Document of
The World Bank

Report No: ICR2651

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-79880)

ON A

LOAN

IN THE AMOUNT OF US$ 100 MILLION

TO THE

REPUBLIC OF GUATEMALA

FOR AN

EMERGENCY SUPPORT TO SOCIAL SERVICES PROJECT

June 14, 2013

Poverty Reduction and Economic Management
Central America Country Management Unit
Latin America and Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 8, 2013)

Currency Unit = Quetzal
Q.1.00 = US$0.13
US$1.00 = Q.7.78

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CPS	Country Partnership Strategy
DDO	Direct Drawdown Option
DPL	Development Policy Loan
ERL	Emergency Recovery Loan
GDP	Gross Domestic Product
HSW	Hospital Solid Waste
IPP	Indigenous People's Plan
LAC	Latin America and the Caribbean
MINEDUC	Ministry of Education
MOF	Ministry of Public Finance
MSPAS	Ministry of Public Health and Social Assistance
PDO	Project Development Objective
PEC	Programa de Extension de Cobertura
PER	Public Expenditure Review
SIAF	Sistema Integrado de Administracion Financiera (Integrate Financial Management System)
SOE	Statement of Expenses

Vice President:	Hasan A. Tuluy
Country Director:	Carlos Felipe Jaramillo
Sector Director:	Rodrigo A. Chaves
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Project Team Leader:	Jasmin Chakeri
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GUATEMALA
EMERGENCY SUPPORT FOR SOCIAL SERVICES

CONTENTS

A. Basic Information			
Country:	Guatemala	Project Name:	Emergency Support for Social Services
Project ID:	P122370	L/C/TF Number(s):	IBRD-79880
ICR Date:	04/19/2013	ICR Type:	Core ICR
Lending Instrument:	ERL	Borrower:	REPUBLIC OF GUATEMALA
Original Total Commitment:	USD 100.00M	Disbursed Amount:	USD 99.90M
Revised Amount:	USD 100.00M		
Environmental Category: C			
Implementing Agencies: Office of Public Credit			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	11/04/2010	Effectiveness:		12/20/2011
Appraisal:	11/08/2010	Restructuring(s):		05/25/2012 12/04/2012
Approval:	12/09/2010	Mid-term Review:	03/01/2011	04/04/2011
		Closing:	06/30/2012	12/31/2012

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
General education sector	70	80
Health	30	20
Theme Code (as % of total Bank financing)		
Natural disaster management	100	100

E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Hasan A. Tuluy	Pamela Cox
Country Director:	Carlos Felipe Jaramillo	Laura Frigenti
Sector Manager:	Auguste Tano Kouame	Rodrigo A. Chaves
Project Team Leader:	Jasmin Chakeri	David Michael Gould
ICR Team Leader:	Jasmin Chakeri	
ICR Primary Author:	Elaine A. Tinsley	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The project's development objective was to preserve health and education services following severe flooding and other natural disasters that took place in Guatemala between May and September 2010.

Revised Project Development Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Maintain basic education services (grades 1 through 9) in the 130 poorest municipalities as measured by the number of teachers and Telesecundaria facilitators providing education services.			
Value (quantitative or Qualitative)	34057	37980	34057	34334
Date achieved	10/31/2010	12/31/2011	12/04/2012	11/30/2012
Comments (incl. % achievement)	Achieved			
Indicator 2 :	Maintain the three levels of health care service in the 130 poorest municipalities, as measured by the number of health workers providing medical services			
Value (quantitative or Qualitative)	1623	1910	1623	1650
Date achieved	10/31/2010	12/31/2011	12/04/2012	09/30/2012
Comments (incl. % achievement)	Achieved			
Indicator 3 :	Total wages paid to teachers and telescundaria facilitators in the 130 poorest municipalities			
Value (quantitative or Qualitative)	115935		115935	139606
Date achieved	10/31/2010		12/04/2012	11/30/2012
Comments (incl. % achievement)	Thousand Quetzales. Achieved.			
Indicator 4 :	Total wages paid to healthcare workers in the 130 poorest municipalities			
Value (quantitative or Qualitative)	4790		4790	7492
Date achieved	10/31/2010		12/04/2012	09/30/2012
Comments (incl. % achievement)	Thousand Quetzales. Achieved.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	None identified			
Value (quantitative or Qualitative)				
Date achieved				
Comments (incl. % achievement)				

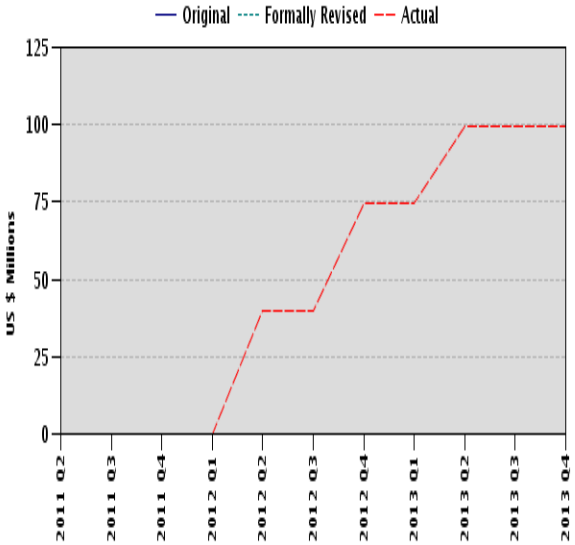
G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	02/26/2011	Satisfactory	Moderately Satisfactory	0.00
2	09/06/2011	Satisfactory	Moderately Unsatisfactory	0.00
3	07/02/2012	Satisfactory	Satisfactory	74.58
4	12/19/2012	Satisfactory	Satisfactory	99.65

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
05/25/2012		S	MU	40.00	Extension of Closing Date by 6 months
12/04/2012		S	S	89.49	Revision of baseline indicators and reallocation of funds

I. Disbursement Profile



1. Project Context, Development Objectives and Design

Between May and September 2010 Guatemala was hit by a series of natural disasters that caused severe humanitarian and economic costs. On May 27, 2010, Guatemala's Pacaya Volcano erupted, forcing over 2,000 people to evacuate. Two days later, Hurricane Agatha struck bringing torrential rain and widespread floods and landslides across Guatemala, affecting over 500,000 people and causing over 200 fatalities and many unaccounted victims. After Hurricane Agatha, unusually strong tropical storms reduced the country's ability to initiate reconstruction efforts, compounding flooding, and complicating already difficult humanitarian efforts. The initial estimate of the financial cost of the damage alone was about 4 percent of GDP (approximately US$1.6 billion). Economic damages and losses hit across a spectrum of sectors. Infrastructure, particularly transport and water and sanitation, suffered damages of over 2 percent of GDP. Agriculture was severely affected as rains and flooding either destroyed crops, or prevented harvesting and delivery of products to markets. In total, about 4 percent of the population, including 1.5 percent that had to be evacuated, was affected by the disasters. Moreover, the departments that suffered the greatest losses to life and productive capacity were home to more than 70 percent of the indigenous population.

These natural disasters further aggravated a fiscal situation already rendered precarious by the global crisis of 2008-2009. Tax revenues as a share of GDP in Guatemala, already the lowest in the region, were severely affected by the global economic downturn, and fell from over 12 percent in 2007 to around 10 percent in 2010, leading to a doubling of the fiscal deficit between 2008 and 2010 to 3.1 percent of GDP. This excluded the cost of the Government's reconstruction plans, which were conservatively estimated at US$1 billion over three years, and which were expected to be covered through budget reallocations, donor funds and additional deficit financing.

Increased humanitarian needs after the relentless flooding led to large unanticipated gaps in the provision of social services. Two years of slow growth during the global economic crisis increased the need for social assistance as jobs and remittances declined sharply. The urgency of the fiscal crisis put social spending at risk and obliged the Government to seek additional financing and donor support. As part of Guatemala's appeal to the international community for support, the Government requested World Bank assistance to preserve social spending in health and education. Without sufficient resources to respond to the urgent needs caused by the disaster, critical social spending would have been cut.

