

# BTI 2012 | Guatemala Country Report

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

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	14.4	HDI	0.574	GDP p.c.	\$	4785
Pop. growth <sup>1</sup>	% p.a.	2.5	HDI rank of 187	131	Gini Index		53.7
Life expectancy	years	71	UN Education Index	0.438	Poverty <sup>3</sup>	%	29.8
Urban population	%	49.5	Gender inequality <sup>2</sup>	0.542	Aid per capita	\$	26.8

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Despite a change in government in 2008 and attempts by the government of President Álvaro Colom to improve governance, the political and economic transformation of Guatemala started in 1996 seems to have stalled. During the period under review, the country's main developmental challenges, including institutional instability, high levels of violence and the infiltration of criminal networks in state institutions, have endured. Violence is pervasive (although instances of violence fell slightly in 2010) and there are calls for a hard-line approach against perpetrators of violence. The president has established a commission for police reform under the leadership of human rights activist Helen Mack Chang, but success will depend on the impetus behind reforms as well as their implementation. Upcoming elections could interrupt these efforts, which require at a minimum consistency in the rule of law as well as time.

The country's political stability was challenged after President Colom was accused of being involved in the murder of lawyer Rodrigo Rosenberg in May 2009 by the victim himself. In a video filmed before the murder yet made public after Rosenberg was shot to death, the lawyer accused the president, the president's wife along with other collaborators as being the intellectual authors behind his assassination. Subsequent public demonstrations for and against the government led to a serious political crisis; opposition leader Otto Pérez Molina called for President Colom's resignation. Only when the general secretary of the Organization of American States proposed that the International Commission against Impunity in Guatemala (Comisión Internacional Contra la Impunidad en Guatemala, CICIG) lead an investigation into the matter, did the crisis recede. Eleven suspects in September 2009 were arrested, and on 12 January 2010 the CICIG presented their results, showing that Rosenberg himself had hired his murderers in an attempt to cause as much harm as possible to the government. This case shows just how polarized the country's political situation has become in the period under review.

Polarization also affects the country's most crucial reform projects (fiscal reform, social policies and public security), and no relief is expected in the run-up to elections in 2011. At the same time, Guatemala's structural cleavages and conflicts are unchanged. This situation is closely related to a general lack of political will or the blockage of reform initiatives. As Guatemala is a middle-income country, the high instances of malnutrition (mostly in the Western highland) are not so much a consequence of underdevelopment but of poor development policies. The damage caused by repeated natural disasters (hurricanes, floods and volcanic eruptions) present another challenge in Guatemala's further development.

## History and Characteristics of Transformation

There is a close connection between Guatemala's democratic transition in the middle of a civil war and promises of a deepening democratization in the 1996 peace accords. In 1984, the armed forces started democratization with elections for a constitutional convention, followed by parliamentary and presidential elections in 1986. However, the range of political actors in these elections remained limited, as the political left was largely excluded. Democratization at this stage showed deficits (e.g., military prerogatives and military control of "internal security") but at least acknowledged the legal equality of all citizens, independent from their cultural self-definition and background. A de-escalation of violence and the formal end of the civil war (1996) enhanced the space for maneuver and political action for non-armed actors.

In the early postwar years, Guatemala, like many other postwar societies, faced the challenges of implementing the terms of the 1996 peace accord and repairing the damage of war while still pursuing macroeconomic structural adjustments initiated during the administration of President Álvaro Arzú (1996–2000). Core measures were to reduce the budget deficit through a restrictive monetary policy, to raise the value-added tax from 7% to 10% and to combat widespread tax evasion. Most of these goals have not yet been achieved. An urgent issue for both the Guatemala's political and economic development is the battle against the illegal and criminal elements of the economy, which has mushroomed since the 1990s and relies mainly on the drug trade, money laundering and smuggling items such as automobiles. During the government of President Alfonso Portillo (Guatemalan Republican Front, Frente Republicano Guatemalteco (FRG), 2000–2003) the ties of these criminal networks with politicians and the state apparatus had become more and more evident. The government of President Óscar Berger (2004–2007) made some timid attempts to counter this development but was not able to effect serious change. Six months before leaving office, President Berger stated that the state was unable to successfully fight violent crime. The current administration of President Álvaro Colom (since 2008) has made fighting crime one of its top priorities, under however a less repressive approach. But as short-term successes have not been achieved – and cannot be achieved given the circumstances – pressure for a more hard-line approach has increased. Hence after a series of

especially brutal murders, the president sent 500 soldiers to patrol the streets of Guatemala City in June 2010.

Economic and political transformation is still closely tied to the implementation of the peace accords. Although every government since 1996 upon taking office has proclaimed and promised to make implementation a central issue, progress has been limited. When the U.N. mission (United Nations Verification Mission in Guatemala, MINUGUA) left Guatemala after 10 years at the end of 2004, results were mixed. While there has been significant progress in formal war termination and political participation, the implementation of other accords, such as improvements in indigenous rights and socioeconomic transformation, still show deficits.

Public security remains the most serious problem undermining reforms and social progress. The fragility and lack of transparency and accountability of state institutions constitute serious problems which first and foremost need to be addressed by the government. Violence as well as the fragmentation of civil society and among other organized interest groups makes cooperation, compromise and participation within Guatemalan society difficult. While the government and civil society organizations do communicate, links between civil society and the party system are lacking. This leads to dead ends when pacts over reforms are made between civil society groups and government, but then are rejected in Congress. The indigenous majority (around 60%) is still politically and economically underrepresented beyond the level of the community (113 of 333 mayors are indigenous, and many “alcaldías indígenas” have served as traditional mechanisms of representation). The social integration and political participation of the indigenous majority remains the main challenge in coming years. Neglecting their rightful claims for a better life could lead to a process of radicalization and politicization, such as in other Latin American countries.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question

Score

The state's monopoly on the use of force has further eroded and is severely challenged by criminal networks. Persistent violence and public insecurity continued to be major challenges in 2009–2010. President Colom did not fulfill his campaign pledge to improve public security during his first year in office. Homicide rates remain the second highest in Central America (after El Salvador), having increased in 2009 to the highest level since the end of the civil war, at a total of 6,948 victims. Homicide numbers fell slightly to 6,502 (January to 25 December 2010), but did not signal a serious retreat.

