (MSPAS) information system and the baseline evaluation of the *Gran Cruzada* to measure the extent of malnutrition nationwide. The last related data collection effort was done in 2015 through a Demographic and Heath Survey. The World Bank will also use this new dataset to compute results-based indicators linked to disbursements for the *Crecer Sano* Project. The system is being piloted in selected municipalities and focuses on children under age five and pregnant women. It will also contribute to more accurate digital verification by Ministry of Social Development (MIDES) of the health co-responsibilities of the CCT program. The interoperability between the databases of MSPAS, MIDES and the *Secretaría de Seguridad Alimentaria y Nutricional* (SESAN) will allow the digital verification of co-responsibilities. In combination with the other improvements in the CCT delivery system, this integration will translate into more regular CCT payments and better capacity to expand the CCT program to serve vulnerable families as well promote young children's access to health services, supporting Objective 2 of this CPF.

Within this "crusade" the Ministry of Education (MINEDUC) recently developed the School Feeding Management App (SFMA) to better connect schools with local smallholder farmers, facilitate school meal planning, and automate financial management. This smartphone application was developed with support from the World Bank's DIGITAGRO Project (Funded by an InfoDev trust fund that closed in FY 2022, P171420), which in partnership with the WFP and the FAO, piloted digital technologies to improve the link between the School Feeding Program and smallholder farmers, with a particular focus on engaging women producers. The SFMA has the potential to develop reliable agricultural markets for farmers and provide nutritious school meals through increased procurement efficiency and adherence to government-prescribed menus. The WBG's Development Impact Evaluation (DIME) department, in coordination with the WFP, is currently evaluating this new procurement technology. The evidence generated from this engagement will inform the national scale-up of the SFMA to tackle malnutrition among vulnerable children in Guatemala using innovative mechanisms and mainstreaming smartphone technology.

36. Interventions under Objective 1 will also support improved institutional capacity and inclusion: the World Bank will continue to support maternal health (e.g., prenatal monitoring) and the strengthening of the country's institutional capacity to provide primary health services (e.g., training, results-based financing), with a particular focus on hard-to-reach areas (e.g., rural regions with high poverty rates).

Objective 2. Improving access to social protection and basic services

<table>
<tr><th>Key Challenges</th><th>IBRD Lending</th></tr>
<tr><td rowspan="3">Poor coverage of conditional transfer programs.

Poor access to basic infrastructure in expanding informal urban settlements.</td><td>Ongoing:
- US$100 million "Crecer Sano" (P159213)
- US$150 million Responding to COVID-19: Modern and Resilient Agri-food Value Chains (GuateInnova, P173480)
- US$250 million Second Crisis Response and Recovery in Guatemala Development Policy Loan (P175979)
Pipeline:
- US$120 million Urban Resilience (P179462)
- US$150 million Resilient and Safe Road Infrastructure (P178573)
- US$215 million CAT DDO (P178590)
- DPL Series in 2013 and 2024</td></tr>
<tr><td>ASA and TA</td></tr>
<tr><td>Ongoing:
- Central America: Harnessing Opportunities from Mixed-Migration (P177440)
- Northern Central America Migration: Creating opportunities at home and promoting mutually beneficial pathways ASA (P178221)
- Filling Knowledge Gaps on Migration in NCA Countries to Inform Policy Design (P178344)
- TA on adaptative social protection (TA linked to CAT DDO P178590)
Pipeline:
- TF on payment mechanism for safety nets
- Regional ASA on Migration</td></tr>
</table>

37. **Optimizing the use of public resources requires adequate data and an adaptative social protection system to effectively respond to both persisting and new challenges impacting Guatemala's human capital.** Despite the significant temporary increase of the social safety nets programs during 2020 in response to the COVID-19 pandemic, regular coverage of pro-poor cash- transfer programs remain low compared to poverty rates. Moreover, coverage has been shrinking during the last decade. Poverty alleviation spending through cash transfers in Guatemala dropped from 0.36 percent of GDP to 0.12 percent between 2010 and 2018. A bottleneck for the horizontal expansion of any CCT program, in addition to the financial resources, is the lack of a strong management information system to identify potential beneficiaries of social programs and to support the efficient and transparent expansion of the CCT program. The government has piloted the creation of a Social Registry of Households which, if scaled up, will represent a major milestone for the social protection sector. However, the social protection system is still not prepared to respond to emergencies, climate change, or natural disasters, the last of which are frequent in Guatemala and usually have the largest harmful impact on the most vulnerable population. Its comprehensive digitalization could better target individuals needing social assistance while reducing duplication and inefficiencies. Hence, the CPF would support the Government's efforts to reduce the digital gap on both the service supply and demand sides.

38. **There is also a need to improve access to basic public services for vulnerable populations, most of whom live in hard-to-reach areas with high poverty rates and limited public services**. Approximately 51 percent of the population lives in rural areas, and the rural population accounts for a large majority of the country's poor people. Rural Indigenous groups have traditionally been excluded from

Guatemala's social, economic, and political mainstream. This situation is exacerbated by Guatemala's complex topography. The rugged terrain and lack of roads have kept rural communities remote from the rest of the country, and centuries of isolation and neglect have resulted in chronic poverty. In addition, in the absence of clear and regular migration mechanisms, migrants opt for patterns of risky, irregular, and costly migration; increasingly facing compounding vulnerabilities with limited access to basic services and systems, and higher exposure to discrimination, abuse, and exploitation (while in transit and at destination). These vulnerabilities are particularly grave for women and girls on the move. There is also a growing need to improve basic services in expanding urban areas. The Guatemala City Metropolitan Area (GCMA) concentrates 60 percent of the country's industry and generates 60 percent of the national GDP, making it the largest economic region in Guatemala, but it is also home to a considerable proportion of poor citizens, many of whom live in *asentamientos* (slums). The GCMA's growth has occurred horizontally without increases in density, resulting in sprawl and the growth of peri-urban areas. The municipalities that comprise the GCMA face several challenges, including: (i) low coverage of basic services (sanitation coverage varies between 47 and 91 percent, and only 35 percent of total waste is systematically collected); (ii) deterioration or lack of public and recreational spaces; (iii) a high proportion of the population living in hazard-prone areas and subject to large-scale disaster risk; (iv) and high levels of traffic congestion on the main roads connecting the neighborhoods to downtown Guatemala City. These challenges, in addition to limited educational and job opportunities, are well-documented risk factors that lead to crime, violence, and gang activities that disproportionately affect women and youth.

39. This CPF will combine financial and analytical resources to help the government improve access to social protection and basic services. The World Bank will continue to provide support to enhance the efficacy and transparency of the social safety net, with emphasis on targeting, inter-operability of information systems within and beyond MIDES, and improved payment mechanisms. TA will be expanded to support shock-responsive social protection as part of the new CAT-DDO. Stronger social safety nets supported through the *Crecer Sano* Project and the new CAT-DDO promote human capital accumulation, increasing access to services and mitigating the impacts of shocks. With respect to improving the delivery of basic services the Government has requested the World Bank to prepare a Resilient and Safe Road Infrastructure Project that will improve segments of the rural road network for better connectivity in the rural department of San Marcos, including to schools and health posts, while also aiming to improve overall road safety. The Government has also requested a Resilient Urban Infrastructure Project which will help improve basic living conditions in targeted communities of the GCMA through the provision of infrastructure and services that satisfy basic needs (e.g., for potable water and sanitation as well as paved roads, sidewalks, and stairs, electricity and clean cooking); enabling the provision of social and economic services to vulnerable groups (e.g., women and youth); and reducing social risks and natural hazards through safer and more resilient built environments. The World Bank will support the improved access of basic services to vulnerable migrants, through ongoing ASAs (P177440, P178221, P178344), to identify key drivers, barriers, availability of regular channels, and mapping of relevant services (such as addressing Gender Based Violence) along the transit route.

40. Interventions under Objective 2 will also support improved institutional capacity and inclusion. The World Bank will be supporting evidence-based decisions using a single and comprehensive social registry while inclusion activities will target services to households in greatest need, people in transit, Indigenous communities living in marginalized underserved areas, or families living in hazard-prone locations.

HLO 2: Increased Resilience to Natural Disasters and Climate Change

Objective 3. Improving capacity for the management of disaster risk and natural capital under a changing climate

Key Challenges	IBRD Lending
Governance of the sector. Complexity of coordinating preventive actions between the different central and local government agencies due to the low coercive power of the responsible entity. Weak local governments (municipalities). Poor infrastructure vulnerable to climate events.	**Ongoing:** - Responding to COVID-19: Modern and Resilient Agri-food Value Chains (*GuateInnova*, P173480) - Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (P170391) - Emission Reduction Program (P167132) - Second Crisis Response and Recovery in Guatemala Development Policy Loan (P175979) - Second Central America and Caribbean Catastrophe Risk Insurance Project (P175616) **Pipeline:** - US$215 million CAT DDO (P178590) - US$120 million Urban Resilience (P179462) - US$150 million Resilient and Safe Road Infrastructure (P178573)
	ASA and TA
	Ongoing: - Food Security and Agriculture in Central America programmatic ASA (P179166)

41. **Over the last 10 years, Guatemala has experienced mounting risks and losses due to climate change and natural disasters, and the continuous pressures to the environment are affecting its natural capital base.** Guatemala is highly exposed to extreme weather events and other natural hazards. Half of the country's territory and a third of its population face a high risk of natural disasters and humanitarian crises. Of the 340 municipalities evaluated in the INFORM Guatemala Subnational Risk Index, 125 present a high or very high final risk.[18] They represent 35 percent of the country's total population and occupy more than 50 percent of the national territory. Disasters generate significant economic impacts, and losses to public and private assets and livelihoods create significant contingent liabilities for the government. Guatemala ranks fifth in LAC on economic risk exposure, with 83 percent of its GDP generated in at-risk areas (World Bank 2021). Climate change is already affecting crop yields, causing food insecurity in many rural areas and the viability of many roads, particularly during the six-month wet season. The most vulnerable groups are also the most exposed to disaster-related shocks, which contribute to elevated rates of school dropouts, child labor, and household poverty, increasing social exclusion and encouraging emigration. A big driver of vulnerability is the lack of social coping capacity; a World Bank index ranks Guatemala as the country with the lowest socioeconomic resilience to disasters worldwide.[19] Lastly, Guatemala is one of the most ecologically diverse countries on the planet, with fourteen different

[18] The INFORM risk index is calculated by combining eighty-two indicators that measure three dimensions: hazard and exposure, vulnerability, and lack of coping capacity.
[19] Socioeconomic resilience is defined as the "ability of a population to cope with asset losses." Guatemala ranks the lowest out of a selected sample of 117 countries (Hallegatte et al. 2017).

eco-regions and great biological and cultural diversity. However, the country's environment is threatened by deforestation, overexploitation of natural resources, and pollution.[20]

42. **The sustainability of any growth and development strategy will depend on Guatemala increasing its capacity to respond to natural hazards and manage its natural capital, while building its resilience to climate change**. Natural hazard prevention and mitigation, such as mainstreaming disaster risk management into national development and territorial planning, remain at the center of Guatemala's agenda. This agenda also includes interventions in other key priority areas, such as agriculture and food security, forestry and land use changes, water and energy for the vulnerable, and marine and coastal systems, and the rehabilitation and/or building of infrastructure resilient to climate shocks. While the government has continued devoting significant resources to disaster relief, an integrated disaster risk management strategy, including adequate risk insurance, better construction codes and road asset management systems will be necessary to address vulnerabilities and focus on prevention proactively. The Government is committed to developing its portfolio of disaster risk financing instruments, such as insurance and investments, as part of a broad approach to manage risks stemming from various kinds of shocks such as pandemics, earthquakes, and floods.

43. **This CPF will support strategic policy and financial reforms to improve the Government's capacity to manage the risks and impacts of climate change and natural hazards.** A CAT DDO operation, currently under preparation would further consolidate the ongoing policy dialogue and collaboration between the World Bank and the Government of Guatemala on disaster risk management and climate change adaptation. The CAT DDO plans to contribute to improving the country's capacity for disaster risk management by: (i) providing critical fast disbursing liquidity in the event of a disaster; (ii) supporting key reforms to disaster risk management policies and institutional arrangements; and (iii) promoting innovation in the public financial management of disaster risks, including better use of insurance mechanisms and adaptive social assistance programs. It is worth noting that Guatemala, since 2019, is a member of the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC), which the World Bank co-finances, providing coverage to protect against excess rainfall events, including those triggered by tropical cyclones. Additionally, the *GuateInnova* project aims to provide climate resilient agricultural solutions to small holder farmers, the Resilient and Safe Road Infrastructure Project aims to improve the resilience of the rural road network, and the Urban Resilience Project aims to improve the resilience of basic infrastructure assets in peri urban areas and *asentamientos* of the GCMA. During this CPF period the World Bank will also support a feasibility study in the three northern Central America countries (Guatemala, El Salvador, and Honduras) to identify scalable disaster risk finance solutions to improve the financial resilience of smallholder farmers impacted by climate variability and natural disasters as part of a joint effort with the WFP and the Partnership for Central America. The Resilient and Safe Road Infrastructure Project will focus on a group of municipalities, located in the San Marcos Department, a mountainous and poor rural region, highly exposed to climate disaster risks. The project will increase connectivity and resilience to disasters in this area.

[20] The annual rate of deforestation was 1.7% (more than three times the average rate in Latin America and the Caribbean). About 10% of land was highly degraded and 63% could become highly degraded in the near future. The annual cost of soil and land degradation amounts to 0.55% of GDP

Box 3. Cuauhtēmallān, "place of many trees"
The name "Guatemala" comes from the Nahuatl word Cuauhtēmallān, or "place of many trees", a derivative of the K'iche' Mayan word for "many trees". Guatemala has extensive forest coverage that is of social, economic, and environmental importance.[21] Forests in Guatemala have a high cultural significance since they constitute sacred sites and elements of the worldview of local Indigenous peoples and their communities. The direct relationship between Indigenous peoples, conservation, and responsible management of forests, especially concerning the use of water, forest and wildlife in the *k'iché, q'eqchi', q'anjobal and mam* linguistic communities is widely documented. During the CPF implementation period, the World Bank will support analytical work and related dialogue to promote policies, interventions, and practices that reduce agriculture's footprint on forests and tree cover while furthering the contributions of both agriculture and forests to economic development. The government is implementing various incentive programs to reduce forest degradation, which benefit Indigenous people. In this context, the Guatemalan government signed a US52.5 million Emission Reduction Program agreement with the World Bank that will promote reduced deforestation and forest degradation. as well as promote forest-related environmental services, such as reduced landslide and flood risks, improved ground water recharge, and reduced soil erosion/degradation. There are also opportunities to further promote the economic potential of forests for growth, jobs, and poverty reduction. This includes continued engagement with Indigenous leaders and Indigenous people's organizations to strengthen their voice and agency in decision-making and implementation of the US$4.5 million Guatemala Dedicated Grant Mechanism for Indigenous Peoples and Local Communities Project (P170391), financed by the Forest Investment Program of the Strategic Climate Fund (SCF). This grant will support forest-dependent Indigenous people, local communities, and civil society organizations and aims to improve knowledge and awareness of Reducing Emissions from Deforestation and Forest Degradation (REDD+). Considered a pilot, it is expected to inform how to support these communities on a larger scale. The World Bank will also continue to support analytical work to promote policies and interventions under the ongoing Green, Resilient, and Inclusive Natural Resource Management in Central America ASA (P178379).

44. **Interventions under Objective 3 will support the cross-cutting themes of strengthening institutional capacity and inclusion.** Activities will tackle governance enhancements on multiple fronts, including: (i) financing mechanisms for disaster prevention and response and (ii) promotion and adoption of climate-smart technologies, including expanded and resilient telecommunications network in deploying early warning systems. With respect to inclusion, the impacts of disasters do not affect all people equally. Marginalized groups are often disproportionately affected. One of the objectives of World Bank support in this area will be to support better government planning for disaster relief, particularly in its ability to provide critical fast disbursing liquidity to marginalized communities and groups in the event of a disaster.

HLO 3: Improved Job Opportunities

Objective 4. Improving the quality and quantity of jobs

Key Challenges	IBRD Lending
Limited economic opportunities among vulnerable groups. Low capacity of human capital that hinders foreign investment, and the development of the national industry towards activities with greater added value.	**Ongoing:** - US$150 million Modern and Resilient Agri-food Value Chains Project (*GuateInnova*, P173480) **Pipeline:** - US$150 million Resilient and Safe Road Infrastructure Project (P178573) - US$120 million Urban Resilience Project (P179462) - Guatemala Disaster Risk Management Development Policy Loan with a CATDDO P178590

[21] Guatemala is a member of the Like-Minded Megadiverse Countries (LMMC), a group of 21 countries that harbor the majority of the Earth's species and are therefore considered extremely biodiverse. They are rich in biological diversity (60-70% of the world's biodiversity) and associated traditional knowledge.

Limited competitiveness of small and medium farmers, with weak links to agricultural global value chains. Lack of trade facilitation and poor infrastructure hinders cross-border and global trade.	**IFC** - *Banco G&T Continental* for SME lending (green building, climate-smart loans) - *Genesis Empresarial*, microfinancing - WCS Banco Industrial for SMEs and WSMEs lending **ASA and TA** **Ongoing:** - TA to support implementation of new Insolvency Law - Regional Support for the Implementation of the World Trade Organization - Trade Facilitation Agreement in Central America - Phase II (P171021) - TA to support National Financial Inclusion Strategy - Country Private Sector Diagnostic (CPSD, IFC/WB) - North Central America Migration: Creating opportunities at home and promoting mutually beneficial pathways ASA (P178221) - Food Security and Agriculture in Central America programmatic ASA (P179166) **Pipeline:** - IFC Green Taxonomy and Central American Sustainable Banking initiatives - IFC Sustainable Cities Program for the Guatemala Municipality, identifying business models for PPP in urban transport, water, waste management and risks management framework - Regional ASA on Migration

45. **Improving access to economic opportunities in Guatemala is a complex and multi-faceted challenge.** There are several areas that hold promise to boost productive growth, generate employment, and help tackle the extensive migration to the United States. These include: (i) enhancing the productivity of small and medium-sized agriculture and strengthening the integration of small producers within national, regional, and global value value-chains; (ii) improving infrastructure, especially but not exclusively in rural areas, including digital infrastructure; (iii) facilitating MSME access to finance and helping to improve the productive and digital skills of the population; and (iv) appropriately, promoting mutually beneficial (temporary) regular migration through strengthening of institutional capacity, including the broader labor ecosystem (e.g., employment services, training providers), with positive spillover effects for Guatemala. While this list is non-exhaustive, improvements are needed related to the rule of law, political stability, and the security situation, among others.

46. **Guatemala's agribusiness sector has significant potential to help improve access to economic opportunities in rural areas.** Agriculture, and the food system in general, has a highly dualistic structure in Guatemala, with successful exporters integrated within international value chains on one side, and smallholder farmers facing stagnating productivity and significant challenges on the other. This sector also sustains many Indigenous people and has historically discriminated against women (Box 4). There have been significant efforts to diversify the sector toward producing higher-value added crops—such as fresh and processed vegetables for export, cardamom for exports, and the de-commodification of coffee, among others—with the participation of small-scale farmers (Indigenous and non-Indigenous). However, additional targeted efforts are needed focusing on improving technology adoption, productivity, better value chain integration and access to finance.

Box 4. Women and agriculture

Women in Guatemala play a key role in agriculture but face critical gender inequalities and discrimination. Although women account for only about ten percent of agricultural employment,[22] many more actually perform agriculture-related activities (processing, commercialization, horticulture) or support their husbands on family farms. Accounting for women who perform unpaid farm work or support spouses working in agriculture, the share of women in agriculture is almost forty percent.[23]

Despite their substantial involvement in agriculture, women face a multitude of gender gaps, in many instances underpinned by cultural and traditional norms, that put them at a disadvantage with respect to their male counterparts. For example, approximately 57 percent of women employed as agricultural workers do not directly earn a salary. Of those who do, 97 percent earn below the minimum wage, and the average wage of women is 78 percent that of men.[24] Other substantial gender disparities that women face are related to access to productive assets and credit, worse occupations and limited entrepreneurship opportunities, persistent human capital deficiencies, and significant exposure to Gender Based Violence (GBV). Rural Guatemalan women are severely disempowered. The 2017 Women's Empowerment in Agriculture Index (Pro-WEAI) in the Polochic Valley and in the Guatemala Western Highlands indicates that 80 percent and 90 percent of women are disempowered, and Indigenous women are three times as likely to be disempowered as the average woman in agriculture.

47. **Improving transportation infrastructure will be critical to achieve the country's growth potential**. Guatemala's quality of infrastructure, as measured by the World Economic Forum's (WEF) competitiveness index, has deteriorated over the years, and stands at 84 out of 137 countries. A 2022 World Bank *InfraSap* report titled "Improving Transport Connectivity" (P174971), reviews the different channels through which transport contributes to economic growth and development in Guatemala, and highlighting that low public investment in transport and logistics over decades is negatively affecting the country's competitiveness, reducing gains from trade, and hindering growth. Although transport connectivity and territorial development in Guatemala is driven by the weight (economic, demographic) of Guatemala City and the rapid urbanization of neighboring municipalities, the high levels of rural population, the mountainous topography, and the significance of agriculture (mostly Indigenous), mean that rural roads are a lifeline to reduce inequality and boost commerce. The lack of public investment in the road network and its deteriorating condition also reduces resilience to climate change, with direct damages and economic losses from disasters often being the highest of any sector, with parts of the country cut off from the transportation network for weeks especially during the 6-month rainy season. Additionally, road safety has become a major issue across the country, with road deaths, estimated to cost 5.5 percent of the country's GDP (Box 5). Improved transport services will help to create in-country job opportunities and, by reducing the time and financial cost of reaching schools and jobs, contribute to overall poverty reduction.

Box 5 – Road Safety in Guatemala

Road accidents are the second leading cause of death in the country. In Guatemala, most registered road crashes and injuries (82 percent) affect the most economically productive age group (ages 15-64). Lightweight vehicles and two-wheelers are the primary vehicles involved in traffic accidents. With vehicle fleet rates having increased by 45 percent between 2010 and 2020, from 84 to 121 light vehicles per 1,000 inhabitants, there is an increase in road safety concerns. Currently, more than 40 percent of traffic crashes occur in rural areas and are much more likely to be fatal or severe due to higher speeds, weaker compliance, and low accessibility to emergency response and health centers. People living in rural areas, including Indigenous peoples, have 4-10 times the death rate per 100,000 people of urban people. In primary and secondary roads, road safety issues also include the vulnerability of Indigenous and rural populations that utilize the shoulders of these roads for non-motorized trips between neighboring communities.

[22] FAOSTAT, 2017.
[23] 2014 Guatemala ENCOVI.
[24] Employers Network for Equality and Inclusion (ENEI), 2014

48. Several World Bank Group activities are aimed at improving the quality and quantity of jobs in rural areas during the CPF period. Two IPF operations would contribute to improve support rural productivity and employment. First, the *GuateInnova* Project (P173480) aims at increasing the efficiency of key value-chains by enhancing productive capacity of MSMEs, improving farmers' labor skills, supporting access to job platforms, and promoting the adoption of climate-smart technologies. Second, the Resilient and Safe Infrastructure Project (P178573) will target areas where road conditions are a significant constraint to accessing markets, such as the San Marco region, an agricultural area with high poverty rates. The Urban Resilience Project (P179462), already highlighted under Objective 2, will contribute to Improving the quality and quantity of jobs through investments in improving infrastructure and service delivery in peri-urban and areas. IFC is working with the Municipality of Guatemala to further develop sustainable public transportation projects. Through its Upstream - Cities Program, IFC is delivering a strategic advisory services package to the Municipality with two main components: a) Definition of potential business models to develop a public bicycle transportation system for Guatemala City, and b) Identification of potential areas of improvement of the Municipality's Environmental and Social risk management framework for transportation projects.

49. Through a combination of ASA and lending instruments (including a new DPL series and new IPFs) the proposed CPF will support other dimensions of job creation and private sector competitiveness. This includes ongoing support to Guatemala's National Financial Inclusion Strategy 2019-2023, which articulates a range of legal, regulatory, and financial infrastructure reforms to address structural barriers to financial inclusion for MSMEs and individuals, with benefits to be felt especially in in rural areas. In addition, through the ongoing sub-regional Human Capital Review ASA (P177403), the World Bank will support efforts to improve the supply of relevant skills towards eliminating potential skills mismatches and creation of better jobs. Relatedly, the regional ASA on Labor Migration Institutional System (P178221), will not only support the promotion of regular, and mutually beneficial migration pathways[25] but will also complement the Human Capital Review in identifying areas of opportunity to strengthen institutional capacity for improved employment outcomes. The IFC and the World Bank are also finalizing a Country Private Sector Diagnostic (CPSD, IFC ID# 606642), which investigates ways to enhance competitiveness and job creation. Two sectors were selected for deeper assessment: the agri-food sector (fresh produce, horticulture and fruits, and cardamom) and light manufacturing (textile, apparel, and electronics value chains) with a line of sight to the emerging new Global Value Chains (GVC) dynamics and how Guatemala may be able to benefit from rising near shoring trends. The assessments will be important in understanding the challenges and constraints limiting private-sector investment in these sectors, and for making concrete recommendations to crowd-in private- sector investment.

