
Guatemala SCD Update

Building a Stronger Social Contract through Productive, Inclusive and Sustainable Growth

March 2022



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Abbreviations and Acronyms

ACS: Administrative and Client Support	IMF: International Monetary Fund
AFRHD: Africa Human Development	INE: National Institute of Statistics
Banguat: Central Bank of Guatemala	InfraSAP: Guatemala Transport Infrastructure Sector Assessment Program
CA: Central America	LAC: Latin America and the Caribbean
CEPAL: Comisión Económica para América Latina y el Caribe (Economic Commission for Latin America and the Caribbean)	M&E: Mentoring and Evaluation
C&V: Crime and Violence	MIDES: Ministerio de Desarrollo Social (Ministry of Social Development)
CCT: Conditional Cash Transfers	MIGA: Multilateral Investment Guarantee Agency
CONNA: Comisión Nacional de la Niñez y de la Adolescencia	MINEDUC: Ministry of Education
CPF: Country Partnership Framework	MSME: Micro, small, and medium enterprise
CPSD: Country Private Sector Diagnostic	MSPAS: Ministerio de Salud Pública y Asistencia Social (Ministry of Public Health and Social Assistance)
Covid-19: SARS-CoV-2	NGO: Nongovernmental Organization
CONAP: Consejo Nacional de Áreas Protegidas (National Council of Protected Areas)	PER: Public Expenditure Review
CRI: Climate Risk Index	PPP: Purchasing-power-parity terms.
DRM: Disaster Risk Management	PRONACOM: Programa Nacional de Competitividad (National Program for Competitiveness)
ECD: Early Child Development	SBS: Secretaría de Bienestar Social de la Presidencia.
ECE: Early Childhood Development	SCD: Systematic Country Diagnostic
EFI: Equitable Growth, Finance and Institutions	SDGs: Sustainable Development Goals
ELCDR: Early Childhood Education and Assistance Program.	SEGEPLAN: Secretaría de Planificación y Programación de la Presidencia (Guatemalan Secretariat for Planning and Programming of the Presidency)
ENCOVI: Encuesta Nacional de Condiciones de Vida (Living Standards Measurement Survey)	SOSEP: Secretaría de Obras Sociales de la Esposa del Presidente.
ENEI: Instituto Nacional de Estadística Guatemala (Guatemala National Institute of Statistics)	TFP: Total Factor Productivity
FDI: Foreign Direct Investment	TVET: Technical and Vocational Education and Training
FUNDESA: Fundación para el Desarrollo de Guatemala (Foundation for the Development of Guatemala)	UAM: Unaccompanied Minors
FSS: Fondo Social de Solidaridad (Solidarity Social Fund)	UMIC: Upper Middle-Income Countries
GBV: Gender-Based Violence	UNFPA: United Nations Population Fund
GCNN: Gran Cruzada Nacional por la Nutrición	UNICEF: United Nations International Children's Emergency Fund
GDP: Gross Domestic Product	UNODC: United Nations Office on Drugs and Crime
GMA: Guatemala Metropolitan Area	USA: United States of America
GT: Guatemala	USAID: United States Agency for International Development
GVCs: Global Value Chains	WBG: World Bank Group
HCI: Human Capital Index	WDI: World Development Indicators
HD: Human Development	WDR: World Development Report
IADB: Inter-American Development Bank	WEF: World Economic Forum
ICEFI: Instituto Centroamericano de Estudios Fiscales (Central American Institute of Fiscal Studies)	WEO: World Economic Outlook
INAB: Instituto Nacional de Bosques (National Forest Institute)	WGI: Worldwide Governance Indicators
ICT: Information and Communication Technology	WHO: World Health Organization
IFC: International Finance Corporation	WTO: World Trade Organization
ILO: International Labor Organization	

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Executive Summary

1. While Guatemala has made progress in certain areas, its current development challenges remain largely the same as those identified in the 2015 Systematic Country Diagnostic (SCD). A small public administration, weak institutions, and persistently high levels of crime contribute to a weak social contract and an adverse business climate. As stated in the SCD, these conditions lock Guatemala in a vicious cycle of modest growth, pervasive poverty, low tax revenues, and chronic underinvestment in physical and human capital. Although Guatemala is an upper-middle-income country, it has the fifth lowest level of GDP per capita and the third highest poverty rate in Latin America and the Caribbean (LAC). Moreover, decades of unbalanced development have given rise to *two Guatemalas*: a poor, underserved, largely rural and informally employed majority alongside a more affluent and educated urban minority with access to formal employment and the capacity to purchase services that the state is unable to provide. The World Bank's 2015 Guatemala SCD envisioned changing this *status quo* through deep and sustained country-owned policy reforms designed to foster inclusive growth and social cohesion, strengthen the supply of basic health and education services, attract private investment, accelerate productivity growth, reform fiscal management, and safeguard environmental sustainability. However, successive political administrations have been unwilling or unable to implement most of the recommended measures, leaving the country's core development challenges largely unchanged.

2. Since 2015, key risks have intensified, including Guatemala's exposure to climate-related shocks and the impact of the global Covid-19 pandemic. The economic and human costs of extreme weather events have risen further in recent years, and the short-term exigencies of disaster response have diverted attention and resources away from longer-term efforts to strengthen resilience. Emigration has continued to serve as an outlet for individuals impacted by natural disasters, economic shocks, or the country's endemic crime and violence. In 2021, remittances reached a record high of 18 percent of GDP. According to official sources, about 620,000 Guatemalans had tested positive for Covid-19 by the end of 2021—a relatively low infection rate—but the country's weak health infrastructure and limited testing capacity likely resulted in underreporting. In addition to its human toll, the Covid-19 pandemic has caused employment and income losses, and nutrition and education indicators have deteriorated among children of all ages. As of early 2022, just 29 percent of the population was fully vaccinated, far below the LAC average, increasing the country's susceptibility to further Covid-19 outbreaks. Low vaccination rates also weaken the confidence of households and firms and exacerbate uncertainty regarding the trajectory of the pandemic.

3. Between the completion of the 2015 SCD and the onset of the pandemic, Guatemala's economy grew by 3.3 percent per year—a solid growth rate, but below the average of 3.6 percent observed during 2010-2014. Between 2015 and 2019, the rapid expansion of the labor force contributed 2.2 percentage points to GDP growth, while the combined effect of a growing stock of physical and human capital contributed another 1.5 percentage points. While the contributions of capital and labor to GDP growth remained broadly unchanged, the deterioration of total factor productivity reduced growth more in 2015-2019 than in 2010-2014, reflecting a long-term decline in economic efficiency. The movement of labor from low-productivity agricultural activities into higher-productivity manufacturing and services sectors contributed modestly to growth. Rapidly growing remittances boosted demand for services, providing informal employment opportunities. Following a strong recovery, GDP projections for 2022 now exceed pre-pandemic forecasts.

4. Tight macroeconomic policies smoothed the impact of rising remittances on aggregate demand, in line with the government's longstanding commitment to macroeconomic stability. Remittances increased from 10.1 percent of GDP in 2015 to 18 percent in 2021, causing domestic demand to grow 0.8 percentage points faster than GDP during 2015-21. International reserves rose from US\$7.8 billion to US\$20.9 billion (or 24 percent of GDP) over the period. The headline inflation rate was on average modest 3.7 percent, and the share of goods and services exports in GDP declined slightly but recovered in 2021. Tight expenditure controls kept the total public debt stock contained at 26.5 percent of GDP prior to the pandemic, even though fiscal revenue averaged just 11.3 percent of GDP during 2015-19.

5. Guatemala has long struggled with high poverty rates and large regional disparities in living standards, which systematically disadvantage indigenous peoples and Afro-descendants. As of 2018, indigenous peoples and Afro-descendants represented more than 40 percent of the population. These groups

tend to face poor labor-market outcomes, limited access to basic services, high food insecurity, and weak connection to markets and economic opportunities. While a lack of household-level income and consumption data after 2014 limits the monitoring of poverty rates and living conditions,¹ simulations for 2019 show that about 47.8 percent of the population was below the international poverty line of US\$5.50 per person per day, down slightly from 49.1 percent in 2014.² In 2019, Guatemala had the third highest poverty rate in the LAC region after Haiti and Honduras, and recent growth has had only a modest impact on poverty. Between 2014 and 2019, the growth of remittance-fueled consumption likely more than offset a broad-based decline in labor income.³ Meanwhile, inequality, as proxied by the Gini index, is estimated to have increased marginally from 0.483 to 0.485, just below the LAC average of 0.51. Rural areas, the northern and northwest regions, and indigenous peoples and Afro-descendants continue to exhibit higher levels of nonmonetary poverty and lower living standards than the rest of the country.

Table 1. Key Macroeconomic and Poverty Indicators, 2000-2021

	2015 SCD				SCD Update				
	2000	2006	2015 ^(a)	2000-2015 ^(b)	2019	2020	2021	Pre-COVID 2016-2019 ^(b)	Post-COVID 2020-2021 ^(c)
Macroeconomic and Fiscal Indicators									
GDP per capita, 2017 PPP \$	6,500	6,972	8,126	7,170	8,653	8,393	8,898	8,410	8,646
Current account balance, % of GDP	-5.4	-5.1	-1.2	-4.0	2.3	5.1	3.1	1.3	4.1
International reserves, months of imports	3.6	3.5	4.5	4.0	7.4	10.2	7.7	6.4	9.0
Consumer prices, annual %	6.0	6.6	2.4	6.1	3.7	3.2	4.3	3.7	3.7
Fiscal deficit, % of GDP	-1.8	-2.0	-1.5	-1.9	-2.2	-4.9	-1.2	-1.7	-3.1
Government debt, % of GDP	19.2	22.2	25.0	22.8	26.5	31.6	30.6	25.8	31.1
Poverty and Equity Indicators (in 2011 constant PPP prices and % of the population unless otherwise indicated^(d))									
Poverty rate, \$5.50/day	45.1	43.7	49.1	46.0	47.8	52.4	51.7	48.4	52.0
Vulnerable rate, \$5.5-\$13/day	34.9	34.6	35.8	35.1	36.5	33.7	34.3	36.1	33.9
Middle class ratio \$13-\$70/day	18.5	20.5	14.5	17.8	15.2	13.5	13.6	14.9	13.5
Gini index (0-1 scale)	0.542	0.546	0.483	0.524	0.485	0.485	0.481	0.485	0.483

Sources: LAC Equity Lab for Poverty and Equity Data; World Development Indicators (WDI), Central Bank (Banguat) and Ministry of Finance (Minfin) for Macroeconomics and Fiscal.

Notes: (a) 2014 number for poverty. (b) GDP per capita in average annual growth for the period and for inflation changes represent the annualized inflation for the period. (c) Poverty and equity estimates for 2019-21 are based on micro-simulations that use the 2014 ENCOVI survey and the ENEI surveys 2015-2019. (b), (c) and (d) are Annual Averages. (d) Last official information is for 2014.

6. Despite limited progress in selected human capital indicators, vulnerable households remain subject to social and economic exclusion. Guatemala's Human Capital Index (HCI) score rose from 0.44 to 0.46 between 2010 and 2018, with modest improvements observed in education indicators, yet the country's overall HCI score remains far below the LAC average. An HCI score of 46 indicates that a child born in Guatemala in 2018 would be expected to reach only 46 percent of what her lifetime productivity would have been had she enjoyed a complete education and full health. Human capital indicators are especially low among indigenous peoples and Afro-descendants, and in the more remote areas of the country they approach the levels of several low-income countries in Sub-Saharan Africa. In addition, Guatemala continues to have the LAC region's lowest female labor-force participation rate, which stood at 32 percent in 2018 despite years of solid economic growth, improvements in educational attainment among women, and falling fertility rates.

7. The government's swift and comprehensive policy response to the Covid-19 crisis was exemplary, and the rapid expansion of social programs and measures to help households and firms cope with the pandemic has offered renewed hope that transformative change is possible. Small fiscal deficits and a low public debt-to-GDP ratio allowed for a fiscal expansion of 2.7 percent of GDP during 2020. Increased public spending and surging remittance inflows limited the pandemic-induced economic contraction to 1.5 percent, below the levels of other countries in the region. In 2020, the authorities mounted a strong social and

economic policy response supported by innovative digital solutions, effectively leveraging the government's limited fiscal resources to protect economic activity and mitigate the welfare impact of the crisis. Social protection spending rose from 8.5 percent of GDP in 2019 to 10 percent in 2020 through an expansion of well-targeted programs aimed at vulnerable households. The coverage and benefits of school feeding programs were also expanded during the crisis, boosting food security among households with children. While the poverty rate rose by an estimated 4.6 percentage points during the pandemic, reaching 52.4 percent in 2020, this increase would have been two to three times greater had it not been for the government's response effort.

8. Nevertheless, the Covid-19 pandemic is expected to have lasting repercussions on multiple dimensions of wellbeing, particularly among poor households and marginalized communities. Despite the government's policy response, the crisis increased poverty rates and likely exacerbated food insecurity, which affected as many as half of all households in mid-2020. In addition, the pandemic's impact on school attendance in Guatemala appears to have been among the region's most severe, and major learning losses will have negative long-term consequences for human capital and productivity. Across a wide range of economic and social indicators, the impact of the crisis has been systematically worse for women, people with lower levels of education, rural households, and indigenous peoples and Afro-descendants. Efforts to recover these losses continue to be hindered by the slow pace of vaccination.

9. Beyond the pandemic, Guatemala has also experienced a marked deterioration in governance quality and social trust, which pose a serious threat to long-term stability. Guatemala's performance on global indexes of governance quality, economic competitiveness, and public-sector integrity has worsened significantly since 2015. The steady weakening of institutions has continued to erode trust in the state: in 2020, about half the population believed that corruption had recently increased, up from 40 percent in 2016. Low governance quality has undermined public service delivery, particularly in disadvantaged regions, while a weak contractual and institutional environment hinders the development of the private sector, slowing job creation and undermining firm-level productivity. In 2017, a World Enterprise Forum survey identified crime and corruption as the most important challenges to doing business in Guatemala. In addition, political fragmentation has contributed to an increasingly sluggish and unresponsive legislative process, and fewer laws were passed in 2019 than at any time in the last 20 years. These setbacks pose a considerable threat to the country's long-term social stability and reform efforts.

10. Since 2015, most employment growth has been informal, and labor income has fallen fastest among educated workers. Concentrated markets and an uncompetitive business climate have long inhibited the growth of formal employment, forcing a large share of workers into tenuous, low-quality informal jobs. This pattern has worsened since 2015, and about 75 percent of Guatemala's workforce is currently engaged in the informal sector. Meanwhile, real labor earnings declined by an average of about 17 percent between 2014 and 2019. This decline was observed across all economic sectors and appears to be driven by sluggish labor demand coupled with a growing workforce. Earnings dropped more markedly for workers with a secondary education or above, likely reflecting the slower pace of job creation for this segment of the labor force combined with an increase in average education levels. Declining education premiums could also signal a deterioration in education quality. While recent research offers some insight into this phenomenon, no conclusive explanation is available for the drop in earnings among educated workers.

11. Preexisting fiscal, infrastructure, and business-environment challenges have worsened since 2015 and continue to impose constraints on high-quality job creation. Between 2015 and 2017, public investment in transportation infrastructure continued its long-term decline, reaching a historical low of 0.4 percent of GDP in 2017. While public investment levels have since recovered, critical infrastructure has deteriorated. Combined with a lack of private-sector dynamism, low infrastructure quality has contributed to the decline in total factor productivity observed over the last six years. Meanwhile, Guatemala's weak contractual and institutional environment diminishes competition and hinders formal employment growth by discouraging the entry of new firms and slowing the expansion of efficient firms. High regulatory and administrative costs further blunt efficiency incentives and encourage informality. The inconsistent enforcement of labor laws undermines worker protections, while inflexible work arrangements reinforce traditional employment patterns at the expense of women and youth. A high minimum wage and excessive

mandatory severance pay discourage the hiring of formal workers. Smaller enterprises struggle to access affordable financing, entrenching the dominance of large incumbents. Foreign investment inflows are low and concentrated in a narrow range of sectors, and Guatemala's participation in global value chains is limited to agricultural goods and low-value-added manufactures.

12. Recent developments highlight the continued relevance of the policy recommendations proposed in the 2015 SCD, and the lack of progress on the reform agenda underscores the need to consider the pragmatism of reforms and prioritize measures that enable the private sector to create high-quality jobs.

While the criteria proposed in the 2015 SCD—including the urgency, complementarity, and scope of proposed reforms—remain relevant, this SCD Update also considers the pragmatism of proposed measures by examining recent progress, assessing the country's implementation capacity, and identifying the presence or absence of the enabling conditions for reform. In addition, Guatemala's persistently high poverty levels, the acceleration of its demographic transition, and the recent deterioration of the labor market have heightened the importance of accelerating high-quality job creation, especially for younger workers and members of vulnerable groups. Robust employment growth in the private sector will be necessary to reap a demographic dividend, reverse the declining trend in labor earnings, and achieve greater progress on poverty reduction. Given the urgency of the situation, the SCD Update prioritizes measures that can be implemented within the next four to five years.

13. The Update revisits each of the development pathways defined by the SCD, adjusting the policy priorities, scope, and focus to reflect the pragmatism and job-creation potential of the proposed actions.

The 2015 SCD set forth three pathways for achieving poverty reduction and shared prosperity in Guatemala: (i) building a more inclusive social contract by reducing malnutrition and improving education; (ii) accelerating growth through greater investment in agricultural productivity; and (iii) promoting fiscal, social, and environmental sustainability by increasing resource mobilization, strengthening land rights, and addressing environmental risks. As these pathways remain valid, the Update uses the same organizing structure to update the priority policy areas. As in the SCD, weak governance and the need for institutional strengthening are key areas that cut across all identified priorities. The Update closely examines opportunities to improve the overall efficiency and transparency of public spending and to increase civil society's participation in the design and monitoring of public programs. Moreover, governance and institutional risks are described for each priority area, along with potential mitigation strategies. This approach reveals five priority policy areas for accelerating inclusive, productive, and sustainable growth in Guatemala: (i) reducing child malnutrition and supporting early childhood development; (ii) reversing learning losses, lowering dropout rates, and supporting lifelong skills development; (iii) improving the business environment and accelerating high-quality, inclusive job creation; (iv) mobilizing revenue, increasing public expenditure efficiency, and strengthening institutions; and (v) building resilience through climate adaptation and enhanced disaster response.

14. The revised priority policy areas reflect Guatemala's key contextual and country-level developments since 2015.

While Covid-19 has underscored the importance of strengthening resilience and ensuring adequate preparedness to cope with shocks, the pandemic's severe impacts on employment, income, and food security also emphasize the urgency of greater skills development and more proactive measures to address child malnutrition. Moreover, the alarming evidence of widespread educational disengagement among school-aged children highlights the need to reverse Covid-induced learning losses. The accelerating demographic transition demands more efficient public investment, particularly in human capital, as well as the creation of well-paid, stable job opportunities for young workers. The structurally slack labor demand resulting from a stagnant private sector and declining economywide productivity points to the need to improve the business environment and enhance firm competitiveness. In addition, Guatemala's increasing exposure to environmental shocks makes climate adaptation and disaster-risk management an overarching priority.

15. Reducing child malnutrition and supporting early childhood development will be vital to sustainably accelerate human-capital formation.

Alleviating malnutrition will require well-targeted, long-term interventions in the health, education, social protection, water and sanitation, and agriculture sectors. Nutritional support to pregnant women and adults caring for young children, as well as programs to prevent and address child maltreatment are key priorities. Geographic targeting is especially important, as chronic

malnutrition and related challenges are heavily concentrated in underserved areas, among poor and marginalized communities, and among indigenous peoples and Afro-descendants.

16. To limit the socioeconomic scarring effects of the Covid-19 crisis, the authorities should focus on reversing learning losses, lowering dropout rates and supporting lifelong skills development. Lower-income households in remote and digitally isolated areas have experienced some of the most severe learning losses during the pandemic. Reaching these communities with remedial education and skills-development programs will be crucial to an inclusive recovery. Remedial education can help address learning losses, while a greater emphasis on technical and professional skills could enhance the economic value of education. Measures to ensure gender equity and reduce gender-based violence will be vital to reduce teen pregnancy and lower dropout rates among female students. Given Guatemala's stark socioeconomic disparities, the government can maximize the impact of human capital investment by focusing on the country's indigenous, female, and rural populations.

17. Sustained reforms to the business environment could attract more investment and create better jobs in both urban and rural areas. Reforms designed to encourage investment and boost economywide productivity, especially agricultural productivity, should focus on enhancing the regulatory environment, expanding access to productive finance, attracting and retaining foreign investment, increasing Guatemala's participation in global value chains, and encouraging entrepreneurship and innovation. Policies that facilitate technological uptake could facilitate agricultural transformation, increasing the productivity of smallholders, including those involving indigenous peoples. The mandatory use of electronic invoicing has reduced the cost of tax compliance, and the customs union with Honduras and customs collaboration agreement with Mexico facilitate integration into regional value chains. The recently adopted insolvency reform facilitates the reallocation of capital and labor from firms that are no longer viable to firms that can exploit new opportunities.

18. Mobilizing greater fiscal revenue will be essential to achieve Guatemala's development goals, and the government has opportunities to strengthen public expenditure efficiency and transparency. To meet the country's large and growing social spending and investment needs, public revenue must increase beyond the 2015-19 average of 11.3 percent of GDP—just half the regional average. Administrative measures adopted in 2021 are a welcome start and, combined with revenue buoyancy following the strong 2021 recovery, they boosted government revenue to 12.3 percent of GDP. Additional measures could include broadening the tax base, increasing excise taxes, streamlining tax exemptions, and strengthening the progressivity of the tax structure. In addition, the government must address inefficiencies in the procurement and contracting processes, as well as challenges in subnational budget execution. The authorities can further improve the transparency of public spending and bolster the integrity of the public sector by introducing laws and regulations to reduce conflicts of interests among officials. The experience with social spending during the Covid-19 crisis shows how integrating digital technologies into the delivery of social programs can boost transparency and support their rapid expansion. The government can reinforce its recent progress in strengthening social programs by enhancing the legal framework for citizen participation.

19. Bolstering disaster resilience will be vital to accelerate growth and protect inclusive development. While the government has continued devoting significant resources to disaster relief, an integrated disaster risk management strategy will be necessary to proactively address vulnerabilities and focus on prevention. The Covid-19 pandemic has demonstrated the importance of strengthening disaster risk management capabilities in the health sector, while climate change poses a growing threat to agricultural productivity. Climate- and nutrition-smart agricultural practices, the protection of landscapes and ecosystem services, and emissions-reduction programs could help set Guatemala on a path toward sustainable, low-carbon growth. Considering the financial sector's key role in disaster resilience, the government should establish a comprehensive plan for financial risk management, evaluate the use of carbon pricing, catalyze the development of green finance, and mainstream climate issues into financial regulations.