Monopoly on the use of force

4

The state is under increasing pressure from transnational and national armed groups linked to drug trafficking and other illicit activities. While this has been the case for some time, the pressure has increased in 2009–2010. The state has not only lost control in the department of Petén (a sparsely populated area that borders Mexico), but in December 2010 President Colom declared a “state of siege” and deployed more soldiers and police officials in an attempt to regain control of towns in Alta Verapaz which were controlled by drug traffickers. Other departments affected include Zacapa, San Marcos, Escuintla and Izabal. An International Crisis Group report (June 2010) also included the departments of Huehuetenango and Jutiapa as being out of government control. Soldiers were also deployed in Guatemala City to help the national civil police provide public security.

Media-led and official discourse on violence has somewhat shifted from accusing youth gangs (so-called *maras*) as the main perpetrators to focusing on organized crime. Transnational drug trafficking groups controlling the route between producing countries (Colombia, Bolivia and Peru) to the United States have found allies in local elites (former military officials as well as emerging capital groups). Drug trafficking is used as the starting point for economic diversification in other illicit goods (human smuggling, arms trafficking, precious wood and cars) as well

as other legal businesses. These networks too have gained influence in the top echelons of state institutions (e.g., the Ministry of the Interior and the national police). In the last five years, the most shocking crime has been the killing of more than 150 public transportation drivers per year. At the beginning these homicides were attributed to youth gangs and extortion, but recently investigations showed the sale and transportation of drugs as the main cause of the killings. The state however has a low capacity to control the proliferation of non-state armed actors, such as security details of drug trafficking cartels (Los Zetas, among others), the maras, groups engaged in social cleansing and private security companies.

The Guatemala peace accords defined the state as multicultural, pluri-lingual and pluri-ethnic. Yet constitutional changes to enshrine these principles did not pass referendum in 1999. While there has been some progress in indigenous participation on a formal level (e.g., a law against discrimination; the establishment of institutions like the Office for the Defense of Indigenous Peoples; anti-discrimination education) racism and discrimination still are an everyday experience for Guatemala's indigenous peoples, which make up almost 40% of the population. Though there are large groups whose civil rights are limited, this situation has not translated into a questioning or rejection of the nation-state as a whole. The most powerful group in Guatemala that has demanded full civil rights is the peasant movement. This group has the power to mobilize thousands of people, but this group too has not questioned the authority of the nation-state. However, the high levels of violence in society at large have resulted in the erosion of the state's overall legitimacy.

State functions and basic order do not rest on religious dogma. There is a complete separation of church and state in Guatemala. The Catholic Church still is influential, but has lost ground in the rising popularity of evangelical churches. Today Guatemala is 50% Catholic and 50% evangelical. Both churches have different political and social power, both participate as an accountability mechanism of civil society and both have media presence. The evangelical churches participate directly through a political party, while the Catholic Church preserves its official mechanisms to participate in the political arena. The Catholic Church shows the same fragmentation as Guatemalan society; while some bishops support the many and varied activities of civil society to reform the social system, others support conservative economic and political groups which advocate the status quo.

Though in principle state infrastructure extends to the entire territory, its operations are severely impaired by its inability to maintain law and order and combat corruption. State organizations also suffer from a lack of professionalism, the arbitrary use of power on behalf of state actors and are stymied by 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 the area's general access to state funds or programs. One example is the government program, "Mi

State identity

6

No interference of religious dogmas

10

Basic administration

5

familia progresista,” which provides subsidies (approximately €28) for poor families to send their children to school and to receive health care. Though the impact of this (and other) program cannot be yet evaluated due its recent implementation, the program was heavily criticized for attempting to establish political loyalties, among other reasons; the program was run by the president’s wife, Sandra Torres.

State institutions are concentrated in Guatemala City and in the main cities of each department. The country’s northern area is lacking in state services and it is here where mostly indigenous populations are located. Likewise the north is the area with highest poverty rates in the country. Other areas with low state presence are the border municipalities, which are fraught with drug and human trafficking.

Through the promotion of the administrative decentralization, international cooperation has tried to support the provision of public services even in remote areas (mostly in the indigenous western highlands). But the presence of administrative structures (and funds) varies significantly across the country as the number of civil servants per 10,000 inhabitants (2009) indicates. While the capital Guatemala City claims 229.8 civil servants per 10,000 citizens, the department of Chimaltenango can only claim 74.2 (while the national average is 123.7), according to the United Nations Development Program report for Guatemala (2010).

## 2 | Political Participation

Guatemala’s elections are mostly free and fair, though the last general elections in 2007 were the most violent since the end of the civil war. General elections are scheduled for 2011. In the process of preparing a new national voter registration system there have been accusations of corruption and fraud, though according to an Organization of American States (OAS) audit the electoral roll will not jeopardize the credibility of the 2011 elections. On the basis of party politics, there seems to be a trend toward polarization between the president’s party National Unity for Hope (UNE) and the main opposition party, the Patriot Party (PP). But party affiliations are mostly based on access to funds or personal loyalties, and slightly on ideology or program. This is also reflected at the local level, where mayors serve for various terms while changing their party affiliations. In this scenario, vote buying still seems to be a problem (according to the Latin American Public Opinion Project (LAPOP) 2010 survey, almost 14% of the respondents reported that goods or other benefits had been offered to them in return for their vote). The next election is expected to be marked by political confrontation over the constitutional right of some persons to run as a presidential candidate. Though there are strong suspicions of party financing by drug cartels, especially at the local level, there are so far no concrete connections. There have been, however, many cases where mayors have been assassinated in drug trafficking areas.

Free and fair  
elections

7

Government capabilities are mainly restricted by the influence of informal veto powers and interest groups such as economic associations (Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras, CACIF). While this organization supported the country's transition to democracy, it has organized resistance to every single fundamental reform of the societal status quo, most of all to changes in the tax system. Guatemala has one of the lowest tax quotas in the world; hence the elevation is a necessary precondition for the furthering of state policies in different sectors (social services as well as public security). In 2008 and 2009, these developments prevented the government from passing a budget, leading to government by decree. At the end of 2010, a budget was finally passed after the government agreed to put a ceiling on certain social programs, such as the social transfer program, "Mi familia progresa."

Effective power to govern

5

President Colom and many high-ranking officials have been confronted by organized movements, motivated, for example, by the case of murdered lawyer Rodrigo Rosenberg. The International Commission against Impunity in Guatemala (CICIG) showed from their research into the case that there was a large network of actors that sought to destabilize the government. Many of these actors come from the so-called hidden powers that remain active in the country. After being displaced from core state institutions in the process of democratization following the end of the civil war, former and active members of the armed forces formed alliances with national and transnational criminal groups as well as with parts of the legal and illegal economy. These actors operate through different channels, choosing to influence public opinion through media access and encouraging corruption in public institutions.