50. Trade facilitation and regional integration are critical areas for Guatemala´s potential to expand job opportunities. The CPF will continue supporting Guatemala´s effort to align itself with the World Trade Organization, Trade Facilitation Agreement (WTO-TFA). Under the program "Regional Central American Project to support the implementation of the Trade Facilitation Agreement (ID: P156050)", the World Bank supported the Customs Union initiative of Guatemala and Honduras, officially approved in 2016. During the new phase of the program Regional Support for the Implementation of the World Trade Organization - Trade Facilitation Agreement in Central America - Phase II (P171021), the WBG will continue supporting the customs union (deep integration), now with the inclusion of El Salvador.

[25] USAID is supporting the facilitation of H2 temporary work visas to the US, towards orderly, regular, and mutually beneficial migration. Efforts (including in collaboration with USAID) on strengthening the labor migration institutional system in Guatemala will contribute to sustainability after the end of such support.

It will also continue supporting measures such as advance declarations, expedited shipments to promote e-commerce and reduced airfares to boost tourism.

51. **IFC strategic priorities in support of this objective would include:** (i) promoting financial and social inclusion, (ii) addressing critical infrastructure needs, and (iii) strengthening competitive and job-intensive sectors. In the most recent Enterprise Survey data (2017), only 42 percent of firms in Guatemala (with five or more employees) report having a loan or line of credit from a financial institution compared to the regional average of 48 percent. In this context, the ongoing support to the *Banco G&T Continental* (2022-Active) aims to strengthen the capital base for gaining a stronger presence in the MSME market, mortgage housing loans for individuals, and Climate Smart lending related to green buildings in urban areas and energy efficiency sub-projects. IFC will invest in the banking sector and further explore potential engagements in the manufacturing sector. It will also help strengthen the financial system and expand access to finance and financial inclusion among uncatered populations by supporting transactions in the micro finance banking sector, such as with *Genesis Empresarial*. The IFC is looking to expand its engagement in the agribusiness and light manufacturing sectors, especially in textiles and apparel, given their high potential for job creation, and external drivers such as the near-shoring trend and supply chain disruptions elsewhere that have made Guatemala an attractive destination for companies.

Box 6. Mobilizing private capital and the PPP landscape

The authorities are highly supportive of the role that the private sector could play as a catalyst of development and a financier of public infrastructure, as reflected in its *Guatemala no se detiene* plan. Moreover, the government's prudent fiscal strategy calls for enabling private investment in infrastructure sectors, through PPPs.

The *Agencia Nacional De Alianzas para el Desarollo de Infrastructura Económica* (ANADIE – the national PPP agency) was established in 2013 and, as of January 2023, holds seven projects in its pipeline with an estimated investment value of US$2.3 billion. However, all PPPs must secure full Congressional approval in the tender phase, a process that has halted planning and approval for most of these proposals—to date most viable PPPs have lacked strong political champions capable of overcoming technical and management challenges during PPP development, and stewarding PPPs through Congressional approval. So far only one project, the US$80 million Escuintla-Puerto Quetzal toll highway, has been approved after a lengthy three year process. Other potential PPP proposals include: the US$120mn modernization of *La Auro*ra international airport, the US$770mn *Norte-Sur* highway and transportation system for Guatemala City, the US$300mn *CA-09 Norte-CA-01 Oriente* expressway, the *Vía Exprés* highway, the US$250mn administrative state center building for Guatemala City and the US$40mn *Tecún Umán II* intermodal logistics port. The World Bank and IFC will continue to support the PPP agenda and ANADIE through a TA component of the Resilient and Safe Infrastructure Project focusing on introducing performance-based Road Rehabilitation and Maintenance Contracts (CREMA) for parts of the rural road network.

52. **MIGA, in close collaboration with IBRD and IFC, will continue to seek opportunities to de-risk cross border investments in key sectors of the economy**. MIGA will work to provide political risk insurance and credit enhancement solutions to mobilize private capital into Guatemala which could foster job creation and support a green, inclusive and resilient development. In particular, MIGA is looking for opportunities to support Guatemala's financial sector, as well as PPPs**.**

53. **Interventions under Objective 4 have a particular focus on strengthening institutional capacity and inclusion**. The CPF will support interventions to increase the resilient productivity of rural producers as well as of MSMEs led by women and indigenous, improve access to markets and job opportunities, among others. Progress will be monitored through several indicators under the *GuateInnova*, Resilient Roads and the Urban Resilience IBRD-financed projects. These efforts will be further expanded with IFC's support to enhance finance for MSMEs. Institutional capacity constraints will be tackled under the IPFs and IFC interventions through increased implementation support, training targeting beneficiaries and public service providers, supporting pre-investment consultations and dissemination of Bank-supported

activities, as well as capacity building and advisory activities delivered to ensure counterparts are able to apply IFC Performance Standards.

Objective 5. Improving effectiveness of public investment and revenue mobilization, and data quality

<table>
<tr><th>Key Challenges</th><th>IBRD Lending</th></tr>
<tr><td rowspan="3">Low revenue mobilization and budget rigidities constraint allocations to key government programs.

Deficient data and administrative information limits informed debates, and decision making on the quality of public spending.

Congress lacks a system to inform the budget commission about key tax, spending and debt management issues and policies.</td><td>Ongoing:
• Efficient Resource Mobilization (EU euro 10m Grant) to the Revenue Administration (TFP# 2508)
Pipeline:
• DPL series in 2024</td></tr>
<tr><td>ASA and TA</td></tr>
<tr><td>Ongoing:
- FY23 Public Expenditure Review (P179444)
- FY24 Central America Regional and Fiscal and Debt Sustainability study (P179152)
- Reserve Asset Management Program (RAMP)
- Food Security and Agriculture in Central America programmatic ASA (P179166)
Pipeline:
- Debt Management TA
- Building capacity of the National Statistics Institute TA</td></tr>
</table>

54. The Government must strengthen its capacity to spend for measurable results. Total expenditures in Guatemala are low, averaging 13 percent of GDP during 2015-19, with current expenditures accounting for 74 percent of the total. Because of this low level of spending, Guatemala registers one of the lowest levels of expenditure on infrastructure, health, and education in LAC, both in per capita terms and as a share of GDP. A persistent problem is that the country's capacity to spend is also very low: between 2019 to 2021, the average execution of public investment was only 82 percent. Despite some progress in improving financial management and budget transparency (Box 7), there is a perception of high corruption in public spending. This compound the twin problems of low allocation and weak execution, as civil servants are often afraid of committing resources or advancing projects for fear of being administratively or legally prosecuted. Nonetheless, the government has the financial and human resources to continue building digital systems and solutions that can improve the effectiveness of expenditure.

55. Domestic revenue mobilization must be enhanced in parallel to the implementation of spending reforms. At only 10.6 percent in 2015-19, Guatemala's tax revenue-to-GDP ratio is among the lowest in LAC. Even after the recent increase of the tax revenue-to-GDP ratio to 12.4 percent, it remains well below the 15-percent-of-GDP threshold that empirical literature considers as a minimum for a state to function effectively. The IMF has estimated that for Guatemala to achieve the SDGs in health, education, and infrastructure it will require additional spending of 8.5 percent of GDP by 2030.[26] Revenue mobilization has historically been constrained by multiple tax exemptions, weak revenue administration, and the persistence of a large informal sector. While efforts to increase the effectiveness of public spending must continue, it is also essential to increase taxes to expand the headroom for public interventions that address social needs (Annexes 10 and 11 highlight country's domestic resource mobilization efforts and World Bank Support).

56. The availability and quality of official national statistics and impact evaluations remains an issue for policy formulation and targeting and monitoring public programs. Guatemala has inadequate

[26] Pérez Ruiz, E., and M. Soto. 2019. "Attaining Selected Sustainable Development Goals in Guatemala: Spending, Provision, and Financing Needs." IMF Working Paper WP/19/60.

capacity to collect, analyze, and disseminate quality data about its population, economy, and public administration. This is reflected in the 2019 Statistical Capacity Indicator of the World Bank, which was 67.8, below the LAC regional average of 71.1 and below the IBRD average of 72.8. The low statistical capacity causes persistent gaps in the monitoring of poverty, malnutrition, migration, firm dynamics, productivity, and quality of service delivery indicators, weakening the ability to diagnose these problems, design interventions to overcome them and assess impact. A noteworthy example of the low statistical capacity is the fact that the most recent official national poverty estimates date back to 2014, the year of the last National Standards of Living Survey (ENCOVI). The lack of a national system to conduct impact evaluation of programs also hinders evidence-based decision making. The 2018 National Cybersecurity Strategy needs to be updated and implemented to develop an appropriate enabling environment to ensure data safety and resiliency through adequate cybersecurity standards and data protection regulations.

Box 7. The Open Budget Initiative

The "Open Budget Initiative" and similar measures represent modest but promising steps toward greater transparency in public administration and public expenditure outlays to improve public sector efficiency and combat corruption. Despite the overall deterioration in governance quality observed in recent years, the authorities have significantly improved public transparency, building on a strong initial investment in Public Financial Management Systems with support from the FY 2002 Integrated Financial Management System III (P066175) and its predecessors. In 2017, the government launched the Open Budget Initiative to discuss the Revenues and Expenses Plan publicly. Since then, several workshops took place to open the budget process to the public and the media.

Prior to the launch of the initiative, citizens had no access to the budget formulation process, and budget allocations were announced after they had been finalized. Under the new system, each government institution publicly presents a set of programs and projects and defends its long-term efficiency. The Open Budget Initiative is a key step toward improving transparency and accountability. Unfortunately, progress in disclosing information on key public expenditures—including on procurement processes and the government's human resources and compensation policies—has not followed.

57. The budget is one of the most influential policy instruments to promote fiscal discipline, strategic allocation or allocative efficiency, and operational efficiency. Independent fiscal institutions have been found to play a key role in informing fiscal policy debates. The OECD defines these as "publicly funded, independent bodies under the statutory authority of the executive or the legislature which provide non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance." They have been established as part of a discrete package of budget reforms (i.e., in EU jurisdictions) or in response to a realignment of executive-legislative relations (e.g., in anglophone and developing country jurisdictions). Guatemala could benefit from these types of institutions (taking the form of a Fiscal Council or a Parliamentary Budget Office) to fill gaps in informing key policy makers about tradeoffs and choices regarding fiscal policy.

58. The CPF will combine analytical and financial resources to help Guatemala address these issues. On the financial side, the supervision of the First and Second Crisis Response and Recovery Development Policy Note (P173698 and P175979) provided an instrument to press on both, expenditure, and revenue efficiency. These are complemented by an EU grant (P178870) to help improve revenue administration, focused on developing capacities for risk-based auditing and supporting the digital transformation agenda of the SAT. Once the new administration is in place in January 2024, the World Bank will assess if a new DPL series could further help to advance these agendas. The World Bank also stands ready to mobilize technical assistance and, if deemed appropriate, financial resources to support efforts to improve evidence-based policy making by supporting the national statistical agency (INE). Finally, TA for debt management with the objective of responsibly increasing debt to support public investment is envisaged while the World Bank Treasury will continue providing technical advice on investment management to the Bank of Guatemala (BANGUAT, the central bank), support debt management improvements, and examine options to mobilize sovereign green financing.

59. Interventions under Objective 5 will enhance governance through the above-mentioned EU Grant and by engaging in key governance issues when requested, such as on building capacity for Anti-money Laundering and Combating the Finance of Terrorism (AML/CFT). The EU grant seeks to enhance the transparency of the revenue administration, in addition to reducing tax compliance costs. On AML/CFT, the Bank has been supporting jointly with the IMF and the IDB the preparation of a robust legal framework as well as the capacity to assess risks in these areas. At the same time, ASA and TA on statistical capacity will inform gender-informed policies and public investment for improved inclusion. These broad themes will also underpin any new DPL operation.

IV. IMPLEMENTING THE FY24-27 COUNTRY PARTNERSHIP FRAMEWORK

Financing Envelope

60. The World Bank's active portfolio in Guatemala is small. The one ongoing IPF is the US$100 million *Crecer Sano* IPF, which was 73 percent undisbursed as of March 2023. This project was approved by the World Bank Board in 2017 and, since then, has been the only active IPF in the lending program. Between FY2021-23, the World Bank Board approved three operations for a net commitment amount of US$900 million: two DPLs for US$750 million and the US$150 million Responding to COVID-19: Modern and Resilient Agri-food Value Chains (*GuateInnova – DPL2 and Modern and Resilient Agri-Food Value Chains are awaiting approval by Congress*. Additionally, three operations are currently expected to be approved in 2023-2024: (i) a US$120 million Urban Resilience IPF; (ii) a US$150 million Rural Road Sector Improvement IPF; and (iii) a third US$215 million CAT DDO. A new DPL series may be considered for FY24, subject to confirmation of the new administration's interest and the adequacy of the macroeconomic framework. IFC's active portfolio in Guatemala currently stands at US$470 million, including long-term finance and trade finance lines. IFC has four active projects with financial institutions in Guatemala: *Banco Agromercantil, Banco Industrial, Banco GyT and Genesis Empresarial*. The remaining portfolio corresponds to an infrastructure project.

61. Indicative IBRD financing under this proposed CPF period could reach US$2.5 billion. The actual volume will depend upon client demand—including the willingness of Congress to approve external financing provided by international financial institutions and the country's debt management strategy—program performance, the type of instruments used, demand from other borrowers, the IBRD's financial capacity, and an appropriate macroeconomic framework.

62. The CPF will continue to support the mobilization of trust funds and bilateral financing. The WBG will continue to support Guatemala's access to global efforts, including multilateral initiatives like the three trust-fund financed activities currently under implementation: (i) a US$4.5 million dedicated grant mechanism for Indigenous people and local communities, financed under the Forest Investment Program of the Strategic Climate Fund; (ii) US$52.5 million ERPA; and (iii) TA to assist the revenue administration, financed by a €10 million grant from the EU. Additionally, *GuateInnova* is to be co-financed by an IFAD loan and an EU grant. The WBG will continue to coordinate and seek synergies across international financial institutions and bilateral development partners for opportunities to co-finance operations or ASA (e.g., to address regional challenges such as trade or migration, promote innovation, support digital and/or disability inclusion). Reimbursable Advisory Service arrangements could be offered should the Government of Guatemala request them and if the WB has adequate financial and human resources available.

Financial Management, Procurement, Portfolio, and Partnerships

63. **The legal framework for Public Financial Management (PFM) is anchored in Guatemala's Constitution.** It defines the preparation, presentation, approval, and validity of the General State Budget, the accounting record of operations, and the internal and external control of public funds. This is supplemented by a comprehensive set of laws and regulations. The 2017 Public Expenditure and Financial Accountability (PEFA) Assessment Report concluded that the Guatemalan PFM system is reasonably aligned with international good practices. However, there are opportunities for improvement (74 percent of the indicators are equal to or lower than the C+ level, which is conventionally identified as system weaknesses). The PEFA nonetheless stresses that the performance of Guatemala's PFM system has improved over the last five years. For instance, the indicators of state purchases and contracts has improved, as have the monitoring of payment arrears, and internal and external controls. Unfortunately, Guatemala does not currently have a mid-term PFM reform strategy, only a set of initiatives to improve system performance (see Box 3 on the Open Budget Initiative). A reform strategy is still needed to align ideas and resources, and to sequence actions.

64. **The public procurement system needs further improvement.** Guatemala recently launched a nationwide mandatory e-procurement platform, *Guatecompras*, developed with World Bank support. Although the system channels around 30 percent of the country's public budget, *Guatecompras* is not yet a transaction system so World Bank operations use it only for publication purposes. On processes, more than 80 percent of the value of public procurement over the last decade was contracted under noncompetitive procurement practices (e.g., sole-source, emergency procedures), which have led to frequent cost overruns, especially in public works contracts, and decreasing trust in the system. During 2016-18, the WB provided technical assistance to draft a new Procurement Law and, in 2019, the Procurement Directorate Office (*Dirección General de Adquisiciones del Estado –DGAE*) conducted a self-evaluation of the procurement system using the Methodology for Assessing Procurement Systems (MAPS), which was peer reviewed by the World Bank. The exercise laid foundations for promoting trust and enhanced transparency, fairness, and good governance in the system. In September 2022, the authorities submitted before Congress a Public Procurement Bill that includes core principles but fell short of incorporating key technical recommendations by the World Bank and others in the working group. This Bill, however, is still to be approved by Congress.

65. **Managing program implementation has proven challenging for the World Bank.** Every step of the loan cycle—preparation, effectiveness, and implementation—has proven challenging and time consuming. For example, approval requirements from the Attorney General's office, in addition to approvals from the National Planning Agency (SEGEPLAN) and the Monetary Board, as well as frequent changes of counterparts across ministries, slows down project preparation. Additionally, once a project is approved by the World Bank Board, the biggest issue affecting effectiveness is Guatemala's onerous requirement for Congress to approve every single loan made by an IFI. If not cancelled outright for lack of congressional approval, on average, over the last ten years, an IBRD operation has taken two and half years to become effective. Finally, based on the implementation experience of the *Crecer Sano* Project, the one and only ongoing IPF operation since FY17, cumbersome bureaucratic clearance procedures and low capacity adversely affect implementation, and can take eight to ten years to fully implement.

66. **The IFC and MIGA face similar challenges, especially in promoting infrastructure investments at the municipal level in the areas of Public-Private Partnership and urban infrastructure**. The municipal stakeholders' local policies, regulations and fiscal constraints have prevented IFC from transacting in this space. Nevertheless, IFC and MIGA will continue to explore opportunities in both areas, provided they bring relevant development impact to the country and can function as catalyzers for further investment in the sectors. Special attention will be placed into the due

diligence process for new clients in the manufacturing and agribusiness space, to mitigate risks when implementing the program.

67. **Building on a solid track-record, the World Bank will continue strengthening its partnerships with the donor community.** These include UN agencies and bilateral agencies such as the EU and the United States Agency for International Development (USAID), as well as IFIs such as the Inter-American Development Bank (IDB), the CABEI and the IMF. Through its convening role, the World Bank will seek to coordinate policy dialogue with other partners and identify joint or complementary support opportunities across different sectors. During this CPF, closer coordination and partnerships are envisaged in the areas of: (i) tax administration and domestic resource mobilization with the IMF, EU, UNDP and IDB; (ii) health, malnutrition, CCT, and agriculture with the World Food Programme, UNICEF, EU, IFAD and FAO; (iii) transparency and data quality with UNDP and United Nations Population Fund (UNFPA); (iv) implementation capacity with the United Nations Office for Project Services (UNOPS); and (v) climate change, disaster risk insurance and migration with USAID. The World Bank and the IMF will continue collaborating on the financial sector and macro-fiscal issues. Of the IFIs, the IDB is the largest lender in Guatemala, with close to 45 percent of IFI lending; the World Bank stands at around 30 percent.

V. MANAGING RISKS TO THE CPF PROGRAM

68. **The overall residual risk to achieving proposed program objectives in Guatemala is assessed as substantial.** Two high and two substantial risk categories may impact the achievement of CPF results.

Table 3. Risks to the CPF Objectives in Guatemala

Risk Categories	Rating (H, S, M, L)
Political and Governance	H
Macroeconomic	M
Sector strategies and policies	M
Technical design of project or program	M
Institutional capacity for implementation and sustainability	H
Fiduciary	S
Environment and Social	S

69. **Political and governance risks are "High."** With general elections scheduled for June 2023, this CPF will cut across two administrations. Although government transitions have mostly been orderly and accepted, this process may create an environment marked by social tension. The political uncertainty surrounding the elections may also affect the Executive's ability to obtain congressional approvals of new IBRD operations and potentially delay their approval until the new administration comes into office. To mitigate the risk, the CPF focuses on development priorities that have been recognized by a wide range of stakeholders as non-controversial, including roads, jobs, and resilience to disasters and climate change. Additionally, the World Bank will engage in a high level, open, transparent, and proactive dialogue with top presidential candidates, Congress and other key stakeholders during this electoral cycle to inform them about the merits of an active financial partnership with IFIs. The objective will be to signal the value of IFIs as an important partner for the country to: (i) support the implementation of the public-private *Guatemala no se detiene plan* on account of IFIs lower financing terms, its ability to mobilize additional resources and technical assistance, and its robust safeguards; and (ii) as a practical way for the government to signal its commitment to implementing a more equitable and sustainable growth model. Despite these mitigation measures, the risk that some operations might not be approved by Congress or might be approved only after considerable delays remains high. Given the systemic fragmentation of Congress, should the approval of new IBRD-financed operations be delayed or canceled outright, results expected under the proposed CPF will be limited. In this context, the World Bank will remain flexible and may adjust the

program and instruments to emerging priorities that reflect political developments, new challenges, and institutional capacity constraints through the 2025 PLR of the CPF.

70. **Macroeconomic risks, given the Government's good track-record on this front, are "Moderate".** Two risks emerge on the fiscal front. First, despite Guatemala's good access to international capital markets, the tightening of financing conditions could put pressure on risk premiums and increase refinancing costs for public and private debt. Second, the country's low revenue mobilization adds pressure to servicing debt, using up the limited headroom for much-needed human and physical investments. These two risks are, however, mitigated by a low debt-to-GDP ratio and stable foreign exchange policy. An increasingly uncertain global economic outlook could also threaten the successful attainment of several CPF development objectives. For example, the economy's resilience to high oil, gas and food costs has yet to be determined. These risks, which may affect public expenditure and economic stability, are only minimally mitigated through TA and potential new DPLs. The World Bank will continue to closely monitor the evolution of the macroeconomic framework and remain open to stepping up support. Macroeconomic risks may also stem from climate shocks, natural disasters, and potential new waves of COVID-19. The World Bank will stand ready to support disaster risk management and financing under HLOs 2 and 3.

71. **Risks regarding institutional capacity for implementation and sustainability are "High."** Limited institutional capacity at all levels and public sector inefficiencies have held back World Bank project implementation (as well as preparation) .The lack of understanding by certain government units and autonomous entities of World Bank standards and processes, combined with cumbersome administrative procedures~~,~~ and frequent counterpart turnaround, could perpetuate slow implementation and delays for this operation, as well as the three future IPFs that require Board and Congress approval. A key lesson from the *Crecer Sano* Project to mitigate the risk of slow implementation is the usefulness of "Hands-On Expanded Implementation Support" (HEIS) to provide regular capacity building and training of PIU staff. As the CLR has noted, it will also be important to support the efforts of local governments and civil society aimed at strengthening local capacity to improve governance and adhere to the highest standards of quality, openness, and accountability. Achieving results in Guatemala depends not only on government commitment but also on the commitment of other stakeholders in the society.

72. **Fiduciary risk is "Substantial."** Low fiduciary management capacity across line ministries, a lack of knowledge of World Bank processes among PIUs, and deterioration of the rule of law are reflective of the weak governance environment. These factors may lead to: (i) delays in project implementation; (ii) insufficient budget allocations and/or budget restrictions; (iii) weaknesses in procurement and contract management; and (iv) weak fiduciary capacity in certain government institutions implementing World Bank-financed projects. These risks will be mitigated through a combination of capacity building of fiduciary teams involved in World Bank IPF operations, close FM supervision, and periodic joint FM and procurement deep-dives, as needed. Furthermore, project fiduciary staff will be working with task teams to identify governance and fiduciary constraints early, that could be addressed as part of project design through institutional strengthening or improvements of country systems. In addition, the World Bank will intensify its fiduciary oversight and monitoring to further mitigate such risks in the context of World Bank IPF operations.

73. **The Environment and Social risks are assessed as "Substantial."** The high exposure to natural disasters speaks for a significant likelihood that it could substantially affect the achievement of the CPF objectives. Climate change affects in the form of earthquakes, tropical storms, floods, and droughts, inflicting damage on infrastructure and the agricultural sector and imposing high economic costs on the country. To mitigate this risk, flexibility to respond to emergencies is built into the portfolio through the integration of a contingent emergency response component into every project that can be triggered in the event of a disaster. Moreover, the World Bank will provide its knowledge to support the integration of DRM into longer-term national investment policies and development strategies. Potential climate impacts

in priority areas over the longer term will be included in the screening process for proposed operations and, where risks exist, resilience measures will be integrated to mitigate negative effects on development outcomes. In addition, strengthened DRM capacity is explicitly addressed as CPF Objective 3 under HLO 2. Finally, the social cohesion of society continues to be negatively affected due to the challenging political and social context of the country. That is reflected in the limited depth of citizen engagement, exacerbating social inclusion. To mitigate this risk, the World Bank will place a strong emphasis on citizen-oriented design in new projects and will follow up during implementation. The World Bank will pay special attention to the consultations, the grievance redress mechanisms, and inclusion of marginalized groups in its project design.

