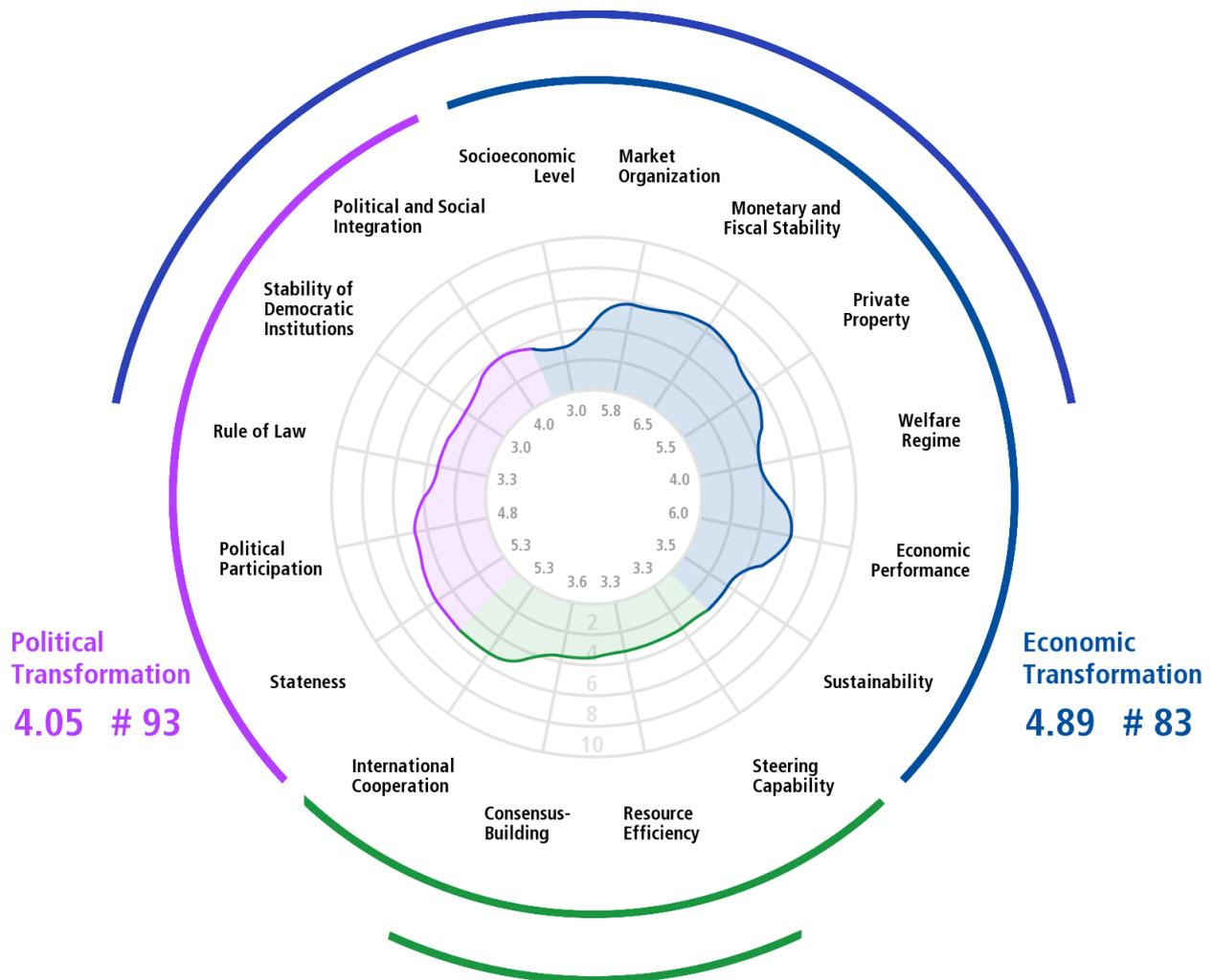


Guatemala

Status Index

4.47 # 97

on 1-10 scale out of 137



Political Transformation
4.05 # 93

Economic Transformation
4.89 # 83

Governance Index

3.58 # 108

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	17.2	HDI	0.651	GDP p.c., PPP \$	8447
Pop. growth ¹	% p.a.	1.9	HDI rank of 189	126	Gini Index	48.3
Life expectancy	years	73.8	UN Education Index	0.511	Poverty ³	% 24.2
Urban population	%	51.1	Gender inequality ²	0.492	Aid per capita \$	21.7

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

Guatemala's political transformation, which began in 1996, has increasingly come under threat, and it has once again culminated in authoritarianism during the period under review. President Otto Pérez Molina (2012–2015) and Jimmy Morales (2016–2019) reinforced this trend by increasing polarization, especially following episodes of strong repression of social protests and high levels of corruption in public administration.

The presidency of Morales has been marked by the continuity of powerful corrupt networks and the implementation of a strong campaign against the International Commission against Impunity in Guatemala (CICIG), which has allowed military, political and economic elites to unify and support anti-democratic actions together with the National Congress and the Supreme Court. Jimmy Morales has been investigated for illicit financing of electoral campaigns and members of his family (his son and brother) have been prosecuted for fraud. Morales's political party, FCN-Nación, still faces dissolution after CICIG and the prosecutor's office proved illicit financing of electoral campaigns and money-laundering.

After several attempts, including public statements supported by high-ranking military and police authorities, Jimmy Morales blocked Ivan Velásquez and other international investigators from continuing to work in the country. Morales has openly disrespected the Constitutional Court, which protected the CICIG. Aligned with President Morales, the Supreme Court initiated actions against three Constitutional Court magistrates. All these actions were publicly supported by the most influential private sector organization, CACIF. Additionally, the National Congress has supported the fight against the CICIG. Consequently, the agreement with the United Nations for the continuity of the international commission was not renewed in September 2019.

As a consequence, Guatemala's main development 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. However, the involvement of the military in politics for corrupt objectives has increased.

During the period under review, there have been 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 government. Political reforms, especially legislation on elections and political parties, have been circumscribed, and key constitutional reforms are still pending due to strong opposition from the government and conservative groups. The period under review was also marked by strong polarization regarding initiatives to reduce corruption. Civil society organizations are vulnerable to governmental campaigns that aim to discredit them and subject them to court rulings. The international community has lost trust in the government and raises concerns about anti-democratic actions to protect prosecuted entrepreneurs and politicians including President Morales and Vice-President Cabrera.

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 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 claims to a better life could lead to a process of radicalization and an increase in political violence, especially during the upcoming electoral processes.

History and Characteristics of Transformation

The signing of the 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 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 to the Public Ministry reflected his concern with avoiding any personal fallout from his involvement in the criminal network known as “La Linea,” which was dedicated to defrauding public resources. Nevertheless, the “La Linea” 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 comedian 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. Jimmy Morales, Vice-President Cabrera and several members of the political party FCN-Nación were prosecuted for illicit financing of electoral campaigns, leading to the dissolution

of the political party. Additionally, the brother and son of Jimmy Morales were prosecuted for fraud and participation in a corrupt network benefiting from public resources.

Jimmy Morales led a strong alliance between private sector gremials, corrupt military personnel, members of the Congress and the Judicial Court to fight CICIG and block achievements inside the attorney general's office. Jimmy Morales disrespected the Constitutional Court and other democratic institutions, demonstrating the power of corrupt alliances seeking to continue corruption with impunity.

Social policies and institutional reforms have been blocked, and changes to key authorities such as the minister of interior, the general director of the national police, and staff in the tax administration and attorney general's office have increased polarization, delegitimization and a lack of trust in Guatemalan society.

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 the country after 10 years at the end of 2004, results were mixed. While there has been significant progress in terms of political participation and formally ending the war, the implementation of other accord terms such as improvements in indigenous rights and socioeconomic transformation has not occurred. Additionally, in January 2019, the National Congress approved a reform to the National Reconciliation Law, which contradicts the peace accords and benefits perpetrators of past human rights violations and crimes against humanity.

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. This situation has worsened during the period under review due to regressive actions promoted by politicians and functionaries under investigation by CICIG and the attorney general's office. The main consequence is the deterioration of the National Civil Police both at the financial and organizational levels.

However, homicide rates continue decreasing in the country. This tendency started to be evident in 2009. Rates fell from 46.36 homicides per 100,000 inhabitants that year to 30 in 2015, 26.2 in 2017 and 23.1 between January and September 2018. Although this trend continued in 2018, public perceptions of insecurity remain high due to the intensification of extortion at all levels of society, which is committed by criminal gangs in collusion with the national police. During the review period, most violence remained linked to extortion. Acts of extortion are predominantly planned from inside prisons using different methods, including random phone calls and gangs. There are also criminal organizations that specialize in extortions that target businesses and companies.

The proliferation of non-state armed actors operating in urban areas and rural border areas engaged in drug trafficking, human trafficking 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 '20 10



1

The peace accords in Guatemala defined the state as multicultural, plurilingual and multiethnic. Yet a referendum designed to enshrine these constitutionally failed in 1999. 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 and the introduction of anti-discrimination education), these problems remain part of the everyday experience for Guatemala's indigenous people, who make up between 40% and 60% of the population. However, the situation has not translated into them questioning or rejecting the nation-state as a whole.

