

Guatemala

Status Index (Democracy: 5.65 / Market economy: 4.89) 5.27		Management Index 5.01	
HDI	0.663	Population	12.0 mn
GDP per capita (\$, PPP)	4.148	Population growth¹	2.4 %
Unemployment rate	N/A	Women in Parliament	8.2 %
UN Education Index	0.66	Poverty²	16.0 %
		Gini Index	59.9 (2000)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003)			

A. Executive summary

Guatemala's transformation process survived a serious crisis during 2003 when, after severe pressure from a violent crowd, the Supreme Court allowed former dictator Efraín Ríos Montt to be a candidate in the presidential elections. In 1999, the court had opposed his candidacy because the constitution does not allow anyone to be a candidate who has participated in a coup (as Ríos Montt did in 1982).

In 2003, the argument of the court was that this provision could not be applied retroactively and that a ban was therefore unconstitutional. This decision was possible due to the nomination of judges sympathetic to the Guatemalan Republican Front (FRG) and violent pressure on the streets, which demonstrated the fragility of the country's rule of law and the persistence of a high degree of polarization. Although the opposition was not able to join forces, Ríos Montt came in only third place in the first round of elections. This stirred hopes that there would be a deepening of the transformation, enhancing transparency, accountability and social integration. However, the new president and former mayor of Guatemala City, Oscar Berger, did not fulfill these expectations in his first year in office. Although his government has a much better record than that of its predecessor, the period between January 2003 and January 2005 was regressive tendencies decline but no actually progress in transformation process.

As Berger's multiparty coalition government is rather heterogeneous and does not possess a stable majority in congress, Berger governed with changing majorities, including alliances with Ríos Montt's party, the Frente Republicano Guatemalteco (FRG). The weakness of the existing party system is one of the major problems not only for the stabilization of the political system but also for a broadening of political representation. Opinion polls show that only a minority (21%) of Guatemalans is satisfied with democracy. The main reason for this is that democracy has not been able to improve the social and economic living conditions of the majority of the population, which is poor.

While Guatemala's macroeconomic conditions are quite stable, with GNP growth of over 2%, structural problems like widespread poverty and a lack of job opportunities have not been addressed by the government. This affects mainly the indigenous and rural majority of the country's population. Berger's government favors the interests of domestic and foreign actors investing in the extraction of mineral and hydrocarbon resources. These "megaproyectos" have led to a series of conflicts, some of them violent, with the population in the effected regions due to environmental problems and disputes over property titles. Although the government has made some progress in combating corruption among former government officials, mafia networks that influence politics and the economy persist.

Besides widespread poverty, violence remains the most pressing problems although the internal war ended nine years ago. Guatemala City is one of the most violent cities in the Americas. The main perpetrators of violence are youth gangs, so called "maras," which operate all over Central America. In rural Guatemala other forms and different perpetrators of violence persist. A high level of criminality combined with strong deficits in the judicial system and the rule of law has led to a growing number of cases of self-justice and lynching all over the country. Violence against human rights advocates and other leaders of independent civil society organizations has grown over the last two years. Political violence is used by former members of the so-called self-defense patrols (PAC) to receive compensation for their cooperation with the military during the war. The increase of criminal violence has affected the transformation as far as it provided an argument for the transfer of former military personal to the new civilian police and endangers civil rights.

B. History and characteristics of transformation

The history of Guatemala's transformation features a close connection between democratization and war. The military regime's first steps toward openness to democracy came midway through the war. In 1984, the armed forces initiated the process with elections for a constitutional convention, followed by parliamentary and presidential elections in 1986. However, the spectrum of political actors in these elections remained limited, with the political left largely excluded. This controlled opening allowed the military to maintain many enclaves of power, particularly in the area of "internal security." Only when the government and the guerrillas entered peace negotiations were accords struck that aimed at lifting these restrictions on democracy. The Accord on Strengthening Civilian Power and the Role of the Army in a Democratic Society (signed September 19, 1996), the Accord on Constitutional and Electoral Reforms (signed December, 7 1996) and the Accord on the Rights of Indigenous Peoples (signed March 31, 1996) were all of central importance to this process. A similar situation applies for the economy,

where the Accord on Socioeconomic Issues and the Agrarian Situation (signed May 6, 1996) is the key reference point for transformation.

In the first years after the war, Guatemala, like many other postwar societies, faced the dilemma of implementing the terms of the peace accords and repairing the ravages of war while still pursuing macroeconomic structural adjustments initiated during the Arzú administration (1996–2000). Core measures included reducing the budget deficit through a restrictive monetary policy, raising the value-added tax from 7% to 10% and combating widespread tax evasion. None of these goals has been achieved up to now. In addition, state enterprises such as the telephone and electricity companies were privatized. A further challenge for economic change is the battle against the illegal and criminal economy, which has mushroomed since the 1990s and relies mainly on the drug trade, money laundering and smuggling items such as automobiles. During the government of Alfonso Portillo (FRG, 2000-2003) the ties of these criminal networks with politics and the state apparatus have become more and more evident. Up to now, the government of Oscar Berger has not made an effort or has not been able to change this situation. Ex-President Portillo fled the country to Mexico when he lost his immunity as member of the Central American Parliament.