20. The priority policy areas identified in this Update present important synergies and complementarities. Investments in early childhood development and basic education will increase the cost-effectiveness of other social investments at all stages of life, enhancing the overall efficiency of social

spending. Increasing total factor productivity and enhancing workforce skills are also interconnected objectives. Boosting firm productivity requires well-trained workers, while rapid job creation that effectively leverages human capital investments is possible only within a competitive private sector. Strengthening resilience to shocks through climate adaptation and enhanced response capabilities will be necessary to protect investments in human and physical capital. Finally, supporting the growth of high-productivity jobs will require efficient investment in green infrastructure, which reinforces the sustainability service provision while mitigating exposure to climate-related shocks. Finally, continued efforts to strengthen public institutions and improve governance quality are a necessary condition for achieving the synergies and complementarities described above.

1. Introduction

21. Guatemala is the largest economy in Central America, but its per capita GDP remains among the lowest in Latin America and the Caribbean (LAC). Guatemala’s population is 17 million, and its per capita GDP was estimated at US\$4,600 in 2020. The government has long maintained a conservative macroeconomic stance, with a relatively small public sector compared to the size of the economy. Achieving Guatemala’s development aspirations will require shifting to a more inclusive, productive, and sustainable development model. The 2032 K’atun National Development Plan (Government of Guatemala, 2021) aims to reduce poverty, exclusion, and inequality by fostering a dynamic private sector supported by a favorable business climate. The 20 Innovation and Development of Guatemala (PLANID 2020-2024) (Government of Guatemala, 2021) and the subsequent national Covid-19 recovery plan “Guatemala Does Not Stop” (“*Guatemala No Se Detiene*”) also highlight the key role of the private sector in creating high-quality jobs. Investing in human capital, particularly among poor and marginalized groups, will be vital to maximize the productive potential of Guatemala’s population, while a decentralized, accountable, and transparent government must ensure an adequate supply of basic services and respond to the needs of citizens. However, Guatemala continues to face enormous challenges in these areas, and an accelerating demographic transition underscores the urgency of creating adequate job opportunities for a young and rapidly growing workforce while increasing the impact of public spending on human capital development.

22. The World Bank Group’s 2015 Systematic Country Diagnostic (SCD) presented Guatemala as a small state trapped in a self-reinforcing equilibrium of slow growth, pervasive poverty, low fiscal revenue, and inadequate public investment. The 2015 SCD depicted Guatemala as a deeply divided society, in which a largely poor, indigenous, rural, and informally employed majority with low human development outcomes and limited access to basic services coexists alongside a much wealthier, largely non-indigenous, urban, formally employed minority capable of affording privately provided services. The 2015 SCD also highlighted the country’s historically fragmented social contract and weak institutions, which contribute to low levels of public spending that undermine the state’s ability to provide essential public services and invest in human and physical capital, especially among the most vulnerable households. The SCD advocated for a “big push” of investments and reform efforts to simultaneously overcome multiple development challenges and free Guatemala from its vicious cycle of institutional weakness and economic underdevelopment (Annex A1 offers a description the SCD’s conceptual framework and summarizes its policy recommendations).

23. Despite progress in some areas, the most salient development challenges identified in the 2015 SCD remain largely unresolved. During 2015-19, the GDP growth rate averaged 3.3 percent per year,⁴ about 2.4 percentage points above the LAC average.⁵ However, this expansion was driven by an annual population growth rate of 1.6 percent,⁶ and although Guatemala’s per capita income growth exceeds the LAC average, it is not on a convergence path with developed countries.⁷ Guatemala’s poverty rate declined modestly from 49.1 percent in 2014 to an estimated 47.8 percent in 2019,⁸ yet it remains third highest in LAC after Haiti and Honduras. Guatemala also has some of the region’s highest rates of social and economic exclusion, including exclusion based on gender and ethnicity. Meanwhile, an unfavorable business climate has contributed to low rates of employment growth in the formal sector, resulting in increasing informality and declining labor earnings.

24. Despite years of steady growth and low macroeconomic risks, Guatemala has largely failed to implement the ambitious set of structural reforms outlined in the 2015 SCD. During 2015-19, fiscal revenues and expenditures remained at a paltry 11.3 and 12.9 percent of GDP, respectively, far below the level necessary to implement the ambitious agenda set out in the 2015 SCD. Consistent growth was accompanied by low inflation and modest levels of domestic and external debt. Low levels of public investment, combined with a lack of pro-competition reforms, contributed to a decline in total factor productivity. The quality of institutions and governance has deteriorated sharply since 2015, further undermining public-sector efficiency and slowing economic development. Since 2004, political administrations have become increasingly divided, while the number of political parties has increased. Intensifying political fragmentation has slowed the legislative process, and just 11 laws were approved in 2019, the lowest number in two decades. The

government's inability to approve a budget for two consecutive years (2020 and 2021) further underscores these challenges, and political gridlock is stalling the implementation of much-needed structural reforms.

25. This Update revisits Guatemala's development challenges and reexamines the policies necessary to achieve inclusive and sustainable growth. The Update follows the conceptual framework used in the 2015 SCD while incorporating the latest available data and analytical work into its assessment. Updated comparison criteria yield a new set of country peers: Honduras, Paraguay, Sri Lanka, and Senegal are identified as structural peers, while Peru, the Dominican Republic, Georgia, and Serbia are identified as aspirational peers (see Annex A1 for details). The prioritization of policy reforms now gives more weight to the pragmatism of the proposed actions and their contribution to the creation of high-quality jobs for a young and increasingly educated workforce. The findings draw on extensive consultations and ongoing dialogue with stakeholders in the public and private sectors. These consultations informed and largely corroborated the findings of the analysis, and stakeholders placed special emphasis on the deterioration of institutions and the large gaps between Guatemala City and the rest of the country (see Annex A2 for details).

26. This Update is presented in five sections. Section 2 summarizes the most relevant developments influencing the country context since 2015. Section 3 provides greater detail on areas that have improved, deteriorated, or remained largely unchanged since the previous analysis and discusses the new prioritization criteria. Section 4 revisits the government's policy priorities and examines Guatemala's progress toward achieving the twin goals of eliminating extreme poverty and promoting shared prosperity. Section 5 describes key data and knowledge gaps and suggests areas for further research.

2. Key Contextual Developments, 2015-2021

A faster-than-anticipated demographic transition and a changing international context are intensifying pressure on the Guatemalan labor market.

27. The 2018 population census revealed that the demographic transition was proceeding faster than previously projected, underscoring the urgent need to accelerate high-quality job creation. The census showed an unexpectedly sharp decline in the ratio of dependents to working-age adults (Instituto Nacional de Estadística, 2019). According to the Census data, the dependency ratio was 63 percent compared to a projected dependency ratio of 75 percent based on estimations using the 2002 Census, mainly because there were 1.1 million fewer children under the age of 14 than had been projected (Figure A4. 6). A falling dependency ratio can boost economic growth through a phenomenon known as the "demographic dividend." The labor supply increased significantly between 2014 and 2019, rising by 15 percent from 5.9 million to 6.8 million, and this trend is expected to continue. However, reaping a demographic dividend requires a healthy, skilled, and productive workforce with access to high-quality jobs. Investments in human capital, which require increasing the level of public spending and enhancing its efficiency, are critical to ensure that the cohorts joining the workforce realize their full productive potential as working adults, while creating an enabling environment for job growth in the private sector is vital to ensure adequate demand for labor across all skill levels.⁹

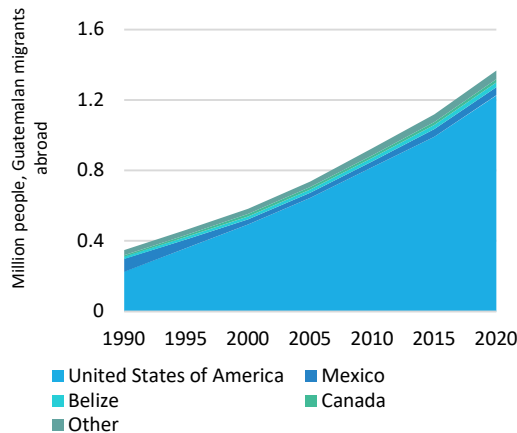
28. Emigration, primarily to the United States, has long helped to ease demographic pressure on the domestic labor market, and remittances are an increasingly vital component of demand. In recent years, migration flows from Central America have continued to increase (CRS, 2021) (Pew Research Center, 2017), and the number of Guatemalans residing abroad rose by 20 percent between 2015 and 2020 to a peak of 1.36 million (Figure 1). Migration has been linked to low living standards, a lack of economic opportunities, extreme weather events such as droughts and hurricanes, food insecurity, and violence (Aguilera et al., forthcoming); (Soto, et al., 2021). While emigration results in family separation and the journey entails considerable risks, rising remittance inflows have helped insulate domestic demand from economic shocks, including the effects of the Covid-19 pandemic. However, uncertainty around U.S. immigration policy¹⁰ poses a major exogenous risk to emigration and remittances. Apprehensions of Guatemalans at the U.S. border increased substantially between 2016 and 2019, rising by 60 percent for minors and 700 percent for family units. The resulting uncertainty around migrant outflows further underscores the

need to accelerate the creation of higher-quality jobs in the domestic labor market and improve the employment prospects of young people and workers from vulnerable households.

Guatemala’s heightened vulnerability to natural disasters and climate change poses risks

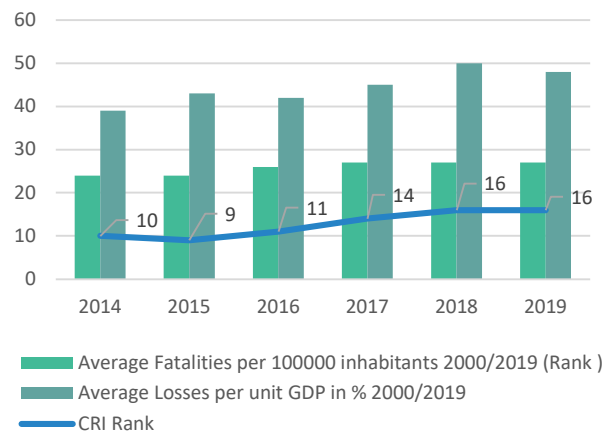
29. Over the last six years, Guatemala has experienced mounting risks and losses due to climate change. Guatemala is highly exposed to extreme weather events and other natural hazards, and it ranks 16th out of 181 countries in the Climate Risk Index (Figure 2). In 2020, Hurricanes Eta and Iota caused extensive flooding, dozens of landslides, and mudflows that affected 16 of Guatemala’s 22 departments, with damages and losses close to 1 percent of GDP,¹¹ the largest since Tropical Storm Agatha in 2010. Over the last decade, weather patterns have become more extreme, with a greater frequency both of droughts and floods (IPCC, 2014). Climate change is increasing Guatemala’s vulnerability to rising sea levels, flooding in low-lying areas, and coastal erosion, as well as a continued rise in average temperatures, the intensification of heatwaves, and increases in average precipitation (The Dialog, Leadership for the Americas, 2021).

Figure 1. The number of Guatemalans emigrants continued to increase steadily since 2015.



Source: UN-DESA, 2022. Data retrieved from <https://www.un.org/en/development/desa/population/migration/data/index.asp>.

Figure 2. Guatemala remains highly exposed to climate-related shocks.¹²



Source: Global Climate Risk Index 2019. Note: CRI is Climate Risk Index. The column represents the ranking overall (CRI) and the ranking in each category (average fatalities and average losses).

30. Despite the devastating impacts of extreme weather events and other natural disasters, progress in preparing for these shocks has been limited. Disasters have reversed hard-won gains in human capital, destroyed infrastructure, reduced agricultural output, intensified food insecurity, spread vector- and waterborne diseases, and disrupted the provision of essential services. Recent estimates suggests that Eta and Iota caused infrastructure-related losses (including the destruction of housing) of close to 0.56 percent of GDP, as well as agriculture-related losses of close to 0.20 percent of GDP.¹³ The most vulnerable groups are also the most exposed to disaster-related shocks, which contribute to school dropout rates, child labor, and household poverty, increasing social exclusion and encouraging emigration.

The Covid-19 crisis has amplified economic uncertainty and will likely have lasting effects on human capital

31. The Covid-19 pandemic has severely affected health outcomes and human lives in Guatemala, and low Covid-19 vaccination rates exacerbate uncertainty over the pandemic’s evolution in the country. Official data indicate a relatively low rate of infection—at end-2021, about 620,000 Guatemalans had tested positive for Covid-19—though the country’s weak health infrastructure and limited testing capacity may result in underreporting. However, the country’s mortality rate is over 70 deaths per 100,000 people, one of the highest rates among regional peers, and it may be underreported as well (see Annex A5). Guatemala’s

vaccination rate is among the lowest in the LAC region. As of early 2022, just 29 percent of the population was fully vaccinated, far below the levels of structural peers such as Honduras (43 percent), Paraguay (41.5 percent) and Sri Lanka (65 percent), as well as aspirational peers such as Peru (66 percent), the Dominican Republic (52 percent), and Serbia (47 percent).¹⁴ The slow progress of vaccination efforts increases the country's susceptibility to further Covid outbreaks and greater developmental losses. It also undermines the confidence of households and firms and amplifies economic uncertainty.

32. The Covid-19 crisis has had social and welfare impacts, and women, rural communities, and Indigenous Peoples and Afro-descendants have experienced the worst outcomes. The Covid-19 crisis aggravated food insecurity, and by mid-2020 about half of all households reported having unreliable access to food due to a lack of resources (World Bank and UNDP, 2021). While the share of households reporting food insecurity fell to one-third by mid-2021, it has yet to reach its pre-pandemic level of 17 percent (World Bank and UNDP, 2021). Worsening food insecurity mirrored the erosion of household income: as of mid-2020, 7 out of 10 households reported a decline in income since the start of the pandemic,¹⁵ and a year later about half of all households had not yet returned to their pre-pandemic income level. Income losses were concentrated among indigenous households, while job losses were most common among women and among those working in the services sector, where face-to-face interactions are more common.¹⁶ By mid-2021, women who had been employed just before the pandemic were five times more likely to have lost their job than men (21 percent versus 4.3 percent), and almost two-thirds of women who reported losing their job left the labor force altogether, especially women with children under the age of five. The pandemic also forced a large share of the inactive population back into the labor market, especially men, younger workers, and workers with higher levels of education. In addition to the shift in the composition of the labor force, the pandemic also reduced the overall quality of employment: there was a 4.2 percentage-point decline in formal employment and a 14.2 percent decline in the average hours worked per week (World Bank and UNDP, 2021).

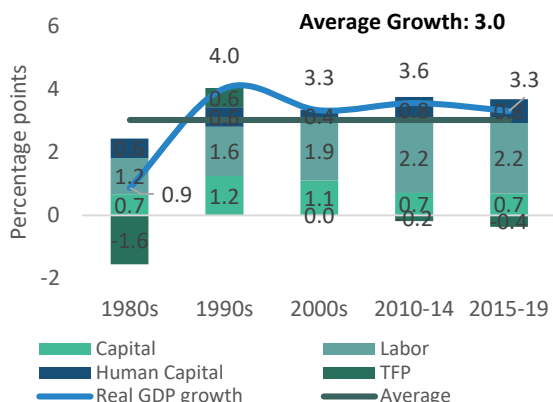
3. Key Country Developments, 2015-2021

33. This section identifies key country developments since 2015. First, it describes the areas where there have been no major changes, such as the country's sound macroeconomic policy stance, high poverty rates, weak human development outcomes, and low rates of female labor-force participation. It then turns to areas in which improvements are evident, such as the magnitude and scope of the Covid-19 crisis response and the post-crisis economic recovery, as well as the declining homicide rate and some improvements in budgetary transparency and in selected human capital outcomes, such as child immunization rates. The section then examines areas where Guatemala has regressed, including rising levels of informality, declining labor earnings, falling productivity indicators, deteriorating infrastructure, elevated levels of gender-based violence, and weakening governance quality. The section follows this analysis with a description of the new policy prioritization criteria.

A stable macroeconomic outlook, persistently high poverty rates, and dismal human capital outcomes

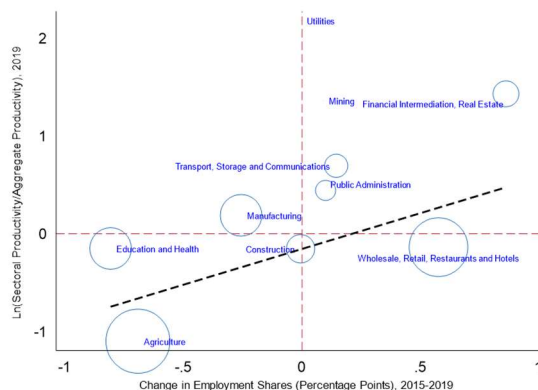
34. Economic growth continued even as total factor productivity declined. During 2015-19, the pre-pandemic GDP growth rate averaged a solid 3.3 percent, albeit slightly lower than the 3.6 percent recorded during 2010-14, but a full 2.4 percentage points above the regional average. The contributions from a growing labor force (2.2 percentage points) and physical and human capital (combined 1.5 percentage points) were unchanged from the 2010-14 period, but total factor productivity growth became more deeply negative (Figure 3). The movement of labor out of low-productivity agriculture into the more productive manufacturing and services sectors contributed modestly to growth (Figure 4). High-productivity service sectors also expanded, as these sectors benefitted from digitalization (Nayyar, Hallward-Driemeier, & Davies, 2021). Guatemala had just 0.53 startup firms per 100,000 people of working age in 2018, far below the Central American average of 2.38. With few new entrants, the average firm age increased by 11 years to 28.5 years during 2006-17, one of the oldest age structures ever recorded in the 144 countries covered by the World Bank Enterprise Surveys.¹⁷

Figure 3. Since 2015, negative productivity growth has slowed overall economic growth.



Source: World Bank staff calculations using Penn World Table 10.0.

Figure 4. Structural transformation contributed to overall economic growth continuing a long-term trend (2015-19).



Source: World Bank staff using data from the Central Bank of Guatemala (Banguat) and International Labor Organization (ILO).

Note: The size of the bubbles represents the share of employment.

35. Tight fiscal and monetary policies sterilized rising remittances. Remittances increased from 10.1 percent of GDP in 2015 to 17.7 percent in 2021, a record high. The current-account balance has been positive since 2016, with the surplus growing to over 5 percent of GDP in 2020. Foreign-exchange interventions stabilized the exchange rate and increased international reserves from US\$7.8 billion at end-2015 to US\$20.9 billion (24 percent of GDP) at end-2021. Strict regulation of the financial sector kept inflation on average at 3.7 percent even though the growth of domestic spending exceeded the GDP growth rate by 0.8 percentage points during 2015-21. The share of exports of goods and services in GDP declined during 2015-2020 but recovered in 2021. Fiscal policy bolstered aggregate demand, and the deficit rose from a low of 1.1 percent of GDP in 2016 to 2.2 percent in 2019 and reached 4.9 percent during the pandemic in 2020 before declining sharply to 1.2 percent in 2021. Fiscal revenues remained low, averaging just 11.3 percent of GDP during 2015-19, compared to a regional average of 24 percent. However, the fiscal-revenue-to-GDP ratio increased to 12.3 percent of GDP in the wake of the post-pandemic recovery and the implementation of reforms to the tax administration. The public-debt-to-GDP ratio rose from 26.5 percent in 2019 to just over 30.6 percent at end-2021 but remains among the lowest ratio in the LAC region.¹⁸

36. Guatemala continues to face high poverty rates and large regional disparities in household welfare. The most recent Living Standards Measurement Survey (ENCOVI) was collected in 2014, making that the latest year with an official poverty estimate. Data limitations greatly complicate the analysis of poverty dynamics in Guatemala during 2015-2021, but microsimulations indicate that 47.8 percent of the population in 2019 was below the poverty line of US\$5.50 per person per day, slightly down from 49.1 percent in 2014 (Figure 5). These estimates are consistent with the 2018 census, which showed a moderate decline in the nonmonetary poverty rate from 27.8 percent in 2014 to 24.4 percent in 2018 (de la Fuente & Gomez, forthcoming). Rural areas, the northern and northwest regions, and indigenous peoples and Afro-descendants continue to exhibit higher levels of nonmonetary poverty, lower living standards, and more limited economic opportunities than the rest of Guatemala. While the impact of the Covid-19 pandemic is estimated to have increased the monetary poverty rate by 4.6 percentage points to 52.4 percent in 2020, recent World Bank estimates indicate that this increase would have been two to three times greater had it not been for the government’s policy response (World Bank, 2020a).

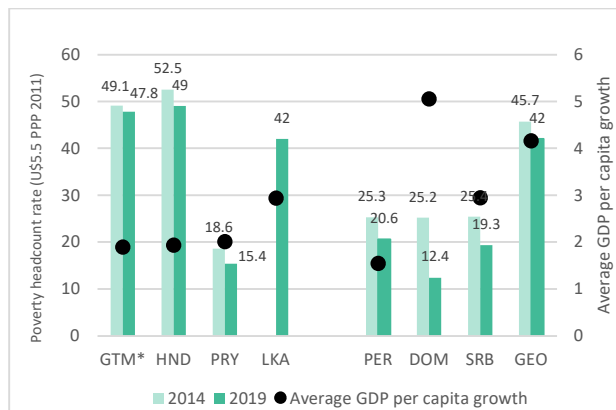
37. The lack of progress in poverty reduction since 2015 reflects the fact that economic growth has not been sufficiently inclusive. Historically, growth in Guatemala has had a limited effect on poverty reduction. The significant increase in remittances observed since 2015 was likely a key driver of poverty reduction during the period, as migration and remittance inflows were found to have lowered the poverty rate

by 14 percent between 2000 and 2014 (Arayavechkit, Scott, & Sousa, forthcoming). However, progress in poverty reduction during 2014-19 was slowed by a decline in labor income across all education levels, and earnings fell by an estimated 10 percent among workers with incomplete primary education or no formal education. Inequality, proxied by the Gini index, is estimated to have increased marginally from 0.483 in 2014 to 0.485 in 2019, below the LAC average of 0.51.

38. Guatemala’s human development outcomes continue to lag those of peer countries, with deep disparities across geographic areas and ethnic groups. Before the pandemic, most of Guatemala’s human development indicators were below the LAC average and the levels of all peer counties except Senegal (Figure 6). A child born in Guatemala in 2018 can expect to achieve only 46 percent of her lifetime productivity, compared to what she would have achieved with complete education and full health. Guatemala also faces deep inequalities across income levels and regions, with human capital indicators in departments such as Totonicapán and Huehuetenango being more closely comparable to Sub-Saharan African countries such as Mozambique and Nigeria than to LAC peers. The poorest and least developed departments also tend to have the largest share of indigenous peoples and Afro-descendants (Vargas, Azunaga, & Almeida, forthcoming). These differences reflect persistent differences within the country in the household’s capacity to invest in human capital. The Covid-19 pandemic exacerbated the country’s already low and unequal rates of access to basic services. Guatemala’s pandemic-induced human capital losses, as measured by the HCI, may be among the largest in Central America at -0.74 percent (Annex A5).

