



# Guatemala:

an economy devoted to  
human development?

## **SYNTHESIS**

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Summary of the National Human  
Development Report 2007/2008

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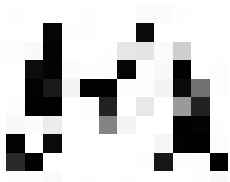
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## Preface

In 1990, the United Nations Development Program (UNDP) began publishing the Human Development Reports. These reports adopt the human development approach as the framework for their analyses and proposals, providing alternative means of communication for independent development thought. The Reports use regions, countries, provinces, and the world as units of analysis; and indexes as comparative tools. The best known index is the Human Development Index. It measures progress in human capabilities –health, education and income- and constitutes a useful tool for synchronic and diachronic comparisons across countries.

In Guatemala, the National Human Development Reports (NHDRs) have been published for a decade. Between 1998 and 2008, UNDP Guatemala published eight Reports focusing on topics such as rural development, the funding of human development, social exclusion, health and women, the human development agenda, cultural and ethnic diversity, and the economy. NHDRs are national references for the Government, the United Nations System, international cooperation agencies, universities

and research centers, the mass media, other important social actors and all interested citizens.

*Guatemala: an economy devoted to human development?* is the provocative question that furnishes the title for the latest NDHR (2007/2008). This new report addresses the relations between economy and human development over the period spanning from 1980 through 2007/2008. Its guiding theme is the analysis of intrinsic and instrumental economic freedoms. The first part of the report addresses conceptual and historical considerations. The second part includes an overview of the macroeconomic evolution, production system, financial system, human capabilities, freedom to produce, freedom to work, freedom to have, freedom to consume worthy goods, international migration and the informal sector in Guatemala. The third part presents an analysis of the different actors shaping the Guatemalan economy over the past decades: the State, entrepreneurs, workers and the mass media. Fiscal policy and the national budget stand out as crucial issues in the relation between the economy and human development.

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1 Arriola G. (2008: 43)

The fourth part presents the conclusions of the NDHR and a proposal for a social pact. The methodological annex includes the basic information to calculate the three human development and socioeconomic stratification indexes. The statistical annex is divided into three sections: overview, economic conditions for human development, and recent development results.

A complex work such as this report requires a summary addressing its most important results and ideas. Additionally, the foreword to the NHDR 2007/2008 is complete. The foreword outlines the main ideas of the report including references to its theoretical approach, guiding questions and key findings; it constitutes an appropriate preamble for the summary. The glossary is a useful section for people not familiarized with certain economic terms.

As part of the National Human Development Reports and Millennium Development Goals Program of UNDP Guatemala, this summary, prepared between 2008 and 2009 by the NHDR technical team, is intended for different audiences and uses. People looking for general information will easily find important research findings. Middle and high

school students will be able to consult data (displayed through tables and figures), while university students will find an outline to guide their bibliographical research. Teachers and learning facilitators, researchers, officials from public and private sectors, leaders of political parties and social organizations, and personnel from international cooperation agencies can use this summary as an introductory tool for the NHDR 2007/2008.

We hope that this broad and thoroughly informed report proves useful for courses, workshops and seminars design; as a reference for research in different fields; as a source of debate regarding public policies and strategies; and as a foundation for institutional, municipal or national analyses, plans and programs.

UNDP makes this summary of the NHDR 2007/2008 (Guatemala: An economy devoted to human development?) available in Guatemala with the purpose of contributing to the national debate on the economy and human development, achieving a social pact to focus development strategies on the expansion of the opportunities and freedoms of people and developing public policies that guarantee continuous growth and equitable human development.



**Linda Asturias de Barrios**  
Coordinator of the National  
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## Foreword National Human Development Report 2007/2008

### Guatemala: Guatemala: ¿an economy devoted to human development? <sup>2</sup>

Two years before the end of the 21st century's first decade, Guatemala is still far from becoming an inclusive, plural and equitable society with a firmly established plural, democratic and conciliatory state. Guatemala, as a country, outlined at least two strategic axes. One is political: in 1986 it formally became a democracy. This transition kindled hopes of peace and democracy, being affirmed ten years later with the Peace Accords of December 29th, 1996.

The other element is economic: a little more than twenty years ago, import substitution industrialization was abandoned for trade opening, market deregulation and reduced state intervention. The expectation was to join globalization, enter competitively into world markets and encourage foreign investment. This, in turn, would stimulate ongoing economic growth, spreading its benefits across the whole population, creating social development and reducing poverty.

Over the last twenty years, the governments of Guatemala strongly believed that the combination of "democracy and free markets" would bring prosperity, development and well-being for the majority of the

population. However, ten years of National Human Development Reports in Guatemala show that the reality is quite different. Although procedural democracy consolidated and the economy underwent substantial changes, the Guatemalan society can hardly be described as one of inclusive and prosperous human development.

Therefore the National Human Development Report (NHDR) 2007/2008 asks: why is there no virtuous circle between the economy and human development, such that the country achieves a level of human development at par with its economic potential? Why do the economic structure and dynamics in Guatemala generate such severe inequalities in access to the opportunities and benefits of economic growth?

Our approach to these questions demanded an interdisciplinary angle to integrally examine the inner workings of the economy and how it affects and is affected by human development. Specifically, we evaluated the quality of the linkages between the economy and human development. The National Human Development Report 2007/2008 Guatemala: an economy devoted to human development? fits within a conceptual framework

<sup>2</sup> As presented in the NHDR 2007/2008.

that understands the economy as a liberating field for a multitude of human capacities. Not only is it the sphere where one should generate the material resources that permit life. The economy should also enable decent and satisfying jobs for people to contribute to economic growth in creative and productive ways. Furthermore, besides generating sufficient resources, it should, above all, ensure broad participation in the benefits achieved. That is, economic growth is the medium, human development the goal.

The National Human Development Report 2007/2008 interprets the links between the economy and human development as historic and political constructions.

The questions that guide the report delimit the historic period under analysis, show why the economic interlinks inherently with the political and imputes a central role to the state. This in turn follows a precise logic: economic life is social, social actors are political. How is it possible to separate one from the other when in real life they appear inseparably linked? In other words, economic activities are initiated by social actors and run in political canals. Consequently, thoughts on the linkages between the economy and human development take place on an historic stage, politically configurated by a collection of social interests. Even more abstractly, the economy is political economy and politics is a social phenomenon.

One of the findings of the current report is that the Guatemalan population is developing within an economic system that underwent periods of reduced growth during the time under investigation; roughly between the 1980s and the beginning of the 21st century. The Guatemalan GDP per capita in 2006 is 18 % higher than that of 1990. Yet, this only makes

up for an annual growth of 1 % for the period between 1990 and 2006, which means that the growth rate is below the Latin-American average. We may therefore ask: why is the growth rate of the Guatemalan economy in comparison with Latin-America, the world and its own rates for the decades of the 1960s and 1970s so low?

Moreover, the National Human Development Report 2007/2008 reveals that the current linkages between the economy and human development generate severe difficulties that should be tackled immediately. During the last three decades, Guatemala raised its level of human development, measured by the Human Development Index (HDI).

Nevertheless, its relative position in the global scale is deteriorating and, in comparison with the Latin-America region, stagnant in the bottom ranks. This suggests that the country has indeed changed, but just enough so to keep up with the global current. The local effort, although important for improving the dimensions included, especially education, only prevents the country from dropping even further in the HDI scale.

In other words, the many scarcities that affect the population limit human development. Consumption rates partly reveal these scarcities. At the end of the 1980s, 62.8 % of the Guatemalans lived in conditions of poverty. This figure dropped by nearly 12 % for the year 2006. Despite this reduction, more than half of the population still lives in conditions of poverty. Due to the demographic growth, this means that for the period of 16 years (1989-2006) the absolute number of poor rose from 5.4 to 6.6 million; million more now live in conditions of poverty. Regarding extreme poverty, the numbers available show that in the same period the figures only dropped by a mere 3 %. In absolute

terms, the number of persons living in conditions of absolute poverty rose by nearly half a million.

With regard for health, problems affect the future working population; namely adolescents, who are the seeds of the emerging work force and children under the age of five, who in 2020 will constitute the young population. Mortality rates for cardiovascular diseases and tumors increased within the working age population. Adolescents' mortality is due to avoidable causes, like transferable diseases and violence. Chronic malnutrition, which affects half of the children under the age of five, is undermining the future of the whole country.

In education, the group of the population between 15 and 24 represents the emerging work force that should be about to enter the labor market or be already employed. In theory, this group's educational attainment should surpass at least middle school. Nevertheless, this report shows that its average schooling is only equivalent to sixth grade. Is there a link between the level of education and access to employment? Does the level of education enhance applicants' competitiveness to such employment?

This report, organized in four parts, pays attention to questions like these. The first part has a didactic purpose, familiarizing the reader with the topic. It tries to help understand antecedents, concepts and history. It outlines the main ideas on development elaborated worldwide and, with few changes, applied to countries like Guatemala. Additionally, it offers the opportunity to deepen one's knowledge on human development, literature which, although abundant, is largely inaccessible in the country.

The second part comprises a diagnosis of the Guatemalan economy and

its role as a space to expand human freedom. The first three chapters of the diagnosis evaluate the country's economic performance over the past twenty years (especially its macro economic performance, its productive structure and financial system). The following chapters describe changes in access to human capacities' enhancing services for the majority of Guatemalans. They also discuss economic growth and its implications for economic freedom to produce, work and consume. The part concludes that poor economic growth and restrictions on economic freedom for the majority of the population forces emigration and irregular income-generating activities.

The third part focuses on the relations between the social actors that build the economy. It seeks to understand the forces that shape the behavior of the different human development indicators in Guatemala. To do so, this part attempts to unearth the nature of relations between the state, business, the media and common citizens. However, neither the state, nor the market, are real entities; they are networks of people who institutionally interact with each other, thereby creating a plexus where they pursue their interests, hold rights and enter into commitments. The clash of interests between actors can either occur in the market or in the political arena. In any case, these relations can be peaceful and collaborative or conflictive and even violent. Therefore, there may be short-term understandings, dialogs, agreements or contracts.

The fourth and last part is a short conclusion to the most voluminous report published in ten years. It summarizes the central concepts introduced and results presented in the three previous parts. Moreover, it includes thoughts on an economy that is truly devoted to human development. What is necessary is an

agreement between the economy and human development which translates into long-term public policies, higher growth rates, more human development and less inequality.

The statistical appendix clearly arranges numerous data sets that would otherwise be scattered or would not be published. This data may be used to expand on certain chapters or to guide future research. In this edition, the section “Panorama general” presents current basic indicators on human development and the economy. The section “Condiciones económicas para el desarrollo humano” covers data on national accounts, currency and banking, the external sector, the fiscal sector, production conditions, employment, family enterprises and firms. Finally, the section “Resultados recientes de desarrollo” presents subsections dedicated to the HDI and Millennium Development Goals (MDG), poverty, wages, migration, remittances and private consumption.

It is crucial to mention two caveats. First, the NHDR 2007/2008 is a diagnosis that presents facts and insights in light of political contexts and historical backgrounds. The National Human Development Reports do not seek to blame or fault, but rather to outline the situation in order to define the turning points and thereby spur development focused on people.

Secondly, due to priority, time and space issues the NHDR 2007/2008 does not cover all topics related to human development and the economy. Not covered, for example, are the linkages between corruption and insecurity on the one hand and economic growth and human development on the other. Neither does the report extensively study the academic sector, which represents an important group within the political economy of Guatemala. Likewise, due

to the high uncertainties surrounding it, the report avoids an analysis of the current economic situation. Neither does it touch the energy, food or financial crises that have received so much media attention throughout 2008, the same year in which we concluded the investigations for this report. Nevertheless, some of these topics will be treated in future publications on human development.

To conclude, we want to point out that our approach is meant to kick off a national debate. We wish to generate a social impact between the economy and human development, which translates into long-term public policies that assure sustainable growth and equal human development.

## Introduction

The NHDRs are renowned for addressing issues of national importance from a human development perspective. They are also prominent, for their sound and thoroughly researched information and comprehensive and up-to-date statistical foundation. Since 1998, each report is accompanied by a summary included in the report or published independently. The NHDR 2007/2008 summary was prepared separately in order to disseminate its ideas and findings in a lighter format.

The preparation of this synopsis involved a multi-step process. First, the NHDR technical team prepared a preliminary version, organized by the report's chapters. This version included three sections per chapter: overview, key findings and data, and conclusion. The team also selected relevant tables and figures of each chapter. Then different experts from the NDHR Program carefully reviewed the document, and finally the revised version was sent out for editing, design and layout, and printing.

The visual layout of this summary allows the reader to easily find the overview, key findings and data, and the conclusion for each of the 18 chapters contained in the NHDR 2007/2008. In addition, the tables and figures include the NHDR original numbering. Thus, the summary serves as a guide for the main contents of the report.

**SYNTHESIS / Guatemala: an economy devoted to human development?**



# Part I

Conceptual and historical considerations

## Chapter 1:

# 60 Years of economic development strategies: What are the results?

The main topic of the National Human Development Report (NHDR) 2007/2008 is the economy and its links with human development. Chapter 1 addresses conceptual, historical and empirical considerations regarding the importance of the economy and economic growth in the different development schools of thought. It describes several theories about the factors explaining economic growth, such as the accumulation of physical capital, business enterprise, international trade, human capital, and institutional effectiveness. It analyzes the extent to which economic development has been achieved throughout the world, as well as the connection between

poverty and inequality. It presents the views pervading economic and development schools of thought (late 20th and the early 21st century).

The chapter includes the following conclusions: (1) Until recently, the theoretical approaches guiding development policies emphasized economic growth and higher income levels as the main mechanisms to improve human wellbeing. (2) Economic growth is a necessary but insufficient element to eliminate poverty in all its forms. (3) Given the limitations of the economic development approaches, other development approaches have emerged, among them, the human development paradigm.

## Chapter 2:

# The links between human development and the economy

According to the human development paradigm, development entails the expansion of the real liberties, capabilities, and opportunities of the population. The purpose of development is to create conditions for improving people's lives, expanding their range of liberties to "be" and to "do". People should enjoy a healthy life, attain high educational levels and earn sufficient income for a dignified life. Development also entails removing the obstacles which hinder self-fulfillment, including illiteracy, diseases, lack of resources, and curtailed political or civil liberties.

In an economy devoted to human development, people are the main focus, the aim of all development actions. Therefore, the success of plans and implemented policies for growth is measured by how and to what extent people become involved and benefit. The formation and expansion of liberties (intrinsic and instrumental) and human capabilities is a priority, as well as how people use them –whether for productive activities, political matters, or simply for recreation-. Thus, this report studies several economic liberties, such as the freedom to produce, to work and to have.

To attain an economy devoted to human development, the quality of the links between the economy and human development is essential. This quality depends on the factors for conversion of wealth into well-being. Three types of conversion factors exist: personal factors, such as metabolism, physical fitness and sex; social factors, such as social policies, social norms, gender roles, discriminatory practices, social hierarchies, and power relations; and environmental factors, including climate and geographical location. The State and the individual households jointly influence these conversion factors.

This chapter points out that people are also the means for development: Abundant evidence suggests that the more freedom and human development people have, the more productive they become<sup>3</sup>. Therefore, the link between the economy and human development is bi-directional. On the one hand, economic growth influences human development, insofar as the resources from national income are allocated to activities that contribute to people's development; on the other hand, human development influences economic growth because human development contributes to increased productivity and national income. This means that a virtuous spiral of sustained development is possible in a society, as long as economic growth and human development are mutually reinforcing. It is more complicated for a country that began its development path with a strong emphasis on economic growth to shift towards a virtuous cycle of human development, especially if income -a key instrument for increasing human development- is unequally distributed.