Both the economic and political transformation processes are still closely tied to the question of implementing the peace accords. Although every government since 1996 has promised to make the implementation a central issue upon taking office, progress has been limited. When the UN verification mission (MINUGUA) left Guatemala after ten years at the end of 2004, its balance showed a mixed record. While there has been significant progress in the field of formal politics, the implementation of other accords – like that addressing indigenous rights and socioeconomic transformation – manifest major deficits.

The fragility and the lack of transparency and accountability of state institutions remain a serious problem for the political and economic transformation process. This problem must be addressed, first and foremost, by the government. The fragmentation of civil society and other organized interest groups renders cooperation, compromise and participation within Guatemalan society even more difficult. The lack of ties between civil society and political parties also poses serious problems because agreements between civil society and government are often rejected by congress.

Of all societal groups, the indigenous majority of the country - which makes up around 60% of the population - is vastly underrepresented in both political and economic spheres. In the national elections of 2003, only 13% of the candidates were Indígenas. Their integration and participation in the transformation process will be one of the main challenges that must be confronted in the coming years. Neglecting their rightful claims for a better life could lead to a process of radicalization and polarization like in other Latin American countries.

C. Assessment

1. Democracy

After nearly twenty years of transformation, Guatemala's democracy remains defective. Although most rules necessary for a functioning democracy have been established, many actors still do not observe these rules. The most positive development during the last two years was the defeat of ex-dictator Efraín Ríos Montt in the first round of the presidential elections in November 2003. This was an important signal that the regressive tendencies of the Portillo presidency would end. However, at least up to now, the resistance against a return of Ríos Montt has not turned into a broadly based consensus over the deepening and consolidation of the democratic regime. Muddling through seems to be the main policy tool.

1.1. Stateness

Although the state monopoly on the use of force is no longer questioned by any political organization, as it was by the guerrillas until 1996, it is nevertheless nonexistent in wide areas. This is most evident in the continued rise in violence and the existence of private armed bands such as paramilitary groups and organized crime. The number of violent deaths has risen continuously since 1999; according to criminal statistics, 4,346 Guatemalans died violently during 2004, mostly by the use of firearms. Members of former paramilitary groups (Patrullas de Autodefensa Civil, PAC) on different occasions have used violence to push for economic compensation for their activity in support of the state's military forces during the war. However; there are significant regional differences. Violence is more frequent in Eastern Guatemala, where the mestizo Ladino people are living, and where the war had played only a marginal role. So violence is not a consequence of the civil war. Whereas under the Portillo government a process of functional-state disintegration could be observed, the government of Oscar Berger has recognized the political and economic seriousness of this problem. However, it has not come up with an integrated policy approach.

Formally, all citizens have the same citizen rights, but in fact, Guatemala remains split, with the primary rift-separating mestizo Ladinos and Indígenas, a split that is mostly identical with the differentiation between rich and poor, and urban and rural populations. The political consequence of these gaps became evident in the May 1999 rejection of a referendum that proposed constitutional changes that would have recognized Guatemala as a multiethnic, multicultural and multilingual society. Racism and discrimination against the indigenous minority group prevails, the Berger government has made only symbolic and rhetorical changes.

There is a complete separation of church and state. The Catholic Church shows the same fragmentation as the Guatemalan society: while some bishops support the many and varied activities of civil society to reform the system, others stand by the conservative economic and political groups supporting the status quo. Conservative evangelical groups have some political influence in the former governing party the FRG.

The state's fundamental infrastructure extends to the entire territory, but its operation is deficient mainly due to corruption, lack of professionalism, arbitrary use of power, and the influence of personal and criminal networks. In the times before elections, state infrastructure is widely used for party politics and cronyism.

1.2. Political participation

There are no de jure restrictions to free and fair elections, but there is de facto discrimination, primarily against the indigenous peoples in rural areas. For example, they have little or no access to the media, have little awareness of their rights, and suffer from intimidation. Fear is the most important explanation for the high percentage of votes for the FRG during the 2003 elections in the indigenous highlands of Quiché, where some of the most violent massacres during the war happened.

Generally, the elected government has the power to govern, but individual power groups—especially the military, business and financial organizations, organized crime—can carve out their own domains or push through individual policies for private benefit. This was repeatedly evident during the last year of the Portillo government (2003). The Berger administration has at least attempted to change this in the fields of human rights and tax policies.