The CICIG has been a source of concern to the government as the commission investigates and prosecutes not only the activities of criminal structures in society but also inside public institutions. Results have shed light on criminal activities and actors of the so-called hidden powers, including former and active military, police officers, entrepreneurs and political actors. This has motivated conservative actors to attempt to limit the independence of the government; criminal groups too have worked to maintain control through access to political and media circles.

Freedom of association and assembly is guaranteed by the constitution, but some restrictions remain in force. The establishment of trade unions and organizing is hindered by various mechanisms such as rotating them to front companies, as well as by intimidation and selective violence. Besides union members and leaders, human rights advocates and other representatives of civic groups deal with a high level of intimidation and violence. The fragility of the rule of law leads to a lack of implementation and protection of civil rights. Human rights defenders and social activists remain the main targets of violence. In 2009, 16 trade unionists and labor activists were murdered, and seven individuals were killed in the first seven months of 2010. As to the indigenous population, they have a right to consultation in

Association / assembly rights

6



specific issues (e.g., Article 169 of the International Labor Organization's Convention) but consultations are non-binding and thus lack consequences.

Freedom of opinion and freedom of the press are constitutionally guaranteed. But as the media are dominated by economic interest groups as well as seriously pressured by the government, particularly during election campaigns, there is little independent reporting. At the same time numerous cases of harassment, intimidation and violence have been reported against journalists who attempt to investigate corruption, criminal activities or human rights abuses. In June 2010, a member of the investigative unit of *El Periódico* (one of the few relatively independent newspapers) received a death threat and assailants broke into his apartment. These forms of intimidation can also fuel strategies of self-censorship.

Freedom of  
expression  
6

The Organization of American States (OAS) Special Rapporteur on Freedom of Expression, Catalina Botero, has outlined the different risks for individuals exercising their freedom of expression: organized crime has threatened or used violence against journalists; legal provisions have been levied against journalists pursuing investigative projects; indirect mechanisms of punishment and praise have been used to intimidate journalists; limiting access to information for journalists in general.

### 3 | Rule of Law

There is a formal separation of power between the executive, legislative and judicial powers. Although neither the government nor the opposition has held a majority in Congress, the main effort of the legislative branch has not been to control but to undermine or dilute government initiatives. This makes it difficult for the legislature to accomplish its main 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, congressional members 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  
6

In 2010, the nomination of a new general prosecutor has led to a major controversy between the government and the U.N.-backed International Commission against Impunity in Guatemala (CICIG). The CICIG objected to the list of candidates due to major procedural defects. When the government named a new prosecutor, the head of CICIG stepped down claiming that the government was unwilling to cooperate and implement recommendations. Only after the Supreme Court disapproved the proceedings did the new prosecutor resign. On December 3, the president named lawyer Claudia Paz y Paz as the first woman to head this important

office. A similar situation occurred with the nomination of the members of the Supreme Court. In 2011 new Constitutional Court members will be elected, and it will be interesting to observe how the process is conducted.

Due to high crime rates and the weakness of the judiciary, the three state branches signed an agreement to improve security and justice. This was a political agreement which includes several institutional reforms and policies. Its implementation is limited due to the political will of authorities. The activities of the CICIG have helped make public the importance of coordination between state branches and also the importance of reforming not only institutions of the executive but also of the legislative and judicial branches.

The judiciary is moderately independent but remains weak and subject to political influence and pressures from organized crime groups. A culture of impunity is the main problem and results mostly from decades of military and authoritarian rule and civil war. According to official figures for 2009, 99.75% of violent crime goes unpunished. The International Commission against Impunity in Guatemala (CICIG) helped to overcome a major crisis in 2009 when the president and his wife were accused of ordering the murder of lawyer Rodrigo Rosenberg. A CICIG investigation showed that the lawyer himself hired his assassins in an attempt to cause “as much damage as possible” to the government. The CICIG also investigates members of the Supreme Court and the Constitutional Court. Together with civil society organizations, the CICIG serves as an accountability mechanism, working to change the patterns of political and criminal influence on the judiciary. There are other people, such as powerful economic elites, that through groups like lawyers’ associations influence the judiciary. From extensive corruption to small bribes, the chain of justice is weak (only exception is the Constitutional Court, which has retained its legitimacy). Other problems such as a lack of professionalization and resources affect the performance of judicial institutions. Political influence on the judiciary is exerted via nominations to courts, as the conflict between the government and CICIG on the nomination of the general prosecutor in 2010 illustrated.

Independent  
judiciary

5

Corruption is a core problem in Guatemala, and officeholders who break the law and engage in corruption are not adequately prosecuted under the law. A lack of transparency and accountability is widespread. Corruption and abuse of office affects most public institutions, including the police, the army, the prosecutor’s office, the judiciary, local government and the legislative branch. Public spending is used regularly for political means. One example of this is the budgetary allocations through non-governmental organizations (NGOs) that do not really exist, among other mechanisms.

Prosecution of  
office abuse

5

While there are NGOs (such as Acción Ciudadana) that monitor corruption at different levels, prosecution depends on the actions of international groups such as

the International Commission against Impunity in Guatemala (CICIG). In October 2010 in Madrid, Spanish police arrested Carlos Vielmann, Guatemala's former interior minister. Vielmann was allegedly involved in the extrajudicial killing of seven detainees in 2006. Political corruption has a number of faces, ranging from the political use of state funds (through changing prioritizations of projects made in local development plans) to larger schemes that involve money from drug cartels.

Civil rights are formally guaranteed but violated in practice, and the indigenous population are often victims of such abuse. President Alvaro Colom has made the guarantee of civil rights one of his priorities, but violence against social movements, trade unions and independent journalists is still a common occurrence. According to the International Trade Union Confederation, 16 trade unionists were killed in 2009, representing the second highest total in the Americas. Seven trade unionists were reportedly killed in the first eight months of 2010. Reports from the Human Rights Office (Procuraduría de los Derechos Humanos) also mention human rights violations by international mine corporations and the resulting indifference of the government. There are also attacks against Maya artists and cultural organizations. During the last decade, violence against women has become a specific national and international focus. In 2010 there were 695 homicide cases against women, and in many cases the victim showed signs of mutilation and torture. Impunity is high in such cases as in all other criminal cases in Guatemala. The judiciary flatly cannot provide for equality before the law, equal access to justice and due process. As a consequence, vigilante justice is common; according to the British Broadcasting Corporation (BBC), human rights groups estimate that more than 100 lynching crimes occurred in 2010.