Finally, in addition to the assumption that economic growth is necessary but not sufficient for achieving higher human development, the NHDR 2007/2008 acknowledges that the economy is a social construction modifiable through political action. In other words, different actors in the country can modify the economy, committing it to human development. In Guatemala, in mid 1980s, witnessed the genesis of a process of political democratization, the internal armed conflict; and a change in the national economic strategy. These processes responded directly to political decisions. These changes would supposedly lead the country toward higher rates of economic growth and improved levels of human development. The NHDR 2007/2008 asks: What really happened? What were the achievements of the Guatemalan economy over the last twenty five years? Did the economy improve the well-being of the majority of people? The following chapters address the answers to these questions.

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<sup>3</sup> Based on Ranis, G., Stewart, F. and Ramírez, A. (2000), quoted on Fukuda-Parr (2003) and adapted by the NHDR 2007/2008 team.

**SYNTHESIS / Guatemala: an economy devoted to human development?**

A photograph of a lecture hall with a screen displaying a world map. The room is dimly lit, and the screen is the primary light source. The map shows the Americas in the foreground and the rest of the world in the background.

# Part II

The links between the economy and human development at the dawn of the 21st century

## Chapter 3:

# The macroeconomic evolution of Guatemala (1980-2007)

This chapter studies, the behavior of the three main macroeconomic variables: Gross Domestic Product (GDP), inflation and unemployment. It describes and explains the evolution of these three variables over the last 25 years. This chapter emphasizes the impact of the debt and coffee crises on the national economy, the economic decisions of the governments in power, and the state of the world's economy.

### Key findings and data

- In the early 1980s, a complex international situation (characterized by increased world interest rates, a pronounced rise in the price of crude oil and a reduction in export demand), exacerbated by domestic and economic issues (including the internal armed conflict and a deficient macroeconomic management) produced a profound economic crisis, known as the Debt Crisis. This crisis took place in a context of high inflation, and caused a pronounced reduction in GDP and investment.
- Between 1980 and 2007, GDP grew at an average annual rate of 2.7% while the population grew at an annual rate of 2.6%. Due to the debt crisis, the coffee crisis (at the beginning of the 21st century) and the low average rate of economic growth during this period, GDP per capita did not recover its early 1980s level until the first years of the 21st century.

Figure 1  
GDP per capita growth rate (1981-2004)



Source: prepared with data from Bank of Guatemala (BANGUAT) (old national accounts) and the National Institute of Statistics (INE). See Figure 3.3b from the NHDR 2007/2008 (UNDP, 2008).

- From the expenditure side of GDP (2000-2005), consumption represents more than 80% of GDP; government expenditure is also known as the trade balance between 9 and 10%; total investment is about 15%; and Net Exports stand at approximately -17% (a trade deficit). The high trade deficit is worrying because most imports are used for consumption and not for investment. Nonetheless, it is also true that a large percentage of imports is financed through remittances.
- From the income side of GDP, (2000-2007), the Operating Surplus (net profits of companies registered as corporations) represents 38 to 39% of GDP; Com-

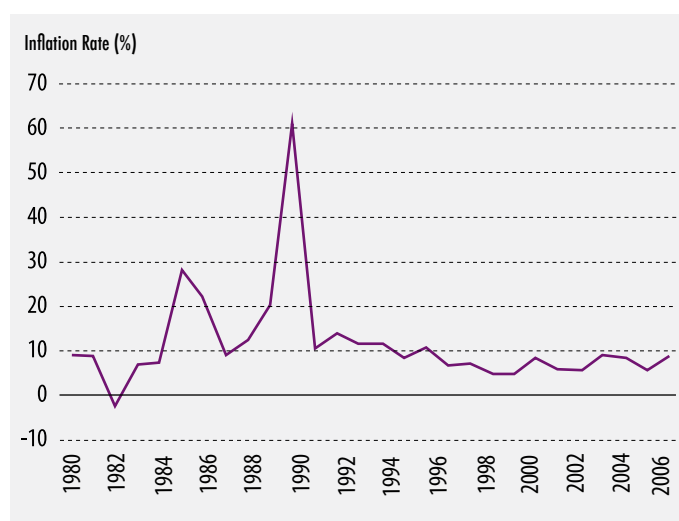
pensation of Salaried Employees is between 32 and 33%; Mixed Income is approximately 20%; and taxes minus subventions for production and imports are merely 8%.

- After serious inflationary problems during the 1980s and early 1990s, the inflation rate has remained relatively stable. The Bank of Guatemala (BANGUAT) and the Monetary Board focus on maintaining price stability (with inflation goals), while the central Government maintains lower fiscal deficit, relative to previous decades.
- Regarding the labor market, the biggest issue in Guatemala is not unemployment, but underemployment. The underemployment rate exceeded 15% in 2006, while the unemployment rate was less than 2%.
- This chapter classifies all workers not covered by the Guatemalan Institute of Social Security (IGSS) as informal. Under this classification, formal employment grew slowly during the studied period, currently it comprising less than 20% of the Employed Population (EP).

### Conclusion

During the studied period (1980 to 2007), macroeconomic stability increased, international integration increased, and the country moved towards a more democratic political model. Nevertheless, the average economic growth and investment rates were low compared with those of previous decades. Hence, GDP per capita at the beginning of the decade of 2000 barely exceeded its 1980s

**Figure 2**  
Inflation Rate (1980-2006)



Source: prepared with data from BANGUAT. See Figure 3.13 from the NHDR 2007/2008 (UNDP, 2008).

level. The slight economic growth of this period was also reflected in the labor market, specifically in the underemployment and informal employment rates.

## Chapter 4: The national production structure

The concrete foundation for the economic freedoms promoted by the human development approach is the national production structure. This structure generates the wealth measured by GDP and is generally divided into three large productive sectors: the primary, secondary and tertiary sectors. The primary sector includes all activities for the production or extraction of goods from agriculture, livestock, forestry, fishing, mining and quarrying. The secondary sector encompasses all activities for the production of industrial and manufacturing

goods. The tertiary sector, the most heterogeneous, includes all services and trade. This chapter analyzes the development and changes of each sector over the last 25 years.

### Key findings and data

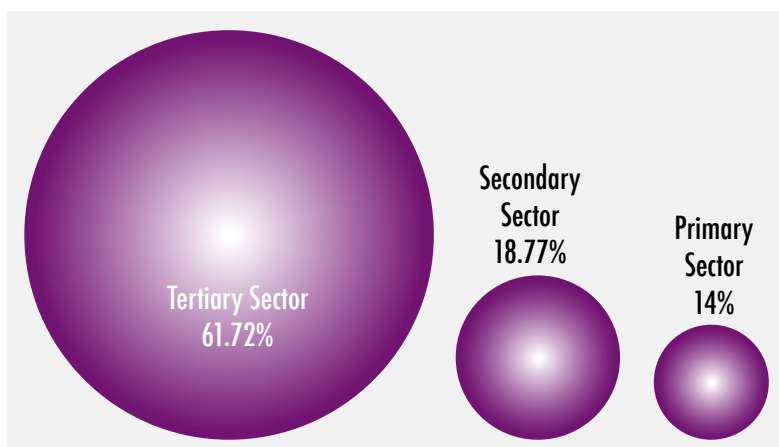
- The composition of the productive system varied significantly over the last two decades. The value of the primary sector as a percentage of GDP decreased (on average, between 2001 and 2007 it was less than 15% of GDP, while in 1950 it exceeded 30%). The value of the tertiary sector's production increased (on average, between 2001 and 2007 it was more than 60% of GDP and it grew at an average annual rate exceeding 4%). The secondary sector remained stagnant (at around 20% of GDP).

in 2006. Meanwhile, the value of traditional crops decreased; in 2006 they represented only 19% of the sector's GDP. These changes evince a pronounced diversification of the primary sector, since in previous decades the value of traditional products surpassed 50% of sectoral GDP. Second, land use also varied: the total area of agricultural properties in the country increased by 33% between 1979 and 2006; the land used for pasture production for livestock expanded by 57% and moved from the southern coastline to the North region; sugar cane production grew rapidly in the southern coastline; and finally, the land used for coffee, banana and African palm cultivation also increased.

- The coffee crisis at the beginning of the 21st century had a profound effect on the

**Figure 3**

The three sectors of the national production structure as a percentage of GDP (averages, 2001-2007)



Source: prepared with data from new national accounts from BANGUAT. See Figure 4.2 from the NHDR 2007/2008 (UNDP, 2008).

- During the studied period, the primary sector underwent significant changes. First, the value of non-traditional crops as a percentage of primary sector GDP increased, reaching 41%

primary sector, dramatically reducing traditional exports and employment opportunities for a broad segment of the population. The crisis also prompted increased diversification of this

sector, as production moved away from coffee into other crops.

- In the secondary sector, production of non-durable consumption goods remains predominant, particularly production of food and beverages (in 2006 they were 49% of this sector's GDP). However, recent years evinced certain inklings of change and dynamism in the emerging activities of this sector, such as production of chemical products. These activities focus mainly on export production (in 2006, they exported 83.5% of their production).
- The tertiary sector was the most dynamic of the three sectors, growing at average annual rates above 5% between 2002 and 2007. Within this heterogeneous sector, the rapid growth (above 12 % per annum) of two kinds of activities is noteworthy: 1) Transport, storage and communications (these activities grew at an annual average rate of 12.7 % between 2002 and 2006.); and 2) Financial intermediation, insurance and auxiliary activities (these activities grew at an average annual rate of 12.3% between 2002 and 2006). Another notable activity that creates employment opportunities and generates a high percentage of GDP is commerce.

### Conclusion

Although the national production structure changed and exports became more diversified, the country remains relatively vulnerable to external shocks impacting the main export products. Production is still concentrated on products.

The tertiary sector is the most dynamic sector of the national production structure. In turn, the agricultural sector declined as a wealth generator, while industry, despite some inkling of modernization and greater dynamism, remained relatively stagnant.

## Chapter 5:

### The national financial system

This chapter describes the financial system. The importance of the system rests on its role as a mediator between savers and borrowers, stimulating investment that generates economic growth. The chapter studies the regulated financial sector (banks and investments bank) and the non-regulated or informal financial sector (cooperatives, non-governmental organizations (NGOs) and moneylenders).

#### Key findings and data

- Over the past fifteen years, the financial system underwent a modernization process producing mixed results. On the one hand, it allowed entrance in to the market of new Financial Mediators (FM), increasing market depth after its reduction during the debt crisis. But on the other hand, appropriate regulation and supervision did not accompany increased depth. The rate of creation of new institutions exceeded that at which regulating entities upgraded, causing excesses and bad practices.
- The depth of the Guatemalan financial system is low. It only accounts for 30.4% of GDP. In addition, it decreased during the debt crisis. It was not until 2005

that it recovered its 1984 depth level (approximately, 28% of GDP).

- Banks and private investment banks account for 85 to 90% of the national financial system. The rest corresponds to the non-regulated or informal financial sector (savings and loans cooperatives, NGOs, moneylenders).
- The national resources traded in international financial markets are considerable relative to the size of the local market. Although accurate measures of Guatemalan capital –family owned or from businesses–circulating in international markets do not exist, gross estimates show it might be as large as all bank holdings in the country.
- Bank loans are merely 18% of GDP, substantially less than the world average of 35%. In addition, they are highly concentrated: three banks own more than 60% of the total loan portfolio and the department of Guatemala receives 81% of bank loans. Finally, the largest portion of these loans is not invested in activities for the production of goods that generate growth. The two sectors receiving more loans are commerce (the most important service, receiving 21.7% of bank loans) and consumption (receiving 30% of bank loans). Only 12% of loans are granted to industry, while agriculture receives a mere 6.5%.
- The national banking system is one of the most inefficient systems in the world. Various efficiency indicators, such as the bank spread, the net interest margin, and the operating costs

show that the Guatemalan banking sector has standards similar to those of some African countries.

- Microcredit is granted mainly by banks (61%), the rest is granted almost equally by cooperatives and NGOs. Cooperatives have greater presence in regions and departments where banks do not grant loans.
- Stock-market operations to fund projects and productive sectors are almost non-existent. Private securities from local companies are scarce. Over its 20 years of existence, the main stock exchange in the country, the National Stock Exchange (NSE), founded in 1986 under authorization of the Ministry of Economy, has failed to expand its operations beyond repo transactions (the main intermediation financial instrument) and public securities.

### *Conclusion*

Over the past fifteen years, the financial sector underwent a process of modernization and expansion. But despite this progress, the sector remains highly inefficient regarding fund intermediation. Furthermore, the sector is highly concentrated and weakly regulated. These limitations prevent it from acting as an efficient catalyst for investment. In fact, in many cases it acts as a “bottleneck” for fund intermediation.

## Chapter 6:

### Human capabilities: The potential asset of the nation

This chapter records the development of Guatemalans' human capabilities over the last few decades. It presents the country's demographic characteristics and evolution. Particularly, it points out the demographic changes over the last two decades, as well as the future challenges they pose for the economy and training of human capital. Then the chapter includes a description of the most important changes over the past twenty years in three dimensions or basic capabilities: nutrition, life expectancy, and qualification level (especially for the emerging labor force, people between the ages of 15 and 24).

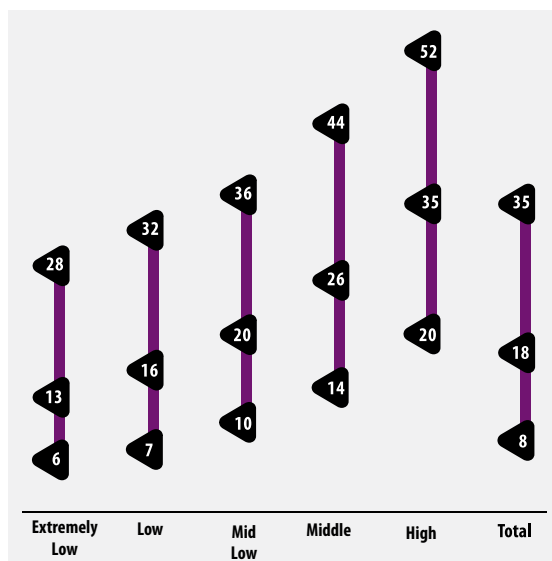
#### *Key findings and data*

- Between 1950 and 2000 the Guatemalan population grew from three to eleven million inhabitants, and forecasts indicate it will reach 18 million by 2020. This growth follows a sustained yet slow reduction in birth and death rates (both decreased, but their rate of reduction is much lower than in other Central American countries).
- Over the past ten years, life expectancy rose. It will reach 70 years of age between 2005 and 2010. According to forecasts, between 1950 and 2050, male life expectancy will increase by 39% (27 years) and female life expectancy by 44% (33 years). But this life expectancy will come 20 to 50 years later than it was achieved in developed countries and other countries in Latin America. It will also vary among the different regions and socio-economic groups within the country.
- Excluding the department of Guatemala, home to more than one million inhabitants, there are three groups of departments according to their total population. The first group includes four departments with over one million inhabitants by the year 2020: Alta Verapaz, Huehuetenango, Quiché and San Marcos. The second group includes departments with less than half a million inhabitants by 2020: El Progreso, Zacapa, Baja Verapaz, Retalhuleu and Sacatepéquez. The third group, encompassing the twelve remaining departments, includes those with an intermediate level of inhabitants.
- Certain departments "drive out" a large portion of their population while others receive more migrants. Neither rural nor indigenous conditions drive people to migrate to other departments. Instead, people migrate due to extreme poverty and a lack of opportunities. Alta Verapaz, Totonicapán, Huehuetenango and San Marcos are among the departments driving out population, all of which have high poverty rates (above 70%). Guatemala is one of the departments receiving population. These departments have a low poverty rate (less than 20%).
- The age composition of the population changed slowly over the past 50 years. The proportion of children under the age of ten decreased, while the proportion of youth, adults and people over 60 years old increased. Nonetheless, once

the population is divided by socio-economic segments, each segment shows specific characteristics. The age structure of the highest segment is no longer composed predominantly by children and youth, while in other segments, especially the lowest segment, 75% of the population is less than 28 years old and one fourth is younger than six years old. Variations in the exercise of reproductive rights, unavailability of information about this topic and the gender gap in educational attainment, affecting women of all ages, partly explain these differences. Inaccessibility to general health services, which affects life expectancy, also plays an important role.