Recognizing the urgency of the fiscal situation in the wake of the natural disasters, the Bank rapidly prepared the Emergency Support for Social Services Project. The development objective was to preserve health and education services following severe flooding and other natural disasters that took place in Guatemala between May and September 2010. To achieve this objective, the project would reimburse the government for expenditures on teachers and health care workers in the poorest 130 municipalities. Though not all of the 130 poorest municipalities were directly impacted by the disaster,

cuts to central government health and education spending would have been especially detrimental for them. In the absence of disaggregated outcome indicators at the municipal level, the payment of salaries to healthcare workers and teachers would serve as a proxy for the continued provision of services. The government would provide statements of expenditures supported by evidence of salary payment, on the basis of which the Bank would disburse funds. The loan amount (US$100 million) was expected to cover an estimated 3 months of teacher salaries and 15 months of healthcare worker salaries.

1.1 Context at Appraisal

Economic Context. The impact of the disasters was particularly severe on Guatemala given its high levels of poverty and inequality and an already precarious economic situation coming out of the global financial crisis. About 51 percent of Guatemala's population of 13.5 million lives in poverty. Reducing poverty and inequality was stymied by the lack of consistent and broad-based growth as well as programs and spending that specifically targeted the poor. Growth slowed down to 0.6 percent in 2009, from 3.3 percent in 2008, reflecting a decline in export performance, tightening domestic credit markets, lower domestic investment, and falling remittances. The decline in remittances especially affected poorer households, which were the main beneficiaries. By 2010, while Guatemala had started showing some recovery from the crisis, the series of natural disasters that struck between end-May and September set this recovery back significantly.

Fiscal space was tight due to the fall in tax revenues, which implied fewer resources for pro-poor spending even before the natural disasters struck. Guatemala had attempted to implement a tax reform several times, but was impeded by the economic slowdown, natural disasters, and political deadlock. In the aftermath of the disasters, managing public policy formulation and implementation had become more difficult. Nonetheless, the Government was committed to pushing forward on fiscal reform in order to support the sustainability of much-needed development spending. Indeed, in requesting donor assistance with the recovery and reconstruction efforts, the Government integrated fiscal reform as a necessary part of its recovery plan.

The Government's Recovery Plan was designed to support recovery and reconstruction in a manner that would allow the country to continue to pursue its medium-term development objectives. The Plan had four pillars: (1) humanitarian assistance and rehabilitation; (2) recovery of means of living and of the economy; (3) adaptation to and mitigation of climate change; and (4) institutional strengthening. The plan was to be implemented with the support of the international community and was fully consistent with the medium and longer term objectives of achieving security, reliable livelihoods for households, improved growth and productivity, and capabilities for mitigation of risks posed by natural disasters. Altogether, the four components of the Government's "Plan for Recovery and Reconstruction with Transformation," were estimated to cost approximately US$1.92 billion to implement. The Emergency Recovery Loan (ERL) was to support activities under Pillar 2.

Sector Context. Guatemala has low development outcomes for its income level. Within the region it spends the least as a percentage of its GDP on the social sectors. As a result, in areas of education, health and nutrition, Guatemala performs significantly worse than other countries in Latin America. According to the 2010 UNDP Human Development Report, Guatemala ranks among the bottom three positions in Latin America (along with Nicaragua and Haiti) in the overall human development index, including infant mortality, maternal mortality, adult literacy, and net secondary enrollment. The results are even starker in the case of Guatemala's indigenous population e.g. the prevalence of chronic malnutrition reaches 66 percent for indigenous children, compared to 36 percent for non-indigenous children.

Education. Education spending rose from 2.6% GDP in 2004 to 3% in 2010, with a particular emphasis on increasing primary education, which now accounts for 44% of education spending. About 96% of education spending takes place at the central level, reflecting the highly centralized nature of spending. Any spending taking place at the municipal level is to complement the deconcentrated services provided by the central government, eg. hiring of contract teachers, improvements to school buildings, etc.. Municipalities are involved in the management of pre-primary and primary education, but are not responsible for the design or full financing of these services. Despite progress in increasing primary school enrollment, Guatemala lags the region in outcomes: the average Guatemalan has 5 years of schooling, (for indigenous non-native Spanish speakers, this level falls to 4 years), compared to Central American average of 7.1 years. Pre-primary and secondary enrollment rates are also low, reaching only 30 to 40% of the school-aged population. (PER 2012)	**Health.** Public expenditure on health rose from 2.2% of GDP in 2004 to 2.6% in 2010, but remains low by international and regional standards. Public spending in health is heavily centralized with the central government accounting for 96 percent of total public health spending. Municipalities are involved in the management and execution of preventive health services, but are not responsible for the design or full financing. The Ministry of Public Health and Social Assistance is charged with providing free health services to the entire population, so the poor receive care at public health centers. However, many facilities lack the required personnel, medicines, and other inputs to provide free services, thus requiring users to seek care outside the public health system where payment is required. Hence the ratio of public health spending to total health spending is also low at 35%, compared to 60-75% for most of the other Central American countries. Despite scarce resources, public spending remains skewed toward curative care rather than preventive care, limiting progress toward improving healthcare outcomes. (PER 2012)

Political Context. In the wake of the disasters, there appeared to be a sense of strong consensus across political parties and groups about the importance of the recovery plan as well as within the international community. However, with elections scheduled for September 2011, the Government was facing increasing opposition to its reform agenda, which undermined its ability to obtain congressional approval for new laws.

Rationale for Bank Assistance. Given the emergency situation, slow growth and weak tax collections, the Government was faced with the difficult financial decision of whether to fully fund the recovery and reconstruction at the cost of reducing key social services or to push back reconstruction into the future to maintain services in the near term. The

Government's strategy was to devote over 1 percentage point of GDP of the Central Government's budget for reconstruction and recovery related spending. The Government requested the ERL to support the provision of social services in the near-term as reconstruction began and fiscal resources were severely stretched. The Project was prepared under OP/BP 8.0 to provide rapid response in support of preserving essential social services.

1.2 Original Project Development Objectives (PDO) and Key Indicators (*as approved*)

The project's development objective was to preserve health and education services following severe flooding and other natural disasters that took place in Guatemala between May and September 2010.

Key Indicators:

1) Maintain basic education services (grades 1 through 9) in the 130 poorest municipalities as measured by the number of teachers and Telesecundaria[1] facilitators providing education services.
2) Maintain the three levels of health care service in the 130 poorest municipalities, as measured by the number of health workers providing medical services

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

The PDO was not revised. However, the baseline figures were determined to be inaccurate and had to be adjusted to capture actual data available from the government systems. Two additional indicators were added to support evidence on the progress of the PDO.

1) Total wages paid to teachers and Telesecundaria facilitators in the 130 poorest municipalities
2) Total wages paid to healthcare workers in the 130 poorest municipalities.

1.4 Main Beneficiaries

The project supported the continued provision of basic services in health and education to the poorest 130 municipalities of Guatemala. The main beneficiaries are the users of these services and the teachers and primary health care workers that remained employed due to the financial support given by the loan. More specifically, about 2.8 million vulnerable children receive basic education in the poorest 130 municipalities and are served by nearly 40,000 teachers and facilitators providing education services. In health, almost 1,700 health care workers provide treatment for the poorest 130 municipalities.

1.5 Original Components (*as approved*)

Component 1: Preserving Basic Education Services for Vulnerable Children (US$70 million): Supporting the Recovery Plan by preserving basic education services for

[1] Telescundaria is a distance education program to provide secondary education to young people in communities that do not have educational access or where educational coverage is not sufficient.

vulnerable children living in selected municipalities, through the financing of salaries of teachers and facilitators. This component would assist the Government in providing ongoing public school services by funding qualified teachers' salaries in the poorest 130 municipalities, where approximately 2.8 million vulnerable children receive basic education and salaries of Telesecundaria facilitators in rural and isolated areas. Basic education is defined as grades one through nine. This proposed component of the Emergency Support for Social Services Project would allow the Ministry of Education to sustain education coverage as other budgetary resources are devoted to infrastructure rebuilding after the natural disasters of 2010.

