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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUATEMALA

CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES

(GU-O0006)

LOAN PROPOSAL

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ABBREVIATIONS

ARL	Automatic redirection list
CCF	Contingent Credit Facility for Natural Disaster and Public Health Emergencies
CONRED	Coordinadora Nacional para la Reducción de Desastres [National Coordination Office for Disaster Reduction]
EOC	Emergency operations center
FIN	IDB Finance Department
IDRMP	Integrated Disaster Risk Management Plan
IHR	International Health Regulations
IMF	International Monetary Fund
MINFIN	Ministry of Public Finance
MSPAS	Ministry of Public Health and Social Welfare
NCB	National competitive bidding
NPV	Net present value
NRP	National Response Plan
OVE	Office of Evaluation and Oversight
PAHO	Pan American Health Organization
SIAF	Integrated Financial Management System
SICOIN	Sistema de Contabilidad Integrada [Integrated Accounting System]
SE-CONRED	Secretaría Ejecutiva de la Coordinadora Nacional para la Reducción de Desastres [Executive Secretariat for the National Coordination Office for Disaster Reduction]
SOSEP	Secretaría de Obras Sociales de la Esposa del Presidente [First Lady's Social Works Secretariat]
WHO	World Health Organization

PROJECT SUMMARY

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Financial Terms and Conditions[a]					
Borrower:				**Flexible Financing Facility**[b]	
Republic of Guatemala				**Amortization period:**	25 years[c]
Executing agency:				**Grace period:**	5.5 years[c]
The borrower, through its Ministry of Public Finance				**Original weighted average life:**	15.25 years[c]
Source	**Amount (US$ millions)**		**%**	**Disbursement period:**	5 years[d][e]
IDB (Ordinary Capital)	Modality I	300	75	**Interest rate:**	LIBOR-based[f]
	Modality II	100	25	**Inspection and supervision fee:**	[g]
	Total available	400	100	**Drawdown fee:**	[h]
				Approval currency:	U.S. dollar

Project at a Glance

Project objective/description: The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies.

Special contractual conditions of general eligibility: (i) The program Operating Regulations will have been approved and will have entered into force on the terms previously agreed upon with the Bank; and (ii) evidence will have been provided of formalization of the coordination agreements between the borrower and the entities linked to the Integrated Disaster Risk Management Plan (IDRMP) and/or the International Health Regulations (IHR) (paragraph 3.5). For other fiduciary conditions, see Annex III (Section II).

Special contractual conditions precedent to each disbursement: (a) Disbursements under Modality I (natural disasters): (i) the Bank has verified that an eligible event as defined in the program Operating Regulations has occurred; and (ii) the IDRMP, previously agreed upon with the Bank, is being implemented to the Bank's satisfaction (paragraph 2.7); (b) Disbursements under Modality II (natural disasters): (i) the Bank has verified the declaration of an emergency or state of public calamity by the relevant authority of the borrower due to an eligible natural disaster as defined in the program Operating Regulations; (ii) the IDRMP, previously agreed upon with the Bank, is being implemented to the Bank's satisfaction; and (iii) the Bank has verified the borrower's compliance, through MINFIN, with the agreed-upon complementary risk retention financing measures and conditions; and (c) Disbursements under Modality II (public health events): (i) the Bank has verified the declaration of a national emergency or state of public calamity due to an eligible public health event as defined in the program Operating Regulations; (ii) the borrower, through MINFIN, in coordination with the Ministry of Public Health and Social Assistance, has provided evidence that it is up to date with progress reporting to the World Health Organization (WHO) on compliance with the International Health Regulations (IHR); (iii) the borrower, through MINFIN, in coordination with the Ministry of Public Health and Social Assistance, has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan, in line with WHO/Pan American Health Organization recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance, through MINFIN, with the agreed-upon complementary risk retention financing measures and conditions (paragraph 3.6). In addition to the aforementioned contractual conditions precedent to each disbursement, the borrower, through MINFIN, will have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s).

Special contractual conditions for execution: For special fiduciary contractual conditions for execution, see Annex III (Section II).

Exceptions to Bank policies: None.

Strategic Alignment			
Challenges[i]:	SI ☒	PI ☐	EI ☐
Crosscutting themes:[j]	GE ☐ and DI ☐	CC ☒ and ES ☐	IC ☒

[(a)] Financial terms and conditions of the contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (document GN-2999-4, approved by the Board of Executive Directors pursuant to Resolution DE-40/20 of 12 May 2020).

[(b)] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[(c)] Amortization periods, weighted average life, and grace periods are counted from the date of each disbursement.

[(d)] The disbursement period or coverage period (equivalent terms) is renewable for up to five additional years, at the Bank's discretion, following a request by the borrower.

[(e)] Disbursements of the financing will be contingent on the availability of sufficient resources from the Bank's regular lending program for Guatemala, when the disbursement is requested (paragraph 2.5).

[(f)] In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank or at the borrower's request, pursuant to the provisions of the loan contract.

[(g)] The inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

[(h)] The fee is not charged if the loan is not used. The Bank will charge a one-time fee of 50 basis points only on the date of disbursement, applicable solely to the amount disbursed against resources from the regular lending program. This fee is applicable to each disbursement. The drawdown fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges. In no case will the fee exceed 75 basis points.

[(i)] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[(j)] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Description and Results Monitoring

A. Background, problem addressed, and rationale

1. The country's vulnerability to natural disasters and climate change

1.1 Guatemala is exposed to multiple geophysical (earthquakes and volcanic eruptions) and hydrometeorological (floods, hurricanes, and droughts) hazards with significant human and economic impact, ranked 11th worldwide in terms of the impact of climate events in the last 20 years [1].[1] Between 1960 and 2016 the country experienced 74 severe events. All told, 43 occurred after 2001, which reflects the increasing frequency of such events. As for the number of events, 40% were tropical storms or floods, followed by earthquakes (15%), and landslides (13%). The remainder consists of a variety of events, such as droughts and volcanic eruptions [2].

1.2 As regards the impact of natural disasters on the country's economic activity, Guatemala ranks among the countries with the highest percentage of GDP exposed to three or more hazards [3]. Past events recorded in the country lay bare this vulnerability: (i) the 1976 earthquake, the most severe event in Guatemala's recent history, caused damage estimated at 20.7% of GDP; (ii) Hurricane Mitch (1998) caused damage estimated at 4.2% of GDP; (iii) Hurricane Stan (2005) affected 4.1% of GDP; (iv) the eruption of the Pacaya volcano and Tropical Storm Agatha (2010) had an impact of 3.9% of GDP [4]; (v) the eruption of the Fuego volcano (2018) caused damage amounting to 0.3% of GDP [5]; and (vi) Hurricane Eta (November 2020) led to 10 of 22 departments declaring a state of emergency, caused landslides and river flooding, and directly affected 1.6 million residents. In addition, El Niño-related droughts in the Dry Corridor pose a hazard to crops, livestock, and food security: the 2001 drought caused damage amounting to 0.26% of GDP.

1.3 Thus, Guatemala's economic and social development is beset by disasters, which hit the most vulnerable population particularly hard. By way of example, one study indicates that poverty in Guatemala rose by 5.5 percentage points due to the effects of Tropical Storm Agatha [6].

1.4 **Climate change.** Climate change is a particularly significant phenomenon in Guatemala. As the effects of climate change intensify, events such as floods and droughts are likely to become more severe and more frequent, and their economic impact could reach up to 5.8% of GDP per year by 2030. Based on climate change scenarios, temperatures are projected to increase by 0.6°C by 2030 and by 1.4°C by 2050, while cumulative rainfall is projected to decrease between 9.2% and 28.1% [7]. Accordingly, the country has placed a very strong emphasis on resilience in its nationally determined contributions [8].

1.5 **Natural disasters and vulnerable groups.** Disasters tend to have a disproportionate impact on the most vulnerable segments of the population [9], who have fewer mechanisms to contend with such events, especially in developing countries [10]. In Guatemala, one study [11] finds that the poorest municipios are the most vulnerable, that population growth is occurring in poor

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[1] References (optional link 4).

and vulnerable municipios (which increases the country's disaster risk), and that the indigenous population is more exposed to disaster risk than the rest of the population. Thus, disaster risk mitigation measures that target vulnerable groups, including women, are essential to mitigating potential impact.