- According to data from the Latin American Demographic Center (CELADE), in 1998 Guatemala was the Latin American country with the highest number of dependants per each ten potential members of the labor force: 9.1. In developed countries this number is 5 and in Costa Rica it is 6.1.
- The nutritional profile of the Guatemalan population shows four main deficiency problems: a) protein-energy malnutrition, b) nutritional anemia, c) goiter, and d) vitamin A deficiency.
- The most serious nutritional problem in Guatemala is malnutrition. The incidence of low birth weight is 14%, and half of the children under the age of five suffer from chronic malnutrition. The situation is particularly critical in rural areas (55% of children under the age of five suffer from chronic malnutrition), among the indigenous population (69%) and in the northern and

**Figure 4**  
Age quartiles of the population by socio-economic segments (2006)



Source: prepared with data from ENCOVI (2006). See figure 6.4 from NHDR 2007/2008 (UNDP, 2008).

northwestern regions (61% and 68%, respectively). In addition, poverty and extreme poverty are clearly associated with higher levels of malnutrition.

- The percentage of the Guatemalan population suffering from obesity (5.4%) is greater than the Latin American average. The change in dietary patterns explains the increased obesity:

**Table 1**

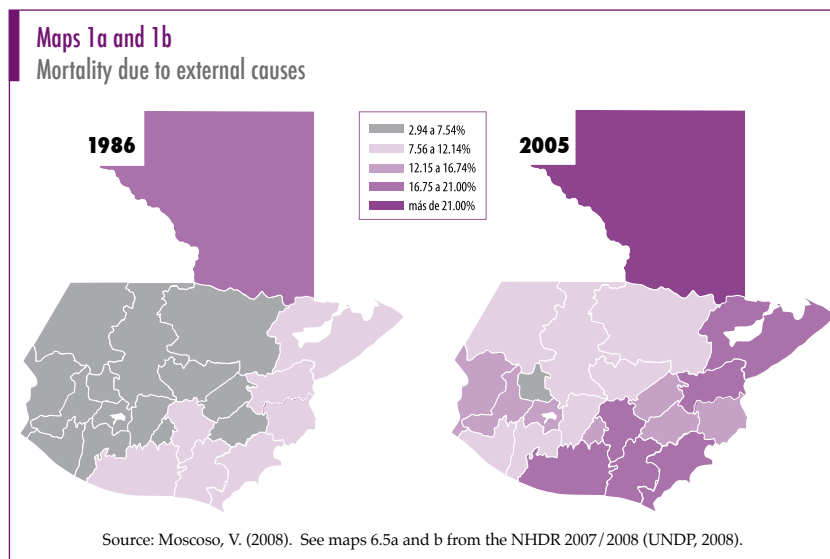
The relation between poverty and the types and degrees of malnutrition in children under five years of age Percentages

Poverty Level	Type and degree of malnutrition			
	Low height	Extremely low height	Emaciation	Severe emaciation
Extreme	63.5	38.0	3.9	3.5
Poverty	53.0	27.7	3.0	2.8
Non-poor	26.6	11.3	2.5	0.7

Source: population projections and estimations, based on the XI Population Census (2002). See table 6.3 from the NHDR 2007/2008 (UNDP, 2008).

since 1990, consumption of corn and beans decreased, while consumption of vegetable oils and sweeteners increased.

- Between 1986 and 2005, mortality from transmissible diseases decreased from 76% to 62% of total registered deaths. However, during this same period, deaths caused by cardiovascular diseases rose by 61%, and those caused by tumors increased by 100%.
- Violent deaths have high economic costs, because they primarily affect a segment of the population in the most productive stage of life. Practically half of the years of potential productive life (YPPL) of the working-age population are lost as a result of external causes (violence and accidents), tumors, and cardiovascular diseases.
- The emerging working-age population (15 to 24 years old) slightly exceeds 1.5 million people and is the core of the new labor force. It has the following characteristics::
  - 12.2% is illiterate (relative to 25.2% of the adult population). Illiteracy among young people from 15 to 24 years old decreased from 18.3% to 12.2% between 2000 and 2006. The most important changes occurred in rural areas (reduced by 7%), among the indigenous population (reduced by 10.4%), and among women (reduced by 8.5% in the total female population and by 15.6% among indigenous women in rural areas). These are important achievements, but serious problems remain: illiteracy is greater among indigenous people (19.6%),



in the rural areas (18.8%), among women (15.2%), and is particularly high among indigenous women (31.9%).

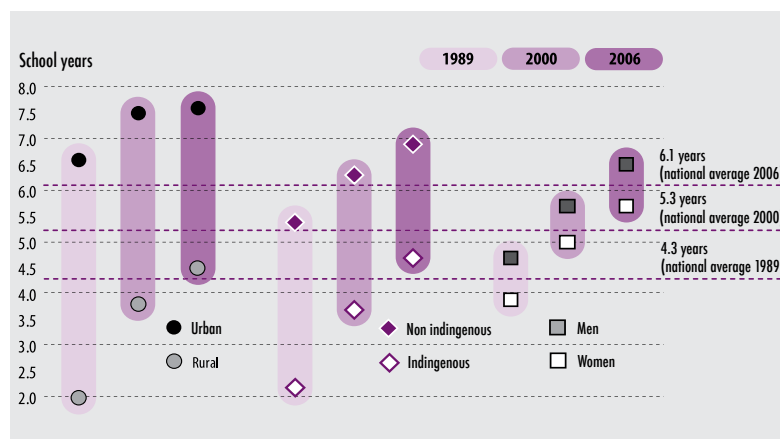
- The level of educational attainment among young people aged 15 to 24 increased to 6.1 school years, still 2.9 years below the mandatory level established in the Constitution. This age group has the highest level of educational attainment in the country, (it increased from 5.3 to 6.1 school years between 2000 and 2006). The indigenous population (one more year, from 3.5 to 4.5 school years) and women (1.2 more years, from 5 to 6.7 school years) experienced the greatest improvement. The gaps in educational attainment by area (from more than 3.5 years to less than 3 years) and ethnicity (from around 2.5 school years to approximately 2.1 years) also decreased, but the gender gap remained unchanged (see figure 5).

- Regarding the quality of education, in 2006 few graduating students from secondary school

had attained the minimum reading comprehension and mathematics competencies. According to the Diagnostic Assessment of Graduating Students by the Ministry of Education (MINEDUC, 2006), less than one in four graduating students from secondary school achieved the established level in reading comprehension, while only one in twenty achieved it in mathematics. These figures vary by the economic level of each student. That is, the higher the level, the higher the possibility of acquiring adequate reading and mathematics competencies. The results of the aforementioned evaluation also show that the inequality of knowledge in Guatemala is greater than the inequality of income and formal schooling. Furthermore, the geographic distribution of competencies is considerably unequal: low quality competencies are concentrated in the central area and even lower quality competencies are present in the rest of the country (see figure 6).

- In Guatemala, high school education is overwhelmingly in the hands of private suppliers. In 2007, 89.4% of high school institutions belonged to the private sector and 75.9% of the

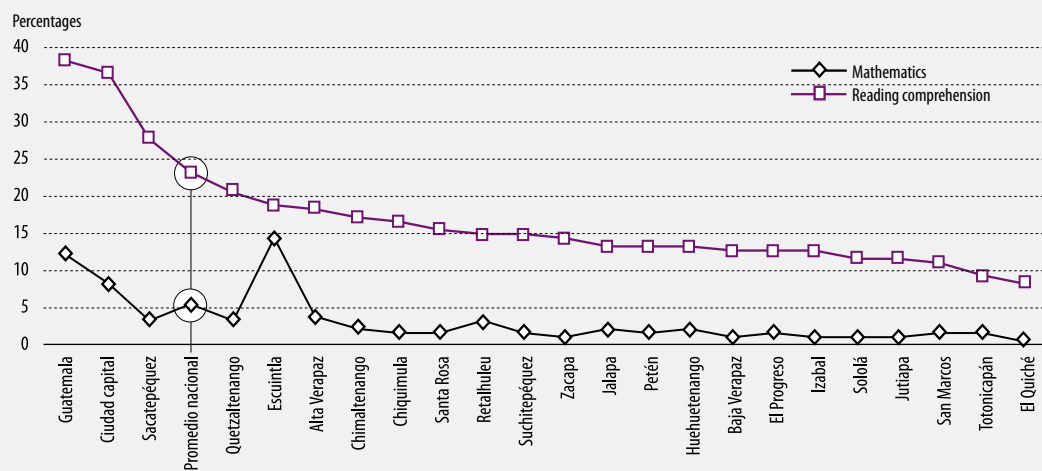
**Figure 5**  
Gap in educational attainment by area, ethnicity and gender



Source: ENS (1989) and ENCOVI (2000 and 2006). See figure 6.13 from the NHDR 2007/2008 (UNDP, 2008).

students were registered in these institutions. 73.5% of the total emerging labor force is part of the Economically Active Population (EAP) falling into three main employment categories: a) “white collar” employees, b) workers with diverse qualifications, and c) unqualified workers and employees and agricultural workers. In the first category, the median educational attainment is complete high school (12.8% of the total emerging labor force); in the second category, it is complete primary school or some years in middle

**Figure 6**  
Reading comprehension and mathematics attainment by department



Source: prepared with data from MINEDUC (2007). See figure 6.15 from the NHDR 2007/2008 (UNDP, 2008).

school (39.1%); and in the third category, it is less than complete primary school (48.2%). Since the majority of young people has low academic attainment and thus can only access jobs requiring a minimum level of qualification, the conclusion is that they lack sufficient training to compete for high quality jobs.

- The low qualification and quality of jobs for young people also affects their income. Although each additional school year completed increases their income by 15%, in 2006 the average income for young people was less than the rural minimum wage for that year.
- Finally, gender and ethnicity further complicate the outlook for the emerging labor force. Being indigenous, female, and above all, female and indigenous, is associated with fewer opportunities for human development and employment, and lower, educational and academic attainment, and quality jobs.

### *Conclusion*

Towards the end of the first decade of the 21st century, the greatest asset Guatemala needs to grow and develop, its population, is still unprepared for the challenge. In health, although life expectancy increased, the population still suffers from preventable health problems. In education, past efforts evidently produced positive results, but they are still insufficient these efforts must go further. Without a well-nourished, healthy and highly qualified population, it will be difficult to build a better future for everyone.

## **Chapter 7:**

### *Freedom to produce*

In addition to the basic human capabilities studied in the previous chapter, the effective exercise of the “freedom to produce” requires that people have access to productive assets that contribute to or allow them to undertake entrepreneurial activities. The chapter presents a summary of the availability and distribution of some productive assets in Guatemala: infrastructure, natural resources, and science and technology.

#### *Key findings and data*

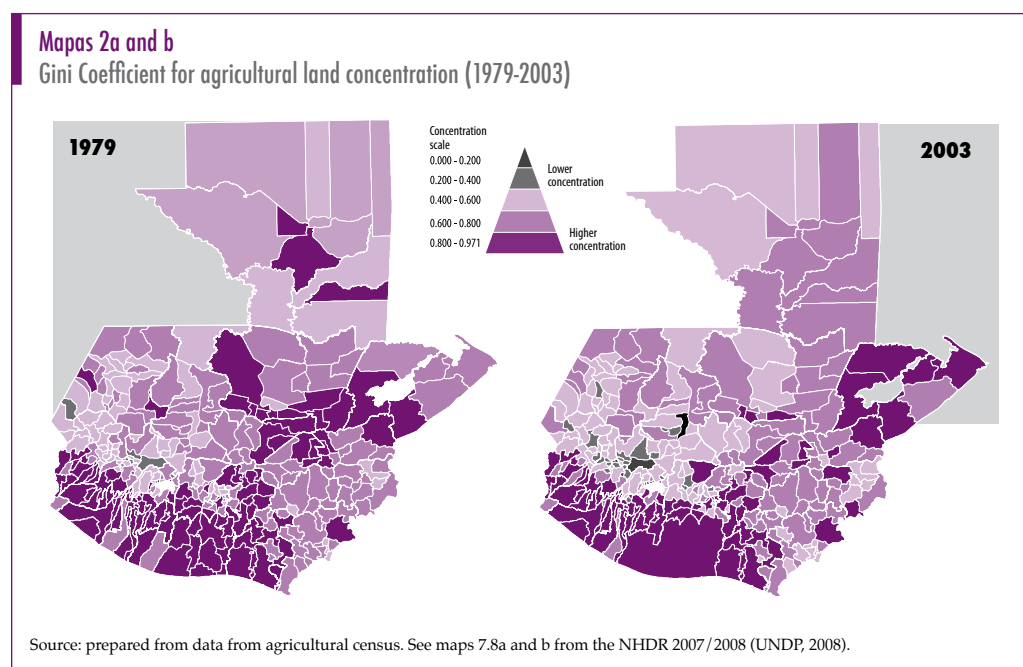
- The extension of the road system increased during the past decade, from little more than 9 thousand km in 1985 to approximately 15 thousand in 2006. But this expansion was very unequal. The road system in the southern and central regions, some eastern departments (Chiquimula and Jalapa) and some in the west (Quetzaltenango and Sololá) is highly developed relative to the northern and alarge portion of the northwestern regions, which have an extremely limited road system.
- The generation of electric power in the country has grown since 2001, but its growth rate is decreasing. The largest amount of electrical power (98%) is generated by three types of power plants: hydroelectric, steam turbines and internal combustion engines.
- The electrical power coverage grew rapidly during the past two decades, particularly benefiting the central and southern regions, with coverage rates exceeding 80%. In contrast, the electrical power coverage rates in two

departments -Petén and Alta Verapaz- are still below 60%.

- Telephone services grew rapidly. Although the number of mobile telephones grew most quickly, fixed lines also increased considerably. The number of fixed lines increased by an annual average rate of 12.75% between 1997 and 2007. During this period, the number of mobile telephone lines increased by annual average two-digit rates. Fixed lines are concentrated in the central, southern and eastern regions. In addition, access to fixed lines is higher among urban households (34.7%) and non-indigenous households (24.9%), in comparison with rural (4.2%) and indigenous households (7.9%).
- Internet coverage also increased, but the coverage rate in Guatemala (6.1%) is still low relative to its neighboring countries, such as El Salvador (8.9%), Belize (11.6%) and Costa Rica (22.7%).
- Regarding airports, 561 runways are registered in the General

Directorate of Civil Aviation (62 are owned by the State, the rest are privately owned). Two of them are international (La Aurora and Mundo Maya) and five are national (Izabal, Poptún, Alta Verapaz, Escuintla, and Retalhuleu). Expansion and modernization works in the two international airports are currently underway.

- Guatemala has three international maritime ports: Puerto Santo Tomás de Castilla, Puerto Barrios and Puerto Quetzal.
- The concentration of land tenure is still very high and did not change substantially over the past two decades, as shown in the following map. By ethnicity, 34.6% of the existing agricultural properties is owned by non-indigenous producers and the extension of these properties represents more than 73% of the total surface area of agricultural properties in the country. These properties produce the most profitable goods: 85% of the permanent crops and 93.4% of pastures.