Component 2: Preserving Coverage of Health Care Services for Vulnerable Groups (US$29.65 mln): Supporting the Recovery Plan by preserving the three levels of health care and emergency services (primary, secondary and tertiary) in selected municipalities, through the financing of salaries of health care workers. This component would assist the Government in preserving ongoing heath care and emergency services in the poorest 130 municipalities of the country by funding salaries of qualified health workers. Preserving adequate resources to keep health facilities open supports health care services, particularly maternal-infant health care for the most vulnerable groups.

Component 3: Project Management and Monitoring (US$100,000): Supporting the Government in the coordination of the administrative and financial management aspects of the projects, through the financing of consultants' services, including the financing of project audits. The project will have a component to support the Ministry of Finance in the coordination of the administrative and financial management aspects of implementation, through the financing of consultants for the management, monitoring and review of the execution of the project.

1.6 Revised Components

The components remained the same, however toward the end of the project, $10 million was shifted from Component 2 (Health) to Component 1 (Education) as the Ministry of Health was not expending money as quickly as anticipated.

Revised Components:
Component 1: Preserving Basic Education Services for Vulnerable Children - US$80m.
Component 2: Preserving Coverage of Health Care Services for Vulnerable Groups- US$19.65m.

1.7 Other Significant Changes

There were two Level 2 restructurings:

The first restructuring was for a Project Extension. Due to delays in Congressional approval of the loan, the project only became effective on December 22, 2011, over a year after Board approval on December 9, 2010. The delay in the start of the project led the government to request a 6-month extension of the loan closing date to December 31, 2012. This first Level 2 restructuring was approved on May 25, 2012.

The second restructuring was for a revision of the baseline figures and a change in allocations. During supervision, it became clear that there was an inconsistency in the baseline figures cited in the Program Document with what was available in the government financial systems. The restructuring included the following changes to the results indicators:

(i) revision of baseline and target values for the two existing outcome indicators (number of teachers and facilitators and health workers) based on official data received from the Ministry of Education and the Ministry of Public Health and Social Assistance; and

(ii) the addition of two results indicators to a) measure the monthly wage bill for teachers, and Telesecundaria facilitators and b) measure the monthly wage bill for health workers in the 130 poorest municipalities. These indicators were added to provide additional evidence that the project development objective was being met.

Also under the second restructuring, US$10 million of the remaining loan amount was reallocated from Component 2 (salaries of health workers) to Component 1 (salaries of teachers and facilitators), to facilitate the full disbursement of the loan in the 2012 calendar year. This reallocation was requested by the government because the monthly burn rate for health care worker salaries was lower than anticipated. The original allocation of $29.65 million was meant to cover funding for 15 months, but in actuality it would have covered close to 30 months. Moreover, the delay in effectiveness also reduced the project time period from 18 months to 12 months, so that even with retroactive reimbursement, there was not enough time to disburse the full allocation for health worker salaries. The second Level 2 restructuring was approved on December 4, 2012.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

Initially, a Development Policy Operation was planned for CY2010, but in the context of the natural calamities and given the political context, it became clear that an ERL would be the more appropriate instrument. Given the need for urgent financial support, the emergency loan was prepared in approximately six weeks and designed to provide the government quick access to funds while at the same time safeguarding expenditures in social sectors for the poorest municipalities.

The choice of an ERL was the quickest response the Bank could offer to the Government. As the loan portfolio in Guatemala was not very large, restructuring other loans to allow for the emergency financing, as had been done in other countries, would not have netted enough financing. By having a stand-alone project, the Bank was able to offer US$100 million in financing, equivalent to one-third of the undisbursed lending portfolio.

Given the emergency nature of the loan, the project design was kept relatively simple to ensure fast disbursement. The project would reimburse the government for

payments made to teachers and healthcare workers in the 130 poorest municipalities, provided that the number of such workers was maintained. Disbursement was tied to the amount of salary paid to teachers and healthcare workers and the submission of SOEs for those payments against which reimbursements would take place. There were several key appealing features about the loan. First, although technically an investment loan, the project was similar to a budget support loan in terms of the speed at which it could be disbursed. Second, as an emergency loan it allowed for up to 40 percent retroactive financing. Third, reimbursement of salary expenditures meant that lengthy procurement processes were unnecessary. And finally, as the loan was tied to the maintenance of social services and did not constitute general budget support, the expectation was that Congressional approval could be obtained more easily than with a DPL, given the political context.

The project benefited from existing Bank projects on the ground. To facilitate project coordination, all relevant agencies—the Ministry of Finance, Ministry of Health and the Ministry of Education—participated in the preparation of the project. As projects were ongoing with both sector ministries, there was an established Bank rapport with the Ministries which facilitated coordination—especially given the short preparation time frame. The ERL was also able to build on the existing projects to address coverage on social and environmental safeguards, as there were substantial overlaps.

However, there were some challenges that emerged from the project design.

First, the short preparation time did not allow for the baseline figures for the results indicators to be adequately vetted. The baseline figures were based on information provided by the government under significant time pressure, and not backed up by data that was adequately documented and could be easily replicated. This created problems during implementation when the baseline figures could not be reconciled with figures the government was providing, necessitating a restructuring of the project. Additionally, government systems were not set up to provide the data as needed—e.g. capturing only wage data of healthcare workers—as the systems were set up to capture expenses related to clinics, including administrative expenses. Extracting wage data of just the healthcare workers was a complicated and burdensome process, and in the end involved having to reprogram government systems to provide the information needed for disbursement.

Second, as the baseline figures were flawed, so was the estimation of the monthly wage bill. In particular, the monthly wage bill paid for health was vastly overestimated, and therefore the allocation for reimbursement of healthcare workers was too high and had to be readjusted later in the project. The program document had estimated that the US$29.65 million allocation for the healthcare worker wage bill would cover 15 months of healthcare, in reality that allocation would have covered at least double the number of months. While the monthly budget for the whole Ministry of Health and Social Assistance is about US$40 million, the monthly wage bill for healthcare workers for the 130 poorest municipalities (out of 334) was about US$900,000, less than 2.5 percent of the Ministry of Health and Social Assistance's monthly budget.

Of note is the mismatch between the project design and the project development objective "to preserve health and education services following severe flooding and other natural disasters that took place in Guatemala between May and September 2010". While the PDO is more broadly stated, the actual project design was more targeted, specifically focusing on the 130 poorest municipalities. This should have been stated more explicitly in the PDO. The project focused on the 130 poorest municipalities because service provision in these locations was already vulnerable to changes in the central government budget, and cuts would have been especially detrimental. Many of these municipalities were also directly affected by the natural disasters. The focus on basic services in the poorest parts of the country was more in the spirit of the Bank's pro-poor stance than the broadly stated PDO, and therefore achievement of the project objective was assessed in this more restrictive sense.

The project design used input indicators as a proxy for service provision. The number (and later wages) of health and education workers, were used as a proxy for service provision. While there are shortcomings in defining service provision through input indicators (and presumably medical and educational materials are also needed for the effective provision of health and education services), there were, and still are, severe data limitations at the municipal level, particularly on health and education outputs. Moreover as the project period was originally for a year and a half, social outcome indicators could not be as easily tracked with the same ease and frequency that input indicators afforded. Given the data limitations on service provision at the municipal level, information on the number of workers was deemed acceptable as a proxy for service delivery.

2.2 Implementation

Even with a rather straightforward project design, implementation was impacted by the following.

