

Country Development Strategy Statement

FY 1984



Guatemala

MAY 1982

Agency for International Development
Washington, D.C. 20523

THIS STRATEGY STATEMENT HAS BEEN PREPARED BY THE
A.I.D. FIELD MISSION. IT IS PREPARED ANNUALLY
AND USED FOR PLANNING PURPOSES IN THE FIELD
AND IN WASHINGTON. IT DOES NOT REPRESENT
OFFICIAL AGENCY POLICY.

*

FOREWORD

This Country Development Strategy Statement (CDSS) is being written during a period of what appears to be a major change in Guatemala. A coup carried out by younger military officers on March 23, 1982 removed the administration which had governed for the previous four years during which U.S.-Guatemalan relations were severely strained. The new government headed by former presidential candidate General Efraín Ríos Montt has been in office for less than two months as this document is being written. While public statements by and private discussions with new government leaders indicate they intend to set the country on a new course with increased attention to human rights and development, they have had little time to demonstrate these intentions conclusively.

While much of the analytical section represents a measurement of where Guatemala stands today, projections, even short-term, are based on the U.S. Diplomatic Mission's best estimates of what the new Government of Guatemala (GOG) both intends and is capable of carrying out. The strategy section makes the assumption, which is believed to be a valid one, that the new GOG will carry out the deep commitment to development of the poorer areas of Guatemala repeatedly asserted by its leaders.

This document has been reviewed by all major elements of the U.S. Diplomatic Mission and is personally endorsed by the Ambassador who has reviewed it carefully.

FY 84 CDSS TABLE OF CONTENTS

	<u>PAGE</u>
-- Foreword	
-- Table of Contents	
I. <u>ANALYSIS</u>	1
A. Analytical Description of the Poor	1
B. Macroeconomic Overview	9
1. Balance of Payments	9
2. Investment, Growth and Employment	15
3. Public Sector Growth and Fiscal Policy	18
4. Monetary Policy and the Banking System	21
5. GOG Pricing Interventions	23
C. Causes of Poverty	27
1. The Traditional Agricultural Sector	28
2. Commercial Agriculture	29
3. The Modern Industrial Sector	30
4. Tourism	31
5. Redistributive Mechanisms	32
6. Cultural and Social Divisions	34
7. Attempts at Adaptation to a Changing Environment	36
D. Poverty and Political Violence in Guatemala	37
E. Obstacles to Broadly-Based Growth	41
F. Host Country Development Plan and Budget (Past Performance and New Plan)	42
G. Absorptive Capacity	45

	<u>PAGE</u>
H. Guatemala Perspective on CACM	48
I. U.S./Guatemala Economic Relations	49
II. <u>STRATEGY</u>	50
A. Overview	50
B. Economic Stabilization Program	53
C. Long-Term Development Strategy	55
1. Expand the Productive Resource Base of the Poor	62
2. Increase the Efficiency in Application of Available Productive Resources	64
3. Remove External Constraints to Expansion of Productive Rural Enterprises	67
4. Increase Access of the Poor to Relevant Social Services	70
5. Stimulate Private Sector Activities	77
6. Assist in Building Institutional Capacity	79
D. Special Concerns	81
1. Environment	81
2. Energy	81
3. Women in Development	82
III. <u>ASSISTANCE PLANNING LEVELS</u>	84
A. Planning Levels	84
1. Level I (Minimum Program)	84
2. Level II (Current AAPLs)	85
3. Level III (Mission Recommended Program)	86
B. Staffing Levels	90
C. Resource Tables	94

ANNEXES

- A. Other Donor Coordination
- B. Tables and Graphs
 - 1. Graph 1 - Actual Public Sector Investment Expenditures 1974-1982
 - 2. Table 1 - Public Sector Investment Expenditures Analysis of Budgeted and Actual 1974-1982
 - 3. Graph 2 - Total Actual Public Sector Expenditures (Investment and Operating Costs) 1974/82
 - 4. Table 2 - Total Public Sector Expenditures (Investment and Operating Costs) Analysis of Budgeted and Actual - 1974-1982
 - 5. Graph 3 - Rural Expenditures - Percentage Relationships - 1974-1982
 - 6. Graph 4 - Gross Capital Investment
 - 7. Graph 5 - Real Economic Growth Rates
- C. Guatemala: Investment-Employment Model
- D. Update of Macroeconomic Assessment

I. ANALYSIS

A. Analytical Description of the Poor

Three out of every four Guatemalans are poor, according to accepted international definitions of poverty.^{1/} The last nationwide census (1981) showed almost two-thirds (63%) of the population living in rural areas. Only the capital, Guatemala City, the South Coast agricultural center of Escuintla or the mountain city of Quetzaltenango can be considered major urban areas. Of the some 4.5 million people living in the rural areas, about 2.8 million are culturally Indians, the vast majority of whom live in the plateau and mountainous area to the northwest and north of the

1/ Per capita income of poor majority in 1980; calculated as follows:

-- 1980 GDP (1970 constant prices) = Q3,299 million; (assuming that 33%* of the total GDP is for the poor population); then the GDP for the poor population is: Q1,089 million.

-- 1980 Population = 7.2 million; (assuming that the poor population represents 75%* of the total population) then the poor population is: 5.4 million.

Thus = $\frac{Q1,089}{5.4} = Q202$ per capita income of poor majority

Source: Bank of Guatemala figures - in a report by SIECA, "Evolución de la Economía Guatemalteca 1978-1980", June 1981.

* GOG/IBRD estimates.

UNCLASSIFIED

- 2 -

capital called the Highlands or "Altiplano." Even though the Highlands are dotted with smaller cities and towns, living conditions there closely parallel those of the purely rural areas in terms of infrastructure, access to services and employment opportunities.

It is safe to say that, with the exception of the slums which have expanded around the capital city following the 1976 earthquake, to speak of poverty in Guatemala is to speak of the rural areas -- to speak of abject poverty is to speak of the Highlands. It is a portion of the Highlands area that the USAID has chosen as the target for its program during the planning period covered by this document. The reasons for the choice will be discussed in the Strategy section which follows.

For the purpose of our analysis, the Highlands are considered to be nine Departments of the Republic: Chimaltenango, Sololá, Huehuetenango, Quetzaltenango, Totonicapán, El Quiché, Baja Verapaz, Alta Verapaz and the mountainous area of San Marcos. There are an estimated 3.1 million residents in the Highlands, giving it a population density of 191 persons per square kilometer, already extremely high without considering that much of the land is mountainous and cannot be farmed.

The Director of Programs for the Social Sectors of the National Economic Planning Council once described the living conditions of the Highland farmer in this dramatic, but accurate,

UNCLASSIFIED

UNCLASSIFIED

- 3 -

profile of the average Guatemalan of the Altiplano:

"He lives in a rural area -- is an Indian whose livelihood is agriculture -- but agriculture practiced on less than one hectare of land to which he probably does not have a title. He has family of five or six who, together with other relatives from his extended family, live in a tiny shack built of adobe or sticks covered with mud. They probably have no source of potable water nearby and have neither electricity, nor latrine. In the event of sickness, only on rare occasions does he have access to medical attention or to a health post. His wife gives birth without medical assistance of any kind. Those of his children who survive to age 7 may be able to attend primary school from one to three years, if they are male. If they are female, they will attend for less time. Fifty percent of the children in the community where he lives die of preventable infectious or contagious diseases. Only half of the children have received any sort of vaccination. The food which he raises is inadequate to meet the nutritional needs of his family and, at some point during the year, insufficient in terms of quantity. All of the children in his village suffer from some level of malnutrition and are easy prey to any epidemic."^{1/}

What does this profile mean when statistically applied to the mass of poor in the Highlands in terms of income, employment, availability of arable land, social needs and services to meet those needs?^{2/}

From January to March each year, as many as 500,000 workers, mostly from the Highlands, migrate to the South Coast to

1/ Social Action Plan, National Economic Planning Council, December 1979.

2/ A study, done in 1982 by the Centro de Consultoría S. A. (CECONSA) indicates that per family annual income in the Highlands is as follows:

48% of the population has an income between Q0.00 and Q1,200
43% of the population has an income between Q1,201 and Q2,400
9% of the population has an income above Q2,400.

UNCLASSIFIED

UNCLASSIFIED

- 4 -

pick coffee and cotton or to cut sugar cane on the large commercial farms, returning to the Highlands when the harvest season ends. For many, it is their only opportunity to earn cash income. Even then, the wage scales are pitifully low. At the new minimum wage, migratory farm workers earn a median monthly salary of \$96. Since the work is only for the duration of the harvest season, the migrant workers earn a total of \$192 to \$288 for two to three months. Amounts saved by workers must be applied to the remaining months of the year.

Probably the most critical measure of poverty in the AID target area is the relationship of arable land to population. Most recent estimates indicate that population per square kilometer of agricultural land, whether arable or not, was approximately 137.4 per km^2 or 1.8 acres/person throughout Guatemala. In the Highlands, the average is 1 acre per rural person. The land classified as arable or potentially arable in the Highlands varies by department from a high of 2.5 acres per person in Alta Verapaz to a low of one-third of an acre in Totonicapán. The proportion of arable land classified as "good" averages out to only .02 acres per person. The result is that nine out of ten people live-off of plots of land too small to provide income sufficient to meet their basic needs.

