The Country Strategy with Guatemala 2008-2011 correctly identified the main constraints on the country’s economic growth. To address these limitations, the **Country Department Central America, Mexico, Panama, and Dominican Republic (CID)** set out the strategy with Guatemala as a pilot initiative in which a small number of intervention areas was defined—nutrition, intergenerational poverty, basic infrastructure, tax collection—and groups of operations were formed to support the development goals. In terms of relevance, consistency, and positioning, the CID initiative in Guatemala has been assessed by the Office of Evaluation and Oversight as very positive.

Nevertheless, delays in loan authorization by the Guatemalan Congress diminished the Bank’s effectiveness, because the assistance program lost the capacity to exploit the internal and external synergies built into its design. The disbursement of Policy-Based Loans (PBLs) without the conditionalities being met, in accordance with the spirit of the loans’ objectives, compromised the Bank’s capacity to support achievement of the development goals. Despite the problems of project authorization and execution, OVE was able to document positive results from the Mi Familia Progresa program, which received technical support from the Bank, and from projects approved under previous strategies, particularly in the basic infrastructure area.

Factors that may help improve the Bank’s future effectiveness in Guatemala and its relationship with the incoming administration are to: (i) maintain the strategy design model proposed in the pilot initiative implemented during 2008-2011; (ii) maintain the use of investment instruments; (iii) match portfolio size to the country’s institutional capacity and support the Government of Guatemala in overcoming the institutional weaknesses that limit timely use of resources; and (iv) minimize the use of waivers with PBLs.
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Country Program Evaluation

Guatemala

2008-2011

Office of Evaluation and Oversight, OVE

Inter-American Development Bank

2012
## Acronyms

## Acknowledgements

## Executive Summary

### 1. Introduction and Context

A. Key events in the period

B. Context

1. Inequality of opportunities
2. Low revenue-generating capacity
3. Security challenges

### 2. The Bank’s Program in Guatemala

A. Relevance, positioning and consistency

1. Reduction of chronic malnutrition
2. Reduction of intergenerational transmission of poverty
3. Upgrade and maintenance of productive infrastructure
4. Progress towards achieving the Peace Accords’ revenue collection targets
5. Other programs

### 3. Efficiency of the Bank’s Program Execution

A. Program execution

### 4. Results

A. Effectiveness, impact, and sustainability

1. Reduction of chronic malnutrition
2. Reduction of intergenerational transmission of poverty
3. Upgrade and maintenance of productive infrastructure
4. Progress towards achieving the Peace Accords’ revenue collection targets
5. Other operations completed during the period

### 5. Conclusions and Recommendations

A. Recommendations

## Annex
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AINM-C</td>
<td>Atención Integral a la Niñez y la Mujer en la Comunidad [Community-based Integrated Children's and Women's Care Program]</td>
</tr>
<tr>
<td>ASIES</td>
<td>Asociación de Investigación y Estudios Sociales [Social Research and Studies Association]</td>
</tr>
<tr>
<td>CABELI</td>
<td>Central American Bank for Economic Integration</td>
</tr>
<tr>
<td>CIAT</td>
<td>Centro Interamericano de Administraciones Tributarias [Inter-American Center of Tax Administrations]</td>
</tr>
<tr>
<td>CICIG</td>
<td>Comisión Internacional contra la Impunidad en Guatemala [International Commission against Impunity in Guatemala]</td>
</tr>
<tr>
<td>CID</td>
<td>Country Department Central America, Mexico, Panama, and Dominican Republic</td>
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<td>CPE</td>
<td>Country Program Evaluation</td>
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<tr>
<td>ECLAC</td>
<td>Economic Commission for Latin America and the Caribbean</td>
</tr>
<tr>
<td>ENCOVI</td>
<td>Encuesta de Condiciones de Vida [Living Standards Survey]</td>
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<tr>
<td>ENRDC</td>
<td>Estrategia Nacional para la Reducción de la Desnutrición Crónica [National Strategy for the Reduction of Chronic Malnutrition]</td>
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<tr>
<td>ENSMI</td>
<td>Encuesta Nacional de Salud Materno Infantil [National Survey on Maternal and Child Health]</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>GFDRR</td>
<td>Global Facility for Disaster Recovery and Reduction</td>
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<tr>
<td>HDI</td>
<td>Human Development Index</td>
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<tr>
<td>ICT</td>
<td>Information and communication technology</td>
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<tr>
<td>IDEA</td>
<td>International Institute for Democracy and Electoral Assistance</td>
</tr>
<tr>
<td>IETAAP</td>
<td>Impuesto Extraordinario y Temporal en Apoyo a los Acuerdos de Paz [Special Temporary Tax to Support the Peace Accords]</td>
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<tr>
<td>IGSS</td>
<td>Instituto Guatemalteco de Seguridad Social [Guatemalan Social Security Administration]</td>
</tr>
<tr>
<td>ILPES-ECLAC</td>
<td>Instituto Latinoamericano de Planificación Económica y Social de CEPAL [ECLAC Latin American Institute for Economic and Social Planning]</td>
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<tr>
<td>INFOM</td>
<td>Instituto de Fomento Municipal [Municipal Development Administration]</td>
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<tr>
<td>ISR</td>
<td>Impuesto Sobre la Renta [income tax]</td>
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<tr>
<td>IUSI</td>
<td>Impuesto Único Sobre Inmuebles [property tax]</td>
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<tr>
<td>MIF</td>
<td>Multilateral Investment Fund</td>
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<tr>
<td>MINEDUC</td>
<td>Ministry of Education</td>
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<td>MINFIN</td>
<td>Ministry of Public Finance</td>
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<tr>
<td>MSME</td>
<td>Micro, small, and medium-sized enterprise</td>
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<td>MSPAS</td>
<td>Ministry of Public Health and Social Assistance</td>
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<td>OAS</td>
<td>Organization of American States</td>
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<tr>
<td>OVE</td>
<td>Office of Evaluation and Oversight</td>
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<tr>
<td>PBL</td>
<td>Policy-based loan</td>
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<tr>
<td>PCR</td>
<td>Project completion report</td>
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<tr>
<td>PDL</td>
<td>Performance-driven loan</td>
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<td>PDR</td>
<td>Procuraduría de los Derechos Humanos [Human Rights Ombudsperson]</td>
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<tr>
<td>PEC</td>
<td>Programa de Extensión de Cobertura [Coverage Extension Program]</td>
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<tr>
<td>PMR</td>
<td>Progress Monitoring Report</td>
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<tr>
<td>PPMR</td>
<td>Project Performance Monitoring Report</td>
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<tr>
<td>SAT</td>
<td>Superintendencia de Administración Tributaria [Tax Administration Superintendency]</td>
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<tr>
<td>SIAF</td>
<td>Sistema Integrado de Administración Financiera [Integrated Financial Management System]</td>
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<tr>
<td>Acronym</td>
<td>Abbreviation</td>
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<tr>
<td>SIEPAC</td>
<td>Sistema de Interconexión Eléctrica de los Países de América Central</td>
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<tr>
<td>SIAF</td>
<td>Sistema Integrado de Administración Financiera</td>
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<tr>
<td>SME</td>
<td>Small and medium-sized enterprise</td>
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<tr>
<td>SNIP</td>
<td>Sistema Nacional de Inversión Pública</td>
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<tr>
<td>TIC</td>
<td>Tecnologías de Información y Comunicación</td>
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<tr>
<td>TSE</td>
<td>Tribunal Supremo Electoral</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VAT</td>
<td>Value-added tax</td>
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<tr>
<td>VMCE</td>
<td>Viceministerio de Integración y Comercio Exterior</td>
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<tr>
<td>WDI</td>
<td>World Development Indicator Database</td>
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<td>WFP</td>
<td>World Food Program</td>
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This report was prepared by a team led by Irani Arráiz (Evaluation Economist) including Roni Szwedzki (Consultant) and Viviana Vélez-Grajales (Consultant). Amanda Telias (Research Assistant) provided valuable assistance in the preparation of the document. The work was carried out under the overall supervision of Cheryl Gray (Director). The team received comments from the following reviewers: Alejandra Palma, Silvia Raw, Alejandro Soriano, Alejandro Pardo, Héctor V. Conroy, and Verónica González.

The team would like to thank the Guatemalan institutions for their help and collaboration and, in particular, Mr. Tomás Rosada and Mrs. Anaí Herrera for their support from the Bank’s headquarters. We would also like to thank colleagues in the Bank who provided data and information for the preparation of the document. In particular, we would like to thank the staff of the Bank’s Country Office in Guatemala for their invaluable logistical support during the mission.
Map of Central America. Guatemala is by far the most populated country in Central America, with 14.7 million inhabitants.
© Chris Pecora, 2009
Guatemala has a population of 14.7 million inhabitants and a per capita GDP of US$2,863 (2010). Although not the poorest country in the region in terms of per capita GDP, it has the lowest Human Development Index in Central America, and a high index of inequality. This situation is the product of the extremely limited opportunities available to certain sectors of the population.

Although Guatemala has made big efforts to extend the coverage of public services over the last decade, average coverage rates remain low in comparison with other Latin American countries and, in particular, hide significant inequalities in access to basic services. Access inequality levels are, in general, among the highest in Latin America, and the most affected sectors are education and infrastructure areas such as water, sanitation, and electricity. The scourge of malnutrition is the clearest example of the consequences of unequal access to basic services and social exclusion. Guatemala has the highest rate of chronic malnutrition in Latin America and one of the highest in the world: 49.8% of children between 3 and 59 months of age suffer from chronic malnutrition, a percentage that rises to 65.9% among indigenous children.

The difficulty of providing services in such a way as to offer similar opportunities to the whole population—regardless of race or place of birth—is largely due to the limited ability of the State to generate fiscal revenues: Guatemala’s tax burden is among the lowest in Latin America, and the State does not have other sources of income to compensate for its low taxation. Meager revenues translate into a minimal State with low public and social spending, in a context of profound inequalities of opportunity and serious security challenges. The country’s security problems cover a broad spectrum, ranging from organized crime—drug trafficking, illegal adoptions—to gangs—kidnapping and extortion affecting families and small businesses in depressed urban areas. In view of its ability to infiltrate and corrupt a variety of sectors of society, the biggest and most serious security problem is drug trafficking. The high cost that the security problem imposes on the country has led to a decline in investment.

Executive Summary

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Executive Summary

The evaluation highlights the following findings:

- The country program was well-aligned with the needs of Guatemala;
- The large portfolio size, compounded by limited institutional capacity, led to a deterioration in execution;
- The inadequate selection of instruments and implementation units compromised the achievement of development goals;
- Delays in loan authorization undermined the effectiveness of the Bank and could affect its efficiency in the future;
- The CID pilot initiative, which focused on a few sectors where the Bank had experience, was very positive.
The Country Strategy with Guatemala 2008-2011 identified inadequate human capital, infrastructure gaps, and the high crime and violence rate as the country's three main constraints on economic growth. It also identified the limited capacity of the State to generate adequate fiscal resources as the most serious restriction on growth, because it is at the root of the other constraints mentioned.

A review of various diagnostic assessments, including the *Plan Visión de País*—a pact identifying national priorities signed by the representatives of the country's political parties in 2006—and the government’s agenda, the Plan de la Esperanza, has led OVE to conclude that both the Bank's strategy and its assistance program approved during the 2008-2011 period were concentrated on a limited number of the Government of Guatemala's priority sectors, relevant to the fundamental limitations on the country's long-term progress, and in which the Bank has experience.

The goals set out in the strategy were to (i) reduce chronic malnutrition; (ii) reduce the intergenerational transmission of poverty; (iii) upgrade and maintain production infrastructure; and (iv) achieve the revenue collection targets established in the Peace Accords. The proposed assistance program had significant synergies, not only with Bank programs and but with various World Bank operations, and had the capacity to provide sufficient support in these sectors to have a long-term development impact.

However, the Bank also approved projects that did not support the strategic goals, cannot be justified in terms of budgetary support, and, in some cases, had not even been identified as priorities in the Guatemalan government's plan. Given the State's reluctance to take on debt and the profound needs correctly identified in the Bank's
diagnostic assessment, together with the State’s limited institutional capacity as reflected in the execution difficulties observed, it does not seem to make sense for the Bank to scatter efforts to support the country across sectors that have not been identified as priorities.

Over the 2008-2011 period execution of the investment loan portfolio deteriorated with respect to execution under previous administrations: the age of the portfolio increased (few of the projects under way were concluded), annual disbursements decreased relative to the amount available for disbursement, and the average length of extensions required for execution increased. The causes of this deterioration include structural factors characteristic of the period concerned, such as the limited budgetary leeway for counterpart resources due to the country’s fiscal difficulties and, in 2011, the limitations imposed by the Budget Law, which stipulated that all investment projects had to be registered in the National Public Investment System (SNIP). The increase in investment loan approvals over the 2008-2011 period was not accompanied by an increase in disbursements, suggesting that the country’s execution capacity is a limiting factor on the size of portfolio it can handle.

Another reason for the deterioration in execution is linked to the administration’s general lack of commitment to the inherited portfolio of projects. The portfolio inherited by the Colom administration in 2008 included seven projects with zero disbursements and four projects in execution (of the seven projects with zero disbursements, three had yet to be authorized by the Guatemalan Congress). These projects had been approved between 1998 and 2007 and negotiated by previous administrations with different agendas and priorities than the Colom administration. In August 2011 there were six projects in the portfolio that had not yet been authorized by the Congress (including two approved under the Berger administration); this may underlie the subsequent administration’s lack of commitment to these projects. Of the projects in the portfolio in January 2008, only one was cancelled between January 2008 and August 2011.

In terms of outcomes, most of the investment projects essential to achieving the strategy’s goals have either not been authorized by the Congress or have had very low disbursements—particularly in the case of those concerning chronic malnutrition and the intergenerational transmission of poverty. Despite the supply-side limitations in health, nutrition, and education services, which the Bank was unable to address during the period, the Mi Familia Progresa program, which is receiving technical support from the Bank, is already showing positive results on intermediate health and education indicators. Several projects in execution approved under previous strategies, particularly those relating to production infrastructure, have also yielded positive results. In terms of the tax collection targets set in the Peace Accords, despite the Bank’s constant technical support to the Guatemalan government, the tax reform was not approved.

The proposed assistance program had significant synergies, not only with Bank programs but also with various World Bank operations, and had the capacity to provide sufficient support in these sectors to have a long-term development impact.
The most important conclusions stemming from the analysis are:

The deterioration in the execution of the portfolio suggests that the country has limited institutional capacity and, under current conditions, can only handle a smaller portfolio than that approved in the 2008-2011 period. Not only were approvals higher than those in preceding periods, there were fewer cancellations, against a backdrop of low execution: in 2008-2011 only one loan was cancelled.

Execution of some projects has been held back by an inappropriate selection of instruments and executing units (see chapters 2 and 4). The relevance of some other operations has been jeopardized by their design (see chapter 2).

Inadequate implementation of the instruments has compromised accomplishment of the development goals. The impact of the 2008-2009 crisis justified the use of unrestricted loans to cover the drop in fiscal revenue caused by the recession. However, the country’s fiscal vulnerability resulting from the crisis was used as the justification for disbursing the PBLs approved and authorized during the 2008-2011 period, despite the fact that the loan conditionalities had not been met in accordance with the spirit of their objectives—in the case of the fiscal PBL the objective was not achieved because the political conditions were not in place. Moreover, the funds from some investment projects implemented during the period had in the past been redirected to respond to emergencies. In both cases, achievement of the programs’ objectives was compromised. In principle, the Bank has instruments like emergency loans specifically designed to address this type of situation.