Unlimited freedom of association and assembly prevails, but numerous instances of intimidation – against union members, human rights advocates and other representatives of civic groups – restrict the exercise of these rights. Human rights groups claim that violence has increased over the last two years against leaders of social movements, labor organizations and human rights activists. The months before the elections in November 2003 were so violent, that United Nations Mission for the Verification of Human Rights and of Compliance with the Commitments of the Comprehensive Agreement on Human Rights in Guatemala (MINUGUA) Chef de Mission Tom Königs called for enhanced security measures to safeguard the elections.

Freedom of opinion and freedom of the press are mostly respected, but time and again intimidation of, and violence against, journalists occur. The media are dominated by the main economic interest groups and the government seeks to exert massive influence, particularly during election campaigns.

1.3. Rule of law

Deficits concerning the rule of law are a major problem for both the political and the economic transformation process.

Although the formal separation of powers exists, the executive dominates. The political fragmentation of congress renders difficult the accomplishment of its control functions towards the government. Events after the elections 2003 show the magnitude of the problem: President Berger's Grand National Alliance (GANA) lost 14 of its 47 congressional representatives, the opposition National Unity of Hope (UNE) seven of its 32 congressional representatives due to departures from their respective parties. This leaves the FRG as the most coherent political force in congress.

The lack of independence of the judiciary became evident when the Supreme Court – with a majority of members sympathetic to the former governing party FRG – allowed ex-dictator Ríos Montt to be a candidate in the presidential elections 2003. Following the change of government, the independence of the Supreme Court seems to have increased. During 2004, it declared unconstitutional a law on compensation for the ex-PAC that had been passed by congress.

Corruption is a major problem in all sectors of the political system. Under the Portillo government, corrupt officeholders did not have to face prosecution, whereas the Berger government at least tries to bring members of the former government to justice.

Civil rights are violated for some parts of the population, specifically those of the indigenous population. Whereas during the Portillo government there was a clear lack of commitment by the executive to the rule of law, to accountability and to transparency, the Berger government favors them, at least at the level of rhetoric.

However, charges of corruption and cronyism in the public administration as a whole prevail – although on a lesser level than before. Thus, this undermines the guarantee of civil rights.

1.4. Stability of democratic institutions

Functioning of democratic institutions is limited by their lack of stability and continuity, as well as a lack of funding and professionalism. Competing or not clearly defined competencies between institutions pose a further problem. The Peace Accords and other reforms during the transformation process led to the establishment of a series of transitional institutions (e.g. the peace secretariat) that are meant to promote reforms, but are generally under-financed. Enhancing the independence and professionalization of the public service is a major challenge for the coming years.

Acceptance of democratic institutions is somewhat limited. Important actors committed to the status quo, such as parts of the military and the economic elite only accept democratic mechanisms as long as they do not challenge their dominant position in Guatemala's society. The lack of perspectives for a real change in their living conditions limits the acceptance of democratic institutions by the population, as surveys show.

1.5. Political and social integration

Guatemala has a very fragile party system characterized by great fragmentation, diverse polarization, a highly volatile electorate and minimal anchoring in society. To date, no governing party has been returned to office, although the FRG succeeded in remaining the best-organized political force in congress after the 2003 elections. Hardly any substantive differences among the various parties can be identified; the primary criterion for distinguishing one from another is the personality of the top candidate in each. The indigenous population has only organized at the municipal level, where there is no nationwide party necessary to propose candidates but instead civic committees can be formed between elections. There is talk about the formation of an indigenous party in coming years.

The network of interest groups is relatively close-knit, but dominated by a few strong interests and especially by severe power imbalances. While the entrepreneur association CACIF is one of the most effective organizations, the various groups of the indigenous population have many different formations, albeit with very limited political influence. Cause for concern is the persistence of informal power structures grounded in the criminal economy. Evidently, retired military officers in particular have found a new power base here, which they use to thwart more far-reaching transformation processes. The ability of civil society to organize on its own is unbalanced and hindered by politico-cultural and socioeconomic barriers. The organizations generally tackle isolated problems and are short-lived because they too are fragmented along personality lines. One sad example is the conflict between Ladino-dominated human rights organizations and Indígena-dominated victim's organizations concerning the politics of

compensation. The lack of social basis and the missing links between civil society and the party system are a major problem for the country's governability, as well as for the deepening of democracy.

Opinion polls show a low support for democracy (Latinobarómetro 2004: 35%) and an even lower level of satisfaction with democracy (21%) although 54% hold it to be the best form of government. and even 60% think it is the only path to development. Up to the time of this writing, this has not led to a growing support for military regimes – 54% decline support for a military government under any circumstances, 46% do not believe that a military government could provide better solutions for the existing problems than a democratic regime. However, 78% support a little of the “hard hand”. A growing problem is the rise of political apathy and the perception that voting will not change anything (54%).

