

# BTI 2016 | Guatemala Country Report

|                          | scale | score       | rank        | trend |
|--------------------------|-------|-------------|-------------|-------|
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| Political Transformation | 1-10  | 5.15        | # 76 of 129 | ➔     |
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This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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      | 16.0 | HDI                            | 0.628 | GDP p.c., PPP \$     | 7453.7 |
| Pop. growth <sup>1</sup> | % p.a. | 2.0  | HDI rank of 187                | 125   | Gini Index           | 52.4   |
| Life expectancy          | years  | 72.0 | UN Education Index             | 0.484 | Poverty <sup>3</sup> | % 26.5 |
| Urban population         | %      | 51.1 | Gender inequality <sup>2</sup> | 0.523 | Aid per capita \$    | 31.5   |

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

The political transformation that started in 1996 seems to have stalled or even be in jeopardy. President Otto Pérez Molina (2012-2015) reinforced this trend by increasing polarization, especially following episodes of strong repression of social protest and high levels of corruption in public administration. (After the end of the observation period, a rather dramatic political development took place in April-September 2015: Starting with civil society protests against government corruption, first vice president Roxana Baldetti and then president Pérez Molina himself resigned and were arrested, both accused of illicit associations and fraud.)

During the period under review, the country's main developmental challenges, including equitable and sustainable development, institutional instability, corruption, high levels of violence and the infiltration of state institutions by criminal networks have persisted. Violence is pervasive and the state's capacity to reduce the incidence of widespread crimes is limited. Acceptance of the use of the military for public security goals has broadened, especially among the middle class and economic elites. Improvements in social policies during the previous administration were dismantled by Pérez Molina's government without any alternative. Police reform has been blocked, leading to further corruption within the force. The period was marked by the initiation of electoral campaigns that disregard norms established by the Supreme Electoral Tribunal. Political parties have again shown a lack of institutionalization and the influence of illicit financing.

During the last period of this administration, political tensions between economic elites and the government were driven by an excessive number of cases of corruption and widespread opposition to proposed political, financial and socioeconomic reforms. Ultimately, the government was unable to generate the consensus necessary to pass these reforms. The period under review was also marked by an increase in social protest against mining and hydropower projects in the country. 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.

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) presents another challenge to Guatemala's further development, as well as strengthening anti-corruption policies in public administration. The indigenous majority (accounting for between 40% and 60% of the population) is still politically and economically excluded to a large extent. Ensuring social integration and political participation for the indigenous majority will remain a primary challenge in coming years. Neglecting this population's rightful claims to a better life could lead to a process of radicalization and an increase in political violence.

## History and Characteristics of Transformation

The signing of Guatemalan peace accords in December 1996 promised to deepen a democratization process initiated a decade earlier in the midst of an armed conflict. In 1984, the armed forces held elections for a constitutional assembly, 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 constitutional reforms acknowledged the formal legal equality of all citizens, and a commitment to the rule of law. A de-escalation of violence and the formal end of the civil war (December 1996) enhanced the space for mobilization and political action by civil society actors.

In the early postwar years, Guatemala, like many other postwar societies, faced the challenges of implementing the terms of the peace accords 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, weapons and human trafficking. During the administration of President Alfonso Portillo (2000 – 2004), 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 – 2008) 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 – 2012) made fighting crime a top priority, but was equally ineffective even with an approach less repressive than his predecessors’.

President Pérez Molina’s administration has relied on the use of the military for public security functions, which has had limited results in terms of crime reduction while having certain negative effects on democratic institutions and the strengthening of civil power. At the same time, social policies implemented by the previous administration were dismantled without alternatives being implemented, affecting most of the population living in poverty. The program Zero Hunger, which differs from previous programs, has become a mechanism for orienting resources toward media coverage and governmental propaganda.

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 has not occurred.

Public security and corruption remain the country’s most serious problems, 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, the business community and civil society as soon as possible. Cooperation, compromise and participation within Guatemalan society remain difficult due to continuing violence and continued social, economic and political exclusion of the majority of the population. While the government and civil society organizations do communicate, the political party system disregards the demands of civil society. In the rare instances when pacts over reforms are reached between civil society groups and government, these are then rejected by Congress which is manipulated by powerful economic interests.

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 homicide rates decreased during the first two years of Otto Pérez Molina's presidency, public security remained one of the most important concerns in the country. Homicide rates fell from 46.36 homicides per 100,000 inhabitants in 2009 to 34.03 in 2013, but there is an increase in public perception of insecurity due to the intensification of extortion at all levels of society, which are committed by criminal gangs in collusion with the national police.

During the review period, the majority of violence was linked to drug trafficking. Trafficking routes are present in the whole country, especially across the borders between departments and these have consolidated due to the state's weak presence and the cooperation of security forces. Thus, even when military and police forces are deployed in the most critical departments (San Marcos, Huehuetenango, Petén, Escuintla, Izabal), drug trafficking groups operate publicly without major confrontation from public security forces.

Organized crime and especially drug trafficking organizations remain a major concern in public opinion, along with growing public concern about violent conflicts related to mining and hydropower projects in various departments in the country. One major concern for human rights and civil society organizations is the links between drug trafficking and mining and hydroelectric projects, especially when it comes to territorial control.

Political criminal nexuses persist in top and midrange government authorities. Drug trafficking and corruption around public resources have increased, becoming the main factors in public delegitimation.

