

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE  
INTER-AMERICAN INVESTMENT CORPORATION

**GUATEMALA**  
**IDB GROUP COUNTRY STRATEGY**  
**2021-2024**

**DECEMBER 2021**

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## ABBREVIATIONS

AGEXPORT	Asociación Guatemalteca de Exportadores [Guatemala Association of Exporters]
ANADIE	Agencia Nacional de Alianzas de Desarrollo de Infraestructura Económica [National Agency of Partnerships for the Development of Economic Infrastructure]
BANGUAT	Bank of Guatemala (central bank)
CACIF	Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras [Coordinating Committee of Agricultural, Commercial, Industrial, and Financial Associations of Guatemala]
CAPDR	Central America, Panama, and the Dominican Republic
CGC	Contraloría General de Cuentas [Office of the Comptroller General]
CONAP	Consejo Nacional de Áreas Protegidas [National Council for Protected Areas]
COVID-19	Coronavirus disease 2019
CPN	Comisión Portuaria Nacional [National Port Commission]
CRF	Corporate Results Framework
DIGEDUCA	Dirección General de Evaluación e Investigación Educativa [Directorate of Evaluation and Education Research]
ECLAC	Economic Commission for Latin America and the Caribbean
ENCOVI	Encuesta Nacional de Condiciones de Vida [National Survey of Living Conditions]
ENEI	Encuesta Nacional de Empleo e Ingresos [National Employment and Income Survey]
FAO	Food and Agriculture Organization
FECASALC	Fondo Español de Cooperación para Agua y Saneamiento en América Latina y el Caribe [Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean]
FUNDESA	Fundación para el Desarrollo de Guatemala [Foundation for the Development of Guatemala]
GUATECOMPRAS	Sistema de Información de Contrataciones y Adquisiciones del Estado [Government Contracting and Procurement Information System]
ICPR	Independent Country Program Review
IGSS	Instituto Guatemalteco de Seguridad Social [Guatemala Social Security Institute]
IMF	International Monetary Fund
INAB	Instituto Nacional de Bosques [National Forest Institute]
INE	Instituto Nacional de Estadística [National Statistics Institute]
INTECAP	Instituto Técnico de Capacitación y Productividad [Technical Institute for Training and Productivity]
IPSAS	International Public Sector Accounting Standards
KIF	Korea Infrastructure Development Cofinancing facility for Latin America and the Caribbean
MINEDUC	Ministry of Education
MINFIN	Ministry of Public Finance
MSMEs	Micro, small, and medium-sized enterprises
MSPAS	Ministry of Public Health and Social Welfare

NCB	National competitive bidding
NDC	Nationally Determined Contribution
OVE	Office of Evaluation and Oversight
PADEP	Programa Académico de Desarrollo Profesional para Docentes [Academic Program for Professional Teacher Development]
PAHO	Pan American Health Organization
PPP	Purchasing power parity
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RENAP	Registro Nacional de las Personas [National Registry of Persons]
SAIs	Supreme Audit Institutions
SAT	Superintendencia de Administración Tributaria [Office of the Superintendent of Tax Administration]
SDGs	Sustainable Development Goals of the United Nations
SEGEPLAN	Secretaria de Planificación y Programación de la Presidencia de la República [Planning and Programming Department, Office of the President of Guatemala]
SIFGUA	Sistema de Información Forestal de Guatemala [Guatemala Forest Information System]
SIGSA	Sistema de Información Gerencial de Salud [Health Information Management System]
SMEs	Small and medium-sized enterprises
TFFP	Trade Finance Facilitation Program
WHO	World Health Organization

## EXECUTIVE SUMMARY

<b>Context</b>	<p>Guatemala is characterized by strong macroeconomic performance. However, it faces challenges to achieving more inclusive growth. The population, one of the youngest in the region, contends with gaps in access to basic services and limited productive opportunities. Although the country's average GDP growth is above that of Latin America and the Caribbean, poverty remained largely unchanged over the last decade. The COVID-19 pandemic has widened these gaps, mainly affecting the most vulnerable populations. In addition, political divisions have made it difficult to reach consensus on addressing development gaps, which has led to deterioration of the business climate and the ability to contain violence and mitigate the consequences of climate change vulnerability.</p>
<b>The IDB Group in Guatemala</b>	<p>The IDB Group Country Strategy with Guatemala 2017-2020 had three main focus areas: (i) improving public management and transparency; (ii) reducing poverty and inequality; and (iii) private sector development. During the country strategy period, the Bank approved six sovereign guaranteed investment loans totaling US\$548.4 million. The Bank also approved 13 nonreimbursable technical-cooperation operations totaling US\$6.3 million, and 5 investment grants for US\$17 million. In terms of the private sector windows, IDB Invest approved non-sovereign guaranteed operations totaling US\$1.0216 billion, and IDB Lab approved 17 operations totaling US\$27.7 million.</p>
<b>Priority areas</b>	<p>The objective of the IDB Group country strategy 2021-2024 is to contribute to reversal of the social deterioration in Guatemala, worsened by the pandemic, and to stronger economic growth based on criteria of inclusion and environmental sustainability. To support this objective, the IDB Group proposes three priority areas to be addressed through dialogue, programming, and the portfolio: (i) institution-strengthening; (ii) improvement of basic service delivery to the most vulnerable population; and (iii) promotion of the private sector for stronger, more inclusive, and sustainable growth. The crosscutting themes will be gender and diversity, digital transformation, and climate change and natural disasters. The themes of institutional capacity, rule of law, and transparency and integrity will be addressed mainly in the first pillar, and on a crosscutting basis in the other two. The IDB Group will maintain a dialogue in the areas of migration, regional integration, investment promotion, and tourism.</p>
<b>Projected lending scenario</b>	<p>The Bank projects annual approvals and disbursements of sovereign guaranteed loans to average US\$230 million and US\$185 million, respectively. The IDB Group's sovereign guaranteed lending for the period 2021-2024 is therefore projected to be US\$920 million in new approvals and US\$740 million in disbursements. The Bank's exposure would reach 8.4% of Guatemala's total public debt, 20% of its external public debt, and 46.2% of its multilateral debt by the end of the country strategy period. The non-sovereign guaranteed resources to support the private sector during the period through the IDB Group's private sector windows would be additional to this.</p>
<b>Preliminary considerations for implementation</b>	<p>The sovereign guaranteed portfolio has an available balance of US\$699.3 million, equivalent to 86% of the approved amount, so execution will be key to achieving results, and the objectives of operations are an integral part of this country strategy's vertical logic. The Bank's efforts to improve project execution during the 2017-2020 country strategy period will continue, as will the practice of maintaining active dialogue and raising awareness of the operations among key stakeholders, to facilitate discussion around the legislative authorization of operations. In addition, the IDB, IDB Invest, and IDB Lab will work to promote coordination of their work agendas.</p>
<b>Risks</b>	<p>The main risks are tied to macroeconomic and fiscal considerations, political fragmentation, challenges in executing operations, exposure to natural disasters, and public health challenges.</p>

## I. COUNTRY CONTEXT

- 1.1 Guatemala is the largest economy in the region of Central America, Panama, and the Dominican Republic (CAPDR), accounting for 29% of its population and 23% of GDP. It has a population of 16.3 million inhabitants, 46% of whom live in rural areas,<sup>1</sup> and 44% of whom self-identify as indigenous or Afro-descendant belonging to the Maya, Garifuna, Xinca, and Creole peoples. Guatemala is a middle-income country that has experienced moderate, stable economic growth in the past decade, averaging 3.1% annually, as a result of prudent macroeconomic management. However, the country is facing challenges in increasing the potential output and inclusivity of growth, since the productive structure has not changed significantly in recent decades.<sup>2</sup> In 2020, GDP was US\$77.1 billion, the second highest in CAPDR. However, per capita GDP in terms of purchasing power parity (PPP) stood at US\$8,293, the fourth lowest in the region and the sixth lowest in Latin America and the Caribbean.<sup>3</sup>
- 1.2 The COVID-19 pandemic has hit the most vulnerable populations hardest. Although Guatemala recorded one of the smallest contractions in economic activity in the wake of the pandemic,<sup>4</sup> poverty has worsened, accentuating the socioeconomic challenges facing the country. According to recent estimates,<sup>5</sup> the poverty rate rose to 54.9% of the population in 2020, 3.5 percentage points above the 2019 level.<sup>6</sup> The current administration, which took office in January 2020, instituted mobility restrictions to limit the spread of the virus over a relatively short span of time, which may partly explain the economy's rapid recovery in the second half of 2020.<sup>7</sup> In addition, remittances increased 7.9%, equivalent to 14.7% of GDP in 2020, cushioning the economic impact of the crisis by supplementing the income of poor households,<sup>8</sup> underscoring the importance of this type of resource during a crisis.<sup>9</sup> The measures instituted during the emergency to provide healthcare services, cash transfers to households and workers, and support to the productive

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<sup>1</sup> National Statistics Institute (INE), 2018. Twelfth National Population Census and Seventh National Housing Census.

<sup>2</sup> The share of the main economic activities in GDP has remained relatively stable over the last 20 years. The trade and services sector accounts for around 70% of GDP, while agriculture and manufacturing account for 10% and 19%, respectively.

<sup>3</sup> International Monetary Fund (IMF), 2021. World Economic Outlook, April.

<sup>4</sup> Real GDP contracted 1.5% in Guatemala, but approximately 7% in Latin America, in 2020. The Bank of Guatemala (BANGUAT) projects real economic growth of 4% to 6% in 2021.

<sup>5</sup> Inter-American Development Bank (IDB), 2020: [Inequality and Social Discontent: How to Address Them through Public Policy: Economic Report on Central America, the Dominican Republic, Haiti, Mexico, and Panama](#).

<sup>6</sup> According to the most recent official data (Living Conditions Survey, 2014), poverty affected 59.3% of the population in 2014, and extreme poverty, 23.4%.

<sup>7</sup> BANGUAT. Macroeconomic statistics. Monthly economic activity index.

<sup>8</sup> Remittances help recipients to afford the basic food basket and maintain a level of income slightly above the poverty line, mainly in the departments of Guatemala, Huehuetenango, San Marcos, and Quetzaltenango, which, along with Quiché, have the highest numbers of returnees ([International Organization for Migration \(IOM\), 2017](#); [IOM, 2021](#)).

<sup>9</sup> [Migración y remesas en Centroamérica, Haití, México, Panamá y República Dominicana: Impacto del COVID-19, de los huracanes, y expectativas a mediano plazo](#).

sector resulted in a fiscal expansion of 3.4% of GDP<sup>10</sup> and cushioned the impact on the country's population and productive fabric. In turn, the deficit reached 4.9% of GDP, and public debt rose to 31.6% of GDP.<sup>11</sup> However, progress in implementing the National Vaccination Plan<sup>12</sup> has been slow due to low vaccine availability and difficulties in reaching communities outside of metropolitan areas and indigenous peoples,<sup>13</sup> dimming the recovery outlook.

- 1.3 In prospect, economic growth in recent decades has been insufficient to meet the needs of a young population facing gaps in basic service access and quality, as well as limited productive opportunities. Per capita GDP grew 1.6% on average between 2002 and 2019, while poverty stayed around 50%,<sup>14</sup> reflecting the fact that this productive expansion did not contribute to reducing poverty.<sup>15</sup> Due mainly to the COVID-19 pandemic and recent natural disasters, social vulnerabilities have worsened since 2020. The contraction in Guatemala's per capita GDP (3.5%), although lower than the regional average for Latin America and the Caribbean (8.1%), directly affects socioeconomic conditions. In addition, not enough formal jobs have been generated to absorb population growth.<sup>16</sup> As a result, the informal employment rate has been historically high, despite falling from 68.8% of the economically active population in November 2015 to 65.3% in November 2019.<sup>17</sup> Significantly, 34% of the population is under age 14, and 61% is between the ages of 15 and 64, making Guatemala one of the youngest countries in Latin America and the Caribbean, with a sizeable demographic dividend.<sup>18</sup> As this young population joins the labor force over the next 15 years,<sup>19</sup> their contribution to development will depend on advances in reducing poverty and chronic malnutrition, and on improvements in the level of schooling.

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<sup>10</sup> The main measures, equivalent to 2.5% of GDP in 2020, notably include: (i) the Bono Familia cash transfer program (US\$780 million), which benefitted nearly two million heads of household (10 million people); (ii) the Employment Protection Fund (US\$260 million), which provides a minimum income to furloughed workers; and (iii) the Working Capital Loan Fund (US\$390 million), which provides soft financing for working capital to maintain productive capacity, benefitting an estimated 240,000 households (1.2 million people).

<sup>11</sup> IMF, 2021. Global Economic Outlook, October. In spite of the necessary fiscal expansion of the last year, Guatemala's level of public debt is still one of the lowest in the region.

<sup>12</sup> Ministry of Public Health and Social Welfare (MSPAS), 2020. [National COVID-19 Vaccination Plan](#).

<sup>13</sup> As of 13 December 2021, 49.6% of the population had received the first dose, and 34.5% were fully vaccinated. The urban population of the Department of Guatemala accounts for most of the vaccinated population (56% fully vaccinated).

<sup>14</sup> INE, 2020. Poverty indicators.

<sup>15</sup> Per capita GDP in Latin America rose 1.4% between 2002 and 2009, while poverty fell nearly 15 percentage points.

<sup>16</sup> According to data from the National Employment and Income Survey (ENEI) (various years), the working population over age 15 grew from 6.4 million in 2015 to 7.3 million in 2019, a 14% increase. The number of formal workers grew from 1.99 million to 2.53 million over the same period, a 27.2% increase.

<sup>17</sup> INE, 2019. ENEI, 2-2019.

<sup>18</sup> The demographic dividend is the potential for economic growth brought about by changes in the age distribution of the population. As the fertility rate declines over several decades, the age distribution of the population shifts from a young age structure to one dominated by young adults of working age, which increases the relative size of the labor force. As a result, the country's production expands because more people are working and producing. However, the potential positive economic impact of the labor force expansion does not occur automatically and may be short-lived, so policies for the most productive sectors to absorb a larger labor force are necessary.

<sup>19</sup> IDB, 2017. [Running Out of Tailwinds: Opportunities to Foster Inclusive Growth in Central America and the Dominican Republic](#). Editors: Jordi Prat and Marco Solera, Washington, D.C., United States.

- 1.4 The country has seen some improvement in basic service delivery, but considerable challenges persist. Between 2015 and 2019, the infant mortality rate among children under five fell from 28 to 25 deaths per 1,000 live births.<sup>20</sup> In addition, the maternal mortality rate dropped from 108 to 97 deaths per 100,000 live births<sup>21</sup> between 2015 and 2020. Infant and maternal mortality rates are higher in departments that are largely rural and have a majority indigenous population. Indeed, the departments of Huehuetenango, Alta Verapaz, and Quiché, where over 90% of the population is indigenous, recorded the highest numbers of maternal deaths in 2020.<sup>22</sup> The average years of schooling among the population increased from 4.3 years in 2010 to 6.6 years in 2019, although considerable gaps remain behind the average for Latin America and the Caribbean. Nationwide, 20% of the population has not earned any kind of educational degree, whereas this rate is as high as 33% in Quiché and 31% and Alta Verapaz, where over 90% of the population is of indigenous origin. Gaps in access to water service persist between urban and rural areas (95.04% versus 79.38%), with nearly one million inhabitants lacking reliable access to water. Of these, 273,000 drink surface water. Moreover, access to sewers is under 30% in 11 of the country's 17 departments, and between 30% and 50% in the other six.
- 1.5 Guatemala was one of the region's lowest ranked countries on the 2019 Human Development Index (127th out of 189 nations, the fourth lowest in Latin America and the Caribbean).<sup>23</sup> Despite a slight improvement in income distribution in recent years, the country also remains one of the region's most unequal with a Gini coefficient of 0.53. This, along with largely noninclusive economic growth, has led to high emigration flows, especially to the United States.<sup>24</sup> Flows of returnees have also increased, despite decreasing in 2020 due to the border closures associated with COVID-19. This population faces challenges in reintegrating, particularly when it comes to obtaining employment, in spite of having acquired skills in their countries of destination. Indeed, many returnees cite discrimination from employers as a barrier to economic integration, which contributes to the fact that nearly half of recently deported individuals have expressed the intention of emigrating again for economic reasons.<sup>25</sup>
- 1.6 One of the factors behind the persistent gaps in these socioeconomic indicators is the low tax ratio, which limits the State's capacity for spending on basic social services. The tax ratio stood at 10.1% of GDP in 2020, less than half of the average for Latin America and the Caribbean that year (24%).<sup>26</sup> As a result of weaknesses in tax administration and deficiencies in the tax structure, fiscal policy prioritizes controls on spending and debt in the face of revenue constraints. Social spending

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<sup>20</sup> World Bank, 2020. World Development Indicators.