2. The country's vulnerability to public health events

1.6 Guatemala is at high risk for epidemics, including outbreaks of vector-borne diseases such as dengue, chikungunya, and Zika. Nearly 20,000 cases of dengue were reported in 2014, followed by 18,279 cases in 2015, while cases of chikungunya reached 27,000 in 2014. In addition, from 2014 to 2016, the Department of Epidemiology at the Ministry of Public Health and Social Welfare (MSPAS) recorded 63,745 cases of Zika. Of these, only the 2015 epidemic of dengue and chikungunya resulted in a declaration of a state of emergency, which remained in effect for three months. Prior to that, a state of emergency had been declared in 2009 due to the H1N1 influenza epidemic. Although estimates of the economic cost of a dengue epidemic vary widely, one study put the cost of outpatient care in Guatemala at US$121 per patient, while the cost of inpatient care amounted to US$577 per patient.[2]

1.7 Guatemala is also exposed to pandemic risk. On 11 March 2020, the World Health Organization (WHO) declared COVID-19, caused by the SARS-CoV-2 virus, to be a pandemic. In Central America, as of 24 October 2021, nearly 2,146,470 confirmed cases of COVID-19 had been reported, resulting in 36,398 deaths [12], while in Guatemala these figures amounted to approximately 594,665 cases and 14,655 deaths, respectively.

3. Financial vulnerability to natural disasters and public health events

1.8 Due to the pandemic's economic effects, the Bank of Guatemala estimates that GDP has contracted 1.5% in 2020 and then rebound to grow between 3% and 5% in 2021. In this same vein, the International Monetary Fund (IMF) forecasts a drop of 1.5% in 2020 and growth of 4.5% in 2021. Coupled with the healthcare system's limited response capacity and the scant coverage of the social safety net, the economic impact of the measures taken in Guatemala and in other countries to mitigate the spread of COVID-19 prompted the Guatemalan Congress to approve expansions to the budget and to domestic and external financing. Factoring in the impact of the pandemic to date, the Ministry of Public Finance (MINFIN) projects that the fiscal deficit is 4.9% of GDP in 2020 (2.8% higher than observed in 2019). For 2021, the IMF projects a fiscal deficit of 3.5% of GDP.

1.9 Against a backdrop of limited fiscal headroom and weak tax revenue,[3] a severe natural disaster would lead to sizable financing needs for emergency response and would thus impede the government's efforts to make further fiscal progress and tackle the challenges of poverty and inequality reduction. The greatest risk of catastrophic disaster in Guatemala stems from earthquakes, with an expected

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[2] Estimated in 2015 U.S. dollars. D.S. Shepard, L. Coudeville, Y.A. Halasa., B. Zambrano, and G.H. Dayan. Economic Impact of Dengue Illness in the Americas.

[3] Tax revenues amounted to 10.6% of GDP in 2019 (Latin America and the Caribbean: 15.3% in 2019).

annual loss of US$619 million [13]. Estimates indicate that a 100-year earthquake affecting the country would generate losses equivalent to 7% of GDP, while a 100-year drought could cause losses equivalent to 1.2% of GDP. Future pandemics could also generate significant contingent fiscal liabilities. According to IMF estimates, facing the need to respond to the COVID-19 pandemic, public spending rose by approximately 3% of GDP [14], on top of a drop in revenue of approximately 1% of GDP. These natural disaster and public health risks underscore the need to continue building fiscal resilience.

4. Natural disaster risk management in Guatemala

1.10 Risk management is guided by Law 109-96, which created the National Coordination Office for Disaster Reduction (CONRED), the agency responsible for coordinating disaster prevention, mitigation, and response, as well as participating in rehabilitation and reconstruction efforts. In 2012, the regulations implementing the law were approved to clarify the roles and responsibilities of the system's members and, on that basis, the country has taken decisive action to foster disaster risk reduction. Guatemala has a National Disaster Risk Reduction Policy, which mainstreams gender and ethnic/cultural considerations. Also of note are Guatemala's National Disaster Risk Management Plan 2018-2022 and the National Response Plan (NRP), which sets out coordination actions to provide a step-by-step response to emergencies and natural disasters that helps reduce their impact.

1.11 The governance structure is based on the National Disaster Risk Management System, with CONRED serving as its Executive Secretariat (SE-CONRED) and the various sectors integrated through interagency linkages. The highest decision-making body of this system is the National Council for Disaster Risk Reduction. At the subnational level, the system is organized in committees at the regional, departmental, municipal, and community levels.

1.12 The diagnostic assessment of Guatemala's disaster risk management is documented in the Integrated Disaster Risk Management Plan (IDRMP) (Annex III of the program Operating Regulations).

1.13 **Financial risk management.** In 2018, the government approved the "Financial Strategy for Disaster Risk," which aims to strengthen the country's economic and fiscal resilience and response capacity. 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 and the frequency and severity of events, so public resources can be more effectively used to meet the needs of the affected population. To that end, 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 disbursed in full in April 2020 as a result of the COVID-19 pandemic [15]; 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 2020-2021 period. In terms of risk retention instruments, Guatemala has at its disposal the Permanent National Fund for Disaster Reduction and the Emergent Fund (paragraph 2.10).

1.14 The financial coverage requested by Guatemala under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) strengthens its financial strategy by providing: (i) parametric coverage for earthquakes, which represent the greatest natural disaster risk in the country due to their potential catastrophic impact, as well as hurricanes and rainfall excess associated with cyclonic systems; and (ii) nonparametric coverage for volcanic eruptions and droughts, which are less severe but occur more regularly than earthquakes. Public health risks would also be covered. At present, the country has not arranged for financial coverage for the events it wishes to cover under the CCF, except for hurricanes and rainfall excess (paragraph 1.13).

5. Public health risk management in Guatemala

1.15 The MSPAS routinely monitors health problems and sets alerts when case numbers appear to exceed the number expected for a given period of time. The Department of Epidemiology receives data from reporting units located within the hospital network and health departments and consolidates it, producing epidemiological analyses for each region. When a public health risk is identified, notification is given to the MSPAS Health Risk Management Unit, which is the entity responsible for coordinating the appropriate measures to ensure that existing hazards and vulnerabilities are not minimized. Depending on the health problem in question, rapid response teams at health departments or hospitals are mobilized or a larger response is scaled up through an emergency operations center (EOC) based on the local risk analysis. The EOC can be directly linked to CONRED through the local, municipal, departmental, or national coordination offices as dictated by the magnitude and impact of the problem. In addition, if the situation so warrants, a state of public health emergency may be declared via ministerial resolution, government resolution, or government decree.

1.16 MSPAS's risk management fits within the framework of the International Health Regulations (IHR), which makes it possible to determine the level of preparedness and capacity to detect, assess, notify, and respond to public health risks and events.[4] Guatemala is currently at a medium-low level. The country's capacity ranges from high levels in national coordination and surveillance to low levels in laboratory capacity and health service provision. In response, in 2019, the MSPAS, with support from the Pan American Health Organization (PAHO), updated its National Multihazard Emergency and Disaster Response Plan. The objective of this plan is to increase the country's ability to detect an outbreak in a timely manner and to implement a containment and response strategy. In addition, as part of the country's current response to the COVID-19 pandemic, Guatemala has stepped up investments to upgrade its preparedness and

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[4] The IHR is an agreement by the members of the WHO to work together to prevent and respond to public health risks. The IHR annual report assesses 13 dimensions of country capacity and response to public health events. In the case of the COVID-19 pandemic, the WHO found that Guatemala has level-2 preparedness and response status (with 1 being the lowest and 5 the highest). Updated Country Preparedness and Response Status for COVID-19 as of 9 June 2021.

response capacities in the health sector[5] and established the National Coordination Committee for COVID-19 Vaccination to develop and implement the national strategic plan for vaccination against COVID-19.[6]

6. Risk financing and transfer programs for natural disaster and public health emergencies

1.17 The CCF's aim is to provide borrowing member countries with significant liquid resources in the immediate wake of a natural disaster to cover extraordinary public expenditures. The design of the CCF under a broader program of financing and risk transfer for natural disasters and public health events recognizes the existence of budgetary and financial constraints, which mean that no single instrument can efficiently cover all levels of risk on its own. Different instruments that can be adapted to cover certain layers of risk must be used, depending on the probability of occurrence and the magnitude of the expected impact [16]. Accordingly, reserve funds should be used to cover public expenditures associated with high-recurrence, smaller-scale events. In contrast, for more severe but lower probability events, the use of long-term contingent debt and risk transfer instruments is recommended.