Civil rights

5

#### 4 | Stability of Democratic Institutions

Democratic institutions function but their effectiveness is limited due to a lack of stability and continuity, as well as due to a lack of funding and professionalism. In the current administration since 2008, only four of the 13 ministers named by President Alvaro Colom after he assumed office are still in their posts. The Ministry of the Interior is the most unstable; the ministry is currently under its fifth minister, as the first in the period under review died in a plane crash (under unclear circumstances) and the following three were forced to resign after investigations into their cooperation with organized crime. In June 2010, Finance Secretary Juan Alberto Fuentes Knight resigned following persistent frustration in pushing through fiscal reforms. At the same time, the secretaries of energy and economy also left the government.

Performance of democratic institutions

5

There is also serious friction between Congress and the government, stemming from the lack of political consensus and leading to congressional majorities blocking reform initiatives. In addition, the Congress itself lacks the political framework to

fulfill its role in a consistent way. Between January 2008 and June 2010, 62 of 158 members of Congress changed party affiliations, representing 40% of all congressional members. This has affected all parties. The president's party, the National Unity for Hope (UNE) lost 21 members, the Grand National Alliance (GAN) lost 17 and the Patriot Party (PP) lost 11.

There is limited acceptance of democratic institutions. Although Guatemalan elites support democracy in general, many only accept democratic mechanisms as long as their dominant position in Guatemalan society is not challenged. The reluctance to further democratic reforms is illustrated by the continuous opposition to tax reform by economic and business elite. On the other hand, civil society organizations (and donors) demand transparency and accountability in public administration; however, their efforts have been met with little success. Most notably, the presidential fund for social programs (directed by the president's wife, Sandra Torres) was criticized for a lack of transparency and the misappropriation of funds to increase support for the government and the president's party.

Commitment to  
democratic  
institutions

6

## 5 | Political and Social Integration

The political party system remains highly fragmented, with many parties appearing and disappearing before and after elections. Consequently, voter volatility is high. There are few programmatic differences beyond election propaganda. Parties are established around personal relations and interdependence (mostly based on an asymmetric character) and not on the basis of a shared political program. Parties lack mechanisms of internal democracy and accountability, and women and indigenous people are poorly represented. Mayors change party affiliations frequently while in office, thus providing for a quite personalized form of stability. 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. In the run-up to the 2011 elections, a process of polarization has sprung up around the party of President Colom, National Unity for Hope (UNE), and the opposition candidate Otto Pérez Molina's Patriot Party (PP). Whether this is just a cyclical (election-related) tendency or the beginnings of a more program-based form of political organization and competition, remains to be seen.

Party system

4

Guatemala's society is highly fragmented. While the oligarchy has long been unaffected, some fissures have seemed to build up in the period under review, mostly in relation to organized crime. While the "modern" part of the business elite favors an increase in the state's capacity to confront crime (beyond hard-line discourse) with an institutional strengthening of the police and the judiciary, the hard-core oligarchy still favors a non-interventionist state.

Interest groups

5

The most powerful status quo-oriented actors, the industrial lobby (Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras, 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 Álvaro Arzú (1996–2000) and Óscar Berger (2004–2008) both proclaimed to lead “business governments” and prevented fundamental reforms of the existing political and socioeconomic status quo, in spite of pro-reform rhetoric in the run-up to each respective election. Currently the economic elite are a main driver of the opposition, trying to block the president’s social reform agenda.

On the other hand, civil society organizations are weak and fragmented. While some show a growing level of professionalism, this endangers their roots in social movements. The ability of reform-oriented and civil society organizations to participate in politics has been limited to dialogue processes with the governments. In January 2011 Helen Mack Chang, director of the Myrna Mack foundation, was named head of the president’s commission for police reform. Whether this form of cooptation will support the government pursuing necessary changes or instead delegitimize civil society group participation remains to be seen.

Due to the country’s neoliberal economic model and the weakness of the formal labor market, unions are ineffective. Although Guatemala signed the free trade agreement with United States (Dominican Republic-Central American Free Trade Agreement) which has a chapter on labor rights, including a commitment to “respect, promote and realize” workers’ rights, as well as to enforce national labor laws, Guatemalan unions face serious threats and its leaders are victims of selective violence. Six unions filed complaints in 2008, but as of yet there have been no serious investigations.

Regime support in Guatemala is very low compared to the rest of Latin America and significantly below the average. Even more disturbing is the public’s borderline support of government in the form of a military dictatorship. According to the Latin American Public Opinion Project (LAPOP), the approval rate of democracy was the lowest in 2008 (60.5%), increasing slightly in 2010 (62.8%; third-lowest rate). Satisfaction with the output of the democratic regime is slightly lower than regime support, and decreased from 52.5% to 47.8% between 2008 and 2010. Those benefiting from government social programs seem to have a more positive attitude toward democracy than government opponents. Support for a military coup is the second-highest in Latin America (after Mexico), significantly increasing from 38.3% in 2008 to 46% in 2010. A problematic development is that more young people (aged 18 to 29) support a military coup (49.6%) than do older generations (44.4%).

Approval of  
democracy

5

The legacy of war, violence and fear limits trust and cooperation in society. While there are many civil society organizations, their work is directed toward mostly specific goals and issues. Interpersonal trust has not changed significantly in recent years and is medium to low when compared with other Latin American societies. According to the Latin American Public Opinion Project (LAPOP), 57.4 % of respondents confirm that they can trust people in their community (low performers are Haiti with 32.7% and Peru 46.2%; best is Costa Rica at 70.2%). Participation is quite high in religious institutions and school organizations but is otherwise low.