- 65% of the water in the country is lost to ecological processes and pollution. Of the remaining 35%, only about 10% is destined to domestic uses and other economic activities. Among these activities agriculture, livestock, hunting and forestry use the larger amount of water.
- In 2000, the monetary value of the forest coverage in the country was about GTQ50 billion. However, forest coverage declined sharply between 1991 and 2001: 11% of coverage was lost. In the longer term, the annual rate of forest stock loss was close to 1.5% between 1950 and 2007.
- Mining is a highly controversial issue in the country. Those who support it point out its potential to spur economic growth, arguing that it attracts foreign investment, generates employment and provides resources for the State. Those who oppose it emphasize the environmental damages exacerbated by the incapacity of the Ministry of Environment and Natural Resources (MARN) to implement the necessary regulations. They also argue that it does not create more jobs nor does it generate sufficient royalties for the State. In a series of popular referenda, the populations neighboring the mines expressed their emphatic rejection of mining. Nevertheless, authorities ignored the results of these popular referenda, refusing to consider them as binding.
- In 2005, the academic sector and the State invested 0.3% of GDP in science and technology, clearly an insufficient amount. In contrast, Argentina for example, invested over 0.49%, Colombia 0.60%, and in Canada 1.97%.

### Conclusion

The chapter reaches two main conclusions. First, the general availability of production assets increased for the average citizen. In other words, some assets whose coverage increased, such as electricity, highways and roads, are currently more available than they were two decades ago. Second, despite this increase, the distribution of the main road system, electrical power and fixed telephone lines is geographically concentrated, benefiting specific demographic groups, such as urban residents and particularly residents in the metropolitan and southern regions.

## Chapter 8: Freedom to work

This chapter explores the main changes occurring over the past 25 years in the Guatemalan labor market. It begins with a preliminary historic overview of the aggregate indicators of the labor market, acknowledging that these indicators are only rough instruments for an initial diagnosis of the freedom to work. The following section expands the study of this freedom is expanded in the following section, addressing a two-step question: Which are the jobs that guarantee the greatest labor freedom and who has access to them? The freedom to work not only depends on the existing jobs and the production structure of the country (demand), but also on the demographic characteristics of the population (supply). These characteristics are usually contingent on other liberties and capabilities framed by the historical and institutional context of the country.

The chapter also describes some cases exemplifying different dimensions of the freedom to work in Guatemala, including two extreme cases of lack of freedom to work (child labor and unpaid female domestic labor) and one case of restricted freedom to work (domestic service). Finally, the chapter presents a case that usually has freedom to work but lacks financial compensation: voluntary labor.

### *Key findings and data*

- The Economically Active Population (EAP) and the Employed Population (EP) grew rapidly, not only in absolute terms, but also as a percentage of the total population. Both nearly doubled in absolute terms between 1989 and 2006. The EAP rose from 2.9 to 5.5 million people, while the EP increased from 2.8 to 5.4 million people. In addition, the participation rate (the number of working-age people entering the labor market) reached 58.8% in 2006.
- The population employed in agriculture grew at a slow rate of approximately 1.4% after 1989, resulting in a reduction of the relative importance of agricultural labor. On the other hand, the commercial EP grew vigorously after 1989, increasing at an annual average rate of 7.2%. The commercial sector became the second most important employer in Guatemala (second to agriculture). Finally, the industrial EP also grew, albeit at a lower rate than the commercial sector: in 2006 it stood at 15.9% of the EP.
- By gender, the rapid growth of the female labor force is an important change in the labor structure of the country. Between 1989 and 2006, the percentage of women in the EP grew from one fourth (25.2%) to almost two fifths (38.0%). This growth in female labor participation is a global trend. Several factors explain this trend including wages; the decreased reservation wages due to a reduction in the number of children and technological advances reducing the number of hours required for domestic labors (traditionally assigned to women); and social and cultural changes. Additionally, in Guatemala, new productive activities improved requiring manual and intensive labor carried out by women also help explain this trend. Moreover, a decline in male real wages during the structural reform period drove women to contribute to the household economy, increasing their participation in the monetized economy.
- The participation of indigenous population as a percentage of the EAP and the EP increased. In 2006, indigenous EP was almost two fifths of the total EP of the country, while in 1989 it was a third. The number of indigenous working-age population choosing or having the opportunity to enter the labor market is also noteworthy: the participation rate of indigenous people grew, from around 49.6% in 1989 to almost 61.7 % in 2006. Certain hypotheses, such as increased commerce involving broad indigenous participation and the insertion of indigenous population of non-traditional export crop production may explain this growth, but they require further investigation.
- Currently, the unemployment rate in Guatemala is the lowest in Central America: approximately 1.8% of the EAP. However, a

high rate of underemployment remains, although it decreased from approximately 24.4% in 1989, to around 15.2% in 2006.

- Regardless of the definition used (such as type of work and educational level, lack of social security coverage, lack of labor contract and size of the company), labor informality appears relatively stable, and may even have increased over the past twenty years. Currently, the labor informality rate is between 65 and 85% of the EP.
- The number of unionized workers and the annual growth rate of unions are both very small. According to the Ministry of Labor and Social Prevision, in 2004, approximately 77 thousand people –out of an EP of approximately five million– participated actively in a labor union.
- Between 2000 and 2006, the Guatemalan Institute of Social Security (IGSS) affiliation rate remained below 20%. The total number of IGSS affiliates increased at an annual rate of only 1.6%. The female affiliation rate is slightly lower than the male affiliation rate (17.1% vs. 19%). The biggest gaps are between urban and rural (26.6% vs. 9.3%) and indigenous and non indigenous workers (7.8% vs. 25%). Furthermore, almost 50% of dependent urban workers are covered by IGSS, while less than 30% of dependent rural workers have social security. Similarly, almost 50% of non-indigenous dependent workers pay IGSS, while less than 25% of indigenous dependent workers enjoy this “privilege”.
- In 2006, the minimum wage (GTQ42.46 for agricultural activities and GTQ43.64 for nonagricultu-

ral activities) only covered 63.7% of the cost of the Vital Basic Basket (VBB). Nonetheless, half of the EP earns less than the minimum wage.

**Table 2**  
Percentage of the EP earning less than the cost of the VBB and less than the official minimum wage (2006)

	Less than the cost of VBB	Less than the minimum wage
Total	87.0	50.1
Men	86.4	48.6
Women	88.2	53.4
Indigenous	95.6	70.0
Non- indigenous	83.6	41.9
Urban	81.8	39.7
Rural	95.5	67.3
Agriculture	98.2	82.4
Industry	87.5	39.3
Construction	93.0	54.4
Trade	85.1	44.3
Teaching	76.2	22.1
Social and health services	92.1	70.0

Source: prepared with data from ENCOVI (2006). See table 8.7 from the NHDR 2007/2008 (UNDP, 2008).

- Child labor defined as labor by people between the ages of ten and seventeen, remained stable at around 16.5% of the EP over the last twenty years. However, the participation rate of children increased: in 1989, one out of four children and adolescents within the aforementioned age segment belonged to the EAP; while currently, one in three belongs to the EAP. When child labor is defined as labor by children under the age of fourteen, 16.1% of all boys and girls from five to fourteen years old participates in an economic activity, and 38% of these children do not attend school.
- The importance of unpaid female domestic workers in the EP increased over the past twenty

years. Currently, around one fourth of employed women work as unpaid domestic workers for their families (in 1989 it was one out of 7). Most of them (57%) are indigenous.

- So-called domestic labor is an economic activity carried out almost exclusively by women (98%). Most of them work under inadequate labor conditions. In 2006, 98% of domestic workers earned less than the minimum wage.

### *Conclusion*

Labor participation of traditionally excluded groups, such as women and indigenous people, increased over the past twenty years. Additionally, the structure of the labor market changed: agriculture is importance decreased, had positive and negative results. Among the positive results, agricultural jobs with restricted freedom to work declined. Among the negative results, most new jobs created in trade also fail to provide workers with full freedom to work. Thus, notwithstanding these structural changes, the majority of the population still works under poor pecuniary and non-pecuniary conditions. Only a small and privileged group, composed mainly of non-indigenous, urban, educated men, enjoys full freedom to work.

## Chapter 9: Freedom to have

This chapter studies how the benefits from production are distributed. To do so, it includes two sections. The first section assesses the distribution of production returns at an aggregate level. For the first time the new national accounts are used to examine aggregate distribution estimates in Guatemala, analyzing GDP's distribution among economic actors, specifically corporations, small home-based businesses and salaried employees. The second section uses household surveys to assess the source and distribution of income at the household level.

### *Key findings and data*

- The income distribution in Guatemala is clearly defined and highly unequal. At the aggregate level:
  - o A small group of businesses (less than 10% of all businesses in the country) registered as corporations in the Commercial Registry earns almost two fifths of GDP as net profit. Each of these businesses has yearly average net profits of over GTQ1 million (2006 Quetzals)
  - o A second the group consisting of home based businesses (also known as family-owned businesses, representing 90% of all businesses in the country), usually informal and employing most of the EP (more than 60%), earns only one fifth of GDP as gross income. Each of the small businesses earns an average of GTQ55 thousand per year (2006 Quetzals) to cover all

its labor and fiscal costs and to generate a net profit.

o Between these two extremes, the wages of salaried workers, employed by corporations, represent around one third of GDP. This category of workers amalgamates around 35% of the EP.

▪ The household-level study corroborates this inequality in the distribution of income, revealing the following trends:

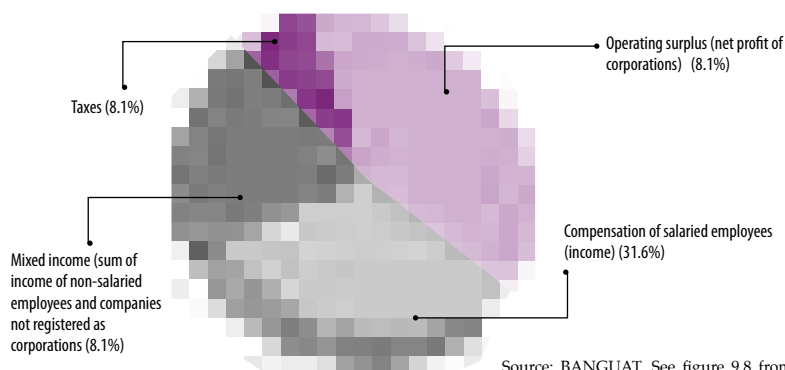
o The average income of Guatemalans increased by 30% between 1989 and 2006. However, inequality grew with this increase as the gaps between urban and rural inhabitants, and between indigenous and non-indigenous people widened.

o By quintiles, income inequalities are enormous: while the highest quintile earns more than 60% of the total income of the country, the lowest quintile earns less than 3%.

▪ Labor income represents three fourths of total Guatemalan household income. This proportion decreased over the past two decades, since in 1989 it exceeded 80%. At the same time, participation in economic activities increased, as the labor participation rate. In other words, labor grew, but labor income declined as a percentage of total household income.

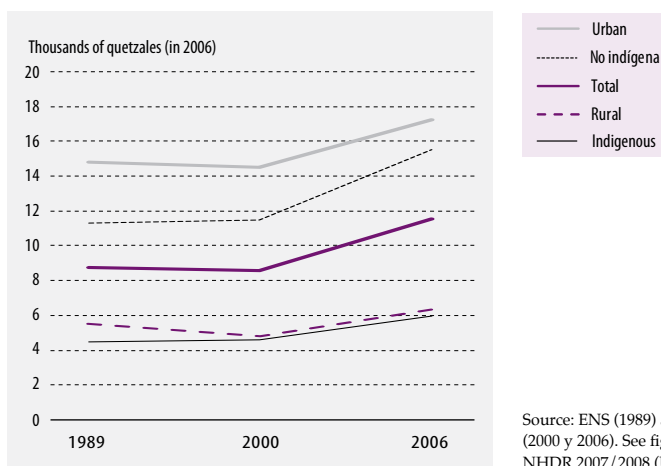
▪ Regarding independent labor income, its participation in agricultural income fell, while it increased in commercial activities and other services.

**Figure 7**  
Income aggregates as a percent of GDP (2006)<sup>4</sup>



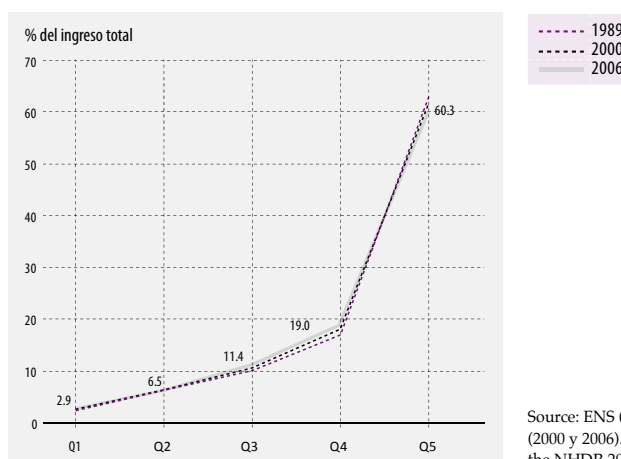
Source: BANGUAT. See figure 9.8 from the NHDR 2007/2008 (UNDP, 2008).

**Figure 8**  
Average annual income per capita by ethnicity and geographic area (1989, 2000 and 2006)



Source: ENS (1989) and ENCOVI (2000 y 2006). See figure 9.9 from the NHDR 2007/2008 (UNDP, 2008).

**Figure 9**  
Participation in total income by quintile (1989, 2000 and 2006), percentages



Source: ENS (1989) and ENCOVI (2000 y 2006). See figure 9.23 from the NHDR 2007/2008 (UNDP, 2008).

<sup>4</sup> Note that the fourth income aggregate is included: taxes minus subventions for production and import.

- Regarding dependent labor income, over 40% of total household income comes from salaried labor. This proportion grew after 1989, mainly among the rural and indigenous population. Salaried employees' income increased in trade and industry, but decreased in agriculture.
- The positive correlation between education and labor income is evident: salaried employees without professional qualification (workers, unqualified agricultural workers, and unqualified employees) are concentrated in households in low or extremely low socioeconomic strata; while salaried professional employees, with high levels of education are concentrated in the highest strata.
- More than 20% of salaries comes from the informal sector, with clear differences by socioeconomic level: In the low socioeconomic strata this percentage increased, while in the higher strata it decreased.
- Non-labor income increased considerably after 1989. It currently accounts for more than 20% of total household income. Non-indigenous, female-headed households from high socioeconomic strata receive the largest portion of this type of income.
- Factor payments constitute a mere 2.1% of household income. 57% of all factor payments accrue to the high socioeconomic stratum, constituting 5.3% of the total income of this stratum.
- Remittances quadrupled between 2000 and 2007. In 2007, they accounted for 12% of GDP, an amount similar to the tax revenue of the central government, ten times larger than Foreign Direct Investment (FDI) and four times the income from traditional exports.
- Non-labor income, especially remittances, displays a progressive redistribution effect (of 2.7%). Additionally, it reduces poverty: without non-labor income, the 2006 extreme poverty rate would have been almost 40% (instead, it was 15.6%): similarly, the poverty rate would have been 56% (instead, it was 51%). Thus, non-labor income pushes 11% of the population over the extreme poverty line, and 10.6% of the population over the poverty line.
- Informal economic activities constitute a survival strategy with a progressive redistribution effect of 17% (not counting formalization costs, but isolating income from informal activities) (see table 3). They also reduce poverty and extreme poverty: without income from informal employment, 62% of the Guatemalan population would live in extreme poverty.

**Table 3**  
Gini Coefficient for total income, and total income minus informal and non-labor income (1989 and 2006)

	1989	2006
All income	0.583	0.562
Without non-labor income	0.569	0.577
Redistribution percentage	-2.5	2.7
Without income from informal sector	0.729	0.679
Redistribution percentage	20.1	17.3

Source: prepared with data from ENS (1989) and ENCOVI (2006). See table 9.6 from the NHDR 2007/2008 (UNDP, 2008).

