

BTI 2010 | Guatemala Country Report

Status Index	1-10	5.55	# 70 of 128	
Democracy	1-10	5.85	# 66 of 128	➔
Market Economy	1-10	5.25	# 74 of 128	➔
Management Index	1-10	5.50	# 53 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	13.3	HDI	0.70	GDP p.c.	\$	4589
Pop. growth	% p.a.	2.4	HDI rank of 182	122	Gini Index		53.7
Life expectancy	years	70	UN Education Index	0.72	Poverty ²	%	24.3
Urban population	%	48.1	Gender equality ¹	-	Aid per capita	\$	33.7

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Public security and violence control were the two major transformation-related topics in 2007 and 2008. Even 20 years after Guatemala's democratic opening, and more than a decade after the end of the internal war, the country remains one of the most violent in the world. In February 2007, the murder of three Salvadoran members of the Central American Parliament (PARLACEN) on Guatemalan territory, and the subsequent assassination of the murder suspects in a high-security Guatemalan prison offered some insight into the dimensions of public security problems. However, unlike others, this crime served as a wake-up call to the ruling elites that the situation was getting out of hand. Criminal networks have infiltrated core state institutions responsible for public security, such as the interior ministry and the police. The judiciary is neither able nor willing to impose sanctions on perpetrators of violence and crime. A culture of impunity is not only widespread but predominant; only 7% of murder trials lead to a verdict, and 98% of all crimes remain unpunished.

Although the 2007 elections for parliament and president were the most violent in decades, the transition from the government of Oscar Berger (2003 – 2007) to Álvaro Colom (president since 2008) proceeded smoothly. However, there is no parliamentary majority, a situation that has forced the government into continuous negotiations with congress. This hinders necessary reforms, as the parliament is dominated by status quo-oriented actors and functions as a bottleneck for change.

Another longstanding problem is related to the country's economic development model. While Guatemala's economy shows a high level of macroeconomic stability, it has been unable to make serious progress fighting poverty and exclusion on the part of the country's rural and indigenous majority. Migration to the United States and the ever-growing amount of remittances sent home by legal and illegal migrants are the main outlet for social unrest. The national Human Development Report published in 2008 voiced serious doubts about the viability of the current

economic development model. The global economic crisis has taken a toll on Guatemalan macroeconomic growth (down from 5.7% in 2007 to 3.3% in 2008); Guatemala's poor have been most affected, as inflation rose to 10.9% in 2008 and real minimum wages fell by 11%, according to data from the Economic Commission for Latin America and the Caribbean (ECLAC).

History and Characteristics of Transformation

Guatemala's transformation features a close connection between democratic opening in the midst of internal war and the promises made by the 1996 peace accords to deepen democratization. In 1984, the armed forces initiated the opening process with elections for a constitutional convention, followed by parliamentary and presidential elections in 1986. However, the spectrum of political actors participating in these elections remained limited, with the political left largely excluded. The political democratization thus showed a series of deficits (e.g., the retention of military prerogatives and military control of "internal security") but at least acknowledged the legal equality of all citizens regardless of cultural self-definition or background. De-escalation of violence and the formal end of the internal war in 1996 enhanced maneuvering room and opportunity for political action by non-armed actors.

In the first postwar years, Guatemala, like many other postwar societies, faced the dilemma of implementing the terms of the peace accords and repairing the ravages of war while still pursuing macroeconomic structural adjustments initiated during the Álvaro Arzú administration (1996 – 2000). Core elements of economic policy aimed at reducing the budget deficit through a restrictive monetary policy, raising the value-added tax from 7% to 10% and combating widespread tax evasion. Most of these goals still have not been achieved. An increasing challenge for the political as well as for the economic transformation process is the battle against the illegal and criminal economy, which has mushroomed since the 1990s and relies mainly on the drug trade, money laundering and the smuggling of items such as automobiles. During the government of Alfonso Portillo (Frente Republicano Guatemalteco, FRG, 2000 – 2003) the ties of these criminal networks with politics and the state apparatus became more and more evident. The government of Oscar Berger (2004 – 2007) made some timid attempts to counter this development but was not able to change the situation. Six months before leaving office, President Berger stated that the state was unable to combat violent crime. The current administration of Álvaro Colom (in office since 2008) has made this issue one of its top priorities, using a less repressive approach. But as success cannot be achieved in the short term, pressures for harsher policies are increasing.

Both the economic and political transformation processes remain closely tied to the question of implementation of the peace accords. Although every government since 1996 has promised to

make the implementation a central issue upon taking office, progress has been limited. When the U.N. verification mission (MINUGUA) left Guatemala after 10 years at the end of 2004, its reports showed a mixed record. While there has been significant progress in terms of formally terminating the war and expanding political participation, the implementation of other accords – such as those promoting indigenous rights and socioeconomic transformation – manifests major deficits.

Public security remains the most serious problem, undermining reforms and progress towards transformation. With respect to the political and economic transformation process itself, state institutions' fragility and the lack of transparency or accountability constitute serious problems which have to be addressed by the government. Violence and the fragmentation of civil society and other organized interest groups have rendered cooperation, compromise and participation within Guatemalan society difficult. While some negotiations between government and civil society organizations have taken place, links between civil society and the party system are lacking. This leads to protests when agreements on reform are made between civil society and government but subsequently blocked in congress. The indigenous majority (around 60% of the population) is still vastly underrepresented in the country's political and economic institutions, beyond the communal level in western highlands. Social integration and political participation by indigenous peoples will be the main challenge in the upcoming years. Neglecting their rightful claims for a better life could lead to a process of radicalization and politicization, as in other Latin American countries.