The National Economic Planning Council estimates that the average life expectancy in Guatemala is now 60 years among urban, non-Indians and 44 years among rural Indian ethnic groups.

UNCLASSIFIED

UNCLASSIFIED

- 5 -

Guatemala's overall mortality rate is 13.3 per 1,000 -- one of the highest in Latin America. Infant mortality is reported at 80 deaths per 1,000 live births, but observers such as the Central American Institute for Nutrition estimate that actual infant mortality may be as high as 100 per 1,000 live births, because deaths, especially those of infants, often go unregistered in rural areas. The child mortality rate among Indians is 1.7 times greater than the rate among non-Indians.

The leading causes of mortality and morbidity are enteric diarrhea and respiratory diseases. The two illnesses are responsible for 50 percent of the deaths that occur. Both are preventable, given adequate sanitation, potable water and shelter. Again, mortality rates in the Highlands are double, or more than double, the rate of the metropolitan area of Guatemala City.

Overall health service coverage in Guatemala is estimated at 44 percent of the population, but only about 15 percent of the lowest income group living in the rural areas is reached. A substantial part of the total illness in the rural sections is directly attributable to poor environmental sanitation, particularly to the lack of clean water supplies, but extending to lack of latrines, poor waste disposal and generally bad sanitation practices. Only two percent of houses in small rural towns are connected to any sort of a water system and hardly any are connected to sewer systems.

UNCLASSIFIED

UNCLASSIFIED

- 6 -

Nutritional studies, using the Gómez classification of malnutrition indicate that some 81 percent of the "most at risk" population (children under 5 years of age) can be considered malnourished, with 30 percent falling in the categories of severe malnutrition. It is estimated that the poorest half of the population suffers from a deficit of 40 percent of the minimum daily caloric requirement and a protein deficit of almost 50 percent of the minimum daily requirement.

Approximately 3.4 million of the 7.2 million Guatemalans (47.9 percent) are illiterate. Only one fourth of the population has had even 1 to 3 years of formal schooling. Recent figures provide a deeply disturbing picture of the educational situation: 66 percent of all children in the 7-14 year-old age group live in rural areas -- two-thirds of them do not attend school. In the Highlands, conditions are worse -- 90 percent of the children 7 to 14 years old do not attend any school. At the secondary school level, nationwide, only 12 percent of all youth in the 15 to 20 year-old age group attended high school or vocational school.

The predominance of adult illiteracy, as well as the large number of rural children with limited or no educational opportunities, creates special problems for the implementation of developmental programs focused on rural areas. The need for rural non-formal education programs is becoming increasingly apparent as the GOG tries to reach small farmers with agricultural information.

UNCLASSIFIED

UNCLASSIFIED

- 7 -

Non-formal systems of instruction are equally important if the rural health program is to expand its health delivery coverage to any significant extent.

Prior to 1976, the housing shortage in Guatemala was estimated to be 480,000 units. The 1976 earthquake destroyed or damaged another estimated 258,000 houses, 58,000 of them in Guatemala City. In addition to the existing deficit and the loss of some 200,000 units in the earthquake, the area outside of the capital suffers from the worst sort of substandard housing. At the time of the last census, more than 71 percent of rural houses had no utility connections of any kind; almost half of the units had three or more occupants per room and more than a third were built of impermanent material. The earthquake which followed the census further aggravated the problem.

The Role of Women in the Social Structure

As in many Latin American countries, Guatemalan women are less discriminated against by legal or institutional restrictions than by historical, cultural, and social biases which have relegated them to an inferior status.

In the area of health, both pregnancy and child-bearing have resulted in an alarmingly high rate of maternal mortality. Effective methods of family planning are not widespread. Abortion, although forbidden under the penal code, is common. Half of the maternal deaths are the result of septic abortions. However, the

UNCLASSIFIED

UNCLASSIFIED

- 8 -

government, in response to pressure groups, including well organized women's groups, has made important concessions on the issues of family planning and contraceptive distribution.

Among the rural poor target group women play a key role in income generating activities both inside and outside the home. Unfortunately, the extent of female labor force participation is not accurately reflected in official statistics, which report that women comprise 14 percent of the total labor force. The bulk of reported female labor force participation pertains to the services category. Domestic servants account for a large share of this category but even these figures are drastically underreported due to difficulties in estimating this group of unregistered workers.

In rural areas women have principal responsibility for the care of animals, child rearing and maintaining the household. The large handicraft industry is dominated by women who almost always work at home. In areas where substantial out-migration occurs for economic reasons, women assume the responsibilities of the male member of the household during his absence from the home.

In addition to on-farm or at-home jobs, women are active in marketing agricultural produce and/or handicrafts. These activities are carried out 1-2 days per week on a regular basis and are a crucial factor in the economic maintenance of the family.

Women have not been successful in obtaining more financially remunerative and influential occupations for a variety

UNCLASSIFIED

UNCLASSIFIED

- 9 -

of reasons. Early marriages -- 25 percent of women are married by age 16 and 50 percent are married by age 19 -- force women to assume a partnership role in maintaining the household. Illiteracy is 10-15 percent higher among women than men and in the country as a whole, 59 percent of women, as opposed to 45 percent, of men are illiterate. In the rural areas the situation is exacerbated by (1) the dearth of vocational and educational opportunities for women in non-traditional occupations which provide more marketable skills and (2) by the required primary school education for entrance into these programs.

B. Macroeconomic Overview

1. Balance of Payments

During the period 1967-76, Guatemalan trade was more or less in balance with minor fluctuations between surplus and deficit. When net factor services and transfers are included, the current account registered a deficit for every year except 1973. However, the deficit on current account was never very large and the capital account surplus was generally more than sufficient to bring about an overall balance of payments surplus. This surplus and corresponding accumulation of official reserves was the result of heavy private sector investment in Guatemala during this period. By comparison, official capital inflows, in the form of GOG guaranteed

UNCLASSIFIED

UNCLASSIFIED

- 10 -

international loans, were equivalent to only a small fraction of private sector capital inflow. In general, Guatemala maintained a sound balance of payments position throughout the 1960s and 1970s. Official net reserves reached an end-of-year high of \$763 million in 1978 equivalent to seven months of normal imports.

However, beginning in 1979 a number of exogenous factors have led to a steady deterioration in Guatemala's overall balance of payments position. The most important of these factors are as follows:

a. Deteriorating terms-of-trade, the result of a sharp decline in coffee prices compounded by lesser declines in the commodity prices for sugar and cotton; while the price of imported petroleum roughly doubled.

b. Lack of effective export demand in the Central American Common Market (CACM) as a result of currency convertibility problems. This market normally absorbs the major share of Guatemala's exports of manufactured products.

c. Substantial deterioration in service payments related to the increase in interest payments (mostly on short- and medium-term commercial debt) and a significant growth in the tourism deficit from -\$38 million in 1979 to -\$103 million in 1981.

d. A significant reversal in the private capital flows. For example, in 1979, the net capital inflow on

UNCLASSIFIED

UNCLASSIFIED

- 11 -

private account was \$66 million. This changed to a net outflow of \$251 million in 1980 and to \$14 million in 1981. The net outflow of short-term private capital was \$187 million in 1981 compared with \$78 million in 1979. The total capital outflow for 1979-1981 was \$650-700 million.^{1/}

These adverse influences as reflected in the balance of payments aggregates underscore the vulnerability of the Guatemalan economy which is still dependent on the vagaries of the international commodity market and the CACM regional market with respect to its industrial exports. The deterioration in the terms-of-trade along with growing deficits in the tourism account have created serious deficits on current account. Moreover, the political uncertainty of the region has had the negative effect of stimulating domestic capital flight and discouraging the roll over of existing loans and the introduction of new foreign private investment. Thus both the current and capital accounts have registered severe deficits in recent years leading to a dramatic drawdown of official reserves as shown below:

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> <u>(Proj.)</u>
Gross Reserves	<u>770.8</u>	<u>518.8</u>	<u>337.9</u>	<u>211.2</u>
Central Bank	<u>743.7</u>	<u>498.7</u>	<u>314.7</u>	<u>188.0</u>
Banking Systems	27.1	20.1	23.2	23.2
Net Reserves	<u>691.0</u>	<u>362.5</u>	<u>25.1</u>	<u>-122.1</u>
Central Bank	<u>715.9</u>	<u>396.7</u>	<u>49.3</u>	<u>-97.9</u>
Banking Systems	- 24.9	- 34.2	- 24.2	-24.2

1/ Includes cancellation or repayment of supply credits.

UNCLASSIFIED

UNCLASSIFIED

- 12 -

Currently, the Guatemalan balance of payments situation is critical and unless additional compensatory financing is obtained, the country will suffer a serious contraction of imports by the end of 1982. This forced reduction in imports will cause serious economic dislocation especially in industry and commercial agriculture. Both these sectors have high import components in production which, if restricted, could trigger declines in domestic production with corresponding increases in unemployment. The balance of payments constraint is, therefore, the most binding constraint on the Guatemalan economy today.

