

# BTI 2014 | Guatemala Country Report

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This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

|                          |        |      |                                |       |                      |    |        |
|--------------------------|--------|------|--------------------------------|-------|----------------------|----|--------|
| Population               | M      | 15.1 | HDI                            | 0.581 | GDP p.c.             | \$ | 5102.2 |
| Pop. growth <sup>1</sup> | % p.a. | 2.5  | HDI rank of 187                | 133   | Gini Index           |    | 55.9   |
| Life expectancy          | years  | 71.3 | UN Education Index             | 0.439 | Poverty <sup>3</sup> | %  | 26.3   |
| Urban population         | %      | 50.2 | Gender inequality <sup>2</sup> | 0.539 | Aid per capita       | \$ | 22.5   |

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. 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 attempts by President Álvaro Colom's government to improve governance and strengthen social policies in Guatemala, the political and economic transformation that started in 1996 seems to have stalled. Incoming President Otto Pérez Molina's first year in office reinforced this trend by increasing polarization, especially following episodes of strong repression of social protest.

During the period under review, the country's main developmental challenges, including institutional instability, high levels of violence and the infiltration of state institutions by criminal networks have persisted. Violence is pervasive (although instances of violence fell slightly between 2010 and 2012), and calls for a hard-line approach against perpetrators of violence have increased. Acceptance of the use of the military for public security goals has broadened, especially among the middle class.

The Colom administration's support for police reform has not been taken up by Pérez Molina, who instead focused political support on the new minister of interior, former Colonel Mauricio López Bonilla. In January 2013, the stagnation of the police reform led police officers to threaten future strikes if a salary bonus originally offered by Pérez Molina was not paid and social conditions within the police force not improved.

The general election of 2011 was held in a context of legal uncertainty over several presidential, legislative and municipal-level candidates. Additionally, pre- and post-electoral violence limited the free exercise of political rights. The electoral process was also marked by polarization between political parties and civil society. On the one hand, candidates Otto Pérez Molina and Manuel Baldizón both raised concerns about illicit party financing, while advocating "strong hand" approaches to crime and violence. Baldizón openly proposed the use of the death penalty, while Pérez Molina proposed the use of military forces in public security functions. On the other hand,

civil society and human rights observers were concerned about Pérez Molina's military past and his alleged participation in human rights violations during the internal conflict.

Pérez Molina opened his government term in January 2012 with a number of large projects including fiscal reform, educational reform and a constitutional reform. Only the fiscal reform was passed by the legislature during the period under review; however, its implementation remains blocked due to a number of legal processes initiated by the business sector, especially the Coordinating Committee of Agricultural, Commercial, Industrial, and Financial Associations (CACIF). The educational reform proposal was rejected by students following their exclusion from the policy negotiation process, which led to student protests that were suppressed by security forces. The constitutional reform was rejected by all relevant political actors, many of whom deemed it unnecessary. Ultimately, the government was unable to generate the consensus necessary to pass these reforms.

The 2011 – 2012 period was marked by an increase in social protest against mining and hydropower projects in the country. Previous governments had not taken the opinions of affected communities and environmental organizations into account when signing contracts with international firms. Although democratic consultation is a political right, governments neglected the results of these processes, thus producing considerable dissent within the involved communities. During the period under review, numerous confrontations between social movements and security forces or private security companies hired by international mining or hydroelectric firms took place. Economic elites pressured Pérez Molina to forbid demonstrations on public streets and mining properties. As a result, Pérez Molina has supported the use of military force to suppress domestic protests. The most extreme situation occurred in Totonicapán in October 2012, when more than seven peasants were killed and more than 40 injured by military forces.

Guatemala's structural cleavages and conflicts remain unchanged. This situation is closely related to a general lack of political will and the failure of reform initiatives. As Guatemala is a middle-income country, the comparatively frequent instances of malnutrition (mostly in the western highlands) must be attributed to poor development policies rather than to underdevelopment per se. 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 of 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 aims included a reduction of the budget deficit through a restrictive monetary policy, an increase in the value-added tax from 7% to 10% and efforts to combat widespread tax evasion. Most of these goals have not yet been achieved. An urgent issue both for Guatemalan political and economic development is the battle against the illegal and criminal elements of the economy; these have mushroomed since the 1990s, and rely mainly on the drug trade, money laundering and the smuggling of items such as automobiles. During the administration of President Alfonso Portillo (2000 – 2003), a member of the Guatemalan Republican Front (Frente Republicano Guatemalteco, FRG), ties between these criminal networks, politicians and the state apparatus became increasingly evident. The Óscar Berger administration (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 fight violent crime successfully. President Álvaro Colom (2008 – 2011) made fighting crime one of his top priorities, but took a less repressive approach than his predecessors. This change in security policy produced a small reduction in the number of homicides during the 2011 – 2012 period.

President Pérez Molina’s first year in office showed a further lack of continuity in public security policies. The new administration has relied on the use of the military for public security functions, which has had dubious results in terms of crime reduction while having certain negative effects on democratic institutions and the strengthening of civil power.

Economic and political transformation is still closely tied to the implementation of the peace accords. Although every government since 1996 has upon taking office promised to make implementation a central issue, progress has been limited. When the 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 terms of formal war termination and political participation, the implementation of other accord terms such as improvements in indigenous rights and socioeconomic transformation still shows shortcomings.

Public security remains the country’s most serious problem, undermining reforms and social progress. The fragility, lack of transparency and absence of accountability within state institutions constitute serious problems that need to be addressed by the government as soon as possible. Cooperation, compromise and participation within Guatemalan society remain difficult due to continuing violence and fragmentation within civil society and other organized interest groups. While the government and civil society organizations do communicate, links between civil society and the party system are weak. This leads to dead ends when pacts over reforms are made between

civil society groups and government, but are then rejected by the Congress. The indigenous majority (accounting for between 40% and 60% of the population) is still politically and economically underrepresented above the community level. Ensuring social integration and political participation on the part of the indigenous majority remains a primary challenge in coming years. Neglecting this population's rightful claims for a better life could lead to a process of radicalization and politicization, as has taken place 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 1 (worst) to 10 (best).

## 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 throughout the period under review.

Monopoly on the  
use of force

4

Although there was a small reduction in homicide rates during the last year of Colom's term, public security remained one of the most important concerns in the country. Homicide rates are currently Central America's third highest (after Honduras and El Salvador), having increased in 2009 to an annual total of 6,948 victims, the highest level since the end of the civil war. Homicide statistics fell slightly to 6,187 by the end of December 2011, but this did not signal a serious decline.

The state is under increasing pressure from transnational and national armed groups linked to drug trafficking and other illicit activities. The state has not only lost control in the department of Petén (a sparsely populated area that borders Mexico), but also in Alta Verapaz, both of which were effectively controlled by drug traffickers. Other affected departments include Zacapa, San Marcos, Escuintla and Izabal. According to the International Crisis Group report, the departments of Huehuetenango and Jutiapa are also outside government control. Soldiers were deployed in Guatemala City to help the national civil police provide public security. One of the first measures taken by new President Otto Pérez Molina in 2012 was to declare a state of siege in San Marcos, seeking to control organized criminal groups operating in the area through the militarization of public security.

Media-led and official discourse has shifted somewhat from identifying youth gangs (so-called maras) as the main perpetrators of violence to focusing on organized crime. Transnational drug-trafficking groups seeking to control the route between producing countries (Colombia, Bolivia and Peru) and the United States have found allies in local elites (former military officials as well as emerging capital groups). These local

connections are mostly ignored in discourses on violence. Drug trafficking is also used as the starting point for economic diversification into other illicit goods (precious wood, cars, human smuggling and arms trafficking) as well as legal businesses. Drug trafficking activities have also extended to the production of synthetic illicit drugs within Guatemala's borders. In 2012 several clandestine laboratories producing illicit drugs were destroyed by public security forces.

The criminal networks have also gained influence within the top echelons of state institutions (e.g., the Ministry of the Interior and the national police). Although the new Otto Pérez Molina administration has installed former army officials within all public security institutions, participation by public officials in illegal networks has persisted.

Drug trafficking is currently one of the main drivers of homicides and the proliferation of nonstate armed actors operating in urban areas and rural border areas. Local drug trafficking organizations interact with international criminal groups such as Los Zetas. On the other hand, other sources of violence including mara groups, private security companies and a number of assassins for hire (sicarios) also operate in the country

The peace accords in Guatemala defined the state as multicultural, plurilingual and pluriethnic. Yet a referendum meant to enshrine these as constitutional changes failed in a 1999 referendum. While there has been some progress in indigenous participation on a formal level, at least in terms of racism and discrimination (e.g., a law against discrimination; the establishment of institutions such as the Office for the Defense of Indigenous Peoples; anti-discrimination education), these forces remain part of everyday experience for Guatemala's indigenous people, which make up between 40% and 60% of the population. However, though there are large groups whose civil rights are limited, this situation has not translated into questioning or rejection of the nation-state as a whole. That said, the peasant movement and the anti-mining movement each have gained the power to mobilize thousands of people in their attempts to claim full civil rights. International observers such as Amnesty International have raised concerns about a repressive operation conducted during the first year of the Pérez Molina administration. In October 2012, more than seven peasants were killed and another 40 wounded by military forces during an anti-mining protest in Totonicapán. These acts have been considered to be direct aggression against the indigenous population, resulting in the erosion of the state's overall legitimacy.