Social capital  
5

Currently the main factor that thwarts positive self-organization and personal trust is the high perception of insecurity. This situation led to the formation of local security boards that have no state controls, and implement vigilante justice such as armed patrols and social cleansing. There are about 1,500 local security boards all over the country, and many of them are linked to lynching. These self-defense organizations are rooted in the country's cultural and historical past and define communal threats based on the undesirability of strangers or the stigmatization of youth, among others.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Guatemala is a middle-income country with a long history of social exclusion that is quantitatively and qualitatively extensive and structurally ingrained. Social exclusion reflects the main division lines of the Guatemalan society, between Ladinos and indigenous people as well as between urban and rural settings. The small, rich urban white and Ladino oligarchy controls most of the resources, while the majority of the indigenous rural population lives below the poverty line. According to national Human Development Index by the United Nations Development Program (2010), 56.1% of the population lives below the poverty line and 15.7% in extreme poverty, or nearly two million people. The Human Development Index increased during the last years, although historical exclusion patterns still persist (HDI 2000: 0.634, 2007: 0.704). Inequality remains high; while the top quintile receives 60.3% of the income, the bottom quintile only gets 2.9% (national Human Development Report 2009–2010). The reduction in poverty is attributed to a positive economic cycle during the last years and to the high amount of remittances. Governmental policies had little or no effect, according to the national Human Development Report.

Socioeconomic  
barriers  
3

While there are no current data, as only the national Human Development Reports of 2002 and 2005 covered these issues, a gender as well as an “ethnic” gap in poverty and exclusion does persist. Nevertheless, a recent longitudinal study of the International Food Research Institute showed that investment in maternal human capital might be the best way to break the cycle of intergenerational poverty. Gender gaps in education (82.6/78.6 in alphabetization) are closing. International donors invest heavily in social infrastructure in the indigenous communities in the Western highlands.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	34113.1	39136.3	37683.0	<b>41186.4</b>
GDP growth	%	6.3	3.3	0.5	<b>2.8</b>
Inflation (CPI)	%	6.8	11.4	1.9	<b>3.9</b>
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	2.2	1.9	1.6	<b>1.7</b>
Export growth	%	9.4	-0.2	-2.5	<b>4.4</b>
Import growth	%	7.2	-5.7	-8.2	<b>12.4</b>
Current account balance	\$ mn.	-1785.6	-1680.5	7.7	<b>-826.1</b>
Public debt	% of GDP	21.3	20.0	23.0	<b>24.0</b>
External debt	\$ mn.	14569.6	14771.1	13764.5	<b>14339.7</b>
Total debt service	\$ mn.	1772.7	1756.0	1684.0	<b>1587.3</b>
Cash surplus or deficit	% of GDP	-1.4	-1.6	-3.2	-
Tax revenue	% of GDP	12.1	11.3	10.3	-
Government consumption	% of GDP	8.7	9.0	10.2	<b>10.3</b>
Public expnd. on edu.	% of GDP	3.0	3.2	-	-
Public expnd. on health	% of GDP	6.7	6.5	7.1	-
R&D expenditure	% of GDP	0.06	-	-	-
Military expenditure	% of GDP	0.4	0.4	0.4	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Though there have been some improvements, market competition still operates under a weak institutional framework. Market-based competition is present and quite stable, although mainly for the formal sector of the economy. Most of Guatemala's economic active population (59.65%) is underemployed or working in the informal sector, according to a recent labor survey (Encuesta Nacional de Empleo e Ingreso 2010). In the formal sector, according to the Global Competitiveness Report 2010–2011, the most problematic factors for doing business in Guatemala besides crime and theft are corruption, policy instability and inefficient government bureaucracy. According to Heritage Foundation's 2011 Index of Economic Freedom, the importance of administered pricing is low, but several economic activities and products are subsidized, such as fuel and housing construction.

Market-based  
competition  
4

The formation of monopolies and oligopolies is occasionally regulated and there is limited legislation covering antitrust and unfair competition provisions. Guatemala does not have a competition authority. However, according to Global Legal Group's International Comparative Legal Guide to Merger Control 2010, regulators are responsible for applying merger control legislation for specific sectors (such as the banks superintendent for financial institutions). The main merger provisions are set by the Code of Commerce, the Law of Banks and Financial Groups and the Law of Financial Private Corporations. Monopolies have recently returned to the markets, especially in the exploitation of raw materials such as oil and minerals.

Anti-monopoly  
policy  
4

Foreign trade has been extensively deregulated, but the benefits have been at best minimal. While the average tariff is low, according to the 2011 Index of Economic Freedom there are some non-tariff barriers that hamper trade, such as import licensing, services market access restrictions, bureaucratic delays and inadequate infrastructure. The free trade agreement with the United States, Central America and the Dominican Republic (DR-CAFTA) has neither brought more formal employment to Guatemala nor lowered its trade deficits with the United States. Implementation of this agreement led to trade reforms. DR-CAFTA is of particular importance for Guatemala, as three-quarters of its trade in goods exist with parties to the agreement. Guatemala's foreign investment regime allows foreign nationals to invest in most sectors of the economy and they mostly receive national treatment. In May 2010 Guatemala (along with the other Central American governments) signed an association agreement with the European Union that foresees trade liberalization. Guatemala has been a member of WTO since 1995.

Liberalization of  
foreign trade  
9

Guatemala's financial system is relatively small and capital markets are considered weak, though in principle oriented to international standards. Responsible for bank supervision and transparency is the Superintendency of Banks (SIB), the position of

Banking system  
6



which has been strengthened over the last 10 years. According to a 2010 IMF report, there has been progress in legislation (e.g., a banking law) but necessary amendments are still expected and implementation is still weak. The Guatemalan government affirmed its commitment to continue strengthening the regulatory framework. As part of its effort to fortify the domestic financial system against global financial turmoil, monetary authorities decreed in December 2008 that financial groups have to increase their reserve requirements to 100% for all non-performing loans by 30 June 2011. The banking sector has undergone reorganization and is well-capitalized, and the number of non-performing loans is relatively low. Guatemala's bank capital-to-asset ratio is on the global average. The Government of Guatemala owns 30% of the shares of the Bank of Rural Development (BanRural), the third-largest bank in Guatemala.

## 8 | Currency and Price Stability

Inflation has been relatively stable in the period under review and prior and successive governments have succeeded in reducing inflation to less than 10%. As a consequence of the global crisis, inflation rose to 12.6% in 2008, but decreased to only 1.9% in 2009. Estimates for 2010 are 5.4%. Nevertheless, the exchange rate for the quetzal has been stable in relation to the U.S. dollar (around \$1 to GTQ 8). The central bank is independent of governmental influence.

Anti-inflation /  
forex policy

7

Macroeconomic stability has been a priority for all governments, either due to political preferences or pressure from international financial institutions and Central American Free Trade Agreement (CAFTA) negotiations with the United States. The current government has increased social spending via the presidential social fund. As the opposition blocks a necessary fiscal reform to increase the low tax ratio, this has caused a fiscal deficit of 3.3% of GDP (2010). Public debt increased 10% due to reconstruction efforts after heavy flooding in 2010.

