



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 07-Jul-2020 | Report No: PIDC29433



**BASIC INFORMATION**

**A. Basic Project Data**

Country Guatemala	Project ID P173698	Project Name Crisis Response and Recovery in Guatemala (P173698)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Oct 01, 2020	Practice Area (Lead) Poverty and Equity	Financing Instrument Development Policy Financing
Borrower(s) Republic of Guatemala	Implementing Agency Ministry of Finance Guatemala (MINFIN)		

**Proposed Development Objective(s)**

This DPF series supports the Government’s COVID-19 efforts to: i) mitigate the impact of COVID-19 on the poor and vulnerable, while protecting and promoting human capital accumulation; ii) mitigate the economic impact of COVID-19, while supporting reforms to stimulate a robust and inclusive economic recovery; and iii) promote public sector efficiency and transparency.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	500.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	500.00
World Bank Lending	500.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

**The pandemic has affected the Guatemalan economy considerably, leading to an economic crisis and putting an end to three decades of uninterrupted growth.** The adverse social effects are substantial and existing vulnerabilities have increased. Firms, particularly MSMEs, providing more than 90 of private jobs, are affected significantly due to lockdown measures, falling demand, bottlenecks in supply chains and drying liquidity as revenues collapse. The Guatemalan



economy is expected to contract three percent in 2020 on account of COVID-19 effects. It will be the first economic contraction in more than three decades. Jobs losses are expected to be highest in construction, services, transport and commerce, four sectors where most of the vulnerable workforce is concentrated, and where female employment is also most prominent. In addition, the recession in the U.S. will lead to a decline in remittance inflows, the largest source of foreign currency, which will also exacerbate the private consumption slowdown.

**The existing conditions of high levels of poverty as well as social and economic exclusion exacerbate the impact of the crisis.** Around 85 percent of the population in Guatemala is either poor or vulnerable to falling into poverty in case of a shock, 80 percent of the jobs are informal and not covered by social security, and social assistance programs are too small in terms of coverage and benefits. Also, the country's human capital indicators are similar to those of much poorer countries, with stunting rates among the highest in the world. As a result of the crisis, one million people are expected to fall into poverty, raising the country's poverty rate by as much as 6 percentage points, in the absence of mitigation measures and depending on the depth and duration of the crisis as well as the speed of the economic recovery. Not only the incidence of poverty will increase, but also the extent of deprivation. Higher poverty levels, higher rates of malnutrition, and much lower access to basic services like water and sanitation, make the populations in rural areas - majority of them indigenous- more vulnerable to the expected economic contraction.

**The government's response to the crisis has been swift and well-targeted but limited capacity threatens the timeliness and effectiveness of the response.** After only two months in office and without a majority in Congress, the new administration prepared and obtained approval in Congress for two emergency packages to (i) contain the spread of the virus; (ii) expand the capacity in the health sector to treat COVID patients; (iii) protect the income, nutrition and jobs of large vulnerable groups in the population; (iv) provide liquidity to firms, including small and medium enterprises that are hit the most by the crisis; and (v) increase transparency in the management of public resources. The cost of these packages is estimated at 3.5 percent of GDP.

#### Relationship to CPF

**While addressing the short-term needs connected with the COVID-19 crisis response, the operation pursues the goals of the Country Partnership Framework (CPF) for 2017-2020 as revised in the Performance and Learning Review (PLR) in 2019.** In addition to mitigating the impact of the COVID-19 crisis, the reforms supported by the operation contribute to the achievement of 3 of the 5 objectives for the CPF, namely i) fostering the inclusion of vulnerable groups; ii) enhancing the enabling environment and increase access to finance for micro, small, and medium-size enterprises (MSMEs); and iii) improving public resource management and accountability. The operation is a response to urgent Government demand with measures that leverage the WBG comparative advantage, particularly concerning policies that affect the poor and vulnerable, and are closely aligned with the SCD priority areas of inclusion, growth sustainability. The operation complements other operations that are being pursued in parallel. The recently approved Guatemala COVID-19 Response IPF (P173854), is supporting the prevention, control and mitigation of the spread of the novel coronavirus as well as the provision of services to ensure early detection and medical care. Additionally, the proposed Responding to COVID-19: Modern and Resilient Agri-Food Value Chains IPF (P173480) will fund improved food system efficiency, increase beneficiary resiliency in select value chains, and support assessments of the national statistical system and the national statistical office which are key inputs for the preparation of the new law on statistics that would be supported by the second operation in this series.