<sup>5</sup> Factor payments come from company dividends, treasury bonds, real estate rentals, etc.

## Conclusion

The income aggregates reveal a clearly defined and highly unequal income distribution. A few companies concentrate the largest portion of GDP while the rest – mostly home based small businesses- earn minimum incomes.

Household levelsurveyscorroborate this highly unequal distribution of income. The Gini coefficient (which measures differences between

groups, in this case between household incomes) shows that Guatemala is one of the most unequal countries in Latin America, the most unequal region in the world. Without remittances and informal labor, inequality would be even higher, since both remittances and informal labor have a progressive effect on income. Therefore, the freedom to have produces social division in Guatemala: freedom to have much for few; freedom to have very little for most.

## Chapter 10:

### Freedom to consume worthy goods

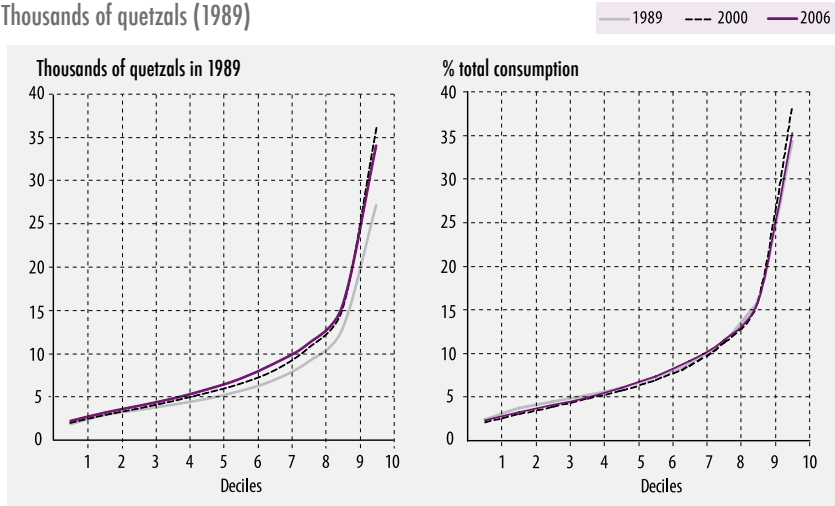
This chapter summarizes the amount and type of consumption of the Guatemalan population by deciles, quintiles, socioeconomic strata, geographic regions, educational levels, ethnicity and sex of the household head. It examines the general consumption trends in Guatemala between 1989 and 2006, the existing inequalities in consumption, and the consumption patterns of the population. The chapter concludes with a discussion of the inequalities in consumption patterns.

#### Key findings and data

- The average consumption per capita increased by 21.7% between 1989 and 2006. Nonetheless between 2000 and 2006 it only increased by 2%. The average consumption per capita grew in non-indigenous, rural and indigenous households by 22.3%, 19.09%, and 31.49% respectively. During the same period, the average consumption of urban households remained practically stagnant (1.79%).
- Indigenous households, located in the northern region, with household heads with no formal education employed in agriculture consume approximately 40% less than the national average.
- Despite small variations, the overall consumption structure remained stable, its wide inequalities only growing wider. The Gini coefficient increased by 4% between 1989 and 2006. Such an increase can be interpreted as a 4% transference of relative consumption (in proportion to the total) from the poorest to the richest households. Currently, the highest tenth of the population consumes 15 times more than the lowest tenth.
- Although poverty rates decreased between 1989 and 2006, the total number of people under the poverty line grew. The poverty rate declined from 62.5% to 51%, but the total number of people living in poverty rose from 5.4 to 6.6 million. Demographic growth explains these figures.

### Figures 10 and 11

Average annual consumption  
Participation in total consumption by decile  
Thousands of quetzals (1989)

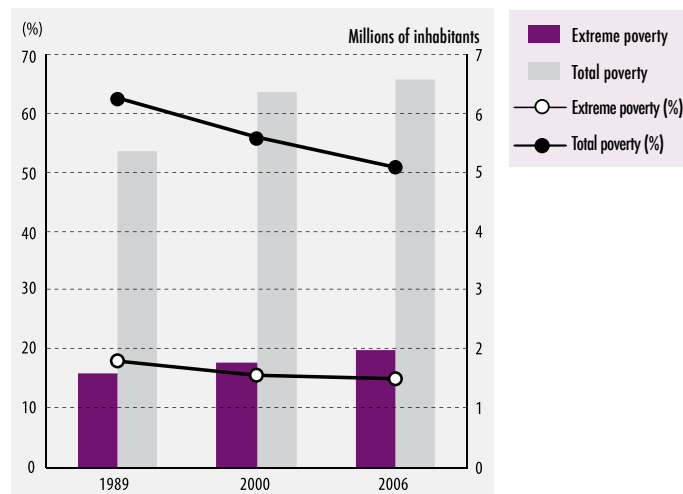


Source: prepared with data from ENS (1989) and ENCOVI (2000 and 2006). See figures 10.3 and 10.4 from the NHDR 2007/2008 (UNDP, 2008).

The extreme poverty rate also declined from 18% to 15.2%, but the number of people living in extreme poverty rose from 1.79 to 1.96 million people.

- The main component of consumption in Guatemalan households is food (40% of total consumption). However, food consumption as a percentage of total consumption varies by socioeconomic stratum: the higher the stratum, the lower the percentage of total consumption allocated to food consumption. Even so, food expenditure in the highest stratum is six times the expenditure in the extremely low stratum.
- Given the very low public expenditure on housing (0.2% of GDP), Guatemalan households must cover all housing expenses, regardless of their socioeconomic conditions. Housing expenditure represents approximately 25% of total consumption, without significant variations by socioeconomic stratum (evidently, average expenditures

**Figure 12**  
Poverty and extreme poverty  
Percentages, millions of inhabitants



Source: prepared with data from ENS (1989) and ENCOVI (2000 and 2006). See figure 10.5 from the NHDR 2007/2008 (UNDP, 2008).

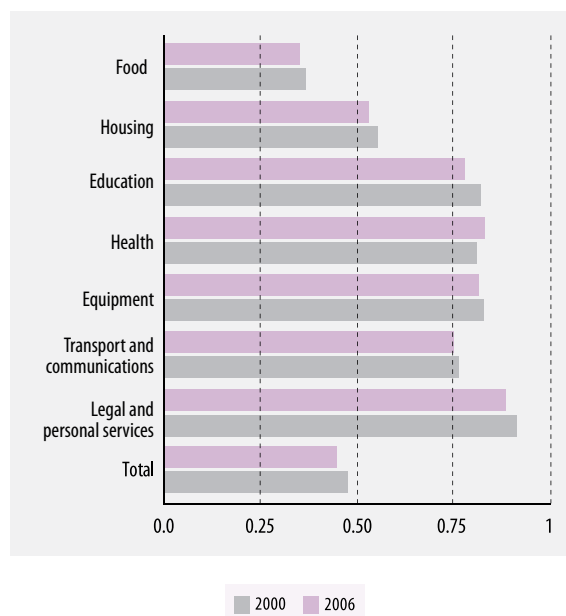
vary considerably given the pronounced differences in total consumption by socioeconomic stratum. For example, the highest decile of the population consumes 15 times more than the lowest). As a result, most Guatemalans live in overcrowded and precarious conditions.

- The public expenditure on health and education (consumptions for human development) increased considerably. However, excluding elementary education (the State covers the costs of education of 89% of the elementary school students), education and health remain funded primarily by households, with great differences across socioeconomic strata. Regarding health expenditure, households from the highest socioeconomic stratum spend almost GTQ 2,000 per capita annually, while households from the lowest stratum spend less than GTQ 30. Regarding education expenditure, households from the highest stratum spend almost GTQ 3,400 per capita annually, while households from the lowest stratum spend GTQ 60.
- Regarding inequality in consumption, basic food and housing consumption: is the least concentrated and unequal. Inequality in other types of consumption, such as education, health, equipment, transport, communications, and legal and personal services, is remarkably high.

### Conclusion

Between 1989 and 2006, the average consumption per capita increased by 22%. The large inequalities in its structure increased, and although the poverty and extreme poverty rates decreased, the total number of people under the poverty and extreme poverty lines grew. Moreover, human development consumption (in education and health care) is mostly funded by households. Despite the increment in public expenditure regarding health care and education (from 0.9% and 1.5% of GDP in 1995 to 1.6% and 2.9% in 2007) inequalities in the acquisition of these social services are profound. These inequalities in consumption are smaller in food and housing.

**Figure 13**  
Gini Coefficient of consumption expenditures by type (2000 and 2006)



Source: prepared with data from ENCOVI (2000 and 2006). See figure 10.20 from the NHDR 2007/2008 (UNDP, 2008).

## Chapter 11:

### International migration, human development and the economy

This chapter describes the situation of migrants and their families in Guatemala. It outlines the economic and non-economic elements of Guatemalans' migration strategy of Guatemalans. The chapter begins with an overview of the factors affecting decision to migrate, including the profile of migrants and the costs of migration. Then it examines the economic activities of Guatemalans in the United States, comparing them with their former economic activities in Guatemala. It shows that international migration, especially to the United States, is one of the few options available to secure essential resources for survival. The chapter ends with an assessment of the impact of migration on the Guatemalan economy.

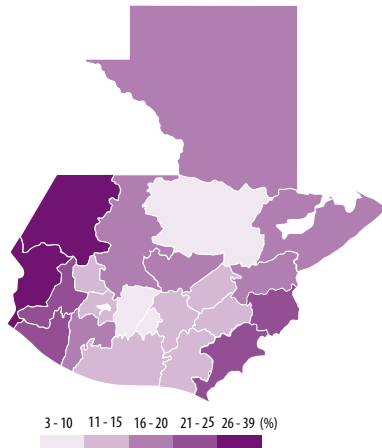
## Key findings and data

- Guatemalan migration to the United States was low until the 1970s, but after the 1976 earthquake and the internal armed conflict, migration increased rapidly. Between 1990 and 2001, the number of Guatemalans reported in the United States Census grew by 125%. According to the International Organization for Migration (IOM), in 2007 over 1.4 million Guatemalans lived in the United States (96% of all Guatemalans living abroad). Approximately 320 thousand people did not have permanence permits.
- Migrants are mostly working-age men, household heads, with little formal education (most have only completed elementary school), from rural areas. However, there is a growing trend towards migration of women and minors.
- Those paying to migrate to the United States report costs between GTQ1 thousand and GTQ45 thousand, often including an additional one-time payment at their final destinations. In many cases, migrants pay through debt acquisition, using land and real estate properties as guarantee.
- 70% of Guatemalan migrants in the United States reside in six cities: Los Angeles, New York, Chicago, Washington D.C., Houston and Boston.
- More than 40% of migrants were employed in Guatemala, mostly in agriculture. In the United States, the majority of migrants are employed in services, operation and installation of machinery, construction, offices and sales, and in executive positions. Less than 3% is employed in agriculture.
- Most Guatemalan employees in the United States work under vulnerable and precarious conditions. However, their average wages are remarkably higher than the minimum wages in Guatemala: in 2006, the minimum wage in Guatemala was only 6.34% of the average wage of Guatemalans registered in the 2000 United States Census. Surveys from other years show similar results.
- A Guatemalan migrant sends an annual average remittance of USD 1,200 in remittances to his or her family. To send it, he or she must spend around 10 to 20% in indirect costs. In total, migrants spend 10% of their wages on remittances and indirect costs related to them.
- For Guatemalan families, remittance use changes over time. First, families pay off the debts acquired for the migration; then, remittances pay for the family's survival consumption; and finally, families use remittances to pay for housing improvements and new business activities. According to the IOM, an average of 50.6% of remittances is used for consumption, 35.1% for investment and savings; and the remaining 14.3% for social investment (health or education).
- Geographically, the department of Guatemala receives 19% of all remittances (15% of all beneficiaries reside there); the departments of Quiché, Huehuetenango, Totonicapán, Sololá, San Marcos and Quetzaltenango receive 31% (48% of the beneficiaries); and the rest of the country receives 50% (37% of the beneficiaries) (see map 3).

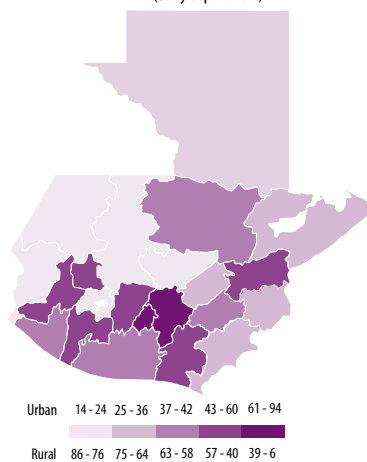
### Map 3

#### Geographic distribution of remittances in Guatemala (2006 - 2007)

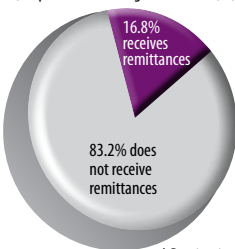
a) Population receiving remittances (% by department)



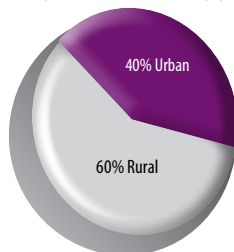
b) Urban and rural location of remittance receptors (% by department)



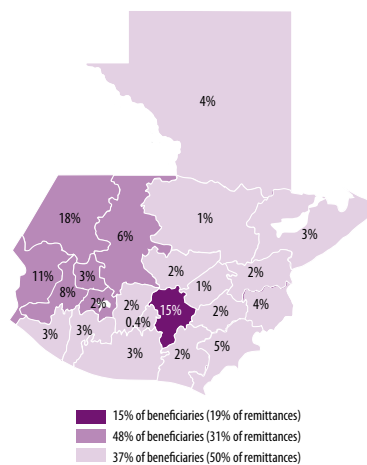
d) Population receiving remittances (%)



e) Destination of remittances (%)



c) Concentration of remittance receptors (% of total receptors)

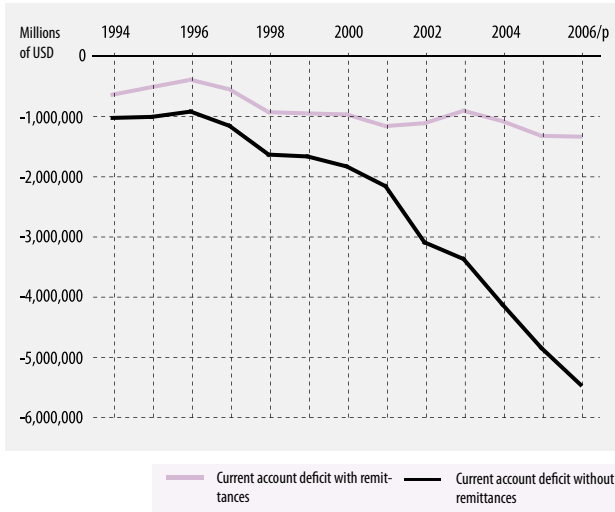


Source: prepared with data from ENCOVI (2006). The benefited population was obtained from households receiving remittances. The data regarding capital from remittances comes from IOM (2007). See map 11.1 from the NHDR 2007/2008 (UNDP, 2008).

- The largest expenditures made by migrants' families are in food and nutrition, education, and clothing. The payments of basic services and home equipment constitute a smaller expenditure, while entertainment and health care are the smallest.
- Remittances reduce inequality. According to a study by the World Bank (2007), the Gini coefficient for the country would have been 2.9% higher without remittances.
- Guatemalan households use most of the remittances to finance imports, which exceed the exports of the country. Thus, remittances significantly reduce the current deficit in the balance of payments.

Figure 14

Guatemala: current account deficit with and without remittances



Source: Palma, S.I. et al. (2007) with data from BANGUAT.