Transformation Status

I. Democracy

The peace process itself and the end of the war were major contributions to Guatemala's transition toward a political system that is at least formally democratic. However, election results over the last decade show a very fragile and fragmented party system, organized on a highly personalistic basis, accompanied by a diffuse polarization and a highly volatile electorate. The political system suffers from a low level of legitimacy; its central institutions (parliament, political parties) are given little trust by the people, and continue to exemplify power relations which have been shaped by war, violence and international interventions.

To date, no governing party has returned to office – a trend that persisted in the elections of 2007. The party of former President Oscar Berger, the Gran Alianza Nacional (GANAN), not only lost seats in parliament (dropping from 49 to 37 seats) but split over a struggle for leadership of the parliamentary group afterwards. The weakness of the existing party system thus represents one of the major problems not only for the stabilization of the political system but also for the broadening of political representation and the implementation of reforms. Somewhere between 15% and 20% of congressmen are suspected of receiving money from criminal networks.

So far, the indigenous population has organized itself only at the municipal level, where no nationwide party is necessary to propose candidates but where civic committees can be formed between elections. In September 2007, indigenous mayoral candidates won in 129 out of 331 municipalities (an increase of six posts as compared to 2003). But at the national level, divisions prevail. Although Nobel Peace Prize laureate Rigoberta Menchú launched an indigenous party (Winaq) and established an electoral alliance in support of her candidacy for president, she only received just 3% of the vote at the September polls.

1 | Stateness

Guatemala's high levels of violence are surpassed only by neighboring El Salvador and Colombia. The state's monopoly on the use of force is established nationwide in principle, but is severely challenged by criminal networks in some part of the country. While the peace accords provided the basis for a fundamental reform and

Monopoly on the use of force

reconstruction of Guatemala's security sector, the dismantling of the authoritarian, often violent state apparatus was not matched by the establishment of new, democratically controlled and accountable institutions. From the beginning, the new civil police forces were overburdened by a growing crime wave, and undermined by the old military networks. As a result, the state's capabilities turned out to be fragile in the only area where they had previously been strong – in terms of repression and control of violence.

The case of the murdered Salvadoran parliamentarians and the assassination of the murder suspects just showed the tip of the iceberg. However, the transnational dimension of this incident helped force the establishment of the International Commission Against Impunity (Comisión Internacional contra la Impunidad en Guatemala, CICIG), which had previously been blocked by the Guatemalan parliament. Another result was the strengthening of the government's cooperation with civil society organizations in the field of public security. While some accused youth gangs of committing the assassinations (as well as being perpetrators of most of the less spectacular violence), the discourse has seemed to be shifting rather toward a discussion of criminal networks and transnational crime (mostly drug trafficking). A new feature to the wave of violence has manifested itself in the increasing numbers of murdered women (590 in 2007 and 722 in 2008). Some observers have termed this "femicide," as many victims have been tortured and the bodies mutilated prior to death.

Public security was one of the central topics during the presidential elections. While ex-General Otto Perez Molina advocated a harsh approach ("súper mano dura" or "super hard hand"), Álvaro Colom favored a more integrated approach addressing the underlying social causes as well as strengthening the democratic rule of law. But his inauguration was accompanied by a new wave of violence (in January 2008, 14 bus drivers were assassinated) putting the administration under serious pressure. While the president first rejected plans to increase the military's personnel and budget (reduced drastically by the Berger administration, in implementation of peace accord provisions), he ultimately gave way in July and September 2008 (increasing both to 160% of their previous levels). In the same time period, against the president's will, the parliament reintroduced the death penalty (which had not been formally abolished but was restricted by the possibility of presidential amnesty). However, President Colom vetoed this parliamentary act in March 2008, permitting the de facto moratorium on the application of the death penalty to be maintained. In a similar vein, the Supreme Court decided on 10 October 2008 to commute four death penalties into maximum prison penalties.

The peace accords define Guatemala as a multicultural, plurilingual and pluriethnic country, but the constitutional changes needed to make this official failed in a 1999 referendum. At the formal level, there has been some progress: A law prohibiting racism was passed (and Rigoberta Menchú won a case in court against the grandson

State identity

of former dictator Efraín Ríos Montt). A series of institutions has been established (e.g., the Office for the Defense of Indigenous Peoples, and a variety of others promoting consciousness and anti-discrimination education). Nevertheless, racism and discrimination are part of the indigenous majority's everyday experience. Inclusion and access to full citizenship for the rural and indigenous population remain the main challenges for the future.

Neither the functionality of the state's norms nor basic order rest on religious dogmas. There is complete separation of church and state. The Catholic Church remains one of the pillars of society, but shows the same fragmentation as Guatemalan society more broadly. While some bishops support the many and varied activities of civil society aimed at reform of the system, others stand by the conservative economic and political groups supporting the status quo. Conservative evangelical groups have political influence with some of the political parties.

No interference of religious dogmas

The state's fundamental infrastructure extends throughout the entire territory, but its operation is deficient mainly due to corruption, lack of professionalism, arbitrary use of power and the influence of personal and criminal networks. Thus, attaining public services and public goods is highly dependent on the power relations in a certain area and access to state funds and programs. The department El Quiché is an interesting case in point, showing the establishment of an authoritarian clientele and patronage network by the Guatemalan Republican Front (FRG), the party of former dictator Efraín Ríos Montt. When the FRG was voted out of office at the national level in 2003, its support in the region decreased considerably. Through the promotion of administrative decentralization, international assistance agencies have tried to support the provision of public services even in remote areas (mostly the western highlands, where the population is primarily indigenous).

