



# **HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT**

## **GUATEMALA**

### **Assessing Public Investment Management – PIMA and Climate Change PIMA**

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**Prepared By**

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### High-Level Summary Technical Assistance Report Fiscal Affairs Department

**Guatemala: Assessing Public Investment Management – PIMA and Climate Change PIMA**  
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**The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.**

**ABSTRACT:** In order to improve the efficiency of their capital investment and improve the access of the population to high-quality infrastructure, the Finance Ministry and the Planning general secretariate SEGEPLAN requested an IMF mission to apply: (i) the public investment management assessment (PIMA) methodology, developed by the Fiscal Affairs Department (FAD), to identify strengths and weaknesses in Guatemala's public investment management and (ii) the Climate PIMA (C-PIMA) module to ensure climate change mitigation and adaptation are appropriately addressed in the public investment cycle. The mission proposed an action plan to improve public investment management

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## Background

**Resources allocated to public investment in Guatemala have been decreasing over the last 15 years compared to GDP.** They have been falling and remain at a level close to 1 percent of GDP. It is 5 to 6 times lower than the average of public investment over GDP rate of emerging market economies (EMEs) and Central American countries as a whole. The country's commitment to fiscal stability and a moderate level of indebtedness has not so far resulted in adequate fiscal space for public investment. The share of investment in total executed expenditure has been below 20 percent every year since 2015.

**Thus, Guatemala's public capital stock has steadily declined over the last 15 years when compared to GDP and this has been affecting the population's access to basic services.** In 2019, the stock of public capital represented the equivalent of 40.8 percent of GDP, when the value of this indicator was three times higher on average in EMEs. While access to public educational infrastructure has been improving, it has been decreasing in the health sector. Although electricity production has increased, it is still below the average production of EMEs.

**At the request of the Finance Ministry and the Planning General Secretariat (SEGEPLAN) of Guatemala, an IMF team undertook a Public Investment Management Assessment (PIMA), including the Climate PIMA (C-PIMA) module, from May 30 to June 19, 2023.** This helped identify strengths and weaknesses in Guatemala's public investment management. The C-PIMA assessed how climate change related mitigation and adaptation measures are being addressed in the public investment cycle.

## Summary of Findings

**Given the scarcity of resources earmarked for public investment, it should be ensured that these are spent and managed as efficiently as possible.** The PIMA analyzes weaknesses and strengths of the public investment management system for both institutional design and effectiveness. Public investment management institutions fare better in terms of institutional design than effectiveness.

**According to the PIMA scores, Guatemala stands out compared to countries in the same region or at the same economic level in several areas:**

- Fiscal stability that allows for a medium-term vision of fiscal resources for investment. Despite not having fiscal rules, the budget respects a deficit rule of less than 1.3 percent and pursues the objective of keeping the debt below 40 percent of GDP.
- Detailed project formulation, evaluation and selection handbooks that include, among others, an analysis of natural disaster risks, good coverage of registered investment projects, and a public investment information system.
- Project financing rules that protect the resources budgeted for investment, especially for carry-over projects.

**However, the public investment management system has several weaknesses that, if addressed, would allow for greater efficiency in spending:**

- The planning of investment projects without due consideration of financial constraints limits its ability to define priorities when selecting projects for inclusion in the budget.
- Lack of continuity of ongoing investment projects and multiplication of new projects due to lack of clarity on fiscal space available for new projects, constant modifications to the approved budget, and selection of projects without meeting the selection criteria.
- Insufficient resources for maintenance, absence of criteria to determine the amount required for maintenance, and the lack of capacity of institutions in charge of maintenance.
- Weak competitiveness in contracting processes and the absence of an independent body to review bidders' complaints.
- The lack of project lifecycle monitoring at the central level. The monitoring carried out by Segeplan only focuses on financial and physical execution for the current year and does not cover the multi-year horizon of projects. The Budget Directorate lacks performance and cost evaluation analysis of projects.

- Lack of information on the total cost of investment projects, project modifications, cost overruns, and any mishaps.

**The adoption of climate change considerations in public investment decisions is under way.**

Guatemala is a country highly vulnerable to a series of natural phenomena such as floods, earthquakes, tsunamis, volcanic activity, extreme heat and landslides. The occurrence and cost of such disasters have increased markedly over the last 30 years because of climate change. However, the authorities have defined principles and created standards to better consider natural disasters and even the effects of climate change through the development of infrastructure mitigation and adaptation strategies, a climate change law, and the integration of provisions in the guide for project formulation and review. A thematic climate change budget classifier was created with the objective of identifying expenditures that contribute to the implementation of these strategies. Progress is even more marked in the field of natural disasters in terms of the review of investment projects and the adoption of ex ante financial instruments to manage the exposure of public infrastructure to climate-related risks.

**However, the integration of climate change considerations into public investment management needs to be further improved.** Strategies and plans need to be implemented by all public sector actors including ministries, decentralized entities, subnational governments and public enterprises. The highly decentralized planning of public investment in Guatemala is not complemented by a coordination mechanism from a climate point of view. The Ministry for Water and Natural Resources (MWNR), the lead agency for climate change, has no incentive nor engages in coordination or follow-up activities for climate investments, and no other entity is active in this area. SEGEPLAN does not monitor the implementation of the climate mitigation and adaptation provisions of its land-use planning guide. Although the Ministry of Finance analyzes fiscal risks associated with natural disasters, there is a need to develop policies to adapt public sector infrastructure assets to climate challenges. In addition, consistent and effective use of the thematic classifier developed for climate change should be encouraged.

## Summary of Recommendations

**To meet the challenges of public investment management and integrate the needs resulting from the effects of climate change, the mission recommended a series of actions** that can be grouped into seven major objectives: i) strengthen the articulation of investment planning and programming; ii) improve project formulation methodologies with risk analysis; iii) strengthen annual and multi-year budgeting and the credibility of the budget; iv) increase transparency of the investment and maintenance budget; v) improve competitiveness and access to procurement information; vi) establish a differentiated model for centralized monitoring and follow-up of investment projects; and vii) increase the interoperability and automation of systems.

**Among the recommended actions, some are of high priority:**

- Prepare and approve an executive order of the National Public Investment System (NPIS) that integrates investment processes and defines SEGEPLAN's role in programming and follow-up.
- Prohibit the inclusion projects in the budget that do not previously have SEGEPLAN's favorable technical opinion except for projects relating to emergency response.
- Include a provision in the Organic Budget Law specifying that projects added by Congress must be registered in the NPIS and then be incorporated in the following year's budget based on availability of fiscal space.
- Estimate current and capital expenditure baselines to identify multi-year fiscal space available for new projects and new spending initiatives.
- Publish with the budget the costs of projects, including expenditures made in past years, to be made in the current year, and planned for future years.
- Prepare and publish a dashboard to track quarterly the cumulative physical and financial progress, project cost overruns, and challenges of priority investment projects.
- Strengthen MWNR's mandate and capacity for effective coordination of climate investment and its follow-up in terms of meeting the country's climate objectives.