The difficult political situation led to delays in Congressional approval. The change in the Minister of Finance in November 2010, coupled with the high sensitivity of budget increases and additional loans, likely led to weaker political commitment in getting the loan through Congress. Tensions between the ruling party and the opposition ahead of the elections in September 2011 added to the political resistance to new legislation, including approval of loans. However, as the fiscal situation continued to deteriorate in late 2011, a compromise was reached with the opposition party, which had won the elections, to approve the loan in November 2011 and ensure adequate financing for the budget. To the team's credit, Congressional delay risks were rightly identified as a key risk during project preparation.

Improperly defined baseline figures and tools for monitoring them were inadequate leading to a revision of indicators. During supervision, when working with the new staff at MINEDUC and MSPAS that came in with the new administration, it was discovered that the baseline figures provided in the program document could not be replicated. While the program document had envisioned using the government's financial management (SIAF) and payroll (Guatenominas) systems to monitor health and

education spending, in reality the systems were not capable of producing those reports. It was only towards the end of the project that the government provided a consistent data series that could be replicated and which also covered the baseline period. The revised baseline figures were 10 and 15 percent lower than the original baseline figures for education and healthcare workers, respectively. In order to demonstrate if the project development objectives were being met, additional indicators on wages paid—as another proxy for the provision of education and health services-- were also added.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

The Office of Public Credit was charged with coordinating with the Ministry of Education (MINEDUC) and the Ministry of Health (MSPAS) to collect the data needed for the monitoring indicators, as well as to submit the SOEs and show payment of teacher and healthcare worker salaries.

The monitoring arrangements were meant to be simple, namely the tracking of the number of teachers and healthcare workers being employed in the poorest 130 municipalities. This was expected to be done through the government's financial management (SIAF) and payroll (Guatenominas) systems, which would capture the administrative data. However, complications arose because the data requirements for the monitoring indicators were not easily satisfied by the government information systems. As the project did not reimburse salaries of administrative staff, this information had to be separated from payments made to the schools and health units. Because of the complexity required to produce the reports, it was not an easy task to reproduce on a monthly basis and only 4 months of data were produced. This was deemed sufficient by the team to ascertain that health and education wages were being paid and maintained. Ideally, monthly reports should have been produced that would have showed a consistency in the number of workers and payments throughout the year.

Data collected is summarized in Table 1 in Section 3.2.

2.4 Safeguard and Fiduciary Compliance

No safeguard issues arose during implementation. Since the project was carried out under OP 8.00 Rapid Response to Crises and Emergencies, preparation, consultation and disclosure of safeguard instruments were carried out after Board approval. The issuance of an Operational Manual, the inclusion in the Operational Manual of activities ensuring indigenous peoples' access and the adaptation of the Environmental Management Framework were made a condition of effectiveness. The Environmental Action Plan was published on the government's website in November 2011. The Operations Manual was received by the Bank in July 2011. In addition, no safeguards issues have been raised in either the Maternal Infant Health and Nutrition Project or the Education Quality and Secondary Education Project, which to a large extent cover the same 150 poorest municipalities and provided the basis for this Project's safeguards framework.

Environment. Environmental Assessment was classified as Category C. The main environmental issue arising was the disposal of hospital solid waste (HSW). During

preparation of the on-going Guatemala Maternal Infant Health and Nutrition Project (P077756), a Plan for Solid Waste Disposal of Hospitals was published and served as the Plan for this project. Each hospital or health center in the public health network is familiar with the national framework for regulatory standards and practices for the adequate management of hospital solid waste. The Comptroller General of Guatemala conducted an environmental audit in the 43 public hospitals, to promote compliance with Hospital Solid Waste. As of January 2012, the Ministry of Health had implemented capacity building activities for the handling of solid hospital waste in 110 municipalities. These municipalities now have plans for the handling of solid waste. In 36 second-tier health services, facilities have been created for the temporary storage of hospital solid waste.

Indigenous Peoples. The poorest municipalities are predominantly indigenous, therefore no separate Indigenous People's Plan (IPP) was required. The project covers all of the country's departments with high ethnic diversity. According to information from the Ministry of Education, by the end of 2011 there were 172 bilingual and 70 multicultural primary schools. In November 2011, 2,543 teachers graduated with qualifications in bilingual and multicultural teaching. In health, improvements in the maternal-infant health services and interventions aimed at reducing chronic child malnutrition (supported under the Bank's Maternal-Infant Health and Nutrition Project) have benefited primarily indigenous municipalities.

2.5 Post-completion Operation/Next Phase

There are no planned post-operations. Lessons learnt from this operation may be used to guide the design of future emergency operations.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

Given the tight fiscal position that the country was facing in the wake of the severe natural disasters, the relevance of the objectives to maintain educational and health expenditure was highly appropriate. Guatemala has some of the worst indicators for health and education in the region, and it spends a lower percentage of its GDP on these sectors—therefore preserving these expenditures, which were already low, in light of a tighter budget was rightly and is still a high priority. The project design to focus on the 130 poorest municipalities was also highly relevant as these are the most underserved and needy areas with high indigenous populations. The fast preparation time (6 weeks) allowed the Bank to respond quickly to the Government's needs. The project design allowed for quick disbursement, which was also important given the emergency situation. Assumptions regarding the baseline values of the results indicators should have been noted, though it was unlikely that the team could have foreseen problems with the consistency of data at the time of preparation. Implementation was successful in that the loan was fully disbursed by the closing date and even under a reduced implementation period.

3.2 Achievement of Project Development Objectives

Throughout implementation of the project, progress toward achievement of the PDO was ranked Satisfactory. There were no indications of cuts in teachers or healthcare workers, or cuts in pay. Instead, there were increases in salary in both education and health care workers. In the final analysis on achieving the PDO, based on the number of workers and salary expenditures, health and education services were maintained for the poorest 130 municipalities.

Table 1. Health and Education Workers and Salaries for the 130 Poorest Municipalities

	Original Oct-10	Revised Oct-10	Dec-11	Sep-12	Nov-12*
Number of Education Worker	37982	34057	34990	34659	34334
Number of Heathcare Workers	1915	1623	1524	1650	na
Educators Salary Bill (Thousand Qtz)		115,935	138,737	139,347	139,606
Healthcare Salary Bill (Thousand Qtz)		4,790	6,694	7,492	na
Average Educator Salary		3404	3965	4021	4066
Average Healthcare Salary		2952	4393	4541	na
Education Wage Bill (US$ thousands)		14,638	18,183	17,865	17,921
Healthcare Wage Bill (US$ thousands)		605	877	960	na
Exchange Rate		7.92	7.63	7.80	7.79

Source: MINEDUCC, MSPASS and own calculations

*As Nov-2012 data included the extra month pay, salary figures shown are 50% of the submitted amount.

Education. Based on the data provided, the number of education workers remained above the revised baseline figure for the duration of the project. The salary bill also rose over the same period. Average salaries actually rose substantially in 2011, as teachers unions were able to negotiate a significant salary increase (through a 25 percent increase in the initial base salary). Based on an extrapolation of the data provided, there was evidence that the poorest municipalities received priority in the Ministry's budget. The educator wage bill for the 130 poorest municipalities grew from 15.2 percent of the Ministry of Education budget in 2010 to 17.4 percent in 2012 (Table 2). During the same time, the Ministry of Education's budget declined from 18.9 percent of total spending in 2010 to 17.3 percent in 2012.

Health. The number of healthcare workers in the 130 poorest municipalities declined 6 percent in December 2011 compared to October 2010, but by September 2012 had returned to baseline levels. Meanwhile, wage expenditures also rose significantly in December 2011. As with education, the provision of healthcare workers remained flat but wage spending increased. The combination of the two indicators suggests that provision of services would have at least remained the same, or perhaps even increased if healthcare workers were better motivated by salary increases. There is also evidence from the Maternal and Infant Health project that service provision was maintained as most of the service provision indicators identified have made progress and are considered on track or have been achieved e.g percentage of children for whom change in weight is

measured in the areas of intervention was at 76 percent in 2011, up from 0 percent in 2006.[2]

The healthcare worker wage bill for the 130 poorest municipalities grew from 1.6 percent of the Ministry of Health and Social Assistance budget in 2010 to 2.1 percent in 2012. While this points to maintaining expenditure for the 130 poorest municipalities, it also highlights the rather small portion of Ministerial expenditures reaching the poorest municipalities. This reflects the concentration of healthcare spending in the main cities (especially Guatemala City) that are home to large hospitals. In part, it could also be that due to the centralized nature of the healthcare system there are no clear lines of reporting and payment—healthcare workers based in one municipality may sometimes work in other municipalities, and therefore it is difficult to fully capture those that are working within a particular municipality in a particular month.