The Guatemalan Congress’s delays in authorizing loans undermined the Bank’s effectiveness and may affect its future efficiency. The effectiveness of the assistance program was undermined by the missed opportunity to exploit internal and external synergies built into its design. Furthermore, projects that are not authorized during the cycle in which they were designed are inherited by a new administration that does not necessarily share the priorities of the administration under which they were designed.

In terms of relevance, consistency, and positioning, the CID pilot initiative in the case of the 2008-2011 Country Strategy with Guatemala was rated as very positive by OVE. The strategic objectives and assistance program envisaged to achieve them were highly selective and focused on a limited number of sectors in which the Bank has experience in the country and where, through synergies and the Bank’s positioning, sufficient support can be provided to have a long-term development impact. The program was fully aligned with the needs of its beneficiaries, the government’s agenda, and the Bank’s strategy.
These conclusions are the basis for the following recommendations:

- **Maintain the strategy design approach envisaged in the pilot initiative.** The pilot initiative was selective in choosing a small number of intervention areas on which it targeted and engaged its assistance efforts. Groups of operations were designed around these areas and focused on achieving the proposed strategic development goals. This approach produced significant synergies and improved the Bank’s positioning.

- **Maintain the use of investment instruments in key sectors where the Bank has demonstrated its capacity to add value.** The main constraints on growth identified in the 2008-2011 strategy—the State’s limited capacity to generate sufficient fiscal revenues, inadequate human capital as a result of inequity, childhood malnutrition, limitations on basic infrastructure in rural areas, and high crime and violence rates—continue to impede long-term development. These are areas that, should the Guatemalan government so decide, the Bank should continue to support.

- **Match portfolio size to the country’s institutional capacity and support the country in overcoming the institutional weaknesses that limit timely use of resources.** It is recommended that the Office of the Manager of CID, jointly with the Guatemalan government, decide what operations to keep in the portfolio, after identifying the sectors in which the Bank will support the new administration. The operations maintained on the portfolio must be submitted to the Congress for authorization where necessary; operations that the new administration does not perceive as priorities should be cancelled.
Minimize the use of waivers when PBLs are used. To ensure that the PBLs achieve the envisaged objectives, it is vital that the proposed conditionalities agreed upon in the loan contracts be met. For this reason, the use of waivers must be avoided—especially in cases where the waiver is associated with key conditionalities since, by disbursing the resources, the Bank loses the capacity to support achievement of the operation’s development objectives. The use of PBLs must also be limited to promoting policy changes. These instruments should be coupled with complementary operations to ensure that the objectives are achieved—this support was appropriately addressed in the 2008-2011 strategy.

MANAGEMENT COMMENTS

Management recognizes the work performed by the Office of Evaluation and Oversight in preparing the Country Program Evaluation: Guatemala 2008-2011. The findings presented are timely and highlight significant topics for dialogue with the authorities and for the design of the new country strategy.

Worth noting is the constructive approach of the country program evaluation, which points out the relevance and consistency of the 2008-2012 country strategy as well as its targeting, its alignment with the country’s priority needs, the coordination efforts both within and outside the Bank, and how the strategy generally creates conditions allowing the Bank’s support to have a long-term development impact.
### OVE Recommendations and Management's Response

<table>
<thead>
<tr>
<th>Country Program Evaluation Recommendations</th>
<th>Management's Response</th>
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<tbody>
<tr>
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<td>Agree. Management will work toward developing a country strategy focused on overcoming the country's major development challenges, following the methodology developed by VPC in the last few years. This methodology makes it possible to maintain the framework of the pilot initiative and adopt a multisector approach that takes into account the Bank’s experience, knowledge, and potential comparative advantages with respect to other development agencies.</td>
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<tr>
<td><strong>Maintain the use of investment instruments in key sectors where the Bank has demonstrated its capacity to add value.</strong> The main constraints on growth identified in the 2008-2011 strategy—the State’s limited capacity to generate sufficient fiscal revenues, inadequate human capital as a result of inequity, childhood malnutrition, limitations on basic infrastructure in rural areas, and high crime and violence rates—continue to impede long-term development. These are areas that, should the Guatemalan government so decide, the Bank should continue to support.</td>
<td>Partially agree. During implementation of the next country strategy, the Bank will maintain the use of financing instruments in those sectors identified as priorities by the Bank and the country’s new government (which may not necessarily be limited to the sectors listed in the recommendation). Among the factors that will determine the selection of intervention sectors, the new analyses of development challenges currently being carried out as the new country strategy is prepared will be taken into account. The Bank will make efforts to promote the areas mentioned by OVE in the dialogue with the country.</td>
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<td><strong>Match portfolio size to the country’s institutional capacity and support the country in overcoming the institutional weaknesses that limit timely use of resources.</strong> It is recommended that the Office of the Manager of CID, jointly with the Guatemalan government, decide what operations to keep in the portfolio, after identifying the sectors in which the Bank will support the new administration. The operations maintained on the portfolio must be submitted to the Congress for authorization where necessary; operations whose objectives are not perceived as priorities by the new administration should be cancelled.</td>
<td>Agree. Policy dialogue with the new authorities will include an analysis of the country’s absorption capacity in terms of macroeconomic stability and an evaluation of the portfolio under execution, taking into account sector execution capacity, the portfolio’s relevance in the context of the new 2012-2016 strategy, and its potential adjustment needs. Any decisions related to cancellations will be made in the context of annual programming exercises during implementation of the next country strategy.</td>
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<td><strong>Minimize the use of waivers when PBLs are used.</strong> To ensure that the PBLs achieve the envisaged objectives it is vital that the proposed conditionalities agreed upon in the loan contracts be met. For this reason, the use of waivers must be avoided—especially in cases where the waiver is associated with key conditionalities since, by disbursing the resources, the Bank loses the capacity to support achievement of the operation’s development objectives. The use of PBLs must also be limited to promoting policy changes. These instruments should be coupled with complementary operations to ensure that the objectives are achieved—this support was appropriately addressed in the 2008-2011 strategy.</td>
<td>Partially agree. PBLs help to develop a country’s capacity to manage the process of policy reform and institutional change, lowering transaction costs associated with external assistance while simultaneously offering timely disbursement of resources for the national budget, and creating a significant incentive to approve and implement complex policy reforms. In this context, the Bank’s Management should have sufficient margin to make changes in the structure of the operations (i.e., transition from two to three tranches for the social PBL) or even to assess potential waivers in specific cases if this contributes to the achievement of the desired medium- or long-term goals. In the case of Guatemala, PBLs have focused on advancing two essential public policy areas: fiscal reform and social policy. In both cases, PBLs successfully supported dialogue and policy implementation. The Human Capital Investment Program (GU-L1017) helped, along with other factors, to improve living conditions for the poorest segment of the population and to raise vaccination and schooling rates in the target population. The Program to Strengthen Public Finances (GU-L1020), in addition to its achievements in terms of expenditure quality and tax administration, lay the groundwork for approval of the fiscal reform, which took place this past February (Ley de Actualización Tributaria [Tax Reform Law]), expected to yield approximately 1% of GDP. PBL GU-L1020 contributed to the technical design of the approved reform, while the implementation of the remaining conditions paved the way for the approval of the law, as the Guatemalan government has formally acknowledged. This case shows that, even if the political timing and the timing of policy-based loan execution are not fully synchronized, this type of instrument makes it possible to support reforms that are of crucial importance to the country and create significant long-term effects.</td>
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This report presents the third evaluation of the Bank’s Country Strategies in Guatemala by the Office of Evaluation and Oversight (OVE) and covers the 2008-2011 period. Its aim is to describe the results of the IDB’s activities in the country and draw lessons to help enhance the IDB’s effectiveness.

This first chapter examines the context in which the strategy was conceived and implemented. In addition to taking stock of key events during the period examined, OVE outlined the main development challenges the country faced in 2008, the baseline used by the Bank to prepare the strategy. Various diagnostics were used to validate these challenges, including the Plan Visión de País, a political agreement signed by representatives of the political parties in 2006, in which the priority issues for the country were identified and consensus was forged on the long-term policy guidelines to be followed in order to meet them.1

A. KEY EVENTS IN THE PERIOD

After experiencing its strongest real economic growth since the 1970s in 2006 and 2007, Guatemala suffered an economic slowdown beginning in 2008.2 The international economic crisis affected both demand for export products and remittances, leading to a drop in internal demand, given that 17% of Guatemalan households receive remittances that they rely on to meet basic consumption needs. The main source of remittances is the United States.3 The return of an estimated 72,516 Guatemalan

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1 Four priority issues were identified: security, education, rural development, and health and nutrition, together with two cross-cutting issues: macroeconomics and fiscal matters (low tax revenues, large informal sector, and lack of a taxpaying culture) and multiculturality/interculturality (equity and equality of opportunities, eradicate racism and discrimination).

2 Though Guatemala was one of the countries in the region that experienced positive growth in 2009 (0.5% of GDP).

migrants from the United States and Mexico in 2010 also affected remittance flows. Additionally, the outbreak of the AH1N1 virus and the rise in violent crime put a brake on tourism industry growth.

The economic slowdown also affected tax revenues, which declined to 9.3% of GDP in 2009, the lowest level in a decade and well below the target set in the Peace Accords. The political crisis stemming from the assassination of Rodrigo Rosenberg and the loss in the Congress of representatives from the ruling party created economic policy issues that made negotiations between the Executive Branch and the Congress difficult, thwarting the loan authorization process (approval of sources of financing in general), approval of policy reforms, and approval of the 2010 budget. Because the 2010 budget was not approved, the Government of Guatemala was forced to operate under the 2009 budget for two years. Fiscal constraints intensified by operational adjustments to the budget—budget transfers and public spending containment—had a negative impact on the execution of the government’s plan and the Bank’s portfolio.

In April 2009 the Government of Guatemala signed a preventive standby arrangement with the International Monetary Fund to tackle the potential balance of payments problems that could arise from the drop in exports and remittances and the slowdown in the tourism industry. The reduction in the price of raw materials and weak domestic demand translated into a slowing of inflation in the second half of 2009.

In June 2010, the eruption of the Pacaya volcano and tropical storm Agatha caused losses and damage estimated at 2.4% of GDP, intensifying fiscal difficulties because of the need to address the emergencies caused by the natural disasters. Moreover, climatic fluctuations in 2010 drastically reduced basic grain crop yields (beans and maize), on which the most vulnerable families in the region known as the “dry corridor” rely as staple subsistence foods. According to data from the Human Rights Ombudsperson (PDH), 6,575 people died of malnutrition-related causes in Guatemala in 2010, a year in which 5,960 violent deaths were reported.

Because of security problems related to drug trafficking, in December 2010 the Guatemalan government decreed a state of siege in the department of Alta Verapaz.

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4 Estimate by the International Organization for Migration. Data from the Department of Homeland Security indicate that 29,378 Guatemalan migrants were removed from the United States in 2010.
5 Of the 158 representatives elected in 2007 from the ruling party, 62 (39.2%) had changed parties by June 2010. In August 2011, the ruling party had lost 43.1% of the representatives elected under its banner in 2007.
6 Exchange flexibility made it possible to absorb some of the impact of the crisis on aggregate demand.
7 Estimates by the World Bank, ECLAC, the IDB, the GFDRR and UNDP.
B. Context

1. Inequality of Opportunities

Guatemala has a population of 14.7 million inhabitants (the largest in Central America) and a per capita GDP of US$2,860, according to 2008 figures. The country has 23 different linguistic communities and, in the most recent living standards survey (ENCQVI), in 2006, 38.4% of the population self-identified as indigenous. Although it is not one of the poorest countries in the region in terms of per capita GDP, it has the lowest Human Development Index (HDI) in Central America and a high index of inequality (the Gini coefficient stood at 53.7 in 2006). This situation is the result of very limited opportunities for certain sectors of the population. For example, average schooling (adults 25 and up), one of the indicators included in the HDI, is the lowest in the region at just 4.14 years in 2010.

Paes de Barros et al. (2009) have shown that in Guatemala, more than in other countries in Latin America and the Caribbean, the inequality observed in several dimensions for both adults and children is explained by exogenous circumstances that individuals have to confront early in life and over which they have no control—gender, race, place

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9 This is the highest percentage in Latin America after Bolivia, where 62% of the population is considered indigenous.

10 According to ENCOVI 2006, while average schooling among the indigenous population was barely 2.32 years, average schooling among the urban nonindigenous population was 7.4 years (a figure comparable with Colombia’s average).
of birth, family, and socioeconomic background. Although inequality based on differences in personal effort may be tolerated and encouraged, that which arises from bias in the access to basic opportunities that are critical in the early stages of life is contrary to the spirit of the Constitution and has profound life-long economic impacts on individuals. This inequality of access to basic education and health services and basic infrastructure—such as water, sanitation, and electricity—hinders the accumulation of human and physical capital and perpetuates the intergenerational poverty trap. Although Guatemala has made an effort to increase public service coverage—which is reflected in the changes observed in a number of development indicators (see Table 1)—average coverage rates remain low compared with the other Latin American countries and conceal important inequalities in access to basic services. The levels of inequality of access generally remain among the highest in Latin America.

Estimates by Paes de Barros et al. (2009) suggest that, of the five basic opportunities analyzed, Guatemala faces the biggest challenges in providing coverage in education and infrastructure areas such as water, sanitation, and electricity. The access inequality index goes from 0 to 100 and indicates the share of each basic opportunity that needs to be reassigned in order to generate equality of opportunities: thus 0 indicates there is no inequality and 100 indicates that a single group monopolizes access to the detriment of other groups. In Guatemala, the index of inequality in access to education is 5 and completing sixth grade on time is 27; the index of inequality in access to water is 10, sanitation, 41, and electricity, 11. Combining coverage and distribution of these five basic opportunities in a single indicator shows that Guatemala and Nicaragua present the lowest opportunity indices of the 19 countries analyzed—combining low coverage and high levels of inequality—which places their populations at a disadvantage.