Macrostability

7

## 9 | Private Property

Property rights and the regulation of property acquisition are established, although here, as in other areas, deficiencies in the rule of law also take their toll. Property rights are mostly a problem for poor sectors of the country that lack access to the legal system. There were many conflicts over land titles during recent years. At a technical level, the lack of a land registration system (providing proof of existing land titles) is a major obstacle as are power relations trying to maintain the status quo. Some donors have tried to step in and establish a land register, but opted out a few years ago due to the lack of viability.

Property rights

5

Private enterprises constitute the core of the formal economic sector; most state enterprises have been privatized. However, most economic relationships operate in the informal and criminal sectors, where they are forged on the anvil of power and not at all, or barely, under the rule of law.

Private enterprise  
6

## 10 | Welfare Regime

The cleavages within Guatemalan society also find expression in unequal access to basic health care services, education and in life expectancy which varies according to social strata. Differences are most pronounced between rural-indigenous and urban-Ladino/white sectors of the population. Access to social insurance systems is segmented and varies widely according to territory, social stratum and sector. The social safety nets once pervasive, especially in the Indian village communities, were largely destroyed by 36 years of civil war. Public spending on health is around 2% of GDP and thus rather low.

Social safety nets  
4

Due to the lack of a genuine formal social safety system, informal social safety networks provide some level of safety, especially in those areas with strong communal organization. Currently, social and economic remittances provide support to communities where the presence of the welfare system is precarious or inexistent. During the last years and especially during the last two years a substitute of the state's welfare system has been illegal and informal networks of the local drug cartels, in those areas where they are active. They provide health centers, schools, sport centers and basic services.

Equal opportunity exists only formally; discrimination follows the fault lines of social cleavage; racist prejudice against the indigenous population and gender-based discrimination remain widespread. This becomes evident in education where indigenous women (specifically girls) are widely underrepresented. As a consequence job opportunities and access to other public services is limited. HDI and poverty rates vary significantly between Ladino and indigenous households as they do between urban and rural areas, and males and females. President Alvaro Colom has made the promotion of equal opportunity one of the pillars of his policy; implementation and success remain to be seen.

Equal opportunity  
4

## 11 | Economic Performance

Macroeconomic growth rates have been quite stable over the last decade but have declined with the global financial crisis, which began in 2008. The rate for 2008 was 3.3%, in 2009 it was 0.5% and in 2010 the rate increased again to 2.5%. Economic growth has reduced poverty slightly. The economy remains dependent on resource extraction, on foreign investment and international prices, which have been

Output strength  
7

favorable in the mineral sector over the last years. Remittances remain high but are dependent on the migration policies of the U.S. administration and decreased due to the crisis, falling by 9% in 2009, but recovering again by 5.5% in 2010 (2008: \$4.46 billion; 2009: \$4.03 billion; 2010: \$4.26 billion). Guatemala's economy has a trade and currency deficit. The tax base has reached 10% of GDP, but still remains extremely low by regional and international standards. The unemployment rate was 3.2% as of 2008 (last available data), internal debt was 9.9% of GDP and external debt was 13.1% of GDP in 2009, and inflation rate was 9.4% in 2008. Direct investment reached \$543 million in 2009, according to Banco de Guatemala and the United Nations Development Program National Report 2010.

## 12 | Sustainability

Environmental concerns generally take a back seat to growth considerations. Core problems include contaminated rivers, increasing deforestation and environmental pollution caused by sugar cane plantations. In the context of the concessions for the extraction of mineral resources (such as gold mines) negative environmental consequences have led to a series of conflicts, mostly over the use of water. In the tourism sector there is a rising concern about the possibilities over ecotourism. But this has not led to any serious consequences in the treatment of the environment, where open garbage dumps, as just one example, remain the rule. The low priority of environmental arguments is obvious when it comes to infrastructure or large-scale projects ("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 two million hectares with an extremely high level of biodiversity.

Advocating sustainable development is dangerous because it affects the economic interests of powerful legal as well as criminal sectors of the society. Violence against environmentalists in the Petén department is a case in point. Although in 2010 the Canadian owner of the Marlin gold mine had to suspend its activities due to an order of Inter-American Commission on Human Rights, following the release of a new study by the University of Michigan and Physicians for Human Rights that found elevated levels of mercury, copper, zinc, arsenic and lead in the blood and urine of people living in the vicinity of the mine.

While literacy and primary school enrollment has increased, enrollment in secondary and tertiary education continues to be low (56.6% and 17.7%, respectively). Access to education reflects the existing societal cleavages (between men and women, Ladino and indigenous, urban and rural). Public schools are poorly equipped and under-financed, and wealthier citizens send their children to private schools in Guatemala or abroad. Bilingual education remains an exception. Public expenditure in education was at 3.2% of GPP in 2008. Investment in R&D is

Environmental  
policy  
4

Education policy /  
R&D  
4

increasing but far from transformation countries average (2008: Guatemala 0.06; world average 0.6).

# Transformation Management

## I. Level of Difficulty

Structural constraints on governance are moderate to high. 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. The heritage of 36 years of civil war, violence and destruction still persists. Disparities between urban and rural as well as between Ladino and indigenous populations are structurally ingrained and pose the main challenge for the future.

Structural  
constraints  
7

The geographical location of Guatemala makes the country highly vulnerable to natural disasters such as hurricanes, which every year hit the country. This situation destroys every year the country's already poor infrastructure, such as roads and bridges, and destroys important regions of agricultural production both for export and also for survival. Every year the risk of famine in some poor areas is real. Another though more recent problem and consequence of the democratization and the end of war is the structural influence of criminal networks all the way up to state institutions. While the government administration under President Oscar Berger acknowledged that it could not confront violence, President Alvaro Colom tried to introduce a new approach emphasizing democratic security. But opposition is fierce.

Overcoming these structural constraints stands at the core of the political struggle between reform-oriented actors and those trying to maintain the social status quo. The impossibility of fiscal reform shows the limited space for maneuver of the current government.

Traditions of civil society are weak. Organizations of civil society work either on specific issues or merely on a local basis. Fragmentation, conflict and mutual distrust are the main characteristics of civil society. Organizations try to negotiate benefits with the government on an individual basis and do 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.

Civil society  
traditions  
6

The current crisis of security and justice institutions has given civil society organizations some public space and room to maneuver in the field of public security (e.g., human rights activist Helen Mack Chang leading the presidential commission for police reform). These NGOs are highly professional but most of them lack a significant social basis.

