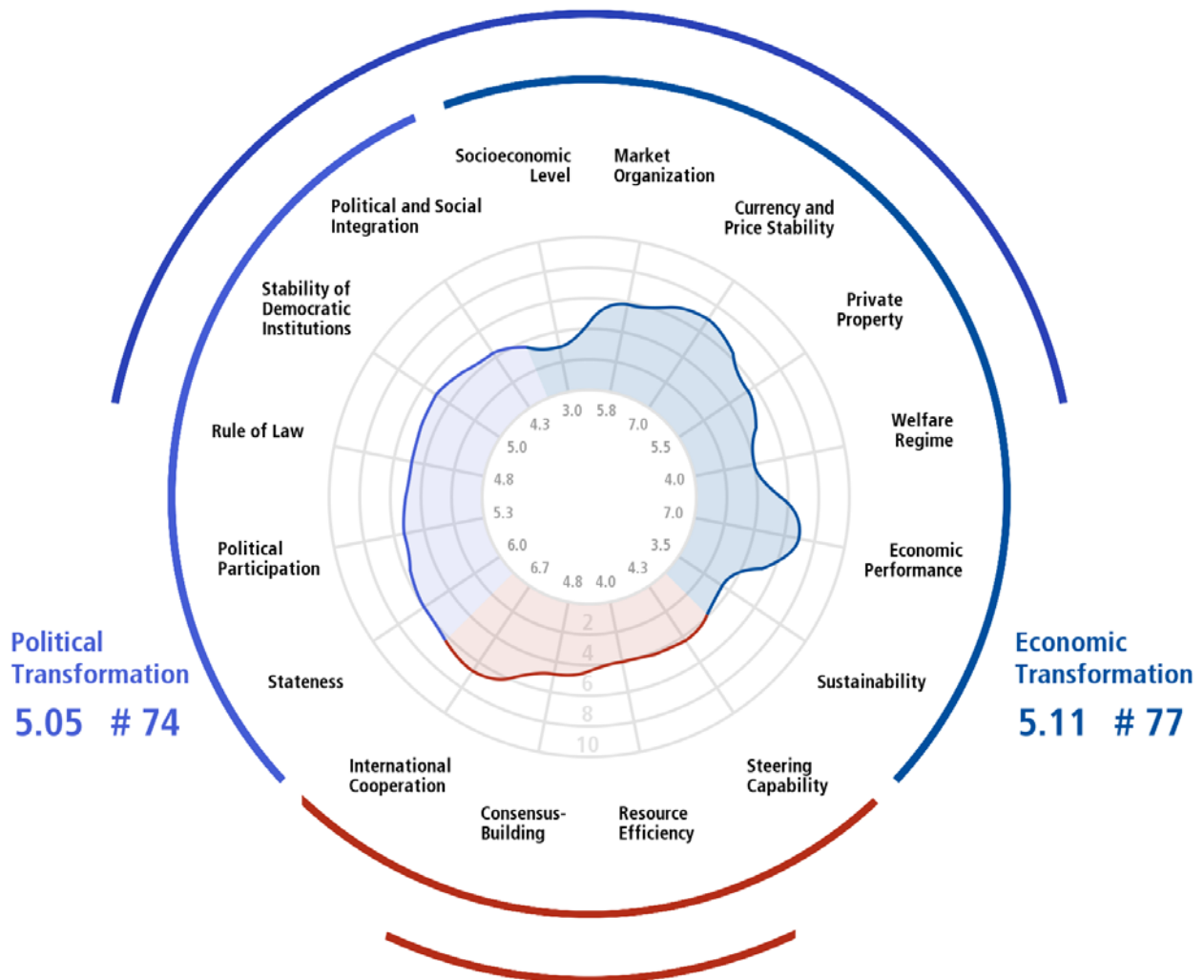


Guatemala

Status Index

5.08 # 80

on 1-10 scale out of 129



Political Transformation
5.05 # 74

Economic Transformation
5.11 # 77

Governance Index

4.52 # 77

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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	16.6	HDI	0.640	GDP p.c., PPP \$	7947
Pop. growth ¹	% p.a.	2.0	HDI rank of 188	125	Gini Index	48.7
Life expectancy	years	73.0	UN Education Index	0.532	Poverty ³	% 25.3
Urban population	%	52.0	Gender inequality ²	0.494	Aid per capita \$	25.1

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 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. A dramatic political development took place between April and September 2015: starting with broad-based civil society protests against government corruption, and pressured by the International Commission Against Impunity in Guatemala (CICIG), first Vice-President Roxana Baldetti and then President Pérez Molina resigned and were arrested on charges of illicit associations and fraud. As a consequence, a transitional government finished out the presidential term and oversaw the presidential election against a backdrop of political instability and an ongoing crusade against political involvement in organized crime. Jimmy Morales, a former comic actor with no political experience was elected president, supported by a political party founded by conservative former military officers, some of them linked with past human rights violations and criminal networks. The following year (2016) was marked by corruption trials involving high-level authorities, private sector representatives, media shareholders, representatives of the banking system and former military officers.

Although the legislature considered minor political reform and the judicial sector intensified its investigation and prosecution of criminal networks, the period under review is better defined as one in which Guatemala's main developmental challenges, including equitable and sustainable development, institutional instability, corruption 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 decreased somewhat, despite objections from the middle class and economic elites. During the period under review, there were few serious efforts to implement social policies that would protect the rural, predominantly indigenous populations.

Police reform has been blocked, leading to further corruption within the force. Political reforms, especially the electoral and political parties law has been circumscribed and key constitutional reforms are still pending, due to strong opposition from the government and conservative groups.

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. 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 and Jimmy Morales to forbid demonstrations on public streets and mining properties.

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. The indigenous majority (accounting for between 40% and 60% of the population) remains 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 efforts to close down the International Commission against Impunity in Guatemala (CICIG) and to promote loyalists into the Public Ministry reflected his concern with avoiding any personal fallout from his involvement in the criminal network known as “la línea” which was dedicated to defrauding public resources. Nevertheless, the “línea” investigation led to the incarceration of both president Otto Pérez Molina and Vice-President Roxana Baldetti. Massive citizen protests marked the end of Otto Pérez Molina’s administration. This led to the emergence of new social movements promoting political reforms, justice and transparency.

In this context, Jimmy Morales, a comic actor with no political experience, was elected President. Morales was supported by a political party founded by extreme right former military officers, most of whom were linked with past human rights violations and involvement in organized criminal networks. Morales’ first year of government was marked by his lack of capacity to govern and inability to manage public opinion. His government was soon also linked with corrupt networks inherited from Pérez Molina’s government.

Álvaro Colom’s social policies, implemented between 2008 and 2012, were dismantled by Otto Pérez Molina’s administration, and Jimmy Morales has shown no commitment to revive such policies. The last year of Otto Pérez Molina’s administration and the first year of Jimmy Morales’ government demonstrate the struggles between social forces (national and international) promoting change, and strong opposition from the government and private sector.

Economic and political transformation is still closely tied to the implementation of the peace accords. Although every government elected since 1996 has pledged 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.

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

The state's monopoly on the use of force has been further eroded and it is severely challenged by criminal networks, most of which are deeply embedded in public institutions and political parties. Persistent violence and public insecurity continued to be major challenges throughout the period under review although there has been a small decrease in homicide rates during the last year. Rates fell from 46.36 homicides per 100,000 inhabitants in 2009 to 30 in 2015. Although this trend continued during 2016 – registering a slight uptick – public perception of insecurity remains high 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, most violence was linked to extortion. Acts of extortion are predominantly planned from inside prisons using different methods including random phone calls or gangs. There are also criminal organizations that specialize in extortions that target businesses and companies. One of the most affected sectors is public transportation: between 2010 and 2016, 484 bus drivers were killed in Guatemala City. One major concern for human rights and civil society organizations is the link between drug-trafficking and mining and hydroelectric projects, especially when it comes to territorial control.

