

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

STRATEGIC AGREEMENT BETWEEN GUATEMALA AND THE IDB GROUP COUNTRY STRATEGY

2024 – 2028

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ABBREVIATIONS

| | |
|-------------------|---|
| AECID | Spanish Agency for International Development Cooperation |
| AeeC | América en el Centro |
| AGEXPORT | Guatemalan Exporters Association |
| ANOF CG | National Alliance of Community Forestry Organizations of Guatemala |
| ASIES | Association for Research and Social Studies |
| BANGUAT | Central Bank of Guatemala |
| BCS | Bank Country Strategy |
| CABEI | Central American Bank for Economic Integration |
| CAPRD | Central America, Panama and the Dominican Republic |
| CACIF | Coordinating Committee of Agricultural, Commercial, Industrial, and Financial Associations of Guatemala |
| CDC | Country Development Challenges |
| CENTRARSE | Guatemalan Business Council for Sustainable Development |
| CGC | General Comptroller of Accounts |
| CIEN | Center for National Economic Research |
| CONRED | Guatemalan Coordinating Agency for Disaster Reduction |
| CONADI | National Council for the Care of People with Disabilities |
| CONAMIGUA | National Council for Attention to Migrants of Guatemala |
| EBI | Intercultural Bilingual Education |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| EIB | European Investment Bank |
| EMBI | Emerging Markets Bond Index |
| ENCOVI | National Survey of Living Conditions |
| FCCV | Framework to Support Populations in Situations of Fragility, Conflict and Criminal Violence |
| FEDECOVERA | Federation of Verapaces Cooperatives |
| FOCAL | Forum of Government Accounting Offices of Latin America |
| FUNDESA | Foundation for the Development of Guatemala |
| GBV | Gender-based violence |
| GDP | Gross Domestic Product |
| GGP | General Government Policy |
| GHG | Greenhouse Gases |
| GoG | Government of Guatemala |

| | |
|-----------------|---|
| GVC | Global Value Chain |
| HDI | Human Development Index |
| ICEFI | Central American Institute for Fiscal Studies |
| IDB | Inter-American Development Bank |
| INAB | National Forest Institute |
| INE | National Statistics Institute |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IPEG | Equal Participation in Employment and Entrepreneurship Initiative |
| IPSAS | International Public Sector Accounting Standards |
| JICA | Japan International Cooperation Agency |
| LAC | Latin America and the Caribbean |
| M&E | Monitoring and Evaluation |
| MARN | Ministry of Environment and Natural Resources |
| MEM | Ministry of Energy and Mines |
| MIDES | Ministry of Social Development, |
| MINEDUC | Ministry of Education |
| MINFIN | Ministry of Public Finance |
| MINGOB | Ministry of the Interior |
| MSMEs | Micro, Small and Medium-Sized Enterprises |
| MSPAS | Ministry of Public Health and Social Welfare |
| NDC | Nationally Determined Contribution |
| SDG | Sustainable Development Goals |
| PAHO | Pan American Health Organization |
| OLACEFS | Organization of Latin American and Caribbean Supreme Audit Institutions |
| OVE | Office of Evaluation and Oversight |
| PBL | Policy Based Loan |
| PIMA | Public Investment Management Assessment |
| PPP | Purchasing Power Parity |
| SAT | Superintendent of Tax Administration |
| SCEP | Executive Coordination Department of the Presidency |
| SEGEPLAN | Secretariat of Planning and Programming of the Presidency |
| SIAF | Integrated Financial Administration System |
| SISCODE | National System of Development Councils |
| TFFP | Trade Finance Facilitation Program |
| UNICEF | United Nations Children's Fund |

| | |
|---------------|--|
| UNCTAD | United Nations Conference on Trade and Development |
| UNFPA | United Nations Population Fund |
| URL | Universidad Rafael Landívar |
| USAC | Universidad San Carlos de Guatemala |
| UVG | Universidad del Valle de Guatemala |
| WB | World Bank |
| XCPE | Extended Country Program Evaluation |

INTRODUCTION

A NEW APPROACH FOR IMPACT

Guatemala's potential

Guatemala is the largest and most stable economy in Central America. As the most populous, youngest, multi-ethnic and culturally diverse country in the region, it has great potential in terms of its human capital. Its strategic location, great biodiversity and climatic conditions have facilitated the development of a robust private sector, represented by large exporting companies, including the *Guate-Latinas*, which compete successfully in the international market.

For over a decade, Guatemala has grown steadily and resiliently, with a strong record of macroeconomic stability. It stands out in the region for having well-balanced public finances, the lowest debt levels in Latin America and the Caribbean (LAC) and a credit rating close to investment grade. However, it faces the dilemma that despite having abundant resources and strong economic indicators, the country has not reached the levels of investment needed to have a more prosperous and inclusive society.

While growth and stability have contributed to the country's progress, achieving a higher level of development and realizing its full potential requires strategic investments to improve the quality of life of Guatemalans, stimulate the productivity and resilience of the private sector, and reduce social and environmental vulnerability to climate risks and challenges in the international context.

Guatemala has the capacity to play a key role in the region's green transition, using its natural resources — such as water and biodiversity — to promote the production of renewable energy, reforestation and climate adaptation in the agricultural sector, as well as to improve food availability. It is also possible to build a more equitable society, through investments that improve the living conditions of indigenous populations and create opportunities for women.

A New Approach to the Country Strategy

The 2024-2028 Bank Country Strategy (BCS)¹ seeks to increase the impact of the IDB Group's actions in Guatemala through greater selectivity in its operations. This approach allows for a concentration of resources, expertise, synergies and strategic alliances to address the complex challenges, recognizing both the unique risks and opportunities of operating in the country.

The strategic selectivity framework followed a structured process. The first step was to align the government's goals, as outlined in the General Government Policy (GGP 2024-2028) and the K'atun National Development Plan: *Nuestra Guatemala 2032*, with the priorities and objectives of the IDB Group, as set out in the Country Development Challenges (CDC) document, in the new institutional strategy (IDBStrategy+), and in the regional program “*América en el Centro*” (AeeC). Secondly, an analysis of the IDB Group's positioning in comparison with other multilateral development agencies with significant presence in the country was carried out to identify the areas in which the IDB Group has worked and in which it has comparative advantages. Thirdly, the operational experiences of the different IDB Group windows and lessons learned were analyzed. Finally, the selectivity

¹ The BCS 2024-2028 will be in effect until December 2028.

framework assessed the risks associated with the implementation of this BCS, using the new IDB Risk Taxonomy (document GN-2547-15), along with detailed mitigation measures.

As a result of this selectivity framework, the IDB Group will focus its work on a set of prioritized actions with a potentially high transformative impact. The aim is to ensure maximum efficiency, effectiveness and impact of interventions, contributing to the development of a more inclusive, resilient and sustainable country.

**Identified
intervention
pillars and
expected
impact**

The BCS 2024-2028 is structured around three key pillars, based on the results of the selectivity framework for Guatemala:

Basic services for vulnerable populations: Actions under this pillar seek to improve the provision of and equitable access to basic services, enhancing Guatemala's human capital. Actions are aimed at creating conditions and opportunities that allow Guatemalans to develop with more and better services, in safe environments and with access to justice. This will contribute to close social gaps, especially in the case of rural population, indigenous people, youth and women. In this sense, the strategic objectives of this pillar focus on reducing the gaps in infrastructure coverage in (i) water and sanitation and (ii) rural electrification; (iii) improving the coverage and quality of secondary education and (iv) health services; and (v) improving the quality of justice administration services.

Private sector development: Guatemala's economic strength lies largely in its private sector. However, its growth is constrained by low productivity, competitiveness and low climate resilience, which affects economic growth and the creation of quality jobs. Actions under this pillar will focus on improving the conditions for doing business and strengthening entrepreneurial capacities, with a specific focus on MSMEs, to facilitate their integration into value chains and their access to finance. The strategic objectives of this pillar are: (i) boosting competitiveness through the development of productive infrastructure, and (ii) increasing financing for the productive sector.

Climate action and food availability: The actions in this pillar are designed to promote the building of climate resilience by scaling up climate resilience financing, as well as to encourage the adoption of adaptation and mitigation measures in the agriculture and forestry sectors. These actions strengthen the country's social, economic and institutional preparedness for the effects of climate change, improve the productivity, resilience and sustainability of the agriculture and forestry sector, which contribute to national emission reduction targets and increased food availability. The strategic objectives of this pillar are: (i) building climate resilience and strengthening mitigation and adaptation actions; (ii) making public forest services more efficient and, (iii) improving food availability.

The strategy provides cross-cutting support to challenges related to gender and diversity, capacity building in the public and private sectors, and addressing the challenges of climate change. The IDB Group's interventions will focus on closing gender gaps and serving the indigenous population, through intercultural adaptations and gender mainstreaming of basic services, as well as strengthening policies for populations in a situation of dependence. Institutional capacity building will also cover key areas such as planning, financial management, procurement and contracting, monitoring and evaluation and project management in both the public

and private sectors, along with the promotion of integrity and transparency. Climate action will be included in all interventions, ensuring that each project encompasses climate resilience measures, and the protection of natural resources.

The new strategy proposes a more comprehensive and effective vision for the IDB Group, in which public and private sector windows complement each other and work together. Given the dynamic nature of Guatemala's private sector, the IDB Group will promote public-private synergies and upstreaming work to maximize the impact and scalability of projects.

By coordinating solutions and fostering knowledge sharing, the strategy will strengthen alignment between public and private actors, enabling the creation and enhancement of markets in priority areas, as well as fostering greater private investment. Special emphasis will be placed on strategic partnerships to amplify these efforts and achieve significant development impact.

Guatemala – IDB Group Partnership

The IDB Group has been a key strategic partner for Guatemala. The experience gained from years of collaboration with the country, coupled with growing financial and technical support, has been crucial in driving significant progress in its development. The IDB Group's contribution during the 2021-2024 BCS had a clear focus on institution-strengthening, modernization of logistics and transport infrastructure and managing the challenges brought on by the pandemic.

The BCS 2024-2028 regards access to basic services, productive infrastructure development, climate change and environmental sustainability as the core areas of the development plan for the coming years. In that sense, the IDB Group is ready to continue playing a key role as a strategic partner in advancing the country's development goals, by increasing its investments in key sectors, consolidating public-private partnerships, and deploying all its technical and international capacity so that Guatemala can capitalize on its potential and move towards a more prosperous, equitable, and sustainable future.



I. BUILDING A NEW COUNTRY

STRATEGY: PURPOSE AND APPROACH

A. AN INCLUSIVE, PROSPEROUS AND SUSTAINABLE FUTURE FOR GUATEMALA

- 1.1 Guatemala has experienced moderate and sustained growth over the last ten years, on the solid basis of macroeconomic stability.** Between 2013 and 2023, the country recorded an average annual GDP growth of 3.5%, exceeding the 2% recorded in Latin America and the Caribbean (LAC), although it fell short of the 4.2% recorded in similar economies such as Central America, Panama and the Dominican Republic (CAPRD)². Thanks to prudent fiscal management and a credible monetary policy³, Guatemala has strengthened its macroeconomic framework, thus contributing to the stability and resilience of its economy in the face of various shocks, including the 2020 pandemic⁴. Over the last ten years, the fiscal deficit averaged 2% of GDP, public debt remained among the lowest in the region (28% of GDP compared to 78% of GDP in LAC)⁵, while the inflation rate averaged 4.3% per year, within the Bank of Guatemala's target range (4% \pm 1 p.p.)⁶. In addition, Guatemala has managed to position itself among the countries with the best credit rating in the region since 2010⁷. Despite this good performance, investment rates in the country have remained among the lowest in LAC (15% compared to 21% of GDP, respectively)⁸, while significant fiscal and institutional challenges persist, limiting productive development and more inclusive growth. Guatemala has made efforts to implement reforms aimed at raising tax revenue and improving the quality of public spending⁹. However, the country still has the lowest tax ratio in the region (12% of GDP, compared to 16.8% in LAC)¹⁰, which, coupled with a high budget rigidity¹¹, has resulted in inadequate levels of social spending and public investment to close the wide social gaps and improve the living conditions of the most vulnerable population¹².
- 1.2 Despite economic growth and stability, human capital and poverty levels have not shown significant progress due to investment gaps in basic services¹³.** Between 2013 and 2023, Guatemala's GDP per capita grew by half the Central American average (2.5% compared to 5% annual average in PPP)¹⁴. Monetary poverty has remained practically unchanged, among the highest in the region¹⁵ affecting 56% of the population¹⁶. In addition to low income, the population faces multiple

² Calculation based on estimated growth figures. IMF, WEO April 2024.

³ Consultation of Article IV with Guatemala. IMF (2024).

⁴ During the 2020 pandemic, Guatemala recorded one of the smallest contractions in GDP on the continent (-1.8% compared to -6.5% LAC average and -7.9% CAPRD), and a rapid recovery in 2021 (8% compared to 7.2% CAPRD). With figures from IMF, WEO April 2024.

⁵ Refers to average stocks as a % of GDP over the 2013-2023 period. With figures from IMF, WEO April 2024.

⁶ In 2022, inflation moved temporarily out of its target range due to imported food and hydrocarbon inflation at the start of the Russia-Ukraine war, converging back to its target for 2023.

⁷ Fitch Ratings (BB stable), S&P (BB positive) and Moody's (Ba1 stable). Guatemala's rating is only surpassed by Panama in the CAPRD region. This has implied a below-average EMBI spread for LAC and Central America, with the exception of Panama.

⁸ This refers to average Gross Capital Formation as a percentage of GDP over the 2013-2023 period. With figures from IMF, WEO April 2024.

⁹ In the last 2 years, tax revenue increased from an average of 11% of GDP to 12% of GDP. MINFIN Statistics (2024).

¹⁰ MINFIN and IMF, WEO April 2024.

¹¹ On average, about 90% of public spending would be committed from the budgeting process. CIEN, Principales problemas en la gestión del gasto público en el ciclo presupuestario (2015).

¹² Social spending and public investment only account for about 60% of the levels recorded in the region. Calculations based on figures from the Economic Commission for Latin America and the Caribbean (ECLAC, 2021).

¹³ According to the latest World Bank estimates. Macro Poverty Outlook for Guatemala 2023.

¹⁴ IMF, WEO April 2024.

¹⁵ World Bank data (2023).

¹⁶ ENCOVI (2023).

deprivations. According to the multidimensional poverty indicator¹⁷, six out of ten Guatemalans have difficulties in accessing public services, decent employment or suffer from food insecurity¹⁸. This type of poverty is predominant in rural areas, with 73% of the population living in this condition. Still in 2022, about 57% of households lacked access to at least one basic service, such as clean water, sanitation, electricity or waste collection¹⁹. This also reflects the low quality of many dwellings and a significant housing shortage²⁰. The low and inequitable coverage of public services has limited the development of the population's human capital from an early age, resulting in significant health and education gaps that limit their future job opportunities, reinforce the poverty cycle, promote violence and migration, and increase climate vulnerability²¹. While insufficient social and productive investment levels have been the primary factor driving these outcomes, the inefficiency of government institutions in service delivery, coupled with escalating environmental and climate challenges, has also played a significant role in shaping the high exclusion and migration rates²².

1.3 The economy is largely informal and has low productivity. The Guatemalan private sector contributes 96% of the country's GDP²³. On the one hand, there is a sector of large exporting companies, primarily in agriculture and textiles, that is growing slowly and has limited participation in global value chains (GVCs). On the other hand, micro, small and medium-sized enterprises (MSMEs), account for 99.6% of the country's businesses, contributing 40% of GDP and generating 80% of employment. They generally operate in the commercial, agricultural and construction sectors²⁴, which tend to be highly informal. This limits the financial inclusion of MSMEs and their possibilities for growth and internationalization. Despite being the main driver of the Guatemalan economy, the business sector has limited productivity, partly due to inadequate infrastructure, difficulties in accessing finance and an unfavorable business climate. Exports tend to be of low complexity²⁵ and uncompetitive²⁶ due to the high costs imposed by investment gaps in productive infrastructure²⁷. In addition, the limited operational and technological capacities of many companies hinder their integration and access to more sophisticated value chains. Added to this is the high vulnerability of infrastructure and productive systems to the effects of climate change²⁸, as well as the limited institutional capacity for the planning and execution of more complex works²⁹. Difficulty of accessing formal financing is another obstacle to growth faced by the productive sector. The supply of bank credit to the private sector is low³⁰, particularly for MSMEs, the agricultural sector³¹ and entrepreneurs, all three of which are mostly informal and high-risk sectors. Furthermore, capital markets and fintech companies are financing alternatives that are still under development and have low coverage. Finally, regulatory and institutional shortcomings and qualified human capital deficits continue to affect the business environment, with negative impacts on investment and productivity. Furthermore, progress in the transition to more sustainable and climate-adapted production by companies has been limited.

¹⁷ Multidimensional poverty indicator. MIDES (2018).

¹⁸ The Multidimensional Poverty Indicator for 2018 shows that some of the biggest barriers faced by households are access to education services (59.5%), quality jobs (52.7%), solid waste collection (51.6%), sanitation (45.9%), and almost a third (34%) suffering from moderate or severe food insecurity.

¹⁹ Poverty & Equity Brief Guatemala. Latin America & the Caribbean. World Bank, (2024).

²⁰ The housing deficit affects 1,363,193 dwellings, 93.5% of which suffer a qualitative deficit. The absence of basic services in areas where new housing is needed also hinders the viability of construction projects. Data from Cámara Guatemalteca de la Construcción (CGC), Asociación Nacional de Constructores de Viviendas (ANACOV), Census (2018) and Estudio de Cadena de Valor de la Vivienda en Guatemala, BID (2023).

²¹ In 2020, Guatemala ranked 124th out of 174 economies in the World Bank's Human Capital Index, only ahead of Haiti in the region.

²² 17.2% of the Guatemalan population lives overseas, mainly in the USA. Guatemala is the second country in LAC in the receipt of remittances, which represent about 20% of the country's GDP. Migration Data Portal Datamig of the IDB and Bank of Guatemala (2024).