Drug trafficking, trafficking in persons and smuggling are currently one of the main drivers of homicides and the proliferation of non-state armed actors operating in urban areas and rural border areas. Local drug trafficking organizations interact with international criminal groups. On the other hand, other sources of violence including mara groups, private security companies and 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. Occasional episodes of violence between anti-mining movements and police forces or private security companies occurred during the last period. Although these conflicts raise concerns among human rights defenders and the resulting political polarization among key actors increases social tensions, this has not turned into a formal challenge to state 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 government accountable, and maintain a media presence. Several Evangelical church leaders participate directly in political party politics 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. The most prominent political opponents use radical religious principles to justify electoral goals such as Manuel Baldizón from the Renewed Democratic Liberty (LIDER) political party.

State identity

6

No interference of religious dogmas

10

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. During the government of Otto Pérez Molina, the previous government's social programs were dismantled, but no alternatives were proposed. Parallel to this, Perez Molina's government has been the subject of major accusations of corruption at all levels in its administration. By taking control of key institutions such as the Public Ministry (Attorney General Office), Supreme Court, Constitutional Court and Contraloría General de Cuentas, Perez Molina's government has ensured that public corruption remains unpunished.

Basic  
administration  
5

State institutions are concentrated in Guatemala City and in the main cities of each department. The country's northern and northwest areas, where most of the indigenous population lives, lack state services. Likewise, these regions have 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).

## 2 | Political Participation

Guatemalan presidential elections are mostly free and fair, however marked by episodes of political violence, especially at the municipal level. During the government of Otto Pérez Molina, there have been tensions among opposition political parties that started electoral campaigns at least a year before the forthcoming election in 2015. The Supreme Electoral Tribunal has shown limited capacity for enforcing electoral laws. Including the governing political party, Partido Patriota, several political parties have violated different electoral regulations, such as beginning their campaigns too far in advance of elections.

Free and fair  
elections  
6

Civil society organizations, joined by international actors and even some smaller political parties, have called for better regulations and controls over the financing activities of political parties, especially because serious accusations of the influence of drug trafficking resources on political parties. This has been one of the major accusations against Manuel Baldizon's political party, LIDER.

Government capacities are mainly restricted by the influence of informal veto powers and interest groups such as economic associations and especially clandestine criminal structures embedded in the public administration, known as CIACS (Illegal Bodies and Clandestine Apparatuses). Since these organizations were not dismantled during the country's transition to democracy, they have managed to avoid fundamental reforms in the justice system and criminal investigation institutions.

Effective power to govern

4

After a highly criticized process, the former Attorney General Claudia Paz y Paz was not elected for a second period, despite international support and the expectations from Guatemalan civil society. During her term, Claudia Paz y Paz supported key investigations and trials such as the trial for genocide of Efraín Ríos Montt and important criminal organizations never before prosecuted. Veto powers, such as former military organizations (Fundación Contra el Comunismo) and private-sector groups represented by intellectuals (Grupo de los doce) interested in delaying Ríos Montt's trial for genocide, have successfully interrupted this process several times and also generated attacks against judges and lawyers supporting the case. The influence of these groups on the candidacy commissions to elect key authorities in the judicial system (Attorney General, Supreme Court) has proven the strong link to political interests inside the executive.

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.

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 indigenous peasant rights groups especially face with a high level of intimidation and violence. The fragility of the rule of law leads civil rights to be poorly implemented and protected. Indigenous peasants, human rights advocates and social activists remain the main targets of violence. During Pérez Molina's government, the most affected organizations have been those associated with anti-mining explorations and socio-environmental conflicts especially in La Puya, Santa Cruz Barillas and San Juan Sacatepequez. Leaders have been persecuted by illegal groups and some even have been killed without any resulting serious investigation of the perpetrators. Additionally, there has been a marked tendency to target protestors by labeling social protest as subversive.

Association / assembly rights

5

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.

Freedom of opinion and freedom of the press are constitutionally guaranteed. But as the media are dominated by economic interest groups there is little independent reporting. Even so, numerous cases of harassment, intimidation and violence, including assassinations, have been reported against journalists who attempt to investigate corruption, criminal activities or human rights abuses.

Freedom of  
expression

6

In January 2014, President Pérez Molina and Vice President Roxana Baldetti sued *El Periódico*, one of the most important newspapers in the country. The suit was intended to prevent the continued publication of articles concerning the involvement of high-level government authorities in corruption. After a strong political struggle between mass media and the government, the suit was finally abandoned by Pérez Molina. This episode showed, on the one hand, the importance of investigative journalism in the accountability of public decisions and transparency. On the other hand, the decision to stop the suit showed the power and influence of mass media in the country.

During the period under review, there have been no major threats to journalists covering issues related with organized crime, especially drug trafficking. In fact, these issues are not priorities in the mass media.

### 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. On the contrary, there are informal negotiations that constantly balance power between the executive and the legislative branches. These occur especially to benefit political parties or create private benefits within the government. One example is the definition and further approval of the national budget which year-by-year becomes a negotiation field between political parties and the executive. Similar situations have occurred with the legislature's approval of different international loans.

Separation of  
powers

5

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.

The judiciary is formally independent from the legislative and executive branches, but there are signs of clear influence by political parties and government authorities

on key decisions the judiciary makes. Examples are the designation of a new Attorney General in 2014 during the election of whom civil society organizations and international community revealed the lack of transparency in the process. The same situation occurred during the election of a new body of Supreme Court justices.