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Annex 1. FY24-27 CPF Results Matrix

High Level Outcome 1 (HLO 1): Increased Human Capital		
The FY17-20 CPF Pillar 1 aimed to foster the inclusion of vulnerable groups by increasing access to basic health, nutrition, water, and sanitation services (FY17-20 CPF Objective 1). Recent analytical work (e.g., SCD Update) flags that closing the access gap in the provision of basic services remains a critical challenge to fostering the inclusion of vulnerable groups in Guatemala. The FY24-27CPF program will continue to support the Government of Guatemala's (GoG's) efforts to reduce inequalities and to improve the inclusion of vulnerable groups, as these efforts are critical to better human capital outcomes and increase shared prosperity. In particular, the World Bank will continue to support the GoG's efforts to enhance human capital and focus on the supply side by strengthening the delivery of integrated services to reduce chronic malnutrition and child development through a multisectoral approach. Additionally, activities under HLO 1 will also support progress on improving access to adaptive social safety nets and basic urban infrastructure with a particular focus on vulnerable groups (e.g., indigenous groups, people with disabilities, migrants). The IMF has estimated that for Guatemala to achieve the SDGs in health, education, and infrastructure it will require additional spending of 8.5 percent of GDP by 2030. Improvements in public spending will also contribute to increasing human capital.		
High-level Outcome Indicators	**Data source**	**Current value**
Human Capital Index	World Bank Human Capital Index https://data.worldbank.org/indicator/HD.HCI.OVRL?locations=GT	2020 value: 0.46 *Values will be disaggregated by gender and geographical area*
Prevalence of stunting, height for age (% of children under 5)	Joint child malnutrition estimates (JME). Aggregation is based on UNICEF, WHO, and the World Bank harmonized dataset (adjusted, comparable data) and methodology. https://data.worldbank.org/indicator/SH.STA.STNT.ZS?locations=GT	2015 value: 46.7 *Values will be disaggregated by gender*
Rationale: Among Guatemala's most pressing human capital challenges are child malnutrition, broader deficiencies in Early Childhood Development (ECD), high learning poverty, elevated school dropout rates, and the limited relevance of workforce skills. The SCD Update (2022) identified that building a more inclusive social contract would require more and better human capital investment and indicates that (i) COVID-19 disproportionately affected child malnutrition, ECD, health and learning outcomes for children among marginalized households, further exacerbating pre-existing		

inequalities; (ii) alleviating malnutrition and child development will require well-targeted, long-term interventions in the health, education, social protection, water and sanitation, and agriculture sectors; and (iii) reducing child malnutrition and supporting child development remain among the five priority policy areas for accelerating inclusive, productive, and sustainable growth. Consequently, reducing child malnutrition and enhancing child development is vital to sustainably accelerating human-capital formation and resilience. Moreover, improving and ensuring adequate human capital investments is critical to achieve better outcomes in a context of emerging global challenges such as pandemics, food insecurity, financial crisis and climate-change challenges. Guatemala's rate of chronic malnutrition in children the highest in LAC and among the highest in the world, exceeding the rates of in countries with significantly lower per capita incomes, such as Bangladesh, Ethiopia, and Vietnam. Additionally, Guatemala has been identified by the World Food Programme (WFP) and the Food and Agriculture Organization (FAO) as one of six countries worldwide with populations in catastrophe/famine conditions with risks that the situation could deteriorate further. The WBG will support the government's objective to deliver direct and improved services to the poorest while promoting effective social safety nets and targeted alleviation measures for the vulnerable (2020-2024 National Government Plan – Social Pillar).

WBG engagement: Through the FY17-20 CPF, joint WB-GoG efforts aimed at increasing access to basic health, nutrition, and water and sanitation services, with a particular focus on addressing drivers of chronic malnutrition i.e., poor family planning, weak early child development practices, and food insecurity, as well as limited access to adequate water and sanitation services, especially in rural and indigenous areas. The COVID-19 pandemic exacerbated structural challenges regarding access to essential health care, nutrition, education, social protection and water and sanitation services, especially among the poor, indigenous and vulnerable groups. In response to the GoG's request for WBG support and in coordination with relevant development partners, CPF interventions will focus on improving access to critical child services to reduce malnutrition and strengthen social protection systems and infrastructure. Additionally, the CPF could support lifelong investments in skills and building back stronger, more resilient, inclusive education systems, should the GoG request WBG support in these areas. The World Bank will mobilize technical assistance and support the strengthening of evidence-based policymaking. Strengthening data gathering in remote areas would support timely access to information for informed decisions and budget allocations. Together, these efforts can boost the positive results expected from public and private investments to reduce food insecurity, improve access to nutritious food, and adopt good practices to strengthen the resilience of vulnerable households.

Lessons learned / Knowledge gaps: The adoption of the existing ECD policy framework (2010-2020 Public Policy for Integrated Early Childhood Development - *Política Pública para el Desarrollo Integral de la Primera Infancia*), its delayed revision which is now ongoing (2022 – 2042 Public Policy for Integrated Early Childhood Development), the expanded School Feeding Programme, the reorganization of the Health Network, and use of technology for parental outreach are all important steps toward improving early childhood development outcomes in Guatemala. The 2020-2024 Great National Crusade for Nutrition (*Gran Cruzada por la Nutrición*), with the prediction of baseline data, provides a unique opportunity to enable evidence-based decisions to accelerate results against malnutrition. The regular update of a unique social registry contributes to strengthening institutional capacity to reach households with children under-five years old (targeting), articulate social services (effective social assistance), and allocate resources on a needs-based basis (better resource mobilization), especially in a context of multiple shocks (adaptative systems). The availability and the adequate management of disaggregated data allows for key decisions to effectively reduce inequalities while improving integrity and transparency (e.g., culturally appropriate services, improve food security in rural households, promote disability inclusion)

Associated Sustainable Development Goals (SDGs). 44 child-related SDG indicators, grouping the results into five areas of child wellbeing can also be measured to provide an overall assessment of child welfare: Survive, Learning, Protection, Environment, and Fair chance. Guatemala's country profile is available at https://data.unicef.org/sdgs/country/gtm/ SDG1 – Poverty eradication SDG2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture SDG3 – Ensure healthy lives and promote well-being for all at all ages SDG6 - Ensure availability and sustainable management of water and sanitation for all SDG10 - Reduce inequality within and among countries SDG12 - Ensure sustainable consumption and production patterns
CPF Objective 1: Reduce malnutrition and enhance child development among poor and vulnerable children
The Bank will continue to support this objective (CPF FY17-20 - Pillar 1) since malnutrition rates remain significantly higher than the regional average, especially in rural areas, which is where most poor and vulnerable households are located.
Rationale: Reducing child malnutrition and supporting ECD interventions has been prioritized by different administrations in recent years and by CPF programs. Yet, Guatemala presents one of the ten highest child malnutrition rates worldwide affecting 46 percent of children under five. In several of the poorest northern municipalities, the share of households with stunted children under five often approaches 90 percent. Today, the World Bank has been identified as a strategic partner to build on years of experience in tackling chronic malnutrition and to bring global knowledge from different sectors and regions. In coordination with other development partners, the World Bank is supporting multi-sector coordination through the flagship project (*Crecer Sano*) aiming to reduce child malnutrition while strengthening primary health services, improving access to potable water, and enhancing the effectiveness of the *Bono Social* (the country's largest CCT). **Lessons learned and new knowledge at the program level**: Greater attention to child malnutrition and ECD reforms, coupled with increased budget allocations and a more results-focused approach, are crucial to improving human capital outcomes among the most vulnerable households (SCD Update). Improving food security will also be critical to protecting families with young children from hunger and food insecurity caused both by temporary shocks and by structural conditions. The reorganization of the health network is being complemented by increased financial resources devoted to primary healthcare and a results-oriented financing strategy that goes beyond earmarked allocations. A 2017 law tripled the budget for school feeding in pre-primary and primary schools, and this program has since been expanded to the ECD and secondary level. The 2022 budget committed additional public resources to combat malnutrition and supporting ECD. Ensuring that families with children have access to quality health and social services and expanding social safety nets would help reduce deeply rooted inequalities.

WBG ongoing and planned support: The CPF will continue to support the government's flagship program *Crecer Sano* as a key platform to mobilize public and private investment to reduce child malnutrition. The Bank will continue to support implementation of the *Crecer Sano* Project, whose objective is to improve selected practices, services and behaviors known to be key determinants of chronic malnutrition (with an emphasis on the first 1,000 days of life), Grants, such as the Global Financing Facility (GFF), will also provide technical assistance to improve results-based financing. Additionally, the CPF will support other initiatives contributing to the reduction of child malnutrition: by fostering the development of an improved social registry and food system network to provide access to targeted social services and nutrition-smart approaches; strengthening food safety and reducing food loss and waste; raising nutritional awareness to promote behavioral change through culturally appropriate campaigns. In addition to just-in-time support, regional analysis and analytical services, key projects to achieve Objective 1 include: "*Crecer Sano*": Guatemala Nutrition and Health Project; Responding to COVID-19 and Crisis Response and Recovery in Guatemala DPL series; Modern and Resilient Agri-food Value Chains; Guatemala DRM Development Policy Loan with CAT DDO. the Response to COVID-19: Modern and Resilient Agri-food Value Chain Project (GuateInnova), will help strengthen the capacity of the food system to provide access to safe and healthy diets. A future DPL series may continue to support regulations to address acute malnutrition. A programmatic ASA (Food Security in Central America, P179166) will support a rapid assessment of food and fertilizer prices that could inform activities to repurpose agricultural support policies and programs for increased food security and nutrition food. Additional ASA will support innovative interventions to reduce malnutrition and improve access to food systems among the most vulnerable. **Key risks and mitigation measures**: There is a tendency to confuse acute malnutrition with chronic child malnutrition (stunting) and to pay more attention to acute malnutrition, particularly in areas like the dry corridor. To address this issue, strategic investments in the thousand-day window (ECD), positive behavioral change, and community-based interventions will be supported through *Crecer Sano* using a multisectoral and culturally appropriate approach. An effective coordination between stakeholders is critical (e.g., legislative actors, executive representatives, development partners, care providers). Through *Crecer Sano*, inter-institutional coordination efforts will continue to be supported, particularly between the Minister of Social Development, SESAN, the Ministry of Health, and local governments. Changes in policies, financing, and staffing could delay the reduction of child malnutrition and the improvement of human capital outcomes. Enhanced implementation support will be provided to strengthen implementation capacity.

CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 1.1 Improved access to health services for vulnerable children as measured by: Percentage of children under two years old receiving conditional cash transfers based on compliance with health co-responsibilities Baseline 2022: 0 Target 2027: 70% Source: *Crecer Sano* National Project management information system	**SPI1.1**. Improved institutional capacity for service delivery as measured by the number of health personnel receiving training (number) Baseline 2023: TBD Target 2025: TBD Source: *Crecer Sano* National Project management information system.	Portfolio: • "Crecer Sano": Nutrition and Health Project (P159213) • Responding to COVID-19: Modern and Resilient Agri-food Value Chains - GuateInnova (P173480) Pipeline:

Indicator 1.2 Children aged 0-6 months who are exclusively breastfed (Percentage) Baseline 2022: 58.5% Target 2027: 65% Source: Gran Cruzada National surveys **Indicator 1.3.** Percentage of children 12-months old in the intervention areas receiving complete vaccination scheme required for their age (Percentage) Baseline 2022: 32.6% Target 2027: 60% Source: *Crecer Sano* National Project management information system	**SPI1.2:** Percentage of pregnant women who assist to at least four visits in the intervention areas (Percentage) Baseline 2022: 79% Target 2025: TBD Source: *Crecer Sano* National Project management information system.	• Resilient and Safe Road Infrastructure Project (P178573) • DRM Development Policy Loan with CAT DDO series (P178590, P159710) and associated TF for TA support. • DPL new series ASA and TA • ASA: DIME School-based program in Guatemala (P179824) • Agriculture and Food Security in Central America programmatic ASA (P17966) • Guatemala HD Strengthening Safety Net Monitoring. - TA on social safety nets linked to *Crecer Sano*
CPF Objective 2: Improving access to social protection and basic services		
As done through the implementation of Crecer Sano and DPLs approved during the CPF gap period, the Bank will continue to support investments in human capital and the implementation of public and private interventions having a positive impact on improving human development outcomes.		
Rationale: Poverty alleviation spending through cash transfers in Guatemala dropped from 0.36 percent of GDP to 0.12 percent between 2010 and 2018. The COVID-19 pandemic exacerbated structural challenges regarding access to essential health care, nutrition, education, social protection and water and sanitation services, especially among the poor, indigenous and vulnerable groups. Despite the impressive expansion of the coverage of cash transfer programs from 5 to 80 percent of eligible households during 2020 through the emergency program *Bono Familia*, coverage levels returned to pre-pandemic levels: the flagship CCT program *Bono Social* only reached 100,000 eligible households in 2021 out of an estimated 1.2 million poor households with children under 15 years old. In addition to constrained financial resources, a major bottleneck for the efficient horizontal expansion of the CCT program has been the lack of a reliable management information system. Access to basic services among the poor is limited, especially in rural areas. The coverage of CCT programs remained low in recent years and has been shrinking over time. In addition, the frequency of shocks in Guatemala (natural disasters, climate change, emergencies, etc.) calls for more adaptive social protection systems to assist the most vulnerable effectively. The concentration of extreme poor in urban areas increased from 7 percent in 2000 to 24 percent in 2014, as access to services has been challenged by unplanned and rapid urbanization resulting from a rural exodus, challenging living conditions in the metropolitan area. In rural areas, a		

priority is to improve the rural road-network to contribute to closing the gap between access to services in rural and urban areas. Increasing access to clean water will also be critical to protect families with young children from hunger and food insecurity caused both by temporary shocks and structural conditions.

Lessons learned and new knowledge at the program level: The government has piloted the creation of a Social Registry of Households which, if scaled up, will represent a major milestone for the social protection sector. The Bank will support the scale up of a Social Registry that supports the country's response to emergencies, climate change, or natural disasters, and other external shocks. The Bank will also support its comprehensive digitalization as part of the efforts to reduce the digital gap. The CPF would support the Government's efforts to reduce the digital gap on both the service supply and demand sides. Improving health infrastructure, water supply and sanitation systems, and access to adequate equipment and supplies will improve human capital outcomes. Promoting behavioral change interventions, improving access to safe drinking water and sanitation, and enhancing coordination across sectors are key to improve human capital outcomes. The delivery of culturally appropriate social services for families and communities is critical: Guatemala has the highest percentage of indigenous people in LCR (44% of the total population), and most of them are living in rural areas (57% of the rural population belong to an indigenous group). In 2018, 22% of indigenous households had inadequate access to potable water compared to 13% of non-indigenous households. Improving the efficiency of social spending would contribute to ensuring the delivery of basic services to foster economic and social inclusion in rural and urban areas. This in turn requires an improved social registry to support evidence-based decisions. Ensuring that families with children access quality health and social services and expanding social safety nets would help reduce deeply rooted inequalities in both rural and urban areas. For example, the Guatemala City Metropolitan Area (GCMA) concentrates 60 percent of the country's industry and generates 60 percent of the national GDP, making it the largest economic region in Guatemala, but it is also home to the largest proportion of poor citizens. Basic infrastructure constraints are particularly binding in peri urban areas and slums. The GCMA's growth has occurred horizontally without increases in density, resulting in sprawl and the growth of peri-urban areas. The municipalities that comprise the GCMA face several challenges, including: (i) low coverage of basic services (sanitation coverage varies between 47 and 91 percent, and only 35 percent of total waste is systematically collected); (ii) deterioration or lack of public and recreational spaces; (iii) a high proportion of the population living in hazard-prone areas and subject to large-scale disaster risk; (iv) and high levels of traffic congestion on the main roads connecting the neighborhoods to downtown Guatemala City. These challenges, plus limited access to educational and job opportunities, are well-documented risk factors that lead to crime, violence, and gang activities. In rural areas on the other hand, many communities are difficult to reach and are at times cut off for weeks during the rainy season. The Resilient and Safe Road Infrastructure Project supports the inclusion of vulnerable groups in hard-to-reach areas with limited access to public services by expanding and improving the rural road network.

WBG ongoing and planned support: Through the implementation of a mix of IPF and DPL, the ongoing TA and ASA, the Bank is supporting the GoG to strengthen the CCT delivery system -- improving the institutional framework to allow expansion of the coverage of the CCT *Bono Social* while ensuring more accurate targeting and regular benefit payments. Bank teams will continue to support shock-responsive social protection systems building on the lessons learned in the areas of social protection, disaster risk management and connectivity. The World Bank will mobilize global experience in implementing social registries and interoperable information systems, enhancing payment mechanisms, and adapting social protection systems to be shock responsive. Interventions to achieve Objective 2 will promote communities' access to social protection systems which protect and promote human capital development, and adequate basic services and infrastructure. By improving the targeting and access to social protection services, the World Bank will contribute to fostering human capital development incentivizing access to education and health and will foster the inclusion of

vulnerable groups and the adequacy of ECD policies to accompany the growth trajectory of each child. The CPF will also support the delivery of services to reduce food insecurity via the *Crecer Sano* health posts. The urban resilience project will focus on improving urban slum areas to increase the quality of life in these growing and marginalized areas. Also, under this objective *Crecer Sano* will continue with rehabilitating and building new health posts that provide access to safe drinking water among other services. The Resilient and Safe Road Infrastructure Project will help improve the rural network and, in some places, also help accessibility to the *Crecer Sano* health posts. The following operations will contribute to CPF Objective 2: Crecer Sano: Guatemala Nutrition and Health Project; Guatemala DRM Development Policy Loan with CAT DDO series; Guatemala Dedicated Grant Mechanism for Indigenous Peoples and Local Communities Project; Responding to COVID-19: Modern and Resilient Agri-food Value Chains; Crisis Response and Recovery in Guatemala DPL series; the Guatemala Urban Resilience Project and the Guatemala Resilient and Safe Infrastructure Project. **Key risks and mitigation measures:** Should the delays around the approval of loans materialize or the implementation of project activities be slow, achieving the indicators set forth under this objective would be at risk. Delays and insufficient allocation of resources to the Ministry of Social Development (to expand pro-poor CCT and establish a comprehensive Social Registry) and to the Ministry of Health (to guarantee the necessary resources to continue expanding the primary healthcare network) would jeopardize the ability to achieve results and enable the financing of adequate equipment for health posts, the hiring of basic personnel, and the delivery of care in the areas most affected by chronic malnutrition, consequently limiting improvements in human capital. Efforts to achieve a Single Registry of Beneficiaries for GoG social programs are progressing very slowly, and progress is vulnerable to changes in authorities, mainly in the Ministry of Development. To mitigate this risk, the WBG should continue to support MIDES through the NLTA. Efforts to consolidate a robust and irreversible information system could be supported under a future series of DPLs. Similarly, efforts to create a system for government emergency programs are supported through the CAT-DDO.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Indicator 2.1: Direct recipients[1] of targeted cash transfers (number) Baseline 2019: 166,000 Target 2027: 220,000 Source: MIDES information system **Indicator 2.2** Proportion of municipalities where combined interventions were implemented - combined interventions here encompass water/sanitation, primary care services, and behavior change communication services (Percentage) Baseline 2022: 0 Target 2027: 70%	**SPI2.1** CCT information system tracks and reports compliance with health and nutrition co-responsibilities of individual household members (services) (Text) Baseline 2022: No Target 2025: Yes Source: *Crecer Sano* Project management information system **SPI 2.2.** The Unique Registry of Beneficiaries receives individual level data on health system usage (services) (Text) Baseline 2022: No	Portfolio: • "*Crecer sano*": Nutrition and Health Project (P159213) • Responding to COVID-19: Modern and Resilient Agri-food Value Chains - GuateInnova (P173480) Pipeline:

Source: *Crecer Sano* National Project management information system **Indicator 2.3**: People provided with improved resilient urban infrastructure (of which are women) Baseline 2022: 0 Target 2027: 20,000 (of which 10,000) Source: Guatemala Urban Resilience Project [1] Direct recipient refers to the family member entitled to cash out the program benefit. Progress with this indicator will be monitored through the DPL2	Target 2025: Yes Source: official data used for the verification of co-responsibilities and delivery of conditional cash transfers. *Crecer Sano* Project management information system **SPI 2.3** Beneficiaries of livelihood and food security subprojects (of which women) Baseline 2022: 0 Target 2025: 2,000 (600 women) Source: beneficiaries data base – GuateInnova National Project **SPI2.4:** Students from initial, pre-primary, primary, and secondary education (basic and diversified cycles) registered in public schools covered by the school feeding program (number) Baseline 2019: 2,560,486 Target 2024: 3,010,126 Source: Ministry of Education information system	• Urban resilience Project (P179462) • Resilient and Safe Road Infrastructure Project (P178573) • Guatemala Disaster Risk Management Development Policy Loan with a CATDDO III (P178590) • DPL new series **ASA and TA:** • New. TA to build the capacity of the National Statistics Institute (INE) • New. TA on social safety nets delivery systems (Digitalizing Government to People payments) (upcoming) • IFC Cities-Upstream Engagement with the Municipalidad de Guatemala

High Level Outcome 2 (HLO 2) – Increased Resilience to Natural Disasters and Climate Change
he Bank will continue to support the country's capacity to better manage its vulnerability to climate events and disasters, in line with FY17-20 CPF bjective 5, "Build institutional capacity to manage and adapt to climate change," and Objective 4, "Expand Infrastructure," the FY23-26 CPF program ill continue to support Guatemala's efforts to improve climate adaptation and mitigation. The Bank will provide technical and financial support for olicy reforms and investments to improve resilience at different levels (e.g., disaster management financing, risk management instruments, climate-mart technologies, improved infrastructure, adaptative social safety nets and agri-food systems)

High-level Outcome Indicators	Data source	Current value
Inform Risk Index	INFORM [AA]	2023: 5.1 (high) Ranked 35th in the world
ND-Gain Country Index	https://gain.nd.edu/our-work/country-index	2022: 43.4 (ranked 119th in the world)

Rationale: Climate change poses a growing threat to human capital, and the most vulnerable groups continue to be those that are most exposed to disaster-related shocks. This exacerbates the likelihood of household poverty and poor human capital outcomes among vulnerable groups, while increasing social exclusion and encouraging emigration toward already highly populated cities. Lower levels of rainfall and higher temperatures are expected to reduce surface water flows by 10-50 percent by 2030, and total water availability will drop by 5-30 percent, severely affecting both commercial and subsistence farmers, also representing a risk to food security in a country with significantly high rates of child malnutrition. According to the INFORM Guatemala Subnational Risk Index, 35 percent of the country's total population live in 125 municipalities considered to have a "high or very high final risk". Climate change is already affecting the growth of crop yields, causing food insecurity in many rural areas, and the viability of many roads, particularly during the 6-month wet season. Support for climate- and nutrition-smart agricultural practices, the protection of landscapes and ecosystem services, and emissions-reduction programs could also help set Guatemala on a path toward sustainable, low-carbon growth. Guatemala is highly exposed to extreme weather events and other natural hazards and ranks 16th out of 181 countries in climate risk. Guatemala ranks 5th on economic risk exposure, with 83 percent of its GDP generated in at-risk areas. Guatemala is one of the most ecologically diverse countries on the planet, with 14 different eco-regions and great biological and cultural diversity. However, the country's environment is threatened by deforestation, overexploitation of natural resources, and pollution. The annual rate of deforestation was 1.7% (more than three times the average rate in Latin America and the Caribbean). About 10% of land was highly degraded and 63% could become highly degraded in the near future. The annual cost of soil and land degradation amounts to 0.55% of GDP

WBG engagement: The Bank will support the country by (i) providing critical, fast-disbursing liquidity in the event of a disaster caused by natural hazards or climate change; (ii) supporting key reforms to DRM policies and institutional arrangements; (iii) promoting innovation in the public financial management of disaster risks, including better use of insurance mechanisms; (iv) strengthening resilience of agri-food value chain; and (v) assisting with improving sustainable forestry management to support local communities as well as helping to lower GHGs. Under this CPF program, the Bank will promote the mainstreaming of disaster risk management into national and territorial development plans. Interventions under the CPF will also

[AA] Source: 2023 Inform Risk The INFORM Risk Index model is based on risk concepts published in scientific literature and envisages three dimensions of risk: Hazards & Exposure; Vulnerability; and Lack of Coping Capacity. The INFORM Risk Index model is split into different levels to provide a quick overview of the underlying factors leading to humanitarian risk. https://drmkc.jrc.ec.europa.eu/inform-index support agro-industrialization, reduction in food loss and waste, increased adoption of climate-smart agricultural (CSA) technologies and practices and strengthening key public sector institutions to help increase the resilience of the country's agri-food system. By improving the resilience of urban infrastructure and access to basic services in the urban areas, the World Bank will contribute to reducing urban poverty and informality, improving the living conditions of the most vulnerable urban dwellers, and thus reducing their vulnerability to climate risks. Improved agricultural practices could accelerate the transition from low-productivity agriculture to manufacturing and services, reducing poverty and creating more local economic opportunities. Interventions carried out as part of the ERPA would contribute to strengthening the country's natural capital by: (i) promoting reduced deforestation and forest degradation across most of the country and (ii) strengthening forest and tree cover related environmental services that are critical to the population and the economy: these include services such as reduced landslide and flood risks, improved ground water recharge, and reduced soil erosion/degradation. The payments would also benefit forest dependent populations, many of whom are poor and/or IP.