The relative magnitude of the problem can be shown using official Central Bank projections for 1982.^{1/} The value of exports are projected to reach \$1,407 million compared to imports of \$1,642 million. To this trade deficit of \$235 million, can be added an estimated net deficit from service/transfer payments of \$348 million. This brings the current account projected deficit to \$583 million for 1982. On the capital account, the Central Bank estimates a net long-term private capital inflow of \$157 million (minus a net \$1 million in short-term capital outflow) and drawdowns on official loans of \$167 million. In addition, it is estimated that the Venezuelan/Mexican oil facilities will provide credit of \$57 million while \$102 million will be debited to service past

1/ These projections have been verified by the Mission economic team. See Annex D.

UNCLASSIFIED

UNCLASSIFIED

- 13 -

debt. Thus, the unadjusted capital accounts shows a net surplus of only \$278 million. Hence, the basic balance of payments deficit for 1982 is estimated at \$305 million. This does not include anticipated compensatory capital flows of \$178 million which the Central Bank hopes to obtain through private bank loan roll-overs, drawdowns on IMF tranches and public bond sales. This would leave an unfinanced balance of payments deficit of about \$127 million. However, a more realistic estimate would place the amount of additional financing requirements closer to \$167 million to cover the balance of payments gap.

This bleak balance of payments scenario for 1982 highlights the need for greater international support for Guatemala, if the country is successfully to weather the current world recession and regional political conflict.

It should be pointed out that Guatemala has so far fully complied with the International Monetary Fund (IMF) Standby Agreement signed last year. Moreover, interest rate ceilings have been recently raised by the monetary authorities to bring domestic and international interest rates more into line. Finally, the new government will reduce the size of the fiscal deficit estimated for 1982 by reducing operating expenses by 10 percent and revising the public sector capital budget with a planned reduction of 25 percent.

UNCLASSIFIED

UNCLASSIFIED

- 14 -

Given efforts made to date and the attitude of the new government, balance of payments support is an important and necessary complement to long-term development assistance. The overall macroeconomic situation will inevitably impact on growth-with-equity strategies designed to stimulate rural productivity and increased incomes of the poor. Given the exogenous nature of Guatemala's present balance of payment difficulties and the likelihood of successful structural adjustment over several years, serious consideration should be given to Economic Support Fund (ESF) assistance in FY 1983 and FY 1984 designed to ensure the continuity of strategic imports essential to sustain Guatemala's private sector and maintain aggregate employment levels. Such assistance, from the United States acting in consortium with the IMF and other donors, should not be tied to Central Bank acceptance of a monetary devaluation. A devaluation of the Guatemalan quetzal would mainly increase the cost of imports, largely raw materials and agricultural inputs, the demand for which is fairly inelastic. Since export prices are set in international markets for Guatemala's principal export products and export supply is also inelastic due to constraints, such as coffee export quotas dictated by the International Coffee Organization (ICO) the export response stimulated by a devaluation is likely to be limited. Hence the net gain in foreign exchange earnings is not expected to be sufficient

UNCLASSIFIED

to warrant a devaluation at this time.^{1/}

2. Investment, Growth and Employment

During the 1970s, the economy grew at an average rate of 6-7 percent per annum in real terms. This economic growth, when population growth is taken into account, meant an annual 3-4 percent increase in real per-capita incomes. This rate of growth was largely brought about through expansion of trade and related investments. The level of investment during this period was very substantial, averaging between 10-15 percent of Gross Domestic Product (GDP). Domestic savings financed most of this investment, although foreign capital flows were also significant and provided considerable technology transfer. In short, the level of gross investment correlates with observed economic growth rates during this period as illustrated by the graph in Annex B. Therefore, domestic investment levels, while by no means the sole factor in explaining economic growth, are nevertheless a critical determinant.

Further analysis of domestic investment, taking into account the relative mix between public and private investment, shows a marked change in recent years. Prior to 1976, public investment was very modest both in terms of absolute levels and as a proportion of total domestic investment. However, beginning in 1976 the earthquake of that same year induced greater public sector

1/ Note also that Guatemala enjoys a balance of payments surplus vis-á-vis CACM.

UNCLASSIFIED

- 16 -

participation in the national economy. Even after reconstruction was more or less completed, the public sector embarked on a very ambitious public works program in hydroelectric energy and transportation infrastructure. Thus the investment trends of the second half of the decade stand in stark contrast with prior investment patterns. Moreover, the recent economic crisis beginning in 1979 has stimulated further public investment spending in an attempt to offset dramatic declines in private sector investment in part to maintain employment levels. This investment policy which was most evident in 1980-1981 can no longer be sustained because of the current size of the fiscal deficit and GOG commitments recently made under the IMF Standby Agreement. As a consequence, the GOG investment budget for 1982 calls for a 25 percent reduction in public sector investment. Given current rates of inflation of 11-13 percent, this reduction will mean a very significant drop in real investment levels.

In light of the seriousness of the current economic crisis, brought about by externally derived economic and political factors, the role of private sector investment becomes crucial. As explained above, the public sector can no longer attempt to offset declines in private sector investment. If adequate growth rates are to be maintained so that income and employment levels are at least stabilized, the private sector must increase its role in the economy and participate more actively in the socio-economic development of the country.

UNCLASSIFIED

UNCLASSIFIED

- 17 -

Economic stabilization in this context would mean maintenance of, at least, a three percent real economic growth rate, the rate necessary to prevent per capita incomes from further declining. In 1981, real per capita income declined by roughly two percent as a result of a high population growth rate and low overall economic growth related to reduced investment levels. In terms of the overall distribution of income, this means that lower income groups probably suffered most, since their real incomes adjust less readily to inflation and the incidence of unemployment tends to be higher among these groups.

Finally, the relationship between new investment and the open unemployment rate should be emphasized. This can be shown in terms of a simple macroeconomic model which estimates changes in the unemployment rates associated with changes in the level of investment (See Annex C). The model uses 1973 census data as the base year for projections since this year provides the most reliable information concerning the economically active population and open unemployment levels. Using National Income Accounts data for measurement of changes in the relevant macroeconomic variables plus an estimate of the average investment cost of creating a new job in the economy, it was possible to estimate changes in the unemployment rate. The model basically estimates the demand for labor (growth in employment opportunities) derived from annual net investment levels and the estimated Capital/Labor ratio. This is

UNCLASSIFIED

compared with labor supply which is a function of demographic growth, labor force participation rates and previous year unemployment levels. It should be noted that the model projects a 17 percent unemployment rate for 1983 given current investment trends. When we add to this the unemployment generated from underutilization of existing plant and production capacity, the level of open unemployment will probably be somewhat higher than the above estimate. In addition, if we take into account structural underemployment, especially in the rural areas, the effective unemployment rate probably rises to between one-third to one half of the entire labor force. Obviously, this could have direct implications in terms of socio-economic development and political stability. The Strategy section of the CDSS will outline some programs that might be initiated with the private sector in order to reverse current investment and employment trends.

3. Public Sector Growth and Fiscal Policy

The public sector in Guatemala has slowly expanded during the past two decades. The consolidated public sector expenditures grew from 13.0 percent of GDP in 1960 to 15.4 percent in 1976.^{1/} The earthquake of the same year prompted more active public sector participation in the economy largely financed by emergency bonds. Nevertheless, obtaining necessary revenues for the public sector appears to be a chronic problem in Guatemala.

1/ Includes Central Government, 326 municipalities, 20 decentralized agencies and 9 state enterprises.

UNCLASSIFIED

- 19 -

Historically, Guatemalan tax systems have never been particularly buoyant with respect to national income. The average percentage of GDP captured by the tax system has ranged between 8-10 percent. Structurally, the tax system relies heavily on indirect taxes such as those on international trade and the stamp tax whose revenue elasticity is not much greater than one. Direct taxes on income represent only 15 percent of total tax revenue, mainly levied on corporate entities, with negligible revenues generated from personal income and inheritance taxes. Finally, fiscal reliance on indirect taxes not only implies limited tax revenue buoyancy but also regressivity in terms of equity of the tax system.

An analysis of the recently revised 1982 GOG budget shows estimated central government expenditures of approximately \$1.5 billion. The operations budget is estimated at \$756 million corresponding to government civil service salaries and includes materials and services. The public investment budget is estimated at \$594 million and includes both direct capital investment in projects as well as financial investment in state-owned enterprises and financial entities.^{1/} The projected GOG deficit for 1982 is \$420 million. A public finance convention observed in Guatemala is to cover operating expenses with current revenues and finance the

1/ \$240 million has been assigned to service the national debt.

UNCLASSIFIED

UNCLASSIFIED

- 20 -

capital budget through internal and external debt plus any carry-over from the previous fiscal year. This means essentially that internal bond issues provide the counterpart to internationally financed projects.