12 Among adults, inequality can be observed in access to university education and good quality work, and in children, in access to basic education, health, nutrition, and basic services.
13 In 2006, 65.5% of the country’s population interviewed by Latinobarómetro held the view that Guatemalans did not have equal opportunities with which to escape poverty.
14 These five basic opportunities are: attending school (children between the ages of 10 and 14), completing sixth grade of primary education on time (at age 13), and having access to water, sanitation, and electricity (children age 0 to 16). The probability of a child of 13 in Guatemala completing the sixth grade of primary education on time is 33%—the lowest in the 19 countries analyzed—compared with 88% in Mexico. The proportion of children age 10 to 14 who go to school in Guatemala is 81%—the lowest in the 19 countries analyzed—compared with 99% in Chile. The proportion of children age 0 to 16 whose home has access to water is 77% in Guatemala—compared with 98% in Costa Rica and 55% in El Salvador. The proportion of children age 0 to 16 whose home has access to sanitation is 34% in Guatemala—compared with 92% in Costa Rica and 21% in Nicaragua. The proportion of children age 0 to 16 whose home has access to electricity is 75% in Guatemala—compared with 100% in Chile and 65% in Nicaragua.
15 The measure of inequality in the provision of these services to different groups—defined by the features of their circumstances: gender, race, place of birth, family, and socioeconomic background—compares the access of the different groups with the average for the population as a whole. The index of inequality in school attendance is 0 in Chile and 7 in Honduras; that of completing the sixth grade of primary schooling on time is 2 in Jamaica and 27 in Guatemala (the highest out of the 19 countries analyzed). The index of inequality in access to water is 1 in Costa Rica and 28 in Nicaragua, while that of access to sanitation is 4 in Costa Rica and 49 in Nicaragua; that of access to electricity is 0 in Chile and 24 in Nicaragua.
16 Analysis by OVE taking the same approach indicates the inequality indices to be low in the case of immunizations—between 0.6 and 1.6 for tuberculosis, diphtheria, polio, and measles. This is not so in the case of...
Table 1. Trends in Social Indicators

<table>
<thead>
<tr>
<th></th>
<th>Guatemala</th>
<th>LAC average</th>
<th>CA average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP</td>
<td>3,692</td>
<td>4,178</td>
<td>4,367</td>
</tr>
<tr>
<td>PPP 2005 constant US$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total poverty</td>
<td></td>
<td>56.2</td>
<td>51.0</td>
</tr>
<tr>
<td>(% of population)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Literacy</td>
<td>69.1 *</td>
<td>73.8</td>
<td>91.1 ‡</td>
</tr>
<tr>
<td>(% people &gt; 15)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net enrollment rates-Primary</td>
<td>85.4</td>
<td>94.4</td>
<td>95.1</td>
</tr>
<tr>
<td>Net enrollment rates-Secondary</td>
<td>26.9</td>
<td>38.1</td>
<td>39.9</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>67.7</td>
<td>69.9</td>
<td>70.3</td>
</tr>
<tr>
<td>Institutional deliveries</td>
<td>41.4 *</td>
<td>51.3 ‡</td>
<td>89.4 ‡</td>
</tr>
<tr>
<td>(% of total)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospital beds</td>
<td>0.5</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>(per 1,000 inhabitants)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPT vaccination</td>
<td>84.0</td>
<td>89 ‡</td>
<td>96.0</td>
</tr>
<tr>
<td>(% children between 12-23 months)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infant mortality rate</td>
<td>38.6</td>
<td>34.5</td>
<td>33.3</td>
</tr>
<tr>
<td>(per 1,000 live births)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child mortality rate</td>
<td>48.2</td>
<td>42.4</td>
<td>40.7</td>
</tr>
<tr>
<td>(&lt; 5 years of age, per 1,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chronic malnutrition</td>
<td>54.3 *</td>
<td>49.8</td>
<td>14.1 ‡</td>
</tr>
<tr>
<td>% Population with access to an improved water source</td>
<td>89.0</td>
<td>92.0</td>
<td>94.0</td>
</tr>
<tr>
<td>% Population with access to sanitation</td>
<td>74.0</td>
<td>78</td>
<td>81</td>
</tr>
</tbody>
</table>

* 2002, ‡ 2005, ‡ 2009
Source: WDI, ENSMI 2008/2009

The scourge of malnutrition is the clearest example of the consequences of differential access to basic services and social exclusion. Guatemala has the highest rate of chronic malnutrition in Latin America and one of the highest in the world—49.8% of children between 3 and 59 months of age suffer from chronic malnutrition according to the 2008/2009 National Survey on Maternal and Child Health (ENSMI). This percentage rises to 65.9% among indigenous children.17 18 Evidence in Guatemala shows that low educational attainment by the adults in the household is one of the most important factors in explaining chronic malnutrition in children. Access to drinking water, trash collection, and flushable toilets in the home also correlate literacy among children ages 7 to 16, and child labor in this same age group, where the indices of inequality are 5 and 6, respectively. The index of inequality in the use of the pentavalent vaccine, introduced in 2005, is 16.5.


18 The short stature of the Mayan population in Guatemala cannot be attributed to genetic factors. Evidence shows that the children of Guatemalan Mayan parents born and raised in the United States reach a stature significantly taller than that of their peers born and raised in Guatemala—a difference of 11.54 cm at 12 years of age (Bogin and Loucky 1997; Bogin et al. 2002).
Guatemala has the highest rate of chronic malnutrition in Latin America and one of the highest in the world—49.8% of children between 3 and 59 months of age suffer from chronic malnutrition according to the 2008/2009 National Survey on Maternal and Child Health (ENSMI).

with levels of chronic malnutrition, as does children’s race and their parents’ ability to communicate in Spanish. 19

Malnutrition in early childhood has serious long-term consequences. The lack of essential micronutrients has serious repercussions for health and learning capacity: it increases children’s risk of death and reduces their cognitive development, affecting their productivity and potential to generate income when they reach adulthood. For example, adult Guatemalans who participated in nutrition programs as children under the age of three in 1970s Guatemala earn wages 46% higher than the control group. 20

In the case of Guatemala, ECLAC has estimated the cost associated with childhood malnutrition to be 11.4% of annual GDP. 21 22 All these data suggest that a more efficient way of tackling the problem of chronic malnutrition is through large-scale programs to treat and prevent malnutrition. Based on World Bank estimates, OVE calculates that in the case of Guatemala investments in these programs would cost 0.21% of GDP—or 21.6% of the Ministry of Health and Social Welfare (MSPAS) budget—which is well below the 11.4%-of-GDP cost of not intervening. 23

2. Low revenue-generating capacity

The difficulty of providing services that offer similar opportunities to the whole population—regardless of race or place of birth—stems largely from the limited ability of the Guatemalan State to raise revenues. Over the last decade 92.8% of the central government’s income has come from tax collection. However, historically Guatemala has had one of the lowest tax burdens in Latin America and, unlike other countries with similarly low levels of taxation, does not have other sources of income to compensate for its low tax revenues. 24 The country is characterized as fiscally conservative: tax revenues are low, as is government debt—the lowest in Central America, at 20.1% of GDP in 2008 (24.2% in 2010)—which has resulted in one of the lowest public and social expenditure levels in Latin America in a context of profound inequalities of

22 This cost reflects additional expenses in the form of cases that the health system has to handle as a result of the greater risk of diarrhea, acute respiratory infections, anemia; the cost of direct treatment of underweight children, including marasmus and kwashiorkor, and the direct treatment of low-weight children including wasting and cases of kwashiorkor; the cost to the education system associated with poor performance caused by malnutrition, such as grade repetition; and the loss of productivity among the current working-age population as a result of having suffered malnutrition during childhood (low school attendance and deaths during the first year of life).
24 Although Mexico and Panama have tax burdens historically similar to those of Guatemala, they have non-tax income from hydrocarbon resources and the Panama Canal, respectively, which allow them more headroom to meet public spending needs. In Panama, for example, tax revenue represents just 39% of total central government income.
I. Introduction and Context

Historically, Guatemala has had one of the lowest tax burdens in Latin America and does not have other sources of income to compensate for its low tax revenue.

opportunity.\textsuperscript{25} Average public spending between 2000 and 2007 was 14.2\% of GDP and social spending came to 7.2\% of GDP.\textsuperscript{26} In 2008 Guatemala had the lowest per capita public spending on education, health, and social security in Latin America—US$49, US$20, and US$19 per inhabitant, respectively; in contrast, Uruguay spent US$354, US$364 and US$897, respectively, on these items. In addition to being low, social spending is pro-rich: the health spending received by the poorest 40\% of the population is only 32.7\% of total spending, while the wealthiest 20\% receives 20.4\% of health spending.\textsuperscript{27} In the case of tertiary education, the contrast is even greater: the poorest 40\% receives just 5\% of tertiary education spending, while the wealthiest 20\% receives 79\% of spending.

Additionally, there are legal constraints on the allocation of budget resources that make for a rigid budget. Of the total budget, 92\% cannot be redirected because it involves allocations mandated by the Constitution, legal provisions, and commitments such as salaries, debt repayments, retirement pensions, and institutional contributions. The headroom to direct the country’s public policies through the public budget is low.

Various attempts to further fiscal reform have met with resistance from the business sector, which exerts considerable influence over the Guatemalan political system.\textsuperscript{28} The arguments put forward to justify this resistance are the State’s lack of transparency, the inefficiency of public spending, and the excessive burden of responsibility placed on the private sector in generating public revenues. As regards the lack of transparency of the State and the inefficiency of public spending, various indicators show that corruption in Guatemala acts as a brake on development and that the problem is as serious as in other Latin American countries (see Annex).\textsuperscript{29}

In terms of the burden that the private sector has to bear in generating public revenue, the total tax rate imposed on Guatemalan companies by law is below the Latin American average: 40.9\% of earnings compared with an average of 48.9\% (\textit{Doing Business Report 2011}).\textsuperscript{30} Despite these comparatively low taxes, ECLAC data show

\textsuperscript{25} Although public debt is low, debt servicing as a percentage of tax revenues has tended to rise in recent years and is currently 20.1\%. The IDB is Guatemala’s biggest creditor, holding 37.1\% of its external debt balance.
\textsuperscript{26} The lowest level of public spending is in Haiti—11.3\% of GDP over the same period—and the lowest social spending was in Ecuador—5.7\% of GDP from 2000 to 2006. Source: ILPES-ECLAC.
\textsuperscript{27} See Barreix, Bes, and Roca. 2009. “Equidad Fiscal en Centroamérica, Panamá y República Dominicana.” [Fiscal Equity in Central America, Panama, and the Dominican Republic]. IDB.
\textsuperscript{29} Global Competitiveness Report of the World Economic Forum and the World Bank’s Worldwide Governance Indicators.
\textsuperscript{30} In Guatemala’s case this includes income tax, the special temporary tax to support the Peace Accords (IETAAP), solidarity tax, social security, property tax, and tax on interest.
that income tax (ISR) evasion stands at 5.4% of GDP—behind only Argentina and Ecuador.\textsuperscript{31} This is reflected in the low level of income tax collection as a percentage of GDP: 3.3% of GDP in 2008, compared with an average of 4.7% of GDP in Latin America.\textsuperscript{32} According to estimates by the Tax Administration Superintendency (SAT), tax expenditure—i.e. taxes that are not collected as a result of applying special tax regimes to specific sectors or activities—amounts to approximately 8% of GDP or 70% of tax collection, the highest figure in Latin America.

Given the low school enrollment rates, high poverty rate, and lack of job opportunities for a large proportion of the population, it should come as no surprise that the number of individuals contributing to the payment of direct taxes is small and that the rate of informality is high. Data from the 2006 ENCOVI indicate that just 16% of workers have a job contract and are registered with the Social Security Administration (IGSS)—and can therefore be considered to be working in the formal economy—and that only 37.9% of these formal workers earn a salary over the minimum threshold for them to be legally required to pay income tax.\textsuperscript{33} Some 38.3% of the labor force is self-employed as sole traders, employed as day laborers, or work for family businesses that do not pay wages.\textsuperscript{34}

\section*{3. Security issues}

Low revenue generation has led to a minimal State that now faces serious security challenges. Moreover, average spending on security has declined in recent years, despite the fact that the problem has become worse, as opinion surveys reveal. As a percentage of GDP, spending on security in Guatemala is the lowest in Central America.\textsuperscript{35}

The country’s security problems cover a broad spectrum, ranging from organized crime—drug trafficking, illegal adoptions—to gangs—kidnapping and extortion from families and small businesses in depressed urban areas. According to the World Bank, the direct economic cost of crime and violence in Guatemala is approximately 7.7% of GDP—health costs, including medical expenditures, loss of output due to death and injury; institutional costs, which include additional spending by the government on security and the justice system; private security costs for homes and

\begin{itemize}
  \item 4.6% of GDP for legal entities and 0.8% to individuals. The 2006 \textit{Enterprise Survey} indicates that Guatemalan companies report, on average, 72.6% of their sales and 69.4% of their employees for purposes of paying taxes.
  \item In the case of Guatemala, 79.1% of tax revenue comes from corporate entities. Collection as a percentage of GDP is just 2.6% of GDP, well below VAT collection, at 6.2% of GDP.
  \item Individuals working in a relationship of dependency with an annual income of over Q36,000.
  \item The products sold in the informal sector are, in most cases, produced by the microentrepreneur himself (tortillas, ice cream, etc.) and sold directly to the end consumer. The average microentrepreneur has a very low level of education, devotes 48 hours to their business, and has no access to any source of financing other than their own resources. Average monthly sales are US$250 (\textit{Enterprise Survey}, Informal Sector 2010).
\end{itemize}
businesses; and costs from loss of property by businesses and individuals.³⁶ This figure does not include the opportunity cost of foregone investments and jobs not created. For example, Guatemala has the lowest level of foreign direct investment in Central America—just 1.5% of GDP between 2000 and 2008.³⁷

The 2008 Global Competitiveness Report identified crime and theft as the most problematic factors for doing business in Guatemala (mentioned by 19.7% of respondents, a percentage which rose to 25.6% in 2010). This is the same factor that was identified by companies interviewed in the World Bank’s Enterprise Survey—in 2010 43.8% of companies identified crime as the main limitation on growth and doing business.

The biggest and most serious security problem is drug trafficking—in view of its ability to infiltrate and corrupt various sectors of society.³⁸ Estimates by United States authorities indicate that 90% of the cocaine transported from South America to the United States travels through the Central American corridor and that Guatemala has become the preferred staging post for this traffic.³⁹ The scale of the problem becomes palpable by comparing the street value of these drugs in the United States—approximately US$35 billion in 2008—with Guatemala’s GDP: US$39 billion that same year.⁴⁰ Locations with special roles in drug trafficking, such as ports and border areas, are those hardest hit by the accompanying violence. The departments of Petén and Izabal have, together with the neighboring departments of Cortez and Atlántida on the Caribbean coast of Honduras, the highest murder rates in Central America, with 98, 91, 92, and 108 murders per 100,000 inhabitants, respectively.⁴¹

³⁷ Over the same period: El Salvador 2.8%, Costa Rica 4.7%, Honduras 5.6%, Nicaragua 6%, and Panama 7%.
³⁸ Private sector gross fixed capital investment, at 13.2% of GDP, is the second lowest, after El Salvador.
³⁹ Society’s concern about the infiltration of the State by organized crime networks led to the creation of an International Commission against Impunity in Guatemala (CICIG), under an agreement between the United Nations and the Government of Guatemala. The CICIG is an independent international body operating under Guatemalan laws, courts, and procedures to strengthen the justice system and root out the criminal networks operating within government bodies
⁴⁰ Narcotics Affairs Section of the Embassy of the United States of America in Guatemala.
Roots of a Caoba tree (*Swietenia macrophylla*) in the jungle of Petén, Guatemala.

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This chapter analyzes the relevance of the strategy and assistance program and the degree to which their design and objectives were compatible with both the country’s needs and with the Guatemalan government’s development plans and priorities. It also examines the coherence of the assistance program and the extent to which measures were adopted to favor internal and external synergies within the program.

It includes an evaluation of the validity of both the diagnostic assessment and strategy, and of the sufficiency of the assistance program and its consistency with that strategy, in the context of economic and social developments, economic policy problems, and the approach to the development of Guatemala taken by other partners. This exercise is not related to execution of the assistance program, which will be discussed in chapter 4.