The judiciary is also subject to strong pressures from non-state powers. The most important example is the cancellation of the trial of Efraín Ríos Montt for genocide. This case has been constantly hampered via different legal mechanisms provided by the framework of national laws. The capacity of free decision of judges has been threatened after the removal of Judge Jasmín Barrios, who was also victim of serious attacks.

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. The minimal improvements achieved during the last review period were seriously diminished, especially regarding transparency in election processes. The support of the International Commission against Impunity in Guatemala (CICIG) and other international and national actors did not prevent the manipulation of election processes, such those to create the new Supreme Court and choose the Attorney General.

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. Even some notable improvements in the prosecutor's office achieved during the administration of Claudia Paz y Paz are not likely to survive, as attempts at reform earned her powerful enemies within the Guatemalan elite. After her retirement, in 2014, a lawsuit was filed against Paz y Paz, seen by some observers as a political attack, meant to send a message to all judicial employees who dare to bring cases against the country's elite.

There is little available data about the efficiency of the judiciary. The perception is that the majority of cases of homicide, including cases of feminicides, remain unresolved.

The role of the CICIG in strengthening investigative capacities has been criticized because of both the strong influence of criminal and private interests and the commission's inefficiencies. After the assignment of a new commissioner, the CICIG was able to bring to light key cases such as the criminal network directed by Byron Lima Olive, who was acting from inside prison. Although the investigation demonstrated the involvement of several deputies, ministers and judges, at present this involvement has not affected their political positions.

The inefficiency of the judiciary is also caused 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. The space for political influence by civil society organizations on transparency inside the judiciary was closed during the government of Pérez Molina. This contributed to the increase of impunity among the judiciary.

Corruption is a serious problem in Guatemala, and officeholders who break the law and engage in corruption are not prosecuted under the law. A lack of transparency and accountability is widespread. The Rule of Law Index of the World Justice Project indicates that in 2014 Guatemala had a score of 0.37 (on a scale from 0 to 1) in absence of corruption and was 76th out of 99 countries included in the report. 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 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.

The government of Otto Pérez Molina has demonstrated the widespread use of public resources for private benefits. The most remarkable example is the number of accusations against him and Vice President Roxana Baldetti regarding their ownership of several luxurious properties without clear explanation. According to several civil society organizations, Pérez Molina's government has benefited its network of private-sector financiers and personal friends without any consideration of illegal accusations.

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.

Prosecution of  
office abuse  
4

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. Although there have been no major episodes of violence between those actors and the government, the most important concern is the lack of attention by the government to demands from communities affected by violations of property rights. Most cases of human rights violations involve members of the anti-mining movements. According to different sources, there are more than 50 conflicts with high levels of risk of becoming violent. These conflicts range from protests against mining and hydropower explorations, degradation of natural protected areas, expansive crops (African palm) and limited access to and distribution of electric energy.

Civil rights  
4

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.

To date, more than 45 mega projects are the active cause of most conflicts in the country. Against the lack of response and interest by the government in mediating these conflicts, social protests tend to become violent and repression by security forces contributes to the escalation of violence.

During the last decade, violence against women has drawn national and international focus. Between 2008 and 2014, there have been more than 21,500 reported cases of violence against women.

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. The government of Pérez Molina has shown stable formal performance of all democratic institutions, but lacks efficient mechanisms for accountability, especially regarding the use of public resources.

Performance of democratic institutions

5

Although the military have been involved in the control of social protests, no major episodes of violence are reported during the last two years of government. The role of the military in public security is formal and, consequently, unproductive in reducing violence.

Accusations of the militarization of the public administration at the beginning of Pérez Molina's term in office are not sustainable, since the former military officers in some key institutions of Pérez Molina's administration are not active in the military. On the contrary, the Ministry of National Defense has demonstrated its intention to publicly distance itself from corrupted former militaries. The expansion of military prerogatives benefited corrupted networks, but they were not intended to strengthen the military's repressive capacities. This includes increasing the number of military personnel deployed in public security, since this requires greater public resources.

Lack of consensus between Congress and government is normally resolved through political party negotiations and alliances, most of them at the benefit of private interests. Democratic institutions do not present signs of political instability.

There is limited acceptance of democratic institutions in Guatemala at the national level. A different situation is the level of acceptance at the municipal level. This situation has worsened during the last two years due to the number of cases of high-level corruption, which increases the abyss between local and national institutional legitimacy.

Commitment to democratic institutions

6

Although elites support democracy in general, many accept democratic mechanisms only so long as their dominant position in Guatemalan society is not challenged. Although the first two years of Pérez Molina's government showed the acceptance of the most prominent private sector, the last period demonstrate tension between these sectors due to the excessive impunity regarding corruption.

However, 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 have met with little success. 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.

Despite these social tensions, democratic institutions are accepted and there are high expectations for improvement in their role in society.

## 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.

During the period under review, political parties organized their campaigns for the forthcoming elections in 2015. The lack of proper controls over financing and electoral propaganda rules gives political parties the opportunity to compete without representing citizens' interests. In 2014, three main political parties initiated propaganda campaigns more than a year before the official date. At the same time, some political parties have irregularities regarding the legality of their directives. For example, the governing political party, El Patriota, elected Roxana Baldetti, the Vice President of the Republic, as official leader of the party. The elected presidential candidate of this party is the current minister of Communications. These actions show the abuse of power by the current government, using governmental institutions for election goals. The candidate of the LIDER Political Party, Manuel Baldizón, has been the target of serious accusations of links with drug traffickers and other organized crime activities in Petén, the northern department that borders Mexico. The third force is the former governing political party, UNE, with Sandra Torres, ex-wife of former President Colom, as candidate.