The new government fully intends to practice fiscal restraint in the 1982 budget which, if successful, will mean a 27 percent reduction in the government deficit in comparison to the previous fiscal year. Thus, operating expenditures will be held to a mere 2.9 percent increase compared to last fiscal year and the capital budget will be reduced by about 25 percent. In light of current inflation rates of roughly 11-13 percent, the budget in real terms represents an austerity program which will limit the role of the state in the national economy.

The fiscal decision to limit public sector spending was the result of a general worsening of the country's balance of payments situation and the need to enter into a Standby Agreement with the IMF.^{1/} In addition, government revenues are projected to increase by only 9.7 percent which does not even keep up with the rate of inflation. The only area of significant revenue improvement, foreseen at this time, is a 43 percent increase in non-tax revenues stemming from petroleum royalties. In summary, the

1/ One of the IMF conditions for a \$110 million borrowing was to limit the 1982 deficit to \$400 million.

UNCLASSIFIED

UNCLASSIFIED

- 21 -

current macroeconomic situation combined with an inelastic tax revenue structure will curtail the growth of the public sector for, at least, the next few years.

4. Monetary Policy and the Banking System

Monetary policy in Guatemala is formally determined by the Monetary Board, consisting of representatives from both public and private sectors. The Board is chaired by the President of the Central Bank and basic policy options are formulated and presented by that institution. In practice, the government controls the Monetary Board and policy is strongly conditioned by the requirements of the Central Government deficit. For this reason, interest rate policy and the size of the Central Government deficit are key parameters in formulating monetary policy. Traditionally, however, fiscal and monetary conservatism has prevailed. As a consequence, Guatemala tends to have one of the lowest inflation rates in the hemisphere. In fact, most of the observed inflation in Guatemala is attributable to imports, reflecting higher rates of inflation in Guatemala's major trading partner countries and higher international petroleum prices. Hence, monetary expansion to finance the estimated GOG deficit of \$420 million in 1982 is not expected to increase the rate of domestic inflation.

Nevertheless, the unprecedented growth of the budgetary deficits between 1979 and 1982, resulted in a de facto credit rationing favoring the public sector. Between these years

UNCLASSIFIED

UNCLASSIFIED

- 22 -

net domestic credit to the public sector practically tripled each year, while net domestic credit to the private sector grew at an average annual rate of only 17 percent. This credit squeeze which affected the entire banking system was further compounded by the loss of international commercial credits normally provided to the private sector. The loss of these credits was the result of regional political developments which affected Guatemala's credit standing with the private banks.

The monetary prospects for 1982 show a continuation of the tight credit situation for the private sector, although the GOG deficit will be considerably lower this year. For example, the overall money supply (defined as currency plus demand deposits) is projected to increase by less than one percent in line with conservative monetary policy. The total central bank credit to the consolidated banking system is estimated to increase by only 12 percent. Of this increase, the share of credit directed to the private sector will amount to only a 4.9 percent increase over last year's level, in comparison to the share of credit to the public sector, which will increase by a projected 25 percent. In absolute terms, the Bank of Guatemala will expand its total net credit to the public sector by an estimated \$200 million during 1982. This amount roughly corresponds to the net monetary creation required for the GOG deficit. Finally, there is no increase in net credit creation programmed for the commercial banks for relending to the private

UNCLASSIFIED

UNCLASSIFIED

- 23 -

sector. Thus, in the absence of a restoration of international credit lines, it would appear that private sector investment and production activities will be restricted because of the current credit situation.

5. GOG Pricing Interventions

In addition to the traditional fiscal and monetary policies pursued by the GOG and the Central Bank, there are a number of policies which affect normal market pricing and as a consequence influence the allocation of productive resources. The major areas of GOG price interventions in the economy are as follows:

i. Basic Grain Stabilization

The Instituto de Comercialización Agrícola (INDECA) is responsible for maintaining price stability for such basic staples as corn and beans. The objective is to assure a "fair" market price both for rural producer and urban consumer. Initially, INDECA suffered severe financial losses in trying to maintain producer prices artificially high and consumer prices artificially low. This approach has since been abandoned in favor of buying and selling operations designed to reduce seasonal price fluctuations during the year. However, as a result of limited storage capacity and other constraints, INDECA has been criticized for not effectively fulfilling this role. Moreover, a number of public scandals concerning this institution have undermined its credibility. Currently, INDECA operates at net loss of about \$16

UNCLASSIFIED

million a year.

ii. Price Controls on Basic Consumer Products

Price controls on some forty basic consumer products are enforced by the Ministry of Economy. These controls were imposed as an emergency measure to prevent profiteering following the 1976 earthquake. Later, they were maintained as an anti-inflationary measure protecting basically the urban consumer. The periodic scarcity of price-controlled products has placed pressure on the Ministry of Economy periodically to review ceilings on prices. In general, these controls have tended to become more flexible. With the possible exception of milk, no serious market scarcities are believed to have been created through use of price controls.

iii. Minimum Wages

During 1980 there were substantial increases made in the rural and urban minimum wages. These increases ranged from 100 to 200 percent. In many labor markets, however, the going wage rate had already superseded the old minimum wage rates which were not automatically adjusted for inflation. Thus, the minimum wage increases did not seriously affect urban or organized labor either in terms of remuneration or employment. However, the rural minimum wage increase was more substantial, 186 percent, and came at a time of falling international commodity prices and rising agricultural input costs. The hardest hit was the labor-intensive

UNCLASSIFIED

- 25 -

coffee sector, where it is believed that the minimum wage may have caused an increase in rural unemployment. As a result, the GOG agreed in late 1980 to reduce coffee export taxes as a partial offset to the rising costs of production, thereby ameliorating the negative impact of the minimum wage increase on employment in the coffee sector.

iv. Tariffs

Tariffs have played a dual role in Guatemala, serving both as an easy "tax handle" for fiscal revenues and as protection for the nascent industrial sector. The latter has developed largely within the context of the CACM regional market. The trade diversion and trade creation effects of the regional tariff structure have generally been beneficial to Guatemala, although the regional consumer ultimately pays a higher price for CACM products. The recent crisis in foreign exchange convertibility is substantially reducing regional demand for Guatemalan industrial exports, especially since Guatemalan export credits primarily to Nicaragua and El Salvador have by now been exhausted. Thus, tariff reductions may be needed in order to obtain quid-pro-quo access to extra-regional LDC markets provided that freight rates permit Guatemala to be competitive. In terms of the United States market, tariff reductions would obviously not be needed if the CBI proposal to create a "one way" free trade zone is enacted.

UNCLASSIFIED

v. Foreign Exchange Controls

Foreign exchange controls were adopted in 1981 by the Central Bank as a means of shoring up dwindling official reserves. Ostensibly, these controls apply only to Guatemalan foreign capital transfers. Since then, there has been a marked reduction in capital flight as reported by the Central Bank. However, there has also developed a parallel market for U.S. dollars which would indicate, in combination with transfer pricing, that capital is continuing to leave the country. The parallel market also serves as a mechanism to finance critically important inputs to keep industries operating given the administrative controls imposed by the Central Bank in order not to violate Guatemala's Standby Agreement with the IMF and yet keep from exhausting liquid foreign exchange reserves. A more rapid structural adjustment of the economy to the current economic realities would more effectively reduce capital leakages. Therefore, it is doubtful that controls by themselves will be effective in maintaining reserves. Currently, foreign exchange is being rationed through administrative processing of importer foreign exchange requests. This maneuver has permitted the build-up of a \$70 million reserve, but also, a more than offsetting back-log of bills due and payable or presa estimated by commercial bankers to be at least \$80 million and perhaps in the \$120-150 million range. However, the practice is likely to disrupt normal commerce and create dislocations in the economy.

C. Causes of Poverty

The causes of poverty in Guatemala can be traced to the characteristics of production within the various sectors of the economy. These sectors will be discussed along with certain cultural/social factors which influence and condition economic relationships. The most desperate forms of poverty are associated with the predominantly Indian subsistence economy, however, there are inter-sectoral linkages which are also important in determining income levels. In general, the secular modernization of the economy will bring about greater specialization and inter-dependency. The more modern sectors of export commercial agriculture and industry will play an important role in Guatemala's development as areas of future employment and income growth. The Highland areas of Guatemala, which are predominantly Indian, are militarily contested areas at this time. The failure to better incorporate this area into the mainstream economy explains the relative alienation of that portion of the population and their current social unrest. Historically this isolation was in part voluntary in an attempt to maintain the Indian cultural way of life. However, population growth and limited land resources are gradually forcing a breakdown of the traditional agricultural economy of the Indian. The phenomenon of minifundismo or excessive sub-dividing of lands tends to drive individual incomes toward and below subsistence levels. The need to diversify employment opportunities will become clear in the following sections.