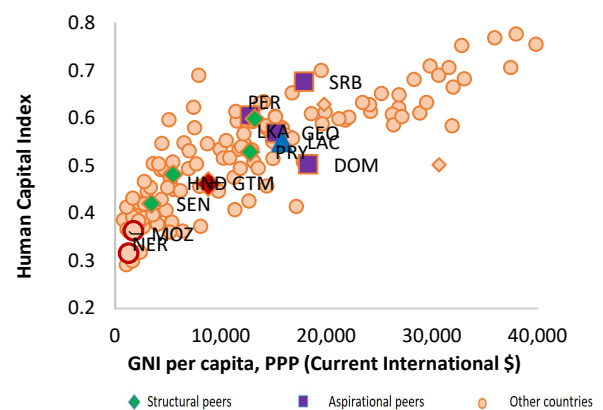
39. Adverse incentives, lack of public services and deeply rooted social norms continue to discourage girls and women from reaching their full potential. Female LFPR barely changed between 2002 and 2018, despite sustained economic growth, rising educational attainment indicators among women, and declining fertility rates. At 32 percent in 2018, Guatemala’s female labor-force participation rate (LFPR) is low relative to peer countries and the lowest in the LAC region. Social policies and societal norms and attitudes towards women continue to discourage women’s participation in the labor force, limiting their full potential (Almeida & Violaz, 2022). Within Guatemala, increased spending on early childhood education and healthcare for elderly dependents at the local level is associated with higher rates of female labor-force participation, as are social norms that favor gender equality. Restrictions on part-time jobs have a disproportionately negative impact on women. The COVID-19 crisis has disproportionately impacted the education, employment, and domestic lives of women and girls.

Figure 5. In 2019, Guatemala’s poverty rate exceeded that of almost all comparator countries.



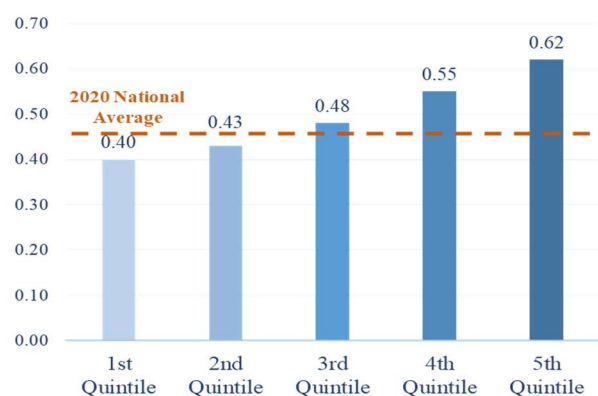
Source: WDI, MPO projections. (*) Rate for Guatemala projected for 2019, based on microsimulations.

Figure 6. Per capita income and human development indicators remain among the lowest in LAC.



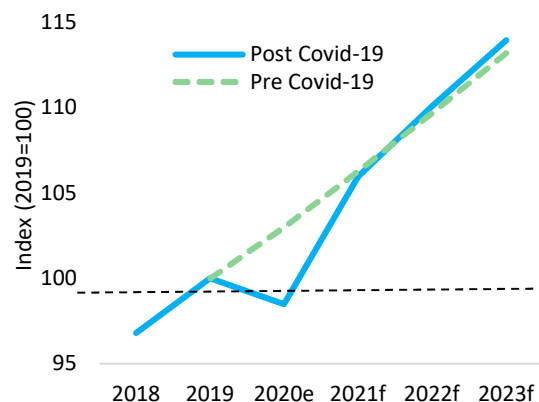
Source: Valeria, Azcunaga and Almeida (2021). Note: Structural peers Honduras, Paraguay, Sri Lanka, and Senegal; and aspirational peers Peru, Dominican Republic, Serbia, Georgia. Other countries denote the rest of the world. NER = Niger, and MOZ = Mozambique.

Figure 7. Human development outcomes are closely correlated with income level.



Source: Valeria, Azcunaga and Almeida (2021). Poverty quintiles based on data from INE, 2014.

Figure 8. The Covid-19 crisis slowed growth, but GDP has already returned to its pre-pandemic trend.



Source: Global Economic Prospects, January 2022, World Bank.

Since 2015, Guatemala made solid progress in certain areas, and its swift economic recovery from the Covid-19 crisis has made it an outlier in the region.

40. Concerted fiscal and social policy actions successfully mitigated the Covid-19 pandemic’s short-term economic impact. Guatemala’s low pre-pandemic debt-to-GDP ratio provided space for an effective fiscal response. The fiscal deficit more than doubled to 4.9 percent of GDP in 2020, and the public debt stock increased by 5 percentage points to 31.6 percent of GDP. A 1.5 percent contraction in GDP in 2020 was followed by a robust 8.0 percent expansion in 2021. Remittances surged from 13.6 percent of GDP in 2019 to 17.7 percent in 2021, fueling private consumption and investment. Guatemala’s recovery has been the fastest in Central America, and in 2022 GDP is projected to be 10.1 percent higher than its 2019 level, up from a pre-pandemic forecast of 9.7 percent.¹⁹

41. The expansion of social safety nets, supported by innovative digital solutions, as well as the continuation of school feeding programs during school closures, limited the economic and social impacts of the crisis. The government increased social protection spending from an average of 2.7 percent of total spending in 2015-19 to 3.7 percent in 2020, reversing a sustained reduction in social spending since 2015.²⁰ The coverage of cash transfers was expanded from 5 percent of households to 80 percent (166,000 to 2.7 million) following the establishment of the *Bono Familia* temporary cash-transfer program, the largest such expansion in Guatemala’s history and in the LAC region (see Box 1). *Bono Familia* was well targeted, with coverage rates among rural households (62 percent), those with children (61 percent), and indigenous peoples and Afro-descendants (56 percent) exceeding the national average (55 percent).²¹ Several innovations contributed to the successful expansion of the *Bono Familia* program: information on the program was communicated in Mayan languages over the radio; monetary payments were electronic, and beneficiaries were enrolled through call centers, online platforms, and mobile apps. As schools closed due to the pandemic, the national school feeding program was adapted for home-based delivery, and in late 2021 the program was scaled up to include young children and secondary students, which likely prevented a further increase in dropout rates while contributing to food security. In just five years, the authorities more than quadrupled the national budgetary allocation for school feeding.

42. Between 2015 and 2019, school enrollment rates and child immunization rates increased, while the homicide rate declined; meanwhile, remarkable progress was achieved in strengthening the legal framework against gender-based violence. Primary school enrollment rates increased from 42.5 percent in 2014 to 43.8 percent in 2018 (Vargas, Azunaga, & Almeida, forthcoming). Measles immunization rates also improved, reaching 90 percent of children in 2019, comparable to the levels of Honduras and Paraguay (Vargas, Azunaga, & Almeida, forthcoming). Moreover, while Guatemala remains among the most violence-affected countries in the LAC region, the national homicide rate has fallen steadily since 2015, albeit with an

uptick since the start of the pandemic (Secretaría Técnica del Consejo Nacional de Seguridad STCNS Guatemala, 2021).²² This declining trend coincided with increased inter-sectoral work on crime prevention aimed at tackling impunity (Annex A6).²³ At the same time, since 2015, the country has made important progress in the recognition of gender equality in the constitution, with remarkable progress in the legal framework and the elaboration of national development plans against violence against women and girls (see Box A6.1 in Annex A6).

Box 1. Guatemala's Swift and Comprehensive Policy Response to Covid-19

To mitigate the impact of the pandemic, Guatemala implemented measures to contain the virus, support for households and individuals, support for firms, and targeted fiscal and monetary policies. Measures to support households included: (i) a temporary cash-transfer program (*Bono Familia*) that provided three payments of US\$128 each to at least 2.6 million vulnerable households; (ii) school meals and study guides distributed in communities where schools were closed, complemented by educational TV programs; (iii) food rations distributed to vulnerable families and elderly residents in urban and rural areas; (iv) payments for essential services, student and personal loan deferrals during the period of public emergency, and a temporary increase in electricity subsidies, (v) a one-time transfer of US\$256 to public sector pensioners; and (vi) a US\$10 per day wage-replacement program for furloughed formal workers in the private sector. Policy measures to support firms included the creation of a working-capital fund and a capital-protection fund, as well as the recapitalization of an existing fund for micro, small, and medium enterprises. Finally, fiscal and monetary policy measures included the deferral of the vehicle circulation tax and the solidarity tax, and a 100 basis-point reduction in the central bank policy rate to 1.75 percent.

Source: (World Bank, 2020a)

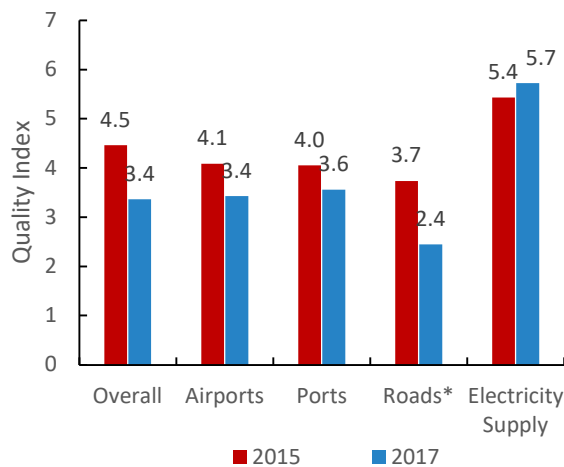
43. The “Open Budget Initiative” and similar measures represent modest but promising steps toward greater transparency in public administration. Despite the overall deterioration in governance quality observed in recent years, the authorities have made a significant effort to improve public transparency. In September 2021, the government launched the Open Budget Initiative to publicly discuss the 2022 Income and Expenses Plan. Workshops were held in August of 2021 that opened the budget process to the public and the media for the first time in the country's history. More than 3,000 people registered, and the online video stream had over 400,000 views. Prior to the launch of the initiative, citizens had no access to the budget formulation process, and budget allocations were announced after they had been finalized. Under the new system, each government institution publicly presents a set of programs and projects and defends their long-term efficiency. Although Guatemala currently ranks 140th out of 180 countries on Transparency International's Corruption Perceptions Index, the Open Budget Initiative is an important step toward improving transparency and accountability.²⁴ During 2021, the authorities launched a new program mandating that government institutions publicly disclose priority programs and their budgets over at least a five-year horizon.

Guatemala has also experienced important setbacks in a range of key areas

44. Since 2015, the lack of adequate job opportunities in the formal sector has pushed workers into self-employment and informal employment. The Guatemalan labor market continues to create few high-quality jobs, and employment dynamics have worsened over the past six years.²⁵ Between 2014 and 2019, the number of wage workers without a contract increased by 23 percent, and the number of self-employed workers rose by 12 percent. Meanwhile, the number of wage workers with a contract grew by just 10 percent (Annex A4), reflecting weak demand in Guatemala's formal sector, which is due in part to an unfavorable business environment. Job creation was concentrated in the low-productivity services sector, which in 2019 employed more than half the workforce. Currently, three-quarters of Guatemala's workers are informal wage workers, self-employed workers, or unpaid family workers. Most of these workers are engaged in low-productivity activities and are highly vulnerable to shocks, reflecting a marked deterioration in the quality of employment (Eberhard-Ruiz, 2021).

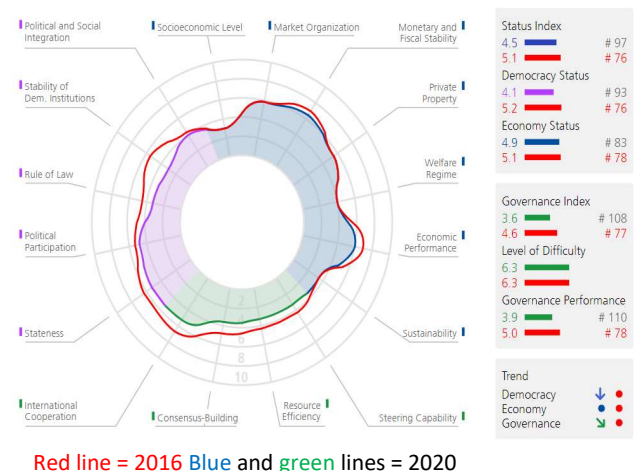
45. The large decline in real labor earnings since 2014 was greatest among more educated workers, eroding the education premium offered by the labor market. Average hourly real labor income fell by 17 percent in real terms between 2014 and 2019 (Figure A4. 8), reflecting limited employment opportunities and a growing and increasingly educated labor force. The decline in labor income affected all economic sectors, but especially services (for further details, see (Eberhard-Ruiz, 2021)). Similarly, while labor income fell for workers at all education levels, the drop was steepest among those with tertiary and secondary education: the hourly earnings for these two groups fell by about 25 percent, possibly due to the slower pace of job creation for this segment of the labor force combined with rising average education levels. Declining education premiums could also signal a deterioration in education quality. Eberhard-Ruiz (2021) discusses these findings but offers no conclusive evidence to disentangle the two explanations for the falling earnings premium. As labor income represents close to 70 percent of total household income, the decline in labor income contributed to the slow pace of poverty reduction. An increase in out-of-pocket health spending due to the pandemic likely exacerbated the increase in poverty levels.²⁶

Figure 9. The quality of infrastructure has declined since the 2015 SCD.



Source: WEF. *Road infrastructure quality corresponds to 2019

Figure 10. The rule of law continues to deteriorate in Guatemala.



Source: Bertelsmann Transformation Index, 2020.²⁷
Note: lower scores represent worse governance.

46. A decline in infrastructure quality and a lack of investment-oriented reforms contributed to falling productivity. While market liberalization has improved the electricity supply, particularly in urban areas, the quality of transportation infrastructure – notably roads - has deteriorated substantially (Figure 9). Between 2015 and 2017, public investment in transportation infrastructure declined, reaching a historic low of 0.4 percent of GDP in 2017 (Figure 9). However, it has since recovered, and as of 2019 it was close to 0.7 percent of GDP. The government’s low capacity to implement large and costly transportation projects, which was exacerbated by the Covid-19 crisis, has limited budget execution rates for public investment projects to 74 percent. Private investment has been unable to fill the gap in overall infrastructure (World Bank, 2021b),²⁸ due in part to regulations mandating that public-private partnerships for developing infrastructure be approved by Congress.²⁹ A national law on public-private partnerships was adopted in 2010, but thus far just one partnership has been approved and it was only concluded after a three-year process.

47. Since 2015, the quality of governance and institutions has continued to weaken, and extortion has increased. The Bertelsmann Transformation Index (2020) highlights the decline in public institutions and the rule of law between 2016 and 2020, including the diminished independence of the judiciary, weaker accountability, and a less strict separation of powers (Figure 10). Relatedly, Guatemala ranks low on the World Economic Forum’s global competitiveness indicators for national security (137th out of 141 countries) and transparency (121st out of 141) (Schwab & World Economic Forum, 2019). The institutional deterioration observed since 2015 has undermined the quality of public services and reduced transparency and accountability

for the management of public resources (World Justice Project, 2021), eroding citizens’ trust in state institutions (Latin American Public Opinion Project LAPOP, 2021).³⁰ The lack of progress in FLFP is also a lost opportunity to make Guatemala institutions more representative.

48. Perceptions of corruption and abuse of power have soared over the last six years, undermining an already weak social contract and constraining the government’s capacity to implement reforms requiring citizen support. In 2020, about half the population believed that corruption had recently increased, up from 40 percent in 2016 (Corporación Latinobarómetro, 2020).³¹ Government officials are increasingly perceived as using their offices for private gain, particularly in the legislative branch but also in the executive and judicial branches.³² Corruption also continues to weaken the business and investment climate, and more than 70 percent of firms consider corruption to be a major constraint on growth (World Bank, 2017). Recent reports by LAPOP (2021) and the World Justice Project (2021) indicate that political corruption and undue influence are growing as limits on government powers weaken.³³ In addition, the extortion rate has doubled in recent years, driven by the growing prevalence of gangs and drug trafficking (Box 2), and crime-related costs are estimated at about 3 percent of annual GDP (Jaitman, 2017).

Box 2. Crime and Drug Trafficking in Guatemala

Guatemala is located along a major transport corridor for the international drug trade. The government’s limited presence in remote regions facilitates drug trafficking, and criminal groups have filled the power vacuum left by a weak public administration. In some regions, traffickers have become prominent public figures, with both licit and illicit businesses. They participate in community events, distribute gifts to the needy, and finance political campaigns. They also provide impoverished communities with monetary income. However, traffickers and other criminal groups also seize land and intimidate or eliminate competitors, often with impunity. In addition to its massive human toll, drug trafficking distorts the business climate. The enormous liquidity flows associated with trafficking destabilize market prices, and the movement of criminal syndicates into legitimate business activities generates unfair competition, violence, and insecurity. In the country’s coastal and border departments, traffickers have diversified into other criminal activities, such as local drug dealing, prostitution, extortion, and kidnapping. The corrupting influence of powerful criminal groups has undermined confidence in the legitimacy of public institutions, further destabilizing them and strengthening the already large informal economy.

The updated SCD policy prioritization criteria

49. Recent developments highlight the continued relevance of the policy recommendations proposed in the 2015 SCD, but the lack of progress on the reform agenda and the worsening labor market underscore the need to refocus on pragmatism and prioritize high-quality job creation (Table 2). While the urgency, complementarity, and scope of proposed reforms all remain relevant, there is a need to prioritize areas where there is the potential for change within the next four to five years. This Update assesses the pragmatism of policy actions by examining the country’s capacity to implement those actions and identifying the presence of enabling conditions. In addition, Guatemala’s accelerating demographic transition has underscored the need to create more and higher-quality jobs, especially for younger workers and members of vulnerable groups. An adequate supply of employment opportunities is necessary to reap a demographic dividend, reverse the declining trend in labor earnings, and achieve greater progress on poverty reduction.

Table 2. The 2015 SCD and the SCD Update: Prioritization Criteria

2015 SCD	Update
<i>Urgency:</i> Areas where GT is an outlier	<i>Urgency:</i> Areas where GT is an outlier
<i>Synergetic Impacts:</i> addressing multiple bottleneck and externalities	<i>Synergetic Impacts and Pragmatism:</i> addressing multiple bottleneck and externalities while accounting for reform

	capacity and the presence (or absence) of enabling conditions for actual reform.
<i>Welfare</i> : Improving people’s welfare	<i>Welfare and Jobs</i> : Improving people’s welfare and facilitating the creation of high-quality jobs
<i>Sustainability</i> : Creating sustainable change	<i>Sustainability</i> : Creating sustainable change

4. Opportunities for Transformation and Policy Priorities

50. Based on the revised selection and prioritization criteria, this Update presents a set of narrowly defined policy actions designed to accelerate transformative change. The previous section described the main country-level developments since the 2015 SCD and the relevance of the proposed diagnostic. The three core development pathways identified in SCD 2015 largely remain relevant. Within each pathway, this Update revisits the policy priority areas to assess the extent of reform progress in these areas over the last five years and to measure their contribution to the creation of high-quality jobs. Consequently, the priority policy areas in the SCD Update are more narrowly defined. For example, the land titling and territorial planning priority area has been dropped, as there is little evidence of progress over the last six years. Because governance and institutional strengthening are cross-cutting issues, the governance and institutional dimensions of each policy are presented, along with potential strengthening and risk mitigation measures. In addition, Section 4.3 provides overall policy recommendations to improve transparency in the public sector and increase the participation of civil society in the design and monitoring of government programs. This approach has yielded the following six priority policy areas for accelerating inclusive, productive, and sustainable growth in Guatemala. The following subsections described how these areas align with the new prioritization criteria.

4.1 Building a more inclusive Social Contract through more and better Human Capital investment

51. Child malnutrition, broader deficiencies in early childhood development (ECD), elevated school dropout rates, and the limited relevance of workforce skills are among Guatemala’s most pressing human capital challenges. Since 2015, Guatemala has been had one of the ten highest child malnutrition rates worldwide.³⁴ Malnutrition has deeply negative implications for human capital accumulation and future productivity, especially among rural communities and indigenous and Afro-descendant households. High-quality ECD programs that go beyond child malnutrition to support physical health, cognitive and socioemotional stimulation are necessary to ensure that all young children reach their full potential. Ensuring that families with children have access to quality health and social services and expanding social safety nets would help reduce deeply rooted inequalities. Policies aimed at lowering school dropout rates and developing professional and vocational skills, including digital skills, will be vital to enable workers to access higher-quality jobs. A low-skilled workforce hinders economic development and ties an economy to low-wage industries, making it more difficult to break the vicious circle of inequality, informality, and migration. Government efforts to overhaul the educational system must be coupled with pragmatic policies to ensure that workforce skills suit the needs of employers.

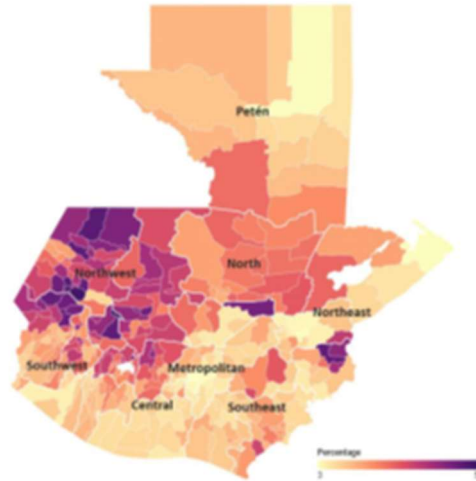
Reducing Child Malnutrition and Supporting Early Childhood Development

52. Covid-19 disproportionately affected child malnutrition and ECD among marginalized households, further exacerbating pre-existing inequalities. Guatemala continues to suffer from large ethnic and geographical disparities in access to services and human development outcomes, including child malnutrition, remain prevalent. In several of the poorest northern municipalities, such as San Mateo Ixtatán, Santa Barbara and San Miguel Acatán the share of households with under-5 stunted children often approaches 90 percent. These are municipalities where indigenous peoples and Afro-descendants are predominant. Covid-19 worsened nutritional outcomes and aggravated ethnic and geographic disparities. Access to food among rural households and the most marginalized groups was severely limited during the pandemic (Figure A5. 1). Increased food insecurity and related stress imposed widespread human capital losses and severely affected children, especially in the northwestern region. Recent estimates indicate that the pandemic had the greatest

negative impact on HCI scores in the departments of Totonicapan (-0.70 percent), Solola (-0.63 percent), and Quetzaltenango (-0.56 percent).³⁵

53. Sustainable improvements in child malnutrition and ECD will require country-owned, adequately financed, and well-targeted multi-sectorial interventions. These interventions combine and coordinate health, education, social protection, water and sanitation, and agriculture programs. For example, interventions to improve child nutrition and early stimulation practices from parents can be integrated with strategies to prevent child and women maltreatment as accompanying measures to conditional cash transfer programs. Well-targeted programs, where the culture and language of the indigenous populations are taken into account, and focused on departments with higher under-5 chronic malnutrition incidence, such as Huehuetenango and Quiché are especially promising. There, chronic malnutrition is two to three times higher than the national average of 8.8 percent (see Figure 11) A good example of multi-sector coordination is provided by the “*Crecer Sano*” project aiming to the strengthening of primary health services, improving access to potable water, and enhancing the information system for *Bono Social* (the country’s largest CCT). While responding to the urgent needs of children during the pandemic will remain the most pressing short-term objective, over the medium term the government must develop a strong and adaptative ECD policy where policies can accompany the growth trajectory of each child in diverse contexts. Support to sustainably expand social safety nets and increase food security will be critical to protect families with young children from hunger and food insecurity caused both by temporary shocks and structural conditions.