1.18 The availability of ex ante financial coverage for emergencies enhances countries' efficiency in terms of the direct costs to public accounts and the savings that the timely availability of resources generates. This has been verified in studies conducted by the Bank [17] and other multilateral institutions, such as the IMF [18].

7. The operation in the Bank's sector and country strategy

1.19 **Bank support in integrated disaster risk management.** The Bank executed the Program to Support the Climate Change Agenda of Guatemala (loans 2434/OC-GU, 2435/BL-GU for US$250 million, approved in 2010 and executed), which included supporting the government in building models of disaster risk that factor in the effects of climate change and integrating risk management into the National Policy on Climate Change. One of the main lessons learned from these programs, which has informed the design of this operation, is the importance of MINFIN's coordination for promoting crosscutting themes such as risk management and adaptation to climate change. MINFIN has served as coordinator in preparing the IDRMP.

1.20 **Bank support in the public health sector.** The Bank recently executed the Program to Strengthen the Hospital System (loan 1852/OC-GU for US$50 million, approved in 2007 and executed), the Improved Access and Quality of Health and Nutrition Services Program (loan 2328/BL-GU for US$35 million, approved in 2010 and executed), and the Salud Mesoamérica Initiative. In addition, the Program to Strengthen the Institutional Healthcare

[5] For example, by setting up emergency hospitals and increasing COVID-19 diagnostic capacity through the expansion of the laboratory network and rollout of outpatient units for the diagnosis and treatment of respiratory diseases (https://www.mspas.gob.gt/).

[6] Ministerial Resolution 0262-2020. As of 10 July 2021, 1,028,399 doses had been administered in the country.

Service Network (loan 4791/OC-GU for US$100 million, approved in 2019 and implementing with 0% disbursed), which includes resources for goods, works, and services that contribute to the COVID-19 response. These activities include the commissioning of the Medical Emergency Dispatch Center and coordination of the emergency network, which will help improve the timeliness and quality of emergency response in routine and disaster situations.

1.21 **Good practices and lessons learned from the CCF.** The Bank has been supporting borrowing member countries in the design and implementation of financial strategies for disaster risk management that combine financial risk retention and transfer instruments such as contingent lines and insurance. Under this framework, it has approved 14 CCF loans in Latin America and the Caribbean, with four disbursements for a total of US$280.5 million (loans 3670/OC-EC for US$160 million, approved in 2016 and executed; 4331/OC-DR for US$16 million, approved in 2009; and 4853/OC-BH for US$80 million, approved in 2019 and implementing; and 5195/BL-NI for US$24.5 million, approved in 2020 and implementing).[7] The relevance and effectiveness of the instrument have been verified, supported by recent experience, and documented in the report "Country Program Evaluation: Ecuador 2012-2017," prepared by the Office of Evaluation and Oversight (OVE) [19], and in the OVE-validated project completion report of the operation to respond to the emergency caused by the Manabí earthquake in 2016 (loan 3670/OC-EC). Of the lessons learned identified by OVE, the most important ones include: (i) the swift disbursement of loan resources is key to the operation's success; (ii) the contracting of an independent reasonable assurance audit mitigates the risk of the loan proceeds being used in a way that contravenes the Bank's eligibility criteria; and (iii) cross-sector coordination limitations require actions to strengthen interagency coordination mechanisms during execution of the operation.

1.22 The design of this operation has incorporated lessons learned from each of the CCF loans approved in other countries, and necessary changes have been made, including the following: (i) the methodologies for calculating loan activation triggers under Modality I have been refined; (ii) the program Operating Regulations have been strengthened to include more information on the coordination and execution mechanism between the executing agency and other agencies involved in emergencies (SE-CONRED and the MSPAS in the case of Guatemala); and (iii) operating rules have been set forth in the program Operating Regulations to ensure effective and efficient disbursement, execution, and reporting for these operations, including the contracting of an independent reasonable assurance audit. With the CCF expanded to include public health risks, the Bank also has gained experience from the preparation of three CCF loans with COVID-19 coverage, emphasizing the importance of specific interagency coordination arrangements for public health emergencies and procedures for declaring a national public health emergency.

1.23 **Strategic alignment.** The operation is aligned with the IDB Group Country Strategy with Guatemala 2017-2020 (document GN-2899), which mentions the importance of

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[7] Active contingent loans with available coverage currently total US$2.0245 billion, and the total amount disbursed is US$280.5 million.

disaster risk management and climate change adaptation and mitigation measures as crosscutting issues included in its priority areas.[8] It is aligned with the "K'atun: Our Guatemala 2032" National Development Plan, under the lines of action for creating risk transfer mechanisms and contingency funds to deal with the threats caused by climate change, within the priority of change climate adaptation and mitigation. The country strategy is also aligned with the scope of the Sustainable Development Goals of the United Nations, which have been adopted by Guatemala.[9]

1.24 The project is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligns with the Social Inclusion and Equality development challenge, as it will benefit a greater number of people, particularly the vulnerable, through an increase in ex ante financial coverage for natural disaster and public health emergencies. It is also aligned with the crosscutting areas of: (i) climate change, as part of the climate change adaptation strategy. The proceeds of the operation will be used to support the country's financial framework for climate change adaptation, particularly those executed under Modality II (since it covers droughts). According to the joint methodology of the multilateral development banks for tracking climate change adaptation finance, 100% of the operation's resources are invested in climate change adaptation activities. These resources contribute to the IDB Group target of increasing financing for climate-related projects to 30% of approvals by the end of 2021; and (ii) institutional capacity and rule of law, as it will contribute to building the country's capacity to administer public resources by increasing the amount of ex ante financial coverage available and strengthening the management of contingent fiscal liabilities. The operation is also aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12) inasmuch as it directly contributes to the indicators: (i) "beneficiaries of enhanced disaster and climate change resilience" by increasing contingent financing to cover extraordinary public expenditures during natural disaster and public health emergencies; and (ii) "countries with strengthened tax and expenditure policy and management" by building the country's capacity to manage public resources and contingent fiscal liabilities. The operation is also aligned with the Bank's Disaster Risk Management Policy (document GN-2354-11) and is consistent with the Climate Change Sector Framework Document (document GN-2835-8), by helping to improve the financial management of climate and disaster risks in the country. The operation is consistent with the Health Sector Framework Document (document GN-2735-12) by increasing funding to the public healthcare system for the management of future pandemic and epidemic outbreaks. Lastly, the operation is included in the Update to Annex III of the Operational Program Report (document GN-3034-2).

1.25 **Gender considerations.** The operation contributes to the crosscutting theme of gender equity and diversity, by mainstreaming gender in the country's disaster risk management, through activities included in the IDRMP. Inasmuch as

8 The country strategy is current and in the transition stage.

9 Specifically, the country strategy is aligned with: (i) SDG 3 "Good Health and Well-being," with the targets for building country capacity in the area of early warning, risk reduction, and management of health risks by providing resources for health emergency care at the national level; and (ii) SDG 13 "Climate Action," with the targets for strengthening resilience and the ability to adapt to climate-related risks and natural disasters in the country.

disasters have a disproportionate impact on women and other vulnerable groups, such as indigenous peoples and persons with disabilities (paragraph 1.5), efforts during the first year will focus on updating the SE-CONRED Gender Equality and Equity Policy 2016-2020.[10] This policy aims to mainstream gender equality into the policies, structure, plans, programs, and operations of all SE-CONRED departments and units in order to contribute decisively to equal rights and equal opportunities between women and men.

1.26 **Institutional capacity and rule of law considerations.** This operation seeks to build the country's capacity to manage contingent fiscal liabilities (paragraph 1.24) by also promoting actions to improve financial risk management in the country during the loan coverage period through the IDRMP (paragraph 2.7) and incorporating the lessons identified during execution of contingent financing resources under the CCF (paragraphs 1.21 and 1.22).

B. Objectives, components, and cost

1.27 The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies.

1.28 **Sole component.** The proposed operation consists of a sole US$400 million component that will structure stable, efficient, and rapidly accessible ex ante financial coverage to provide timely funding for the extraordinary expenses that are likely to occur during severe natural disaster and public health emergencies.

1.29 **Subcomponent 1.1. Coverage under Modality I (US$300 million).** This modality provides coverage for quick onset, low probability natural hazards with severe or catastrophic impact, through predefined and measurable parametric triggers. More specifically, the eligible events will be earthquakes, hurricanes, and rainfall excess associated with cyclonic systems (paragraph 2.3).