The level of intrapersonal confidence is very low; only 8% of the people interviewed said that they would trust the majority of their compatriots. This makes it very difficult to surmount existing social and cultural barriers, and organize to pursue common interests.

2. Market economy

Economic transformation over the last years has mainly consisted in a further reduction and privatization of state enterprises. Due to a lack of real competition new oligopolies formed and the traditional economic elites were able to modernize their economic basis. While every government declared poverty reduction to be a central axis of action, none developed or implemented serious policy favoring the country's poor indigenous majority. The government of Oscar Berger favors the resource-extraction economy (gold, silver, copper, oil, etcetera) which has led to social unrest, due to environmental problems and conflicts over property titles.

2.1. Level of socioeconomic development

Although Guatemala is a medium-income country and ranges in the medium-level of human development, differences between social groups are significant. The majority of the population is considered poor, social exclusion is qualitatively and quantitatively extensive and structurally ingrained. This affects mostly the freedom of choice of the indigenous and the rural population. HDI and other social indicators show these gaps clearly. While the HDI for 2003 on a national basis is 0.672 (UNDP 2004), it is 0.747 for the urban and 0.578 for the indigenous population. Opportunities for a subsistence economy are decreasing, thus further diminishing freedom of choice. Guatemala has failed to reduce these disparities although macroeconomic data have been quite stable over the last years. A lack of

job possibilities has led to a growing – mostly illegal – migration to the United States. Money transfers to relatives in Guatemala alleviate social problems and are of increasing importance for the country's economy. Informal and criminal segments of the economy are also increasing.

2.2. Organization of the market and competition

The institutional foundations of a competitive market economy have been laid by the economic reforms of the 1990s, though the institutional framework is neither consistent nor the same for all market participants. Thus, market-based competition is present, although mainly for the formal sector of the economy. This is far less true in the informal sector, where 72% of the economically active population now operates (compared with 54% in 2000), and not at all true in the criminal economy.

The formation of monopolies and oligopolies is regulated only occasionally. Monopolies have recently returned to the scene, as well, especially in the exploitation of raw materials such as oil and mineral resources.

Foreign trade has been extensively deregulated, chiefly as part of efforts toward Central American integration and the planned American Free Trade Area. Similar to its predecessors, the Berger government follows a course of regional free trade and favors foreign investing in the resource-extraction economy.

One of the Portillo government's few successful reforms was financial reform in the realm of banking system and capital market, in which bank supervision and lending regulations were tightened and the central bank's autonomy was strengthened. Restructuring and concentration in the banking sector followed.

2.3. Currency and price stability

Over the last years, Guatemala's governments have signed various structural adjustment agreements with the IMF and have pursued a restrictive spending policy, which first reduced the rate of inflation from 10.85% in 1996 to 6.3% in 2000. During 2004, inflation grew again to reach over 9%. The exchange rate for the quetzal has been largely stable in recent years. However, the main reason for this stability is a swelling tide of money transfers (*remesas*) from Guatemalans living abroad, who have come to represent the country's second-largest source of foreign currency.

All governments have made economic stability one of their priorities, mostly due to pressure from the international financial institutions, and the negotiations for a Central American Free Trade Agreement (CAFTA) with the United States. This

was undermined by populist policies in the context of elections, such as the promise to pay the ex-Civil Defense Patrols (PAC) compensation.

2.4. Private property

Property rights and the regulation of property acquisition are formally defined and partially established. Their real impact, however, is weakened due to the deficiencies in the rule of law. A recent report by the Worldbank found that 70% of Guatemalan entrepreneurs did not trust the rule of law concerning property rights.

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

2.5. Welfare regime

The cleavages within Guatemalan society also find expression in unequal access to basic health-care services, access to education and life expectancy. Even in the mid-1990s, only a third of the economically active population belonged to the social security system; given the strong growth in the informal sector, this percentage has not increased in recent years. Access to social insurance systems is segmented and it varies widely by territory, social stratum and sector. The social safety nets that were once pervasive, especially in the Indian village communities, were largely destroyed by 36 years of civil war. Equal opportunity does not exist; discrimination follows the fault lines of social cleavage; racist prejudice against the indigenous population remains widespread.

Mostly due to a growing crime rate and increasing violence which led to widespread protests president Berger announced a social investment plan in August 2004 (*Vamos Guatemala*). During the next three years, \$945 million will be invested in projects dealing with rural production, social development, education and child nutrition.

Although formally there is equality of opportunity, women and indigenous people are discriminated against. This becomes evident in the sector of education where indigenous women (girls) are widely under-represented. Consequently, job opportunities and access to other public services is limited. HDI and poverty rates vary significantly between Ladino and Indígena households as they do between urban and rural areas, and between males and females.