Figure 11. Stunting rates among children under five are heavily concentrated in poor and underserved municipalities.



Source: (de la Fuente & Gomez, forthcoming)

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54. The 2020-2024 Grand Crusade for Nutrition (*Gran Cruzada por la Nutrición*) can serve as a cornerstone in the country’s effort to combat malnutrition. This national strategy aims to reduce malnutrition, with emphasis on the poorest and most vulnerable, implementing a comprehensive approach that brings different stakeholders together: government (central and municipal), private sector, NGOs, international cooperation (including the World Bank), academia, faith-based organizations, and civil society.³⁶ The strategy sets specific and ambitious, targets. Recent promising steps in the national fight against malnutrition include improvements in the MSPAS information system and the baseline evaluation of the GCNN.³⁷ Together these will allow advances in measuring the progress towards achieving the targets established by the strategy.³⁸ In addition, the government extended the coverage and the benefits of school feeding programs in 2021, reinforcing this key social safety net for vulnerable children.³⁹

55. The adoption of the existing ECD policy framework, the reorganization of the Health Network, and use of technology for parental outreach are all important steps toward improving child development outcomes. 2010-2020 Public Policy for Integrated Early Childhood Development (*Política Pública para el Desarrollo Integral de la Primera Infancia*) was designed to support the country’s transition from a set of fragmented children and adolescent policies to a single early childhood development policy. It offers a sound multi-sectoral framework to address ECD challenges at the national and sub-national levels.⁴⁰ However, implementation continues to pose challenges. Examples include the definition of institutional roles, preparation of operational plans, definition of a realistic budget structure, and the creation of an information system producing relevant data for decision-making. Initiatives such as the Intersectoral Early Years Working Commission or the Alliance for Early Childhood (*Alianza para la Primera Infancia*) attracted attention to implementation and the lack of results.⁴¹ Guatemala has not yet achieved the same level of political commitment, coordination capacity or domestic resource mobilization as Peru or Colombia. In 2020, the

introduction of the program *Acompañame a Crecer* aimed at operationalizing the ECD Policy for children aged 0 to 4 years old focusing on a set of interventions including, health, early stimulation, and nutrition, among others, which are delivered in a coordinated way.⁴² Implementation is led by the Community Centers for Integral Child Development. The World Bank and local NGOs have found that new technologies, such as audio messages, have effectively improved parenting practices in households with young children. In addition, a new National Integrated Health Services Delivery Network Strategy (*Estrategia Nacional de Redes Integradas de Servicios de Salud*), approved in 2019, will pursue an updated approach to strengthen universal primary healthcare coverage and improve outreach among the most vulnerable households with children.

56. Greater attention to child malnutrition and ECD reforms, coupled with increased budget allocations and a more results-orientation approach, are crucial to improve human capital outcomes among the most vulnerable households. The reorganization of the health network is being complemented by increased financial resources devoted to primary healthcare, as well as a results-oriented financing strategy that goes beyond earmarked allocations. A 2017 law tripled the budget for school feeding in pre-primary and primary schools, and this program has since been expanded to the ECD and secondary level.⁴³ The 2022 budget committed additional public resources to combatting malnutrition and supporting ECD.⁴⁴ For example, the budgetary line item for early childhood education more than doubled between 2019 and 2022, when it reached US\$2.7 million. A revamped school feeding program in 2021 devotes greater priority and attention to local producers and markets. Finally, the 2022 budget provides annual monetary compensation to midwives (*comadronas*) in recognition of their key role in supporting child and maternal health care in rural areas, particularly with indigenous populations. *Comadronas* are vital to disseminate good practices on maternal and child health in culturally appropriate ways. They are connectors across traditional medicine and the country's public health system.

Reversing learning losses, preventing school dropout rates, and supporting skills development

57. Reduced school engagement and learning losses during the Covid-19 pandemic have intensified risks to children. Guatemala's pandemic-induced decline in the share of school-aged children engaged in educational activities, either in person or remotely, experienced one of the sharpest declines in the LAC region (Figure 12). Moreover, prior to Covid-19 the country was already facing a deep learning crisis. In Guatemala 68% of children are unable to read and understand a simple text by age 10. This compares with 29% and 51% on average for UMICs and LAC. Recent international assessments indicate a marked deterioration in learning outcomes across all academic subjects.⁴⁵ National standardized mathematics and reading tests also demonstrate widening rural-urban disparities (see Annex A4.40). This learning crisis is amplified by large dropout rates. In 2015 not only one quarter of sixth grade students had already dropped out in the transition from primary to lower secondary, but there was also a low survival rate from sixth to tenth grade. Only 42 percent of sixth graders remained in the system and the majority students drop out during the four-year period of secondary school. The COVID-19 pandemic likely only made these patterns worse.

58. Deficiencies in professional and vocational education hinder the development of workforce skills that limit the ability of young workers to access high-quality, high-productivity jobs. In 2019 Guatemala ranked 48th out of 141 countries on the quality of its vocational training system, as well as 73rd on the skills and abilities of high school graduates, and 73rd on the relative ease of finding skilled workers. Guatemala lags all of its structural peers except Senegal and all of its aspirational peers except Serbia on both the skillset of secondary school graduates and the ease of finding skilled workers (see Annex A4).

59. Strengthening educational attainment and cultivating valuable labor-market skills are vital to improve access to high quality jobs.

Policies and investments that effectively reverse pandemic-induced learning losses, increase classroom engagement, and reduce dropout rates are urgent priorities. The reopening of schools must be accompanied by protocols to minimize the risks posed by Covid-19.⁴⁶ Remedial learning programs could catalyze re-enrollment and encourage the completion of secondary education. Support for skills development through high-quality technical and vocational training programs, as well as tertiary education, could also increase access to more productive jobs, while a more skilled workforce could encourage investment in higher-value-added activities and production processes. Efforts to build human capital will be most effective when they target the most underserved segments of the population, including indigenous communities, women, and rural households. Gender-based violence encourages female students to drop out of school, which in turn contributes to low rates of female labor-force participation. Curriculum reforms aimed at addressing gender stereotypes, complemented by measures to create a safe school environment that rejects and prevents violence, could boost educational attainment while narrowing gender gaps.⁴⁷

60. Guatemala has recently taken concrete steps to reduce school dropout rates and improve workforce skills, which can help young workers access high-quality jobs. In 2017, the government created a program to expand educational opportunities among former students who had dropped out of school. In 2018, the Ministry of Education introduced an early warning system for at-risk students and began implementing several low-cost interventions to reduce the dropout rate, and in 2019 it created the Vice-Ministry of Extracurricular and Alternative Education to reach the out-of-school population more effectively.⁴⁸ These efforts are anchored by changes to the educational records system, which now uses unique student identifiers to track educational trajectories. The government also increased the budget allocation for reducing dropout rates from US\$153.75 per student in 2015 to US\$302.62 in 2020.⁴⁹ Finally, the post-pandemic recovery plan emphasizes the need to address skills mismatches and prioritizes the development of digital and English-language skills through accelerated courses for young adults.⁵⁰

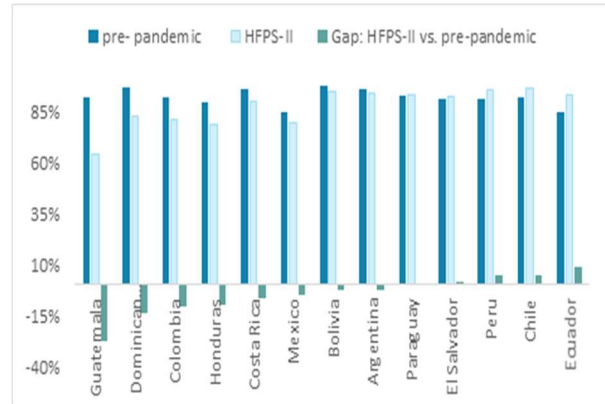
4.2 A stronger business climate will be crucial to accelerate job creation and boost productivity

61. Improving the business climate requires coordinated engagement at the national and subnational levels. Since 2015, Guatemala’s TFP growth rate has become increasingly negative, and its labor productivity growth has lagged that of structural and aspirational peers. While no single policy change will reverse these trends, ongoing efforts to strengthen infrastructure, improve the regulatory environment, promote innovation, and expand access to finance are key steps that require support from both the public and private sectors as well as civil society. A stronger business climate can support formal employment growth and catalyze structural economic transformation.

Improving the business environment with a focus on high-quality, inclusive employment

62. Sustainable employment growth requires productivity gains both within and between sectors and firms. In addition to providing higher wages, productivity growth can reduce the marginal environmental costs of production, weaken emigration incentives, help Guatemala capitalize on its demographic dividend, and support the transition from agriculture to more productive activities in the industrial and services sectors. Reforms designed to boost investment and productivity across sectors must focus on enhancing the regulatory environment, expanding access to productive finance, attracting and retaining foreign investment, increasing Guatemala’s participation in global value chains, and encouraging entrepreneurship and innovation.⁵¹ Reforms

Figure 12. Prior to the pandemic, Guatemala’s enrollment and learning rates already lagged those of peer countries.



Source: LAC HFPS, World Bank, 2021.

to the business environment are expected to boost labor productivity and may attenuate the effect of tight labor-market regulations and high minimum wages on formal employment growth.

63. The implementation of digital systems for paying taxes and measures to streamline administrative procedures for trade, investment, and business registration are important steps to improve Guatemala’s competitiveness. The mandatory use of electronic invoicing has reduced the cost of tax compliance.⁵² Revised business-registration procedures facilitate firm entry, formalization, and growth.⁵³ The adoption of the insolvency reform by Congress on February 2022, will facilitate the reallocation of capital and labor from firms that are no longer viable to firms that are able to exploit new opportunities (World Bank, Forthcoming). Policies that facilitate technological uptake could facilitate agricultural transformation, expand traditional production systems, encourage investment in irrigation, food storage, transport and distribution, and support the creation of a modern agri-food system. Specifically, investing in increasing the productivity of smallholders and promoting opportunities to adopt high-value-added production practices and supporting organizations of small farmers, mainly those involving indigenous peoples, to develop economies of scale, share knowledge and support the diversification of production. Improved agricultural practices could also accelerate the transition from low-productivity agriculture to manufacturing and services, contribute to poverty reduction and create more local economic opportunities to curb migration.

64. Reforms to the financial sector can facilitate a sustainable economic recovery from the Covid-19 crisis while supporting long-term productivity growth and poverty reduction. The engagement of the financial sector is crucial to mobilize savings and ensure an efficient allocation of investment. Many micro, small, and medium enterprises (MSMEs) in Guatemala struggle to access affordable financing in the formal financial sector, and use cooperatives and non-bank financial institutions. Even so, the country’s MSME finance gap is estimated at 22 percent of GDP.⁵⁴ Many households also lack access to basic financial services, with just 44 percent of adults owning an account with a financial institution. Recent reforms, including the 2021 adoption of a legal framework for leasing activities and efforts to modernize the national payments systems, could improve the diversity and affordability of financial services for MSMEs and households (World Bank, Forthcoming), particularly those in rural areas that have limited access to finance (World Bank 2020a). Further efforts to strengthen the financial sector are focused on improving the legal framework for insolvency, establishing credit bureaus, strengthening compliance with anti-money laundering and countering of financial terrorism requirements, establishing a legal framework for e-money issuers and other financial technology providers, and improve the institutional sustainability, capitalization, and market outreach of existing partial credit guarantee funds (e.g., *Fondo de Garantía Mipyme*). Several of these reforms are envisioned under the National Financial Inclusion Strategy 2019-2023.

65. FDI facilitates the transfer of ideas, technologies, and know-how and supports the integration of domestic firms into international value chains. FDI inflows to Guatemala have dropped steadily since 2014, mostly driven by the weak contractual and institutional environment and by 2018 the country’s inbound FDI stock was lower than those of its structural and aspirational peers. However, FDI transactions tend to be uneven, and some large firms have successfully attracted foreign investors. For example, a single US\$2.2 billion (2.6 percent of GDP) investment in the telecom sector in 2021 amounted to three times the level of annual FDI inflows during 2019 and 2020.⁵⁵ The “*Guatemala No se Detiene*” intersectoral initiative establishes a roadmap to attract more FDI in high-potential sectors and key export-oriented industries.

66. Aiming to boost productivity by expanding participation in regional and global value chains, Guatemala has implemented measure to facilitate trade. A customs union agreement with Honduras has reduced the average cross-border processing time from 8 hours to 7 minutes (World Bank, 2021a), and a 2019 customs collaboration agreement between Guatemala and Mexico further facilitated integration with regional value chains. Foreign investors often require adherence to international labor standards, and firms in the apparel and coffee sectors are striving to improve their compliance. Investments by international cold chain transport companies are crucial to the success of the emerging national agricultural cold chains, and the maintenance of adequate sanitary and phytosanitary standards is necessary to support the diversification of agricultural exports. Further reforms are underway to reduce the cost and time of trading goods across borders, including efforts to simplify and automate customs procedures and the creation of a single window for foreign trade.

67. Business innovation plays a central role in improving firm-level productivity. Entrepreneurship is critical to job creation and productivity growth. By regional standards, Guatemala has considerable untapped potential for entrepreneurship (World Bank 2021a). Guatemala’s large diaspora could offer access to skills and experience via “brain circulation” between Guatemala and its major migrant destinations. Creating financial and advisory support programs could strengthen the innovation ecosystem, and the government is taking steps to support this agenda via the Productive Innovation Policy for the Competitiveness of Guatemala. This policy will serve as the basis for designing and implementing innovation support programs.

68. Public investment could bolster the effectiveness of reforms to the business environment, helping to address the myriad transportation challenges facing urban and rural areas. Inadequate infrastructure investment has long constrained economic growth in Central America (Ulku & Zaourak, 2021),⁵⁶ and infrastructure constraints are particularly binding in Guatemala. Gaps exist at all levels, including (i) connectivity between secondary cities and their surrounding territories; (ii) connectivity among secondary cities and between secondary cities and the capital; and (c) connectivity within secondary cities to ease congestion and facilitate growth. The private sector can help address these gaps and increase the effectiveness of public infrastructure spending through long-term performance-based contracts and public private partnerships (PPPs) for investment projects and service provision. By fostering a holistic life-cycle perspective on infrastructure investment and opening the possibility for green financing, PPPs can also contribute to the climate change mitigation and resilience agenda.

69. In addition to transportation, investments in telecommunications, including digital infrastructure, are needed to improve connectivity. Guatemala’s telecom market is dominated by two firms with control of cellular towers. Access to digital infrastructure is severely limited and unequal. While 62 percent of the country has access to mobile telephones, only 29 percent has internet access, and just 21 percent has access to a computer (Instituto Nacional de Estadística, 2019) There is also a broad digital divide between urban and rural areas, and across gender and ethnic groups. Departments where the concentration of rural and indigenous population is high, such as Alta Verapaz, Quiché and Totonicapán, present very low rates of internet access (13, 13 and 18 percent respectively) compared to large urban areas such as Guatemala City, Sacatepequez and Quetzaltenango (55, 38 percent and 32 percent respectively) (Instituto Nacional de Estadística, 2019). Improved access to telecommunications outside Guatemala City would have enabled more equitable access to remote platforms for work, education, and services during the pandemic (Instituto Nacional de Estadística, 2019). The cost of fixed internet is high, representing 7.5 percent of the average monthly income for households in the lowest income quintile, but just 0.8 percent for households in the highest quintile.⁵⁷ High tariffs are due in part to the dominance of a single operator with a 57.5 percent⁵⁸ market share. Similarly, two operations control the mobile broadband market,⁵⁹ and tariffs are a major constraint on internet access.

70. Uneven electricity access and limited water and sanitation services outside Guatemala City inhibit job growth in rural areas and secondary cities. Guatemala has a liberalized electricity market and exports power to its neighbors. However, rural electrification rates is a government priority but are currently still relatively low: 16.3 percent of the rural population lacks access to electricity, far higher than the share of the urban population (3.4 percent) and one of the highest shares among peer countries (de la Fuente & Gomez, forthcoming). Renewable energy technologies—including solar, off-grid micro-hydropower, on-grid and off-grid solar photovoltaic (PV), and wind generation—could expand electricity access in rural areas without network connectivity. Water and sanitation services are also deficient: 14.7 percent of the rural population lacked access to improved water services in 2018, compared to 4.6 of their urban counterparts (de la Fuente & Gomez, forthcoming). This is particularly true among the indigenous population.

4.3 Increased fiscal revenue, greater public expenditure efficiency and resilience to shocks through climate adaptation are essential for a sustainable growth model

71. Expanding domestic revenue mobilization, increasing expenditure efficiency, strengthening institutions, and upgrading disaster prevention and response capabilities could enhance the sustainability of the country’s growth model. More efficient public spending is necessary to close gaps in human and physical capital, and improved service provision is vital to garner public support for increased revenue mobilization. The widespread use of e-governance platforms could enhance transparency, reinforce

public trust in the state, and accelerate the development of the private sector. Implementing climate-change adaptation policies and improving disaster risk management capabilities will help mitigate exposure to shocks that could reverse progress in social and economic development.

Mobilizing revenue, promoting the efficiency of public spending, and supporting institutional strengthening

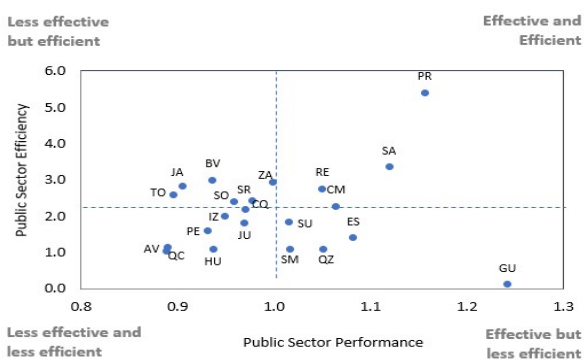
72. Public revenue mobilization efforts should be intensified to meet the Guatemala’s large and growing public investment needs. Guatemala has historically maintained one of the world’s lowest tax-revenue-to-GDP ratios, and is an outlier compared to structural and aspirational peers. Public revenue was on average 11.3 percent of GDP during 2015-19, about half the regional average. This results in one of the lowest levels of social spending in LAC. Prior to the pandemic, the overall level of investment in human capital remained very low. As of 2018, Guatemala’s social spending per capita was just US\$173, surpassing only Nicaragua and well below the US\$1,100 per capita average for LAC. Additional resources are required to invest in human capital and infrastructure, improve household welfare, and promote job creation by the private sector. Measures to be considered include broadening the tax base, increasing excise taxes, evaluating tax exemptions, and increasing progressivity.

73. In addition, the authorities should increase the efficiency of infrastructure investment and social spending, particularly in the education sector. About 55 percent of social spending is allocated to the education sector, where efficiency indicators are low by regional standards (Vargas, Azunaga, & Almeida, forthcoming). While the execution rate for social spending remains high, averaging 90.3 percent during 2015-2019, the dispersion of execution at the subnational level has increased since 2015, due in part to the weak institutional capacity of certain departments and municipalities (Figure 13).⁶⁰ Similarly, low capacity and misaligned incentives among key actors limit the efficiency of public infrastructure investment. The execution rate for infrastructure investment in Guatemala was just 76 percent in 2020, albeit up from 58 percent in 2015, and the sector faces numerous challenges. Mandatory engineering studies are an important aspect of quality control, but this requirement is frequently waived (World Bank, 2021b). The large number of small infrastructure maintenance contracts, which represented 38 percent of the infrastructure budget in 2020, requires high levels of planning and management that frequently delay maintenance services (World Bank, 2021b). The resulting decline in infrastructure quality limits the expansion of the private sector and diminishes its capacity to generate more and better jobs.

74. Institutional strengthening at the central and subnational levels could increase the returns to public investment. More accountability is required to improve the management of public investment projects, particularly in the areas of public procurement, and financial management (Perez Ruiz & Soto, 2019). Improving infrastructure investment will help to promote private sector development, contributing to job creation. In addition, there is scope to improve the targeting of public resources across departments and municipalities, as well as the effectiveness with which local governments use these resources (Vargas, Azunaga, & Almeida, forthcoming). Strategic and financial management issues are recurrent challenges across most municipalities. Moving forward, these efficiency gaps can be closed by strengthening subnational institutional capacity and enhancing coordination with national agencies. Quantifying public sector performance and monitoring budget execution rates at the central and local levels could help reduce disparities in execution rates.⁶¹

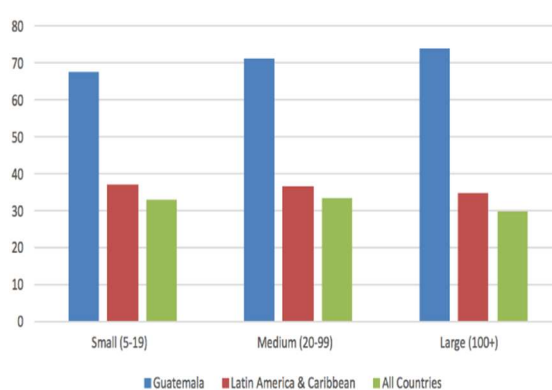
75. Recent progress in revenue mobilization and the adoption of digital technologies to improve the targeting, implementation, and monitoring of public programs during the pandemic provide evidence of the government’s capacity to implement reforms in these areas. Tax administration has improved since 2018, including the phased mandatory use of electronic invoicing. Moreover, in 2020 the government began enrolling households in *Bono Familia* via text messages and websites, and mobile wallets have become an increasingly common platform for transfer payments. These changes have paved the way for the widespread adoption of information and digital technologies at multiple stages of public investment, which could generate further efficiency gains. Expanding the use of digital technologies could also made investments in the social sectors more resilient to shocks.

Figure 13. The efficiency and effectiveness of social public spending varies across *Departamentos*, 2020.



Source: (Vargas, Azunaga, & Almeida, Guatemala: Public financing of human capital through the Covid 19 crisis, Forthcoming).

Figure 14. Corruption as a major constraint to firms, 2017.



Source: WBG, Enterprise Survey (2017).