Polarization among political parties is not an issue, since informal and, in some cases illegal negotiations, prevent confrontation and major conflicts among them.

Party system  
4

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. 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 were a main driver of the opposition, trying to block the president’s social reform agenda.

During the first two years of President Pérez Molina, he was considered to be a representative and defender of traditional economic elite interests, especially in protecting mining and electricity companies – both national and international. However, since 2014, tensions between the economic elites and Pérez Molina’s government began, due to high levels of corruption that affected some of the economic elites’ interests and increase the already existing inefficiency in public administration. The most affected groups of the private sector are the middle-range entrepreneurs, who are not represented in the traditional business associations and consequently have no influence over political decisions.

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 closed all space for dialogue with civil society organizations. Factors explaining the government’s actions are corruption and ideological discrepancies made more apparent after the trial against Efraín Ríos Montt.

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. 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. This trend appears to continue through the end of Pérez Molina administration. 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%). According to the most recent Latinobarómetro survey in 2013, support for democracy in Guatemala was lowest among 18 Latin American countries: only 38% of interviewees agreed that democracy be preferable to any other form of government.

Approval of  
democracy  
4

The military background of Pérez Molina did not affect citizen support for democracy. The expectation was that a former military officer could resolve the crime situation in the country but, after almost four years of rule, civil society groups recognize that there have been no improvements in security and that “mano dura” (hard fist) policies were only electoral discourse that did not translate into reality.

Corruption and delinquency seem to be the main drivers behind support for a military coup, which according to LAPOP places Guatemalan democracy at risk. Indeed, according to the 2012 survey, 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. In the 2014 report, Guatemala dropped to last place in Latin America, at just 7.6% (a dramatic decline shared with a few other countries).

The legacy of war, violence and fear limits trust and cooperation in society. Additionally, the dynamics of crime and delinquency are fostering cooperative bonds either to confront crime through violent means or to engage in criminal activities in order to survive in high-violence environments. 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.

Social capital  
4

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. However, there are informal mechanisms of participation that show strong social cohesion, especially when communities organize themselves for protecting territory and natural resources.

New forms of social organization, such as youth organizations, cooperatives, and religious organizations, demonstrate that social cohesion and collective action is not

restricted to indigenous communities. In Jalapa, a western department with a majority non-indigenous population, communities have built strong social ties, across ethnic and religious differences, to defend community interests against mining explorations in the territory.

In most urban areas, 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. According to current data, there are about 1,200 local security boards across the country, many of which have been linked to lynching and brutal social control actions. 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 higher levels of participation. The main factor driving social organization is the lack of clear government answers to community demands. The claim is for a better mediation role between private sector interests and community needs.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Guatemala is a middle-income country with a long history of social exclusion that is quantitatively and qualitatively extensive and structurally ingrained. Social exclusion 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, in 2011, 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; 2014: 0.628), although historical exclusion patterns still persist. The country's inequality-adjusted HDI for 2013 is 0.422, which is lower than that of other Central American countries such as Nicaragua and El Salvador, and is much lower than the regional and global average. This situation is especially dramatic for rural indigenous women, who are

Question  
Score

Socioeconomic  
barriers

3

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, especially during Pérez Molina's term, since social programs were dismantled, 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.

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

| Economic indicators       |          | 2005    | 2010    | 2013    | 2014           |
|---------------------------|----------|---------|---------|---------|----------------|
| GDP                       | \$ M     | 27211.2 | 41338.0 | 53851.2 | <b>58728.2</b> |
| GDP growth                | %        | 3.3     | 2.9     | 3.7     | <b>4.2</b>     |
| Inflation (CPI)           | %        | 9.1     | 3.9     | 4.3     | <b>3.4</b>     |
| Unemployment              | %        | 2.5     | 3.7     | 2.8     | -              |
| Foreign direct investment | % of GDP | 2.0     | 2.0     | 2.5     | <b>2.1</b>     |
| Export growth             | %        | -2.1    | 6.1     | 6.7     | <b>7.6</b>     |
| Import growth             | %        | -0.6    | 10.0    | 4.3     | <b>6.0</b>     |
| Current account balance   | \$ M     | -1241.0 | -563.3  | -1354.0 | <b>-1387.0</b> |
| Public debt               | % of GDP | 20.8    | 24.1    | 24.6    | <b>24.3</b>    |
| External debt             | \$ M     | 9506.4  | 15038.7 | 16823.2 | -              |
| Total debt service        | \$ M     | 1044.2  | 1603.8  | 1257.4  | -              |

| Economic indicators        |          | 2005 | 2010 | 2013 | 2014        |
|----------------------------|----------|------|------|------|-------------|
| Cash surplus or deficit    | % of GDP | -1.7 | -3.3 | -    | -           |
| Tax revenue                | % of GDP | 11.2 | 10.4 | -    | -           |
| Government consumption     | % of GDP | 8.5  | 10.5 | 10.6 | <b>10.9</b> |
| Public expnd. on education | % of GDP | -    | 2.8  | 2.8  | -           |
| Public expnd. on health    | % of GDP | 2.5  | 2.7  | 2.4  | -           |
| R&D expenditure            | % of GDP | 0.04 | 0.04 | -    | -           |
| Military expenditure       | % of GDP | 0.4  | 0.4  | 0.5  | <b>0.4</b>  |

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

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 the last labor survey (Encuesta Nacional de Empleo e Ingreso 2010). In 2013, a reduction of the informal sector from 74.5% in 2012 to 69.2% in 2013 was reported.