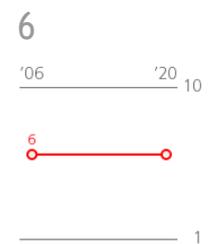
In 2016, several constitutional reforms were proposed. These reforms have created much confrontation, especially those reforms that seek to recognize indigenous justice systems. After a political fight between members of Congress, the executive branch and anti-CICIG organizations, indigenous organizations decided to remove reforms related to indigenous rights in order to support the continuity of the constitutional reform process. These reforms remain blocked in the National Congress.

Formally, the organization and functions of Guatemala's state have no grounding in religious dogma. However, the Morales government has seen a high degree of religious influence, especially promoted by neo-Pentecostal churches aligned with conservative politicians from the United States. This political influence translated into Morales's decision to move the Guatemalan Embassy in Israel to Jerusalem, as a sign of political support for Zionists and Republican political groups. Top-level evangelical representatives have shown public support for Morales's fight against CICIG and the attorney general's office and have held public ceremonies declaring him as "anointed by God to rule the country."

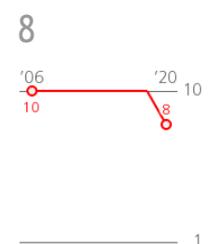
The Catholic Church is still influential, but it has lost ground to the rising popularity of Evangelical churches. Indeed, Guatemala is today 50% Catholic and 50% Evangelical. Several Evangelical church leaders participate directly in political party politics, while the Catholic Church continues to work through its official mechanisms when participating in the political arena. The Catholic Church mirrors the fragmentation of 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.

Jimmy Morales has increased the influence of religious dogmas in politics, using them to mobilize citizens against CICIG and anti-corruption movements. This situation is increasing polarization in society and contributing to the emergence of radical groups using religion as a confrontational discourse.

State identity



No interference of religious dogmas



Though state infrastructure in principle extends to the whole of the country, operations of all kinds are severely impaired by embedded corruption as well as the government's inability to maintain law and order and deliver basic social services to the most remote rural areas. State organizations suffer from a lack of professionalism, the arbitrary use of power by state actors, and 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 within public administration, as well as that area's general access to state funds or programs.

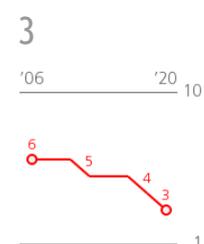
State institutions are concentrated in Guatemala City and in the main cities of each department. The country's northern and northwest areas, where most of the indigenous population lives, lack state services. Likewise, these regions have the country's highest poverty rates. The border municipalities, 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). After Pérez Molina's resignation and incarceration in 2015, basic infrastructure like roads, hospitals and schools has dramatically deteriorated during Morales's government.

2 | Political Participation

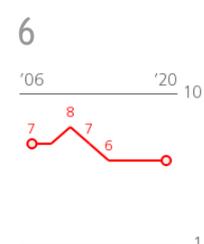
While universal suffrage is ensured, elections are marked by episodes of political violence, especially at the municipal level, and fraught with illegal financing. The last national elections – presidential and parliamentary – took place in September 2015 and were assessed as being minimally free and fair. The election of Jimmy Morales was strongly influenced by the incarceration of former President Otto Pérez Molina and former Vice-President Roxana Baldetti along with other high-level public officials. CICIG and the attorney general's office promoted the prosecution of illegal financing in almost all major political parties in the country, which led to most of them being dissolved. CICIG and the attorney general's office investigated Morales, Vice-President Jafeth Cabrera and his political party for illegal financing and demonstrated the participation of prominent representatives of the private sector in corruption. Despite several attempts to withdraw President Morales's immunity, the National Congress, which is also controlled by political parties under investigation, has protected the president as part of an extended struggle against CICIG.

The dissolution of corrupted political parties and incarceration of private sector representatives involved in the illegal financing of electoral campaigns was a sign of change in the political system during the period under review. However, after several attempts, Jimmy Morales and other political actors were successful in interrupting the work of CICIG in the country in 2019. Consequently, the transparency of the 2019 national elections will be compromised due to the lack of control over illicit financing

Basic administration



Free and fair elections



and corrupt politicians running for public positions. This situation is considered to mark one of the main democratic setbacks since the institutional breakdown caused by President Serrano Elías' self-coup in 1993.

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 illegal bodies and clandestine apparatuses (CIACS). Since these organizations were not dismantled during the country's transition to democracy, they have managed to obstruct fundamental reforms in the justice system and criminal investigation institutions. Since 2007, investigations by the CICIG and attorney general's office led to the dismantling of powerful corrupt networks and rapidly also extended to President Morales.

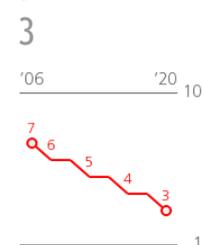
These investigations, alongside other important cases conducted by CICIG and the attorney general's office, led to a strong political struggle against any attempt to reform the political system and prosecute corrupt networks. A coalition composed of private sector representatives, members of the National Congress and former military personnel was established to fight against CICIG and civil society organizations. This coalition was known as "Pacto de Corruptos" (Corrupt Pact). It deployed a media strategy and several legal actions against civil society organizations and CICIG, especially against Ivan Velásquez, the CICIG commissioner.

In August 2018, Morales, surrounded by high-ranking military personnel and police officers, announced that his government would not request the continued presence of CICIG in the country. This was followed by an extensive military operation near CICIG facilities. In January 2019, Morales announced the cancelation of the agreement between the United Nations and the government of Guatemala regarding CICIG. This was a violation of a Constitutional Court ruling, and CICIG was forced to cancel its activities in the country. President Morales's fight against CICIG has been supported by CACIF, the most important private sector gremial, as well as other civil society organizations supporting the president.

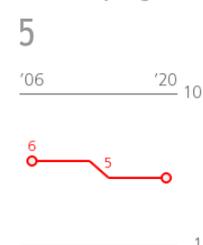
The freedoms of association and assembly are guaranteed by the constitution, but severe restrictions apply. The ability to establish trade unions and organizations is hindered by various mechanisms such as the rotation of leaders that front companies, as well as recent cases of corruption inside unions. Additionally, labor rights are violated with impunity and contractual regulations allow continued labor and human rights violations. Human rights advocates and indigenous peasant rights groups in particular face high levels of intimidation and violence. Indigenous peasants, human rights advocates and social activists are targets of violence and judicial abuses.

The Morales administration continues to block pacts and negotiations with social movements and organizations. The most affected organizations have been those associated with anti-mining explorations and socio-environmental conflicts

Effective power to govern



Association / assembly rights



especially in La Puya, Santa Cruz Barillas and San Juan Sacatepéquez. Leaders have been persecuted by illegal groups, and some even have been killed without any serious investigation of the perpetrators. Additionally, there has been a marked tendency to target protestors by labeling social protests as terrorism. Business groups attempt to prosecute social protests and ban street demonstrations. Anti-mining movements have been 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.

Harassment of human rights advocates and anti-corruption movements increased during the period under review. The most effective forms of harassment are taking them to court and smear campaigns. An example is the harassment faced by Helen Mack, one of the most important human rights and anti-corruption activists, who faces more than seven different judicial prosecutions, a strong smear campaign and intimidation by armed men.

Freedom of opinion and freedom of the press are guaranteed by the constitution. However, as the media is dominated by economic interest groups, there is relatively little independent reporting. At the same time, new and more independent print and online publications have been created. Plaza Pública, Nómada and Contrapoder have all promoted independent journalism, although they have a relatively small audience compared with traditional mass media. Social media (Facebook and Twitter especially) provides an outlet for the dissemination of information. Guatemala ranks 116 out of 179 countries in the 2019 World Press Freedom Index.

CICIG and attorney general investigations demonstrate how the mass media is controlled by corrupt entrepreneurs and politicians, and how it is used for illicit financing and propaganda during electoral campaigns. Immediately after being elected, Jimmy Morales made several attacks designed to discredit the media. Investigations conducted by CICIG and the attorney general's office have proven the involvement of shareholders of Siglo XXI, one of the country's traditional newspapers, in corruption when Otto Pérez Molina's government was in power. 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 programs in the country, are the subject of an investigation for providing illegal financing to Pérez Molina's electoral campaign.

Mario López Estrada is one of the richest men in Latin America and according to Forbes is among the richest men in the world. He is also one of the main supporters of Jimmy Morales. He is the owner of Tigo, a multinational communications company based in Guatemala, and he is being investigated in three different

Freedom of
expression

5

'06 '20 10



1

countries, Guatemala, Paraguay and the United States, for manipulation of political processes and corruption. Allegations point to the use of powerful communications infrastructure to control social networks through centers specialized in misinformation and discrediting the independent media and anti-corruption activists. His platforms have been a strategic part of the anti-CICIG campaign.

3 | Rule of Law

There is a formal separation of powers between the executive, legislative and judicial branches of government. However, checks and balances have in fact completely been hollowed out during the period under review. That is because of the successful efforts of an informal coalition of the government, Congress and related networks, which has fought and sidelined the last remaining advocates for Guatemala's (already weakened) rule of law: CICIG, the Constitutional Court and the attorney general's office. The current government, as well as the next one that will be elected in 2019, can now act without fear of being held accountable under the rule of law.