<sup>21</sup> MSPAS, 2020. Report on epidemiological week 46.

<sup>22</sup> Ibid., epidemiological week 53.

<sup>23</sup> United Nations Development Programme (UNDP), 2020. [Human Development Report 2020](#). The Next Frontier: Human Development and the Anthropocene.

<sup>24</sup> According to the [American Security Project 2019](#) report, migration from Guatemala to the United States increased from 168 migrants to 1,510 migrants per 100,000 inhabitants between 2002 and 2019.

<sup>25</sup> Lebow, J., Villamizar-Chaparro, M., and Wibbels, E. (2021). [New Survey Highlights the Unique Challenges That Guatemalan Deportees Face with Economic Integration Back Home](#). Vox Lacea.

<sup>26</sup> IMF, 2021. World Economic Outlook, April.

remained between 7% and 8% of GDP from 2008 to 2019, even as it rose from 9.4% of GDP to 11.3% in Latin America and the Caribbean over the same period.<sup>27</sup>

- 1.7 Institutional and governance shortcomings have limited investment and productive opportunities. According to Transparency International's Corruption Perceptions Index 2020, Guatemala is one of the countries that has fallen furthest in the corruption perception rankings, dropping eight notches to 149th out of 180 nations since 2012. At the same time, total investment declined from 14.7% of GDP in 2014 to 11.4% in 2020, one of the lowest rates in Latin America and the Caribbean.<sup>28</sup> In particular, private investment declined from 12.6% to 10.1%.<sup>29</sup> Foreign direct investment has been shrinking since 2013, reaching 1.2% of GDP in 2020, down from 1.9% in 2019. Thus given its geographic location and trade agreements with the leading global economies, Guatemala could benefit from the shifts in global supply chains but would need to make substantial improvements in the business climate and institutional environment to promote investment.<sup>30</sup> Its performance in various international evaluations<sup>31</sup> points to the significant challenge faced by the country in a highly competitive environment where global trade is moving toward models that require greater capacity in the area of public administration.
- 1.8 Guatemala is one of the countries most vulnerable to extreme climate events and the effects of global warming.<sup>32</sup> Natural disasters contribute to rising poverty, and there is a direct relationship between vulnerability and poverty. In 2005, Hurricane Stan caused damage of 4.1% of GDP,<sup>33</sup> and in 2010, Tropical Storm Agatha led to an 18% increase in poverty (5.5 percentage points).<sup>34</sup> In addition, the impact of Tropical Depressions Eta and Iota in 2020 was around 1% of GDP.<sup>35</sup> In general, a catastrophic hurricane<sup>36</sup> with a 100-year return period can cause losses equivalent

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<sup>27</sup> CEPALSTAT, 2021. Public expenditure based on classification of the functions of government (as percentages of GDP).

<sup>28</sup> IMF, 2021. World Economic Outlook, April.

<sup>29</sup> BANGUAT. Macroeconomic statistics.

<sup>30</sup> According to the World Justice Project, Guatemala ranked 101st out of the 128 countries included in the [Rule of Law Index 2020](#), down from its 2019 position (96th out of 126 countries). The country is in 25th place out of 30 countries in the region of Latin America and the Caribbean, and 38th place out of 42 upper-middle-income countries. It is ranked 121st and 188th under the pillars of civil justice and criminal justice, respectively. Significant changes from 2019 include a deterioration of the indicators for constraints on government powers and absence of corruption.

<sup>31</sup> Guatemala ranked 98th out of 141 countries in the World Economic Forum's Global Competitiveness Report 2019.

<sup>32</sup> Germanwatch 2020. Global Climate Risk Index 2020. Who Suffers Most from Extreme Weather Events?

<sup>33</sup> Government of the Republic of Guatemala, 2010. [Evaluación de Daños y Pérdidas Ocasionados por Desastres Naturales en Guatemala entre Mayo y Septiembre de 2010](#).

<sup>34</sup> Baez J., L. Lucchetti, M. Salazar, and M. Genoni, 2016. Gone with the Storm: Rainfall Shocks and Household Wellbeing in Guatemala.

<sup>35</sup> Economic Commission for Latin America and the Caribbean (ECLAC), 2020. [Evaluación de los Efectos e Impactos de las Depresiones Tropicales Eta y Iota en Guatemala](#). Tropical Depressions Eta and Iota affected over two million Guatemalans, resulting in the death of 60 people and the disappearance of another 100. According to ECLAC, damage and losses were equivalent to 1% of GDP.

<sup>36</sup> IDB, 2014. Estimación de la Amenaza y el Riesgo Probabilista por Huracán en Guatemala, Incorporando el Impacto Asociado al Cambio.

to 11% of GDP, whereas an earthquake<sup>37</sup> and a drought<sup>38</sup> with the same return period can cause losses equivalent to 7% and 1.2% of GDP, respectively. To mitigate this vulnerability, the government has a financial strategy for disaster risk that aims to strengthen the country's economic and fiscal resilience and responsiveness.<sup>39</sup>

- 1.9 At the same time, greenhouse gas emissions are relatively low in Guatemala, and the country aims to reduce emissions by up to 22.6% by 2030, with respect to 2005.<sup>40</sup> Yet CO<sub>2</sub> emissions have been on the rise, up 5.65% in 2019 from 2018.<sup>41</sup> Between 2001 and 2010, gross deforestation and forest degradation generated 13.4 million and 5.7 million tons of CO<sub>2</sub>, respectively, which was 60% of the country's greenhouse gas production.<sup>42</sup>
- 1.10 The government's strategy is thus to manage the health crisis and implement initiatives to increase productive investment, creating opportunities for better quality jobs. The efforts behind this strategy are apparent in the passage of a series of laws to enhance the country's business climate, such as the Anti-Bureaucracy Law<sup>43</sup> to digitalize procedures and lower processing costs. The authorities have signed new agreements on transparency<sup>44</sup> with the United States, reflecting their commitment to improve public management. The resilience of remittances and the economic recovery in the United States, the country's main trade partner, are positive factors that will help revive growth, which is projected to reach 4.5% in 2021 and stay near the historical average in the medium term.<sup>45</sup> This could create an environment more conducive to initiating dialogue on structural reforms and

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<sup>37</sup> Catastrophic risk profile, hazard maps, and exposure analysis. Technical report ERN-CAPRA-T3.3 ERN, CIMNE, ITEC, INGENIAR. Unpublished.

<sup>38</sup> IDB, 2019. Perfil de riesgo de desastres por sequía: El Salvador, Guatemala y Honduras.

<sup>39</sup> The strategy dates back to 2018. Its lines of action include securing a mix of financial instruments for risk retention and transfer that takes into account both the timing of the need for resources, as well as the frequency and severity of events, so public resources can be used more effectively to meet the needs of the affected population. The country has arranged financial coverage through: (i) two contingent loans with the World Bank. The first, for US\$85 million, was executed with two disbursements in 2010 in the wake of Tropical Storm Agatha and the eruption of the Pacaya volcano. The second, for US\$200 million, was fully disbursed in April 2020 as a result of the COVID-19 pandemic; and (ii) an annual parametric insurance policy covering rainfall excess through the Caribbean Catastrophe Risk Insurance Facility. The policy was triggered by rains that started on 31 May 2020 during Tropical Storms Amanda and Cristobal, resulting in a payout of US\$3.6 million. Guatemala renewed the policy, which establishes a maximum payment of US\$14 million, for the period 2020-2021. To support this strategy, the IDB approved operation GU-O0006, Contingent Loan for Natural Disaster and Public Health Emergencies, on 17 November. In terms of risk retention instruments, Guatemala has at its disposal the Permanent National Fund for Disaster Reduction and the Emergent Fund.

<sup>40</sup> Republic of Guatemala, 2015. [Intended Nationally Determined Contribution](#).

<sup>41</sup> Muntean, M. et al, 2018. [Fossil CO<sub>2</sub> Emissions of All World Countries](#). Publications Office of the European Union, Luxembourg. Guatemala's CO<sub>2</sub> emissions reached 21,196 kilotons in 2019, which puts the country in 98th place out of 184 countries, ranked from least to greatest polluters.

<sup>42</sup> Ministry of the Environment and Natural Resources (MARN), 2015. [Segunda Comunicación Nacional Sobre Cambio Climático Guatemala](#).

<sup>43</sup> Congress of the Republic of Guatemala. Decree 5/2021 of 5 June. Law for the Simplification of Administrative Requirements and Procedures.

<sup>44</sup> Government of the United States of America, 2021. [U.S.-Guatemala Cooperation](#), 7 June. Notable points of agreement include the launch of an Anticorruption Task Force, through which the Department of State, the Department of Justice, and the Treasury will provide training to areas dealing with justice in Guatemala; and the creation of a committee on human and drug trafficking that will work closely with local law enforcement.

<sup>45</sup> BANGUAT projects economic growth of 4% to 6% in 2021.

priority investments to address the challenges facing the country with a view to strengthening growth and poverty reduction in the medium term, consistent with national commitments under the 2030 Agenda.<sup>46</sup>

## II. THE IDB GROUP IN GUATEMALA

### A. Implementation of the strategy

- 2.1 The Bank's Country Strategy with Guatemala 2017-2020 sought to strengthen public management and transparency and reduce gaps in access to basic services through three major focus areas: (i) improving public management and transparency; (ii) reducing poverty and inequality; and (iii) private sector development. Sociocultural considerations, social impact, local governance, and the promotion of community participation were incorporated on a crosscutting basis. In addition, gender gaps were a core element in the design of new operations, and measures were included to address natural disaster risk management, climate change mitigation and adaptation, and institutional capacity-building. To contribute to the results agreed upon with the authorities, the country strategy prioritized actions to improve portfolio performance and the effectiveness of operations.
- 2.2 The IDB Group Country Strategy with Guatemala 2017-2020 unfolded in a context of political fragmentation and governance challenges. This almost completely stalled legislative authorization of loans from multilateral development banks and the pace of public investment, which in turn affected project preparation and execution, and thus achievement of the results envisaged in the IDB strategy Results Matrix.<sup>47</sup> The World Health Organization's declaration of the pandemic in March 2020, barely two months after the new administration took office, posed an additional challenge amid the difficult context in the country. However, the Guatemalan government, in combination with actions by the IDB, took advantage of the political environment during the early months of the pandemic to reach agreements that resulted in the legislative authorization of four loans that had been pending in Congress.<sup>48</sup> Furthermore, as part of the IDB Group's response to the COVID-19 crisis,<sup>49</sup> changes were made to the program<sup>50</sup> to help mitigate household income loss.

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<sup>46</sup> Government of Guatemala, 2021. ODS en Guatemala: III Revisión Nacional Voluntaria. As part of an effort to coordinate the Sustainable Development Goals (SDGs) with the K'atun National Development Plan: Our Guatemala 2032, an exercise that prioritized the 2030 Agenda and took national capacities and context into account, the country made the commitment in 2016 to meet the 17 goals set out in the 2030 Agenda, including 129 targets and 200 indicators.

<sup>47</sup> On average, operations in the active portfolio have experienced a delay of 26.4 months between approval by the Board of Executive Directors and the point they enter into legal effect. In addition, during the transition period in 2017, one operation not yet in legal effect was canceled (loan GU-L1084, Multiphase Rural Electrification Program, Phase II).

<sup>48</sup> In April 2020, the Congress of the Republic authorized the following operations, which had experienced the following delays: (i) GU-L1163, 11 months; (ii) GU-L1095, 41 months; (iii) GU-L1096, 41 months, and (iv) GU-L1169, 15 months.

<sup>49</sup> Proposal for the IDB Group's Response to the COVID-19 Pandemic Outbreak (document GN-2995).

<sup>50</sup> As agreed with the government, the Bank reformulated its operations program in 2020 to include operation GU-L1176, Support for Vulnerable Populations Affected by COVID-19, which seeks to support minimum levels of quality of life for vulnerable persons amid the crisis caused by COVID-19.

- 2.3 **IDB Group approvals.** During the 2017-2020 country strategy period,<sup>51</sup> the Bank approved six sovereign guaranteed investment loans totaling US\$548.4 million<sup>52</sup> and a contingent loan for natural disasters and public health emergencies for US\$400 million. Disbursements of sovereign guaranteed loans totaled US\$390 million over the period, of which US\$140 million were investment loans and US\$250 million were policy-based loans, with a negative net cash flow of US\$97.8 million for the country.<sup>53</sup> The Bank also approved 17 nonreimbursable technical-cooperation operations totaling US\$7.5 million, mainly to support the preparation and execution of operations. At the same time, five investment grants totaling US\$17.2 million were approved for: (i) forest management; (ii) malaria prevention and elimination; (iii) rural water and sanitation; and (iv) the efficient use of firewood and alternative fuels in indigenous and rural communities.
- 2.4 IDB Invest approved US\$1.021 billion in non-sovereign guaranteed operations<sup>54</sup> to support the financing of private sector investment projects, with emphasis on easing credit restrictions for small businesses and segments traditionally underserved by the financial system, as well as increasing the population's access to information and communication technologies. During this period, IDB Invest disbursed US\$329 million in loans through various instruments, and the Trade Finance Facilitation Program (TFFP) disbursed US\$495 million. IDB Lab approved 17 operations totaling US\$27.7 million,<sup>55</sup> focused on access to green finance, climate-smart agriculture technologies, the development of entrepreneurial ecosystems, and training for youth for employment and entrepreneurship.

**B. Main results in the context of the 2017-2020 country strategy<sup>56</sup>**

- 2.5 Despite the challenging context, IDB Group interventions achieved significant results in the three priority areas.
- 2.6 In the area of *improving public management and transparency*, the Bank concentrated on strengthening public finances, the institutional framework for combating money laundering, and access to justice. In the fiscal area, it supported the process of strengthening the Office of the Superintendent of Tax Administration (SAT) through actions to improve processes for managing tax revenue, as well as financial sector transparency.<sup>57</sup> Additionally, reforms were promoted to strengthen

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<sup>51</sup> Includes US\$85 million in joint cofinancing from the Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean (KIF) and US\$8.45 million from the Strategic Climate Fund.

<sup>52</sup> Of this amount, US\$100 million corresponded to an operation responding to the COVID-19 pandemic crisis through protection for minimum household income.

<sup>53</sup> Measured from 1 January 2018 to 31 October 2021. While net cash flow was negative in 2018 and 2019, it was positive in 2020 due to the disbursement of US\$250 million under a policy-based loan approved during the previous period (loan GU-L1069).

<sup>54</sup> Includes long-term loans totaling US\$496 million (nine country operations and nine regional operations—prorated—from 13 December 2017 to 31 October 2021), and short-term operations totaling US\$525 million, mainly through the Trade Finance Facilitation Program (TFFP) with multiple financial institutions in the country (same period).

<sup>55</sup> US\$11.5 million corresponded to regional projects.

<sup>56</sup> Includes long-term operations totaling US\$402.3 million and short-term operations totaling US\$525.4 million for the period from 13 December 2017 to 31 July 2021. Both figures include regional operations involving Guatemala.

<sup>57</sup> Operation GU-L1069, Tax Management and Transparency Program (a policy-based loan), and operation GU-T1274, Support to the Preparation of the Program for the Institutional and Technological Strengthening of the Superintendency of Tax Administration (SAT).

the institutional framework to combat money laundering, and support was provided to the Superintendency of Banks, which helped lower the money laundering score from 5.78 points in 2015 to 5.1 points in 2020.<sup>58</sup> Furthermore, the Bank helped strengthen the Public Prosecutor's Office by increasing its territorial coverage to improve access to justice,<sup>59</sup> which was accompanied by measures to strengthen criminal investigations and comprehensive care for victims of violence.