Lessons learned / Knowledge gaps: Climate resilience and risk mitigation are crucial to ensure the delivery of and access to basic services, access to livelihoods, and, therefore, the sustainability of human capital outcomes. Disasters have reversed hard-won gains in human capital, destroyed infrastructure, reduced agricultural output, intensified food insecurity, spread vector- and waterborne diseases, and disrupted the provision of essential services. Recent estimates suggest that Hurricanes Eta and Iota caused infrastructure-related losses (including the destruction of housing) of close to 0.56 percent of GDP, and agriculture-related losses of close to 0.20 percent of GDP. Additionally, the COVID-19 outbreak exacerbated existing challenges for effective disaster risk management, coordinated emergency responses, and service continuity. The agricultural sector is projected to incur 40 to 70 percent of the economic losses from future droughts, floods, and other extreme weather events. According to WBG estimates from 2022-2023, some of the poorest households across the region – and some areas in the eastern Dry Corridor, western Altiplano, and Alta Verapaz of Guatemala will face crisis outcomes (IPC Phase 3) due to atypical price increases, significant accumulated debt, and crop losses during both wet and dry seasons. A big driver of vulnerability is Guatemala's lack of social coping capacity; a WBG index ranked Guatemala as the country with the lowest socioeconomic resilience to disasters among countries worldwide. Adopting a comprehensive plan to mitigate financial risks, improve agri-food systems, catalyze the development of green finance, and improve the management of forest resources will help to promote the inclusion of vulnerable groups and indigenous communities and the sustainability of poverty-reduction results. In order to strengthen the country's natural capital and better coordinate land use across sectors, there is a need to formulate an integrated landscape assessment that evaluates key bottlenecks in the forest sector governance, to strengthen interinstitutional coordination.

Associated SDGs

- SDG1 – Poverty eradication
- SDG2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- SDG5 – Achieve gender equality and empower all women and girls
- SDG9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

- SDG10 – Reduce inequality within and among countries
- SDG11 – Make cities and human settlements inclusive, safe, resilient, and sustainable
- SDG12 – Ensure sustainable consumption and production patterns
- SDG13 – Take urgent action to combat climate change and its impacts
- SDG15 – Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- SDG16 – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

CPF Objective 3: Improving capacity for the management of disaster risk and natural capital under a changing climate

In line with FY17-20 CPF Objective 5, "Build institutional capacity to manage and adapt to climate change", the FY24-27 CPF program will continue to support Guatemala's efforts to improve the country's capacity to better manage disaster risks, natural assets and climate change. This CPF will support strategic policy and financial reforms to improve the government's resilience and response to natural hazards and climate change.

Rationale: Guatemala is highly exposed to extreme weather events and other natural hazards, ranking 16th out of 181 countries in climate risk. According to the INFORM Guatemala Subnational Risk Index, 35 percent of the country's total population live in 125 municipalities (covering 50 percent of the national territory) assessed as having a "high" or "very high" final risk. The GoG is committed to developing its portfolio of disaster risk financing instruments, such as insurance, and investments to reduce risks as part of a broad approach to managing the risks stemming from diverse kinds of shocks. Efforts to enhance resilience in urban areas are critical to eliminating extreme poverty and increasing shared prosperity. In rural areas on the other hand, better road connectivity would contribute to increase social inclusion and reduce inequalities by making rural and indigenous areas more resilient to economic shocks, climate-change events, and natural hazards.

Lessons learned and new knowledge at the program level: A National Climate Change Program (2008) is aimed to support the implementation of measures agreed upon under the UN Convention on Climate Change (UNFCCC). Guatemala signed and ratified the Paris Agreement in 2017. While the GoG has continued devoting significant resources to disaster relief, an integrated disaster risk management strategy, including adequate risk insurance, and better construction codes, will be necessary to address vulnerabilities and focus on prevention proactively. A big driver of vulnerability is Guatemala's lack of social coping capacity; a WBG index ranked Guatemala as the country with the lowest socioeconomic resilience to disasters worldwide. The most vulnerable groups are also the most exposed to disaster-related shocks, which contribute to school dropout rates, child labor, and household poverty, increasing social exclusion and encouraging emigration. Improving the agro-logistics framework will further support the GoG's resilience to external shocks. Adequate connectivity is critical to improving the delivery of public services (e.g., basic services, disaster mitigation measures, financing services), the creation of income generation opportunities (e.g., increasing formal jobs, improving the agri-food system, promoting trade) and the development of climate-smart solutions to address key development challenges such as malnutrition and food insecurity. The rapid urbanization and external shocks seen in recent years have further challenged the country's agri-food system and undermined Guatemala's economic potential, which is already limited by inadequate infrastructure and reduced agri-business opportunities. Five percent of the domestic population has been internally displaced in the last five years, usually from small agricultural communities to cities. Low public spending has been insufficient to effectively respond to unplanned urbanization dynamics, failing to boost economic and social inclusion across the country. The rate of urbanization is expected to increase over the next decade.

WBG ongoing and planned support: Traditional IPF (e.g., the Urban Resilience Project and the Resilient and Safe Road Infrastructure Project) and the use of innovative lending instruments (e.g., CAT-DDO operations) and insurance mechanisms (e.g., CCRIF) coupled with technical assistance will support progress under Objective 3. Through this mix of instruments, the CPF will enable fast disbursement and mobilize global knowledge for adequate responses in the event of a disaster while reducing the vulnerability of rural households. Additionally, the CPF will support strategic partnerships and feasibility studies for the adoption of disaster-risk financing solutions to improve the resilience of smallholder farmers impacted by climate variability and natural disasters. Moreover, interventions supporting Objective 3 will also contribute to reduce the greenhouse gas (GHG) emissions of key value chains in the agri-food sector and to increase the climate resilience of key infrastructure assets such as the rural roads network. Technical assistance will focus on supporting nutrition-smart agriculture, financing of climate adaptation and mitigation measures, and disaster responses. Additionally, the CPF program will support the implementation of the Guatemala Emission Reduction Program, a results-based payment mechanism, that preserves forests, reduces the use of dirty fuels, and increases the uptake of renewable energy through an Emission Reduction Payment Agreement (ERPA). The WBG will continue to support analytical work to promote related policies and interventions. This includes continued engagement with indigenous leaders and indigenous peoples organizations and strengthening indigenous peoples' voice and agency in decision-making, and the implementation of the FCPF Capacity Building on Reducing Emissions from Deforestation and Forest Degradation (REDD+) for Indigenous Peoples, Civil Society and Local Communities in LAC Project, which is expected to strengthen the engagement of targeted forest-dependent peoples and CSOs in REDD+ in several countries, including in Guatemala and at the regional level in the LAC region.

Key risks and mitigation measures: The sector's governance is complicated due to the number of institutions involved and the weak political power of the governing body. This has made it challenging to approve reforms to modernize the sector, especially those that require a law. Understanding this context, the WBG will continue to work with the GoG to identify reforms that can be implemented with lower-level legal instruments, such as regulations, government and/or ministerial agreements. A crucial element is to continue supporting the MoF so that the financial strategy for disaster relief is kept up to date. The Resilient Urban Infrastructure Project will provide the opportunity to address disaster risk management by the local governments, which will contribute to strengthening institutional capacity at the local level.

CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 3.1 Number of new or expanded disaster or climate risk insurance policies obtained Baseline 2022: 1 Target 2027: 3 Source: Second Central America and Caribbean Catastrophe Risk Insurance Project	**SPI 3**.1 Establishment of a Road Asset Management System with integrated disaster risk management mechanism Baseline 2022: No Target 2025: Yes	Portfolio:

Indicator 3.2: Improved policy and financing architecture for managing disaster risks across government levels as measured by the adoption of a new national policy for the holistic management of disaster risks Baseline 2022: No Target 2027: Yes Source: official decree **Indicator 3.3:** Member of beneficiary organizations incorporating agricultural technologies to enhance climate resilience (values disaggregated by sex, age group and ethnicity) Baseline 2022: 0 Target 2027: 12,000 Source: GuateInnova National Project **Indicator 3.4:** Volume of CO2e Emissions Reductions that have been measured and verified (under REDD+) Baseline 2022: 0 Target 2027: 10.5 million tons CO_2e Source: Emission Reduction Program	**SPI 3.2:** Municipalities that adopted resilience and climate adaptation standards into their territorial development plans (number) Baseline 2022: 0 Target 2025: 3 Source: official decree **SPI 3.3:** Implementation and dissemination of the new National Housing Policy Baseline 2022: No Target 2025: Yes Source: official decree	• Crisis Response and Recovery in Guatemala DPL series (P173698, P175979) • DRM Development Policy Loan with CATDDO II (P159710) • Emissions Reduction Program (P167132) • Dedicated Grant Mechanism (DGM) for Indigenous Peoples and Local Communities Project (P170391) • Responding to COVID-19: Modern and Resilient Agri-food Value Chains - GuateInnova (P173480) • Second Central America and Caribbean Catastrophe Risk Insurance Project (P175616) **Pipeline:** • Guatemala Disaster Risk Management Development Policy Loan with a CATDDO III (P178590) • Urban Resilience Project (P179462) • Resilient and Safe Road Infrastructure Project (P178573) **ASA and TA**: • Food Security and Agriculture in Central America programmatic ASA (P179166)

High Level Outcome 3 (HLO 3) – Improved Job opportunities
This HLO is in line with FY17-20 CPF Pillar 2: “Addressing Bottlenecks to Sustainable Growth” which included “Objective 2. Improve public resource management and accountability” and “Objective 3. Enhance the enabling environment and increase access to finance for MSMEs”. The

FY24-27 CPF program will continue to support Guatemala's efforts to enhance the efficiency of public spending while improving tax administration and resource mobilization to effectively support job creation and economic opportunities in urban and rural areas. Improved investment climate and private investment would further contribute to increasing jobs and inclusion		
High-level Outcome Indicators	**Data source**	**Current value**
informality rate (share of the employed population working in the informal sector)	ILO https://ilostat.ilo.org/topics/informality/	79% (2019) *This indicator will be disaggregated by gender and ethnicity*
Public investment efficiency (budget execution rate for *inversión real directa*)	BOOST (World Bank)	51% (2020)

Rationale: Guatemala has experienced a stable pace of growth (3.5 percent on average over the 2010-19 period), underpinned by prudent fiscal and monetary management and an open-economy stance. The size of the state has been growing slowly since the signing of the 1996 peace agreements, but it remains too small to provide an adequate level of basic security, health, education, social protection, and infrastructure to the population, which has traditionally sought better opportunities abroad. As a result, the size of the informal economy in Guatemala is estimated to be around 49 percent of GDP (Elgin et al. 2021), particularly in rural areas. With very low tax-to-GDP ratio, the public sector is small. Tax administration improvements, most notably the introduction of e-filing and risk-based auditing, has contributed to lift the tax-to-GDP ratio from 10 to 12.4 percent during 2020-22. This is still the lowest ratio in the LAC region after Haiti, but the 2022 figure is a notable jump and represents the highest ratio achieved since the return to democracy in 1996. Its sustainability, nonetheless, hinges on continued progress in modernizing the tax administration and on undertaking reforms to broaden tax bases. Guatemala's agribusiness is a sector that has significant potential to help improve access to economic opportunities in rural areas. Agriculture, and the food system in general, has a highly dualistic structure in Guatemala, with successful exporters integrated within international value chains on one side and smallholder farmers facing stagnating productivity and significant challenges on the other. This is also a sector of the economy which sustains many Indigenous people and has historically discriminated against women. Improving the transportation infrastructure is a critical element to lift growth potential. Guatemala's quality of infrastructure, as measured by the World Economic Forum's (WEF) competitiveness index, has deteriorated over the years, and stands at 84 out of 137 countries. A 2022 World Bank Infrasap P17497 report "Improving Transport Connectivity" reviews the different drivers through which transport contributes to economic growth and development in Guatemala pointing out that low public investment in transport and logistics over decades is negatively affecting the country's competitiveness, reducing gains from trade, and hindering growth efforts. Although transport connectivity and territorial development in Guatemala is driven by the weight (economic, demographic) of Guatemala City and the rapid urbanization of neighboring municipalities, the high levels of rural population, the mountainous topography of the country, and the significance of agriculture to these populations (mostly indigenous), mean that rural roads are a lifeline to reduce inequality and boost commerce.

Expanding data and analysis for better revenue mobilization and public spending, together with improved access to economic opportunities, especially in rural areas, should help Guatemala increase job creation for all, and in particular for women. While these interventions address only a key set of growth fundamentals, they should nonetheless be expected to start increasing Guatemala's growth potential, particularly if the authorities are able to make progress in other complementary areas with the support of HLO-1 and other development partners.[BB] Further increasing revenue collection will be a key enabling factor to improve budget allocations to human capital and social interventions (HLO-1) and for key resilient investments (HLO-2). Increasing data availability and analytical capacity in government is also a key ingredient for enhancing the effectiveness of public policies and interventions. At the same time, more and better maintained rural roads strongly correlates with poverty reduction in rural areas – particularly if the efficiency of small- and medium-sized farmers is supported at the same time.

WBG engagement: **Several World Bank Group activities are aimed to improve access to economic opportunities during the CPF period**. They will be anchored by two IPFs operations to support rural productivity and employment The *GuateInnova* Project fosters a sustained dialogue on rural productivity with in-country actors, aiming at increasing aims to increase the efficiency of key value-chains while investing in climate-smart technologies and practices to increase productivity and climate resilience and mitigation. The CPF will also seek to expand and improve the rural and secondary road infrastructure through a Resilient and Safe Infrastructure Project, currently under preparation. Other dimensions of private sector competitiveness will also be supported through a combination of ASA and lending instruments (including a new DPL series). This includes reforms under a National Financial Inclusion Strategy to address structural barriers for financial inclusion for MSMEs and individuals. The IFC and the World Bank are also finalizing a Country Private Sector Diagnostic (CPSD, IFC ID# 606642), which will offer ways to enhance Guatemala's competitiveness. Complementing Bank's engagement, IFC's ongoing support to the *Banco G&T Continental* (2022-Active) aims to strengthening the capital base for gaining a stronger presence in the MSME market as well as mortgage housing for individuals, and Climate Smart lending consisting of green buildings in urban areas, and energy efficiency sub-projects. IFC will continue to invest in the banking sector and further explore potential engagements in the manufacturing sector in the country. It will also continue strengthening the financial system and continue expanding access to finance and financial inclusion among uncatered populations by supporting transactions in the micro finance banking sector such as with *Genesis Empresarial*. Furthermore, the IFC is looking to expand its engagement in the agribusiness and light manufacturing sectors, especially in textiles and apparel, given the relevance of these industries in Guatemala, their high potential for job creation, and external drivers such as the near-shoring trend and supply chain disruptions that have made Guatemala an attractive destination for companies.

Lessons learned / Knowledge gaps: Bank's analytical and policy engagement in private sector reforms in Guatemala has been surprisingly effective, though limited. For instance, the support the Bank provided to the preparation of Guatemala's financial inclusion strategy led to many reforms, including on leasing and insolvency, the former of which was also supported through a DPL series. But the Bank has not have IPFs focused on economic sector and, in that respect, we might be able to distill key lessons only after *Guateinnova*, which is yet to be effective, starts implementing. A key knowledge gap is on how to improve the efficiency/effectiveness of public spending, which is expected to be addressed in the forthcoming Public Expenditure Review but that might merit deeper analytics for key programs or functional expenditures (e.g., health,

[BB] According to a 2021 WBG Growth Diagnostic, areas preventing faster growth are: (i) corruption (ii) weak human capital, which continues to lag when compared with rest of LAC; (iii) outdated infrastructure, which suffers from years of underinvestment; and (iv) security concerns, with several global rankings consistently rating the country in the top 10 to 20 most violent countries.

education, transport). Better understanding of the broader constraint to competitiveness and growth is also needed, which the CPSD will start to address, but might need to be followed up by specific analysis focused on the constraints to, for instance, FDI attraction. **Associated SDGs:** SDG1 – Poverty eradication. SDG2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture SDG5 - Achieve gender equality and empower all women and girls SDG8 - Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work SDG10 - Reduce inequality within and among countries SDG12 - Ensure sustainable consumption and production patterns
CPF Objective 4: Improving the quality and quantity of jobs
This objective is in line with the CPF FY17-20 CPF Objective 3. Enhance the enabling environment and increase access to finance for MSMEs
Rationale: Limited economic opportunities lie at the core of Guatemala's development challenges. According to the World Bank 2021 *Guatemala Job Diagnostic Report*, two overarching obstacles are seen as key contributors to these negative outcomes: (i) an inability of large swaths of the population to effectively participate in the economic growth process and get better-paying jobs and (ii) a limited ability to generate quality jobs to accompany the economic transformation process. The demographic transition that is now under way offers Guatemala a once-only opportunity to accelerate economic growth, transform the economy, and improve workers' earnings before the population starts to age and dependency begins to rise again. Absent robust productivity growth that leads to more and better jobs, however, the prospects for such a transformational breakthrough are slim. The GoG has prioritized, as defined in its *Guatemala no se detiene* plan, several areas for investment to improve competitiveness in productive sectors. Leveraging private sector capital through PPPs (including operation and maintenance contracts for mid-sized roads), could be a potential option to do so. Investing in increasing the productivity of agricultural smallholders in Guatemala and promoting opportunities to adopt high-value-added production practices would also help to promote the country's economic and social resilience. Supporting small farmers' organizations, mainly those involving indigenous peoples, to develop economies of scale, share knowledge, and support the diversification of production would also foster the inclusion of vulnerable groups and increase resilience in rural areas. Reforms designed to boost investment and productivity across sectors must focus on enhancing the regulatory environment, expanding access to productive finance, attracting, and retaining foreign investment, increasing Guatemala's participation in global value chains, and encouraging entrepreneurship and innovation. Improving the deteriorating rural road network and its safety will help boost connectivity with the urban centers and boost commerce (and improve health outcomes).

WBG engagement: The CPF program will help enhance economic opportunities by promoting greater productivity of small- and medium-sized farmers and adequate investments in rural road infrastructure, particularly in rural areas. The CPF aims at (i) enhancing the productivity of small and medium-sized agriculture and strengthening the integration of small producers within national, regional, and global value value-chains; (ii) improving infrastructure, especially but not exclusively in rural areas, including digital infrastructure; (iii) facilitating MSME access to finance and helping to improve the productive and digital skills of the population and (iv) promoting mutually beneficial (temporary) regular migration through strengthening of institutional capacity, including the broader labor ecosystem (e.g., employment services, training providers). IFC will continue to help boosting MSME's access to finance. In addition, the WBG will provide technical and advisory services in the form of an IFC-WB Country Private Sector Diagnostic for Guatemala results and a trade facilitation TA. MIGA will seek opportunities to support the financial sector as well as the development of PPPs. First, the GuateInnova Project (P173480) aims at increasing the efficiency of key value-chains by enhancing productive capacity of MSMEs, improving farmers' labor skills, supporting access to job platforms, and promoting the adoption of climate-smart technologies. Second, the Resilient and Safe Infrastructure Project (P178573) will target areas where road conditions are a significant constraint to accessing markets, such as the San Marco region, an agricultural area with high poverty rates. The Urban Resilience Project (P179462), already highlighted under Objective 2, will contribute to Improving the quality and quantity of jobs through investments in improving infrastructure and service delivery in peri-urban and areas. IFC is working with the Municipality of Guatemala to further develop sustainable public transportation projects. Through its Upstream - Cities Program, IFC is delivering a strategic advisory services package to the Municipality. The CPF will continue supporting Guatemala´s effort to align itself with the World Trade Organization, Trade Facilitation Agreement (WTO-TFA). It will also continue supporting measures such as advance declarations, expedited shipments to promote e-commerce, and reduced airfares to boost tourism **Lessons learned / knowledge gaps**: Guatemala's agribusiness sector has significant potential to help improve access to economic opportunities in rural areas. The Bank will continue to support efforts to diversify the sector toward producing higher-value added crops with the participation of small-scale farmers (Indigenous and non-Indigenous). The CPF will focus on improving technology adoption, productivity, better value chain integration and access to finance among women and small-producers. High rates of rural population, the mountainous topography, and the significance of agriculture (mostly Indigenous), mean that rural roads are a lifeline to reduce inequality and boost commerce. Climate events frequently damage rural roads and leave several areas cut off from the transportation network. Additionally, road safety has become a major issue across the country, with road deaths, estimated to cost approximately 5.5 percent of the country's GDP. Policies to lower school dropout rates and develop professional and vocational skills, including digital skills, will be vital to enable workers to access higher-quality jobs. A low-skilled workforce hinders economic development and ties an economy to low-wage industries, making it more challenging to break the vicious circle of inequality, informality, and migration Since IPFs lie at the core of the instruments that would support this Objective, the broad lessons learnt for IPF preparation, approval, effectiveness, and implementation described in the main text of the CPF apply to this Objective. On the other hand, support through Technical Assistance (e.g., in Trade Facilitation) has in the past resulted in a strong buy-in and implementation record, even in the absence of significant financial resources. **Key risks and mitigation measures:** The main mitigation measure to be deployed is an exhaustive consultation process during the preparation phase of IPFs, together with very simple designs that do not demand excessive government capacity or coordination efforts to see results.

CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**

Indicator 4.1: Rural Access Index as measured by the share of population who lives within 2 km of an all-season road. (Percentage) Baseline 2022: 30.4% Target 2027: 32% Attributing the increase from the WB project when fully disbursed direct beneficiaries (aprox 230,000 people) Source : https://openknowledge.worldbank.org/bitstream/handle/10986/31309/WPS8746.pdf?sequence=5&isAllowed=y **Indicator 4.2:** Increased employment in agriculture value chains (number of people accessing job opportunities due to improved labor skills or through the employment platform) Baseline 2020: 0 Target 2027: 10,000 of whom women 50% Source: Employment platforms **Indicator 4.3:** Adoption of a PPP framework as measured by the availability of an updated PPP framework to foster private sector participation for the maintenance and rehabilitation of national road assets (Rural Roads Project) Baseline 2020: No Target 2027: Yes Source: DGC information **dicator 4.4:** Access to Finance: ıtstanding IFC's Microfinance Portfolio	**SPI 4.1:** Reduction of time to cross borders in at least one border post with El Salvador (Pedro de Alvarado), using instruments of deep integration (FYDUCA) and advance declaration Baseline 2022: 16 hours 53 minutes Target 2025: 50% reduction Source: Estudio de tiempos de Despacho **SPI 4.2** Number of micro, small and medium agro-industrial enterprises trained in export processes and innovation Baseline 2021: 0 Target 2025: 5,000 Source: registry of beneficiaries **SPI 4.3**: Percentage of agro-industrial enterprises supported by the GuateInnova Project reporting increases in sales Baseline 2020: 0 Target 2025:80% (the Project aims to finance 400 business plans in total but in principle each of these could bring together more than one enterprise). **SPI 4.4:** Beneficiaries trained in climate smart production practices and/or technologies: Baseline 2021: 0 Target 2026: 10,000 Of whom women: 20% Of whom indigenous or afro-descendant: 25%	**Portfolio:** • Crisis Response and Recovery in Guatemala DPL2 (P175979) • Development Policy Loan with CATDDO II (P159710) • Responding to COVID-19: Modern and Resilient Agri-food Value Chains - GuateInnova (P173480) **Pipeline:** • Guatemala Disaster Risk Management Development Policy Loan with a CATDDO (P178590) • Urban Resilience Project (P179462) • Guatemala Resilient and Safe Road Infrastructure Project (P178573) **ASA and TA:** • Regional support for the implementation of the World Trade Organization - trade facilitation agreement in central America - phase II (P171021) • Continued TA to support National Financial Inclusion Strategy • Country Private Sector Diagnostic **Advisory:** • IFC AS on Banking on Women, AS in Climate Finance • IFC Cities-Upstream Engagement with the Municipalidad de Guatemala

Baseline 2022: No Target 2027: 370 USD Mn Source: IFC **Indicator 4.5:** Access to Finance: Outstanding IFC's SME Portfolio Baseline 2022: No Target 2027: 380 USD Mn Source: IFC **Indicator 4.6:** Outstanding micro loans to WOEs Baseline 2020: 80,396 Target: 156,693 Source: IFC **Indicator 4.7:** Outstanding volume of micro loans to WOEs (US$) Baseline 2020: 104 million Target: 212 million Source: IFC	Source: Reports generated with information from the registry of beneficiaries **SPI 4.5:** Existence of Road Asset Management System for rural roads (yes/no) Baseline 2022: No Target 2025: Yes	
CPF Objective 5: Improving effectiveness of public investment and revenue mobilization and data quality		
This Objective is in line with the FY17-20 CPF Objective 2, Improve public resource management and accountability		
Rationale. Low effectiveness of public spending compounded by low revenue mobilization has resulted in significant distrust of government in Guatemala. The credibility of public policy nonetheless increased during the COVID-19 pandemic, given the well-focused and coordinated government response, particularly in terms of scaling up and efficiently delivering safety nets while continuing to enhance tax administration. Sustaining these efforts requires not just capable technicians in government, but also expanding the resource envelope to be able to deploy new services or deepen the ones currently provided – while at the same time enhancing the ability of the State to spend for results. Total expenditures in Guatemala are low, averaging 13 percent of GDP during 2015-19, with current expenditures accounting for 74 percent of the total. Guatemala registers one of the lowest levels of expenditure on infrastructure, health, and education in LAC, both in per capita terms and as a share of GDP. Between 2019 to 2021, the average execution of public investment was only 82 percent. Nonetheless, the government has the financial and human resources to continue building digital systems and solutions that can improve the effectiveness of expenditure. At only 10.6 percent in 2015-19,		

Guatemala's tax revenue-to-GDP ratio is among the lowest in LAC. Even after the recent increase of the tax revenue-to-GDP ratio to 12.4 percent, it remains well below the 15-percent-of-GDP threshold that empirical literature considers as a minimum for a state to function effectively.

