



## 1. Operation Information

<b>Operation ID</b> P159710	<b>Operation Name</b> Guatemala DRM DPL with CAT DDO II
<b>Country</b> Guatemala	<b>Practice Area (Lead)</b> Urban, Resilience and Land

### Non-Programmatic DPF

<b>L/C/TF Number(s)</b> IBRD-89620	<b>Closing Date (Original)</b> 31-Mar-2023	<b>Total Financing (USD)</b> 200,000,000.00
<b>Bank Approval Date</b> 24-May-2019	<b>Closing Date (Actual)</b> 31-Mar-2023	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	200,000,000.00	0.00
Revised Commitment	200,000,000.00	0.00
Actual	200,000,000.00	0.00

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## 2. Program Objectives and Pillars/Policy Areas

### a. Objectives

The Program Development Objective (PDO) of this Development Policy Loan (DPL) as stated in the Program Document (PA, page 4) is:



**" To help strengthen Guatemala's legal, institutional and financial framework to manage the impact of adverse natural events and climate risk "**

For the purpose of this Implementation Completion and Results Report Review (ICRR), the PDOs are taken to be:

PDO 1. To help strengthen Guatemala's legal and institutional framework to manage the impact of adverse natural events and climate risk.

PDO 2. To help strengthen Guatemala's financial framework to manage the impact of adverse natural events and climate risk.

**b. Pillars/Policy Areas**

The PDO was to be achieved through reforms in two pillars/policy areas (PD, page 4):

Pillar A: Strengthening the legal and institutional framework for Disaster Risk Management (DRM) and Climate Change Adaptation (CCA).

Pillar B: Incorporating disaster risk into the management of public finances for fiscal resilience.

**c. Comments on Program Cost, Financing and Dates**

**Financing.** This DPO, with a Catastrophe Deferred Drawdown Option (CAT DDO)) was financed by an IBRD loan of US\$200.00 million. The loan was fully disbursed.

**Dates.** This operation was approved on May 24, 2019 and became effective a year later April 16, 2020 (The team clarified that the delay in effectiveness were due to factors such as the complex political environment with substantial political and governance risks, weak institutional capacity and difficulties in reaching agreements between the executive and legislative branches of government. The operation closed as scheduled on March 31, 2023.

**Drawdown of Cat DDO instrument.**

On 21 April 2020 (just five days after the project became effective), the Government decided to withdraw the entire loan to address the financial shock related to the evolving COVID -19 pandemic. Although at the time of requesting the withdrawal, government liquidity needs relating to the pandemic were yet unknown, the Bank considered this request as justified given the preliminary estimates. When this operation closed on March 31, 2021, the confirmed cases of COVID - 19 and deaths reported for Guatemala were 1,244,812 and 20,187 respectively.

**3. Relevance of Design**

**a. Relevance of Objectives**



**Country context.** Severe natural hazard events such as earthquakes, volcanic eruptions and flooding present major obstacles to economic growth in Guatemala. According to the Global Climate Risk Index (2018), Guatemala ranked 11th in the world among countries affected by climate-related events. Recent major natural disasters included eruption of the Pacaya volcano and the tropical storm Agatha (2010) which raised the fiscal deficit by 0.5 percentage points of GDP. In the wake of these disasters, the Government had to interrupt its ongoing delivery of public services and development programs to finance immediate recovery needs.

**Sector context.** The existing DRM Act of 1996 limited the scope for disaster risk reduction (DRR) measures. While the law prohibited investments in disaster-risk prone areas, it did not specify that DRR investments could be made, thereby precluding investments in areas deemed to be "high risk". The law had no provisions for declaring health emergencies and lacked a disaster recovery framework. National and subnational institutions neither had access to risk information nor institutional capacities for designing DRR measures and Guatemala was the only Central American country which had not updated its DRM framework since 1998. The existing environmental management institutions did not address incorporate disaster risk management in their work, missing opportunities for applying nature-based solutions to disaster risk reduction. Likewise, the Government did not have a comprehensive financial strategy for addressing DRM measures. Given that disaster recovery needs interrupt service delivery and development programs, it was important for the Government to access immediate liquidity for addressing natural disasters that could not be funded with internal reserves.