1.30 **Subcomponent 1.2**. **Coverage under Modality II (US$100 million).** The proposed operation includes a subcomponent under CCF Modality II to provide timely funding for the extraordinary public expenditures that are likely to occur during public health emergencies or due to severe or catastrophic natural disasters that cannot be parametrized (paragraph 2.4).

1.31 To assess the country's financial needs for dealing with emergencies caused by severe or catastrophic natural disasters or public health events, the Bank analyzed the exposure and vulnerability to such events, and their historical impact, factoring in the effects of climate change. For Modality I, the maximum coverage (US$300 million)[11] is justified by the potential impact of a major earthquake, as in the case of the 1976 earthquake that caused damage

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[10] IDRMP indicator matrix (Annex III to the program Operating Regulations).

[11] Under document GN-2999-4, the coverage limit under Modality I can be up to US$300 million or 2.0% of the borrowing member country's GDP, whichever is less, and under Modality II it can be up to US$100 million or one percent (1.0%) of GDP, whichever is less.

equivalent to 20% of GDP, and by the historical impact of hurricanes (paragraph 1.2). For Modality II, the main justification for providing the maximum possible coverage (US$100 million) lies primarily in the impact of past volcanic eruptions and future pandemics (paragraphs 1.2 and 1.7), in addition to other eligible events such as droughts (paragraphs 2.3 and 2.4).

1.32 **Beneficiaries.** The potential beneficiaries of the project are the entire population of Guatemala, in particular the affected groups that receive emergency assistance under the proposed coverage.

C. Key results indicators

1.33 In line with the operation's specific objective (paragraph 1.27), the expected outcome is an improvement in the financial management of natural disaster and public health risks by increasing stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by natural disasters or public health events.

1.34 To verify improvements in the country's financial risk management, the following indicators will be monitored: (i) amount of ex ante financial coverage available to the country to respond to natural disaster or public health emergencies; (ii) beneficiaries of the ex ante financial coverage available for natural disaster emergencies; (iii) beneficiaries of the ex ante financial coverage available for public health emergencies; (iv) spread between the financial cost of the Bank loan and the cost of Guatemala's long-term external sovereign debt; (v) financial savings ratio after an eligible event occurs (cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in net present value (NPV) terms); and (vi) speed at which funds are accessed following the occurrence of an eligible event (number of days between the eligibility verification request and the availability of the funds).

1.35 **Economic analysis.** The economic analysis of the project uses a cost-effectiveness analysis methodology to evaluate a scenario in which the US$400 million contingent loan is used in the wake of a catastrophic natural disaster or public health event during the coverage period.[12] The NPV of the financing cost of the Bank loan was compared with the cost of bond issuance, under the following assumptions: (i) interest on the Bank loan was set at the London Interbank Offered Rate; and (ii) the bond issue was for 10-year bonds, using as reference the country's most recent bond issue on the international sovereign debt market. Both NPVs were calculated using a 12% discount rate. The results show that the cost of the contingent loan issued by the Bank is 73% of the cost of issuing debt. It is, therefore, a much more efficient alternative, not only in terms of financial cost but also in terms of the speed with which the funds become available (optional link 1).

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[12] Other scenarios were evaluated, and the results obtained indicate that the contingent loan would still be the most efficient option for the country (Optional link 1).

II. Financing Structure and Main Risks

A. Financing instrument

2.1 The operation will consist of an investment loan from the Bank, to be issued under the CCF (document GN-2999-4), for up to US$400 million, with US$300 million under Modality I and US$100 million under Modality II. The borrower, acting through the Ministry of Public Finance (MINFIN), will serve as executing agency. This loan will have a coverage period of five years from the effective date of the loan contract, which is renewable for an additional five years at the country's request and with the Bank's agreement. All disbursements will be made from the Bank's Ordinary Capital resources.

2.2 Contingent loans made under the CCF contain specific financial terms and conditions (as described in the Project Summary) to adequately support the country at the critical time of an emergency caused by severe events, when public finances are impaired. The specific terms and conditions include the following: (i) the amortization period, weighted average life, and grace period are counted from the date of each disbursement of the loan; (ii) the Bank will charge a one-time disbursement fee, currently set at 50 basis points, on the date of each disbursement; and (iii) the resource availability period (disbursement period) is five years, which can be renewed for up to a further five years, at the Bank's discretion and upon the borrower's request, through MINFIN. In the event of renewal, the amortization period, weighted average life, and grace period will be calculated as of the effective date of renewal.

2.3 **Eligible events under Modality I.** The eligible events will be: (i) earthquakes of intensity VI or greater on the Modified Mercalli Intensity Scale; (ii) hurricanes; and (iii) rainfall excess associated with cyclonic systems, with accumulated precipitation of at least 150 millimeters in 72 hours. Hurricanes and rainfall excess associated with cyclonic systems must have affected at least 1% of the country's total population, and earthquakes must have affected at least 2% of the total population. The Terms and Conditions for Modality I Coverage (Annex I to the program Operating Regulations) discuss specific issues related to the operation of the parametric triggers to determine eligibility for disbursements, as well as the methodology used to calculate the maximum amount of coverage based on the intensity and percentage of the country's total population affected by each type of eligible event.

2.4 **Eligible events under Modality II.** The loan will provide CCF Modality II coverage for:[13] (i) volcanic eruptions and droughts that result in a declaration of a national emergency or state of public calamity by the relevant authority of the borrower; and (ii) pandemics and epidemics that result in a declaration of a national emergency or state of public health calamity by the relevant authority of the borrower and for which the country has a preparedness and response plan for the event in question. This loan may not be used for the current COVID-19 pandemic outbreak. Nonetheless, future pandemics or epidemics may be eligible, including those

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[13] Modality II is intended to cover only events that are not covered by Modality I, such as natural hazards that cannot yet be parametrized and public health risks, and which are significant enough to cause impacts on the population and the economy (e.g., severe droughts and pandemic and epidemic outbreaks).

caused by the novel coronavirus, SARS-CoV-2. Issues related to the eligibility requirements of the aforementioned events, including the legal framework, scope, and procedure for declaring national public health and natural disaster emergencies, are discussed in Annex II to the program Operating Regulations.

2.5 Disbursements of the loan by the Bank will be contingent upon the availability, at the time of a disbursement request, of sufficient resources from the resources allocated to the Bank's regular lending program with Guatemala. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of available resources. In the event that no funds are available, the Bank will not be obligated to make any disbursements for as long as and to the extent that no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower, through MINFIN.

2.6 **Disbursement limits per event.** The maximum amount that may be disbursed for each eligible event is subject to the lower of the following limits: (i) the available undisbursed balance of coverage available under the applicable modality; and (ii) the limit for each disbursement method set forth in the program Operating Regulations. In the case of Modality I, since it is parametric coverage, the limit will also be subject to the maximum amount resulting from the application of the terms and conditions of Modality I coverage for the type of event declared eligible.

2.7 **Integrated Disaster Risk Management Plan (IDRMP).** As an eligibility requirement for disbursements under Modality I and Modality II (natural disaster risks), the CCF states that countries may receive financing as long as they have an IDRMP that is satisfactory to the Bank. The IDRMP seeks to promote the effective development of a national integrated disaster risk management policy. During preparation of this operation, the team performed a diagnostic assessment of disaster risk management in Guatemala and, based on that assessment, determined that the country complies with this eligibility requirement. In order to formalize the IDRMP, consensus was reached with the government on general targets for the 2021-2025 period and indicators for the first year of the IDRMP that are consistent with the National Disaster Risk Reduction Policy. The plan agreed upon between the government and the Bank is documented in Annex III to the program Operating Regulations.

2.8 In order to maintain the natural disaster coverage, the country will ensure that the IDRMP continues to be implemented to the Bank's satisfaction, by making progress toward fulfillment of the targets established therein. To monitor such progress, annual progress indicators are defined for each of the strategic pillars of the IDRMP. The progress monitoring exercises will be carried out annually. Satisfactory execution of the plan will be determined by verifying that the country has made significant progress in all of the agreed-upon progress indicators. For subsequent annual verification periods, new progress indicators will be defined, in coordination with the government, as appropriate (for more information on monitoring, see IDRMP).

2.9 **International Health Regulations (IHR).** As an eligibility requirement for disbursements through public health coverage under Modality II, the CCF states that countries must be up to date with their reporting on IHR compliance to the

WHO. As noted in paragraph 1.16, Guatemala satisfies this requirement for access to public health coverage under the CCF. During the contingent loan coverage period, the Bank will monitor the country's annual compliance with reporting to the WHO on its capacity and response to public health events under the IHR.