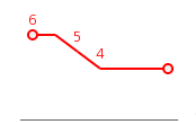
Political criminal nexuses are present in top and midrange government authorities. Several investigations conducted by CICIG and the General Attorney Office have dismantled extensive and powerful networks of corrupt individuals involving ministers, legislators, entrepreneurs, judges and police officers. Drug-trafficking and corruption around public resources have become the main factors leading to delegitimation. The proliferation of non-state armed actors operating in urban areas and rural border areas engaged in drug-trafficking, trafficking in persons and smuggling are currently the main drivers of violence. Local drug-trafficking organizations interact with international criminal groups. Other violent actors include gangs, private security companies and assassins for hire (sicarios).

Question
Score

Monopoly on the
use of force

4

'06 '18 10



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 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, this situation has not translated into their questioning or rejecting the nation-state as a whole. In 2016 several constitutional reforms were proposed. These reforms have created much confrontation, especially reforms that seek to recognize indigenous justice systems.

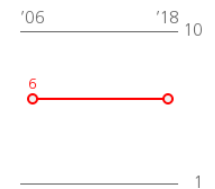
Guatemala's state functions and basic state order have no grounding in religious dogma. There is a complete separation of church and state. The Catholic Church still is influential, but has lost ground to the rising popularity of evangelical churches. Indeed, Guatemala is today 50% Catholic and 50% evangelical.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

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. High level corruption in the public sector continues to be the major limitation to the strengthening of public administration.

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).

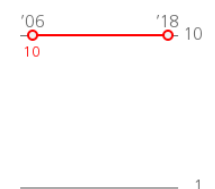
State identity

6



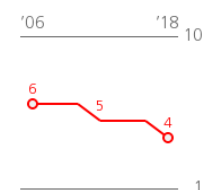
No interference of religious dogmas

10



Basic administration

4



2 | Political Participation

In theory, Guatemalan presidential elections are free and fair. However, they are marked by episodes of political violence, especially at the municipal level, and fraught with illegal financing. The election of Jimmy Morales was strongly influenced by the incarceration of former president Otto Pérez Molina and former vice president Roxana Baldetti among other high-level public officials. An important investigation focused on the involvement in money laundering and illegal financing of the political campaigns of Édgar Barquín, former president of the Bank of Guatemala, his brother Manuel Barquín and Jaime Martínez Lohayza, both congress members of the LIDER political party. This investigation and Manuel Baldizón's resulting lack of legitimacy led the LIDER political party to lose voters and fail to progress to the second ballot.

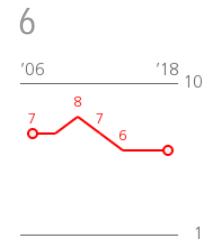
In this context, Jimmy Morales, an outsider candidate, won the election representing the Frente de Convergencia Nacional, FCN-Nación, a political party created by former military officers, some of them linked to corrupt networks involving members of Pérez Molina's political party and linked with human rights violations during the armed conflict. Although the election in 2015 was held amidst massive citizen protests against the political establishment, electoral participation was high and occurred without violence and confrontation. Jimmy Morales won with 67.44% of the votes against Sandra Torres from UNE with 32.56%. Citizen participation was 56.32 %, with 43.65% abstention. The 2015 election demonstrated citizen willingness to express discontent through the ballot box, and notably high levels of distrust toward a corrupt traditional political establishment.

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.

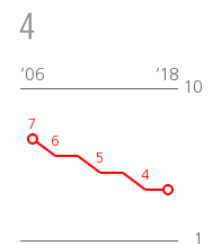
The International Commission Against Impunity (CICIG) was created in 2006 and initiated activities in 2007. Since then, it has worked together with the Attorney General Office to prosecute corrupt networks embedded in public institutions. Investigations by the CICIG and Attorney General Office led to the dismantling of powerful corrupt networks, and the instauration of a transitional government in 2014 before new elections could be held.

The new government of Jimmy Morales has shown clear signs that the veto power of organizations inside the government will continue. Several former military officers close to Jimmy Morales, known as la "Juntita" (the little council), not only financed the electoral campaign but have also been linked to corruption and past human rights

Free and fair elections



Effective power to govern



violations. FCN-Nación was founded by members of AVEMILGUA, the association of military veterans that promotes an extreme right confrontational discourse against human right defenders. These groups, led by the parliamentary representation of FCN-Nación, have been one of the most important opponents of constitutional reforms.

Business groups have also intensified their resistance to prosecution of tax evasion and constitutional reforms. This is the result of the prosecution of well-known economic elites involved in corruption and tax evasion, and their loss of control over judicial institutions. The government faces periodic constraints caused by the legislature's delaying of the national budget. This is a frequently employed mechanism to force the government to accept political and economic proposals reflecting the interests of political parties and the economic sector.

The freedoms of association and assembly are guaranteed by the constitution, but severe 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 recent cases of corruption inside unions. Human rights advocates and indigenous peasant rights groups especially face high levels 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 and the first year of the Morales administration 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 terrorism. Business groups attempt to judicialize social protest and ban street demonstrations. 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. Despite this, one positive development in January 2016 saw the Supreme Court order that the construction of two hydropower projects in Alta Verapaz be suspended for failing to consult the affected communities.

Freedom of opinion and freedom of the press are guaranteed by the constitution. However, as the media are dominated by economic interest groups there is relatively little independent reporting. At the same time, new more independent print and online publications have been formed. Plaza Pública, Nómada and Contrapoder have all promoted independent journalism, although they have a relatively small audience

Association /
assembly rights

5

'06 '18 10

6 5

1

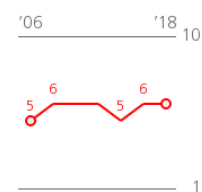
Freedom of
expression

6

compared with traditional mass media. Social media (Facebook and Twitter especially) provide an outlet for the dissemination of information.

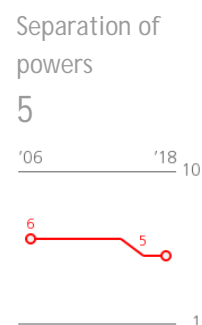
Numerous cases of harassment, intimidation and violence, including assassinations, have been reported against journalists who attempt to investigate corruption, criminal activities and human rights abuses.

Immediately upon being elected, Jimmy Morales made several attacks designed to discredit the media. Investigations conducted by CICIG and the Attorney General Office have proven the involvement of shareholders of Siglo XXI, one of the traditional newspapers in the country, in corruption during the government of Otto Pérez Molina. Erick Archila, former minister of energy and mining during Pérez Molina's administration was linked to a network of corruption and was also the major shareholder of Canal Antigua and Contrapoder. Archila fled to the United States and an arrest warrant has been issued. Shareholders of Noti7, one of the most important news program in the country, are the subject of investigation for providing illegal financing to Pérez Molina's electoral campaign.



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.



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 clear signs of influence by political parties and government authorities on key decisions the judiciary makes. Examples are the election of the members of

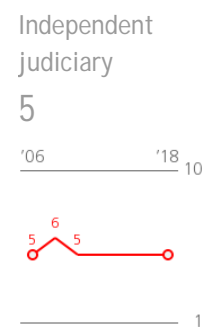
the Supreme Court and Constitutional Court that are co-opted by lawyers subject to prosecution.

The long tradition of clientelism and corruption 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 improvements achieved by the investigative and prosecutorial work of the CICIG and the Attorney General Office during the last review period are bearing dividends. They have emboldened an increasing number of honest judges and prosecutors and have drawn greater public attention to the judicial process. These developments have been accompanied by growing and sustained pressure for reform. Nonetheless, the support of the International Commission against Impunity in Guatemala (CICIG) and other international and national actors did not prevent the continued manipulation of election processes, such as those to create the new Supreme Court and Constitutional Court. The role of the CICIG in strengthening investigative capacities has been questioned because of both the strong influence of criminal and private interests and the lack of political commitment from governmental authorities. CICIG has been a key supporter of political reforms, especially regarding transparency among the Supreme Court and judges' performance. The prosecution of several corrupt networks involving public officials and business groups are important advances. However, institutional prerogatives foster the emergence of new corrupt networks, most of which are embedded in the new government of Jimmy Morales.