Basic administration

2 | Political Participation

After 22 years of transition, Guatemala elections are mostly free and fair, though the 2007 elections were the most violent since the war's end. There were some complaints mostly related to falsification of identity papers, while the departments of Alta Verapaz, Santa Rosa and Esquintla experienced some popular disturbance due to the perception of manipulation on Election Day. The most important change in 2007 was the decentralization of polling stations (leading to an increase from 8,910 stations in 2003 to 13,756 in 2007), allowing voters to vote closer to their home. Restrictions are not caused by formal constraints but by existing power relations; for example, the control of most media by the traditional economic and social interest groups favors the status quo. Attempts to buy votes, problems with registration and other procedural problems persist, but do not significantly affect results. A very positive development in 2007 was the high level of rural and indigenous participation, compared to previous years. Álvaro Colom is the first

Free and fair elections

president elected thanks to his support in rural Guatemala (his opponent, Otto Pérez, took more votes in Guatemala City).

The capabilities of the elected government are restricted by two patterns: First, the inability of a reform agenda to gain legislative traction, hampered by the lack of consensus and the inability of any party to muster a parliamentary majority; secondly, the influence of informal powers. The most powerful and best-organized force is the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF). While it supported the democratic opening, it has organized resistance to every single fundamental reform of the societal status quo, such as tax reform. As Guatemala has one of the lowest tax rates in the world, such reform is a necessary precondition for the implementation of state policies in a variety of sectors (social services as well as public security).

Effective power to govern

At the same time, the relationship between the government and the armed forces remains difficult. No administration has yet dared to name a civilian defense minister. On 21 December 2008, President Colom removed the military command following rumors of planned disobedience (with regard to operating against drug cartels in the country's north) and coup. Two weeks later, the government ceded to pressures by the parliamentary opposition and dismissed Interior Minister Francisco Jiménez, who had tried to confront violence and crime while staying within the rule of law. His replacement, Salvador Gándara, is a representative of the traditional hard-hand approach (which has proved to be unsuccessful on the ground, beyond its uncompromising rhetoric).

The freedoms of association and assembly are guaranteed by the constitution, but some restrictions remain in force, such as the threat of imprisonment for persons carrying out acts aimed at disrupting or paralyzing enterprises contributing to Guatemala's economic development. The establishment of trade unions and their work is hindered by various mechanisms such as the transfer of employees from one workplace to another, intimidation and selective violence. Union members and leaders, human rights advocates and other representatives of civic groups confront a high level of intimidation and violence. Human rights defenders remain a main target of violent acts; at least 200 attacks were reported in 2007, and 221 in 2008.

Association / assembly rights

Freedom of opinion and freedom of the press are guaranteed, but the media are dominated by the main economic interest groups. The government has sought to exert massive influence, particularly during election campaigns. Numerous cases of harassment, intimidation and violence against journalists have been reported, particularly targeting reporters attempting to investigate corruption, criminal activities or human rights abuses. The U.N. Human Rights Commissioners Office in Guatemala reported 68 violations against journalists in 2008, double that of 2007.

Freedom of expression

3 | Rule of Law

There is formal separation of power between the executive, legislative and judicial powers. But while the executive tries to influence the judiciary (via the nomination of judges under political rather than professional criteria), the legislature is very fragmented along personal lines. As neither the government nor the opposition has a parliamentary majority, the legislature's main power is not control, but the ability to undermine or water down government initiatives. This makes it difficult for the legislature to accomplish its functions of government oversight. The decentralization process has strengthened local administrations, restricting the influence of the national government. But while this should have improved efficiency, parliamentarians use decentralization to circumvent decisions of the local and/or national governments (e.g., appropriating funds earmarked for development for their own clientele). This is a clear sign of a lack of checks and balances in institutional design as well as in political practice.

Separation of powers

The judiciary has some independence but remains weak and subject to political influences. The culture of impunity is the central problem. In September 2007, CICIG began to operate, and in its first report issued a year later, called on the Guatemalan state to protect those working in the judiciary and to confront the existing climate of fear and intimidation. At least eight public officials working on high-impact cases were assassinated between January and September of 2008, and between January and July of 2008 at least 76 persons working in the judiciary received threats. Only one of the murders of judicial personnel since 2001 has been successfully investigated, and the perpetrators brought to justice. The effects of these forms of violence reach far beyond the persons threatened, influencing the independence of the judiciary as an institution. This problem in turn undermines the already low credibility of and trust in the rule of law and democratic institutions.

Independent judiciary

Lack of transparency and accountability remain widespread, as is corruption. Some progress has been made in investigation, however. In June 2008, a scandal emerged over the transfer of \$10.9 million in congressional funds to a stockbroker not supervised by the banking authorities. The parliament's president and a number of other legislators had to step down, and the investigations were still under way as of this writing. While it can be considered a success that former President López Portillo came back to Guatemala to face corruption charges, his immediate release on bail showed how far his influence still reaches inside the relevant institutions.

Prosecution of office abuse

Civil rights are formally guaranteed but violated in practice, in particular in the case of the indigenous population. The 2008 report of the U.N. Human Rights Office identified an increase in complaints about discrimination, which were not reflected in an increase in the number of charges filed nor in convictions obtained. President Colom has made the guarantee of civil rights one of his priorities. It remains to be

Civil rights

seen whether he will be able to change the existing patterns of authoritarianism and of racism in everyday life. Union rights are another case in point. When workers in the transport sector went on strike, the president decreed a state of prevention (one of the relics of the authoritarian past), prohibiting the strike and enforcing the decree with the help of the police and the military.