A. RELEVANCE, POSITIONING, AND CONSISTENCY

The growth assessment conducted by the Bank in preparation for the design of the strategy identified inadequate human capital, infrastructure gaps, and high levels of violence and crime as the three main constraints on Guatemala’s economic growth. It also identified the limited capacity of the State to generate sufficient fiscal resources as the most serious constraint on growth because it underlies the other constraints. This diagnostic assessment led to the IDB’s publication of a book entitled: Más Crecimiento, más Equidad: Prioridades de Desarrollo en Guatemala [More Growth, More Equity: Priorities for Development in Guatemala].

Unlike the 2004-2007 Country Strategy, the IDB Country Strategy with Guatemala 2008-2011 concentrated on just a few sectors. These were sectors that it had already addressed in the 2004-2007 assistance program.

**Summary**

The strategic objectives outlined in the 2008-2011 Strategy were:

- Reduce chronic malnutrition;
- Reduce the intergenerational transmission of poverty;
- Improve and maintain productive infrastructure; and
- Achieve agreed tax collection targets.

The strategic objectives and proposed assistance program to achieve them were highly selective and generally focused on a few sectors.

In terms of relevance, coherence and positioning, the pilot initiative used by CID in Guatemala has been evaluated by OVE as very positive.
The strategic objectives outlined in the 2008-2011 strategy were to:

- Reduce chronic malnutrition
- Reduce the intergenerational transmissions of poverty
- Upgrade and maintain production infrastructure
- Achieve the revenue collection targets established in the Peace Accords

The first and second objectives address human capital inadequacies and also tackle the serious problems of child malnutrition, poverty, and inequalities in income distribution. The Bank and the Guatemalan government together decided not to address the issue of violence and crime, mainly due to the limitations on the type of operations the Bank can finance and the needs identified by the government.42 (Nevertheless, during the International Conference in Support of the Central America Security Strategy held in June 2011, the Bank pledged financial support of US$500 million to the regional security strategy and national citizen security programs in Central America over a two-year period.)

The Bank’s strategic objectives were fully aligned with the specific objectives proposed by the Guatemalan government in its plan entitled Plan de la Esperanza [Hope Plan], presented to the country in 2008. They were also consistent with the Plan Visión de País [Country Vision Plan], a political pact supported by the country’s political parties in 2006 with the aim of reaching a consensus on long-term strategic guidelines. The context in which the Bank's strategy was prepared, discussed in chapter I, shows that the Bank's strategic objectives and the assistance program proposed to achieve these objectives, discussed below, are relevant to the fundamental constraints on long-term progress and socioeconomic development in Guatemala. The proposed assistance program is highly coherent, particularly in the social area, and well-matched to the Guatemalan government’s social policy, which is underpinned by the conditional cash transfer program Mi Familia Progresa [My Family is Making Progress], created in April 2008.43

1. Reduction of chronic malnutrition

Within the solidarity pillar of its agenda, and as part of its social development policy, the Guatemalan government set the specific goal of ensuring the conditions and investments necessary to guarantee the rights to health, education, and nutrition, and to foster development of the capacity to produce the goods and services the country

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42 The operation in the portfolio in this area—Violence Prevention Program (GU-0163)—was reformulated and turned into a competitiveness support operation.

43 The conditional cash transfer program provides economic support to families that live in poverty and extreme poverty in rural and marginal areas.
II. The Program in Guatemala

needs. The strategy pursued in the area of nutrition is to guarantee a basic level of nutrition to the Guatemalan population, particularly mothers and children living in poverty and extreme poverty in rural and marginal urban areas. The Guatemalan government also created a National Strategy for the Reduction of Chronic Malnutrition (ENRDC), which is supported by interventions such as Mi Familia Progresa, a conditional cash transfer program focusing on municipios with high levels of poverty and extreme poverty, where levels of chronic malnutrition are high.

The operation proposed in the Bank’s strategy to address this objective (Program to Implement the National Malnutrition Reduction Plan—GU-L1038) was not approved as a standalone operation. Instead, it was combined with the health loan proposed in the Program to Improve Access to and the Quality of Nutrition and Health Services (GU-L1022), which, in coordination with the World Bank’s Expanding Opportunities for Vulnerable Groups program, sought to expand coverage of basic health and nutrition services in priority municipios where increased demand was expected as a result of Mi Familia Progresa. This operation is highly relevant as, based on the current health-care delivery system, it directly focuses on and addresses the serious problems of malnutrition, and it is fully aligned with the beneficiaries’ needs, the government’s agenda, and the Bank’s strategy.

44 This goal, together with the strategies and actions discussed in the text, was presented by the Guatemalan government in its plan entitled Plan de la Esperanza.
45 This program was submitted to the Guatemalan Congress, but as it was not authorized within the stipulated time limit, it was cancelled by the World Bank in May 2011.
In addition to that operation, the Human Capital Investment Program (GU-L1017) supported the extension of the Mi Familia Progresa conditional cash transfer program, the goals of which included reducing levels of chronic malnutrition. Specifically, the PBL sought to improve the responsiveness of the public services offered in the education, health, and nutrition sectors. In the nutrition sector the aim was to strengthen the delivery model under the preventive nutrition program—the Community-based Integrated Children’s and Women’s Care Program (AINM-C)—and its coordination with institutional primary care facilities supported by the Program to Improve Access to and the Quality of Health Services. The AINM-C was created in 2002 with funding from USAID with the aim of reducing chronic child malnutrition and mother and infant morbidity and mortality through prenatal care, timely treatment of childhood diseases, and better nutritional and hygiene practices in the home. The conditionalities of the Human Capital Investment Program included the distribution of micronutrients to children and folic acid and iron supplements to pregnant and breastfeeding women.

2. Reduction of the intergenerational transmission of poverty

Another of the objectives set by the Guatemalan government within the solidarity pillar of its agenda and as part of its social development policy was to address the needs of families in poverty and extreme vulnerability through targeted benefits and transfers that help them meet their basic needs. The proposed strategy was to provide families in rural and marginal urban areas with social welfare to ensure their well-being. In April 2008 the Guatemalan government created the Mi Familia Progresa conditional cash transfer program, which seeks to support investment in education, health, and
nutrition among the poorest Guatemalan families, with the aim of contributing to the
generation of human capital.46

The Bank programmed and approved three operations in this area: the *Human Capital Investment Program* (GU-L1017), *Improved Access and Quality of Health and Nutrition Services - Phase I* (GU-L1022), and the *Mi Escuela Progresa [My School is Making Progress] Program* (GU-L1023). These three operations are consistent with the country's needs and the Guatemalan government's priorities, whose social policy rests on the conditional transfer program. The *Human Capital Investment Program* PBL sought to consolidate the design and operational processes of *Mi Familia Progresa*, support its expansion, and strengthen the supply of health, nutrition and education services to meet the demand generated by the program. To this end, the investment loans for *Improved Access and Quality of Health and Nutrition Services - Phase I* and the *Mi Escuela Progresa Program* sought to expand the coverage of health and nutrition, and education services, respectively, in priority municipios. In this area the assistance program has demonstrated that significant synergies were created, not just with other operations proposed by the Bank, but also with those proposed by the World Bank.

Regarding the suitability of the design, the instrument used to achieve the goals of *Mi Escuela Progresa* is a performance-driven loan (PDL).47 The underlying assumption in using this instrument is that the executing agency has own resources to undertake the project and the institutional strength and capacity to achieve the objectives.48 The proposal for the creation of the PDLs indicated that there would be more demand for this instrument in cases where large disbursements were not required and where the time lag between project approval and achievement of project outcomes was relatively short. Although the demand generated by *Mi Familia Progresa* would have helped achieve some of the goals of the program relatively soon, this was not the case for all the indicators: these include, for example, an increase of 5 percentage points in the number of tests taken in the Mayan language in which basic reading and mathematics skills are achieved. Moreover, the Ministry of Education's resources for the construction and repair of schools are insufficient to meet the requirements of the operation. The Ministry of Education's internal budget in 2008 for investments in physical infrastructure came to Q90 million, equivalent to US$11.9 million. The estimated cost of the school infrastructure program was US$105 million, suggesting that a PDL was not the most suitable instrument with which to achieve the objectives.49

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46 In addition, conditional cash transfer programs increase household income and consumption and reduce poverty. Although the program was launched on the initiative of the Guatemalan government in April 2008, the Bank's support for the program is consistent with the recommendation of the previous country program evaluation to concentrate support on mitigating the potential effects of the crisis on the most vulnerable sectors (Recommendation 1).

47 These investment loans are disbursed once the program's results are achieved and the Bank verifies the results and expenses incurred by the borrower to achieve the results.

48 The objectives are to improve coverage of preprimary schooling, access to primary schooling, and internal efficiency (repetition rates), improve learning, strengthen bilingual education, and improve education infrastructure.

49 In interviews conducted by OVE it transpired that the decision to use this instrument was at the Ministry of
3. **Upgrade and maintenance of production infrastructure**

Within the solidarity and social development policy pillar, the Guatemalan government set the specific objective of programming and implementing the basic services and social and production infrastructure necessary to guarantee access that would satisfy the needs and demands of the Guatemalan population while ensuring quality. For this reason the actions it proposed were to develop programs guaranteeing access to quality water, sanitation, electricity, and housing for all communities, implement programs at the local level to improve sanitary services, and promote community organization in rural and marginal urban areas so as to provide services and meet basic needs.

Plans were also made to achieve the Bank’s objective of upgrading and maintaining production infrastructure through a number of operations. The *Water and Sanitation Program for Human Development - Phase I* (GU-L1039) aimed to consolidate and strengthen the sector’s institutional framework; increase water and sanitation service coverage in rural, urban, and periurban areas, focusing on the most vulnerable communities identified on the poverty map; and support and strengthen the capacities of rural municipalities and communities to administer, operate, and maintain the systems. As to the design, the implementation mechanism envisages implementation of the program by one agency for the first 18 months and a different agency starting in month 19, which could give rise to coordination problems.50

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50 One of the executing agencies is the Municipal Development Administration (INFOM), which is executing the

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The Multiphase Rural Electrification Program - Phase I (GU-L1018) is financing part of the Rural Electrification Plan, the distribution and transmission investment plan designed as part of the privatization process and financed through a trust that aims to expand coverage to 280,629 new customers in rural communities. The program is financing distribution and transmission infrastructure works and connections to the power grid for end users in communities near the existing grid; and the development of standalone systems using renewable energy sources (small-scale hydroelectric, wind, and solar energy) in areas where it is not possible to access the existing grid in the medium term.

In addition to these projects approved over the 2008-2011 period, the Bank continued implementing previously approved projects aligned with the proposed objective, such as the Rural Water and Sanitation Investment Program (GU-0150), the Urban Poverty Reduction Program (GU-0155), and the Guatemala-Mexico Electricity Interconnection Project (GU-0171), with significant balances to be disbursed in 2008. The Rural Water and Sanitation Investment Program provides technical assistance to eligible communities to enable them to take part in projects to build water and sanitation systems, financed by the program and compatible with their financial capacity. The program targeted communities or groups of communities with an average population of 900 inhabitants. The Urban Poverty Reduction Program aimed to improve living conditions for the inhabitants of marginal neighborhoods in the metropolitan area by providing access to water and sanitation services, electricity, trash collection, street lighting, storm drainage, recreational areas, and social services. The Guatemala-Mexico Electricity Interconnection Project is financing a 71-km 400-KV transmission line to interconnect the Guatemalan and Mexican electricity systems. It is also financing the expansion of the Los Brillantes substation in Guatemala and the supervision of works and assembly. The Comisión Federal de Electricidad de México is financing 32 km of transmission line and the expansion of the Tapachula substation, which will enable the interconnection to be brought into operation. The project sought to increase energy supply in Guatemala, reduce prices, and increase electricity supply security and quality.

4. Progress toward achieving the Peace Accords’ revenue collection targets

Within the productivity and economic development policy pillar, the Guatemalan government set the goal of optimizing the State’s financial administration. To this end its proposed strategy was to review the aspects of the Fiscal Pact pending implementation (improving tax administration, combating contraband, and reviewing unjustifiable tax relief, exemptions and privileges) and make government spending transparent. It was believed that entry into force of the Fiscal Pact measures agreed upon in 1996 would allow the tax burden to reach 12% of GDP in 2002 (equivalent to 13.2% in 2002 following the adjustment to the GDP calculation methodology made in 2006).
To support progress towards meeting the collection target the Bank proposed two PBLs: the *Public Financial Management Reform Program II* (GU-L1008) and the *Program to Strengthen Public Finances* (GU-L1020); and two investment loans: the *Support for Modernization of the Ministry of Public Finance Program* (GU-L1031) and the *Program to Strengthen the SAT* (GU-L1032). The latter was geared toward affecting tax collection capacity, through improvements in the efficiency of the tax administration, but it was not approved. The reason the Guatemalan government gave for this was that the small operation (US$2.5 million) would further exhaust the negotiation process in the Guatemalan Congress and that the SAT did not have the necessary additional resources—by law, its budget is set at 2% of tax revenues.  

As to the other proposed operations, the *Public Financial Management Reform Program II* included among its disbursement conditionalities the implementation by the SAT of mechanisms for large-scale cross-referencing of information to identify potential VAT evaders, the implementation of measures to improve the institution’s management, and modernization of customs management, with the support of the Inter-American Center of Tax Administrations (CIAT). The program also sought to consolidate the management methodologies and instruments for budgetary planning and execution with the aim of increasing the transparency and efficiency of public procurement and financial management.  

The *Program to Strengthen Public Finances* also included conditionalities related to the SAT. One of these was the approval and implementation of a *Law to Modernize and Strengthen the Guatemalan Tax System*, which would create a simplified VAT and income tax system for small taxpayers, reform motor vehicle traffic tax, and modernize income tax. The conditions for disbursements included implementation of an income tax withholding system, a portal small and medium-sized enterprises (SMEs) could use to pay their taxes—including the simplified fiscal accounting module—and an online income tax and VAT returns system different from the BancaSAT system used at the time of the PBLs approval. This program was to get support from a Multilateral Investment Fund (MIF) grant, *Streamlining Fiscal Procedures for MSMEs through improvement of processes and ICT* (GU-M1022) to facilitate MSMEs’ accounting and tax management, and the *Program to Strengthen the SAT* (GU-L1032). The program also envisaged the implementation of improvements in handling freight management and customs clearance processes. Many of the conditionalities associated with the strengthening of fiscal management in both the PBLs were based on the country’s achievements under the World Bank’s *Integrated Financial Management III* project. The *Program of Support for the Modernization of the Ministry of Public Finance* sought to achieve improvements in the management and transparency of public spending.

51 In 2009 the Central American Bank for Economic Integration (CABEI) approved an agreement with the SAT to administer US$1.2 million earmarked to strengthen the institution’s capacity. The SAT also receives technical assistance from the United States Treasury.

52 The previous Country Program Evaluation recommended technical and financial support in this area (Recommendation 5).
To sum up, the strategic objectives and the assistance program envisaged to achieve them were highly selective and focused on just a few sectors. The assistance program designed is very relevant as it addresses, in a direct and focused manner, the areas identified by the Bank and validated by the Guatemalan government as priorities. The program addresses the serious problem of malnutrition; the problems of inequality in the coverage of health and education services, by expanding supply to serve the most vulnerable communities identified in the poverty map (with the goal of reducing the intergenerational transmission of poverty); the problems of unequal coverage of basic infrastructure (electricity, water, and sanitation) by focusing on vulnerable communities according to the poverty map; and it also addresses the State’s limited ability to generate sufficient fiscal resources by supporting fiscal reform, promoted by the Government of Guatemala, through the PBLs. The program was fully aligned with beneficiaries’ needs, the government’s agenda, and the Bank’s strategy. The assistance program aimed for considerable synergies with other Bank projects and with World Bank projects. Moreover, the assistance program was implemented in areas where the Bank has experience in the country and where, thanks to the consistency of the assistance program and the Bank’s positioning, it can provide sufficient support to have long-term development impact. In terms of relevance, consistency, and positioning, the pilot initiative used by the CID in the case of Guatemala has been evaluated by OVE as very positive.