²³ Bank of Guatemala (2024). Gross Domestic Product in the 2nd Quarter of 2024 by Production Origin, excluding Public Administration and Defense activities.

²⁴ The estimated contribution of the construction sector to GDP between 2019-2023 was more than 5%, employing 8% of the employed population. In addition, Guatemala is the second largest exporter of construction materials in Central America.

²⁵ Guatemala ranked 75th out of 133 economies on the Economic Complexity Index in 2021 (Harvard University, 2024), mainly explained by a concentration of exports in low- and medium-complexity goods. In 2022, the country ranked 72 out of 153 in the Industrial Competitiveness Performance Index (United Nations Industrial Development Organization, 2024). Exports of high-tech products as a percentage of manufactured exports account for about 5% World Bank, (2024).

²⁶ According to the World Economic Forum's Global Competitiveness Index, Guatemala ranks 56th out of 141 economies in terms of infrastructure, with significant gaps in connectivity and quality of road infrastructure, where it ranked 134th and 132nd, respectively.

²⁷ These measurements highlight the investment gaps in road infrastructure and logistics, which translate into Guatemala having one of the highest logistics costs and travel times in Central America. The estimated cost to transport a 40-foot container is US\$1.50/km, more expensive than El Salvador US\$1.34/km; Honduras US\$1.24/km; Mexico US\$1.42/km; and Nicaragua US\$1.21/km. IDB, (2013).

²⁸ The infrastructure has low resilience to natural disasters. INFORMRisk. Guatemala, Country Risk Profile (2024).

²⁹ SEGEPLAN and Guatemala: Technical Assistance Report-Public Investment Management Assessment – PIMA and Climate-PIMA (C-PIMA). IMF, (2024).

³⁰ It stands at 35.9% of GDP compared to LAC (59.6% of GDP) WDI. World Bank, (2020).

³¹ MSMEs receive 8.4% of bank lending — not including those in the informal sector — while the agricultural sector receives 3%.

1.4 The Guatemalan population and economy are highly vulnerable to climate change impacts.

Guatemala's strategic location and geographical features have favored the development of commercial activity and agriculture³². However, it is these same conditions that make the country vulnerable to climatic impacts and highly exposed to natural disasters. Guatemala ranks ninth globally in terms of vulnerability to climate change impacts³³ and has limited institutional capacity to address the issue³⁴. Infrastructure and the agricultural sector are the most frequently impacted by weather events, with floods, landslides, and droughts being the most common occurrences³⁵. These events severely impact the livelihoods of the rural population, affecting both small farmers and large agricultural export companies. Therefore, weather events frequently compromise the availability of food in the country, affecting the poorest and most vulnerable population, such as those located in Guatemala's dry corridor. Moreover, limited climate finance, lack of resilient housing³⁶, persistence of unsustainable agricultural practices, deforestation and a slow transition to clean energy use are limiting the country's progress on its greenhouse gas (GHG) emission reduction commitments under the Paris Agreement³⁷.

1.5 The most vulnerable groups continue to bear the brunt of economic and climate challenges.

Guatemala is one of the most populous and multi-ethnic economies in Central America. It has an estimated population of 18 million people, 44% of whom identify as indigenous or Afro-descendant, belonging to the Maya, Garifuna, Xinca and Creole peoples³⁸. Despite its significance, the indigenous population faces the greatest social and service access lags in relation to the non-indigenous population. Measured by the Unsatisfied Basic Needs Index, the poverty gap between indigenous households (65%) and non-indigenous households (43%) is 22 percentage points. These gaps are also evident in the human development index (HDI), where different linguistic communities, such as the Maya (0.58) and Xinca (0.59) show a lower HDI than the national average (0.66)³⁹. In addition, of the population with at least one disability, representing 10.4% of the national total⁴⁰, 35% identify as Mayan⁴¹. For their part, Guatemalan women face one of the greatest gender inequalities on the continent, particularly in the economic sphere⁴². Women have the lowest labor participation rates in LAC⁴³, higher credit constraints than men and high rates of domestic violence victimization⁴⁴. The various economic crises, especially the 2020 pandemic, and the multiple environmental and climate challenges facing the country, have made these groups more vulnerable.

1.6 The country faces significant challenges in terms of its institutional capacity in the public and private sector.

While showing some progress, Guatemala's institutional and regulatory quality still lags behind its peers⁴⁵ in the region. This is evident in the low efficiency of public spending, which struggles to meet the needs of the most vulnerable populations and to create a business environment that fosters private participation and investment. Some of these challenges arise in areas such as: (i) the use of national systems and fiscal management to improve the efficiency and transparency of public

³² Like the Guate-Latinas, Guatemalan companies with an agricultural tradition that compete internationally and whose income, operations and resources come from abroad.

³³ Climate Change Knowledge Portal (CCKP). World Bank.

³⁴ According to the Index of Governance and Public Policy in Disaster Risk Management (IGOPP), Guatemala has weak governance for disaster risk management. IDB (2023).

³⁵ There are more than 10,000 landslide and flood risk points in the country. Totonicapán, San Marcos, Quetzaltenango, Chimaltenango, Sacatepéquez, Sololá and Huehuetenango have been identified as the departments with the greatest vulnerability to landslides. CONRED (2023).

³⁶ Guatemala has a limited supply of sustainable housing, especially for the low-income population. This is mainly due to regulatory constraints and the limited information the population has about its advantages.

³⁷ Contribución Nacionalmente Determinada (NDC) Guatemala 2021. MARN (2022).

³⁸ Statistical Compendium with a People's Approach. INE, (2023).

³⁹ The Garifuna and Afro-descendant communities have a slightly higher HDI than the national average, with 0.68 and 0.70, respectively. National Human Development Report (2020).

⁴⁰ Disabling conditions include physical, intellectual, psychosocial, hearing, visual limitations, deafblindness, low height and multiple disabilities. Washington Group Disability Statistics (2020).

⁴¹ PWD represent 10.38% of the Guatemalan population. They have significant disadvantages in education, employment, and access to health and technology. More than 50% of school-aged PWD do not attend school; only 3.8% of all PWD reported being employed and 83% have not used a mobile phone, computer or internet. IIPS-USAC (2021) and CONADI (2021).

⁴² The gaps in both the Gender Human Development Index (GHDI) and the Gender Inequality Index (GII) show inequalities above the regional average, the main ones being in the economic sphere.

⁴³ The 41.5% female labour force participation rate in Guatemala was taken from the ILO estimate for 2022, and the 43.6% stems from the 2024 INE National Employment and Income Survey (ENEI).

⁴⁴ 48.8% of women have experienced some kind of violence in their lifetime. In addition, 34.48% have suffered sexual violence and 31.67% psychological violence. Indicators of the Prevalence of Violence against Women in Guatemala. INE (2024).

⁴⁵ Surpassing only Honduras and Nicaragua. Government efficiency indicator. WGI (2021). World Bank.

spending; (ii) the simplification of procedures and processes, particularly regarding regional integration and trade; and (iii) regulatory and business integrity issues such as those related to the scope of international standards in legislation on money laundering, PPPs; and (iv) closing gender and diversity gaps in the labor market. Companies, particularly MSMEs, reflect the absence of non-financial advisory services, little support for their digital transformation and a low capacity to adopt new technology and innovate.

B. MAIN LESSONS LEARNED FROM THE 2021 - 2024 COUNTRY STRATEGY

- 1.7 The main lesson drawn from the previous country strategies was the need for the IDB Group to better select the areas to intervene, in order to broaden the impact of its operations and be more effective.** As a result, the selectivity framework of this new BCS 2024-2028 focuses on a limited set of clear and measurable objectives, which will allow for the implementation of a more focused country program, with greater strategic alignment and maximising synergies between windows, while managing environmental, social and implementation risks more efficiently. In the case of Guatemala, this new selectivity process is fundamental for the 2024-2028 BCS, given that the country program has been constrained by delays in authorizations by Congress, which has affected implementation, development effectiveness and the contribution of Sovereign Guarantee (SG) operations to the objectives of the BCS. Given these constraints, a more strategic approach has been designed to maximize the likelihood of generating results by supporting the scaling up of private sector operations, as well as forward planning, close dialogue with the authorities and the readiness of sovereign guaranteed operations awaiting implementation, including pre-investment, preparation of tender documents, training of executing agencies, among others.

Lessons learnt

- 1.8** The lessons learnt from the implementation of the previous IDB Group Country Strategy will guide the implementation of the Country Strategy 2024-2028⁴⁶. The recommendations and findings of OVE's Extended Country Program Evaluation 2017-2024 (XCPE) have been included in this document.
- 1.9 At the strategic level,** the following lessons and mitigating measures are highlighted for this Country Strategy:
- a. Authorization by Congress remains a major challenge in Guatemala.** Delays in authorization by Congress of Sovereign Guaranteed operations approved by the IDB in the previous country strategy period, and of some legacy operations, continue to significantly impact the execution and efficiency of operations. These processes can take several years and result in the cancellation of operations before they become effective⁴⁷. During the Country Strategy period, a smaller number of operations is expected to be approved, but with a broader scale and greater impact in key areas critical to national development. The approval of SG operations will be concentrated at the start of the period to ensure that their implementation begins within the timeframe of the Country Strategy.
 - b. The negative public perception of external borrowing influences Congress's approval of sovereign-guaranteed operations.** The Country Strategy will seek to mitigate the negative perception of society towards the contracting of debt to finance public investment projects through a communication strategy, in coordination with the government, that focuses on disseminating the expected outcomes and benefits of the projects for the community, so that this in turn contributes

⁴⁶ Information based on bi-weekly running portfolio milestone review meetings, bi-annual portfolio review meetings, operational performance and results, Independent Country Program Review: Guatemala, 2017-2020 (ICPR), among others.

⁴⁷ During the 2021-2024 Country Strategy period, three operations were cancelled for a total amount of US\$570 million. Delays in authorization by Congress for SG operations and cancellations are challenges shared with other multilateral development agencies in Guatemala.

to inform the legislative discussions around the approval of the operations, and the Guatemalan society has a greater awareness of how important it is to have strategic investments to reduce the social and development gaps facing the country.

- c. **IDB Invest and IDB Lab played a key role in the achievement of the objectives of the 2021-2024 Country Strategy.** In the 2021-2024 Country Strategy, IDB Invest and IDB Lab broadened their range of action in the country, financing impactful and innovative investments from financial and real sector entities⁴⁸. The new BCS will promote private sector development in Guatemala, greater collaboration between the IDB's public and private windows, with a focus on institutional capacity building and other interventions that foster private investment in key sectors such as energy, transportation and agriculture.

1.10 At the operational level: The following lessons and mitigating measures are highlighted for this Country Strategy:

- a. **Continued monitoring of the execution of operations.** The execution of operations in Guatemala deteriorated significantly in 2020 and 2021 mainly due to the COVID-19 pandemic. In response to this, an Operational Efficiency Improvement Plan was implemented based on dialogue, planning and ongoing monitoring between the IDB, the executing agencies and the Ministry of Public Finance, which led to significant improvements in the execution of operations. The implementation of the Improvement Plan has made it possible to proactively manage risks and overcome challenges in the execution of operations and to make significant progress in achieving development results, which led to an improvement in the performance of the loan portfolio, reaching 86% of operations with a satisfactory rating in 2023, placing Guatemala above the IDB's target. Guatemala also closed 2023 with the best technical cooperation performance in the Bank (88% satisfactory). In the same year, it had record disbursements for investment loans, at levels comparable to 2001 but with a much smaller current portfolio of loans in execution⁴⁹. This Plan will continue to be applied in the framework of the 2024-2028 Country Strategy with periodic milestone review meetings with the counterparts in accordance with the characteristics of each operation. In addition, the development effectiveness approach will continue to be implemented in portfolio reviews with the government.
- b. **Advancing planning and readiness of operations pending approval is key to improve execution.** The time elapsed between IDB approval of operations and authorization by Congress will be used to advance in preparatory actions prior to project execution, including pre-investment, preparation of bidding documents, training of executing agencies, among others, as a relevant factor to streamline and accelerate implementation. Operational support in assisting the form of technical cooperation will continue to be crucial to improve the performance of operations and keep positioning the IDB as a key partner of the government.
- c. **Strengthening dialogue with authorities.** Early involvement of the authorities of the agencies involved in the cycle of preparation, approval, implementation and closure of operations is crucial to improve project execution and outcomes. To this end, throughout the implementation of this Country Strategy the Bank will continue to work closely with the Ministry of Public Finance as its counterpart. The Planning and Programming Department, Office of the President of Guatemala (SEGEPLAN) will be included from the operational preparation stage, in order to minimize the challenges faced by the executing agencies in obtaining favourable opinions on operations, and to be able to move towards negotiation. Likewise, in coordination with the government, close dialogue and informative meetings will continue to be held with different agencies in the Congress of the Republic, to report on the progress of execution and to present the benefits and scope of the operations pending authorization by Congress.

⁴⁸ For example, IDB Invest's offer of flexible and diverse financial solutions has been essential to better address market failures, especially long-term financing needs. On the other hand, IDB Invest's participation in the Sustainable Finance Advisory Council has been strategically key to incorporate this issue in the country's private sector.

⁴⁹ In 2001, the portfolio in execution consisted of 21 eligible loans while in 2022-2023 the portfolio consisted of five loans eligible for disbursement.

- d. Delays in complex activities due to required processes.** There were delays in the start-up of operations which involved complex works and activities, given the time and processes required to release rights of way, obtain permits, manage licences, carry out studies and consult with communities. In addition, the changes of officials and authorized signatures, budget-related issues — including amendments and monthly financial instalments —, project team building and the establishment of foreign companies and contractors also delayed the implementation of programmed activities. These processes will be analysed more thoroughly within the framework of the 2024-2028 Country Strategy, to ensure that they are advanced prior to the approval of operations.
- e. Strengthening dialogue with the private sector.** Dialogue with the private sector has been a key tool for driving positive changes in clients' business strategies, and for stimulating market creation. For example, the concept of financial sustainability has gained ground in Guatemala, in part thanks to the establishment of the Sustainable Finance Advisory Council and the ongoing dialogue with the private sector on this topic. The Council allowed IDB Invest to advance the promotion of sustainable finance objectives through advisory services with a focus on gender, diversity and inclusion. During the 2024-2028 BCS, the impact of the projects will be increased by: (i) scaling up advisory services so that the private sector can better contribute to mitigating risks associated with climate change, operate more sustainably, advance the gender and diversity agenda and identify new markets and business opportunities; (ii) improving the offer and sophistication of products to broaden the client portfolio, e.g. local currency products demanded by the real sector; and (iii) deepening public-private synergies within the IDB Group to inform public sector investment decisions, improving its capacity to structure solutions that appeal to the private sector.
- f. Financial and non-financial risk management for the private sector.** Traditionally IDB Invest's operational experience points to the need to consider the limitations of long-term funding in the local banking system, especially for project finance, and to anticipate systems to mitigate potential variations in market conditions. In turn, proper identification and management of non-financial risks, such as social, environmental, governance and integrity risks, is essential for the viability and success of infrastructure projects. In contexts of high social risk, additional consultation with stakeholders and the creation of favourable conditions for private sector operations are necessary. The proactive management of these risks prevents credit and reputational issues, which have affected project continuity. In addition, the technical and financial capacity of the sponsor, together with a solid financing and guarantee package, are key to achieving investment objectives, managing the risks and their implications.

1.11 At the development effectiveness level, the new IDB Group strategic cycle will consider the following lessons:

- a. Ambition of objectives vs tangible results.** The 2021-2024 BCS established targets that, while broadly aligned with the priorities of the Government and the IDB Group, were overly optimistic for achievement within the term of the BCS. In some cases, the targets were also highly ambitious in terms of the expected contributions of the programs implemented during the period. This lesson has been incorporated into the design of the BCS 2024-2028, establishing strategic objectives through a comprehensive prioritization process, in strategic dialogue with the government, and based on selectivity criteria focused on maximising the impact and scalability of interventions through which the IDB Group could contribute to tangible development results and impacts during the term of the BCS.
- b. Program maturity.** The IDB's greatest contribution to Guatemala's development is the existence of a mature program, synergies between the IDB Group and work to strengthen its counterpart's institutional capacities. In this regard, the 2024-2028 BCS proposes, when possible, the approval of a smaller number of operations with a larger scale and impact, concentrating the approval of new sovereign guaranteed operations at the beginning of the BCS period, seeking that the

implementation of these operations, together with the approved portfolio, will contribute to the outcomes of the BCS.

C. FOCUS ON SELECTIVITY FOR TANGIBLE IMPACT

WHY SELECTIVITY FOR IMPACT?

1.12 A new approach for the IDB Group strategy. The new selectivity framework aims to ensure that IDB Group resources and actions are focused on areas that have the greatest potential for impact. This approach makes it possible to address Guatemala's complex development challenges through interventions that are more likely to generate significant, scalable and sustainable results. Strategic selectivity allows the IDB Group to focus on sectors most aligned with national priorities and to concentrate efforts in areas where the likelihood of success is greatest. This improves risk identification and management, facilitating the development and undertaking of mitigation strategies. Finally, by focusing on fewer but well-defined areas, the selectivity framework effectively harnesses synergies between the different actors — both public and private — avoiding the dispersion of efforts and maximizing the strengths and expertise of each to achieve greater overall impact. With this, the new strategy seeks to have a holistic view of the challenges and greater selectivity in addressing them.

1.13 Summary of the strategic selectivity framework: This document proposes the priority areas of work between the IDB Group and Guatemala for the 2024-2028 period. The areas selected are the result of a comprehensive prioritization process, in strategic dialogue with the government, and based on selectivity criteria focused on maximising the impact and scalability of the interventions. These strategic areas are aligned with Guatemala's General Government Policy (GPP) for the years 2024 - 2028⁵⁰ and with the The K'atun National Development Plan: Our Guatemala 2032, which is considered to be a long-term development framework⁵¹. Furthermore, they are in line with the IDB Group's institutional strategy, IDBStrategy+, as well as with the regional strategy “*América en el Centro*” (AeeC). The selected priority areas were also subject to a public consultation process with civil society and the business sector⁵². The criteria used to select them are described below.

