



The World Bank

Crisis Response and Recovery in Guatemala (P173698)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 16-Nov-2020 | Report No: PIDA30178

**BASIC INFORMATION****A. Basic Project Data**

Country Guatemala	Project ID P173698	Project Name Crisis Response and Recovery in Guatemala (P173698)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date 17-Dec-2020	Practice Area (Lead) Poverty and Equity	Financing Instrument Development Policy Financing
Borrower(s) Republic of Guatemala	Implementing Agency Ministry of Finance Guatemala (MINFIN)		

Proposed Development Objective(s)

This DPF series supports the Government's efforts to: i) mitigate the impact of COVID-19 on the poor and vulnerable, protect and promote human capital accumulation; ii) mitigate the economic impact of COVID-19 and support reforms to stimulate and inclusive and sustainable recovery; and iii) promote public sector transparency and increase domestic resource mobilization.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1. **To contain the spread of the virus (112,811 Guatemalans infected and 3,845 killed as of November 10, 2020) the authorities declared a state of emergency on March 5, 2020 and implemented strong containment measures.** These measures slowed down the spread of the virus, thus saving numerous lives and creating headroom for strengthening health care services. However, as a result of the crisis and associated containment measures, poverty is estimated to have increased from 44 to 49.3 percent by the end of 2020, after accounting for government's mitigation measures.¹
2. **The extent of deprivation is also expected to increase.** More than 50 percent of individuals reported losing their jobs as a result of the pandemic, 70 percent of households reported income reductions, and more than 45 percent of households reported running out of food during the lockdown. Because of the poorer being more affected by the crisis, income inequality measured by the Gini index is expected to increase to 0.54, from a pre-crisis level of 0.49.
3. **Economic activity is expected to contract by 3.5 percent this year, somewhat cushioned by a stable level of remittances, but with still severe implications for households and firms.** The crisis has dramatically affected the financial conditions of firms by reducing demand for their products and generating shortages of liquidity that could become a solvency problem, especially for financially constrained firms like MSMEs.
4. **The Government's response to the crisis has been commendable, with an unprecedented scale-up of health and emergency safety nets.** The Government swiftly obtained Congressional approval for two emergency packages to: (i) contain the spread of the virus; (ii) expand capacity in the health sector to treat COVID-19 patients; (iii) protect the income, nutrition and jobs through temporary emergency programs for large, vulnerable population groups; (iv) provide liquidity to firms, including MSMEs that were most affected by the crisis; and (v) increase transparency in the management of public resources.

Relationship to CPF

5. **While addressing the short-term needs connected with the COVID-19 crisis response, the operation pursues the goals of the Country Partnership Framework (CPF) for 2017-2020 as revised in the Performance and Learning Review (PLR) in 2019.²** The operation will contribute to mitigating the negative effects of the COVID-19 crisis by building the resilience of those that are most vulnerable to the health and economic impacts and laying the institutional foundations for economic recovery and growth. As such, in addition to helping Guatemala meet the challenges from the current crisis, the proposed measures are directly aligned with the objectives of the CPF to foster inclusion of vulnerable groups and address bottlenecks to sustainable growth. The proposed operation is also fully aligned with the World Bank Group (WBG) COVID-19 Crisis Response Approach Paper.

¹ Poverty estimates use the upper-middle income international poverty line (US\$5.50-a-day in 2011 PPP) and, unlike the World Bank Macro-Poverty Outlook, are based on microsimulations using the harmonized Socio-Economic Database for Latin America and the Caribbean (SEDLAC).

² Guatemala – Country Partnership Framework for the period F17-FY20, discussed by the Board of Executive Directors on November 17, 2016, World Bank (Report No. 110398), and Guatemala – Performance and Learning Review of the Country Partnership Framework for the period of FY17-FY20, discussed by the Board of Executive Directors on October 23, 2019, World Bank (Report No. 103738).



C. Proposed Development Objective(s)

6. This DPF series supports the Government's efforts to mitigate the impacts of COVID-19 and (i) protect the human capital of the poor and vulnerable; (ii) lay out foundations of a sustainable recovery; and (iii) promote public sector transparency and improve revenue administration.

Key Results

7. *To mitigate the impact of COVID-19 on the poor and vulnerable and to protect human capital*, these series of operations support reforms to provide: (i) all pre-primary and primary students enrolled in public schools with health insurance and school meals while school are closed; (ii) a new healthcare delivery model benefitting 5.5 million people, especially in the 7 departments most affected by stunting; and (iii) more than doubling coverage of targeted transfers in the medium term to more than 330,000 families.

8. *To stimulate an inclusive and sustainable recovery*, these series of operations support reforms to: (i) regulate 22 percent of total land use, land use change, and forestry (LULUCF) emissions; (ii) increase the share of adults making or receiving digital payments from 33 to 50 percent; and (iii) boost trade with Mexico by reducing average clearance times for shipments between the two countries from 5 hours to less than 2 hours; and (iii) tax administration measures to ensure an increase in the tax-to-GDP ratio promptly once the economy starts to recover.