#### C. Proposed Development Objective(s)

**This DPF series supports the Government's COVID-19 response and recovery efforts to mitigate the impacts, lay the**



**foundations for an inclusive and sustainable economic recovery, and promote public sector efficiency and transparency.** The supports reforms structured around three pillars. Pillar A is focused on protecting human capital and mitigating the impact of COVID-19 on the poor and vulnerable. The measures in pillar B aim at mitigating the impact of COVID-19 on firms, while laying the foundations for a robust and inclusive economic recovery. Finally, measures supported in pillar C aim to promote the efficiency and transparency of the public sector during and after the crisis.

## Key Results

**By 2022, the following key results are expected to be achieved:** Protection of human capital stock and provision of immediate support to the poorest and most vulnerable groups to mitigate the impacts of the COVID-19 crisis. Mitigation of the economic impact of COVID-19 on firms, while laying the foundations for a robust and inclusive economic recovery by providing market access for firms to Mexico, the EFTA association and by improving the availability and design of leasing products in the market, thereby increasing access to finance for MSMEs. Increased transparency in the use of public resources and improved cost-effectiveness of tax services for taxpayers and the SAT, higher coverage of tax services, and improved effectiveness of tax audits.

## D. Concept Description

**This DPF series seeks to support the government's Innovation and Development Plan 2020-2024 (PLANID) in four of its five pillars.** The first pillar seeks to achieve higher economic growth and significant increases in sustainable employment by promoting investment; increasing exports; strengthening MSMEs and cooperatives; and increasing financial sector stability. The second pillar of the PLANID seeks to close the existing gaps in living conditions while promoting equality of opportunities, especially for women, children and indigenous groups by providing health, education, nutrition and housing to the poor and vulnerable; strengthening social assistance programs and their conditionalities to promote human capital accumulation. The third pillar aims to improve the country's governance for a peaceful society that creates adequate conditions for investment by promoting the rights and development of indigenous peoples. The fourth pillar aims to transform the way the State responds to the needs of the citizens by improving the civil service; and enhancing transparency and accountability. The fifth pillar aims to strengthen the country's external affairs to promote tourism, exports and attract FDI.

**Reforms supported under Pillar A of this series protect human capital, provide immediate support to the poorest and most vulnerable groups to mitigate the impacts of the COVID-19 crisis, strengthen the social protection system, and improve the provision of health and education.** Prior actions supported by the first DPF include the creation of temporary emergency social programs targeted to the vulnerable and poor households, and continued provision of nutrition and health services for school age children. The triggers under this pillar support strengthening information systems and building foundations for a social registry for more efficient implementation of social protection, the institution of primary health care networks to strengthen integrated service delivery, and the recognition of community-based midwives (*Comadronas*) to provide neonatal maternal health, and the approval of a national policy to prevent school dropouts.

**Reforms under pillar B address the cash-flow and access to finance constraints for MSMEs, strengthen the ecosystem for digital financial services, and enhance access to markets to mitigate the economic impact of COVID-19 and facilitate economic recovery.** The government has established three targeted programs to provide up to US\$ 400 million in financing for MSMEs impacted by COVID-19. Authorities have also implemented measures to improve the accessibility, efficiency, and safety of digital financial services, thereby reducing reliance on cash-based, in-person transactions. Additionally, legal reforms to facilitate the availability of leasing products will allow capital-constrained firms to make



productive use of large assets (e.g., machinery, vehicles). Finally, Guatemala expanded access to foreign markets for its goods through trade facilitation.