2.10 **Complementary risk retention mechanisms.** As of July 2021, Guatemala has two risk retention mechanisms that can complement the ex ante financial coverage provided by this contingent loan: (i) the Permanent National Fund for Disaster Reduction has an annual budget allocation equivalent to approximately US$1 million for humanitarian aid purchases for emergency response, which are executed during the fiscal year and do not accumulate; and (ii) the National Emergent Fund receives a variable annual budget allocation to capitalize the fund, which currently has approximately US$65 million. The country has used resources from the Emergent Fund on two occasions: to respond to the eruption of the Fuego volcano in 2018 (US$26 million) and to support the response to the COVID-19 pandemic outbreak in 2020 (US$30 million).

B. Environmental and social risks

2.11 In accordance with the provisions of Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20, Operational Policy OP-703), this operation does not require classification. As any resources disbursed under this loan may only be used to finance extraordinary public expenditures incurred during an emergency, and because the government agencies executing the budget during emergencies (paragraph 3.4) are required to comply with the country's environmental and social legislation in the use of the funds, no negative environmental or social impacts are anticipated. Moreover, the loan contract includes a list of the types of expenses that cannot be financed with loan proceeds (negative list). Examples of such expenses are those associated with the permanent reconstruction of infrastructure.[14]

C. Fiduciary risks

2.12 **Internal processes.** The operation will comply with the specific fiduciary control requirements and procedures set out in document GN-2999-4 and supplemented by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). The team has identified a medium-high internal process risk, inasmuch as the involvement of several agencies in execution of emergency-related expenses could create delays in reporting that make it impossible to verify eligible expenses. As a result, expenses could be rejected because they do not meet the eligibility criteria. The Bank will require the following measures to mitigate this risk (Annex III): (i) a specific budget code will be assigned in the Integrated Accounting System (SICOIN) in accordance with the borrower's applicable regulations, through MINFIN; (ii) use of the loan proceeds will be verified by an independent firm of auditors acceptable to the Bank (paragraph 3.12); and

[14] Reconstruction refers to building new facilities to replace those destroyed or damaged beyond all repair by a disaster, in accordance with standards to prevent the reestablishment or increase of vulnerability. This type of construction is not eligible under this financing.

(iii) MINFIN will designate a party responsible for project management, coordination, and fiduciary monitoring.

D. Other key issues and risks

2.13 **Institutional risk.** There is a medium-high risk that, due to delays in necessary interagency communications and coordination, resources disbursed for an eligible event will not be used in time to comply with the CCF rule that all disbursed resources must be executed within the stipulated period, thus making the emergency response less effective (paragraph 3.11). As risk mitigation measures, the Bank will: (i) provide technical support to MINFIN, including training workshops to strengthen its capacity to execute the loan, as part of the project startup and supervision process; and (ii) monitor institutional arrangements and coordination between MINFIN and the institutions tasked with responding to natural disaster and public health emergencies, based on the mechanisms established in the applicable rules and regulations.

2.14 **Sustainability.** The government is expected to continue to make arrangements for financial instruments to respond to disaster risk, to include securing a mix of financial risk retention and transfer instruments, as one of its strategic lines of action (paragraph 1.13). In addition, the country's determination to improve integrated public health and disaster risk management, as reflected in the National Disaster Risk Management Plan 2018-2022 (paragraph 1.10) and the National Multihazard Emergency and Disaster Response Plan (paragraph 1.16), will strengthen the government's capacity to manage these risks and finance the extraordinary public expenditures needed to provide a timely response to future natural disaster or public health emergencies, thereby mitigating the potential impact on the population, the public finances, and economic activity.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the Republic of Guatemala, acting through the Ministry of Public Finance (MINFIN). The executing agency will be MINFIN, which will use its administrative structure in accordance with its internal regulatory framework. The contingent loan proceeds will be disbursed into a secondary account designated by MINFIN. Considering the nature of the operation, MINFIN will coordinate the entities receiving the loan proceeds, as identified in the program Operating Regulations. The executing agency will be tasked with: (i) overall project coordination; (ii) processing and handling disbursement requests with the Bank; and (iii) helping to ensure that the project's objectives and terms and conditions are fulfilled (see paragraph 2.1 of the program Operating Regulations).

3.2 **Interagency coordination for natural disaster emergencies.** The National Response Plan (NRP) (paragraph 1.10) sets out the national coordination actions through the CONRED system to respond to emergencies and disasters. In the event of a declaration of a state of public emergency, the President presides over the CONRED National Council, and the council's orders are executed by SE CONRED (paragraph 1.11). The response is organized into four sections: planning (under the leadership of the First Lady's Social Works Secretariat (SOSEP)); logistics (Ministry of National Defense); operations (SOSEP); and administration and finance (Ministry of Communications, Infrastructure, and Housing). Within the latter, MINFIN is responsible for coordinating financial resources under the NRP.

3.3 **Interagency coordination for public health emergencies.** Interagency coordination is carried out through emergency operations centers (EOCs) at the district, departmental, hospital, and national levels. It consists of a group of representatives from the various agencies tasked with helping the community affected by an incident, gathered together in a pre-determined fixed facility with the aim of coordinating the efficient use of response resources and getting the situation back to normal. The EOC exercises emergency operations command at the level of that community. It is supported by regulated procedures and administrative and legal units from the Ministry of Health and throughout Guatemala, through CONRED. In public health emergencies, a health EOC is set up that covers the entire public healthcare network (primary care and hospitals), the Guatemalan Social Security Institute, private clinics, water and sanitation, and technical offices within the health sector. Depending on the magnitude of the problem, it liaises with the general EOC under the umbrella of CONRED, which includes civil defense, ministries, police, and technical or operational agencies, as well as nongovernmental organizations and humanitarian agencies.

3.4 **Coordination mechanism for drawing on the loan proceeds.** To ensure timely execution of loan proceeds channeled to emergencies, a coordination and execution mechanism, led by MINFIN, will be set up with the entities assigned for the use of resources, to facilitate the flow of funds to the public sector agencies tasked with executing the resources, according to the nature of the emergency and the policies put in place, specifically CONRED in the case of natural disasters and the MSPAS for public health events. This mechanism is consistent with the responsibilities and powers described in the NRP (paragraph 1.10), is described in detail in the program Operating Regulations and must be implemented by MINFIN and the corresponding entities immediately following a contingent loan disbursement.

3.5 **Special contractual condition of general eligibility: The program Operating Regulations will have been approved and will have entered into force on the terms previously agreed upon with the Bank; and (ii) evidence will have been provided of formalization of the coordination agreements between the borrower and the entities linked to the Integrated Disaster Risk Management Plan (IDRMP) and/or the International Health Regulations (IHR).** The program Operating Regulations contain all the operational arrangements concerning loan supervision and administration, as well as disbursement requests and use of proceeds. The program Operating Regulations will include: (i) the terms and conditions for each type of coverage, including the characteristics and operation of the parametric triggers, and the mechanisms for monitoring the risks covered under Modality II; and (ii) the IDRMP, which sets forth the indicators for monitoring the operation. The coordination agreements will ensure effective coordination between the executing agency and the entities required to support fulfillment of the disbursement conditions.

3.6 **Special contractual conditions precedent to each disbursement. The special contractual conditions precedent to each disbursement are as follows:**

a. **Disbursements under Modality I (Natural disasters): (i) the Bank has verified that an eligible event as defined in the program Operating Regulations has occurred; and (ii) the IDRMP, previously agreed upon with the Bank, is being implemented to the Bank's satisfaction (paragraph 2.7);**

b. **Disbursements under Modality II (Natural disasters): (i) the Bank has verified the declaration of an emergency or state of public calamity by the relevant authority of the borrower due to an eligible natural disaster as defined in the program Operating Regulations; (ii) the IDRMP, previously agreed upon with the Bank, is being implemented to the Bank's satisfaction; and (iii) the Bank has verified the borrower's compliance, through MINFIN, with the agreed-upon complementary risk retention financing measures and conditions;**

c. **Disbursements under Modality II (Public health events): (i) the Bank has verified the declaration of a national emergency or state of public calamity due to an eligible public health event as defined in the program Operating Regulations; (ii) the borrower, through MINFIN, in coordination with the Ministry of Public Health and Social Assistance, has provided evidence that that it is up to date with progress reporting to the WHO on IHR compliance; (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan, in line with WHO/PAHO recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified, through MINFIN, the borrower's compliance with the agreed-upon complementary risk retention financing measures and conditions.**

3.7 **In addition to the aforementioned contractual conditions precedent to each disbursement, the borrower, through MINFIN, will have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s).** These contractual conditions were established as standard conditions for the execution of contingent loans in the CCF policy document (document GN-2999-4).