**Government strategy.** Guatemala's National Development Plan (K'atun) identified important synergies between DRM and CCA. Following Guatemala's accession to the Paris Agreement on Climate Change in April 2016, the Government established a National Action Plan on Climate Change for adopting practices to improve adaptation capacities and established the Ministry of Environment and Natural Resources (MARN) as the authority to pursue the Government's agenda in this area.

**World Bank (WB) strategy.** The Systematic Country Diagnostic (SCD, 2016), identified the country's vulnerability to natural hazards as a key challenge to Guatemala's efforts to accelerate economic growth. The SCD identified high exposure to natural hazards as a challenge, since disasters can divert resources meant for social and infrastructure spending toward disaster response. At appraisal, the PDO was fully aligned with the Country Partnership Framework (CPF) for 2017-2020. The CPF recognized DRM and climate change as key priorities. The "*Fostering Inclusion and Resilience*" pillar of the CPF identified vulnerability to natural hazards as a key development constraint for Guatemala and advocated the need for building capacity to respond to disasters and climate change as a core CPF objective.

The PDO is highly relevant to the WB's current CPF for 2024 - 2027. The CPF reiterated the need for increasing resilience to natural disasters and climate change. The CPF's second higher level objective specifically articulated the need for "*improving capacity for the management of natural risk and natural capital under a changing climate*".

**Previous Bank performance.** The Bank had previously supported the Government's DRM program through a Cat DDO operation following the 2010 eruption of the Pacaya Volcano and Tropical Storm Agatha. That operation provided the Government with liquidity. The Bank's policy dialogue relating to that Cat DDO contributed to building awareness and mainstreaming DRM/CCA considerations in Government's decision-making process.



**Appropriateness of the lending instrument.** The Bank deemed a second Cat-DDO operation as appropriate for these reasons; First, as a quick source of funding, the Cat-DDO would provide emergency financing and this would help in avoiding diversion of budget resources from other development programs following a natural disaster. Second, as a DPL instrument, the operation could help in advancing policy reforms that would in the longer term enhance structured financing for disaster prevention and post-disaster reconstruction. Third, Guatemala's macroeconomic outlook was deemed adequate for supporting a DPL operation. and four, Article IV consultation of the International Monetary Fund (IMF) that took place in 2018 commended Guatemala for maintaining a solid record of macroeconomic stability and resilience.

**Level of ambition of this operation.** As the second Bank-financed CAT DDO, the operation aimed at second generation of reforms, incorporating lessons from the El Fuego volcano eruption: (i) The operation supported the Government to complete a fiscal impact analysis of natural disasters and a Disaster Risk Financing Strategy (DRFS) initiated under the first CAT DDO; (ii) The first operation encouraged the government to develop additional financial instruments tailored to the country needs. In response, this operation supported establishment of thematic budget classifiers and incorporating an analysis of disaster and climate risks in the annual General Budget report; and (iii) This operation aimed to develop a legal DRM framework, identified by the first operation as an important step towards a comprehensive DRM. Policy dialogue of this operation was complemented with targeted technical assistance (TA) through three Analytical and Advisory Services (ASA): (i) Strengthening DRM and Resilience of Central American Municipalities; (ii) Central America Disaster Risk Financing Engagement; and (iii) The Volcan de Fuego Resilient Recovery. The overall level of ambition was appropriate, given the relevance of the PDO to the Government strategy and the current Bank strategy for Guatemala.

## b. Relevance of Prior Actions

### Rationale

**Pillar A: Strengthening the legal and institutional framework for DRM and CCA.** Reforms in this pillar supported the Government's efforts to update its legal framework and institutional structure for DRM. There were three prior actions (PAs) (PD, pages 18 - 21).

**PA # A 1.** The Government submitted to congress a bill of law to strengthen the existing legal DRM framework, establish a national system for DRM and define instruments to enhance risk knowledge and reduction, disaster preparedness and response, and resilient recovery.

The new DRM law presented to Congress in January 2019 aimed to rectify some deficiencies of the existing law. The new law focused on a proactive approach to disaster risk reduction in line with international best practices. The law established responsibilities at the national and local level to facilitate DRR (such as promoting disaster-resilient investments in educational infrastructure). The scope of this PA was confined to submitting the bill to Parliament. The prior action did not imply commitment to the law's approval as it was not within the purview of the Executive under Guatemala's Government structure.