HOW DO WE SHARPEN OUR FOCUS?

1.14 Country diagnosis and alignment of priorities. As a starting point, the main development challenges facing Guatemala were identified through a country diagnosis or CDC⁵³. These challenges were defined by identifying an initial intersection with the Government's priorities, as outlined in the GPP⁵⁴ and the K'atun Plan; the private sector priorities and those of the IDB Group, as defined in the IDBStrategy+ and the AeeC. This exercise yielded a set of ten thematic areas⁵⁵, in which the strategic priorities were aligned.

1.15 Strategic positioning. Secondly, the IDB Group's portfolio and positioning were analysed and compared with the actions taken by other multilateral development agencies with significant presence

⁵⁰ Their objective is to achieve a pluralistic, equitable, prosperous, democratic and peaceful country with full respect for the General Government Policy 2024-2028. SEGEPLAN (2024).

⁵¹ The K'atun Plan proposes 5 areas of development prioritisation including: 1. Urban and rural Guatemala; 2. Welfare for the people; 3. Wealth for all; 4. Natural resources today and for the future and 5. The state as guarantor of human rights and driver of development. Plan Nacional de Desarrollo K'atun Nuestra Guatemala 2032.

⁵² See Public Consultation. UNICEF's U-Report tool was used to run a survey among the student population on what they considered should be the top priorities to be addressed by the Country Strategy.

⁵³ Country Development Challenges.

⁵⁴ The GPP considers 10 priority areas: 1. Legitimate and effective public service; 2. Social Development; 3. Protection, assistance and social security; 4. Combating malnutrition and malnutrition; 5. Economic infrastructure; 6. Bridging the digital divide with technology and innovation; 7. Security and democracy; 8. Care for nature; 9. Citizenship without borders and; 10. Bases for a new social contract. In addition, the most important priorities identified by the private sector through the “*Guatemala no se detiene*” plan were reviewed.

⁵⁵ The ten thematic areas are: health, education, energy, water and sanitation, transport and logistics infrastructure, financing for productivity and financial inclusion, agriculture, transparency, public safety and climate change.

in the country. This analysis made it possible to identify the areas of development where the IDB Group has been working in recent years, and those in which it has comparative advantages. Regarding the public sector, the results of this analysis highlight the IDB Group's presence and advantage in high priority sectors for the GoG: transportation, energy, education, water and sanitation. With respect to development financing through the private sector, IDB Invest has established itself as the most relevant player among its peers with a solid positioning in operations focused on promoting the financial inclusion of MSMEs, women-led enterprises, trade finance facilitation and deepening the capital market. In addition, IDB Invest has been gradually gaining operational experience in other sectors such as transportation, healthcare and agriculture.

- 1.16 Operational experience.** Thirdly, the portfolio performance by sector was analysed for both public and private windows, considering the relative size of IDB Invest in Guatemala's portfolio (63.8%)⁵⁶. Public sector portfolios were assessed in three dimensions: (i) portfolio performance; (ii) results of operations; and (iii) long-term programmatic vision. Consideration was also given to the institutional capacity of the executing agencies to implement additional investments over the term of the BCS, in addition to the approved project portfolio. This analysis led to the conclusion that the sectors where the public sector window can maximize its impact are: transport, energy, water and sanitation. The following dimensions were assessed in the case of IDB Invest operations: (i) portfolio performance, both in financial and non-financial terms; and (ii) achievement of business development impact targets. The analysis concludes that IDB Invest could expand its operations to the real sector (transport, agriculture, energy and manufacturing) while continuing to strengthen its presence in financial markets.
- 1.17 Risk assessment.** Finally, the selectivity framework also included an analysis of the risks associated with the implementation of this Country Strategy. These risks cover political, macroeconomic, environmental, social and execution aspects, and were identified using the new "Risk Taxonomy" (document GN-2547-15). Mitigation measures were also identified that focus on the early detection of identified risks, as well as active coordination with relevant authorities to implement actions. As mentioned in the lessons learned session, one of the main risks affecting the development effectiveness of SG operations in Guatemala's portfolio is the delay in authorization by Congress. To mitigate this risk, the IDB will focus on a smaller number of larger scale projects in sectors more aligned with national priorities, and more likely to generate significant, scalable and sustainable results, during the term of this BCS.
- 1.18 Results of the strategic selectivity framework.** The application of the four criteria of the selectivity framework implies that for new investments in the public sector, the IDB should give priority to the transport, energy and water and sanitation sectors; and IDB Invest should replicate the success achieved in real sector operations with an emphasis on transport, energy, and agriculture, while continuing to work with financial markets with a focus on MSMEs and vulnerable populations⁵⁷. In addition to these new operations, the IDB Group will continue to work in sectors where projects are already underway or awaiting authorization by Congress (legacy portfolio).

⁵⁶ IDB Lab was not included in the analysis of operating experience due to its relative size in the Guatemalan portfolio (0.5%). However, its financial execution rate (89.5% disbursed) is higher than the average project life-cycle percentage (83.1%), indicating a high execution performance.

⁵⁷ In the case of IDB Lab, the current portfolio focuses on financial inclusion for MSMEs and vulnerable groups, as well as on the agriculture and natural capital sector. Through the 2024-2028 BCS, BID Lab will focus on the same sectors with a bigger focus on ecosystem development.

TABLE 1. LEGACY PORTFOLIO AND SECTORS PRIORITIZED THROUGH THE STRATEGIC SELECTIVITY FRAMEWORK

| | | LEGACY PORTFOLIO | PRIORITIZED SECTORS |
|---------------|----------------------------------|---|--|
| BID | Social | Education Health Social protection | Transport Energy Water and Sanitation |
| | Institutions | Modernization of the State | |
| | Environment | Natural resources | |
| | Infrastructure | Transport Energy Water and sanitation | |
| Invest | Infrastructure | Transport | <ul style="list-style-type: none"> Replicating the success achieved in real sector operations, with an emphasis on transport, energy and agriculture. Continue working with financial institutions focused on serving MSMEs and other vulnerable populations. |
| | Corporate | Agriculture Manufacturing | |
| | Financial Institutions | MSMEs Trade Others | |
| LAC | Financial inclusion | MSMEs Digital inclusion | <ul style="list-style-type: none"> Increasing the number of operations with a focus on ecosystem development for MSMEs and vulnerable groups, especially in the agriculture and natural capital sectors. |
| | Agriculture and natural capital | Natural capital | |
| | Education, talent and employment | Training Health | |



II. MAIN PILLARS OF ACTION AND EXPECTED IMPACT

2.1 The Summary of the priority areas of the BCS 2024-2028. Based on the results of the new selectivity framework and considering the continuity of the work done by the IDB Group in the country through its operations in the legacy portfolio, the 2024-2028 BCS will focus on the following strategic areas: i) basic services for vulnerable populations; ii) private sector development; and iii) climate action and food availability. Regarding basic services, work will be done to reduce coverage gaps in the areas of water, sanitation and rural electrification infrastructure. Furthermore, the coverage and quality of secondary education, health services, as well as the quality of the administration of justice will be improved. In private sector development, expanding the infrastructure of logistics corridors and increasing productive financing will foster competitiveness. Finally, in the area of climate action and food availability, climate finance will be prioritized to build resilience and strengthen mitigation and adaptation actions, supplemented by increased efficiency of public forest services and adoption of sustainable and profitable agricultural production practices to improve food availability.

PILLAR 1. BASIC SERVICES FOR THE VULNERABLE POPULATION.

WHY ARE THEY IMPORTANT?

2.2 Coverage of basic services is limited and inequitable, affecting the rural population⁵⁸ in particular. Around 60% of Guatemalan households have difficulties in accessing basic services (water and sanitation, solid waste collection and electricity)⁵⁹. Sixty-two point one percent of households in Guatemala have access to safe drinking water⁶⁰ and 69 % to basic sanitation⁶¹, but this coverage decreases to 46 % and 57.7 %, respectively in rural areas⁶². In addition, only 10% of wastewater discharged into water bodies is treated, resulting in high levels of contamination of watersheds and a high incidence of infectious diseases⁶³. Solid waste collection and disposal services are virtually non-existent in rural areas⁶⁴, and only 42% of solid waste is collected nationally, most of which is burned in open-air landfills. The part that remains uncollected usually ends up in water bodies without proper treatment. Finally, in the departments with the largest rural and indigenous populations, many households still lack electricity, the coverage rate not reaching 80%⁶⁵ (see Figure 1), while it exceeds 95% in urban areas. The lack of rural electrification also limits the possibilities for households to have

⁵⁸ According to ENCOVI 2023, the poverty rate in rural areas is 66.3%, compared to the national poverty rate of 56%.

⁵⁹ Census (2018). INE.

⁶⁰ Safe access to drinking water is a service within the dwelling, available at least 18 hours a day and free from contamination. 82% of the population has access to water, but only 62% has access to water that is safe to drink. Joint Monitoring Program - WHO and UNICEF (2022).

⁶¹ Access to basic sanitation includes a toilet or latrine that discharges into a sewerage network, septic tank or soak pit. These standards are not acceptable for the SDGs, but the country does not report safe sanitation data.

⁶² In 2022, urban drinking water coverage was 65.5% and basic sanitation coverage was 80.3%. Joint Monitoring Program - WHO (2022).

⁶³ In the Motagua river basin 52% of urban drinking water and sanitation systems do not meet the chlorination requirements, while this figure rises to 76% in rural systems. In addition, 52% of the existing Wastewater Treatment Plants (WWTPs) are not in operation.

⁶⁴ Atlas Nacional de la Situación de la Niñez y Adolescencia. UNICEF (2021).

⁶⁵ In 2023, the national household electricity coverage rate was 90.39%. However, the departments of Petén and Alta Verapaz recorded coverages of 78.77% and 52.89%, respectively. MEM (2023).

digital services⁶⁶. Much of the lag in the coverage and quality of basic services is due to chronically low levels of public investment and the difficulties of the private sector to engage in the development of social infrastructure⁶⁷.

2.3 Keeping young people in the school system and providing them with quality education is a major challenge. Despite the fact that coverage in primary education is almost universal⁶⁸ (95.8%), great difficulties persist in access to education, especially in pre-primary, secondary education — basic and diversified cycle — and higher education, with coverage rates of 64%, 53% and 14%, respectively⁶⁹ (see Figure 2). The greatest inequalities in access to education are in secondary education, particularly for low-income, rural and indigenous youth⁷⁰. Guatemala has one of the lowest high school graduation rates in the region (37%)⁷¹. Many young people drop out of school mainly to meet their own or their family's economic needs, because of gender bias, and because of a lack of interest and motivation for education⁷². This is aggravated when there are no schools nearby or when the educational offer is not adjusted to the cultural context of the indigenous populations. Finally, the quality of education is low, affected by inadequate school infrastructure that does not generate environments that are conducive to learning, deficiencies in teacher training, lack of educational materials and resources (analogue and digital) and little progress in intercultural bilingual education⁷³. In secondary school, almost 9 out of 10 students perform poorly in mathematics, and 7 out of 10 students perform poorly in reading and science according to PISA 2022 results⁷⁴. All these lags are partly due to insufficient public spending on education, and an unequal distribution of spending between levels (3.2% of GDP compared to 3.9% in LAC)⁷⁵.

2.4 The coverage, quality and cultural appropriateness of healthcare services remain a challenge, especially for the indigenous population and rural women. Guatemala faces important lags in its healthcare indicators associated with a growing burden of diseases (infectious, endemic and chronic)⁷⁶, maternal and infant mortality⁷⁷, malnutrition and violence. However, public investment in healthcare has not grown in a decade, and is among the lowest in LAC (2.3% of GDP compared to 4.5% in LAC)⁷⁸. For the indigenous population, per capita investment in health services is four times lower than for the non-indigenous population. Healthcare coverage issues are reflected in the increasing out-of-pocket expenses faced by families (61% compared to 32.5% in LAC), as well as in a deficit of 1,086 primary healthcare posts, mainly in rural areas⁷⁹ as well as a deficit of 1,086 primary health care posts⁸⁰, mainly in rural areas. Other limiting factors have also been the lags in the cultural and language adequacy of the services⁸¹. The fact that there is no network management approach hinders the quality of services, therefore leading to a duplication and discontinuity of services between levels of care. In addition, the insufficient hospital infrastructure and the shortage of qualified personnel, reflect the country's lack of preparedness to face new health emergencies.

⁶⁶ Fourteen percent of households with children and adolescents are not connected to the electricity grid, thus limiting the development of telecommunications and internet penetration. UNICEF (2021).

⁶⁷ Current regulations for public-private partnerships have not allowed the promotion of investments in social infrastructure.

⁶⁸ MINEDUC (2021) and World Bank WDI (2020).

⁶⁹ Data for pre-primary, primary and secondary education: MINEDUC (2023). Data for higher education: CIMA IDB (2024) with own calculations based on Harmonized Household Surveys using 2022 data.

⁷⁰ Indigenous adolescent girls in rural areas have the highest dropout rates, which reach 83.4 %.

⁷¹ Own calculations based on data from the 2022 Harmonized Household Surveys. IDB (2024).

⁷² There are other factors associated with school dropout, including repetition, migration, violence in and out of school, teenage pregnancy and natural disasters.

⁷³ From the literature there arises that improving school infrastructure reduces dropout rates and increases attendance, that access to educational resources is important for learning, and that Intercultural Bilingual Education is key to reducing the gender and diversity gap in access to education. Project Profile (GU-L1184) and IDB (2022).

⁷⁴ PISA (2022).

⁷⁵ UNESCO, (UIS) (2022).

⁷⁶ Infectious and parasitic diseases are mostly caused by low nutritional status and lack of basic sanitation. This is followed by vector-borne diseases (Dengue or Chikungunya), chronic degenerative diseases (cardiovascular diseases, diabetes, cancer, etc.) and those resulting from natural disasters or weather events. There is also a high incidence of injuries due to violence and traffic accidents. See CDC.

⁷⁷ The maternal mortality rate is 95 women per 100,000 live births, and the infant mortality rate is 23 children under age 5 per 1,000 population. Figures for maternal mortality as of 2020. PAHO Statistics Portal y WDI, World Bank (2022).

⁷⁸ Data as of 2021. Health Statistics Portal, PAHO.

⁷⁹ It is the highest in the region as of 2021. Health Statistics Portal, PAHO.

⁸⁰ Estudio de Red Guatemala 2018 (ERAGU). IDB and MSPAS.

⁸¹ Berry, (2008); Harvey, (2013) Chary, (2015) and Shahid,et al. (2013).

- 2.5 Limited access to justice mainly affects the vulnerable population.** Public safety in Guatemala remains fragile. The homicide rate is still high⁸², and other crimes such as extortion, gender-based violence and human trafficking have risen. However, the number of complaints is low⁸³, and many are dismissed during the judicial process, particularly those relating to gender-based violence⁸⁴. Moreover, of the total number of cases that are prosecuted, few result in convictions. Guatemala is among the countries with the highest levels of impunity in the world⁸⁵. This situation reflects the barriers that the population faces in accessing justice, the problem being critical for low-income groups, indigenous people and women⁸⁶. Impunity generates a loss of confidence in the institutions in charge of security and justice⁸⁷, which, added to the delays in judicial and criminal proceedings, and the poor quality of citizen services, discourage the population from exercising their right to justice.
- 2.6 Weaknesses in institutional capacity and in the inclusion of vulnerable groups.** Gaps in coverage and quality in the provision of basic services, education and health are also due to institutional and regulatory constraints. These include: (i) weaknesses in institutional governance and coordination between levels of government; (ii) disarticulation in policy implementation; (iii) lack of financial sustainability of basic services; and (iv) regulation and quality control. Furthermore, due to the small market size, economies of scale in service provision are not generated in rural areas, solid waste collection and rural electrification being the most obvious examples. Lack of access to basic services tends to intensify the burden of unpaid work in households⁸⁸ and domestic violence⁸⁹, impacting mainly girls and women⁹⁰. The lack of a comprehensive care system (early childhood, the elderly and people with disabilities that make them dependent) makes this situation more serious⁹¹. Similarly, the limited quality standards and the lack of cultural and physical adequacy of in health and education services have deepened gender gaps and the exclusion of the indigenous population and people with disabilities⁹². Furthermore, many indigenous and Afro-descendant young women⁹³ of reproductive age refrain from using healthcare services because they are not familiar with the processes and treatments of the traditional health system and because these services are not available in their communities⁹⁴. The maternal mortality rate is 2.2 times higher for this group than for non-indigenous women⁹⁵. In the case of education, the coverage rate of the diversified cycle for indigenous women is 20.5% compared to 52.2% for non-indigenous women⁹⁶.
- 2.7 The ongoing rise in the number of returnees presents both a challenge and an opportunity.** This vulnerable group is estimated at almost 350,000 Guatemalans. They generally return in a worse socio-economic situation than when they emigrated, having greater difficulties in finding work compared to

⁸² The country has achieved a marked decrease in homicide rates, going from 46 homicides per 100,000 inhabitants in 2009 to 19 homicides per 100,000 inhabitants in 2021. National Field Operations Unit.

⁸³ Extortion rose from 49 victims in 2017 to 85 in 2022 per 100,000 inhabitants, but only one in three cases is reported. Extortions occurred mainly at the victims' residences (60%), in their shops (31%) and on public transport (6%). Informe sobre extorsiones en Guatemala (2022), Observatorio de la Violencia, Diálogos, Guatemala City and UNODC (2018).

⁸⁴ Gender-based violence cases account for 68% of all complaints, but 80% of such cases are dismissed for a variety of reasons. Under the case management system, prosecutors are obliged to close cases within the month following the incident if it does not represent a crime or the victim does not want to continue with the process. Estudio de Femicidios en Guatemala [Study of Femicides in Guatemala]. CIEN (2022).

⁸⁵ Impunity Index (2020).

⁸⁶ These groups face greater difficulties in seeking and obtaining legal redress due to the limited availability of free or affordable legal aid, lack of financial resources to pay for legal services, and the limited information they have about their rights.

⁸⁷ 27.8 % of respondents said they had confidence in the police and 19.6 % in the judiciary. Latinobarómetro (2020).