In the formal sector, according to the 2014-2015 Global Competitiveness Report, the country continues to suffer above all from security-related and corruption costs that hinder the functioning of institutions, followed by an inadequate level of infrastructure, inefficient government bureaucracy and an inadequately educated workforce. The business community has only limited trust 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 2015 Index of Economic Freedom, in Guatemala the rule of law is weakly established, and crime, violence, and corruption are endemic. Poverty is high, and inefficient business regulations continue to inhibit entrepreneurship and employment. Despite a relatively high degree of trade freedom and low tariff rates, the dynamic economic gains from trade are undercut by the absence of progress in reforming other policies critical to sustaining open markets in the financial and investment areas. Price controls are rare, but subsidies of key products are common. The Quetzal is only partially convertible.

Market-based  
competition  
4

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, regulators are responsible for applying merger control legislation within specific sectors (such as the Superintendence of Banks 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 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 2014 Index of Economic Freedom, Guatemala has made little improvement in moving from the last place among countries considered moderately free to being ranked above Slovenia, Morocco and Serbia. There are some non-tariff 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. In 2012, Guatemala, as part of the Central American region, signed an Association Agreement with the European Union seeking to strengthen commerce, political dialogue and cooperation. The agreement also foresees trade liberalization.

Liberalization of  
foreign trade  
9

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. Guatemala has been a member of the WTO since 1995.

The Guatemalan financial system is relatively small and capital markets are considered weak, though in principle oriented to international standards. The Superintendence 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; however, few improvements were made during the administration of Pérez Molina, especially regarding controls over money laundering.

Banking system  
6

In addition, oversight of the banking sector is complicated by its lack of transparency and the absence of regulations obliging banks to divulge information regarding their lending practices and shareholders.

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. According to an evaluation by the IMF, the results of these attempts are disappointing due to the minimal changes in the overall situation in the banking and financial system.

## 8 | Currency and Price Stability

Inflation has been relatively stable in the period under review. As a consequence of the global crisis, inflation rose to 9.4% in 2008, but dropped to -0.3% in 2009 according to Comisión Económica para América Latina y el Caribe (CEPAL). The rate rose from 5.4% in 2010 to 6.2% in 2011, reaching 4.4% in 2013 and 3.6% in 2014. Nevertheless, the exchange rate between the quetzal and the U.S. dollar has been stable with a small reduction in 2014 (at around \$1 to GTQ 7.56). The central bank is formally independent of governmental influence. However, various domestic analysts have noted that the private sector has some 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.

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 reduced during President Pérez Molina's administration. 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. However, according to an evaluation by the IMF, the results of the tax reform have been disappointing, yielding only an increase of 0.25% in GDP.

Anti-inflation /  
forex policy

7

Macrostability

7

The public debt level remained stable during 2010, 2011 and 2012 at approximately 29.7% of GDP with a reduction to 24.6% in 2013. The fiscal reform plan proposed in 2013 sought to raise taxes for upper-middle-class and wealthy earners. This reform allowed Guatemalans earning less than GTQ 48,000 (\$6,200) yearly to pay nothing in taxes. 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.

## 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, and during the period under review, closely related to mining and hydropower explorations. 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. There have been no improvements in land registration systems, which, according to national and international observers, creates a convenient situation for abuses and even illegalities. The inefficiency of record and oversight institutions gives criminal groups considerable opportunity to engage in fraud. In 2014, the Attorney General's office prosecuted a large criminal organization that specializes in land fraud, in which public officials and law firms were involved. However, this investigation and others previously have not produced stronger efforts to reform legal and institutional frameworks so as to avoid the emergence of such criminal networks.

The most vulnerable populations are small peasants and indigenous communities, who have to confront powerful national and international interests and, as a result, protect their properties through social protests.

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.

The legal framework regulating financial and commercial activities in the private sector allow criminal networks to conceal money laundering and trafficking of illegal goods across the country. Additionally, private enterprises generate high income through tax evasion.

Property rights  
5

Private enterprise  
6

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. New regulations prosecuting criminal activities have improved controls over private enterprises by disallowing the existence of anonymous individuals on the boards of private enterprises.

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, access to justice 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 and also across gender difference. 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 indigenous village communities, were largely destroyed by 36 years of civil war. Public spending on health is around 2.40% of GDP in 2012, 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.

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. According to official data, in 2012, 38.6% of the informal economy is composed of women who 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%.

Social safety nets

4

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 and public health, where indigenous females are widely underrepresented. According to UNICEF, the matriculation rate of women in 2012 was 67.3%. 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 and also patriarchal structures that prevent girls from completing education. In 2011, 42.9% of girls between 16 and 18 years of age abandoned school due to a lack of economic resources. There is no current data on the impacts on female enrollment in education institutions and other social services produced by President Pérez Molina's decision to dismantle social programs implemented during Colom's administration.