76. Corruption and undue influence adversely affect private-sector dynamism, limiting job creation and slowing productivity growth. The weakening of the justice sector (World Justice Project 2021), along with the former president’s decision to end the mandate of the International Commission against Impunity in Guatemala (*Comisión Internacional contra la Impunidad en Guatemala*) in 2019, has weakened confidence in the government’s commitment to fight corruption. Meanwhile, the lack of a regulatory framework for competitiveness has hindered private sector-development. The share of Guatemalan firms citing corruption as a major constraint is nearly twice the LAC average, and concerns over corruption are particularly acute among large firms (Figure 14). High administrative costs, weak rule of law, complex contract-enforcement processes, and cumbersome insolvency procedures are among the top obstacles reported by firms.

77. The steady weakening of institutions since 2015 has continued to erode trust in the state while decreasing the quality of public service delivery, particularly in less-developed regions. Public confidence in institutions ranging from the judicial branch to local governments has declined, with the latter dropping from 46.5 percent in 2017 to 38.2 percent in 2019 (Latin American Public Opinion Project LAPOP, 2019). The institutional deterioration observed since 2015 has widened regional gaps in service delivery and undermined service quality.⁶² A large share of the population lacks access to basic public services, especially in the southern region, where 34 percent of households do not report using any public service (Annex A4). In this region, satisfaction with police protection, state subsidies, and municipal services is the lowest nationwide. Reported satisfaction with public services is higher in Guatemala City than in the rest of the country (Figure A4. 30).

78. Going forward, several measures could strengthen institutions and enhance public transparency. At the central government level, new legislation and regulations can reduce conflicts of interest between the public and private sectors. Tighter regulation of the state’s private contractors and measures to reduce market concentration could further improve public transparency. Enhancing the monitoring and verification mechanisms in public financial systems and in the official budget-execution portals (*Sistema Nacional de Inversión Pública and Guatecompras*) could reduce opportunities for the misuse of resources (CIEN, 2018). Finally, strengthening the legal framework for citizen participation could encourage greater public engagement in the design, implementation, and oversight of public programs, bolstering trust in the state.

79. Recent initiatives signal the government’s commitment to improved public administration and expand the use of digital technologies to improve efficiency and transparency. In 2017, a revised national Procurement Law slowed budget execution but strengthened the institutional oversight of public expenditures. More recently, the national 2021 Open Budget Initiative improved the transparency of budget allocations by offering all citizens online access to the details of the budget-formulation process. The enactment of the 2021

Law for the Simplification of Administrative Requirements and Procedures promoted transparency by streamlining and digitizing public services and procedures while facilitating the participation of civil society. Similarly, the 2020 Open and Electronic Government Presidential Commission was created to coordinate and monitor citizen-oriented procedures. Under this new legal framework, each public institution is expected to digitalize its services and ensure appropriate budget allocations. Finally, the 5th National Open Government Plan 2021-2023 (Government of Guatemala, 2021) includes several actions to modernize public administration, promote digital government, and facilitate citizen participation and auditing.

Promoting resilience to shocks through climate adaptation and disaster response

80. Guatemala’s increasing exposure to natural shocks requires public policy to focus more on prevention than relief. While Guatemala continues to spend significant resources on disaster relief, developing and implementing an integrated disaster risk management strategy across all government levels would be a more cost-effective approach. Policies that anticipate and mitigate the increasing risks identified since 2015, particularly in regions like the Dry Corridor, could prevent and minimize the damage caused by natural hazards. For example, investments in resilient infrastructure could help to reduce rebuilding costs after natural disasters. Before the pandemic, Guatemala ranked lower than Paraguay, Sri Lanka, Peru, the Dominican Republic, and Serbia in the Global Health Security Index. The experience of the pandemic has underscored the importance of adaptive safety nets and robust disaster risk management in the health sector.

81. Climate resilience and risk mitigation are especially crucial for the sustainability of high-quality agricultural jobs, the livelihoods of rural households, and food security. The agricultural sector is projected to incur 40 to 70 percent of the economic losses from future droughts, floods, and other extreme weather events (Government of Guatemala, 2015). Lower levels of rainfall and higher temperatures are expected to reduce surface water flows by 10-50 percent by 2030, and total water availability will drop by 5-30 percent, severely affecting both commercial and subsistence farmers, representing also a risk to food security in a country characterized by child malnutrition.⁶³ Given that the agricultural sector employs 30 percent of the labor force and is an especially critical source of income for the most vulnerable groups, including indigenous peoples and Afro-descendants, the intensification of climate-change risks poses a threat to poverty reduction and social development.

82. Effective climate-change mitigation and adaptation policies, combined with robust disaster risk management capabilities, are essential to ensure the sustainability of Guatemala’s development model. Climate-change mitigation and adaptation policies and actions can protect and enhance the wellbeing of rural households and help prevent food insecurity. Promoting climate- and nutrition-smart agricultural practices can boost yields and reduce food losses and waste. Moreover, protecting critical landscapes can help ensure the provision of sustainable ecosystem services, and emissions-reduction programs that leverage forest resources can promote the inclusion of indigenous communities, which often possess important traditional knowledge and skills.⁶⁴ Improving water management further reinforce long-term climate and economic resilience.⁶⁵ Adopting a comprehensive plan to mitigate financial risks, evaluating the use of carbon pricing, catalyzing the development of green finance, and building institutional capacity for climate adaptation and water management will be vital to ensure Guatemala’s social and economic resilience.⁶⁶ These efforts must be anchored by robust coordination across all levels of government, and the Ministry of Environment and Natural Resources must have adequate financial and human resources to fulfill its mandate. In parallel, the authorities must also strengthen emergency preparedness and response systems in the health sector.

83. The government’s recent actions demonstrate its willingness to implement concrete reforms and shift the country toward a more shock-resilient growth path. With the 2018 Disaster Risk Financing Strategy an integral framework was developed to respond to emergencies and improve the mobilization and execution of disaster-risk financing. A year later, the government joined the Caribbean Catastrophe Risk Insurance Facility’s Segregated Portfolio Company, expanding the suite of financial instruments available to manage risk.⁶⁷ In the wake of Hurricanes Eta and Iota, the authorities have also taken steps to strengthen the foundations for disaster risk mitigation and support climate adaptation and mitigation. Under the updated

disaster risk management policy, 78 percent of municipalities have integrated disaster risk considerations into their development plans, and new procurement tools and mechanisms for disaster response are now available.⁶⁸ The adoption of a national low-carbon development strategy and a national adaptation plan in 2018-19 signals the country's commitment to sustainable growth.⁶⁹ In 2021, the Ministry of Environment and Natural Resources established a Department of Geospatial Analysis and Climate Change to study climate vulnerability and a Vice Ministry for Water to formulate and implement policies to protect, conserve, and improve water resources. Finally, the 2022 budget allocated resources to the National Fund for Climate Change.⁷⁰

5. An Agenda for Knowledge and Data Gaps

84. While some of the knowledge gaps identified in the SCD have been addressed, others have remained unanswered, and new gaps have emerged. Forging a stronger and more inclusive social contract through greater investment in human development will require frequent, comprehensive, and reliable data. Currently, persistent gaps in the monitoring of poverty, migration, and malnutrition indicators weaken the ability to diagnose these problems and assess interventions designed to overcome them.⁷¹ Regular and consistent household surveys will be necessary to monitor poverty, understand its drivers, and assess the effectiveness of poverty-reduction policies. More expansive measures of child development would also yield a deeper understanding of the effectiveness of different interventions in promoting human capital formation from an early age. Although a WBG's SABER-ECD study has recently been completed, knowledge of specific gaps in services remains incomplete. While the continued implementation of national learning assessments is an encouraging sign, more data are required to design effective approaches that reverse pandemic-induced learning losses and facilitate the uptake of new educational technologies to accelerate learning. In addition, an assessment of technical, vocational, and professional training systems could lay the groundwork for more effective investments in workforce skills.

85. Access to firm-level data is crucial to understand constraints on productivity growth, formal job creation, tax compliance, foreign investment, and integration into global value chains. Understanding the constraints on firm-level growth and labor demand is crucial to increase productivity and support the creation of high-quality jobs. Formulating a detailed agenda to reform the business climate will require a better understanding of economic opportunities, demand for public services, domestic mobility, financial access, and governance issues. Identifying and addressing shortcomings in the public-private partnership framework could help leverage private capital and expand partnerships to social sectors beyond infrastructure. Increased firm-level data could also enable the public sector to determine how best to support the domestic financial market and may reveal opportunities to mobilize savings and allocate investment efficiently while maintaining low inflation and a predictable exchange rate within the context of a more expansionary macroeconomic policy.

86. Closing knowledge gaps is also crucial to promote a more fiscally resilient and environmentally sustainable development model. While improving the efficiency of public spending is essential for Guatemala's economic development, policymakers require a better understanding of what measures should be taken at each level of government (central and local) and in what order should those policies be implemented. Detailed assessments of the efficiency and effectiveness of national and subnational public spending could inform more effective policymaking and enable the formulation of better-targeted programs, especially in the health and education sectors. Online platforms and initiatives that foster the participation of civil society should be piloted and tested, with a focus on understanding how best to engage indigenous peoples and afro-descendants and other marginalized groups. Institutional assessments of disaster risk management capabilities, preparedness, and coordination mechanisms at all levels of government are necessary to enhance the government's capacity to respond to shocks and make the country more resilient to shocks, including the effects of climate change. Finally, an in-depth assessment of the existing and potential climate adaptation and mitigation policies will be necessary to prioritize the government's efforts in this area based on the potential impacts, feasibility, and cost-benefit analysis of different policies, as well as the institutional capability to implement them.

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7. Annexes

A1. Redefining country peers

To benchmark Guatemala's performance, the 2015 SCD report uses six comparable groups of peers: Central American countries, Latin American peers, lower-middle-income countries, world average, structural peers, and aspirational peers. The SCD Update revises the selection criteria for the structural peers to reflect countries with similar structural conditions to Guatemala today. It also revises the selection criteria for the aspirational peers to reflect countries with similar structural conditions to those in Guatemala, but which have achieved successful outcomes in terms of GDP per capita, as well as important institutional and social indicators.

The selection is done in two steps. First, the Country Economic Memorandum (CEM) 2.0 Tool⁷² is used with a set of criteria over certain variables for the period of 2010-2019. To draw structural comparators for Guatemala (also necessary to identify the aspirational peers), the following indicators were specified:

1. Total Population: To constrain the selection to countries of similar size. Small islands or extremely large countries in terms of population are excluded.
2. GDP per capita (constant 2010 US\$): To limit the scope to countries that have a per capita income level similar to Guatemala.
3. Agriculture value added: To narrow the selection to those economies with a comparable productive structure to Guatemala's (agriculture sector of around 10 percent of GDP).

Countries with a large share (> 30%) of hydrocarbon exports were excluded, as well as those with a population considerably smaller and larger (above twice Guatemala's population) than Guatemala. In addition, to account for cultural factors half of the countries selected correspond to the LAC region. The resulting list of structural peers obtained are: Honduras, Paraguay, Sri Lanka and, Senegal.

In a second step, aspirational comparators were obtained using another set of indicators for which Guatemala is expected to improve its performance (average for the 2010-2019 period). Since the CEM 2.0 Tool does not allow several indicators to be filtered simultaneously, this exercise was repeated for each of the following indicators:

1. GDP per capita (constant 2010 US\$)
2. Net inflows of Foreign Direct Investment (% of GDP)
3. Tax revenue (% of GDP)
4. Control of corruption estimate⁷³
5. Government Effectiveness estimate⁷⁴
6. Global Competitiveness Indicators. Pillar 11: Business dynamism⁷⁵

As a result, a list of countries that outperformed Guatemala in terms of each aspirational indicator for the reference period is obtained. To aggregate the results, for each indicator, a potential country receives a score of one if it outperforms Guatemala during the period 2010-2019. For example, Peru outperformed Guatemala in all indicators, except one, so it is given a score of 5. Countries from ECA and LAC region regions were prioritized in this case. The resulting aspirational peers are Peru, Dominican Republic, Georgia and Serbia.

Table A3. Peer countries main indicators

Countries	Total Population (millions)	GDP per capita (constant 2010 US\$)	Agriculture, forestry, and fishing, value added (% of GDP)	FDI Net inflows (% of GDP)	Tax revenue (% of GDP)	Control of Corruption: Estimate	Government Effectiveness: Estimate	GCI 4.0: Pillar 11: Business dynamism	GDP growth (annual %)	Labor force participation rate, female (% of female population ages 15+) (modeled ILO)	Mortality rate, infant (per 1,000 live births)	Prevalence of undernourishment (% of population)	School enrollment, secondary (% gross)
	2019	2019	2019	2019	2019	2019	2019	2019	2015-2019	2019	2019	2018	2019
Guatemala	16.6	3364.8	9.4	1.5	10.5	-0.9	-0.7	55.8	3.4	40.6	20.7	16.1	51.1
Structural peers													
Honduras	9.7	2244.5	10.8	3.8	N/A	-0.8	-0.6	54.0	3.8	52.3	14.5	13.8	66.2
Paraguay	7	5280.2	10	1.6	10	-0.8	-0.5	51.2	3	60	16.6	8.8	N/A
Senegal	16.3	1528.1	15	4.2	N/A	0	-0.1	55.6	6.1	35.1	32.7	9.4	46.2
Sri Lanka	21.8	4225.1	7.5	0.9	N/A	-0.03	-0.1	60.0	3.7	33.5	6.1	6.8	N/A
Aspirational peers													
Peru	32.5	6489.6	6.7	3.9	14.5	-0.4	-0.1	55.8	3.2	70.6	10.3	6.7	108.8
Dominican Republic	10.7	8002.4	5.2	3.2	13.3	-0.8	-0.4	57.1	6.1	54.3	23.5	5.5	81.6
Serbia	7.1	7229.9	6	8.3	24.1	-0.4	0	63.1	3.2	47.9	4.6	4.6	94.5
Georgia	3.7	4977.5	6.5	7.7	19.6	0.7	0.8	62.2	4.1	55.2	8.5	8.2	106.3

A2. SCD Update: Selected In-Country Consultations

As the SCD Update was being scoped the Bank engaged with the client and stakeholders through an extensive consultation process, both internal and external to the WBG. These have included the following actors:

OPCS: The team held meetings with the Global SCD team to discuss the different possibilities for the SCD update.

Global Practices: The team held meetings with GPs and CCSAs to inquire and discuss data availability and challenges undergone by Guatemala since 2015, or in the last five years. At the same time, the team shared with the focal points various presentations and draft versions of the SCD Update for their comments and inputs. Moreover, for select topics, the team discussed in detail the policy priorities selected in the SCD Update.

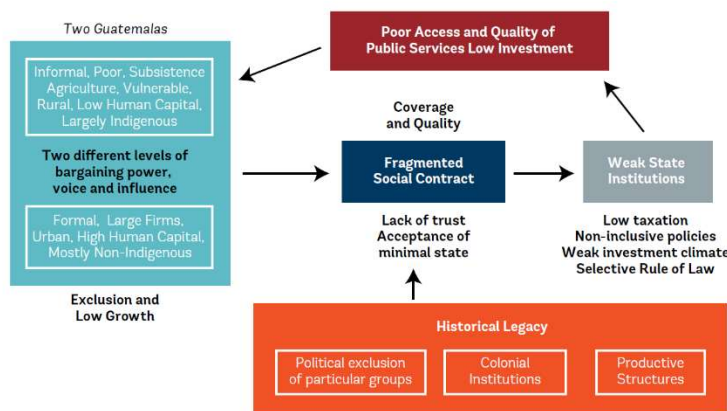
Civil society and Private Sector: A joint mission (World Bank/IFC) in FY20 held meetings with civil society groups, academia and think tanks. The mission focused on the progress in the country since 2015 and discussed critical issues including: (i) progress in core development indicators; (ii) data availability and reliability (e.g., 2018 population census, FUNDESA subnational development indicators and information on social spending); (iii) identification of major institutional and policy changes. The mission met with representatives of different business associations including: Chambers of agriculture, construction, commerce, and industry, Guatemalan Exporters Association, also with think tanks, private banks, and private enterprises. The mission met also with Banco Agromercantil, Fundación Génesis Empresarial, Asies, CACIF, Cámara del Agro, Cámara de Construcción, Cámara de Industria, Agexport, Cámara de Comercio, Fundación para el Desarrollo (FUNDESA), Corporación Multi-Inversiones (CMI), Instituto Centroamericano de Estudios Fiscales (ICEFI), Investment and Development Corporation (IDC), UNFPA/INE, UNICEF and Guatemala Central Bank (BANGUAT). In FY21, the team met with select representatives of Fundación para el Desarrollo (FUNDESA) and Centro de Investigaciones Economicas Nacionales (CIEN) to discuss an advanced storyline. All the proposed reforms were endorsed as relevant and timely to the country's main developments.

Public Authorities: Since the launch of the SCD Update, most country missions with the core sector SCD team have been used as platforms to deepen sector engagements (e.g., Ministry of Education, Ministry of Finance, Ministry of Economy, Ministry of Development, MIDES, and Ministry of Health) and discuss key developmental issues with the different public counterparts, in government and beyond.

A3. The First Generation 2015 SCD

The 2015 SCD identified a set of development and institutional challenges that remain valid today. At the heart of these challenges there are two fundamental and interlinked features: (i) a fragmented social contract, which is the implicit agreement between the state and its citizens about their respective roles and responsibilities; and (ii) weak institutions. The existing social contract has created a system that benefits only few while most of the population is excluded. Furthermore, weak institutions have generated a large segment of excluded and disaffected population, giving rise to *two Guatemalas*. On the one hand, those not benefiting from public spending had little incentive to pay taxes or demand greater tax collection. On the other hand, those benefitting from public spending were unwilling to pay more taxes or to expand the state apparatus to provide services to all. A low tax burden contributed to a small and poorly managed state which in turn, constrained public sector provision and capacity, and lowered the quality of public services. Economic growth has been limited by the state's reduced capacity to invest in infrastructure or enforce the rule of law that is needed for private sector development. Households must either do without services or pay out of pocket for quality services. A history of weak constraints on the executive has resulted in ineffective controls on public spending, inefficiencies and corruption. This status quo created a large excluded and disaffected population and led to considerable inequality of outcomes starting early in life and continuing throughout adulthood, which has reinforced and contributed to the consolidation of the *two Guatemalas*. The underlying dynamics are represented in the framework below (Figure A3. 1).

Figure A3. 1. SCD 2015 Conceptual Framework



Source: Sánchez, Susana M., Kinnon Scott and J. Humberto López. 2016. Guatemala: Closing Gaps to Generate More Inclusive Growth. Systematic Country Diagnostic. Washington, DC: World Bank.

The analysis in the SCD 2015 shows that Guatemala's development challenges are long-standing and complex. Long-term historical processes have led to the present fragmented social contract, small state, and weak institutions. Bridging the *two Guatemalas* would not only raise the standard of living of these groups, thus reducing poverty, but would also increase their potential to make positive contributions to the economy. Therefore, the 2015 SCD identified the need for a "big push" to break the country out of the current equilibrium.

Four fundamental criteria were used to identify priority areas in the 2015 SCD. First, given the array of problems to be addressed in Guatemala, it was necessary to start with those problems

that set Guatemala apart from its peers, areas in which it is an outlier. Second, given the country's limited resources, which have declined even during the period in which this report was being written, the team decided that priority must be given to actions that can remove multiple bottlenecks and that will have a beneficial effect on other problems and sectors, not just on the immediate area of action. Third, given that Guatemala's poverty is deep (meaning that the extremely poor are truly extremely poor), at least some actions need to be taken to improve people's welfare immediately. Fourth, the SCD gave a high priority to interventions that have the potential to result in long-term, sustainable change. Table A4 presents the areas identified and the proposed policies.

Table A4. 2015 SCD: Pathways, Policy priorities and Priority interventions

Pathways	Policy Priorities	Priority interventions
Building a more inclusive social contract	Malnutrition	Tackling Malnutrition
	Education	Quality Education for all
Promote Growth	Investment Levels	Unlocking Private and Public Investment
	Agricultural Productivity	Boosting Agricultural Productivity
Promote fiscal, Social and Environmental Sustainability	Domestic Resource Mobilization	Reforming Fiscal Policy
	Social Monitoring	Generating Social Accountability
	Land Titling and territorial planning	Promoting Territorial Planning
	Environmental Risks	Addressing Natural Disasters and Environmental Risks

Source: 2015 SCD, World Bank

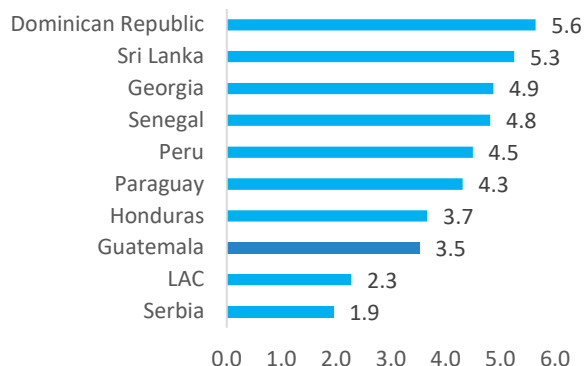
Finally, the 2015 SCD identified several knowledge and data gaps in the process of carrying out the report. Among the main gaps to be filled were: (i) the lack of an up-to-date census data; (ii) new information to shed light on malnutrition; (iii) primary enrollments; (iv) infrastructure financing; (v) fiscal issues and effectiveness of public spending and, (vi) the gap between formal and informal employees.

A4. Key Country Developments

A. Growth and income convergence

Economic growth was below most of its peers...

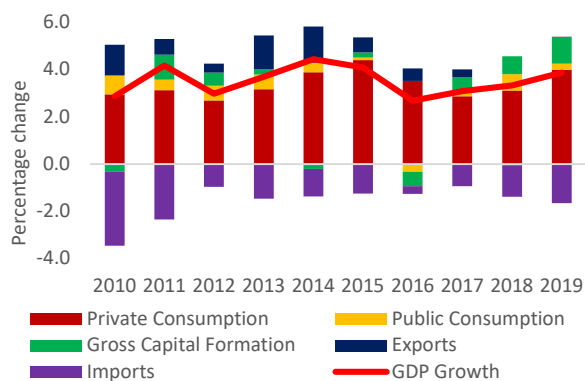
Figure A4. 1. Average GDP growth rate, 2010-2019



Source: WDI

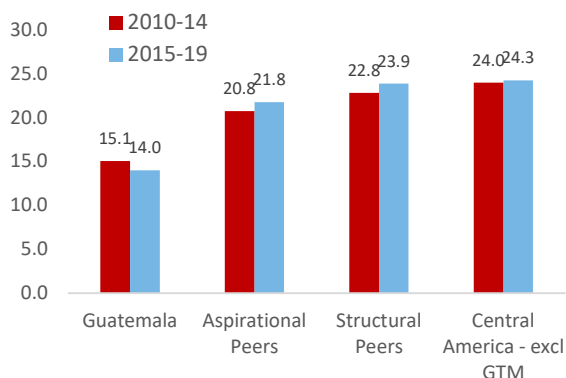
Private consumption remained the main driver of growth, while investment and exports remained low.