5. Other Programs

In addition to the assistance program geared to achieving the development objectives set out in the strategy, the Bank approved sovereign-guaranteed loans that did not support the strategic goals, cannot be justified in terms of budgetary support, and in some cases, addressed goals that had not even been identified as priorities by the Guatemalan government. (The strategy, however, left open the possibility of addressing individual initiatives in the area of natural disaster management and prevention, international trade engagement and integration, governance and citizen security). Although the Program to Support the Climate Change Agenda of Guatemala PBL (GU-L1063), approved in 2010, may be justified in terms of budgetary support, it cannot be justified in terms of its supporting the strategic objectives defined by the Bank. The new investment projects approved during the 2008-2011 period that did not support the Bank’s strategic objectives and that, in general, cannot be justified in terms of budgetary support are: the Program Establishing the Cadastral Register and Strengthening Legal Certainty in Protected Areas (GU-L1014), approved in 2009, and the Trade and Integration Support Program II (GU-L1037), approved in December 2008.53 In one case it was not even fully aligned with the specific goals set out in the Guatemalan government’s agenda.

53 With regard to the Program Establishing Cadastral Registry and Strengthening Legal Certainty in Protected Areas, the Plan de la Esperanza mentions as a specific objective, within the municipal development policy, formulating territorial development plans that make it possible to ensure appropriate land use, legal certainty as to land ownership, and alleviation of boundary problems. To this end, it proposed supporting municipal
In addition to the assistance program, the Bank approved sovereign-guaranteed loans that did not support the strategic goals, cannot be justified in terms of budgetary support, and in some cases, addressed goals that had not even been identified as priorities by the Guatemalan government.

The Bank also maintained six projects in the portfolio approved before the strategy was formulated and under which there had been zero disbursements as of January 2008. The total amount for these operations was US$192.9 million and they represented 48.4% of the approved portfolio on that date. By August 2011 two of these operations had not yet been authorized by the Congress. (See Annex presenting non-sovereign-guaranteed operations approved during the 2008-2011 period.)

In 2008, the Bank’s portfolio in Guatemala also included a project in execution that cannot be classified as falling within the Bank’s strategic objectives. This project was the Program to Strengthen the Hospital System (GU-L1009), the objective of which was to improve the population’s health through an investment in health services infrastructure. To achieve this, the program provided for the construction of hospitals in the metropolitan area and the rehabilitation of some departmental hospitals (third-level care). The location of these new hospitals in the Guatemala City metropolitan area was justified to relieve overcrowding in the existing hospital network, resulting from lack of access to third-level care in areas where the proposed new hospitals would be located. As the loan proposal explains, one of the causes of congestion at hospitals in the metropolitan area is the high concentration of cases requiring non-specialist care that could be dealt with at primary- and secondary-level facilities. According to the service availability indicators—measured as the health center (second level) gap and the health post and the centro de convergencia (basic first level unit) gaps—prepared by the Ministry of Public Health and Social Assistance (MSPAS), the health service infrastructure strengthening needs seemed to be located in different geographical areas and at different levels of care than those selected in the operation. This information suggests that the most appropriate way of achieving the

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54 These projects are: the Program for the Environmental Restoration of the Lake Amatitlán Watershed (GU-0066), approved in 2005; the Rural Economic Development Program (GU-L1006), approved in 2006; the Petén Development Program for Conservation of the Maya Biosphere Reserve (GU-L1002), approved in 2006; the Social Investment Program for the Reduction of Rural Poverty (GU-0166), approved in 2006; the Program to Support Strategic Investments and Productive Transformation (GU-0163), approved in 2006 (initially approved as the Violence Prevention Program); and the Program to Support the Criminal Justice Sector (GU-0177), approved in 2007.

55 According to this information, there is a need for health centers (second level) and health posts (first level) in Mixco, Villanueva, and Zone 18 (locations of new hospitals in the metropolitan area); elsewhere in the country the gaps are wider and the centro de convergencia gap (basic first level units) is very wide. This information can be confirmed with the 2006 ENCOVI: while a patient in the Guatemala City metropolitan area takes less than an hour to reach an MSPAS hospital, a patient in the department of Totonicapán—where 96.6% of the population is indigenous—takes over four hours to reach a departmental hospital. In the metropolitan area just 2% of the population did not consult a healthcare practitioner because they had to wait too long to be seen or the facility was too far away; in Alta Verapaz—where 43.5% of the population is extremely poor (the highest in the country) —21% of the population did not consult a practitioner for one of those reasons. In the case of third-level care, the number of beds per 1,000 inhabitants in departmental hospitals is less than one fourth of the number of hospital beds in the metropolitan area: according to the data reported in the annex to the loan proposal, there are 1.34 beds per 1,000 inhabitants in metropolitan area hospitals, but only 0.32 beds per 1,000 inhabitants in the departmental hospitals.
operation’s goals is by expanding the primary and secondary care facilities nationwide or expanding third-level care facilities in departments outside Guatemala City where, according to MSPAS, the greatest needs exist.\footnote{In a review of its mapping conducted in 2008, \textit{Cooperación Internacional en Salud} [International Health Cooperation] stated that the first- and second-level health care infrastructure was not being supported by any international cooperation agency at that time.}
Crowded transport in Atitlán Lake, Guatemala.

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This chapter discusses efficiency in the implementation of the assistance program or the extent to which the design and delivery of assistance had the best possible returns. Due to the lack of tools to measure returns on project implementation, proxy variables associated with execution time were used.

A. PROGRAM EXECUTION

Between 2008 and 2011, sovereign-guaranteed loan approvals were at historically high levels, but within levels envisaged by the strategy (US$1.291 billion compared with US$1.535 billion). Of this amount, US$40.96 million, or 3.2% of the approved amount, came from the Fund for Special Operations (FSO). Guatemala has access to a small portion of FSO financing as well as regular access to the Ordinary Capital. Of the US$1.291 billion approved over the period, projects in execution in August 2011 totaled US$983.5 million.

In the three previous cycles since 1996, average disbursements had been between US$100 million and US$130 million a year. Over 2008-2010 annual disbursements reached an average of US$300 million.

The amounts available for disbursement over 2008-2010 increased by 72% compared with the average for the 2000-2007 period. Approvals increased and cancellations decreased.

The MIF approved US$12 million and the Structured and Corporate Financing Department, US$195.3 million; US$75 million was approved in technical cooperation operations. Net flows into the country were countercyclical with respect to GDP and particularly with respect to central government’s budget outturn: against the backdrop of global crisis and deterioration of the fiscal position, the Bank stepped up disbursements to the country considerably in 2009 and 2010. The rapid deterioration in tax revenue together with the inflexibility of spending shaped the government’s clear preference for fast-disbursing loans: 73% of approvals and 78% of the total disbursed amount pertained to PBLs—compared with 30% of the total disbursed between 2000 and 2007. The strategy proposed the use of PBLs as “coordination mechanisms” in areas where cohesive work was sought—PBLs were

SUMMARY

The analysis of the execution of the Bank’s portfolio suggests that:

- The country has limited institutional capacity to manage a large portfolio with its current conditions;
- The improper selection of execution units and tools delayed the implementation of some projects;
- Delays in loan approvals by Congress undermined the effectiveness of the Bank, and may affect its efficiency;
- CID’s pilot initiative for the 2008-2011 Country Strategy is described by OVE as very positive, in terms of relevance, coherence and positioning.
approved for three of the four intervention areas proposed in the strategy. On average, the PBLs disbursed during the period accounted for 31.2% of the country’s external financing needs.\textsuperscript{60, 61}

Approvals were mainly concentrated in sectors identified as priorities by the strategy. However, although the strategy remained open to the possibility of addressing individual initiatives in areas other than the strategic ones, 23% of total loan approvals in the period focused on areas outside the Bank’s strategic objectives (see Annex).

To measure the efficiency with which the portfolio was executed, the proxy variable of execution time of the loans approved during the 2008-2010 period was compared with execution in the past, with that anticipated in the operation design, and with the average for CID countries and the Bank over the same period. Problems with execution of investment loans have increased in comparison with previous programming cycles. Two indicators reveal the growing difficulty in executing loans. The first is the increase in the average age of the portfolio being executed, which went from 4.9 years to 5.3 years between 2007 and 2010. The second is the decrease in the annual disbursements for investment projects in proportion to the total amount available for disbursement (or in proportion to the amount available for disbursement that has been authorized by the Congress). Guatemala was the CID’s worst performing country in terms of the disbursement indicator in recent years (see Graph 1).

\textsuperscript{60} They covered 27.4% in 2008, 32.5% in 2009, and 33.6% in 2010.
\textsuperscript{61} The preceding CPE recommended that the Bank help the country meet its financing needs—exacerbated by the economic crisis—rapidly and appropriately (in terms of volume) (Recommendation 2).
In 2010, just 4.9% of investment funds available were disbursed (this proportion increases to 7.1% when only the funds authorized by the Congress are considered). The average disbursement up to 2007 was 14.3% of the amount available for disbursement; after 2008 the average dropped to 5.7%.62

Extensions of the original execution periods have also gradually lengthened over the last few years. Indeed, the annual average length of extensions for investment loans in Guatemala rose from 33 months in 2007 to 56 months in 2011, while for the Bank as a whole, the average extension was 27 and 29 months in those two years. It should also be noted that the original execution times envisaged in the design of operations are longer for Guatemala than the IDB or CID averages—48 months, compared with 44 and 42 months, respectively. The government observed that although it found the portfolio review meetings useful for identifying and resolving administrative problems, the Bank does not have mechanisms that would allow the government to frequently evaluate the partial results projects are achieving.

According to the information compiled in the PPMRs/PMRs, several factors explain the difficulties in the execution of investment loans: limited institutional capacity and high staff turnover, lack of budgetary leeway for counterpart funds, low commitment to the projects, and redirection of resources to respond to emergencies. Moreover, the 2011 Budget Law stipulated that all investment projects should be registered in the National Public Investment System (SNIP), and this led to delays in execution in 2011, as it was the first time this was required.

62 The counterpart contributions were affected by the drop in tax collection stemming from the inter-national economic crisis, the needs resulting from the natural disasters, and the countercyclical fiscal strategy adopted by the government.

Graph 1. Portfolio Disbursement as a Percentage of Available Funds. (Three-year moving average)
A comparison between the execution of IDB investment loans and those of the World Bank suggests that, although there are structural reasons behind the delays in loan execution in general, there are additional reasons specifically affecting the Bank’s performance. The graph of the disbursement curve shows that disbursements in Guatemala are not just slow with respect to the rest of the Bank, but also with respect to World Bank operations in the country (see Graph 2).

In addition to execution problems, in the case of Guatemala all multilateral lenders experience additional problems caused by delays in the process of congressional authorization (see Annex). The lack of institutionalization of the political party system creates difficulties for coordination between the Executive Branch and the Congress. OVE’s analysis suggests that over the 2008-2011 period the process of congressional authorization worsened considerably: the average time required for authorization of an IDB investment loan increased from 14 months, prior to 2004, to 35 months in the 2008-2011 period.\footnote{This analysis is based on duration models. The average for the 2008-2011 period is an underestimate because the projects have not yet been authorized.}

Factors that appear to increase the likelihood of loans being authorized are: whether the loan was approved under the administration in office, the time that has passed since the start of the legislative period (the shorter the time, the greater the likelihood of its being authorized), and the size of the loan (the bigger the loan, the greater the likelihood of its being authorized).\footnote{Other factors are: PBLs have a greater likelihood of being authorized than investment loans, and loans with greater visibility in terms of political returns are less likely to be authorized.}

2008-2011 legislative period has experienced the longest delays since 1985. In relation to these results, the Guatemalan government informed the Bank of its preference for large loans in order to reduce the transaction costs associated with the process of congressional authorization—as happened in the case of the consolidation of the health and nutrition loans or the loss of interest in the loan to the SAT.

These delays have important repercussions in terms of the various institutions’ commitment to the projects concerned: programs that were a priority for one administration (at the presidential or ministerial level) were not necessarily a priority for another administration six years later. In August 2011, when the analysis was completed, US$416 million in IDB loans approved between 2006 and 2011 were pending authorization in the Congress. This figure represented 42.5% of the sovereign-guaranteed portfolio approved by the Bank in Guatemala to that date. In December 2011, the amount pending authorization in the Congress was US$114 million, or 11.6% of the sovereign-guaranteed portfolio approved by the Bank in Guatemala. The pending loans were authorized by the Congress after the first round of presidential elections.65

65 In September 2011, after the first round of the presidential elections, the Congress authorized two budgetary support loans for US$515 million: one from CABEI for US$265 million, and the IDB Program to Support the Climate Change Agenda of Guatemala (GU-L1063) for US$250 million. In November 2011, the Congress authorized the Program to Support the Criminal Justice Sector (GU-0177) for US$30 million and the project Establishing a Cadastral Registry and Strengthening Legal Certainty in Protected Areas (GU-L1014) for US$22 million.
Young Guatemalan woman resting in a Chichicastenango street, with her baby.

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This chapter summarizes the Bank’s effectiveness, or the extent to which the assistance program achieved its goals. It should be noted that none of the investment projects designed under the 2008-2011 strategy has been completed and that those that have begun to be disbursed have very low disbursement percentages. Accordingly, no results are yet perceptible.

The PBLs designed, approved, and authorized under the strategy were completed and the analysis in this section is based on these programs and the investment loans approved under previous strategies that were executed during the period under analysis, with disbursement rates of over 50%, but that were not included in the results analysis in the previous CPE.66

The results were evaluated on several different levels—the loans themselves, major themes, the strategy as a whole—and taking into account the cumulative results of the assistance program when it was possible to do so in this way. This is doable because there is a clearly defined causal connection between the actions proposed in the various operations that comprise the assistance program and the results indicators chosen to measure the outcomes of the strategy. The analysis also looks at the long-term contribution to changes in conditions for development and the sustainability of the results.

66 The previous CPE evaluated the following programs: Health Services Enhancement Program II (GU 0125), Municipal Development (GU-0134), Program of Support for the Restructuring of Food and Agriculture Production (GU-0070), Sustainable Development of Peten (GU-0081), and Sustainable Management of the Lempa River Watershed (CA-0034). As of January 2008 these projects had disbursed 94.7%, 61.6%, 75.9%, 98.3%, and 83.1%, respectively.
A. Effectiveness, Impact, and Sustainability

1. Reduction of chronic malnutrition

The indicator defined in the strategy to measure the IDB’s contribution to accomplishing this goal was:

- Reducing the prevalence of chronic malnutrition (low height-for-age) in children under three by at least four percentage points in five years (with respect to the 2008 baseline). The figure for chronic malnutrition presented by the MSPAS for 2008 was 49.8% among children between 3 and 59 months of age.