The judiciary as a whole remains subject to political influence and pressure from organized crime groups, the private sector and political parties. A culture of impunity remains a serious problem, resulting primarily from decades of military and authoritarian rule and civil war and an illegal financed political party system. Even some notable improvements in the prosecutor's office achieved during the administration of Claudia Paz y Paz and Thelma Aldana could eventually be threatened, as attempts at reform earned them powerful enemies within the Guatemalan 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 femicide, remain unresolved. The inefficiency of the judiciary is the result of 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. Influence ranges from extensive corruption to small bribes. Business groups have initiated strong opposition to the constitutional reforms which includes important changes to the control mechanisms in the election and profile of members of the Supreme Court. Other



problems such as a lack of professionalism and resources also affect the performance of judicial institutions.

Corruption is a serious problem in Guatemala, and officeholders who break the law have started to be prosecuted. However, the capacity of CICIG and the prosecutor's office is limited and there is a widespread lack of transparency and accountability. Many cases of corruption investigated by CICIG and the prosecutor's office depend on a single judge, Miguel Angel Gálvez, who is perceived to be honest, although a new generation of similarly inclined judges are gradually emerging.

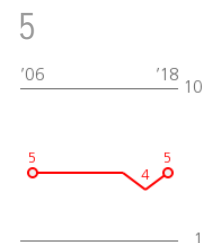
Corruption and abuse of office affects most public institutions, including the police, the army, the prosecutor's office, the judiciary, local governments and the legislative branch. Public funds are regularly used for political purposes, through mechanisms such as budgetary allocations for non-governmental organizations (NGOs) that do not really exist, a problem that was repeatedly identified during the period under review. Recent investigations have shown that an important part of public funds has been used to illegally finance electoral campaigns. The government of Otto Pérez Molina saw the widespread use of public resources for private benefits, a practice that at the moment continues to be present in Jimmy Morales' government. In 2016, serious accusations were made that implicated Vice-President Jafeth Cabrera in a corruption case and Jimmy Morales' son and brother in another corruption case.

According to several civil society organizations, the governments of Pérez Molina and Jimmy Morales have benefited from a network of private-sector financiers and personal friends without any fear of prosecution. While there are NGOs (such as Acción Ciudadana and new social movements created in 2015 to demand the resignation and arrest of Otto Pérez Molina) that monitor corruption at different levels, consequences are limited by the weak capacity of the prosecutors in the public ministry.

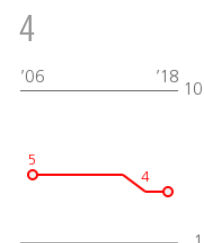
Civil rights are formally guaranteed but are violated in practice, with the indigenous population often the victim of such abuse. Most cases of human rights violations involve members of the anti-mining, anti-hydropower projects and water movements. According to different sources, there are more than 50 conflicts with high levels of risk of becoming violent. When civic protest erupted as a result, the government responded with military force due to a lack of non-violent conflict resolution capacity.

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. Between April 2015 and March 2016 there were 262 reported cases of femicide. 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

Prosecution of
office abuse



Civil rights



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 and the first year of the Morales government saw stable formal performance of all democratic institutions, but the political system lacks efficient mechanisms for accountability, especially regarding the use of public resources. A lack of consensus between Congress and government is normally resolved through political party negotiations and alliances, most of them to benefit private interests. The role of the military in public security is formal and, consequently, ineffective at reducing violence. In 2016, as part of requirements made by the Prosperity Alliance Funds of the United States, an initiative to remove the military from public security has generated confrontations between political actors and former members of the military that consider military presence on the streets necessary.

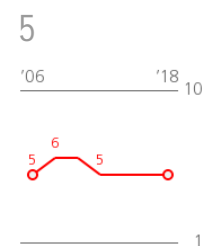
National democratic institutions in Guatemala lack legitimacy. Although elites support democracy in general, many accept democratic mechanisms only so long as their dominant position in Guatemalan society is not challenged. This situation was evident after the prosecution of members of prominent business groups for tax evasion and illegal financing of electoral campaigns. On the one hand business groups claim transparency, while on the other they oppose the continuity of CICIG in the country.

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 to date.

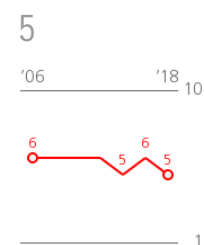
5 | Political and Social Integration

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

Performance of democratic institutions



Commitment to democratic institutions



Party system

4

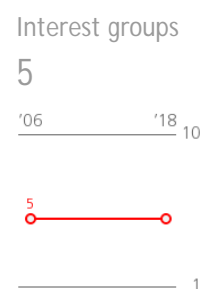
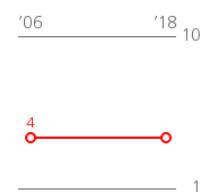
Parties are established around personal relations and interdependence (mostly based on an asymmetric character) and not on the basis of a shared political program. Parties lack mechanisms of internal democracy and accountability, and women and indigenous people are poorly represented. Both deputies and mayors change party affiliations frequently while in office, thus providing for a personalized form of stability. The weakness of the existing party system thus represents one of the major problems not only for the stabilization of the political system but also for the broadening of political representation. In addition, political parties have been organized around business alliances using public resources. Illegal financing of electoral campaigns allows private actors to benefit from public resources. The alliance between politicians and private sector to extract public resources is currently the main focus of investigations by CICIG and the prosecutor's office.

A lack of proper controls over financing and electoral propaganda rules continues to afford political parties the opportunity to compete without representing citizens' interests and to move from one party to another according to business interests. In January 2017, Otto Pérez Molina's political party, Patriota, was formally disbanded due to illegalities regarding financing. The same fate is expected of Manuel Baldizón's political party, LIDER, which is also being prosecuted for the same reason.

In April 2016, the electoral and political parties law was reformed. CICIG, the international community and civil society organizations supported the reforms, although this led to confrontations with political sectors who opposed the reforms. The new law will apply to elections in 2019 and includes stronger controls over electoral financing and increased financial penalties for election irregularities. Together with the strengthening of the prosecutor's office and the electoral court, the reforms are a step forward regarding better control over political parties.

Guatemalan society is highly fragmented. While the oligarchy has long been relatively united, some fissures have begun to appear in the period under review, mostly in relation to organized crime and the prosecution of prominent business groups. 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. The Pérez Molina and Morales governments were generally receptive to these pressures. 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 dialog. Due to the country's neoliberal economic model and the weakness of the formal labor market, unions are ineffective. Social movements such as anti-mining and peasant protest movements have little lobbying capacity, which forces them to conduct large street demonstrations in order to raise their demands.

Approval of democracy in Guatemala is very low compared to the rest of Latin America. According to the most recent Latinobarómetro survey in 2016, support for democracy in Guatemala remains the lowest among 18 Latin American countries, with a 31% approval rate. According to the LAPOP surveys, satisfaction regarding the democratic regime's output has been consistently lower than the rate of regime support, decreasing from 56.3% in 2008 to 31% in 2016.

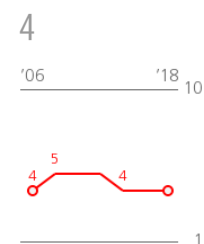
The prosecution of Otto Pérez Molina, Roxana Baldetti and several top level public officials, along with the prosecution of candidates during the 2015 electoral process, contributed to a reduction in trust and legitimacy of the party system and the traditional political establishment, and furthermore deepened dissatisfaction with the political system. There is public concern over the governability crisis and the intentions of conservative political groups and criminal organizations to block further investigations of CICIG and Attorney General Office.