- 2.7 In the area of **reducing poverty and inequality**, the strategy focused on strengthening mother-and-child health services and improving the quality of preschool and primary education. In **health**, works were financed to improve the hospital network across the country, which notably included completing the construction of the National Hospital of Villa Nueva, rehabilitating and equipping 10 hospitals,<sup>60</sup> and equipping 404 community nursing units. Over the same period, the rate at which specialized care was offered during childbirth rose from 66.5% of total births in 2015 to 73.8% in 2019. In addition, the Bank worked to expand the use and quality of primary and secondary health and nutrition services. Through these interventions, the Bank contributed to reducing the maternal mortality rate and infant mortality rate observed in the country during this period. The Bank continued working in a complementary manner to increase **access to water and sanitation services**, which are closely linked to health conditions and malnutrition levels. Over this period, it financed the rehabilitation and construction of 53 rural water systems and 74 sanitation systems, benefitting over 60,000 individuals in the municipios of Cubulco and Rabinal in Baja Verapaz, and Chicamán in Quiché, which have majority indigenous populations.<sup>61</sup> These actions contributed to increase household access to improved sources of water from 77.8% in 2014 to 89.2% in 2018, and from 64.4% to 81.6% in rural areas. Access to sanitation also increased from 58.3% to 62.9% over the same period, and from 28.9% in 2014 to 36.9% in 2020 for rural areas.
- 2.8 The Bank promoted access to quality **education** services by repairing preschools and primary schools,<sup>62</sup> installing and equipping classrooms, and providing books for school libraries.<sup>63</sup> To improve the quality of teaching, the Academic Program for Professional Teacher Development (PADEP) trained preschool and primary

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<sup>58</sup> Based on this score, Guatemala ranks 72nd out of 141 countries (where 141 is the country with the least risk) for the fifth highest risk level in CAPDR and the 17th highest in Latin America and the Caribbean. The Basel AML Index is an independent annual ranking that assesses risks of money laundering and financing of terrorism in 203 countries. The index scores countries between 0 and 10, where 10 indicates the highest risk level.

<sup>59</sup> Under operation GU-0177, Program to Support the Criminal Justice Sector, two regional offices for the public defenders and seven police stations were built, and 11 justice of the peace courts were remodeled. The program also improved information and management systems and trained justice operators in criminal and scientific investigation.

<sup>60</sup> Operation GU-L1009, Program to Strengthen the Hospital System.

<sup>61</sup> Collectively, these five municipios have a population of 4.2 million people, 73% of which belong to the Maya people.

<sup>62</sup> With operation GU-L1023, Mi Escuela Progresiva (My School is Making Progress) Program, repairs were completed on a total of 412 schools between 2017 and 2018, and with operation GU-L1087, Education Quality and Coverage Improvement Program, repairs were completed on a total of 750 schools between 2019 and 2020.

<sup>63</sup> This includes installing 995 prefabricated modular units, equipping 2,582 classrooms, and providing 27,800 textbooks.

teachers.<sup>64</sup> These interventions have benefitted over 3.6 million boys and girls who use preschool services<sup>65</sup> by increasing the net coverage rate of preschool education, from 45.6% in 2013 to 51.4% in 2019, and the proportion of students with satisfactory outcomes on reading tests in the poorest departments, from 33.8% in 2014 to 37% in 2019.

- 2.9 To support **private sector development**, the IDB Group improved road connectivity between rural areas and markets by financing the construction of 17.5 kilometers of rural roads between Los Pajales, Chibaquito, and Chitomax in the Chixoy area, which has benefitted over 42,000 individuals in indigenous communities.<sup>66</sup> IDB Invest also expanded the financing available to micro, small, and medium-sized enterprises (MSMEs) and other segments, mainly through strategic partnerships with financial institutions with high geographic penetration, combining lending resources with technical assistance in the areas of climate change, diversity, and gender. IDB Invest operations helped expand access to finance for over 52,000 MSMEs and facilitated access to housing for over 8,000 vulnerable families. In the energy sector, the IDB Group's windows contributed to diversifying the energy mix, as well as to social and productive inclusion in non-interconnected rural areas and in indigenous communities in the areas of intervention. An IDB Lab operation was scaled up by IDB Invest,<sup>67</sup> and IDB technical-cooperation resources were later used to supplement IDB Invest's lending operations in the sector,<sup>68</sup> demonstrating coordination among the IDB Group's three windows and the leveraging of operational synergies.
- 2.10 During the 2017-2020 country strategy period, the IDB Group prioritized **sociocultural considerations** on a crosscutting basis when executing portfolio projects and designing new operations. **Portfolio operations** had a significant impact on the quality of life and economic activity of indigenous communities that

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<sup>64</sup> This is a university training program for teachers that falls under the Ministry of Education. It aims to raise the academic training of teachers to a higher level and improve their performance at the different educational levels and modalities within the formal and nonformal education subsystems. In all, 1,060 teachers were trained.

<sup>65</sup> As of year-end 2018, operation GU-L1023, Mi Escuela Progresá (My School is Making Progress) Program, had benefitted 3,368,202 children.

<sup>66</sup> Operation GU-L1006, Rural Economic Development Program.

<sup>67</sup> Energía Kingo was initially supported by an IDB Lab project approved during the previous strategy period. In August 2020, IDB Invest approved an operation for US\$5 million (operation 12332-01) to expand Kingo's solar power distribution business, with the participation of the Clean Technology Fund.

<sup>68</sup> For the two projects GU-3794A-01 and GU-3794A-01, the IDB Group has continued working with the communities of San Mateo and San Andrés through technical-cooperation resources (operation GU-T1270) to support the implementation of the Agreement for Peace and Development in San Mateo Ixtatán through the following: (i) allocating resources for the operations of the technical secretariat for the agreement; (ii) preparing a comprehensive development plan for the municipio; and (iii) conducting studies to identify value chains and prepare strategies to implement at least three value chains in the municipio, in order to connect local producers in the municipio with national buyers. The value chains identified include coffee, cardamom, forest management, and textiles with emphasis on indigenous women.

benefitted from activities adapted for them.<sup>69</sup> IDB Invest and IDB Lab operations contributed to greater financial inclusion by developing products to support MSMEs in rural areas with large indigenous populations.<sup>70</sup> The design of **approved operations** also included a detailed analysis of issues related to diversity and indigenous populations and the promotion of participation of these communities in programs, with emphasis on the cultural appropriateness and of the interventions and their consultation processes.

- 2.11 The IDB Group introduced **climate change** considerations on a crosscutting basis in the design of its operations by including measures for disaster risk management and climate change adaptation and mitigation, which have contributed significantly to reducing greenhouse gas emissions as part of Guatemala's Nationally Determined Contribution (NDC).<sup>71</sup> In **health**, the Bank incorporated energy efficiency and water savings measures into the design for building and improving 157 healthcare structures in areas highly vulnerable to climate change impacts. Technical and socioenvironmental designs in the area of **transportation** also incorporated considerations of climate change resilience and vulnerability to extreme weather events, with a view to ensuring the resilience of the services of the national road system. In addition, the IDB Group supported the country in designing the national strategy for Reducing Emissions from Deforestation and Forest Degradation (REDD+) and the environmental and social safeguard compliance platform.<sup>72</sup> These efforts enabled Guatemala to mobilize US\$11.4 million in funds administered by the IDB Group<sup>73</sup> and US\$17.1 million in funds administered by the World Bank to implement REDD+, as well as to access US\$52.5 million to reduce emissions between 2021 and 2025 under the Emissions Reduction Program with the Carbon Fund. The Bank also facilitated access to 11 million euros from the NAMA Facility<sup>74</sup> to finance the manufacturing and sale of improved cookstoves that will contribute up to 46% of the NDC. Lastly, the Bank provided emergency assistance in response to such events as the eruption of the Fuego volcano and Tropical Depressions Eta and Iota through three technical-

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<sup>69</sup> Notable operations include: (i) GU-L1023, Mi Escuela Progresá (My School is Making Progress) Program, where at least 42% of all students benefitting from the program are indigenous; (ii) GU-0177, Program to Support the Criminal Justice Sector, which focused on municipios with a high percentage of indigenous population; and (iii) GU-L1022, Improved Access and Quality of Health and Nutrition Services, which sought to reduce disparities that disproportionately affect indigenous populations in such areas as chronic malnutrition and maternal and infant mortality. Also noteworthy is operation GU-T1270, Public-Private Strategies for the Development of Huehuetenango and Other Departments with a Large Mayan Population.

<sup>70</sup> For example, through support for Génesis Empresarial, IDB Lab (operations GU-L1173 and GU-T1302) and IDB Invest (loan 12696-01) seeks to expand the coverage of financial services for the country's low-income, rural populations. In all, 73% of Génesis customers are women, 88% are in rural areas, and 49% identify as indigenous.

<sup>71</sup> Republic of Guatemala, 2015. [Intended Nationally Determined Contribution](#). Guatemala intends to reduce its total greenhouse gas emissions by up to 22.6% by 2030, taking 2005 as the baseline year. A 22.6% reduction means that in a business-as-usual scenario of 53.85 million tons of CO<sub>2</sub> equivalent in 2030, emissions would fall to 41.66 million tons of CO<sub>2</sub> equivalent that year.

<sup>72</sup> Operation GU-T1272, Phase II of Preparation of the National Strategy for Reducing Emissions from Deforestation and Forest Degradation in Guatemala, and operation GU-T1310, Support for the REDD+ Strategy to Strengthen the Approach for Addressing Drivers of Deforestation.

<sup>73</sup> Operation GU-L1165/GU-G1005, Sustainable Forest Management Project financed by the Strategic Climate Fund, includes a US\$8.45 million loan and a US\$775,000 investment grant (GU-T1380).

<sup>74</sup> The NAMA Facility is a climate finance mechanism for Nationally Appropriate Mitigation Actions (NAMA) established by the European Union and the governments of Germany, Denmark, and the United Kingdom.

cooperation operations<sup>75</sup> that provided humanitarian assistance to those affected, while the loan portfolio financed the rehabilitation of affected schools.<sup>76</sup>

### C. Portfolio in execution and lessons learned

- 2.12 During the 2017-2020 country strategy period, progress was made in **portfolio management** as a result of Management's firm commitment to improving execution, implementing the relevant recommendations of the 2013-2017 Country Program Evaluation by the Office of Evaluation and Oversight (OVE),<sup>77</sup> and addressing chronic delays. In 2017, the portfolio had 12 operations with an average age of 7.8 years and an undisbursed balance of US\$577.9 million, or 62% of the approved amount.<sup>78</sup> Of these operations, three were on alert status, and one was classified as a problem project. Implementation of national standards during execution caused considerable delays, which led to deadline extensions and reputational costs. In response, a plan was set in motion to improve execution, which included conditions for limiting extensions based on the fulfillment of acquired contractual commitments, among other measures. For operations approved during this period, loan contracts also incorporated a series of clauses related to facilitating execution, such as strengthening the use of Bank procurement standards, creation of execution units with accountable staff, and execution time frames. This was supplemented by implementation of innovative project management tools and training of staff in the national comptroller's office. These efforts helped make progress on pending activities and close out old operations, thereby reducing the age of the portfolio<sup>79</sup> to 3.6 years.
- 2.13 **Portfolio in execution.** As of 30 November 2021, the IDB's portfolio in Guatemala consists of nine sovereign guaranteed operations for a total approved amount of US\$808.5 million and an undisbursed amount of US\$699.3 million, concentrated in: transportation (20.6%), energy (17%), social protection (14.2%), healthcare (13.9%), education (13.8%), digital connectivity (9.6%), justice and security

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<sup>75</sup> Operations GU-T1289, Support for the Emergency Response to the Volcanic Eruption; GU-T1322, Support for the Emergency Response to Tropical Storm Iota in Guatemala; and GU-T1321, Support for the Emergency Response to Tropical Storm Eta in Guatemala.

<sup>76</sup> Through October 2021, interventions were carried out in 310 damaged schools through operation GU-L1087, Education Quality and Coverage Improvement Program, for an amount of US\$2.9 million.

<sup>77</sup> In its [Country Program Evaluation: Guatemala 2012-2016](#), OVE recommended that Management restructure and reduce the size of the current portfolio, adjusting it to the country's institutional capacity. It asked that Management, in dialogue with the government, cancel nonpriority operations, limit extensions, and set specific criteria for the maximum number and time for extensions of the current portfolio. In its Independent Country Program Review (ICPR) at the end of the 2017-2020 country strategy period, OVE considered that Management had largely fulfilled this recommendation. In terms of implementation, several operations were closed out during the period, which, coupled with fewer approvals, helped to reduce the size of the portfolio. Semiannual meetings with MINFIN were also held to review the progress of the portfolio in execution. Although some extensions occurred during execution of the portfolio over the period 2017-2020, they were fewer in number than before and were conditioned upon the achievement of progress and results in the projects.

<sup>78</sup> Portfolio age is calculated from the project approval date. As of 13 December 2017, the approval date of the 2017-2020 country strategy, the sovereign guaranteed loan portfolio included 14 operations for an approved amount of US\$859.2 million and an available balance of US\$577.1 million.

<sup>79</sup> Technical Note IDB-TN-01805, [Innovación en la gestión de cartera de proyectos: La experiencia de Guatemala](#) [Innovation in Project Portfolio Management: The Experience of Guatemala] describes the measures taken to improve execution during the period, including lessons learned that can be replicated in countries facing similar problems. The technical note also proposed guidelines on strengthening project management in the future, which can be found in Section V of this document.

(7.8%), water and sanitation (1.48%), and forestry development (1.2%).<sup>80</sup> The portfolio is young and has an average age of 3.6 years. There are 13 technical-cooperation operations for an approved amount of US\$7.52 million and an available balance of US\$5.54 million, mainly to support the preparation and/or execution of portfolio loans and programs. The portfolio also includes five investment grants for an approved amount of US\$67.1 million and an available balance of US\$28.35 million in the area of water and sanitation, focused on rural and indigenous communities, forest management through forest incentives, emissions reduction in the energy sector, and malaria elimination in the health sector. IDB Invest has an active portfolio with 13 operations and an exposure of US\$448.1 million,<sup>81</sup> 98.8% of which is concentrated in the sector of MSME access to finance, 0.36% in energy, and 0.84% in agriculture. IDB Invest also administers US\$1.27 million in third-party funds and US\$4 million in B loans, bringing the total amount of assets administered by IDB Invest to US\$453.4 million. IDB Lab's portfolio consists of 15 operations totaling US\$12.82 million focused on financial services, worktech, climate change, MSMEs, and innovation.

- 2.14 **Lessons learned.**<sup>82</sup> At the **strategic** level: (i) in a complex governance context that affects execution and delays the legal effect date of sovereign guaranteed operations, the activities of the IDB Group's non-sovereign guaranteed windows are crucial for achieving results in the priority areas; (ii) due to delays in sovereign guaranteed operations reaching the point of legal effect, it is difficult to make significant headway on the country strategy indicators through new interventions during the country strategy period, so it is important to identify results and indicators more targeted to, and reflective of, the contributions of the portfolio in execution; (iii) it is essential to continue prioritizing the gaps facing indigenous population as part of diagnostic assessments of operations, in order to propose differentiated actions with greater cultural appropriateness and local focus; (iv) contributing to the country's climate change targets through multiple operations in different sectors of the IDB Group's three windows will help achieve greater impact and mitigate the risk of not attaining the goals; (v) it is important to maintain an ongoing dialogue with Congress and beneficiary institutions and carry out activities to disseminate the content and merits of operations in anticipation of legislative authorization, in order to take advantage of windows of opportunity to reach agreements on the Bank's loans;<sup>83</sup> and (vi) IDB Invest's partnerships with financial institutions are a more effective mechanism for closing the credit gaps faced by small businesses, compared with direct support as a mechanism with a restricted scope of action.

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<sup>80</sup> Includes four operations totaling US\$298 million that are pending legislative authorization. For more information, see the [Portfolio Summary](#).

<sup>81</sup> Portfolio information as of November 2021.

<sup>82</sup> This section is based mainly on the project completion reports prepared during the country strategy period, semiannual portfolio meetings, and the portfolio regularization process.