3.8 Each disbursement under this loan will be made under the financial terms and conditions set forth in the Project Summary.

3.9 **Eligible expenditures.** Loan proceeds may be used to finance extraordinary public expenditures that occur during emergencies resulting from eligible events and that satisfy the following requirements, as set out in document GN-2999-4 (paragraph 4.20(c)): (i) they are not explicitly excluded in the Loan Contract ("negative list"); (ii) they are legal under Guatemalan law; (iii) they are directly related to the natural disaster or public health emergency for which the financing has been provided; (iv) they have verifiable documented and clearly registered acquisitions and payments; and (v) they have been adequately dimensioned and priced. Examples of types of expenditures that might be eligible are (i) emergency health equipment; (ii) vaccines and medications; (iii) foodstuffs for affected populations; (iv) temporary shelters; and (v) temporary rehabilitation of infrastructure and reconnection of utilities. For public health events, the Bank will use the list of goods and services included in the WHO Operational Planning Guidelines as an indicative, nonexhaustive guide.

3.10 The Bank may recognize up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower from the date of occurrence of the eligible event under the natural disaster and public health coverage and up to 180 calendar days immediately thereafter. Upon formal request from the borrower with proper justification, the Bank, at its sole discretion, may extend this period for an additional 90 days, for a total of 270 days (document GN-2999-4, paragraph 4.20(f)). For all procurement-related matters, this operation will be governed by the rules set forth in the CCF policy (document GN-2999-4). The borrower will use its national legislation on the procurement of goods and the contracting of works or services, as applicable to extraordinary fiscal expenditures in natural disaster situations (Annex III).

3.11 **Reasonable assurance audits.** The Bank will require independent verification of expenses financed by the loan, in order to assess compliance with the eligibility criteria set forth in the Loan Contract and in the program Operating Regulations. This independent verification will be performed by an external reasonable assurance audit firm acceptable to the Bank or by the comptroller general, if accepted by the Bank. MINFIN will be responsible for hiring the audit firm, which may utilize the Bank's procurement policies. These costs are eligible to be financed from the loan proceeds.

3.12 **Justification of the use of resources.** The borrower, acting through MINFIN, will produce a Consolidated Report on the Appropriate Use of Resources,[15] within 365 calendar days from the date of the eligible event for which the Bank has disbursed the resources in question. This expense report will be accompanied by the final report on the reasonable assurance audit (paragraph 3.12). Once the consolidated report on the appropriate use of resources has been submitted, the Bank will determine the total amount of expenses eligible for financing. If there are unjustified or ineligible expenses, the Bank may require that the borrower, through MINFIN, repay the amount lacking acceptable justification.

3.13 As noted in document GN-2999-4, the Bank reserves the right to conduct additional and subsequent audits of the expenses incurred, the findings of which may support an eventual request for reimbursement of amounts that have been deemed ineligible for financing.

B. Summary of arrangements for monitoring results

3.14 During the natural disaster coverage period of the contingent loan, the Bank, in coordination with MINFIN, will periodically monitor progress in the implementation of the IDRMP (paragraph 2.8) as set out in document GN-2999-4. As indicated in the monitoring and evaluation plan, the loan evaluation will be structured to distinguish between two different situations: (i) one in which no eligible natural

[15] This report consists of an official letter sent by MINFIN to the Bank, which includes the statement of expenses consolidated by MINFIN on the use of resources by government entities and the audited final reasonable assurance report.

disaster occurs; and (ii) one in which an eligible event has occurred and results in the disbursement of loan proceeds. The evaluation methodology for both situations consists of a reflexive approach. In the former, the evaluation would focus on the efficiency of the loan over the entire period of coverage provided. In the latter, the evaluation would focus on whether the financial conditions of the resources disbursed are efficient for the country. In addition to the reflexive evaluation, an ex post cost-effectiveness analysis will be carried out to compare the cost of the resources disbursed to the cost of another source of funding. In addition, a qualitative evaluation has been included to analyze the contribution made by the IDRMP to enhancing the country's national disaster risk management policy.

Development Effectiveness Matrix		
Summary	GU-O0006	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Social Inclusion and Equality -Climate Change -Institutional Capacity and the Rule of Law**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	*** Beneficiaries of enhanced disaster and climate change resilience (#) * Countries with strengthened tax and expenditure policy and management (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2899**	**The operation is aligned among the cross-cutting issues included in its priority areas mentions the importance of disaster risk management measures and adaptation and mitigation to climate change.**
Country Program Results Matrix	**GN-3034-2**	**The intervention is included in the 2021 Operations Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	**8.1**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**1.6**	
3.3 Results Matrix Quality	**4.0**	
4. Ex ante Economic Analysis	**10.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**2.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**2.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**9.5**	
5.1 Monitoring Mechanisms	**4.0**	
5.2 Evaluation Plan	**5.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
Environmental & social risk classification	**B.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System.**
Non-Fiduciary		
The IDB’s involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Note: The project is a Contingent Loan for Natural Disasters and Public Health Emergencies in the Republic of Guatemala. The general objective of the project is to help mitigate the impact that a natural disaster or a public health event of severe or catastrophic magnitude could have on public finances. The specific objective is to improve the financial risk management of natural disasters and public health risks by increasing stable, cost-efficient and rapid access to contingent financing to cover extraordinary public expenditures directed to the care of the population affected by emergencies caused by natural disasters and public health events.

The documentation is well structured, with a good diagnosis of the country's vulnerability to natural disasters and climate change, as well as to public health events. The negative effects that these events have on the country, their population, the economy, and the fiscal resources are properly documented. The project will provide coverage under Modality I of the CCF for earthquakes, hurricanes, and excess rainfall due to cyclonic systems. Under Modality II, the project will provide coverage for volcanic eruptions, droughts, and pandemics and epidemics that result in a declaration of national emergency. The proposed intervention is clearly linked to the identified problems and factors. The results matrix reflects the general and specific objective of the program and captures a good vertical logic. The output, result and impact indicators have baseline values and targets, and sources of information.

The project includes an ex ante cost-effectiveness analysis and a monitoring and evaluation plan in line with DEM guidelines and the characteristics of contingent loans for natural disasters and public health emergencies. The economic analysis shows that the operation is efficient with a Net Present Value of the loan granted by the Bank that is 73% of the cost of the next likely alternative, which makes it a more cost-efficient option. The monitoring and evaluation plan proposes a reflexive evaluation and an ex post cost-effectiveness analysis.

The three risks identified in the risk matrix seem reasonable, one is classified as Low and two as Medium-High. The medium-high level risks include mitigating actions, responsible parties, and dates or triggers.

RESULTS MATRIX

Project objective	The **general objective** of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances. The **specific objective** is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies.

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline	Expected year achieved	Target	Means of verification	Comments
General development objective: To buffer the impact of a severe natural disaster or public health event on Guatemala's public finances.						
Indicator 1: Ex ante financial coverage relative to the maximum probable expenditure[1] during catastrophic natural disaster emergencies.	%	1.4[2]	5	7.7[3]	MINFIN	The indicator measures Guatemala's ex ante financial coverage as a percentage of the maximum probable expenditure incurred addressing emergencies caused by catastrophic natural disasters. See monitoring and evaluation plan.
Indicator 2: Ex ante financial coverage relative to the maximum probable expenditure[4] during national public health emergencies.	%	0[5]	5	65[6]	MINFIN	The indicator measures Guatemala's ex ante financial coverage as a percentage of the maximum probable expenditure incurred in addressing nationwide public health emergencies. See monitoring and evaluation plan.

1 The calculation of the maximum probable expenditure during emergencies is based on the occurrence of an earthquake with a recurrence interval of 1 in 100 years, based on estimates reported in the Financial Strategy in Response to Disaster Risk prepared by the Ministry of Public Finance (MINFIN).

2 Guatemala has: (i) annual allocations through the Permanent National Fund for Disaster Reduction, which average US$1 million per year for humanitarian aid purchases for emergency response; and (ii) resources from the National Emergent Fund, which currently has approximately US$65 million for natural disaster emergency response.

3 This target value assumes that no severe or catastrophic event occurs during the contingent loan coverage period but is adjusted for inflation and exchange rate variations.