The analytical underpinnings of this prior action were based on international good practice on DRM, as well as county-specific reports from the World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR) on Guatemala's risk profile, drivers of risk (including inadequate application of building standards and lack of risk sensitive municipal planning) and regulatory mechanisms needed for making schools safer..



This prior action of submission of bill to parliament, although not sufficient, is necessary for strengthening the legislative framework for DRM and CCA. The relevance of this prior action is **Satisfactory**.

**PA # A 2.** The Government adopted a DRM roadmap including contingency plans and information dissemination activities to strengthen risk management and resilience for volcanic hazards.

The June 2018 El Fuego volcano disaster exposed weaknesses in managing volcanic risks in Guatemala. These included, inadequate application of scientific knowledge and monitoring of volcanic activities, insufficient participation of communities exposed to volcanic risks, weak organizational and logistics preparedness and land use planning in volcanic areas. Following the 2018 eruption, the World Bank and GFDRR supported an analytical study in 2018 that identified opportunities for strengthening volcanic Resilience in Guatemala.

This prior action aimed to enhance the institutional capacities for managing volcanic risks through: (i) strengthening the capacity of the National Institute of Seismology, Meteorology and Hydrology (INSIVMEH) for disseminating hazard information related to volcano activity; and (ii) requiring the National Coordination for Disaster Risk Reduction (CONRED) to adopt an updated National Humanitarian Assistance Manual for coordinating humanitarian assistance activities.

This prior action was imperfectly aligned with the identified shortcomings from the World Bank study. Although the DRM roadmap included some relevant activities in central government, the prior action did not specifically address some identified gaps (weak participation of communities exposed to volcanic risks, weak organizational and logistics preparedness and land use planning in volcanic areas). Therefore, this prior action is rated as **Moderately Satisfactory**.

**PA # A 3.** The Government strengthened the DRM institutional framework in the environmental sector by creating the Department of Integral Environmental Risk Management within the Ministry of Environment and Natural Resources (MARN) as the entity responsible for integrating environment and DRM concerns in programs.

This prior action aimed to integrate disaster risk management into environmental protection and introduce concepts such as nature-based solutions (NBS) for sustainable ecosystem management (NBS refer to actions that protect, sustainably manage and restore natural or modified ecosystems) The analytical underpinnings of this prior action were based on international good practice, including a World Bank global study that presented examples of bank projects implementing nature-based solutions for DRM.

This prior action would likely help in enhancing coordination and synergies between DRM and environmental management and adopting nature-based solutions for sustainable ecosystem management. Therefore, this prior action is **Satisfactory**.

**Pillar B: Incorporating disaster risk into the management of public finances for fiscal resilience.** Reforms in this pillar focused on policy actions aimed at promoting fiscal resilience and budget allocation for DRM. There were three PAs (PD, 21 - 25).

**PA # B1.** The Government approved a Disaster Risk Financing Strategy (DRFS) to promote diversification of disaster-related financial instruments to respond to disasters.

Guatemala in the past used stopgap risk retention instruments to manage emergencies, such as through an emergency fund, contingency loan and budget allocation mechanisms. This prior action aimed at give an active role to the Ministry of Public Finance (MINFIN) to mandate acquiring risk transfer instruments to build fiscal



resilience. The analytical underpinnings of this prior action came from the Organization of Economic Cooperation and Development (OECD, 2017 and 2018) studies that recommended a DRFS to respond to disasters.

This prior action will likely help in enhancing the government capacity to finance disaster responses while protecting its fiscal balance. This PA was directly related to the PDO and is rated as **satisfactory**.

**PA # B2.** The Government created the position of Fiscal Transparency and Procurement Vice Minister within the Ministry of Public Finance (MIFIN) and clarified the functions of MINFIN; and approved an integrated analysis of fiscal risks to strengthen management of fiscal risks and enhance the transparency of public spending. The analytical underpinnings of this prior action were based on the International Monetary Fund (IMF) reports which showed that fiscal analyses can help policy makers simulate the effects of shocks in their forecasts and their implications for government solvency, liquidity and solvency.

While a useful intermediate step, creating a single institutional position is not itself likely to cause a significant policy change without significant subsequent actions. Therefore, this prior action is rated as **Moderately satisfactory**.