Corruption and delinquency seem to be the main drivers behind support for a possible military coup, which according to LAPOP places Guatemalan democracy at risk. According to Latinobarómetro 2016, 60% of respondents would accept a non-democratic regime if it would resolve the country's economic problems; this placed Guatemala in fourth place of being at risk, behind Honduras, El Salvador and Nicaragua.

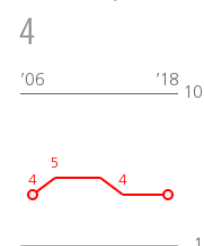
The legacy of war, violence and fear limits trust and cooperation in society. Additionally, the dynamics of crime and delinquency are fostering cooperative bonds either to confront crime through violent means or to engage in criminal activities in order to survive in high-violence environments. While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

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.

Approval of democracy



Social capital



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 (about 1,200) local security boards that are not controlled by the state, and which engage in vigilante justice such as armed patrols and social cleansing. 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.

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, during the period under review poverty increased to 59.3%, and according to the National Statistics Institute 23.4% of the population live in extreme poverty. The country's Human Development Index score increased slightly during the last few years (2012: 0.626; 2013: 0.628; 2015: 0.640). However, the dismantling of social policies during the government of Otto Pérez Molina and the lack of a social reform commitment on the part of the Morales administration account for a rapid deterioration in the social and economic conditions experienced by the majority of the population.

According to the World Bank, Guatemala has rather high levels of income inequality, with a Gini coefficient of 48.7 in 2014. Guatemala's inequality-adjusted HDI (IHDI) score was 0.45 in 2015 – below the global average of 0.469 and clearly below the regional average (0.575) – representing an overall loss vis-à-vis its HDI score of 29.7%. The situation is especially dramatic for indigenous women living in rural areas, who are the social group most vulnerable to poverty and inequality. The female HDI value for Guatemala was 0.624 in 2015, compared to 0.651 for males. The HDI also varies strongly across the country, and at the municipal level, these differences

Question
Score

Socioeconomic
barriers

3

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3

1

are even stronger. These marked differences show inequality to be highly concentrated in departments with a predominantly indigenous population.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	53851.1	58722.3	63767.6	68763.3
GDP growth	%	3.7	4.2	4.1	3.1
Inflation (CPI)	%	4.3	3.4	2.4	4.4
Unemployment	%	3.0	2.9	2.4	2.4
Foreign direct investment	% of GDP	2.5	2.0	1.8	1.7
Export growth	%	6.7	7.9	4.0	1.7
Import growth	%	4.3	7.0	9.3	3.3
Current account balance	\$ M	-1351.1	-1229.7	-96.4	909.3
Public debt	% of GDP	24.6	24.3	24.2	24.5
External debt	\$ M	17252.6	19320.9	20245.9	21234.0
Total debt service	\$ M	2922.6	1967.9	2110.0	3086.0
Net lending/borrowing	% of GDP	-0.4	-	-	-
Tax revenue	% of GDP	10.9	-	-	-
Government consumption	% of GDP	10.6	10.8	10.4	9.8
Public education spending	% of GDP	2.8	2.9	3.0	-
Public health spending	% of GDP	2.3	2.3	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.5	0.4	0.4	0.4

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

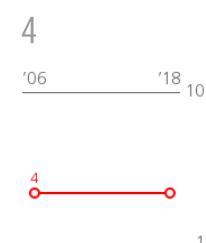
Market competition in Guatemala still operates under a weak institutional framework. Market-based competition is present and quite stable, although mainly within the formal sector of the economy. Most of the country's economically active population are underemployed or work in the informal sector according to the national labor survey (Encuesta Nacional de Empleo e Ingreso). The size of the informal sector is estimated to be 70% (69.3% in 2014, 68.8% in 2015 and 69.8% in 2016) and more than 80% in rural areas.

In the formal sector, according to the 2016-2017 Global Competitiveness Report, the country continues to suffer primarily 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 report shows that Guatemala's very low innovation capacity levels are the result of a low-quality educational system. The business community has only limited trust in politicians and are all too willing to engage in corrupt business dealings. Guatemala is ranked in position 78 out of 140 economies in the Global Competitiveness Index.

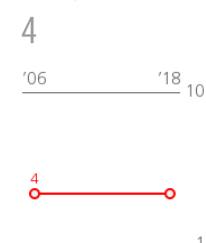
According to the Heritage Foundation's 2017 Index of Economic Freedom, in Guatemala the rule of law is weakly established, and crime, violence and corruption are endemic. Inefficient business regulations continue to inhibit entrepreneurship and employment. Despite a relatively high degree of trade freedom 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. Lack of access to long-term financing is a significant impediment to business development and job growth.

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 a resurgence, especially with respect to power generation and the exploitation of raw materials such as oil and minerals. In addition, the lack of appropriate regulations on competition has historically enabled the perpetuation of monopolies throughout the Central American region. This situation can be seen in the poultry industry, the banking system and the telecommunications market.

Market-based competition



Anti-monopoly policy



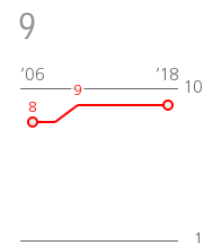
Foreign trade has been extensively deregulated, but the spread of benefits beyond economic elites has been at best minimal. While the average tariff is low according to the 2017 Index of Economic Freedom, Guatemala has registered some improvement, moving from last place among countries considered moderately free to being ranked 74 out of 180 countries. 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 dialog and cooperation. The agreement foresees trade liberalization although it has yet to produce significant changes.

Guatemala's foreign investment regime allows foreign nationals to invest in most sectors of the economy, where they generally receive treatment comparable to that accorded to domestic investors. Guatemala has been a member of the WTO since 1995.

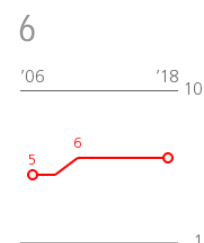
The Guatemalan financial system is relatively small and capital markets are considered weak, though in principle oriented to international standards. The Superintendence of Banks (SIB) is responsible for bank supervision and transparency, and its position has been strengthened over the last 10 years. According to the IMF, there has been progress in legislation (e.g., the passage of a banking law) but necessary reforms have not yet been enacted and implementation remains weak. The Guatemalan government has affirmed its commitment to continue strengthening the regulatory framework.

Despite a formal commitment by both the outgoing Pérez Molina and current Morales administrations, controls over money laundering remain weak. Investigations conducted by CICIG and the prosecutor's office into embedded illicit networks have demonstrated the involvement of banks in money laundering and illegal financing of electoral campaigns and political parties. In June 2016, former general manager of Bank GyT and one of the most prominent business representatives, Flavio Montenegro, was captured after escaping arrest for his participation in a criminal network together with former president Otto Pérez Molina. The same case also charged Fernando Peña the president of the country's third largest bank, BANRURAL, with money laundering.

Liberalization of foreign trade



Banking system



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

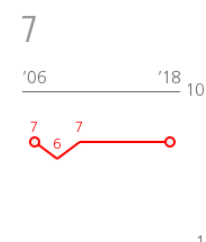
As part of its effort to fortify the domestic financial system against global financial turmoil, monetary authorities decreed in December 2008 that financial groups increase their reserve requirements to 100% for all nonperforming loans by June 30, 2011. The banking sector has undergone reorganization 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. During the period under review, investigations into corruption involving banks have raised the need for institutional reforms to increase controls over banking activities. 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. In 2017, it will be possible to gain a judicial order permitting tax authorities access to secret banking information.