1. The Traditional Agricultural Sector

This sector includes the Northwestern Highlands which are dedicated to subsistence farming. The land resources of the area are quite limited in terms of soil fertility, slope factor and access to year-round water. Yet, the rugged topography of the Highlands until two decades ago was adequate to support the subsistence economy of the traditional Indian. In recent years, however, the high birth rate combined with reduced mortality rates has resulted in a proliferation of minifundios. This parcelization of the land (primogeniture is not practiced) reflects an ever increasing man/land ratio which, given the low level of technology employed inevitably points to reduced productivity of labor and corresponding deterioration in incomes. With an average of one acre per person in the Highlands, the small farmer cultivates an area too small, given present farming techniques, to provide an adequate income to meet basic family needs. Moreover, the small farmer has tended to specialize in basic grains which have a relatively low commercial value. Hence the combination of low productivity cultivation techniques and low value crop mix has resulted in subsistence incomes for the vast majority of farmers in the region. Despite these conditions, the indigenous members of the target group continue to be bound by tradition and culture to the Highlands. They resist the idea of permanent migration, yet economic necessity often forces many to leave the area in search of better

UNCLASSIFIED

- 29 -

opportunities. Traditionally, the sector has been a source of seasonal, migratory labor which during the harvest season provides considerable labor for commercial agriculture. The cash incomes generated by such employment represent important income supplements for the rural Highland poor. For instance, this income is often used to purchase fertilizer and tools used in corn and bean production for household consumption. Thus, the seasonal labor pattern represents an important linkage to the rest of economy.

Nevertheless, if the Altiplano farmer is to meet the basic needs of his family, he must have better access to more efficient production technologies through improved research and extension services. Eventually, he will have to diversify his production to produce higher value crops and obtain improved access to markets. In addition, the small farmer may be able to supplement his income through cottage industries and off-farm employment in rural enterprises. Ultimately, permanent migration may provide the most economic alternative. However, this will depend largely on access to new lands, e.g., colonization, and improvements in rural education to permit more rapid incorporation into the modern labor force.

2. Commercial Agriculture

The commercial agriculture sector is primarily export-oriented and consists of large farms along the South Coast. The sector provides seasonal employment for more than a half of a

UNCLASSIFIED

million rural poor. Crop cycles for cotton, sugarcane, coffee and milpa (corn/beans) are essentially complementary in terms of labor requirements. Thus, migratory workers descend from the Altiplano to work on commercial plantations during the harvest season along the South Coast but are still able to harvest their own corn and beans. In general, commercial farms maintain a relatively small permanent labor force for year-round maintenance and land preparation. In March 1980, the rural minimum wage was increased an average 186 percent to \$3.20 per day. The impact of the minimum wage change on rural household incomes will continue to depend on the relative demand for labor, which in turn is largely a function of commodity export prices and, in the case of coffee, export quotas. Recently, export tax rates on coffee were lowered because of the decline in international coffee prices. This measure was taken to maintain employment levels in this labor-intensive industry.

3. The Modern Industrial Sector

This sector is essentially urban-based and consists of import-substituting industries producing light consumer goods. Growth in this sector has been encouraged through protection afforded by the CACM regional tariffs. Moreover, there has been considerable foreign investment and related technology transfer. The import content of industrial production is lowest for agro-based industries which have the most potential for developing backward linkages. In general, the adoption of relatively capital-intensive

UNCLASSIFIED

- 31 -

production techniques has meant relatively high wages for urban workers. Moreover, the urban minimum wage was recently increased by 97 percent based on interim inflation since the last adjustment. Since wage levels are already relatively high in the sector, the minimum wage increase is not expected to create any additional unemployment. Generally speaking, the urban worker benefits more from social welfare programs and is generally better organized than his rural counterpart. However, labor-management relations are often strained because of mutual distrust and a failure to observe conventional collective bargaining practices.

4. Tourism

This industry has considerable potential in Guatemala given the country's natural endowments and rich cultural heritage. Guatemala's proximity to the U.S. tourist market provides an additional comparative advantage. However, recent political violence coupled with adverse press in the U.S. has noticeably discouraged tourism in recent years. Formerly, tourism stimulated employment in construction and hotel-related services, and tourist demand for Indian handicrafts provided an important source of cash income for Altiplano artisans. Currently, hotel occupancy rates in the capital city have declined from 80 to 28 percent over the period 1980-1982. Yet, there are indications that the average stay has increased and that tourists on average are spending more. In terms of the balance of payments and net foreign exchange earnings, there

UNCLASSIFIED

has been considerable "out" tourism by Guatemalans which will create a net payments deficit of \$103 million in 1982.

5. Redistributive Mechanisms

At present, it appears unlikely that there will be significant redistribution of such assets as agricultural land or industrial equity. Public policy in these areas is directed towards the colonization of new lands and preservation of an economic climate conducive to foreign investment. However, the government is attempting to improve the distribution of human skills through education and manpower training programs. In addition, the distribution of capital resources is being improved through special credit programs and gradual improvements in financial intermediation. Thus, the GOG policy seems to be one of selective interventions in the market economy designed to give greater access to productive resources, without arbitrary reassignment of ownership.

Inflation may be having a redistributive impact as well. If inflation affected the market economy evenly, there would be little distortion in relative prices and incomes. However, certain prices adjust more quickly to inflation than others creating economic inefficiencies and distortions in income. Following the 1976 earthquake, price controls were placed on a large number of basic consumer commodities. Ostensibly, these controls protected the poor from profiteering and erosion of purchasing power through inflation. However, basic grains produced by the target poor are

UNCLASSIFIED

- 33 -

subject to these controls, and small farmers producing corn and beans find that their produce buys less in terms of manufactured goods which are not subject to price controls.

Perhaps the most powerful redistributive mechanism is the fiscal budget itself. The structure of taxes together with the allocation of government expenditures can substantially alter the relative distribution of income. The fiscal distribution effect on incomes is a function of the tax revenue structure and the mix of public goods and services. Although the public sector in Guatemala represents only 16 percent of GDP, its resources relative to the bottom 25 percent of the population are substantial. If we assume that the bottom quartile effectively pays no taxes because of its limited participation in the money economy, then the allocation of 40 percent of the budget for infrastructure and services directly benefitting this group would have an effect equivalent to a 100 percent increase in relative income. While this example gives little more than a relative order of magnitude, it does illustrate the importance of the fiscal structure in social welfare terms. With respect to national tax effort, the "tax handles" available to the government are limited. This is true for administrative reasons as well as political resistance to taxes in general. The current tax structure can be categorized as "regressive" because of its heavy dependence on indirect taxes (85 percent) and limited revenue elasticity with respect to national income. On the expenditure

UNCLASSIFIED

side, the government is limited in its ability to identify projects that benefit the poor and lacks administrative experience in providing services to rural areas. These types of constraints are addressed in the AID Strategy where programs in health, education and rural development have been shown to have a large income subsidy effect for lower-income households.

6. Cultural and Social Divisions

The social organization of the rural Highlands is rather rigidly class-stratified and parallels the basic divisions of the ethnic groups. One group consists of the Ladino elite. Generally, they are the social and political leaders of the community and set the styles in dress, recreation and social activity. Their political power has weakened considerably since townships were given the right to elect a local government, but they continue to maintain at least tacit control of the economic, social and religious affairs of many Indian communities.

Ladinos and culturally transitional Indians, who generally reside in the municipal capitals and the larger nucleated villages, form a second group. Ladinos in this group generally enjoy access to better housing and social services. They make their livelihood from a variety of small commercial and service occupations, such as storeowner, truck driver, etc., or as semi-professionals, such as administrative clerks, nursing auxiliaries or school teachers. The transitional Indians in this

UNCLASSIFIED

- 35 -

group have either taken up occupations similar to those of the Ladinos or are the owners of small-scale land holdings. Almost all are conversant in Spanish. The Ladinos have received some formal schooling, many having completed primary school, and they encourage their children to continue their education beyond the sixth grade, if possible. Many transitional Indians, on the other hand, are illiterate, although they are perfectly conversant in Spanish and have developed a facility for dealing in the market economy. They do see the value of formal education for their children and encourage them to stay in school, at least through the primary grades.

The third class is composed of the large mass of Indian peasants who earn their living as landless day laborers and subsistence farmers. Very few have any formal education. Of those who have been to school, many have regressed to illiteracy. Many of the men are conversant in Spanish and deal effectively in local markets. Although the Indian peasant recognizes the value of formal education for his children, the ability of the child to contribute to the home economy as part of the extended household is often considered more important than schooling. As a result of this, as well as the fact that the child often does not speak Spanish, few progress beyond the third grade and are thus inhibited from adapting to the Ladino culture.

UNCLASSIFIED

7. Attempts at Adaptation to a Changing Environment

Increasing numbers of Highland poor are attempting to break out of their poverty and improve their income positions in a variety of ways; some are supplementing incomes earned in traditional agriculture by changing to more modern agricultural techniques and to higher value crops.

Some 26,000 small farmers in the Highlands target area are currently growing and marketing high-value, labor-intensive crops. These farmers often earn three to four times more income per person-year of labor than their neighbors working at the subsistence level. They also employ twice the amount of labor compared to farmers producing basic grains.