**PA # B3.** The Government aimed to enhance efficiency of public spending, planning and budget allocation processes related to DRM and CCA activities by clarifying the responsibilities of the thematic budget classifiers' governing bodies and updating the scope of instruments throughout the budget cycle. (The team clarified that a thematic budget classifier is a categorization system used by government entities to track expenditures related to specific themes or areas of focus. In this case, the thematic budgetary classifier # Nine, was introduced by the Ministry of Finance (MINFIN) to monitor public spending on disaster risk reduction activities). The analytical basis for this prior action were based on the Public Expenditure and Financial Accountability (PEFA) *Handbook*.

This prior action can help in enhancing planning, monitoring and transparency of DRM and CCA expenditures and were directly related to the PDO. The relevance of this prior action is **satisfactory**.

**The causal links between most of the prior actions under the pillars, the intended program results and the long-term outcomes were clear.** However, some indicators were upstream activities and although necessary, not sufficient for realizing the long-term outcomes. The prior actions were linked to the Government's DRM program and to the operation's PDO. There is an explicit, comprehensive and convincing results chain linking the PAs to the achievement of the PDO, grounded in credible analytical work and incorporating lessons learned from similar operations. This review concludes that the PAs makes a significant contribution to achieving the PDO. Therefore, the overall relevance of design is rated as **Satisfactory**.

## Rating

Satisfactory

## 4. Relevance of Results Indicators

### Rationale





**Pillar A: Strengthening the legal and institutional framework for DRM and CCA.** There were six results indicators (RIs) for the three prior actions under pillar A (PD, page 4).

**RI # 1.** This indicator monitored the percentage of municipalities that included DRR activities in their local development plans when the operation closed.

**RI # 2.** This indicator monitored the percentage of municipalities that updated the local DRM committees in line with the new DRM framework.

**RI # 3.** This indicator monitored the number of educational facilities that complied with the technical criteria adopted by the Ministry of Education (MINEDUC) about safe location and seismic-resistant infrastructure.

Monitoring the percentage of municipalities that updated the local DRM committees and monitoring the number of educational facilities that complied with the technical criteria adopted by the MINEDUC, provide useful evidence on the operationalization of the prior actions by local governments and the indicators could be verified. However, the indicator on the percentage of municipalities that included DRR in their plans had some weaknesses. as it did not provide a measure of intensity. It was unclear if municipalities undertook substantial DRR activities or very minor ones. Also, the targets for RI # 1 to 3 were not very ambitious, based on the dramatic overperformance (see table below) Overall, these indicators are rated as moderately satisfactory.

**RI # 4.** The National Institute of Seismology, Volcanology, Meteorology and Hydrology (INSIVUMEH) was restructured by 2020 and mandated to provide hazard information relating to volcano activity.

**RI # 5.** The Executive Secretariat of the National Coordinator for Disaster Reduction (CONRED) adopted the updated the National Humanitarian Assistance Manual in 2021 to coordinate humanitarian assistance.

At the baseline, there were no arrangements either for disseminating information relating to volcano activity or for coordinating humanitarian assistance. Restructuring INSIVUMEH to provide such information and updating the National Humanitarian Assistance Manual for coordinating humanitarian assistance were valid in indicating that the prior action are likely to be effective in achieving the PDO of strengthening the institutional framework for DRR.

One shortcoming was that the indicator tracked an institutional change that happened early in the life of the operation. Given that the operation remained active for three years after this change, the operation could have measured the delivery of contingency plans and information disseminations for volcanic hazards, rather than just mandating of this. As such, these indicators are moderately satisfactory.

**RI # 6.** This indicator monitored the number of local communities that completed and disseminated environmental risk evaluations.

Monitoring the adoption of environmental risk evaluations by municipalities provides some evidence on operationalization of the prior action. However, it is unclear if environmental risk evaluations proposed nature-based solutions for sustainable ecosystem management. Therefore, this indicator is moderately satisfactory.



**Pillar B. Incorporating disaster risk into the management of public finances for fiscal resilience.** There were seven results indicators (RIs) for the three prior actions under pillar B (PD, page 4).

**RI # 7.** This indicator monitored the number of new financial instruments that are currently being used in line with the DRFS.

Monitoring the number of new financial instruments in use directly measures the effectiveness of the prior action in contributing to the PDO of strengthening Guatemala's financial framework to manage the impacts of adverse natural and climate risks. This indicator could be verified. This indicator is satisfactory.