D. Project Description

9. **The proposed Crisis Response and Recovery Development Policy (CRR-DPF) programmatic series of two operations supports first and foremost key policy responses to mitigate the impact of COVID-19 on human capital and businesses, while at the same time backing government efforts to continue tackling key long-standing structural issues, such as low inclusion rates.** By end 2020, the pandemic will have ended three decades of uninterrupted growth, likely pushed almost 900,000 Guatemalans into poverty and exacerbated long standing challenges, such as stunting, low human capital accumulation and substantial gender gaps. The proposed operation (CRR-DPF 1) supports government's swift and comprehensive efforts to mitigate the impact of COVID-19 on livelihoods, namely an unprecedented scaling up of safety nets, including measures to prevent an increase in food insecurity and stunting, improve access to primary health for school-age children, and enhance enterprise liquidity. At the same time the CRR-DPF 1 backs efforts to tackle key long-standing structural issues in areas, such as access to international carbon markets, utilization of digital financial services, trade and trade facilitation, transparency in the use of public resources, and revenue mobilization.

10. **The CRR-DPF supports reforms organized under the following three pillars:**

- **Pillar A focuses on protecting the human capital of the poor and vulnerable.** Prior actions supported by this CRR-DPF 1 under this pillar include a range of complementary measures to protect human capital during the COVID-19 pandemic, whereas triggers support structural reforms for stronger human capital accumulation.
- **Pillar B aims at laying out foundations for a sustainable recovery.** Specifically, Pillar B supports the authorities' efforts to mitigate the economic impact of COVID-19, as well as medium-term reforms aimed at facilitating an inclusive and sustainable recovery.
- **Pillar C aims at promoting public sector transparency and improving revenue administration.** This pillar supports actions to increase transparency of public procurements processes incurred during the state of emergency; and to improve tax compliance and enforcement mechanisms and ensure business continuity during the COVID-19 pandemic.



E. Implementation

Institutional and Implementation Arrangements

11. **The Ministry of Finance will be the main responsible agency for the monitoring, evaluation, and results framework and will coordinate actions across relevant ministries and agencies involved in the CDRR-DPF.** The agencies responsible for the implementation of the Prior Actions include: (i) Pillar A: Ministry of Social Development (MIDES), Ministry of Agriculture (MAGA), Ministry of Economy (MINECO), Ministry of Education (MINEDUC), and Ministry of Public Health and Social Assistance (MSPAS); (ii) Pillar B: Central Bank of Guatemala (BANGUAT), *Banco Crédito Hipotecario Nacional* (CHN), Tax Administration (SAT) and MINECO; and (iii) Pillar C: MINFIN and SAT. The World Bank will monitor the implementation of the DPF program through regular supervision missions and the preparation of the second DPF in the series. The World Bank will maintain close dialogue with counterparts throughout preparation and collaborate with MINFIN for the monitoring of indicators.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

12. **The supported measures are expected to have positive or neutral social and poverty impacts and contribute to closing gender gaps.** As previously stated, the crisis is expected to increase Guatemala's poverty from 44 to 49.3 percent by the end of 2020. The expansion of the social safety net through a massive cash transfer (*Bono Familia*) accounts for more than half of the poverty mitigation impact; 55 percent of the direct recipients are women. The provision of at-home of school meals for pre-primary and primary school children would promote food security and maintain learning abilities, especially in rural and Indigenous children. The improvements to digital finance and the liquidity fund for MSMEs are expected to have small positive effects on poverty by reducing the number of MSME closures and protecting jobs held by poor workers (one-third of total MSME employment). The additional financing for MSMEs is also expected to contribute to closing gender gaps in access to finance, with more than 40 percent of the loans going to female-owned businesses.³

Environmental, Forests, and Other Natural Resource Aspects

13. **Overall, the Prior Actions supported by the operation are not expected to have negative effects on the environment, forests, and other natural resources.** Measures to promote the use of digital financial services will bring indirect positive environmental effects associated with reduced need of travel due to increasing opportunities for the use of electronic payments. Similarly, measures geared to increase economic inclusion in rural areas can have indirect positive effects on increasing climate resilience among rural population. Indirect environmental impacts in the form of a potential increase of wildlife trafficking following the application of a Free Trade Agreement (FTA) can be mitigated by strengthening the Borrower's institutional capacity to survey and control wildlife trafficking, such as sharing sensitive information between customs authorities and providing specific training to staff.

³ As in other countries in the LAC, measures in the first CRR-DPF are targeted to much broader groups than those who were chronically poor pre-COVID, given that the shock made vulnerable also large swaths of the middle class. Likewise, the Government had to prioritize speed over targeting precision, in a context of very limited delivery systems and data prior to the crisis.



14. **Three Prior Actions address environmental impacts.** The efforts to reduce carbon emissions in the livestock sector and the Bono Familia cash transfer are expected to have a positive impact on mitigation and adaptation to climate change while enhancing a more climate-smart development. Also, efforts to increase tax compliance of VAT in general, and on VAT and excise taxes on fuels specifically, are expected to contribute to climate adaptation by partially moderating demand for fuels under current low international prices.

G. Risks and Mitigation

15. **The proposed Overall Risk Rating of the operation is substantial, as the achievement of the development objective crucially depends on mitigating:** (i) political and governance risks, and (ii) the limited institutional capacity for implementation of the program in the face of the COVID-19 crisis. The program supports critical but complex and politically sensitive reforms. The long-standing vested interests and the shifting political climate could undermine the efforts to pursue politically sensitive reforms. These risks are mitigated by supporting reforms that fulfill two conditions: (i) they are considered high-priority by the Government and are included in its response and economic recovery plans; and (ii) the World Bank is either currently engaged with Government or technical assistance will be provided during program implementation.

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APPROVAL

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Approved By

Country Director:	Andrea C. Guedes	16-Oct-2020
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