8 | Currency and Price Stability

Inflation has been relatively stable in the period under review. As a consequence of the global financial crisis, inflation rose to 9.4% in 2008, but dropped to -0.3% in 2009, before rebounding to 4.74% in 2016 according to Comisión Económica para América Latina y el Caribe (CEPAL). 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) and a decrease in early 2017 (GTQ 7.37 for \$1). The central bank is formally independent of governmental influence. However, prosecution of Édgar Barquín, former president of the bank of Guatemala, raised concerns about the continued use of the institution for illegal financing of political parties and electoral campaigns. This should be considered alongside the fact that the private sector has some veto power over the monetary board of the central bank. Private-sector participation in this sphere 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 the Central American Free Trade Agreement (CAFTA) with the United States. Social spending was increased during the Colom administration, but reduced during President Pérez Molina's administration and Jimmy Morales' first year. Despite strong opposition to fiscal reform, the fiscal deficit was reduced to 2.8% of GDP in

Anti-inflation /
forex policy



Macrostability

7

2011, to 1.4% of GDP in 2015 and to 1.7% of GDP in 2016. However, according to an evaluation by the IMF, the results of the tax reform have been disappointing, yielding an increase of just 0.25% in GDP. During 2016 the fiscal deficit was significantly reduced due to strong prosecution of tax evasion cases in the private sector. Aceros de Guatemala, the main steel industry in the Central American region, paid approximately \$100 million as a result of an investigation into tax evasion during 2006-2009. The same year, Carlos Enrique Monteros Castillo, owner of Hotel Westin Camino Real, was prosecuted for tax evasion on \$2.7 million. These cases, among others, demonstrate how taxation has been negatively impacted by evasion by powerful economic elites.

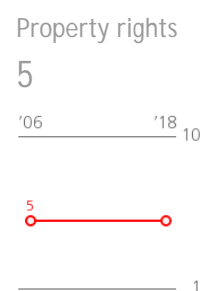
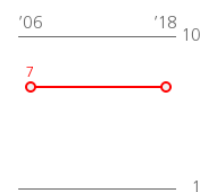
The public debt level remained stable during 2010, 2011 and 2012 at approximately 29.7% of GDP with a reduction to 24.6% in 2013 and 24.7% in 2015. The fiscal reform plan proposed in 2013 sought to raise taxes for upper-middle class and wealthy earners. This reform allowed Guatemalans earning less than GTQ 48,000 (\$6,200) yearly to pay nothing in taxes. Those earning more than GTQ 300,000 (\$38,709) annually pay 7% in income tax, up from 5%. Middle-class earners making between GTQ 48,000 and GTQ 300,000 pay 5%. However, taxes remain the main weakness in Guatemala's macroeconomic landscape.

With the appointment of a former prosecutor, Juan Francisco Solórzano, to the tax superintendency (SAT), its strengthening and probity became a top priority. A number of institutional reforms have been enacted with a focus on fighting corruption inside the institution and aiming to increase taxation efficiency by reducing public corruption.

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. Recent cases of illegal diversions of rivers to benefit sugar and African palm plantations demonstrate how irregularities in property rights enable abuse of power affecting poor communities.

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 presents criminal groups with 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 previous ones have failed to lead to more efforts to reform legal and institutional frameworks in order to avoid the emergence of criminal networks and stem abuses committed by the private sector in rural areas.

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. All recent cases of public corruption prosecuted by CICIG and the prosecutor's office involve prominent private sector representatives ranging from: tax evasion in customs; illegal contracts for medical supplies to the social security institute; building of roads and infrastructure; illegal financing of political parties; and money laundering through the bank system.

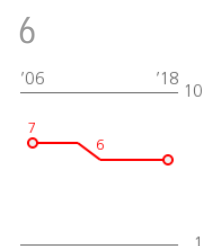
The legal framework regulating financial and commercial activities in the private sector allow criminal networks to conceal money laundering and trafficking of illegal goods across the country. Additionally, private enterprises generate high income through tax evasion. The legal framework allows for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

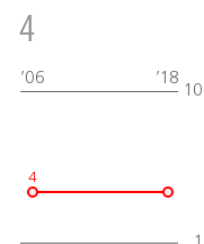
10 | Welfare Regime

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

Private enterprise



Social safety nets



36 years of civil war. Public spending on health was around 6.2% of GDP in 2014, and therefore low by international standards.

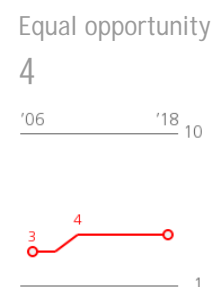
Despite the lack of a genuine formal social safety system, informal social security networks provide some level of safety, especially in areas with strong communal organization. Currently, social and economic remittances provide support to communities where the presence of the welfare system is precarious 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 2016, 69.8% of the working population - but 72.7% of women - worked in the informal sector; in rural regions, the figure for women was 86%. According to World Bank data, vulnerable employment of women as a percentage of total female employment is about 46%.

Equal opportunity exists only formally. In practice, discrimination follows the fault lines of social cleavages; racist prejudice against the indigenous population and gender-based discrimination remain widespread. This is particularly visible in education and public health, where indigenous females are widely underrepresented. According to UNICEF, the matriculation rate of women increased from 67.3% in 2012 to 81.9% in 2016. However, job opportunities and access to other public services remain 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. Only 20.9% of indigenous children attend pre-primary school. The main cause of girls and young women failing to complete school is lack of money and 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. In 2016, this figure was 38.3%. 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.

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. Between January 2014 and October 2015, there were 1,173 reported



cases of women being killed. Domestic violence and sexual crimes against women are still underrecorded.

11 | Economic Performance

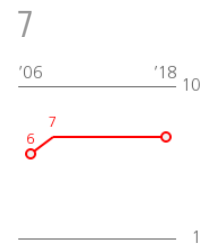
Growth rates have been relatively stable over the last decade, reaching 3.2% in 2012, 3.7% in 2013 and 4.1% in 2015. Economic growth in recent years has reduced poverty only marginally with an increase of poverty during the last years of Pérez Molina's government. The economy remains dependent on traditional economic sectors such as sugar and new economic activities such as resource extraction and foreign investment, and is highly vulnerable to fluctuations in international prices, which favored the mineral sector in recent years. Remittance levels remain high, but these are dependent on the migration policies of the U.S. administration. In 2016, \$7.1 billion entered the country as remittances. The Trump administration's policy of deportation has generated a massive flow of remittances during the first few months of 2017 as migrants seek to repatriate their resources and save more money, given their fears of venturing outside. As a consequence, the value of the local currency against the U.S. dollar has risen to its highest level in the past two years.

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. 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) was reduced from 28% to 25%. The official unemployment rate increased to 3.1% in the second quarter of 2016 from 2.92% in the second quarter of 2014. 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.

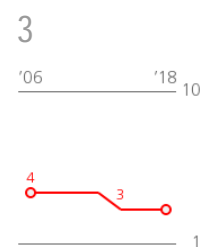
12 | Sustainability

Environmental concerns generally take a back seat to growth considerations. Though a Ministry of Environment and Natural Resources (MARN) and several specialized agencies exist, their work is seen as rather ineffective. The diagnosis presented in the "Environmental Pact 2016-2020" by the interim government (September 2015 to January 2016) revealed that Guatemala has weak environmental policies, norms and laws with few resources, as well as weak institutions with little budget, an overburdened and sometimes unprepared staff, and little capacity for law enforcement. It also found that the MARN's budget has stagnated for 15 years while the Forest Fire Prevention and Control System had no budget allocated to it at all. The National Council of Protected Areas and the National Forestry Institute, which were allocated budgets, were found to have failed to use their already limited finances

Output strength



Environmental policy



effectively, instead “destabilizing and demoralizing their personnel and diminishing their effectiveness.” These difficulties must be seen in the context of an overall climate of impunity, which also affects environmental regulation.