<sup>83</sup> During the country strategy period, the Bank deepened its dialogue with the executive and legislative branches on the topic of mitigating political risk. These efforts included several missions, meetings, briefings, and dialogue sessions with members of Congress and their advisors to explain Bank-approved projects and facilitate the discussion of legislative authorization. Authorization was secured for five operations over this period, four of which were authorized amid the legislative scrum to address COVID-19 pandemic response measures in April 2020.

- 2.15 At the **operational** level, notable lessons include: (i) flexibility with regard to the country's requests to extend the execution deadlines of operations does not contribute to efficiency in achieving results, so it is important to establish clear guidelines for execution, extension, and cancellation of operations, as well as monitor compliance; (ii) coordination and dialogue with the Ministry of Public Finance (MINFIN) helps with effective portfolio management and determining the budget allocations required for program implementation; (iii) the legislative authorization period that transpires between approval and the legal effect date is an opportunity to enhance operation readiness, so work should be done on designs and conditions for the first disbursement, bidding processes, hiring processes for personnel, and project management capacity-building at executing agencies;<sup>84</sup> (iv) holding events to promote procurement and bidding opportunities financed by IDB operations and relevant procurement policies helps reach a greater number of bidders, contributing to better bid quality; (v) IDB Invest's ongoing technical assistance to financial institutions is essential for ensuring compliance with the environmental and social requirements of projects at the subborrower level; and (vi) to expand the financing available to specific populations, such as businesses led by women or indigenous people, it is necessary to understand the particular restrictions associated with these segments and develop specific strategies.<sup>85</sup>
- 2.16 **Conclusions of the Independent Country Program Review (ICPR): Guatemala 2017-2020.**<sup>86</sup> The report concluded that the Bank's 2017-2020 country strategy set relevant objectives, and that the program was partially aligned with these objectives. The document recognizes that, while the strategy of regularizing the old portfolio was successful, implementation risks remain. Late in the strategy period, the programming effort supported the increase in approvals amid the pandemic that kept the Bank leading development partner. Lastly, the review concluded that, despite accelerated execution, the program has made modest contributions to the objectives of the country strategy. In terms of non-sovereign guaranteed operations, the document acknowledges the substantial increase in financing and disbursements, as well as the diversity of instruments in the portfolio.

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<sup>84</sup> Examples in the current portfolio of progress achieved between approval and legal effect that will contribute to swifter execution include: (i) for operation GU-L1175, local targeting studies were done for the interventions; (ii) for operation GU-L1163, progress was made on the preliminary design of four hospitals; (iii) the terms of reference for hiring consultants were finalized for operation GU-L1095; and (iv) progress was made on the terms of reference for creating the execution unit for investment grant GU-G1014.

<sup>85</sup> IDB Invest has sought to partner with local financial institutions that have experience in lending to specific segments with high development impact (e.g. women-led businesses). Given the range of institutional capacity, IDB Invest develops specific strategies for its clients through advisory services to improve their services, offer differentiated products, develop a portfolio, and promote financial inclusion and digitalization of solutions.

<sup>86</sup> As part of the update to the country program evaluation protocol, OVE piloted the ICPR, which covers one country strategy period, focuses on the strategy's relevance, and provides aggregated information on program implementation. The Programming Committee of the IDB and the Committee of the Board of Executive Directors of the IIC considered the ICPR (document CII/RE-68-1, RE-557-1), as well as Management's comments on the review (document CII/RE-68-2, RE-557-2).

### III. PRIORITY AREAS

- 3.1 The objective of the IDB Group country strategy 2021-2024 is to contribute to reversal of the social deterioration in Guatemala, worsened by the pandemic, and to stronger economic growth based on criteria of inclusion and environmental sustainability. To support this objective, the IDB Group proposes three priority areas to be addressed through dialogue, programming, and the portfolio: (i) institution-strengthening; (ii) improvement of basic service delivery to the most vulnerable population; and (iii) promotion of the private sector for stronger, more inclusive, and sustainable growth. The priority crosscutting themes will be inclusion through a focus on gender and diversity, digital transformation, and climate change and natural disasters. The themes of institutional capacity, rule of law, and transparency will be addressed mainly in the first pillar, and on a crosscutting basis in the other two. Lastly, the issues of migration, regional integration, and investment promotion will be addressed more deeply through dialogue.
- 3.2 The 2021-2024 country strategy is aligned with the Guatemalan government's priorities for addressing the impacts of the COVID-19 crisis<sup>87</sup> and the priorities of the Government General Policy 2020-2024, the K'atun 2032 National Development Plan: Our Guatemala,<sup>88</sup> and the Plan "Guatemala No Se Detiene" ["Guatemala Is Not Stopping" Plan].<sup>89</sup> It is also aligned with the objectives of the second Update to the Institutional Strategy 2020-2023,<sup>90</sup> Vision 2025, the IDB Invest Business Plan 2020-2022,<sup>91</sup> the IDB Lab Business Plan 2019-2021,<sup>92</sup> the country development challenges identified by the IDB Group and discussed with the authorities, and the lessons learned from the previous strategy. Lastly, the strategy takes into account the conclusions of the 2017-2020 Independent Country Program Review (ICPR) by the IDB Group's Office of Evaluation and Oversight

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<sup>87</sup> Following the declaration of a state of calamity and the corresponding public health responses, the Congress of the Republic passed the Emergency Law to Protect the Guatemalan People from the Impact of the COVID-19 Pandemic (Decree 12/2020 of 1 April 2020), which aimed to mitigate the impact of the pandemic through health, economic, financial, and social measures, and the Law for Economic Rescue of Families from the Impact of COVID-19 (Decree 13/2020 of 8 April 2020).

<sup>88</sup> The [Government General Policy 2020-2024](#) has five strategic pillars: (i) the economy, competitiveness, and prosperity; (ii) social development; (iii) governance and security in development; (iv) a responsible, transparent, and effective State; and (v) relations with the world. It will also take into account the [K'atun National Development Plan: Our Guatemala 2032](#) and the Plan "Guatemala No Se Detiene" ["Guatemala Is Not Stopping" Plan].

<sup>89</sup> The Plan "Guatemala No Se Detiene" ["Guatemala Is Not Stopping" Plan] came about through a public-private agreement signed in February 2021 by the ministries of the Economy, Finance, and Foreign Relations, the Bank of Guatemala, the Guatemala City municipal government, the Guatemalan Association of Exporters (AGEXPORT), and the Foundation for the Development of Guatemala (FUNDESA). [The plan aims to rekindle and accelerate economic growth and the creation of opportunities for the next 10 years.](#) To that end, it focuses on high-potential export sectors, human capital development, enabling infrastructure, tourism, competitiveness, and certainty as to the law.

<sup>90</sup> The priority areas aim to strengthen the capacity of the State, provide inclusive and sustainable infrastructure services, develop human capital, position the productive sector in global value chains, and improve the institutional environment for the promotion of business growth. It is also aligned with the priority areas of IDB Invest and IDB Lab, such as improving institutions for the smooth functioning of the private sector, financial inclusion, innovative entrepreneurship, and climate-smart agriculture. The IDB Invest Business Plan 2020-2023 (document CII/GA-77-8) and the IDB Lab Business Plan 2019-2021 (document MIF/GN-235-3).

<sup>91</sup> 2020-2022 Business Plan and Administrative and Capital Budget Proposal. Revised version (document CII/GA-80-2).

<sup>92</sup> Document MIF/GN-235-3.

(OVE). The sovereign guaranteed legacy portfolio has an available balance of US\$699.3 million, equivalent to 86% of the approved amount,<sup>93</sup> so execution will be key to achieving results, and the objectives of operations are an integral part of this country strategy's vertical logic.

#### A. Institution-strengthening

- 3.3 Institutional challenges limit the Guatemala government's ability to address societal demands. The resulting persistent high levels of poverty, inequality, and violence are also factors driving emigration. The crisis caused by the COVID-19 pandemic and recent extreme weather episodes require an effective response. Accordingly, **strengthening the country's institutional framework and governance** is key, to make public policies more effective at addressing the urgent needs of vulnerable populations, enhancing the business climate to encourage investment, and promoting a more inclusive economic recovery, while maintaining social cohesion and political stability.<sup>94</sup> In addition, overcoming the challenges in transparency and integrity is essential for improving the business environment, sovereign risk,<sup>95</sup> and certainty as to the law in Guatemala.
- 3.4 The public sector's ability to provide the necessary services and investments to reduce poverty and drive growth is limited by the fact that management of public finances is characterized by low tax revenue intake and low levels of public spending. Tax revenues stood at an average of 10.6% of GDP between 2014 and 2019, more than 14 percentage points below the average for Latin America and the Caribbean,<sup>96</sup> while public spending averaged 13.5% of GDP over the same period, 28 percentage points below Latin America and the Caribbean. Income levels have declined since 2016, plunging in 2020 as a result of the pandemic and tropical storms. This can be attributed to factors related to the collection capacity of the Office of the Superintendent of Tax Administration (SAT) to reduce the shortfalls in nonpayment of taxes and inefficiencies in expenditure management. For example, the rate of nonpayment of value-added tax has risen in recent years to 26.3% of the potential tax take in 2019, two percentage points above 2013 levels (24.3%) and equivalent to 1.8% of GDP.<sup>97</sup>
- 3.5 Additionally, fiscal headroom is becoming even more limited due to financial losses in public procurements, including those caused by procurement-related technical inefficiencies and weaknesses in the processes of internal and external oversight bodies. Meanwhile, challenges in the management of public resources, including payroll, targeting of spending, and tax expenditures, also lower spending levels and effectiveness. Technical inefficiency in Guatemala was 2.7% of GDP in 2015,

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<sup>93</sup> As of 31 October 2021.

<sup>94</sup> The Economist Intelligence Unit, 2020, Democracy Index 2020. Guatemala ranked 97th out of 165 countries, reflecting a lower score (4.97 points out of 10) than in 2019 (5.26 points out of 10). The country is in 20th place in Latin America and the Caribbean, only ahead of Haiti, Nicaragua, Cuba, and Venezuela. The Democracy Index measures performance in electoral process, government functioning, political culture and participation, and civil liberties.

<sup>95</sup> There is a positive correlation between corruption indicators and sovereign risk rating. See IDB Technical Note IDB-TN-1608, "The Use of Corruption Indicators in Sovereign Ratings."

<sup>96</sup> ECLAC, 2020. CEPALSTAT database and statistical publications.

<sup>97</sup> SAT, 2020. Tax statistics. Tax analysis and studies. Quantitative results on nonpayment of value-added tax.

- below average for Latin America and the Caribbean (4.4%).<sup>98</sup> However, since Guatemala has one of the lowest levels of public spending in the region, this inefficiency accounted for 22% of total spending, above the 16% average observed in Latin America and the Caribbean.
- 3.6 Guatemala will need to **strengthen its fiscal institutions** in the areas of revenue intake and expenditure. It is thus important to continue efforts to strengthen SAT's operations by improving intelligence in taxpayer oversight and incentivizing voluntary compliance. At the same time, the tax system needs to be overhauled with a view to greater efficiency and progressivity and elimination of exemptions that do not have high social value.<sup>99</sup> In spending, it is important to implement changes that make public expenditure more efficient and effective, as well as strengthen transparency and accountability. Efforts must also continue building upon advances in open budgeting,<sup>100</sup> while improving conditions for the implementation of results-based budgeting.<sup>101</sup>
- 3.7 **Justice system effectiveness is another governance challenge facing the country.** Guatemala performs below its peers in this area, as reflected in its score of 0.3 on the criminal justice factor of the Rule of Law Index, compared with an average score of 0.42 for Latin America and the Caribbean and 0.36 for Central America and the Dominican Republic, relegating the country to 118th place out of 128 countries.<sup>102</sup> This illustrates the need to strengthen the investigative capacity of the Public Prosecutor's Office, which has only 13 prosecutors per 100,000 inhabitants, which in turn affects its ability to effectively respond to the high level of violence in the country. Although Guatemala managed to reduce the homicide rate to 15.2 homicides per 100,000 inhabitants in 2020, down from 46 in 2009, cases of extortion nearly tripled between 2013 and 2019. In addition, these challenges are even worse for the country's female population. While the homicide rate for women was 4.1 homicides per 100,000 inhabitants in 2019, which is below the rate for men of 26.5 per 100,000 inhabitants, gender-based violence remains high. In 2019, 61 out of every 10,000 women were victims of violence, a 10% increase over 2018. Judgments were issued for only 3.4% of men prosecuted by the Public Prosecutor's Office in 2019 for violent crimes against women, femicide, and economic violence. Similarly, of the total number of judgments issued in 2019, only 35.2% of men were convicted. Additionally, the Public Prosecutor's Office, through the Department of Indigenous Peoples, has been taking steps to

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<sup>98</sup> IDB, 2018. [Better Spending for Better Lives: How Latin America and the Caribbean Can Do More with Less. Edited](#) by Alejandro Izquierdo, Carola Pessino, and Guillermo Vuletin. Washington, D.C., United States.

<sup>99</sup> Over two thirds of the taxes collected in Guatemala are indirect taxes (value-added tax, selective excises, customs duties, etc.), which are typically regarded as regressive. Of the total tax expenditure of 2.7% of GDP, 0.8% of GDP corresponds to income, largely concentrated in corporations, whereas the rest corresponds to exemptions for the basic shopping basket.

<sup>100</sup> Implemented in 2016, open budgeting is an initiative to encourage citizen participation in the budget formulation process for the multiyear budget proposal. In recent years, Guatemala has made significant progress in this area, according to the [Open Budget Survey](#).

<sup>101</sup> Since 2012, the Guatemalan government has been making efforts to implement a results-based management approach to public administration. Since 2017, the Planning and Programming Department (SEGEPLAN) has provided technical assistance to public sector institutions to advance this approach, but the results-based methodology is not yet being used in the annual budget process.

<sup>102</sup> The World Justice Project's [Rule of Law Index 2020](#) presents a portrait of the rule of law in 128 countries, assigning scores and rankings based on eight factors, including criminal justice. This factor takes into consideration the police, public defenders, prosecutors, judges, and prison officers.

strengthen communication and improve the cultural and linguistic appropriateness of its services for indigenous populations.

- 3.8 In this area, the IDB Group will support the country's efforts to raise tax revenue, improve the quality of expenditure, and strengthen justice administration institutions.<sup>103</sup> The active portfolio will be an important source of support for these efforts.<sup>104</sup> Action will be taken to: (i) increase tax revenue and tax compliance; (ii) improve efficiency in government procurement processes and budget transparency; and (iii) expand the coverage and quality of the services of the Public Prosecutor's Office for citizens, to reduce impunity, violence, and corruption with an emphasis on violence against women. Support will also be provided for the General Procurement Office to strengthen its systems and management capacity, catch up to international standards, and reduce technical inefficiencies to increase expenditure efficiency and transparency. A key factor for each of these actions will be promoting digital transformation to improve Guatemala's institutional structure across multiple dimensions.

## **B. Improvement of basic service delivery to the vulnerable population**

- 3.9 Low levels of social expenditure<sup>105</sup> and public investment<sup>106</sup> disproportionately affect the most vulnerable groups in a context of high social and economic inequity, which limits human capital accumulation and income generation. Public spending on healthcare and education accounted for an average of 5.1% of GDP between 2010 and 2020, below the regional average. The Bono Social<sup>107</sup> conditional cash transfer program has limited coverage.<sup>108</sup> Additionally, technical inefficiency<sup>109</sup> in social spending, coupled with high levels of labor informality, further reduces the government's ability to deliver basic services efficiently to the population and reduce social gaps. Whereas 34.7% of the working population is employed in the formal sector nationwide, the proportions are lower for women (32%) and rural populations (24.7%).<sup>110</sup> Moreover, only 25.7% of the country's working population contributes to the Guatemala Social Security Institute (IGSS), and this percentage

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<sup>103</sup> Government General Policy, objectives 4.1.2.12 and 4.3.2.1. The actions noted will also directly contribute to the achievement of the SDGs related to gender equality (SDG 5), reduced inequalities (SDG 10), and peace, justice, and strong institutions (SDG 16).

<sup>104</sup> Operation GU-L1058, Office of the Public Prosecutor Strengthening and Modernization Program, was signed on 23 April 2020. Its objective is to enhance the efficiency of the Office of the Public Prosecutor in order to help reduce impunity in Guatemala. This objective will be achieved by: (i) increasing efficiency in the processing of complaints and cases; (ii) increasing the quality of indictment motions submitted to judges; and (iii) reducing internal response times and speeding assistance to the public.