4 | Stability of Democratic Institutions

Democratic institutions function, but their effectiveness is limited due to their lack of stability and continuity, and to a lack of funding and professionalism. This is reflected in opinion polls, in which only 17% of those interviewed said that public institutions perform at a level deemed good or very good, while 76% say public employees are corrupt. The non-military intelligence service is a case in point. The Secretaría de Análisis Estratégico (SAE) was designed to substitute for military intelligence after the end of the war; yet, despite cooperation by international donors, its performance in terms of early warning and prevention of conflicts has been poor. In 2008, it even was accused of having bugged the president's office. The SAE was thereafter dissolved, and a new entity was substituted whose performance capability remains to be seen. The power struggle inside the state apparatus caused by the transformation process and the end of the war has not been resolved to this day. Hence, democratic institutions mirror these fractures.

Performance of democratic institutions

Acceptance of democratic institutions is in part limited but mostly reflects overall trends in Latin America. Support for democracy increased slightly between 2007 (32%) and 2008 (34%). Although Guatemalan elites support democracy, portions of this group accept democratic mechanisms only as long as reforms do not challenge their dominant position in Guatemala's society. Taxation and fiscal reforms illustrate this problem: Although there is substantial evidence that the functioning of democratic institutions depends at least in part on their financial capacities, Guatemala's elites have been able to prevent any attempts to raise taxes or reform the budgetary system. The reform-oriented, so-called peace institutions founded after the war's end are heavily underfinanced, which is one of the reasons why they are not able to fulfill their tasks.

Commitment to democratic institutions

5 | Political and Social Integration

Guatemala's party system is highly fragmented (14 parties exist) and organized on a personalistic basis. There are few programmatic differences (beyond election propaganda); parties are grounded in personal relations and a largely asymmetric interdependence, rather than a shared political program. As a result, they are minimally anchored in society. In none of the elections since 1996 has the former guerrilla group Guatemalan National Revolutionary Unity (URNG) played a

Party system

significant role; its representation in Congress is negligible. Representation of reform-oriented parties with roots in civil society organizations is stable, but minimal (in 2007, such parties won just four congressional seats).

During the last decade, the FRG was the best-organized political force in the country. This was based on loyalty to its founder and leader Efraín Ríos Montt, as well as the party's influence over regional clientelistic distributional politics. The FRG's populist law-and-order-discourse ran counter its own participation in criminal and corrupt networks. After losing the national elections (and thus its access to state funds), the party's support has decreased somewhat; but the FRG remains the best organized political party today.

An interesting though ultimately unsuccessful attempt to broaden participation by the indigenous population was made by Nobel Peace Prize laureate Rigoberta Menchú, when she launched an indigenous party (Winaq) in support of her candidacy for president. Civil committees (comités cívicos) successfully organize the indigenous population at the local level, there has to date been no equivalent at the national level.

The weakness of the existing party system thus represents one of the major problems not only with respect to stabilization of the political system but also to the broadening of political representation. In June 2008, two new parties were founded.

The Guatemalan oligarchy is nearly unaffected by fragmentation. Although it does not have its own political party, it influences party politics by financing and supporting different parties that come up and disappear from election to election. The most powerful status quo-oriented actors – the entrepreneur association CACIF and the military – lobby for their interests predominantly through indirect and/or informal channels. Due to biographical, personal and family ties to the economic elite, the governments of Alvaro Arzú (1996 – 2000) and Oscar Berger (2004 – 2008) – both of which proclaimed they would lead “business governments” – prevented fundamental reforms of the existing political and socioeconomic status quo, in spite of pro-reform rhetoric during their respective election campaigns.

Interest groups

Civil society organizations are weak and fragmented. Although some show a growing level of professionalization, this endangers their rooting in social movements. Reform-oriented civil society organizations' political participation has been limited to dialogue with the various governments. Here, the FRG had a more inclusive policy than other governments. Reform-oriented parties and organizations generally focus on isolated problems and are short-lived. Their capacity to form alliances is further limited by the fact that they, too, are fragmented along personality lines.

Organized crime is another important interest group, with influence reaching into core state institutions. Networks of “hidden powers” include former and active

military officers as well as representatives of political parties (mostly but not exclusively FRG). The international commission against impunity had to circumvent a series of blockades before its ultimate establishment. Even today, restrictions on its mandate and the necessity to cooperate closely with the institutions that are part of its investigation (such as the Ministerio Público) endanger its work. CIGIG's two-year mandate is up for renewal in September 2009.

Regime support is low (32% in 2007, compared to the Latin American average of 54%; in 2008, these figures had respectively risen to 34% and 57%). Satisfaction with democracy has decreased three points, from 30% to 27% according to the 2007 and 2008 Latinobarómetro surveys. However, this support seems to be stable and is not accompanied by stronger support for authoritarian regimes. Satisfaction with the output of the democratic regime is slightly lower than regime support. The current Álvaro Colom government faces high expectations for a change in everyday life (in terms of public security as well as social and economic conditions). Public assessment of the administration's first year in office has been rather critical.

Consent to
democratic norms

In recent decades, a wide range of civil society organizations have emerged around the country. However, in many cases, their traditions are weak or their origin can be traced to the experience of war and widespread violence. Interpersonal trust is lower than the Latin American average (60.2% compared to 68.1%, according to the 2008 LAPOP survey). Most civil society organizations work on specific issues and are strong only on a local level. There are a number of quite professional NGOs, mostly based in the capital, which have some influence, and there are numerous groups lobbying for social and economic changes (at the national level as well as in the rural areas) with only limited political influence. The ability of civil society to organize on its own is unbalanced and hindered by politico-cultural and socioeconomic barriers. Organizations generally tackle isolated problems and are short-lived because they, too, are fragmented along personality lines.