Guatemala's state functions and basic state order have no grounding in religious dogma. There is a complete separation of church and state. The Catholic Church still is influential, but has lost ground to the rising popularity of evangelical churches. Indeed, Guatemala is today 50% Catholic and 50% evangelical. The churches have different political and social powers, but both serve a civil society role holding

State identity  
6

No interference of  
religious dogmas  
10

government accountable, and maintain a media presence. The evangelical church participates directly through a political party, while the Catholic Church continues to work through its official mechanisms when participating 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 that advocate the status quo. However, during the electoral process of 2011, there were concerns about the emergence of presidential candidates who used radical religious principles to justify electoral goals, such as Manuel Baldizón from the Renewed Democratic Liberty (LIDER) political party.

Though state infrastructure in principle extends to the entire territory, operations of all kinds are severely impaired by the government's inability to maintain law and order, combat corruption and deliver basic social services to the most remote rural areas. State organizations suffer from a lack of professionalism and the arbitrary use of power by state actors. They are hindered by the influence of personal and criminal networks. Thus, the ability to access public services and public goods is highly dependent on power relations in a given area, as well as that area's general access to state funds or programs. Social programs are affected by this situation. Despite positive results regarding access to basic services, the government's Mi Familia Progresá program – which provides subsidies (approximately €28) to poor families for health care and children's schooling costs – was heavily criticized for attempting to instill political loyalties and for a lack of transparency. The fact that the program was run by the president's wife, Sandra Torres, may have exacerbated the criticism. Under the Pérez Molina administration, the program was restructured and many positive results were lost.

State institutions are concentrated in Guatemala City and in the main cities of each department. The country's northern area, where most of the indigenous population lives, lacks state services. Likewise, the north has the country's highest poverty rates. The border municipalities, which are fraught with drug and human trafficking, also have a comparatively low state presence.

By promoting administrative decentralization, groups engaging in international cooperation have tried to encourage the supply of public services even in remote areas (mostly in the indigenous western highlands). The most recent data available shows the presence of administrative structures (and funds) to vary significantly across the country. For instance, while the capital of Guatemala City had 229.8 civil servants per 10,000 citizens in 2009, the department of Chimaltenango had only 74.2 (compared to a national average of 123.7), according to the United Nations Development Program's (UNDP) 2010 report for Guatemala.

Basic  
administration  
5

## 2 | Political Participation

Guatemalan presidential elections are mostly free and fair, though the general elections in 2011 were marked by high levels of pre- and post-electoral violence. More than 40 persons engaged in political activities were killed during the pre-electoral period. That year's general elections were also affected by inefficiencies regarding personal identification documents (DPIs) and electoral violence. Nevertheless, observers from the Organization of American States (OAS) declared the electoral process to be legitimate, reliable and accepted by all political actors.

Free and fair  
elections

6

Polarization between political parties remained at high levels during the electoral process and during President Pérez Molina's first year in office. This polarization increased after the failed presidential candidacy of Sandra Torres, Álvaro Colom's ex-wife. Torres had sought to avoid a constitutional provision barring relatives of a president from running for the same office by getting a divorce; however, the Constitutional Court confirmed that she was ineligible to run. This prompted an electoral alliance between Colom's political party, the National Unity for Hope (UNE), and the third-strongest electoral force, Manuel Baldizón's LIDER, against Otto Pérez Molina and the opposition Patriot Party (PP). The electoral process was marked by other controversial decisions by the Constitutional Court. For example, the candidacy of Center for Social Action Party (CASA) Alejandro Giamattei from was approved despite an open judicial process against him for alleged involvement in the execution of inmates during his term as director of the prison system. Likewise, former evangelical pastor Harold Caballeros was allowed to participate in the elections as representative of the Vision with Values-Encounter with Guatemala (VIVA-EG) party alliance.

The electoral process was marked by the trading of serious accusations between the two main candidates. On the one hand, Manuel Baldizón's links with known drug traffickers and other illicit businesses in Petén were of notable concern. On the other hand, Otto Pérez Molina's military past, his involvement in intelligence operations and human rights violations during the internal conflict, and his own links with drug traffickers were also alarming.

The 2011 electoral campaigns were considered to be the most expensive in Latin America. According to Acción Ciudadana, approximately \$90 million was spent on publicity and electoral propaganda in 2011. For this reason, political parties are mostly based on access to funds or personal loyalties, and are grounded to a considerably lower extent in ideology or a specific political program. This is also reflected at the local level, where mayors routinely serve for multiple terms even after changing party affiliation. On the first day of legislative activity in 2012, more than 30 legislators changed their political parties. The high dependence of political parties on private financing and the lack of transparency of the party system have

significantly reduced the fairness of the election process with regard to registration, campaigning and media access.

The electoral process was thus ultimately characterized by legal uncertainties surrounding top presidential candidates, political violence, extreme polarization and the presumed illegal financing of political parties.

Pérez Molina won in a runoff election against Manuel Baldizón, with 53.74% of votes compared to Baldizón's 46.26%. In the legislature, the PP obtained 56 seats, while the UNE won 48 seats. The Nationalist Change Union (UCN) obtained 14 seats, LIDER 14 seats, Commitment, Renewal and Order (CREO) 12 seats, and the VIVA-EG alliance six seats. The left-wing WINAQ-URNG-ANN alliance obtained three seats. The National Advancement Party (PAN) obtained two seats and the Guatemalan Republican Front (FRG), the Unionist Party and Victory Party obtained one seat each.

Government capabilities are mainly restricted by the influence of informal veto powers and interest groups such as economic associations, particularly the Coordinating Committee of Agricultural, Commercial, Industrial, and Financial 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 an increase is a necessary precondition for the furthering of state policies in a variety of sectors (social services as well as public security). In 2012, a tax reform was approved by the legislature, but implementation was blocked by legal mechanisms promoted by private sector associations such as CACIF and the Agro Chamber (CAMAGRO).

The government faces periodic constraints through the legislature's delaying of the national budget. This is a frequently used mechanism to force the government to accept political and economic proposals deriving from political party and economic sectoral interests. Economic associations limit the scope of governmental decisions when they act to protect their own sectoral interests. For example, a constitutional reform also proposed by Pérez Molina was blocked by economic associations.

The government's Mi Familia Progresá program was the subject of harsh criticism by the economic sector under the Colom administration. This program was cut significantly back during Pérez Molina's first year in office, in large part due to pressures coming from economic associations.

During the last year of Colom's term and the first year of Pérez Molina's, the government was confronted by large peasant and anti-mining movements. Colom failed to negotiate with those movements. Similarly, Pérez Molina refused to negotiate or yield to the movements' demands, strongly supported in his decision by

Effective power to govern

5

the economic associations. Instead, the Pérez Molina administration deployed military forces to suppress several social protests.

Decisions made by Pérez Molina have been criticized by civil society for a lack of consensus and negotiation mechanisms. For example, an educational reform was rejected by students because it was imposed rather than negotiated by the Ministry of Education. Public security forces suppressed students' subsequent protests using repressive means.

The freedoms of association and assembly are guaranteed by the constitution, but some restrictions apply. The ability to establish trade unions and organizations is hindered by various mechanisms such as the rotation of leaders to front companies, as well as by intimidation and selective violence. Along with 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 civil rights to be poorly implemented and protected. Human rights advocates and social activists remain the main targets of violence. In 2012, the situation of social protest movements worsened dramatically. Anti-mining movements were attacked not only by public security and military forces, but also by private security companies hired by international mining firms, prompting protests by a number of human rights observers. The deployment of military forces to suppress social protests has created a hostile environment for social protest movements and other civil society organizations.

Association /  
assembly rights

5

Freedom of opinion and freedom of the press are constitutionally guaranteed. But as the media are dominated by economic interest groups and subject to strong government pressure, particularly during election campaigns, there is little independent reporting. Even so, numerous cases of harassment, intimidation and violence have been reported against journalists who attempt to investigate corruption, criminal activities or human rights abuses. In 2011, members of a neighborhood security committee in Panajachel, Sololá, threatened Lucía Escobar, a reporter who was investigating killings, kidnappings, extortions and other human rights abuses allegedly committed by committee members.