4 The maximum probable expenditure during a public health emergency is calculated using IMF estimates of exceptional public expenditures in the health sector to respond to the COVID-19 public health emergency, equivalent to 0.2% of GDP. Guatemala – Request for Purchase Under the Rapid Financing Instrument. IMF (June 2020).

5 As of the time this loan was prepared, Guatemala did not have any instruments in place with coverage for public health events.

6 This target value assumes that no public health event occurs during the loan coverage period but is adjusted for inflation and exchange rate variations.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Specific development objective: To improve the financial management of natural disaster and public health risks, by increasing stable and efficient contingent financing to cover extraordinary public expenditures during natural disaster and public health emergencies.										
Indicator 1. Availability and stability: Increase in the country's ex ante financial coverage for extraordinary expenses during emergencies caused by natural disasters or public health events.										
Amount of ex ante financial coverage available to the country for emergency response to natural disaster or health emergencies.	US$ million	80	480	480	480	480	480	480	MINFIN	This indicator quantifies Guatemala's total ex ante financial coverage for financing extraordinary public expenditures associated with responding to natural disaster or public health emergencies. The amount includes coverage from this loan as well as other ex ante financing (e.g., reserve funds, contingent credit lines with other multilateral institutions, and insurance). See monitoring and evaluation plan.
Indicators 2 and 3. Vulnerable people who become more resilient to natural disasters, epidemics, and pandemics as a result of the ex ante financial coverage provided by the contingent loan.										
Beneficiaries of the ex ante financial coverage available for natural disaster emergencies.[7]	Thousands of people	209	994	994	994	994	994	994	MINFIN	This indicator measures the maximum number of people who could benefit from the country's ex ante financial coverage for natural disaster emergencies. See monitoring and evaluation plan.

[7] This estimate assumes average financial coverage per person of US$382, equivalent to the country's average monthly per capita income, plus available ex ante financial coverage of US$360 million (US$1 million from the Permanent National Fund for Disaster Reduction, US$65 million from the Emergent Fund, US$14 million from the Caribbean Catastrophe Risk Insurance Facility policy, and US$300 million coverage under Modality I).

Indicator	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Beneficiaries of the ex ante financial coverage available for public health emergencies.[8]	Thousands of people	0	167	167	167	167	167	167	MINFIN	The maximum number of people who could benefit from the ex ante financial coverage available to the country for public health emergencies. See monitoring and evaluation plan.
Indicators 4 and 5. Financial cost: Contingent financial coverage is cost-efficient.										
Spread between the financial cost of the IDB loan and the cost of Guatemala's long-term external sovereign debt.	Basis points	90[9]	Cost diff.	Cost diff.	Cost diff.	Cost diff.	Cost diff.	At least 50	IDB Finance Department (FIN) Refinitiv Eikon MINFIN	This indicator compares the financial cost of the IDB loan with the cost of Guatemala's long-term commercial external debt. See monitoring and evaluation plan. For reporting this indicator, the Bank's project team will perform measurements and calculations, based on: (i) information provided by FIN to estimate the funding cost of the contingent loan; and (ii) information from MINFIN (or other external sources such as the Refinitiv Eikon financial information platform, formerly Thomson Reuters) to estimate the cost of the financing alternative accessible by the country. See monitoring and evaluation plan.
Financial savings ratio should an eligible event occur: cost of funds disbursed by the Bank relative to the cost of issuing sovereign debt, expressed in net present value (NPV) terms.	%	27.2[10]	20	20	20	20	20	20	FIN Refinitiv Eikon MINFIN	This indicator will measure the country's financial savings rate when the proceeds of the IDB loan are disbursed, following the occurrence of an eligible event. It is calculated using a cost-effectiveness analysis methodology. See monitoring and evaluation plan. For reporting this indicator, the Bank's project

[8] This estimate assumes average financial coverage of US$598 per person, which is equal to the inflation-adjusted total cost of care for one patient with dengue (covering medical supplies, laboratory fees, and health personnel wages) in Guatemala for an average hospital stay of four days, plus available ex ante financial coverage of US$100 million from coverage under Modality II.

[9] See economic analysis of the project (optional link 1).

[10] The NPV of the financing cost of the IDB loan compared with that of bond issuance using a cost-effectiveness analysis methodology. See economic analysis of the project (optional link 1).

Indicator	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
										team will perform measurements and calculations, based on: (i) information provided by FIN to estimate the funding cost of the contingent loan; and (ii) information from MINFIN (or other external sources such as the Refinitiv Eikon financial information platform, formerly Thomson Reuters) to estimate the cost of the financing alternative accessible by the country. See monitoring and evaluation plan.
Indicator 6. Speed of access: Contingent financial coverage is efficient in terms of the speed with which the country can access loan funds to cover potential emergency expenses.										
Speed of access to the funds after an eligible event occurs: number of days between the eligibility verification request and the availability of the funds.	Days	90[11]	30	30	30	30	30	30	FIN MINFIN	The indicator will measure the number of days between the date on which the country submits an eligibility verification request and the date on which the Bank notifies the country that the loan funds are available. See monitoring and evaluation plan.

OUTPUTS

Indicator	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification
Sole component: Contingent loan from the Bank to cover extraordinary public expenditures during natural disaster or public health emergencies.									
Subcomponent 1.1: Coverage under Modality I.	US$ million	0	300	300	300	300	300	300	MINFIN
Subcomponent 1.2: Coverage under Modality II.	US$ million	0	100	100	100	100	100	100	MINFIN

[11] The figure represents the average time it takes to authorize and arrange a sovereign bond issue on the international market for a country that performs this type of operation intermittently. The baseline is subject to revision based on future issues.

Country: Guatemala **División:** IFD/CMF **Operation number:** GU-O0006 **Year:** 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: The borrower, through its Ministry of Public Finance (MINFIN)

Operation name: Contingent Loan for Natural Disaster and Public Health Emergencies

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the project

☒ Budget	☒ Reports	☒ Information system	☐ Partial NCB
☒ Treasury	☐ Internal audit	☐ Shopping	☐ Advanced NCB
☒ Accounting	☒ External control	☐ Individual consultants	☒ Other: Procurement according to GN-2999-4

2. Fiduciary execution mechanism

☒	**Particular features of fiduciary execution**	The borrower, acting through MINFIN, will serve as executing agency. The operation will consist of an investment loan from the Bank, to be issued under the Contingent Credit Facility (CCF) for Natural Disaster and Public Health Emergencies (document GN-2999-4), for up to US$400 million, with US$300 million under Modality I and US$100 million under Modality II.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	MINFIN is the central government agency responsible for the administration of the public sector budget process, application and administration of the legal provisions regarding taxes, revenue collection, and audits; management of the public treasury, public credit, and government accounting; formulation and management of the public sector's domestic and external borrowing policy and the government's fiscal policy; and handling the government's relations with domestic and international financial organizations. MINFIN will manage the allocation and specific budget items for this project and make payments through the special account. It will be responsible for preparing and reporting project financial information, making disbursement arrangements with the Bank, and submitting the required audited and unaudited financial reports. MINFIN is considered to have the necessary and sufficient qualities to ensure the effective and transparent financial execution of the resources of this operation.

4. Fiduciary risks and risk response

Area	Risk	Level of risk	Risk response
Internal processes	Since several agencies may be involved in executing emergency-related expenses, possible delays in reporting could make it impossible to verify eligible expenses. As a result, expenses could be rejected because they do not meet the eligibility criteria.	Medium-high	(i) A specific budget code will be assigned in the Integrated Accounting System (SICOIN) in accordance with the applicable regulations of the borrower, through MINFIN. (ii) Use of the loan proceeds will be verified by an independent firm of auditors acceptable to the Bank. (iii) MINFIN will designate a party responsible for project management, coordination, and fiduciary monitoring.

5. Policies and guidelines applicable to the operation

Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and the fiduciary control requirements and procedures set out in document GN-2999-4.

6. Exceptions to policies and guidelines

None.