Many of those who are unable to earn adequate incomes in the Highlands through improvement in cropping patterns or shifts to non-farm activity must migrate seasonally, for as long as three months, to take advantage of employment opportunities on commercial farms along the South Coast. Others, despite their definite preference for residence in the Highlands, have migrated permanently to the South Coast, to the Government-sponsored colonization projects in the Northern Transversal Strip or the jungles of the Petén, seeking enough land to provide them with an adequate living standard. Still others, although with great difficulty, have left the social organization of their indigenous communities and have migrated to urban areas. However, because of

UNCLASSIFIED

- 37 -

the relatively capital-intensive nature of industry in the city, insufficient opportunities exist for migration to the urban areas in search of employment. Historically, the largest component of the target group migrating to the cities have been women. They generally seek employment as domestic servants, since their opportunities are limited as a result of their lack of education or necessary skills.

Some of the attempts at adaptation offer real potential for improving the living standards of the rural poor. The four most promising of these form the basis of the AID strategy: transition from traditional to modern farming, diversification of production to higher income crops or crop and animal mixes, development of off-farm employment opportunities and small industries, and migration from the Highlands to the land settlement programs in the Franja Transversal del Norte and the Petén.

D. Poverty and Political Violence in Guatemala

Violent conflict, between right and left, is not new to Guatemala. In 1954 the communist-influenced government of Col. Jacobo Arbenz was overthrown by the rightist forces of Col. Carlos Castillo Armas. In the early and mid-sixties, guerrilla activity was concentrated in the north-eastern portion of the country, in areas with populations culturally not Mayan Indian but Ladino.

Guerrillas of the 1960's maintained close ties with Castro's Cuba and generally followed Ché Guevara's style of

UNCLASSIFIED

UNCLASSIFIED

- 38 -

revolution, roaming in desolate areas far from the capital city. These guerrilla groups were effectively broken up by the end of 1967, but some terrorist activities continued in Guatemala City and resulted in the assassination of U.S. Ambassador John Gordon Mein in 1968.

Present guerrilla efforts, in contrast to the 60's, are focussed on the poorest sections of the country - the Highlands - which are populated by traditional Mayan Indians. In the past, these Indians were politically apathetic and highly adverse to outside influences. Over the past few years the guerrillas have been able to develop a support base by politicizing the Indians.

Poverty plays a major role in this change in outlook by the Indian. The extremely high population density in the Highlands, with little arable land available, contributes to the Indians inability to generate income and provides useful propaganda for the leftist guerrilla groups. Indians, who face dwindling land resources, migrate to large fincas to work, where during guerrilla takeovers they may be lectured directly by guerrilla forces on the radical alternative to the present government. For example, on 27 April 1982 Indians working at El Escobillo finca in El Tumbador, San Marcos were lectured to and given propaganda by guerrillas who temporarily took over the finca.

To a degree, the Indians willingness to listen is due to their own exposure to modern culture. Transistor radios and the

UNCLASSIFIED

UNCLASSIFIED

- 39 -

tourism boom of the seventies have contributed to this exposure, as has the social doctrine of the Catholic Church.

The increased acceptance of the guerrilla movement by the Indian campesino is also the result of a change in guerrilla tactics. The takeover of the fincas and lecturing to workers is described above. The guerrilla forces also use this tactic with isolated villages. The village of Arnelco near Barillas, Huehuetenango, for example, was taken over on the 22nd of April of this year, and as public buildings were burned, the residents received a lecture in the guerrillas' philosophy. The left also attempts to provoke the right to overreact and until the March 23 coup encountered considerable success in so doing.

Following the Salvadorean model, major guerrilla groups in Guatemala announced shortly before elections in early March that they were uniting again in a broad political front. The Revolutionary Organization of People in Arms (ORPA), the Guerrilla Army of the Poor (EGP), the Rebel Armed Forces (FAR) and the Guatemalan Workers' Party (PGT) have joined forces to form the Guatemalan National Revolutionary Union, which is intended to follow the form of the Democratic Revolutionary Front in El Salvador and the National Patriotic Front in Nicaragua. Prior to this new Union the guerrilla groups seemed to have partitioned the country amongst themselves after an initial unity agreement. ORPA has operated in the southwestern quadrant. EGP activities have been concentrated in

UNCLASSIFIED

UNCLASSIFIED

- 40 -

central Quiché, Alta Verapaz, San Marcos and Huehuetenango. FAR strikes have been primarily in the Petén and the Department of Guatemala including Guatemala City, while the PGT has to date limited its attacks to Guatemala City.

Guerrilla activities have affected USAID development projects. Sixteen schools under construction in the Rural Primary Education Project have been delayed because access to the areas where they are being built has been cut off. Parts of the Integrated Rural Development - San Marcos Project have shifted to different locations within the Department of San Marcos, and sites for implementing the Bilingual Education Project were also changed to avoid less secure areas. While most projects have been able to continue implementation uninterrupted, the ability of USAID personnel to travel to certain places to monitor that implementation has been curtailed by guerrilla actions along the major highways leading to them. The Peace Corps has also been affected by guerrilla operations. No volunteers are being placed in the areas of highest guerrilla activity - the whole western half of Guatemala.

The guerrilla movement is far from being militarily defeated in the field, and the new government must prove itself responsive to the large numbers of rural poor in order to defeat the guerrillas. In the short-term, this requires rapid expansion of those government programs of high impact and visibility which

UNCLASSIFIED

UNCLASSIFIED

- 41 -

expeditiously respond to the perceived needs of the rural poor. These programs should be located in areas where the leftist threat is increasing yet where implementation remains feasible or in areas retaken from the guerrillas and sufficiently pacified. Programs of direct and immediate benefit to those in need would help undermine the rationale for violent, radical political change and isolate the guerrillas who are now destroying what little infrastructure exists in some areas of the Highlands.

E. Obstacles to Broadly-Based Growth

The major obstacles to growth-with-equity can be summarized as follows:

1. Depressed export sector performance as a result of deterioration in the terms-of-trade and stagnation of the CACM regional market.

2. Lack of access to new export markets necessary to sustain economic growth and maintain normal import levels.

3. Lack of private investment and technology transfer to modernize production and achieve more effective marketing.

4. Lack of domestic or international demand to utilize fully the existing industrial capacity and provide additional jobs.

5. Inadequate access to working capital to expand production even if the demand existed.

6. Absence of sufficient domestic investment to absorb rapidly increasing labor force.

UNCLASSIFIED

7. Inadequate education and training of the labor force.

8. Inadequate social infrastructure especially in the rural areas, e.g., communications, roads, electricity, schools, health facilities, etc.

9. Limited arable land in the areas of high and expanding population and cultural opposition to resettling from the Highlands to virgin, relatively unoccupied lowlands in the north.

10. Use of low productivity technologies and low value crop-mix in subsistence agriculture because of deep rooted traditions and limited agro-support services including credit and marketing.

11. Limited access to potable water and preventive health care facilities.

12. Improper nutrition because of lack of food and dietary knowledge, especially in rural areas.

13. Social and cultural isolation which mitigate against family planning, proper health practices and access to basic education.

F. Host Country Development Plan and Budget

The first Five-Year Development Plan was elaborated by the General Secretariat of the National Economic Planning Council (NEPC) in 1971. This Plan formally recognized the seriousness of the country's socio-economic problems, describing at length the wide

UNCLASSIFIED

- 43 -

inequities in income and other indicators of well-being which exist between the modern sector and the traditional agricultural economy. The two subsequent National Development Plans (1975-1979, 1979-1982) further quantified these disparities giving emphasis to the need for greater government intervention to address these inequities.

The major theme of the most recent plan (1979-1982) was "Agrarian Transformation". The plan laid out a long-term strategy aimed at increasing employment alternatives in the rural areas through diversification of the agricultural economy. This strategy requires a shift to higher value agricultural crops as well as agro-industrial products which are more labor-intensive. Moreover, the plan advocated reorientation of domestic industrial production to emphasize the use of labor resources thereby reducing the relative capital intensity in industrial production. The new industries proposed would produce agricultural inputs as well as final products thereby eventually transforming the entire agricultural sector.

A major difficulty in evaluating the 1979-82 Plan was that planning was done at the sectoral level and not at the project level. Project identification was left to the various ministry planning offices often in collaboration with the international donor agencies. This arrangement was formalized in 1980 with the establishment of the Comisión de Financiamiento Externo (COFE).

UNCLASSIFIED

UNCLASSIFIED

- 44 -

Basically, COFE instituted a review process required for all internationally financed projects to determine project compatibility with the National Development Plan and suitability of the terms of financing. Also, the GOG used the process to establish priorities and review project design and implementation issues. Once the sponsoring ministry and Planning Council cleared the project, it was then reviewed by the Ministry of Finance for final project approval and loan signing. This procedure, while time consuming, did bring about a collaborative relationship between the host country and international donor staff in developing projects. The projects were in general well designed and there was a greater GOG commitment to implement them.

The 1982-1986 National Development Plan was being developed at the time of the March 23 coup. The sudden change in government led to a temporary postponement of the Five-Year Development Plan in favor of concentrating efforts on a short-run Emergency Plan, covering the remainder of 1982. However, the Mission understands that a medium-term plan will be developed in the next few months. The Emergency Plan is expected to provide for a general consolidation of government programs as well as priority measures to be taken to combat corruption.