The support envisaged by both the IDB and the World Bank for the *Mi Familia Progresa Program* in the nutrition sector did not materialize due to loan authorization problems in the Guatemalan Congress involving both loans. As a result, coverage of the AINM-C program in priority municipios through the Coverage Extension Program (PEC) and the Institutional Mobile Groups has not changed and this population of children is not being monitored and is not receiving the planned doses of vitamin A and micronutrients. As is to be expected, the impact evaluation of the Bank-financed *Mi Familia Progresa* program found that the program had no impact on height-for-age in any age group in either indigenous or non-indigenous children.

In the case of the *Human Capital Investment Program*, although the funds were disbursed and it was indicated that all the conditionalities were met, there is no evidence that the coverage in priority municipios under the AINM-C program through the PEC has increased or that the beneficiaries are receiving micronutrients and supplements—the IDB’s and World Bank’s health and nutrition programs were designed to support the PBL in this regard. In fact, the staff of *Mi Familia Progresa* interviewed by the OVE said that the nutrition services were not being delivered to the beneficiaries. Moreover, according to the report commissioned by the Bank to verify compliance with the PBL’s health and nutrition conditions, the service delivery figures are “an estimate of the coverage of those [beneficiaries] who receive [health and nutrition] services” and not a measure of coverage of program beneficiaries in general.

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67 The coresponsibility requirements for receiving the transfer include visiting a clinic for monitoring and checks on growth, giving micronutrients and food supplements to children under six, and attending training on child nutrition.

68 The Coverage Extension Program (PEC) was launched in 1997 to provide basic health services to the rural and indigenous population through NGOs in areas not reached by the MSPAS network. The package of services focuses primarily on improving the health of mothers and children.

69 The impact evaluations were performed by the Center for Research on Evaluation and Surveys at the National Public Health Institute of Mexico under the coordination of Juan Pablo Gutierrez. They covered consumption, health, education, nutrition, and labor participation.
which was the purpose of the conditionalities.\textsuperscript{70, 71} (In the verification framework used, if the supply of services is reduced to the minimum by eliminating all the providers except one that meets the PBL’s requirements, the condition would be considered met). This same verification report states that only 51.5\% of PEC basic health care teams offer the basic package of health services—the condition called for 90\% of the teams to be doing so—and that these teams offer folic acid, iron, and micronutrients to 46.9\%, 47.5\%, and 65.9\% of the beneficiaries that are seen, respectively—the condition called for 80\% of beneficiaries in 100\% of the municipios covered by\textit{Mi Familia Progresa}.\textsuperscript{72}

It is important to note that these shortcomings are not associated with the PEC but with delays in delivery under the AINM-C program through the PEC—stemming from delays in loan authorization. This same verification report indicates, for example, that the services in the basic package provided by the PEC are received by 100\% of the beneficiaries: all pregnant women with prenatal monitoring and lactating women with postnatal monitoring are receiving iron and folic acid, for example.\textsuperscript{73}

2. Reduction of the intergenerational transmission of poverty

The indicator defined in the strategy to measure the IDB’s contribution to accomplishing this goal was:

\begin{quote}
\begin{itemize}
  \item Effectiveness in targeting the \textit{Mi Familia Progresa} conditional cash transfer program and consolidation of the program as a State policy. The strategy proposed that the analysis take place through impact assessments.
\end{itemize}
\end{quote}

The baseline report for the Bank-financed impact assessment of\textit{Mi Familia Progresa} found that the percentage of households considered eligible by the program but not classified as extremely poor was low (leakage of 11.8\%), but that the percentage

\textit{Although the Mi Familia Progresa} program has been institutionalized by the current Guatemalan government, it has received little support from Guatemalan public opinion.

\textsuperscript{70} See Matute (2010), Informe Final BID/MSPAS, Mediciones del cumplimiento de las condiciones políticas: 1.2 Nutrición and 1.3 Salud [IDB/MSPAS final report, Measurement of compliance with policy conditions: 1.2 Nutrition and 1.3 Health]. For the analysis a random sample of three types of health service providers (health centers, health posts, and PEC districts) was set up, but not all the sites were visited because “they could not be measured on account of their remoteness... or they no longer provided a service, or no longer existed as such.”

\textsuperscript{71} The nutrition conditionality established, for example, that at least 80\% of beneficiaries in 100\% of the municipios covered by\textit{Mi Familia Progresa}, and whose beneficiaries had received at least three cash transfers, were receiving nutritional supplements.

\textsuperscript{72} The percentages do not exceed the 80\% target in the case of folic acid, iron, and micronutrients for any of the providers (health centers, health posts, and PEC districts). The percentages exceed 80\% for vitamin A for all the providers.

\textsuperscript{73} Moreover, the PEC evaluation performed by Cristia et al. (2009) shows an increase of 23 percentage points (pp) in the percentage of women receiving prenatal care, an increase of 30 pp in the percentage of women getting three or more prenatal checkups, and an increase in 15 pp in the percentage of children receiving the vaccine against tuberculosis thanks to the PEC.
of extremely poor households considered ineligible was relatively high (undercoverage of 46.3%). These figures suggest that the program sacrifices equity (undercoverage) in favor of raising efficiency (low leakage). The program has been institutionalized by the current government, but has received little support from public opinion in Guatemala.

The programs designed by the Bank to support the supply of services required to meet the increase in demand resulting from *Mi Familia Progresa* have either not been authorized by the Congress or have experienced delays in execution and so no results can yet be observed—*Improved Access and Quality of Health and Nutrition Services–Phase I* and *Mi Escuela Progresa*, respectively. Nevertheless, the program’s impact assessment identified positive impacts on the indicators that, in the long term, are expected to contribute to increasing beneficiaries’ human capital: increase in the proportion of children under 2 with a complete vaccination schedule (11 percentage points, pp) and reduction in the prevalence of fever, respiratory diseases, and diarrhea (10 pp); increase in the consumption of iron supplements by pregnant women (10 pp) and prenatal care at health posts (11 pp); and increase in the number of years of schooling (0.1 years), increase in the enrollment rate (3.6 pp), and improvement in educational achievement (0.13 years) among children between 7 and 15.

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74 According to this same report, in the first years of the *Progreso/Oportunidades* program in Mexico, the leakage was 61% and undercoverage, 19%. 

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3. Upgrade and maintenance of production infrastructure

The indicators defined in the strategy to measure the IDB’s contribution to accomplishing this goal were:

- **Entry into force of the legal framework regulating residential utilities.**
  There are no projects in the strategy or the portfolio associated with this indicator.

- **Users with electricity in rural areas increase from 190,000 in 2008 to 217,000 in 2011.** This is consistent with the target of the *Multiphase Rural Electrification Program - Phase I*, which aimed to increase coverage by 34,151 households in 2011.

- **Potable water coverage in rural areas increases from 4.3 million people in 2008 to 4.55 million in 2011 (an increase of 5.8% or 249,400 people). Sanitation coverage increases from 5.8 million people to 6.05 million in 2011 (an increase of 4.3% or 249,400 people).** These targets are consistent with the targets proposed in the Bank’s programs. The target of the *Water and Sanitation Program for Human Development—Phase I* is 110,000 and 140,000 for water and sanitation in rural areas, respectively, in 2014; the target of the *Rural Water and Sanitation Investment Program* was to provide potable water and sanitation solutions to 500,000 rural inhabitants—according to the project’s PPMR in July 2008 this target was overestimated by 200,000).

Execution of the projects designed and approved under the strategy to support this goal has not yet begun. In the infrastructure area in general, during the 2008-2011 period the Bank executed the *Road Rehabilitation and Modernization II Program* (GU-0130), the *Rural Water and Sanitation Investment Program* (GU-0150), the *Urban Poverty Reduction Program* (GU-0155), and the *Guatemala-Mexico Electricity Interconnection Project* (GU-0171).

The *Rural Water and Sanitation Investment Program* (GU-0150), approved in 2003 and modified in 2006 and 2008, has executed 46.6% of the loan. The executing agency reported that, as of July 2011, 57,012 people had water connections on their premises and that 41,514 people had sanitation services (latrines and septic tanks) as a result of the program—the target is 180,000 and 95,000, respectively, and 31.7% and 43.7% of this target has been achieved. These projects increased coverage in areas with the greatest needs, according to the MSPAS Guide for Departmental and Municipal Development—81.4% of households in the municipio of Ixcán in Quiché, for example, do not have a water connection, and that is where 37% of the water connections installed to date are located. Yet the PMRs indicate the possibility of potential sustainability problems in the projects due to the lack of active participation.
by communities in the formulation of projects and the impact of that on future maintenance.

The goal of the Road Rehabilitation and Modernization II program (GU-0130) was to continue efforts to rehabilitate and maintain the network of highways and rural roads and consolidate the reform and modernization of the road sector. The project was restructured on various occasions and the resources scheduled for the rehabilitation and improvement of 350 km of rural roads were reassigned to repair damage caused by Tropical Storm Stan in October 2005—only a 19.3-km section of rural roads and a 100-meter bridge were rehabilitated. As a result, the targets for rural areas were not met. Only 313 km of the 450 km of roads and highway corridors initially proposed were rehabilitated. The PCR indicates that 100% of routine maintenance was executed, but that periodic maintenance is not being carried out because more resources are required for that; it also states that although the percentage of roads in good condition improved with respect to the base year, the proposed target of 90% of roads was not met. The preinvestment studies conducted by the IDB for the Multiphase Program for Roads in Rural Areas, which was not included by the Government of Guatemala in the 2008-2011 operations program, were used for project financing by the World Bank.75

The Guatemala-Mexico Electricity Interconnection Project accomplished its goal of interconnecting the Guatemalan electric power system with Mexico’s—and consequently connecting Mexico’s electric power system with SIEPAC, thereby increasing supply and reducing the cost of electricity in Guatemala. The target for the indicators proposed in the program was for cost differentials in energy transmitted to be greater than or equal to US$7.5/MWh for utilization factors of over 60%, and greater than or equal to US$10/MWh for utilization factors of at least 45%, compared with the daily average observed during the year prior to the line's being brought into operation. The interconnection came into commercial operation in October 2010, when the average cost differential was observed to be US$16.3/MWh. It was US$42.1/MWh in November 2010 and US$29.3/MWh in December 2010. The average load factor between October and December was 55.3% from a transmission capacity of 120 MW.76

The Urban Poverty Reduction Program (GU-0155) was reformulated twice and the executing unit was changed—the Executive Coordination Secretariat of the Office of the President was replaced by the Ministry of Communications, Infrastructure, and Housing’s Solidarity Social Fund—by order of the Constitutional Court in March 2009. Initially (2003-2005), a pilot was implemented in two marginal settlements, benefiting 1,064 households. Subsequently (2006-2009), 32% of the funds were directed to helping communities affected by Tropical Storm Stan—there is no documentation on the outcomes. In the final stage of the program (2010-2011),

75 Rural and Main Roads Program II.
76 The source of these data is the program’s PCR. The cost differential is calculated as the difference between the spot market price and the price of energy supplied via the interconnection.
the new executing unit decided to hire a consultant to provide support and redirect project execution towards achieving its original goals: 10 marginal settlements in the municipios of Guatemala (5) and Villanueva (5) were given priority as the beneficiaries of comprehensive urban improvement projects—no agreement was reached with the municipality of Chinaulta.77 The change in executing unit and hiring of the consultant speeded up the disbursements from 2.9% of the loan amount in 2008 and 2009 to 12.6% in 2010 and eight months in 2011.

- The yield from the laws to strengthen public finances had a target of 1% of GDP by the end of 2010. This would have an impact on total tax revenues of at least 0.6% of GDP, according to the loan document for the Program to Strengthen Public Finances (GU-L1020).
- The target for tax collection from VAT and income tax from taxpayer current accounts was 66% of total tax revenues. No date was given for when this target was expected to be met; the loan document stated the expected outcome to be that the integrated current account be implemented for 20% of active VAT and income tax taxpayers.
- The target set was for the 10 most important customs posts to have implemented the customs administration system for all operational and administrative customs processes. No date set.

4. Progress towards achieving the Peace Accords’ revenue collection targets

The indicators defined in the strategy to measure the IDB’s contribution to accomplishing this goal were78:

The Public Financial Management Reform Program II (GU-L1008) met all the proposed conditionalities and the loan was disbursed in 2008. There is evidence that the project’s goal, which was to help improve the efficiency of public spending and tax collection, has been met in part. In the case of tax collection, for example, the PCR reports that the SAT has electronic systems to cross-check information on the purchase of goods and services received and the sale of goods and services provided. The aim is to improve oversight capacity and enable inconsistencies in VAT returns to be detected by cross-checking this information. OVE’s calculations of the VAT productivity index show that this index has varied in a statistically significant manner since 2005 (the statistical tests indicate that the hypothesis that the productivity index

77 This figure of 10 settlements falls far short of the original target of 32 marginal settlements. Although the Bank has improved project monitoring, even in the best of cases only output indicators are available.
78 These three indicators are associated with the Program to Strengthen Public Finances (GU-L1020).
averages before and after 2006 are the same is rejected with a 10% significance level.\textsuperscript{79} The increase in VAT-collection efficiency represented an increase in tax revenues of more than Q415 million in 2010.\textsuperscript{80}

Although the other conditionalities associated with the increase in the number of municipalities certified to collect and administer the property tax (IUSI) in a decentralized way, and the implementation of processes to improve customs management, were met, they had no impact on the tax burden, which has deteriorated in the last few years, as can be seen in Graph 3.\textsuperscript{81} The tax collection target set in the Peace Accords—13.2% of GDP in 2002—has not yet been achieved.

The program provided for the design and implementation of a results-based multiyear budget formulation methodology. There is evidence that the Ministry of Finance has drawn up multiyear budgets.

As regards expenditure management, the progress made rests on the World Bank’s \textit{Integrated Financial Management III} investment project. This project has supported the strengthening of the Integrated Financial Management System (SIAF) and the transfer of responsibility for financial matters to line ministries (with pilot projects in health and education) and to the municipalities. It has also

\textsuperscript{79} The VAT-consumption productivity index is the ratio between VAT collected as a percentage of final consumption and the VAT rate. In the absence of changes in the legislation affecting the tax base, any variation in the index is attributable to variations in the efficiency of tax collection, which would be closely correlated with the level of evasion.

\textsuperscript{80} The VAT-consumption productivity index was estimated at 0.193\% of consumption per percentage point of VAT in 2005 and 0.204\% of consumption per percentage point of VAT as of 2006 (statistically significant difference). The increase in collection is estimated using these differences and consumption as reported by Banguad for 2010.

\textsuperscript{81} IUSI collection and administration were decentralized to 254 of the 260 municipalities proposed in the program results matrix through 2010. The target of increasing the funds collected by municipalities through the IUSI by 20% with respect to 2004 was exceeded: tax collections rose from Q307.4 million to Q606.7 million in 2010, an increase of 37.4\% in real terms. However, the SAT ceased to receive these tax revenues.
supported the implementation of systems on a web platform and the development of new modules of the electronic procurement system, Guatecompras. The Bank used conditionalities promoted by this World Bank operation to justify the disbursement of unrestricted funds.