- Remittances have a significant positive impact on the growth of the country. In Latin American countries, the value of remittances is four times the flow of Foreign Direct Investment (FDI). In Guatemala, remittances were 73.7% of the FDI in 1993, while in 2002 they were 118.9% and in 2006, 295.3%.

### Conclusion

Migration –and remittances sent by migrants– became a fundamental driving force behind the Guatemalan economy and a survival option for a broad segment of the population. Because they are used particularly for consumption related to food, education and clothing, remittances generate growth and reduce poverty and inequality. However, migration entails economic and non-economic costs and hardship. Migrants must leave their families, acquire debts to pay for their journey, and work under vulnerable and precarious conditions. Nevertheless, the economic pressures in this country are such that more than 1.4 million Guatemalans have migrated to the United States, overcoming these high costs.

## Chapter 12:

### The informal sector in present day Guatemala

This chapter begins with a discussion of the concept of informality and its close relation with exclusion and poverty. It examines the origins of informality, its connection to surplus labor, its proliferation, and the emergence of a “culture” of informality. It also acknowledges the role of neoliberal policies and the deficient legal and institutional framework. Then, the chapter presents a thorough description of informal labor in Guatemala. It concludes with possible explanations for this phenomenon, which continues to grow.

#### Key findings and data

- Informality is a survival strategy, but also an opportunity to accumulate capital.
- The informal sector reflects the poverty and inequality arising in free market societies that either modernized without order or remain stagnant. It also corroborates the deficiencies of public institutions which

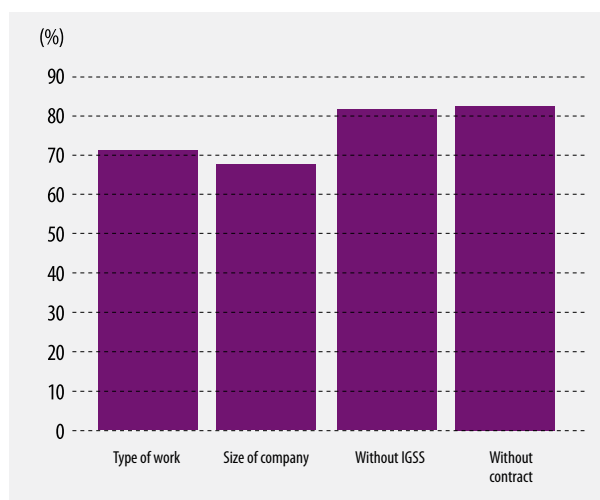
drive citizens facing difficulties towards informal life projects.

- Informal labor can be defined in different ways. The report presents four definitions: by type of work and educational level; by business size (less than five employees); by possession of a labor contract; and by affiliation to the Guatemalan Institute of Social Security (IGSS). Regardless of the definition, more than 66% of the employed population qualifies as informal. In the case of the last two definitions listed (by labor contract and by affiliation to the social security institute), the informal EP is above 80%.
- Regardless of the definition used, informality predominantly affects workers with low educational and/or low income levels; persons in the lowest socioeconomic strata, indigenous people and/or those who live in rural areas (the report analyzes this information by area, ethnicity and education of the household head). They are primarily employed in agriculture, commerce and social services.
- Two explanations of informality have been provided. The first, dubbed the “exit option”, states that workers and companies choose their optimal level of compliance with the institutional mandates of the State. The second explanation, informality by “exclusion”, states that informality is a survival alternative for those unable to enter the formal market.

### Conclusion

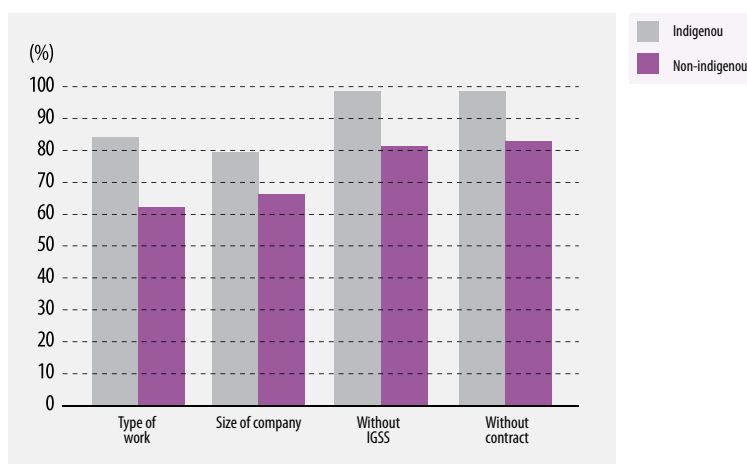
Low levels of human development produce informality, which in turn hinders modernization. However, informality is also an

**Figure 15**  
Percentage of EP employed in the informal sector (2006) By definition of informality



Source: prepared with data from ENCOVI (2006). See figure 12.1 from the NHDR 2007/2008 (UNDP, 2008).

**Figure 16**  
Informality by ethnic group (2006)



Source: prepared with data from ENCOVI (2006). See figure 12.1 from the NHDR 2007/2008 (UNDP, 2008).

option for survival. The growth of the informal sector evinces a deficiency in public institutions. It also engenders the emergence of a widespread “culture” of informality that spreads to other areas of the social life. In addition, informality is closely related to exclusion: the majority of people within the informal sector lack access to social opportunities.

**SYNTHESIS / Guatemala: an economy devoted to human development?**



# Part III

Political economy and key players

## Chapter 13:

# The State: A key eliciting virtuous cycles between the economy and human development?

This chapter studies the role of the State in generating virtuous cycles between economic growth and human development. The chapter begins with an overview of the Guatemalan State, pointing out its patent weaknesses. Then, it discusses the deficient supervision of the private sector by public sector in Guatemala, as well as the lack of coordination among public sector entities. This overview includes a historical account of changes in the participation of the State in the economy, as a result of the predominant economic development approaches of each period. The chapter then presents assessment indicators for public institutions currently regulating the market and promoting productive participation. Finally, it concludes with an assessment of three public policy areas that favor inclusion and link economic growth with human development: rural development, poverty reduction, and food and nutrition security.

### *Key findings and data*

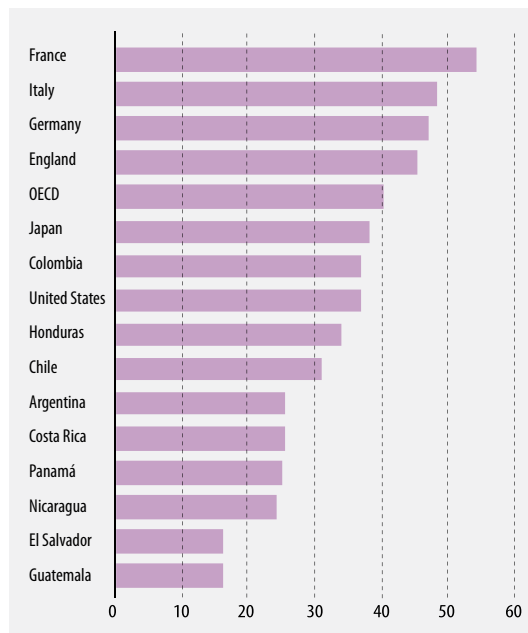
- According to the Constitution, the main purpose of the State is to promote the common good. It must guide the use of natural resources and human potential to increase wealth and distribute national income equitably; and whenever necessary, it must support the efforts of the private sector towards achieving the aforementioned goals. The Constitution outlines the social and political model that should be followed to achieve the objectives of the State.

- In reality, the State has not consistently or constantly acted upon the principles of social justice. Generally, it has been weak and influenced by interests from different sectors. It does not have sufficient financial resources, and it cannot secure the common good because private powers undermine its capacities. This weakness favors certain minority sectors of society.
- In order to foster virtuous cycles between the economy and human development, the State must fulfill two sets of functions: it must ensure proper market performance, and it must promote the common good, reducing poverty and social inequalities.
- Currently, the Guatemalan State is small: its average contribution (7.6% of GDP) and expenditure (13.1% of GDP) over the first years of the 21st century have been minimal relative to those of other countries in the region. The State employs only 5.1% of the Employed Population (EP).

### *Key findings and data*

- Although the Integrated System of Financial Administration (SIAF) and Guatecompras allow increased transparency, important weaknesses still limit the auditable management of public resources. From a legal standpoint, a deficient crime categorization in Guatemala restricts prosecution for corruption crimes. From an institutional

**Figure 17**  
Public expenditure in selected countries (circa 2005)  
Percentage of GDP, Guatemala



Source: prepared with data from ICEFI (2007), OCDE and CEPAL-ILPES, based on the National Accounts System, 2003. See figure 13.1 from the NHDR 2007/2008, (UNDP, 2008).

point of view, control agencies lack of appropriate coordination, producing inadequate supervision.

- The chapter also studies three areas of public policy that seek to strengthen the virtuous cycles between the economy and human development. The first, rural development and agricultural policy, took a new turn, increasing its importance, after the Peace Accords. However, the main institution charged with this type of policies, the Land Fund (FONTIERRAS), failed to fulfill its objectives and social mission, and is currently undergoing a restructuring process. The second area, poverty reduction, involved three types of programs or strategies during the last years: social investment funds, poverty reduction strategies and conditional transfers. In this area of public policy, the Report highlights the importance of economic growth as a neces-

sary but insufficient condition to reduce poverty. The results of the policies in this area have not been evaluated. And finally, the third area, food and nutrition security has moved beyond a limited approach of nutritional recovery, to a broader and multidisciplinary approach defined by the National System of Food Safety Law. This latter approach acknowledges that freedom from the scourge of hunger is an essential condition for human development.

- The development of the Guatemalan State encompasses a long historical process:

  - After the Second World War, the developmental State emerged –a State acting as the leader in society and the market with policies clearly aimed at strengthening the economy, and with a technical bureaucracy exercising

power. In Guatemala, the developmental State proved authoritative and centralized, controlled by the army and not always supported by the business sector. During the 1970s, the Guatemalan developmental State reached its zenith as the leader in social and economic matters. It adopted policies to protect local businesses, advance regional integration, promote exports, attract foreign investment, and provide economic infrastructure.

- o As a result of these policies, the economy grew, but it increasingly relied on subsidies and selective protection, engendering a rentier business mentality. Additionally, the marginalization, dismantling and distraction of popular sector movements produced an excluding – albeit dynamic – economy.
- o International financial disturbances that caused the gold/quetzal dissociation of 1978 (until that year, the exchange rate of the quetzal had been stable, tied to the Gold Standard) marked this period. This dissociation initiated a shift towards the monetary model. In 1982, the State deregulated interest rates, unraveling the debt crisis that eventually led to the collapse of the developmental State model.
- o Along with the socio-political violence during that period, the debt crisis gave rise to an outward growth model supported by a subsidiary State (a State indirectly intervening in the economy through rules and regulations, concessions, allocations, and regulation of public and social services;

a State watching over and regulating the market, but without direct intervention). The transition from a developmental to a subsidiary State took approximately ten years (1985-1996). During this period, major changes took hold: goods opened up the economy to foreign markets, denationalized public services of companies, and reformed public administration; and simultaneously, social movements grew. Moreover, the need to protect or subsidize access to certain public services for broad segments of the population became more acute in order to prevent social unrest.

- o By 1996, after signing the Peace Accord, the country had a basic framework for its international insertion, inter-sectoral coordination, and growth through export promotion. Trade and foreign exchange policy openly favored foreign trade, adopting a complete system for export promotion. Reductions in the size of public bureaucracy continued, and State intervention strategies in the economy changed from direct to indirect. Small changes in the allocation of resources among the institutions of the State occurred, but general allocation trends remained (95.1% of resources absorbed by the Executive Body, 2.1% by the Judicial Body, 2% by the political and judicial-administrative control bodies, and 0.8% by the Legislative Body). This allocation produced difficulties for ensuring peace and democracy.
- o Existing institutions that regulate the market and promote productive participation are assessed by indexes and rankings on issues

such as corruption, economic freedom, competitiveness, macroeconomic policy and financial regulation. Over the past two years, the country's rankings and evaluations on these aspects improved in comparison with other countries.

### *Conclusion*

The State is still weak, small, uncoordinated and unsupervised. But regardless of these weaknesses,

during the studied period it played a fundamental role in the economy, first as a developmental State and later as a subsidiary State. Over the past few years, its economic institutions improved their performance, according to several rankings and indices. In addition, the State made efforts in three areas to strengthen the virtuous cycles between the economy and human development: rural development, poverty reduction, and food and nutrition security. But these efforts did not strengthen virtuous cycles.

## Chapter 14:

### The State, fiscal policy and the public budget

The chapter begins with a description of the critical moments for fiscal policy in Guatemala, highlighting the continuous fiscal struggle between the State and the business sector, represented by the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF). It presents a review of the tax revenue, pointing out how low it is relative to GDP and to tax burdens in the rest of the region; and describes the failure of State efforts to create a progressive tax structure failed. In addition, the chapter details the fiscal sacrifice made by the State throughout the years in support of business activities, despite unsatisfactory results.

Then the chapter includes a detailed study of the national budget: first, it reviews the general income and expenditure trends; second, it analyzes operational expenses, investment and payment of public debt; third, it investigates different expenditure items, especially those related to human development, such as health and education; fourth, it analyzes the budget by geographical destination; fifth, it examines expenditure by type

of economic service; and finally, it presents the budget used for different public trusts.

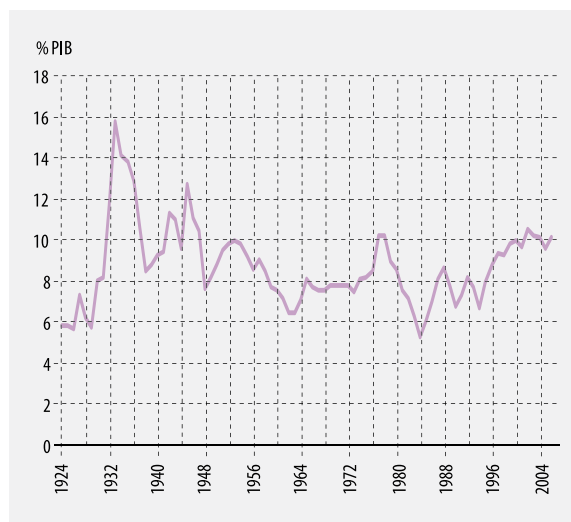
#### *Key findings and data*

- Over the past 27 years, eight central governments tried to promote several fiscal reforms to increase the resources of the State. In almost all cases, CACIF opposed the reforms. These efforts produced mixed results: the Value Added Tax (VAT), the Income Tax, the Real State Tax and a series of temporary direct taxes were created. But tax revenue remains low – the tax increase during this period reached a mere 2% of GDP, falling short of the necessary increase to reach the goal established in the Peace Accords: a tax burden equal to 12% of GDP (13.1% if new national accounts are used).
- The Legislative Body and the Constitutional Court (CC) participated actively in the fiscal reform negotiations. The CC legislates de facto in tax matters

through unconstitutionality appeals, a power that does not belong to it de jure.