**RI # 8.** This indicator monitored the response time for providing emergency relief after declaration of an emergency.

Monitoring the response time in providing emergency relief after declaration of emergency only partially measures the effectiveness of the prior action, given that emergency relief may depend not only on the speed of emergency financing but also on physical disaster response capacity. Although at the base line, the response time was 14 days, the target was also set at 14 days. This indicator was not very ambitious. Therefore, this indicator is moderately unsatisfactory.

**RI # 9.** The Ministry of Public Finance (MINFIN) adopted the operational manual for implementing the DRFS.

At the baseline, there was no operational manual for implementing the DRFS. Adoption of the operational manual for implementing the DRFS by MINFIN is likely to be effective for achieving the PDO of strengthening Guatemala's financial framework to manage the impact of natural disasters. This indicator could be verified. Therefore, this indicator is satisfactory.

**RI # 10.** This indicator monitored the number of new emergency procurement tools and mechanisms that were put in place for addressing natural disasters.

At the baseline, there were no emergency procurement tools and mechanisms for dealing with adverse natural events. This indicator could be verified. Therefore, this indicator is rated as satisfactory.

**RI # 11.** This indicator monitored the number of fiscal risk budget reports elaborated by the Directorate of Fiscal transparency that considered natural hazards and climate risks.

Monitoring the number of fiscal risk budget reports which included natural and climate risks directly indicates the effectiveness of the prior action in contributing to the PDO. This indicator could be monitored. Therefore, this indicator is rated as satisfactory.

**RI # 12.** This indicator monitored the number of government institutions that were implementing thematic classifiers in DRM and CCA (in line with the new conceptual guide and implementation manual).

Monitoring the number of government institutions that were implementing thematic classifiers in DRM and CCS is a robust indicator that would indicate that the prior action is likely to be effective with the PDO of strengthening the financial framework for responding to natural disaster or climate-related shocks. This indicator could be verified. Therefore, this indicator is rated as satisfactory.





**RI # 13,** The Government established an annually funded a permanent National DRM Fund as stipulated in the DRFS.

At the baseline there was no permanent National DRM fund for implementing the DRFS. Through operationalizing such a fund, the Government signaled its intention to pursue a proactive DRFS (as opposed to treating natural disasters as adverse exogenous shocks). The indicator could be verified. Therefore, this indicator is satisfactory.

The results indicators for the most part, were generally appropriate for capturing the effectiveness of the prior actions in realizing the PDOs. Therefore, the overall relevance of results indicators is rated as satisfactory.

**Table: Results framework indicating PAs, targets, results and the status of achievement of results.**

RIs	Associated PAs	Relevance of RIs	Baseline (including units and dates)	Target (Including units and dates)	Actual Value	Actual change in target relative to targeted change	RI relevance rating
<b>PDO 1. To help strengthen Guatemala’s legal and institutional framework to manage the impact of natural events and climate risk</b>							
RI 1. % age of municipalities that included DRR activities in their development plans	PA # A1	Moderately Satisfactory	Baseline: (2019): 3.5%	Target: (2023): 29%	85%	Target exceeded	High
RI 2. % of municipalities with updated local DRM committees.	PA # A1	Moderately Satisfactory	Baseline: (2019): 0%	Target (2023): 15%	69%	Target exceeded	High
RI 3. # of constructed educational that were complied with the technical criteria adopted by the MINEDUC	PA# A1	Moderately Satisfactory	Baseline: (2019): 100	Target (2023): 220	3,497	Target exceeded	High.
RI 4. The restructured INSIVUMEH provided hazard information related to volcano activity	PA # A2	Satisfactory	Baseline: (2019): No	Target (2023): Yes	Yes	Target realized	Substantial
RI 5. The Executive	PA # A2	Moderately Satisfactory	Baseline: (2019): No	Target (2023): Yes	Yes	Target realized	