⁸⁸ Unpaid work. UN Women (2016).

⁸⁹ According to the Gender Equality Observatory for Latin America and the Caribbean, which monitors femicides in the region, the 2021 femicide rate in Guatemala was below that of LAC (1.7 cases per 100,000 women). CIEN (2023).

⁹⁰ In 2021, there were 30 cases of domestic violence against women, compared to five against men per 10,000 inhabitants. CIEN (2023).

⁹¹ Of the total number of women in Guatemala in a situation of inactivity (56.8), 6.8% did not look for work because of family care responsibilities and 3% because they have no one to care for their children. Gossmann, C. (2022) with NESI data (2022).

⁹² Guatemala has the highest Gender Inequality Index in LAC (GUA 0.48 compared to 0.38 for LAC). There is no up-to-date data on gaps in access to basic services for persons with disabilities, and the little data available are outdated.

⁹³ Guatemala lacks detailed public statistics on access to health care for the Garifuna or Afro-descendant population. Both the UNFPA and representatives of the Garifuna Parliament confirm that women and girls from these groups are systematically neglected, and in some cases discriminated against by health services. See comments from civil society consultations.

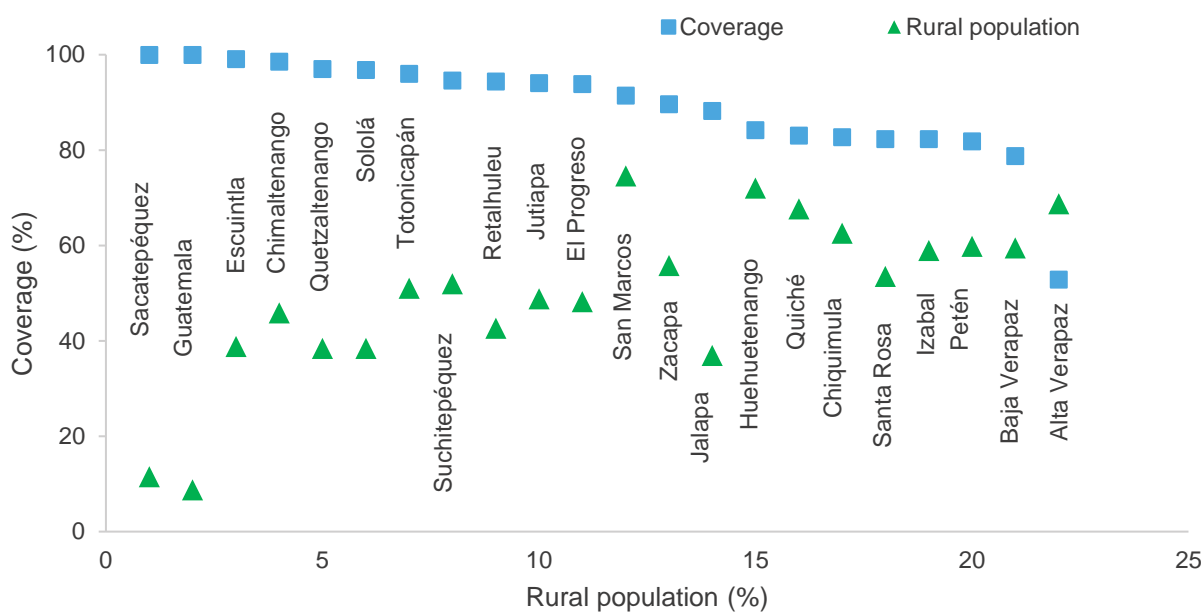
⁹⁴ Also because of discrimination. Regional Gender Equality Profile for Latin America and the Caribbean. United Nations and RCP LAC (2024).

⁹⁵ In 2018, 37.7% of maternal mortality cases happened in the home and 60.8% in health facilities. MSPAS, (2021). Only 65% of births are institutional, and 76% of women who suffered obstetric emergencies did not receive standard care, due to a lack of drugs, key equipment, or proper procedures, according to Mokdad et al. (2015).

⁹⁶ IDB, SCL Data Lake with NESI data (2019).

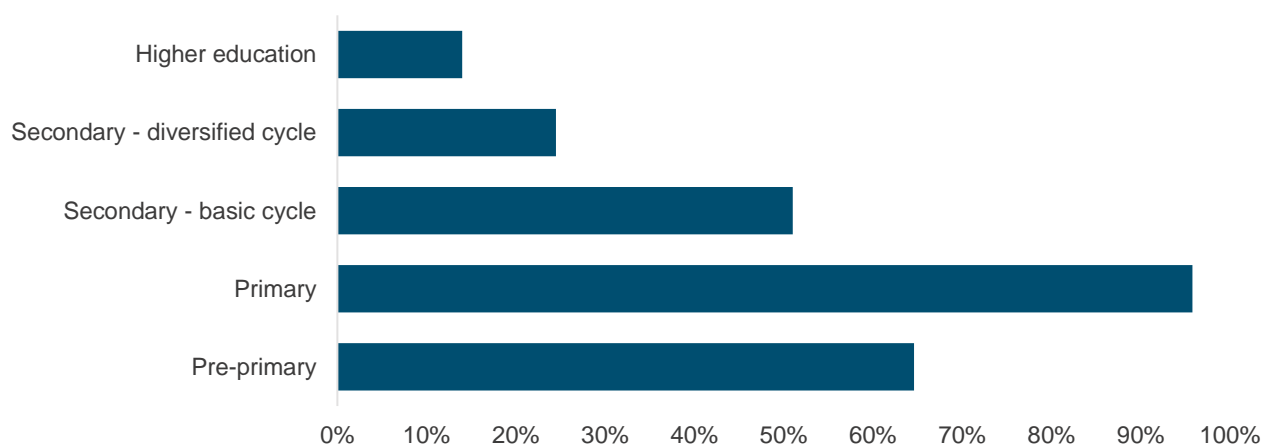
non-migrants⁹⁷. However, they are a workforce with skills acquired during their migration experience. This means a greater availability of human capital for sectors such as construction — road infrastructure and housing — tourism, as well as global service hubs, among others.

FIGURE 1. ELECTRICITY COVERAGE VS. RURAL POPULATION, 2023



Source: MEM

FIGURE 2. EDUCATIONAL COVERAGE (% ENROLLED)



Source: MINEDUC and CIMA-IDB

⁹⁷ Estudio sobre los perfiles ocupacionales de los migrantes retornados obtenidos en el extranjero [Study on the occupational profiles of returnee migrants obtained abroad.] CONAMIGUA (2021-2023).

WHAT WE WILL DO⁹⁸

- 2.8 Interventions in this area will seek to improve access to and the quality of basic services for the vulnerable population.** To this end, five strategic objectives (SOs) are set out. The first two with a focus on reducing gaps in infrastructure coverage in (i) water and sanitation and (ii) rural electrification. While the remaining three are aimed at: (iii) improving the coverage and quality of secondary education, (iv) improving the coverage and quality of health services, and (v) improving the quality of justice administration services. New interventions aimed at meeting the first strategic objectives will focus on developing sanitation and solid waste management infrastructure in prioritized watersheds; and electrification of rural areas to improve access to this service. For the third and fourth strategic objectives, operations currently in the pipeline or pending authorization by Congress will contribute to the development of school infrastructure with a focus on improving educational environments in secondary education, as well as to the provision of health services in rural areas with an indigenous majority. For the fifth strategic objective, the operation which is currently in the portfolio will involve taking actions to improve the quality of justice administration services throughout the country. Each strategic objective will consider interventions or criteria to foster the inclusion of women and indigenous peoples, the improvement of institutional capacities of service providers, climate adaptation and reducing emissions in the development of infrastructure.
- 2.9 Supporting improved access to and quality of basic services with new operations focusing on environmental sanitation and waste management in prioritized watersheds.** Regarding solid waste, actions will focus on improving access to these services through the development of infrastructure to improve their disposal and management. Concerning sanitation, comprehensive interventions will be made to improve the treatment of effluents and discharges into the main priority watersheds. In the area of water, monitoring and control of the quality of water resources will be strengthened at the national level.
- 2.10 Expanding electricity coverage in rural areas.** Actions will focus on expanding the connection of new users in rural and indigenous-majority areas through the construction of distribution networks⁹⁹ and the adoption of renewable energy models in the prioritized municipalities. In addition, the electrification model will consider the cultural, topographical, Just Transition, and climate vulnerability conditions of each community¹⁰⁰, as well as capacity building regarding use, operation and maintenance.
- 2.11 Supporting improved access to and quality of services, with an emphasis on secondary education¹⁰¹.** Actions will be geared towards expanding the coverage and improving the quality of education, with a specific focus on secondary education — basic and diversified cycle — as well as on higher education, in order to encourage greater permanence of young people in the education system, thus protecting their educational trajectories. In terms of coverage, new investments in infrastructure will aim to expand the offer of public education options in the basic and diversified cycles, in areas of where there is low coverage and sufficient demand. In terms of quality, learning environments will be improved through the refurbishment of secondary schools. Climate mitigation and adaptation measures will be at the center of the design, construction and equipment of schools. Moreover, there are plans to provide analogue and digital educational resources that are culturally relevant and which follow inclusion criteria for students with disabilities, the purchase of technology and the strengthening of teachers' digital skills, as well as their professionalization. IDB Invest will contribute to the expansion of the educational offer by supporting private investments for the construction of resilient school infrastructure.

⁹⁸ See Annex II for details of the preliminary sovereign guaranteed lending program.

⁹⁹ Included in the AeeC strategic framework under the Sustainable Regional Infrastructure chapter, in the activity designed for the improvement of electric connectivity.

¹⁰⁰ The operations contributing to this intervention are in the design stage and waiting authorization by Congress.

¹⁰¹ The operations contributing to this intervention are pending authorization by Congress, in the case of the public sector, and those that depend on the IDB Invest window are about to start implementation.

- 2.12 Supporting improved access to quality health services by strengthening the healthcare service network delivery system at the national level and in prioritized departments¹⁰².** A strategy will be designed aimed at the institution-strengthening of the national health network, to modernize planning and management models for network governance, healthcare, patient referral, support services and quality control. This strategy will be implemented at the local level, involving investment in hospital infrastructure, equipment, specialized human resources and intercultural criteria in the prioritized departments, to address the high maternal and infant mortality in these areas. IDB Invest will facilitate financing for drug production.
- 2.13 Improving the quality of justice administration services¹⁰³.** Interventions will continue to focus on institution-strengthening and modernization of the Public Prosecutor's Office¹⁰⁴. They will include organizational management actions, the provision of technological resources and equipment, the expansion of the Public Prosecutor's Office and the decongestion of services to improve coverage and service to citizens with a gender and intercultural focus¹⁰⁵.
- 2.14 Dialogue areas.** Given its strategic importance, the IDB Group will maintain dialogue and technical assistance in the areas of migration¹⁰⁶ and housing¹⁰⁷, fostering labour inclusion opportunities for returnee migrants, as well as offering sustainable and resilient housing solutions and favourable financing conditions to reduce the housing deficit.

EXPECTED IMPACTS

Reducing coverage gaps in water and sanitation and electricity infrastructure. In the water and sanitation area, climate-resilient and low-emission infrastructure will be developed to increase the number of water and sanitation and integrated solid waste management systems in prioritized watersheds. Electricity distribution lines will be built in the prioritized rural areas¹⁰⁸, in order to reduce the number of households lacking access to electricity. Additionally, support will be provided to investment initiatives focused on generation from non-conventional renewable sources, with an emphasis on private sector participation.

Improving coverage and quality in education, with emphasis on secondary education. The offer of secondary education will be boosted by increasing the number of classrooms, improving learning environments, providing educational resources (analogue and technological) and training and professionalizing teachers to improve learning conditions in schools, both in the basic and diversified cycles. In a similar vein, IDB Invest will provide support for the construction of education infrastructure with a view to improving the offer at different levels, also contributing to an improved offer in secondary education.

Improving the coverage and quality of health services. The aim will be to improve coverage in the prioritized departments through the construction or installation of health infrastructure,

¹⁰² Operations GU-L1163 Program for the Strengthening of the Institutional Health Services Network (PRORISS), GU-G1007 Regional Initiative for the Elimination of Malaria, GU-G1014 Transitional Grant for the Elimination of Malaria in Guatemala, and GU-T1318 Support to the Implementation of PRORISS.

¹⁰³ Operation GU-L1095 Office of the Public Prosecutor Strengthening and Modernization Program.

¹⁰⁴ This includes an improvement of the quality of prosecutions and reducing internal response times and speeding assistance to the public.

¹⁰⁵ These interventions will consider the new FCCV framework.

¹⁰⁶ Concerning migration, the IDB will continue to provide technical support for the socio-economic inclusion of returnees, by strengthening institutional capacity through the implementation of government programs that foster the comprehensive, effective and sustainable reintegration of returnees. Along the same lines, institution-strengthening actions will be taken regarding the migration agenda for LAC, specifically in labor mobility programs and the design of sustainable financial mechanisms, as well as institutional support to national entities that form part of the human mobility ecosystem in the country. Technical Cooperations RG-T4476 and RG-T3438.

¹⁰⁷ The IDBG will continue to advise the GoG in regards to the housing value chain.

¹⁰⁸ Departments of Alta Verapaz, Chiquimula, Petén, Huehuetenango, Baja Verapaz, Quiché and Izabal. These territories may pose FCCV risks in terms of the potential impact of new infrastructure on indigenous communities in the region. IDB Group interventions will consider appropriate mitigation measures as set out in the FCCV framework.

including both hospitals and primary healthcare centers. At the same time, quality in the provision of medical services will be improved by updating maternal and child care standards, implementing continuous improvement in quality, strengthening healthcare services — laboratories, blood banks, among others — as well as improving the infrastructure of health centers currently in operation through refurbishment and equipment. It will also continue to support the implementation of the digital health strategy with an emphasis on electronic medical records, ensuring that the necessary cybersecurity measures are in place, and providing training in behavioural change strategies.

Improving the quality of justice administration services. Case management efforts will continue to be strengthened by reducing resolution times, in order to enhance the administration of justice services. This will be done, in particular, by reducing the percentage of complaints that are not processed or prosecuted.

PILLAR 2. PRIVATE SECTOR DEVELOPMENT

WHY IS IT IMPORTANT?

2.15 Infrastructure conditions limit the possibilities for greater private sector dynamism, especially among MSMEs. Despite its close geographical location and easy access to major export markets, the weight of exports in GDP has declined from 22% in 2009 to 16% in 2023¹⁰⁹, coupled with a limited share in global value chains¹¹⁰. These results are largely explained by the high cost¹¹¹ and low logistic performance¹¹². The improvement of these conditions is constrained by low public investment in productive infrastructure, which does not reach 1% of GDP¹¹³ and by management deficiencies. Despite the fact that investment goes mainly to transportation (0.5% of GDP), this has not translated into an improvement in the road network or its quality, and only 43% of the country's roads are paved¹¹⁴ (see Figure 3). These factors limit the internationalization of companies, mainly MSMEs, by raising their operating costs and limiting their productivity. Added to this are the challenges faced by many of these enterprises in moving out of informality, which hinders the creation of higher quality jobs¹¹⁵. In this situation, the most vulnerable groups of the population, such as indigenous and Afro-descendants, youth, those with low levels of education, and people with disabilities, are disproportionately affected¹¹⁶.

2.16 Access to finance is another one of the barriers faced by MSMEs, especially those in the agricultural sector or those run by women. Despite the dynamism of the local financial system, the private sector has little access to credit, which is mostly directed to the large corporate sector (53%). In the case of MSMEs, a financing gap of 22% of GDP is estimated for those operating in the formal sector alone, which rises to 46% of GDP when considering the informal sector¹¹⁷. Financing gaps are

¹⁰⁹ Calculated with estimated figures. IMF, WEO April 2024.

¹¹⁰ Guatemala's share of global value chains, measured as the proportion of foreign value added among exports, is close to 15% and below the average for Central America and countries such as El Salvador (27%), Honduras (23%), Costa Rica (19%) and Nicaragua (19%). Calculations based on data from the United Nations Conference on Trade and Development-Eora Global Value Chain.

¹¹¹ In Guatemala, the average logistics cost ranges between 24% and 40% of sales, while in the US, it is between 10% and 12%. AGEXPORT TODAY (2021); xSelco (2019).

¹¹² According to the Logistics Performance Index, Guatemala ranks 125/160th, below the LAC average (100). The components of the index show that the country performs worst in the area of logistics competence (136/160), customs (132/160) and international shipment (130/160), World Bank (2018).

¹¹³ In 2021, Guatemala invested approximately 0.8% of its GDP (US\$706 million) in infrastructure. More than 90% of these investments were made by the public sector and most of them were focused on the transportation (0.6% of GDP) and water (0.16% of GDP) sectors. Infratam (2021).

¹¹⁴ While this performance is better than Honduras' 23% and Nicaragua's 19.5%, it is below the Dominican Republic's 50% and El Salvador's 59%. CIA. The World Factbook.

¹¹⁵ Informal workers receive on average 2.2 times less income than their formally employed counterparts. CEDLAC and ENCOVI (every year).