Table 2. Monthly National vs 130 Poorest Municipalities Spending on Education and Health
(*Million Queztals unless otherwise indicated*)

	2010	2011	2012
Averaged Monthly Spending			
Total Spending	4032.1	4459.3	4610.0
Ministry of Education	763.5	829.9	799.4
Ministry of Health and Social Assistance	298.9	331.4	352.3
Est Monthly Wage Spending for the 130 poorest municipalities			
Education	115.9	138.7	139.3
Health	4.8	6.7	7.5
Share of 130 poorest to Ministerial Budget			
Education	15.2%	16.7%	17.4%
Health	1.6%	2.0%	2.1%
Share of 130 poorest to National Budget			
Education	2.9%	3.1%	3.0%
Health	0.12%	0.15%	0.16%

Source: www.minfin.gob.gt for national and Ministerial annual budgets; MINEDUC, MSPAS for teacher wages and health care workers for the poorest 130 municipalities
Note: National and Ministerial figures are annual figures divided by 12. Expenditure for the 130 municipalities are based on data give for October 2010, November 2011, and September 2012.

Fiscal Developments. Part of the motivation for the ERL was to alleviate fiscal pressures to protect social spending. In this respect, fiscal pressures have abated as the fiscal deficit dropped from 3.3 percent of GDP in 2010 to 2.4 percent in 2012. After the global crisis of 2008 and the natural disasters of 2010, fiscal space for unforeseen expenditures was limited and led to the widening of the fiscal deficit from 1.6 percent of GDP in 2008 to 3.3 percent in 2010. However, by 2011, the deficit declined to 2.8 percent of GDP as a result of higher tax collections and flat current expenditures. In 2012, as reconstruction

[2] For further indicators see ISR Guatemala Maternal and Infant Health and Nutrition (P077756), December 2012.

spending wrapped up, capital expenditures decreased to 3.3 percent of GDP, from 4 percent in 2011. As a result, the fiscal deficit decreased by US$100 million (coincidentally equivalent to the ERL loan disbursements in 2012) to 2.4 percent of GDP in 2012. Capital spending on reconstruction was 0.2 percent of GDP in 2010 and 0.6 percent in 2011. Social and education services were maintained at the same time that the majority of the reconstruction spending was being undertaken – which was mainly possible because of the increase in tax revenues. Because of the late effectiveness of the loan, the ERL disbursements were more instrumental in restoring fiscal balance than compensating for competing national needs.

3.3 Efficiency

The project does not lend itself to standard efficiency analysis as it reimbursed wage expenditures for health and education. The recent Guatemala PER, which examined health and education expenditures, found that a standard incidence analysis of individual health and education programs and services show important returns to poor populations. For example, primary education is pro-poor as well as services provided by the health centers, health posts and community centers that are also pro-poor. The conclusion was that Guatemala should sustain public services to improve human capital in the form of health and education, particularly for the poor in order to reduce poverty and ensure economic growth.

3.4 Justification of Overall Outcome Rating

Rating: **Moderately Satisfactory**

The relevance of the project in maintaining expenditures in areas poorly served remains a priority and the PDO was achieved. While more work will be needed to maintain and increase spending in the poorest municipalities, this project was only designed to address the emergency aspect of the risk of reduction in education and healthcare spending. The project also was a means to rapidly provide support to the government, even if the government could not get it approved with the urgency that it sought. Although the initial project design had flaws which inhibited a smooth monitoring of the PDO, it did not detract from achieving the project development objectives.

For these reasons the project is rated **Moderately Satisfactory**.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

Poverty and indigenous aspects. The project targeted the poorest municipalities, which were also those that were predominantly indigenous. Poverty rates for indigenous households are around 56 percent compared to 44 percent for non-indigenous. And while Guatemala's overall social indicators are generally relatively poor, those for the indigenous are notably far worse. This situation is exacerbated by the regional distribution of public expenditures which show central government expenditure allocations tend to disproportionally benefit geographic areas that are not the neediest in terms of poverty or social indicators. And while municipalities do have limited own revenue assignments, their budgets tend to be small and cannot make up for these

disparities. A 2005 study showed that the average Guatemalan needs at least 9 years of education to earn above the poverty line, however some indigenous groups are averaging 6 years and others have less than two. Hence the importance of maintaining education is critical to addressing poverty and inequality.

Gender. Within the indigenous population, there are large discrepancies in outcome indicators between indigenous women and indigenous men: illiteracy rate for indigenous women is 62 percent, compared to 43 percent for indigenous men and 24 percent for non-indigenous women. Access to primary and secondary education of females to males in Guatemala is 94.7 percent, one of the lowest ratios in Central America where most countries have already moved to parity or above,[3] hence the importance of providing education services particularly for indigenous girls. Additionally, as women are the main beneficiaries of health services, maintaining the provision of these services helps address Guatemala's high maternal and infant mortality rate. According to the Global Gender Gap Report 2011, female teachers account for 65 percent of primary education and 44 percent of secondary education. The targeting of teacher's salaries helped sustain women's livelihoods.

(b) Institutional Change/Strengthening

In order for the MoF to provide the information needed, it had to make changes to their public financial systems and work closely with the Ministry of Health and Education to provide the needed data. In interviews, the Directorate of Public Credit commented that this was the first time they had to work so closely with the Ministry of Health and Ministry of Education and that this was a beneficial process for building ties between the agencies. Moreover, the technical skills gained in adjusting the reporting system would be beneficial for future requirements to produce customizable reports.

(c) Other Unintended Outcomes and Impacts (positive or negative)

Delays in loan effectiveness and the extension of the project closing date actually meant that the government had to keep up with maintaining payments to teachers and healthcare workers for a longer period of time. Additionally, because of the delay in effectiveness, it meant that when the fiscal situation reached its critical stage in late 2011, having access to the loan greatly eased the fiscal constraints.

From interviews with the Ministry of Health during the ICR mission, one of the positive aspects of the operation was that, by ensuring the payment of health worker salaries, it alleviated pressures to cut other expenditures affecting service delivery (such as medical supplies) in order to meet salary payments. In the absence of the operation, such cutbacks may have taken place, which could have negatively affected healthcare services.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable

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[3] http://datatopics.worldbank.org/gender/country/guatemala

4. Assessment of Risk to Development Outcome

Rating: **Moderate Risk**

Although Guatemalan governments have been committed to increasing social spending, which expanded significantly from 4.4 percent in 1995 to 7.6 percent in 2011, and represents 52 percent of total expenditures (one the highest in the region), there is limited political will to increase funding resources. Maintaining and even increasing health and education services to the poorest municipalities faces several obstacles. First, Guatemala's small tax intake means that overall public expenditures are limited. Efforts to increase tax revenues and expand the fiscal envelope have been met with strong resistance. Second, nearly 88 percent of the budget is earmarked by law, creating significant budget rigidities and limited scope. Third, resource allocation tends to be based on the previous year's allocation, rather than on actual needs, which exacerbates the historically unequal distribution of resources. Although efforts are underway to address this issue, poor municipalities will likely continue be underserved and could be placed at risk as they also lack political clout to demand more resources.