Secretariat of SE-CONRED coordinated humanitarian assistance as per the updated National Humanitarian Assistance Manual							Substantial
RI 6. # of local communities with disseminated environmental risk evaluations	PA # A3	Moderately Satisfactory	Baseline (2019): 0	Target: (2023): 25	25	Target realized	Substantial
<b>PDO 2. To help strengthen Guatemala’s financial framework to manage the impact of adverse natural events and climate risk</b>							
RI 7. # of new financial instruments established in line with DRFS	PA # B1	Satisfactory	Baseline (2019): 0	Target: (2023): 2	2	Target realized	Substantial
RI 8. The response time for providing emergency funds after the declaration of emergency	PA # B1	Moderately Unsatisfactory	Baseline (2019): 14 days	Target (2023): 14 days	14 days	Target realized	Substantial
RI # 9. MINFIN adopts the operations manual for implementing DRFS	PA # B1	Satisfactory	Baseline (2019): No	Target (2023): Yes	Yes	Target realized	Substantial
RI # 10. The number of new emergency procurement tools and mechanisms that were in place for dealing with adverse natural events	PA# B2	Satisfactory	Baseline (2019): 0	Target (2023): 2	3	Target exceeded	Substantial
RI # 11. # of fiscal risk budget reports elaborated by the Directorate of	PA # B2	Satisfactory	Baseline (2019): 2	Target (2023): 4	12	Target exceeded	Substantial



Fiscal Transparency that considered natural hazards and climate risks							
RI # 12. # of government institutions implementing thematic classifiers in DRM and CCA.	PA B3	Satisfactory	Baseline (2019): 0	Target (2023): 2	1	Target not realized	Modest
RI # 13. An annually funded permanent National DRM Fund was operational in line with the DRFS	PA B3	Satisfactory	Baseline (2019): No	Target (2023): Yes	No	Target not realized	Modest

**Rating**

Satisfactory

**5. Achievement of Objectives (Efficacy)**

**OBJECTIVE 1**

**Objective**

PDO 1. To help strengthen Guatemala's legal and institutional framework to manage the impact of adverse natural events and climate risk.

PAAs A1 to A3.

RIs 1 - 6.

**Rationale**

**Theory of Change.** Policy reforms in this area aimed to strengthen the legal and institutional framework for managing the impacts of natural events and climate risk. Reforms such as as requiring municipalities to adopt DRM in development plans, establishing local DRM Committees, integrating DRM in the environmental sector, requiring the INSIVUMEH to disseminate hazard information, adoption of the updated National Humanitarian Manual by CONRED for coordinating humanitarian assistance, were likely to help in strengthening the institutional framework for adopting DRM and CCA measures. Submission of an updated Disaster Risk Management (DRM) bill by the Executive Branch although necessary, is not a sufficient condition for strengthening the legal framework. The outcomes were monitorable. The intended outcomes were predicated on these assumptions: One, the Government is fully committed to strengthening the DRM program to build the country's overall resilience against the impacts of natural hazards and climate change; and (ii) The Bank and the Government maintain an effective dialogue during implementation.



### Outcomes.

- The updated national DRM roadmap was adopted by the National Council for Disaster Risk Reduction on December 12, 2018, and the Volcanic Hazard roadmap on December 10, 2018. The percentage of municipalities that included disaster risk reduction activities in local development plans increased from 3.50% to 85%, surpassing the target of 29%. The percentage of municipalities that updated their local DRM Committees in line with the national DRM roadmap increased to 69%, surpassing the target of 15%.
- The number of educational facilities that complied with the technical criteria adopted by the Ministry of Education increased from 100 to 3,497, exceeding the target of 220.
- The INSIVUUMEH was restructured to provide enhanced hazard information related to volcanic activity.
- The Executive Secretariat of the National Coordinator for Disaster Reduction adopted the updated National Humanitarian Assistance Manual for coordinating humanitarian assistance.
- 25 local communities completed and disseminated environmental risk evaluations, as per the target.
- Although the draft of the law to strengthen the legal framework for DRM was submitted by the Executive Branch, the bill was not yet approved by Congress when the operation closed. The team clarified that the bill has not been approved to date. The Bank's CPF for 2024 - 2027 recognized that an integrated disaster risk management strategy is necessary to address vulnerabilities and focus on prevention proactively. Therefore, the pending approval of the DRM into law creates a significant gap between the regulatory and institutional frameworks for DRM.

Efficacy of this objective is rated as moderately satisfactory. Although the operation contributed to strengthening the institutional framework, the extent to which it contributed to strengthening the legal framework is unclear, pending approval of the bill submitted to the congress.

### Rating

Moderately Satisfactory

## OBJECTIVE 2

### Objective

PDO 2. To help strengthen Guatemala's financial framework to manage the impact of adverse natural events and climate risk.