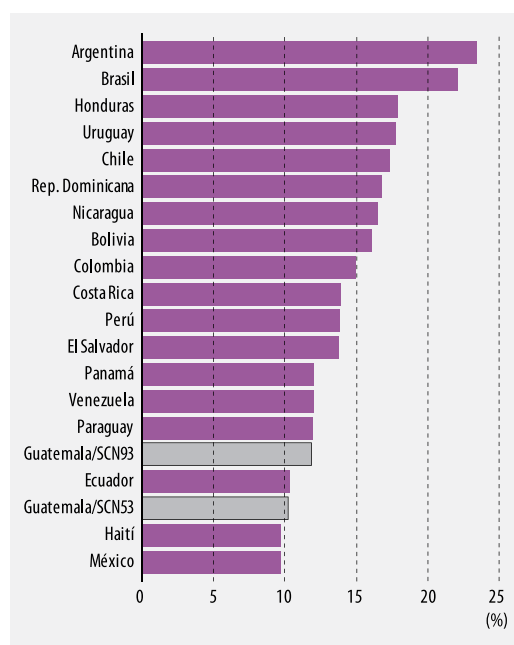
- The weakness of the Guatemalan State is a consequence of its deficient capacity to mobilize resources. The country has one of the lowest tax loads in Latin America, even though tax revenues constitute the largest source of resources for the central government.
- Indirect taxes are the primary source of income for the central government, constituting about 70% of total tax collection. Direct tax payments come mainly from temporary taxes. A very small percentage comes from the Income Tax, even though direct taxes have a greater potential for redistribution or progressivity.
- Recent studies concluded that the Guatemalan tax system is neither progressive nor regressive, but proportional. Such a structure is not in accordance with the principles of the Peace Accords, since all households, regardless of their income, must pay the same percentage of their income in taxes. This, of course, entails a greater reduction in basic consumption (food, housing, health, education) for lower income households, whose pre-tax incomes are already insufficient to cover their basic needs (unlike households with higher incomes, which even save some of their income).
- The State always played an essential role in economic development, indirectly and effectively assisting the private sector through a set of policies involving tax reductions or exemptions. For example, agricultural and livestock production benefited from tax exemptions, interest free loans, exemptions

**Figure 18**  
Evolution of the tax burden as a percentage of GDP (1924-2006)



Source: prepared with historic data from BANGUAT and the Ministry of Finance (MINFIN). See figure 14.2 from the NHDR 2007/2008 (UNDP, 2008).

**Figure 19**  
Tax burden in Latin America (2005)  
Percentages of GDP



Source: prepared with historic data from the treasury and central banks for Central America; for the rest of countries the source is the CEPAL-ILPES database. See figure 14.4 from the NHDR 2007/2008 (UNDP, 2008).  
\*Note: For Central American countries, the data is from 2006.

from custom duties and encumbrances on its supplies and raw materials. Similarly, the State created “hothouse conditions” for the industrial sector: exonerations, exemptions, exceptions, tax free supplies, among other incentives.

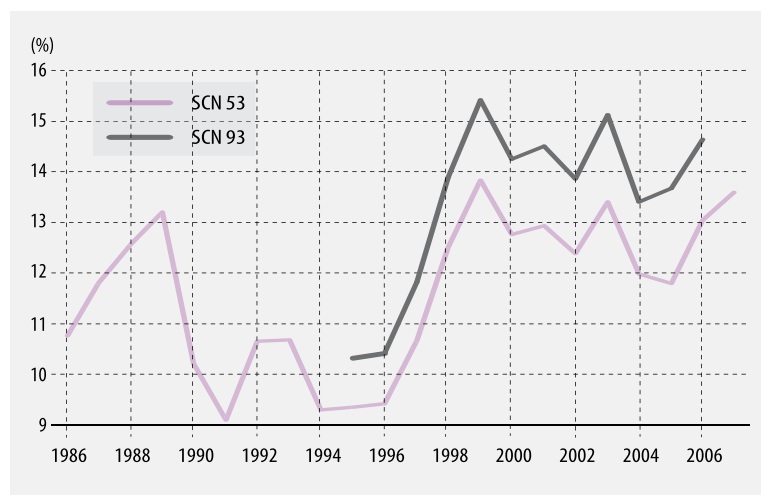
- The fiscal sacrifice of the State, particularly to support industry, continued during the period of trade opening and liberalization and is legally embodied in decrees such as 65-89 and 29-89 (amended by 38-04). These decrees include key incentives such as custom clearance procedure exemptions (customs duties and VAT) for machinery and equipment, raw materials, semi-finished and intermediate products, packages, fuel oil, bunker oil, butane gas, propane gas and others. Ironically, the fiscal sacrifice which reduced the resources of the State was made in a context characterized by demands to reduce the State in the economy, leaving market forces as the role market regulators.
- Fiscal sacrifices failed to spur foreign investment: In Central America, Foreign Direct Investment (FDI) as a percentage of GDP is lowest in Guatemala. In fact, the country attracted FDI more successfully, as a % of GDP, before Decrees 28-89 and 65-89.
- Tax evasion is high in Guatemala: in 2006, VAT evasion hovered around 29%. This is partly due to the absence of a tax paying culture exacerbated by the weakness of administrative and criminal prosecution for tax evaders – tax evasion prosecution very rarely concludes with a conviction.
- The national budget is characterized by a slow growth trend, proneness to fiscal deficit, and an insufficient increase in public expenditure relative to the size of the economy.

**Figure 20**  
Direct vs. indirect taxes  
Percentage of total income of the central government



Source: prepared with data from MINFIN and BANGUAT, 2006. See figure 14.6 from the NHDR 2007/2008 (UNDP, 2008).

**Figure 21**  
Evolution of public expenditure (1986-2006)  
Percentages of GDP SCN 53 and SCN 93



Source: prepared with data from MINFIN and BANGUAT. See figure 14.7 from the NHDR 2007/2008 (UNDP, 2008).

In more general terms, the erratic management of the State is evident in the “sinuous” behavior of its income and expenditures.

- The average growth rate of operational expenses was 0.6% less than the GDP growth rate, but they remain the most important expenses in the budget.

- Public investment exhibited an erratic behavior, although in general terms it stagnated below 33% of total public expenditure. This behavior reflects the marginal importance of public investment, as well as its limited positive impact on productive and social infrastructure, and therefore, on human development.
- The public debt payments accounted for 10 to 16% of total expenditures between 1970 and 1985; 20 to 31% between 1986 and 1996, and 12% to 17% during the past decade.
- Education was the expenditure item with the highest growth rate. It nearly doubled as a percentage of GDP between 1995 and 2006, rising from 1.5% to 2.8% of GDP. Expenditure in transport and rural and urban development also grew. On the other hand, social expenditure in health experienced the lowest growth; its participation in total public expenditure declined from 8.6% to 8.3%.
- By geographic distribution, public expenditure was concentrated in the metropolitan region (which received between 22 and 31% of expenditures throughout the 1996-2006 decade).
- Rural public expenditure and infrastructure expenditure stand out among economic services. Regarding public rural expenditure, infrastructure and social sector spending increased, but expenditure on promotion of production activities decreased. With respect to infrastructure spending, most of it focused on paved highways, neglecting rural or secondary roads. During this period, direct State provision of infrastructure declined and it spent very little on housing.
- There are more than fifty public trusts. The most important include the National Fund for Peace (FONAPAZ); the fund for post-Stan reconstruction; the fund created with USD100 million in government bonds for coffee growers; the fund charged with strengthening and reorganizing the banking system; the National Fund for Development (FONADES) in substitution of the Social Investment Fund (FIS); the Guatemalan Indigenous Development Fund (FODIGUA); and the fund intended for the Community Development for Peace Program (DECOPAZ).

### *Conclusion*

Over the studied period, the State was unable to significantly increase its tax revenue. Hence, Guatemala has one of the lowest tax burdens in the region. Currently, revenue from direct taxes is remarkably low. The most important reasons for this very low tax burden are first, the consistent opposition of CACIF and other similar groups to any tax increase; and second, the fiscal sacrifices made by the State to promote productive activities. The result of this low tax burden is a restricted budget, with almost stagnant revenue and expenditure rates. A restricted budget limits public investment and operating expenses, and low taxes lead to increases in public debt. Nonetheless, some notable improvements are evident, such as the growth of public expenditure in education and transport. However, many challenges remain, starting with the need to increase public health care expenditure.

## Chapter 15:

# Business owners and their relationship with the State

This chapter focuses on the “business sector”, documenting some of the ways in which it has established its relationship with the State and influenced public decisions. It begins with an overview of business owners as political actors. It explores their performance as key players in the public policy decision making process and their approaches to the relationship between the State and the market. It also includes an analysis of the economic players emerging over the last twenty years.

Subsequently the chapter describes “business governance” and how it developed over the studied period (1985-2007). The chapter also describes three ways in which economic players intervene in the State and society to influence decisions, advance their pecuniary interests or achieve social diffusion and judgment capacity over the proceedings of the Government and other social actors. The chapter continues with a presentation of other economic and social actors and how they sometimes countervail the relationship between the State and the business owners. Finally, it presents a discussion of how all these elements shape “economic governance”, affecting economic results and the ensuing development of the country.

### *Key findings and data*

- The institutional character of the Guatemalan State has been highly vulnerable to powerful groups in the private sector. Although economic elites undeniably remain in power and are highly influential, the types of relationships with and within the State have changed throughout history.
- Over the last twenty five years, economic players in Guatemala adapted to the rapid global and local changes, such as the 1980-1984 economic recession, the political crisis and the intensification of the armed conflict, the introduction of new forces propelling growth, the apparent boom of the financial and banking systems, the debilitation of the State, and the privatization of State-owned companies.
- During this adaptation process, the extensive traditional agricultural sector lost strength, democracy encouraged the political participation of business owners, and business owners enhanced their influence over traditionally undervalued areas, such as education.
- The business sector exercises its influence in at least four ways: protecting their own interests; seeking access to foreign markets; pressing the State to improve the business climate and competitiveness of companies; and participating in the national political system.
- Business owners can behave in five ways: defending their own vision; taking the agenda of their sector to the world of politics; participating in the State in order to plunder the Treasury or take advantage of their position; becoming involved in public service; or completely retiring from business activities in order to fully pursue politics and the construction of a State that guarantees human development.

- The main representative of the business sector is CACIF, which includes members from industry, agriculture, finance, and tourism sectors, among others. Throughout the years, the Chamber of Industry has been one of the CACIF cornerstones.
- Two traits characterize the actions of the business sector: a very high degree of coordination and unity, and an extreme sensitivity and aggressiveness when defining or protecting its interests and projects before the State. CACIF acts in multiple ways, sometimes even as a true political party. The power and importance of CACIF increased over time buttressed by the many interests it represents (in 1982, it included businesses owner's producing 80% of GDP).
- In the political arena, economic players are ubiquitous, using formal and informal networks of influence. CACIF is the main political actor, becoming more flexible and sophisticated over time. It is organically articulated with the State, and it participates in development councils and 23 public decision bodies (with 52 representatives).
- Historically, economic elites easily moved from supporting anti-communism to neo-liberalism. The State did not enjoy popular support and therefore, a crusade against the State led by the business owners, rejecting Governments and above all, tax reforms, received ample support from different social sectors.
- Business owners also employ informal power networks that undermine the institutional character of the State, including its tax collection capacity.
- Historically, five issues have been at the heart of conflicts between the business sector and the Guatemalan State: fiscal policy, particularly taxation; the land ownership regime; employer-worker relations and labor legislation; protection of productive activities; and the so called "rules of the game".
- Recently, the private sector became an essential driving force behind the emergence of several public institutions charged with promoting of competitiveness, directly participating in their establishment. Through these institutions, it erected the foundations for an export promotion agenda, creating a complete institutional support system.
- The most important economic proposals of CACIF prioritize economic growth, through systemic competitiveness, free markets and a subsidiary role for the State (non- redistributive).
- Recently, Corporate Social Responsibility (CSR) received more attention and a Center for Social Responsibility was created in Guatemala (CentraRSE). The foundations for this approach include compliance with the national legal framework, valuation of the personal development of collaborators and family outreach. It also involves "community outreach" and the "design/execution of public policies". Some empirical data exist regarding CRS: in 2007, 72% of companies rated their social responsibility as good, but only 27% perceived it as favorable for business.
- Without a doubt, the State and the large business owners have been key players at the local level, but other actors have

some influence as well, such as workers, social movements, peasants, indigenous business owners, organized groups of women working in productive activities, and micro, small and mid-sized business owners. However, these actors do not yet countervail the relationship between the State and large business owners.

- Despite its weakness, the union and popular movement encompass several centrals, agglomerating important organizations. Some of the centrals are the Unión Guatemalteca de Trabajadores (UGT), the Unidad de Acción Sindical y Popular (UASP), and the Coordinadora Nacional Sindical y Popular (CNSP). These centrals comprise some important organizations such as the Unión Sindical de Trabajadores de Guatemala (UNSI TRAGUA), the Federación Nacional de Trabajadores del Estado Guatemalteco (FENASTEG) and the Coordinadora Nacional de Organizaciones Campesinas (CNOC).
- Among the most important organized small business owners, *the Federation of Cooperatives of Coffee Producers (Fedecocagua), the Rural Entrepreneurship Association (AGER) and Cooperation for Rural Development of the Western Region (CDRO)* stand out. These organizations show that business opportunities in rural areas need government and private sector.
- In 2006, 833 cooperatives were registered in the country. Their social and economic situations and activities are diverse. The most important cooperatives are those operating in rural areas and/or dedicated to agricultural activities, as well as those providing savings and loans services.

- Indigenous entrepreneurs have a long history. Their commercial activities grew consistently over the last fifteen years and with this growth came their social ascent in important western and central regions of the country, especially as their investments diversified.

### Conclusion

Guatemalan business owners exercise a strong influence over the economic policy of the State through formal and informal networks. Over the years, they diversified their influence mechanisms and their positions, becoming more sophisticated. This allowed them to maintain their privileged position in relation to the State. Other actors, such as workers, social movements, peasants, indigenous business owners, organized groups of women working in productive activities, and micro, small and medium sized business owners became influential in certain issues. However, they are still too weak and scattered to truly counterbalance the dynamics of the State decision-making processes, which is highly influenced by large business owners.

## Chapter 16:

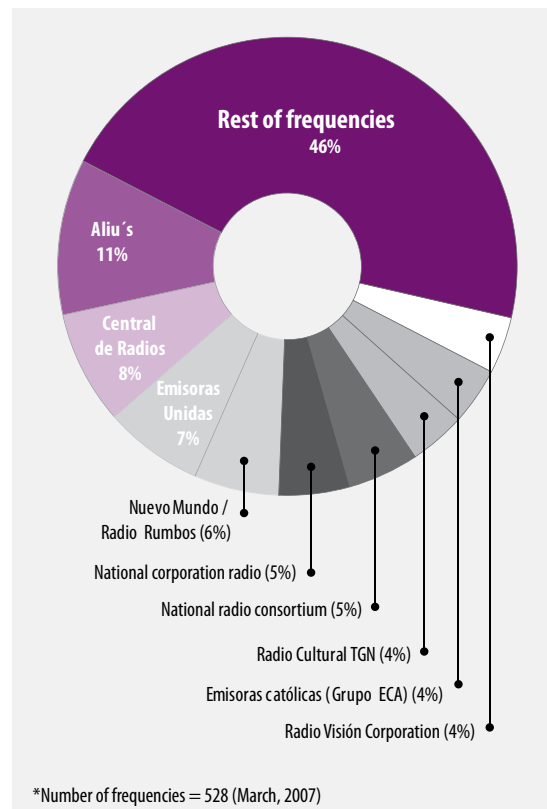
# Mass media and the national economic agenda

This chapter presents an overview of mass media in Guatemala, with the purpose of establishing mass media outlets general framework and identifying their position relative to their competitors. It also presents their ownership regime, their funding sources and the role paid advertising for their economic self-sufficiency. In addition, the chapter explores the editorial orientation of media outlets regarding economic issues, the characteristics of the writers and their sources of information.

### Key findings and data

- The majority of mass media outlets in Guatemala are privately owned.
- Ten companies control 44% of radio frequencies granted by the Superintendence of Telecommunications (SIT). The largest radio groups include Central de Radios and Nuevo Mundo/Radio Mundo. Nearly all radio stations in these groups are family-owned businesses.
- Four television frequencies in the VHF band are part of the business consortium owned by Mexican entrepreneur Ángel González. The other two frequencies were given in usufruct to the Congress of the Republic and the Academy of Mayan Languages. The following channels operate in the UHF frequency: channel 31 (Latitud TV, now Azteca Guatemala), channel 33 (the channel of Universidad de San Carlos de Guatemala), and channel 21 (a religious channel). Cable television includes Canal Antigua, VEA Canal and Guatevisión.