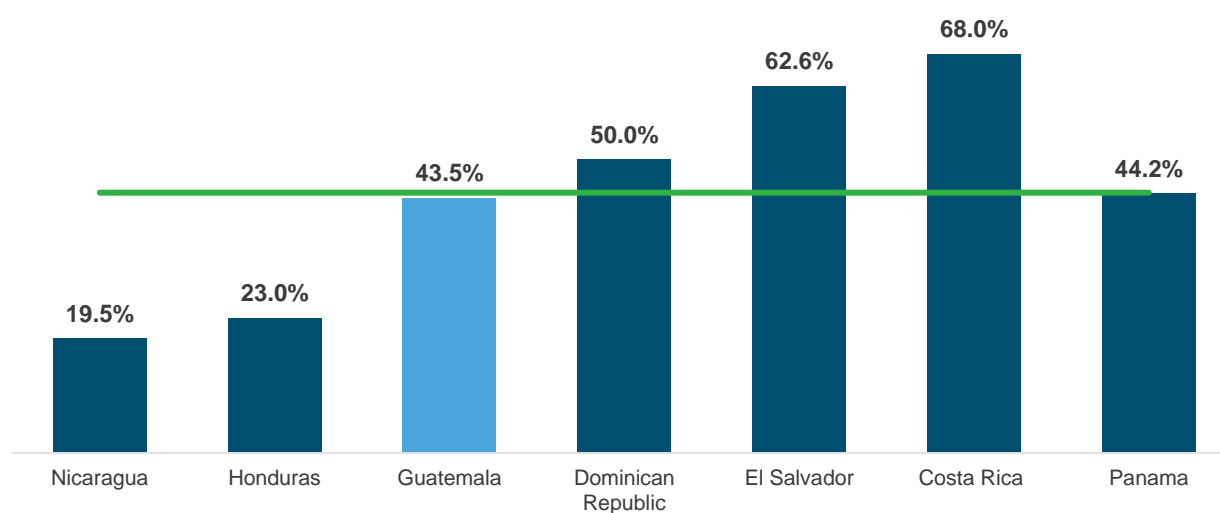
¹¹⁶ Informality mainly affects the most vulnerable groups, such as indigenous people (85%), Afro-descendants (76%), rural workers (81%), those with very low levels of education (82%), and by age group, the youngest (80%). There are no official statistics on labor informality for persons with disabilities. Only 3.8% of persons with disabilities are employed, most of them in highly informal sectors such as agriculture, commerce and crafts. ENCOVI (2014), INE (2022) and CONADI (2021).

¹¹⁷ This would amount to US\$30 billion or 46% of the GDP for 2018. SME Finance Forum (2018) World Bank.

even wider in rural areas, especially for women and youth¹¹⁸. In addition, there is a lack of depth in the capital markets, which are mainly composed of fixed income instruments issued by public entities¹¹⁹ and present a low dynamism, explained in part by the lack of participation of a critical mass of institutional investors to foster the demand for long-term securities, as well as of an independent regulatory body, which can act as an independent body of the Guatemalan government for the promotion, regulation and supervision of the local capital market¹²⁰. These restrictions encourage companies to become self-financing¹²¹, which limits further innovation and investment in long-term projects. Finally, women-led businesses tend to be smaller in size (see Figure 4), and they face greater difficulties in accessing finance¹²², while significant information gaps persist, making it difficult to target and monitor financial inclusion programs for the most vulnerable groups of the population.

2.17 Institutional weaknesses also condition the improvement of firms' productivity. Private sector investment is limited due to a lack of capacity for planning, implementation, monitoring and maintenance of productive infrastructure¹²³. Likewise, the implementation of Public-Private Partnership initiatives faces legislative delays¹²⁴ and capacity constraints in project structuring. This is compounded by the weakness of institutions for the effective enforcement of existing legislation¹²⁵. As a result, the country's institutional framework lags behind the expectations of a broad group of sectors, affecting their well-being.

FIGURE 3. PAVED ROADS (%)



Source: CIA - The World Factbook, COVIAL, INE, INEC, MTI, FOVIAL and CONAVI.

¹¹⁸ National Strategy for Financial Inclusion 2024-2027.

¹¹⁹ Approximately 94% of the securities issued are government securities (bonds and repos) and the remaining 6% are short-term private sector securities (promissory notes).

¹²⁰ S&P Global Ratings (2022).

¹²¹ In Guatemala, the proportion of investments financed internally is 58%, while 26% use bank lending, 9% by supplier credit and the remainder by equity and other sources. The percentage of domestically financed investments is lower than in the LAC region (62%), Central America and the Dominican Republic (66%) and upper middle-income countries (67%). IDB Invest (2023).

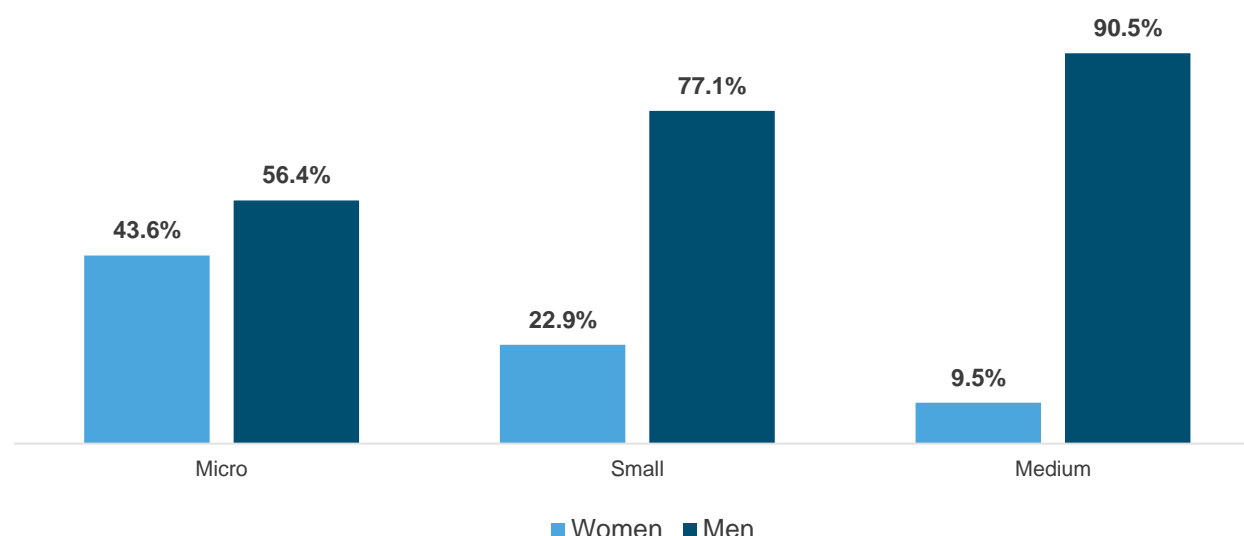
¹²² It is estimated that of the percentage of MSMEs, those led by women face greater credit constraints (partial or total) than those led by men (52% vs. 39%). Calculations by Auguste, Prat and Braun in "Brecha de género en el acceso al financiamiento en Centroamérica y República Dominicana". Technical Note IDB; 2143 2143. (2021).

¹²³ With losses equivalent to 22% of total expenditure. "Mejor gasto para mejores vidas" (BID, 2018).

¹²⁴ The 2021/22 Infrascopes: Evaluating the environment for public-private partnerships in Latin America and the Caribbean. Economist Impact Unit (2022).

¹²⁵ One example is domestic workers, whose affiliation to social security is compulsory, but about 99% are employed informally.

FIGURE 4. DISTRIBUTION OF MSMES BY SIZE AND GENDER OF OWNER



Source: ENIGH (2022)

WHAT WE WILL DO

2.18 Under this pillar, private sector development will be promoted through two strategic objectives:

(i) boosting competitiveness through productive infrastructure; (ii) expanding financing to the productive sector, including MSMEs and women- and indigenous-led enterprises with a focus on long-term sustainable investments.

2.19 Boosting competitiveness through the development of productive infrastructure¹²⁶. The aim of this action is to improve the competitiveness of companies so that their products can reach a greater number of markets and join new value chains. A portion of the efforts will focus on road infrastructure, improving the quality of the main logistics corridors, especially those connecting the country's main ports, as well as improving the quality of the secondary road network¹²⁷ considering aspects of climate resilience and the rights of persons with disabilities. Similarly, the IDB Group will work to strengthen institutional capacity to facilitate the implementation of infrastructure projects, the maintenance and mainstreaming of climate resilience measures and nature-based solutions, as well as improving cross-border trade processes. In addition, opportunities will be explored to increase private sector participation in the provision of climate-resilient productive infrastructure through PPPs and other mechanisms. This is expected to connect small producers to the country's main markets, promoting growth and taking advantage of nearshoring and friendshoring opportunities. To this end, IDB Invest will also continue to work with local anchor companies, given their high capacity to integrate small and medium-sized producers into their value chains.

2.20 Expanding finance for productive investment. The work done by the IDB Group will focus on expanding the offer of formal finance to businesses, including MSMEs¹²⁸. This expansion will require financial products tailored to the needs of different credit profiles, including continued support for trade finance, cooperatives or microfinance institutions, in addition to advisory services. It will seek to expand the supply of more sophisticated financial solutions to adequately address long-term financing needs

¹²⁶ To these objective will contribute the ongoing operations Xochi – corredor de las flores (14004-01), Programa de Desarrollo de la Infraestructura Vial (GU-L1169), Corredor CA-9 Norte: Rancho – Teculután (GU-L1170). As well as the operation in design stage CA-9 Norte: Teculután-Mayuelas (GU-L1189).

¹²⁷ Included in the AeeC strategic framework under Sustainable Regional Infrastructure chapter, for the modernization of regional logistics corridors.

¹²⁸ In the case of IDB Invest, this segment will be reached through financial and solutions intermediaries for the value chains of anchor companies.

in local currency. Financial inclusion mechanisms will also be supported, such as the development and expansion of fintech companies, non-bank financial intermediaries and the adoption of instruments such as leasing, factoring, credit funds, guarantees and insurance. It will also support MSMEs with training, technical assistance, financial training and business acceleration programs, including those led by women and indigenous people. In addition, it will seek to boost debt issuance in the capital market in order to encourage the mobilization of resources from domestic savings to productive investment.

2.21 Dialogue areas. The IDB group will maintain dialogue and technical assistance in trade and regional integration processes¹²⁹. This dialogue will also help to consolidate some of the reform areas — trade integration — as well as the identified synergies — infrastructure, energy sector, MSMEs, climate finance and agricultural production — which will improve the business ecosystem in the medium and long term.

EXPECTED IMPACTS

Improvements in the infrastructure of logistics corridors will be pursued to enhance the country's competitiveness. This will shorten travel times on sub-sections of the CA-9 North route, and reduce the road gap in the departments crossed by the logistic corridor. Meanwhile, efforts to improve secondary roads in the departments of San Marcos, Huehuetenango, Baja Verapaz and Chiquimula will continue to advance. IDB Invest will also support the development of road infrastructure in peri-urban areas¹³⁰.

Increasing financing for the productive sector through access to credit for businesses, including MSMEs and those led and/or owned by women or indigenous people. As a result, bank lending to the private sector, including women, is expected to increase. A greater distribution of funding to sectors of the real economy, such as agriculture, will be sought. It is also anticipated that trade finance will continue to expand through financial intermediaries.

PILLAR 3. CLIMATE ACTION AND FOOD AVAILABILITY

WHY IS IT IMPORTANT?

2.22 Guatemala's climate finance framework is limited to improve climate resilience and achieve GHG emission reduction targets. Guatemala ranks 16th out of 180 in the Climate Risk Index¹³¹ and is the fourth most vulnerable country in Latin America¹³² (see Figure 6). The frequency of weather events facing the country has increased in recent years. Moreover, social, economic and institutional preparedness¹³³ to deal with these threats is still limited¹³⁴. Many of these phenomena have left substantial damages that have represented losses equivalent to 2.6% of the average annual GDP in

¹²⁹ Included in the AeeC strategic framework in the thematic area of supporting participation in value chains and in cross-border trade facilitation, investment promotion and market access activities.

¹³⁰ While the departments with the largest road gaps such as San Marcos, Huehuetenango, Chimaltenango, Baja Verapaz, Zacapa and El Progreso will be served, other IDBG interventions will directly and indirectly serve other departments. These territories may pose FCCV risks in terms of the potential impact of new infrastructure on indigenous communities in the region. IDBG interventions will consider appropriate measures to address and mitigate fragile areas, as set out in the FCCV framework.

¹³¹ This index takes into account the average number of deaths and losses related to extreme weather-related events between 2000 and 2019. GermanWatch (2021).

¹³² World Bank (2024). INFORMRisk.

¹³³ Between 2013 and 2021 Guatemala went from an iGOPP value of 26% to 38%, which is an improvement, but still an incipient governance rating for disaster risk management. Index of Governance and Public Policy in Disaster Risk Management - iGOPP, (2021).

¹³⁴ CONRED (2016).

the period 2010-2023¹³⁵ (see Graph 5), with social infrastructure and agriculture being the most affected. In 2020 alone, storms Eta and Iota caused losses of around US\$780 million, affecting 2,080 kilometres of roads in six departments, eight collapsed bridges and 60 damaged bridges¹³⁶. Financially, the country has failed to mobilize sufficient financial resources to address these climate adaptation challenges and to implement GHG mitigation actions¹³⁷ as agreed in its Nationally Determined Contribution (NDC)¹³⁸, under which the country committed to reduce its CO2 emissions per unit of GDP by 11% with domestic resources by 2030, and by 22% with international support¹³⁹. Although private banks have started to include environmental and social guidelines in their projects, more financial mechanisms are still needed to promote green projects.

2.23 Deforestation and forest degradation¹⁴⁰ remain a major challenge to mitigate the effects of climate change. Despite being one of the most ecologically diverse countries on the planet, Guatemala has the highest rate (13%) of species endemism in Central America and its forests cover approximately 30% of the country's territory^{141, 142}. However, this natural capital and ecosystem services are threatened mainly by unsustainable land use, reduction of the forest cover, climate change and illegal activities related to logging, mining and wildlife trafficking. These factors are related to the prevailing agrarian structure, insecurity related to property rights and land use, and weak biodiversity governance. Deforestation and forest degradation have turned Guatemalan forests into a net emitter of CO2. This is the result of unsustainable harvesting of forest products (53%), such as the use of firewood for cooking¹⁴³, and the expansion of livestock (33.7%) and agricultural activities (11%)¹⁴⁴. Despite this, reforestation and forestry activities are creating opportunities for women and indigenous communities to engage in entrepreneurial activities¹⁴⁵.

2.24 The vulnerability of the agricultural sector to weather events puts the availability of food and farmers' livelihoods at risk. In Guatemala, the agricultural sector has accounted for about 9% of GDP in the last 10 years. Agro-industry accounted for about 27% of exports of goods, and four of the top five exported products were agricultural¹⁴⁶. Despite this, the agricultural sector is one of the sectors facing the greatest climate vulnerability, added to high levels of labour informality (88.6%). Changes in temperature and precipitation patterns, together with unsustainable agricultural practices, contribute to soil impoverishment and reduced crop yields, leading to losses in agricultural production systems and in the availability of food for domestic consumption or export. Given that a large proportion of indigenous and Afro-descendant populations are engaged in agriculture or related activities¹⁴⁷, they are also the most vulnerable to these effects of climate change.

¹³⁵ Without immediate and ambitious measures, it is estimated that by 2030, economic losses due to climate change could represent 5.8% of GDP per year MARN (2023).

¹³⁶ ECLAC (2021).

¹³⁷ United Nations Environment Program, (2022).

¹³⁸ National Low Greenhouse Gas Emissions Development Strategy. MARN (2021).

¹³⁹ Idem.

¹⁴⁰ The majority (59%) of forests are not within protected areas, which leaves them more threatened and leads to further erosion of genetic diversity. Fifty percent of the mangrove cover has been lost in the last 60 years.

¹⁴¹ Guatemala – Country Profile – Convention on Biological Diversity.

¹⁴² Environment – Guatemala – USAID.

¹⁴³ The consumption of firewood for cooking and the failure to adopt clean energy solutions results in high levels of household air pollution and hinders the energy transition in Guatemala. Poor household air quality affects the health and development of women and children mainly. IEA (2023).

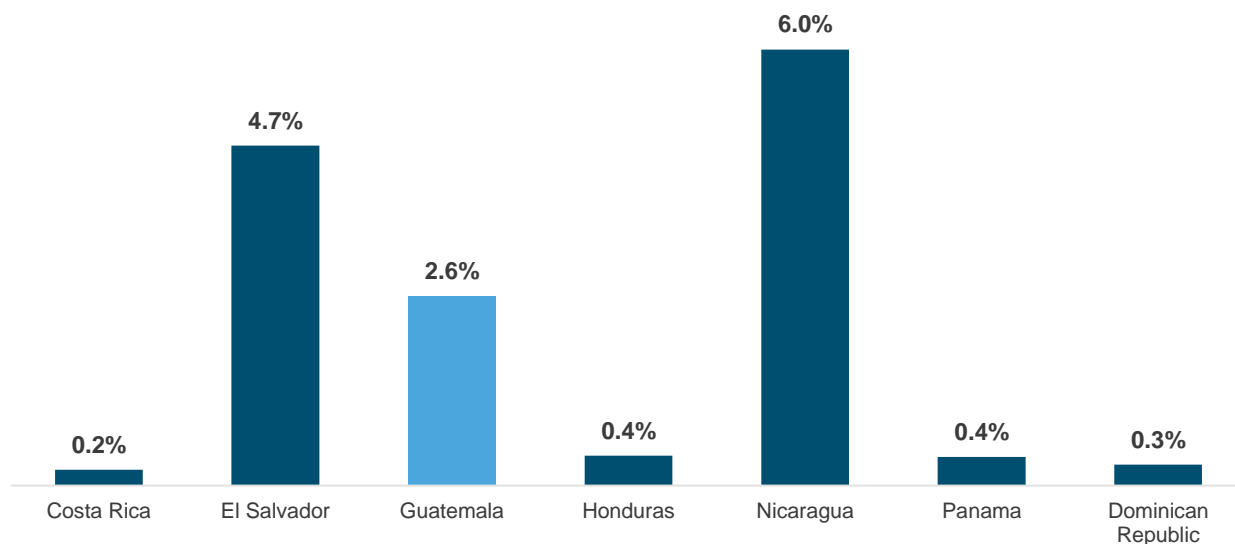
¹⁴⁴ Sosa, A. et al. IDB (2024) with data from MARN (2023).

¹⁴⁵ INAB (2023).

¹⁴⁶ Own calculations with figures from the Bank of Guatemala.