PAAs B1-B3.

RIIs 7- 13.

### Rationale

**Theory of Change.** Policy reforms in this area aimed to strengthen the financial framework for managing the impacts of natural events and climate risk. Reforms such as adoption of a DRF strategy by MINFIN to promote diversification of disaster-related financial instruments, creation of the position of Fiscal Transparency and Procurement Minister within MINFIN to and enhancing the thematic budget classifiers' governing bodies, were likely to help in strengthening the financial framework for managing the impacts of adverse natural events and climate risk. The outcomes were monitorable. The intended outcomes were



predicated on these assumptions: One, the Government adopts and implements the DRF strategy; and (ii) Through TA the World Bank and the Government maintain an effective dialogue during implementation.

### **Outcomes.**

- Two new financial instruments were established as part of the DRFS as targeted: Cat DDO 11 and parametric insurance for excess rainfall from the Caribbean Catastrophe Risk Facility Segregated Portfolio Company (CCRIF SPC). In addition, the government negotiated a contingent credit line of up to US\$400 million with the Inter-American Development Bank (IDB)., The ICR (page 14) noted that the Ministry of Agriculture, Livestock and Food (MAGA) was also piloting agricultural insurance to provide economic coverage for small producers affected by intense rainfall or prolonged draught.
- The response time for providing emergency funds after the declaration of emergency was 14 days was the same as at the baseline. In 2021, following the impact of Tropical Storm Eta, Guatemala declared a state of emergency and the CCRIF payout was received within 14 days after the event. However, in the case of this operation, following the Government's request for responding to the COVID-19 pandemic, the loan proceeds were made available to the Government in less than a week.
- MINFIN adopted the operational manual for implementing the DRFS as targeted.
- Three new emergency emergency procurement and mechanisms were in place for dealing with adverse natural events when the operation closed, exceeding the target of two.
- Twelve fiscal risk budget reports were elaborated by the Directorate of Fiscal Transparency that considered natural hazards and climate risks, exceeding the target of four.
- One government institution (Executive Secretariat of the National Coordinator for Disaster Reduction (SECONRED) implemented thematic classifiers in DRM, short of the target of two.
- An annually funded National DRM Fund was not operational when the operation closed, due to pending Congress approval.

Given that there were moderate shortcomings in the achievement of some indicators, efficacy of this PDO is rated as moderately satisfactory.

### **Rating**

Moderately Satisfactory

## **Overall Achievement of Objectives (Efficacy)**

### **Rationale**

Overall efficacy is rated as moderately satisfactory. While the operation strengthened the institutional framework for DRM and CCA, the extent to which it helped in strengthening the legislative framework was modest. Likewise, while the operation did help in strengthening Guatemala's financial framework to manage the impact of adverse natural events and climate risk, two of the key outcomes were not met.



## Overall Efficacy Rating

Moderately Satisfactory

### 6. Outcome

#### Rationale

The PDO was highly relevant to the Government strategy and the current Bank strategy for Guatemala. There is an explicit, comprehensive and convincing results chain linking the prior actions to the achievement of the PDO, grounded in credible analytical work at the country level. Therefore, the overall outcome is rated as moderately satisfactory. While the operation did succeed in strengthening the institutional and financial framework, the extent to which the operation succeeded in strengthening the legal framework for DRM was limited.

#### a. Rating

Moderately Satisfactory

### 7. Risk to Development Outcome

**Government Commitment.** There is risk to development outcome, given that the proposed law on DRM framework and operationalization of the Permanent DRM fund is still pending approval by Congress. The ICR (para 44) notes that the National Coordination for Disaster Reduction (CONRED) lacks the authority and capacity to sanction sectors and municipalities that do not comply with the regulations. Further, the ICR (para 47) notes that the implementation of the budget classifier remains inconsistent across government institutions.

**Governance risk.** There is risk to sustainability of development outcomes, given the issue of low governance in municipalities. This coupled with a lack of technical capacity, poses significant challenges to the implementation of DRM initiatives.