2.6. Economic performance

Macroeconomic growth rates have been stable over the last decade and have reached 2.0% (2003) and 2.6% (2004) respectively. However, this has been neither enough to lessen social disparities, nor sufficient to meet the relatively high population growth of 2.6%. Economy remains dependent on resource extraction and therefore depends on foreign investment and international prices. This is relevant for coffee and oil as well as the other mineral resources. Remittances reached a record high in 2004 equivalent to nearly 11% of the GDP, trade and currency account deficits grew. The tax base of 10% remains extremely low by regional and international standards. The Berger government tried to increase income and value-added tax during 2004 but had to give way due to a series of strikes and protests.

2.7. Sustainability

Ecological concerns generally take a back seat to growth considerations. Core problems in the environmental sector are contaminated rivers, escalating deforestation and the environmental pollution caused by sugar cane plantations. In the context of the concessions for the extraction of mineral resources, negative environmental consequences of the “megaproyectos” have led to a series of conflicts. In the tourism sector, there is a rising interest in opportunities to enhance eco-tourism. However, this has not led to any serious consequences in the treatment of the environment where e.g. open garbage dumps remain the rule.

Guatemala’s illiteracy rate of 30% (2003, data from United Nations Development Program’s, or UNDP, National Development Report 2004, 2004) remains very high for the region. The school enrollment rate for 2003 was 89%, with average school attendance just 5.6 years. As in other sectors as well, social status determines access to and quality of education, training and higher education. Fewer than 50% of 13- to 15-year-olds attend school; in many rural areas, the numbers are significantly lower. Expenditures for research and development, at less than 0.2% of GDP, are minuscule. Under the Portillo government, there was a trend to privatize primary education further, which led to serious conflicts with the teacher union, one of the best-organized labor segments in Guatemalan society.

3. Management

During the period of assessment, there was a change of government from the FRG-based Portillo administration (2000-2003) to the Berger administration, which has no stable majority in congress. While during the Portillo administration, there was a clear regressive tendency; Berger’s presidency began with the hope of new momentum for reform. Due to structural problems, and a

lack of support in congress as well as a lack of real commitment to reforms, these hopes were not fulfilled during the first year in office. Seen over the whole period under study, progress has been negligible.

3.1. Level of difficulty

Guatemala is a middle-income country with a medium-level education level, high ethnic and social fragmentation, weak civil-society traditions, serious problems in the rule of law and fragile institutional stability. Structural constraints on governance are moderate despite the persistent heritage of 36 years of war, violence and destruction.

The most important structural constraints are the lack of integration and participation of the indigenous population. Combined with the high level of poverty and social injustice this has led to an increase in social and even violent conflict e.g. in the agrarian sector (land disputes, illegal occupation of land, etc.), and increase in criminality. While the Portillo government tried to functionalize some of the discontent in order to gain political support, the Berger administration has claimed to pursue a more inclusive policy approach, at least on the rhetorical level. However, a combination of deficient leadership and deficient support, both in congress and in the dominant economic and political sectors, hindered substantial change. Consequently, disenchantment is growing and some civil-society sectors that originally supported the Berger government are reconsidering their policy.

Traditions of civil society are weak. Organizations of civil society work on specific issues or merely on a local basis. Fragmentation, conflict and mutual distrust are the main characteristics of civil society. Organizations try to negotiate benefits with the government on an individual basis and only rarely try to organize a consensus-based approach with other actors. Distrust is widespread and easily revived by intimidation after 36 years of war, violence and repression.

Guatemala's society is deeply split along ethnic and social lines. Polarization is growing due to the lack of perspectives for change by civilian means. Violent outbursts increase in the rural areas, criminality and intra-personal violence increases all over the country. Up to the time of this writing, there is an astonishingly low level of politicization of these conflicts. However, there are some indications of a growing radicalization along ethnic lines. The lack of any hopeful perspectives is one of the core causes of the growth of different rival youth gangs (maras, estimated to have about 40,000 members), which terrorize the big cities.

Profile of the Political System

Regime type:	<i>Democracy</i>	Constraints to executive authority:	2
System of government:	<i>Presidential</i>	Electoral system disproportionality:	28.3
		Latest parliamentary election:	09.11.2003
		Effective number of parties:	1.9
1. Head of State:	<i>Alfonso Portillo</i>	Cabinet duration:	01/04-05/04
Head of Government:	<i>Alfonso Portillo</i>	Parties in government:	1
Type of government:	<i>divided government</i>		
2. Head of State:	<i>Óscar Berger</i>	Cabinet duration:	05/04-present
Head of Government:	<i>Óscar Berger</i>	Parties in government:	3
Type of government:	<i>divided government</i>		
		Number of ministries:	13
		Number of ministers:	13
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties reflects the political weight of parties (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

3.2. Steering capability

Both the Portillo and the Berger government acted mostly on a “muddling through” and ad hoc basis. Disregarding window dressing, there has been no real commitment to the necessary profound change necessary to favor the indigenous population. The necessity to do so might change with growing organization and radicalization of their representatives.