Associational
activities

II. Market Economy

Guatemala is a market economy with a high degree of social inequality and exclusion. This has not changed in the period under review, despite favorable conditions set by regional and international development. Macroeconomic performance has been stable, although the global crisis has taken a toll, with macroeconomic growth decreasing from 5.7% in 2007 to 3.3% in 2008. The country's poor have been most affected by this, with inflation rising to 10.9% in 2008 and real minimum wages falling by 11%, according to Economic Commission for Latin America and the Caribbean (ECLAC) data. Although the country's politics are very volatile, the economic development model has shown a high level

of stability. This model rests on the extraction of natural resources (gold, silver, copper, oil, etc.), with relatively low utilization of formal labor. Money transfers from migrants (remesas) to relatives in Guatemala alleviate social problems and are of increasing importance for the country's economy; their share of GNP has reached 10%. Due to the global economic crisis and its implications for the U.S. economy, the growth rate in remittances has been reduced in 2008, and prospects for 2009 are dim. Informal and criminal segments of the economy are also increasing in importance. International structural adjustment programs and the privatization of state enterprises have favored traditional elites who accrued fortunes during – and sometimes because of – conflict, thus perpetuating and deepening existing socioeconomic disparities and inequalities. One result of this development has been the establishment of new monopolies partly based on criminal or violent networks.

6 | Level of Socioeconomic Development

Guatemala is a middle-income country with a long history of social exclusion that is quantitatively and qualitatively extensive and structurally ingrained. Social exclusion characterizes Guatemalan society's main points of division, between Ladinos and indigenous people, and between urban and rural settings. The small, rich urban Ladino oligarchy controls most of the resources, while the majority of the indigenous rural population (50.9% of the nation's total population, or nearly two million people) lives below the poverty line. The country's Human Development Index value has increased in recent years, although historical exclusion patterns still persist (the country's HDI value in 2000 was 0.634, but rose to 0.701 by 2006). Inequality remains high. While the top quintile receives 60.3% of national income, the bottom quintile gets only 2.9% (according to the U.N. Human Development Report (HDR) 2007/2008). What reduction in poverty has taken place can be attributed to the positive economic cycle during recent years, and to the high amount of remittances. Governmental policies had little or no effect, according to the HDR.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	24037.3	27270.7	30261.2	34030.9
Growth of GDP	%	3.2	3.3	5.4	6.3
Inflation (CPI)	%	7.4	8.4	6.5	6.5
Unemployment	%	3.1	-	1.8	-
Foreign direct investment	% of GDP	1.2	1.9	2.0	2.1

		2004	2005	2006	2007
Export growth	%	8.2	-2.1	4.8	10.8
Import growth	%	5.7	-0.6	6.5	7.0
Current account balance	\$ mn.	-1164.5	-1240.7	-1512.2	-1697.0
Public debt	\$ mn.	3794.5	3687.5	3920.8	4213.6
External debt	\$ mn.	5530.7	5348.7	5496.1	6259.9
Total debt service	% of GNI	2.3	1.8	1.8	2.1
Cash surplus or deficit	% of GDP	-1.0	-1.7	-2.0	-
Tax Revenue	% of GDP	11.6	11.2	11.9	-
Government consumption	% of GDP	8.8	8.5	8.4	8.0
Public expnd. on edu.	% of GDP	-	-	3.0	3.1
Public expnd. on health	% of GDP	1.9	1.8	1.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.5	0.4	0.4	0.4

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Guatemala has no general law on competition policy. Market-based competition is present and quite stable, although mainly for the formal sector of the economy. Most of Guatemala's economic active population (71.3% of the total, according to the most recent HDR) works in the informal sector, and 15.2% are underemployed.

Market-based competition

The formation of monopolies and oligopolies is inconsistently regulated, with some limited legislation covering issues of antitrust and unfair competition. Even local authorities indicate that there are monopolies, oligopolies and cartels, and state that this is due to the economy's small size and the numerous regulations in effect. Monopolies have recently returned to the scene, especially in the exploitation of raw materials such as oil and mineral resources. At the moment, the financial sector is under international pressure to liberalize.

Anti-monopoly policy

Foreign trade has been extensively deregulated, but the returns associated with this policy have been at best low to date. The free trade agreement with the United

Liberalization of foreign trade

States, Central America and the Dominican Republic (CAFTA) has neither brought more formal employment to Guatemala nor lowered its trade deficits with the United States. By October 2008, Guatemala had also signed free-trade agreements with Chile, Colombia and Panama, and was negotiating an association agreement with the European Union and free-trade agreements with CARICOM and Canada.

At the close of the review period, Guatemala's banking system remained in crisis, and was under international pressure to open up. During the first months of 2008, the Banco Agromercantil (BAM, one of the most stable banks in the country) was the target of a "dirty campaign," according to some observers, when rumors spread that BAM would soon run into financial difficulties and depositors grew increasingly nervous. The background of this event seemed to be attempts to eliminate a strong competitor and thus control the regional inflow of remittances. Recent reforms (after the crisis of 2006 – 2007, when two banks had to be closed) established minimal deposit requirements, improved monitoring of bank liquidity, and implemented risk-based supervision. New regulations were passed, including credit concentration limits, liquidity requirements for offshore banks and rules for the appointment of external auditors.

Banking system

8 | Currency and Price Stability

Inflation has been relatively stable in recent years, with governments largely succeeding in reducing it to an annual rate of less than 10%. But as a consequence of the global financial crisis in 2008, inflation rose to 10.9%. The exchange rate for the quetzal has been quite stable relative to the U.S. dollar (around eight to one). The central bank is independent of government influence.

Anti-inflation /
forex policy

All governments have made economic stability one of their priorities, mostly due to their own domestic political preferences, but also due to pressure from international financial institutions and the CAFTA-negotiations with the United States. Thus, inflation control and debt management have been priorities for all administrations, although in pre-election periods this discipline has often been undermined by populist policies.