Freedom of  
expression

5

The Organization of American States' (OAS) Special Rapporteur on Freedom of Expression, Catalina Botero, has outlined the various risks faced by individuals exercising their freedom of expression in Guatemala: 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; and access to information for journalists in general has been limited.

### 3 | Rule of Law

There is a formal separation of power between the executive, legislative and judicial branches of government. Although neither the government nor the opposition held a majority in Congress during the period under review, the main effort of the legislative branch has not been to monitor but rather 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

The electoral period in 2011 was marked by several irregularities regarding the legality of presidential, legislative and municipal-level candidates. Examples include the candidacy of President Álvaro Colom's ex-wife, the presidential candidacy of Alejandro Giamattei, who had an open judicial process pending against him, the candidacy of former evangelical pastor Harold Caballeros, as well as a number of legislative candidates that also faced pending judicial processes. All of these cases were handled by the Constitutional Court under strong pressure from the political parties. However, the resolutions of the Constitutional Court were accepted by political actors.

During the first year of the Pérez Molina administration, the Supreme Court had to intervene to solve conflicts regarding governmental issues such as the education system reform and the tax reform.

The performance of the Supreme Court in handling these conflicts has been positive due to the previous creation of the International Commission against Impunity in Guatemala (CICIG) which helped make the court more independent than it had been in previous administrations.

The appointment of lawyer Claudia Paz y Paz as general prosecutor in 2010 drew international support. Although the institution still lacks the necessary capacities to process the number of pending criminal investigations, improvements in the ministry's performance have been evident. One example of this was the recent initiation of the trial of former General Efraín Ríos Montt on charges of genocide against indigenous populations, allegedly committed between 1982 and 1983. This trial opens a new phase in transitional justice in Guatemala.

However, the long tradition of clientelism in the political party system is a continuing threat to the separation of powers in the country.

The independence of the judiciary is heavily impaired by political influence and high levels of corruption. During the period under review, the judicial system has shown some minimal improvements due to previous instituted transparency processes regarding the election of the Supreme Court members. These processes were supported by CICIG and other international and national actors.

Independent  
judiciary  
5

However, the judiciary as a whole remains only moderately independent and is subject to political influence and pressure from organized crime groups, the private sector and political parties. A culture of impunity is the main problem, resulting primarily from decades of military and authoritarian rule and civil war.

The prosecutor's office has made a great effort to improve its investigative capacities. However, most processes remain unresolved due to the weak capacities of the judiciary branch. According to official data, only 2% of homicide cases were solved in 2012. The high unsolved rate is also true of femicides, a problem that has been discussed at the international level and has become a concern in public debate. In 2012, more than 560 women were killed, and the majority of these cases remain open.

On the other hand, the judiciary branch is also susceptible to national and international pressures that lead to a focus on cases of political importance. Examples of this include former President Alfonso Portillo's extradition to the United States for money laundering, and the arrest and extradition of drug traffickers such as Horst Walther Overdick in 2012.

Although the activity of the CICIG has been fundamental in improving the performance of the judiciary branch, the commission has shown signs of stagnation in comparison with its first years of operation. This has been caused by internal problems inside the commission, but also by political interference in the processes of institutional reform by organized crime bodies, the private sector and political parties. Powerful economic elites exert significant influence over the judiciary through groups such as lawyers' associations. With this influence ranging from extensive corruption to small bribes, the chain of justice is weak (the only exception being the Constitutional Court, which has managed to preserve its legitimacy). Other problems such as a lack of professionalism and resources also affect the performance of judicial institutions. During 2011 and 2012, civil society organizations played a growing role in monitoring the judiciary and seeking to hold it accountable, especially regarding election mechanisms. This has helped to reduce the political influence of political parties and economic elites.

Corruption is a serious 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 branch, local governments and the legislative branch. Public funds are

Prosecution of  
office abuse  
5

regularly used for political purposes, through mechanisms such as budgetary allocations for non-governmental organizations (NGOs) that do not really exist, a problem that was repeatedly identified during the period under review. In 2012, it was discovered that one single NGO received more than \$55 million from public funds. In December 2012, the Comptroller General of Accounts (Contraloría General de Cuentas), the institution responsible for accountability in public institutions, presented a list identifying 150 NGOs accused of corruption, most of which were tied in some way to public officials. The majority of these NGOs managed funds earmarked for public infrastructure construction.

While there are NGOs (such as Acción Ciudadana) that monitor corruption at different levels, consequences depend on the weak capacities of the prosecutors in the Public Ministry. Political corruption has a number of faces, ranging from the use of state funds for political ends (by changing the priority of local development projects, for example) to larger schemes that involve money from drug cartels.

Public officials such as legislators and municipal office holders have a number of prerogatives that favor networks of influence, as for example decision-making power over public resources, public appointments and immunity. Most cases of public corruption are denounced by civil organizations and the media, but are not prosecuted.

Civil rights are formally guaranteed but are violated in practice, with the indigenous population often the victim of such abuse. Violence against social protest movements, trade unions and independent journalists is still a common occurrence, with the first year of the Pérez Molina administration seeing a spike in such incidents.

Civil rights  
5

According to human rights observers, more than 400 cases of violence against human rights activists were reported in 2011. Most of these cases involved members of the anti-mining and peasant movements. During President Pérez Molina's first year in office, the situation worsened significantly. In October 2012, seven people were killed during a protest in Totonicapán, a department with a large indigenous population. Most mining exploration contracts signed by the government have been concluded with disregard for the results of local referenda and community consultations rejecting these projects. When civic protest erupted as a result, the government responded with military force. During 2012, human rights organizations denounced a clear policy of criminalization of social protest led by Minister of Interior Mauricio López Bonilla, a former army coronel.

Maya artists and cultural organizations have also come under attack. During the last decade, violence against women has drawn national and international focus. In 2012, there were more than 500 homicides perpetrated against women, and in many cases the victims showed signs of mutilation and torture. Impunity is high in such cases, as in all other criminal cases in Guatemala. The judiciary branch cannot assure equality

before the law, equal access to justice or due process. As a consequence, vigilante justice is common; this has promoted the emergence of a number of so-called social cleansing (*limpieza social*) groups, many of which have been linked to cases of lynching.

#### 4 | Stability of Democratic Institutions

Democratic institutions function, but their effectiveness is limited due to a lack of stability and continuity, as well as a lack of funding and professionalism. While the Colom administration was characterized by high instability, especially in the Interior Ministry, the Pérez Molina administration represents a regression regarding civilian control of authority. Public security institutions are directed by former military officers, and many institutions have military consultants. Although there were no significant changes in the presidential cabinet during 2012, civil organizations denounced the high level of political power gained by army officials inside the public administration. This has generated uncertainty regarding the already-weak accountability mechanisms, and a fear that authoritarian practices are being reintroduced into the country's democratic institutions. One important consequence has been an expansion of military prerogatives. In 2012, military prerogatives were dramatically expanded, enabling them to provide public institutions with diverse services. In January 2013, President Pérez Molina reformed the decree that in 1996 limited the military's industrial divisions as part of the peace agreements, allowing the military to once again play a role as intermediary in public purchases.

The lack of political consensus has led to serious friction between Congress and the government, with congressional majorities repeatedly blocking reform initiatives. In addition, political instability ensures that Congress itself is unable to fulfill its role in a consistent way. Changing political parties is a common practice inside the legislature. On the first day of the recently elected congress in 2012, for example, more than 30 congressmen changed political affiliation so as to align their private interests with the legislature's new political configuration.

There is limited acceptance of democratic institutions in Guatemala. Although elites support democracy in general, many accept democratic mechanisms only so long as their dominant position in Guatemalan society is not challenged. The reluctance to progress further with democratic reforms is illustrated by the persistent opposition to tax reform by economic and business elites. There is a significant gap between economic elites' formal acceptance of democratic norms and the functioning of a number of informal mechanisms such as party financing through which they act to block democratic reforms.

Civil society organizations (and donors) do demand transparency and accountability from the public administration; however, their efforts to change ingrained practices

Performance of  
democratic  
institutions

5

Commitment to  
democratic  
institutions

5

have met with little success. The repressive measures taken by President Pérez Molina against anti-mining movements exposed the high levels of polarization within Guatemalan society regarding democratic rights. While Guatemala City residents largely supported the use of military force against social protests, the rural population remained adamant in defense of its civil rights.

## 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.

Party system  
4

The general election of 2011 showed the fragility of political parties' institutionalization. Several candidacies, for president and for lower offices, were of highly questionable legality. Additionally, party shifting is a common practice, weakening the stability of the party system. Over 30 congressmen changed their party affiliation on the first day of legislative activities in January 2012. Many others followed suit in the following months. Politicians change their party affiliation according to personal interests and those of their financiers.