The political leadership claims to pursue long-term aims regarding democracy and market economy, but most of the times these are replaced by short-term interests or necessities. Nevertheless, there are significant differences between the governments of Alfonso Portillo and Oscar Berger. While Portillo had a populist approach, Berger is a conservative, which favors the traditional economic elites. Whereas governing during the Portillo administration was not transparent at all, the Berger administration shows at least a significant concern for transparency and accountability.

The implementation of international conventions like ILO 169, which could be a central mechanism for reform, is not only deficient but also nearly non-existent in both governments of the years under study. Neither the Portillo nor the Berger government consulted with indigenous communities over the award of concessions for mining. Under ILO 169, this is obligatory as most of the mines are situated in areas claimed by the indigenous communities to be theirs. The lack

of an integrated approach against crime and violence is another example for deficiencies in the steering capabilities. Malfunctions of the judiciary are an important reason for the rise of self-justice and lynching of supposed criminals all over the country.

While the Portillo government did not have a reform agenda in its last year, President Berger did formulate some substantial reform projects. The most important one was the tax reform, which, however, could not be implemented and thus failed due to lack of support and social protests. Overall, the reform agenda of the Berger government is more directed to the maintenance of the actual social and economic structures. Apart from sporadic protests, opposition groups are neither strong enough nor do they have an alternative reform agenda so that – at least up to now – there exists no real resistance. An important step for reform by the Berger government has been a series of personal changes in the military leadership in January of 2005. The new defense minister, General Carlos Aldana Villanueva, is free of charges to have participated in past human rights violations.

Political leadership of both governments have responded to mistakes and failed policies with changes, but this meant usually to give way to pressures (some times violence) from interest groups. The willingness to compensate ex-PAC members is a case in point. The knowledge base on which policies are based is not affected by these rather sporadic “learning processes”. As long as civil society remains fragmented and subordinated there is neither need nor pressure for more consistent change or learning.

3.3. Resource efficiency

Resource efficiency increased after the change in government at the beginning of 2004 but remains far from optimal. Many administrative posts are still awarded based on party politics and thus impedes progress to significant professionalization (technical skills, professional careers, etcetera) as a prerequisite for a public service that is oriented toward public goods and benefits. Although the budget deficit and government borrowing have held relatively constant over the past years, deficit is steadily growing. During the Portillo administration, this was particularly serious in the defense budget, where estimates have always been lower than the final sum. The time in office of the Berger administration up to now is too short to make a serious assessment.

The political and economic elite extensively ignore and discredit cultural traditions. For instance, a social reform policy could build on the traditional solidarity relationships in the indigenous village communities, either revitalizing them or developing them further. Only in the area of justice, have some steps been taken at the local level - supported and fostered by international development partners - to revive and strengthen the customary law of the indigenous peoples.

However, these cannot be propagated nationwide. In the Berger administration, participation of the indigenous population is widely restricted to the cooptation of internationally well-known personalities like peace novel laureate Rigoberta Menchú as ambassador of good will.

Coordination efforts of government policy are deficient although they have improved with the change in government. However, difficulties and conflicting interests prevail. The Peace Secretary is a case in point: while the new government made the secretary the central institution for the coordination of the peace accord's implementation, its financial resources are scarce and its competence contested. Distrust between government and civil society renders cooperation and coordination difficult. The lack of communication and social integration between civil society and political system complicates any coordination effort further.

Corruption remains a central problem in Guatemala. Although the Berger government pursues corrupt officials of the Portillo government, corruption charges have also been made against leading opposition leader Alvaro Colom (who was second in the presidential race). The president himself is widely perceived as being sober, mostly because as a successful member of the traditional economic elite, he does not need to enrich himself. The influence of criminal networks and the growing importance of Guatemala as a drug trading country increase corruption on every level of society. Deficits in the rule of law and intimidation of social groups favoring accountability and transparency are a further problem. The government alone is much too weak to control and curb corruption. Transparency International ranks Guatemala in its 2004 index on range 122 with a score of 2.2 (together with Sudan, Nigeria; in 2003 Guatemala had a score of 2.4).