The Program to Strengthen Public Finances (GU-L1020) was also fully disbursed between 2009 and 2010. It was expected that the conditionalities, once fulfilled, would result in improved tax collection and more transparent management of public expenditure. Not all the conditionalities were satisfied, however. Although the Tax System Strengthening and Modernization Law presented to the Congressional Legislative Department in August 2008 was ultimately not passed, the project team recommended a waiver and the Bank approved disbursement of the second and third tranches of the loan. As a result of the failure to fulfill the conditionalities, the expected increase in tax collection of 0.6% of GDP did not materialize. By October 2011, however, the SAT had managed to increase taxation by Q700 million in 2011 thanks to tax administration improvements. It should be noted that, although the law was not approved, the Guatemalan government acknowledges the technical support and constant guidance provided by the Bank to inform the Congress and the country of the advantages of approving the tax reform.82

This waiver meant that the goal of supporting policy reforms was not achieved and it set a precedent that it was not necessary to comply with the conditionalities designed to help achieve the goals set out in the strategy in order to obtain financial resources—three of the four PBLs approved and executed in Guatemala since 2000 have had at least one waiver; in some cases, the waivers have involved minor conditionalities, but in others, the conditionalities have been key to achieving the program’s objectives.83

The loan disbursement took place at a time when the country was in a position of fiscal vulnerability and was rationalized in those terms. However, the Bank has

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82 The previous CPE recommended deepening sector relations based on the credibility of technical proposals that support the country’s decisions, reflecting its long-term strategic challenges (recommendation 6). The Bank provided broad technical support through the region’s top specialists to provide guidance in Guatemala’s tax reform.

83 Between 2000 and 2011, five PBLs were approved for Guatemala, of which four were fully executed. Programmatic policy-based loans were not considered because they only involve one tranche to be disbursed. Of the four PBLs approved and executed, three have had at least one waiver. In the case of the Financial Sector Reform Program II (GU-0119, 2002), waivers were granted associated with the recapitalization of Banco de Guatemala and the adoption, on the part of all the banks in the financial system, of risk management operation manuals. The objective of the operation was “to modernize the legal framework of the financial sector and to strengthen the regulatory and supervisory entities of the system, in particular the Central Bank and the Superintendency of Banks.” In the case of the Program to Improve the Quality of Social Expenditure (GU-0175, 2004), waivers were granted associated with the currency of cooperation agreements between SEGEPLAN and the Ministries of Education and Health. The objective of the operation was to “assist the government in its efforts to enhance the efficiency and targeting of social expenditure and investment toward the most vulnerable segments of the population.” The waiver granted in the case of the Program to Strengthen Public Finances (GU-L1020, 2009) was discussed in paragraph 4.17. Although the fourth PBL, the Human Capital Investment Program (GU-L1017, 2009) was not the object of a waiver, the loan was modified to be disbursed in three tranches instead of two as had been initially provided for, some conditionalities were softened as a result of the loan modification, and one conditionality was completely eliminated from the policy matrix.
instruments such as emergency loans that are specifically designed to address this type of situation. These loans were approved in a timely manner and used at least by one country to address the fiscal crisis during the period. In the case of Guatemala, the Bank preferred to grant a waiver for disbursement of the PBL because it was anticipated that an emergency loan would face difficulties obtaining Congressional authorization. Moreover, in view of their high cost, emergency loans held little appeal.

5. Other operations completed during the period

During the 2008-2011 period the Bank completed the Foreign Trade Support Program (GU-0152) and the Technological Development Program (GU-0135). Beyond confirming that activities were completed and the proposed outputs generated, through the PCR and the final evaluation the Bank recognizes that it is “impossible to ascertain the precise scale of the impact of the [Foreign Trade Support Program] on the increase in exports.” Among other activities, this first operation financed the training of civil servants at the Office of the Deputy Minister for Integration and Foreign Trade (VMCE) and the participation of negotiators in meetings relating to the treaties. Although the PCR classified the achievement of the development goal as likely, and its sustainability as satisfactory, it identified “the availability of adequate financial and technical resources once the loan resources had been exhausted” to be a risk to its continuity. The new operation, Trade and Integration Support Program II, has specific goals very similar to the first operation, which suggests that sustainability of the first operation depends in part on the resources provided by the second one.

The Technological Development Program was implemented over the course of four different administrations (Arzú, Portillo, Berger, and Colom). It ended in 2008 after several years of paralysis due to lack of interest and after 42.2% of the loan was cancelled in 2009. There is no evidence that the objective of increasing SMEs’ productivity and competitiveness by financing technological innovations—through matching grants, the implementation of an extension service, and the consolidation of a framework

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84 Between 2008 and 2009 six emergency loans were approved for Costa Rica, the Dominican Republic (2), El Salvador, Jamaica, and Panama, for an average of US$417 million each, to alleviate the effects of the global economic crisis. Five of these loans were aimed at supporting the private sector’s financial intermediation process (three of those loans were cancelled) and one of them, to the Dominican Republic, sought to provide budget support to mitigate the fiscal crisis.

85 The goal of the program was to “improve access conditions for goods and services in foreign markets and to maximize the country’s trade opportunities.”

86 The loan disbursements between 2002 and 2008 represented, on average, 2.8% of the ministry’s budget.

87 The specific goals of the first operation were: (i) strengthening the VMCE’s technical capacity for the design, analysis, and evaluation of foreign trade policy and instruments; (ii) bolstering the VMCE’s coordination mechanisms with other government and private sector entities participating in the country’s trade management; and (iii) strengthening the capacity of VMCE staff for negotiation and administration of trade treaties. The goals of the second operation are to: (i) effectively administer and deliver the country’s trade agreement commitments and put forward and negotiate trade initiatives favorable to Guatemala; (ii) actively promote export and investment opportunities; (iii) provide support to the private sector, particularly SMEs, to capitalize on opportunities afforded by the trade agreements in place; and (iv) modernize and incorporate technology into government foreign trade functions.
of policies—has been achieved. Although the activities associated with the financing of technological innovations through matching grants were those completed to the greatest extent, the absence of a monitoring and evaluation system makes it impossible to draw conclusions regarding productivity increases among the 167 SMEs financed—the target was for 50% of the 250 SMEs financed to increase their productivity by 20%. The Bank identified the following as critical factors affecting the program’s implementation: delays in starting implementation and resulting lack of interest on the part of subsequent administrations, the local counterpart’s financing problems, the executing unit’s lack of experience, and staff turnover at the Bank. Among the topics discussed at the closing meetings as a lesson learned was the need to weigh the costs and benefits of cancelling operations that the Guatemalan government has ceased to view as priorities.

One of the areas supported by the Bank that may have a significant impact on SMEs’ access to credit was the creation of an electronic secured transactions registry enabling personal property collateral to be formalized online, pursuant to the Law on Secured Transaction (Decree 51-2007). The registry is currently being operated manually and in 2010 it guaranteed a total of US$513.5 million—5.1% of the banking system’s credit portfolio, even though it only operates from Guatemala City. Unfortunately, the firms using the register to date have been large companies—the average registered collateral per transaction in 2011 was US$1 million. However, the register has been used by savings and loan cooperatives, which suggests that it could have an indirect effect on microentrepreneurs’ access to credit.

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88 Technical cooperation operation Designing and Installing an Electronic Secured Transactions Registry (GU-T1113)
89 The price structure (fees and charges) that borrowers pay to register the security is designed in a way that excludes small businesses: whereas registering security of US$200 costs 10% of this amount, registering security of US$5,000 costs just 0.15% of this amount—Q150 per transaction is charged if the amount guaranteed is less than Q9,000 and 0.15% of the amount, if the amount guaranteed is Q9,000 or more.
Repainting a colonial house in Antigua.
© Stacy Able, 2008
Conclusions and Recommendations

The deterioration in the execution of the portfolio suggests that the country has limited institutional capacity and, under current conditions, can only handle a smaller portfolio than that approved in the 2008-2011 period. Not only were approvals higher than those in preceding periods, there were fewer cancellations, against a backdrop of low execution: in 2008-2011 only one loan was cancelled.

An inappropriate selection of instruments and executing units has delayed the execution of some projects (see chapters 2 and 4). The design of other operations has jeopardized their relevance (see chapter 2).

Inadequate implementation of the instruments has compromised accomplishment of the development goals. The impact of the 2008-2009 crisis justified the use of unrestricted loans to cover the drop in fiscal revenue caused by the recession. However, the country’s fiscal vulnerability resulting from the crisis was used as the justification for disbursing the PBLs approved and authorized during the 2008-2011 period, despite the fact that the loan conditionalities had not been met in accordance with the spirit of their objectives—in the case of the fiscal PBL the objective was not achieved because the political conditions were not in place. Moreover, the funds from some investment projects implemented during the period had in the past been redirected to respond to emergencies. In both cases, achievement of the programs’ objectives was compromised. In principle, the Bank has instruments like emergency loans specifically designed to address this type of situation.

The Guatemalan Congress’s delays in authorizing loans undermined the Bank’s effectiveness and may affect its future efficiency. The effectiveness of the assistance program was undermined by the missed opportunity to exploit internal and external synergies built into its design. Furthermore, projects that are not authorized during the cycle in which they were designed are inherited by a new administration
that does not necessarily share the priorities of the administration under which they were designed.

In terms of relevance, consistency, and positioning, the CID pilot initiative in the case of the 2008-2011 Country Strategy with Guatemala was rated as very positive by OVE. The strategic objectives and assistance program envisaged to achieve them were highly selective and focused on a limited number of sectors in which the Bank has experience in the country and where, through synergies and the Bank’s positioning, sufficient support can be provided to have a long-term development impact. The program was fully aligned with the needs of its beneficiaries, the government’s agenda, and the Bank’s strategy.
V. Recommendations

**Recommendations**

- Maintain the strategy design approach envisaged in the pilot initiative. The pilot initiative was selective in choosing a small number of intervention areas on which it targeted and engaged its assistance efforts. Groups of operations were designed around these areas and focused on achieving the proposed strategic development goals. This approach produced significant synergies and improved the Bank’s positioning.

- Maintain the use of investment instruments in key sectors where the Bank has demonstrated its capacity to add value. The main constraints on growth identified in the 2008-2011 Strategy—the State’s limited capacity to generate sufficient fiscal revenues, inadequate human capital as a result of inequity, childhood malnutrition, limitations on basic infrastructure in rural areas, and high crime and violence rates—continue to impede long-term development. These are areas that, should the Guatemalan government so decide, the Bank should continue to support.

- Match portfolio size to the country’s institutional capacity and support the country in overcoming the institutional weaknesses that limit timely use of resources. It is recommended that the Office of the Manager of CID, jointly with the Guatemalan government, decide what operations to keep in the portfolio, after identifying the sectors in which the Bank will support the new administration. The operations maintained on the portfolio must be submitted to the Congress for authorization where necessary; operations whose objectives are not perceived as priorities by the new administration should be cancelled.

- Minimize the use of waivers when PBLs are used. To ensure that the PBLs achieve the envisaged objectives it is vital that the proposed conditionalities agreed upon in the loan contracts be met. For this reason, the use of waivers must be avoided—especially in cases where the waiver is associated with key conditionalities since, by disbursing the resources, the Bank loses the capacity to support achievement of the operation’s development objectives. The use of PBLs must also be limited to promoting policy changes. These instruments should be coupled with complementary operations to ensure that the objectives are achieved—this support was appropriately addressed in the 2008-2011 strategy.
# Table A1. Sovereign Guaranteed Operations in execution during the 2008-2011 period

<table>
<thead>
<tr>
<th>Number</th>
<th>Name</th>
<th>Type</th>
<th>Year</th>
<th>Approved Amount (US$)</th>
<th>Status</th>
<th>% Disbursed (Sept. 11)</th>
<th>Included in Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Pillar 1: Reduction in Chronic Malnutrition</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>GU-L1017</td>
<td>Programa de Inversión en Capital Humano</td>
<td>PBL</td>
<td>2009</td>
<td>200,000,000</td>
<td>Ended</td>
<td>100%</td>
<td>Yes</td>
</tr>
<tr>
<td>GU-L1022</td>
<td>Mejoramiento del Acceso y Calidad de Servicios de Salud y Nutrición - Fase I</td>
<td>Investment</td>
<td>2010</td>
<td>35,000,000</td>
<td>To be ratified (15 Months)</td>
<td>0%</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Strategic Pillar 2: Reduction in Intergenerational Transmission of Poverty</strong></td>
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<td></td>
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<tr>
<td>GU-L1023</td>
<td>Mi Escuela Progresa</td>
<td>PFR</td>
<td>2008</td>
<td>150,000,000</td>
<td>Active</td>
<td>20%</td>
<td>Yes</td>
</tr>
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<td>GU-L1017</td>
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<td>Yes</td>
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<td>GU-L1022</td>
<td>Mejoramiento del Acceso y Calidad de Servicios de Salud y Nutrición - Fase I</td>
<td>Investment</td>
<td>2010</td>
<td>35,000,000</td>
<td>To be ratified (15 Months)</td>
<td>0%</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Strategic Pillar 3: Update and Maintenance of Productive Infrastructure</strong></td>
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<tr>
<td>GU0155</td>
<td>Combate Integral Pobreza Urbana</td>
<td>Investment</td>
<td>2002</td>
<td>46,800,000</td>
<td>Active</td>
<td>86%</td>
<td>Prior</td>
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<tr>
<td>GU0150</td>
<td>Programa de Inversiones en Agua Potable y Saneamiento Rural</td>
<td>Investment</td>
<td>2003</td>
<td>50,000,000</td>
<td>Active</td>
<td>50%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU0171</td>
<td>Interconexión Eléctrica entre Guatemala y México</td>
<td>Investment</td>
<td>2003</td>
<td>37,500,000</td>
<td>Ended</td>
<td>100%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU-L1018</td>
<td>Programa Multifase de Electrificación Rural - Fase I</td>
<td>Investment</td>
<td>2008</td>
<td>55,000,000</td>
<td>Active</td>
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<tr>
<td>GU-L1039</td>
<td>Programa Agua y Saneamiento para el Desarrollo Humano-Fase I</td>
<td>Investment</td>
<td>2009</td>
<td>50,000,000</td>
<td>To be ratified (22 Months)</td>
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<td><strong>Strategic Pillar 4: Progress in Peace Accords' Tax Collection Targets</strong></td>
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<td>GU-L1088</td>
<td>Programa de Reforma a la Gestión Financiera Pública II</td>
<td>PBL</td>
<td>2007</td>
<td>100,000,000</td>
<td>Ended</td>
<td>100%</td>
<td>Yes</td>
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<tr>
<td>GU-L1031</td>
<td>Apoyo a la Modernización del Ministerio de Finanzas Públicas</td>
<td>Investment</td>
<td>2008</td>
<td>8,500,000</td>
<td>Active</td>
<td>34%</td>
<td>Yes</td>
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<tr>
<td>GU-L1020</td>
<td>Programa de Fortalecimiento de las Finanzas Públicas</td>
<td>PBL</td>
<td>2009</td>
<td>400,000,000</td>
<td>Ended</td>
<td>100%</td>
<td>Yes</td>
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<td><strong>Other Programs</strong></td>
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<tr>
<td>GU0066</td>
<td>Programa de Recuperación Ambiental de la Cuenca del Lago Amatitlán</td>
<td>Investment</td>
<td>2005</td>
<td>23,870,000</td>
<td>Active</td>
<td>33%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU0163</td>
<td>Programa de Apoyo a Inversiones Estratégicas y Transformación Productiva</td>
<td>Investment</td>
<td>2006</td>
<td>29,000,000</td>
<td>To be ratified (64 Months)</td>
<td>0%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU0166</td>
<td>Programa de Inversión Social para la Reducción de la Pobreza Rural</td>
<td>Investment</td>
<td>2006</td>
<td>50,000,000</td>
<td>Cancelled</td>
<td>0%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU-L1002</td>
<td>Desarrollo del Petén para Conservación de la Reserva de la Biosfera Maya</td>
<td>Investment</td>
<td>2006</td>
<td>30,000,000</td>
<td>Active</td>
<td>33%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU-L1006</td>
<td>Desarrollo Económico Rural desde lo Local</td>
<td>Investment</td>
<td>2006</td>
<td>30,000,000</td>
<td>Active</td>
<td>12%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU-L1009</td>
<td>Programa Fortalecimiento Red Hospitalalaria</td>
<td>Investment</td>
<td>2007</td>
<td>50,000,000</td>
<td>Active</td>
<td>20%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU0177</td>
<td>Programa de Apoyo al Sector Justicia Penal</td>
<td>Investment</td>
<td>2007</td>
<td>30,000,000</td>
<td>To be ratified (47 Months)</td>
<td>0%</td>
<td>Prior</td>
</tr>
<tr>
<td>GU-L1037</td>
<td>Programa de Apoyo al Comercio y la Integración</td>
<td>Investment</td>
<td>2008</td>
<td>20,000,000</td>
<td>Active</td>
<td>0%</td>
<td>No</td>
</tr>
<tr>
<td>GU-L1014</td>
<td>Establecimiento Catastral y Consolidación Certesa Jurídica Areas Protegidas</td>
<td>Investment</td>
<td>2009</td>
<td>22,000,000</td>
<td>To be ratified (27 Months)</td>
<td>0%</td>
<td>No</td>
</tr>
<tr>
<td>GU-L1065</td>
<td>Programa de Apoyo a la Agenda de Cambio Climático de Guatemala</td>
<td>PBL</td>
<td>2010</td>
<td>250,000,000</td>
<td>Active. Rati- fied on Sept 2011. Waiting time for 11 months</td>
<td>0%</td>
<td>No</td>
</tr>
</tbody>
</table>
Table A2. Non-Sovereign Guaranteed Operations
Approved in the 2008-2011 Period