Macrostability

9 | Private Property

Property rights and the regulation of property acquisition have been established, although here, as in other areas, deficiencies in the rule of law take their toll. The implementation of property rights is mostly a problem for poor sectors of the country, which lack access to the legal system. There have been many conflicts over land titles in recent years.

Property rights

Private enterprises constitute the core of the formal economic sector, and most state enterprises have been privatized. However, most economic relationships operate in the informal and criminal sectors, where practical power is more influential than the rule of law. Although Guatemala's dependence on the traditional agricultural sector has decreased, concentration of economic power has not. Agroindustrial and agricultural groups, as well as the private enterprises owned by the military's pension fund, are still very powerful.

Private enterprise

10 | Welfare Regime

The cleavages within Guatemalan society are expressed in unequal access to basic health care services and education, and in life expectancies that vary substantially between social classes. Access to social insurance systems is segmented and varies widely by territory, social strata and economic sector. The social safety nets that were once pervasive, especially in the Indian village communities, were largely destroyed by 36 years of civil war. Equal opportunity does not exist; discrimination follows the fault lines of social cleavages.

Social safety nets

Although formally there is equality of opportunity, women and indigenous people are discriminated against. This is clear in the education sector, where indigenous women and girls are widely underrepresented. Racist prejudice against the indigenous population remains widespread. As a consequence, job opportunities and access to other public services is limited. HDI values and poverty rates vary significantly between Ladino and indigenous households, as they do between urban and rural areas, and males and females. President Colom has made the promotion of equal opportunity one of the pillars of his policy platform, but the success of implementation remains to be seen. Concerning violence against women, Congress approved a new "Law against Femicide and Other Forms of Violence against Women" in April of 2008. The law criminalizes gender-based physical, psychological, sexual and economic violence in the private and public spheres. It remains unclear if and how this is going to be implemented.

Equal opportunity

11 | Economic Performance

Economic growth rates have been relatively stable over the last decade, reaching 5.7% in 2007, but falling to 3.3% in 2008 due to the global financial crisis. This growth has slightly reduced poverty figures. The economy remains dependent on resource extraction and therefore depends on foreign investment and international prices, which have been quite favorable in the mineral sector in recent years. However, future prospects are uncertain, as the financial crisis has harmed some international corporations working in Guatemala, and the dominant extractive model is highly conflictive. The minimum salary has remained unchanged while

Output strength

inflation has risen (to 10.3%), thus leading to a decrease of real income for workers. Remittances remain high but are dependent on the migration policies of the new U.S. administration. Guatemala's economy has a trade and currency deficit. The tax base has reached 10% of GDP, but remains extremely low by regional and international standards.

12 | Sustainability

Ecological concerns generally take a back seat to considerations of growth. Core problems in the environmental sector include contaminated rivers, accelerating deforestation and the environmental pollution caused by sugar cane plantations. Negative environmental consequences have led to a series of conflicts related to concessions for mineral resource extraction, mostly over the use of water. In the tourism sector, there is a rising interest in attracting ecotourism. However, this has not led to any serious changes with respect to treatment of the environment, in which practices such as open garbage dumps remain the rule.

Environmental
policy

The low priority of environmental concerns is obvious when it comes to infrastructure or "megaproyectos." The construction of a Central American road system (part of the Plan Puebla Panamá) endangers part of the Maya Biosphere (a protected area of 2 million hectares with an extremely high level of biodiversity). Activism puts environmentalists' lives in danger; in September 2008, the director of the Legal, Environmental and Social Action Center of Guatemala (CALAS), Yuri Melini, was shot. He was not the first environmentalist victim of violence. Advocating sustainable development is dangerous because it affects the economic interests of powerful legal as well as criminal sectors of the society.

Guatemala's literacy rates are rising (as of 2006, 74.8% of the population over 15 years and 87.8% of youth between 15 and 24 could read) as is school enrolment (in 2007, 95.0% of eligible pupils were attending primary school). But access to education reflects existing societal cleavages (between men and women, Ladinos and indigenous people, and urban and rural dwellers). While public schools are poorly equipped and underfinanced, better-off families send their children to private schools either in Guatemala or abroad. Bilingual education remains an exception.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

Guatemala is a middle-income country with a medium education level, high ethnic and social fragmentation, weak civil society traditions, serious problems in the rule of law and fragile institutional stability. Structural constraints on governance are moderate, although the heritage of 36 years of war, violence and destruction still persists. Disparities between urban and rural areas and between Ladino and indigenous populations are structurally ingrained, posing the main challenge for the future. Another, more recent development is growing infiltration of criminal networks into central state institutions, a consequence of democratization and the end of war. As of yet, the effects of the global financial crisis cannot be evaluated in full. As of the time of writing, the poor seemed to be the most deeply affected; though the government had announced an emergency plan, it had not yet taken hold.

Structural
constraints

Civil society traditions are weak. Civil society organizations work either on specific issues or merely on a local basis. Fragmentation, conflict and mutual distrust are pervasive. Organizations try to negotiate benefits with the government on an individual basis and only rarely try to organize a consensus-based approach with other actors. Distrust is widespread and easily revived by intimidation after 36 years of war, violence and repression. The current crisis has given civil society organizations some public space and room to maneuver on public security issues (this is true of human rights organizations, as well as those advocating a stronger rule of law). These NGOs are highly professional, but most of them lack a significant social basis.