President Morales and several politicians investigated by CICIG took control of the Supreme Court and have fought against the Constitutional Court due to its support of the international commission. An example of the lack of checks and balances is Jimmy Morales's open disrespect of the Constitutional Court's decision regarding the continuity of CICIG in the country.

During the period under review, the legislative branch's main effort has been to undermine or dilute reforms rather than monitor them. CICIG and the attorney general's office conducted several investigations of members of Congress. The anti-CICIG struggle has been strongly supported by Congress. For example, three times it rejected CICIG requests to withdraw President Morales's immunity and allow the judiciary to prosecute him for different charges of corruption. The legislature does not have any functions regarding government oversight.

On the contrary, there are informal negotiations that constantly balance power between the executive and the legislative branches. These especially occur to benefit political parties or promote private interests within the government. One example is the definition and further approval of the national budget, which becomes a negotiation between political parties and the executive every year. Similar situations have occurred with the legislature's approval of different reforms that are fundamental to the fight against corruption in the country.

The decentralization process has strengthened local administrations, restricting the influence of the national government. But while this should have improved efficiency, members of Congress use decentralization to circumvent decisions made by the local and/or national governments (e.g., appropriating funds earmarked for development for their own clientele). This is a clear sign of a lack of checks and balances in institutional design as well as in political practice.

Separation of powers

3



The independence of the judiciary is heavily impaired by political influence and high levels of corruption. On the one hand, the improvements achieved by the investigative and prosecutorial work of the CICIG and the attorney general's office during the period under review 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.

However, on the other hand, the support of CICIG and other international and national actors did not prevent the continued manipulation of the judiciary, including the election processes of Supreme Court and Constitutional Court. The role of the CICIG in strengthening investigative capacities has been questioned because of the strong influence of criminal and private interests, and the increasing hostility of governmental authorities. In addition, President Morales and political and private sector elites managed to control the Supreme Court to ensure it acted against the Constitutional Court and blocked legal prosecutions where CICIG participates. Even some of the prosecutor's office's notable achievements during the administration of Claudia Paz y Paz and Thelma Aldana have been dismantled during Morales's administration, which will mean current investigations stagnate and prosecuted politicians and entrepreneurs will be reprieved.

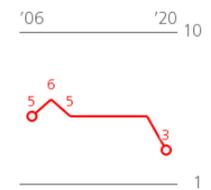
There is little available data about the efficiency of the judiciary. The perception is that the majority of cases of homicide, including cases of femicide, remain unresolved and cases of corruption are blocked. The inefficiency of the judiciary is the result of political interference in the process 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 strongly opposed constitutional reforms aimed at strengthening the control mechanisms in the election 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 key problem in Guatemala and, although officeholders who break the law have started to be prosecuted, the power of corrupt networks – which are supported by President Morales – undermines reforms promoted by CICIG and attorney general's office.

The capacity of CICIG and the prosecutor's office has been limited and there is a widespread lack of transparency and accountability in the judiciary. Many cases of corruption investigated by CICIG and the prosecutor's office depend on a single judge, Miguel Angel Gálvez, who is perceived as honest. However, a new generation of similarly inclined judges are gradually emerging. After the attack on CICIG, honest judges are vulnerable and their work has been limited.

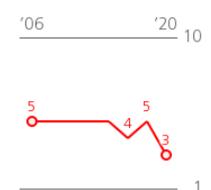
Independent judiciary

3



Prosecution of office abuse

3



Corruption and abuse of office affect most public institutions, including the police, the army, the prosecutor's office, the judiciary, local governments and the legislature. Public funds are regularly used for political purposes through mechanisms such as budgetary allocations for NGOs that do not really exist, a problem that was repeatedly identified during the period under review. Recent investigations have shown that a significant amount of public funds has been used to illegally finance electoral campaigns. Since Pérez Molina's prosecution, corrupt networks have strengthened their control over judicial institutions and preserved their impunity. President Morales's disrespect of the Constitutional Court is an example of the extent of impunity among governmental authorities.

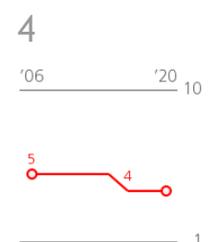
Both the president and the vice-president, as well as their political party, were investigated regarding illegal financing of electoral campaigns. Despite CICIG efforts to remove the president's immunity, he was supported by the judiciary and the Congress. According to several civil society organizations, 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, the consequences are limited by the weak capacity of the prosecutors in the Public Ministry and the obstruction of judicial investigations.

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 and anti-hydropower projects and water movements. When civic protests erupted as a result, the government responded with military force due to a lack of non-violent conflict resolution capacity.

During the period under review, President Jimmy Morales led a strong smear campaign and legal harassment against human rights and anti-corruption activists, the consequence of his anti-CICIG policy. Violence against women remains high. According to the Public Prosecutor's Office, the number of reported crimes of violence against women was about 60,000 annually between 2014 and 2017, and the number of denounced femicides more than 200 annually – and both are tending upwards. Impunity is high in such cases, as in all other criminal cases in Guatemala. The judiciary cannot ensure equality before the law, equal access to justice or due process. As a consequence, vigilante justice is common. This has led to the emergence of a number of so-called social cleansing (*limpieza social*) groups, many of which have been linked to cases of lynching.

During the period under review, there has been increasing awareness about corruption as the main driver of civil rights violations, especially regarding the provision of public services such as justice, health and education. This includes security and criminal investigations, which have been highly undermined.

Civil rights



4 | Stability of Democratic Institutions

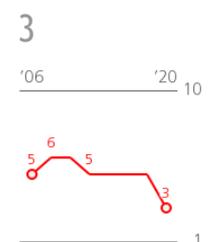
Democratic institutions are formally established, but their effectiveness is limited due to a lack of stability and continuity, as well as a lack of funding and professionalism. During the presidency of Jimmy Morales, it has been demonstrated that the main driver of inefficiency in democratic institutions is corruption, which is based on extended abuse of power and impunity. During the period under review, democratic institutions have been undermined, and developments achieved by CICIG and the attorney general's office regarding prosecution and justice have been dismantled. The Electoral Court has no power to guarantee transparency for the upcoming 2019 elections. President Morales is able to disrespect the Constitutional Court without impeachment, the National Congress protects anti-democratic decisions taken by the executive, and security institutions have been severely changed in order to allow political manipulation. Additionally, the Foreign Ministry allowed decisions to be made that aimed to end the CICIG's activities in the country, violating international agreements.

The political system lacks efficient mechanisms for accountability, especially regarding the use of public resources. Consensus between Congress and the government is normally achieved through political party negotiations and alliances, most of which benefit private interests. The military has only a formal role in public security, and it is consequently ineffective at reducing violence.

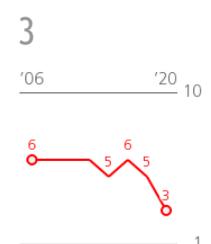
National democratic institutions in Guatemala lack legitimacy. Economic elites no longer support democratic procedures. President Morales's decision to disrespect the Constitutional Court was broadly supported by private sector gremials. In general, many accept democratic mechanisms only as long as their 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 to be transparent, but on the other, they oppose the continuity of CICIG in the country.

Distrust of democratic institutions and a decrease in their legitimacy have spread due to actions led by Jimmy Morales, such as open disrespect of the Constitutional Court, refusing to face CICIG investigations and manipulation of public opinion. This situation increases due to the extensive support of him by private sector representatives and the military. The Supreme Court and the Congress are also part of a wave of anti-democratic actions against anti-corruption efforts. The upcoming 2019 elections signal the emergence of radical right-wing political parties calling for extreme measures against international accountability.

Performance of democratic institutions



Commitment to democratic institutions



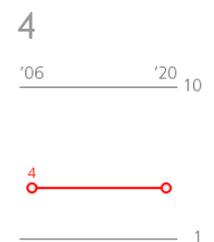
5 | Political and Social Integration

The party system remains highly fragmented, with many parties appearing and disappearing before and after elections. A total of 26 parties applied for the 2019 elections, 10 of which were newly founded parties. Of the 26 parties, 15 won seats in parliament. Otto Pérez Molina's political party, Patriota, and Manuel Baldizón's party, LIDER, were dissolved in June 2017. In June 2018, the Supreme Electoral Tribunal (TSE) initiated a process to dissolve FCN-Nación, the party in government, after a CICIG investigation demonstrated illegal financing in the run-up to Jimmy Morales election. In October 2018, the TSE suspended the process after the Administrative Appellate Court granted provisional protection. Other minor political parties have also been dissolved or are under investigation.

Consequently, voter volatility is high. There are few programmatic differences between parties beyond election propaganda. Polarization between them is not an issue, since informal – and in some cases illegal – negotiations generally prevent confrontations and major conflicts. Parties are established based on personal relations and interdependence (mostly with an asymmetric structure) 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 rather than party-based 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.