Figure A4. 3. Growth Decomposition, Expenditure, 2010-2019



Since 2015, investment levels have remained lower than in peer countries.

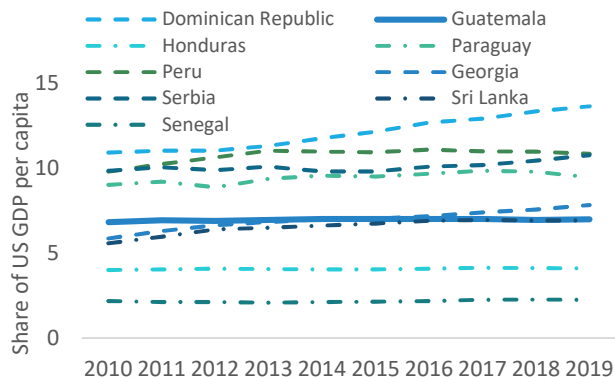
Figure A4. 5. Gross fixed Capital Formation (% of GDP), 2010-2019



Source: WDI

...and it has not been enough to close the income gap with the US.

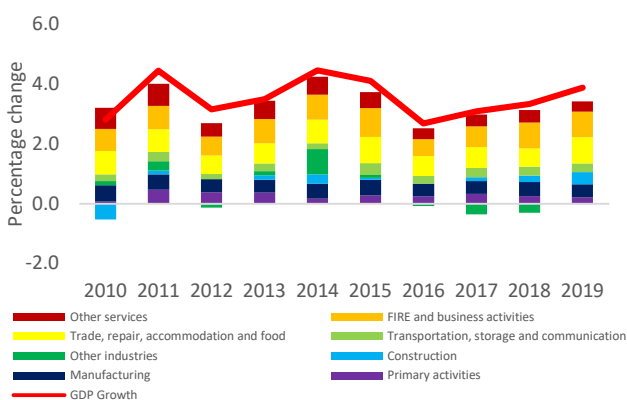
Figure A4. 2. Per capita GDP relative to U.S., 2010-2019



Source: WDI

Services has slightly increased its contribution to growth since 2016.

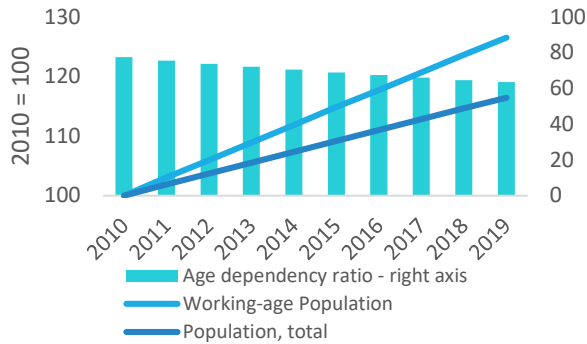
Figure A4. 4. Growth Decomposition, Production, 2010-2019



B. Demographic transition

Working-age population increased faster than population..

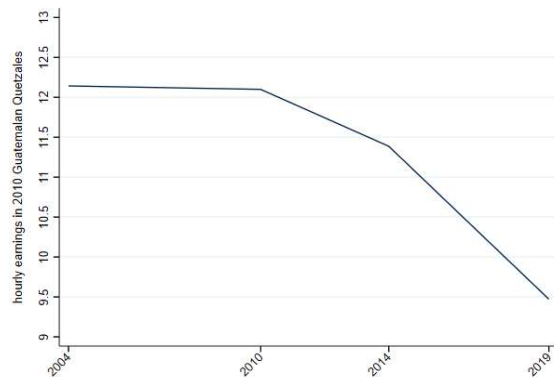
Figure A4. 6. Demographic transition, 2010-2019



Source: WDI

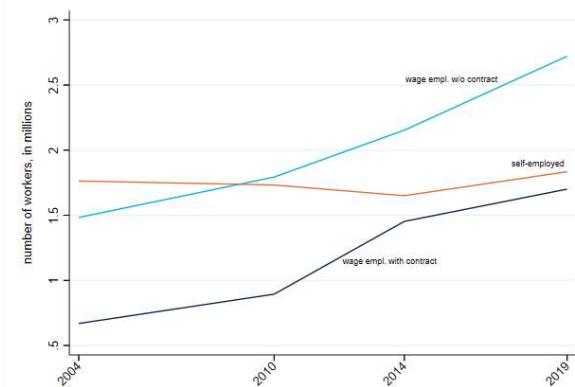
Falling labor productivity, and a raising labor force impacted labor earnings...

Figure A4. 8. Hourly Labor Earnings (in 2010 QTZ), 2004-2019



Source: Eberhard-Ruiz (2021). Jobs Diagnostic Update
...as self-employment and informality has been increasing more than formal employees...

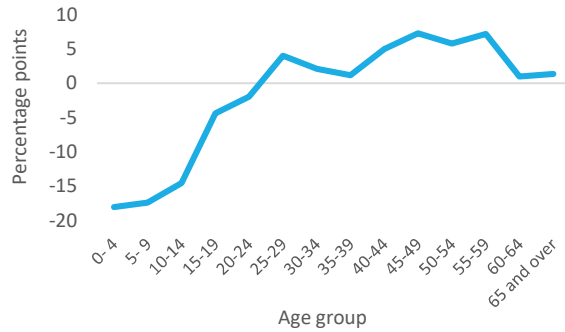
Figure A4. 10. Self-employment and informality continue rising, 2004-2019



Source: Eberhard-Ruiz (2021). Jobs Diagnostic Update

Guatemala is growing old faster than anticipated.

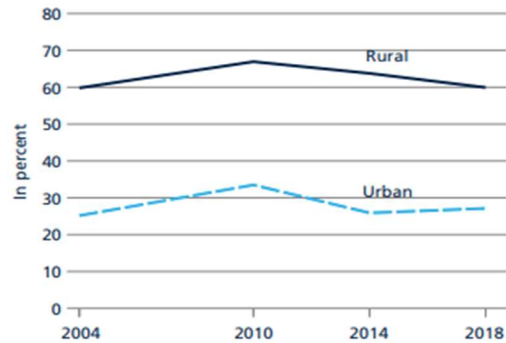
Figure A4. 7. Percentage differences by age group between population projections vs. 2018 census data



Source: Guatemala Population Census 2002 and 2018 Instituto Nacional de Estadística.

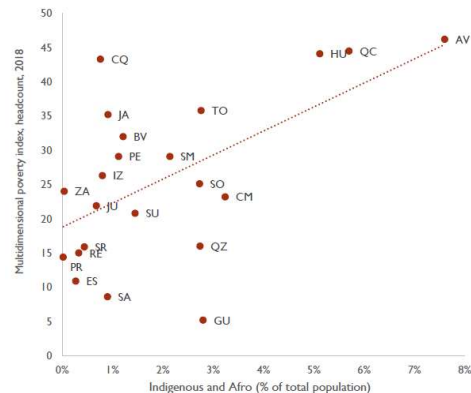
...contributing to an increasing proportion of wages below the poverty line in urban areas since 2015...

Figure A4. 9. Percent of wages below the poverty line, 2004-2018



Source: Eberhard-Ruiz (2021). Jobs Diagnostic Update
...and which has different impacts in poverty rates across different population group.

Figure A4. 11. Poverty Rate vs Share of Indigenous and African Descents (2018)

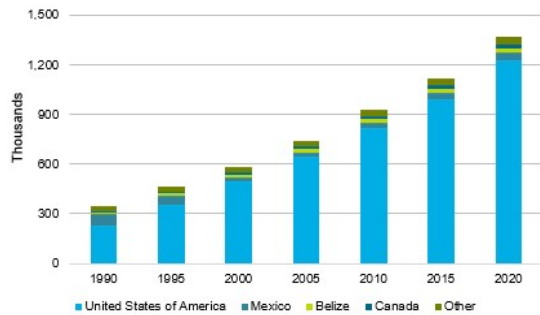


Source: Vargas, Azcunaga and Almeida (forthcoming)

C. External Sector and Productivity

Decreasing labor earnings at home pushed a rising number of people to seek migration.

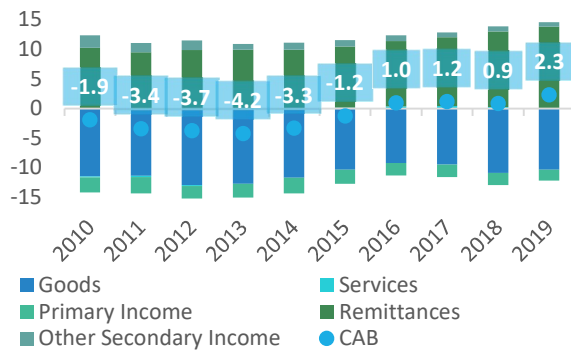
Figure A4. 12. Number of Guatemalan migrants by destination, 1990-2020



Source: UN – UNDESA.

Remittances' inflows, especially from the US have been the main source of finance of trade deficits...

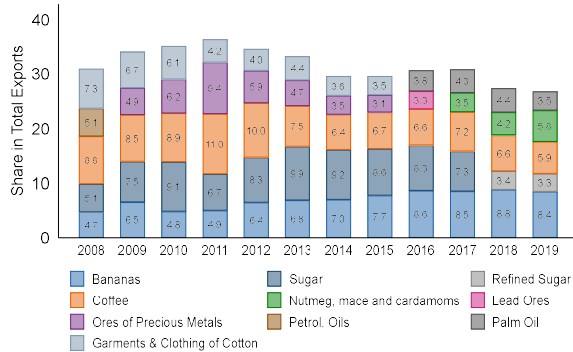
Figure A4. 14. Current Account Balance (% of GDP)



Source: WDI

The exports basket has been dominated by primary goods, such as bananas, sugar and coffee...

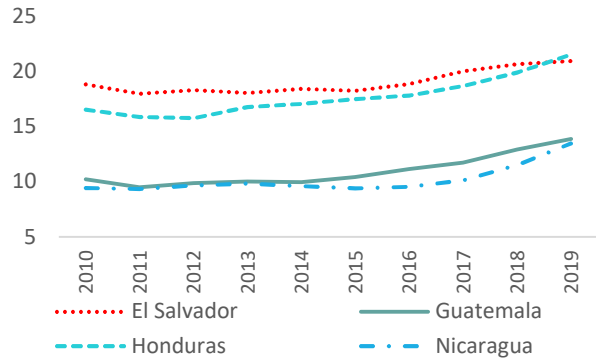
Figure A4. 16. Main Export Products



Source: Comtrade (SITC Rev2)

Remittances are of increased importance than ever before.

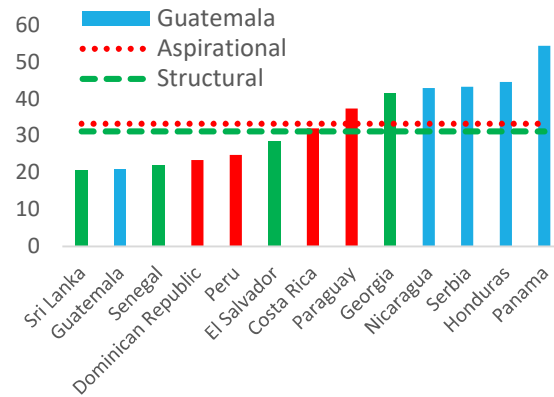
Figure A4. 13. Remittances' inflows (% of GDP)



Source: WDI

...while exports have been a smaller share of GDP than in peer group countries.

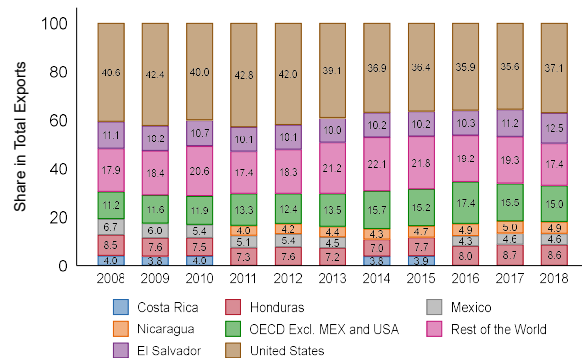
Figure A4. 15. Exports as % of GDP (2010-2019) average



Source: WDI

...and the US has been the main destination of GTM's product, followed by CA and Mexico.

Figure A4. 17. Main Export Destinations

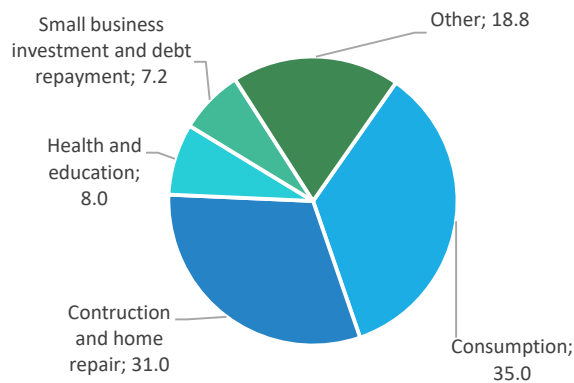


Source: Comtrade (SITC Rev2)

D. External Sector and Productivity (cont.)

Remittances were predominantly used for consumption, construction and home repair ...

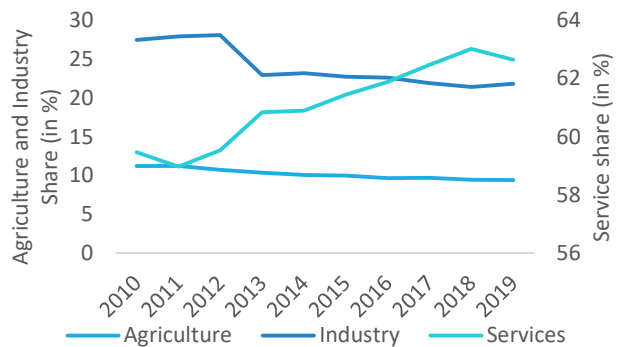
Figure A4. 18. Use of Remittances (2016)



Source: ICEFI, La Migracion Forzada en Guatemala (2021)

While goods exports usually foster structural change, low exports led to output mainly shifting to services...

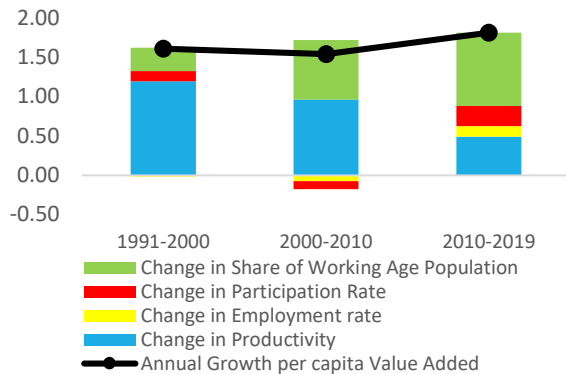
Figure A4. 19. Value Added Share, 2010 -2019



Source: WDI

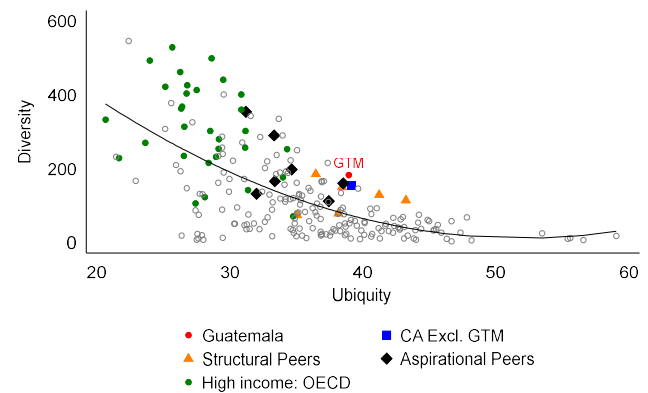
...and productivity growth has had a declining contribution ...as exports have not moved towards more complex and to per capita VA growth...

Figure A4. 20. GVA per capita growth contribution, 1991-2019



Source: WDI

Figure A4. 21. Exports' diversity vs ubiquity

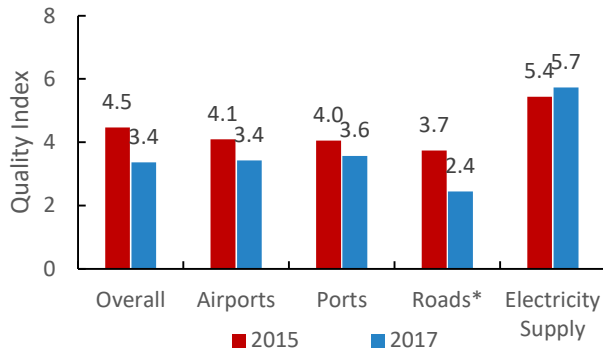


Source: Atlas of Economic Complexity

E. Why Guatemalan labor productivity is stagnant? – Poor Infrastructure

Poor infrastructure is part of the answer...

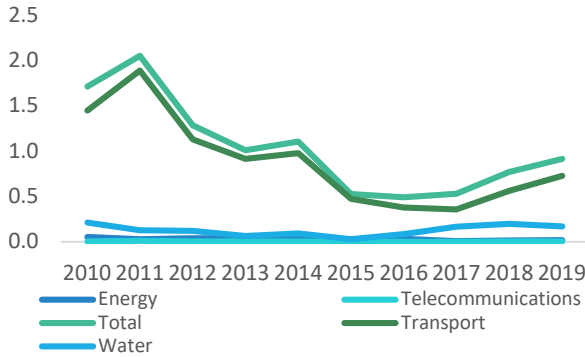
Figure A4. 22. Quality of transportation infrastructure, 2015 and 2017



Source: WEF. *Roads infrastructure quality corresponds to 2019

...and public investment in infrastructure have been low and declining for the last 10 years.

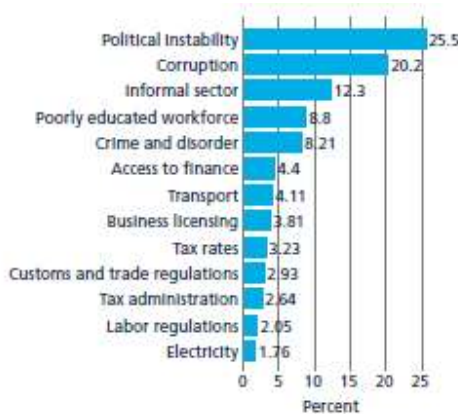
Figure A4. 24. Public Investment in Infrastructure (% of GDP), 2010-2019



Source: InfraLATAM

...as well as political instability and informality...

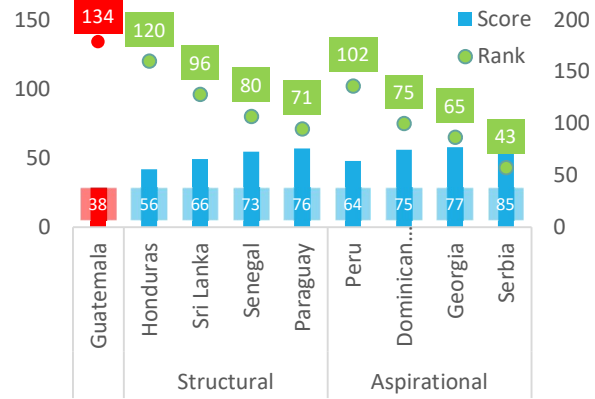
Figure A4. 26. Ranking of top business environment obstacles, 2017



Source: Eberhard-Ruiz (2021)

...particularly road connectivity which is lower quality than its peers...

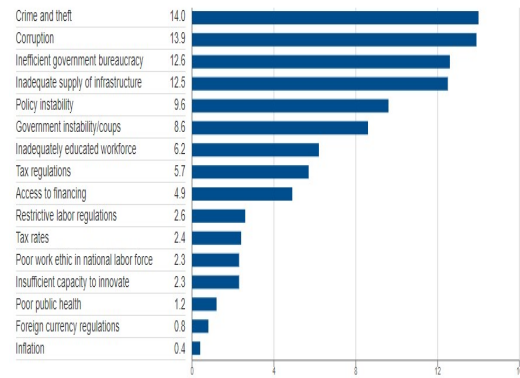
Figure A4. 23. Road Connectivity, 2019



Source: WEF

In addition, lack of security and corruption appears to be more important for business...

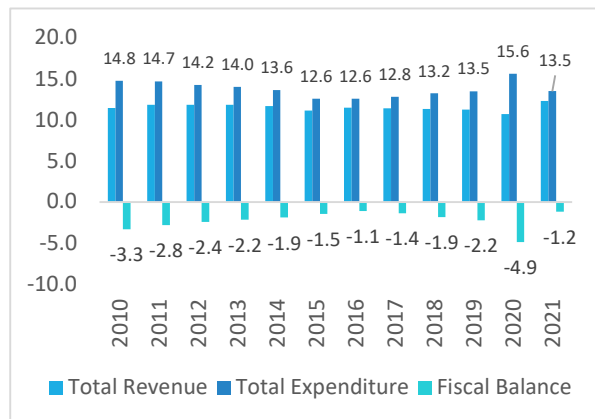
Figure A4. 25. Executive Opinion Survey, 2019



Source: WEF

...and government fiscal space has been declining, as revenues and expenditures decreased.

Figure A4. 27. Central Government fiscal balance, 2010-2021

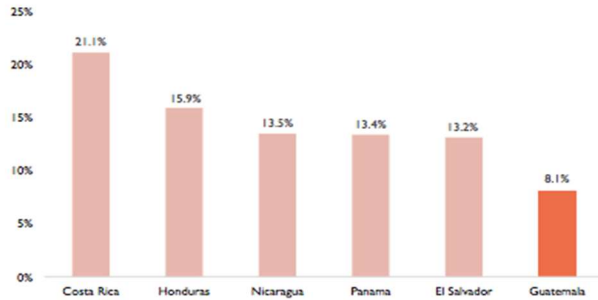


Source: Minfin

F. Why Guatemalan labor productivity is stagnant? Low Human Capital.

Social spending is low in Guatemala compared with peers...

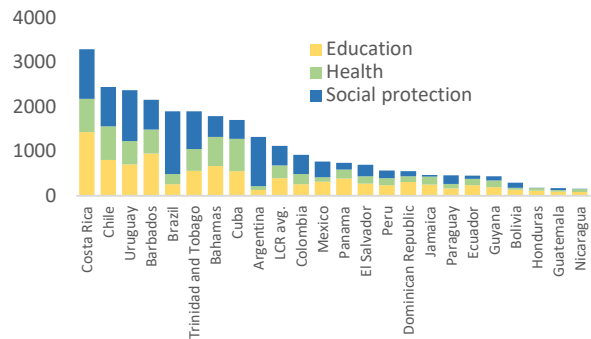
Figure A4. 28. Social Spending as a % of GDP by Country, circa 2018



Source: Vargas, Azcunaga and Almeida (forthcoming)

Relatively to LAR peers, per capita social spending is only above Nicaragua

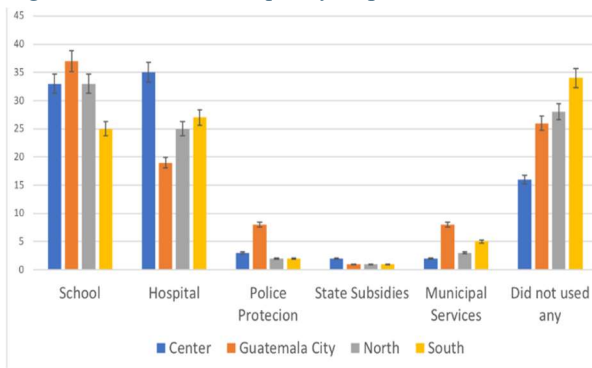
Figure A4. 29. Per capita social spending by country and sector, circa 2018



Source: Vargas, Azcunaga and Almeida (forthcoming)

Low spending translates into low and unequal access to and quality of public services.