In 2011, the UNE/GANA obtained 48 seats. Yet by December 2012, the UNE had only five seats, and the GANA six seats. Most of the legislators who changed party affiliation created a new political party named Everyone Together for Guatemala (TODOS). The third-strongest political force during the general elections, LIDER, obtained 14 seats in the legislature in 2011. By December 2012, however, this political party had accumulated 35 seats.

Guatemalan society is highly fragmented. While the oligarchy has long been relatively unitary, some fissures 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) through 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, particularly the industrial lobby (especially the CACIF), the agribusiness sector (Cámara del Agro) 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 Álvaro Arzú (1996 – 2000) and Óscar Berger (2004 –2008) administrations both advertised themselves as “business governments,” and prevented fundamental reforms to the existing political and socioeconomic status quo despite having engaged in pro-reform campaign rhetoric. Under the Colom administration, the economic elite was a main driver of the opposition, trying to block the president’s social reform agenda. Currently, President Pérez Molina is considered to be a representative and defender of traditional economic elite interests. At the same time, national subsidiaries of international mining and electricity companies have a powerful lobby inside the Pérez Molina administration.

For their part, civil society organizations are weak and fragmented. While some show a growing level of professionalism, this endangers their roots in popular social movements. The ability of reform-oriented and civil society organizations to participate in politics has been limited to engaging successive governments in dialogue. While the Colom administration integrated many civil society representatives into the public administration, the Pérez Molina administration shifted direction to include former military personnel, who are currently in control of the most important public administration institutions.

Due to the country’s neoliberal economic model and the weakness of the formal labor market, unions are ineffective. Guatemala did sign the free trade agreement with the United States (Dominican Republic-Central America Free Trade Agreement, CAFTA-DR), which has a chapter on labor rights that includes a commitment to “respect, promote and realize” workers’ rights, as well as to enforce national labor laws. However, Guatemalan unions still face serious threats and its leaders are frequently singled out as targets of violence. Other social movements such as anti-mining and peasant protest movements have little lobbying capacity, which forces them to conduct large street protests in order to raise their demands.

Regime support in Guatemala is very low compared to the rest of Latin America. Even more disturbing is the public’s borderline support for military government. According to the Latin American Public Opinion Project (LAPOP), the approval rate for democracy was 60.5% in 2008, the lowest point of recent years. This increased slightly in 2010 to 62.8%, but by 2012 had fallen again to 61.7%, the second lowest figure in Latin America. Satisfaction regarding the democratic regime’s output has been consistently lower than the rate of regime support, decreasing from 56.3% to 46.2% between 2008 and 2010, a level maintained during the 2011 – 2012 period (46.7%). Those benefiting from government social programs seem to have a more positive attitude toward democracy than do government opponents. Corruption and delinquency seem to be the main drivers behind support for a military coup, which

Approval of  
democracy  
4

according to LAPOP places Guatemalan democracy at risk. Indeed, just 24.7% of Guatemalan interviewees show attitudes conducive to a stable democracy. According to this source, marginalization and discrimination are important factors that reduce support for democracy in Guatemala. Preference for a democratic regime to other forms of political regimes increased during the 2006 – 2010 period, reaching 71.6% in 2010. However, this percentage dropped to 65.6% in 2012, the same level as in 2004. This fact raises serious concern over the impact of a government with a significant proportion of military personnel on Guatemalan democracy at some point in the future.

The legacy of war, violence and fear limits trust and cooperation in society. While there are many civil society organizations, their work is directed mostly toward specific goals and issues. Interpersonal trust levels have not changed significantly in recent years and are medium to low when compared with other Latin American societies. According to the Latin American Public Opinion Project (LAPOP), high levels of inequality in Guatemala undermine interpersonal trust. In 2012, only 41% of respondents said that they could trust people in their communities. This impacts the level of participation. Only 27% of respondents agree that participation in organizations or groups is a viable way to solve community problems. Additionally, 94.65% of respondents have never asked for help or cooperation from the community to solve their problems. Participation is quite high in religious institutions and school organizations, but is otherwise low. According to the same source, 50.07% of respondents attend religious activities at least once a week.

The main factor undermining self-organization and personal trust is the perception of a high degree of insecurity. This situation led to the formation of local security boards that are not controlled by the state, and which engage in vigilante justice such as armed patrols and social cleansing. There are about 1,500 local security boards across the country, many of which have been linked to lynching. These self-defense organizations are rooted in the past country's war and the counterinsurgency mechanisms implemented by the armed forces. Currently these groups assess communal threats based on the undesirability of strangers or the stigmatization of youth, among other such factors, producing high levels of social stigmatization and leading to social cleansing.

While the capital city has low levels of participation in social movements calling for the defense of civil rights, the rural area has traditionally had high levels of participation. However, the government's current repression of social movements has increased polarization regarding tolerance for protests and the use of repressive means by public security forces.

Social capital  
4

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
3

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 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 Social Watch, 79% of Guatemalans live in relative poverty and 59.3% live in absolute poverty. The country's Human Development Index score increased during the last years (2000: 0.523; 2007: 0.570; 2012: 0.581), although historical exclusion patterns still persist. The country's inequality-adjusted HDI is 0.389, which is lower than that of other Central American countries such as Nicaragua and Honduras, and is much lower than the regional and global average. This situation is especially dramatic for rural indigenous women, who are the social group most vulnerable to poverty and inequality. According to the World Bank, Guatemala (along with Honduras) has the highest level of income inequality in Latin America.

Some reduction in poverty can be attributed to the positive economic growth of recent years, as well as to the high amount of remittances. Governmental policies had little or no effect, according to the national Human Development Report. Inequality-adjusted HDI varies strongly across the country. While the HDI value for the department of Guatemala (0.697) is higher than the regional average for Latin America, HDI values for Quiché (0.470) and Huehuetenango (0.498) are considerably lower. At the municipal level, these differences are even stronger. The municipality of Guatemala City shows an HDI value of 0.826, which is comparable to several developed countries. On the other hand, municipalities such as Santa María Chiquimula in the department of Totonicapán have an HDI value of 0.388, comparable with that of Zimbabwe (0.376 in 2011).

These marked differences show inequality to be concentrated particularly in departments with a predominantly indigenous population.

| Economic indicators       |          | 2009    | 2010    | 2011    | 2012           |
|---------------------------|----------|---------|---------|---------|----------------|
| GDP                       | \$ M     | 37733.8 | 41338.2 | 47688.9 | <b>50544.7</b> |
| GDP growth                | %        | 0.5     | 2.9     | 4.2     | <b>3.0</b>     |
| Inflation (CPI)           | %        | 1.9     | 3.9     | 6.2     | <b>3.8</b>     |
| Unemployment              | %        | -       | 3.5     | 4.1     | -              |
| Foreign direct investment | % of GDP | 1.8     | 2.2     | 2.3     | -              |
| Export growth             | %        | -2.7    | 6.1     | 3.0     | <b>2.0</b>     |
| Import growth             | %        | -7.8    | 10.0    | 7.0     | <b>1.5</b>     |
| Current account balance   | \$ M     | 7.7     | -626.0  | -1598.5 | <b>-1446.6</b> |
| Public debt               | % of GDP | 23.3    | 24.4    | 24.3    | <b>25.1</b>    |
| External debt             | \$ M     | 14822.0 | 15038.7 | 16285.8 | -              |
| Total debt service        | \$ M     | 1765.1  | 1603.8  | 2057.5  | -              |
| Cash surplus or deficit   | % of GDP | -3.1    | -3.3    | -2.7    | -              |
| Tax revenue               | % of GDP | 10.3    | 10.4    | 10.8    | -              |
| Government consumption    | % of GDP | 10.2    | 10.5    | 10.3    | <b>10.7</b>    |
| Public expnd. on edu.     | % of GDP | -       | 2.8     | -       | -              |
| Public expnd. on health   | % of GDP | 2.6     | 2.4     | 2.4     | -              |
| R&D expenditure           | % of GDP | 0.06    | -       | -       | -              |
| Military expenditure      | % of GDP | 0.4     | 0.4     | 0.4     | <b>0.4</b>     |

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Though there have been some improvements, market competition in Guatemala still operates under a weak institutional framework. Market-based competition is present and quite stable, although mainly within the formal sector of the economy. Most of the country's economically active population (59.65%) is underemployed or works in the informal sector, according to a recent labor survey (Encuesta Nacional de Empleo e Ingreso 2010). In the formal sector, according to the 2012 – 2013 Global Competitiveness Report, the most problematic factors for doing business in Guatemala aside from crime and theft were corruption, policy instability and inefficient government bureaucracy. The business community has only limited trust

Market-based  
competition

4

in politicians. In addition, the report shows that Guatemala's very low innovation capacity levels are the result of a low-quality educational system.