Equal opportunity  
4

According to civil society organizations and international observers, 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 2013, more than 600 women were killed, most of them with firearms. Domestic violence and sexual crimes against women are still underrecorded.

## 11 | Economic Performance

Growth rates have been quite stable over the last decade, reaching 3.2% in 2012, 3.7% in 2013 and 4.7% in 2014. 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 decreased due to the global crisis, falling by 9% in 2009, but recovering again by 5.5% in 2010. In 2014, \$5.5 billion entered the country as remittances, 8.6% higher than the \$5.1 billion received during 2013. As a consequence, the value of the local currency against the dollar rose to its highest level in the past two years.

Output strength  
7

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. Against expectations, Pérez Molina's administration reduced the tax income. In order to encourage investment in the country, starting from 2015, income tax paid by taxpayers registered in the general tax regime (Régimen Sobre las Utilidades de Actividades Lucrativas) will be reduced from 28% to 25%.

The official unemployment rate decreased to 2.90% in the first quarter of 2014 from 3% in the second quarter of 2013. 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.

## 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 2012, the Ombudsman reported 1,534 complaints pertaining to environmental conflicts, of which 26% were related to contamination produced by open-pit mining.

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”).

Advocating sustainable development can be dangerous, as this affects the economic interests of powerful legal and criminal sectors of society. Several stages of siege were declared during Pérez Molina’s administration, revealing a lack of conflict mediation capacity. 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  
policy  
3

While literacy and primary school enrollment has increased, the enrollment rate in secondary and tertiary education reached 65.28% in 2012. Access to education reflects the existing societal cleavages (between men and women, Ladino and indigenous people, urban and rural populations) (see also indicator 10.2 for details). 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 has remained stable for the past decade at about 3%, which was 2.8% of GDP in 2013, 3.0% in 2012 and 2.9% in 2011. Investment in R&D is negligible, averaging about 0.05% over the last decade.

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, it 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 stalled during President Pérez Molina's term. According to the UNDP, rural indigenous women remain the social group with the least opportunities for education.

Education policy /  
R&D  
4

# 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; additionally, high levels of inequality and structural poverty continue to affect most of the population; 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 and earthquakes. 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, disproportionately impacting rural communities.

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.

The administrations in power since the Peace Agreements have failed to handle violence and corruption, reducing the likelihood of changing security policies toward a preventive and democratic approach.

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. Rampant corruption during the period under review shows how public institutions are vulnerable to patrimonial influence by non-state actors, which undermines institutional efficiency and legitimacy.

Civil society traditions are weak in Guatemala. Civil society organizations work either on specific issues or merely on a local basis. Fragmentation, a low degree of institutionalization, 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 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 administration, participation by civil society organizations in public security issues and other key issues in the country was practically absent due to closure of all the participatory spaces created by previous governments (postulation commissions, dialogue spaces, participation of civil organizations in police reform, among others).

Civil society traditions

6

Guatemalan society remains deeply split along ethnic and social lines. Polarization is growing due to the lack of perspectives offering change by peaceful 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, primarily in urban and border areas. Conflicts related to mining and hydropower have achieved high levels of polarization and ideological radicalization. The absence of public institutions' capacities to mediate conflicts increases the risk of violence escalation.

Conflict intensity

6

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. Most homicides occur in border municipalities and in the capital city and are driven by personal motives and business interests of all kinds.

Although there are no formal confrontations among social groups, conflicts are resolved through violence that, due to impunity, easily ends in homicide. During the period under review, extortion became the most important concern. It has been identified that gangs are not primarily responsible for extortions, which are generally committed by persons closely related to the victims. This makes extortions more difficult to prosecute and increases fear and the use of violence without control.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Prioritization  
5

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 and private interests. As a whole, the government shows serious deficits in its ability to prioritize and organize its policy measures accordingly. Priorities change with every presidential transition and each year they are renegotiated during the approval of the national budget. 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. Pérez Molina's administration did not integrate previous governmental improvements into social policies and the rule of law, such as police reform and strengthening the Attorney General's office. During the previous administration, police reform received political support and collaboration with civil society organizations was a fundamental part of the process, but since 2012, the former has showed signs of stagnation.

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 presented subsequently his own fiscal reform project as his government's first major policy decision. Although the reform was passed by the legislature, its implementation did not manage to improve taxation and, on the contrary, increased tax pressures on the middle class have led to a high level of tax sheltering. A constitutional reform project proposed by Pérez Molina met a similar fate. Opposition to the reform came from private-sector groups which considered it unnecessary to change the constitutions, especially due to high levels of mistrust of the Constitutional Court and the government's unclear reform proposal. The administration's educational reform was blocked by students who were dissatisfied with the reform policy's procedures. Pérez Molina also proposed regularization of illicit drug consumption as a solution to drug-related violence. The initiative was only a mass media stunt without any serious effort made to open up debate and explore alternatives. The failure of these reforms has demonstrated the inability of the Pérez Molina administration to build consensus among political actors and the lack of a serious commitment to national priorities. Most reform processes proposed by the government have aimed to gain public support but lack clear strategic orientation.

Opposition to those reforms has emerged, on the one hand, from lack of communication and transparency and, on the other, from a lack of trust in political institutions. In the case of the private sector, opposition to reforms has revealed the deterioration of its relationship with Pérez Molina's government over the last two years. Civil society did not manage to influence policy-making due to high levels of ideological confrontation with the government which were produced by the trial against Ríos Montt.