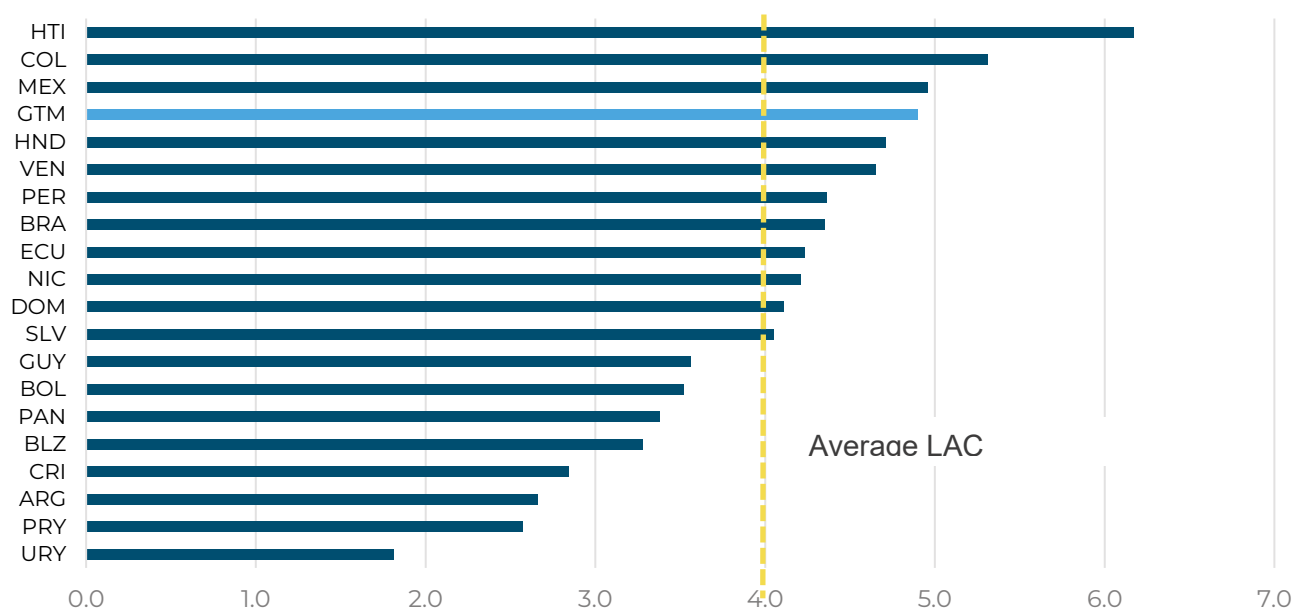
¹⁴⁷ Agriculture accounts for 39.6% of employment for the Maya people, for the Xinka, Garifuna and Afro-descendants 49.7%, 21.3% and 25.3%, respectively. INE (2022).

FIGURE 5. ECONOMIC COST OF DISASTERS RELATED TO CLIMATE CHANGE IN CAPRD COUNTRIES (% OF ANNUAL GDP, 2010-2023)



Source: ECLAC and WEO IMF data.

FIGURE 6. INFORMRISK 2024 CLIMATE CHANGE RISK INDEX*, LAC COUNTRIES



* This index comprises 3 dimensions of climate change risk: Hazard&Exposure - Vulnerability - Lack of coping capacity.

Source: World Bank

WHAT WE WILL DO

- 2.25 Within this pillar, progress is expected towards three strategic objectives:** (i) building climate resilience and strengthening mitigation and adaptation actions - in line with NDC commitments; (ii) making public forestry services more efficient; and (iii) increasing food availability.
- 2.26 Expanding finance for the implementation of climate change strategies.** With the aim of reinforcing the country's objectives pursuant to the climate agenda, the IDB Group will strengthen financial strategies that contribute to climate action, adaptation, and mitigation actions¹⁴⁸ and sustainable management of natural capital and biodiversity¹⁴⁹, in line with the NDC's adaptation and mitigation objectives and long-term strategies. This will be achieved through an increase in the mobilization of climate-focused resources in IDB Group operations and by third parties. On the one hand, the Ministry of Public Finance will continue to receive support in the development of the sustainable financing strategy (issuing thematic bonds). On the other hand, local banks will receive guidance on issuing climate bonds, and support will be provided for the development and expansion of green portfolios within the local financial system. These actions are aimed at promoting positive investments in climate and nature. Regarding long-term strategies to 2050, support will continue to be provided for the updating of the National Low Emission Development Strategy and the development of adaptation strategies in strategic sectors. This will contribute both to the development of actions for climate mitigation and adaptation with a Just Transition approach, and to the updating of the NDC.
- 2.27 Promoting inclusive financing mechanisms for climate action in the forestry and agriculture sector.** Access to carbon credits will continue to be supported. Rural areas will also receive support for the conservation of natural resources and better use of forests, by including farmers in national forestry incentive programs and climate-smart, regenerative agricultural and livestock practices aligned with international standards and regulations. These actions will contribute to the improvement of soil use and soil quality, the conservation and restoration of the forest cover, the conversion of silvo-pastoral systems and finally to the reduction of GHG emissions. In addition, they will enable small producers to have a livelihood that generates employment and income from the sale of their agricultural products¹⁵⁰, while continuing to promote women's and indigenous entrepreneurship in the forestry sector.
- 2.28 Supporting the implementation of sustainable agricultural practices that enable greater food availability.** Farmers and businesses will be supported through various IDB Group windows by exploring opportunities for promoting and scaling agricultural innovation, adopting new technologies, expanding productive capacities and efficiency, and encouraging regenerative, climate-smart, and nature-friendly practices¹⁵¹. Productive linkages in the sector will also be promoted through green finance, trade facilitation for agricultural inputs, machinery, equipment and products.
- 2.29 Dialogue area.** As Guatemala is highly vulnerable to natural disasters, the IDB Group will explore a work agenda on natural disaster risk management to strengthen the country's institutional capacity to face future events of this nature.

¹⁴⁸ Included in the AeeC strategic framework in the thematic area of sustainable management of natural resources and biodiversity, and aligned to the activity of supporting climate and nature-friendly financing frameworks.

¹⁴⁹ Action Plan to Accelerate Natural Capital and Biodiversity Inclusion in Development Projects (2024-2025).

¹⁵⁰ Sosa et al, IDB (2023).

¹⁵¹ Included in the AeeC strategic framework under the activity of Promoting sustainable management of forests, soils, water and biodiversity.

EXPECTED IMPACTS

Climate finance will be given priority to build resilience and strengthen adaptation and mitigation actions. To this end, the IDB Group will seek to mobilize more resources, both its own and from third parties, to respond to climate change. It will also contribute to the GHG reduction target, particularly in the energy and agriculture sectors, as set out in the Paris Agreement. To increase the efficiency of public forestry services, efforts will be made to expand the forested area with approved incentives. The IDB and IDB Lab will continue to work towards this goal, in order to ensure that a greater number of small producers access the benefits of forestry incentives.

Increasing food availability will require actions to increase the adoption of sustainable agricultural technologies and practices with a view to generating higher productivity in the sector e.g. through better use of cultivated and irrigated hectares. Similarly, it will seek to increase sustainable and low-emission production of agricultural or agro-industrial goods such as coffee, cardamom and sugar for domestic consumption or export.

CROSS-CUTTING ISSUES

WHY THEY MATTER

2.30 The BCS articulates cross-cutting topics in each pillar and emphasizes contexts where the gaps are most pronounced. Gender and diversity, institutional and entrepreneurial capacities, and climate change will be addressed transversally in the strategic areas of this BCS. These areas are integrated into IDB Group interventions systematically and at different stages of projects to achieve more inclusive, sustainable and scalable results. Specific approaches are included in the operations, such as intercultural adaptations to cater for indigenous and Afro-descendant populations, gender perspective and accessibility for people with disabilities. It also seeks to strengthen capacities in planning, contracting and project management, as well as in integrity and labour inclusion, in both the public and private sectors, in order to improve the performance of interventions. Climate action will be included in relevant projects to ensure the development of resilient infrastructure, the protection of natural capital and biodiversity, as well as considering their contribution to the country's low-emission strategy.

➔ **2.31 Gender gaps and attention to the indigenous population and persons with disabilities will be addressed.** The IDB Group's portfolio of operations in Guatemala is and will continue to be under the BCS 2024-2028, highly focused on rural areas, indigenous populations, with a gender approach, so that interventions will focus on closing social and productive gaps for these groups in particular. Furthermore, close collaboration will be established with the government to strengthen policies and programs aimed at populations in a situation of dependence in Guatemala, with a particular focus on early childhood and individuals with disabilities.

➔ **2.32 Institutional capacity will be strengthened for various public and private sector institutions.** For all IDB Group operations, work will be done to strengthen the institutions in charge of project implementation. Likewise, efforts will be made to provide the relevant entities with support for planning,

financial management, structuring, procurement, contracting, monitoring and evaluation, and project and contract management. Capacities will also be strengthened for the identification and mitigation of financial and non-financial risks such as contextual, environmental, social and governance risks; as well as corporate integrity, transparency, contract termination or rescission and labour inclusion and equity practices¹⁵².

➔ **2.33 Elements related to natural capital, climate change adaptation and mitigation will be considered in the different interventions under the three strategic areas of this Country Strategy.** While these elements are naturally included in the climate action and food availability pillar, interventions geared towards the development of social and productive infrastructure considered in pillars 1 and 2 will also take into account elements of natural capital, adaptation and climate resilience. They will also consider elements aligned with the national low emissions strategy currently under development, which will help the country meet its NDC.

¹⁵² It can also serve as a framework for approaching the specificity of FCCV situations in the national territory.



III. HOW WILL WE ACHIEVE THIS?

A. PROGRAMMATIC APPROACH

- 3.1 Programmatic approach based on strategic selectivity and legacy portfolio.** The aim of the 2024-2028 BCS is to increase the IDB Group's contribution to Guatemala's development process by strategically focusing on priority sectors through greater selectivity in its operations. Key to this design is to maintain a comprehensive programmatic approach that will provide greater coherence, integration and long-term vision in the selection of sectors. In this vein, several key aspects were assessed: (i) strategic alignment with national priorities; (ii) integration and coherence between the different strategic frameworks of the IDB Group¹⁵³; (iii) the choice of the type of intervention, financial instruments and strategic additionality best suited to the country's context and objectives¹⁵⁴, (iv) collaboration and participation between the Group's different windows, and the rest of the actors and strategic partners, and (v) focus on results and sustainability. The purpose of the programmatic approach is to develop programs with a focus on medium and long-term objectives, facilitating coherence and monitoring of results. Special emphasis will be placed on the regular measurement of project progress, allowing the necessary flexibility to adjust intervention strategies, in order to guarantee their effectiveness. This approach allows for a concentration of resources, expertise, synergies and strategic alliances to address the complex challenges facing Guatemala.
- 3.2 Implementation of the programmatic approach.** A more strategic selectivity approach was adopted for the IDB Group's new operations in the 2024-2028 BCS, involving fewer operations in new sectors, but of greater scale and impact. Given the degree of maturity of the legacy portfolio, it will be key to show results over the 2024-2028 period. This BCS seeks to implement a front-loading strategy for new operations, and to have them approved in the first years of the BCS. Operational experience and challenges in the approval of sovereign guaranteed operations in Congress indicate that this strategy is adequate to ensure concrete progress over the same period. In addition, this approach will leverage further deepening of synergies between the different IDB Group windows, with a view to strengthening joint work in the short term, as well as improvements in the ecosystem in which operations are developed in the medium and long term through upstreaming work. The programmatic approach also envisages coordinated work with other development partners through partnerships, and builds on the AeeC regional program, through which greater cross-border coordination will be sought to advance common public policies in the Central American region.

B. SYNERGIES

- 3.3 During the term of this Country Strategy, the different IDB Group windows will work together in two ways:** (i) creating synergies and opportunities for the private sector that can materialize in the short term, reinforcing joint work to increase social approval of private initiative projects and, (ii) upstreaming work to advance improvements in the business ecosystem and regulations in the medium term, so as to generate the right conditions for private investment deployment. These synergies are related to the different strategic areas described in Section II, specifically: (i) infrastructure development

¹⁵³ IDBStrategy+, the regional program "América en el Centro", IDBInvest+ and the IDB Invest and IDBLab Business Plans for the coming years.

¹⁵⁴ Among the main instruments considered in this BCS are investment loans, policy-based loans and technical co-operations by the IDB, IDB Invest credit lines and IDB Lab guarantee funds.

(strategic areas I and II, and cross-cutting capacity building); (ii) energy (strategic areas I and III); and (iii) MSMEs and climate finance (strategic areas II and III). Upstreaming will focus on: (i) strengthening the regulatory and institutional capacity of the PPP ecosystem (strategic areas I, II and cross-cutting capacity building); (ii) improving the design of electricity generation tenders (strategic areas II and III); and (iii) developing the social taxonomy and launching thematic bonds (strategic areas II and III).

3.4 Pillars 1 and 2 will contribute to the development of sustainable and resilient infrastructure. Efforts will seek to coordinate, facilitate and expand infrastructure investment, through

improvements in the regulatory framework and governance of the PPP ecosystem¹⁵⁵. Different mechanisms will be explored to encourage private sector participation in infrastructure projects and companies will receive assistance for the inclusion of best practices in sustainability, climate change adaptation, gender and diversity to strengthen their performance and their impact on infrastructure project development.

3.5 Pillars 1 and 3 will focus on promoting electricity infrastructure and renewable energy services.

A wide range of investment mechanisms will be explored for renewable energy projects, including storage and distributed generation. Support will be given to strengthen the country's capacity building to generate and implement best practices in project feasibility, specifically with technical assistance for the optimal design of tenders aligned with the Power Generation Plan.

3.6 Pillar 3 will facilitate greater financial inclusion and climate finance. It will continue to leverage local financial institutions with various instruments, mainly credit lines (IDB Invest) and guarantee funds (IDB Lab), to reduce the perceived risk in sectors such as MSMEs, and thus expand their access to credit¹⁵⁶. These actions will also support the development of new financial products focused on the promotion of value chains, especially in the agribusiness sector. On the other hand, it will seek to sophisticate and expand long-term financing to more sectors¹⁵⁷, which will reduce mismatch constraints and market risks. IDB Lab will continue to promote the use of digital technologies specialising in microfinance to contribute to the financial inclusion of companies and the poorest population through Fintech. Finally, the advice of IDB Invest on the taxonomy of social and sustainable finance, and on the design and launch of thematic bonds, will be used to support efforts to make improvements in the areas of gender, diversity, inclusion and climate sustainability in Guatemala.

3.7 Pillar 3 will support sustainable productivity growth in the agricultural sector. Different options will be analysed for the deployment of productive infrastructure to facilitate agricultural activities, especially in remote areas. Public upstreaming opportunities will be explored to integrate farmers and MSMEs into value chains, including exporting companies of both traditional and more sophisticated products. Similarly, options will be explored to facilitate producers' access to agricultural inputs, machinery, equipment, technical assistance, financing and other services including agricultural health. Finally, we will seek to develop private upstream or market consultancies that promote food security (e.g. development of small and medium-sized suppliers especially in the north of the country, which has a high incidence of poverty mainly in indigenous communities, integrating purchasing with anchor companies), the gender and diversity agenda, and sustainable practices that contribute to climate change adaptation and resilience.

¹⁵⁵ For Public-Private Partnership programs, related activities will continue to be promoted and aimed at strengthening Public-Private Partnership (pre-investment) project preparation capacities, as well as improvements in the regulatory, institutional (with emphasis on coordination between institutions), planning and financing environments that allow for efficient, inclusive and sustainable project development and public-private partnerships.

¹⁵⁶ Between 2016 and 2023, IDB Invest financed more than 395,000 Guatemalan MSMEs through long-term operations with financial institutions. During the 2021-2024 Country Strategy, IDB Invest approved US\$45 million in long-term financing that benefits MSMEs, representing 41% of the total long-term financing approved for Guatemala. In the same period, approvals of US\$628 million were recorded under the Trade Finance Facilitation program (TFFP).

¹⁵⁷ The deployment of local currency solutions will be considered, the availability of which will depend on the plan to expand this capacity as part of the lines of action set out under the New Vision and Business Model for IDB Invest (IDBInvest+).

C. IDENTIFICATION OF REFORMS

- 3.8 The IDB Group will work together with the Government of Guatemala, providing specialized support and promoting technical assistance in the following policy areas:** (i) strengthening national systems; (ii) fiscal management, improved expenditure and transparency; (iii) participation of women in the workforce; (iv) trade and investment; and (v) money laundering legislation. The current political context poses challenges to move forward with reforms that require authorization by Congress, notwithstanding, the government has stated that Policy-Based Loans are instruments that could be requested during the CS period.
- 3.9 Strengthening national systems.** For a number of years, the IDB Group and Guatemala have been working together to strengthen the country's national systems. The BCS 2024- 2028 will continue to support the Ministry of Public Finance in the adoption of the International Public Sector Accounting Standards (IPSAS) and in the design of a new integrated financial management system; the Planning and Programming Department, Office of the President of Guatemala (SEGEPLAN) in strengthening planning, public investment, monitoring and evaluation systems and their alignment with the budget, as well as the Office of the Comptroller General through technical assistance and accompaniment for audit management strengthening and modernization. In addition, public procurement will be further strengthened through the application of international models and best practices.
- 3.10 Fiscal management, improved spending and transparency.** Fiscal management and transparency, tax policy reforms, modernization of the Office of the Superintendent of Tax Administration (SAT), as well as the inclusion of climate action in fiscal policy and management will continue to be strengthened. This work will be carried out in close collaboration with relevant authorities and in coordination with other development partners. Similarly, continued support will be provided to improve the quality of social protection and health spending by strengthening the management and implementation capacities of the Ministries of Social Development (MIDES) and Ministry of Public Health and Social Welfare (MSPAS)¹⁵⁸.
- 3.11 Female labour force participation.** The government and the private sector will be accompanied in the implementation of the Equal Participation in Employment and Entrepreneurship Initiative for Guatemala (IPEG)¹⁵⁹. This accompaniment will be provided through the articulation of the IPEG Leadership Group, the identification of economic gender gaps, as well as the provision of technical assistance to support the implementation of the IPEG.
- 3.12 Trade and investment¹⁶⁰.** Work will continue with the relevant authorities to streamline trade processes, including facilitation and security at customs and ports of entry. In a similar vein, the regional integration effort will continue to be supported through the strengthening and implementation of the Central American Digital Trade Platform (PDCC 2.0). In terms of investment, spaces will be explored to support the government, design or strengthen programs to attract investment and identify strategic industries, including those with greater export potential, diversification, job generation, contribution to food security, among other criteria.
- 3.13 Money laundering legislation¹⁶¹.** In coordination with the International Monetary Fund (IMF) and the World Bank, Guatemala will receive technical assistance to update legislation on money laundering and counter-terrorist financing, in order to comply with the new round of reviews of the Financial Action Task Force of Latin America (GAFILAT) to be carried out in 2027.