According to the Heritage Foundation's 2013 Index of Economic Freedom, price levels are generally free, but several economic activities and products including fuel and housing construction are subsidized. However, the country is ranked behind all other moderately free countries in the index, with a score of 60.0. Currency convertibility has remained stable, as in previous periods.

While the formation of monopolies and oligopolies is somewhat regulated and there is limited legislation covering the issues of antitrust and unfair competition, 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 within specific sectors (such the banking superintendency does for financial institutions). The main merger provisions are set by the Code of Commerce, the Law on Banks and Financial Groups and the Law on Financial Private Corporations. Monopolies have recently made a resurgence, especially with respect to power generation and the exploitation of raw materials such as oil and minerals. In addition, the lack of appropriate regulations on competition has historically enabled the perpetuation of monopolies throughout the Central American region. This is the case of Transportes Aéreos del Continente Americano (TACA), the only airline in the region, which controls prices and routes. A similar situation can be seen in the poultry industry, the banking system and the telecommunications market.

Anti-monopoly  
policy  
4

Foreign trade has been extensively deregulated, but the spread of benefits beyond economic elites has been at best minimal. While the average tariff is low according to the 2013 Index of Economic Freedom, Guatemala is ranked in last place among countries considered moderately free. There are some nontariff barriers that hamper trade including import licensing requirements, services market access restrictions, bureaucratic delays and inadequate infrastructure. The free trade agreement with the United States, Central America and the Dominican Republic (CAFTA-DR) has neither brought more formal employment to Guatemala nor lowered its trade deficits with the United States. Nevertheless, CAFTA-DR is of particular importance for Guatemala, as three-quarters of its trade in goods takes place with parties to the agreement. Implementation of this agreement led to trade reforms. Guatemala's foreign investment regime allows foreign nationals to invest in most sectors of the economy, and where they mostly receive treatment comparable to that of domestic investors. 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 the WTO since 1995.

Liberalization of  
foreign trade  
9

The Guatemalan financial system is relatively small and capital markets are considered weak, though in principle oriented to international standards. The

Banking system  
6

Superintendency of Banks (SIB) is responsible for bank supervision and transparency, and its position has been strengthened over the last 10 years. According to the IMF, there has been progress in legislation (e.g., the passage of a banking law) but necessary amendments are still expected and implementation remains weak. The Guatemalan government has 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 increase their reserve requirements to 100% for all nonperforming loans by 30 June 2011. The banking sector has undergone reorganization and is well capitalized. In addition, the number of nonperforming loans is relatively low. Guatemala's bank capital-to-asset ratio is near 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. President Pérez Molina has made various attempts to reform the bank system with the aim of reducing corruption. Examples include a law eliminating banking secrecy regarding taxation issues. However, the law has not been passed by the legislature, due both to irregularities in the proposal and as a result of strong resistance on the part of the private sector.

## 8 | Currency and Price Stability

Inflation has been relatively stable in the period under review. This government and its predecessors have succeeded in reducing inflation to less than 10%. As a consequence of the global crisis, inflation rose to 12.6% in 2008, but subsequently decreased to just 1.9% in 2009. The rate rose from 3.9% in 2010 to 6.2% in 2011. Nevertheless, the exchange rate between the quetzal and the U.S. dollar has been stable (at around \$1 to GTQ 8). The central bank is independent of governmental influence. However, various domestic analysts have noted that the private sector has significant veto power over the Monetary Board of the Central Bank. Private-sector participation here has been monopolized by the economic elite associations (particularly CACIF), while other important sectors such as the cooperatives are excluded. This affects foreign exchange policy, for example, which is formally freely floating but allows for intervention by the central bank to avoid short-term volatility.

Anti-inflation /  
forex policy

7

Macroeconomic stability has been every administration's priority, due either to political preferences or ongoing pressure from international financial institutions and Central American Free Trade Agreement (CAFTA) negotiations with the United States. Social spending was increased during the Colom administration, but drastically reduced during President Pérez Molina's first year in office. Despite strong opposition to fiscal reform, the fiscal deficit was reduced to 2.8% of GDP in 2011 and is expected to be reduced to 1.7% of GDP in 2014. The public debt level remained stable during 2010, 2011 and 2012 at approximately 29.7% of GDP.

Macrostability

7

The fiscal reform plan proposed in 2013 sought to raise taxes for upper-middle-class and wealthy earners. This reform would also allow Guatemalans earning less than GTQ 48,000 (\$6,200) yearly to pay nothing in taxes; currently all those who earn more than GTQ 36,000 (\$4,645) are obliged to pay. Those earning more than GTQ 300,000 (\$38,709) annually will pay 7% in income tax, up from 5%. Middle-class earners making between GTQ 48,000 and GTQ 300,000 will pay 5%. However, taxes remain the main weakness in Guatemala's macroeconomic panorama. As of the time of writing, the fiscal reform had been blocked by the legislature due to strong resistance on the part of economic elites.

## 9 | Private Property

Property rights and regulations governing property acquisition are in place, although here as in other areas, deficiencies in the rule of law take their toll. Property rights are mostly a problem for poor sectors of the country that lack access to the legal system. There have been 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 is the presence of powerful figures seeking to maintain the status quo. Some donors have tried to step in and establish a land register, but ceased their efforts a few years ago due to the lack of viability. The inefficiency of record and oversight institutions gives criminal groups considerable opportunity to engage in fraud. In 2011, the prosecutor's office investigated a number of law firms that control networks of influence within the Registro de la Propiedad, which is the institution responsible for the control of property rights.

Property rights  
5

Private enterprises constitute the core of the formal economic sector. However, most economic relationships take place within the informal and criminal sectors, where they are governed by prevailing power relations and not at all, or barely, by the rule of law. The legal framework allows the private sector to act with impunity. In 2012, a report by the Central American Network of Think Thanks (LaRED) showed how the legal framework and the weakness of oversight institutions allows for the creation of fake firms used to hide money laundering and tax evasion. The legal framework allows for the existence of so-called figureheads (testaferros), individuals who represent companies whose real owners remain anonymous and without legal responsibilities. In 2012, it was discovered that a law firm hired the concierge at a public hospital to be the figurehead for more than 150 businesses, many of which managed public funds. Reforms to the legal framework regulating private companies have been blocked by the elite economic sector.

Private enterprise  
6

Since the 1990s, most state enterprises have been privatized. However, privatization did not always proceed consistently on the basis of market principles, but occasionally created oligopolies, as in the energy and telecommunications sectors.

## 10 | Welfare Regime

The cleavages within Guatemalan society find expression in unequal access to basic health care services and education as well as 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. Social security nets that were 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 therefore low by international standards.

Despite the lack of a genuine formal social safety system, informal social security networks provide some level of safety, especially in areas with strong communal organization. Currently, social and economic remittances provide support to communities where the presence of the welfare system is precarious or altogether nonexistent. Illegal and informal drug cartel networks have served as a substitute for the state's welfare system in recent years, at least in areas where they are active. They provide health centers, schools, sport centers and basic services.

According to the Social Panorama of Latin America 2012 study produced by the Economic Commission for Latin America and the Caribbean (ECLAC), most of the population in Guatemala has a precarious hold on employment in the formal economic sector, thus reducing their access to basic social services. This is particularly detrimental to women's ability to find a role in the labor market, as the majority of women (76% as of 2010) work in the services sector, sometimes on an unremunerated basis. According to World Bank data, vulnerable employment of women as a percentage of total female employment is about 46%.

Equal opportunity exists only formally. In practice, discrimination follows the fault lines of social cleavages; racist prejudice against the indigenous population and gender-based discrimination remain widespread. This is particularly visible in education, where indigenous females are widely underrepresented. According to the UNDP, 36.3% of Guatemala girls were excluded from the education system in 2008. In 2011, 52.7% of girls between 16 and 18 years of age were outside the school system. As a consequence, job opportunities and access to other public services are limited. HDI values and poverty rates vary significantly between Ladino and indigenous households, as they do between urban and rural areas, and between males and females. According to the UNDP, 61.9% of the indigenous population of relevant age was outside the school system in 2011. The primary cause for girls and young women failing to complete school is lack of money. In 2011, 42.9% of girls between 16 and 18 years of age abandoned school due to a lack of economic resources. While

Social safety nets  
4

Equal opportunity  
4

President Colom promoted social policies, various social programs were cut drastically back during President Pérez Molina's first year in office.

According to ECLAC, racism is a key factor driving structural inequality in Guatemala. More generally, women, indigenous people and the elderly are the most vulnerable sectors in society. In addition to the lack of economic and social opportunities, women are victims of rampant violence in the country. In 2011, more than 700 women were killed, most of them with firearms. Domestic violence and sexual crimes against women are still underrecorded.