Guatemala's society remains deeply split along ethnic and social lines. Polarization is growing due to the lack of perspectives for change by civilian means and the high level of impunity. Violence has increased in rural areas (around issues of land tenure as well as mining), and criminality and intrapersonal violence are a common feature of the social landscape. Guatemala's homicide rate is only second to El Salvador's. Nevertheless, up to now there is an astonishingly low level of politicization of social and ethnic conflicts, despite some signs of radicalization in peasant movements.

The lack of perspectives is one of the core causes for the growth of different rivaling youth gangs which control many marginalized suburbs of the big cities and increasingly enter smaller ones. The mass media and the dominant sectors claim that these "maras" are responsible for most of the violence, but there is a growing awareness that their role in violence is overestimated. 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 the murders happen in just five departments (among others Guatemala City and Escuintla) and that within these departments, 70% of the murders happen in just 12 municipalities.

Conflict intensity

6

## II. Management Performance

### 14 | Steering Capability

The government sets strategic priorities, mostly in accordance with the principles of democracy and a market economy. However, sometimes it postpones them, or changes them due to prevailing pressures. The government shows serious deficits in prioritizing and organizing its policy measures accordingly. Priorities changed with the transfer of power from the Oscar Berger to the Alvaro Colom administration. While the first prioritized its agenda of economic competitiveness, the latter wants to promote social inclusion. On the ground differences have not been felt, as both administrations favored investments in the richer regions of the country (while development cooperation focuses on the poorest regions). On the other hand there is a lot of criticism that Colom's social policies are based on electoral considerations instead of poverty reduction.

Question  
Score

Prioritization

6

Concerning the approaches to confront violence, the Colom administration tried to change tack but had to cede to opposition demands, replacing the first interior minister and sending 500 soldiers to patrol the streets of the capital city in 2010 as well as declaring a state of siege in the department of Alta Verapaz. Fiscal reform has been a priority since 1996 while the current administration has tried to push through reform, opposition is stiff. The government has said it will continue its efforts, yet in the context of an electoral campaign this can be challenging. One of the government's priorities was the reconstruction of infrastructure destroyed in 2009 by hurricanes. Due to the clientelistic and political use of the international cooperation for reconstruction, reconstruction is still pending.

Implementation of policies is hindered or undermined by sectors opposing reform. A case in point is development plans established either by the government or by local development councils (depending on the power relations in the field with participation of different societal sectors). Plans and investment priorities established are frequently altered in Congress to match the personal priorities of congressmen in order to favor their personal clients. As a result, public investment favors the richer departments and not the poorest. This holds true for departments such as Petén (which has gradually transformed into a zone mostly controlled by organized crime), Escuintla, Retalhuleu and Jutiapa. The government's failure in reforming the tax system shows its strong political dependence on elite groups and its overall conservative character.

Implementation  
4

Political leadership responds to mistakes or failed policies with follow-up reforms or changes, but this usually means it has given way to pressures (or sometimes violence) from interest groups. Another widespread feature is changing personnel and not (or to a much lesser extent) policy approaches. If the current approach to reforming public security will take another tack remains to be seen. The strong clientelistic structure of the state and the large private sector that derives its livelihood from it makes it difficult to implement innovative policies. One example of this is the social transfer program, "Mi familia progresa," and other related programs.

Policy learning  
6

## 15 | Resource Efficiency

The government is still unable to make efficient use of available resources. The strong clientelistic structure of budget assignments and structural corruption leads to a misuse of financial resources. The same is with public appointments. There is also a lack of competitive recruiting procedures and of programs for professionalization. The results of international support and state initiatives of modernizing public administration are mediocre. The continual replacement of

Efficient use of  
assets  
4

officeholders, clientelistic appointments as well as structural corruption produce a stagnation of institutional reforms and a lack of improvement in state performance.

In addition, political and economic elites extensively ignore and discredit cultural traditions of the indigenous population. For instance, a social reform policy could build on the traditional solidarity relationships in the 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 international development partners, to revive and strengthen the customary law of indigenous peoples. In 2008 there has been an initiative to give this a legal basis.

Government policy coordination efforts are deficient although the government has tried to improve performance. But among other reasons, due to a lack of congressional majority, the government bypasses formal coordination mechanisms through establishing new commissions or councils. This leads to conflicting responsibilities (and not to sustainable policies) or clientelistic policies which lack accountability. The Social Cohesion Council of President Colom is a case in point. It lacks a legal basis and is coordinated by the president's wife, Sandra Torres. Torres is not an elected official but has declared ambitions to run for president in the next elections, although this could pose legal problems (as the constitution does not allow relatives or spouses of an incumbent to run).

Policy  
coordination  
5

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

Corruption remains widespread. Public investment (social as well as economic) is highly dependent on party affiliation. Legislation on transparency and public information passed in 2008 came into effect in 2009, but positive effects still remain to be seen. Nevertheless Acción Ciudadana, the local chapter of Transparency International, is disseminating information to a broader public as well as monitoring the national budget for 2011. Hence at least the public debate on corruption seems to be intensifying, though partly misused for political reasons to discredit the current administration and its social policies. The new law on civil service was introduced in 2008, but still had to be passed at the end of 2010. If approved it would be the basis for a professionalization of the public service. Currently most personnel is dismissed after every change in government.

Anti-corruption  
policy  
5

The main effort of the Alvaro Colom administration against corruption is its political support of the International Commission against Impunity in Guatemala (CICIG). The most important effect of CICIG is the investigation of corruption networks. One of these networks involves former members of the interior and defense ministries as well as a former president (Alfonso Portillo). Also under investigation are corruption networks inside the police, and one involving illegal



adoptions. On the other hand, the major importance of these investigations is to make public the mechanisms through which these corruption networks work, as well as the actors involved, such as members of the military, police officers, those in the business sector, public institutions, the media and other social groups.

## 16 | Consensus-Building

Most major political actors agree on a rhetorical level of the importance of democracy and a market economy with social safeguards. But their understandings of these concepts vary significantly. The traditional political and economic elites see democracy and a market economy as a mechanism to maintain the status quo, while social organizations and civil society groups seek to use them as instruments for fundamental change. As a newspaper analyst put it, Guatemala's elite is democratic as long as the left does not get more than 10% of the vote. As reform-oriented actors are fragmented and up to now have not been able to reach a consensus on a common project, transformation remains stuck.