Accordingly, core environmental problems have persisted or even worsened. They include illegal diversion of rivers and contamination of water, and increasing levels of deforestation and environmental pollution produced by sugar cane and African palm plantations. Negative environmental consequences related to mineral resource extraction (such as gold mining) have led to a series of conflicts, mostly over the use of water. According to a national survey conducted by Interpeace and the Harvard Humanitarian Initiative, the most common consequences of mining and other natural resources exploitation are loss of or damage to water and contamination or loss of land.

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 majority of organic waste is disposed of in the Motagua water basin. 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. President Jimmy Morales has increased political confrontation over socio-environmental conflicts, accusing environmental and social organization of creating instability in the country. 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. A recent decision to stop activities of three hydropower projects increased tension between the private sector and social and environmental organizations.

While literacy and primary school enrollment has increased, the enrollment rate in secondary education reached 65.28% in 2016 (68% male and 62% female). The literacy rate is – after Haiti – the lowest in Latin America (79.1%), with a pronounced difference between male and female literacy rates (84.7% to 73.9%). 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 produced no significant results, and does not cover primary education. Social policies implemented by President Colom initiated a slow improvement in access to education, especially in the rural areas. However, these programs stalled during President Pérez Molina's term and Jimmy Morales has demonstrated no intention to change this trend.

Governance

I. Level of Difficulty

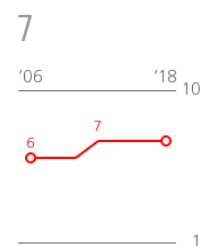
Structural constraints on governance are moderate to high. Guatemala is a middle-income country with a medium education level, high ethnic and social fragmentation, weak civil society traditions, serious problems in the rule of law and fragile institutional stability. The heritage of 36 years of civil 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. Additionally, the extent and depth of corruption in public institutions has become a major structural issue affecting the quality of public services and legitimacy, increasing impunity and reducing the legitimacy of governmental authorities.

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.

Risk of famine in certain poor areas is real. This relates to enormous inequality in the country. According to the last Human Development Report, in 2014 2% of Guatemala's population corresponded to the high strata in urban areas, while 72% corresponded to the low strata in rural areas. Overall 41% of Guatemala's population is in the low strata, 37% are in the vulnerable situation strata and only 21% is in middle strata.

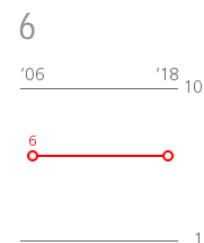
Another more recent problem, and a consequence of democratization and the end of the war, is the structural influence of criminal networks on public decisions all the way to the top state levels. The administrations in power since the Peace Agreements have failed to curtail violence and corruption, reducing the likelihood of changing security policies toward a preventive and democratic approach.

Structural
constraints



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.

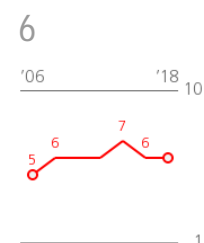
Civil society traditions



After massive citizen mobilizations in 2015, new social movements emerged, most of which were initiated by the youth without links to traditional civil society organizations. The new movements are characterized by a strong presence on social networks such as Facebook and Twitter, although they suffer from a lack of social roots and high levels of atomization. They present themselves as a youth alternative to the traditional political establishment and representatives of the conservative private sector. During 2015 and 2016 these movements publicly exerted an important influence over efforts to reduce corruption and promote political reform – and for the first time since the war managed to build a broad-based coalition that rallied the indigenous peasantry and the urban poor.

Guatemalan society remains deeply split and polarized along ethnic and social lines. 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 in most urban areas. 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. According to the 2016 UNDP report on Human Development, most cases of confrontation between communities and security forces and private armies hired by companies have resulted in the death or incarceration of communitarian leaders, abuse and intimidation of women and destruction of communal property. 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.

Conflict intensity



Most homicides occur in border municipalities and in the capital city and are driven by personal motives and business interests of all kinds. Extortion has become the main source of fear and killing of small entrepreneurs and people working in services and transportation. Though there is no accurate data yet, the incidence of extortion in family displacement has become a concern for civil society organizations and human rights defenders. Although there are no formal confrontations among social groups, conflicts are resolved through violence that, due to impunity, easily ends in homicide.

II. Governance Performance

14 | Steering Capability

The government sets strategic priorities that are mostly in accordance with the principles of democracy and a market economy. However, sometimes it postpones or changes its priorities due to prevailing pressures or other structural constraints on governance and private interests mostly driven by corruption. 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 agendas and the influence of private interests. 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. The 2015 and 2016 achievements of CICIG and the prosecutor's office were driven by international pressure and civil society support. This situation continued during the first year of Jimmy Morales government, which opposed the strengthening of Attorney General Office and justice administration.

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 failed to improve taxation and, on the contrary, increased tax pressures on the middle class, leading to a high level of tax sheltering. During the first year under Jimmy Morales the strengthening of taxation capacities has been promoted by international actors and illustrated by the successful prosecution of private sector tax evaders.

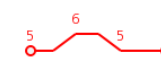
A constitutional reform project proposed by Pérez Molina met a similar fate to his fiscal reform project. Opposition to the reform came from private-sector groups which considered it unnecessary to change the constitution, especially due to high levels of mistrust of the Constitutional Court and the government's unclear reform proposal. A new proposal to reform the constitution has been suggested during the first year of Jimmy Morales' government. This proposal has been supported by civil society organizations and the international community, although President Morales has made public his lack of support of the reforms.

Question
Score

Prioritization

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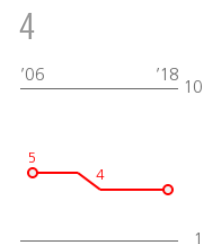
Each new government in Guatemala tends to implement short-term policies without establishing continuity with previous governments' policies. Consequently, implementation tends to be hindered or undermined by several factors, including the presence of sectors that oppose reforms, electoral interests and 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 dialog mechanisms increases social dissatisfaction and undermines the legitimacy of public decisions.

The Pérez Molina and Morales administrations have 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.

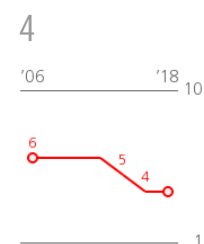
Guatemala's political leadership responds to mistakes or failed policies with follow-up reforms or changes, but this usually means it has given way to pressure (or sometimes violence) on the part of interest groups. At the same time, the political leadership is highly influenced by the leading media 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 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 Jimmy Morales administration has clearly demonstrated how little policy implementation relies on the expertise or technical personnel of previous administrations. Additionally, this administration has experienced serious difficulties in creating its government team. This is because the government is reluctant to incorporate professionals from other previous administrations, and because technical professionals distrust the new administration. Key institutions such as the Ministry of Interior, the Tax Institution, customs and penitentiary system are protected from political, ideological and criminal influence. These institutions are key in the fight

Implementation



Policy learning



against corruption, a priority for international actors especially in the context of the Prosperity Alliance.

In general, the most important obstacle to innovation is corruption. There is no professional civil service and policy-makers are not specialized persons with technical knowledge, but rather members of a clientelistic network who benefit from the party 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

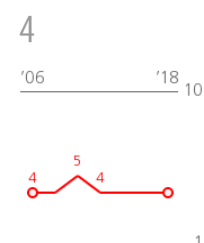
The government is still unable to make efficient use of available resources. Structural corruption and the strongly clientelistic nature of budget allocations lead to a misuse of financial resources and public appointment powers. There is a lack of competitive recruiting procedures and professionalization 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 only policy that has continued through the last three governments has been CICIG's support to the Public Ministry. However, this reflects less a political commitment from governments than the influence of the international community and civil society organizations. In this context, the group of appointees that remains is normally moved to a different position, reducing efficiency and learning. 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.