<sup>105</sup> CEPALSTAT, 2020. Public expenditure based on classification of the functions of government.

<sup>106</sup> IDB, 2018. [Development in the Americas: Better Spending for Better Lives](#). Edited by A. Izquierdo, C. Pessino, and G. Vuletin.

<sup>107</sup> The program provides financial assistance on a regular basis to families living in poverty and extreme poverty, with children ages 0 to 15, and pregnant women. The monthly transfer ranges from US\$35 to US\$65, depending on the department of residence, and is subject to fulfillment of core responsibilities in health and education. Through the Ministry of Social Development (MIDES), the program supported 207,806 families in 2020.

<sup>108</sup> MINFIN, 2021. In 2020, expenditure on conditional cash transfers for health and education was approximately US\$41 million, equivalent to 0.3% of central government expenditure, which is below the amount necessary to assist the over 50% of the population living in poverty.

<sup>109</sup> According to IDB estimates (2018), leakage of transfers and waste in public procurement represented 20.6% of total expenditure and 2.7% of GDP in 2016.

<sup>110</sup> INE, 2019. ENEI, 2-2019.

- drops to 15.6% for rural areas. The IGSS offers insurance coverage in the event of illness or disability, as well as pensions for the elderly, but there are no programs for unemployment insurance or noncontributory pensions.
- 3.10 The lack of access to and limited coverage of quality **healthcare services** are constraints on human capital accumulation. For example, the life expectancy for women (75.4 years) and men (68.9 years) is below the average of 78 years and 72 years, respectively, for the region of Central America, Panama, and the Dominican Republic (CAPDR).<sup>111</sup> Additionally, the infant mortality rate is 25 deaths per 1,000 live births, compared with 17 in CAPDR and 16 in Latin America and the Caribbean.<sup>112</sup> On top of this, one of the main causes of infant mortality is chronic malnutrition,<sup>113</sup> which has not improved significantly in the past decade. It affected 46.5% of children under five in 2015,<sup>114</sup> and is more prevalent in rural areas with majority indigenous populations.<sup>115</sup> Meanwhile, the number of children with low birth weight rose from 8.9% in 2011 to 13% in 2015. Moreover, the maternal mortality rate is 101 deaths per 100,000 births, well above the average of 64 in CAPDR and 74 in Latin America and the Caribbean.<sup>116</sup> The maternal mortality rate is 1.75 times higher for indigenous women than nonindigenous women, and it has been documented that one of the greatest barriers to increasing the use of healthcare services during childbirth among indigenous populations is the lack of culturally appropriate services.<sup>117</sup> These indicators reflect the low level of health expenditure per capita, which stands at US\$483 in terms of purchasing power parity (PPP), less than half of the average in CAPDR (US\$842 PPP) and one third of the average in Latin America and the Caribbean (US\$1,251 PPP).<sup>118</sup>
- 3.11 Gaps in access to healthcare services are wider in rural areas and for indigenous populations, and primarily affect women. In terms of the challenges to access, 55% of nonindigenous populations and 66% of indigenous populations reported a lack of money as being one of the barriers, and 25% of the urban population and 50% of the rural population consider the distance from a health facility to be a serious problem for access.<sup>119</sup> The majority of Guatemalan women who die from causes related to pregnancy, childbirth, and the postpartum period live in rural areas, are indigenous, and have a low level of education. In 2019, 50% of maternal deaths were concentrated in five of the country's 22 departments.<sup>120</sup> In all, 61% of these deaths were women of Mayan ethnicity.<sup>121</sup> The recent Tropical Depressions Eta and Iota caused approximately US\$40 million in damage to the healthcare sector,

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<sup>111</sup> WHO, 2020. Global Health Observatory.

<sup>112</sup> WHO, 2020. Global Health Observatory.

<sup>113</sup> [Institute for Health Metrics and Evaluation \(IHME\)](#), 2019. Malnutrition is the risk factor driving the trend of combined death and disability over the last 10 years.

<sup>114</sup> PAHO, Health Information Platform for the Americas.

<sup>115</sup> According to data from the Health Information Management System (SIGSA) of the Ministry of Health and Social Welfare (MSPAS), 160,370 cases of chronic malnutrition were reported in children under five in 2019. Of these cases, 53% are concentrated in the departments of Quiché, Huehuetenango, and Alta Verapaz.

<sup>116</sup> WHO, 2020. Global Health Observatory.

<sup>117</sup> MSPAS, 2017. Country Report. Maternal Mortality 2014-2015.

<sup>118</sup> WHO, 2020. Global Health Expenditure Database.

<sup>119</sup> INE, 2014. National Survey on the Status of Mother and Child Health 2014-2015.

<sup>120</sup> These departments are Huehuetenango, Alta Verapaz, Quiché, San Marcos, and Santa Rosa.

<sup>121</sup> MSPAS, 2019. Epidemiological Status: Maternal Death Guatemala, 2019.

which clearly exposed the vulnerability of healthcare infrastructure to natural disasters. In total, 237 healthcare centers were affected, 12% of which were destroyed, mostly primary healthcare centers.<sup>122</sup>

- 3.12 The low level of schooling among the population is another factor limiting human capital accumulation and access to productive opportunities. Indicators of **education system** enrollment and quality pose considerable challenges. At the preschool level, the net enrollment ratio increased 5.3 percentage points between 2010 and 2020, to nearly 61%. Yet the net enrollment ratio for primary school decreased 3.1 percentage points over the same period, to 93.7% in 2020,<sup>123</sup> meaning that students faced constraints on continuing their schooling and advancing to the next level in the system. The migration of minors to the United States, associated with fears for personal safety and child labor, are additional factors that may affect enrollment at that level. At the same time, the country is facing significant challenges in terms of education quality, based on the outcomes of standardized reading and math tests at the primary level. In 2019, only half of third-grade students tested obtained satisfactory outcomes in reading, and 40% in math, while only 40% of sixth-grade students passed the tests in reading, and 44% in math.<sup>124</sup> In addition, lower and upper secondary education still poses major challenges, since a significant portion of the school-age population at these levels are not in school. According to the Ministry of Education of Guatemala, the enrollment rate was 49.2% for middle school (lower secondary) and 26.2% for high school (upper secondary), some of the lowest rates in Latin America. At the same time, public school enrollment is also very low, considering that 42.8% of all middle-school students and only 22.5% of high-school students attend public schools. The pandemic has increased the risk that these results will worsen, since the education system has been unable to ensure continuity for many students through online teaching, due mainly to low Internet penetration. In addition, the impact of storms Eta and Iota affected education infrastructure, damaging 2% of school buildings with an estimated cost of around US\$5.5 million. It should be noted that Guatemala's level of spending on education is very low compared with the rest of the region.<sup>125</sup>
- 3.13 The challenges of access to basic services are evident in other dimensions, such as electricity and water and sanitation. Although **electricity coverage** rose from 52% in 1996 to 88% in 2018, it is still below average for Latin America and the Caribbean.<sup>126</sup> In the Department of Alta Verapaz, which is highly rural and one of the poorest in the country, coverage reaches only half of households. Around 400,000 households are not connected to the electricity grid, and 287,000 of these use gas lamps, candles, or kerosene, which are more costly alternatives that generate high CO<sub>2</sub> emissions. Moreover, 84% of rural households use firewood for cooking, which accounts for 55% of the country's energy mix.<sup>127</sup> Guatemala's

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<sup>122</sup> O. Bello and L. Peralta (coordinators), Evaluación de los efectos e impactos de las depresiones tropicales Eta y Iota en Guatemala. Santiago, ECLAC, 2021.

<sup>123</sup> Ministry of Education (MINEDUC), 2020. Statistical Yearbook on Education in Guatemala.

<sup>124</sup> Directorate of Evaluation and Education Research (DIGEDUCA), 2015: Achievement outcomes in reading and math.

<sup>125</sup> World Bank, 2020. Central government public expenditure in Guatemala was 3% of GDP in 2017, whereas the average for Latin America and the Caribbean was 4.5% of GDP that year.

<sup>126</sup> INE, 2018. Twelfth National Population Census and Seventh National Housing Census.

<sup>127</sup> Ministry of Energy and Mines, 2020. [Energy Budget 2019](#).

annual demand for firewood is approximately 16 million tons,<sup>128</sup> which contributes to the country's CO<sub>2</sub> emissions. Guatemala recorded 38.7 million tons of CO<sub>2</sub> emissions in 2018, with the energy sector being responsible for 55.6% of total emissions.<sup>129</sup> There is also a positive correlation between firewood use and respiratory diseases, which can increase the chance of acute or chronic respiratory disease by over 30%.<sup>130</sup> In addition, although 94% of households have **safe basic water services**,<sup>131</sup> this figure falls to 90% in rural areas, whereas access to **basic sanitation services** stands at 68% nationwide and 56% in rural areas. Improving access to water and sanitation will contribute to inclusive economic development due to their impact on health, education, and labor productivity.

- 3.14 The IDB Group will continue the efforts begun under the previous strategy to expand basic services in order to promote human capital accumulation, which should help combat the deterioration of social indicators caused by the COVID-19 pandemic. The 2021-2024 country strategy will prioritize actions to support income generation through human capital development in the following areas:<sup>132</sup> (i) expand coverage and improve the quality and targeting of the social safety net and its programs; (ii) strengthen health and education access and quality; (iii) broaden electricity coverage and energy access through clean energy sources in rural areas, and reduce greenhouse gas emissions in the energy sector; and (iv) install water and sanitation systems in rural and periurban communities. Interventions will target areas with the widest gaps, particularly rural areas with majority indigenous populations, as well as municipios with a high migration propensity. Efforts will also be made to continue and expand these services through digital tools. Lastly, investments in social infrastructure will incorporate climate resilience criteria into their design, and portfolio operations will be leveraged in the areas of health, education, water and sanitation, and electrification.<sup>133</sup>

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<sup>128</sup> FAO, 2012. Woodfuel Integrated Supply/Demand Overview Mapping. Guatemala, Food and Agriculture Organization and Growing Forest Partnerships Facility.

<sup>129</sup> [Climate Watch Historical GHG Emissions](#). 2021. Washington, D.C., World Resources Institute.

<sup>130</sup> SEGEPLAN, 2010. [Tercer informe de avances en el cumplimiento de los Objetivos de Desarrollo del Milenio](#). Guatemala, November.

<sup>131</sup> WHO/UNICEF, [Joint Monitoring Programme for Water Supply, Sanitation, and Hygiene \(JMP\)](#).

<sup>132</sup> This pillar is aligned with the Government General Policy 2020-2024, objective 4.2.2.2 and strategic action 4.1.2.4.1. The actions envisaged also have the potential to contribute to the following SDGs: no poverty (SDG 1), zero hunger (SDG 2), good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), clean water and sanitation (SDG 6), affordable and clean energy (SDG 7), reduced inequalities (SDG 10), sustainable cities and communities (SDG 11), and climate action (SDG 13).

<sup>133</sup> The portfolio has operations with large balances to be executed during the period: (i) in health: GU-L1163, Program to Strengthen the Institutional Healthcare Service Network (PRORISS), with an available balance of US\$98 million, and GU-G1007, Regional Malaria Elimination Initiative (RMEI), with an available balance of US\$4.3 million; (ii) in education: GU-L1087, Education Quality and Coverage Improvement Program, with an available balance of US\$97 million; (iii) in energy: GU-L1171, Program for Rural Electrification Infrastructure (PIER), for US\$120 million, pending signature, and GU-G1004 and GU-T1305, Efficient Use of Firewood and Alternative Fuels in Indigenous and Rural Communities, US\$12.9 million, pending eligibility; and (iv) GU-L1039 and GU-X1005, Water and Sanitation Program for Human Development, and GU-X1005, with a combined available balance of US\$25.4 million.

### C. Promotion of the private sector for stronger, more inclusive, and sustainable growth

- 3.15 Guatemala ranked 98th out of 141 countries on the 2019 Global Competitiveness Index, which reflects major gaps in road connectivity, broadband, workforce skills, and access to finance.<sup>134</sup> These gaps are a drag on economic recovery and the generation of stronger and more inclusive growth because they affect the population's economic opportunities and the ability to attract investment. In addition, CO<sub>2</sub> emissions in Guatemala have risen 5.65% over 2018, pointing to energy efficiency gaps in the productive matrix.
- 3.16 The 2018 Logistics Performance Index ranked Guatemala 125th out of 160 countries rated by the World Bank in different areas of logistics, down from its 2016 position (111th).<sup>135</sup> **Road connectivity** plays a decisive role in Guatemala's productivity and trade. The national road system is over 17,000 kilometers and moves more than 24 million tons of goods a year. Although the national road system covers much of the country, one third of roads are unpaved. In the case of the CA-9 North corridor, a major Central American highway and the main axis for the country's exports,<sup>136</sup> its low capacity affects the shipment of goods and increases travel times and logistics costs. These costs rose from 23% to 29% in 2015-2020, and reached 40% for export companies.<sup>137</sup> The situation is even more challenging for local roads, as more than half are unpaved, which raises costs, limits the connectivity of productive areas to the main road system and restricts the rural population's access to services. Additionally, gravel roads are more vulnerable to climate change-related events, particularly higher rainfall, which in turn increases travel times and costs. Public investment in infrastructure is low and declining, reaching 1.3% of GDP in 2020, compared with 2% of GDP in 2014. The lack of maintenance reduced average transit speeds from 58 kilometers per hour in 2000 to 44 kilometers per hour in 2017.<sup>138</sup>
- 3.17 The coverage, costs, and quality of telecommunications, especially **connectivity and broadband services**, are factors affecting the country's ability to expand its access to digital technologies. Only 40.7% of the population uses the Internet,<sup>139</sup> and 62% own a cell phone. The costs of broadband and mobile Internet services account for approximately 6% and 9% of per capita GDP,<sup>140</sup> respectively. This is high for the majority of Guatemalans, representing up to 28% of monthly income for 40% of the low-income population in the case of fixed broadband, and 18% in

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<sup>134</sup> In 2019, Guatemala was ranked 134th in road connectivity; 132nd in broadband subscriptions; 98th in electricity access; and 91st in lending to the private sector. In addition, the country has become less competitive over time with respect to its peers, as its score declined from 58.55 in 2015 to 53.52 in 2019, and its rank slipped from 78th to 98th over the same years.

<sup>135</sup> International Bank for Reconstruction and Development (IBRD), 2018. Connecting to Compete: The Logistic Performance Index and Its Indicators. The score declined from 2.8 in 2014 to 2.41 in 2018.

<sup>136</sup> The CA-9 corridor is 427 kilometers long and is a crucial road for the transportation of freight to and from international markets, creating commercial conditions for domestic and foreign investment. In all, 68% of exports used Caribbean ports with freight passing through the CA-9 corridor. National Port Commission (CPN), 2018.

<sup>137</sup> Infraestructura para el Desarrollo, Coordinating Committee of Agricultural, Commercial, Industrial, and Financial Associations of Guatemala (CACIF) – FUNDESA, XVI edition.

<sup>138</sup> FUNDESA, 2017. Infraestructura para el Desarrollo, XVI edition.

<sup>139</sup> International Telecommunications Union (ITU), 2017.

<sup>140</sup> International Telecommunications Union (ITU), 2018. Measuring the Information Society Report.