WBG engagement. The World Bank will continue to support the government's efforts to enhance Domestic Revenue Mobilization, including expanding the mandatory use of electronic invoicing and the Electronic Tracking System, introducing a fully-fledged risk-based system for audits, and issuing policies to empower tax administration to ban firms with pending tax obligations from securing government procurement contracts. This will be done through TA and the existing and potentially new DPL series. The CPF seeks to improve voluntary tax compliance, strengthen the governance and transparency of tax administration, and strengthen revenue mobilization oversight through programmatic TA. A Public Expenditure Review will also be delivered over this CPF period to identify potential efficiency gains in public spending. The CPF will also support data collection systems, such as the design and preparation of a new household survey in 2023. The WB will also seek opportunities to enhance the authorities and parliament's ability to analyze fiscal policies and to formulate better policies. Finally, through the Reserves Advisory and Management Program (RAMP), the World Bank Treasury will continue to support the central bank in improving the management of its own resources. Engagement in both revenue and expenditure quality should provide key underlying conditions for job creation, namely reducing the cost of tax compliance and enhancing the effectiveness of key state interventions.

Lessons learned / knowledge gaps: Tax policy reforms have frequently been declared unconstitutional by the Constitutional Court, hampering efforts to increase tax revenue collection. This situation hinders the government's capacity to increase necessary investment in social programs and improve the delivery of public services. The widespread use of e-governance platforms could enhance transparency and accountability, reinforce public trust in the state, and accelerate the development of the private sector, notably micro, small and medium enterprises. Implementing climate-change adaptation policies and improving disaster risk management capabilities will help mitigate exposure to shocks that could reverse progress in social and economic development.

Key risks and mitigation measures: The lack of consensus on the legislative side will challenge the approval of tax reforms targeting tax rates. The CPF will therefore focus on helping to increase the efficiency of the SAT through the modernization of processes, incorporating new technologies and strengthening the capacities of risk analysis and monitoring of taxpayers. To this end, it has been possible to mobilize resources from important partners in the country, such as the EU. Efforts to increase efficiency in public spending, which began with DPL 1 of the previous CPF series, could also continue to be supported through a new DPL series.

CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 5.1 (on public resource mobilization): Improved SAT's risk management through a Compliance Risk Management (CRM) framework, including the creation of a dedicated unit. **Baseline 2022:** 58% of overall average voluntary compliance.	**SPI 5.1**: Government and parliament informed about the quality of fiscal policy, regarding both revenues and expenditures (Yes/No from the ASA on Public Expenditure Review) Baseline 2022: No Target 2025: Yes	**Portfolio:** • Efficient Resource Mobilization and inclusive growth (EU euro 10m Grant) to the Revenue Administration (TFP# 2508) **Pipeline:**

Target 2025: 75% of overall average voluntary compliance. Source: SAT Information system information system and internal resolution approving the CRM framework and the creation of the unit. **Indicator 5.2:** Number of tax compliance and tax expenditure statements published and disseminated based on best practice (Text) **Baseline 2022**: SAT publishes two tax statements annually (Yearly tax expenditure and VAT) **Target 2027**: SAT publishes four statements as per best practices **Indicator 5.3:** Percentage of Units in SAT use and share data following best practices Unit of Measure: percent of total SAT units B**aseline 2022**: 0 **Target 20275**: 80% of units in SAT use and share data following an improved data governance framework	**SPI 5.3:** Annual publication of an annual debt report taking stock on progress in debt management and transparency (Yes/No). **Baseline 2022**: no **Target 2025**: Yes Source: Ministry of Finance portal: https://www.minfin.gob.gt/index.php/deuda-publica	• DPL new series **ASA an**d TA • FY23 Public Expenditure Review (179444) • New FY24 Central America Regional and Fiscal and Debt Sustainability study (P179152) • New Reserve Asset Management Program (RAMP) • New Debt Management TA New Building capacity of the National Statistics Institute TA

Annex 2. Completion and Learning Review of the CPF FY17-20

Document of The World Bank

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Report No.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT INTERNATIONAL FINANCE CORPORATION AND MULTILATERAL INVESTMENT GUARANTEE AGENCY

COMPLETION AND LEARNING REVIEW OF THE COUNTRY PARTNERSHIP FRAMEWORK

FOR THE

REPUBLIC OF GUATEMALA
FOR THE PERIOD FY 17 – FY 20

MAY 24, 2022

Central America Country Unit
Latin America and the Caribbean Region
The International Finance Corporation
Multilateral Investment Guarantee Agency

FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
Exchange rate as of May 24, 2022
Currency Unit = Guatemalan Quetzal (Q)
US$ 1.00 = 7.7 Q

ABBREVIATIONS AND ACRONYMS

CLR	Completion and Learning Review
CPF	Country Partnership Framework
DPF	Development Policy Financing
DRM	Disaster Risk Management
ERPA	Emission Reduction Payment Agreement
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IPF	Investment Project Financing
NDC	Nationally Determined Contributionsh
LAC	Latin America and the Caribbean
MIGA	Multilateral Investment Guarantee Agency
MSPAS	Ministry of Public Health and Social Assistance (MSPAS).
MINFIN	Ministry of Finance
MSME	Micro, Small, and Medium-size Enterprise
PLR	Performance and Learning Review
REDD	Reducing Emissions from Deforestation and Forest Degradation
SCD	Systematic Country Diagnostic
TA	Technical Assistance
TEU	Twenty-Foot Equivalent Unit
WB	World Bank
WBG	World Bank Group

	IBRD	**IFC**	**MIGA**
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GUATEMALA COMPLETION AND LEARNING REVIEW
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GUATEMALA FY70-FY20 COMPLETION AND LEARNING REVIEW

Date of Country Partnership Strategy: October 17, 2016 (Report No. 103738-GT)

Date of Performance and Learning Report of CPF: September 25, 2019 (Report No. 103738-GT)

Completion and Learning Review prepared by Ana Lucia Armijos (Consultant) and Marco Scuriatti (LCCGT), with inputs from Fernando Paredes and Karla Rodriguez Meyer (LCCGT) and the Guatemala Country Team

I. INTRODUCTION

1. The Completion and Learning Review (CLR) assesses the design and implementation of the World Bank Group (WBG) FY17-20 Country Partnership Framework (CPF) for the Republic of Guatemala. The strategy was discussed by the World Bank (WB) Board of Executive Directors on October 17, 2016 (Report No. 103738-GT) and updated through the Performance and Learning Review (PLR) of September 25, 2019 (Report No. 103738-GT). Although the CPF period formally ended in October 2020, it remained valid until FY23 to support the government's response to the COVID-19 pandemic. The FY17-20 CPF was therefore implemented across two administrations: 2016-2020 of President of Jimmy Morales and 2020-2024 of President Alejandro Giammattei. *However, this CLR evaluates the CPF program outcomes, as measured by the CPF Results Framework only up to FY20 and its objective is to provide lessons to inform the design of the FY24-27CPF.* Evaluation of the FY20-23 period will be left to the next CLR, as this period of WBG engagement, marked by a substantial pipeline of activities, provides the basis for the implementation of the FY24-27CPF.

2. The CPF was developed in partnership with the government of President Morales and in close consultation with diverse stakeholders. It was prepared at a time when Guatemala was experiencing the aftermath of the 2015 political crisis, which had led to the resignation of the then President Alejandro Maldonado and his vice-president on corruption charges. Furthermore, its four-year implementation period under the Morales administration was affected by the government's weak capacity to implement its program and to enact major reforms. The official party, *Frente de Convergencia Nacional*, had obtained only seven percent of the representation in a structurally fragmented Congress. Its mandate was then affected by several other institutional constraints: (i) officials with little experience in public administration; (ii) the validity of reforms to the procurement law lacked complementary instruments, which slowed down the execution of public spending; (iii) concern at the middle management level of the public administration to carry out contracts for fear of being prosecuted for corruption; (iv) the President's family was accused of corruption and money laundering, leading to nationwide protests.[CC]

3. During the FY17-20 CPF period the WBG Board approved six operations (for a net commitment amount of US$670 million) while IFC's total commitments during FY17-20 period reached US$868 million, including 3 LTF transactions and trade finance lines under the GTFP program.). One DPLs (P160667) and one CAT DDO (P159710), for a net commitment of US$450 million were approved by the Board in support of policy and institutional actions proposed by the Executive and approved by Congress, albeit after long delays and have fully disbursed. Additionally, four IPF operations, for a total commitment of US$220 million were approved by the Board during this same period. Three of these IPFs (for a net commitment amount of US$120 million) were cancelled due to absence of congressional approval. One IPF to tackle malnutrition

[CC] In January 2017, Morales' older brother and close adviser Samuel "Sammy" Morales, as well as one of Morales' sons, José Manuel Morales, were arrested on corruption and money laundering charges. In August 2017, Morales ordered the expulsion of Colombian Iván Velásquez, commissioner of the International Commission Against Impunity in Guatemala (CICIG), after it began "investigating claims that his party took illegal donations and asked congress to strip him of immunity from prosecution." Several large protests demanding President Morales' removal rocked the country. President Morales refused to step down.

(US$100 million – "*Crecer Sano*" P159213), approved by the Board in 2017, was declared effective in 2019, and started implementing in October 2021.

4. **The FY17-20 CPF remained valid during FY21-23 to support the new administration with the COVID-19 pandemic.** Because of the pandemic WBG management opted to focus resources on supporting the new administration tackle the crisis and not prepare a new CPF. The current administration took office in January 2020, two months before the COVID-19 pandemic struck, and 6 months before the end of the CPF period. It quickly refocused national efforts to address the public health crisis, protect the vulnerable and set the basis for an economic recovery. In a context of urgent needs and legislative fragmentation, the administration of President Giammattei nonetheless succeeded in securing Congressional approval for several significant measures and reforms to support a social sector agenda and private sector growth. In this context, the new administration requested the WBG for a new Programmatic series of two Development Policy loans for a commitment amount of US$750 million, which the WB Board approved in FY21 and FY23 respectively. It also committed to start implementation of the one active IPF operation that had been requested by the Morales administration in FY17 (*Crecer Sano)*). Additionally, it requested four additional new operations (3 IPFs and one CAT DDO), for a commitment amount of US$640 million. As of February 2023, these four operations are awaiting Board and/or Congressional approval and will likely be implemented during the FY24-27CPF period.

5. **The CPF's overall development outcome is rated as Moderately Satisfactory.** The CPF sought to support government priorities[DD] that constituted the basis for economic and social transformation to overcome the conditions of exclusion and inequality affecting most Guatemalans. <u>To support this rating, it must be noted that the CPFs original objectives were substantially adjusted to better respond to the government's emerging needs and progress in the implementation of the WBG program in 2019 during the PLR.</u> Six of the ten original indicators were dropped, one was revised, and two new indicators were added, in response to the urgent need to enhance the country's policy and institutional framework in the areas of disaster-risk management and climate-change adaptation. Ultimately, out of six indicators presented in the streamlined Results Framework, four were achieved, one was mostly achieved, and one not achieved—while efforts to increase access to finance for MSMEs were Highly Satisfactory; expanding Infrastructure was Satisfactory; building institutional capacity to manage and adapt to climate change was Moderately Satisfactory; and increasing access to basic health, nutrition, and water and sanitation services was Moderately Unsatisfactory.

6. The overall WBG's performance is rated satisfactory given that it successfully contributed to the pursuit of the CPF Objectives. The WBG's proactive role made it possible to closely monitor changing demands to adjust the program and support the government's dialogue with key stakeholders. Although the original CPF program was relevant, it had underestimated risks, particularly those related to governance and implementation capacity. Its design was timely and adequately adjusted (in 2019, with the PLR). The attainment of the new objectives took place given the timely adjustments made at the PLR, which refocused and narrowed objectives based on a smaller and more selective WBG program. Additionally, the support of the WBG through technical assistance (TA) and trust funds was effective in tackling development challenges in different sectors demonstrating the WBG value add as a trusted knowledge partner. The WBG performance was robust in backing the dialogue with key stakeholders around the need to continue with an integrated approach toward addressing chronic malnutrition as well as providing strong evidence on the linkages between poverty, chronic malnutrition, and access to water supply and sanitation services (WSS). The efforts to emphasize the importance of revising and enhancing the institutional and legal framework for WSS have been relevant and they helped the country achieve some important results during the CPF period, despite the implementation challenges.

[DD] These priorities are outlined in the *Plan Nacional de Desarrollo K'tun 2032,* developed, and approved by The National Council for Urban and Rural Development in 2014, as well as in the Bank's Systematic Country Diagnosis (World Bank 2015).

II. PROGRESS TOWARDS CPF DEVELOPMENT OUTCOMES

7. The overall CPF development outcome is rated satisfactory, as four of the revised six objectives were achieved, one mostly achieved, and one not achieved. Several outcome indicators surpassed their targets. This section evaluates the performance of the overall FY17-20 CPF program (Table 1), based on the outcomes and results framework as revised in the PLR. See Annexes 1 and 2 for a detailed assessment of CPF result framework indicators. Additionally, in FY22, the USD100 million *Crecer Sano P159213* malnutrition project, approved by the Board in FY17, finally began disbursing.

Table A2-1. Overall Achievement of CPF Outcomes

CPF Outcome Indicators	Overall outcome rating	Outcome Indicator Ratings			
		Achieved	**Mostly Achieved**	**Partially Achieved**	**Not Achieved**
Pillar 1. Fostering Inclusion of Vulnerable Groups: Moderately Unsatisfactory					
Objective 1. Increase access to basic health, nutrition, and water and sanitation services: Not achieved					
1. Coverage of growth monitoring and promotion for children under 24-months in priority areas.	Not Achieved				1
Pillar 2. Addressing Bottlenecks to Sustainable Growth: Moderately Satisfactory					
Objective 2. Enhance the enabling environment and increase access to finance for MSMEs: Achieved (Highly satisfactory)					
2. Number of microfinance and SME finance loans provided through financial services.	Achieved	1			
Objective 3. Expand Infrastructure: Achieved (Satisfactory)					
3. Increased port handling capacity.	Achieved	1			
Objective 4. Build institutional capacity to manage and adapt to climate change: Moderately Satisfactory					
4. Increased government capacity to promote low carbon development, as measured by reduction of forest greenhouse gas emissions.	Mostly Achieved		1		
5. Percentage of municipalities that have included disaster risk reduction activities in their local development plans.	Achieved	1			
6. Signing of the Emissions Reductions Payment Agreement.	Achieved	1			

8. **The FY17-20 CPF presented a selective program aimed at supporting a more equitable society and the country's long-term growth.** The program was structured around two strategic pillars: (i) fostering inclusion of vulnerable groups; and (ii) addressing the bottlenecks to sustainable growth. To be highly selective, the WBG program focused on five objectives (i) increasing access to basic health, nutrition, and water and sanitation services; (ii) improving public resource management and accountability; (iii) enhancing the enabling environment and increasing access to finance for MSMEs; (iv) expanding infrastructure; and (v) building institutional capacity to manage and adapt to climate change. However, at the PLR stage, progress on the original Results Monitoring Matrix fell short of expectations in most (6 out of 10) of the CPF indicators as well as in the majority (11 out of 15) of milestones.

9. During the CPF period, Guatemala continued to be marked by political polarization, institutional crisis, and uncertainty, which affected the capacity of the Administration to implement reforms. Guatemala continued

with a small, inefficient public administration and persistent high levels of crime and corruption that contributed to a weak social contract and an adverse business climate. Moreover, as indicated in the WB's Systematic Country Diagnostic (SCD)[EE], Guatemala's society remained deeply divided: a poor, largely rural, and informally employed majority coexisting alongside a more affluent and educated urban minority with access to formal employment and with capacity to purchase services that the state was unable to provide. Despite progress in some areas, Guatemala's development challenges remain largely the same as those identified in the FY17-20 CPF and the 2015 SCD. Both reports envisioned fostering inclusive growth, strengthening the supply of basic health and education services, accelerating productivity growth, reforming fiscal management, and safeguarding environmental sustainability. However, successive political administrations have been unable to implement the recommended measures, not allowing the attainment of the country's core development challenges.

10. **Throughout the first three years of the CPF period, economic growth was modest.** Growth averaged 3.4 percent between 2017 and 2019; however, in 2020 growth had a 1.5 percent contraction (the first negative GDP growth since 1983), which is the second lowest contraction among all Latin American countries, thanks to the effective countercyclical measures that helped Guatemala soften the economic impact of the crisis, reducing the average growth over the CPF period to 2.2 percent. In per capita terms Guatemala's growth has been low, averaging just 1.2 percent over the same period. Despite orthodox macroeconomic fundamentals, in terms of tax-to-GDP ratio it has one of the world's lowest ratios, supporting what is essentially a small low-capacity state, and largely explaining the lack of development progress and large social gaps. Social development remained a significant challenge. While there are no new poverty data since 2014, the low levels of per capita GDP growth and limited changes in social spending suggest that it is likely that poverty rates have not changed substantially in the CPF period except for 2020. The poverty rate US$ 5.50/day pre-COVID 19 (2016-2019) was 48.8 percent of the population, and one out of five Guatemalans lived in extreme poverty. The post-COVID (20-21) poverty rate is estimated to have increased to 51.7[FF] percent. While Guatemala is an upper-middle-income country, it has the fifth lowest GDP per capita and the third highest poverty rate in Latin America and the Caribbean. Inequality, proxied by the Gini index, is estimated to have increased marginally from 0.483 in 2015 to 0.487 in 2020, below the LAC average of 0.51. Basic healthcare covered just about 50 percent of Guatemalans, leaving the poor and rural populations (60 and 46 percent of Guatemalans, respectively) with minimal access to these services. Only 25 percent of the population had access to safe water and sanitation. Poverty and malnutrition have grown worse following COVID-19 and the two major hurricanes hitting Guatemala at the end of 2020, deepening long-standing social challenges. Poverty remains concentrated among Indigenous groups (42% of the population), who account for more than 50 percent of the total poor and 66 percent of the extreme poor. As of 2019, rural areas, the northern and northwest regions, and Indigenous groups continue to exhibit higher levels of poverty and lower living standards than the rest of the country.

11. In a context of challenging fiscal constraints, difficulties accessing/increasing external finance, and limited legislative support for complex reforms/projects, the PLR adjusted the scope of the CPF. The two original pillars remained, while CPF objectives were refined, and the Results Framework streamlined. Table A2-2 summarizes the revised Results Framework, which included six indicators across four strategic objectives: (i) Increase access to basic health, nutrition, and water and sanitation services; (ii) Enhance the enabling environment and increase access to finance for MSMEs; (iii) Expand Infrastructure; and (iv) Build institutional capacity to manage and adapt to climate change. The second objective of the Results Framework, to improve public resources management and accountability, was dropped due to the extended delays in the congressional approval of the main lending operation design, which led to its cancelation, as referred to before, and despite the impact that the *Improved Governance of Public Resources and Nutrition DPF*

[EE] Systematic Country Diagnosis (SCD), Guatemala: Closing Gaps to Generate a More Inclusive Growth. World Bank Group, 2015.
[FF] Sources: LAC Equity Lab for Poverty and Equity Data; World Development Indicators (WDI), Central Bank (Banguat) and Ministry of Finance (Minfin) for Macroeconomics and Fiscal.

(*P160667*) had. Moreover, six of the original indicators were dropped, while two new indicators were added, focusing on maintaining achievements and laying the basis for the final year of the CPF FY17-FY20 cycle.

Table A2-2. Changes to the Results Framework following the PLR

Pillar 1. Fostering Inclusion of Vulnerable Groups	
Objective 1. Increase access to basic health, nutrition, and water and sanitation services	
Original CPF Indicators	Proposed Change
1. Percent of children 12-months-old in the areas prioritized by the National Strategy to Reduce Chronic Malnutrition receiving the complete vaccination scheme required for their age.	Dropped
2. Coverage of growth monitoring and promotion for children under 24-months in priority areas.	No change
Pillar 2. Addressing Bottlenecks to Sustainable Growth	
Objective 2. Improve public resource management and accountability: Dropped	
Original CPF Indicators	Proposed change
3. Estimated VAT non-compliance level (as a share of potential VAT revenues).	Dropped
4. Compliance with customs inspections.	Dropped
5. Share of public procurement executed through competitive processes as a percentage of the total value of executed public procurement.	Dropped
Objective 3. Enhance the enabling environment and increase access to finance for MSMEs	
Original CPF Indicators	Proposed change
6. Number of microfinance and SME finance loans provided through financial services.	No change
Objective 4. Expand Infrastructure	
Original CPF Indicators	Proposed change
7. Increased port handling capacity	No change
8. Additional people in targeted urban areas provided with access to: a) improved water sources b) improved sanitation	Dropped
Objective 5. Build institutional capacity to manage and adapt to climate change	
Original and Revised CPF Indicators	Proposed revision
9. Increased government capacity to promote low carbon development, as measured by reduction of forest greenhouse gas emissions	No change
10. Percent of sub-projects targeting adaptation and mitigation needs of Indigenous Peoples and vulnerable communities and fully achieving their objectives	Dropped
11. Percentage of municipalities that have included disaster risk reduction activities in their local development plans	Added
12. Signing of the Emissions Reductions Payment Agreement	Added

Pillar I. Fostering Inclusion of Vulnerable Groups: Unsatisfactory

Objective 1. Increase access to basic health, nutrition, and water and sanitation services: *Not Achieved*

12. This objective aimed to improve access to basic services in a comprehensive manner, given the multi-sectoral nature of chronic malnutrition. This objective was refined at the PLR stage to focus on the coverage of growth monitoring and promotion for children under 24 months in priority areas, while dropping the indicator on the

percent of children 12 months old receiving the complete vaccination scheme required for their age.[GG] The outcome indicator on coverage of growth monitoring was already achieved at the PLR stage, however the process of verification for how this indicator was measured has not been ratified (as of end- 2021.) Despite the modest improvements made to facilitate access to social programs, significant challenges persist, particularly related to providing access to water systems to reduce chronic malnutrition among children. On this basis, this Pillar is rated as Moderately Unsatisfactory. The lack of measurable progress is attributed to the fact that *First Improvement Governance of Public Resources and Nutrition DPF (P160667)* only became effective in late 2018; and *the Health and Nutrition Project Crecer Sano (P159213*) was approved by the Guatemalan Congress until February 2019 and became effective in September 2019.

Pillar 2. Addressing Bottlenecks to Sustainable Growth *– Moderately Satisfactory*

Objective 2. Enhance the enabling environment and increase access to finance for MSMEs: *Achieved*

13. This objective was intended to foster productive opportunities, for greater employment, through increased access to finance for the Micro, Small and Medium-size Enterprises (MSMEs). As emphasized in the CPF, MSMEs are the backbone of the Guatemalan economy, but limited access to finance undermines their effectiveness and productivity, and restricts income and employment opportunities, especially for less skilled workers (whose incomes typically fall in the bottom 40 percent of the income distribution), who rely disproportionately on MSMEs for employment. At the PRL stage, the objective of enhancing the enabling environment and increasing access to finance for MSMEs was partially achieved. The number of microfinance and SME finance loans provided through the financial services had increased but not enough to reach the target, and the Partial Credit Guarantee Fund was not established yet. However, in the last year of the CPF with the ongoing support from several IFC investments, the objective of enhancing the enabling environment and increasing access to finance for MSMEs has been fully achieved, which is highly satisfactory. The expected outcome indicator almost doubled the target and the two supplementary progress indicators have been achieved.[HH]

14. The support from IFC was crucial to respond to the challenge of limited access to finance for underserved populations by providing financial and technical assistance to a variety of financial institutions. Examples of the projects during the CPF period are the new small and medium-size enterprise (SME) loan to Banco Promerica Guatemala (P38667) and a new loan with the largest nonprofit financial institution, Genesis Empresarial, (P39578) intended to support its micro, small housing, and student loan portfolios. This latter investment is particularly critical, as Genesis plays a key role in promoting financial inclusion in rural areas of Guatemala characterized by poor Indigenous communities. In addition, IFC Global Trade Finance Program facilities have supported local banks, including two of the largest (Banco Industrial and G&T) as well as medium-size banks (Promerica Guatemala and Banco Internacional), in providing US$ 895 million in trade finance transactions through the implementation of bundled import/export financing transactions. IFC's investment in regional private equity funds has also been instrumental in supporting SMEs with equity and equity-like investments appropriate for business startups.