**This series improves public resource management and accountability.** Strengthening the governance of public resources is critical to improve service delivery and achieve better development outcomes in Guatemala. Lack of transparency and wide discretion in procurement procedures, as well as in hiring of personnel, have led to misallocation and possible misuse of public resources, and limited competition. Prior actions under pillar C support greater accountability in public resource management by proposing: i) publication in real time of all public contracts and expenses incurred during the state of emergency; ii) removal of restrictions to conduct online transactions with the tax administration; and iii) improvements to risk management in tax collections. The triggers under this pillar focus on promoting transparency and evidence-based policies, supporting: i) creation of publicly accessible portal for the publication of public employment information; ii) modernization in the production of statistics; and iii) deepening reforms on risk management and digital services in tax administration.

## E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**The policy measures supported by this DPF series are expected to have neutral or positive impacts on poverty.** Policies under pillar A are expected to have positive impacts on poverty since they target poor and vulnerable population with sound targeting criteria. School-aged children attending public schools in Guatemala, who are the beneficiaries of two of the prior actions in this pillar, are overrepresented among the poor. Other policies supported by this pillar will compensate income and job losses, provide food to protect food security, provide health insurance for school children, and distribute kits to treat acute malnutrition in municipalities with the highest incidence. Sound mitigation policies would not only buffer negative COVID-19 effects, but they could lay the foundations for a swifter recovery. Reforms aiming to increase access to finance for firms and professionals affected by the crisis, provide adequate liquidity, improve digital payments systems, and improve trade facilitation are expected to have indirect positive impacts on poverty. However, prior action 7, accession to the Free Trade Agreement between Central American States and European Free Trade Association (EFTA), and through a mutual administrative assistance and custom information exchange agreement with Mexico, would have to be accompanied by the right set of policies to have positive impacts on poverty. A large body of literature identifies the potential benefits trade and openness can have on poverty, but it also highlights that public sector interventions might be needed to mitigate transitional unemployment effects, enhance the positive impacts, and ensure equitable access to welfare gains. Policies supported under Pillar C are expected to have either neutral or indirect positive effects on poverty. These policies include increasing transparency in the use of public resources, guaranteeing service continuity and improving risk management in the tax administration. Prior action 9, increased transparency in the use of public resources during the crisis, can have indirect positive impacts on poverty, but can also expose structural governance issues with indirect negative impacts on poverty. For instance, increased bureaucracy and delays in the implementation of emergency programs for fear of accusations of misuse of funds can have short-term indirect negative impacts on the most vulnerable beneficiaries. Even though a substantial amount of work has been done on the PSIA, the analysis is expected to be deepened and completed prior to the review by the Operations Committee.

### Environmental, Forests, and Other Natural Resource Aspects

**Overall, the prior actions supported by this DPF are not expected to have significant negative effects on the environment, forests, and other natural resources.** The DPF supports measures to halt the spread of the COVID-19



pandemic, reacting proactively to the protection of human health. It will also allow micro, small, and medium enterprises (SMEs) to maintain their operational activity, as the DPF aims to inject capital allowing them to restructure and avoid insolvency. Given the reduced economic and operational activity of SMEs, it is expected that any preexisting environmental impacts could be reduced. In addition, measures to promote the use of digital financial services will bring indirect positive environmental effects associated with reduced need of travel due to increasing opportunities for the use of electronic payments. Similarly, prior actions geared to increase economic inclusion in rural areas can have indirect positive effects on increasing climate resilience among rural population. Separately, there could be significant negative indirect environmental impacts in the form of a potential increase of wildlife trafficking following the application of a Free Trade Agreement (FTA). Illegal wildlife trade in Guatemala has been reported at a local and international level, with a gradual increasing demand for wild animals, as the international price is very attractive for locals. In addition, Guatemala has been identified as part of the traffic route of wildlife trade from Honduras. This potential indirect impact is mitigable by strengthening the Borrower's institutional capacity to survey and control wildlife trafficking. Another significant impact could be the expansion of the agroindustry, by the increasing opportunity to export products and better access to industrial items through the FTA. During the appraisal stage, the Team will further assess any potential impacts, by reviewing current permits, products and control for the circulation of products. This potential indirect impact could be mitigable by ensuring that the Borrower's institutional capacity meets international standards and the FTA includes information to address this issue.

## CONTACT POINT

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**APPROVAL**

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**Approved By**

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