<table>
<thead>
<tr>
<th>Number</th>
<th>Name</th>
<th>Type</th>
<th>Year</th>
<th>Original Amount (US$)</th>
<th>% disbursed (sept 11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GU-M1019</td>
<td>Inserción Laboral y Empresarial de Jóvenes en Riesgo</td>
<td>Donation 2008</td>
<td>1,220,000</td>
<td>78%</td>
<td></td>
</tr>
<tr>
<td>GU-M1023</td>
<td>Expansiendo Servicios Financieros para Micro y Pequeña Empresa</td>
<td>Donation 2008</td>
<td>500,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>GU-M1026</td>
<td>Promoción de Cultivos Alternativos en Comunidades rurales de Totonicapán</td>
<td>Donation 2008</td>
<td>520,270</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>GU-M1021</td>
<td>Desarrollo empresarial en comunidades rurales agrícolas</td>
<td>Donation 2009</td>
<td>700,000</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>GU-M1024</td>
<td>Definición y Gestión de un Destino Turístico en el Área 4 Balam, Peten</td>
<td>Donation 2009</td>
<td>907,780</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>GU-M1030</td>
<td>Apoyo a la Competitividad de la Región Suroccidental de Guatemala</td>
<td>Donation 2009</td>
<td>686,000</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>GU-M1022</td>
<td>Simplificación Gestión Fiscal de la MIPYME mediante mejoras procesos y uso TICs</td>
<td>Donation 2010</td>
<td>1,000,000</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>GU-M1031</td>
<td>Fortalecimiento organizacional y mejoramiento de la competitividad de la cadena</td>
<td>Donation 2010</td>
<td>498,737</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>GU-M1034</td>
<td>Protección al Consumidor y Reducción del Riesgo del Microfinanciamiento</td>
<td>Donation 2010</td>
<td>705,000</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>GU-M1038</td>
<td>Ampliando servicios financieros de factoraje en Guatemala</td>
<td>Donation 2011</td>
<td>482,000</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>GU-S1013</td>
<td>Expansión de Servicios de Crédito a Comunidades Rurales de Bajos Ingresos</td>
<td>Loan 2008</td>
<td>760,000</td>
<td>87%</td>
<td></td>
</tr>
<tr>
<td>GU-S1015</td>
<td>Mecanismo de Financiamiento de PYMES Agrícolas, de Turismo y Forestales</td>
<td>Loan 2008</td>
<td>1,250,000</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>GU-S1016</td>
<td>Maiz que Alimenta más a las Comunidades de Ixcán</td>
<td>Loan 2008</td>
<td>850,000</td>
<td>86%</td>
<td></td>
</tr>
<tr>
<td>GU-S1017</td>
<td>Ampliación del Microcrédito a Comunidades Rurales de Bajos Ingresos</td>
<td>Loan 2009</td>
<td>892,000</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>GU-S1019</td>
<td>Profundización de los servicios financieros rurales en el Sur Occidente</td>
<td>Loan 2011</td>
<td>1,030,000</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>

Private Sector Loans

<table>
<thead>
<tr>
<th>Number</th>
<th>Name</th>
<th>Type</th>
<th>Year</th>
<th>Original Amount (US$)</th>
<th>% disbursed (sept 11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GU-L1036</td>
<td>Banco G&amp;T Continental - TFFPº</td>
<td>TFFPº 2008</td>
<td>35,000,000</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>GU-L1040</td>
<td>Facilidad de Préstamo al Banco G&amp;T Continental</td>
<td>Loan 2008</td>
<td>45,000,000</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>GU-L1041</td>
<td>Banco Industrial - TFFP</td>
<td>TFFP 2008</td>
<td>40,000,000</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>GU-L1060</td>
<td>Facilidad de Financiamiento TFFP G&amp;T Continental</td>
<td>Loan 2010</td>
<td>20,000,000</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>GU-L1061</td>
<td>Banco Internacional, S.A. - TFFP</td>
<td>TFFP 2010</td>
<td>5,000,000</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>GU-L1067</td>
<td>Banco G&amp;T Continental Deuda Subordinada</td>
<td>Loan 2011</td>
<td>45,000,000</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>GU-L1072</td>
<td>Banco Industrial S.A. Prestamos de TFFP bajo la facilidad de SCB</td>
<td>Loan 2011</td>
<td>5,250,330</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>

1/ Baseline increase in 2010
2/ With the TFFP framework, IDB provided loan guarantees in the form of contingent credit letters (Stand-by L/Cs) towards the confirming Banks, in order to cover the risk of eligible instruments for external trade financing issued by banks in Latin America and the Caribbean. Additionally, disbursed amounts are not reported when guarantees are issued, despite the active portfolio supporting external trade in Guatemala. A majority are short-term operations, and therefore they expire and new guarantees are issued within the caps approved by the institution.
## Table A3. Operations Pending Ratification in Congress (Sept 2011)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Operation Number</th>
<th>Name</th>
<th>Approval Date</th>
<th>Status at Sept 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>P122370</td>
<td>Apoyo de emergencia para proyecto de servicios sociales</td>
<td>12/9/2010</td>
<td>Pending ratification (9 Months)</td>
</tr>
<tr>
<td>World Bank</td>
<td>P107416</td>
<td>Programa expandiendo oportunidades para grupos vulnerables</td>
<td>11/19/2009</td>
<td>Cancelled while pending ratification (19 Months)</td>
</tr>
<tr>
<td>World Bank</td>
<td>P112011</td>
<td>Proyecto para mejora de la productividad de la MiPyMe</td>
<td>3/3/2011</td>
<td>Pending ratification (6 Months)</td>
</tr>
<tr>
<td>Japón / JICA</td>
<td>GT-P6</td>
<td>Programa de mejoramiento vial de la ZONAPAZ II</td>
<td>11/26/2009</td>
<td>Pending ratification (22 Months)</td>
</tr>
<tr>
<td>FIDA</td>
<td>I-770-GT</td>
<td>Programa de desarrollo rural sustentable región norte</td>
<td>17/12/2008</td>
<td>Pending ratification (33 Months)</td>
</tr>
<tr>
<td>FIDA</td>
<td>I-812-GT</td>
<td>Programa de desarrollo rural sustentable en El Quiché</td>
<td>22/04/2010</td>
<td>Pending ratification (17 Month)</td>
</tr>
<tr>
<td>BID</td>
<td>GU-L1022</td>
<td>Mejoramiento del Acceso y Calidad de Servicios de Salud y Nutrición - Fase I</td>
<td>6/8/2010</td>
<td>Pending ratification (15 Months)</td>
</tr>
<tr>
<td>BID</td>
<td>GU-L1039</td>
<td>Programa Agua y Saneamiento para el Desarrollo Humano- Fase I</td>
<td>11/23/2009</td>
<td>Pending ratification (22 Months)</td>
</tr>
<tr>
<td>BID*</td>
<td>GU-L1014</td>
<td>Establecimiento Catastral y Consolidación Certeza Jurídica - Areas Protegidas</td>
<td>6/17/2009</td>
<td>Pending ratification (27 Months)</td>
</tr>
<tr>
<td>BID*</td>
<td>GU0177</td>
<td>Programa de Apoyo al Sector Justicia Penal</td>
<td>10/24/2007</td>
<td>Pending ratification (47 Months)</td>
</tr>
<tr>
<td>BID</td>
<td>GU0163</td>
<td>Programa de Apoyo a Inversiones Estratégicas y Transformación Productiva</td>
<td>5/3/2006</td>
<td>Pending ratification (64 Months)</td>
</tr>
</tbody>
</table>

* These loans were ratified between September and November 2011, once this evaluation had been carried out.
Figure A1. Diversion of Public Funds

“In your country, how common is the diversion of public funds to firms, individuals or groups due to corruption?”
[1 = very common; 7 = it never happens]

Figure A2. Waste in Public Expenditure

“How would you rate the composition of public expenditure in your country?”
[1 = Extremely wasteful; 7 = very efficient in the provision of public services and goods which are needed]

Source: WEF Global Competitiveness Report 2010-2011
This indicator measures the perception of the degree in which government is exerted for private benefits, as well as "State capture" by selected minorities and private interests.


Note: Values oscilate between -2.5 (worst) y 2.5 (best). The aggregate indicators are based on individual underlying variables, from a variety of existing data sources. Data reflect opinions on governance from the survey respondents (households and firms), as well as experts from the public and private sectors, and non-profits from around the world. The indicators include a country-specific estimated error margin, reflecting the difficulties associated to the measurement of governance indicators.

This indicator measures the perception of quality of public services, quality of public administration, and its degree of independence from political pressures, the quality in the formulation and implementation of public policies, and the credibility of government’s commitment with these policies.

Box A1.
and Management Response

The Country Program Evaluation 2004-2007 was delivered to the Board in April 2009 and it provided the following recommendations.

Given the international economic crisis and the liquidity deficit:

**Recommendation 1:** Take the necessary steps to ensure that the Bank’s support for the country anticipates and focuses on mitigating the potential impact of the crisis on the most vulnerable population groups, avoiding a reversal of the progress made in recent years in the reduction of exclusion, and promoting the necessary improvements in the quality of social services.

**Recommendation 2:** Support the country in covering part of its financing requirements with the necessary speed and volume defined mainly on the financial benefits of the loans and the sustainability of the debt generated, while providing technical support for the country to effectively manage the liquidity crisis.

As part of the strategy to support the country in addressing its longer-term challenges:

**Recommendation 3:** Given the economic policy difficulties encountered with respect to the policy reforms that remain pending, redouble the institutional support and refocus the Bank’s technical and financial cooperation, by developing new instruments that, unlike policy conditionality, make it possible to identify, establish, and implement real and effective incentives to undertake the necessary reforms. In particular, redefine the tools for supporting consolidation of a State with sufficient weight first to protect and then to increase its spending and public investment capacity and to carry out its regulatory functions.

**Recommendation 4:** Given the importance that the government and the international community have attached to the issue of growing violence, incorporate into the strategy and the Bank’s interventions the necessary diagnostic assessments of their implications for the different sectors in which it plans to be involved, including those related to the business climate, governance, fiscal cost, social welfare, and civic cohesion.

**Recommendation 5:** Provide technical and financial support for the design and implementation of a strategy to strengthen the country’s internal control and fiduciary administration systems—both financial and procurement-related—to provide citizens with a guarantee that public funds and multilateral financial resources are used efficiently and effectively.

**Recommendation 6:** Increase the Bank’s technical capital contribution capacity and the availability of technical-cooperation funds under effective coordination, in order to develop and deepen new sector relations based on the creditability of a technical proposal that supports the country’s decisions for the consolidation of the institutional framework and leadership functions that are appropriate for each sector, reflecting its long-term strategic challenges. In particular, carefully evaluate the institutional design requirements with regard to the relationship between the State and nongovernmental actors, to ensure effective implementation mechanisms and solid impacts.

The recommendations reflected in the document GN-2501 distributed to the Board of Executive Directors in December 2008 do not reflect the final recommendations suggested by OVE and distributed in April 2009, but the recommendations distributed in a first version of the CPE 2004-2007. In the Country Strategy with Guatemala 2008-2011 IDB’s Management indicates that the five recommendations included in the first version of the CPE 2004-2007 “have been taken into account by Management and are reflected in the design of this new Strategy”. These recommendations are:

**Recommendation 1:** In a context marked by the international crisis, take the necessary steps to ensure that the support the Bank delivers to country serves to mitigate its potential effects over the most vulnerable population groups and to prevent the reversal of the progress of recent years in reducing exclusion.

**Recommendation 2:** Promote dialogue with the country on the new conditions of violence and low levels of social cohesion in Guatemalan society to guide the design of interventions in different sectors and contribute to a diagnosis of the remaining challenges to security and development.
Recommendation 3: Redefining the Bank’s intervention strategy to support the consolidation of a State such as to protect and then raise the level of public spending and investment, building on the strengths that free disposal loans confer to the relationship of the Bank with the country.

Recommendation 4: Support the design and implementation of a strategy to strengthen internal control systems and country financial management to improve efficiency and effectiveness in the use of public funds and resources from multilateral financing.

Recommendation 5: Expanding the Bank’s technical capital to develop and deepen new sector relations which could support the country’s decision-making process, aimed at consolidating adequate institutions and regulatory functions for each sector, according to their specific long-term challenges.

The Minutes of the meeting of June 23, 2009 related to the presentation of Guatemala’s Country Strategy 2008-2011 stated that “the Committee discussed in some detail the incorporation into the country strategy of the recommendations made by the Office of Evaluation and Oversight (OVE) in its country program evaluation of Guatemala for the period 2004-2007, which Management noted was described in Annex 8 to document GN-2501. While OVE held the opinion that the proposed Strategy for Guatemala did not incorporate many of the recommendations issued by the Office, Management reckon that Annex VIII and Annex III of the Strategy document contained information about them. For example, regarding the issue of violence, which impacts some sectors, Management reported that this would be considered in [designing] the operations to be included in the Program with Guatemala, and they also reckon that the Bank was putting more focus into the issue through research at the country- and Mesoamerican-level. Regarding the use of the PBL instrument, Management pointed out that this instrument is highly valued by Guatemala, as it happens with other members of the Bank, as it provides a framework for policy action over the medium term and, in Guatemala’s case, it is also useful to push for highly relevant reforms in fiscal matters and regarding the design of social policy.”