In the Program Document's Operational Risk Assessment Framework, risk identification and risk ratings to development objectives were mostly on target. Project Stakeholder Risks were rated Medium—which in retrospect should probably have been higher given the strong political opposition in Congress. Implementing Agency Risks were identified as Medium, in part due to concerns about interagency coordination, however this worked smoothly during implementation. Project Risks on social and environment, program and donor, and delivery quality were rightly identified as Low as these were also not an issue during implementation.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: **Moderately Satisfactory**

The emergency nature of the project made the design of the project appropriate and the timeliness of the Bank's response commendable—the operation was prepared in only 6 weeks. As a consequence, there were issues with the project's outcome indicators which would have been caught had there been additional preparation time and which would have led to improved project implementation. Despite the Bank's and the government's best effort to prepare the loan in a short period of time, ensuring Congressional approval and effectiveness still took time given the political context. The Bank Performance Rating is rated Moderately Satisfactory.

(b) Quality of Supervision

Rating: **Satisfactory**

The supervision team worked closely with the government to fully disburse the project within the shortened project period, which due to delays in effectiveness meant a one year time period rather than 18 months. The team was proactive in working with the government to reconcile the baseline data from the Project Document with government

systems. The Bank team made a request for updated data during the February 2012 supervision mission, and received a first set of data in June 2012. However, this data was not consistent with the baseline provided by the government during project preparation. The Bank team worked closely with the government to reconstruct the original baseline; however, when this eventually turned out to be impossible, the team agreed with the Government on a restructuring in November 2012 using the officially submitted data as the new baseline figures. This would ensure that the data could be documented and tracked over time. The team also introduced a new indicator to verify that expenditures were being maintained on health care workers' and educators' salaries, which was to also serve as a proxy for service provision given that monthly output data at the municipal level was not readily available. During this time period, there were several leadership and staff changes at the Ministry of Health, which led to new counterparts that were not familiar with the loan and the associated reporting requirements.

The team also worked closely with the Bank's Health and Education teams managing the two investment projects. This collaboration helped with project implementation, including use of the same safeguards and sector contacts. On the other hand, the assurance of the payment of teacher and health worker salaries was beneficial for the successful implementation of the sectoral investment projects.

The proactivity of the supervision team to resolve key design issues, conduct due diligence in monitoring and lead the project to fully disburse supports a performance rating of **Satisfactory**.

(c) Justification of Rating for Overall Bank Performance
Rating: **Moderately Satisfactory**

The Bank was highly responsive to the Government's request for assistance and designed a loan that could be rapidly disbursed and was thought more politically feasible. However, there were issues during implementation, discussed above, that, had there been better due diligence and communication during the design phase, would have eased the burden on the government. Given the emergency situation the country was facing, and the perceived risk to educational and healthcare spending for the poor, the Bank's rapid response weighs more favorably than the trade-off in fully vetted baseline figures. Moreover, these issues were later rectified during supervision, without impeding the achievement of the development objectives and the project was fully disbursed on time.
Overall Bank performance is deemed **Moderately Satisfactory**

5.2 Borrower Performance
(a) Government Performance
Rating: **Moderately Satisfactory**

The government satisfied the project development objectives by maintaining the number of educator and healthcare workers in the 130 poorest municipalities. Salary expenditures were also maintained, and even raised, though the number of educators and healthcare workers remained flat. MINEDUC and MSPAS worked closely with the Office of Public Credit to provide the data needed to monitor compliance. The loan was prepared under

extreme time pressures to meet the government's request, but then languished in Congress for a year before being approved. For these reasons, Government Performance is rated **Moderately Satisfactory**.

(b) Implementing Agency or Agencies Performance
Rating: **Moderately Satisfactory**

The implementing agency, the Office of Public Credit within the Ministry of Finance, was responsible for accountability, coordination and monitoring, notably preparing the Operation Manual, ensuring safeguards compliance, overseeing monitoring arrangements, and providing SOE and supporting documentation. The Office of Public Credit worked closely with MINEDUC and MSPAS, especially on revising the SIAF system to produce the reports. During implementation, the Implementing Agency had to contend with changes in leadership and technical staff in the Ministry of Health, which had to be re-engaged and socialized into the process.

However, during the preparation of the loan, adequate documentation for the baseline indicators was not given. This oversight may also have been the fault of the team for not conveying the importance of having a consistent series that could be tracked over time. Moreover, it would have been easier if the data provided could have been replicated on a monthly basis. Second, there was also a notable delay between the time the Bank first requested a consistent series of indicators for monitoring purposes (February 2012) and the provision of the correct data by MINEDUC and MSPAS towards the end of the project (November 2011). This was despite intensive efforts on the part of the implementing agency (the Office of Public Credit) to obtain the information from the two ministries.

The Office of Public Credit also initiated a modification of the government information systems to facilitate the provision of the data reports. For these reasons, implementation agency performance is rated **Moderately Satisfactory**.

(c) Justification of Rating for Overall Borrower Performance
Rating: **Moderately Satisfactory**

With both the Government and Implement Agency performance deemed Moderately Satisfactory, the overall Rating is **Moderately Satisfactory**.

6. Lessons Learned

This ERL provides a means of designing a fast-disbursing project with the aim of achieving medium-term objectives that the government and the Bank are in joint agreement on. This type of loan could also be useful in the event of an emergency where the government is trying to obtain funding quickly but might not have the lead time to implement development policy reforms. A few pertinent lessons stand out.

Project design should take into account the country's existing reporting systems. During preparation, it would have greatly eased implementation if the country existing

reporting systems were used to develop the monitoring indicators. These indicators could then be easily tracked and updated, and remove any element of doubt to the veracity of the indicators.

It is important to manage the administrative burdens that come with Emergency Recovery Loans (as opposed to Development Policy Loans). These burdens include compliance with safeguards and the preparation of operational manuals, even though the loan did not finance any investments and only reimbursed teacher and health worker salaries. The triggering of safeguards in particular created substantial work—including environmental plans, operational manuals, discussions and follow-up, in order to deal with an issue that seemed beyond the scope of the project. Such administrative requirements need to be carefully considered upfront and explained to the client during project preparation.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

The government provided comments to the ICR on May 31, 2013, these are attached and summarized in Annex 5.

(b) Cofinanciers

N/A

(c) Other partners and stakeholders

(e.g. NGOs/private sector/civil society)

N/A

Annex 1. Project Costs and Financing

(0) **Project Cost by Component (in USD Million equivalent)**

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Component 1: Preserving Basic Education	70.00	80.00	114%
Component 2: Preserving Health Care	29.65	19.65	67%
Component 3: Project Management and Monitoring	.10	.10	100%
Total Baseline Cost	99.75	99.75	
Physical Contingencies	0.00	0.00	0.00
Price Contingencies	0.00	0.00	0.00
Total Project Costs	0.00	0.00	
Front-end fee PPF	0.00	0.00	.00
Front-end fee IBRD	0.25	0.25	1.00
Total Financing Required	100.00	100.00	

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower		0.00	0.00	.00
International Bank for Reconstruction and Development		100.00	99.90	.99

Annex 2. Outputs by Component

	Baseline Oct-10	Dec-11	Sep-12	Nov-12*
Component 1: Education ($80million)				
Number of Education Workers	34057	34990	34659	34334
Educators Salary Bill (Thousand Qtz)	115,935	138,737	139,347	279,212
Component 2: Health ($19.65 million)				
Number of Heathcare Workers	1623	1524	1650	na
Healthcare Worker Salary Bill (Thous Qtz)	4,790	6,694	7,492	na
Component 3: Project Management and Audit ($100k)				
Audit to be completed				

*Includes additional bonus month salary

Annex 3. Economic and Financial Analysis

A. Macroeconomic Developments and Debt Sustainability

Following the recovery from the international economic crisis and a series of natural disasters, GDP growth is estimated at 3.0% in 2012, down from 4.0% in 2011. Most notably, Guatemala's export receipts declined', as international prices for its traditional exports (coffee and bananas) decreased. Domestically, economic growth was driven by private consumption, which accounts for 85% of GDP; this was in part due to the 9.2% increase in remittances, bolstering household income. At the same time, inflationary pressures decreased, driven by the decline in traditional commodity prices. As a result, CPI inflation decreased to 3.8% in 2012, down from 6.2% in 2011. The current account deficit widened on the back of higher import prices (especially oil) and the decline in export prices (coffee and bananas). On the other hand, the growth in workers' remittances and FDI inflows partially compensated the trade deficit, and net international reserves were maintained at adequate levels. The outlook for growth in the short term depends on the evolution of oil, coffee and other commodity prices as well as that of remittances. The recovery is also expected to be supported by an increase in investment, which after bottoming out at 13.1 percent of GDP in 2007 is expected to gradually move towards its pre-crisis level of 20.8 percent of GDP and is projected to reach 17.3 percent by 2016. Over the medium and long term an increase in revenue mobilization is expected to help expand investments in human capital that will help increase productivity and growth.

The current account deficit increased in 2012 but is expected to remain stable in the medium term. Growth in imports and exports decelerate in 2012 in response to the slow growth in the global economy. While Guatemala (a net oil importer) benefits from lower oil prices, it depends significantly on agricultural exports, so a decrease in agricultural commodity prices could result in a net deterioration of the trade balance during this period. International capital flows should also remain broadly constant as a share of GDP.

Projections suggest a sustainable medium-term fiscal outlook. Guatemala's fiscal deficit improved from 2.8 percent of GDP in 2011 to 2.4 in 2012. The recently approved tax reforms-- (i) the Anti-Evasion Law II, which introduced a number of measures focused on strengthening tax and customs administrations; and (ii) the Law updating Guatemala's tax system, which made important changes to tax rates, tax bases and other aspects of the existing system--- are expected to increase tax revenues through improvements in tax administration, a reduction in deductions and a widening of the tax base. Both laws represented the first comprehensive reform of Guatemala's tax system in 20 years and followed many unsuccessful attempts under previous administrations. The actual impact of the reforms crucially depends on the capacity of the Secretariat of Tax Administration to implement the changes, and on the outcome of a number of appeals submitted to the Constitutional Court by private sector groups. Following the expected increase in revenues and a stable expenditure path, the overall fiscal deficit is expected to improve from 2.4 percent of GDP in 2012 to 2.1 percent in 2013.

The Government's issuance of US$700 million in Eurobonds was positively received by the international market. Guatemala had not accessed international markets since

2004. In May 2012, the Ministry of Finance issued US$700 million in bonds in the international market at a rate of 5.75 percent. The global bond was given a BB+ rating from Fitch (one notch below investment grade). In recent years, Guatemala had relied heavily on the local bond market and multilateral and bilateral loans for financing but the latest Eurobond issuance evidences confidence by market participants in the country. However, improving debt management remains a high priority, especially in light of the increasing burden of servicing existing debt. The Ministry of Finance is in the process of strengthening the middle office of its debt management function and plans to develop a medium-term debt management strategy with assistance from the World Bank and the IMF.

Under conservative assumptions, Guatemala's public debt will remain sustainable in the medium term. A recent IMF debt sustainability analysis, conducted as part of the Article IV consultations, shows that total public debt is projected to increase from 24.8 percent of GDP in 2012 to 25.6 percent in 2015; it is expected to stabilize around 26 percent thereafter. In the short run, debt dynamics are driven by the primary deficit, which is expected to return to balance by 2016. Under a number of alternative scenarios, debt sustainability shows the greatest sensitivity to a large depreciation in the Guatemalan Quetzal, or to a shock stemming from contingent liabilities. Given the relatively low level of public debt and the longstanding prudent fiscal stance the macroeconomic framework is expected to remain adequate.

The Government does not currently have an IMF program in place. The last Stand-By Arrangement (US$951 million) was treated as precautionary and was successfully completed in October 2010. While the Government does not currently foresee the need for a new IMF program, relations with the institution remain close. An Article IV mission was successfully completed in April 2012. The staff report stressed the importance of improving public expenditure management, especially with a view to preparing for a potential new crisis. In the medium term, boosting economic growth and reducing poverty remain the main challenges. Fiscal policy remains prudent and consistent with medium-term sustainability. In addition, monetary policy and the flexible exchange rate regime are expected to remain an adequate policy response tool to external shocks.

During 2011 and2012, the fiscal deficit improved by 1 percent of GDP. After the global crisis of 2008 and the tropical storm that struck the region in 2010, fiscal space for unforeseen expenditures was limited as fiscal deficit had widened from 1.4 percent of GDP in 2007 to 3.3percent of GDP in 2010. However, the deficit improved by US$80 million in 2011 to 2.8 percent of GDP as revenues increased as a result of higher tax collections and the level of expenditure was maintained. During 2012 capital expenditures decreased from 4 percent of GDP in 2011 to 3.3 percent in 2012 and as a result the fiscal deficit decreased by US$100 million to 2.4 percent of GDP.

Expenditure in wages and salaries were maintained during 2011 and 2012. As the fiscal deficit improved in 2011 and 2012, nominal expenditure in wages increased by US$200 million in 2011 and was maintained at a level of 3.9 percent of GDP. In 2012 the

same level of expenditure in wages was maintained which is above pre-crisis levels (3.1 percent of GDP in 2011).

Table A3.1: Guatemala: Medium Term Macroeconomic Outlook (percent of GDP, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016
Income and Prices						
GDP growth (% change)	4.0	3.0	3.2	3.3	3.4	3.5
Inflation (cpi end of period % change)	6.2	3.8	4.0	4.0	4.0	4.0
Investment and savings						
Gross domestic investment	14.6	14.8	14.9	15.5	16.0	17.3
Gross domestic savings	11.3	12.7	11.3	11.8	12.3	13.5
Central Government						
Total revenues and grants	11.8	11.6	12.6	12.9	13.0	13.9
Total tax revenues	11.0	10.8	11.9	12.2	12.3	13.2
Total expenditures	14.6	14.0	14.7	14.8	14.8	15.6
Current expenditures	10.6	10.7	11.2	11.2	11.3	11.1
Capital expenditures	4.0	3.3	3.6	3.6	3.5	4.5
Primary balance	-1.3	-0.9	-0.5	-0.2	-0.1	0.0
Overall balance	-2.8	-2.4	-2.1	-1.9	-1.8	-1.7
Non-Financial Public Sector Debt						
Total debt	24.2	24.4	25.4	25.7	25.9	26.0
O/w External	11.9	12.5	13.6	13.3	12.8	12.4
O/w Domestic	12.3	11.9	12.0	12.7	13.3	13.8
Balance of Payments						
Current account balance	-3.4	-2.9	-3.6	-3.6	-3.6	-3.6
Trade balance	-10.6	-11.4	-11.2	-11.3	-11.3	-11.3
Exports of goods (f.o.b)	22.4	20.0	21.7	21.9	21.9	22.0
Imports of goods (f.o.b.)	33.0	31.4	32.9	33.2	33.2	33.3
Foreign direct investment	2.1	2.3	2.2	2.3	2.3	2.4
Remittances	9.4	9.8	9.4	9.4	9.5	9.5
Memorandum Item						
Nominal GDP (billions of quetzales)	365.7	395.5	424.1	456.6	491.1	528.8

Source: Ministry of Finance, Central Bank and IMF and World Bank staff estimates.

B. Economic and Financial Analysis

Due to the nature of the support to salaries in education and health in this operation, traditional financial analysis does not lend itself to this project. The economic rationale for this project was based on the likely benefit of preserving health and education services compared to the long-term developmental costs of an interruption in these services.

Investment in health and education are two of the most important actions countries

can take to reduce poverty, particularly among the younger population. As economic research shows, the most cost-effective human capital interventions occur among young children. Investing in health and education at early stages can enable children to grow into healthy and more literate citizens who can have more positive contribution to society. Unfortunately, lack of stable or uninterrupted health and education services becomes an obstacle to future success even before a child is even born. Since poor and rural women are more likely to depend from public health services, lack of services can prevent them from receiving proper prenatal care and children from getting critical vaccinations that can eventually lead to physical and developmental delays that cause a child to lag behind other children with access to proper services.

Uninterrupted provision of educational services is critical to promoting development. Schools located in rural and isolated areas depend more from student-teacher interactions because parents tend to struggle more to provide assistance to their children. In this context, uninterrupted provision of educational services among poor populations in Guatemala can have a long-lasting effect in the advancement of people's careers, because now more than ever economic development is highly dependent on good quality of education and educational attainment. Sustaining social expenditures in Guatemala are critical to maintaining outcomes in basic education. From 2000 to 2011, net enrollment rate has increased in primary education from 72 percent in 2000 to 97 percent in 2011. For this reason, it is critical to sustain educational services provided by the Ministry of Education (MINEDUCC) that is the public institution concentrating most of the programs that support the development of children and youth's skills and nutrition. MINEDUCC offers several incentives for families to enroll their children in school and to promote their attendance, for example, scholarships, school supplies, text books and a school meals-snack program.

In terms of coverage and incidence, a standard incidence analysis of individual health and education programs and services in Guatemala show important returns to poor populations. For example, primary education is pro-poor as well as services provided by the health centers, health posts and community centers that are also pro-poor. In summary, Guatemala must sustain public services to improve human capital in the form of health and education particularly for the poor in order to reduce poverty and ensure economic growth.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

Task Team members

Names	Title		
Lending			
David Gould	Co-TTL		
Rashmi Shankar	Co-TTL		
Antonio Blasco	Senior Financial Management Specialist		
Carlos Perez-Brito	Social Specialist		
Luisa Felino	Research Analyst		
Silvia Gulino	Silvia Gulino		
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Monica Lehnhoff	Procurement Specialist		
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Christian Schuster	ETC Economist		
Ricardo Tejada	Financial Officer		
Supervision/ICR			
Jasmin Chakeri	Task Team Leader		
Mateo Clavejio	Research Analyst		
Antonio Blasco	Senior Financial Management Specialist		
Carlos Perez-Brito	Social Specialist		
Monica Lehnhoff	Procurement Specialist		
Mauricio Garita	Economist		
Fernando Paredes	Country Operations Officer		
Elaine Tinsley	ICR Author		

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
Staff	39.11	182,037
Travel		37,160
Other		19,491
Total:		238,687
Supervision/ICR		
Staff	30.04	148,490
Travel		17,843
Other		2,227
Total:		168,560

Annex 5. Summary of Borrower's ICR and/or Comments on Draft ICR

On behalf of the Government of Guatemala, the Vice Minister of Public Finance expressed its agreement with the content of the Implementation Completion Report in a letter to the Resident Representative in Guatemala dated May 31, 2013. The letter is accompanied by comments and observations that are summarized below:

The Government of Guatemala thanks the Bank for the support that they gave in this operation, which allowed them to protect health and education services in the wake of the natural disasters that occurred during May to September 2010.

The following are comments and lessons learnt by this Ministry in its execution of its first operation in the model of this Emergency Recovery Loan.

- The loan proceeds allowed the Government to preserve education services through financing teachers and telesecundaria facilitators, as well as the three levels of healthcare and emergency services, by paying the salaries of the healthcare workers in the prioritized municipalities.

- As required by the loan agreement, the Government provided documentation to justify the reimbursement of expenditures incurred in the health and education sectors, which then allowed for the disbursement of the loan proceeds.

- One of the satisfying results of the Project was the close coordination and cooperation of the financial teams of the beneficiary entities (Ministry of Public Health and Social Assistance and the Ministry of Education), with the World Bank team, which allowed the project to be successfully completed by the end of the close of the operation of December 31, 2012.

- It is also important to mention that project implementation relied on the active participation of the Directorate of Public Credit in the Ministry of Public Finance, to conduct the interagency coordination. It also counted on the Bank team leading the project, who facilitated the execution of the financing.

- It is recommended that for future operations, along this model, it should be made clear in the Project Document and the Loan Agreement, that the proceeds from the loan could be used by the Borrower as budget support, in order to avoid problems in the use of the funds.

MINISTERIO DE FINANZAS PUBLICAS
GUATEMALA, C. A.

31 MAY 2013

000576

Señor
Oscar A. Avalle
Representante Residente
Banco Mundial
Su Despacho

Señor Representante:

Me dirijo a usted para hacer referencia a su oficio CM/120/13, mediante el cual solicita a este Ministerio emitir sus comentarios y observaciones sobre la propuesta de informe final de Evaluación del Programa "Apoyo de Emergencia para Proyectos de Servicios Sociales", que fuera financiado con recursos provenientes del Contrato de Préstamo No. 7988-GT suscrito con el Banco Internacional de Reconstrucción y Fomento (BIRF).

Al respecto, en nombre del Gobierno de Guatemala agradezco al Banco el apoyo otorgado a través de esta operación, la cual permitió proteger los servicios de salud y educación tras las graves inundaciones y otros desastres naturales que ocurrieron en el territorio nacional entre mayo y septiembre de 2010.

Asimismo, y en respuesta a su solicitud, agradeceré que el Banco se sirva incorporar en el numeral 7 de dicho informe, los siguientes comentarios que son resultado de las lecciones aprendidas por este Ministerio, en la ejecución de esta primera operación bajo la modalidad de Préstamo de Emergencia para Recuperación.

- Los recursos del Préstamo permitieron al Gobierno de Guatemala la preservación de los servicios de educación a través del financiamiento de los salarios de maestros y facilitadores de telesecundaria, así como de los tres niveles de servicios de emergencia y atención en salud, mediante el pago de los salarios de los trabajadores de salud en los municipios priorizados.

- Además, es importante destacar que según la modalidad de la operación, el Gobierno de Guatemala presentó al Banco la documentación que justificaba el reintegro de los gastos efectuados en los sectores de educación y salud, según lo convenido en el Contrato de Préstamo, situación que facilitó la obtención de los fondos.

BANCO MUNDIAL
RECIBIDO
3 jun 2013
10:09

MINISTERIO DE FINANZAS PUBLICAS
GUATEMALA, C. A.

- Uno de los resultados satisfactorios de la ejecución del Proyecto, fue la estrecha coordinación y cooperación de las áreas financieras de las entidades beneficiarias (Ministerio de Salud, Pública y Asistencia Social y Ministerio de Educación), con el equipo del Banco, lo cual permitió cumplir con el programa de ejecución previsto, y lograr el cierre de la operación el 31 de diciembre de 2012.

- Es importante mencionar que durante la implementación del Proyecto se requirió de una activa participación de la Dirección de Crédito Público del Ministerio de Finanzas Públicas, para promover la coordinación interinstitucional con las entidades beneficiarias. Asimismo, se contó con el apoyo del equipo del Banco a cargo del Proyecto, lo cual facilitó la definición de acuerdos en la ejecución del financiamiento.

- Se recomienda que para futuras operaciones, bajo esta modalidad, se precise de forma clara en el Documento de Proyecto y el Contrato de Préstamo correspondiente, que los recursos podrán ser utilizados por el Prestatario como apoyo presupuestario a sus necesidades de financiamiento, a fin de evitar inconvenientes en el uso de los fondos.

Sin otro particular me suscribo de usted, atentamente,

María Castro
VICEMINISTRA DE FINANZAS PUBLICAS

Annex 6. List of Supporting Documents

- Guatemala Public Expenditure Review, June 2012
- ISRs Guatemala Education Quality and Secondary Education (P089898)
- ISRs Guatemala Maternal Infant Health and Nutrition (P077756)
- Ministry of Health and Social Assistance. "Informe de avances en la implementacion del plan de accion ambiental – Apoyo de Emergencia para Prouectos de Servicios Sociales". January 2012
- Guatemala Country Profile - Global Gender Gap Report 2011
- IMF Staff Report for the 2012 Article IV Consultation, April 2012
- Guatemala Country Partnership Strategy FY 2013-2016, August 2012

IBRD 33413R1

NOVEMBER 2006