3.4. Consensus-building

With the change in government, there was a lot of hope for an end of polarization and a growing possibility for consensus. At the beginning, the coalition of President Berger signed a pact of governability with two of the other parties (PAN for which Berger had been mayor of Guatemala in the 1990s, and UNE of opposition candidate Alvaro Colom). The pact is very fragile and Berger's own coalition was weakened when the Partido Popular of former General Otto Pérez Molina left GANA after Berger struck a deal with the FRG over a fiscal pact. Consensus building and negotiations with protesting groups gave the president some time to reconsider law projects like the tax reform. However, many hopes for a more integration oriented policy inside NGOs and social movements vanished when as the Berger government clearly favors the maintenance of the social and economic status quo.

While most major political actors agree on the rhetoric level on democracy and a socially embedded market economy as goals, their understanding of these goals varies a lot. The traditional political and economic elite see democracy and market economy as mechanism to maintain the status quo, while social organizations and civil society groups seek to use them as instruments for fundamental change. As they are fragmented and up to now have not been able to reach a consensus on a common reform project transformation remains stuck although it is no longer regressing as it was under the Portillo government.

Reformers (meant in the broad sense including the current government) try to co-opt or control veto powers, notably in the military. The changes in command of January 2005 are a case in point although anti-democratic forces have built powerful networks and have an independent economic basis in the illegal and criminal economy.

Conflicting interests between the executive and the judiciary have brought down an important initiative to limit the power of these networks. An agreement between the Guatemalan government, the UN and the OAS on the establishment of a commission to investigate the extralegal powers (CICIACS) was brought down by the Supreme Court. The court ruled the agreement as unconstitutional because the provisions foresaw investigating powers that are the prerogative of the Guatemalan judiciary. It is difficult to assess if this was a planned flaw by the Portillo government (which signed the agreement during its last week in office) or if it was just a problem not foreseen by the government and the international community.

Whereas the Portillo government tried to functionalize existing cleavages, the Berger administration does nothing to reduce them. The areas where this is most obvious are interethnic relations. While the government integrates individual personalities (Menchú, Rosalina Tuyuc, Victor Montejo, etcetera) it declines real changes that would be a central mechanism for the participation and empowerment of collective indigenous actors. Another example is the policy to divide indigenous communities concerning the issue of mining concessions thus weakening their possibilities for protest and claiming their right to be consulted. This is leading to a growing polarization along ethnic lines, which could bring a lot of social unrest and violence in the future similar to situations in Bolivia and Ecuador.

Neither government has pursued policies to develop social capital. The raising wave of crime and violence over the last years has increased intimidation and distrust, building a continuum from wartime experiences for the population. Deficits in the rule of law and the functioning of the judiciary as well as corruption and inefficiency inside the police increase distrust among individuals and among citizens and the state.

There are various processes of concerted action and consensus seeking. The main problem is not a lack of communication but a lack of implementation of reached agreements. The implementation fails because of the mentioned gap between civil society and party system and due to influences of dominant veto powers as well as due to a lack of real political will for substantial reform.

The Portillo government was dominated by one of the leading human rights violators of the past, ex-dictator Efraín Ríos Montt. During the FRG government there was a clear negligence concerning justice, reparation and dignity of victims. Although President Berger re-launched the Peace Accords in a public event on the Commemoration Day for the Victims of the War on January 25, 2004, the process of doing justice and compensate victims is still embryonic and conflicted. A National Commission for Conciliation was built, indigenous leader Rosalina Tuyuc named as president but funding is still very low. Most victims cannot understand that their perpetrators – members of the ex-PAC – will be compensated, while they have received nothing up to now.

3.5. International cooperation

With the closing of the UN mission to Guatemala MINUGUA at the end of 2004, the international community decreased its visibility and engagement in Guatemala. During the ten years of its work MINUGUA was a decisive actor and watchdog in favor of reform and transformation to democracy and social justice. As many verification and supervision tasks are still not fulfilled, MINUGUA handed its functions over to other actors, some Guatemalan (for example, the Procuraduría), some international (UNDP). This could lead to a further blockade of reforms as the national actors are part of the internal conflicts and power play.

The political leadership works with bilateral and multilateral donors but use this only partly to improve policies. Whereas the Portillo government mostly made tactical use of international cooperation, the Berger administration is more open. Actors of civil society make every possible effort to gain maximum advantage from international development cooperation. In the various meetings of the consulting groups and elsewhere, the government always presents itself as a partner open to reform, but in practice, the promises made there are carried out at most in the financial area. Political and social demands in particular have been largely ignored. In political sensitive areas – like compensation for the war's victims – international cooperation runs the risk of being part of the internal conflicts. During the last year of the Portillo government international donors tried hard to pressure the government in favor of reforms. Foreign minister Stein announced a new approach to international cooperation for the consultative group meeting in 2005.

After the change in government, the international community showed not only relief but also a high deal of good will to support the deepening of reforms working hand in hand with the new government. During the first year, some of this impetus and credibility were lost due to the lack of determination and the fragmentation inside the government. The consultative group meeting of 2005 will be decisive for future engagement of international donors.