¹⁵⁸ There is currently an open series of PBL pending authorization by Congress (GU-L1183 Support Program to Improve the Quality of Social Spending).

¹⁵⁹ Included in the AeeC strategic framework in the thematic area concerned with reducing the gender gap, and the activity to promote women's economic and social opportunities.

¹⁶⁰ Reform aligned to AeeC's strategic framework in the thematic area of support to value chain development, including activities related to trade facilitation and investment promotion.

¹⁶¹ This will lead to stronger institutions in charge of money laundering control and prevention, the effective implementation of which will contribute to the identification and reduction of the proceeds of criminal activities such as those linked to organized crime. This is consistent with the FCCV framework.

D. THE COUNTRY STRATEGY IN THE CONTEXT OF “AMÉRICA EN EL CENTRO”, IDB GROUP REGIONAL PROGRAM FOR CENTRAL AMERICA, PANAMA AND THE DOMINICAN REPUBLIC

3.14 “*América en el Centro*” is a regional development program designed as an overarching framework to address the common and cross-border challenges facing Central America, Panama and the Dominican Republic.

3.15 It is based on three strategic pillars: 1. Productivity and economic integration; 2. Climate adaptation and resilience; and 3. Social development of youth. As a cross-cutting area it includes institution-strengthening and capacity building. Within the first pillar, strategic objectives focus on strengthening sustainable regional infrastructure and supporting integration into global value chains. The second pillar aims to promote the sustainability of natural resources and biodiversity, while also developing strategies for disaster risk management and addressing the social challenges posed by climate change. The third pillar aims, on the one hand, to equip young people with essential skills for success, including digital and basic literacy, as well as sector-specific skills to improve their employability; on the other hand, it also aims to reduce gender gaps by increasing female labour force participation.

3.16 Guatemala's BCS 2024-2028 is aligned with the three pillars of “*América en el Centro*”. Operations aimed at closing coverage gaps in social infrastructure — rural electrification, waste management and water treatment — as well as improving productive road infrastructure are aligned with pillars 1 and 2 of AeeC. Reform actions aimed at facilitating trade integration, strengthening the PPP ecosystem in the country, as well as improving financing for productive sectors and MSMEs are aligned with Pillar 1 of AeeC. The mitigation, adaptation and climate resilience actions set out in Pillar 3 of this BCS, as well as in the cross-cutting approach for the active and future portfolio, are aligned with Pillar 2 of AeeC. Similarly, improving coverage and quality in secondary education is aligned with Pillar 3 of AeeC, which focuses on strengthening young people's skills for success.

E. FRAGILITY, CONFLICT AND CRIMINAL VIOLENCE FRAMEWORK (FCCV¹⁶²)

According to commonly applied international methodologies, Guatemala is not considered a fragile country and in recent years it has achieved a relative improvement in its position; nevertheless, certain indicators place the country in a warning zone. The 2022 OECD Fragility Framework¹⁶³ ranks Guatemala among the 60 countries with the strongest signs of fragility in the world, and third among LAC countries, after Haiti and Venezuela. According to the OECD, Guatemala shows signs of moderate fragility in the economic, environmental, human capital and political dimensions, while it performs better (mild fragility) in the security and social dimensions. This characterization is similar to that of the UN Fund for Peace's Fragile States Index for 2024¹⁶⁴, according to which Guatemala has improved its exposure to FCCV challenges in recent years but is still in a “warning zone”. It scored 74.9 out of 120, 0 being the highest score

¹⁶² The new Framework for Support to Populations Affected by Situations of Fragility, Conflict and Criminal Violence (FCCV) is intended as a tool to guide the IDB Group to better understand how to adapt to working in FCCV environments, which will increase the likelihood of achieving more positive impact through the financial and non-financial support it provides. At the regional level, this framework is aligned with the Regional Alliance to Strengthen Security in Latin America and the Caribbean promoted by the IDB and the governments of the region aiming to coordinate the implementation of public policies and resource mobilization to address the challenges to economic and social development posed by organized crime.

¹⁶³ A tool that assesses levels of fragility in countries and regions across five key dimensions: economic, environmental, human, political, social and security. This framework aims to identify vulnerable areas that might hinder sustainable development and increase instability in countries. Fragility is measured on a scale of 1 to 5, where 1 indicates severe fragility and 5 indicates minor fragility. Available at States of Fragility 2022.

¹⁶⁴ <https://fragilestatesindex.org/>

and 120 the lowest, ranking 65th out of 179 countries evaluated. These results reflect an improvement of 2.4 points compared to 2023.

At the sub-national level, the situation is heterogeneous, with certain regions facing significant challenges in terms of the government's capacity to provide basic public goods and services, including security. These challenges stem from reduced institutional capacities, as well as the intersecting phenomena of homicidal violence, extortion, drug trafficking, and the presence of *maras* and gangs in both urban and rural areas of the country. The confluence of these phenomena has an impact on the population in terms of economic, social and political rights.

This analysis of public safety phenomena at the sub-national level shows that in some regions of the country it is relevant to identify and analyse these "FCCV pockets" in greater depth. According to MINGOB's Territorial Prioritization Index 2023 — which analyses threats to life, integrity, property and risk factors —¹⁶⁵ municipalities with very high, high and moderate insecurity are concentrated in the central region of the country, in the corridor between the departments of Izabal and Retalhuleu, and the northern fringe of Petén. The department of Guatemala stands out, with 13 of its 17 municipalities in the top positions.

Opportunities for the IDB Group to work around the FCCV agenda in Guatemala under the new BCS

This preliminary analysis at the municipal level offers information about FCCV pockets, but in the future, it will need to be supplemented with other quantitative and qualitative surveys. This analysis relies heavily on relevant variables to capture FCCV factors, however, they may not be sufficient to prepare a comprehensive characterization of FCCV phenomena. It will therefore be important to complement the analysis with data on levels of institutional and social fragility and other types of criminal violence¹⁶⁶ in the future. For example, it could use information on coverage rates, as well as access to and quality of basic services, education and health, among others. This will allow to better define the territories or pockets of fragility in need of comprehensive interventions to favor the better settlement of government institutions.

Accurately identifying and understanding these "FCCV pockets" enhances the cross-cutting strengthening of various areas of intervention and reforms outlined in this BCS. A better understanding of these "pockets of fragility" would help strengthen public policies aimed at bringing basic services to vulnerable populations in certain areas of the country. This also applies to security efforts in customs and ports of entry within the trade and investment sector¹⁶⁷, as well as the updating of anti-money laundering legislation¹⁶⁸. These reforms will strengthen the institutions responsible for monitoring and preventing money laundering, enabling them to detect and seize resources derived from criminal activities, including those linked to organized crime.

The identification of these "FCCV pockets" will be aligned with the "Alliance for Security, Justice and Development" initiative promoted by the IDB and other LAC countries, including Guatemala. This Alliance could be a way for the IDB to support the country with funding, technical assistance and advice to scale up successful interventions against crime and violence, as well as strengthen institutional capacities and mobilize resources for the country's security and justice systems.

¹⁶⁵ The territorial prioritization index is a tool for prioritizing public policies on public safety.

¹⁶⁶ Task proposed in the document Framework to Support Populations in Situations of Fragility, Conflict and Criminal Violence 2024-2027, FCCV, IDB, April 2024.

¹⁶⁷ See the Reforms section of this BCS.

¹⁶⁸ See the Reforms section of this BCS.

F. STRATEGIC ALLIANCES

3.17 The IDB Group will continue to work in coordination with other development actors. This will be done in three different ways: (i) identifying opportunities to leverage greater resources through co-financing or parallel finance; (ii) creating greater opportunities for technical assistance and knowledge generation in collaboration with experienced actors who have a track record in the key issues of this Country Strategy; and (iii) strengthening coordination with civil society stakeholders to maximize the reach of IDB Group actions in the country.

- a. Opportunities for co-financing** or parallel financing. The IDB Group will seek to work with development actors with whom it has already collaborated in the past, and with whom there is fluent sector dialogue. In the area of rural electrification, the Japan International Cooperation Agency (JICA), the European Investment Bank (EIB), and the World Bank (WB); in transport infrastructure, the Spanish Agency for International Development Cooperation (AECID), the WB, and the Central American Bank for Economic Integration (CABEI); in sanitation infrastructure, the WB and CABEI; in water and sanitation, AECID. In the case of the private sector, IDB Invest will continue to work towards greater mobilization of third-party resources on market terms in the priority areas of this Country Strategy, in particular with regard to climate finance. It will also continue to expand its network of mobilization partners, supporting the development and enhancement of financial solutions to attract more private sector co-financiers.
- b. Opportunities for technical assistance and knowledge generation.** It will seek to advance the agenda of technical assistance and knowledge generation with national and international actors. In the case of national actors, the universities of Valle de Guatemala, Galileo, Rafael Landívar and San Carlos generate knowledge on issues such as climate change and the closing of social gaps, which will be explored. In turn, private sector organizations and think tanks, such as the Foundation for the Development of Guatemala (FUNDESA) and CENTRARSE (Guatemalan Business Council for Sustainable Development) play a key role in the creation of practical knowledge for the private sector. Collaboration will continue with other partners such as the Pan American Health Organization (PAHO) in the area of health system strengthening, UNICEF, the United Nations Development Program, and the World Food Program, for institutional strengthening across various areas of the social sector.
- c. Coordination with civil society and stakeholders.** Efforts will seek to deepen dialogue and collaboration with non-governmental organizations, foundations, think tanks and the private sector with a view to increasing the impact of the IDB Group in different areas. In education, ASIES (Association for Research and Social Studies) and *Empresarios por la Educación*; in fiscal issues and institutional capacity, the Central American Institute for Fiscal Studies (ICEFI), *Diálogos* and CIEN; in the promotion of the private sector, FUNDESA, AGEXPORT, CENTRARSE, Invest Guatemala, CACIF (Coordinating Committee of Agricultural, Commercial, Industrial, and Financial Associations of Guatemala) and the *Red de Empresarios Indígenas*, among others; in the area of agricultural production, organizations such as FEDECOVERA and ANOFCG (National Association of Community Forestry organizations of Guatemala) will be crucial to provide continued support to the agricultural sector. Furthermore, coordination with local actors such as the Mancomunidad del Motagua is key to address water and sanitation issues. Similarly, fostering and maintaining dialogue with stakeholders in communities and sectors potentially impacted by private sector activities is essential to the framework that supports operations.



IV. CONSIDERATIONS FOR IMPLEMENTATION AND CAPACITY BUILDING

A. KNOWLEDGE

- 4.1 The IDB Group will continue to supplement its work in the priority strategic areas with a knowledge agenda that deepens operational work.** The recent and future work of the IDB Group in Guatemala aims to generate knowledge in areas such as: (i) the impact of interventions in the education sector, on the transition from primary to secondary school; (ii) the effect of improved road infrastructure on export-oriented businesses and their integration into global value chains; (iii) the adoption of enhanced induction cookers in rural areas; (iv) research to promote regional integration in energy and mobility; and (v) studies on the relevance of the national low-emission strategy, along with the development of a social taxonomy for sustainable finance. In turn, current and future operations will be part of the HUELLA impact measurement project, an initiative that allows geo-referencing interventions and measures their effect at the local level for the different sectors whose operations are implemented in different municipalities or localities. This will allow a better understanding of the magnitude of the impact of operations over time.

B. MONITORING AND EVALUATION (M&E) CAPACITY

- 4.2 Guatemala's regulatory framework concentrates the functions of Monitoring and Evaluation (M&E) in the Planning and Programming Department, Office of the President of Guatemala (SEGEPLAN),** which has the mandate to follow up on national development priorities, and to evaluate them in order to report on progress and fulfilment of goals. Complementing SEGEPLAN's M&E role, the Executive Coordination Department, Office of the President of Guatemala Urban and Rural System of Development Councils (SISCODE), monitors national development priorities and designs national development policies, plans, programs and projects. For its part, the Ministry of Public Finance (MINFIN) is in charge of formulating, coordinating, executing and evaluating the General Budget of Revenues and Expenditures. It also works together with SEGEPLAN to define public investment, manage national debt and external borrowing programs. The Transparency and Probity Commission and the Public Finance and Currency Commission of Congress supplement the M&E system.
- 4.3 Generally speaking, planning, budgeting and M&E processes are regulated by law, but in practice this integration is incipient.** Challenges in planning, budgeting and M&E practices prevent the results of planning exercises from informing the budget and the design and implementation of policies, programs and projects. There are significant opportunities in the implementation of the budget for results, in the preparation of Annual Operational Plans, Institutional Strategic Plans and their articulation with the budget, as well as a lack of causal logic between the indicators of budget activities and outputs with those of output or impact of the plans. In addition, SEGEPLAN monitors the indicators and goals of national development priorities, although it does not always have information in the national statistics systems to carry out updated measurements, which limits the systematic follow-up of the goals and indicators of strategic planning and the multi-annual and operational programming of the institutions, limiting the monitoring of public investment to the use of information from executing entities.

- 4.4 In addition, there are multiple, unlinked IT systems in which entities simultaneously report on the progress of their management,** but the indicators are not standardized, particularly between budget and planning, which makes articulation and M&E difficult. Finally, SNIP faces administrative difficulties and does not contribute to the prioritization of public investment by the entities nor to social economic evaluation.
- 4.5 Opportunities exist to support M&E institutions as well as those in charge of planning and budgeting.** The following opportunities can be considered in the short term: (i) supporting SEGEPLAN to strengthen functions related to the regulation of national and sectoral plans for selected public agencies to align their plans with government priorities, (ii) providing technical support to SEGEPLAN and MINFIN to strengthen the alignment between plans and budget and for the adoption of a set of standardized indicators for programs and projects to facilitate M&E and improve alignment between the outcomes or impacts of plans and budget activities and outputs, (iii) designing a roadmap to strengthen the public investment system including its regulatory frameworks, processes and ICT arrangements, (iv) technical support to SEGEPLAN in the design of a new conceptual model of its ICT systems. In the medium term across operations, opportunities are focused on the development and implementation of planning, budgeting and investment policy frameworks and methodologies, their expansion across the public sector, as well as the implementation of ICT systems for new planning, budgeting and investment management functions, ensuring their effective and efficient integration into government operations.

C. NATIONAL FIDUCIARY SYSTEMS

- 4.6 During the strategy period, dialogue and support to the government will continue with initiatives in financial management, procurement and contracting, and external control.** These will focus on: (i) advancing the implementation of the IPSAS through technical assistance from experts and support in the design and inputs required by the Integrated Financial Administration System (SIAF); (ii) strengthening and modernising the financial audit processes of the Office of the Comptroller General (CGC); (iii) supporting MINFIN and CGC in participating in national or regional events for the transfer of knowledge and experience in public finance and external control as appropriate (FOCAL, Organization of Latin American and Caribbean Supreme Audit Institutions, INTOSAI, others). In procurement management, there will be ongoing dialogue with the General Directorate of State Contracting and activities aimed at implementing and closing the gaps with international norms and standards. These interventions aim to increase the government's institutional capacity, improve the quality, transparency and timeliness of information and accountability, as well as the efficiency of fiduciary management and, therefore, of Bank-financed operations, in line with the government's objectives.

D. RISK ASSESSMENT

MACROECONOMIC

- 4.7 Risks:** The main macroeconomic risks during the life of this Country Strategy include fiscal risks and external shocks, such as a slowdown in the US economy, episodes of volatility affecting energy and food prices, or a pandemic, could lead to reallocations in public spending due to higher project costs or changes in government priorities.
- 4.8 Mitigation measures.** To mitigate the above risks, close monitoring with the authorities will be key to maintain the necessary fiscal space for project execution. This includes: (i) early identification of any budget items or project-related expenditures that are susceptible to changes due to budget ceilings, inflation or exchange rate variations; and (ii) continuous monitoring of project execution to detect possible cost variations and define the corresponding mitigating actions.

SOCIO-POLITICAL

4.9 Risk. The new government, representing an emerging party¹⁶⁹ in the country's political landscape, encounters a challenging environment for effective governance. The lack of a majority in Congress would make it difficult to pass essential reforms, while institutional resistance to change, stemming from its status as a political outsider, has caused additional hindrances. Furthermore, the political fragmentation of the Congress of the Republic can limit the capacity to approve new legislative initiatives (reforms or new operations with multilateral banks), prolong the process of authorization of operations or even the possibility of their cancellation. These scenarios could affect the performance and effectiveness of IDB operations in the country.

4.10 Mitigation measures. To mitigate these risks, the Bank will focus on a few larger-scale projects with broad national consensus, approving operations early in the Country Strategy period and relying on the IDB Group's private sector windows to achieve the objectives set out in this Country Strategy. In coordination with the government, Congress, the civil society and other stakeholders will continue to receive communication and information about the operations.

INSTITUTIONAL, REGULATORY AND ENFORCEMENT

4.11 Risk. Guatemala's portfolio has a high undisbursed balance that requires close monitoring to ensure a satisfactory performance. Associated risks include (i) frequent changes (rotation and/or non-appointment) in the authorities and teams of the executing agencies, which adds uncertainty to the implementation of operations; (ii) the limited technical capacities of the executing agencies; and (iii) integrity issues during the execution of operations (procurement, contract management, payments, etc.).

4.12 Mitigation measures. D(i) working with the authorities and teams in the executing agencies to ensure the application of Bank policies at all stages of the project life cycle, as well as suitable M&E to enable timely corrective action and feedback into the design and implementation of operations; (ii) strengthening the capacity of the executing agencies and training them in project management and application of fiduciary procurement and financial management policies, guidelines and processes, and; (iii) identifying early warnings of integrity risks in operations and working in coordination with the Office of Institutional Integrity.