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 as Petén (which has gradually become a zone mostly controlled by organized crime), Escuintla, Retalhuleu and Jutiapa. The government's failure to improve the efficiency of 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. It 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. 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.

Implementation  
4

Policy learning  
4

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.

In general, the most important obstacle to innovation is corruption, which actually produces a high level of inflexibility. Policy-makers are not specialized persons with technical knowledge, but rather members of a clientelistic network who benefit from the official party remaining in power. Most high-level authorities, when not removed after few months, take the first two years of government to understand their mandate and the second two years to do business and prepare for their political transition.

## 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 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 and block broader participation by indigenous people in public administration. 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.

Each government starts its administration from zero, both in terms of policies and human resources. The group of appointees that remains is normally moved to a different position, reducing efficiency and learning. One example is the dismantling of the small improvements achieved in the Prosecutor's Office under Colom's government after the retirement of Claudia Paz y Paz in 2014.

Efficient use of  
assets

4

The only institution that can audit the public administration is the Contraloría General de Cuentas, which, however, is controlled by political parties, thus preventing independent audits.

Financial resources are to a large part distributed throughout a network of corruption, both public and private.

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.

Policy  
coordination  
5

Most coordination occurs through informal mechanisms and personal relationships.

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). Each government launches a new plan or agreement, neglecting the previous one. In 2014, President Pérez Molina launched the "K'atun: nuestra Guatemala 2032," which is the official national development plan. This plan seeks to coordinate institutional efforts and orient financial resources toward development. To date, there are no clear blueprints for implementation of the plan, nor reforms of the national budget's structure to further its implementation.

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.

This situation worsened during Pérez Molina's administration, under which existing coordination and collaborations spaces between public institutions and civil society organizations were closed.

An example of other policy areas that remain uncoordinated is the extremely problematic and competitive relationship between the Ministry of Finance and the Tax Administration Superintendence (SAT). 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 are still pending. 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 2014 because it was widely criticized by important political sectors and unions. 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.

Anti-corruption  
policy  
4

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. During Pérez Molina's administration, the period of implementation of the law, no important confiscations were made. 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 regulations, among others, were highly criticized by the business sector, and it remains to be seen whether they will be implemented in full. In addition, vis-à-vis the creation of more regulations, corrupt networks usually use powerful political relations to avoid controls and prosecution.

Pérez Molina's vice president, Roxana Baldetti, presented herself as the government's key figure on anti-corruption issues. However, her political leadership has shown no concrete results and she has even been the target of serious national and international accusations of corruption and links with criminal organizations.

After almost eight years, the International Commission against Impunity in Guatemala (CICIG) has achieved mixed results. Relevant investigations include the network involving former members of the interior and defense ministries, as well as a former president (Alfonso Portillo), and the network directed by Byron Lima Oliva, who is in jail for the killing of Archbishop Gerardi. 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 by CICIG investigations have slowed somewhat due to institutional instability inside the 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 structural weaknesses have reduced the commission's efficiency in solving key criminal investigations. The government was even inclined to reject renewal of the CICIG's mandate in 2015, both due to a lack of results and the possibility of further investigations of corruption among key public authorities (however, due to national and external pressure Pérez Molina paved way for renewal in April 2015).

## 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. Democracy is understood at the level of electoral procedures, but the need to strengthen democratic culture both inside public administration and society is not understood. Formal institutions function, but are undermined by disparities in political power among communities and economic elites. Although there were concerns about President Molina's military background, it did not result in a democratic setback, though it did strengthen corrupt networks.

There is no alternative model to the market economy in the country and government efforts seek to satisfy demands coming from the economic elites to improve legal frameworks and financing support. The market economy is defended by ideological arguments, rather than macroeconomic benefits. The economic elites call for less governmental intervention in economic affairs, but more repression to protect their private interests. Differing priorities are most obvious between rural and urban settings, particularly in relation to energy policy, land property and mining.

Consensus on goals

6

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 and is highly involved in corruption. The influence of these criminal networks in elections and policy-making processes is a case in point. Financial support for candidates often leads to pressure for political favors. The Electoral Court and Supreme Court have been co-opted, which undermines transparency in election mechanisms.

Anti-democratic  
actors

4

The use of illegal financial resources for political prerogatives inside the government prevents reformers from changing the institutional frameworks that benefit from collusion. 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 former military consultants inside the ministry, intelligence agencies and the police forces. During Pérez Molina's administration, the extension of military prerogatives has reached into public policing and has enabled the army to engage in business contracts with other public institutions. The presence of public officials with military background did not translate into a militarization of society. Instead, former military personnel exploited their networks among civilians to boost corruption and illegal activities.

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. President Pérez Molina exacerbated polarization by criminalizing protestors and using repression as the chief answer to social demands. These actions reveal the legacy of decades of government indifference to strengthening state conflict mediation capacities. Dialogue and negotiation are delegitimized and rejected by the economic elites that pressure the government to implement a "hard fist" solution to social unrest. International demands for human rights responsibility and environmental protection have been ignored by the government, increasing the risk of violent confrontations with communities and social organizations.

Cleavage /  
conflict  
management

4

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 conflict in the country. 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.

There are some formal mechanisms of consultation between civil society and the government. However, during Pérez Molina's administration these mechanisms were ignored, closing dialogue and accountability.