Regionally, key actors cooperate mainly in efforts toward Central American integration, but this always takes a back seat to promising bilateral relationships – most of all in the relations to the United States.

4. Trend of development

After twenty years of transition and nine years after the ending of the war, Guatemala's development seems to have reached a crossroad. The change of government in January 2004 could introduce the deepening of the transformation process. Otherwise, old and new conflicts could put even the deficient form of democracy in danger. Strengthening of the rule of law and commitment to the social inclusion of marginalized groups – first of all, the indigenous majority – are the central challenges that will decide future developments.

4.1. Democratic development

While stateness, political participation and the rule of law deteriorated significantly during the Portillo administration (2000-2003), there is some progress visible since the change in government. However, the danger persists that the lack of leadership, the growing fragmentation and the power of criminal and other networks will impede any substantial progress. The declaration of unconstitutionality of the international investigation of CICIACS must be considered a real sign of alarm.

The level of consolidation of democracy has not changed significantly. While the defeat of Efraín Ríos Montt in the first round of the presidential election was a good sign for the maturity of the electorate, the fragmentation of the party system and other structural problems still persist and have not been addressed up to now. This and a real perspective for social integration for the poor majority will be necessary for any significant change in the direction of deepening and consolidation of democracy.

4.2. Market economy development

Although macroeconomic data are mostly stable, this hides the maintenance or even increasing gap between social strata. All over there has been little or no real progress in the socioeconomic development.

The country's level of development has improved slightly, but social and ethnic differences have not changed (HDI 2000: 0.642 – 2003: 0672). (19.2.). As market economy is a shared principle inside the Guatemalan elite the necessary institutional framework already exists and has not changed fundamentally over the last two years. Structural problems concerning the rule of law and its implementation still exist. The rising conflict over property issues in rural areas and mining concessions have not been addressed. The government has announced that it will present a project for a rural land register. Up to the time of this writing, initiatives in that direction were doomed to fail due to resistance of status quo oriented actors.

Although quantitative growth rates improved over the last years, there has not been a qualitative leap in economic and social development. Guatemala still depends on the export of primary products and commodities as well as increasingly on the remittances of legal and illegal migrants to the United States.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	3.4	2.6	2.2	2.0	2.6
Export growth in %	9.7	-10.6	2.1	7.0	9.4
Import growth in %	13.4	8.4	12.4	6.6	11.0
Inflation in % (CPI)	5.1	8.9	6.3	5.9	9.2
Investment in % of GDP	16.9	16.5	17.0	16.0	17.0
Tax Revenue in % of GDP	10.1	9.7	10.6	10.3	n.a.
Unemployment in %	5.6	n.a.	3.1	3.4	n.a.
Budget deficit in % of GDP	-1.8	-1.9	-1.0	-2.3	-1.3
Current account balance in billion \$	-1.05	-1.24	-1.24	-1.04	-1.19

Source: UNDP: *Informe Nacional de Desarrollo Humano. Compendio Estadístico 2004. Guatemala diciembre 2004*; CEPAL: *Balance preliminar 2004, Santiago de Chile 2004*; CEPAL: *Estudio Económico 2004-05, Santiago de Chile 2005*.

D. Strategic perspective

Qualitative improvements in Guatemala will only be achieved if the political leadership realizes that the social integration of the indigenous population is necessary for development. A muddling through along the old patterns of behavior will lead to an increasing polarization along ethnic lines in the medium- and long term. As has happened in other countries of the region, such polarization could erupt into social and violent unrest.

The failed attempt to investigate parallel power networks should not lead to apathy but should be an incentive to make a new – and successful – approach to curbing their power. Otherwise, the already fragile institutional stability of the country could collapse. The investigation and prosecution of these groups with the instruments of the rule of law is not only necessary for political reasons but also for an improvement of market mechanisms, as these networks inhibit fair competition.

In terms of economics, development in rural Guatemala and the conflicts over mining concessions will be decisive. If things do not change, Guatemala's future will be increasingly that of a rentier economy which lives mainly from extraction of primary products and remittances of migrants. This cannot be a basis for sustainable development.

The international donor community should support any initiatives and reforms that deepen democracy, increase social justice and build social capital. Specifically, action should be directed toward strengthening the capacities of the indigenous population to increase their participation in politics, society and economy beyond isolated individuals and folklore; strengthening of the rule of law and the judiciary; and improving accountability and transparency in the public administration.

These measures are an important basis for the establishment of trust at the interpersonal level as well as between citizens and the state. Further more strategic support is necessary to improve access to education on elementary as well as secondary and tertiary levels for the country's indigenous population, especially girls and women; as well as to increase the political system representativeness by supporting the organization of social interests and increasing communication and engagement between civil society and political parties.