Guatemala – Country Assistance Strategy

Introduction

We are pleased to be able to consider this well prepared and candid Country Assistance Strategy (CAS) for Guatemala. This is the first CAS since the end of Guatemala’s tragic and costly civil war. That conflict lasted over three decades and cost 100,000 lives, a staggering figure for a country the size of Guatemala. On a proportional basis this would be 500,000 deaths in France or 12 million in China. The primary focus of this CAS, as it should be, strongly supports Bank’s efforts with the government, donors, and civil society in order to strengthen the design and implementation of the peace program.

General Considerations

We welcome the process of broad consultation that took place in the preparation of this CAS and agree on the focus for Bank assistance, which reflects the results of that process. In spite of the Peace Accords many differences and diverging views remain. The Bank decision to support programs “…designed ultimately to end the exclusion that has long characterized Guatemala’s dualistic society and economy” is appropriate. We also endorse the four elements that have been chosen as the focus for Bank activities: building social cohesion; reducing poverty; improving economic management and increasing growth; and making the public sector more effective.

Privatization, Fiscal and Gender Issues

Achieving macroeconomic stability is an important element for Guatemala’s recovery, and the more commendable because it is so often missing in a post-conflict situation. Inflation declined to 7.1 percent in 1997 and there has been moderate growth. However, there is much more that needs to be done, especially in the privatization of public enterprises and tax collection.

Tax collection is an essential element for improving fiscal performance and policy. Yet there has been little progress, and even setbacks. That the tax share of GDP is so low, actually the second lowest in the LAC region, is a cause for serious concern. We would appreciate further information and staff comments on whether a commitment by the government to address this issue exists.
Privatization is crucial for attracting foreign direct investment, increasing productivity in the economy and allowing fiscal relief. We would therefore encourage authorities and the Bank to prepare the necessary framework in order to deepen the privatization process. However, with the exception of the telephone and/or telecommunications sectors, we find no descriptions of other entities that warrant privatization and would appreciate further information.

We welcome IFC, FIAS and MIGA involvement in the promotion of foreign direct investments (FDI) in the infrastructure, energy and tourism sectors. Establishment of an office in Guatemala under the “Extending IFC’s Reach” initiative is also positive.

In Guatemala, 50 percent of the active labor force is in the agriculture sector, with women comprising its majority. As in other countries, women in Guatemala are inadequately rewarded for their participation in economic activities due to the lack of access to education and training, as well as land ownership and credit constraints.

As we know, gender equality is not only a matter of social justice, but also of development. Elimination of inequalities improves productivity, provides social benefits, and finally reduces poverty. Investment in women’s education also reduces child mortality and fertility levels. These two social indicators are very high in Guatemala and increased attention is needed to address these issues.

Therefore, we support the Bank’s intention to devote additional attention to gender issues and to continue working closely with the authorities. We welcome the assignment of a gender specialist to the field office in Guatemala in order to develop better results on gender issues and believe this is of crucial importance.

Food Security

Supporting agricultural and rural development is crucial for poverty alleviation. A vital contribution to this goal is transformation of the badly skewed land distribution pattern and the clarification of land tenure. Property titling has proven to be one of the most significant steps that can be taken to improve productivity. The importance of this is seen in the designation of Guatemala as one of the ten focus countries under the Strategic Compact for comprehensive rural development strategies. Food security includes health, education, infrastructure and other elements.

Risks to the Proposed Strategy

The CAS proposes a level of lending of about US $310 million for the next three years. In general we support the proposed strategy and this level of lending for the country, while recognizing that this is a high-risk environment.

In fact, as to be expected, the wide support given the Peace Accords has seen some erosion. This is not surprising in a society that has had over 30 years of conflict. As indicated in the report, the
political climate for next year, with a presidential election, could slow the implementation of economic reform efforts. Furthermore, if macroeconomic stability is lost or progress in the implementation of the Peace Accords is not achieved, this amount would be lowered to about US $ 200 million.

Overall, we agree with the Bank’s strategy of monitoring very closely Guatemala’s economic performance in order to assess the pace of lending and reforms for the coming years.

Conclusion

The forthright discussion in the CAS makes clear that the Peace Accords are only the beginning of a long process for Guatemala. Serious strains and tensions continue to exist. We are pleased to note that the Bank is working together with the IDB, UN and other international organizations in order to coordinate efforts and maximize results. In spite of the high risks involved, there is really no alternative.

In reviewing the issues suggested for Board discussion we find that the four core priorities proposed are an appropriate response and that the CAS has described the risks realistically. What we are struck with, however, is that while the Bank and other multilateral and bilateral donors can do much, in the final analysis it will be the lessons Guatemala has learned and the commitment the country’s society brings to the Peace Accords that will determine eventual success or failure.

This may be more or less true for all World Bank Group programs, but is especially so for Guatemala. We wish the Guatemalan government and people every success in the implementation of this program, which we think will bring important economic and social benefits to all the people of the country.