- the case of mobile broadband.<sup>141</sup> The pandemic has clearly shown the importance of digital connectivity, but progress in this area will require a comprehensive strategy on the part of the government.
- 3.18 MSMEs accounted for 99.66% of the country's businesses in 2017, contributing 40% to Guatemala's economy and generating 80% of employment.<sup>142</sup> Specifically, 90.34% of the country's businesses are microenterprises, 9.32% are small and medium-sized enterprises, and 0.34% are large companies. Nevertheless, micro, small, and medium-sized enterprises (MSMEs) face difficulties in **access to credit**. Only 42% of companies use bank lending to finance their investments, and only 12% of Guatemalan MSMEs have access to finance. Even when they do have access to finance, it only covers 15% to 25% of the total investment, one of the lowest coverage rates in Latin America and the Caribbean.<sup>143</sup> The lack of access to medium- and long-term financing, especially for women-led companies, is associated with the absence of traditional mortgage guarantees or collateral security typically required by financial entities. Businesses also have low capacity in accounting, tax, and administrative areas in general, as well as low level of adoption of digital tools.
- 3.19 The **agricultural sector** also has high potential for production and inclusion.<sup>144</sup> In 2020, agricultural products accounted for 10% of GDP and 33% of total exports of goods.<sup>145</sup> Even though the agricultural sector generates the most employment (30.4% of the working population), average income in the sector is 62% of the national average.<sup>146</sup> In addition, average monthly wages in the agricultural sector in November 2019 were the lowest out of the 10 sectors measured by the National Statistics Institute (INE). Most agriculture in Guatemala is small-scale and limited in resources. Subsistence and infrasubsistence producers are typically located in remote and highly vulnerable areas where they face many challenges, such as poverty, marginalization, low education levels, little access to healthcare, limited support from institutions, exposure to pests and disease, and seasonal food insecurity.<sup>147</sup> In addition, many of these producers live on the tops or sides of mountains, where productivity is low, and access to information, technology, and technical support is limited.<sup>148</sup> Furthermore, land use has changed due to the expansion of livestock farming and the production of basic grains, coupled with the unsustainable extraction of firewood, a key input in the energy mix, which is highly dependent upon it (paragraph 3.14). These are the main factors that have led to a

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<sup>141</sup> IDB, 2020. [digiLAC](#).

<sup>142</sup> Ministry of the Economy (MINECO), 2019. Report on the status and development of the MSME sector in Guatemala, 2015-2017.

<sup>143</sup> IDB, 2016. Development Challenges, Guatemala.

<sup>144</sup> Of Guatemala's 108,899 square kilometers in area, 38% is used for agriculture, 15% for ranching, and 11% for permanent and seasonal agriculture, while 24% is a combination of secondary forest and shrub growing on degraded soils or dry areas, with the remaining 5% including inland waters, wetlands, and urban areas. Solomons et al, 2017. Food and Nutrition Security in Guatemala. Inter-American Network of Academies of Sciences (IANAS) (Ed.), Retos y oportunidades de la seguridad alimentaria y nutricional en las Américas. El punto de vista de las Academias de Ciencias (pp. 352-375). Mexico: IANAS.

<sup>145</sup> BANGUAT, 2021. Macroeconomic Statistics.

<sup>146</sup> INE, 2010. ENEI, 2-2019.

<sup>147</sup> Solano Garrido, A. L., and Ochoa, W., 2019. Agricultura y seguridad alimentaria.

<sup>148</sup> Tucker et al, 2010. Perceptions of risk and adaptation: Coffee producers, markets shocks, and extreme weather in Central America and Mexico. *Global Environmental Change*, 20(1), 23-32.

loss of forest resources, as forest coverage<sup>149</sup> shrank from 41% of the national territory in 2001 to 33% in 2016. The many forest goods and ecosystem services generated from the 3.6 million hectares of forest accounted for 0.7% of GDP and 4.2% of exports in 2019, and represented 3.6% of employment in 2018.

- 3.20 One of the fundamental constraints on the sustained increase in productivity in the country is the mismatch between the **skills** of the population, including digital and soft skills, and those required by sectors with economic traction in a highly informal labor market environment. According to data from the 2019 National Employment and Income Survey (ENEI), while people between 15 and 24 account for 26.9% of the economically active population, they represent 48.3%<sup>150</sup> of the unemployed population. The 2018 census indicated that, whereas 33.4% of Ladinos have a secondary school education (middle and high school), only 18% of individuals belonging to indigenous groups have achieved this level.<sup>151</sup> Manpower<sup>152</sup> reported that 43% of Guatemalan companies struggled to fill vacant positions in 2019. The Technical Institute for Training and Productivity (INTECAP), an institution for vocational training and development of the country's human resources,<sup>153</sup> is facing multiple challenges, including (i) retraining workers who lost their jobs during the pandemic; (ii) driving productive restructuring in certain sectors; and (iii) training young people to enter the formal job market. The lack of detailed information on the needs of these productive sectors limits the authorities' ability to design public policies that promote mechanisms for labor intermediation and generation of skills that are valuable in the marketplace.
- 3.21 To help get production moving again, the IDB Group will provide support through the portfolio in execution<sup>154</sup> and new financial and nonfinancial interventions to initiatives that enhance road, energy, and digital connectivity, increase access to credit, and promote the productive use of the agricultural and forest sectors.<sup>155</sup> In *infrastructure*, the IDB Group will work to expand and modernize road infrastructure, including rural roads and the national road system, by adopting

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<sup>149</sup> Forest Information System of Guatemala, 2020.

<sup>150</sup> INE, 2019. ENEI, 2-2019.

<sup>151</sup> INE, 2018. Twelfth National Population Census and Seventh National Housing Census.

<sup>152</sup> Manpower (2019). Closing the Skills Gap: What Workers Want. Guatemala Results.

<sup>153</sup> The Technical Institute for Training and Productivity (INTECAP) has training centers, departmental offices, entrepreneurial services departments, over 70 specializations, and a distance training unit. It focuses on the sectors of agriculture, manufacturing, commerce, and services.

<sup>154</sup> The IDB's portfolio will contribute to this strategic pillar through operations in: (i) transportation: GU-L1169, Road Infrastructure Development Program, which has an available balance of US\$144.9 million; (ii) broadband: GU-L1175, Program for the Digital Transformation of Guatemala for Inclusive Access to Connectivity, for US\$170 million, which is pending signature and has the objective of increasing access to fixed and mobile broadband; and (iii) forestry development: GU-L1165, Sustainable Forest Management Project, for US\$8.4 million, which is pending signature and has the objective of reducing the rate of deforestation and carbon dioxide equivalent (CO<sub>2e</sub>) emissions by improving the efficiency of public forest services; improving the effectiveness, returns, and social inclusion of incentive programs; and promoting the sustainable use of forests. Additionally, IDB Invest has a portfolio with financial institutions that issue credit for productive activities totaling US\$424.9 million, as well as US\$6.4 million for energy, and US\$3.7 million for rural development and agriculture.

<sup>155</sup> Government General Policy 2020-2024, strategic actions 4.4.2.6.1, 4.1.2.3, 4.1.2.4.1, and 4.1.2.2.1. The actions indicated also have the potential to contribute to the following SDGs: no poverty (SDG 1), gender equality (SDG 5), affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), industry, innovation, and infrastructure (SDG 9), sustainable cities and communities (SDG 11), climate action (SDG 13), and life on land (SDG 15).

measures for climate change resilience and adaptation, with consideration for the land use plans of the municipios involved. Through IDB Invest, it will identify opportunities for investments in environmentally sustainable infrastructure. It will also work to increase access to broadband services and adoption of information and communication technologies. In *access to finance*, the IDB Group will work to expand access to credit by the private sector, mainly MSMEs, through initiatives to increase the availability of financial resources for underserved segments, strengthen entrepreneurship and productivity, and leverage opportunities that may arise from the reoptimization of global supply chains. In *agricultural and forestry development*, the IDB Group will work to increase the sector's competitiveness, climate change adaptation and mitigation, and support for inclusive business models. This includes the efficiency of public forestry services by improving the effectiveness and returns of programs offering incentives for more productive use of forests. Action will also be taken to strengthen the technical and vocational training system<sup>156</sup> in order to address demand in productive sectors, existing labor intermediation channels, and the generation of solutions complementary to national employment services.

#### **D. Crosscutting areas**

- 3.22 IDB Group interventions will promote inclusion through a gender and diversity lens.** Programming and portfolio activities<sup>157</sup> will include the following: (i) in the priority area of institution-strengthening, activities will address gender-based violence and culturally appropriate access to justice; (ii) in the area of basic service delivery, the Bank will invest in strengthening mother-and-child health and will strive for cultural and linguistic appropriateness in health and education interventions in regions with the widest gaps; and (iii) in the area of private sector promotion, operations will support underserved segments by reducing the barriers they face and prioritizing companies led by women or indigenous people in rural areas. Lastly, the design of new operations will include a detailed analysis on issues of diversity and indigenous peoples, so that actions can be made more relevant in terms of addressing the development gaps affecting these groups.
- 3.23 The IDB will seek to strengthen institutional capacity and the rule of law, as well as promote greater transparency in the use of public resources.** To that end, it will work to build capacity at beneficiary institutions and their execution units, and measures will be introduced to help promote transparency in the use of public resources and integrity in the interventions financed by the three windows of the IDB Group. Strengthening of country systems will also be addressed on a crosscutting basis (paragraph 5.2), to catch up to international standards in auditing processes, accounting rules, and public procurement procedures. This will also include strengthening of agencies that oversee government integrity and transparency, such as the Office of the Comptroller General (CGC), to make them more efficient and effective at preventing conflicts of interest in the public sector

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<sup>156</sup> For example, technical-cooperation operation GU-T1326, Improving Pedagogical Skills in Virtual Environments for Trainers of Vulnerable Youth in Guatemala, seeks to build the capacity of the technical and vocational training system in Guatemala.

<sup>157</sup> Technical-cooperation operation GU-T1317, Support for Mainstreaming Diversity Issues in Guatemala Operations, was approved in 2021 and seeks to improve knowledge on key diversity issues and develop tools for strengthening their mainstreaming in the Bank's work program in Guatemala.

and misuse of public resources.<sup>158</sup> In terms of financial transparency, further support will be provided to the Superintendency of Banks and the Special Audit Office for issues related to strengthening of the legal framework, especially the regulation and supervision of designated nonfinancial activities and professions, as well as the implementation of a legal framework for determining information on final beneficiaries.<sup>159</sup> In addition to the actions proposed in the area of institution-strengthening in terms of tax revenue, transparency in public spending, and access to justice (paragraph 3.9), portfolio operations are expected to include the following actions: (i) in the area of access to basic services, support will be provided to the Ministry of Public Health and Social Welfare (MSPAS), to strengthen its role as apex agency of the water and sanitation sector, and better enable it to provide prenatal, childbirth, and emergency services through comprehensive strengthening of the welfare system and its governance; and (ii) in the area of private sector promotion, efforts will be made to enhance the business climate, maximize the strategic role of public-private partnerships (PPP),<sup>160</sup> achieve progress in the legal and regulatory framework for information and communication technologies, develop a digital agenda, and strengthen services for forestry incentives. In addition, work will be done with execution units and clients across all windows to build institutional and governance capacity on environmental and social issues, as part of the IDB's new environmental and social policy framework.

**3.24 Natural disaster and climate change issues will continue to be crosscutting priorities.** Considering the possibility that extreme events may increase in frequency and intensity, which in turn may affect the economy and employment, measures will be promoted for disaster risk management, climate change adaptation and mitigation, and actions contributing to the reduction of greenhouse gas emissions as part of Guatemala's Nationally Determined Contribution (NDC), through new operations and operations in execution.<sup>161</sup> Interventions in the priority areas of institution-strengthening and basic services that involve municipal works will thus include measures for climate resilience, energy efficiency, and water savings in their design and construction. Interventions in the areas of basic service delivery and private sector promotion will also prioritize climate resilience and emissions reduction. In addition, support will continue to be provided to the national strategy for Reducing Emissions from Deforestation and Forest Degradation (REDD+). Lastly, the IDB Group will continue efforts to improve resilience and governance for risk management by supporting the implementation of the Disaster Risk Management Plan through approved contingent financing (paragraph 6.4)

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<sup>158</sup> See the CGC performance evaluation based on the Supreme Audit Institution (SAI) Performance Measurement Framework of the International Organization of Supreme Audit Institutions (INTOSAI), October 2020.

<sup>159</sup> IMF, 2021. Staff Concluding Statement of the [2021 Article IV Mission](#). The recommendations note the importance of updating the anti-money laundering framework and strengthening institutions to promote the financial sector's integrity.

<sup>160</sup> The Bank has provided advisory support to the country for public-private partnership initiatives through diagnostic assessment and evaluation of relevant aspects of the model, as well as institutional support for the National Agency of Partnerships for the Development of Economic Infrastructure (ANADIE). In addition, as part of the support for improving the national road system and the CA-9 North corridor, technical-cooperation operation GU-T1296 will assess alternatives to public-private partnership models.

<sup>161</sup> On 12 October 2021, the Government of Guatemala signed an agreement with the Forest Carbon Partnership Facility of the World Bank. The Guatemala Emissions Reduction Program, with the World Bank as a trustee of the Facility, consists of an agreement to purchase 10.5 million tons of carbon dioxide over a period of up to five years. Priority will be given to actions to support the government in this agreement.

and fast-disbursing emergency instruments, with a view to mitigating risk and addressing needs that may emerge when extreme weather events occur.

- 3.25 **Digital transformation will be a new theme that the IDB Group will address on a crosscutting basis by leveraging portfolio operations and positioning it in the program.** Efforts will thus be made for greater adoption of information technologies and digitalization, to increase access to public services, enhance the operations of beneficiary institutions, ensure the continuity of basic services, promote digital skills, and improve conditions for advancing a digital agenda for the country. Portfolio operations will include the following interventions: (i) in the priority area of institution-strengthening, the IDB Group will provide financing to modernize management systems at the Public Prosecutor’s Office; (ii) in the area of basic services, the national digital health plan will be designed, and its implementation supported, and technology use will be promoted for the implementation of digital solutions for the continuity of health and education services and hospital management; and (iii) in the area of private sector promotion, the Road Administration will be equipped with new systems for the planning and management of the national road system. Technological innovations, such as the use of radio frequency identification devices, will be implemented for the management of freight transit, and support will be provided to MSMEs for the adoption of digital tools. In addition, information technology infrastructure will be provided for the National Forest Institute (INAB) and the National Council for Protected Areas (CONAP). Lastly, the design of new operations will incorporate interventions to increase the use of digital solutions for access to finance.
- 3.26 **Dialogue areas.** The IDB Group will maintain a dialogue in the **areas of migration, regional integration, investment promotion, and tourism**. In **migration**, the government will be supported in encouraging populations at risk of migrating to remain in the country, as well as providing opportunities for returnees by creating jobs and improving quality of life.<sup>162</sup> The impact of rural migration on urban growth, particularly in midsized cities, will also be considered. In **regional integration**, support will be provided for *processes to modernize border and logistics corridor management* in line with the process of deep integration of the Northern Triangle, the Central American strategy to facilitate trade and competitiveness, and the regional framework policy for mobility and logistics. The Support will also be provided for the *development and structuring of regional initiatives in the areas of health and education*, which include Guatemala as a beneficiary country. Additionally, the Guatemalan government will continue to receive assistance in **institutional capacity-building for investment promotion**, particularly amid the reconfiguration of global supply chains and the opportunities this may create, through technical support activities including the sharing of good practices for investment promotion and the preliminary design of a digital investment single window. Support for investment promotion objectives through the sectors identified in the Plan “Guatemala No Se Detiene” [“Guatemala Is Not Stopping” Plan] will help guide dialogue on this issue. In that regard, the plan has

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<sup>162</sup> International Organization for Migration (IOM), 2021. Análisis de Necesidades Sobre Gobernanza de las Migraciones en Guatemala. The report underscores the importance of migration governance in Guatemala and notes the need to: (i) strengthen the government’s institutional capacity for collecting data on the migrant population; (ii) build capacity at the MSPAS to collect information on the coverage of healthcare services in border areas; and (iii) form strategic partnerships with key stakeholders to facilitate voluntary return and reintegration programs.

notably prioritized the **tourism sector**, which can have a significant impact on reducing rural poverty and attracting foreign investment.

#### IV. PROJECTED LENDING FRAMEWORK

- 4.1 According to IMF projections, the gross financing needs<sup>163</sup> of the nonfinancial public sector will be 4.7% and 4.1% of GDP in 2021 and 2022,<sup>164</sup> respectively, which will be covered by bond issues on domestic and foreign markets and multilateral loans. Accordingly, subject to the biennial allocations of the Bank's Ordinary Capital resources, annual approvals and disbursements of sovereign guaranteed loans are projected to average US\$230 million and US\$185 million, respectively. The IDB Group's sovereign guaranteed lending for the period 2021-2024 is therefore projected to be US\$920 million in new approvals and approximately US\$740 million in total disbursements. The Bank's exposure would reach 8.4% of Guatemala's total public debt, 20% of its external public debt, and 46.2% of its multilateral debt by the end of the country strategy period (see Annex III). The non-sovereign guaranteed resources to support the private sector during the period through the IDB Group's private sector windows would be additional to this.