While it is still too soon to comment on GOG development plans for the future, it is clear from recent discussions that there is to be a continuing commitment to rural development. The

UNCLASSIFIED

UNCLASSIFIED

- 45 -

budgetary trend in rural public sector investment has increased steadily since 1974, as documented in Annex B, Table 1 and the corresponding graph. Programmed in the 1982 budget is approximately \$127 million of public investment in the rural areas for health, education, agriculture and municipal infrastructure. In terms of overall government expenditures, the pattern is similar to the above, as shown in Table 2 and Graph 2 of Annex B, with rural expenditures in these sectors steadily increasing over time. For 1982, total GOG expenditures directed to the social sectors in rural areas will amount to \$252.2 million. Finally, in terms of the relative share of a growing GOG budget, the rural areas generally claim 20 percent of the total budgetary resources as shown in Graph 3, Annex B.

G. Absorptive Capacity

The GOG's successive development plans, as well as its annual budgets, have consistently been optimistic about the public sector's capacity to implement them. For the past eight years the amount expended on capital investment has averaged 25 percent less than the amount budgeted. This difference between funds programmed and expended is largely the result of two factors: institutional constraints and a set of overly complex administrative laws and regulations.

The critical institutional weakness in the area of project design and execution are inadequate public sector technical capability and limited administrative capacity.

UNCLASSIFIED

UNCLASSIFIED

- 46 -

Historically, low public sector salaries, which make it difficult to obtain and hold qualified personnel, have contributed to the problem. Development plans and goals are carefully elaborated, but the GOG has not performed well in following through on the next step of translating these into operational programs and discrete projects. This failure applies to small farmer development projects as well as large-scale "showcase" projects. The need to resolve these weaknesses is well recognized and is mentioned in the last Development Plan as a critical prerequisite to successful achievement of the GOG's development goals. The GOG has recently embarked on an extensive program to upgrade the quality of public sector employees through advanced training, partly by using \$2.0 million of its own resources for this purpose under an AID 607 agreement. Several GOG entities, notably INFOM and the public agricultural sector, have also initiated in-service training programs to improve project design, project management and general administrative capacities. In addition, the National Economic Planning Council has signed an agreement with IDB to finance feasibility and project pre-investment studies in order to develop a shelf of projects. Finally, AID has recently signed a project grant agreement with the Ministry of Finance providing technical assistance and training to improve development administration and utilization of external resources.

UNCLASSIFIED

UNCLASSIFIED

- 47 -

An important factor which explains the GOG's poor implementation record is its system of civil service recruitment and procurement procedures. The Guatemalan Civil Service, in recent years, has been subject to a number of restrictions both in terms of creating new positions and the rate of remuneration allowed. It is not uncommon for a new position in a government entity to take six months to process. Currently, the average government salary is \$250 per month and the rate of pay increase usually lags behind the inflation rate, which means public salaries tend to fall in real terms. This makes it difficult to obtain qualified and motivated staff to implement government programs, including development projects.

The procurement law also represents a time-consuming process as local competitive bidding is required, except under emergency situations. Moreover, all Central Government contracts must be reviewed by the Ministry of Finance following formal bidding and contract adjudication by the implementing ministry. Thus final contract approval may also require about six months to obtain.

In addition to these administrative requirements, there are frequent problems in amending budgets and obtaining additional funds to cover inflation-related cost increases. Finally, administrative authority tends to be dispersed and, as a consequence, a number of approvals need to be obtained before any

UNCLASSIFIED

UNCLASSIFIED

- 48 -

governmental action is undertaken. These problems, while not unique to Guatemala, will require public administration reforms in the future if government programs are to be accelerated.

H. Guatemalan Perspective on the CACM

The CACM has been one of the major factors contributing to Guatemala's extended period of strong economic growth during the 1960s and 1970s. The Guatemalan manufacturing sector grew rapidly during this period under the stimulus of the CACM and traditionally has been heavily dependent on the protected Central American market. The CACM had become increasingly important as an export market, taking 31 percent of Guatemalan exports in 1981, the bulk of this trade in manufactured products.

The CACM trading system, however, is now severely under-financed and the volume of trade has begun to drop sharply. As a result of simultaneous balance of payments crises in all five countries, the CACM members in deficit with the region have been unable to make hard currency payments, and large bilateral imbalances have built up in the Central American Clearing House. The balance in Guatemala's favor is about \$150 million, with another \$50-75 million of trade still unregistered. With credit of this magnitude outstanding to its trading partners and in balance of payments straits itself, Guatemala will have difficulty financing exports to the CACM in 1982 and 1983 at the 1980 and 1981 levels. From a peak of \$440 million in 1980, Guatemala's regional exports

UNCLASSIFIED

UNCLASSIFIED

- 49 -

fell to \$379 million in 1981 and are estimated to decline further in 1982.

Under these circumstances, any assistance to CACM institutions in the form of trade or development financing would benefit Guatemala indirectly, while benefitting other member countries directly. A fair share of developmental and technical assistance projects, such as the Central American Electrification Grid, has gone to Guatemala. Although its stake in the CACM is as high as any country's, Guatemala's financial ability to do more to strengthen the regional institutions from within is extremely limited under present circumstances.

1. U.S./Guatemala Economic Relations

The United States is Guatemala's main trading partner by a wide margin. The U.S. has taken 25-30 percent of Guatemalan exports each year during 1978-1981, although with a gradually declining trend. Through 1979 nearly 90 percent of Guatemalan exports to the U.S. were food products, chiefly coffee, sugar and bananas. Guatemala's modest petroleum exports, initiated in 1980, are also destined for the U.S. The U.S. share of Guatemala's imports has remained fairly steady at about 32 percent in recent years. Imports from the U.S. include a wide range of manufactured as well as primary products, with machinery and transportation equipment normally the largest category. The value of imports from the U.S. reached \$561 million in 1981.

UNCLASSIFIED

No reliable data are available on foreign investment in Guatemala. It is likely that the United States is still the leading country of origin of foreign investment in Guatemala, even though several countries besides the U.S. have been major investors in the petroleum industry, the largest sector of concentration for foreign investment in the last few years.

U.S. economic assistance to Guatemala, treated in more detail elsewhere, has been modest during the past several years. Expenditures for direct assistance have totaled \$6.1 million in 1979, \$6.1 million in 1980 and \$9.3 million in 1981. These are negligible amounts in an \$8 billion economy.

II. STRATEGY

A. Overview

In arriving at a development assistance strategy for Guatemala over the coming five years, there are two immediate and fundamental considerations; one is the trend of political violence throughout Central America; and the second is the deteriorating economic situation. As noted, poverty and economic isolation of the indigenous population appear to be more significant factors in the current tensions than in the past. The political climate has also weakened the Guatemalan economy and eroded the confident attitude regarding Guatemala held by international lenders and investors through the previous decade. The new Government of Guatemala (GOG) headed by retired General Efraín Ríos Montt has clearly indicated

UNCLASSIFIED

- 51 -

its commitment to improving the economy and developing the poorer parts of the country and is currently completing the specific plans to carry out this commitment. The Embassy and Mission propose to support the new GOG in its efforts to accomplish these objectives.

The strategy presented here is based on growth with equity. The Development Assistance (DA) programs proposed are focused on the equity side of the equation while the Economic Support Funds (ESF) are addressed to the growth side. The strategy calls for the development of local institutional capacity, in both the public and private sectors, and for the implementation of activities which provide direct and tangible benefits to the poor. In addition to providing resources for institution building, the program finances specific projects designed to demonstrate alternative development approaches and technologies which can be continued or replicated with non-AID resources; for example: labor-intensive access road construction and diversified small farm production systems. The strategy also includes direct assistance to the private sector in order to stimulate the involvement of that sector in the economic/social development process as well as improve the prospects for international trade and investment. The specific elements of the Mission strategy are to:

-- Expand the productive resource base of the poor through investment in irrigation, soil conservation, required infrastructure and distribution of new lands in the Northern Transversal Strip.

UNCLASSIFIED

UNCLASSIFIED

- 52 -

-- Increase the efficiency in application of available productive resources through development and dissemination of technologies for both farm and non-farm production.

-- Remove external constraints to expansion of productive rural enterprises such as lack of energy resources, marketing services, market access and supporting rural infrastructure.

-- Increase access of the poor to social services such as health, education, family planning and shelter.

-- Stimulate private sector activities aimed at trade and investment promotion, employment generation, vocational training and technical assistance. And,

-- Assist the GOG in building the institutional capacity for effective planning and implementation of integrated regional development activities.

The programs presented in this CDSS are judged first on their long-term effects on development within Guatemala. However, long-term growth is jeopardized by the rapidly worsening economic conditions under which Guatemala is operating. As long-term growth is dependent on economic stability, a further destabilization of the economic situation here would decrease the prospects of success for any program based on growth with equity objectives. Therefore, the U.S. Diplomatic Mission has proposed that in addition to a continuing long-term development strategy an ESF program be

UNCLASSIFIED

UNCLASSIFIED

- 53 -

initiated in FY 1983 to complement the GOG's attempts to revitalize the economy within the early years of our planning period and provide the growth necessary to incorporate those sections of the population now isolated from its benefits.