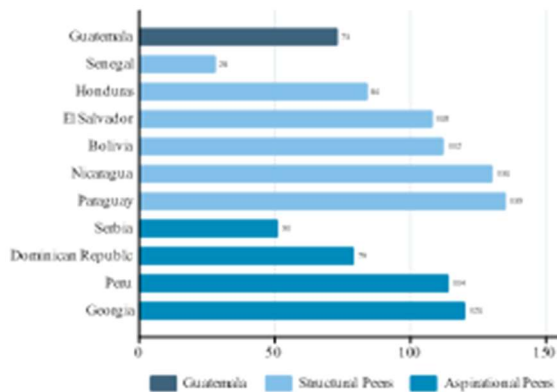
Figure A4. 30. Use and quality of public services, 2018



Source: Latinobarometro, 2018

...and for employers is hard to find employees with the necessary qualifications...

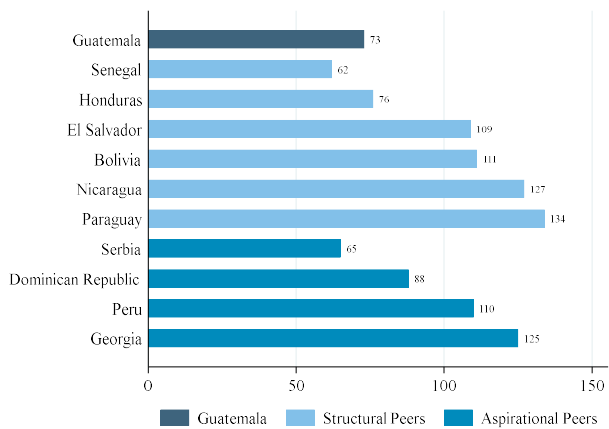
Figure A4. 32. Ease of finding skilled employees. 2019



Source: Governance Country Indicators.

The skills that graduates have in Guatemala are insufficient...

Figure A4. 31. Skillset of Graduates Indicator, 2019

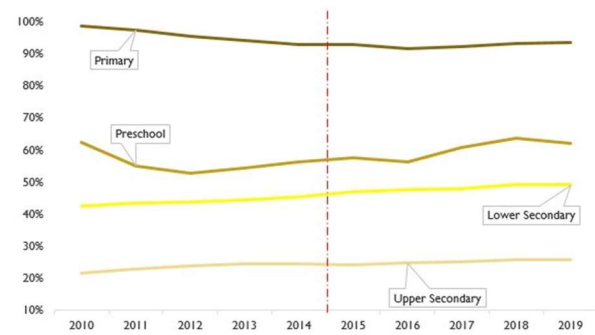


Source: Governance Country Indicators.

G. Why Guatemalan labor productivity is stagnant? – Low human capital (cont.)

Between 2010- 2015, net enrollment rates increased modestly across all education levels.

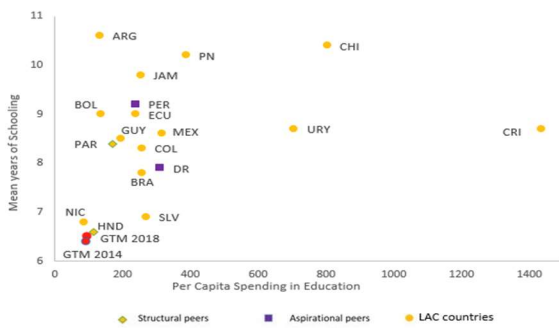
Figure A4. 33. Net Enrollment rates (percentage), 2010-2019



Source: Vargas, Azcunaga and Almeida (forthcoming)

...which also affects the average time a student remains in the system.

Figure A4. 35. Average Years of Education vs Education Spending, 2019



Source: Vargas, Azcunaga and Almeida. (forthcoming), CEPAL (2018) and UN Statistics

...Not only there is a persistent gender gap, but also between urban and rural students...

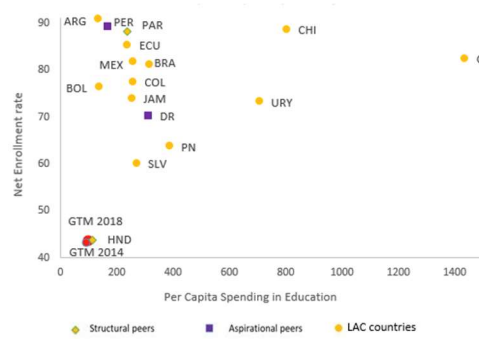
Figure A4. 37. Urban vs Rural students passing rates, 2010-2019 ⁷⁶



Source: Vargas, Azcunaga and Almeida (forthcoming)

Guatemala remains alongside Honduras at the bottom of LAC secondary rates, in line with low levels of education spending...

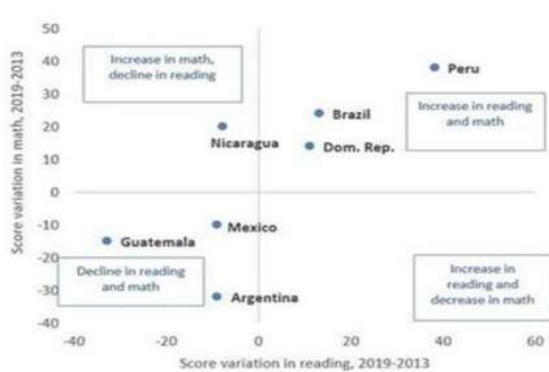
Figure A4. 34. Net Secondary Enrollment rates vs Education per capita spending, circa 2018



Source: Vargas, Azcunaga and Almeida. (forthcoming), CEPAL (2018) and WDI

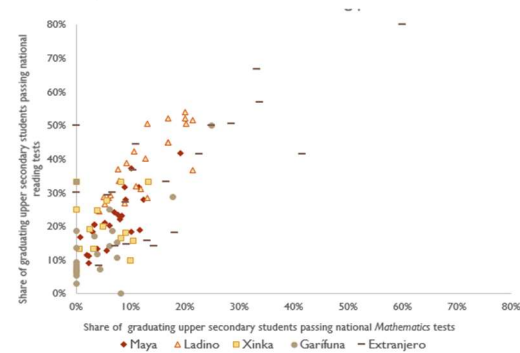
Guatemala remains with a poor track record in Learning across Reading and Math.

Figure A4. 36. Variation in reading and math learning achievements between 2013 and 2019, sixth grade



Source: World Bank, based on UNESCO (2021). Countries appearing in the graph are those that presented statistically significant differences between assessments for both reading and math (at the 5 percent level) ...and among the indigenous communities.

Figure A4. 38. Subnational mathematics vs. reading performance, 2019

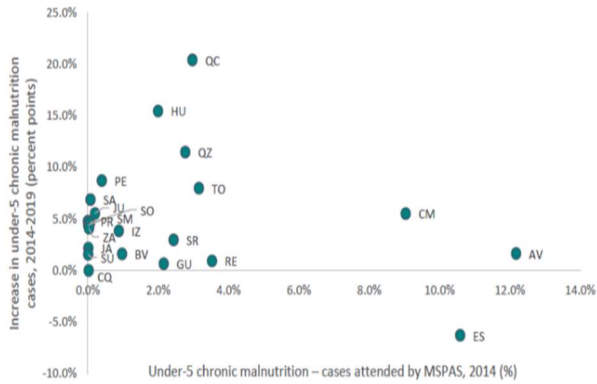


Source: Vargas, Azcunaga and Almeida (forthcoming)

H. Why Guatemalan labor productivity is stagnant? – Low human capital (cont.)

What is more, chronic malnutrition of children under 5...affecting potential human capital, with great differences across regions...

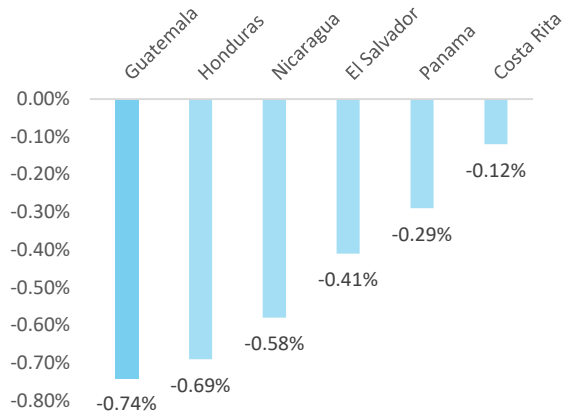
Figure A4. 39. Change in Cases of Under-5 Chronic Malnutrition, 2014



Source: Vargas, Azcunaga and Almeida (forthcoming)

What is more, Human Capital has been impacted by the pandemic, widening the gap with peers...

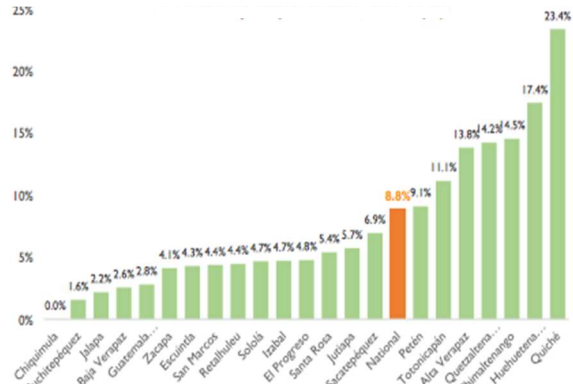
Figure A4. 41. Estimated Fall (%) in HCI driven by Covid-19 impact on children under 5 years old, 2020



Source: Trias, J., Vazquez, E. and Yanez-Pagans, M. (2021).

Note: Student performance is defined as the share of senior students in upper secondary school who have successfully passed the Graduandos national mathematics tests. Estimations on the Covid-19 impact on the national and subnational human capital index in Guatemala are presented in the report.

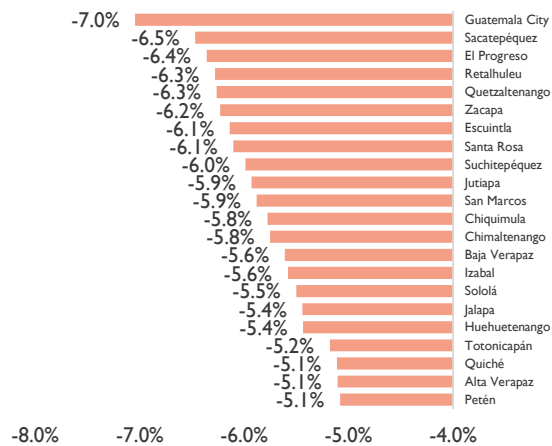
Figure A4. 40. Cases of under-5 chronic malnutrition attended by MSPAS by department, 2019 (%)



Source: Vargas, Azcunaga and Almeida (forthcoming)

...as well as across regions inside country, worsening an already poor situation.

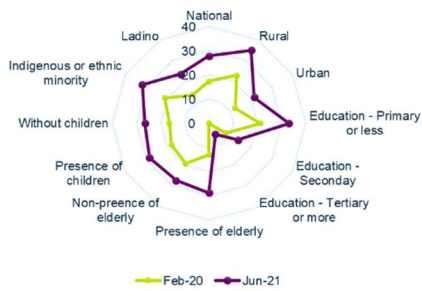
Figure A4. 42. Estimated Fall (%) in HCI driven by Covid-19 impact on children and youth enrolled in school, 2020



Source: Trias, J., Vazquez, E. and Yanez-Pagans, M. (2021).

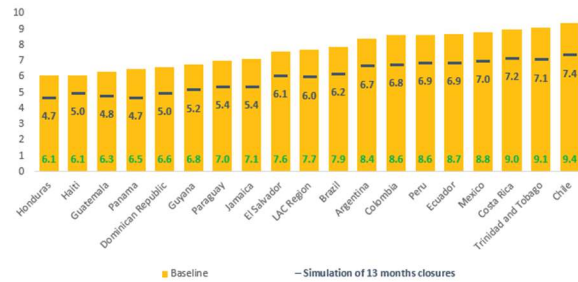
A5. Covid-19 Economic and Social Impacts and Policy Responses

Figure A5. 1. Incidence of food insecurity, by sociodemographic groups, 2020-2021



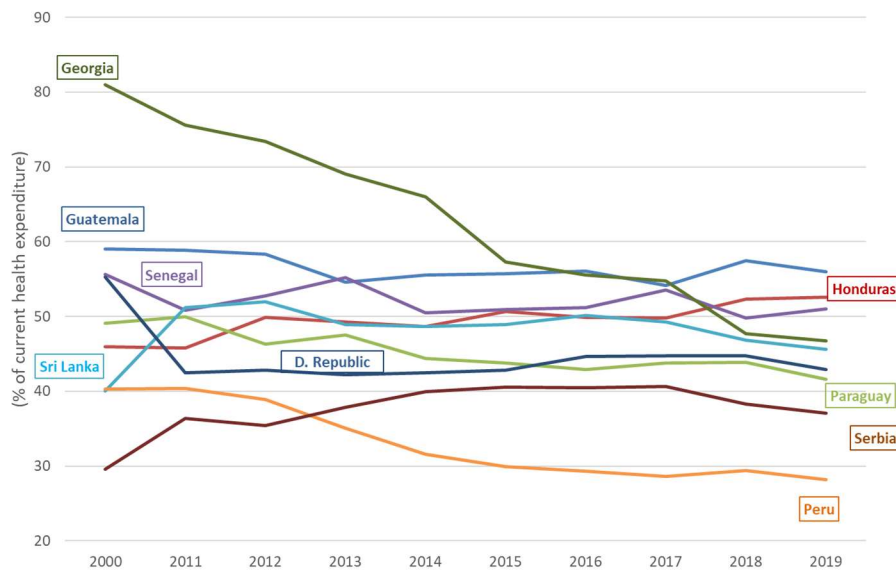
Source: LAC HFPS, 2020, 2021. Note: food insecurity is defined as not having food at least once during the last month due to lack of money or other resources.

Figure A5. 2. Simulated loss in Learning-adjusted years of schooling (LAYS) due to Covid-19, LAC



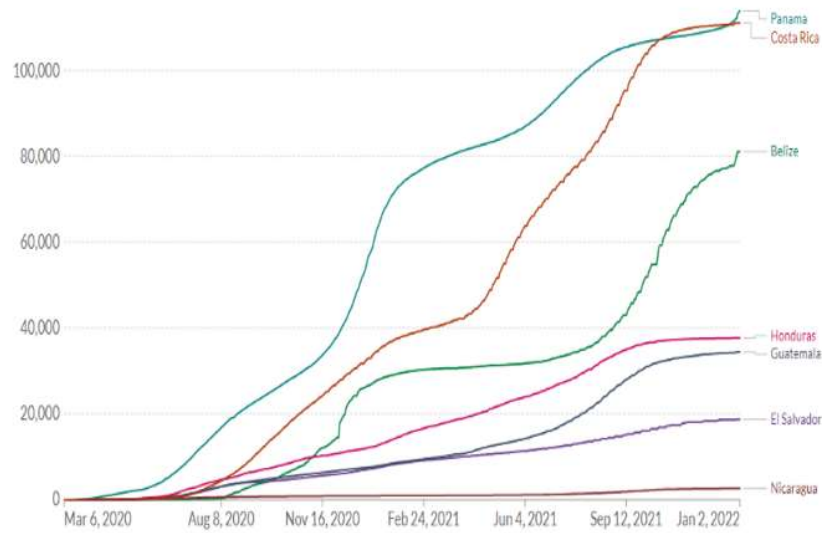
Source: World Bank. 2021. Acting Now to Protect the Human Capital of Our Children: The Costs of and Response to Covid-19 Pandemic's Impact on the Education Sector in Latin America and the Caribbean. World Bank, Washington, DC.

Figure A5. 3. Out-of-Pocket Expenditure, Guatemala and country peers, 2000-2019



Source: Our World in Data (2022).

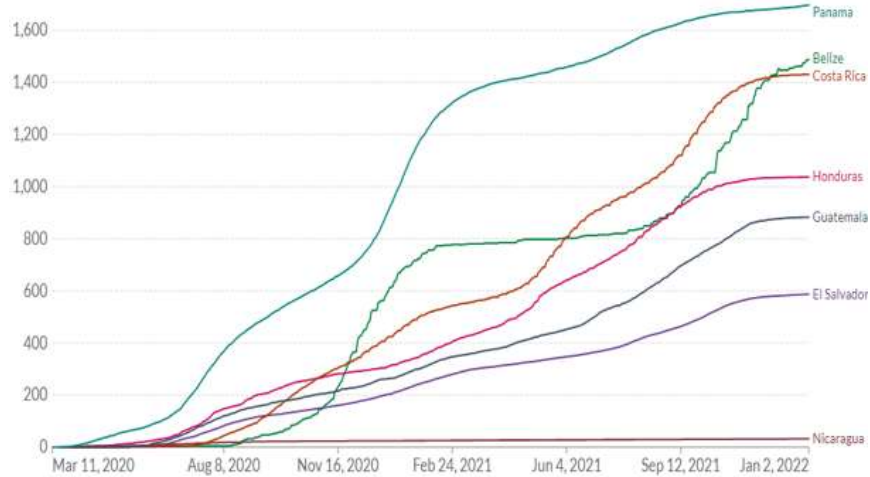
Figure A5. 4. Cumulative confirmed Covid-19 cases per million people, 2020-2022



Source: Our World in Data (2022).

Note: Due to limited testing, the number of confirmed cases is lower than the true number of infections.

Figure A5. 5. Cumulative confirmed Covid-19 deaths per million people, 2020-2022



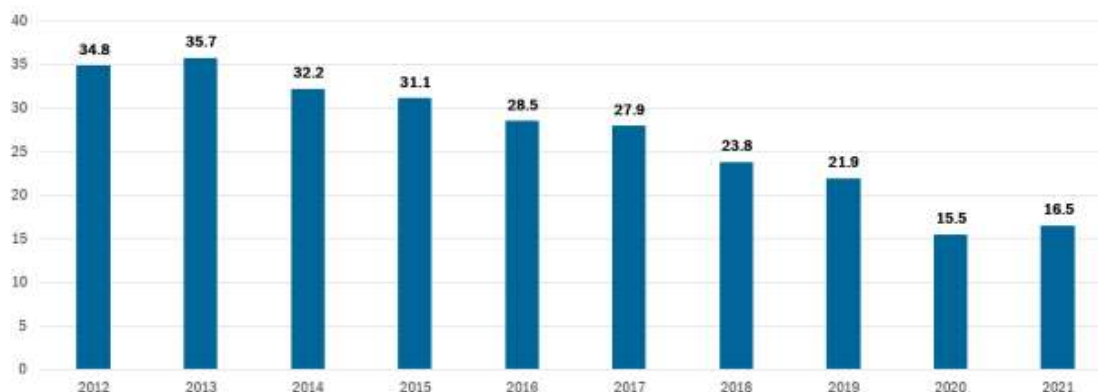
Source: Our World in Data (2022).

Note: For some countries, the number of confirmed deaths is much lower than the true number of deaths. This is because of limited testing and challenges in the attribution of the cause of death.

A6. Crime, Violence and GBV in Guatemala

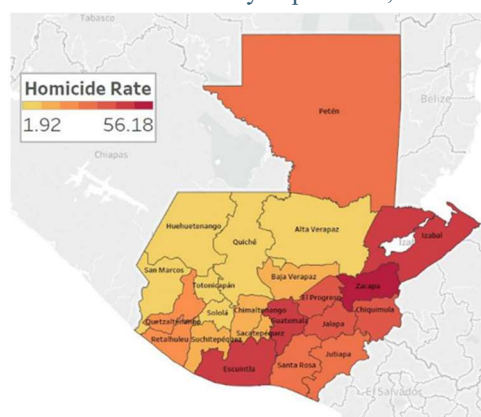
Guatemala is among the top ten violent countries in Latin America and the Caribbean, with a rate of 16.5 homicides per 100,000 people in 2018 (see Figure A6.1). Even though the homicide rate has more than halved compared to 2012, primarily driven by a drop in the male homicide rate¹, the security situation has not greatly improved. In fact, the homicide rate in Guatemala City remained alarming in 2018 at 65.7, and in nearby municipalities such as San Pedro Ayampuc, it was as high as 107.5².

Figure A6. 1. Homicide rates per 100,000 people in Guatemala between 20012 and 2021



Source: Secretaría Técnica del Consejo Nacional de Seguridad STCNS Guatemala. (2021).

Figure A6. 2. Homicide rate by department, Guatemala 2018



Source: NSO Guatemala

Crime and violence continue being carried out by a multitude of criminal groups, ranging from very sophisticated to rudimentary, and include former and active members of security and police forces, smugglers, human traffickers, some Colombian and Mexican drug trafficking organizations, and gangs, particularly the Mara Salvatrucha (MS-13) and Barrio 18.³ Gangs are almost exclusively an urban phenomenon, concentrating in Guatemala City (zones 6, 7, 12, 18, 18, and 21) and the nearby cities of Mixco, Villa Nueva, and Amatitlán.⁷⁷

¹ Much of the decline in overall homicide rates is explained by a drop in the male homicide rate, the female rate has declined more slowly.

² EFE. (2019). Crece la tasa de homicidios en Guatemala por el censo poblacional. Efe Noticias. Retrieved from <https://www.efe.com/efe/america/sociedad/crece-la-tasa-de-homicidios-en-guatemala-por-el-censo-poblacional/2000013-4067058>.

³ Insight Crime. (2017). Guatemala Profile. Insight Crime. Retrieved from <https://www.insightcrime.org/guatemala-organized-crime-news/guatemala/>.

A 2006 [survey](#) found that 40% joined gangs because of family problems and just 33.8% did so for the attractions of gang life.

In many ways, the driving interests behind violence in Guatemala have not infiltrated the state, but rather, were built into the state as it developed. Indeed, the legacy of the civil war remains a strong driver of violence. In addition, the elite capture of state institutions has entrenched powerful interests into the way the state functions. Moreover, the complicity of state and para-state actors in crime contributes to an environment of widespread impunity where the opportunities cost of crime is lower. The World Justice Project (WJP) Index ranks Guatemala 96 overall, and 25th out of 30 LAC countries; however, the country has made important progress in addressing impunity in recent years due in large part to justice sector reforms.