Civil society  
participation  
5

The most important accountability mechanisms are the candidacy commissions for selection of key public officials. During Colom's administration, these commissions produced positive results in that they avoided the strong influence of criminal organizations and the economic elites over the elections to the prosecutor's office, supreme and appellate courts, and the Contraloría General de Cuentas, among others. The commissions integrate with representatives from different social sectors that contribute to monitoring individual candidacies and selecting a short list to be decided upon by the president of the republic. However, during Pérez Molina's administration, the recommendations made by these commissions were ignored and it is considered that official decisions were very heavily influenced by powerful groups with private and even illegal interests.

Currently, there is a fundamental lack of cooperation between civil society and the political leadership. 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. After the election, she was appointed head of the commission for police reform, previously directed by Helen Mack, another civil society leader. This exchange of political support has not translated into benefits to reform processes. The commission for the reform of the police was dismantled. 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.

Reconciliation  
5

After a long legal fight by human rights organizations, a legal process against former General Efraín Ríos Montt for genocide started in 2013 and resulted in a conviction of Ríos Mott for genocide. The sentence was rapidly rejected by the Supreme Court, which required a retrial, the start of which has been delayed until April 2015. The trial was an important step toward justice in the country, but it also showed how difficult is to deal with past human rights abuses in the context of high ideological polarization.

Additionally, in January 2015, Pedro García Arredondo, former head of the Sixth Command of the extinguished National Police, was found guilty for ordering the fire on the Spanish Embassy on 31 January 1980, in which 37 people were killed. Arredondo was also found guilty for murdering two students during the same period. The former police commander was sentenced to 90 years in prison.

Although Pérez Molina has shown no signs of opposition to these trials, there has been no symbolic recognition nor restitution to the families and communities of the victims.

On the contrary, since the beginning of Pérez Molina's administration, key peace institutions have been blocked through the appointment of conservative actors affecting 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. Program politicization and the volatile political environment have traditionally limited the efficacy of implementation. President Pérez Molina's administration 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 those projects to human development. Additionally, extractive projects increase risks regarding natural resources, environment and food security.

Implementation of the peace accords is no longer considered a viable "road map" for the country due to the absence of political will among key actors to support implementation. 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. However, the use of military force to repress social protests decreased due to the risk of human rights violations. Instead, police forces

Effective use of support

6

and private security companies have taken control over the security of mining explorations.

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.

Despite serious accusations of corruption inside Pérez Molina's government from both national and international actors, international cooperation flows remain unaffected because strategic interests remain untouched and priorities, such as drug-trafficking-related violence, have been managed in ways to satisfy international demands.

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.

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.

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. Although public corruption is rampant in Pérez Molina's administration, international opinion of his government is that corruption a domestic issue which does not affect strategic interests pertaining to cooperation and partnership. For example, the reduction of drug-trafficking-related violence increased the perceived reliability of Pérez Molina's administration, even though it is clear that drug trafficking flows continue.

Credibility

6

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. However, during his last two years in office, Pérez Molina accepted important sentences of past perpetrators of human rights abuse, and the government did not interfere with further decisions by the Supreme Court. This fact dispelled international concerns regarding the independence of the judiciary because the distance taken by the executive in these issues was considered positive.

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) and the level of economic dependence of the region on commerce and cooperation with this country. 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.

Regional  
cooperation  
8

President Pérez Molina announced his interest in the legalization and regulation of some illegal drugs, which generated different reactions among Central American political leaders. This initiative was made without a clear strategic definition or proposal for management which made it unsuccessful. The government has signed agreements with Honduras and El Salvador to improve security and police collaboration in the border areas. In February 2015, Pérez Molina signed an agreement for custom unification between Honduras and Guatemala, which will contribute to strengthening cross-border commerce, and will be supported by cooperation from the United States. Internal regional differences have not evolved into conflicts between countries.

## Strategic Outlook

The second half of Pérez Molina's administration placed Guatemala in an uncertain political position. The expansion of military prerogatives translated not only into a reversal in the trend toward civilian empowerment that had been ongoing since 1996, but also into a proliferation of corruption among public administrators. This is especially marked in the area of public security, communications, infrastructure and the health system. Homicide rates showed some reduction as a result of previous institutional reform processes and changing patterns in crime and illegal markets. However, Pérez Molina's administration has shown no inclination to continue long-term reform processes. Consequently, homicide rates are expected to increase during the next period. Political instability is fostered by the inefficiency of key institutions such as the Attorney General's office, the Supreme Court and the Electoral Court, which after highly criticized selection procedures, have demonstrated their partiality. Although important anti-corruption laws were passed during Pérez Molina's administration, implementation will remain limited due to strong opposition from conservative political sectors and the economic elites.

The current stagnation characterizing legislative activities will be one of the major limitations to the impulse for fundamental reform, such as the reform of the electoral and political party laws. The legislature will remain 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 new 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 transparency and rule of law during the upcoming electoral processes. Fourth, after the negative results of the use of military forces in public security functions, the government should reconsider its approach to public security, putting more focus on preventive policies and a strengthening of civil and democratic institutions. This is especially important for social protests, which should no longer be addressed by repressive means, but through mediation and non-violent conflict resolution mechanisms. 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 administration should create and support democratic dialogue mechanisms enabling communication with social movements and civil society in general, especially in the areas of mining and hydropower conflicts.

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 strengthening of prosecution and justice institutions should not be blocked in order to protect prominent members of the government concerned that they will be prosecuted during the subsequent administration.