

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

August 17, 2016

Report No.: AB7874

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<b>Operation Name</b>	FIRST PUBLIC FINANCE, ACCOUNTABILITY, AND IMPROVED SOCIAL SERVICES
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Guatemala
<b>Sector</b>	Central government administration (65%); Other social services (35%)
<b>Operation ID</b>	P160667
<b>Lending Instrument</b>	Development Policy Financing
<b>Borrower(s)</b>	REPUBLIC OF GUATEMALA
<b>Implementing Agency</b>	Ministry of Public Finance, Tax and Customs Administration, Ministry of Health, Ministry of Social Development
<b>Date PID Prepared</b>	August 17, 2016
<b>Estimated Date of Appraisal</b>	October 20, 2017
<b>Estimated Date of Board Approval</b>	November 17, 2016
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

Guatemala has continued to maintain an adequate macroeconomic policy framework, although per capita growth remains persistently low. Sound macroeconomic management, with a flexible exchange rate regime and fiscal discipline, helped the country weather the 2008-09 global financial crisis and the 2015 political crisis. Prudent fiscal policy, over time, is reflected in the low public debt level as percent of GDP (24 percent by 2015). Although this ratio is one of the lowest in the Latin America and Caribbean (LAC) region, the debt level is on the higher side in relation to the country's fiscal revenues. Prudent macroeconomic policies, however, have not translated into high growth. Since 2000, the economy has expanded at an average annual growth rate of 3.5 percent, below the average of Latin America and below that of Central America. Moreover, per capita growth is stubbornly low, pacing at 1.5 percent on average over the past decade (per-capita gross national income increased to an estimated US\$3,804 in 2015) and hampering the country's income convergence.

**The First Public Finance, Accountability, and Improved Social Services DPF series aims to support Guatemala's efforts to strengthening regulatory framework to enhance tax collection, accountability, transparency, and to build the basis for a policy and institutional framework to help address primary health care deficiencies and chronic malnutrition.**

Guatemala is at an historic juncture, following a political and institutional crisis in 2015, a newly elected government is starting to take on deep-rooted development problems. A new administration took office in January 2016, with a strong mandate to fight corruption and deal with deep rooted development and social shortcomings. The key priorities of the new administration are to strengthen governance and transparency, mobilize fiscal revenues, and improve social indicators, with a particular emphasis in reducing malnutrition rates. The policy and institutional reforms supported by this DPF series are at the core of these three priorities.

## **II. Proposed Objective(s)**

**The DPF series aims to support Guatemala's efforts to strengthening regulatory framework to enhance tax collection, accountability, transparency, and to build the basis for a policy and institutional framework to help address primary health care deficiencies and chronic malnutrition.** The proposed DPF series recognizes and supports the Guatemalan authorities' reform efforts in the adjustment to this new environment and it is closely aligned with the priorities identified in the NDP. The series' The Program Development Objective of the Development Policy Financing (DPF) is to support the Government's efforts in (i) strengthening regulatory framework to enhance tax collection; (ii) enhancing the regulatory framework to increase accountability and transparency; and (iii) building the basis for a policy and institutional framework to help address primary health care deficiencies and chronic malnutrition.

## **III. Preliminary Description**

**The Tax Administration Authority (SAT) has suffered from institutional weaknesses hindering tax revenues collection.** SAT has a weak governance structure, lack of adequate systems of financial and physical control, unduly bureaucratic processes with excessive scope for discretionality, lack of transparency in collection, weak compliance mechanisms, and limited enforcement. Moreover, revenue collection is undermined by widespread tax evasion, Value Added Tax revenue leakages and high levels of informality. This has been further exacerbated by the 2015 crisis, which revealed legal and institutional constraints in its governance structure. The institutional crisis that ensued resulted in a significant loss of credibility of SAT. Establishing a new legal and governance framework is at the core of the Government's strategy to rebuild trust in tax administration, and address institutional constraints to ensure that tax collection targets are achieved in order to address the country's development challenges.

**In public procurement the atomization of regulations, criteria and contracting entities has undermined the integrality of the public procurement system, lowered operational efficiency, discouraged participation of suppliers and competition, and inhibited citizen oversight.** The lack of a regulatory body has affected procurement implementation, while lack of guidelines, standard bidding documents and adequate controls, have made it difficult to prevent biased awards due to excessive discretionary participation requirements and inadequate evaluation criteria. Alternative mechanisms, such as public trusts (*fideicomisos*), a common practice in

Guatemala, have limited competition, leading to discretionary awarding of contracts. Collusion practices are also frequent as many processes are restricted to few suppliers. The procurement reform establishes stricter procedures and improved controls, with a focus on strengthening transparency, competition, and accountability in public procurement practices.

**Inadequate coverage, lack of a framework to enable broader access to primary health care since the Extension of Coverage Program (PEC) was discontinued, and limited and inefficiently used funding continue to present serious developmental challenges.** Less than half of the population have access to primary health services since the Government decided to discontinue the PEC in February 2015. A new model of primary care will provide the strategic direction for the expansion of an essential package of nutrition and health services, prioritizing areas previously covered by the PEC.

**Guatemala’s children stunting rate is the highest in the LAC region and among the highest in the world.** Despite the fall in the chronic malnutrition rate from 55 percent in 1995 to 46.5 percent in 2014/15, Guatemala’s stunting rate remains extremely high for its level of income. Fighting malnutrition requires a clear policy and institutional framework and coordination. The National Strategy to Reduce Chronic Malnutrition contains a clear path in this regard. In addition, the President of Guatemala has created a Presidential Commission for the Reduction of Chronic Malnutrition, indicating its high level of support to this agenda. The new Administration is also taking important steps to enhance efficiency of social spending to better support poor households in line with key national priorities (such as reducing malnutrition). The development and adoption of a new Geographic Targeting Strategy for social programs is critical to ensure that the limited resources reach the poorest. The new geographical targeting builds on all relevant existing data sources to develop rankings of municipalities by key criteria such as poverty levels and different types of vulnerabilities. MIDES is reforming the in-kind food transfer *Bolsa Segura* to increase its efficiency, improve targeting and strengthen overall transparency.

**IV. Poverty and Social Impacts and Environment Aspects**

**The prior actions supported by this operation are not likely to have significant poverty, social, distributional or environmental effects.** All prior actions have undergone an initial screening for such effects. While significant poverty, social and distributional effects are not likely for any of the prior actions, a further analysis will be conducted for the next stage of preparation.. As for environmental effects, no significant effects are expected.

**V. Tentative financing**

Source:	(\$m.)
Borrower	0.00
International Bank for Reconstruction and Development	250.00

Others

Total 0.00  
250.00

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