Objective 3. Expand infrastructure: *Achieved*

15. This objective aims to contribute to government efforts to foster sustainable growth by expanding infrastructure, given that underdeveloped infrastructure has been one of the main obstacles to investment and economic development in Guatemala. The outcome indicator and the supplementary progress indicator of this CPF objective have been achieved. APM Terminals Quetzal currently has an annual container throughput capacity of 340,000 TEU and is one of the largest facilities between the port of Lázaro Cardenas in México, and the Panama Canal, on the west coast of Central America. Regardless of a legal dispute that started in 2015, the expansion of the terminal has taken place and the company managed to bring annual capacity to

[GG]Due to delays in Congress approval, the "Crecer Sano" loan effectiveness took place approximately months 12 prior to the end of the CPF original period. Results were, therefore, not expected within the timeframe of this CPF.
[HH] The Partial Credit Guarantee Fund is established but still is at a "pilot" stage, and the legal change to improve its institutional independence and sustainability is pending.

the expected target. Also, the new terminal at Quetzal port is operational. In this context, the overall rating for this objective is achieved, which is Satisfactory. APM Terminals invested US$ 180 million in modernizing the terminal and increasing the Port of Quetzal's capacity by 35%. The new terminal is an 85% / 15% joint venture between APM Terminals and the International Finance Corporation (IFC). The terminal is handling nearly 70 percent of the Pacific cargo-container-ship traffic and creating direct and indirect employment for more than 400 people. The project has also proven to be instrumental in supporting the government's tax collection and transparency agenda by using modern technology that deters/captures smuggling and tax evasion.

Objective 4. Build institutional capacity to manage and adapt to climate change: *Mostly Achieved*

16. **The objective of building institutional capacity to adapt to and manage climate change aims to:** (i) improve development planning and scale the ability of Guatemala to adapt to the adverse impacts of climate change; and (ii) fostering climate resilience and low greenhouse gas emissions development, in a sustainable manner. The first outcome indicator under this objective, has been mostly achieved. The National Forestry Institute -INAB- is preparing a retroactive monitoring report for 2020 and has indicated that there was indeed reduction of forest greenhouse gas emissions (ERs), though this is in the process of confirmation.[II] The two milestones for this indicator, comprising the approval of the National Policy for Disaster Risk Reduction and the Adoption of the National Plan of Mitigation and Climate Change Adaptation, were partially achieved and achieved, respectively. The second and third outcome indicators, both of which were added at the PLR stage, have been achieved. That is, the percentage of municipalities that have included disaster risk reduction activities in their local development plans has more than doubled the target of 29 percent; and the Government of Guatemala signed the Emission Reductions Payment Agreement (ERPA) with the World Bank in September 13, 2021 for 10.5 million tons of CO_2. In this context, the proposed rating for this objective which has most indicators achieved is Moderately Satisfactory.

17. Guatemala is a country highly vulnerable to the impacts of climate change, which exacerbate extreme poverty and negatively affects growth opportunities. Building institutional capacities to address the impacts of climate change is critical for its development. During the CPF period the WB approved (2019) a Second Disaster Risk Management DPL with a Catastrophe Deferred Drawdown Option (P159710) to help strengthen Guatemala's legal, institutional, and financial framework to manage the impact of adverse natural events and climate risk. In the same year the government signed the Letter of Intent for the development of an Emission Reduction Program and the negotiation and agreement of an Emission CO_2 Reduction Payment Agreement (ERPA) (P167132), as indicated above. In 2019, Guatemala's Emission Reductions Program Document was approved by the Forest Carbon Partnership Facility (FCPF) donors, which was further emphasized in 2020 with a Decree of Congress that enabled the government's executive branch to engage in commercial carbon transactions to receive results-based payments for reduced emissions. The Implementing COP21[JJ] Commitments in Central America Program (P160325) is key to supporting enhanced climate change action in Central America. The objective of this Programmatic Approach (PA) is to strengthen the capacity of governments in Central America to develop strategies for a low-carbon emission economy in line with COP21 commitments. Assistance to Guatemala under this umbrella program includes support for the review, revision, and implementation of Guatemala's (intended) Nationally Determined Contribution (NDC), that was presented in Paris in 2017, including country mitigation and adaptation policies and plans, commitments and targets, and implementation strategies and sector priorities–Guatemala is currently submitting (and revising) its NDCs.

[II] On April 1st the National Institute of Forestry -INAB- submitted a request for an extension on the deadline to deliver the first report.

[JJ] COP21 refers to the 21st session of the Committee of the Parties of the UN's Climate Change Conference, held December 11, 2015. The historic Paris Agreement, reached at the Conference of the Parties (COP) 21, calls on the world to keep global temperature rise below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius. Progress towards this ambitious goal depends on the successful implementation of the national climate pledges submitted by 190 countries in the run-up to and since COP21 – the Intended Nationally Determined Contributions, or INDCs.

18. During the CPF period, IFC has additionally supported investments in the manufacturing, agribusiness, and services sectors, work that was included in the Results Framework. IFC provided financing to a leading regional paint manufacturer, Grupo Solid, transitioning from a high-growth stage to a consolidation phase that included new production facilities to service the increasing demand of local and regional markets. IFC's financing matured in 2018; the LAPCO project (28558) helped strengthen the company's footprint in the regional market with expanded production capacity, higher quality standards, the adoption of IFC's Environmental and Social Performance Standards, and stronger management and operations. Furthermore, the Energy and Resource Efficiency Advisory (600505) is being implemented with Guatemala's largest cement producer, *Cementos Progreso*, to perform a waste heat recovery and solar power project viability assessment. The engagement will help identify and then implement more economical EE solutions. Finally, IFC is advising the banking sector to improve capacity to undertake climate finance and renewable energy financing activities and is doing the same for large industrials and real estate developers with respect to energy efficiency and green construction protocols.

III. WORLD BANK GROUP PERFORMANCE

19. **Overall, the WBG Performance during the FY17-FY20 CPF is rated Good.** The WBG played a very proactive role with timely adaptation to changing circumstance and priorities. Guatemala faced numerous and diverse challenges throughout the CPF implementation period, including weak governance, inefficient public administration, high poverty, high levels of crime and corruption, weak infrastructure, and lack of social inclusion. The FY17-20 CPF responded to the government's priority areas, fostering inclusion of vulnerable groups, and addressing bottlenecks to sustainable growth. The CPF contributions have made possible achievements in expanded access to health services (particularly for Indigenous children under 2 years in priority municipalities); increases in the number of microenterprises and SMEs accessing financial services; increases in port handling capacity; and improvements in government capacity to promote low carbon development, measured by the reduction of forest greenhouse gas emissions. Despite these important achievements, the CPF program and results framework at the PLR stage were too ambitious. While the two CPF pillars remained relevant, the objectives were revised and six indicators were dropped, as the WB estimated that they could not be met within the CPF period that ended in 2020.

20. In the next two sections the WBG performance is evaluated along two key dimensions: (A) design, and (B) implementation of the CPF program.

A. CPF Design and Relevance – Rating: *Good*

21. The CPF design was adequate and relevant to respond to Guatemala's development priorities and to reflect the country's resource and institutional constraints. The CPF was aligned with the Government *Plan Nacional de Desarrollo K'tun* 2032, developed in 2014 by the GOG and with the Bank's 2015 Systematic Country Diagnosis (SCD). Given the country's constraints, the CPF was modest in its ambitions and selective in its focus. The CPF proposed delivering assistance to foster inclusion of vulnerable groups and to address bottlenecks to sustainable growth, articulated through five CPF objectives, 10 outcome indicators, and 15 supplementary indicators, complemented by technical assistance and financial operations. The CPF's design also proposed intensifying collaboration with Guatemala's development partners to coordinate the policy dialogue and identify opportunities for joint or complementary support across different sectors.

22. Although the design of the strategy was well articulated, the Results Framework turned out to be too ambitious, as explained in the performance and learning review that took place in September 2019. In fact, the PLR reordered the objectives, de-emphasizing the improvement of public resource management, because

the main lending operation design to move the country to reach this objective was an IPF[KK] with the Tax Administration, which was withdrawn following extended delays in congressional approval of the loan, while shifting attention towards disaster risk-reduction activities and environmental emissions reduction. In doing so, the PLR dropped six outcomes and added two indicators to better align the achievements of the CPF with the WBG program. In practice, the Results Framework design was too ambitious, as it underestimated the time it would take to monitor and achieve the large number of indicators (10) and supplementary indicators (15) under two pillars and five results areas. While some of the knowledge gaps identified in the 2015 SCD have been addressed—such as lack of knowledge of basic poverty numbers and characteristics, lack of understanding of the underlying causes of persistent malnutrition, or knowledge of basic numbers on government capacity to promote low-carbon emissions—gaps persist in the routine monitoring of poverty and malnutrition indicators, which have weakened policy design and implementation, particularly in rural areas.

23. **Regular and consistent household surveys are necessary to monitor the evolution of poverty**. Unfortunately, as mentioned earlier, the last official poverty estimates in Guatemala date from 2014, which prevents a thorough analysis of how public policies and internal or exogenous events have affected poverty, inequality, and malnutrition. Similarly, an in-depth assessment of the existing and potential climate adaptation and mitigation policies will be necessary to prioritize the government's efforts in this area based on the potential impacts, feasibility, and cost-benefit analysis of different policies, as well as the institutional capability to implement them.[LL] Finally, institutional assessments of disaster risk management capabilities, preparedness, and coordination mechanisms at all levels of government (central and local) are necessary to enhance the government's capacity to respond to shocks.

24. **The WB portfolio in Guatemala during the CPF period turned out to be limited**. The implementation of the program has been fair overall, in the sense that while successful in contributing to achievements in some areas, the implementation failed to contribute to the achievement of the original CPF Objectives. Over the CPF period, the government policy outlined a commitment to tackle food insecurity and malnutrition through comprehensive interventions aimed at long-term structural changes, recognizing the important role that human capital development plays in contributing to inclusion and economic growth, and vice versa. The *Nuestros Niños Listos y Sanos Pilot Project (P145410)*, which operated in four primarily Indigenous departments where chronic malnutrition is (on average) 70 percent and the poverty rate is 89 percent, helped draw lessons to strengthen the capacity of parents and communities to improve and monitor physical, cognitive, socio-emotional, and linguistic skills of children under age three. The *First Improvement Governance of Public Resources and Nutrition DPF (P160667*), effective in August 2018, intensified the GoG efforts to enhance the policy and institutional framework to address primary health care deficiencies and chronic malnutrition and somewhat strengthened the regulatory and institutional framework to improve governance of public resources and accountability.

25. **The active portfolio included three projects totaling US$550 million in net commitments.** Of the three loans in the portfolio, the US$250 million loan for the *First Improved Governance of Public Resources and Nutrition DPF (P160667)* became effective and is now fully disbursed. The US$ 100 million *Crecer Sano Health and Nutrition Project (P159213)* was approved by Congress in February 2019, almost two years after the World Bank's approval, and became effective on September 16, 2019 (but only started disbursing in 2022). The third operation in the portfolio, the *Disaster Risk Management DPF* with a CAT DDO (P159710) for US$ 200 million was approved by the World Bank on May 24, 2019, became effective on April 16, 2020, and is now fully disbursed. The latter was restructured to include the pandemic and played an important role in the GoG response to COVID by providing a quick and substantial infusion of cash to the public coffers. In addition, the Trust fund resources included: (i) a US$0.35 million grant to support Building Statistical

[KK] Transparency and Efficiency in Tax Administration Project (P153366)

[LL] Despite the fact that the GOG conducted the National Census (2018) after more than 12 years since the last one, still many periodic surveys have to be institutionalized to deliver relevant information for Policy making.

Capacities in the Ministry of Education; (ii) a US$0.275 million Global Facility for Disaster Reduction and Recovery (GFDRR) grant in the aftermath of the Volcano del Fuego eruption to support the country and enhance its capacity to better manager disaster risks; (iii) a US$0.65 million grant from the Forest Carbon Partnership Facility to assist the government to design, prepare, and appraise its ERPA; (iv) a €5 million grant from the European Union for Strengthening Government Human Resource Management Capacity and Systems; and (vi) a US$ 9 million grant from the Global Financing Facility for the Crecer Sano Health and Nutrition Project.

26. **Three operations were approved during the extended period.** Following an extensive dialogue during the transition of administrations, the new government requested two new operations when it took office: Crisis Response and Recovery in Guatemala Responding to COVID-19 (P173698), originally for US$250 million but later increased to US$500 million due to the pandemic; and the Modern and Resilient Agri-food Value Chains Project (P173480), for US$150 million. A DPL II (P175979) for US$250 million was approved in October 2022.

27. Given the complex and difficult environment, in particular the political economy, and persistent challenges related to poverty, shared prosperity, malnutrition, lack of infrastructure, and others, achieving effectiveness of loans as well as implementation of investment operations was challenging. The changes in authorities at the sector and technical levels, as well as the impact of a fragmented Congress, resulting in frequent policy changes in a context of continuous political trade-offs and compromises, has been the reason why several IBRD operations approved in the FY17-20 CPF lending program were either withdrawn (3 out of 9) or, if not withdrawn, experienced lengthy effectiveness delays (an average of 2½ years). Box A2-1 illustrates the effects on the delivery of the lending program resulting from the changes in government priorities and policies.

Box A2-1: FY 2017-23 Delivery of the lending program

The impact of a fragmented Congress, producing frequent policy changes in a context of continuous political trade-offs and compromises, and which by law must approve every single IBRD operation, as well as frequent changes in authorities across ministries, low execution capacity, and fear of persecution by the Comptroller's Office, all make for a challenging environment for meeting project effectiveness deadlines and implementing the WBG program efficiently. Nine IBRD lending operations have been approved by the Board since FY15 (3 DPLs, 1 CAT DDO, and 5 IPFs). While DPLs and CAT DDO were eventually approved by Congress, of the five Board-approved IPFs three were cancelled for not reaching their effectiveness deadlines due to lack of congressional approval; and one operation is awaiting congressional approval since it was approved by the Board in January 2021. As of February 2023:

1. Crecer Sano (P159213) IPF (US$100 million): Board approved in FY17 and approved by Congress in 2019. It started disbursing in November 2021. This is the only active IPF and is 80 percent undisbursed with one year of implementation remaining (expected closing date Jan 2024).

2. Transparency and Efficiency in Tax Administration (P153366) IPF (US$55 million): Board approved in FY17 and cancelled in FY20.

3. Urban Infrastructure and Violence Prevention (P143495) IPF (US$45 million): Board approved in FY17 and cancelled in FY20 (will now be re-presented in Congress for FY23.

4. Improved Governance of Public Resources & Nutrition DPL1 (P160667) (US$250 million): Board approved in FY17 and, after an effectiveness deadline extension, approved by Congress in FY19 and fully disbursed in FY19 (a *2nd DPL* of this series was cancelled before going to the Board).

5. 2nd *CAT-DDO (P159710)* (US$ 200 million): Board approved in FY19, approved by Congress in FY20 and fully disbursed in FY20 (triggered by the pandemic).

6. *COVID-19 Emergency* IPF (US$20 million): Board approved in FY20 and cancelled in FY21.

7. Crisis Response and Recovery in Guatemala Responding to COVID-19 (P173698) DPL1 (US$500 million): Board approved in December of FY20. A 4-month effectiveness extension was granted on an exceptional basis in December 2021 and approved in Congress in May 2022 and is now fully disbursed.

8. Modern and Resilient Agri-food Value Chains Project (P173480) IPF (US$150 million): Board approved in January of FY20. It is awaiting congressional approval and effectiveness deadline has been extended to July of FY24.

9. *Crisis Response and Recovery in Guatemala Responding to COVID-19 (P175979)* DPL2 (US$250 million): Board approved in October of FY22. It is awaiting congressional approval.

28. To ensure more robust development results, the WBG, during the CPF period focused on a few critical priority areas with the intention of preventing a fragmented approach and diffused results, allowing for more concentrated efforts using non-lending technical assistance and trust funds. The WBG provided a substantial non-lending program mainly focused on health, environment, risks related to natural disasters, diversified financing of MSMEs, technical and advisory assistance activities and products that helped advance the country dialogue, promote reforms, and maintain the WBG's country knowledge base. The WB activities to support Pillar 1 (Fostering Inclusion of Vulnerable Groups) included the following: water supply, sanitation, and hygiene poverty diagnosis; a study on Monitoring of Public Expenditures, focused on the Ministry of Public Health and Social Assistance; technical assistance on developing an Observatory of Public Spending; a study to address the issue of school dropout both in the short and long terms, develop an early warning system for dropouts, and test interventions to prevent dropout; technical assistance to strengthen information systems for conditional cash transfer programs to better target beneficiaries. With respect to Pillar 2 (Addressing Bottlenecks to Sustainable Growth) such activities included the following: technical assistance to strengthen institutional capacity to address fiscal risks related to natural disasters; technical assistance to strengthen the legal and institutional framework for responding to natural disasters; within the framework of Forest Carbon Partnership Facility (FCPF), a national program to reduce emissions from deforestation and improve forest management; and technical assistance under the Financial Sector Reform and Strengthening Initiative related to the responsible and diversified financing of MSMEs and to strengthening the financial consumer protection framework. To date, the main CPF results came from the First Improvement Governance of Public Resources and Nutrition DPF (P160667); from Crecer Sano: GT Nutrition & Health Project (P159213); from IFC investments; and from analytical and technical assistance work. This is evident in Annex 1, Status of Guatemala FY17-FY20 CPF Results Framework at the conclusion of the CPF period, where 4 out of 6 outcome indicators have been achieved, one has been mostly achieved and one has not been achieved. Similarly, 4 out of 8 supplementary indicators have been achieved, while 4 have been partially achieved.

IV. ALIGNMENT WITH CORPORATE GOALS

29. **The WBG program was aligned with the Corporate Goals of eradicating extreme poverty and increasing shared prosperity.** The CPF program was focused on supporting Guatemala's efforts to foster inclusive and sustainable growth through a mix of investment lending and complementary knowledge and analytical work. Similarly, both health and education efforts expanded access to services to indigenous populations by ensuring service delivery in people's native languages, as well as taking a creative approach to close geographic distances with remote learning technology, for example. However, despite alignment with WBG Corporate Goals, poverty increased, and shared prosperity decreased during the CPF period, aggravated by the COVID-19, signaling the need for more concerted, multi-sectoral efforts at the national level, in collaboration with the Government and other partners.

30. **Poverty reduction has been minimal, due to both fiscal constraints and historically low expenditures in public social services**. The poverty rate, measured at the upper middle-income class line (US$5.5 in 2011 Purchase Power Parity), decreased slightly between 2015 and 2019 from 49.1 to 48.8 percent. However, in 2020 due to Covid-19, the poverty rate increased to 52 percent[MM]. Given the slow estimated reduction in the

[MM] Sources: LAC Equity Lab for Poverty and Equity Data; World Development Indicators (WDI), Central Bank (BANGUAT) and Ministry of Finance (MINFIN) for Macroeconomics and Fiscal.

poverty rate since 2015 and the country's high birthrate (2.9 percent as of 2018), it is a logical corollary that the absolute number of people living in poverty has continued to increase. Demographic trends explain part of the rise in the numbers of people living in poverty, but poverty has also been affected by the Covid-19 pandemic in the past two years. Growth has had a modest impact on poverty reduction, and between 2014 and 2019 the growth of remittance-fueled consumption drove poverty reduction as well, but a broad-based decline in labor income slowed poverty reduction. Inequality, proxied by the Gini index, is estimated to have increased marginally from 0.483 in 2015 to 0.487 in 2020, below the LAC average of 0.51. Rural areas, the northern and northwest regions, and Indigenous groups continue to exhibit higher levels of nonmonetary poverty, lower living standards, and more limited economic opportunities than the rest of Guatemala. While the impact of the Covid-19 pandemic is estimated to have increased the monetary poverty rate by 3.7 percentage points to 52 percent in 2020, recent World Bank estimates indicate that this increase would have been two to three times greater had it not been for the government's policy response.

31. COVID-19 disproportionately affected chronic nutrition and Early Child Development among marginalized households, further exacerbating pre-existing inequalities. Guatemala continues to suffer from large ethnic and geographical disparities in access to services and human development outcomes, including chronic malnutrition. In several of the poorest northern municipalities, such as San Mateo Ixtatán, Santa Barbara, and San Miguel Acatán, the share of households with under-5 stunted children often approaches 90 percent. These are municipalities where the indigenous population is predominant. Covid-19 also worsened nutritional outcomes and aggravated ethnic and geographic disparities. Access to food among rural households and the most marginalized groups was severely limited during the pandemic. Increased food insecurity and related stress imposed widespread human capital losses, especially in the northwestern region. By mid-2020[NN] about half of all households reported having unreliable access to food due to a lack of resources. While the share of households reporting food insecurity fell to one-third by mid-2021, it has yet to reach its pre-pandemic level of 17 percent (World Bank & UNDP 2021). Worsening food insecurity mirrored the erosion of household income: as of mid-2020, 7 out of 10 households reported a decline in income since the start of the pandemic, and a year later about half of all households had not yet returned to their pre-pandemic income level. Income losses were concentrated among indigenous households, while job losses were most common among women.

V. LESSONS LEARNED

32. Implementation of the FY17-20 CPF yielded several lessons for the design and implementation of WBG programming in Guatemala. These lessons are discussed briefly below and will be taken into consideration into the design of the next CPF.

33. The CPF design should not underestimate the political and governance risk and its institutional constraints to ensure achievement of its objectives. Given the complex and difficult environment, in particular the political economy, and the persistent challenges related to poverty, the WBG needs to offer flexible solutions in a number of areas in which it could alter its way of "doing business" to improve results, with instruments that would not require congressional approval. Since 2015, Guatemala has experienced a marked deterioration in the quality of governance and a weakening of institutions that have exacerbated the already limited implementation capacity, further eroding trust in the state. Meanwhile, political fragmentation has contributed to an increasingly slow and unresponsive legislative process, leading to delays in loan approvals and cancelations as evidenced during this CPF period.

34. Maintaining a dialogue with the Executive, Legislature, civil society, private sector, and other stakeholder groups is a necessary condition for success. For example, with respect to the *Crecer Sano* Project, the engagement with Congress quickly shifted from seeking endorsement to explaining the adverse impact of

[NN] Guatemala 2022 SCD Update Building a Stronger Social Contract through Productive, Inclusive and Sustainable Growth, February 2022 chronic malnutrition not only on individuals, but on the country's productivity and competitiveness. As a result, despite a deeply polarized environment, Guatemalans from across the political spectrum prioritized the fight against chronic malnutrition. Going forward, engagement with the networks of local governments (mayors) may be a way to further draw in the voices of the rural and indigenous areas, despite the legal constraints to transfer resources from the National Budget. Similarly, the formal private sector has been a key ally during the 2017-2020 period. This engagement will provide opportunities going forward in terms of identifying areas where Bank support could be more effective. That said, the cumbersome bureaucratic procedures for almost every process related to project cycle (preparation, negotiations, and implementation) remains. Furthermore, the weakness of the Executive vis-a-vis with Congress will remain in the short to medium term. This forces the Executive to be quite selective on which initiatives they present to Congress, delaying or forbidding major reforms needed on almost every sector.

35. A well-designed and measurable Results Framework and accompanying indicators and milestones are critical for evaluating the achievement of CPF objectives. The CPF results matrix should set realistic objectives that are achievable during the CPF period and include outcome indicators and milestones that are relevant and material to the Objectives. Similarly, having relevant and timely monitoring data is fundamental for opportune course corrections. This is a common lesson, but it is even more important in the Guatemalan context given data quality issues, such as the lack of poverty data since 2014. The importance of a selective program with a straightforward design and clear implementation arrangements may facilitate achievement of results, however in the Guatemalan context, we also need to clearly identify from the start the source of data (given the numerous information systems in GT) and its quality, and capacity of the responsible agency to update it. The WB needs to engage the responsible institutions from the beginning and further monitor during the CPF period, to make sure the data will be available. This includes eventual financial and technical support.

36. **In a difficult environment, technical assistance can be a channel for ensuring solid policy dialogue**. As described in CPF-PLR, through a strong program of technical assistance, the Bank has been working closely with different groups on critical topics of interest that directly align with the CPF pillars of fostering inclusion of vulnerable groups and promoting sustainable growth, including climate change adaptation and mitigation. These include: (i) support to draft a law and regulations for International Labor Organization (ILO) Convention 169; (ii) engagement with the Constitutional Court to improve access to justice for women and Indigenous Peoples; (iii) preparation of the Disaster Risk Management Strategy; (iv) support to the process to ensure that Guatemala can join the Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company and acquire the excess rainfall and earthquake coverage for the period of June 2019 through May 2020; and (v) support to the technical commission on the eruption of the *Volcán de Fuego* to assess risks and develop mitigation strategies around future events.

37. **These lessons suggest two core elements for a plan of action for the World Bank Group going forward**. The first element is the imperative of designing/continually refining a broad-based and ongoing strategy of engagement that covers the entire CPF period. This engagement would have multiple purposes: (i) identify key issues around which consensus exists or could realistically be built; (ii) create fora where stakeholders and technical experts can exchange information, views, and concerns; (iii) assess the political economy of specific actions, programs, or reforms that could be supported by the WBG; and (iv) commit necessary resources to support capacity building of line ministries where new Project Implementation Unit will be established. The experience with the implementation of the *Crecer Sano* Project is telling and project teams will need to apply a more hands-on approach to project supervision. The second core element is the WBG's continued focus on a strictly limited set of activities**,** that can be adjusted as necessary to support CPF objectives. For example, depending on the capacity to commit future financial resources, the WBG could expand activities under certain objectives (e.g., emissions reductions under the fourth objective (Building institutional capacity to manage and adapt to climate change).