Illegal financing of electoral campaigns allows private actors to benefit from public resources. The alliance between politicians and the private sector to extract public resources has been a main focus of investigations by CICIG and the prosecutor's office. CICIG demonstrated that most political parties in the country work as mechanisms for corruption among politicians, entrepreneurs and organized crime. For that reason, a number of legal reforms have been proposed, political parties have been dissolved, and entrepreneurs and President Jimmy Morales have been prosecuted. The focus on the political party system was the main reason conservative and corrupt politicians unified to fight against CICIG. Consequently, a lack of proper controls over financing and rules on electoral propaganda continues to afford political parties the opportunity to compete without representing citizens' interests.

Party system



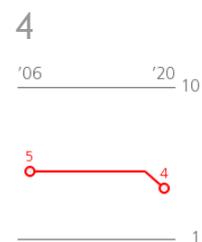
Guatemalan society is highly fragmented. A few players dominate with a latent risk of polarization. Economic elites are fragmented regarding business interests, although during the review period they showed a high degree of unity regarding resistance to structural changes such as political system reform and the prosecution of business groups and politicians. While the “modern” part of the business elite favors an increase in the state’s capacity to confront crime (beyond hardline discourse) through an institutional strengthening of the police and the judiciary, the hardcore elite still favors a non-interventionist state. The most powerful actors supporting the status quo, particularly the industrial lobby (especially the CACIF), the agri-business sector (Cámara del Agro) and the military, lobby for their interests predominantly through indirect and/or informal channels. The alliance between the private sector and political elites is based on the preservation of impunity in all dimensions but especially regarding the use of public resources. The fight against CICIG is a demonstration of the historic corrupted alignment of the private sector and politics. Although some mid-range entrepreneurs have shown openness to change, they are under pressure from powerful business groups.

For their part, civil society organizations were weak, fragmented and strongly attacked during the period under review. Human rights and anti-corruption movements have come under pressure through judicial demands and campaigns to discredit them. This requires legal defense, which civil society organizations are not able to cover, and consequently reduces their capacity to promote change.

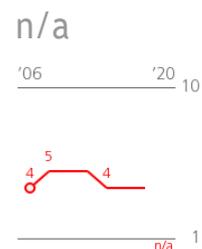
Additionally, while some show a growing level of professionalism, this endangers their roots in popular social movements. The ability of reform-oriented and civil society organizations to participate in politics has been limited to engaging successive governments in dialog. Due to the country’s neoliberal economic model and the weakness of the formal labor market, unions are ineffective and sometimes corrupt. 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. Large mobilizations of citizens, such as those that took place in 2015, have lost strength during the period under review, and they are unable to put pressure on the government for transparency and legality.

Approval of democracy in Guatemala is very low compared to the rest of Latin America. According to the most recent Latinobarómetro survey (in 2018), support for democracy in Guatemala remains the lowest among 18 Latin American countries, with a 28% approval rate (compared to the Latin American average of 48%). The percentage of those saying that democracy is comparatively the best political system is higher but shows the same trend, dropping to 50% in 2018 (compared to the Latin American average of 65%). Satisfaction with the democratic regime’s performance has been consistently lower than the rate of regime support, decreasing from 56% in 2008 to 26% in 2017 and 18% in 2018 (Latin American average: 24%).

Interest groups



Approval of democracy



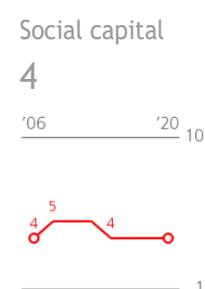
The prosecution of two presidents, two vice-presidents and several top-level public officials, along with the prosecution of candidates during the 2015 electoral process and the dissolution of several political parties during the period under review has contributed to a reduction in trust and the legitimacy of the party system and the traditional political establishment. There is public concern over the governability crisis and the intentions of conservative political groups and criminal organizations to dismantle developments achieved by CICIG and the attorney general's office. Corruption and crime seem to be the main drivers behind support for a possible military coup. According to Latinobarómetro 2016, 60% of respondents would accept a non-democratic regime if it resolved the country's economic problems.

According to Latinobarómetro 2018, trust in specific institutions is very weak, mostly below the average of the Latin American countries surveyed: government 15% (Latin American average: 22%); the election authority 24% (Latin American average: 28%); parliament 17% (Latin American average: 21%); judiciary 22% (Latin American average: 24%); political parties 11% (Latin American average: 13%); military 33% (Latin American average: 44%); and the police 25% (Latin American average: 35%). The most-trusted institution is the church, with 71% trust (Latin American average: 63%), with the media far behind at 36%.

The legacy of war, violence and fear limits trust and cooperation in society. Additionally, the dynamics of crime and delinquency creates collaboration 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. The latest Latinobarómetro survey indicated that interpersonal trust was low (13%) in 2017.

New forms of social organization, such as youth organizations, cooperatives and religious organizations, demonstrate that social cohesion and collective action are not restricted to indigenous communities. The period under review shows how anti-corruption movements build links across ethnic and religious differences in some of the country's departments.

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 that engage in vigilante justice, through means 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 factors.



II. Economic Transformation

6 | Level of Socioeconomic Development

Guatemala is a middle-income country with a long history of social exclusion, which is quantitatively and qualitatively extensive and structurally ingrained. Social exclusion reflects the main dividing lines in Guatemalan society, between Ladinos and indigenous people as well as between urban and rural settings. The small, rich, urban, white and Ladino elites control 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%; according to the National Statistics Institute, 23.4% of the population live in extreme poverty. The country's Human Development Index score has increased slightly during the last few years (0.626 in 2012; 0.640 in 2015 and 0.650 in 2018). 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, along with corruption in public institutions, 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 0.46 in 2017 – below the global average of 0.58 – representing an overall loss vis-à-vis its HDI score of 28.2%. 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 score for Guatemala was 0.630 in 2017, compared to 0.651 for males. The HDI also varies strongly across the country, and these differences are even stronger at the municipal level. These marked differences show inequality to be highly concentrated in departments with a predominantly indigenous population.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	63767.6	68663.7	75620.1	78460.4
GDP growth	%	4.1	3.1	2.8	3.1
Inflation (CPI)	%	2.4	4.4	4.4	3.8
Unemployment	%	2.5	2.8	2.7	2.7

Question
Score

Socioeconomic
barriers

3

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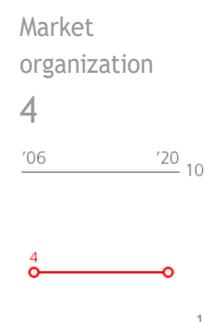
Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	1.8	1.7	1.3	1.3
Export growth	%	4.0	1.7	2.1	-3.4
Import growth	%	9.3	3.5	2.3	3.8
Current account balance	\$ M	-96.4	1023.4	1188.7	638.3
Public debt	% of GDP	24.2	24.0	23.8	24.7
External debt	\$ M	20378.2	21479.8	22971.9	22348.7
Total debt service	\$ M	2111.8	3086.3	4198.7	3959.2
Net lending/borrowing	% of GDP	-1.4	-1.1	-	-
Tax revenue	% of GDP	10.2	10.4	-	-
Government consumption	% of GDP	10.4	9.8	9.7	9.7
Public education spending	% of GDP	3.0	2.8	2.8	-
Public health spending	% of GDP	1.9	2.2	-	-
R&D expenditure	% of GDP	0.0	-	-	-
Military expenditure	% of GDP	0.4	0.4	0.4	0.4

Sources (as of December 2019): 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 was estimated to be 60% in 2017 (compared to 69.3% in 2014, 68.8% in 2015 and 69.8% in 2016) and more than 80% in rural areas.

In the formal sector, 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, according to the 2018 Global Competitiveness Report. The report shows that Guatemala's very low innovation capacity levels are the result of a low-quality education system. The business community has only



limited trust in politicians and are all too willing to engage in corrupt business dealings. Guatemala is ranked 96 out of 135 economies in the Global Competitiveness Index. According to the 2019 Doing Business Report, the country ranks 89 out of 190 economies for starting a business (six procedures, 15 days and a cost of 18.1% of income per capita), showing a slight improvement compared to the previous report.

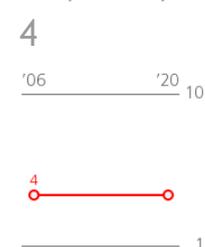
According to the Heritage Foundation's 2019 Index of Economic Freedom, the rule of law is weakly established, and crime, violence and corruption are endemic. Price controls are rare, but subsidies on key products are common. Lack of access to long-term financing is a significant impediment to business development and job growth.

Guatemala is in the process of approving competition legislation, but there is currently no specific competition law or antitrust bill. 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 (e.g., 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 Central America. This situation can be seen in the poultry industry, the banking system and the telecommunications market.

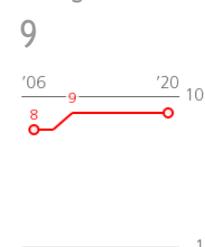
Foreign trade has been extensively deregulated, but the spread of benefits beyond economic elites has been at best minimal. While the average tariff is low according to the 2018 Index of Economic Freedom, Guatemala has improved, moving from last place out of the countries considered moderately free to being ranked 96th out of 140 countries. There are some non-tariff barriers that hamper trade, including import-licensing requirements, access restrictions to the services market, bureaucratic delays and inadequate infrastructure. The free trade agreement between 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 particularly important for Guatemala, as three-quarters of its trade in goods takes place with parties to the agreement. Implementation of this agreement has led to trade reforms. In 2012, Guatemala, as part of the Central American region, signed an association agreement with the European Union 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

Competition policy



Liberalization of foreign trade



accorded to domestic investors. Guatemala has been a member of the WTO since 1995.

