



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Aug-2018 | Report No: PIDC25504



BASIC INFORMATION

A. Basic Project Data

Country Guatemala	Project ID P159710	Project Name Guatemala DRM Development Policy Loan with CAT DDO II (P159710)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Feb 26, 2019	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Public Finance	Implementing Agency Ministry of Public Finance		

Proposed Development Objective(s)

The proposed CAT DDO will support the strengthening of the legal and institutional framework for a comprehensive management of disaster and climate risks and increase the Government’s financial capacity to mobilize resources in the aftermath of a disaster.

Financing (in US\$, Millions)

SUMMARY

Total Financing	145.00
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DETAILS

Total World Bank Group Financing	145.00
World Bank Lending	145.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. Guatemala is highly exposed to natural hazards and climate risks. Natural hazards negatively impact social welfare and economic growth and because of consumption volatility, vulnerable households may be a disaster away from falling below the poverty line or sliding further back into poverty. In 2010, poverty rates rose by 5.5 percentage points in



areas flooded by tropical storm Agatha, equivalent to nearly 80,000 more families falling below the poverty line¹. Moreover, rapid urbanization and climate change further increase disaster risk in Guatemala. Financial constraints and shortage of liquidity in the aftermath of disasters lead to reduced coverage and quantity of public services and disproportionately affect the poor.

2. This Disaster Risk Management DPL with a Catastrophe-Deferred Drawdown Option (CAT-DDO) aims to enhance Guatemala's fiscal resilience against disasters. Natural hazards constitute a contingent liability for the Government of Guatemala (GoG) and can negatively affect the country's fiscal sustainability and macroeconomic fundamentals, thereby undermining its development path. By increasing the Government's capacity to quickly mobilize resources in the aftermath of extreme events, this DPL will contribute to mitigate budget shocks, facilitate recovery processes and build macro-fiscal stability.

3. This operation will also support the GoG enhance its legal and institutional framework for the comprehensive management of disaster and climate risks. Prior actions under this DPL include strategic initiatives to consolidate disaster risk management (DRM) and boost resilience in the country. The operation considers recommendations and lessons learned from a first CAT-DDO active in 2009 and 2010, which successfully supported emergency expenditures in response to the Pacaya Volcano eruption and the tropical storm Agatha.

Relationship to CPF

4. The proposed operation is fully consistent with the Country Partnership Framework (CPF) in which DRM and climate change are key priorities. The CPF (2016)² is anchored in the Government's strategy reflecting Guatemala's commitment to preventive urban planning and disaster risk reduction, providing an opportunity to expand the World Bank's engagement in this area. The Fostering Inclusion and Resilience Pillar of the CPF identifies vulnerability to natural hazards as one of the key development constraints for Guatemala and essential for promoting inclusion and economic growth. To address this challenge, building capacity to respond to disasters and climate change is a core CPF objective. Other projects, such as the Guatemala Urban Infrastructure Project (P143495) and the *Creceer Sano: Guatemala Nutrition and Health Project* (P159213), will build synergies with the proposed CAT-DDO. In addition, the World Bank is providing technical support to the GoG in the design of policies and strengthening institutional capacity through the Strengthen DRM and Resilience in Central American Cities Project (P157269), the Central America Disaster Risk Financing Engagement (P148729), and the Volcan de Fuego Resilient Recovery Project (P167980).

C. Proposed Development Objective(s)

The proposed CAT DDO will support the strengthening of the legal and institutional framework for a comprehensive management of disaster and climate risks and increase the Government's financial capacity to mobilize resources in the aftermath of a disaster.

Key Results

5. This DPL with CAT-DDO aims to strengthen the legal and institutional DRM framework to increase Guatemala's resilience to natural hazards. The proposed US\$145 million operation will support the GoG with different approaches for both post-disaster response (liquidity) and comprehensive DRM aimed at enhancing resilience in focus areas, such as

¹ Javier E. Báez, Alan Fuchs and Carlos Rodríguez Castelán. 2017. Overview: Shaking Up Economic Progress: Aggregate Shocks in Latin America and the Caribbean. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0.

² World Bank. 2016. *Guatemala - Country partnership framework for the period FY17-20*



the legal DRM framework, disaster risk financing as well as urban development and risk reduction at municipal and sectoral levels. Pillar A focuses on strengthening the legal and policy framework for DRM and climate change adaptation (CCA), Pillar B aims to incorporate the fiscal risks associated with natural hazards in the Government's public financial management, and Pillar C focuses on strengthening the institutional and policy framework for DRM and CCA in key sectors.