#### V. PRELIMINARY CONSIDERATIONS FOR IMPLEMENTATION

- 5.1 **Considerations for improving portfolio performance.** The efforts to improve project execution<sup>165</sup> during the 2017-2020 country strategy period will continue. To that end, the Bank will implement such measures as:<sup>166</sup> (i) strengthening the monitoring and evaluation of operations using the Bank's main project management tools, coupled with closer monitoring by teams, and establishing firm commitments with executing agencies; (ii) conducting six-monthly reviews of portfolio quality in conjunction with the progress monitoring report cycle, involving project teams, the borrower, and executing agencies; (iii) digitalizing comprehensive project planning, procurement, and contract management and monitoring during execution; (iv) delineating rules for execution in the loan contract, clearly identifying when the Bank's policies apply and when country procedures will be used on a secondary basis, as well as the project scope and execution mechanism to be used, such that all parties commit to proper implementation, thereby minimizing the risk of overlapping rules and processes; (v) establishing and implementing clear rules for execution and cancelation of operations; and (vi) regular training for execution unit staff in each Bank operation on issues related to the implementation of Bank policies and project management. In addition, the Bank will continue the practice of maintaining active dialogue and raising awareness of the operations among key stakeholders, to shorten the period for discussion of approved operations and improve execution.

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<sup>163</sup> This includes financing of the fiscal deficit after grants and repayment of domestic and foreign public debt.

<sup>164</sup> IMF, 2021. Staff Concluding Statement of the [2021 Article IV Mission](#).

<sup>165</sup> In its independent country program review (ICPR), OVE acknowledges the effort to regularize the old portfolio but notes that implementation risks remain for the active portfolio and are associated with delays, ineffective designs, and institutional weaknesses.

<sup>166</sup> This section contains learnings mentioned in Technical Note [IDB-TN-01805](#), which proposes additional measures for strengthening portfolio management.

- 5.2 **Strengthening of country systems.** For the financial management and supervision of operations, the Bank uses the budget, cash management, accounting, and reporting subsystems of the Integrated Financial Administration System, as well as the subsystem for external auditing by the Office of the Comptroller General (CGC). For procurement management, it uses the Government Contracting and Procurement Information System (GUATECOMPRAS) as the mechanism for publication of procurement processes. In line with the strategy's emphasis on improving the quality of institutions responsible for public management, the IDB will continue to work with the government, supporting the strengthening and modernization of the CGC's audit processes, with a view to reducing disparities with international standards. On a supplementary basis, there are plans to assist the Ministry of Public Finance (MINFIN) in efforts initiated to implement the International Public Sector Accounting Standards (IPSAS). Similarly, support will continue for strengthening the public procurement system to reduce disparities with international standards and advance towards its use as a country system. The Government Procurement Office will also be strengthened in its role as apex agency for public procurement, with a view to adopting international best practices. These actions seek to build the government's institutional capacity, improve the quality, transparency, and timeliness of information and accountability reporting, and increase the efficiency of fiduciary management and, therefore, of the Bank's operations, in line with the government's objectives.
- 5.3 **Donor coordination.** To meet the demand for financing for projects in Guatemala, the Bank will make efforts to mobilize reimbursable and nonreimbursable financial resources from donors for new operations to supplement resources from the biennial allocation and available Ordinary Capital funds. In terms of the portfolio in execution, the Bank administers funds through the Korea Infrastructure Development Cofinancing Facility for Latin America and the Caribbean (KIF), the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean (FECASALC), and several other thematic funds financed by donors in such areas as climate change and infrastructure, so the execution, monitoring, and evaluation of these operations will be closely coordinated. The Bank will continue maintaining a close dialogue with the International Monetary Fund (IMF), the Central American Bank for Economic Integration (CABEI), the World Bank, and bilateral cooperation partners, such as the members of the G-13 group of donors, on developments in each entity's activities and programs, to identify opportunities for collaboration and mitigate the risk of overlapping efforts.<sup>167</sup> Additionally, the Bank is part of the fiscal working group organized by the Guatemalan government and led by the United Nations Development Programme (UNDP) with the involvement of the IMF, the World Bank, the United States government, and the Economic Commission for Latin America and the Caribbean (ECLAC), and others. Actions to improve fiscal transparency, tax revenue collection, and expenditure quality are being discussed in this forum.

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<sup>167</sup> In this area, participation in G-13 group of donors will be one of the main coordination mechanisms. The G-13 group of donors is a coordinating body of countries and bilateral and multilateral agencies comprising Canada, Germany, Italy, Spain, France, Sweden, Switzerland, the United States, and the United Kingdom, as well as the IDB, World Bank, IMF, the United Nations system, the European Union, and the Organization of American States.

**5.4 Coordination within the IDB Group.** The IDB, IDB Invest, and IDB Lab will continue promoting cooperation among windows from the early stage of programming, to keep programs coordinated and create an enabling environment for development through the private sector and mobilization of financial resources. In that regard, they will continue to jointly promote greater financial inclusion through innovative products supporting micro, small, and medium-sized enterprises (MSMEs), mainly under the third pillar of this country strategy. IDB Invest offers a range of financial products and advisory services for businesses to scale innovative solutions implemented in IDB Lab interventions, as was the case for Kingo and Génesis Empresarial (paragraphs 2.9 and 2.10). In addition, IDB Lab, IDB Invest, and the IDB each have agricultural projects in the design phase and in the portfolio that aim to provide financing to producers and contribute to climate change adaptation and mitigation, for example, through the strategy for Reducing Emissions from Deforestation and Forest Degradation (REDD+).<sup>168</sup> In this area, significant work has already been done to coordinate the mobilization of donor resources (paragraph 2.11),<sup>169</sup> which will require ongoing efforts to coordinate execution. In a similar vein, IDB Lab's work on job skills<sup>170</sup> is an important springboard for this issue, which is also expected to receive support from the public sector window,<sup>171</sup> and where IDB Invest's understanding of private sector needs will be a major asset. Coordinated action across the three windows will also contribute to stronger support in gender and diversity, as core elements in the design of all operations. Worth noting is the experience of the public sector window in supporting the Agreement for Peace and Development in San Mateo Ixtatán (paragraph 2.9), as well as the financing provided by IDB Lab and IDB Invest to underserved segments, such as rural producers and women-led businesses. Lastly, as the public sector window moves forward with dialogue and technical support to attract investment amid the reconfiguration of global value chains, opportunities are expected to arise for IDB Invest and IDB Lab financing to the private sector.

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<sup>168</sup> Notable IDB Lab operations include the Partial Guarantee Mechanism to Promote the Use of Agricultural Technologies and Practices Among Small Farmers in Guatemala (GU-G1012, GU-G1013, GU-T1323, GU-T1324), and Financing Climate-Smart Agricultural Technologies for Micro and Small Enterprises and Farmers in Guatemala (GU-L1178, GU-L1179, GU-T1315, GU-T1316), as well as the IDB's Sustainable Forest Management Project (GU-L1165 and GU-G1005). These projects will promote productive investments that include measures for climate change adaptation and mitigation, building on efforts from operations executed during the previous country strategy period that helped with preparation of the REDD+ strategy and mobilization of resources for its implementation (GU-T1272 and GU-T1310). In addition, operation GU-T1280 will work with the Copanch'orti community to implement a green guarantee for competitive landscapes, also within the framework of the REDD+ strategy.

<sup>169</sup> These coordinated efforts have mobilized resources from sources such as the Green Climate Fund, to be implemented by IDB Lab (GU-L1178, GU-L1179, GU-T1315, and GU-T1316), and from the Strategic Climate Fund, implemented by the IDB (GU-L1165 and GU-G1005) and IDB Lab (GU-T1280).

<sup>170</sup> Worth noting is IDB Lab operation GU-G1010, Social Impact Incentives for Twenty-first Century Skills and Job Retention for Vulnerable Youth.

<sup>171</sup> IDB technical-cooperation operation GU-T1326, Improving Pedagogical Skills in Virtual Environments for Trainers of Vulnerable Youth in Guatemala, is now in preparation.

**Table 1. Country systems**

Use of country systems	Baseline 2020 <sup>172</sup>	Projected use 2024	Actions planned during country strategy
Budget	100%	100%	Dialogue and monitoring
Cash management	100%	100%	
Accounting and reports	100%	100%	Support for the government in the process of IPSAS implementation to reduce disparities with international standards.
Internal audit	0%	0%	
External control	20%	20%	Support and assistance for the CGC in the implementation of recommendations from the 2019 diagnostic assessment of the Supreme Audit Institution (SAI) Performance Measurement Framework to reduce disparities with international standards. Interventions for strengthening the CGC in audits of IDB-financed projects.
Information system	100%	100%	
Shopping	0%	0%	
Individual consultants	0%	0%	
Partial NCB	0%	0%	
Advanced NCB	0%	0%	

## VI. RISKS

- 6.1 **Fiscal risks.** To contain rising public debt in a context of continued fiscal discipline, the government could limit new borrowing, reducing the demand for sovereign guaranteed operations. Operations with the IDB Group’s private sector windows will therefore be key in helping the country achieve the objectives set in this country strategy. Moreover, low tax revenue intake is a fiscal vulnerability that limits the State’s capacity to make public investments, which could jeopardize the space for Bank programs. This risk will be mitigated by close coordination with the finance ministry and execution units to synchronize planning of the Bank’s investment programs with the budget cycle.
- 6.2 **Political context.** Given the high political fragmentation of Guatemala’s Congress, the process of legislative authorization of operations is likely to keep being prolonged. In addition, frequent turnover of officials and integrity problems at various levels of the public sector may affect the preparation of new projects and the pace of portfolio execution amid delays. To mitigate these risks, the Bank will continue the program communication and dissemination actions with Congress, civil society, and other stakeholders, and will provide support for the implementation of financial and fiduciary standards and processes, and for greater transparency in the use of public resources (paragraphs 3.23 and 5.2).
- 6.3 **Execution.** Undisbursed balances account for a high percentage of Guatemala’s portfolio. Given that the challenges to implementation are similar to those of the previous country strategy period, close monitoring will be required for satisfactory execution. Thus, there are risks associated with (i) technical factors: nonperformance of contracts by contractors, low bidder participation in bidding

<sup>172</sup> As of 31 December 2020, use in the internal audit, shopping, individual consultant, partial NCB, and advanced NCB systems was 17%, and use in the external control system was 33%, corresponding to use in policy-based loans (PBLs) that, by their nature, involve the use of country systems.

processes, excessive control processes by executing agencies, staff turnover and/or absence and limited technical capacity at execution units; and (ii) institutional factors: low capacity of executing agencies to carry out the processes of contract administration, procurement, management, and monitoring. To mitigate these, the financial and fiduciary processes related to the portfolio will be monitored closely, and the actions described in Section V will be implemented (paragraphs 5.1 and 5.2), which are expected to help speed up execution.

- 6.4 **Extreme weather events, natural disasters, evolution of the pandemic, and future public health emergencies.** Guatemala is exposed to various climate and seismic threats, the most frequent being heavy rains (floods and landslides) and droughts. An event of significant magnitude could alter the country's priorities and the chances for recovery after the pandemic. In addition, the prolonged effects of COVID-19 due to difficulties in implementing the National Vaccination Plan, as well as future pandemic outbreaks, could have repercussions for the country's investment priorities and lead to mobility restrictions that impact project execution, particularly for infrastructure works. The IDB Group will work to mitigate these risks by making the Bank's mechanisms and tools available to the Guatemalan authorities in order to respond to these phenomena, and by incorporating measures into operational design that address climate resilience, disaster risk prevention and management, and digital tools that support business continuity. Another key element in mitigating and managing this type of risk is the availability of contingent financing.<sup>173</sup>
- 6.5 **Environmental and social vulnerability.** The high poverty rate, particularly in rural and indigenous areas, compounds the potential impact of risks related to weather events, natural disasters, and public health emergencies. In turn, this may lead to greater social conflict in areas where the IDB Group invests, while also affecting the country's investment priorities. Moreover, a deforestation and degradation of natural habitats may intensify, which would affect the activities of the IDB's three windows dealing with the productive use of forests, the implementation of the strategy for Reducing Emissions from Deforestation and Forest Degradation (REDD+), and the agricultural sector. For Bank-approved projects, a mitigating factor for this risk will be the adoption of international best practices to incorporate the new environmental and social framework's standards concerning indigenous peoples, human rights, labor conditions, climate and natural disaster risk, and others.

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<sup>173</sup> On 17 November, the Bank approved operation GU-O0006, Contingent Loan for Natural Disaster and Public Health Emergencies, which will help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances. With this instrument, the country has stable, cost-efficient, and rapidly accessible contingent financing at its disposal to cover extraordinary public expenditures in support of the population affected by natural disaster and public health emergencies. As part of this contingent loan, the Bank is providing support to the country to improve the financial management of natural disaster and public health risks.

## ANNEX I: RESULTS MATRIX AND MATRIX OF COUNTRY SYSTEMS

### 1. Results Matrix

National Plan priority	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (source and year)
Maintain macroeconomic stability and improve the country's governance for peaceful and harmonious coexistence that enables investment and employment	1. Institution-strengthening	1.1 Increase tax revenue	Increased tax ratio	Net tax ratio (% of GDP), central government	10.06% (2020, SAT) <sup>1</sup>
				Rate of payment of value-added tax	75.4% (2020, SAT) <sup>2</sup>
		1.2 Improve efficiency and transparency in public expenditure	Higher quality of public expenditure	Implementation of electronic bidding in government procurement <sup>3</sup>	56.4% (2020, MINFIN/GUATECOMPRAS) <sup>4</sup>
				Greater transparency of public expenditure	Transparency score on the Open Budget Index
		1.3 Expand the coverage and quality of the services of the Public Prosecutor's Office	Reduced violent crime	Homicide rate (per 100,000 inhabitants)	15.2 (2020, Diálogos) <sup>6</sup>
				Homicide rate (per 100,000 inhabitants), men	26.6 (2020, Diálogos)
				Homicide rate (per 100,000 inhabitants), women	4.1 (2020, Diálogos)
			Reduced impunity	Criminal justice score (0-1)	0.3 (2020, WJP Rule of Law Index) <sup>7</sup>

<sup>1</sup> Office of the Superintendent of Tax Administration (SAT). Tax indicators > general indicators > central government tax ratio.

<sup>2</sup> SAT. Tax analysis and studies > tax studies > 2020 review > quantitative results on nonpayment of value-added tax. Calculation of the rate must consider (potential tax revenue intake – tax revenue outturn)/potential tax revenue intake.

<sup>3</sup> Corresponds to the number of central government competitive procurement processes where bids are received electronically (excluding direct procurement), divided by the total number of central government procurement processes (excluding direct procurement). Data from the Ministry of Public Finance (MINFIN) and GUATECOMPRAS.

<sup>4</sup> MINFIN/GUATECOMPRAS. Three steps are necessary for this calculation: (1) Calculate the total number of central government procurement processes. Select “public sector” for type of entity, and “central government” for the subtype. When selecting the date, use the contract award date and set it for the period 1 January 2020 – 31 December 2020; (2) Calculate the total number of central government procurement processes received via electronic bidding. Select the same information as in step 1, but also select “electronic bidding” in the “bids received via” field; (3) Calculate the total number of central government procurement processes using the direct procurement modality with electronic bidding (the only modality for direct procurement). Select the same information as in step 1, and also select “direct procurement with electronic bidding” (Art. 43(b), government procurement law (LCE)) for type of procurement. The indicator is constructed as follows: Indicator = [(2) – (3)] / [(1) – (3)].

<sup>5</sup> The transparency component of the Open Budget Index measures the public's access to information on the origin and use of public resources. It includes the online availability, timeliness, and depth of key budget documents.

<sup>6</sup> Diálogos think tank. Report on Homicides in Guatemala (December 2020).

<sup>7</sup> Corresponds to factor 8 on the World Justice Project Rule of Law Index, which evaluates the criminal justice system in each country. The maximum score is 1.