38. **The WBG should continue to be cautious about reputational risk in all aspects of engagement in Guatemala**. When considering future engagement, it will be important for the WBG to support the efforts of local governments and civil society aimed at strengthening local capacity to improve governance. Considering the political, and institutional challenges highlighted along this report, the WBG should continue to ensure that current and future engagement in Guatemala is realistically designed, widely consulted, and adhere to the highest standards of quality, openness, and accountability. As demonstrated during this CPF period, achieving results in Guatemala depends not only on Government commitment but also on the commitment from other stakeholders in the society.

Pillar 1. Fostering Inclusion of Vulnerable Groups		
Objective 1. Increase access to basic health, nutrition, and water and sanitation services		
Overall Rating: Moderately/Unsatisfactory		
CPS INDICATORS	**MILESTONES**	**WBG DOCUMENTS**
1 Not Achieved Coverage of growth monitoring and promotion for children under 24-months in priority areas. *Baseline:* 10 percent (2016) *PLR:* 90.2 percent (2018) *Target:* 50 percent (2020) Actual: 31 percent (2020) √ Data as of December 2021 from Information System of the Ministry of Public Health and Social Assistance (SIGSA) √ Source: Results Framework of "Crecer Sano" Nutrition and Health Project √ At the PLR stage the target was already achieved (as of December 2018) from the Information System of the Ministry of Public Health and Social Assistance (SIGSA) √ The measurable progress responded to the fact that the First Improvement Governance	**Partially Achieved** Health personnel receiving training (by gender). *Baseline:* 0 (2016) *Target:* 300 (2018); 900 (2020) *Actual:* 797 (2021) √ Data as of December 2021 from Information System of the Ministry of Public Health and Social Assistance (SIGSA) √ Source: Results Framework of "Crecer Sano" Nutrition and Health Project **Partially Achieved** Percent of children under two in priority municipalities that complete the full cycle of nutrition verification (by gender). *Baseline:* 0 percent (2016) *Target:* 50 percent (2018) Actual: 31 percent (2021) √ Data as of December 2021 from Information System of the Ministry of Public Health and Social Assistance (SIGSA) √ Source: Results Framework of "Crecer Sano" Nutrition and Health Project	Ongoing • *Crecer Sano*: GT Nutrition & Health Project (P159213) Closed • Nuestros Niños Listos y Sanos (P145410) • Improved Governance of Public Resources & Nutrition DPF (P160667) • Country Water Supply, Sanitation, and Hygiene Poverty Diagnostic (P150563)

of Public Resources and Nutrition DPF (P160667) became effective in the second half of 2018. √ As of December 2021, measurable progress is attributable to Crecer Sano Health and Nutrition Project that was approved by the Guatemalan Congress in February 2019 and signed in May 2019.	√ Data is not officialized. Information may undergo changes. **<u>Not Achieved</u>** Number of families being served by new or rehabilitated water systems in the intervention areas. *Baseline:* 0 (2016) *Target:* 1,500 (2020) *Actual*: there is no water project finalized yet. ` √ Information System of the Ministry of Public Health and Social Assistance (SIGSA) √ The Nutrition & Health Project "Crecer Sano" expected to rehabilitate or build 1,500 water systems (each system would serve approximately 50 families). Intervention areas are those prioritized by the National Strategy to Prevent Chronic Malnutrition. *< this target is to be modified in the upcoming restructuring to be completed in Fall of 2022. Project will now concentrate on improving the quality of water in the 171 communities where health posts will be refurbished or built>* √ On July 28, 2020, the Bank restructured the Project "Crecer Sano" to support the country's overall response aimed at containing the threat posed by the COVID-19 outbreak and providing related services. The restructuring that modified the results framework became effective on August 13, 2020.	
Pillar 2. Addressing Bottlenecks to Sustainable Growth		
Objective 2. Enhance the enabling environment and increase access to finance for MSMEs		
Overall Rating: Highly Satisfactory		
CPS INDICATORS	**MILESTONES**	**WBG PROGRAM**

2. <u>Achieved</u> Number of microfinance and SME finance loans provided through financial services. *Baseline:* 93,133 (2015) *PLR:* 104,271 (2017) *Target:* 141,723 (2020) *Actual*: 201,865 (2021) √ Data as of December 2021 from Banking sector: smaller business + microcredit √ With support from several IFC investments, the objective of enhancing the enabling environment and increasing access to finance for MSMEs has been achieved √ The IFC has responded to the challenge of limited access to finance for underserved populations by providing support to a variety of Guatemalan financial institutions. √ Examples during the CPF period are the small and medium-size enterprise (SME) loan to Banco Promerica Guatemala (P38667) and the loan to the largest nonprofit financial institution, Genesis Empresarial (P39578) intended to support micro, small housing, and student loan portfolios. Genesis plays a key role in promoting financial inclusion in rural areas of Guatemala characterized by poor, indigenous communities.	**<u>Achieved</u>** Volume of micro and SME outstanding portfolio (US$ million). *Baseline:* 549 million (2015) *PLR:* 748 million (2017) *Target:* 624 million (2020) *Actual*: 2,758 million (2021) √ Data as of December 2021 from Banking sector: smaller business + microcredit. **<u>Achieved</u>** Partial Credit Guarantee Fund established. *Baseline:* NO (2016) *Target:* YES (2018) *PLR:* NO (2019) *Actual*: YES (2021) √ Data as of December 2021 √ The Fund is established but still is at a "pilot" stage, and legal change to improve its institutional independence and sustainability are pending	• IFC MSME Finance loans *Ongoing* • IFC *Banco GT* / IFC *Seguros G&T* • Developing Diversified and Responsible Financing for MSMEs Technical Assistance (P153451)
Objective 3. Expand Infrastructure		
Overall Rating: Satisfactory		

CPS INDICATORS	MILESTONES	WBG PROGRAM
3. **<u>Achieved</u>** Increased port handling capacity. *Baseline*: 391,491 Twenty-Foot Equivalent /Unit (TEU) (2015) *PLR:* 300,000 TEU (2018) *Target* : 340,000 TEU (2020)[OO] *Actual* : 340.000 TEU (2021) √ APM Terminals Quetzal opened for operations in 2017. It has an annual container throughput capacity of 340,000 TEU and is currently the largest facility between the port of Lázaro Cardenas in México, and the Panama Canal, on the west coast of Central America.	**<u>Achieved</u>** Quetzal Port is operational. *Baseline:* No (2016) *Target:* Yes (2018): *Actual:* Yes (2021) √ It is the only terminal in Guatamala capable of handling 10,000 TEU vessels due to its 14.5 m draft. √ APM Terminals Quetzal was acquired by APM Terminals in March 2016 while under construction. √ APM Terminals invested US$ 180 million in modernizing the terminal and increasing the Port of Quetzal's capacity by 35%. The new terminal is an 85%/15% joint venture between APM Terminals and the International Finance Corporation (IFC).	Terminal de Contenedores Quetzal (P32763)
Objective 4. Build institutional capacity to manage and adapt to climate change		
Overall Rating: Moderately Satisfactory		
CPS INDICATORS	**MILESTONES**	**WBG PROGRAM**
4<u>. Mostly Achieved</u> Increased government capacity to promote low carbon development, as measured by reduction of forest greenhouse gas emissions. *Baseline*: 0 (2016)	**<u>Partially Achieved</u>** Update of National Policy for Disaster Risk Reduction approved *Baseline:* No (2016) *Target:* Yes (2017) *Actual:* in process	<u>Ongoing</u> Catastrophe Deferred Drawdown Option (P159710) <u>Closed</u>

[OO] APMT Quetzal full capacity was expected to reach 391,491 (Twenty-Foot Equivalent Units/TEUs annually), but given a legal dispute that started in 2015, further expansion of the terminal has been delayed and therefore reduced the full capacity target to 240,000 TEUs, although in 2018 the company managed to handle over 300,000 TEUs. Regardless the legal dispute, the company is currently completing an investment that will allow it to bring annual capacity to 340,000 TEU by 2020.

PLR: Not Achieved *Target*: 3 million tons of CO_2 (2020) *Actual:* verification is underway √ The process of verification of the reduction of forest greenhouse gas emissions is underway. √ The Ministry of Environment and Natural Resources –MARN is preparing a retroactive monitoring report for 2020 and have indicated that there were indeed ERs but are in the process of confirmation √ Data from the 2020 CPIA write-up for Guatemala indicates that a few carbons financed projects have been initiated so far. Moreover, four climate change related projects are under advanced preparation √ Guatemala submitted its Intended Nationally Determined Contribution (INDC) in 2017 and has developed a Reduction of Emissions from Deforestation and forest Degradation (REDD+) strategy. √ In 2019, Guatemala's Emission Reductions Program Document was approved by the Forest Carbon Partnership Facility (FCPF) donors, which was further emphasized in 2020 with a Decree of Congress that has enabled the government's executive branch to engage in commercial carbon transactions to receive results-based payments for reduced emissions.	√ Data as of December 2021 indicates that there has not been an updating of the National Policy for Disaster Rik Reduction. √ The updating is planned by the second half of 2022 and would be included as a prior action in CAT DDO √ The WB is working with the Government on an outreach strategy to facilitate the passage of the new DRM law and its regulations **Achieved** Adoption of the National Plan of Mitigation and Climate Change Adaptation which incorporates targets and indicators in disaster risk reduction. *Baseline:* No (2016) *Target:* Yes (2017) *Actual: Yes (2021)* √ Data from the Secretary of planning and programming of the Guatemalan presidency (SEGEPLAN) indicates that the National Action Plan on Climate Change was approved in November 2016. √ The Plan was prepared in compliance with the Framework Law to Regulate the Reduction of Vulnerability, Mandatory Adaptation to the Effects of Climate Change and Mitigation of Greenhouse Gases. √ The Plan included 6 adaptation lines and 5 mitigation sectors. The line of adaptation has results and goals to be achieved during the next ten years (until 2026), through the implementation of 153 actions. The mitigation sectors as a whole, intend several result and goals to be achieved through the implementation of 93 actions. √ The Plan was presented on the same day that the Paris Agreement entered into force, which seeks that all countries take measures to reduce the increase in temperature; putting Guatemala at the forefront since it was the second country in Latin America to have this instrument.	• Implementing COP21 Commitments in Central America Program (P160325) • Forest Carbon Partnership Facility Capacity Building

√ In 2019 the Government signed its Letter of Intent for the development of an Emission Reduction Program and the negotiation and agreement of an Emission CO2 Reduction Payment Agreement (ERPA) for 10.5 million tons, was signed in September 2021(See indicator 6)	√ Even though climate change interventions are partial and not always effectively implemented, Guatemala has taken steps to address these issues.	
5. <u>Achieved</u> Percentage of municipalities that have included disaster risk reduction activities in their local development plans. *Baseline:* 3.5 percent (2019) *PLR*: Added this indicator *Target:* 29 percent (2020) *Actual*: 82 percent (2021) √ Data as of December 2021 from the Secretariat of Planning and Programming of the Presidency (SEGEPLAN), reported under the supervision of CAT DDO II. √ The Secretariat of Planning and Programming of the Presidency (SEGEPLAN) states that, as of December 2021, out of a total of 324 processes formulated, 279 municipalities approved their Municipal Development Plan (PDM) with the incorporation of disaster risk management (DRM) activities and land use proposal, which is equivalent to 82% of the total number of municipalities. √ SEGEPLAN will continue with monitoring activities in the fulfillment of the plans.		<u>Ongoing</u> • Catastrophe Deferred Drawdown Option (CAT-DDO) (P159710) <u>Closed</u> • Forest Carbon Partnership Facility Capacity Building • Program for Indigenous Peoples in LAC (P155976) • Civil Society and Local Communities in LAC (P155978) • Enhancing Disaster Disk Management in Central America Program (P159930)

√ At the PLR stage this indicator was added to reflect the support under the Catastrophe Deferred Drawdown Option (CAT DDO) (P159710), that the Board approved in May 2019.		
6. <u>Achieved</u> Signing of the Emissions Reductions Payment Agreement. *Baseline:* 0 (2018) PLR: added this indicator *Target:* 100% (2019) *Actual:*100% (2021) √ Data is as of December 2021 from SLCEN - LAC ENVIRONMENT √ The Government of Guatemala signed the Emission Reductions Payment Agreement (ERPA) with the World Bank in September 13,2021 for 10.5 million tons of CO_2 [PP] √ This indicator was added by the Performing and Learning Review (PLR) in September 2019[QQ].	√ This is an important step to achieving the objective of building capacity to manage and adapt to climate change.	<u>Active</u> • Emissions Reductions Payment Agreement (ERPA) Carbon Fund of the Forest Carbon Partnership Facility TF (OB5091)

[PP] This Agreement will become effective through execution by both Parties (International Bank for Reconstruction and Development, as Trustee of Tranche A of the Carbon Fund of the Forest Carbon Partnership Facility and the Republic of Guatemala represented by the Ministry of Public Finance) as of September 2021. Unless terminated earlier in accordance with the General Conditions or Section 3.03, this Agreement shall terminate upon transfer of all the Contract ERs and Additional ERs, if any, the payment of Periodic Payments in respect thereof, and the repayment of any yet unrecovered and outstanding Advance Payment amounts, if applicable, by no later than December 31, 2025.

[QQ] Work toward development of the ERPA began in April 2018 with resources from the Forest Carbon Partnership Facility (FCPF) in the amount of USD 0.65 million to design, prepare, and appraise the Government's ERPA.

Annex 3. Selected Indicators of Bank Portfolio Performance and Management

Guatemala IBRD Lending program FY17-20 Planned Vs Actual, US$ million

CPF Lending Program (IBRD in US$ million)		Status at CLR
FY17 Plan		**FY17 Actual**
First Improvement Governance of Public Resources and Nutrition DPF (P160667)	US$250	Delivered
Transparency and Efficiency in Fiscal Management Project (P153366)[RR]	US$55	Delivered
Urban Infrastructure and Violence Prevention (P143495)[SS]	US$45	Delivered
Crecer Sano IPF (P159213)	US$100	Delivered
Total Planned FY17	**US$450**	
FY19 Plan		**FY19 Actual**
Guatemala 2nd DRM Development Policy Loan with CAT DDO II (P159710)	US$200	Delivered
Total Planned FY19	**US$200**	**US$200**
Total Planned FY17-FY20	**US$650**	**TOTAL Delivered = US$650**

[RR] Cancelled in FY20; not approved by Congress
[SS] Cancelled in FY20; not approved by Congress

IBRD Guatemala Country Portfolio

As of December 31, 2022

Project ID	Project Name	Approval FY	Closing Date Day/M/Year	Net Comm. Amt.- Total ($M)	Undisbursed balance ($M)
P159213	Crecer Sano	FY17	31-Jan-2024	100.0	84.2
P159710	Guatemala 2nd DRM Development Policy Loan with CAT DDO II	FY17	31-Mar-2023	200.0	0.0
P173480	Responding to COVID-19: Modern and Resilient Agri-food Value Chains	FY21	15-Dec-2026	150.00	150.0
P167132	Guatemala Emissions Reduction Program*	FY22	31-Dec-2025	52.50	52.5
P175979	Second Crisis Response and Recovery in Guatemala Development Policy Loan*	FY23	31-Jan-2024	200.0	200.0

* Projects beyond the scope of the CPF FY16-19

Guatemala ASA Program FY17-20

Task ID	Task Name	ACS FY	Status
P153572	GT MX-GT Pipeline Tech Support	2017	Completed
P164552	Reducing School Dropout in Central America	2019	Completed
P153737	Wealth Accounting and the Valuation of Ecosystem Services (WAVES) Partnership in Guatemala	2019	Completed
P161237	Development of FIP Investment Plan in Guatemala	2018	Completed
P153451	Guatemala #P5 Developing diversified and responsible financing for MSMEs	2021	Completed
P163483	GT-Strengthening Government HR Management Capacity and Systems	2022	Completed
P163524	Leveraging Social Protection Systems for Improved Nutrition	2019	Completed
P172923	Guatemala - Strengthening safety net delivery systems	2021	Completed
P174508	Guatemala - Impact Evaluation of Parenting Program Response during COVID-19	2022	Completed
P167980	Guatemala-Volcan de Fuego Resilient Recovery	2019	Completed
P164210	WASH Poverty Diagnostic Guatemala	2017	Completed

Annex 4. Operations Portfolio (IBRD/IDA and Grants)

Table 1: Supervision (US$ million)

ID	Project Name	Appr. FY	Closing Date	Net Comm. Amt. - Total ($M)	Undisb. Bal. ($M)
P159213	Crecer Sano: Guatemala Nutrition and Health Project	2017	31-Jan-2024	100.00	81.27
P159710	Guatemala DRM Development Policy Loan with CAT DDO II	2019	31-Mar-2023	200.00	0.00
P167132	Guatemala Emissions Reduction Program	2022	31-Dec-2025	52.50	52.50
P173480	Responding to COVID-19: Modern and Resilient Agri-food Value Chains	2021	15-Dec-2026	150.00	150.00
P175979	Second Crisis Response and Recovery in Guatemala Development Policy Loan	2023	31-Jan-2024	250.00	250.00

Table 2: Indicative Advisory Services Analytics FY23-27

Project ID	Name of Advisory Services and Analytics	FY	ACS - Original/ Revised Date	Relevant CPF HLO
	CORE ASAs			
	Economic Update	Yearly		HLO 3
	Macro and Poverty Monitoring	Yearly		HLO 3
	Public Expenditure Review	FY24		HLO 3
	Fiduciary Assessment	FY24		HLO 3
	IFC-WB Country Private Sector Diagnostic	FY24		HLO 3
	Country Climate and Development Report	FY25		HLO 2
	Poverty Assessment	FY25		HLO 1
	Country Economic Memorandum	FY25		HLO 3
	Infrastructure Assessment - InfraSAP	FY24		HLO 3
	NON CORE ASAs			
P178870	Effective domestic revenue mobilization for inclusive growth	FY27	31-Jan-2027	HLO 3
	REGIONAL			
P177440	Central America: Harnessing Opportunities from Mixed-Migration (O)	FY23	30-Dec-2022	HLO 1
P174568	Strengthening Disaster Risk Preparedness and Response Capacities for a Resilient Recovery in Central America (O)	FY23	30-Nov-2022	HLO 2
P178221	NCA Migration: Creating Opportunities at home and promoting mutually beneficial pathways (O)	FY23	23-Dec-2022	HLO 3
P175733	Central America: GovTech Gap Analysis and Solutions (O)	FY24	31-Jan-2024	HLO 3
P171021	Trade Facilitation Agreement in Central America (O)	FY23	15-May-23	HLO 3
P168212	Improving the Availability and Quality of Individual-Level Data on Women and Youth in Living Standards Measurement Study Surveys through Methodological Research and Capacity Building O)	FY22		HLO 1

Annex 5. Statement of IFC's Held and Disbursement Portfolio

IFC's Committed & Outstanding Investment Portfolio/Program - December 2022 (values in US$ millions)									
Industry	**Institution**	**Project ID**	**Loan**	**Equity**	**Quasi Loan/ Equity**	**Guarantees & Risk Management**	**Total outstanding (IFC's OA)**	**Core Mobilization**	**Total Program (Com + Mobilization)**
FIG	**Banco Industrial**	46,242	100.0	0.0	0.0	0.0	100.0	0.0	100.0
	Banco GyT	43,670	0.0	0.0	80.0	0.0	80.0	0.0	80.0
	Genesis	45,622	19.7	0.0	0.0	0.0	19.7	0.0	19.7
	Banco Agromercantil	42,398	125.0	0.0	0.0	0.0	125.0	0.0	125.0
FIG Trade Finance	**Banco Industrial**	27,836	62.8	0.0	0.0	0.0	62.8	0.0	62.8
	Banco Internacional	31,600	30.0	0.0	0.0	0.0	30.0	0.0	30.0
	Banco GyT	27,834	45.0	0.0	0.0	0.0	20.0	0.0	20.0
	Banco Agromercantil	43,640	15.0	0.0	0.0	0.0	15.0	0.0	15.0
TOTAL FIG			**397.5**		**80.0**		**452.5**		**452.5**
INFRA	**APMT Quetzal ex TCQ**	32,763	35.0	7.69	0.0	0.0	19.69	0.0	19.69
TOTAL INFRA			35.0	7.69			19.69		19.69
TOTAL PORTFOLIO			**432.5**	**7.69**	**80**	**0**	**472.2**	**0**	**472.2**

Annex 6. MIGA's Guarantee Portfolio

As of December 31, 2022

N/A: MIGA does not have ongoing operations in Guatemala.

Annex 7. IBRD Indicative Lending (US$ million)

FY	ID	Project	IBRD	TF	Relevant CPF HLOs
FY23	P179462	Guatemala Urban Resilience Project	120.00		HLO
		Total FY23	**514.25**		
FY24	P178573	Guatemala Resilient and Safe Road Infrastructure Project	150.00		HLO
	P178590	Guatemala Disaster Risk Management Development Policy Loan with a CAT DDO	215.00		HLO
		Total FY24	**365.00**		
		GRAND TOTAL	**485.00**		

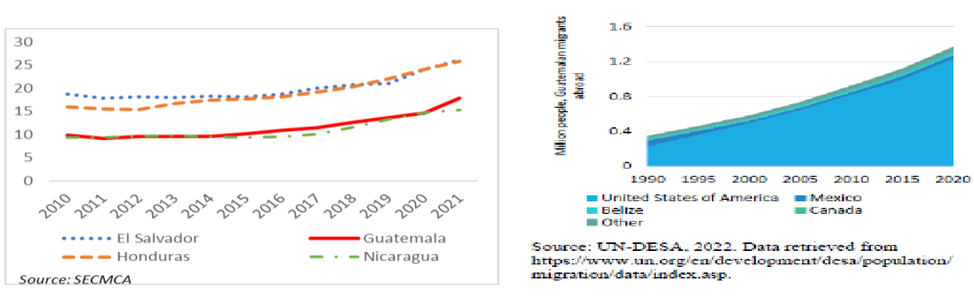
Annex 8. Remittances and their impact on the Guatemalan economy

Emigration, primarily to the United States, has long helped to ease demographic pressure on the domestic labor market, and remittances are an increasingly vital component in fueling consumption and investment. In 2021, migrants sent back remittances equal to 17.7 percent of the country's GDP, and since the early 1990s remittances have represented the largest financial flows to Guatemala. In recent years, migration flows from Central America have continued to increase (CRS 2021; Pew Research Center 2017), and the number of Guatemalans residing abroad rose by 20 percent between 2015 and 2020 to a peak of 1.36 million. Migration has been linked to low living standards and food insecurity, a lack of economic opportunities, extreme weather events such as droughts and hurricanes, and violence (Aguilera et al. forthcoming; Soto et al. 2021).

Given that migrating is costly, in Guatemala, as in most countries around the world, migrants do not come from the poorest households but rather from the middle of the distribution. In other words, migrants from Guatemala (and Central America) are positively selected; disproportionally drawn from the middle and upper half of the wage distribution. Thus, it is not the poorest households who benefit directly from remittances. However, remittances are a critical income source for those who receive them, and they likely indirectly benefit the poor through their multiplier effect. That is why, overall remittances reduce poverty, albeit the magnitude of the effect is modest (Arayavechkit et al. 2022). Rising remittance inflows have helped insulate domestic demand from economic shocks, including the effects of the COVID-19 pandemic. However, uncertainty around US immigration policy poses an exogenous risk to emigration and remittances.[46]

The resulting uncertainty around migrant outflows further underscores the need to improve the employment prospects and economic opportunity of young people and workers from vulnerable households. Unfortunately, this social and economic dependence on migration and remittances (driven by both push and pull factors) also may be contributing to inertia or implicit disincentives for the government from promoting actions to diversify the economy and stimulate other forms of investment, creating a self-fulfilling circle further incentivizing migration. Nevertheless, World Bank recent analytical work indicates that opportunities remain to promote mutually beneficial (temporary) labor migration through strengthening of institutional capacity, including the broader labor ecosystem (e.g., employment services, training providers), with positive spillover effects for Guatemala. [47] One potential medium to long-term solution to curb the migratory flow could be offered by pushing for a robust institutional framework and strategic infrastructure investments to capitalize on nearshoring opportunities and attract FDI to generate local jobs.

Figure A8-1. Remittances are of increased importance (inflows as % of GDP) and the number of Guatemalan emigrants continued to steadily rise since



[46] The current US administration has focused on addressing root causes of migration in Central America, with Vice President Kamala Harris charged with leading an administration-wide effort to address conditions in El Salvador, Guatemala, and Honduras.

[47] North Central America Migration: Creating opportunities at home and promoting mutually beneficial pathways ASA (P178221)

Annex 9. Why is growth not translated into poverty reduction in Guatemala?

Historically, robust economic growth in Guatemala has not translated into a significant decline in the proportion of the population living beneath the poverty line. According to the country's *latest official poverty estimate* in 2014, poverty increased from 48.6 percent in 2006 to 55.4 percent in 2014 (poverty line of US$ 6.85 per person per day), despite an average yearly GDP real growth of 3.7 percent during that period. One of the main explanations was that the labor markets played a very limited role in reducing poverty in Guatemala, as opposed to what occurred in the rest of Latin America (2015 SCD). While the number of jobs has increased, the quality of jobs did not, and real earnings declined throughout the period. In addition, the coverage of social protection programs remained below 5 percent during this time.