Civil society
traditions

Guatemala's society remains deeply split along ethnic and social lines. Polarization is growing due to the lack of evident opportunity for change by ordinary, nonviolent means. Violent outbursts have increased in the rural areas (around issues of land tenure as well as mining). Criminality and intrapersonal violence are common, concentrated in the capital and the country's east (dominated by the Ladino population). To date, there has been an astonishingly low level of politicization of these conflicts. But there are some indicators of growing radicalization along ethnic lines. The lack of opportunity is one of the core causes

Conflict intensity

for the growth of the various rival youth gangs, which control many of the big cities' marginalized suburbs. The mass media and the elite claim that these "maras" are responsible for most of the violence, but there is a growing awareness that their role in the widespread criminal activity is overestimated. Rather, geographical patterns of violence show a clear connection to organized crime (and the drug trade). A study on the geography of violence at the municipal level reveals that 70% of murders happen in just five departments (including Guatemala City and Escuintla), and that within these departments 70% of the murders happen in just 12 municipalities.

II. Management Performance

During the period under review, there was a change of government from the administration of Oscar Berger (2004 – 2007) to Álvaro Colom (who took office in January 2008). Neither president commanded a majority in congress, which has made the establishment of ad hoc alliances necessary, and enhanced the influence of political and economic influence groups. Berger's presidency was characterized by the prioritization of a competition-focused, laissez-faire economic agenda at the expense of other policies. This aggravated many of the structural problems, most of all in the sector of public security. President Colom has pursued a more active state policy but has met substantial opposition, largely from dominant economic and social groups seeking to maintain the societal status quo.

14 | Steering Capability

Government priorities changed with the transfer of power from the Berger to the Colom administration. Although both governments have formulated long-run policies, acute crisis management and short-term necessities have predominated. Nevertheless, there have been differences in priorities: While Berger prioritized an agenda of economic competitiveness, the Colom administration has sought to promote social inclusion. On the ground, differences have been difficult to feel, as both administrations have favored investments in the richer regions of the country (while international development agencies have focused on the poorest regions). With respect to the growing levels of violence, the Berger administration had a strategy of muddling through, seeking to include civil society organizations only after the murder of Salvadorian congressmen. Berger even acknowledged that his government could not adequately confront violence. President Colom has tried to introduce a more democratic approach. But opposition has been fierce, and during the last months of 2008 the parliamentary opposition forced the government to change track, replacing the secretary of the interior.

Prioritization

Policy implementation has been hindered or undermined by those sectors opposing reform. Cases in point are the development plans established either by the government or by local development councils (possibly with the participation of various other societal organizations, depending on the power relations in the specific sector). These plans and their priorities for investment are frequently altered by congress, as congressmen seek to favor clients such as the electorate in their immediate constituency. As a result, public investment favors the richer departments, rather than the poorest. This holds true for departments such as Petén (which has been transformed increasingly into a zone lacking state presence, controlled mostly by organized crime), Escuintla, Retalhuleu and Jutiapa.

Implementation

Political leadership has responded to mistakes and failed policies with changes, but this has usually meant giving in to (sometimes violent) pressures from interest groups. Another widespread practice (during both administrations) has been the change of personnel rather than (or to a much larger extent than) policy approaches. Security policies are a case in point: 1,700 individuals were expelled from the police force in 2008, including 50 police commissioners and the deputy director of the national police. Military personnel are filling the gaps until enough new police members are qualified. Due to Guatemala's history of military intervention in politics, this can be considered more of a reversion to old strategies of repression than a process of learning from past mistakes.

Policy learning

15 | Resource Efficiency

The government remains unable to make efficient use of available resources. The political and economic elites ignore and discredit the indigenous population's cultural traditions. For instance, a social reform policy could build on the traditional solidarity relationships of indigenous village communities, either revitalizing them or developing them further. Only in the area of justice have some steps been taken at the local level – supported and fostered by partnerships with international development organizations – to revive and strengthen the customary law of the indigenous peoples. In 2008, an initiative to give these efforts a legal basis was launched.

Efficient use of assets

Efforts to coordinate government policy have been unsuccessful, although both the Colom and the Berger government tried to improve performance. However, the establishment of new commissions or councils has persistently led to conflict and jurisdictional dispute rather than to sustainable policies. Some coordination efforts are dominated by personalistic features, lacking a legal basis, such as the social cohesion council coordinated by President Colom's wife (who has not been elected but seems to have ambitions for the next elections). As coordination at the ministerial level is supposed to be a function of the vice president, there have been some suggestions that this case be given to the constitutional council. Coordination

Policy coordination

between civil society organizations and the government is difficult due to widespread distrust. The lack of communication and social integration between civil society and the political system complicates any coordination effort.

The Colom administration has tried to confront widespread corruption at different levels. The president of congress was forced to step down, and was expelled from the president's UNE party after allegations of the illegal transfer of public funds became public. The mayors of Chiquimula and Suchitepequéz were replaced because they collected "quotas" in return for public contracts. Purges in the interior ministry and the police have resulted in the dismissal of high-ranking officials. Marlene Blanco, the new head of police, is said to belong to the shockingly low 5% of non-corrupt officers. It remains to be seen whether these measures will make any serious change.

Anti-corruption
policy

16 | Consensus-Building

Most major political actors agree, at least on the rhetorical level, on the goals of democracy and a socially responsible market economy. However, their understanding of these goals varies significantly. The traditional political and economic elites see democracy and the market economy as mechanisms to maintain the status quo, while social organizations and civil society groups seek to use them as instruments for fundamental change. As these groups are fragmented and have not to date been able to reach consensus on a common reform project, the transformation process remains stuck.

Consensus on goals

Differing priorities are most obvious between rural and urban settings, as illustrated in the conflicts over energy policy. While successive governments (Colom as well Berger) have strongly supported the promotion of hydropower, local groups (such as those in Ixcán or the Franja Transversal del Norte) have opposed these plans due to their environmental and social costs. The Colom government at least has initiated a rural development program with social investment in these regions. But protests remain common.