ENVIRONMENTAL

4.13 Risk. Guatemala is highly vulnerable to natural disasters, both climatic and seismic, the most recurrent being floods, landslides and droughts. The country's infrastructure is not very resilient, which increases these risks, especially in rural and indigenous areas. The occurrence of such events could alter national priorities, project execution or generate unanticipated requests for support.

4.14 Mitigation measures. The IDB Group will seek to support the country in its preparedness for natural disaster mitigation and response by making mechanisms and instruments designed for this purpose available to the authorities, and by including climate resilience, disaster risk prevention and management measures in the design of operations. Another key element in mitigating and managing this type of risk is the availability of contingent financing.

¹⁶⁹ The president of Guatemala, Bernardo Arévalo, belongs to a new political force in the country, Movimiento Semilla, founded in 2017. This party emerged in response to corruption and the demands of citizens seeking political renewal following the 2015 protests.

SOCIAL

- 4.15 Risk.** Certain interventions are implemented in complex environments, with great social diversity and high levels of marginalization. In some regions of the country, there is an increasing presence of organized crime. This can hinder project design and execution. There is also a risk that projects will not achieve their social outcomes or will have a negative impact on vulnerable groups, which could aggravate the existing social context.
- 4.16 Mitigation measures.** Firstly, the design and implementation schemes of such interventions will be strengthened using the actions set out in the Framework to Support Populations in Situations of Fragility, Conflict and Criminal Violence, 2024-2027 (documents GN-3199-2 CII/GN-541-2). Secondly, the greatest possible alignment will be sought with the protection and inclusion requirements for vulnerable people/groups included in the IDB Environmental and Social Policy Framework (document GN-2965-23).

ANNEX I – RESULTS MATRIX

Impacts will be measured through operations that have not yet started implementation.

| Government priority | Strategic area | Strategic objective | Expected impacts | Indicator | Baseline | Source |
|--|--|--|---|---|--------------------------------|--|
| Social development; social protection, assistance and social security; security and democracy | Basic services for vulnerable populations | Reducing gaps in water and sanitation infrastructure coverage | Improving infrastructure for better solid waste management, drinking water supply and wastewater treatment. | 1. Number of water and/or sanitation systems constructed or upgraded and in operation. 2. Number of integrated solid waste management systems built and in operation | 2024 0 2024 0 | Executing Agency report ¹⁷⁰ |
| | | Reducing gaps in electricity infrastructure coverage | Decrease in the number of households without access to electricity | Number of households without access to electricity ¹⁷¹ | 2023 372.980 ¹⁷² | Electricity Coverage Index - MEM ¹⁷³ |
| | | Improving coverage and quality in education, with emphasis on secondary education. | Increases the educational offer in secondary education (basic and diversified cycle) | Number of students benefiting from new classrooms in schools | 2024 0 | Report of the executing agency with information from SIRE-MINEDUC ¹⁷⁴ |
| | | | Improving learning conditions in schools | Number of professionalized teachers ¹⁷⁵ | 2023 1990 ¹⁷⁶ | Executing agency report with information from DIGECADE ¹⁷⁷ |
| | | | | | | |

¹⁷⁰ The measurement will be carried out within the framework of operations Water and Sanitation Program for Human Development-Phase I (document GU-L1039) and the Environmental sanitation program in the Motagua River basin - Stage I (document GU-L1188). This operation is in preparation.

¹⁷¹ The preliminary sample of departments to intervene includes Alta Verapaz, Baja Verapaz, Chiquimula, Petén, Huehuetenango, Izabal and Quiché. However, the operations of the NES sector are not limited to these departments alone.

¹⁷² This indicator will track the reduction in the number of households which do not have access to electricity at the national level, with an focus on those with the highest number of households without access.

¹⁷³ The measurement will be carried out in the framework of the Infrastructure for the Rural Electrification Program of Guatemala (document GU-L1171) and the Rural Electrification Access Program (PAER) (document GU-L1192).

¹⁷⁴ The measurement will be carried out within the framework of the GU-L1184 program "Support program for the Expansion of Secondary Education" as well as operation 13572-01. In order to calculate the number of students benefiting from new classrooms, the information reported by the Education Records Information System (SIRE) of the Ministry of Education (MINEDUC) will be used. The IDB Invest Development Indicator Matrix will also be used.

¹⁷⁵ Professionalized teachers are considered to be those who have completed a refresher program to promote better teaching practices in the classroom.

¹⁷⁶ La Dirección General de Gestión de Calidad Educativa (DIGECADE) reporta información para periodos bianuales. Cada cohorte de docentes inscritos en el programa de profesionalización docente para docentes del ciclo básico (actualmente el PADEP) dura 2 años. El último reporte se realizó en 2023. Los 1990 docentes incluidos en la línea de base corresponden a docentes adscritos al ciclo básico profesionalizados desde el 2021 (1,527 del 2021 y 473 del 2023). En el caso de ciclo diversificado aún no se cuenta con algún un programa de profesionalización, por lo que es algo que el Grupo BID estará apoyando a diseñar e implementar.

¹⁷⁷ The measurement will be carried out within the framework of the Program to Support the Expansion of Secondary Education (document GU-L1184). The professionalization of teachers will be obtained from the Directorate General of Educational Quality Management (DIGECADE).

| Government priority | Strategic area | Strategic objective | Expected impacts | Indicator | Baseline | Source |
|---|---|---|---|--|---|---|
| | | Improving the coverage and quality of health services in priority departments | Increasing health coverage through the construction of health facilities | Number of new health facilities in operation in Huehuetenango and San Marcos | 2024 0 | Executing Agency report ¹⁷⁸ |
| | | | Improving quality in the provision of medical services | Health facilities with improved infrastructure and equipment in Huehuetenango and San Marcos are in operation | 2024 0 | Executing Agency report ¹⁷⁹ |
| | | Improving the quality of justice administration services. | Reducing the number of complaints not processed or not processed fiscally | Percentage of average annual prosecutorial arrears of the Office of the Prosecutor (including legacy complaints) ¹⁸⁰ | 2023 7.71% | Annual Report of the Office of the Prosecutor |
| Economic infrastructure; social development | Private sector development | Boosting competitiveness through the development of productive infrastructure. | Improving road infrastructure conditions on logistics corridors and secondary roads | Road network gap ¹⁸¹ for the departments of San Marcos, Huehuetenango, Baja Verapaz, Zacapa, El Progreso, Retalhuleu and Suchitepéquez. | 2023 San Marcos: 79.54% Huehuetenango: 43.28% Baja Verapaz: 37.54% Zacapa: 43.63% El Progreso: 29.47% Retalhuleu: 35.06% Suchitepéquez: 60.97% | Local Competitiveness Index - Fundesa |
| | | Increasing private sector financing | Credit for foreign trade and MSMEs, including those led by women, is increasing | 1. Foreign trade credit 2. Credit to MSMEs 3. Credit to women-led MSMEs | 2023 US\$ 209 million US\$ 1,585.8 million ¹⁸² US\$ 23.5 million ¹⁸³ | Development Indicators Matrix - IDB Invest |
| Care for nature; fight against malnutrition and acute malnutrition | Climate action and food availability | Building climate resilience and strengthening mitigation and adaptation actions | Increasing climate finance ¹⁸⁴ | Percentage for climate finance in IDB Group operations | 2023 36.7% | IDB Climate Finance Database |
| | | | Fewer GHG emissions in the energy sector | CO2 emissions reduced or avoided (cumulative) in energy projects | 2024 0 | Operational reports ¹⁸⁵ |

¹⁷⁸ The measurement will be carried out within the framework of the Program to Strengthen the Institutional Healthcare Service Network (PRORISS) (document GU-L1163).

¹⁷⁹ Idem.

¹⁸⁰ Fiscal arrears are the percentage of complaints that are not prosecuted or processed, i.e. that are not subject to judicial investigation by prosecutors and experts, at the end of the calendar year. This indicator only concerns the scope of action of the Office of the Prosecutor.

¹⁸¹ The road network gap is defined as the percentage of progress of the Road Development Plan 2018-2032 for the whole country. This progress is reported by FUNDESA as one of the variables that make up the Local Competitiveness Index, which is published annually.

¹⁸² The IDB Invest operations that will initially contribute to this indicator are: 12853-02, 13726-01, 12381-01, 11864-02, 14248-01, 12696-01, 11866-02.

¹⁸³ The IDB Invest operations that will initially contribute to this indicator are: 12381-01, 14248-01.

¹⁸⁴ Climate finance refers to own and third-party financial resources administered by the IDBG committed to climate change mitigation or adaptation activities. Joint Report on Multilateral Development Banks' Climate Finance. European Investment Bank (2023).

¹⁸⁵ Measurement will be obtained through the development and results indicator matrices of the projects in the sector.

| Government priority | Strategic area | Strategic objective | Expected impacts | Indicator | Baseline | Source |
|---------------------|----------------|---|--|---|---|--|
| | | Increasing the efficiency of public forestry services | Increasing the amount of forestry incentives paid out | 1. Forested area with approved incentives paid 2. Percentage of women among beneficiaries in forested areas with incentives 3. Percentage of indigenous people among beneficiaries in the forested area with incentives | 2023 723,427.43 ha 2023 ¹⁸⁶ 30% 2023 ¹⁸⁷ 32% | INAB - FIP Statistical Bulletin |
| | | Increasing food availability | Increasing the adoption of sustainable agricultural technologies and practices | Area intervened with climate-smart practices and technologies | 2023 539,000 ha ¹⁸⁸ of cultivated or ploughed area 459,833 ha irrigated area | IDB Invest reports of operations and matrix of development indicators ¹⁸⁹ |
| | | | Increased production of agricultural and agro-industrial goods | Annual production volume of agricultural commodities: sugar, coffee, cardamom | 2020 Sugar: 26,911,065 Tn Coffee: 4,786,864 2023 Cardamom: 174,851 q | Agricultural statistics INE and MAGA ¹⁹⁰ |

¹⁸⁶ Porcentaje promedio 2017-2023 para los programas PINPEP y PROBOSQUE.

¹⁸⁷ Porcentaje promedio 2017-2023 para los programas PINPEP y PROBOSQUE.

¹⁸⁸ The baseline considers the coffee area intervened with climate-smart practices and technologies under operations GU-G1015, GU-T1346, GU-T1331, GU-L1189, RG-T4297. For future measurement, not only the area of intervened coffee will be considered, but also different types of crops within the mentioned operations, as well as potential future operations.

¹⁸⁹ The measurement will be carried out within the framework of operations GU-L1165, GU-G1015, GU-T1346, GU-T1331, GU-L1189, RG-T4297 and 12712-02.

¹⁹⁰ Agriculture in figures Estimated area of 169,426 ha with an average yield of 10.3q per ha.

ANNEX II – PORTFOLIO ALIGNMENT AND INDICATIVE PROGRAM 2024 - 2028

| Priority Area | Strategic Objective | Program |
|---|---|---|
| Basic services for vulnerable populations | Reducing gaps in electricity infrastructure coverage | Infrastructure for the Rural Electrification Program of Guatemala (GU-L1171) Rural Electrification Access Program (PAER) (GU-L1192) |
| | Reducing gaps in water and sanitation infrastructure coverage | Environmental sanitation program in the Motagua River basin - Stage I (GU-L1188) |
| | Improving coverage and quality in secondary education | Program to Support the Expansion of Secondary Education (GU-L1184) |
| | Improving the coverage and quality of health services in priority departments | Program to Strengthen the Institutional Healthcare Service Network (PRORISS) (GU-L1163) |
| | Improving the quality of justice administration services. | Office of the Public Prosecutor Strengthening and Modernization Program (GU-L1095) |
| Private sector development | Boosting competitiveness through the development of productive infrastructure. | Road Infrastructure Development Program (GU-L1169) Development of the CA-9 North Corridor: El Rancho - Teculután Substrech (GU-L1170) Development of the CA-9 North Corridor: Teculután - Mayuelas Substrech (GU-L1189) |
| | Increasing financing for the productive sector | |
| Climate action and food availability | Building climate resilience and strengthening mitigation and adaptation actions | |
| | Increasing the efficiency of public forestry services | Sustainable Forest Management Project (GU-L1165) |
| | Increasing food availability | |

ANNEX III – DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation".

COUNTRY STRATEGY: GUATEMALA

STRATEGIC

Se refiere al grado en que el diseño y objetivos de la Estrategia País (EP) son consistentes con los desafíos de desarrollo del país y con las prioridades del gobierno

EFFECTIVENESS

This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.

| Effectiveness dimensions | |
|---|----------------|
| I. Country Diagnosis - Country Development Challenges (CDC)* | Yes//No |
| - The CDC is comprehensive / holistic / complete | Yes |
| - The CDC clearly identifies the main development challenges | Yes |
| - The CDC presents magnitudes of the main development challenges that are based on empirical evidence | Yes |
| II. Priority Areas Diagnostics | % |
| - That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges | 100% |
| - That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges | 100% |
| - That provide corresponding policy recommendations | 100% |
| III. Results matrix** | % |
| - The strategic objectives are clearly defined | 100% |
| - The expected outcomes are clearly defined | 100% |
| - The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis | 100% |
| - The indicators are outcome indicators and SMART | 100% |
| - The indicators have baselines | 100% |
| IV. Vertical logic | Yes//No |
| - The CS has vertical logic | Si |

* This analysis includes any potential diagnostic document used elaborated to inform.

** The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

ANNEX IV – NATIONAL SYSTEMS MATRIX

| Strategic objective | Expected results during CS | Indicator | Unit of measure | Baseline | Base year | Main objective | Time allocation | CRF line-up |
|---|---|--|---|----------|-----------|----------------|-----------------------|---|
| Strengthening National Fiduciary Systems | Closing gaps with international ISSAI standards with emphasis on audit process improvement (SAI-PMF report) - CGC | Progress in the implementation of the action plan resulting from the final SAI-PMF evaluation report | Percentage of progress of the action plan = (# implemented actions) / (total prioritized actions) | 73% | 2024 | 77% | At the end of the BCS | <ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation |
| | Closing the gaps with international IPSAS standards - MINFIN | Bank support initiatives related to advice and training/forums to advance IPSAS implementation | Number of initiatives and support interventions implemented | 0 | 2024 | 4 | At the end of the BCS | <ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation |
| | Strengthening public procurement through the implementation of an Action Plan developed on the basis of a diagnosis of the system using OECD/DAC methodology. | Action Plan for the Improvement of the Regulatory Framework for Public Procurement in Implementation | Degree of implementation of the Action Plan | 10% | 2024 | 20% | At the end of the BCS | <ul style="list-style-type: none"> - Institutional capacity and the rule of law - Productivity and innovation |

ANNEX V – ESTIMATED FINANCE FRAMEWORK

The sovereign guaranteed finance framework provides for approvals between approximately US\$750 million and US\$850 million for the period ranging from 2024 to 2028. Approvals will be concentrated at the beginning of the Strategy period. This range of approvals has been defined based on the country's financing needs, the dialogue with national authorities at the strategic level and the operational dialogue that the sectors have with the country. Technical support will continue to be provided in strategic areas and local currency lending opportunities will continue to be explored, especially for the private sector. These resources will be added to the amounts contributed by IDB Invest and IDB Lab for Guatemala during the term of the Country Strategy. In addition to the Bank's positioning as a strategic partner in technical support and knowledge generation for the country, the expected approvals and corresponding disbursements¹⁹¹ would allow the Bank to maintain a share of between 4% and 6% of total public debt and between 8% and 13% of the country's total public external debt.

| Millions of US\$ | Strategy 2021-2024 | | | | Strategy 2024-2028 | | | | | |
|---------------------------------|--------------------|-------------|-------------|-------|--------------------|-------------|-------------|-------------|-------------|-------------|
| | 2021 | 2022 | 2023 | Total | 2024 | 2025 | 2026 | 2027 | 2028 | Total |
| Approvals | 70 | 375 | 100 | 545 | 0 | 800 | | | | 800 |
| Disbursements | 4.2 | 80 | 91 | | 68 | 112 | 134 | 89 | 26 | 429 |
| Repayment (main) | 171 | 169 | 155 | | 153 | 166 | 183 | 176 | 167 | 845 |
| Net capital flows | -167 | -89 | -64 | | -85 | -54 | -49 | -87 | -141 | -415 |
| Subscriptions and contributions | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest and charges | 59 | 61 | 93 | | 102 | 104 | 102 | 94 | 85 | 487 |
| Net cash flow | -226 | -150 | -157 | | -186 | -158 | -151 | -181 | -226 | -902 |

| | | | | | | | | | | |
|-----------------------------------|--------|--------|--------|--|--------|--------|--------|--------|--------|--|
| IDB Debt | 2,007 | 1,918 | 1,854 | | 1,770 | 1,716 | 1,667 | 1,581 | 1,439 | |
| Multilateral debt | 4,398 | 4,645 | 4,467 | | 4,307 | 4,241 | 4,176 | 4,112 | 4,049 | |
| External public debt | 11,097 | 11,091 | 12,447 | | 13,256 | 14,118 | 15,035 | 16,013 | 17,053 | |
| Total external debt | 25,817 | 24,280 | 24,446 | | 24,377 | 24,959 | 25,566 | 26,505 | 27,314 | |
| Total public debt | 26,315 | 27,629 | 28,598 | | 30,182 | 32,567 | 35,185 | 37,899 | 40,822 | |
| IDB debt/multilateral debt (%) | 46% | 41% | 42% | | 41% | 40% | 40% | 38% | 36% | |
| IDB debt/external public debt (%) | 18% | 17% | 15% | | 13% | 12% | 11% | 10% | 8% | |
| IDB debt/total external debt (%) | 8% | 8% | 8% | | 7% | 7% | 7% | 6% | 5% | |
| IDB debt/total public debt (%) | 8% | 7% | 6% | | 6% | 5% | 5% | 4% | 4% | |

¹⁹¹ Disbursements have been calculated considering the operations in execution or those with legislative approval.

ANNEX VI. SUMMARY OF DIAGNOSTIC CHALLENGES AND INTERVENTIONS

WHY IS IT IMPORTANT?