Efficient use of assets



Policy coordination



However, the primary reason behind the lack of policy coordination is the absence of a consistent policy agenda.

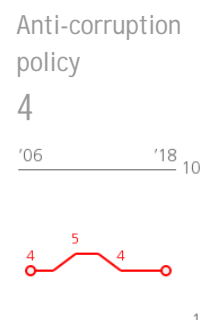
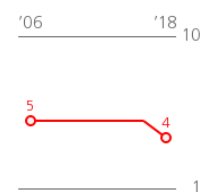
Most coordination occurs through informal mechanisms and personal relationships.

Despite serious legal and political problems, President Colom's Social Cohesion Council was the last policy coordination mechanism that demonstrated genuine results beyond governmental propaganda. In 2014, President Pérez Molina launched the "K'atun: nuestra Guatemala 2032" as the official national development plan. The plan sought to coordinate institutional efforts and orient financial resources toward development. There was no implementation of the plan during Pérez Molina's administration because of opposition from the elites. From its first day, the Jimmy Morales administration has displayed a tendency towards improvisation and inefficiency even in the integration of the executive board. For that reason, the administration decided to adopt Pérez Molina's national development plan. Yet a year later there is no sign that the government intends to implement it.

Corruption remains widespread. Legislation on transparency and public information passed in 2008 and came into effect in 2009, but positive results are just now emerging after significant cases on corruption were prosecuted by CICIG and the prosecutor's office. A new law on civil service was introduced in 2008, but had yet to be passed at the end of 2016 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. The law on the civil service remains unaltered after 48 years.

In 2012, after 10 years of discussion, the legislature approved an anti-corruption measure dubbed the Law Against Illicit Enrichment. Analysts from Acción Ciudadana argued that the law qualified as drastic legislation, but at the same time noted a lack of legal clarity regarding the return to the state of assets confiscated from criminals and corrupt public officials. The 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. In addition, vis-à-vis the creation of more regulations, corrupt networks usually use powerful political relations to avoid controls and prosecution.

The cases prosecuted by CICIG and the prosecutor's office since 2015 have demonstrated that the issuing of laws has been insufficient in reducing the expansion of corrupt networks. CICIG has achieved positive results as consequence of the appointment of Ivan Velásquez as commissioner. Since 2015 a long list of those prosecuted after investigations includes top level public officials, former military officers, private sector representatives, shareholders of the mass media and the banking system, congressmen and judges. Ivan Velásquez's approach to corruption considers every area of influence of networks of corruption. These cases have been



supported by a prominent campaign to raise citizen awareness and promote institutional reform.

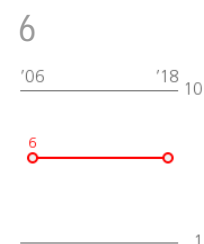
These cases have generated a strong counter-campaign to discredit CICIG and plans to attack Attorney General, Thelma Aldana, have been uncovered and interrupted. These campaigns include attacks against civil society promoters of the fight against corruption and impunity, such as Hellen Mack and members of the Special Attorney Against Impunity (FECI). President Jimmy Morales publicly declared his inconformity with the continuity of CICIG, citing the violation of national sovereignty as his reason. However, the fight against corruption will continue to be one of the top priorities of the international community, especially the CICIG and the United States, due to the transfer of funding from the Prosperity Alliance.

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 social reform. This means that Guatemala's elite is conditionally supportive of democracy provided democratic rules do not interfere with its economic model or privileges. This is well illustrated by the fact that since the democratic transition, economic elites have claimed that fiscal reforms are useless due to excessive public corruption; however, prosecution of prominent businessmen have demonstrated the deep involvement and responsibility of the private sector in corrupt networks, especially those regarding tax evasion. As reform-oriented actors are fragmented and have to date been unable to reach a consensus on a common project, there is little prospect for transformation. Achievements in the area of political reform during the period under review have been promoted by international actors and civil society organizations, even in the face of opposition from Jimmy Morales' government and conservative political sectors. Democracy is understood at the level of electoral procedures, but the need to strengthen democratic culture both inside public administration and society is not promoted. As during the previous administration, corruption has become the motivation for power struggles rather than ideological issues.

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



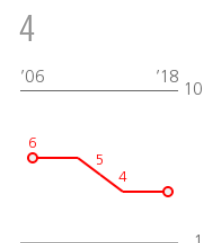
While some governments have sought to co-opt reformers (in the broad sense) or to control veto powers, the situation has become more difficult due to 1) the increase in the power of criminal networks that invert this process and 2) the fact that the last two governments have not favored reform and are 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. Since 2015, there has been a struggle between reform processes promoted by CICIG, the prosecutor's office and civil society organizations, and resistance to these changes by the private sector, government and traditional political sectors. The use of illegal financial resources for political prerogatives inside the government prevents politicians from changing the institutional frameworks that benefit from collusion.

The military is no longer an anti-democratic actor. Instead, former military personnel exploited their networks among civilians for corruption and other illegal activities. As is the case with other institutions, the military are used by corrupt networks to the benefit of political and private interests. However, there is a strong conservative and anti-democratic discourse among different actors, some of them former militaries grouped for example in the Foundation Against Terrorism. Attacks against human rights defenders are conducted through social networks and judicial processes. In February 2017, President Jimmy Morales publicly announced the uncovering of a plan to conduct a putsch against him. However, this proved to be either misinformation or an action to generate political instability.

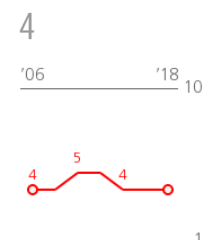
The presence of public officials with military backgrounds has not translated into a militarization of society. On the contrary, as part of the Alliance for Prosperity program promoted by the United States, there are attempts by the military to reduce the participation of military forces in public security. Resistance to this attempt is led by conservative political groups and corrupt networks that benefit from public resources channeled to this participation. Currently, the democratic order is not contested but used to perpetuate corruption, for example through political parties.

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. President Jimmy Morales has not implemented a change in the way that conflicts are dealt with. On the contrary, government discourse tends to exacerbate social polarization and attacks against international actors. These actions reveal the legacy of decades of government indifference to strengthening state conflict mediation capacities. Dialog 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

Anti-democratic actors



Cleavage / conflict management



environmental protection have been ignored by the government, increasing tensions and violent confrontations with communities and social organizations.

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. President Morales has increased polarization by rejecting judicial resolutions to halt irregular hydropower projects on the grounds that they did not recognize indigenous customary consultation processes. The opposing interests of peasants and large mining and hydropower concerns remain the most important source of conflict in the country. The Pérez Molina administration sought to squash social protests through repressive means in order to address political pressure from the business sector. President Jimmy Morales has implemented a systematic attack against the international community and socio-environmental organizations. The result has been an increase in social conflict, a loss of lives and the increased use of a repressive approach to conflict resolution.

There are some formal mechanisms of consultation between civil society and the government. However, during the administrations of Pérez Molina and Jimmy Morales these mechanisms were ignored, shutting down dialog and removing accountability.

The most important accountability mechanisms are the candidacy commissions for selection of key public officials, such as the prosecutor's office, the Supreme Court and appellate courts and the Contraloría General de Cuentas. The commissions integrate 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 official decisions were heavily influenced by powerful groups with private and even illegal interests. This has not changed during the first year of Jimmy Morales' administration. The integration of a weak new governmental team has enabled corrupt networks to control key institutions.

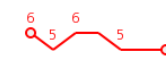
Investigations reveal that corrupt networks also include prominent union leaders that mobilize workers to pressure authorities. In June 2016, a well-recognized scholar and pro-justice reform activist, Lucrecia Hernández Mack, was appointed as Minister of Health. The new minister started to improve processes and reduce institutional inefficiency, including the interruption of irregular contracts. This generated a strong counterattack from corrupt groups, which included large-scale protests from unions to discredit the campaign. This demonstrates the use of mechanisms of co-optation and the lack of independence and institutionalization of civil society in the country.