National Plan priority	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (source and year)
				Annual rate of sentences issued in homicide cases, out of total homicides reported	3.6% (2020/21, Public Prosecutor's Office) <sup>8</sup>
Improve the quality of life of Guatemalans, especially the most vulnerable groups and families living in poverty and extreme poverty	2. Improvement of basic service delivery to the vulnerable population	2.1 Expand the social safety net	Increased coverage of social programs <sup>9</sup>	Central government expenditure on health and social assistance (% of GDP)	1.9% (2020, MINFIN) <sup>10</sup>
				Central government expenditure on education, science, and culture (% of GDP)	3.5% (2020, MINFIN)
				Database of vulnerable households, up and running <sup>11</sup>	0 (2021, MINFIN)
			Reduced poverty and extreme poverty, mainly in rural areas	Poverty rate, national	51.6% (2020p, ECLAC) <sup>12</sup>
				Extreme poverty rate, national	22.7% (2020p, ECLAC)
			2.2 Strengthen health and education access and quality, and promote the continuity and expansion of these services through digital tools	Increased coverage of the preschool and primary education system	Net education coverage rate, preschool
		Net education coverage rate, primary			93.71% (2020, MINEDUC)
		Repeat rate, primary (official sector)			9.80% (2020, MINEDUC)
		Repeat rate among girls, primary (official sector)			8.32% (2020, MINEDUC)
		Repeat rate among the Maya community, primary (official sector)			11.86 (2020, MINEDUC)
		Increased connectivity in schools		Percentage of secondary schools with Internet access for pedagogical purposes	44% (2016, UNESCO) <sup>13</sup>
Percentage of primary schools with Internet access for pedagogical purposes	9.1% (2016, UNESCO) <sup>14</sup>				

<sup>8</sup> Corresponds to the total number of sentences in homicide cases received by the Public Prosecutor's Office from 1 April 2020 to 31 March 2021, out of total homicide cases brought by it over the same period. Public Prosecutor's Office, 2021. Third Annual Report, period 2020-2021.

<sup>9</sup> The expected outcome does not include an indicator for contribution to efficiency, as there are no statistical means and/or national databases for identifying persons living in poverty or extreme poverty. This absence is related to the very low transfer of central government resources to social protection programs. However, at the time of writing, the IDB Group is working with the Ministry of Social Development of Guatemala to create a database of vulnerable households that will be used to evaluate the efficiency of projects related to the expansion of the social safety net, among other purposes.

<sup>10</sup> The inclusion of this indicator, which aggregates central government expenditure on health and social assistance, is related to the availability of public information, according to the sector classification defined in the Peace Agreements.

<sup>11</sup> Binary indicator. At the time of writing, the IDB Group is working with the Ministry of Social Development of Guatemala to create a database of vulnerable households. Pipeline operation GU-L1183 is eligible and is now in the loan proposal preparation stage, and includes this issue under the actions to be supported.

<sup>12</sup> ECLAC, 2020. The data source used to project the poverty rate in Guatemala is the National Survey of Living Conditions (ENCOVI), 2014.

<sup>13</sup> Accessible via [datbank.worldbank.org](http://datbank.worldbank.org): Proportion of secondary schools with access to Internet for pedagogical purposes (%). (UIS.SCHBSP.2T3.WINTERN).

<sup>14</sup> Accessible via [datbank.worldbank.org](http://datbank.worldbank.org): Proportion of primary schools with access to Internet for pedagogical purposes (%). (UIS.SCHBSP.1.WINTERN).

National Plan priority	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (source and year)
			Reduced maternal-infant mortality rate in the most affected areas	Maternal death rate, per 100,000 live births, Department of Huehuetenango	166 ( <a href="#">2020, MSPAS</a> ) <sup>15</sup>
				Maternal death rate, per 100,000 live births, Department of San Marcos	124 ( <a href="#">2020, MSPAS</a> ) <sup>16</sup>
				Infant mortality rate (< 5 years), per 1,000 live births, national	26 ( <a href="#">2020, WHO</a> ) <sup>17</sup>
		2.3 Broaden electricity coverage in rural areas	Greater coverage of electricity services in rural areas	Electricity coverage rate, national	88.9% ( <a href="#">2019, Ministry of Energy and Mines</a> ) <sup>18</sup>
		2.4 Increase the coverage of water and sanitation services in rural and periurban areas	Greater coverage of water services from improved sources	Safely managed and basic water services	94% ( <a href="#">2020, Joint Monitoring Program - WASH</a> ) <sup>19</sup>
			Greater coverage of sanitation services from improved sources	Safely managed and basic sanitation services	68% ( <a href="#">2020, Joint Monitoring Program -WASH</a> ) <sup>20</sup>

<sup>15</sup> Ministry of Public Health and Social Welfare (MSPAS), 2020. *Situación epidemiológica de muerte materna de enero a diciembre de 2020*. Prepared using the maternal deaths reported by the health services network of the MSPAS, the Guatemala Social Security Institute (IGSS), and the National Registry of Persons (RENAP), January to December 2020, where n = 374 maternal deaths.

<sup>16</sup> Ibid.

<sup>17</sup> World Health Organization (WHO), 2020, World Health Statistics, Monitoring Health for the SDGs.

<sup>18</sup> Ministry of Energy and Mines, 2019. *Informe Estadístico 2019*. This information is published at the national level and for each of the 22 departments, but is not broken down by urban and rural areas. Although the operations of program GU-L1171 are located in the departments of Alta Verapaz, Baja Verapaz, Huehuetenango, and Quiché, which are mostly rural, the operation is expected to have a nationwide impact.

<sup>19</sup> Sum of indicators for “safely managed drinking water” and “basic service” at the national level. To satisfy the criterion of “safely managed,” the water services from improved sources must be: (i) accessible; (ii) available when needed; and (iii) free from contamination. If the improved water source and sanitation service do not satisfy one of these three criteria but require travel of less than 30 minutes to use them, they are considered “basic service.”

<sup>20</sup> Ibid. Indicator for “safely managed sanitation” and “basic service” at the national level. In 2020, the score for “safely managed sanitation” was zero.

National Plan priority	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (source and year)
Generate the right conditions and a good business climate for an increase in investment and improved levels of competitiveness, and foster environmentally-friendly economic development	3. Inclusive and sustainable revitalization of the productive sector	3.1 Expand and modernize road infrastructure	Modernized and expanded national road network	Quality of road infrastructure on the Global Competitiveness Index 4.0	2.4 (2019, World Economic Forum)
		3.2 Increase broadband coverage	Increased Internet access	Percentage of the population that uses the Internet	40.7% (2017, World Bank Group/International Telecommunications Union) <sup>21</sup>
		3.3 Expand access to finance for MSMEs	Greater access to productive credit	Total lending to the private sector (% of GDP)	35.9% (2020, World Bank Group) <sup>22</sup>
				% of MSMEs that identify the lack of financing as a serious or very serious constraint on their businesses	42% microenterprises, (2018, World Bank Group) 35% SMEs, (2018, World Bank Group) <sup>23</sup>
				% of women-led SMEs with lack of financing as fully or partly constrained access to credit	52% (2018, World Bank Group) <sup>24</sup>
		3.4 Increase the competitiveness of the agricultural sector and the efficiency of public forestry services	Increased agricultural exports	Value of agricultural sector exports	US\$6.2 billion (2019, Atlas of Economic Complexity) <sup>25</sup>
				Forest area with paid approved incentives	242,298 hectares (2020, INAB) <sup>27</sup>
			Greater effectiveness and returns of forestry incentive programs <sup>26</sup>	% of beneficiaries in the forest area with incentives who are women	28.05% (2020, INAB) <sup>28</sup>
				% of beneficiaries in the forest area with incentives who are indigenous people	19.24% (2020, INAB) <sup>29</sup>

<sup>21</sup> Accessible via [data.worldbank.org](https://data.worldbank.org): Individuals using the Internet (% of population). (IT.NET.USER.ZS).

<sup>22</sup> Accessible via [data.worldbank.org](https://data.worldbank.org): Domestic credit to private sector (% of GDP). (FS.AST.PRVT.GD.ZS).

<sup>23</sup> Accessible via [finances.worldbank.org](https://finances.worldbank.org): MSME Finance Gap. For microenterprises: (*Micro\_Fully Constrained* %); SMEs: (*SME\_Fully Constrained* %).

<sup>24</sup> Ibid. Simple sum of (*Female\_Fully Constrained* %) and (*Female\_Partly Constrained* %).

<sup>25</sup> Comtrade data on the agricultural sector compiled by Harvard Growth Lab.

<sup>26</sup> Incentives are cash payments to owners and holders of forest land for executing projects that involve reforestation, agroforestry, and restoration, protection, and management of productive natural forests.

<sup>27</sup> National Forest Institute (INAB), 2020. Department of Forest Incentives, Statistical bulletin. Sum of incentivized areas at the national level for all PROBOSQUE and PINPEP forestry incentive modalities.

<sup>28</sup> Corresponds to total land owned by women, divided by total land that received incentives under operation GU-L1165.

<sup>29</sup> Corresponds to total land owned by indigenous people, divided by total land that received incentives.

National Plan priority	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (source and year)
			Reduced deforestation	Annual rate of change in forest coverage	0.48% ( <a href="#">2016_SIFGUA</a> ) <sup>30</sup>

## 2. Matrix of Fiduciary Country Systems

Strategic objective	Expected outcome	Indicator	Unit of measure	Baseline	Base year	Principal target	Time frame	CRF alignment
Strengthen country systems	Reduced disparities with ISSAI international standards (SAI-PMF report)	Progress on implementing the action plan resulting from the final report of the SAI-PMF evaluation	% progress on action plan = (# actions implemented)/(total actions prioritized)	0%	2020	15%	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation
	Reduced disparities with IPSAS international standards	Progress in implementing IPSAS through Bank support initiatives for advisory services and training/forums	# support initiatives	0	2020	4	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation
	Strengthened public procurement through implementation of an action plan based on a system diagnostic assessment using OECD/DAC methodology	Action plan to improve the regulatory framework for public procurement, in implementation	% implementation of action plan	0%	2020	10%	End of country strategy period	- Institutional capacity and rule of law - Productivity and innovation

<sup>30</sup> Corresponds to the annual rate of change (%) at the national level, as reported in the [Guatemala Forest Coverage Map 2016 and Forest Coverage Dynamics 2010-2016](#) of the Guatemala Forest Information System (SIFGUA).

## ANNEX II: MAIN SOCIOECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020
<b>Social indicators</b>							
Population (millions)	15.3	15.6	15.8	16.1	16.3	16.6	16.9
Poverty rate (%) <sup>a</sup>	59.3	n.a.	n.a.	n.a.	n.a.	48.6	51.6
Extreme poverty rate (%) <sup>a</sup>	15.3	n.a.	n.a.	n.a.	n.a.	19.8	22.7
Unemployment rate (%)	2.9	2.7	3.1	2.1	2	2	n.a.
Nominal GDP (US\$ millions)	57,835	62,180	66,034	71,583	73,121	76,694	77,073
Nominal GDP per capita (US\$)	3,778	3,994	4,172	4,450	4,473	4,619	4,572
Per capita GDP (US\$, PPP)	7,458	7,849	7,848	7,908	8,192	8,487	8,293
<b>Real sector (Δ%)</b>							
Nominal GDP, US\$	9.1	7.5	6.2	8.4	2.1	4.9	0.5
Nominal GDP per capita, US\$	7.3	5.7	4.5	6.7	0.5	3.3	-1.0
Per capita GDP, US\$ PPP	3.8	5.2	0.0	0.8	3.6	3.6	-2.3
Real GDP	4.4	4.1	2.7	3.1	3.3	3.9	-1.5
Consumption	4.4	4.7	3.2	3.1	3.9	4.3	-0.7
Private	4.5	5.1	4.1	3.3	3.5	4.5	-1.1
Government	3.6	0.9	-3.1	2.1	6.7	2.5	1.6
Consumer price index	3.0	3.1	4.2	5.7	2.3	3.4	4.8
<b>Public finances (% of GDP)</b>							
Budget revenues	11.7	11.1	11.5	11.4	11.3	11.3	10.7
Tax	11.0	10.4	10.8	10.8	10.7	10.6	10.1
Nontax	0.7	0.7	0.7	0.6	0.6	0.7	0.6
Budgetary expenditure	13.6	12.6	12.6	12.8	13.2	13.5	15.6
Primary current	9.1	8.7	8.8	9.0	9.1	9.1	10.9
Capital	3.0	2.2	2.2	2.3	2.6	2.8	3.0
Interest	1.5	1.6	1.5	1.5	1.5	1.6	1.7
Primary balance	-0.4	0.1	0.4	0.1	-0.3	-0.6	-3.2
Overall balance	-1.9	-1.5	-1.1	-1.4	-1.9	-2.2	-4.9
Gross financing requirements	3.1	2.9	2.7	2.4	2.9	3.5	6.4
Public debt	24.8	24.9	25	25.2	26.5	26.5	31.6
<b>External sector (% of GDP)</b>							
Current account	-3.3	-1.2	1.0	1.1	0.8	2.3	5.5
Trade balance	-11.6	-10.2	-8.9	-9.1	-10.7	-10.3	-8.0
Revenue balance	-2.6	-2.4	-2.2	-2.1	-2.1	-1.8	-1.8
Net transfers	10.9	11.4	12.0	12.3	13.6	14.4	15.2
Financial account	-3.1	-1.8	0.6	0.6	0.4	1.3	4.5
Net direct investment	-2.4	-1.7	-1.5	-1.3	-1.1	-1.0	-0.9
Net portfolio investment	-1.3	-0.1	-0.9	-1.1	0.0	-1.3	-1.6
International reserves <sup>b</sup> (US\$ millions)	7,333	7,751	9,160	11,770	12,756	14,789	18,468

Sources: International Monetary Fund, Ministry of Public Finance, Bank of Guatemala, and National Statistics Institute (INE).

Note: (a) The data for 2019 and 2020 are ECLAC estimates based on the National Housing Survey; (b) Excludes central bank foreign currency liabilities with the financial system.

### ANNEX III: SOVEREIGN DEBT PROJECTED LENDING SCENARIO 2021-2024

US\$ millions

	2017-2020 Strategy					2021-2024 Strategy				
	2017	2018	2019	2020	Total 2017-2020	2021	2022	2023	2024	Total 2021-2024
<b>Approvals</b>	-	-	250.0	228.4	478.4	<b>45.0</b>	<b>475.0</b>	<b>200.0</b>	<b>200.0</b>	<b>920.0</b>
<b>Disbursements</b>	57.8	51.1	42.0	282.4	433.3	46.4	397.3	94.1	202.3	740.1
Repayments	202.8	115.7	167.9	176.9	665.4	181.1	169.0	155.3	156.7	662.2
Net capital flows	(145.0)	(64.6)	(125.9)	105.5	(232.1)	(134.7)	228.3	(61.2)	45.6	77.9
Subscriptions and contributions	-	-	-	-	-	-	-	-	-	0.0
Interest and fees	84.7	75.4	83.5	75.4	319.0	66.2	57.0	52.0	47.5	222.7
<b>Net cash flow</b>	<b>(229.8)</b>	<b>(140.0)</b>	<b>(209.4)</b>	<b>30.2</b>	<b>(549.0)</b>	<b>(200.9)</b>	<b>171.3</b>	<b>(113.2)</b>	<b>(1.9)</b>	<b>(144.8)</b>
IDB debt	2,262.2	2,196.5	2,070.4	2,174.5		2,022.6	2,250.9	2,189.7	2,235.2	
IDB debt/Multilateral public debt (%)	46.8	45.1	45.3	42.5		42.3	45.4	45.2	46.2	
IDB debt/External public debt (%)	27.6	26.7	22.7	20.8		18.2	19.9	19.6	20.0	
IDB debt/Total public debt (%)	12.5	11.6	10.1	9.0		7.6	8.4	8.2	8.4	

Source: MINFIN and IDB.

## ANNEX IV: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

### COUNTRY STRATEGY: Guatemala

#### **STRATEGIC ALIGNMENT**

*Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.*

#### **EFFECTIVENESS**

*This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and buildup of country systems.*

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)*	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the <b>priority area's</b> specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the <b>main factors</b> or causes contributing to the specific constraints and challenges	100%
- That provide corresponding <b>policy recommendations</b>	100%
III. Results matrix**	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes