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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
AND  
MULTILATERAL INVESTMENT GUARANTEE AGENCY  
PERFORMANCE AND LEARNING REVIEW  
OF THE COUNTRY PARTNERSHIP FRAMEWORK  
FOR THE  
REPUBLIC OF GUATEMALA  
FOR THE PERIOD FY17-FY20  
September 25, 2019**

**Central America Country Unit  
The International Finance Corporation  
The Multilateral Investment Guarantee Agency  
Latin America and the Caribbean Region**

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**The date of the last Country Partnership Framework was October 12, 2016  
(Report No. 103738-GT)**

**CURRENCY EQUIVALENTS**

*(Exchange rate effective as of September 25, 2019)*

Currency Unit = Guatemalan Quetzal (Q)  
US\$1.00 = 7.71 Q

**FISCAL YEAR**

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**ABBREVIATIONS AND ACRONYMS**

CICIG	Commission Against Impunity in Guatemala
COP21	Committee of the Parties (21st session of the United Nations Climate Change Conference)
CPF	Country Partnership Framework
DPF	Development Policy Financing
DRM	Disaster Risk Management
EE	Energy Efficiency
ENR	National Risk Evaluation for Money Laundering and Financing of Terrorism <i>(Evaluación Nacional de Riesgos de Lavado de Activos y Financiamiento del Terrorismo)</i>
ERPA	Emission Reduction Payment Agreement
FCPF	Forest Carbon Partnership Facility
FDI	Foreign Direct Investment
FIP	Forest Investment Program
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILO	International Labor Organization
IPF	Investment Project Financing
INDC	Intended National Determined Contributions
KFW	German Development Bank
LAC	Latin America and the Caribbean
MIDES	Ministry of Social Development ( <i>Ministerio de Desarrollo Social</i> )
MIGA	Multilateral Investment Guarantee Agency
MINEDUC	Ministry of Education ( <i>Ministerio de Educación</i> )
MSME	Micro, Small, and Medium-size Enterprise
NDC	Nationally Determined Contribution
PLR	Performance and Learning Review
PPP	Public Private Partnerships

REDD+	Reducing Emissions from Deforestation and Forest Degradation
SCD	Systematic Country Diagnostic
StAR	Stolen Asset Recovery Initiative
TA	Technical Assistance
TCQ	Quetzal Container Terminal ( <i>Terminal de Contenedores Quetzal</i> )
TEU	Twenty-Foot Equivalent Unit
UN	United Nations
US	United States
USAID	United States Agency for International Development
VAT	Value-Added Tax
WAVES	Wealth Accounting and Valuation of Ecosystem Services
WB	World Bank
WBG	World Bank Group
WSS	Water Supply and Sanitation

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## I. INTRODUCTION

1. **This Performance and Learning Review (PLR) summarizes progress in the implementation of the World Bank Group (WBG) Country Partnership Framework (CPF) for the Republic of Guatemala for FY17-20.**<sup>1</sup> The CPF was designed to respond to Guatemala’s development priorities,<sup>2</sup> and to reflect the World Bank Group’s (WBG) comparative advantages and the country’s resource and institutional constraints. Given these constraints, the CPF was explicitly modest in its ambitions and highly selective in its focus (albeit with some built-in flexibility). The CPF proposed delivering assistance through two mutually reinforcing pillars (fostering inclusion of vulnerable groups and addressing bottlenecks to sustainable growth), articulated through five CPF objectives (see Section III, Table 1), complemented by a package that bundled global knowledge, technical assistance, and financial solutions. The CPF’s design also proposed intensifying collaboration with Guatemala’s development partners to coordinate the policy dialogue and identify opportunities for joint or complementary support across different sectors. The CPF period will not be extended. A new CPF will be prepared in collaboration with the new administration taking office in January 2020; as such, this PLR proposes revisions to the CPF’s results matrix, to re-align it with implementation progress and shortcomings to date.

2. **The CPF was prepared in 2015, in a context of political and institutional crisis arising from a corruption scheme that permeated the Tax Administration Superintendence,** implicating senior administrative and political actors—including the sitting president (who had recently replaced his arrested predecessor).<sup>3</sup> The subsequent contentious presidential election of October 2015 saw the victory of a political newcomer who campaigned on an anti-corruption platform—raising expectations that would prove difficult to meet. Significantly, in Guatemala’s new Congress (with 14 political parties represented), the president’s party had only the fifth-most seats (11 out of 158), making it difficult for the administration (or any of its multiple opponents) to craft a policy program that could gain national support.<sup>4</sup> In the following years, gridlock in Congress did not diminish and disrupted the development agenda and governmental reforms (including the objectives of the CPF).

3. **Approval by Guatemala’s Congress of CPF-proposed loans suffered significant delays, substantially undermining the attainment of most of the CPF’s objectives.** Of the four planned CPF loans, the Bank, in the wake of extended delays, withdrew two investment project

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<sup>1</sup> Report No. 103738-GT. The CPF was discussed by the WBG Executive Directors on November 17, 2016.

<sup>2</sup> These priorities are outlined in the Government’s *20/20 Vision for Guatemala*, developed in 2016 by the new administration of President Jimmy Morales, and the Bank’s Systematic Country Diagnosis (SCD), *Guatemala: Closing Gaps to Generate a More Inclusive Growth*. World Bank Group, 2015.

<sup>3</sup> Guatemala is by no means unique in having a history of corruption exacerbated by the drug trade whose ultimate market is North America and Europe. In response, in 2006, the United Nations (UN) and Guatemala signed a treaty-level agreement establishing the International Commission against Impunity in Guatemala (whose Spanish-language acronym is CICIG) as an independent body to support the Public Prosecutor’s Office, the National Civilian Police, and other state entities, so as to strengthen national judicial institutions and enable them to confront organized crime and the attendant corruption of domestic institutions. CICIG’s mandate was renewed in April 2009 and April 2015, and is expiring in September 2019.

<sup>4</sup> Two factors exacerbated these difficulties: in the initial presidential vote (Guatemala has a two-stage vote, with the two leading candidates after round one facing each other in a run-off—assuming no candidate scored more than 50 percent in round one), the ultimate victor (Jimmy Morales) only secured 24 percent of the vote (though he won handily, with 67 percent of the vote, in round two), and his support was concentrated in the southern part of the country.

financing (IPF) operations—one supporting urban infrastructure and the other reform of the Tax Authority—after the signing deadlines had lapsed despite two extensions. The other two loans (an IPF on health and malnutrition, and a development policy financing/DPF operation) were approved by Congress in 2018 and 2019, respectively, two years after their approval by the Bank.<sup>5</sup> In addition, in May 2019, the Board approved a DPO with a Catastrophe Deferred Drawdown Option (CAT-DDO) (P159710), which was included as a possible engagement in the CPF.

4. **On a more positive note, support through technical assistance (TA) and trust funds has been effective in tackling development challenges in multiple sectors.** While these programs are smaller in size and have a shorter implementation timeframe than the originally envisaged lending program, they have produced good results and have enabled the Bank to remain actively engaged in some critical areas. A TA initiative supported dialogue with key stakeholders around the importance of continuing with an integrated approach toward addressing malnutrition, and provided strong evidence on the linkages between poverty, chronic malnutrition, and access to water supply and sanitation (WSS) services in Guatemala. Other TA efforts emphasized the relevance of the *Creceer Sano* Project and the importance of revising and enhancing the institutional and legal framework for WSS services to ensure sustainability of project results and the achievement of the country’s Sustainable Development Goal Six (WSS targets). At the regional level, the Bank provided significant TA support to the customs integration between Guatemala and Honduras (which El Salvador joined in August 2018). The TA supported Central American countries in conducting trade-related reforms to reduce time and cost to export and import, making easier to trade within the region and with the rest of the world. These stakeholder engagement efforts will continue so as to provide the knowledge basis for the Bank to be able to respond to new requests for assistance.

5. **The private sector agenda has also been affected by the political gridlock, manifested in economic slowdown and reduced investment flows.**<sup>6</sup> There has been limited progress in boosting competitiveness and job creation. The infrastructure and public-private partnerships (PPPs) agenda to develop a critical transport and logistics has shown few gains and there is limited progress in eliminating red tape to streamline administrative procedures for businesses. In this context, IFC continues to have an active portfolio—albeit one constrained by the present environment. MIGA continues to look for opportunities to engage with the authorities and private sector investors in search of sustainable private cross-border investment projects.

## II. MAIN CHANGES IN COUNTRY CONTEXT

### *Recent Political Developments*

6. **The present situation remains one of political polarization and uncertainty.**

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<sup>5</sup> The withdrawn IPFs were designed to support implementation of policy reforms supported under the First Improved Governance of Public Resources and Nutrition DPF (P160667).

<sup>6</sup> The International Monetary Fund’ Balance of Payments data base shows peak foreign direct investment in 2013 at US\$ 1.35 B and US\$1.06 B in 2018.

Investigations against corruption carried out by the *Ministerio Publico*,<sup>7</sup> and the International Commission against Impunity in Guatemala (CICIG) continued after the 2015 elections, with legal proceedings initiated against many former officials, members of congress, judges, and businessmen. In September 2018, President Morales announced that CICIG's mandate, set to expire in September 2019, would not be renewed. In January of 2019 a presidential decree was issued instructing CICIG to cease work in Guatemala immediately although citizen groups subsequently challenged this decision in court.

7. **On August 11, 2019 a new president was elected in Guatemala, in an election characterized by high absenteeism.** Incoming president Alejandro Giammattei, a conservative candidate elected on a platform of stimulating the economy and fighting crime, is expected to face similar challenges as the outgoing administration, with likely less popular support given that less than 45 percent of voters actually cast a vote.

### *Recent Economic Developments*

8. **Over the last three years, Guatemala has continued to enjoy fiscal stability, thanks to a combination of inflation targeting, prudent fiscal management, and a managed floating exchange rate.** Inflation has been stable, between the bands of 3-5 percent. Although tax revenue collection levels are among the lowest in the world, the fiscal deficit remains contained (in large measure because expenditures have been contained), with the overall fiscal deficit averaging 1.4 percent of gross domestic product (GDP)<sup>8</sup> and public debt averaging 24 percent of GDP (low compared to LAC's average of 61.3 percent<sup>9</sup>). With central government revenue averaging 11 percent of GDP, the main fiscal challenge is the need to raise additional revenues to finance key public investment projects.

9. **However, this stability has not translated into GDP growth acceleration that would close the income gap with rich countries.** Strong remittances have supported economic activity (GDP growth of 3 percent) in the last three years by fueling private consumption (4 percent growth).<sup>10</sup> However, Guatemala's GDP per capita, compared to that of the United States, has essentially remained flat for the last decade, with the average income of Guatemala at approximately 6 percent of that of the United States. This is partly a consequence of lagging investment in physical capital and in productivity. Although investment is growing at a faster rate than GDP (on average 4 percent), there are significant investment needs in the economy to support long-term economic growth and development. In particular, corruption scandals and congressional gridlock have created uncertainty that has delayed investment decisions and any acceleration in the potential growth of the economy (estimated to be 3-3.5 percent). On the supply side, in the last three years growth has been positive in almost all sectors except mining. Finally, Guatemala's economic and social development continue to be regularly interrupted by costly natural disasters (for instance, the June 2018 *Volcano del Fuego* caused losses equal to 0.3 percent of GDP).

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<sup>7</sup> Guatemala's *Ministerio Publico* is an auxiliary institution of the public administration and of the courts with autonomous functions, whose aims are to ensure strict compliance with Guatemala's laws.

<sup>8</sup> World Bank 2019.

<sup>9</sup> World Economic Outlook April 2019, International Monetary Fund.

<sup>10</sup> Remittances in Guatemala reached 11.9 percent of GDP in 2018, according to official government data.

## *Poverty and Shared Prosperity*

10. **Poverty reduction has been minimal, due to both fiscal constraints and historically low expenditures (relative to the region) in public social services.** Poverty, measured at the upper middle-income class line (\$5.5 in 2011 Purchase Power Parity),<sup>11</sup> increased between 2006 and 2014 from 44 to 50 percent. Extreme poverty (below \$1.9 daily) affected 8.7 percent of the population in 2014, almost half a million more people than in 2000. Given the slow estimated reduction in the poverty rate since 2014<sup>12</sup> and the country's birthrate, it is a logical corollary that the absolute number of people living in poverty has continued to increase. Demographic trends explain part of the rise in the numbers of people living in poverty, but poverty has also been affected by price increases, particularly agricultural ones as a function of drought and floods in the past year.

11. **While there is no new poverty data since 2014, the low levels of per capita GDP growth and limited changes in social spending suggest that it is likely that poverty rates have not changed substantially in the past four years.** The average income of the bottom 40 percent of the population did not grow between 2006 and 2014, in contrast with an average 3 percent growth in LAC.<sup>13</sup> Monetary inequality has declined. However, this is largely a consequence of falling incomes at the upper end of the income distribution rather than to rising incomes among the poor. Inequalities persist across geographical areas and among ethnic groups (in particular, for Indigenous Peoples). Poverty remains concentrated among Indigenous groups, who make up just 42 percent of the population but account for 52 percent of the total poor and 66 percent of the extreme poor.<sup>14</sup> The gap between urban and rural areas in terms of economic development is substantial, especially between the metropolitan area (the capital city and its environs) and the rest of the country.

12. **Coverage of basic and other services continues to be far from universal, and poor households (and thus disproportionately Indigenous Peoples) continue to bear the brunt of unequal opportunities and outcomes.** One of the more notable aspects of these poor outcomes is Guatemala's stunting rate, which is the highest in LAC and among the highest in the world at 47 percent.<sup>15</sup> Moreover, Guatemala's Human Capital Index, which measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where he or she lives, positions the country at 109 of 157 countries. This ranking is driven by high levels of malnutrition and limited access to high-quality education (while, on average, a child born today in Guatemala can expect to complete 9.7

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<sup>11</sup> Unless otherwise specified, the currency cited throughout this document is the U.S. dollar.

<sup>12</sup> The latest poverty data is from 2014; figures for more recent years are estimates based on the historic elasticity of poverty to growth trends. The next data collection exercise that will allow a measure of poverty to be calculated is planned for 2020 or 2021.

<sup>13</sup> The LAC average for 2006-2016 (<http://www.worldbank.org/en/topic/poverty/lac-equity-lab1/overview>).

<sup>14</sup> These population shares are based on projections from the 2003 Population Census. Results of the 2018 Census have not yet been released. Note that under the national poverty line, a person is considered to be living in poverty if he or she lives in a household whose per capita consumption is below the level required to meet minimum caloric requirements and other basic necessities. One is considered to be extremely poor if the consumption level is below that required to obtain caloric requirements.

<sup>15</sup> This is as measured among children under the age of five; see Sanchez, Scott, and Lopez, 2015.

years of schooling, when adjusted for the quality of that schooling, the real level of learning is only equivalent to 6.3 years of schooling).<sup>16</sup>

### III. SUMMARY OF WBG PROGRAM IMPLEMENTATION

13. **As previously noted, the CPF focuses on two areas of support selectively articulated through five development objectives, as outlined in more detail in Table 1.** CPF activities were complemented by financial, analytical, and technical assistance interventions provided by the Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Some degree of flexibility was built into the CPF, within the framework of the selectivity filters (government priorities, SCD priority areas and WBG comparative advantage), so as to address areas initially omitted as a result of the prioritization exercise (e.g., early childhood development and education) and/or to include initiatives that could be supported through IFC investments or MIGA guarantees.

**Table 1. CPF Pillars and Objectives**

Pillar 1. Fostering Inclusion of Vulnerable Groups
Objective 1. Increase access to basic health, nutrition, and water and sanitation services
Pillar 2. Addressing Bottlenecks to Sustainable Growth
Objective 2. Improve public resource management and accountability
Objective 3. Enhance the enabling environment and increase access to finance for micro, small, and medium-size enterprises
Objective 4. Expand infrastructure
Objective 5. Build institutional capacity to manage and adapt to climate change

14. **To date, the main CPF results have come from the First Improvement Governance of Public Resources and Nutrition DPF (P160667) (which covered reforms in two of the five CPF priority areas), from IFC investments, and from analytical and technical assistance work.** As is evident in Annex 3 (Progress on the Original CPF Results Monitoring Matrix), the great majority of the CPF’s development objectives (and their sub-components) have not yet been achieved and are unlikely to be so by the conclusion of the CPF period as currently defined, as described in the following paragraphs.

#### *Pillar 1. Fostering Inclusion of Vulnerable Groups*

##### **Objective 1. Increase access to basic health, nutrition, and water and sanitation services**

15. **The CPF Progress Indicators for this objective have not been achieved.** The indicators are: (a) percent of children 12-months-old in the areas prioritized by the National Strategy to Reduce Chronic Malnutrition receiving the complete vaccination scheme required for their age; and (b) coverage of growth monitoring and promotion for children under 24-months in priority areas. Lack of measurable progress is attributed to the fact that the First Improvement Governance of Public Resources and Nutrition DPF (P160667) only became effective in the second half of 2018, and the *Creceer Sano* Health and Nutrition Project was not approved by the Guatemalan Congress until late February 2019 (and not signed until mid-May 2019).

<sup>16</sup> World Bank 2018. *Human Capital Index Guatemala*.

## *Pillar 2. Addressing Bottlenecks to Sustainable Growth*

### **Objective 2. Improve public resource management and accountability**

16. **Despite some progress, the CPF Progress Indicators for this objective have not been achieved and are unlikely to be so by the conclusion of the CPF period as currently defined.** The indicators are: (a) estimated VAT non-compliance level as a share of potential VAT revenues; (b) compliance with customs inspections; and (c) share of public procurement executed through competitive processes as a percentage of the total value of executed public procurement. Lack of progress is a consequence of the delay in loan effectiveness of the First Improved Governance of Public Resources and Nutrition DPF (P160667), which only became effective in August 2018, and the failure of the Transparency and Efficiency in Fiscal Management Project (P153366) to be approved by Congress, led the Bank to withdraw the offer on January 25, 2019.

17. **World Bank (WB) technical assistance, however, brought about some progress on toward this objective, albeit on a narrow front.** Technical assistance was provided to update information on money laundering and financing of terrorism risks and to develop a plan of action to mitigate those risks (*Evaluación Nacional de Riesgos de Lavado de Activos y Financiamiento del Terrorismo*). In partnership with the United Nations Office on Drugs and Crime, the Bank supported the design of procedures to prevent the laundering of the proceeds of corruption and to seek the return of stolen assets through the Stolen Asset Recovery Initiative (StAR).<sup>17</sup> Two other important activities were the National Money Laundering and Terrorism Financing Risk Assessment TA using WBG methodology, and a Wealth Accounting and Valuation of Ecosystem Services (WAVES) Initiative (P153737) aimed at strengthening the Government's capacity to develop, manage, and use National Capital Accounts to promote sustainable development.<sup>18</sup> Finally, technical assistance was also provided on Fiscal Rules in Central America, and Behavioral Insights in Tax Compliance, two subtasks of the Fiscal Management in Central America ASA (P151829).

### **Objective 3. Enhance the enabling environment and increase access to finance for micro, small, and medium-size enterprises (MSMEs)**

18. **With support from several IFC investments, the objective of enhancing the enabling environment and increasing access to finance for MSMEs has been partially achieved.** MSMEs are the backbone of the Guatemalan economy, but limited access to finance undermines their effectiveness and productivity, and restricts income and employment opportunities, especially for less skilled workers (whose incomes typically fall in the bottom 40 percent of the income distribution), who rely disproportionately on MSMEs for employment. The IFC has responded to the challenge of limited access to finance for underserved populations by providing

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<sup>17</sup> The Stolen Asset Recovery Initiative is a partnership between the WBG and the UN Office on Drugs and Crime that supports international efforts to end safe havens for corrupt funds. StAR works with developing countries and financial centers to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets.

<sup>18</sup> The TA supported Government efforts to improve the availability of data on physical and monetary measures of natural capital and facilitated the development of indicators and analysis of the implications of natural resource and environmental trends for national development.

support to a variety of Guatemalan financial institutions. Examples of the projects during the CPF period are the new small and medium-size enterprise (SME) loan to *Banco Promerica Guatemala* (P38667; P39618) and a new loan with the largest nonprofit financial institution, *Genesis Empresarial*, (P39578) intended to support its micro, small housing, and student loan portfolios. This latter investment is particularly critical, as *Genesis* plays a key role in promoting financial inclusion in rural areas of Guatemala characterized by poor, indigenous communities. In addition, IFC Global Trade Finance Program facilities have supported local banks, including two of the largest (*Banco Industrial and G&T*) as well as medium-size banks (*Promerica Guatemala* and *Banco Internacional*), in providing \$895 million in trade finance transactions through the implementation of bundled import/export financing transactions. IFC's investment in regional private equity funds have also been instrumental in supporting SMEs with equity and equity-like investments suitable for business startups.

19. **In addition, IFC has supported investments in the manufacturing, agribusiness, and services sectors.** IFC provided financing to a leading regional paint manufacturer, *Grupo Solid*, transitioning from a high-growth stage to a consolidation phase that included new production facilities to service the increasing demand of local and regional markets. IFC's financing matured in 2018; the LAPCO project (28558) helped strengthen the company's footprint in the regional market with expanded production capacity, higher quality standards, the adoption of IFC's Environmental and Social Performance Standards, and stronger management and operations. Furthermore, the Energy and Resource Efficiency Advisory (600505) is being implemented with Guatemala's largest cement producer, *Cementos Progreso*, to perform a waste heat recovery and solar power project viability assessment. The engagement will help identify and then implement more economical EE solutions. IFC will continue to focus on supporting export-oriented competitive firms with potential for regional expansion and integrated value chains where strong development impact is envisioned (e.g., agribusinesses that support the food security agenda, employment creation, and linkages with small farmers).

#### **Objective 4. Expand infrastructure**

20. **The indicators of this CPS objective have largely not been achieved and they are unlikely to be achieved by the end of the CPF period, although complementary IFC efforts have had a positive impact.** Underdeveloped infrastructure is one of the main obstacles to investment and economic development in Guatemala, and targeted interventions were initially proposed in the CPF to contribute to Government efforts to foster sustainable growth by expanding infrastructure and by designing sustainable urban planning policies. These intentions have not borne much fruit.<sup>19</sup> On a more positive note, IFC is helping Guatemala revamp its port infrastructure to address bottlenecks through a \$9.7 million equity investment and \$35 million in own-account debt financing for the development of a new state-of-the-art dedicated container terminal operation *APM Terminals (APMT) Quetzal* (P32763), within *Puerto Quetzal*, the country's largest Pacific Ocean port. APMT Quetzal is expected to increase Guatemala's competitiveness and global access to markets by ensuring modern and efficient container-handling capacity, including for post-panamax vessels. APMT Quetzal full capacity was expected to reach

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<sup>19</sup> The latter intention, for example, was to be addressed through the Urban Infrastructure and Violence Prevention Project (P143495) that was withdrawn.

391,491 (Twenty-Foot Equivalent Units/TEUs annually), but given a legal dispute that started in 2015, further expansion of the terminal has been delayed and therefore reduced the full capacity target to 240,000 TEUs, although in 2018 the company managed to handle over 300,000 TEUs. Regardless of the legal dispute, the company is currently completing an investment in a third Ship-to-Shore crane that will allow it to bring annual capacity to 340,000 TEUs by 2020. The terminal is handling nearly 70 percent of the container cargo Pacific traffic and creating direct and indirect employment for more than 400 people. The project has also proven to be instrumental in supporting the Government's tax collection and transparency agenda by using modern technology that deters/captures smuggling and tax evasion.<sup>20</sup>

21. **The Bank was to expand urban infrastructure and improve the living conditions of the urban poor through the Urban Infrastructure and Violence Prevention Project (P143495), approved in January 2017.** This project was to use participatory processes to identify basic needs infrastructure sub-projects (such as WSS, paved roads, etc.), provide economic opportunities for individuals and families, and help reduce the vulnerability of communities to crime and violence through risk mitigation activities (e.g., after school programs, public awareness campaigns, training on gender-based violence, etc.). After almost two years of delay in Congressional approval, the \$45 million loan was withdrawn by the Bank.

#### **Objective 5. Build institutional capacity to manage and adapt to climate change**

22. **The objective of building institutional capacity to adapt to and manage climate change has been partially achieved.** The Government signed its Letter of Intent for the development of an Emission Reduction Program and the negotiation and agreement of an Emission Reduction Payment Agreement (ERPA) for 10.5 million tons of CO<sup>2</sup> is underway. Work toward development of the ERPA began in April 2018 with resources from the Forest Carbon Partnership Facility (FCPF) in the amount of \$0.65 million to design, prepare, and appraise the Government's ERPA. The Government is expected to present its Emission Reduction Program Document in 2019. A Forest Investment Project and a dedicated grant for Indigenous Peoples and Local Communities is being designed. The "Implementing COP21<sup>21</sup> Commitments in Central America Program" (P160325) is key to supporting enhanced climate change action in Central America. Assistance to Guatemala under this umbrella program includes support for the review, revision, and implementation of Guatemala's Nationally Determined Contribution (NDC). IFC is advising the banking sector to improve capacity to undertake climate finance and renewable energy financing activities and is doing the same for large industrials and real estate developers with respect to energy efficiency and green construction protocols. The IFC is also evaluating opportunities in the renewable energy sector and remains open to support the Government's agenda related to public-private partnerships.

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<sup>20</sup> However, there is a pending court case that could affect the sustainability of APM Quetzal arising from allegations of corruption in securing the 25-year usufruct agreement to construct and operate the new dedicated container terminal within Puerto Quetzal. In December 2017, the local court ruled the contract null and void; this ruling has been appealed to the Supreme Court.

<sup>21</sup> COP21 refers to the 21st session of the Committee of the Parties of the UN's Climate Change Conference, held November 30-December 11, 2015.

## *Portfolio Evaluation and Performance*

23. **The WB portfolio in Guatemala is small and young, with all on-going operations in the portfolio having been approved under the CPF.** The active portfolio includes three projects totaling \$550 million in net commitments. Trust fund resources include: (a) a \$0.35 million grant to support Building Statistical Capacities in the Ministry of Education; (b) a \$0.275 million Global Facility for Disaster Reduction and Recovery (GFDRR) grant in the aftermath of the *Volcano del Fuego* eruption to support the country and enhance its capacity to better manager disaster risks; (c) a \$0.65 million grant from the Forest Carbon Partnership Facility to assist the Government to design, prepare and appraise its ERPA; (d) a €5 million grant from the European Union for Strengthening Government Human Resource Management Capacity and Systems; and (e) a \$9 million grant from the Global Financing Facility for the *Creceer Sano* Health and Nutrition Project.

24. **Lengthy Congressional processes to approve loans adversely affected project effectiveness, thereby resulting in a less-than-satisfactory portfolio performance.** Of the proposed loans in the portfolio, only the \$250 million loan for the First Improved Governance of Public Resources and Nutrition DPF became effective and is now fully disbursed. The \$100 million *Creceer Sano* Health and Nutrition Project was approved by Congress in February 2019, almost two years after Bank approval, and became effective on September 16, 2019. (The ratings for the Development Objective and Implementation Progress for *Creceer Sano* are Moderately Unsatisfactory due to the delay in effectiveness.)<sup>22</sup> The third operation in the portfolio, the Disaster Risk Management DPF with a CAT DDO for \$200 million was approved by the Bank in May 2019 and is not yet effective.

25. **IFC's Guatemala strategy focuses on improving competitiveness and deepening regional integration.** IFC aims to: (a) strengthen and broaden the financial sector; (b) support competitive firms in agriculture, manufacturing, and services; (c) foster the development of critical infrastructure; and (d) promote south-south investments and help local companies become regional players. As of February 28, 2019, IFC's total committed portfolio in Guatemala is \$172.6 million plus \$90 million from the IFC Asset Management Company and \$24 million in mobilization.

26. **MIGA continues to explore opportunities to support foreign private investors to promote the sustainable growth and competitiveness of the Guatemalan economy.** By providing political risk insurance and credit enhancement guarantees, MIGA will seek to help foster Guatemala's efforts to build a thriving private sector. Working closely with the IFC, the Bank, and other development partners, through the approach of Maximizing Finance for Development, MIGA will support cross-border investment, in particular in critical infrastructure project.

27. **WB financial assistance has been complemented by technical and advisory assistance (in the form of studies and non-reimbursable TA) in support of CPF objectives.** In the absence of more lending operations, technical and advisory assistance activities and products have helped

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<sup>22</sup> The other IPF proposed in the CPF—Urban Infrastructure and Violence Prevention Project (\$45 million) and Transparency and Efficiency in Tax Administration Project (\$55 million)—were withdrawn after Congress had failed to approve them more than 18 months after Board approval.

advance the country dialogue, promote reforms, and maintain the WBG's country knowledge base and relevance. With respect to Pillar 1 (Fostering Inclusion of Vulnerable Groups) such activities have included the following:

- a water supply, sanitation, and hygiene poverty diagnosis;
- a study on Monitoring of Public Expenditures, focused on the Ministry of Public Health and Social Assistance;
- technical assistance on developing an Observatory of Public Spending;
- a study to address the issue of school dropout both in the short and long terms, develop an early warning system for dropouts, and test interventions to prevent dropout;
- technical assistance to strengthen information systems for conditional cash transfer programs to better target beneficiaries.

**28. With respect to Pillar 2 (Addressing Bottlenecks to Sustainable Growth) such activities not already mentioned in the text have included the following:**

- technical assistance to strengthen institutional capacity to address fiscal risks related to natural disasters;
- technical assistance to strengthen the legal and institutional framework for responding to natural disasters;
- within the framework of Forest Carbon Partnership Facility (FCPF), a national program to reduce emissions from deforestation, and improve forest management;
- technical assistance under the Financial Sector Reform and Strengthening Initiative related to the responsible and diversified financing of MSMEs, and to strengthening the financial consumer protection framework.

**29. The WBG is coordinating closely with other donors to ensure complementarity of its activities.** In particular, the Bank is supporting the climate change and resilience agenda in close coordination with the Inter-American Development Bank (IDB) and has received resources from the European Union for the GT-Strengthening Government HR Management Capacity (P163483) project, a key activity supporting transparency and efficiencies in the public sector. A grant from the Japanese Social Development Fund supported the successful implementation of the project *Nuestros Niños Sanos y Listos* (TF017709). Finally, the Bank is coordinating with the United States Agency for International Development (USAID) and IDB on the Alliance for Prosperity Plan for the Northern Triangle.<sup>23</sup>

#### IV. EMERGING LESSONS

**30. The main lesson of the CPF implementation is that in the difficult political context of Guatemala in the last three years, outreach and consensus building are critical.** These years have been exceedingly challenging as a result of several, sometimes interlinked, factors: (a) the

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<sup>23</sup> The Northern Triangle is made up of El Salvador, Guatemala and Honduras.

severely polarized political situation in the country; (b) the plethora of parties in Congress, rendering it difficult for any administration to build an enduring consensus to address national challenges; (c) various political crises that pulled legislators' attention away from routine loan discussion and approval; and (d) the typical staff high turnover in the public sector (especially acute during the transitional period following elections), exacerbating the already limited implementation capacity of the country.

31. **Maintaining a dialogue with the Executive, Legislature, civil society, private sector, and other stakeholder groups (complemented by an overarching communications strategy) is a necessary condition for success.** Broad engagement complements selectivity.<sup>24</sup> For example, with respect to *Crecer Sano*, the engagement with Congress quickly shifted from seeking endorsement to explaining the adverse impact of chronic malnutrition not only on individuals, but on the country's productivity and competitiveness. As a result, despite a deeply polarized environment, Guatemalans from across the political spectrum prioritized the fight against chronic malnutrition. Going forward, engagement with the networks of mayors may be a way to further draw in the voices of the rural and indigenous areas. Similarly, the formal private sector has been a key ally during the last three years. This engagement will provide opportunities going forward in terms of identifying areas where Bank support could be effective, for instance should the incoming administration seek support to prepare and/or implement a fiscal reform package.

32. **In a difficult environment, technical assistance can be a conduit of ensuring solid policy dialogue.** Through a strong program of technical assistance, the Bank has been working closely with different groups on critical topics of interest that directly align with the CPF pillars of fostering inclusion of vulnerable groups and promoting sustainable growth (prominently including climate change adaptation and mitigation). These include: (a) support to draft a law and regulations for International Labor Organization (ILO) Convention 169<sup>25</sup>; (b) engagement with the Constitutional Court to improve access to justice for women and Indigenous Peoples; (c) preparation of the Disaster Risk Management Strategy; (d) support to the process to ensure that Guatemala can join the Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company and acquire the excess rainfall and earthquake coverage for the period of June 2019 through May 2020; and (e) support to the technical commission on the eruption of the *Volcán de Fuego* to assess risks and develop mitigation strategies around future events.

33. **The political economy can send adverse signals to potential investors, undermining IFC engagement.** Although IFC's investments are not subject to the same type of political debate as external financing from the Bank, political gridlock and weak governance have a direct impact on reduced investment flows and the investment climate. The infrastructure agenda promoted through PPPs, for instance, has been severely impacted by the political blockage as concession awards require congressional approval. A clear and reliable legal framework and rule of law is a basic condition for international investors, particularly in infrastructure where long-term contractual arrangements regulate rights and obligations of the parties. As previously noted with

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<sup>24</sup> Broad engagement enables Bank staff to identify areas where consensus can be achieved now; further, it enables staff to be prepared swiftly to broaden interventions when anticipated potential blossoms into actionable opportunity.

<sup>25</sup> The ILO's Indigenous and Tribal Peoples Convention, 1989 (No. 169) is the only international treaty open for ratification that deals exclusively with the rights of these peoples. Adoption of the Convention provides a framework for, and thus encourages, investment (particularly foreign) in indigenous communities.

reference to IFC's investment in *APM Terminals Quetzal*, legal uncertainties challenge investment decisions. Unfortunately, in Guatemala there are additional examples of third-party projects in other industries (e.g., telecommunications, mining, and energy distribution) that have faced legal disputes with the Government of Guatemala that could, or already have, led to international arbitration, placing at hazard the viability of the infrastructure and PPP agenda.

34. **These lessons suggest two core elements for a plan of action for the World Bank Group going forward.** The first is the imperative of designing/continually refining a *broad-based and ongoing* strategy of engagement that covers the entire CPF period. This engagement would have multiple purposes: (a) identify key issues around which consensus exists or could realistically be built; (b) create fora where stakeholders and technical experts can exchange information, views, and concerns; and (c) assess the political economy of specific actions, programs, or reforms that could be supported by the WBG. The second core element is the WBG's continued focus on a stringently limited set of activities, particularly those to receive IBRD lending. Given the fragmentation of Congress and the heterogeneity of the country, the engagement around each priority will require a substantial commitment from both the executive and legislative branches of government—which will be easier to generate within a consensus of the broader populace.

35. **Given the likelihood that the political situation in Guatemala that led to loan approval delays/cancellations will persist,<sup>26</sup> the focus for the WBG will need to be on implementation support/supervision of existing lending.** This should be complemented by work on the CAT-DDO approved by the Board in May 2019, leveraging support for maximizing finance for development, and relevant technical and advisory assistance as well as broad engagement (of limited resources) to lay the groundwork for a more favorable environment.

## V. ADJUSTMENTS TO THE CPF AND FUTURE WORLD BANK ENGAGEMENT

36. **While the CPF pillars remain relevant, the objectives will need to be substantially revised as they cannot be met in within the CPF period ending in FY20.** As detailed in Annex 2, six of the ten original indicators will be dropped, one will be revised, and two new indicators will be added. CPF objective 2 (Improve public resources management and accountability) will be dropped.

37. **Bank implementation support of the DPF will continue and accelerating the implementation of the *Creceer Sano* Project is urgent** as it addresses one of the most critical issues in Guatemala (a 47 percent stunting rate among children). Interventions financed by the operation will target municipalities with particularly high rates of malnutrition and maternal mortality. They will focus on access to primary health care, water and sanitation services, and health-related practices and behaviors; and will be complemented by the previously mentioned \$9 million grant from the Global Financing Facility.

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<sup>26</sup> As in 2015, the party of the incoming president holds a decided minority of seats in Congress (in 2019, 17 out of 160). Moreover, there are at least three signs of rising fragmentation in, and voter disenchantment with, Guatemala's polity: (a) there are now 19 parties represented in Congress (up from 14 in 2015); (b) 6 are new (up from 3 in 2015)—including that of the president; and voter turnout in 2019 was only 42 percent (down from 56 percent in 2015).

38. **A DPF with a Catastrophe Deferred Drawdown Option (CAT-DDO) was approved by the Bank in May 2019**, following a request by Guatemala in 2016 in response to the urgent need to enhance the country's policy and institutional framework in the areas of disaster-risk management and climate-change adaptation. The operation is designed to support the modernization of Guatemala's legal and institutional framework to manage disasters and climate risks and increase the Government's capacity to quickly mobilize resources in the aftermath of natural disasters. The operation reflects lessons learned from Guatemala's active participation in regional disaster-risk management initiatives and the use of the first CAT DDO (P112544). The operation can also be activated to provide timely liquidity in the case of health-related events. To pave the way for congressional approval of this new operation, a broad communication and dissemination process will be implemented by the Government and the World Bank, both with the new authorities and with the main actors during the transition period. This will be essential since it was only the absence of financing in the post-*El Fuego* volcano eruption crisis that enabled the CPF's first DPF to win congressional endorsement.

39. **The WB will build on the existing technical assistance and engagement in human capital, regional integration, transparency and fiscal policy, and social development.** In conjunction with the *Crecer Sano* activities, the WB will work with the Ministry of Social Development (MIDES) to continue the development and operationalization of a Management Information System for the conditional cash transfer (CCT) *Bono Social* initiative, which would help to expedite payments already delayed in several regions of the country and create incentives for the use of health and nutrition services to be provided through *Crecer Sano*. Work will also be undertaken to explore means of enhancing the interoperability of MIDES and Ministry of Health's databases for more efficient verification of co-responsibilities of the *Bono*. Finally, on the social protection front, TA activities requested by MIDES for developing an impact evaluation of the CCT program will be continued. For education, the Bank will continue to work with the Ministry of Education on the programs to prevent school dropouts.

40. **Recently, the regional integration agenda has taken on assuming greater importance.** Technical assistance to Guatemala and Honduras has supported a Customs Union that is having a significant impact on cross-border trade. El Salvador joined the Union in 2018, and there is substantial scope for increasing both the types of trade included and the countries involved, from Mexico to Panama. Guatemala's government is interested in expanding the Customs Union and potentially working on integration of capital markets and energy markets along with investments in the 'dry corridor' (i.e., the western part of Central American that has experienced a decade of severe drought). The WBG will work with Guatemala and the other governments in the region to advance regional integration, supporting the preparation of specific feasibility studies and providing technical assistance. These efforts will build on the previously mentioned IFC activities that support export-oriented firms with potential for regional expansion, promote south-south investments, and assist local companies to become regional players.

41. **The WBG can also look to use new data to further reforms and promote transparency.** The Public Service Census will provide solid inputs to a reform of the public sector. The findings of this work may well point to areas where resources can be re-assigned, savings made, and new funding for social programs freed up. At the same time, the Government is completing a Population and Housing Census. This effort will enable preparation of a new poverty

map that can contribute to better targeting of social spending and a more robust articulation of key performance indicators. Coordination with other donors, civil society, and private sector and government actors around these products may provide the Bank with a means to support the policy reform agenda, even in the absence of a strong lending portfolio.

**42. Increasing the Government’s capacity to promote low carbon development and target and mitigate climate risk will remain an integral focus of the WBG’s technical assistance to Guatemala.** To move to a more robust disaster risk management system in Guatemala, the Bank will work with the Government on an outreach strategy to facilitate the passage of the new DRM law and its regulations. Additionally, the focus will be on enhancing the capacity of Guatemala’s National Institute of Seismology, Volcanology, Meteorology, and Hydrology to provide timely disaster risk information as well as the ability of municipalities to address DRM issues. This will include support to the implementation of environmental risk evaluations and the inclusion of disaster-risk-reduction activities in their development plans. The Forest Investment Program (FIP) and COP21 Commitments Program will support priority commitments in Guatemala’s NDC.

**43. A broad engagement strategy will be developed that will be critical in the context of the political transition.** As a first step, a series of policy briefs on key topics related to CPF priorities—human capital, public finances and the efficiency of public spending, regional integration, resilience and natural resource management, efficiency and transparency in public sector employment—are being prepared to foster engagement with critical stakeholders. Given the diversity of views in the country, effort is needed to continue to build consensus around specific topics as was done for malnutrition. In addition to preparing short briefs (progress, challenges, policy options) it is proposed to develop an outreach program around these briefs with a focus on the political economy of various policy options. The briefs will then be revised to incorporate these discussions and will serve to engage with the new administration. This process will also inform the upcoming SCD which, in turn will inform the next CPF.

**44. IFC engagement will remain focused on strengthening the financial system, expanding access to finance and financial inclusion, addressing critical infrastructure needs, and supporting competitive agribusiness and manufacturing (particularly those expanding youth employment).** IFC is keen to explore PPP opportunities to support sustainable investments in transportation and infrastructure (roads, urban mobility, ports), as well as in water in sanitation. In line with its commitment to financial market development, IFC is also in its internal approval process for a senior financing package of up to \$225 million to *Banco Agromercantil S.A.* to support its portfolio growth into housing finance and SMEs. At the regional level, IFC is preparing the Sustainable Industries in Central America (SICA) project intended to contribute to the competitiveness of selected strategic industries through: (a) the promotion of greater resource efficiency (energy, water, and waste); and (b) facilitation of access to finance. Pre-implementation was approved in January 2019 to assess the potential of savings in strategic sectors, identify best practices that can be applied in the region, review the financial environment for sustainable industries, and facilitate public-private dialogue in these matters. In Guatemala, the project plans to support the consolidation of voluntary ES for cleaner production, which are making businesses more competitive while reducing impact on the environment.

45. **IFC is also seeking a potential intervention with the Municipality of Guatemala City (MCG) through the IFC Cities Program.** The engagement is intended to provide capacity building and knowledge sharing in the preparation of high-impact municipal infrastructure projects to be later implemented through municipal PPPs or municipal financing. Guatemala City is highly relevant to the country’s economy since it hosts economic activities that contribute almost 65 percent of the country’s GDP. The engagement with the MCG would require upstream support through a collaborative approach leveraging WBG’s strengths, and its implementation would depend both on the political economy during the forthcoming transition of municipal authorities and support from the central government.

## VI. RISKS TO THE CPF PROGRAM

**Table 2. Disaggregated and Summary Risks to the Guatemala CPF Program**

<b>Risk Categories</b>	<b>CPF Rating</b>	<b>PLR Rating</b>
1. Political and Governance	H	H
2. Macroeconomic	M	M
3. Sector strategies and policies	S	S
4. Technical design of project or program	M	S
5. Institutional capacity for implementation and sustainability	S	H
6. Fiduciary	S	S
7. Environmental and social	S	S
8. Stakeholders	S	S
<b>Overall</b>	<b>S</b>	<b>H</b>

46. **The overall risk during the remainder of the CPF period has increased from *Substantial to High* in view of the political situation and resulting uncertainty affecting the country.** Most of the risks originally identified in the CPF remain relevant in content and have not intensified. The political and governance risks that were presented in the CPF have, however, been exacerbated, with knock-on effects with respect to institutional capacity.<sup>27</sup> Criminal investigations contribute to uncertainty and, with a lack of majority in a more fragmented Congress, the executive<sup>28</sup> faces serious challenges to secure approval of external finance or address complex and sensitive reforms. While the process of obtaining congressional approval of loans has always been slow, it is now embroiled in a much larger political discussion that involves the role of the State more broadly. At this point, uncertainty is very high in Guatemala. In terms of the risks of delays in Congressional approval of the Disaster Risk Management DPO (P159710), the risk is mitigated by the Government’s significant ownership of the proposed program, by support from Congress for the disaster risk management (DRM) agenda, and by substantial public scrutiny and pressure for enhanced DRM, particularly in situations of emergency. Overall, in light of the above, the risks which were already considered substantial in the CPF, are presently judged to have increased significantly. The end of the CICIG mandate adds an additional level of uncertainty and potential risk for governance.

<sup>27</sup> As previously noted, the typical staff high turnover in the public sector becomes especially acute during the transitional period following elections; both the general phenomenon and the post-election exacerbation impact the already limited implementation capacity of the country.

<sup>28</sup> The minority status and challenges apply to both the outgoing and incoming executives.

## Annex 1. Revised Results Framework

<b>Pillar 1. Fostering Inclusion of Vulnerable Groups</b>	
<i>Objective 1. Increase access to basic health, nutrition, and water and sanitation services</i>	
CPF Indicators	WBG Program
<p>1.1 Coverage of growth monitoring and promotion for children under 24-months in priority areas.  <i>Baseline:</i> 10 percent (2016)  <i>Target:</i> 50 percent (2020)</p>	<ul style="list-style-type: none"> <li>• <i>Crecer Sano:</i> GT Nutrition &amp; Health Project (P159213)</li> <li>• Improved Governance of Public Resources &amp; Nutrition DPF (P160667)</li> <li>• <i>Nuestros Niños Listos y Sanos</i> (P145410)</li> <li>• Water Supply, Sanitation, and Hygiene Poverty (WASH) Diagnostic (P150563)</li> </ul>
<b>Pillar 2. Addressing Bottlenecks to Sustainable Growth</b>	
<i>Objective 2. Enhance the enabling environment and increase access to finance for MSMEs</i>	
CPF Indicators	WBG Program
<p>2.1 Number of microfinance and SME finance loans provided through financial services.  <i>Baseline:</i> 93,133 (2015)  <i>Target:</i> 141,723 (2020)</p>	<ul style="list-style-type: none"> <li>• IFC MSME Finance loans</li> </ul>
<i>Objective 3. Expand infrastructure</i>	
<p>3.1 Increased port handling capacity.  <i>Baseline:</i> 391,491 Twenty-Foot Equivalent Unit (TEU) (2015)  <i>Target:</i> 240,000 (TEU) (2020)<sup>29</sup></p>	<ul style="list-style-type: none"> <li>• Terminal de Contenedores Quetzal (P32763)</li> </ul>
<i>Objective 4. Build institutional capacity to manage and adapt to climate change</i>	
<p>4.1 Increased government capacity to promote low carbon development, as measured by reduction of forest greenhouse gas emissions.</p>	<ul style="list-style-type: none"> <li>• Catastrophe Deferred Drawdown Option (P159710)</li> <li>• Implementing COP21 Commitments in Central America Program (P160325)</li> </ul>

<sup>29</sup> APMT Quetzal full capacity was expected to reach 391,491 (Twenty-Foot Equivalent Units/TEUs annually), but given a legal dispute that started in 2015, further expansion of the terminal has been delayed and therefore reduced the full capacity target to 240,000 TEUs, although in 2018 the company managed to handle over 300,000 TEUs. Regardless the legal dispute, the company is currently completing an investment that will allow it to bring annual capacity to 340,000 TEUs by 2020.

<p><i>Baseline:</i> 0 (2016) <i>Target:</i> 3 million tons of CO2 (2020)</p>	<ul style="list-style-type: none"> <li>• Forest Investment Plan in Guatemala (P161237)</li> </ul>
<p>4.2 Percentage of municipalities that have included disaster-risk-reduction activities in their local development plans. <i>Baseline:</i> 3.5 percent (2019) <i>Target:</i> 29 percent (2020)</p>	<ul style="list-style-type: none"> <li>• Enhancing Disaster Risk Management in Central America Program (P159930)</li> <li>• Forest Carbon Partnership Facility Capacity Building Program for Indigenous Peoples in LAC (P155976)</li> <li>• Civil Society and Local Communities in LAC (P155978)</li> <li>• Strengthen Resilience of Central American Cities (P157269)</li> </ul>
<p>4.3 Signing of the Emissions Reductions Payment Agreement. <i>Baseline:</i> 0 (2018) <i>Target:</i> 100% (2019)</p>	<ul style="list-style-type: none"> <li>• Emissions Reductions Payment Agreement (ERPA)</li> </ul>

## Annex 2. Changes to the Results Framework

<b>Pillar 1. Fostering Inclusion of Vulnerable Groups</b>		
<i>Objective 1: Increase access to basic health, nutrition, and water and sanitation services</i>		
Original CPF Indicators	Proposed change	Rationale
<p>1.1 Percent of children 12-months-old in the areas prioritized by the National Strategy to Reduce Chronic Malnutrition receiving the complete vaccination scheme required for their age. <i>Baseline:</i> 74 percent (2016) <i>Target:</i> 85 percent (2020)</p>	To be dropped	<p>Because of delays in Congressional approval, the <i>Crecer Sano</i> loan effectiveness will be approximately 6 months prior to close of the CPF. Results are, therefore, not expected within the timeframe of this CPF.</p>
<p>1.2 Coverage of growth monitoring and promotion for children under 24-months in priority areas. <i>Baseline:</i> 10 percent (2016) <i>Target:</i> 50 percent (2020)</p>	No change	
<b>Pillar 2. Addressing Bottlenecks to Sustainable Growth</b>		
<i>Objective 2. Improve public resource management and accountability: To be dropped</i>		
Original CPF Indicators	Proposed change	Rationale
<p>2.1 Estimated VAT non-compliance level (as a share of potential VAT revenues). <i>Baseline:</i> 34.2 percent (2015) <i>Target:</i> 29 percent (2020)</p>	To be dropped	<p>While the DPF has some impact, the main lending operation designed to move the country to reach this objective was an IPF with the Tax Administration which was withdrawn following extended delays in congressional approval of the loan.</p>
<p>2.2 Compliance with customs inspections. <i>Baseline:</i> 6.3 percent (2016) <i>Target:</i> 12 percent (2020)</p>	To be dropped	
<p>2.3 Share of public procurement executed through competitive processes as a percentage of the total value of executed public procurement. <i>Baseline:</i> 36 percent (2015) <i>Target:</i> 52 percent (2020)</p>	To be dropped	
<i>Objective 3. Enhance the enabling environment and increase access to finance for MSMEs</i>		
Original CPF Indicators	Proposed revised indicator	Rationale
<p>3.1 Number of microfinance and SME finance loans provided through financial services. <i>Baseline:</i> 93,133 (2015) <i>Target:</i> 141,723 (2020)</p>	No change	
<i>Objective 4. Expand infrastructure</i>		
Original CPF Indicators	Proposed revised indicator	Rationale

4.1 Increased port handling capacity. <i>Baseline:</i> 391,491 Twenty-Foot Equivalent Unit (TEU) (2015) <i>Target:</i> Additional 340,000 TEU (2020)	Change target to 240,000 TEU	Further expansion of the terminal is delayed because of a legal dispute.
4.2 Additional people in targeted urban areas provided with access to:  a) improved water sources <i>Baseline:</i> 0 (2016) <i>Target:</i> 6,800 (2020)  b) improved sanitation <i>Baseline:</i> 0 (2016) <i>Target:</i> 9,700 (2020)	To be dropped	Because of delays in congressional approval, the loan for the Urban Infrastructure & Violence Prevention Project (P143495) was withdrawn.
<b>Objective 5. Build institutional capacity to manage and adapt to climate change</b>		
<b>Original CPF Indicators</b>	<b>Proposed revision</b>	<b>Rationale</b>
5.1 Increased government capacity to promote low carbon development, as measured by reduction of forest greenhouse gas emissions. <i>Baseline:</i> 0 (2016) <i>Target:</i> 3 million tons of CO2 (2020)	No change	
5.2 Percent of sub-projects targeting adaptation and mitigation needs of Indigenous Peoples and vulnerable communities and fully achieving their objectives. <i>Baseline:</i> 0 percent (2016) <i>Target:</i> 50 percent (2020)	To be dropped	The preparation of the Forest Investment Plan has been delayed, it should be finalized and commence implementation in June 2020.
5.3 Percentage of municipalities that have included disaster-risk-reduction activities in their local development plans. <i>Baseline:</i> 3.5 percent (2019) <i>Target:</i> 29 percent (2020)	To be added	To reflect the support under the CAT DDO.
5.4 Signing of the Emissions Reductions Payment Agreement. <i>Baseline:</i> 0 (2018) <i>Target:</i> 100% (2019)	To be added	Guatemala is expected to sign the Emissions Reductions Payment Agreement (ERPA) in December 2019. Given that this is an important step to achieving the objective of building capacity to manage and adapt to climate change, the PLR proposes to add this step as an indicator.

### Annex 3. Progress on the Original CPF Results Monitoring Matrix

Pillar 1. Fostering Inclusion of Vulnerable Groups		
Objective 1. Increase access to basic health, nutrition, and water and sanitation services		
CPF Indicators	Supplementary Progress Indicators / Milestones	WBG Program
<p>1.1 Percent of children 12-months-old in the areas prioritized by the National Strategy to Reduce Chronic Malnutrition receiving the complete vaccination scheme required for their age. <i>Baseline:</i> 74 percent (2016) <i>Target:</i> 85 percent (2020) <i>Status:</i> 66.5 percent (2018) <b>NOT ACHIEVED</b></p> <p>1.2 Coverage of growth monitoring and promotion for children under 24-months in priority areas. <i>Baseline:</i> 10 percent (2016) <i>Target:</i> 50 percent (2020) <i>Status:</i> 90.2 percent (2018) <b>ACHIEVED</b></p> <p><i>Note: The process of verification of how this indicator is measured is underway. There could be a problem of double-counting.</i></p>	<p>Health personnel receiving training (by gender). <i>Baseline:</i> 0 (2016) <i>Target:</i> 300 (2018); 900 (2020) <i>Status:</i> <b>NOT ACHIEVED</b></p> <p>Percent of children under two in priority municipalities that complete the full cycle of nutrition verification (by gender). <i>Baseline:</i> 0 percent (2016) <i>Target:</i> 50 percent (2018) <i>Status:</i> <b>NOT ACHIEVED</b></p> <p>Number of families being served by new or rehabilitated water systems in the intervention areas. <i>Baseline:</i> 0 (2016) <i>Target:</i> 1,500 (2020) <i>Status:</i> <b>NOT ACHIEVED</b></p>	<p><i>Planned New</i></p> <ul style="list-style-type: none"> <li>• <i>Creceer Sano:</i> GT Nutrition &amp; Health Project (P159213)</li> <li>• Improved Governance of Public Resources &amp; Nutrition DPF (P160667)</li> <li>• Central America Nutrition, Health and Early Childhood Development (New)</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• Nuestros Niños Listos y Sanos (P145410)</li> <li>• Strengthening Water Service Delivery for All in Central America Programmatic Approach (P153418)</li> <li>• Country Water Supply, Sanitation, and Hygiene Poverty Diagnostic (P150563)</li> </ul>
Pillar 2. Addressing Bottlenecks to Sustainable Growth		
Objective 2. Improve public resource management and accountability		
CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>2.1 Estimated VAT non-compliance level (as a share of potential VAT revenues). <i>Baseline:</i> 34.2 percent (2015) <i>Target:</i> 29 percent (2020) <i>Status:</i> 37.95 (2017) <b>NOT ACHIEVED</b></p>	<p>Percent of SAT electronic invoices of total invoices by value increased. <i>Baseline:</i> 65 percent (2015) <i>Target:</i> 90 percent (2018) <i>Status:</i> <b>NOT ACHIEVED</b></p> <p>Streamlined and automated customs procedures</p>	<p><i>Planned New</i></p> <ul style="list-style-type: none"> <li>• Improved Governance of Public Resources and Nutrition DPF (P160667)</li> <li>• Transparency and Efficiency in Tax Administration Project (P153366)</li> </ul>

<p>2.2 Compliance with customs inspections.  <i>Baseline:</i> 6.3 percent (2016)  <i>Target:</i> 12 percent (2020)  <i>Status:</i> 6.3 percent (2017)  <b>NOT ACHIEVED</b></p> <p>2.3 Share of public procurement executed through competitive processes as a percentage of the total value of executed public procurement.  <i>Baseline:</i> 36 percent (2015)  <i>Target:</i> 52 percent (2020)  <i>Status:</i> <b>NOT VERIFIED</b></p>	<p>for low risk operations implemented.  <i>Baseline:</i> No (2016)  <i>Target:</i> Implementation of ex-post control procedures for low-risk cargo operations launched (2018)  <i>Status:</i> <b>NOT ACHIEVED</b></p> <p>A Directorate of Reference Prices Indices within the National Statistics Institute created.  <i>Baseline:</i> No (2015)  <i>Target:</i> Yes (2018)  <i>Status:</i> <b>NOT ACHIEVED</b></p>	<p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• Taxes and Customs in Central America (P151829)</li> <li>• Central America Country Economic Work &amp; Monitoring</li> <li>• Procurement non-Project Support</li> <li>• Regional Central American Project to Support the Implementation of the Trade Facilitation Agreement (P156050)</li> </ul>
<p><b>Objective 3. Enhance the enabling environment and increase access to finance for MSMEs</b></p>		
<p><b>CPF Indicators</b></p>	<p><b>Supplementary Progress Indicators</b></p>	<p><b>WBG Program</b></p>
<p>3.1 Number of microfinance and SME finance loans provided through financial services.  <i>Baseline:</i> 93,133 (2015)  <i>Target:</i> 141,723 (2020)  <i>Status:</i> 104,271 (2017)  <b>PARTIALLY ACHIEVED</b></p>	<p>Volume of micro and SME outstanding portfolio (\$ million).  <i>Baseline:</i> 549 million (2015)  <i>Target:</i> 624 million (2020)  <i>Status:</i> 748 million (2017)  <b>ACHIEVED</b></p> <p>Partial Credit Guarantee Fund established.  <i>Baseline:</i> No (2016)  <i>Target:</i> Yes (2018)  <i>Status:</i> NO (2019)  <b>NOT ACHIEVED</b></p>	<p><i>Planned new</i></p> <ul style="list-style-type: none"> <li>• MSME Finance loans already granted to local FIs</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• IFC Banco GT / IFC Seguros G&amp;T</li> <li>• Developing Diversified and Responsible Financing for MSMEs Technical Assistance (P153451)</li> </ul>
<p><b>Objective 4. Expand infrastructure</b></p>		
<p>4.1 Increased port handling capacity.  <i>Baseline:</i> 391,491 Twenty-Foot Equivalent Unit (TEU) (2015)  <i>Target:</i> 340,000 TEU (2020)<sup>30</sup>  <i>Status:</i> 300,000 TEU (2018)  <b>PARTIALLY ACHIEVED</b></p>	<p>Quetzal port is operational.  <i>Baseline:</i> No (2016)  <i>Target:</i> Yes (2018)  <i>Status:</i> Yes (2017)  <b>ACHIEVED</b></p>	<p><i>Planned New</i></p> <ul style="list-style-type: none"> <li>• Terminal de Contenedores Quetzal (P32763)</li> </ul>
<p>4.2 Additional people in targeted urban</p>	<p>National Plan for Municipal Strengthening updated,</p>	<ul style="list-style-type: none"> <li>• Urban Infrastructure &amp; Violence</li> </ul>

<sup>30</sup> See footnote 16.

<p>areas provided with access to:</p> <p>a) improved water sources <i>Baseline:</i> 0 (2016) <i>Target:</i> 6,800 (2020) <i>Status:</i> 0 (2018)</p> <p>b) improved Sanitation: <i>Baseline:</i> 0 (2016) <i>Target:</i> 9,700 (2020) <i>Status:</i> <b>NOT ACHIEVED</b></p>	<p>integrating key actions in the areas of territorial management, disaster risk management and climate change adaptation. <i>Baseline:</i> No (2016) <i>Target:</i> Yes (2018) <i>Status:</i> <b>NOT ACHIEVED</b></p> <p>Number of municipalities strengthened on territorial management framework. <i>Baseline:</i> 0 (2016) <i>Target:</i> 40 (2020) <i>Status:</i> <b>NOT ACHIEVED</b></p> <p>Beneficiaries of improved urban services in selected urban communities (by gender). <i>Baseline:</i> 0 (2016) <i>Target:</i> 19,000 (2020) <i>Status:</i> <b>NOT ACHIEVED</b></p>	<p>Prevention (P143495)</p> <ul style="list-style-type: none"> <li>• Possible DPF with a Catastrophe Deferred Drawdown Option (New)</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• Strengthen Resilience of Central American Cities Project (P157269)</li> <li>• Enhancing Disaster Risk Management in Central America Programmatic Approach Phase II (P159930)</li> <li>• Strengthening Water Service Delivery for All in Central America Programmatic Approach (P153418)</li> </ul>
<b>Objective 5. Build institutional capacity to manage and adapt to climate change</b>		
<p>5.1 Increased government capacity to promote low carbon development, as measured by reduction of forest greenhouse gas emissions. <i>Baseline:</i> 0 (2016) <i>Target:</i> 3 million tons of CO2 (2020) <i>Status:</i> <b>NOT ACHIEVED</b></p>	<p>Update of National Policy for Disaster Risk Reduction approved &amp; National Plan of Mitigation and Climate Change Adaptation adopted, which incorporates targets and indicators in disaster risk reduction. <i>Baseline:</i> No (2016) <i>Target:</i> Yes (2017) <i>Status:</i> <b>PARTIALLY ACHIEVED</b></p>	<p><i>Planned New</i></p> <ul style="list-style-type: none"> <li>• Implementing COP21 Commitments in Central America Program (P160325)</li> <li>• Forest Investment Plan in Guatemala (P161237)</li> </ul>
<p>5.2 Percent of sub-projects targeting adaptation and mitigation needs of Indigenous peoples and vulnerable communities and fully achieving their objectives. <i>Baseline:</i> 0 percent (2016) <i>Target:</i> 50 percent (2020) <i>Status:</i> 0 <b>NOT ACHIEVED</b></p>	<p>At least three institutions have explicitly incorporated the theme of resilience in their Multiannual Operative Plans 2017-2019. <i>Baseline:</i> No (2016) <i>Target:</i> Yes (2020) <i>Status:</i> 2 (2018) <b>ON TRACK</b></p> <p>Bidding Normative Criteria Manual developed by the Ministry of Education for the construction of seismic-resistant public education infrastructure. <i>Baseline:</i> No (2016)</p>	<ul style="list-style-type: none"> <li>• Possible DPF with a Catastrophe Deferred Drawdown Option (New)</li> <li>• Dedicated Grant Mechanism for Indigenous Peoples and Local Communities Project (New)</li> </ul> <p><i>Ongoing</i></p> <ul style="list-style-type: none"> <li>• Enhancing Disaster Risk Management in Central America Program (P159930)</li> <li>• WAVES Guatemala (P153737)</li> <li>• Forest Carbon Partnership Facility Capacity</li> </ul>

	<i>Target: Yes (2017)</i> <i>Status: Yes (2018)</i> <b>ACHIEVED</b>	Building Program for Indigenous Peoples in LAC (P155976) and Civil Society and Local Communities in LAC (P155978) <ul style="list-style-type: none"><li>• Strengthen Resilience of Central American Cities (P157269)</li></ul>
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