While data limitations complicate the analysis of poverty dynamics in Guatemala during the 2015 to 2021 period, simulations indicate that growth continues to have a limited effect on poverty reduction. Estimates based on microsimulations suggest that before the onset of the pandemic in 2019, 54.0 percent of the population in 2019 was below the poverty line, slightly down from the 55.4 percent in 2014. These estimates are consistent with the 2018 census, which showed a moderate decline in the nonmonetary poverty rate from 26.9 percent in 2014 to 24.4 percent in 2018 (de la Fuente & Gomez, forthcoming). The significant increase in remittances observed between 2014-19 is expected to have contributed to poverty reduction, given that migration and remittance inflows were found to have a poverty reducing effect between 2000-14 (Arayavechkit, Scott, & Sousa, 2022). However, in line with what happened between 2006-14, progress in poverty reduction during 2014-19 was slowed by a decline in labor income across all education levels, and earnings fell by an estimated 10 percent among workers with incomplete primary education or no formal education (most likely to be poor).

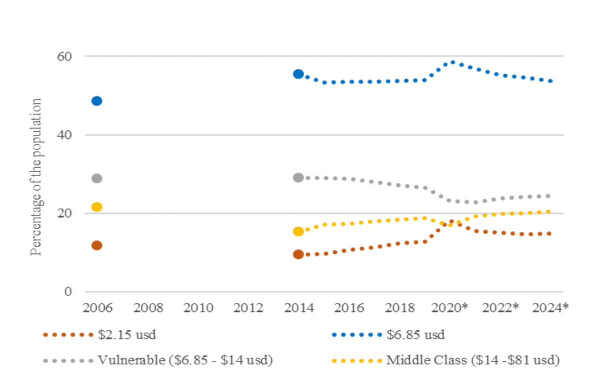
Table A9-1. Main poverty indicators over time

	2015 SCD				SCD Update				
	2000	2006	2015(a)	2000-2015(b)	2019	2020	2021	Pre-COVID 2016-2019(b)	Post-COVID 2020-2021(c)
Poverty and Equity Indicators (in 2017 constant PPP prices and % of the population unless otherwise indicated(d))									
Poverty rate, $6.85/day	50.0	48.6	55.4	51.3	54.0	58.8	56.8	53.7	57.8
Vulnerable rate, $6.85-$14/day	29.4	28.7	29.0	29.03	26.41	23.13	22.81	27.5	23.0
Middle class ratio $14-$81/day	19.3	21.50	15.20	18.7	18.84	17.03	19.13	18.2	18.1
Gini index (0-1 scale)	0.542	0.546	0.483	0.524	0.541	0.586	0.579	0.523	0.583

Sources: LAC Equity Lab for Poverty and Equity Data; World Development Indicators (WDI), Central Bank (Banguat) and Ministry of Finance (Minfin) for Macroeconomics and Fiscal.
Notes: (a) 2014 number for poverty. (b) GDP per capita in average annual growth for the period and for inflation changes represent the annualized average inflation for the period. (c) Poverty and equity estimates for 2019-21 are based on micro-simulations that use the 2014 ENCOVI survey and the ENEI surveys 2015-2019. (b), (c) and (d) are Annual Averages. (d) Last official information is for 2014.

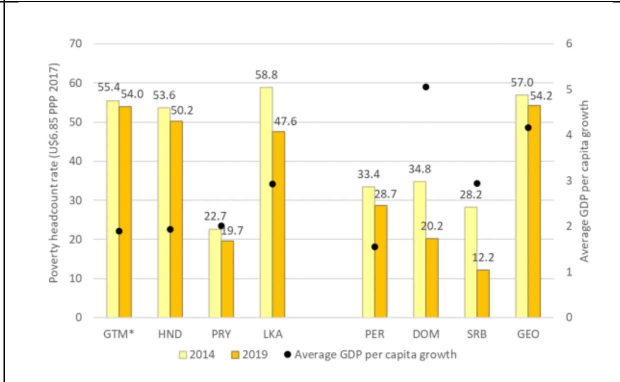
Figure A9-1. Poverty Reduction and Shared Prosperity Trends in Guatemala

A. Poverty rates, 2006 – 2024(P)



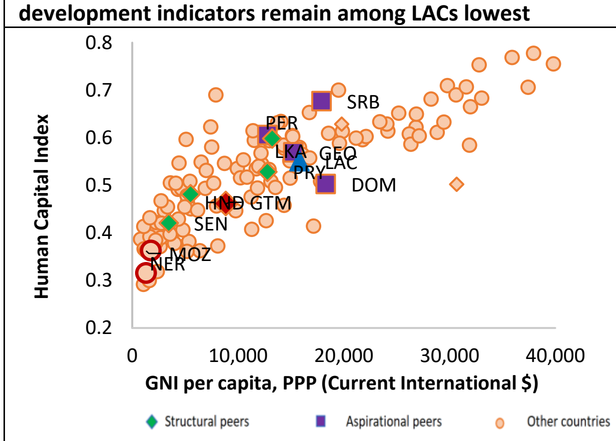
Source: World Bank using 2006-ENCOVI and 2014-ENCOVI. 2014. *Note:* Actual data 2006 and 2014. Estimations based on microsimulations: 2015-2021 using sector specific GDP growth rates, and remittances data, and 2021-2024 using World Bank forecasts.

B. In 2019, Guatemala's poverty rate exceeded that of almost all SCD Update comparator countries



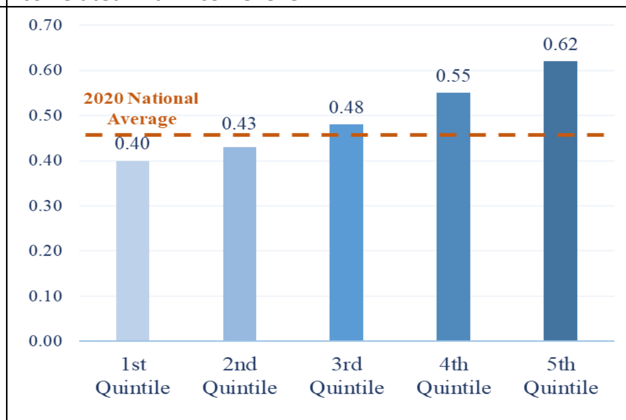
Source: WDI, MPO projections. (*) Rate for Guatemala projected for 2019, based on microsimulations.

C. Guatemala's per-capita income and human development indicators remain among LACs lowest



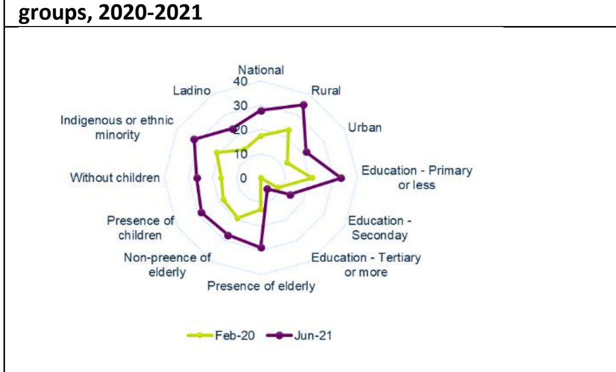
Source: Valeria, Azcunaga and Almeida (2021).
Note: Structural peers Honduras, Paraguay, Sri Lanka, and Senegal; and aspirational peers Peru, Dominican Republic, Serbia, Georgia. Other countries denote the rest of the world. NER = Niger, and MOZ = Mozambique.

D. Guatemala's human development outcomes are closely correlated with income level



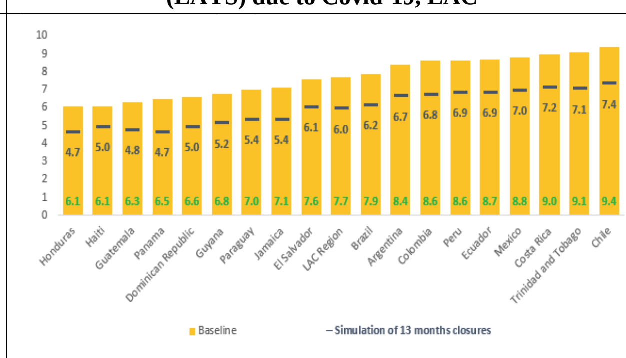
Source: Valeria, Azcunaga and Almeida (2021). Poverty quantiles based on data from INE, 2014.

E. Incidence of food insecurity, by sociodemographic groups, 2020-2021



Source: LAC HFPS, 2020, 2021.
Note: food insecurity is defined as not having food at least once during the last month due to lack of money or other resources.

F. Simulated loss in Learning-adjusted years of schooling (LAYS) due to Covid-19, LAC



Source: World Bank 2021c.

Finally, it is noteworthy that Guatemala's persistent development challenges and pervasive poverty go back in time, arguably to colonial times. Remarkably, a 1950 World Bank report on Guatemala highlighted many features that are largely still relevant today: [48]

- **Untapped potential**, given the country's natural advantages.
- **Low labor productivity**, especially in the agricultural sector;
- **Low private investment**, as a result of an unfavorable investment climate and the under-provision of public goods, not only due to a lack of resources;
- **Lack of adequate transport infrastructure** constituting probably the greatest single barrier to economic development (according to the report);
- **Lack of coordination of public policies**, with duplication and competition among agencies that existed in the absence of any mechanism for deciding among them;
- **Insufficient and inequitable social spending**, concentrated in Guatemala City (the report called attention to the large ethnic disparities in terms of health, education, nutrition, and income);
- **Financial needs and new revenues** to finance critical investment. Deficiencies in tax administration, small tax base, and low rates were identified as the main areas that needed reform; and
- **Ethnic inequalities,** especially among the Indigenous people. To achieve long-term development, the report argued, the productivity of the Indigenous peoples needs to be increased so as to provide them with purchasing power over and above their subsistence needs. This requires measures aimed at improving their education, health, and nutrition.

[48] The text here is a paraphrase, based on a summary of the 1950 findings printed in World Bank (1951).

Annex 10. Revenue mobilization challenges in Guatemala

Guatemala has steadily increased the tax revenue to GDP ratio from 6.9 to 11.7 percent between 1990 and 2021, with a peak of 12 percent in 2007. Tax revenues, however, hovered at around 10.7 percent per year before the COVID-19 crisis (from 2016-2019), a level that has significantly constrained social and infrastructure development. According to recent calculations, achieving the Sustainable Development Goals in health, education and infrastructure is estimated to require additional spending of 8.5 percent of GDP by 2030. Even though the economy had a rebound in late 2020 and during 2021, tax revenue collection as a share of GDP only reached 11.7 percent, still significantly below the LAC average of 16.9 percent, higher only than Paraguay's 10.1 percent. It is one of the key factors affecting the country's credit rating negatively despite Guatemala's traditionally prudent macroeconomic stance.

Revenue collection in 2021 was quite dynamic, suggesting tax administration efforts are paying off. During 2021, tax revenues increased 29 percent, driven by a 39 percent increase in income tax revenues and 29 percent increase in VAT revenues, mainly explained by a 44 percent increase in VAT collected by customs. As a result, total revenues and grants in 2021 were 0.9 percentage points of GDP higher than in the DPL PD document of December 2020 (i.e., 11.7 percent instead of 10.8 percent of GDP). For 2022, revenues are projected to remain constant as a percent of GDP, since one-off revenues accounting for 0.3 percent of GDP would be compensated by improved tax administration and commodity prices remain elevated, increasing VAT on imports collection. Debt is expected to stabilize in 2022 as fiscal deficits widen due to the introduction of fuel subsidies to mitigate the impact of Russia's invasion of Ukraine on the poor but then decline thereafter as the government undertakes a fiscal consolidation strategy.

The first factor explaining low revenue collection levels is the very low compliance rates. Compliance levels for most taxes are low. For instance, compliance with the VAT and the CIT has been estimated to be only 75.39 (2020) and 20 percent (2019) respectively – with compliance for VAT on fuels even lower than 74 percent. Guatemala, with support from multilaterals (IMF, IDB and WBG), has been steadily investing in the professionalization of key institutions, particularly the Tax Policy Directorate in MINFIN and the *Superintendencia de Administración Tributaria* (Tax Administration Superintendency, SAT). Corruption scandals in SAT in 2015 triggered reforms, such as the enactment of a new SAT Law in 2016 that granted certain degree of independence to the institution (though still under MINFIN's umbrella) and a governance framework that included a Board of Directors chaired by the Minister of Finance (MoF) with the participation of two independent directors appointed by the President from a short list of competitively selected candidates. Reforms also included the establishment of an internal affairs/investigation unit in SAT and a strategy and operational set of tools, including a compliance framework. Since then, SAT's institutional structure and governance framework have been improving. The 2019 and 2020 Operational Plans for SAT (*Plan Operativo Anual*, POA) and the associated Compliance Agreement between SAT and MoF, have been crucial to accelerate reforms in the following areas: (i) improvement in data registry and the expansion of the electronic invoice system, which had a slow start in 2018 but was accelerated in 2019 forward; (ii) an overhaul in data governance and the creation of a Data Governance Unit to introduce the ability to cross-check the SAT's four most important databases in real time and based on up-to-date information rather than via inter-department memos and Excel files (the first full automatic data exchange for two of the four data bases started in November 2020); and (iii) improvements in customs controls, with a special focus on the transit of cargo within the country (including via the introduction of an electronic seal system), containers, warehouses and ports. This is part of a broader program to control all cargo designed and implemented with IMF support (*El Plan Integral de Control de Carga* – PICCA). Enhancing the SAT's ability to implement its steady modernization is key to sustaining these efforts. The SAT has revamped planning and monitoring and evaluation frameworks with support from the IMF, IDB, the US Treasury Department, Millennium Challenge Corporation, and others, and through efforts that Guatemala has continued to build since early 2020 – including allocating US$ 40 million for investments and equipment for border and inland controls that will be procured and financially managed by the UNDP.

The second factor explaining low revenue collection levels is the country's low and decreasing statutory tax burden. Guatemala's tax policy system has been designed not just to ensure a low tax burden, but also to steadily reduce the tax burden over time through numerous sunset provisions for specific taxes and excise rates that are set in nominal terms without automatic adjustments for inflation (e.g., fuel). For example, the PIT has two brackets, 5 and 7 percent of taxable income, that are the lowest in the LAC region. Also, at 9 percent, the ad valorem excise on beverages is only half of the excise in Honduras, while excises on fuels have been set at a fixed amount in local currency per gallon that has not been adjusted for inflation since 2003. In addition to contributing to low revenue levels, low rates for excises on goods like fuel, tobacco, and alcoholic beverages also bring about negative health and environmental consequences.

In addition, tax policy reforms have frequently been declared unconstitutional by the Constitutional Court. Between 1994 and 2012, the Constitutional Court issued many rulings declaring key tax measures unconstitutional, weakening or fully neutralizing not just reform efforts but also compliance levels. Between 2006 and 2008 various tax policy reforms were enacted. Revenue collection increased steadily (as a percent of GDP) due to these reforms, but only until the 2008/9 Global Financial crisis impacted the country. From 2009 to 2010, tax policy changes were enacted to offset the negative impact on revenue of expired tax provisions (e.g., an alternative tax system introduced for the Corporate Income Tax - called Impuesto de Solidaridad, ISO, which is still in place today). These reforms achieved their objective of increasing revenue through 2013, but from a level that had been much reduced by the 2008/9 crisis. Further, during 2013-14 the government set policies to gradually improve revenue performance by about 1.5 percentage points of GDP, including a reduction in tax exemptions, improved design of the VAT, and improvements in the motor vehicle registration tax. However, once again, part of the reform was declared unconstitutional by the Constitutional Court. As a result of these rulings and the resulting weakened compliance, revenue collections fell slightly during this period despite economic growth above 4 percent per year through 2014.

Maintaining tax revenue levels is one of the government's key priorities. It needs to sustain part of the social and infrastructure spending the economy and households will continue to need to ensure a brisk recovery from the COVID-19 crisis and to enhance long-term growth. In the immediate- and short-term, the priority is to strengthen SAT's core operations through measures that are expected to increase revenue collection starting in 2021. Key measures supported by Prior Action 10 in DPL1 (P173698; Board on Dec 2020) include:

- *Broadening the reach of the electronic invoice system, which will provide the foundations of cross-checks for key taxpayers*. The adoption of the electronic invoice system started back in 2018, but its implementation accelerated in 2019 when the large national and regional taxpayers were incorporated. By now, about 150,000 taxpayers are using the system fully, accounting for about 70 percent of total revenues. Between 2019 and 2020, all suppliers to the state irrespective of size were incorporated. SAT is also accelerating its e-invoice calendar to ensure that all medium and large enterprises will be using the system by end-2022, including all professional services. In November 2020, the SAT's information technology unit started aggregating and cross-checking information on purchases and sales of large enterprises to validate their VAT returns, which is expected to increase the risk-perception of evasion. Compliance with VAT and excise taxes on fuel will be part of these efforts, which should moderate demand and, thus, reduce climate impacts.
- *Launching the use of electronic seals to track and trace imported cargo in transit.* In 2013, Congress approved the introduction of an electronic seal system to monitor the cargo movement between arrival units (ports, airport and land borders) to inland warehouses. Tracking the movement of imported cargo within the country mitigates the risk of smuggling and tax evasion of domestically consumed imports (the system does not apply to cargo in transit towards other central American countries). In 2019, the process of designing the system culminated in SAT certifying the first private provider, which started in mid-2020 to offer electronic seals services to shippers and importers. Additional service providers are in the process of being certified to ensure that shippers have choices. The initiative is part of a broader agenda to secure the supply chains. It was modeled after best practice countries in LAC, such as Uruguay.

DPL 2 (P175979, Board approval on October 20, 2022) continued to support measures to improve tax administration and increase revenues , including the prior action below:

- *The Borrower has taken measures to improve tax compliance by (i) expanding the mandatory use of electronic invoicing (e.g., to include government suppliers of single source processes and leasing, providers of goods and services related to health, social assistance, accounting, finance, tax, and taxpayers registered in the VAT General Regime); (ii) introducing a risk-based system for audits; as well as a cross-checking information system between SAT and the CGC for exchanging non-confidential information; and (iii) adopting norms that enable authorities to restrict firms with pending tax obligations from securing government procurement contracts.* The Prior Action supports measures to (i) broaden the mandatory use of the electronic invoice system, which will provide the foundations of cross-checks for taxpayers; (ii) introduce protocols for the cross-checked information, for example, data on the purchases of high-value goods will also be used systematically to assess taxpayer compliance; and (iii) apply restrictions to government suppliers with pending tax obligations.

Annex 11. WBG Engagement on Taxes, Evolution of Revenue Mobilization

Eight Development Policy Loans (DPLs) were approved between FY06 and FY23 for a total of US$ 1.6 billion, and all addressed the twin structural challenges of low domestic revenue mobilization and social spending, including actions on malnutrition. (See Figure A11-1 below):

The FY2006-08 series of three DPLs supported a tax policy reform (e.g., changes to the income tax, and introduction of excises on fuel and alcoholic beverages) and tax administration measures. It is noteworthy that tax policy reforms aimed exclusively at compensating for the revenue losses from four different Constitutional Court rulings. DPF1 and DPF2 moved the revenue needle at least until the 2008/9 Global Financial Crisis.

The FY2009-10 series comprising two DPLs supported tax policy changes aimed at offsetting the negative impact on revenue of expired tax provisions (e.g., an alternative tax system was introduced for the Corporate Income Tax – known as "ISO", which is still in place today). These two DPFs also achieved their objective of increasing revenue, but from a level that had been much reduced by the 2008/9 Global Financial Crisis – a trend that was sustained through 2013.

The FY2013-14 series comprising two DPLs aimed at a gradual recovery in revenue performance and supported strong policy reforms including a reduction in tax exemptions, improved design of the VAT and a new motor vehicle registration tax. However, part of the reform was declared unconstitutional by the Constitutional Court, and due to the resulting weakened compliance revenue collections fell slightly during this period despite economic growth above 4 percent per year through 2014.

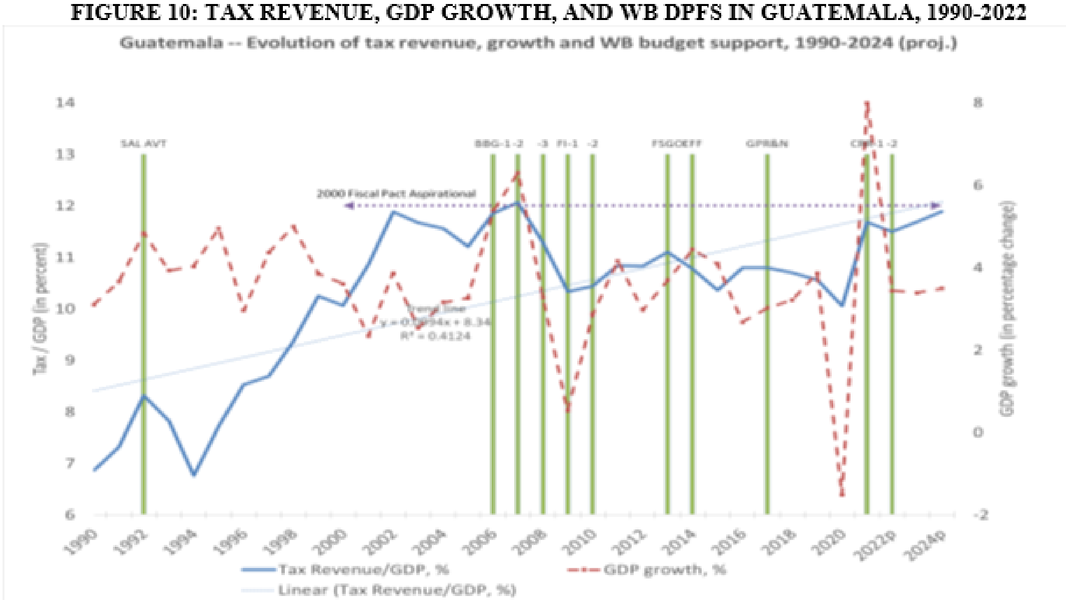
The FY2016 DPL focused on Tax Administration (e.g., the establishment of an internal affairs/investigation unit) and saw a period of stability in tax revenue until COVID-19 hit. One of the supported actions was the approval of regulations to allow SAT to access taxpayers' bank accounts as a control measure. Although the measure was partially suspended by an appeal, it took effect again two years later after a final ruling of the Constitutional Court. The second DPF in the series was never prepared as elections were moved forward and preparing an operation amid an electoral process was deemed not viable by the authorities and the WB.

A 2019 Project Performance Assessment Report (PPAR) of the FY2013-14 DPFs (report No. 141817) downgraded the previous ICRR rating of these operations from *Moderately Satisfactory* to *Moderately Unsatisfactory* and increased the risk rating to development outcomes from *Substantial* to *High*. It also downgraded the assessment of the World Bank's and Borrower's performance to *Moderately Unsatisfactory*. The PPAR suggests that achievement of the objectives was modest, because "Targeted increases in government revenues did not materialize; rather, by the end of 2018, the ratio of revenue to gross domestic product was a full percentage point lower than at the inception of the program in 2012." The report suggests that "The reasons for the limited achievement of the tax administration and tax policy objectives lie in the complex and deep-seated forces that prevent government revenues from increasing on a sustainable basis."

Additional revenue mobilization efforts have been supported by Crisis and Response Recovery DPL series and will be further supported by technical assistance. The first Crisis Response and Recovery DPL1 (P173698), fully disbursed in 2022, supported the expansion of mandatory use of electronic invoicing and the launch of the Electronic Tracking System for cargo. The Second Crisis Response and Recovery DPL (P175979), to be approved by Congress and fully disbursed by end of this FY, has supported the GoG's effort to expand the mandatory use of electronic invoicing further, introduce a fully-fledged risk-based system for audits, and issue policies to empower tax administration to ban firms with pending tax obligations from securing government contracts. Since the GoG has launched several reforms to enhance revenue mobilization and requires technical assistance for their implementation, the CPF, through the TA package, will contribute to the sustainability of the reforms and support GoG in increasing domestic revenue mobilization by addressing some of the main weaknesses identified in its tax administration system, including tax avoidance, taxpayer services, and institutional tax governance

Tax policy reforms are needed to increase tax revenues, but they require political consensus, which are currently not present. Conscious that the low level of tax revenues is the government's Achilles heel in the aftermath of the COVID-19 recovery program, the MINFIN and the SAT are preparing modifications to certain taxes that would improve the progressivity of the tax system (e.g., introducing a new rate for high-wealth individuals) and address negative externalities on health and the environment (e.g., adjusting excises on alcoholic beverages and fuels). To transitorily prevent the negative impacts of any tax adjustment on investment, employment and vulnerable groups, the government is also preparing a program to offer tax credit or one-off subsidies to those who fulfill the required criteria. Tax Policy Measures will however move forward only when the political and social conditions permit.

FIGURE 10: TAX REVENUE, GDP GROWTH, AND WB DPFS IN GUATEMALA, 1990-2022



BBG: Broad Based Growth DPFs 1 to 3; **FI**: Fiscal and Institutional DPF 1 & 2; **FSGO**: Fiscal Space for Greater Opportunity DPF; **EFF**: Enhanced Fiscal and Financial Management DPF; **GPR&N**: Governance of Public Resources and Nutrition DPF; and **CRR**: proposed Crisis Response and Recovery DPF 1 & 2.