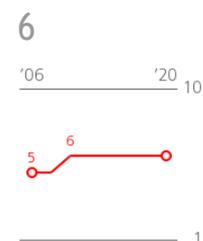
The Guatemalan financial system is relatively small and capital markets are considered weak, though in principle they are oriented toward international standards. The Superintendence of Banks (SIB) is responsible for bank supervision and transparency, and its position has been strengthened over the last 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 continuing to strengthen the regulatory framework. The bank capital-to-assets ratio was rather low in 2017 at 7.0%, down slightly from 7.1% in 2016. Non-performing loans were 2.3% of total loans in 2017 compared to 2.1% in 2016.

Despite a formal commitment by both the previous Pérez Molina administration and the current Morales administration, 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 the bank G&T and one of Guatemala's most prominent business representatives Flavio Montenegro was captured after escaping arrest for his participation in a criminal network along 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. This produced a strong reaction from business groups in alliance with President Morales, who took action to block developments achieved by CICIG regarding transparency of the banking system.

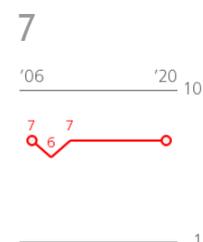
8 | Monetary and fiscal stability

Inflation has been relatively stable in the period under review, staying within the central bank's target range of $4\pm 1\%$. As a consequence of the global financial crisis, inflation rose to 11.4% in 2008. It dropped to 1.9% in 2009, before increasing (4.4% in 2016 and 2017 according to World Bank data) and then dropping again to 2.3% in December 2018, according to the Economic Commission for Latin America and the Caribbean (ECLAC). Nevertheless, the exchange rate between the quetzal and the U.S. dollar has only experienced limited fluctuations. In 2014, it was around \$1 to GTQ 7.56. There was a decrease in early 2017 (GTQ 7.37 to \$1), with the exchange rate remaining stable during 2018. The central bank is formally independent of government influence. However, the prosecution of Édgar Barquín, the 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 central bank's monetary board. Private sector participation in this sphere has

Banking system



Monetary stability



been monopolized by the elite economic associations (particularly CACIF), while other important sectors such as cooperatives are excluded. This affects foreign exchange policy, for example, which is formally free floating but allows for intervention by the central bank to avoid short-term volatility.

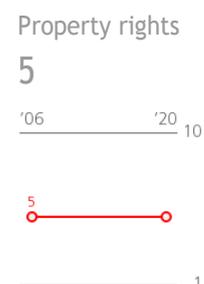
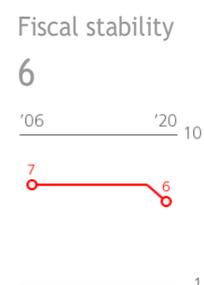
Despite strong opposition to fiscal reform, the fiscal deficit was reduced to 1.4% of GDP in 2015, to 1.7% of GDP in 2016 and to 1.3% in 2018. The World Bank's net lending/borrowing data show a similar tendency (-2.3% in 2012 and -1.1% in 2016). However, according to an evaluation by the IMF, the results of the country's tax reform have been disappointing, yielding an increase of just 0.25% of GDP. During 2016, the fiscal deficit was significantly reduced due to the intense prosecution of tax evasion cases in the private sector. Fiscal constraints remained mainly driven by corruption during the period under review. In 2016, Aceros de Guatemala, the main steel company in the Central American region, paid approximately \$100 million as a result of an investigation into tax evasion between 2006 and 2009. The same year, Carlos Enrique Monteros Castillo, owner of Hotel Westin Camino Real, was prosecuted for tax evasion worth \$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 and comparatively low throughout the 2010s at around 24% of GDP (24.6% in 2017). According to preliminary data by ECLAC, it amounted to 24.3% in 2018.

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) a year to pay nothing in taxes. Those earning more than GTQ 300,000 (\$38,709) pay 7% in income tax, up from 5%. Middle-class earners making between GTQ 48,000 and GTQ 300,000 pay 5%. However, taxes are still the main weakness in Guatemala's macroeconomic landscape. After removing Juan Francisco Solórzano from the tax superintendency (SAT), President Jimmy Morales dismantled several achievements regarding fiscal policy and reducing tax evasion.

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 segments of the population, who lack access to the legal system. There have been many conflicts over land titles in recent years and during the period under review, closely related to mining and hydropower exploration. Cases of illegally diverting 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 opportunities 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, during the period under review, this investigation and previous ones were blocked. They failed to lead to further 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.

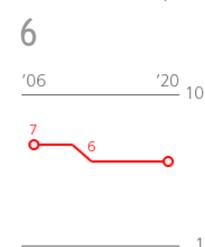
The most vulnerable populations are small peasants and indigenous communities, who have to confront powerful national and international interests and, as a result, protect their properties through social protests.

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 barely by the rule of law, if at all. The legal framework allows the private sector to act with impunity. All cases of public corruption prosecuted by CICIG and the prosecutor’s office involve prominent private sector representatives, including: tax evasion in customs; illegal contracts for medical supplies to the Social Security Institute; the building of roads and infrastructure; public transportation; illegal financing of political parties; and money-laundering through the banking system.

The legal framework regulating financial and commercial activities in the private sector allows criminal networks to conceal money-laundering and trafficking of illegal goods across the country. Additionally, private enterprises generate a lot of 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 prohibiting 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 – it occasionally created oligopolies, as in the energy and telecommunications sectors. Corruption in the private sector will be difficult to prosecute now that President Jimmy Morales has prevented CICIG from continuing to prosecute cases of corruption between public institutions and the private sector.

Private enterprise



The cleavages within Guatemalan society are seen in the unequal access to basic health care services, 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 sections of the population and also between genders. Access to social insurance systems is segmented and varies widely according to location, social stratum and sector. Social safety nets that were once pervasive, especially in indigenous village communities, were largely destroyed by 36 years of civil war and limited postwar reforms. Public spending on health was around 6.2% of GDP in 2014 and 5.72% in 2015. It is therefore low by international standards.

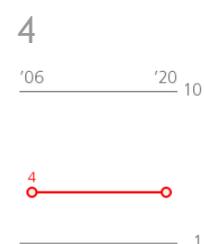
Despite the lack of a genuine formal social security system, informal social safety networks provide some level of protection, especially in areas with strong communal organization structures. Currently, social and economic remittances provide support to communities where the presence of the welfare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

Most of Guatemala's population 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, more than 50% of women who are employed are subject to vulnerable employment.

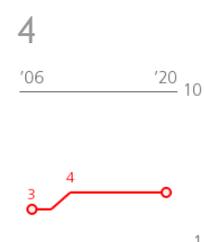
Equal opportunity exists only formally. In practice, discrimination follows the fault lines of social cleavages – racism against the indigenous population and gender-based discrimination remain widespread. This is particularly visible in education and public health, where indigenous females are widely underrepresented. According to UNICEF, the matriculation rate of women increased from 67.3% in 2012 to 81.9% in 2016. The gross enrollment ratio of girls in pre-primary education was 45.65% in 2016, indicating a sharp decrease from 74.67% in 2009. However, job opportunities and access to public services remain limited.

Human Development Index scores 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 a lack of money and the 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%, attributed to malnutrition and a lack of teachers in the countryside.

Social safety nets



Equal opportunity



There is no current data on female enrollment in educational institutions and other social services during Jimmy Morales's administration.

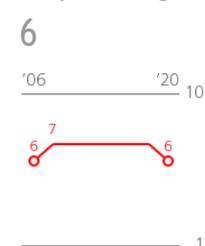
According to civil society organizations and international observers, racism is a key factor driving structural inequality in Guatemala. More generally, women, indigenous people and the elderly are the most vulnerable sections of society. In addition to lacking economic and social opportunities, women are victims of rampant violence in the country. According to the Public Prosecutor's Office, the number of reported crimes of violence against women was about 60,000 annually between 2014 and 2017, and the number of denounced femicides more than 200 – and both are tending upwards. Domestic violence and sexual crimes against women are still under-recorded.

11 | Economic Performance

GDP per capita growth has been relatively stable but meager over the last decade, reaching 2.0% in 2015, 1.0% in 2016 and 0.7% in 2017. Similarly, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) reports 1.1% growth in 2016, 0.9% in 2017 and a preliminary 1.1% for 2018. GDP per capita (PPP) is \$8,150 (2017), the sixth lowest in the region. Economic growth in recent years has reduced poverty only marginally with an increase of poverty during the last two administrations. 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 2017, remittances were estimated at \$8.19 billion, a marked increase from \$7.16 billion in 2016. The Trump administration's policy of deportation generated a massive flow of remittances during the first few months of the period under review as migrants sought to repatriate their resources and save money, given their fears of being deported. 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 it remains extremely low by regional and international standards. In order to encourage investment in the country, income tax paid by taxpayers registered in the general tax regime (Régimen Sobre las Utilidades de Actividades Lucrativas) was reduced from 28% to 25% from 2015. The unemployment rate is comparatively low, at 2.5% in 2016 and 2017, with urban unemployment a bit higher (3.4% in 2016, 3.2% in 2017 and 3.9% in 2018), according to ECLAC data. 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.