## 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 growth rate for 2008 was 3.3%; in 2009, it fell to just 0.5%, but climbed again in 2010 to 2.5%. In 2012, GDP grew by 3.2% and growth of up to 3.5% is forecast for 2013. Economic growth in recent years has reduced poverty only slightly. The economy remains dependent on resource extraction and foreign investment, and is highly vulnerable to swings in international prices, which have been favorable in the mineral sector in recent years. Remittance levels remain high, but these are dependent on the migration policies of the U.S. administration. They too 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). During 2011, remittances flows increased, and by the early months of 2012 they had risen 11.4% year over year. In 2012 as a whole, the total amount of remittances increased to \$4.75 billion. 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. The official unemployment rate increased from 3.5% in 2010 to 4.1% in 2011 and again to 4.3% in 2012; however, underemployment and informal jobs are widespread. Concerns over security, the lack of skilled workers and poor infrastructure are considered important factors underlying the instability of foreign direct investment flows.

Current macroeconomic policy is oriented toward strengthening foreign direct investment, mostly in the mining and electricity sectors. However, the contribution of these areas to macroeconomic growth is reduced by their comparatively small share of national economic activity. Additionally, the inability of the government to resolve the significant level of popular protest against international mining firms increases uncertainty among foreign investors. A deceleration in private consumption, which grew 2% in 2012, has also contributed to the slow pace of economic growth. However, macroeconomic growth has been positive since 2010, and according to international observers, prudent macroeconomic policies adopted by President Pérez Molina could sustain this trend.

Output strength

7

## 12 | Sustainability

Environmental concerns generally take a back seat to growth considerations. Core problems include contaminated rivers, increasing levels of deforestation and environmental pollution produced by sugar cane plantations. Negative environmental consequences related to mineral resource extraction concessions (such as gold mines) have led to a series of conflicts, mostly over the use of water. In the tourism sector, there is a rising interest in the possibilities presented by ecotourism. However, this has not led to any tangible consequences for treatment of the environment. To take just one example, open garbage dumps remain the rule. The low priority given to 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 extremely great biodiversity.

Environmental  
policy  
3

Advocating sustainable development can be dangerous, as this affects the economic interests of powerful legal and criminal sectors of society. The period under review was marked by serious cases of violence against environmental activists. The most extreme example of the repressive policy of the Pérez Molina administration was the killing of seven peasants in Totonicapán during a 2012 protest against rising electricity prices and mining projects. Large-scale projects take a priority within the current government’s macroeconomic policy. However, there is no political will to establish democratic mechanisms enabling discussion of those projects with local communities. Civil society organizations were not included in the discussion of reforms to the environmental law, and are given no oversight role in the development of such projects. Environmental degradation and conflicts are some of the most important drivers of political instability and the delegitimation of governmental policies.

While literacy and primary school enrollment has increased, enrollment rates in secondary and tertiary education continue to be low (56.6% and 17.7%, respectively). Access to education reflects the existing societal cleavages (between men and women, Ladino and indigenous people, urban and rural populations). Public schools are poorly equipped and underfinanced, and wealthier citizens send their children to private schools in Guatemala or abroad. Bilingual education remains an exception. Public expenditure in education totaled 3.2% of GDP in 2008 and 2.8% in 2010. Investment in R&D is increasing, but is far from the worldwide average among transformation countries (2008: Guatemala 0.06; world average 0.6).

Education policy /  
R&D  
4

An education-system reform was implemented during President Pérez Molina’s first year in office. Although the reform was justified due to the precarious state of the country’s educational system, the disinclination of the government to negotiate with students and teachers generated strong protests that were harshly repressed by state

security forces. The proposed reform remains stalled, and does not cover primary education in any case. Social policies implemented by President Colom initiated a slow improvement in access to education, especially in the rural areas. However, these programs were drastically cut back during the first year of President Pérez Molina's term. According to the UNDP, rural indigenous women remain the social group with the least opportunities for education.

## 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 lives on. Disparities between urban and rural as well as between Ladino and indigenous populations are structurally ingrained; overcoming these poses the main challenge for the future.

Structural  
constraints

7

Guatemala's geographical location makes it highly vulnerable to natural disasters such as hurricanes. Every year, storms contribute to destroying the country's already poor infrastructure, particularly roads and bridges, and destroy important regions used for export and subsistence agricultural production. In addition, coffee crops, which represent one of the most important export products, are constantly threatened by pests that produce serious economic damage.

Every year, the risk of famine in certain poor areas is real. Another more recent problem, a consequence of democratization and the end of the war, is the structural influence of criminal networks penetrating institutions all the way to the top state levels. After the government administration under President Óscar Berger acknowledged that it could not handle the violence sweeping the country, President Álvaro Colom tried to introduce a new approach, emphasizing democratic security. However, opposition was fierce.

Overcoming these structural constraints is at the core of the political struggle between reform-oriented actors and those trying to maintain the social status quo. The ongoing obstruction of the fiscal reform proposal shows just how limited the current government's space for maneuver truly is.

Civil society traditions are weak in Guatemala. Civil society organizations 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 only rarely try to organize a consensus-based approach with other actors. Distrust is widespread and is

Civil society  
traditions

6

easily revived by intimidation after 36 years of war, violence and repression. The current crisis afflicting security and justice institutions has given civil society organizations some public space and room to maneuver in the field of public security. NGOs in this area are highly professional but most lack a significant social basis. During Pérez Molina's first year in office, participation by civil society organizations in public security issues declined due to the strong presence of former and active army officials in the field. In addition, violence and repression against social movements has reduced cooperation among civil society organizations further.

Guatemalan society remains deeply split along ethnic and social lines. Polarization is growing due to the lack of perspectives offering change by civilian means, the high level of impunity and the highly unequal access to social services. Violence has increased in rural areas (driven by issues of land tenure as well as mining and drug trafficking), and criminality and intrapersonal violence are a common feature of the social landscape. Guatemala's homicide rate is one of the highest in Latin America. Nevertheless, to date there has been an astonishingly low level of politicization of social and ethnic conflicts, despite some signs of radicalization within peasant movements.

The lack of opportunity is one of the core drivers in the growth of rival youth gangs that control many poor suburbs in big cities, and are quickly entering smaller municipalities as well. Mass media and the dominant economic sectors have claimed that these so-called maras are responsible for most of the country's violence, but there is a growing awareness that their role in violence has been overestimated. Geographical patterns of violence show a clear connection to organized crime (and the drug trade). However, a recent study on homicide rates showed that in 2011, 54.1% of homicides were driven by personal motives. Homicide is concentrated in five departments (Chiquimula, Escuintla, Zacapa, Santa Rosa, Izabal). Guatemala City has a rate of 54 homicides per 100,000 inhabitants. This places the city in sixth place out of the country's 22 departments. The national rate is 34 homicides per 100,000 inhabitants.

Conflict intensity  
7

## II. Management Performance

### 14 | Steering Capability

The government sets strategic priorities that are mostly in accordance with the principles of democracy and a market economy. However, sometimes it postpones or changes its priorities due to prevailing pressures or other structural constraints on governance. As a whole, the government shows serious deficits in its ability to

Question  
Score

Prioritization  
5

prioritize and organize its policy measures accordingly. Priorities change with every presidential transition. Problems of policy implementation are strongly related to the lack of consistency regarding new governments' policy agenda. Typically, each administration spends the first year of government defining its policy priorities, usually without taking previous policy programs into consideration. The following years of government are invested in negotiating policy implementation. The result is a lack of consistent or long-term policy agendas. For example, the strengthening of social policies during the Álvaro Colom administration was rolled back during the Pérez Molina's first year in office. During the previous administration, police reform received political support and collaboration with civil society organizations was a fundamental part of the process. On the contrary, police reform during 2012 showed signs of stagnation, and rather than promoting preventive security policies, military forces were increasingly called to perform public security tasks.

Social protests against international mining and electricity firms took place under both administrations. However, the two presidents showed very different strategies in seeking to negotiate and prevent violence. While President Colom used negotiation mechanisms, President Pérez Molina used military force to suppress social protests. This has increased violence levels, and has delegitimized democratic conflict resolution mechanisms.

Fiscal reform has been a priority since 1996. Despite international and civil society pressure, the Colom administration failed to negotiate a reform with economic elites. Pérez Molina subsequently presented his own fiscal reform project as his government's first major policy decision. Although the reform was passed by the legislature, its implementation was blocked by a number of legal actions undertaken by economic elites. A constitutional reform project proposed by Pérez Molina met a similar fate. The administration's educational reform was blocked by students who were dissatisfied with the reform policy's procedures. The failure of these reforms has demonstrated the inability of the Pérez Molina administration to construct consensus among political actors. As of the time of writing, the future of these reforms remained unclear.