Consensus on goals  
6

Differing priorities are most obvious between rural and urban settings, such as in relation to energy policy. While the government has strongly supported the promotion of hydropower, local groups (in Ixcán or the Franja Transversal del Norte) oppose 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) try to co-opt or control veto powers, but the increase of criminal networks seems to invert this process. The influence of these networks in elections is a case in point. Financial support for candidates often leads to pressure for political favors. The International Commission against Impunity in Guatemala (CICIG) investigating these networks has made some progress in their identification but at the same time these networks have begun to organize resistance and to reverse positive effects. Nevertheless, CICIG's mandate has been extended until 2013.

Anti-democratic  
actors  
5

Transnational organized crime (mostly Mexican drug dealers) has a vested interest in blocking reforms, as group activities rely on the low capacity of state institutions to control and impede them. This makes reform even more difficult. Another alarming tendency can be seen in the reaction of some Guatemalan actors toward the coup in Honduras. It was welcomed by Guatemala's oligarchy and might be used as a precedent in case Sandra Torres, the current president's wife, seeks the presidency in the 2011. Guatemala's constitution denies a president's family (up to second degree) as well as "affiliations" (mostly understood as spouses) the right to

be a candidate. Thus should Sandra Torres be a candidate and be elected this could provide the basis for a Honduran-style coup.

The ability of the government to manage cleavage-based conflict has been low. Muddling through and knee-jerk reaction to immediate pressures and necessities has prevailed. The level of conflict is high in many areas and stem from access to land, labor rights and civil rights. As the rural population is mostly indigenous, many of these conflicts have an “ethnic” flavor. While the president introduced a set of social policies in an attempt to reduce social cleavages, this has heightened political polarization with the opposition.

Cleavage /  
conflict  
management  
5

There are some mechanisms of consultation between civil society and the government. The election of President Alvaro Colom was welcomed by many civil society organizations although his dependence on non-reform oriented sectors (in Congress) is obvious and leads to conflict. There remains a fundamental lack of cooperation between civil society and the political system. Civil society participation is mostly on a personal basis as is demonstrated by the appointment of Helen Mack Chang as the head of the presidential commission for police reform. Positive examples of participation have included the monitoring of the implementation of the National Agreement for the Advance of Security and Justice, and election monitoring.

Civil society  
participation  
6

The political leadership does recognize the need to deal with past violence but fails to promote reconciliation beyond financial compensation. At the same time, the national program for compensation has come under serious attack as the biggest share of the money seems to be spent on bureaucracy and not for victims. Funds were cut in 2009 and suspended during the first three months of 2010. There has been some symbolic recognition for the relatives of victims, and a few trials of lower-ranking military or paramilitary individuals. However, trials of high-rank military officials and others allegedly involved are still pending. Impunity for past and current human rights violations remains one of the basic problems and deficits of every administration since the signing of the peace accords 10 years ago.

Reconciliation  
6

## 17 | International Cooperation

The political leadership works with bilateral and multilateral donors but only partially uses such support to improve policies. Although the prioritization of social inclusion by the Alvaro Colom administration has been welcomed by donors, criticism of its politicization and the volatile political environment renders implementation of programs difficult. Implementation of the peace accords still serves as a main “road map” but many donors have become frustrated due to implementation problems. Guatemala was the recipient of much international cooperation in the reconstruction following the 2009 hurricanes but because of the

Effective use of  
support  
7

bureaucratic and clientelistic structure of the state, much of this aid has yet to translate into permanent policies.

The main focus of international cooperation is on security and the control of drug trafficking. Support from the United States is mainly directed to the army, with the rest focused on the police and other civil institutions. Such support generates some degree of competition inside security forces. One European country clearly conditioned its financial support to the implementation of tax reforms, which increased political tensions between the government and the business sector. Due to a lack of resources (related to the challenges in passing tax reforms) the government depends on international cooperation to support its social policy agenda.

The government is considered mostly credible by most actors in the international community. This is especially valid in relation to the country's macroeconomic stability. As to the political situation and the high levels of violence, there are voices (from the United States) that have warned that the influence of criminal networks is turning Guatemala into a "narco-state." This implies increasing investment in security reform sourced from the United States and under (mostly repressive) U.S. strategies. Guatemala is still under surveillance by international human rights NGOs, due to the high levels of impunity and the lack of, or problems with, the implementation of international standards of human rights.

Credibility  
8

The political leadership cooperates inside the Central American integration framework and complies with the rules set by regional and international organizations. Good relations with United States are crucial due to the high number of Guatemalan migrants (about 10% of the population). The United States introduced a regional anti-drug policy to confront the growing importance of Guatemala as a passage for illicit drug trade into the United States. The historical border conflict with Belize remains unresolved despite mediations by the Organization of American States. Cooperation with Mexico, Central American as well as South American countries is good and does not lead to conflicts. Migration policies are an exception as this subject is one of the more challenging on the regional agenda between most Central American states, Mexico and the United States.

Regional  
cooperation  
8

## Strategic Outlook

It is clear that 2011 will be a crucial year for Guatemala's transformation process. The country's upcoming national election (expected to be hotly contested) could lead for the first time since the country's transition to democracy to the reelection of the governing party. This would be a sign of the stabilization (or significant restructure) of the highly volatile party system, irrespective of one's judgment of the current government's record. Victory of the opposition under ex-General Otto Pérez could lead to a process of policy reversal in many fields and introduce a repressive approach to public security, a strategy that has already failed in neighboring countries such as El Salvador. This might endanger the fragile reform process started with the presidential commission to reform the police and the National Agreement to Advance Security and Justice.

In order to maintain Guatemala's rather fragile transformation course, the incoming government should focus on at least three essential topics. First, social policies need to address poverty reduction, as malnutrition and hunger are still pressing issues, as well as address the challenges of legal and illegal migration. Second, the prolongation of the mandate for the International Committee against Impunity in Guatemala (CICIG) ahead of an earlier deadline is an important signal by the international community in supporting reform in Guatemala. But this mandate needs to be translated into the implementation of CICIG recommendations, as well as into political action to strengthen the rule of law and the fragile system of checks and balances currently manipulated by the opposition to maintain the status quo.

Third, escalating violence and the intrusion of local as well as transnational criminal organizations into state institutions require a courageous effort on behalf of the administration and society to further democratic reforms (increase accountability, participation and social inclusion) as well as strengthen the rule of law. The incoming government should avoid a relapse into the country's traditional politics of repression that have proved inefficient in the past and will only strengthen opponents of democracy.