### 8. Assessment of Bank Performance

#### a. Bank Performance – Design

##### Rationale

The Bank prepared this operation based on robust analytical underpinnings such as the Bank's SCD. The analytical basis for the prior actions were sound. The Bank prepared this CAT-DDO based on lessons from previous Bank-financed CAT- DDO operation in Guatemala and experiences from Bank-financed CAT-DDO operations in Colombia, El Salvador and Philippines. Lessons incorporated at design included: (i) defining the monitoring and implementation arrangements with the Government early on: (ii) reaching





agreement on the financial, legal and technical aspects of activating the revolving mechanism; and (iii) complementing financing with technical assistance (PD, para 38). The indicators were linked to the Prior Actions and the policy reforms supported by the operation. The data sources for monitoring progress were clearly specified. However, some of the indicators were not always clear or ambitious measures of progress.

The Bank prepared this operation with an extensive consultation process (including with government agencies, the private sector, academia and civil society) and in close collaboration with IADB, the United Nations Development Program (UNDP) and the German Reconstruction Credit Institute (KfW).

The Bank identified several risks at appraisal, including High risk for enactment of the new law, political and governance risks, substantial risks with the weak institutional capacity and fiduciary risks. The Bank incorporated several mitigation measures. With these measures, the overall risk was rated as substantial (PD, page 35). In relation to the potential impact of the non-approval of the DRM Law during the validity period of the Cat-DDO, the Bank team conducted a thorough analysis to highlight the potential consequences and propose alternative policies to address the objective for the Permanent National Fund.

## Rating

Satisfactory

### b. Bank Performance – Implementation

#### Rationale

The Bank conducted semi-annual missions to assess progress towards expected results and to monitor progress. The Bank maintained a close dialogue with the Government and relevant stakeholders during implementation. The Ministry of Public Finance, in collaboration with the Bank and with support from a Multi-Donor Trust Fund organized a discussion on DRFM, with a focus on the Catastrophe Deferred Drawdown Option.

Bank performance during implementation is rated as satisfactory.

## Rating

Satisfactory

### c. Overall Bank Performance

#### Rationale

Overall Bank performance is rated as satisfactory.



## Overall Bank Performance Rating

Satisfactory

## 9. Other Impacts

### a. Social and Poverty

A Poverty and Social Impact Analysis conducted in October 2018 and revised in January 2019, confirmed a positive indirect impact on poverty and social development indicators.

### b. Environmental

Through a prior action of this operation, the Government established the Comprehensive Environmental Risk Management within the MARN. This department produced and distributed 25 local environmental risk assessments by 2021 and provided community training to safeguard strategic ecosystems and associated livelihoods.

### c. Gender

There were no gender dimensions to this operation.

### d. Other

Not applicable.

## 10. Quality of ICR

### Rationale

The ICR is well written. The theory of change provided in the text clearly shows the causal links between the reform areas and the intended outcomes. The ICR provides adequate evidence for assessing the operation's performance. The ICR candidly acknowledges the issues with one prior action in the country context. The ICR draws useful lessons from the experience of implementing this project.



**a. Rating**

Substantial

**11. Ratings**

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Moderately Satisfactory	While the operation did succeed in strengthening the institutional and financial framework, the extent to which the operation succeeded in strengthening the legal framework for DRM was limited. The ICRR rating of moderately satisfactory is consistent with the rating for outcome provided in ICR (page 16).
Bank Performance	Satisfactory	Satisfactory	
Relevance of Results Indicators	---	Satisfactory	
Quality of ICR	---	Substantial	

**12. Lessons**

The ICR draws the following main lesson from the experience of implementing this operation, with some adaptation of language.

**The World Bank's administrative process of classifying a Cat DDO as closed once the contingent credit line is disbursed, can hamper the ability of the Bank to continue supervising progress on the policy reform agenda.** The ICR notes that once a cat DDO is fully disbursed, the Bank, for administrative purposes, reclassifies the operation as closed, even if the entire withdrawal happens early during the expected three-year implementation phase, as happened in this operation. The entire loan was disbursed soon after the project became effective in the wake of the COVID-19 pandemic. This created challenges to the Bank team's efforts to continue supervising progress.

The IEG would disagree with the ICR's lessons on results indicators and instead draws the following lesson.

**When legislation is necessary for achieving outcomes, having an indicator that monitors the enactment of the law provides useful evidence on effectiveness.** Non-adoption of the law as in this operation shows that the prior action was not yet able to achieve its intended outcome. Hence the indicator achieved its purpose of monitoring progress of the supported reform.



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**13. Project Performance Assessment Report (PPAR) Recommended?**

No