Each new government in Guatemala tends to implement short-term policies without establishing continuity with previous governments' policies. Consequently, implementation tends to be hindered or undermined by several factors, including the presence of sectors that oppose reforms, electoral interests and strong clientelistic networks. Policy initiatives are commonly used for political and electoral interests. 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 and the participation of different societal sectors). Established plans and investment priorities are frequently altered in Congress so as to match the personal priorities of congressmen or in order to favor their personal clients. As a result, public investment favors the richer departments, not the poorest. This holds true for departments such

Implementation

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as Petén (which has gradually become a zone mostly controlled by organized crime), Escuintla, Retalhuleu and Jutiapa. The government's failure to reform the tax system shows its strong political dependence on elite groups and its overall conservative character. In addition, the inability of the government to establish democratic dialogue mechanisms increases social dissatisfaction and undermines the legitimacy of public decisions.

The Pérez Molina administration has proved no exception to the traditional lack of a defined policy agenda. Its first year of government was marked by inconsistent institutional and policy reforms that either lacked political support or could not make the jump from political discourse to defined policy, as was the case with the regulation of illegal drugs or the constitutional reform.

Guatemala's political leadership responds to mistakes or failed policies with follow-up reforms or changes, but this usually means it has given way to pressure (or sometimes violence) on the part of interest groups. At the same time, the political leadership is highly influenced by the leading media and by public opinion. While the media are dependent upon the private business sector, implementation and policy results are used by the opposition and the media to attack the political leadership, with the aim of lowering its public opinion ratings. Media are used either to downplay or to overstate policy results. Under the Álvaro Colom administration, the media used social policies such as Mi Familia Progresiva to justify opposition to the candidacy of his ex-wife, Sandra Torres. The business sector had opposed the expansion in social policies since the beginning of the Colom administration. When the new government took office in 2012, social policies were cut back.

The degree of policy failure and success is unknown due to the lack of evaluation and monitoring. When problems arise, the solution is to change the personnel responsible for program implementation, rather than to evaluate policy approaches. The Pérez Molina administration clearly demonstrated how little policy implementation relies on the expertise or technical personnel of previous administrations. By creating a new ministry tasked with restructuring social policies, the new administration divested itself of all staff members linked with the previous administration, thus necessarily starting programs from the beginning instead of drawing on previous expertise. In a different sense, the strong clientelistic structure of the state and the large private sector that derives its livelihood from state contracts makes it difficult to implement innovative policies.

## 15 | Resource Efficiency

The government is still unable to make efficient use of available resources. Structural corruption and the strongly clientelistic nature of budget allocations lead to a misuse of financial resources and public appointment powers. There is a lack of competitive

Policy learning

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Efficient use of assets

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recruiting procedures and professionalization programs. The results of international support and state initiatives seeking to modernize public administration are mediocre. The combination of continually replaced officeholders, clientelistic appointments and structural corruption produces institutional stagnation and prevents improvement in the state's performance.

As a partially separate issue, political and economic elites actively ignore or discredit indigenous populations' cultural traditions. For instance, a social reform policy might build on the traditional solidarity relationships found in indigenous village communities, either revitalizing them or developing them further. Exceptions exist only in the area of justice, where some steps have been taken at the local level, supported and fostered by international development partners, to revive and strengthen indigenous peoples' customary law practices. The most important institutional improvement in the last five years has come within the Prosecutor's Office, which with the support of international organizations and national civil society groups has begun to overcome the legacies of years of corruption and political negligence. It remains to be seen whether this process will continue throughout Pérez Molina's term in office.

Government policy coordination efforts are deficient, although the government has tried to improve performance. This is in part because the government bypasses formal coordination mechanisms by establishing new commissions or councils, due to its lack of a congressional majority. This leads to conflicting responsibilities or clientelistic policies which lack accountability, and undermines policy sustainability. However, the primary reason behind the lack of policy coordination is the absence of a consistent policy agenda. President Colom's Social Cohesion Council offers a case in point. This body lacked legal basis and was coordinated by Sandra Torres, who was at the time the president's wife. Torres was not an elected official, and declared her own ambition to run for president in the election of 2011. However, the Constitutional Court ruled that she was not legally allowed to run (as the constitution bars an incumbent's relatives or spouses from running for the office). During the first year of Pérez Molina's administration, clientelistic networks within the military and a large number of the president's campaign supporters and financiers received access to public funds.

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

The military has taken control of coordination of all public security institutions. However, this process has been characterized by a high level of centralization and a lack of long-term preventive approaches to security problems. Other policy areas remain uncoordinated. The extremely problematic and competitive relationship

Policy  
coordination  
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between the Ministry of Finance and the Tax Administration Superintendency (SAT) offers a case in point. This situation has produced institutional stagnation and inefficiency regarding taxation mechanisms.

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 results 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 national budgets. Hence, the public debate on corruption seems to be intensifying, though the issue is partly misused for political reasons in efforts to discredit functionaries and policies. A new law on civil service was introduced in 2008, but had yet to be passed at the end of 2012. If approved, it would be the basis for a professionalization of the public service. Today, most administrative staffers are dismissed with each change in government.

In 2012, after 10 years of discussion, the legislature approved an anti-corruption measure dubbed the Law Against Illicit Enrichment. Analysts from Acción Ciudadana argued that the law qualified as drastic legislation, but at the same time noted a lack of legal clarity regarding the return to the state of assets confiscated from criminals and corrupt public officials.

The same year, the Law on Strengthening the Fiscal System to Fight Against Fraud and Smuggling, known as Anti-Evasion Law, was passed by the legislature. This law seeks to strengthen fiscal controls over business.

These new regulations, among others, were highly criticized by the business sector, and it remains to be seen whether they will be implemented in full.

The Álvaro Colom administration's primary anti-corruption measure was its political support of the International Commission against Impunity in Guatemala (CICIG). The CICIG's most important power lies in its investigation of networks of corruption. One of these networks involved former members of the interior and defense ministries as well as a former president (Alfonso Portillo). Networks within the police department, the judiciary and one involving illegal adoptions have all come under investigation. The most significant aspect of these investigations may have been to publicize the mechanisms through which these corrupt networks functioned as well as the range of actors involved, including members of the military, police officers, business people, public institutions, media figures and members of other social groups. However, the positive results obtained during the first years of CICIG investigations have slowed somewhat due to institutional instability inside CICIG and a decline in its perceived legitimacy within civil society. In addition, political opposition from conservative sectors of the society and the judiciary branch's

Anti-corruption  
policy  
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structural weaknesses have reduced the commission's efficiency in solving key criminal investigations.

Pérez Molina's vice president, Roxana Baldetti, presents herself as the government's key figure on anti-corruption issues. However, her political leadership has shown no concrete results.

## 16 | Consensus-Building

At a rhetorical level, most major political actors agree on the importance of democracy and of a market economy with social safeguards. But their levels of understanding of these concepts vary significantly. The traditional political and economic elites see democracy and a 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 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 have not to date been able to reach a consensus on a common project, transformation remains stuck.

Consensus on goals

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Differing priorities are most obvious between rural and urban settings, particularly in relation to energy policy, land property and mining. While both the Colom and Pérez Molina governments have strongly supported the promotion of hydropower and mining, local groups across the country increasingly oppose plans due to their environmental and social costs. The collision between peasants and large mining and hydropower interests remains the most important source of conflicts in the country. During 2012, the Pérez Molina administration sought to squash social protests through repressive means in order to satisfy political pressure coming from the business sector. The result has been an increase in social conflict, a loss of lives and the expansion of a militaristic approach to conflict resolution.

While some governments have sought to co-opt reformers (in the broad sense) or to control veto powers, the situation has become more difficult due to 1) the increase in the power of criminal networks that invert this process and 2) the fact that the current government does not favor reform. The influence of these criminal networks in elections and policymaking processes is a case in point. Financial support for candidates often leads to pressure for political favors. The International Commission against Impunity in Guatemala (CICIG) has made some progress in investigating and identifying these networks, but the networks in turn have begun to organize resistance and to reverse the past years' positive steps.

Anti-democratic actors

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Transnational organized crime (mostly Mexican drug dealers) has a vested interest in blocking reforms, as the groups' activities rely on state institutions' inability to control or impede them. This makes reforms even more difficult to attain.

Another alarming tendency can be seen in the extension of military prerogatives during President Pérez Molina's first year in office. Public security institutions were the first institutional area in which military personnel were appointed. Former Colonel Mauricio López Bonilla was appointed to head the Ministry of Interior, and he in turn appointed a number of military consultants inside the ministry, intelligence agencies and the police forces. This situation occurred to a lesser degree in almost all main executive branch institutions. Following the first year of the administration's tenure in power, the extension of military prerogatives has reached into public policing and has enabled the army to engage in business contracts with other public institutions.

This excessive use of army officials in the public administration has reversed the trend of strengthening civilian control that was initiated in 1996.