II. Considerations for the Special Provisions of the Loan Contract

Special contractual conditions of general eligibility: (i) A secondary subaccount specific for project use and denominated in U.S. dollars will have been opened under the treasury single account at the Bank of Guatemala. Loan disbursements will be deposited into this account, and the corresponding payments under the operation will be made from it; and (ii) the borrower and/or executing agency, through MINFIN, will have assigned a specific budget code to identify the loan in the Integrated Accounting System (SICOIN), in accordance with the borrower's applicable regulations and in the name of the operation, as established in the loan contract.
Special contractual conditions of execution: Within 45 days following the first disbursement relating to an eligible event, the borrower, through MINFIN, will submit to the Bank evidence that it has contracted, from a short list accepted by the Bank, an audit firm to prepare the final reasonable assurance report, which may be financed with loan proceeds and contracted under the Bank's procurement policies, under previously agreed terms of reference.
Exchange rate: For accounting purposes, the exchange rate to be used will be the rate reported by the Bank of Guatemala on the effective date on which the borrower, executing agency, or any other individual or legal entity to whom authority to incur expenses has been delegated makes the respective payment or transfer. Earnings generated as a result of exchange differentials or interest may be used to finance expenses pertaining to the project objectives after securing the Bank's no objection. Possible losses as a result of exchange differentials corresponding to program eligible expenditures may be recognized in the last justification submitted by the executing agency during the term of the loan contract with the Bank's prior no objection.

Type of audit: Within no more than 365 calendar days from the eligible event, the borrower, through the executing agency, will submit to the Bank a final reasonable assurance report issued by the external audit firm or supreme audit institution contracted in accordance with the terms of reference previously agreed with the Bank. In addition, the Bank may request audited interim progress reports on expense execution.

III. Agreements and Requirements for Procurement Execution

☒	**Use of country systems**	**Country procurement system.** Guatemala's procurement system has been built upon the framework established by Decree 57-92 of 27 October 1992, “Public Procurement Act,” as amended by Congressional Decrees 45-2010, 6 -2011, 9-2015, and 46-2016. The current regulations under the act were issued through Government Resolution 172-2017 of 2 August 2017, “Regulations for the Public Procurement Act.” MINFIN serves as the system’s apex agency through its Public Procurement Office. Public procurement processes are carried out using the GUATECOMPRAS public procurement information system. Regulations on disaster response during natural disasters or pandemics derive from Decree 7, “Public Order Act,” of the National Constituent Assembly of the Republic of Guatemala, which authorizes the President of the Republic to issue a declaration of a state of emergency during a cabinet meeting and inform Congress so that it may ratify, amend, or reject it. Articles 44 and 45 of Decree 57-92, “Public Procurement Act,” regulate procurement processes during exceptional cases arising from the public order (emergency) laws of the Congress of the Republic. In accordance with document GN-2999-4, Contingent Credit Facility loans are exempt from the application of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), as periodically amended. Instead, under the CCF (document GN-2999-4), the borrower will, at its sole responsibility, apply its own rules and regulations relating to the procurement of goods, works, and services in cases of emergency, in accordance with applicable local laws and regulations.
☒	**Records and files**	The executing agency will keep its records independently, in digital and hard-copy files for a two-year period from the date of each disbursement and as set out in the loan contract and will have procedures and instructions in place for their proper maintenance. The Bank may verify the standards of organization, control, and security of the files at any time.

IV. Agreements and Requirements for Financial Management

☒	**Programming and budget**	MINFIN, as the executing agency, is responsible for processing the necessary budgetary procedures and allocations and financial fees in coordination with the corresponding agencies. Guatemala's Budget Act regulates the budget, accounting, treasury, and public credit subsystems that are part of the Integrated Financial Management System (SIAF) and operate under the principle of regulatory centralization and operational decentralization. The public financial management system in Guatemala consists of the SIAF and the Government Audit System. The SIAF is comprised of public budget, government accounting, national treasury, public credit, and procurement subsystems. The apex agency is MINFIN, which acts through its Budget, Accounting, Treasury, Public Credit, and Public Procurement Regulations offices, respectively. MINFIN will assign an identifier code to the project in the integrated accounting system. If an event occurs, it will trigger the creation of the loan’s budget

		structure as established under the executive decree declaring the state of emergency. The borrower is encouraged to assign budgetary and, if applicable, accounting items for specific emergency expenses.
☒	**Treasury and disbursement management**	**Disbursement mechanism:** The Bank will disburse resources via the advance of funds modality or direct payments. Up to 100% of the amount of the financing may be disbursed through the submission of physical disbursement requests, since e-Desembolsos has not been implemented in Guatemala. **Bank account and cash flow advance:** The treasury single account of the Bank of Guatemala will be used, and funds will subsequently be transferred to the secondary account designated for the project and denominated in U.S. dollars, from which the project payments will be made. Once the eligibility requirements for disbursement are met, the borrower will submit a formal disbursement request to the Bank within 90 calendar days from the onset of an eligible event. **Percentage for financial reporting:** If partial disbursements are made as advances, subsequent advances may be processed once at least 60% of the balance of the previous advances has been justified. This percentage is set based on the difficulty of collecting supporting documentation and the high probability that expenses are dispersed. If necessary, the use of the flexibilization measures set out in the OP-273-12 guidelines may be considered. **Considerations for final justification of the use of resources:** The borrower will submit to the Bank a Consolidated Report on the Appropriate Use of Resources[1] within 365 calendar days from the onset of the eligible event for which the CCF loan funds were disbursed. The borrower will confirm, inter alia, that the expenses submitted to the Bank have not been financed from other sources. To do so, the Bank will require that the borrower contract an independent verification of the use of the resources. The Bank may finance up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower from the date of occurrence of the eligible event under the natural disaster and public health coverage and up to 180 calendar days immediately thereafter. Upon formal request from the borrower with proper justification, the Bank, at its sole discretion, may extend this period for an additional 90 days, up to a total of 270 days. If there are unjustified or ineligible expenses, the Bank may require that the borrower repay the amount lacking acceptable justification.
☒	**Accounting, information systems, and reporting**	**Specific accounting standards:** Government accounting standards. Implementation of International Public Sector Accounting Standards should begin in 2022. **Accounting method and currency:** Accounting records are kept on an accrual basis; however, project financial reports will be prepared on a cash basis and in U.S. dollars, which is the disbursement currency. **Reports:** Emergency expense reports will be prepared by the government agencies that have executed the loan resources and will be consolidated by the executing agency based on information from the integrated accounting system and auxiliary records in Excel if necessary. Proceeds from a CCF contingent loan can be used to pay expenses that: (i) are not explicitly excluded in the related CCF Contingent Loan Contract ("negative list"); (ii) are legal under Guatemalan law; (iii) are directly or indirectly related to the natural disaster or public health emergency for which the financing has

[1] This report consists of an official letter sent by the MINFIN to the Bank, which includes the statement of expenses and the final reasonable assurance report.

		been provided; (iv) have verifiable documented and clearly registered acquisitions and payments; and (v) have been adequately dimensioned and priced.
☒	**Internal control and internal audit**	The project will be executed in line with the internal control structure established in the program Operating Regulations. The country's internal control subsystem will not be used.
☒	**External control: external financial audit and project reports**	**Audited financial reports:** The borrower, acting through the executing agency, will submit to the Bank a final reasonable assurance report issued by an external Bank-eligible audit firm in the country or by the comptroller general, as appropriate, within a maximum of 365 calendar days from the eligible event. The audit will be commissioned by MINFIN using resources from the financing, in accordance with the terms of reference previously agreed upon with the Bank. The borrower will finalize the hiring of the independent audit firm no later than 45 days after the first disbursement has been made. **Final report:** Within 365 calendar days from the occurrence of the eligible event, the audit firm will produce a final reasonable assurance report, which will be a prerequisite for the borrower's final financial report on the use of the resources. The Bank may request audited interim progress reports on the execution of the expenses, which may be submitted alongside the interim financial reports. In addition, the Bank, at its sole discretion and at no cost to the borrower, may verify, through independent external audits, the appropriateness of the expenses declared as eligible. Such audits will be conducted no later than two years after the end of the disbursement period of the related CCF contingent loan. If, as a result of any of the audits of the loan, the Bank finds that funds from that loan have been used to finance ineligible or inappropriate expenses, the Bank may require that the borrower immediately remedy the situation or repay the disputed amounts. The government's audit system consists of the Government Audit System (SAG), whose apex agency is the Office of the Comptroller General.
☒	**Project financial supervision**	Financial supervision will be conducted through visits, working meetings, and reviews of assurance reports or other audited financial reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Guatemala. Loan GU-O0006 to the Republic of Guatemala
Contingent Loan for Natural Disaster and Public
Health Emergencies

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Guatemala, as borrower, for the purpose of granting it a Contingent Loan for Natural Disaster and Public Health Emergencies. Such contingent credit will be for the amount of up to US$400,000,000 from the resources of the Bank's Ordinary Capital resources, and will be subject to the availability of resources from the Bank's regular loan program with the Republic of Guatemala, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _______________ 2021)

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