Figure 22  
Distribution of radio frequencies



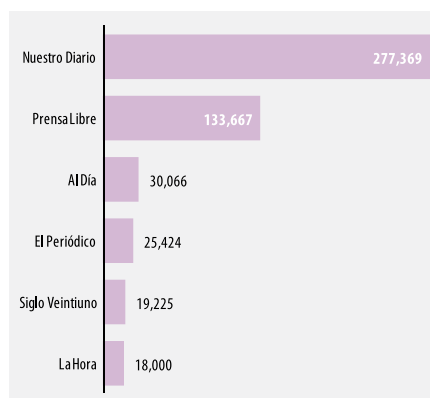
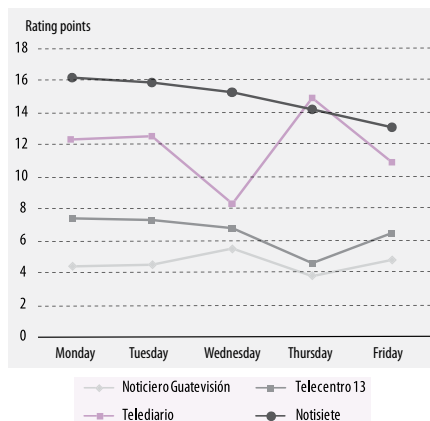
Source: prepared with data from Berganza (2008). See figure 16.1 from the NHDR 2007/2008 (UNDP, 2008).

- Seven printed publications are currently circulating. *Diario de Centroamérica* is public while the rest -*Nuestro Diario*, *Prensa Libre*, *Al Día*, *el Periódico*, *Siglo Veintiuno* and *La Hora* – are privately owned. *Prensa Libre* S.A. owns *Prensa Libre* and *Nuestro Diario*; Aldea Global owns *el Periódico*; and *Corporación de Noticias* owns *Siglo Veintiuno* and *Al Día*.
- Local newspapers exist, including *El Quetzalteco* and *El Metropolitano*.
- There are three circulating economic and business magazines:

*Estrategia y Negocios, Summa* and *América Económica*, as well as the weekly publication *Inforpress Centroamericana*.

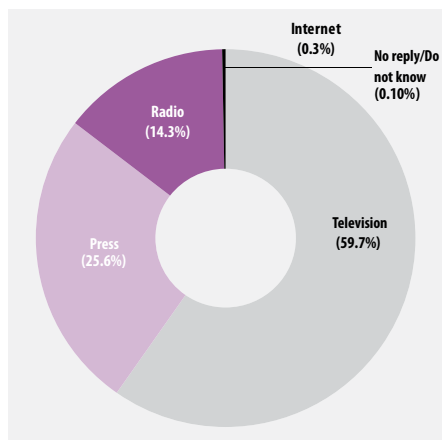
- Guatemalans, primarily use the television to obtain information. However, ratings show that the programs with the largest audience are not news programs, but sports and entertainment programs.
- The main source of funds for the mass media is paid advertising, particularly for privately owned media outlets. The importance of commercial advertising for their survival and success influences their news and editorial orientation. The media accepts the capitalist system as the framework for economic activities; and media outlets treat companies appearing in the news differently from how they treat the State and its organizations.
- The editorial policy of the media outlets mentions their independence from the policies of marketing and sales divisions. However, in editorial offices of most of the largest media outlets, an unspoken agreement protects advertisers from damaging press. When such press is unavoidable, media outlets divulge it in a prudent and inoffensive manner.
- Most of the information spread by media outlets is not the result of investigation efforts, but instead obtained from statements, indications, documents, press conferences or presentations.
- Regarding economic information, the majority of the mass media outlets rely on government officials, business owners, independent economic analysts or analysts from research centers, and leaders of business groups as their sources.

**Gráficas 23 y 24** 23. News program audience (November 19 through 23, 2007)  
24. Printed publications market (April through June 2007)



Source: prepared with data from Berganza (2008). See figures 16.2 and 16.3 from the NHDR 2007/2008 (UNDP, 2008)

**Figure 25**  
Most efficient means to obtain economic information



Source: prepared with data from Berganza (2008). See figure 16.7 from the NHDR 2007/2008 (UNDP, 2008).

To a lesser extent, they resort to leaders of popular groups (trade unions, peasant organizations) and left-wing organizations. But the degree of influence of the latter informants over the information agenda and treatment of economic issues is unclear.

- For most Guatemalan mass media outlets, the main target audience for economic news is consumers, followed by business owners and government officials.
- Regarding their adherence to a specific economic theory, *Prensa Libre* claims to favor of a social market economy. *Siglo Veintiuno* favors free enterprise, prioritizing the protection of the private sector and the rights of the individual before the State. *Noticiero Guatevisión*, *Telecentro 13* and *Patrullaje Informativo* do not openly adhere to a defined set of economic principles. *La Hora* acknowledges its adherence to social democracy. *Inforpress* is the only consulted media outlet that questions the capitalist framework.
- Mass media outlets spread ideas about different economic issues. Regarding fiscal policy, two positions stand out: first, those who favor the State reducing tax burdens on income and increasing indirect taxes such as the Value Added Tax (VAT); and those in favor of a progressive direct tax structure. Nevertheless, these two sides agree on two points: a) corruption reduces the effectiveness of public expenditure and hinders the functioning of the State, and b) it is necessary to increase the tax revenue of the State.
- Regarding policies and actions for poverty reduction, the general consensus is that the State must work to reduce it. But there are

two positions with respect to the type of policies the State should implement. The first position favors broad, direct participation of the State through social redistribution policies. The second position favors strengthening the free market in its broadest definition as the main mechanism for poverty reduction.

- Two different positions regarding the relationship between growth and equality exist. One favors strong State policies to promote social equality. The other sees social equality as resulting from strong economic growth, which should be based on stable macroeconomic policy, respect for the Rule of Law, a favorable investment climate, and a flexible and productive labor sector.
- Similarly, there are two positions regarding the economic challenges posed by globalization: one finds more risks than benefits in globalization, while the other suggests a rapid commercial opening of all sectors of the economy. These two positions are present in national discussions about free trade agreements (FTAs).
- Concerning rural development, a complex, sharply divided debate surrounds the subject of substantial modifications to the land tenure structure.
- Two strongly opposed positions surround the debate on discrimination against indigenous peoples. One sees discrimination as a problem that also generates costs for development; the other argues that discrimination is, to a certain extent, a matter of perception, a phenomenon within the social and economic dynamics of the country that can be modified when individuals pursue their own interests.

- There is some agreement regarding the need to support the development of small and mid-sized businesses, especially through public strategies.
- There is also an agreement regarding the importance of an environmental approach to development policies.
- The validity of the current economic model is also subject to debate. One position questions its efficacy as a foundation for national development efforts. Instead, it advocates a strong role for the State, but it fails to influence public policies. The other position, held by economists, academics and business owners following neoliberal ideas and protecting the interests of the business elites, simply advocates the expansion of the free market.

### *Conclusion*

Mass media outlets' freedom of expression evolved positively in the studied period, considering the existing censorship during the internal armed conflict. Currently, mechanisms for information diffusion exist in Guatemala. However, freedom of expression is still restricted by private interests, often linked to the owners of media outlets or other groups directly influencing editorial articles and news.

The importance of mass media for human development lies in its essential role as a source of information for citizens. Appropriately handled economic information, with a broader agenda and diverse approaches, can contribute to form better citizens.

# SYNTHESIS / Guatemala: an economy devoted to human development?





# Part IV

To conclude

## Chapter 17:

### To conclude

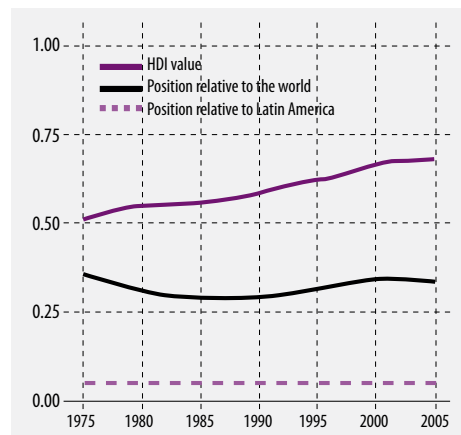
This chapter presents an analytical summary of several important aspects included in chapters 1 through 16. Among them, it includes various analyses related to measures of human development and the National Human Development Index (NHDI) also offers a final reflection on the need for a social pact to change the development strategy in the country. This pact must begin from a person-centered approach, in which the economy is conceived as a liberating mechanism for multiple human capabilities. The next chapter addresses this pact to a greater extent.

#### Key Findings and Data

- Over the past 30 years, the value of the Guatemalan Human Development Index increased. However, the position of the country relative to the rest of the world fluctuated without achieving sustained improvement. Relative to the Latin American region, Guatemala's position remained unchanged, constantly placing at the bottom end, as seen in Figure 26.
- The Human Development Index comprises three components: health, education and income. Each of these is measured by a sub-index. Between 1989 and 2007, each of these components developed differently. Health improved quicker than education and income, as Figure 27 shows. Life expectancy at birth increased by 12 years, from 60 to 72 years of age. The literacy rate for adults rose from 60 to 75% and the rate of combined enrollment, from 36 to 61%. GDP per capita grew from USD 2,300 to USD 4,700 PPP. de los Acuerdos de Paz.

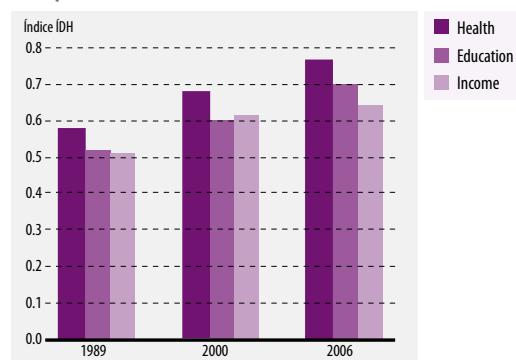
- Guatemala is one of the most unequal countries in Latin America. Analyzed by socioeconomic stratum, the level of human

**Figure 26**  
Guatemala: HDI and position relative to the region and the world (1975 - 2005)



Source: Prepared with data from NHDR. See figure No. 17.1 from the NHDR 2007/2008 (UNDP, 2008).

**Figure 27**  
Guatemala: HDI change by components (1986 - 2006)



Source: prepared with data from Banguat, Celade, INE, (ENS89, ENCOVI 2000 and Encovi 2006), MSPAS, MINEDUC, PNUD, BM. See figure 17.2 from the NHDR 2007/2008 (UNDP, 2008).

development reflects these wide inequalities. The HDI value for the high socioeconomic strata (0.899) is similar to average values for Chile and Argentina. In contrast, the HDI value for the

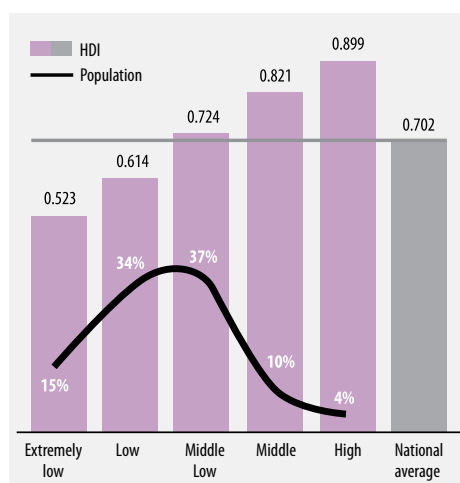
extremely low stratum (0.523) is comparable to average values for Bangladesh and Sudan.

- By socioeconomic stratum, the distribution of the level of human development is *downward* asymmetrical. Figure 28 shows that almost half of the Guatemalan population belongs to the extremely low or low strata. 37% belong to the low middle stratum, 10% to the middle stratum and only 4% to the high stratum.

### Conclusion

The chapter concludes with an assessment of the results of the Report. The assessment includes the following propositions. The Guatemalan society must change its development approach. Economic growth is not viable if it is not inextricably linked to human development. Neither poverty nor poor economic growth ensue naturally from

**Figure 28**  
Human Development Index (HDI) and population distribution by socioeconomic strata (2006)



Source: prepared with data from Banguat, Celade, INE, (ENS89, ENCOVI 2000 and Encovi 2006), MSPAS, MINEDUC, PNUD, BM. See figure 17.3 from the NHDR 2007/2008 (UNDP, 2008).

the system. Change is possible. Growth can be more vigorous and equitable when the proceeds from growth are better distributed. The Guatemalan society can certainly diminish poverty and reduce its vast inequalities.

## Chapter 18:

### Outline for a pact between the economy and human development

This Report acknowledges the economy is a profoundly human social construction which is, therefore, modifiable. Politics, understood as all individual or collective action which modifies public actions and relations, can transform the economy. However, to transform it, these politics of change must prevail over different interests and power relations. As a consequence, the economy, modified through political action, may or may not be devoted to human development. Change is possible, rapid and more equal

growth is attainable when the benefits from growth are more appropriately distributed. Yet for change to happen, the development strategy must not only reduce poverty, but also expand human agency.

The outline for a pact presented in the NHDR 2007/2008 refers to a vision of the Nation, in accordance with the human development paradigm proposed in previous National Human Development Reports. This vision is based on three main principles for the well-

being of people: freedom, equality, and coexistence in diversity. The construction of a multicultural, just and inclusive society must stand out as a strategic objective. To achieve this objective, three main axes are proposed: first, constructing a State that guarantees citizen security for all inhabitants and the respect for human rights. Second, building a nation without social exclusion, where everyone enjoys access to elementary and secondary education, and nobody dies from preventable diseases, hunger or malnutrition. And third, developing a competitive and fair economy, integrating producers and consumers and distributing the benefits of development in an equitable manner.

To achieve this vision, the Report proposes a pact between the economy and human development. In this pact, people must act as the means and ends of development. The newly built economy must display high growth rates and low volatility, and guarantee full freedom to produce, work and consume, with environmental sustainability. The Report proposes a short agenda for this pact, based on four basic axes.

The first axis involves the expansion of social opportunities that allow equality. The Report proposes social policies such as achieving the Millennium Development Goals, strengthening educational reforms, improving basic housing and drainage, and guaranteeing security.

The second axis focuses on diversification and strengthening of the productive capabilities of Guatemalans. To do so, the Report underscores the need to maintain a prudent macroeconomic policy, with moderate inflation and an anti-cyclical fiscal policy financed by greater resources; to increase public and private investment; and to diversify the productive system through promotion of rural development

programs and introduction of micro, small and medium sized businesses in productive chains.

The third axis centers on democratization of the public arena and human agency. The State must ensure that all possible interests are represented and taken into account in the public decision-making process. It must limit the power of those who have traditionally concentrated it, defending instead the greater good. To do so, the Report argues for strengthened State institutions and social organizations, improved information and communication mechanisms, and reinforced processes of citizen representation.

The final axis seeks to guarantee the sustainability of equality and development. It emphasizes the importance of planning strategies for development at the territorial-unit level; such planning must be based on the agro-ecological potential and the socio-cultural characteristics of the country, coordinating these nuances with policies that promote productivity. These development strategies must be sustainable, not only in time, but also in their ability to promote equality for people and guarantee environmental responsibility. To achieve these goals, the Report argues for strengthened central, departmental and local government institutions, so that they fulfill their role regulating the market and redistributing income. They must also rescue natural resources from plunder, mitigate environmental damage, anticipate disasters and provide timely responses to environmental emergencies.

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