Output strength

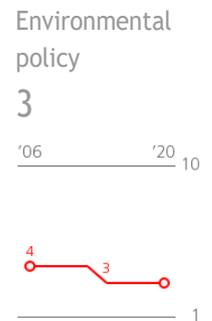


12 | Sustainability

Environmental concerns generally take a back seat to economic growth. Though the 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 former interim government (September 2015 to January 2016) revealed that Guatemala has weak environmental policies, norms and laws with few resources. It also has weak institutions with a low budget, 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 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 during Jimmy Morales’s administration due to a total lack of interest in environmental policies. The main unaddressed problems include the 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. 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.

Advocating for sustainable development can be dangerous, as this affects the economic interests of society’s powerful legal and criminal sectors. President Jimmy Morales has increased political confrontation over socio-environmental conflicts, accusing environmental and social organizations of creating instability in the country. Large-scale projects are prioritized within the current government’s macroeconomic policy. However, there is no political will to establish democratic mechanisms for discussion of those projects with local communities. Civil society organizations were not included in the discussion of reforms to environmental legislation, and they are given no oversight role in the development of such projects. Environmental conflicts are addressed through repression by security forces and incarceration of community leaders.

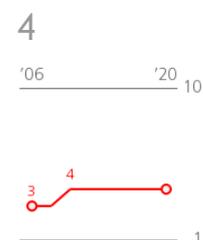


While literacy and primary school enrollment have increased, the enrollment rate in secondary education was just 65.28% in 2016 (68% male and 62% female). The literacy rate is 79.1%, which is the second lowest in Latin America, after Haiti. There is a pronounced difference between male and female literacy rates (84.7% compared to 73.9%). Access to education reflects the existing societal cleavages (between men and women, Ladino and indigenous people, and 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 schools are an exception. In the U.N. Education Index, Guatemala ranks 88 out of the 133 BTI countries considered. It has a score of 0.514 – 20th in the region, ahead of only Honduras and Haiti.

Public expenditure on education has remained stable for the past decade at about 3%. During the period under review, expenditure on public education was reduced from 2.83% of GDP in 2016 to 2.8% in 2017. Investment in R&D is negligible, averaging about 0.05% of GDP over the last decade.

The last educational reform was implemented during Otto Pérez Molina's administration. Although the reform was justified due to the precarious state of the country's education system, it produced no significant results and does not cover primary education. Social policies implemented by President Colom led to a slow improvement in access to education, especially in rural areas. However, these programs stalled during President Pérez Molina's term and Jimmy Morales's administration has demonstrated no improvement regarding the education system.

Education policy /
R&D



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 areas 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. The extent and depth of corruption in public institutions has become a major structural issue, affecting the quality and legitimacy of public services, increasing impunity, and reducing the legitimacy of government authorities.

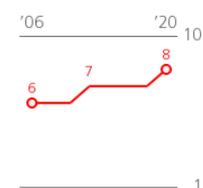
Guatemala's geographical location makes it highly vulnerable to natural disasters such as hurricanes and earthquakes. Every year, storms contribute to the destruction of the country's already poor infrastructure, particularly roads and bridges, and they also destroy important areas used for exports and 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. There is a real risk of famine in certain impoverished areas. This is related to enormous inequality in the country.

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

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. Additionally, democratic civil society organizations depend on international cooperation, which increases the risk of financial uncertainty in terms of long-term sustainability. Organizations try to negotiate benefits from the government on an individual basis, and they only occasionally try to organize a consensus-based approach with other actors. Distrust is widespread and is easily revived by violence, repression and intimidation after 36 years of war. The current crisis afflicting security

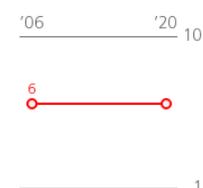
Structural constraints

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Civil society traditions

6



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 significant support.

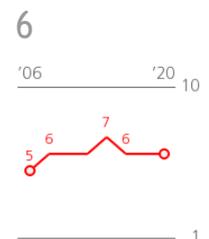
After massive citizen mobilizations in 2015, new social movements emerged, most of which were initiated by the youth without links to traditional civil society organizations. The new movements are characterized by a strong presence on social networks such as Facebook and Twitter, although they suffer from a lack of societal 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. In 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.

During the period under review, civil society organizations were aligned with CICIG in seeking to reduce corruption and prosecute politicians and members of the private sector involved in corrupt networks. However, the intense fight against CICIG led by President Jimmy Morales has left civil society organizations vulnerable to repression and censorship.

Guatemalan society remains deeply split and polarized along ethnic and social lines. Criminal violence in rural areas, which is normally driven by issues of land tenure as well as mining and drug trafficking, has decreased. However, criminality and intrapersonal violence are common in most urban areas. Despite decreasing, Guatemala's homicide rate is one of the highest in Latin America, primarily in urban areas and border regions. Conflicts related to mining and hydropower have led to high levels of polarization and ideological radicalization. According to a 2016 UNDP report, most confrontations between communities on the one hand and security forces and private armies hired by companies on the other have resulted in the death or incarceration of communitarian leaders, abuse and intimidation of women, and destruction of communal property. The lack of opportunities is one of the core drivers of the growth of rival youth gangs that control many poor suburbs in big cities and are quickly entering smaller municipalities as well.

Most homicides occur in border municipalities and in the capital city. They are driven by personal motives and business interests of all kinds. Extortion has become the main source of fear as well as the killing of small entrepreneurs and people working in services and transportation. Though there is no accurate data yet, the frequency with which extortion leads to the displacement of families has become a concern for civil society organizations and human rights defenders. Although there are no formal confrontations between social groups, conflicts are resolved through violence, which – because of impunity – often ends in homicide.

Conflict intensity



During the period under review, conflicts emerged as a result of polarization on the issue of CICIG. On one hand, there are civil society organizations mobilizing the urban middle class against power abuses committed by President Morales. On the other hand, private sector representatives, politicians and Evangelical leaders supported anti-CICIG movements. Although these conflicts have not yet become violent, the level of polarization is high.

II. Governance Performance

14 | Steering Capability

During the period under review, the government prioritized the fight against CICIG from a non-democratic perspective. Other strategic priorities have been postponed or changed due to structural constraints such as pressure from certain groups 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. Priorities change with every presidential transition, and they are renegotiated each year when discussions to approve the national budget take place.

Problems of policy implementation are strongly related to the lack of consistency between new governments' policy agendas, the influence of private interests and corruption. Typically, each administration spends the first year in government defining its policy priorities, usually without taking previous policies into consideration. The following years 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. During the period under review, the government opposed the strengthening of the attorney general's 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 could pass his own fiscal reform project, but its implementation failed to improve taxation –on the contrary, it 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 was promoted by international actors and illustrated by the successful prosecution of private sector tax evaders. During the period under review, developments on fiscal reform were dismantled by Jimmy Morales after changing fiscal authorities.

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,

Question
Score

Prioritization

4

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which considered it unnecessary to change the constitution, especially due to high levels of mistrust in the Constitutional Court and the government's unclear reform proposal. A new proposal to reform the constitution was suggested during the first year of Jimmy Morales's 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.

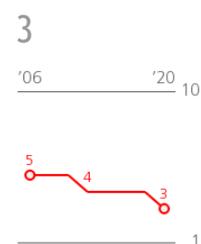
New governments in Guatemala tend to implement short-term policies without establishing continuity with previous governments' policies. Consequently, implementation tends to be hindered or undermined by several factors, including the presence electoral interests, clientelist networks and sectors that oppose reforms. 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 country's richer regions, 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.

The Morales administration has also combined the traditional lack of a defined policy agenda with efforts to dismantle previous developments (e.g., concerning fiscal authority, the Ministry of Interior, the attorney general's office and the national police force). It has been marked by inconsistent institutional and policy reforms, which 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 and the constitutional reform. During the period under review, the policy focus was on improving prosecution. However, the fight against CICIG dismantled achievements and opened opportunities to define and implement policies according to corrupt interests.

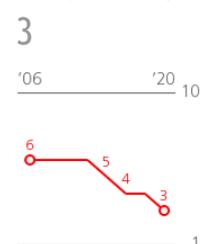
Guatemala's political leadership responds to mistakes or failed policies with follow-up reforms or changes, but this usually means it has given in to pressure (or sometimes violence) from interest groups. At the same time, the political leadership is highly influenced by responses to corruption from the leading media sources and the public. While the media are dependent upon the private business sector, the implementation and results of policy are used by the opposition and the media to attack the political leadership, with the aim of lowering its public opinion ratings. The media are used to either downplay or to overstate policy results.

The degree of policy failure and success is unknown due to the lack of monitoring and evaluation. When problems arise, the solution followed is to change the personnel

Implementation



Policy learning



responsible for program implementation rather than to evaluate policy approaches. President Morales changed key technical authorities in the ministries of public health, interior, tax administration, foreign affairs and national police. The administration has clearly demonstrated how little policy implementation relies on the expertise or technical personnel of previous administrations. Additionally, the current administration has experienced serious difficulties in creating a qualified government team. This is because the government is reluctant to incorporate professionals from previous administrations and because technical professionals distrust the new administration. Key institutions, such as the Ministry of Interior, the tax authorities, and the customs and penitentiary systems, are protected from political, ideological and criminal influence. These institutions are key in the fight against corruption, which is a priority for international actors especially in the context of the Alliance for Prosperity and CICIG.