To the extent that there is a silver lining, civil society organizations remain undeterred. They continue to organize, mobilize and lobby for reforms to the political

Civil society participation

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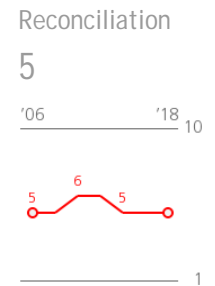
system. Occasionally they also encounter a receptive audience comprising a minority of congressional deputies.

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

After a long legal fight by human rights organizations, a legal process against former General Efraín Ríos Montt for genocide started in 2013 and resulted in a conviction of Ríos Montt for genocide. The sentence was rapidly rejected by the Supreme Court, which required a retrial in 2015. On June 3, 2016, the First Court of Appeals suspended the trial indefinitely. The trial was an important step toward justice in the country, but it also showed how difficult it is to deal with past human rights abuses in the context of high polarization. (In April 2017, Ríos Montt was ordered to stand trial for his role in another major massacre in the hamlet of Dos Erres.) 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 January 31, 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 displayed no overt opposition to these trials, there has been no symbolic recognition nor restitution to the families and communities of the victims. 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.

In January 2016, former general Benedicto Lucas García was captured together with another 13 highly ranked military officers accused by the Human Rights Prosecution Office of crimes against humanity and human rights violations during the internal armed conflict. According to the prosecutor's office these military officers conducted crimes in the department of Alta Verapaz against the q'eqchi, pocomchi', achí and k'iche peoples between 1981 and 1982. The case is currently ongoing and the outcome will depend on both the capacity of the Human Rights Prosecution Office and also the independence of the judiciary.



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. There has been no clear long-term strategy of development since the implementation of the peace accords was no longer considered a viable “road map” for the country. In terms of economic development, both President Pérez Molina and President Jimmy Morales have promoted strategies focused primarily on support for mining and hydropower projects. This policy has not only generated social conflict, but has also raised questions over the genuine contribution of these projects to human development.

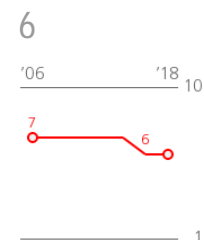
In the political realm, public security is a major issue. The extension of the military’s role in public security is being discussed as a result of the set of 12 conditions defined by the United States in the framework of the Alliance for Prosperity. The use of military force to repress social protests has decreased due to the risk of violating human rights. Instead, police forces and private security companies have taken control of the security of mining explorations.

The main focus of international cooperation remains security, the policing of drug-trafficking and - during the period under review - corruption. Support from the United States is focused predominantly on the security forces and the prosecutor’s office, with the remainder channeled to the police and other civil institutions. The Alliance for Prosperity is the next program that aims to promote fundamental changes in the Central American Triangle (Guatemala, El Salvador and Honduras). The overall goal of the Alliance for Prosperity is to reduce the main drivers of migration including violence, poverty and institutional inefficiency.

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, USAID and the European Union, while successive governments have contributed only minimal financial and technical assistance.

As a result of the rampant and high-profile cases of corruption inside the governments of both Pérez Molina and Jimmy Morales, and despite strong campaigns against alleged international interference, the Obama administration insisted that international cooperation was dependent on progress in combating organized crime in Guatemala. This reflects U.S. interests in the rule of law, and their strategic interests in halting drug-trafficking and gang related violence that increases immigration flows.

Effective use of support



Guatemala's last two governments have displayed different profiles to the international community. Otto Pérez Molina's administration is associated with embedded corruption. Jimmy Morales' first year of government has yet to demonstrate any commitment to address this corruption. The only consistent policy, in the face of strong resistance within Guatemala, has been the work of the CICIG and support given to the Public Ministry and tax superintendency. The international community has raised concerns about increasing conflicts regarding natural resources especially water, mining and the criminalization of community leaders. Additionally, concerns about setbacks regarding political reforms and transparency in the Supreme Court have been raised by the international community, especially the United States.

However, in other areas, the current government is considered relatively credible by the majority of actors in the international community. This is especially true in relation to the country's macroeconomic stability.

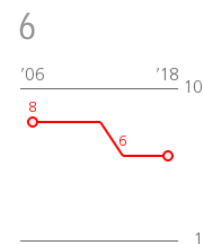
As to the political situation and the high levels of violence, some voices (largely from the United States) have warned that the influence of criminal networks is turning Guatemala into a "narco-state." This implies that investment in security reform sourced from the United States is likely to rise, directed toward (mostly repressive) U.S. strategies. The framework of the Alliance for Prosperity emphasizes the reduction of factors that drive migration.

Given continuing rampant public corruption, international donors remain committed to support the effective work of the CICIG.

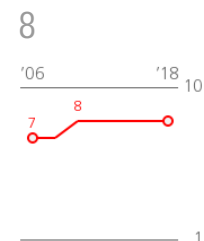
Alarmed by high levels of impunity and the failure to implement international human rights standards, international human rights NGOs continue to monitor Guatemala closely. When in power, Pérez Molina accepted important sentencing of past perpetrators of war crimes, and the government did not interfere with further decisions by the Supreme Court. Jimmy Morales appears to be continuing this, and the CREONPAZ trial moves forward.

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. During the period under review, the United States approved funds for the Alliance for the Prosperity which emphasizes the reduction of the drivers of Central American migration. Guatemala, Honduras and El Salvador have different levels of commitment to accomplish the conditions defined by the United States. In the case

Credibility



Regional cooperation



of Guatemala, the main condition is to reduce corruption and to strengthen prosecution and judicial capacities.

Despite the rejection by presidents Otto Pérez Molina and Jimmy Morales, CICIG and the prosecutor's office continue to successfully prosecute high-level political officials and individuals from the private sector. As part of the Alliance for Prosperity, a multinational security force was created to control borders, reduce drug-trafficking, human smuggling and extortion. This is not the first initiative of this kind and its effectiveness is impossible to evaluate at the current time.

The historical border conflict with Belize remains unresolved despite mediation by the Organization of American States. At the beginning of the Morales administration, the Guatemalan army sent 3,000 soldiers to its border with Belize after the Belizean army killed a 13-year-old boy. Belize said its patrol came under fire and was forced to shoot back in self-defense. The incident was eventually solved through diplomatic channels.

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. 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 revelation of corrupt networks operating throughout the government demonstrated the vulnerability of public institutions to being co-opted and looted for private benefit. In this context, the election and first year of Jimmy Morales has displayed neither the commitment nor the capacity to change patterns of embedded corruption. 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, the Jimmy Morales 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 the government to provide even minimum benefits to the majority of the population. Encouraging progress in strengthening the Attorney General's Office, the Supreme Court and the Electoral Court could be jeopardized in future due to the restructuring of corrupt networks inside the new government and the existence of a group of conservative former military officers orchestrating campaigns against reform efforts.

Although important anti-corruption laws were passed during the period under review, their positive impact 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. After some important changes made during the one-year term of Mario Taracena as president of the Congress, the legislature will remain a battlefield where distribution of public resources is determined, limiting the executive branch's political independence. The judiciary is also 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 eight 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 the rule of law in order to consolidate reforms to the justice system. Fourth, 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.

Sixth, the limited strengthening of the Attorney General's Office should continue and this should be expanded to other areas of the institution. To date, the only prosecution office that has been strengthened is the Special Unit Against Impunity leaving other prosecution units weak. In this regard, the continuity of CICIG is key.

Seventh, prosecution of private sector tax evasion should continue in order to demonstrate resolve in the fight against corruption. This includes the strengthening of the tax institution and especially customs, since these are the focus for the most powerful organized criminal networks.

Finally, the administration should create and support democratic dialog 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. Prosecution and judicial institutions should be revamped so that they no longer protect prominent members of the government.