The ability of the government to manage cleavage-based conflict has been low. Muddling through and knee-jerk reactions to immediate pressures have prevailed. The level of conflict is high in many areas, and is related to disputes over access to land, labor rights and civil rights. As the rural population is mostly indigenous, many of these conflicts have an "ethnic" component. While President Colom introduced a set of social policies aimed at reducing social cleavages, this drew considerable opposition and intensified political polarization. During 2012, President Pérez Molina drastically cut back his predecessor's social policies. Social cleavages have deepened due to the lack of effective solutions to social demands regarding mining and hydropower projects.

Cleavage /  
conflict  
management  
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There are some mechanisms of consultation between civil society and the government.

Civil society  
participation  
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During President Colom's last year in office, collaboration with civil society organizations decreased compared with expectations raised at the beginning of Colom's term.

Civil society subsequently actively denounced the risk of electing a former military officer as president of the republic. Distrust was based on Pérez Molina's participation in intelligence units during the internal conflict, as well as his participation in military operations in which human rights violations occurred.

Currently, there is a fundamental lack of cooperation between civil society and the political leadership. Civil society participation is mostly on a personal basis, as demonstrated by the appointment of Helen Mack Chang to head the presidential commission for police reform, or the appointment of Adela de Torrebiarte as her successor. Torrebiarte, cofounder of a civil society organization supporting the relatives of kidnapped persons, was appointed as interior minister in 2007. After that, she founded a political party and ran in the presidential election in 2011. She supported Pérez Molina in the runoff of 2011 in exchange for an appointment related

to public security institutions. This demonstrates the functioning of co-optation mechanisms and the lack of independence and institutionalization of civil society in the country.

The political leadership does recognize the need to deal with past violence, but fails to promote reconciliation beyond providing some financial compensation. However, the national compensation program has come under serious attack, as the biggest share of the money seems to be spent on bureaucracy and not on victims. There has been some symbolic recognition for the relatives of victims, and a few trials of lower-ranking military or paramilitary individuals.

After a long legal fight by human rights organizations, a legal process against former General Efraín Ríos Montt for genocide will start in 2013. This is an important step toward justice in the country. This trial is the result of a long process in which improvements in the capacities of the Prosecutor's Office have been fundamental.

Although Pérez Molina has shown no signs of opposition to these trials, the appointment of conservative actors in peace institutions has affected the progress of reconciliation. The appointment of Antonio Arenales Forno in the Peace Secretariat (SEPAZ), for example, has led to some controversy. National and international human rights organization have expressed their concern about Arenales Forno's decision to close the Peace Secretariat's Peace Archives Directorate, dissolve its investigative team and shut down its publication of historical reports. This will prevent it from making future contributions to criminal investigations.

In addition, President Pérez Molina issued a decree in December of 2012 limiting the jurisdiction of the Inter-American Court of Human Rights (CIDH) in the country to violations occurring after 1987. This occurred after the CIDH sanctioned the Guatemalan state, requiring compensation of more than \$8 million for the families of 28 peasants kidnapped or killed by military forces during the internal conflict. After strong pressure from national and international human rights organizations, Pérez Molina rescinded the decree.

## 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 Álvaro Colom administration was welcomed by donors, criticism of program politicization and the volatile political environment limited the efficacy of implementation. This situation worsened during President Pérez Molina's first year in office, as his government has demonstrated a lack of development strategies beyond support for mining and hydropower projects. This policy has not only produced social conflicts, but has also raised concerns as to the real contribution of

Reconciliation  
5

Effective use of  
support  
7

those projects to human development. Additionally, extractive projects increase risks regarding natural resources, environment and food security.

Implementation of the peace accords still serves as a main long-term “road map” for the country, but many donors have become frustrated due to implementation problems. The extension of the military’s role in public security has raised concerns among international donors, especially after the violent actions by military personnel in Totonicapán in 2012.

Nonetheless, the main focus of international cooperation remains on security and the control of drug trafficking. Support from the United States is mainly provided to the army, with the rest focused on the police and other civil institutions. Such support generates some degree of competition inside security forces. The Pérez Molina administration has only reinforced this trend, as its focus on security has led to drastic reductions in social policies.

Due to a joint lack of resources (in part resulting from the failure to pass tax reforms) and a lack of political will, the government depends on international cooperation for the support of what development programs still remain. The development agenda has been dictated for decades by international organizations such as the UNDP, while successive governments have contributed only minimal financial and technical assistance.

Guatemala’s last two governments have shown very different profiles to the international community. Colom’s administration increased the country’s credibility due to its emphasis on social policies, its support for the CICIG, its strengthening of the Public Ministry, and its efforts to reform the security system and police services. The first year of Pérez Molina’s administration saw a very different situation emerge. The international community has expressed concerns regarding the militarization of public security functions and the violent repression of social movements, especially anti-mining movements.

Credibility  
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However, in other areas, the current 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, some voices (largely from the United States) have warned that the influence of criminal networks is turning Guatemala into a “narco-state.” This implies that investment in security reform sourced from the United States is likely to rise, directed toward (mostly repressive) U.S. strategies. Guatemala remains under surveillance by international human rights NGOs, due to the high levels of impunity and the lack of or problems with implementation of international human rights standards. During 2012, Guatemala alarmed the international community through the use of military force to suppress social protests, as well as by its attempts to limit the investigation of human rights violations during the internal conflict.

President Pérez Molina has not shown support for fundamental democratic processes such as efforts to bring crimes committed during the war to justice. The most important example is the legal process against former General Efraín Ríos Montt. Pérez Molina has publicly denied the validity of genocide trial, arguing that no episode of genocide took place in the country. Ensuring access to justice, especially for indigenous population and victims of the war, has been one of the most important concerns of groups engaging in international cooperation in the country. Pérez Molina's position raises doubts regarding the current administration's democratic stance.

The political leadership cooperates within 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 has introduced a regional anti-drug policy seeking 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 mediation by the Organization of American States. Cooperation with Mexico, Central American and South American countries is generally strong, and does not lead to conflict. Migration policies are an exception, as this subject is one of the more challenging on the regional agenda between Central American states, Mexico and the United States.

President Pérez Molina's recent initiative calling for the legalization and regulation of some illegal drugs generated different reactions among Central American political leaders. However, internal regional differences did not evolve to conflicts between countries.

Regional  
cooperation  
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## Strategic Outlook

The change of political leadership in 2011 placed Guatemala in an uncertain political position. The expansion of military prerogatives shows a reversal in the trend toward civilian empowerment that had been ongoing since 1996. This is especially marked in the area of public security. Homicide rates showed some reduction during the 2011 – 2012 period as a result of previous institutional reform processes. However, Pérez Molina's administration has shown no inclination to continue those reforms. Consequently, homicide rates are expected to increase during the next period. The results of the election of a new general prosecutor will be fundamental in terms of further developments in criminal investigation capacities. The role of the CICIG in this process is expected to decline, due to the end of its mandate. Although important anti-corruption laws were passed during the period under review, implementation will remain limited due to strong opposition from conservative political sectors and the economic elites. Fiscal reform, which remains blocked by legal mechanisms promoted by the business sector, is likely to meet a similar fate.

The current stagnation characterizing legislative activities will be one of the major limitations to fundamental reforms impulse, such as the reform of the electoral and political party laws. The legislature will remain as the battlefield where distribution of public resources is determined, limiting the executive branch's political independence. The judiciary too is stagnating. Although the CICIG made great efforts to improve accountability mechanisms in the Supreme Court's election process, power struggles between parties and the economic elites will continue to undermine the judiciary branch's independence.

In order to maintain Guatemala's rather fragile transformation course, the current government should center its efforts on six essential topics. First, social policies designed to reduce inequality and poverty and facilitate access to basic social services to the most vulnerable sectors of the population should be strengthened. Second, a systematic reform of the judiciary branch should be carried out, in order to reduce corruption, stagnation and impunity. Third, the government should guarantee that the election of a new general prosecutor will not change the institutional reform process initiated by current General Prosecutor Claudia Paz. This is an important challenge due to the strong political opposition coming from conservative right-wing groups and military veterans associations. Fourth, after the negative results of the use of military forces in public security functions, this government should reconsider its approach to public security, putting more focus on preventive policies and a strengthening of civil and democratic institutions. Fifth, the reform of the police should be restarted and strengthened, in order to improve the police department's weak institutional conditions. This would help to reduce corruption and criminal activities within the police. Finally, the Pérez Molina administration should create and support democratic dialogue mechanisms enabling communication with social movements, especially in the areas of mining and hydropower conflicts. The next period will be critical in term of strong social protests. The

government should reduce the strong influence of the economic sector in order to maintain social peace and avoid a delegitimation of democratic institutions.

Although drug trafficking is one of the most important concerns of the Guatemalan government, the current security approach should be revised, focusing instead on the financial and private sectors that benefit from drug trafficking activities. The excessively hard-line security approach to the problem will only increase the militarization of public security functions and risk undermining the country's fragile democracy.