In general, the most important obstacle to innovation is corruption. There is no professional civil service and policymakers are not individuals with specialized technical knowledge – they are instead members of a clientelist 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 the next political transition.

15 | Resource Efficiency

The government is still unable to efficiently use available resources. Structural corruption and the strongly clientelist nature of budget allocations lead to a misuse of financial resources and the power to make public appointments. While the fiscal deficit remained at about 1.5% of GDP during the period under review, fiscal constraints continue due to corruption and disappointing results of the tax reform. There is a lack of competitive recruiting procedures and professionalization programs. The results of international support and state initiatives seeking to modernize the public administration are mediocre or have been blocked. The combination of continually replaced officeholders, clientelist appointments and structural corruption lead to institutional stagnation and prevent the state's performance from improving.

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 for 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 after a transition between governments is normally moved to a different position, reducing efficiency and learning. During the period under review, support for CICIG initiatives was finally blocked by President Morales, and

Efficient use of assets

3

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developments inside the attorney general’s office were rapidly dismantled. The only institution that can audit the public administration is the Contraloría General de Cuentas; however, it is controlled by political parties, thus preventing independent audits. Financial resources are to a large extent distributed throughout a network of corruption, both public and private.

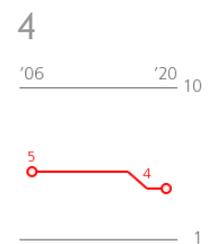
Government policy coordination efforts are deficient, although the government has tried to improve its performance. This is in part because the government bypasses formal coordination mechanisms by establishing new commissions or councils, due to its lack of a congressional majority. This leads to conflicting responsibilities or clientelist policies that lack accountability and undermine policy sustainability. However, the primary reason for the lack of policy coordination is the absence of a consistent policy agenda, which is substituted by the influence of corrupt interests on public contracts and investments.

Most coordination occurs through informal mechanisms and personal relationships. President Colom’s Social Cohesion Council was the last policy coordination mechanism that demonstrated genuine results beyond governmental propaganda. President Pérez Molina’s development plan, “K’atun: nuestra Guatemala 2032,” could not be implemented because of opposition from the elites. From its first day, the Jimmy Morales administration has displayed a tendency toward 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. This trend has continued throughout Morales’s administration, which has focused coordination toward ending the CICIG agreement. In that regard, the ministries of interior, defense and foreign affairs were coordinated with the support of Congress, demonstrating a certain ability to coordinate to guarantee the impunity of political and economic elites.

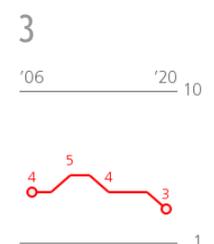
Corruption remains widespread. Legislation on transparency and public information was passed in 2008 and came into effect in 2009, but positive results are only now emerging after significant cases on corruption were prosecuted by CICIG and the prosecutor’s office. A new law on the civil service was introduced in 2008; however, it had still not been passed at the end of 2016 because it was widely criticized by important political actors and unions. During the period under review, there was no progress on approving this law. If approved, it would be the basis for the professionalization of the public service. Today, most administrative staff are dismissed with each change in government. The law on the civil service has remained unaltered for 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 also noted a lack of legal clarity regarding the return of assets confiscated from criminals and corrupt public officials to the state. The Law on Strengthening the Fiscal System to Fight

Policy coordination



Anti-corruption policy



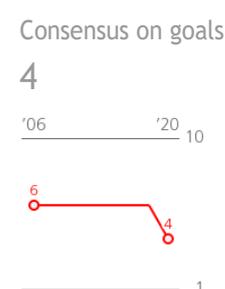
Against Fraud and Smuggling, known as the “Anti-Evasion Law,” was passed by the legislature. This aims to strengthen fiscal controls over business. These regulations, among others, were highly criticized by the business sector.

The cases prosecuted by CICIG and the prosecutor’s office since 2015 have demonstrated that laws passed have been insufficient in reducing the expansion of corrupt networks. CICIG has achieved positive results as a 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 in the mass media and the banking system, congressmen, and judges. These cases have generated a strong counter-campaign to discredit CICIG. The appointment of a new attorney general, María Consuelo Porras, raised concerns about her capacity to continue the work of Thelma Aldana and to support CICIG. The campaign culminated in the decision to end the agreement with the United Nations regarding CICIG. Morales led several attempts to prevent Ivan Velásquez from continuing to work with CICIG, and he prevented international investigators from entering the country in January 2019. This was an open violation of the Constitutional Court mandates protecting CICIG. With the support of the Judicial Court, Morales managed to avoid the CICIG continuing beyond the end of its period in the country, which will end in September 2019, and to dismantle developments inside the attorney general’s office. Additionally, a strong campaign to discredit and prosecute civil society leaders supporting CICIG has affected accountability and citizens’ support of anti-corruption reforms.

16 | Consensus-Building

At a rhetorical level, most major political actors agree on the importance of democracy and a market economy with social safeguards. However, 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 aim to use them as instruments for fundamental social reform. This means that Guatemala’s elites are conditionally supportive of democracy as long as democratic rules do not interfere with their economic model or privileges. As reform-oriented actors are fragmented and have to date been unable to reach a consensus on a common project, transformation is unlikely. The fragile consensus on the issue of corruption has been destroyed during Morales’s administration and substituted by anti-democratic actions to block CICIG, increasing polarization and confrontations between civil society on the one hand and political and economic elites on the other.

There is no alternative model to the market economy in the country, and government efforts aim to satisfy the demands of the economic elites to improve legal frameworks and financial support. The market economy is defended by ideological arguments



rather than macroeconomic benefits. The economic elites call for less government intervention in economic affairs and more repression to protect their private interests. The differing priorities are most obvious between rural and urban settings, particularly in relation to energy policy, land ownership and mining.

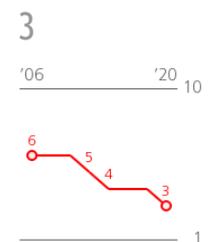
While some governments have sought to co-opt reformers (in the broad sense) or to control veto powers, the situation has become more difficult due to: 1) the increase in the power of criminal networks that invert this process; 2) the fact that the last two governments have not favored reform and have been heavily involved in corruption; and 3) a corrupt alliance between economic and political elites. The influence of these criminal and corrupt 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 on the one hand, and resistance to these changes by the private sector, the government and traditional political sectors on the other. During the period under review, most anti-democratic actions came from the president and Congress, mainly regarding the Constitutional Court and CICIG.

In addition, the military has shown its corporative interest by supporting the anti-democratic actions of President Morales. Former military personnel exploit their networks of civilians for corruption and other illegal activities, and control of defense and police institutions. As is the case with other institutions, the corrupt networks use the military for the benefit of political and private interests. There is a strong conservative and anti-democratic discourse among different actors, some of which are former military personnel who are now in the Foundation Against Terrorism, and from private sector gremials such as CACIF.

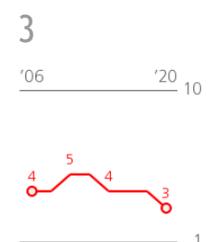
The ability of the government to manage cleavage-based conflict has been low. The level of conflict is high in many areas, and it is related to disputes over land access, labor rights and civil rights. As the rural population is mostly indigenous, many of these conflicts have an "ethnic" component. Post-conflict governments exacerbated polarization by criminalizing protestors and using repression as the chief answer to social demands. President Morales has not changed the way that conflicts are dealt with. On the contrary, government discourse tends to exacerbate social polarization and attacks against international actors. This highlights the legacy of decades of government indifference to strengthening conflict mediation capacities. Dialog and negotiation are delegitimized and rejected by the economic elites, who put pressure on the government to implement a heavy-handed solution to social unrest.

International demands for responsibility on human rights and 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 the plans due to their environmental and social costs. President Morales has deepened polarization by

Anti-democratic actors



Cleavage / conflict management

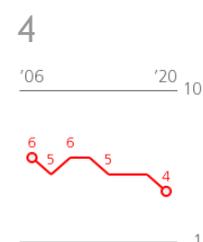


rejecting judicial resolutions to halt irregular hydropower projects on the grounds that they did not recognize indigenous customary consultation processes. The opposing interests of peasants and large mining and hydropower concerns are still the most important source of conflict in the country. During the period under review, polarization was exacerbated by President Morales around the issue of CICIG and the fight against corruption. The result has been an increase in social conflict and further anti-democratic actions by the government.

There are some formal mechanisms for consultation between civil society and the government. However, during the administrations of Pérez Molina and Jimmy Morales, these mechanisms have been ignored, shutting down dialog and removing accountability. The most important accountability mechanisms are the candidacy commissions for the selection of key public officials such as the prosecutor's office, the Supreme Court, appellate courts and the Contraloría General de Cuentas. The commissions integrate representatives from different social sectors who contribute to monitoring individual candidacies and selecting a shortlist to be decided upon by the president of the republic. However, during Jimmy Morales's administration, the recommendations made by these commissions have been ignored, and official decisions have been heavily influenced by powerful groups with private and even illegal interests.