Reformers (meant in the broad sense, including parts of the current government) seek to co-opt or control veto powers, but the increase of criminal networks seems to invert this process. The influence of these networks during the last elections is a case in point: financial support for some candidates will result in pressures for political favors. The international CICIG commission investigating these networks has been in place for a year now, but results are difficult to evaluate. The Colom administration is cooperating, as it is well aware for the need of international support in combating the so-called hidden powers. However, this cooperation gained force only in March 2009, with the establishment of an official counterpart to CICIG.

Anti-democratic
veto actors

Neither government active during the period of review showed a marked ability to manage conflict well. Rather, both have depended on muddling through, reacting to immediate pressures and necessities. Conflict levels are high in many fields, including access to land, labor rights and human rights. The elections of 2007 were the most violent since the end of the war. Patterns of violence were very diffuse, with violence targeting candidates and members of all parties.

Cleavage /
conflict
management

There are some mechanisms of consultation between civil society and the government, but the Berger government only used them in severe crises (e.g., after the murder of the Salvadorian parliamentarians). Colom's election was welcomed by many civil society organizations although his dependence on non-reform oriented sectors (in parliament) is obvious, and has led to conflict. A fundamental lack of cooperation between civil society and the political system remains, and this has not fundamentally changed with the new government.

Civil society
participation

The political leadership recognizes the need to deal with past violence, but has failed to promote reconciliation beyond financial compensation. Even the national program for compensation has come under serious attack, as the biggest share of the money allocated seems to have been spent on bureaucracy rather than going to victims. Impunity for past and current human rights violations remains one of the basic problems, and been unaddressed by every administration since the signing of the peace accords 10 years ago. There have been some convictions, but mostly focusing on those directly responsible for violent acts rather than the intellectual authors or contractors.

Reconciliation

17 | International Cooperation

The political leadership works with bilateral and multilateral donors, but uses this aid only inconsistently to improve policies. Development aid has been used in part as a substitute for national social policies. Although the prioritization of social inclusion by the Colom administration has been welcomed by donors, the difficult political situation renders the implementation of social programs difficult.

Effective use of
support

The government is considered mostly credible although there are voices (especially from the United States) warning that the influence of criminal networks is turning Guatemala into a "mini-Colombia." Whether the recent increase in cooperation with Latin American countries (through ALBA and Petrocaribe) will affect the government's credibility with western donors remains to be seen, and will depend on the policy approach of the new U.S. administration.

Credibility

Guatemala's political leadership cooperates within the Central American Integration System (SICA), and complies with rules set by regional and international organizations. There has been a change in the pattern of cooperation

Regional
cooperation

with the transfer of government from Oscar Berger to Álvaro Colom. While Berger was a close ally of the United States Bush administration, Colom has intensified cooperation with other Latin American governments. In July 2008, Guatemala joined Petrocaribe, an initiative launched by Venezuelan President Hugo Chávez. By October 2008, Guatemala had also signed free trade agreements with Chile, Colombia and Panama, and was negotiating an association agreement with the European Union and free trade agreements with CARICOM and Canada. Nevertheless, good relations with the United States remain crucial, due to the high number of Guatemalan migrants (about 10% of Guatemala's population) living and working there. The United States recently introduced a regional anti-drug policy, aimed at confronting the growing importance of Guatemala as a conduit for the illicit drug trade. The historical border conflict with Belize remains unresolved despite mediation by the Organization of American States.

Strategic Outlook

To overcome hurdles to further transformation, it is essential that Guatemala's leadership promote a policy of real participation and integration of the indigenous population. Symbolic inclusion is not enough; real reforms – most of all concerning indigenous and rural livelihoods – are necessary. Bilingual education and the improvement of the basic social infrastructure should be at the core of such reform policies. At the same time, policies to combat and overcome the daily and historical expressions of racism are necessary. These must be centered on the notion that improvement for the indigenous population does not mean a loss for other social groups, but that this is rather a win-win situation. Visible improvements in the short term are necessary to counteract the tendencies of polarization along ethnic lines.

The dismantlement of illegal and criminal networks is essential for the deepening, and perhaps even the survival of democratic and social reforms. Otherwise, the power of these spoilers and adversaries of reform will not just lead to further stagnation, but to regression of the political system's democratic elements. The strengthening of the rule of law and the protection of those working in the judicial system are crucial goals. Prolongation and success of the work of the CICIG will be crucial to reduce levels of impunity and to fundamentally change approaches to public security and the rule of law. However, short-term policies to impede the further diffusion of criminal networks need to be implemented.

Guatemalan politics, economics and society need to overcome highly personalistic modes of organization, and enhance approaches instead based on cooperation and reconciliation of interests. International donors should thus promote mechanisms to ensure transparency, accountability and inclusion as a basis for sustainable development of human, social and economic capital. Although developments in Guatemala may not be a top priority for donors, they should be and are aware of the increasing problems, and should use their leverage to promote coordinated approaches to reform.

If current trends persist, Guatemala could face a new era of social and political turmoil and unrest. Although Colom's assumption of office brought some hope of change, his initial impetus has been lost due to technical deficits and strong opposition. The resulting disenchantment could lead to even greater levels of political and social violence. As a transnational issue, the problem of organized crime requires that donors cooperate beyond the training or financing of repressive "solutions" like those currently promoted by the United States. Transnational crime is powerful in part due to its links to the legal world economy (such as money laundering in the financial sector or the acquisition of real estate in the megacities or in the countryside). Experiences in other countries (e.g., Colombia) show that the strengthening of democratic spaces, democratic civil society organizations, an independent judiciary, and the rule of law can have positive effects, at least in the medium term. As yet, the full consequences of the global financial crisis are unknown; but what is certain is that it will hit the poorest sectors of the population hardest.