In addition, a weak and fragmented social contract is reflected in ineffective public institutions, lack of trust and poor-quality public services. Furthermore, the proliferation of firearms, has also been indicated as a driver of violence. Approximately [80%](#) of violent deaths occur with a firearm, and about 60% of Guatemalans claim to own a gun.

On the other hand, climate change and its effects on livelihoods remains an under-explored potential driver of crime and violence. Guatemala is among the top ten countries affected most by climate change, and rural livelihoods have been hit hard by El Nino-related droughts. Increasing livelihood insecurity has pushed some farmers to seek alternative income sources via illicit trades, and youth in rural areas to join armed groups.

Crime and violence in Guatemala have a negative impact on every aspect of life, preventing positive development outcomes. In fact, Guatemala's crime-related costs as percentage of GDP are high at 3.04. Both international and national efforts are underway to address the current situation. In fact, Guatemala's steady decline in crime rates coincides with its shift away from [mano dura policies](#) toward greater coordination of prevention across ministries and levels of government, tackling impunity, and social and infrastructure investments to address the socioeconomic drivers of crime. In 2012, the Interior Ministry launched a [National Pact for Security, Justice and Peace](#). This was followed by the launch of [2014-2034 National Violence and Crime Prevention, Citizen Security and Peaceful Coexistence Policy](#), and the creation of a Vice Ministry for Prevention. The national policy paved the way for the [2017-27 National Strategy for the Prevention of Violence and Crime](#).

The Interior Ministry also created a [Community Violence Prevention Unit](#) (CVPU) in 2008, charged with the development and implementation of plans, programs, projects and policies to prevent violence at the community, municipal and departmental levels. In addition, Guatemala's International Commission Against Impunity (CICIG in Spanish) has made [important strides against impunity](#). On the other hand, Municipal governments have been at the [forefront](#) of the decline in homicides. For example, a special policy force was created in Mixco, while a special office was created to mentor unemployed youth in Villa Nueva municipality.

Although violence can be largely attributed to gangs and other criminal groups, other types of violence also deserve attention. Violence against women is one the highest recorded in the world.⁷⁸ In 2014, 24.5% of women reported physical violence by male partners, 54% of men expressed favorable views on the use of physical violence towards their wives for not keeping the house well and 58% of men have positive attitudes on physical violence towards their wives for disloyalty (the highest number in Latin America and the Caribbean) (Latin America Public Opinion Project LAPOP, 2014).⁷⁹ The situation is more disconcerting in rural areas and small cities. Between 2009 and 2018, Guatemala recorded 6,242 homicides for women, and the homicide rate for women in 2018 was at 6.4 per 100,000.⁸⁰ Sexual violence against women is also prevalent, with high incest incidences, particularly when the male head of family is absent due to migration.⁸¹ A total 74.3% of respondents in the 2017 LAPOP survey mentioned that there have been attacks on women in their neighborhoods.⁸² Furthermore, a report from the International Commission against Impunity in Guatemala (CICIG) shows an index of impunity of 99% in cases of violence against women and 98% for femicides.⁸³

Box A6.1 Guatemala's progress in the legal framework and policies to address violence against women and girls.

Guatemala is a member of several international treaties that guarantee equality and non-discrimination based on gender, and a life free of violence for women. In addition, since 2014, the country has made important progress in the recognition of gender equality in the constitution, with important recent progress in the legal frameworks and public policies to address VAWG. Examples include: legislation that prohibits marriage before 18 years of age with no exceptions (2017); the establishment of the Institute for the Attention and Protection of Victims of Violence (2016); and the establishment of the Specific Cabinet for Women ("*Gabinete Específico de la Mujer*" - GEM) which aims to coordinate, articulate and promote inter-institutional actions for the implementation of public policies, plans, programs focused on in the integral development of Guatemalan women (2014). Furthermore, legislative and policy responses to protect women against violence include⁸⁴ the law against Femicide and Violence against Women (2008), the law against Sexual Violence, Exploitation and Trafficking in Persons (2009), the National Plan for the Prevention and Eradication of Domestic Violence and Violence against Women (PLANOVI 2004-2014), the National Policy for the Promotion and Comprehensive Development of Women (PNPDIM 2008 – 2023) and the National Policy for the Promotion and Comprehensive Development of Women (PNPDIM 2008 – 2023). The legal framework is complemented by several governments' entities working on combatting and preventing violence against women⁸⁵. The violence prevention campaign *#NadaJustifica* ("Nothing Justifies It") was launched in 2020 in response to the high rates of violence against women.⁸⁶

Some existing services available for survivors of violence⁸⁷ are the National Coordinator for the Prevention of Intrafamily Violence and Against Women (CONAPREVI), and the Program for the Prevention and Eradication of Intrafamily Violence (PROPEVI). During COVID-19, there was an expansion of an interactive platform "*CuentaNos*", which provide critical information on essential services such as health and education, to address increases in intimate partner violence and other needs related to COVID-19.

Endnotes

¹ This SCD Update relies on microsimulations to estimate poverty between 2015 and 2019, based on the 2014 ENCOVI household survey and the ENEI labor surveys from 2015 to 2019. These estimates are thus not based on *contemporaneous* household data and thus are not comparable with the 2014 poverty estimates reported in the 2015 SCD. This data limitation constrains a time series analysis and within country comparison of poverty rates (including urban versus rural poverty).

² (de la Fuente & Gomez, forthcoming) rely on the 2018 population census to estimate multi-dimensional poverty rate in Guatemala and found a decline from 27.8 percent in 2014 to 24.4 percent in 2018. This result is consistent with the simulated decline presented by the Update for the period 2015 and 2019.

³ Arayavechkit, Scott, and Sousa (forthcoming) show that remittances (and migration) contributed to reduce poverty by 14 percent between 2001 and 2014 in Guatemala.

⁴ Calculations based on Penn World Tables data.

⁵ Calculations based on World Development Indicators.

⁶ Calculations based on data from World Development Indicators. Growth was higher than the LAC average of 0.9 percent. Per capita income growth was 1.9 percentage points higher than the LAC average of -0.1 percent due to above average population growth.

⁷ During the 2015-2019 period, income per capita growth was below almost all the peer countries, only above Peru and Paraguay, and below the CA average of 2.4 percent.

⁸ World Bank estimates for poverty incidence under the \$5.50 per day line, 2011 PPP.

⁹ At the same time, the acceleration of the demographic transition will have fiscal and implications that need to be quantified, including reforms of the pension system taken now will define its sustainability in the long term.

¹⁰ The current USA Administration has focused on addressing root causes of migration in Central America, with Vice President Kamala Harris charged to lead an administration-wide effort to address conditions in El Salvador, Guatemala, and Honduras.

¹¹ World Bank estimation based on event-specific Damage and Loss Assessments (DALAS) from ECLAC and Post-Disaster Needs Assessments (PDNA) from WB/UN/EU.

¹² CRI is based on the impacts of extreme weather events and its associated socio-economic data. Countries are ranked from 1 to 181 (lower risk). Lower CRI Score indicates higher climate risk.

¹³ Ibid.

¹⁴ Data Source is Our World In Data – January 15 2022.

¹⁵ Source is WBG's LAC High Frequency Phone Survey, Phase II (Mejia-Mantilla et al., 2021).

¹⁶ In addition, job losses were more common for those with low levels of education.

¹⁷ 2017 WBG Enterprise Survey for Guatemala cited in Eberhard-Ruiz, A. (2021). The same reports notes “Guatemala has one of the world’s oldest firm-age structures in the formal sector, with firms significantly less likely to grow their workforce when they experience a positive sales shock than similar firms in other countries of the Latin America and the Caribbean region. Formal sector demand thus appears constrained by an economy-wide contestability deficit that gives incumbent firms an advantage over new entrants.”

¹⁸ Revenue mobilization has historically been affected by multiple tax amnesties, recent unfavorable Constitutional Court rulings, weak revenue administration, and the persistence of a large informal sector.

¹⁹ Activity in the tourism sector was still lagging in the first half of 2021 (9 percent below the same period of 2019). Similarly, tourism exports (January to October) were still 90 percent below the same period of 2019.

²⁰ Vargas et al (2021).

²¹ As evidence by (Mejia-Mantilla et al., 2021).

²² Evidence of the uptick in the homicide rate in 2021 can be found in (Secretaría Técnica del Consejo Nacional de Seguridad STCNS Guatemala, 2021).

²³ (World Bank, 2019).

²⁴ Some of the information that is publicly available can be found here: <https://transparenciapresupuestaria.minfin.gob.gt/> and here, <https://datos.minfin.gob.gt/>.

²⁵ Guatemala has one of the world’s oldest firm-age structures in the formal sector, with firms significantly less likely to grow their work force in response to demand expansions.

²⁶ Annex A5 shows that Guatemala has large out of pocket spending as a share of total health spending when compared to peers.

²⁷ The Bertelsmann Stiftung’s Transformation Index (BTI) evaluates whether and how developing countries and countries in transition are steering social change toward democracy and a market economy. Guided by a standardized codebook, country experts assess the extent to which a total of 17 criteria have been met for each of the 137 countries. These experts ground the scores they provide in assessments that comprise the country reports, all of which are available online. A second country expert then reviews these assessments and scores. In a final step, consistency is ensured by subjecting each of the 49 individual scores given per country to regional and interregional calibration processes. Standardizing the analytical process in this way makes targeted comparisons of reform policies possible. The BTI aggregates the results of this comprehensive study of transformation processes and political management into two indices: The Status Index and the Governance Index. The Status Index, with its two analytic dimensions of political and economic transformation, identifies where each of the 137 countries stand on its path toward democracy under the rule of law and a social market economy. The Governance Index assesses the quality of political leadership with which transformation processes are steered.

²⁸ More than 90 percent of the territory is rural land and rural population represents 46 percent of the population

²⁹ Decreto No. 16-2010.

³⁰ https://www.vanderbilt.edu/lapop/ab2021/2021_LAPOP_AmericasBarometer_Pulse_of_Democracy.pdf

³¹ Such as Transparency International Corruption Perception Index 2021 (<https://www.transparency.org/en/cpi/2021>), Worldwide Governance Indicators 2021 (<https://info.worldbank.org/governance/wgi/>), World Justice Project (2021) and LAPOP (2021).

³² The media continues to report high level corruption cases, which has resonated with the general public and the US Administration, which has made the fight against corruption a foreign policy issue and has linked it to the migration agenda.

³³ A recent analysis by the World Bank identifies weaknesses in the existing legal framework on access to information and management of conflict of interests that can support capture of the policy process by vested interests.

³⁴ During this period, Guatemala remained one of the countries in the world with the highest incidence of nutrition “double-burden” which includes incidence of both overweight/obesity and stunting. It is well established that increasing levels of overweight and obesity are related with increasing burden non-communicable diseases (NCDs). These are associated with high health-care costs, and lower economic productivity. See (CEPAL WFP and INCAP, 2020).

³⁵ Trias, J., Vazquez, E. and Yanez, M. (2021). Estimations on the COVID-19 impact on the national and subnational human capital index in Guatemala. World Bank. Mimeo.

³⁶ The National Crusade for Nutrition includes five priorities: (i) prevent chronic malnutrition and anemia by strengthening primary health care; (ii) reduce maternal and infant morbidity and mortality; (iii) promote food security and nutrition, through actions that ensure access to and availability of food; (iv) strengthen basic health services throughout the country, providing them with essential and necessary medicines and supplies on a permanent and timely manner; and (v) prevent infectious and chronic diseases.

³⁷ A new information data system - housed in MSPAS – will be based on a unique identifier will be designed to provide the medical history of patients in an integrated and simple way, regardless of the health facility used. The system is being piloted in selected municipalities and focusing on children under 5 years old and pregnant women. This new system will also contribute for a more accurate digital verification by MIDES of the health co-responsibilities of the CCT program. A digital verification would be a significant improvement over the manual verification currently used.

³⁸ The *Secretaría de Seguridad Alimentaria y Nutricional* (SESAN) and the MSPAS are carrying out the baseline evaluation of the *Gran Cruzada Nacional por la Nutrición*. Data collection started in November 2021. This is a concrete and important step to measure the extent of malnutrition nationwide. The last related data collection effort was done in 2015 through a Demographic and Health Survey (DHS). This new dataset will be used by the World Bank to compute results-based indicators linked to disbursements for the *Creceer Sano* project.

³⁹ In October 2021, the government approved the following modifications to the School Feeding Law: (i) starting in 2022, increase the benefit for students in preprimary and primary from Q 4.00 (USD 0.52) to Q 6.00 (USD 0.78) per student per school day; (ii) starting in 2023, increase the coverage to include students in early child education (aged 3 to 5) and in secondary education (aged 12 to 17), with a benefit of Q 4.00 (USD 0.52) per student per school day.

⁴⁰ The policy involved MINEDUC, MSPAS, MIDES, SOSEP, SBS, CNNA, Ministerio del Trabajo (MINTRAB), Secretaría de Seguridad Alimentaria y Nutricional (SESAN), Ministerio de Agricultura, Ganadería y Alimentación (MAGA), Ministerio de Comunicaciones (MCIV), Registro Nacional de las Personas (RENAP), Ministerio de Finanzas (MINFIN), Secretaría de Planificación y Programación de la Presidencia (SEGEPLAN), and Congress.

⁴¹ Over the years the WBG led several pieces of related analytical on ECD including a comprehensive report relying on the WBG’s SABER ECD tool (Neuman & Devercelli, 2013)..

⁴² *Acompañame a Creceer*, was first created in 2018 by the Ministry of Education, was officialized in 2020. Ministerial Agreement 3512-2018 and Governmental Agreement 239-2020It operationalizes the national ECD Policy on children 0-4 years. It involves actions on early learning, health, adequate nutrition and food security, safety and security. It involves six institutions: Ministries of Education, Health, Social Development, Agriculture and Environment and the Secretariat of Food and Nutritional Security. The program aims to promote and guarantee the enjoyment of the rights of children, prioritizing from conception to 4 years of age, through the implementation of comprehensive preventive and care actions, as well as the promotion of family and community participation, with an inclusive approach, cultural and linguistic relevance. The program is implemented in Community Centers for Integral Child Development (Cecodii) created for that purpose. Each institution must establish the actions, attributions, and competencies as well as the mechanisms to measure the impact.

⁴³ Beyond the links with nutrition this 2017 Nutrition Law mandates that at least 50% of school meals nutrients are purchased from local family farmers. The 2021 revisions mandate (i) an increase in the per student/per school day benefits in preprimary and primary from Q 4.00 (USD 0.52) to Q 6.00 (USD 0.78); and (ii) starting in 2023, increased coverage to include students in early child education (aged 3 to 5) and secondary education (aged 12 to 17), with a benefit of Q 4.00 (USD 0.52) per student per school day.

⁴⁴ With the approval of the 2022 national budget, congress increased the executive's proposal to support the "Great Crusade for Nutrition" by adding US \$ 70 million from domestic resources for the development of projects specifically related to water, sanitation, drainage and education. crusade. The above is in addition to the allocation of resources for Creceer Sano.

⁴⁵ *Estudio Regional Comparativo y Explicativo* (ERCE) (2019).

⁴⁶ Protocols can reduce Covid-19 transmission in schools through mitigation measures like masking, social distancing, and ventilation (World Bank Group, 2021)

⁴⁷ Educational curricula can also offer specialized courses on human rights including women’s rights, and fostering non-violent social relationships and mutual tolerance among students (Gennari, Urban, McCleary-Sills, Arango, & Kiplesund, 2014).

⁴⁸ The dropout prediction model for students was based on strong analytical work supported by the World Bank (Adelman, Haimovich, Ham, & Vazquez, 2018). The model has a high dropout prediction capability, allowing to correctly identify 80% of students who will

drop out within a year and performing much better than other commonly used dropout targeting approaches. These interventions included the development of materials for school principals and teachers to work with students at risk of dropout. Linked to this work, MINEDUC designed and implemented a large randomized control trial supported by the World Bank, which included 4,000 schools. The results from this impact evaluation show very positive results on dropouts (Adelman, Haimovich, Ham, & Vazquez, 2018). This work led MINEDUC to decide scale up some of these interventions at the national level.

⁴⁹ Data from MINEDUC's cost per student for the yearly "Extraescolar" category.

⁵⁰ The 2020 "Guatemala No se Detiene" national strategy aims to boost the production of 20 major export products and create 2.5 million high-quality jobs by 2030. This national recovery public-private partnership plan poses a renewed emphasis on tackling skills mismatches through programs led and coordinated by the Ministry of Economy and PRONACOM (Government of Guatemala, 2021).

⁵¹ For detailed analysis and policy recommendations on these areas, see (World Bank, 2021a).

⁵² Directives issued by the SAT, No. SAT-DSI-639-2020 published in the Official Gazette on July 30, 2020; and No. SAT-DSI-887-2020 published in the Official Gazette on October 19, 2020.

⁵³ Ley para la Simplificación de Requisitos y Trámites Administrativos (Decreto 5-2021)

⁵⁴ Figure for 2018, equivalent to USD 14 billion. (SME Finance Forum, 2018) <https://www.smefinanceforum.org/data-sites/msme-finance-gap>.

⁵⁵ In November 2021 the multinational telecom company Millicom publicly announced its full acquisition of the country's largest mobile provider. This US\$2.2 billion deal is considered the largest single investment in Guatemala's history and will include an additional US\$1 billion in infrastructure investment.

⁵⁶ (Ulku & Zaourak, 2021).

⁵⁷ ITU/A4AI Price Basket and Guatemalan Census. <https://a4ai.org/extra/baskets/ITU/2020/>

⁵⁸ Claro Guatemala has 57.5% of fixed market share (Sep. 2021) followed by Tigo Guatemala (35.8%)

⁵⁹ Claro Movistar has 50.4% of the market share and Tigo Millicom 49.6%. GSMA Intelligence (Q4, 2021)

⁶⁰ With over 50 percent of the national social spending, and home to 20 percent of the population, Guatemala City has a limited budget execution capacity compared to the needs.

⁶¹ The national planning agency (SEGEPLAN) has developed and published a municipal ranking system.

⁶² According to the 2014-15 World Economic Forum (WEF) Global Competitiveness report, Guatemala's quality of institutions ranked 109/144, which dropped to 121/141 in the 2019 WEF Global Competitiveness report. In 2020, the Transparency International Corruption Perception Index placed Guatemala as 149/180 countries, 9 places down from 2012.

⁶³ (USAID United States Agency for International Development, 2018).

⁶⁴ (World Bank Group, 2021)

⁶⁵ Through for example, the improvement of governance of water management by enacting policies for integrated basin development, planning as well as strengthening the institutional capacity at the local level (through the establishment of water offices in municipalities) and developing sanitary norms for communities to be able to assess fecal contamination and watersheds' environmental quality.

⁶⁶ (World Bank Group, 2021).

⁶⁷ A recent renovation of the insurance policy in June 2021 covers the country for \$7M in the event of losses from excess rainfall.

⁶⁸ This includes the fact that 128 schools have been built/retrofitted in compliance with seismic resilient standards.

⁶⁹ In addition, several multiple sector-level plans are being developed to address climate change risks. The National Fire Management Strategy (Estrategia Nacional del Manejo del Fuego) projected to be ready by the first semester of 2022; the National Strategy for the Conservation of Biodiversity and the use of Firewood (Estrategia Nacional de Conservación de la Biodiversidad y del uso de Leña) is nearly completed; and Operational Guidelines on incentives for forest management models are being finalized by INAB (forests) and CONAP (Protected Areas).

⁷⁰ While the Fund was created in 2013, it was not operating due to lack of regulation and resources. Regulation has been prepared and is expected to be adopted by February 2022 and Q50M have been allocated in the 2020 budget, which will be distributed 80 percent in adaptation and 20 percent in mitigation actions.

⁷¹ In the case of migration, a large and interdisciplinary team is currently several analytical pieces to better understand what at the push and pull factors of migrations in Central America (including Guatemala), how to create a favorable environment for migration where people have the option to choose legal paths and have access to opportunities at home (and leverage them upon their return), and what makes migration a successful experience. The activity is expected to be completed by the end of 2022.

⁷² <https://worldbankgroup.sharepoint.com/sites/gge/CEM/Pages/index.aspx>

⁷³ Control of Corruption is an index that "captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5."

⁷⁴ Government Effectiveness is an index that "captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5."

⁷⁵ The Business dynamism pillar of the Global Competitiveness Index 4.0 assesses the private sector's capacity to generate and adopt new technologies and new ways to organize work, through a culture that embraces change, risk, new business models, and

administrative rules that allow firms to enter and exit the market easily. Source: http://reports.weforum.org/global-competitiveness-report-2019/competitiveness-rankings/?doing_wp_cron=1641247610.7110750675201416015625#series=GCI4.D.11

⁷⁶ Student performance is defined as the share of senior students in upper secondary school who have successfully passed the *Graduandos* national mathematics tests.

⁷⁷ Ibid.

⁷⁸ Geneva Declaration Secretariat. (2015). *Global Burden of Armed Violence 2015: Every Body Counts*. Cambridge University Press. Retrieved from <http://www.genevadeclaration.org/fileadmin/docs/GBAV3/GBAV-2015-ExecSum-SP.pdf>.

⁷⁹ Adams, T. (2015). *Legacies of Exclusion: Social Conflict and Violence in Communities and Homes in Guatemala's Western Highlands*. Guatemala Conflict Vulnerability Assessment Final Report. USAID. Retrieved from https://www.usaid.gov/sites/default/files/documents/1862/Guatemala_Conflict_Vulnerability_Assessment.pdf.

⁸⁰ Instituto Nacional de Estadística Guatemala. (2019). *Indicadores de homicidios Policía Nacional Civil. Tasa de homicidios por sexo*. Retrieved from <https://www.ine.gob.gt/ine/estadisticas/bases-de-datos/hechos-delictivos/>.

⁸¹ Ibid.

⁸² Azpuru, D., Rodriguez, M., & Zechmeister, E. (2019). *The Political Culture of Democracy in Guatemala and in the Americas: A Comparative Study of Democracy and Governance*. Latin America Public Opinion Project. Retrieved from https://www.vanderbilt.edu/lapop/guatemala/AB2016-17_Guatemala_Country_Report_English_V3_02.01.19_W_02.18.19.pdf.

⁸³ Spotlight Initiative Country Programme Document: Guatemala

⁸⁴ OECD Social Institutions and Gender Index, <https://www.genderindex.org/wp-content/uploads/files/datasheets/2019/GT.pdf>

⁸⁵ OECD Social Institutions and Gender Index, <https://www.genderindex.org/wp-content/uploads/files/datasheets/2019/GT.pdf>

⁸⁶ <https://infosegura.org/2020/11/13/nadajustifica-la-violencia-contra-las-mujeres-guatemala-presenta-campana-de-prevencion-de-violencia-contra-la-mujer/>

⁸⁷ UN Women Global Database on Violence against Women: <https://evaw-global-database.unwomen.org/en/countries/americas/guatemala>