Investigations reveal that corrupt networks also include prominent union leaders able to mobilize workers to put pressure on authorities. In June 2016, 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 by interrupting irregular contracts. This generated a strong counterattack from corrupt groups, which included large-scale protests from unions to discredit the campaign. Hernández Mack resigned from the Ministry of Health and Social Welfare in August 2017 after denouncing the pressure from the Morales administration. The same situation occurred with the minister of interior and the head of the tax administration. This demonstrates the use of mechanisms of co-optation as well as 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 system.

Civil society participation



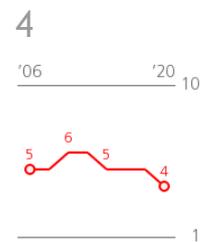
Guatemala's political leadership does not recognize the need to deal with past violence and fails to promote reconciliation beyond providing token financial compensation. However, the national compensation program has come under serious attack, as the biggest share of the money seems to be spent on bureaucracy and not on victims. During past administrations, there was some symbolic recognition of the relatives of victims, and a few trials of lower-ranking military and paramilitary personnel.

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 his conviction. However, the conviction was rejected by the Supreme Court, and the First Court of Appeals suspended the trial indefinitely in June 2016. 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. The trial ended when Ríos Montt died in April 2018.

In January 2015, a former commander of the national police force that had existed during the war, was sentenced to 90 years in prison for ordering an attack on the Spanish Embassy in January 1980 in which 37 people were killed and for murdering two students at around the same time. In January 2016, former General Benedicto Lucas García was captured along with another 13 high-ranking military officers accused of crimes against humanity and human rights violations during the internal armed conflict in 1981 and 1982. The case is currently ongoing, and the outcome will depend on both the capacity of the Human Rights Prosecution Office and the independence of the judiciary. After Jimmy Morales's crusade against CICIG and the attorney general's office, these cases are at risk of being blocked.

In January 2019, a reform to the National Reconciliation Law was passed by the National Congress. According to the U.N. Human Rights High Commissioner, Michelle Bachelet, and various human rights organizations, this reform represents a general amnesty for all cases of human rights violations during the civil war. Bachelet said the reform means total impunity for perpetrators of human rights abuses and crimes against humanity and creates a risk of retaliation against victims seeking justice.

Reconciliation



17 | International Cooperation

Guatemala's 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 development strategy since the implementation of the peace accords was no longer considered a viable "roadmap" for the country. In terms of economic development, both President Pérez Molina and President Morales have promoted strategies focused primarily on supporting 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. Other international support, for example for infrastructure, has been subjected to corruption.

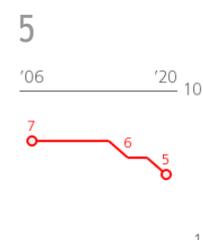
In the political realm, public security is a major issue. The extension of the military's role in public security is being discussed as a result of the set of 12 conditions defined by the United States as part of the Alliance for Prosperity. The use of military force to repress social protests has decreased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

The main focus of international cooperation has been on strengthening CICIG and the attorney general's office for fighting corruption and the policing of drug trafficking and urban delinquency. Support from the United States is focused predominantly on the security forces and the prosecutor's office, with the rest of its support channeled to the police and other civil institutions. The Alliance for Prosperity, a program that aims to promote fundamental changes in the Central American Triangle (Guatemala, El Salvador and Honduras), has shown few results. Its overall goal is to reduce the main drivers of migration, including violence, poverty and institutional inefficiency.

Due to a 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 government of Jimmy Morales, and despite strong campaigns against alleged international interference, the U.S. administration has strongly supported CICIG. The misuse of resources was clear during attempts to expel Ivan Velásquez from Guatemala, when the military and the police used armed vehicles donated by the United States to intimidate CICIG and civil society organizations.

Effective use of support



Guatemala's last two governments have shown the same characteristics in relation to the international community, albeit with declining credibility. CICIG, a unique cornerstone of international cooperation to provide for an agreed upon strengthening of Guatemalan rule of law and the fight against impunity, has successively been undermined. Otto Pérez Molina's administration is associated with embedded corruption as is Jimmy Morales's, which has not demonstrated any commitment to addressing corruption. On the contrary, President Morales demonstrated commitment to anti-democratic and corrupt groups. 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 – that is, until the intense campaign against CICIG promoted by President Morales, which ended with the commission being blocked from continuing to work in the country.

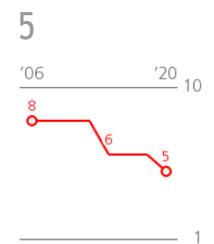
The international community has raised concerns about increasing conflicts regarding natural resources, especially water and mining, and the criminalization of community leaders. Additionally, concerns about setbacks to political reforms and the transparency of the Supreme Court have been raised by the international community, especially the United States. Jimmy Morales's disrespect of the Constitutional Court has made the international community more aware of the anti-democratic tendencies of the government.

Regarding 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” that is mainly driven by public corruption. This implies that U.S. investment in security reforms is likely to rise, directed toward (mostly repressive) U.S. strategies in addition to anti-corruption measures.

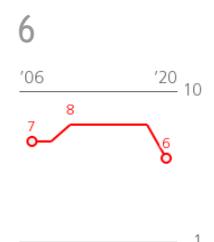
Alarmed by the high levels of impunity and the failure to implement international human rights standards, international human rights NGOs continue to monitor Guatemala closely. Pérez Molina accepted the sentencing of past perpetrators of war crimes when he was in power, and the government did not interfere with further decisions by the Supreme Court. However, Jimmy Morales has promoted a reform of the National Reconciliation Law, which represents a regression in the reconciliation process to the benefit of prosecuted former military personnel, such as those in the CREOMPAZ case.

Guatemala's political leadership cooperates within the framework of the Central American Integration System 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 the country. The United States has introduced a regional anti-drug policy, aiming to address the growing importance of Guatemala as a passage for the illicit drug trade into the United States. However, the United States approved funds for the Alliance for the Prosperity, which emphasizes reducing the causes of Central American migration but

Credibility



Regional cooperation



has shown few results. Guatemala, Honduras and El Salvador have different levels of commitment to meeting the conditions defined by the United States. In the case of Guatemala, the main condition is to reduce corruption and to strengthen prosecution and judicial capacities, which the Morales administration has demonstrated no commitment to.

As part of the Alliance for Prosperity, a multinational security force was created to control borders and reduce drug trafficking, human smuggling and extortion. This is not the first initiative of this kind, and it has had few results. An example of this is the massive caravans of Honduran migrants to the United States. The Guatemalan government was unable to deal with the caravans, despite the deployment of the military and police to border areas, and the tightening of measures to control migration across Central America.

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 and countries in Central and South America is generally strong, and it 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 Morales administration has put Guatemala in an uncertain political position. The persistence of corrupt networks throughout the government, the National Congress, the Supreme Court and the private sector demonstrates the weakness of democratic institutions and the powerful alliance between political and economic elites aiming to avoid prosecution. The fight against CICIG led to democratic institutions becoming vulnerable and exposed civil society to the retaliation of prosecuted politicians and entrepreneurs who are now able to avoid justice.

The renewal of the agreement between the Guatemalan state and the United Nations in September 2019 is highly unlikely since it would depend on a government request and the ratification of the National Congress. The dismantling of developments achieved by CICIG and the attorney general's office has already started, and it will continue if the Constitutional Court remains under pressure and lacks the independence to protect national interests.

Although the decrease in homicide rates has contributed to improvements in the public's perception of the security situation, it is highly possible that this trend will reverse in 2019 due to changes in the national police and attorney general's office. This situation will contribute to political instability during the 2019 electoral process. The Electoral Court has no power to oversee illicit financing and the integrity of candidates. At the moment, there are no signs of political alternatives. On the contrary, traditional political figures have started to promote their candidacies. Polarization and dissatisfaction among citizens and civil society is affecting support for democracy, increasing the risk that an authoritarian government would be accepted.

To maintain Guatemala's rather fragile course toward transformation, support for civil society organizations, the Constitutional Court and the Electoral Court should continue to guarantee a minimum level of transparency and legality during the upcoming 2019 elections. With international support, the new government that emerges from those elections should focus its efforts on the following topics.

First, social policies to reduce inequality and poverty while facilitating access to basic social services for the most vulnerable sections of the population should be strengthened.

Second, a systematic reform of the judiciary 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 of the justice system.

Fourth, the government should reconsider its approach to public security, putting more focus on preventive policies and strengthening 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.

Fifth, the reform of the police should be renewed and strengthened, in order to improve the police department's weak institutional characteristics. 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 prosecutor's 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 strengthening the tax and especially customs authorities, because these are the focus for the most powerful organized criminal networks.

Eighth, further support for the Constitutional Court and Electoral Court is fundamental to guarantee electoral transparency.

Finally, the administration should create and support mechanisms for democratic dialog, enabling communication with social movements and civil society in general, especially in relation to conflicts about mining and hydropower as well as citizen's support for anti-corruption initiatives.

Although drug trafficking is one of the most important concerns for 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 and private sector.