D. Concept Description

6. The proposed operation is designed to strengthen the technical, institutional and financial capacity of the government, while providing immediate liquidity to the country when a disaster strikes. The Program is structured around three pillars with five prior actions, fully aligned with the Government's development program. Guatemala is a policy-rich country with well-drafted and adopted policies and strategies across development sectors. However, implementation of policies has remained a challenge due to lack of clear roles of stakeholders, and/or inadequate financial resources. The program, designed is strategic as it attempts to change the country's DRM focus from emergency response to a more holistic and proactive approach for managing risk ahead of disasters, especially by improving DRM institutional arrangements and better coordination among different sectors and levels of government; consolidating the disaster risk finance strategy and promoting DRM and CCA in key sectors.

7. The three pillars and related prior actions facilitate policy reforms that will help achieve development outcomes that are already championed by the Government. These include:

Pillar A: Strengthening the legal and policy framework for DRM and CCA

Prior action A.1: The Government defined a new framework of and responsibilities for DRM, through a proposal law initiative (integral reform Decree N. 109-96) that integrates modern concepts of DRM and establishes: (i) a national system for the integrated management of disaster risk; (ii) procedures and instruments to improve risk awareness; and (iii) instruments for prospective, corrective, and reactive DRM, including financial and fiscal aspects.

Prior action A.2: The Government consolidated the country's climate change program with a focus on DRM, through the approval and publication of the National Action Plan for Climate Change Mitigation and Adaptation, which incorporates targets and indicators in disaster risk reduction.

Pillar B: Incorporation of disaster risk into the management of public finances for fiscal resilience.

Prior action B.1: The Ministry of Public Finance (MINFIN) approved a Disaster Risk Financial Strategy (DRFS), which promotes the diversification of disaster-related financial instruments and enhances the efficiency and transparency of post-disaster expenditures.

Prior action B.2: The Ministry of Public Finance has strengthened the management of fiscal risks, including those associated with disasters, with the presentation to the Congress of the report on fiscal risks as part of the General Budget of Fiscal Year 2018.

Pillar C: Strengthening the institutional and policy framework for DRM and CCA in key sectors.

Prior Action C.1: The Government strengthened the policy framework for urban resilient through the approval of Guatemala's Urban Agenda, which incorporates DRM and CCA as cross-cutting themes and facilitates the development of other policy instruments necessary for the improvement of urban resilience.



E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

8. The DPC with Cat DDO's Prior Actions will enable GoG to better protect poor and vulnerable people from disasters. Prior Actions under Pillar A focus on a clarifying roles and responsibilities for DRM and CCA across different government stakeholders. This approach creates mechanisms for risk reduction with a vision of development, preparation, response, reconstruction, and recovery, to protect and to safeguard the life of the population and their assets through sectoral, multi-sectoral, and territorial interventions. The new legislation will establish the reduction of vulnerability among poor communities as high priority in DRM. Prior Actions under Pillar B focus on strengthening financial mechanism following international best practices to contribute to safeguarding the lives of citizens and its development path. These actions are intended to strengthen the country's economic and fiscal resilience and its capacity to respond to disaster in a transparent and efficient fashion, which is crucial to ensure that funds are available to finance the most needed communities at risk. Finally, Pillar C focus on strengthening the institutional and policy framework for DRM and CCA in key sectors, including urban development, which facilitates the prioritization and implementation of risk reduction measures on the municipal level as well as the upgrading of informal urban settlements, where poor and more exposed population lives.

Environmental Impacts

9. Prior actions selected for the proposed operation are expected to have a positive impact on Guatemala's environment and other natural resources. Through the proposed operation, the GoG addresses technical and financial barriers to enable the adoption of a risk-informed approach to development. In fact, pillars of the operation contain prior actions that can enhance sound natural resource and environmental management. For example, under Pillar A, strengthening the policy and institutional capacity for disaster risk management offers the possibility to mainstream DRM and climate-change-adaptation policies and practices at the national level, leading to environmentally-friendly planning of essential infrastructure and development projects. Similarly, under Pillar B, the prior action aims to strength fiscal resilience by incorporating risks associated with disasters in the integral management of fiscal risks and public finance processes, and Pilar C focus on strengthen the institutional and policy framework for DRM and CCA in key sector, that enable the integration of natural resource management as a measure to reduce vulnerability to disaster risks and climate change at a strategic level.



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APPROVAL

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