B. Economic Stabilization Program

In light of the present balance of payments crisis and the need to bring about structural adjustment of the economy, the U.S. Diplomatic Mission strongly urges that ESF financing be made available for an economic stabilization program. The economic stabilization program should be directed towards relieving the balance of payments constraints by providing strategic import financing. This financing facility could be established within the Central Bank with guaranteed lines of foreign exchange credit to Guatemalan private sector enterprises. Many of these enterprises import capital equipment, spare parts and intermediate products used both for domestic and export production. The import/export credit facility would support the local private sector by providing critical foreign exchange and would use the local counterpart generated for domestic lines of credit for working capital. Thus, the domestic liquidity problem would be partially addressed under the same program.

The medium-term objective will be to reactivate the Guatemalan economy by providing access to new markets whether under the Caribbean Basin Initiative (CBI) programs or elsewhere and by

UNCLASSIFIED

UNCLASSIFIED

- 54 -

stimulating greater domestic investment. With an increase in the use of idle productive capacity and later new capacity, the result of new investment, there will be an increase in employment opportunities. Thus, as export-led growth based on diversified production for the world market takes hold, the economy will move towards balance of payments equilibrium and higher levels of employment. This growth is a prerequisite to a growth with equity strategy which is the recommended long-term development strategy for Guatemala. In terms of the overall distribution of income, productive employment is the major determinant of income levels both relative and absolute. This can be seen in terms of the household asset mix in which labor services are the most predominant asset as we move down the income scale. The incidence of unemployment also tends to be higher among the lower income groups when there is an economic recession. Therefore, the most efficient means of bringing about improvements in both absolute and relative incomes would be the reactivation of the modern economy. In terms of relative magnitudes to reduce the open unemployment rate by one percent it would be necessary to create or restore 20,000 jobs. This can only be done by improved market access and related productive investments.

It should be stressed that the Guatemalan economy has considerable economic potential and is the most important economy in the region. Over the past decade, the normal growth path for this economy has been 6-8 percent which translates into an annual

UNCLASSIFIED

UNCLASSIFIED

- 55 -

increase in real per capita incomes of 3-4 percent. This growth rate, if sustained, would do much to reduce poverty over time and meet common economic expectations. The private sector in Guatemala is sufficiently large and dynamic to make the necessary investments and manage them properly. The origins of the current economic problem are primarily external. Nevertheless, the solution will require internal structural economic changes. The principal objective of the stabilization program will be to facilitate the necessary structural changes and restore Guatemala to its normal growth path.

C. Long-Term Development Strategy

In order to achieve maximum development impact the Mission's development assistance program will be carried out in the context of an integrated regional development approach. The choice of this approach reflects the Mission's and GOG's desire to improve planning effectiveness and achieve greater efficiency in the allocation of development resources, while at the same time providing greater opportunities for local participation in the development process. Under this approach the GOG will develop its regional development planning and implementation capacity so that internal and external resources are more effectively channelled to the target area. Administratively, the regional approach provides a logical frame of reference for data collection and analysis and

UNCLASSIFIED

UNCLASSIFIED

- 56 -

provides a convenient geographic base for coordinating implementation activities of the various line ministries.

Integrated regional planning takes into account three dimensions of the planning process. First, there are the spatial relationships which delineate the rural economy and its links to urban centers. This will involve the application of central place theory to identify market towns and natural trade centers. Based on productive linkages and hierarchies of services, discrete projects can be formulated which will stimulate the rural economy. In addition, the regional geographic focus will enable the GOG to take better advantage of the cross effects that exist among projects. Secondly, public services and infrastructure can be analyzed in terms of functions, and certain functional complementarities can be incorporated into project design and execution. Finally, there is sequential planning which involves the proper phasing of project activities and outputs so as to meet program objectives in a more efficient manner. A more optimal staging of interrelated projects will help avoid program bottlenecks and ensure that developmental constraints are addressed in a systematic way. The Mission believes that planning in this fashion will generate more adequate criteria for investment decisions and better utilize development resources.

The region intended for this integrated approach is the Western Highlands or Altiplano. Because this region represents the poorest in Guatemala and is predominately populated by indigenous

UNCLASSIFIED

UNCLASSIFIED

- 57 -

peoples who have been traditionally excluded from the benefits of prior economic growth, the Mission in January of 1980 established the Altiplano as its target area. Today the Western Highlands remain the poorest region and are now the locus of a large part of the current guerrilla activity. The Mission proposes to continue that geographic focus and to direct most of the resources available toward relieving constraints to development of this region. However, some project activities will be carried out in other areas of the country when that is deemed appropriate to the achievement of program objectives. The Western Highlands include the departments of San Marcos, Huehuetenango, El Quiché, Totonicapán, Quetzaltenango, Sololá and Chimaltenango. Where appropriate and to the extent practicable, the Central Highland Departments of Alta Verapaz and Baja Verapaz will also be included in the target area.

The National Economic Planning Council will play a key role in carrying out the proposed development strategy by:

- Assessing needs and requirements for rural development.

- Developing a master rural development plan for investments in all sectors in the target area.

- Insuring that programs and projects of executing Ministries and agencies are in accord with the master plan.

- Monitoring national and sectoral budget planning.

UNCLASSIFIED

UNCLASSIFIED

- 58 -

-- Ensuring coordination of external donor activities.

By legislation, the National Economic Planning Council (NEPC) has sufficient authority to carry out these functions. It is responsible for the Five-Year National Development Plan and reviews and approves Ministry programs, projects and budget submissions. The NEPC also reviews and approves all external financing agreements. The NEPC's capacity to exercise these powers has been limited by the lack of an adequate data base and an investment programming mechanism hampered by organizational and managerial constraints. AID and other donors have addressed the data base problem in the past. The AID-financed Integrated Area Development Studies Project will be completed in 1982 and will provide an estimate of agricultural production potential and an inventory of supporting infrastructure requirements and services at the municipal level. On the basis of local agricultural potential, demographics and natural trade areas identified in the study, the NEPC will develop a regional development investment plan(s) for the target area designed to identify critical infrastructure, resource and service gaps to be addressed in order to take maximum advantage of economic potential. This investment plan will be based on a hierarchy of market towns and service centers serving their respective hinterland areas. To further refine the NEPC's data base for planning of integrated regional development programs, the Mission has also financed an urban poverty study of Guatemala City

UNCLASSIFIED

UNCLASSIFIED

- 59 -

and secondary cities in the Highlands. This study, which will complement the Integrated Area Development Studies by analyzing population and urban growth trends, migration patterns, urban employment and urban housing and services, will assist in identifying the relationship of secondary cities in the Guatemalan Highlands to surrounding rural areas as a source of employment and services. In addition, a study similar to that done for the Highlands is planned for the Franja Transversal del Norte (FTN). Other donors have also financed studies based on a regional development approach. IDB, for example, has financed two important studies, one on regional growth poles and the other on the Chixoy watershed area.

With the data base built up through these various studies and the application of the integrated regional development approach to its planning, program development, budget and project review functions, the NEPC will be able to stimulate greater integration in planning of development activities at the local (municipal) level, both in AID's target departments as well as in the FTN. The NEPC will also be better able to coordinate external donor investments, so that mutually supportive parallel financing arrangements will be feasible.

In order to further the NEPC's ability to translate the Development Plan into actual project implementation and to coordinate developmental activities undertaken throughout Guatemala,

UNCLASSIFIED

UNCLASSIFIED

- 60 -

the Mission is proposing a new project in FY 1983: Development Planning and Management. This new project will provide technical assistance and training to the NEPC to design and implement an effective investment programming and budget analysis system. Assistance will be aimed at human resource improvement and organizational change.

Effective implementation of an integrated regional development strategy will require strong administrative support and close coordination of relevant line ministries and implementing agencies. As already noted, the capacities and inter-institutional linkages of these GOG institutions have historically been weak. Although the GOG has taken some steps towards decentralization, a fully decentralized planning and administrative institutional framework is not foreseen in the medium term. Nevertheless, the GOG is moving towards a regionalization of its administrative structures and most national ministries have now established and, in varying degrees, delegated authority to field offices. The Ministry of Agriculture now has seven agricultural regions with offices in each. The Ministries of Education, Health and Public Works are also organized along regional or departmental lines. Thus, while the administrative structure of most of these institutions provides an appropriate framework for local coordination and implementation of the regional development strategy, improvement of institutional capacities is critical to the strategy. The USAID program,

UNCLASSIFIED

UNCLASSIFIED

- 61 -

therefore, calls for continued assistance aimed at upgrading human resources in the public sector and developing appropriate policies and institutional reforms in support of regional development activities.

The proposed Integrated Regional Development Project will represent the first effort in Guatemala to coordinate investments at the local level within the context of a common integrated regional development plan. As the experiences under the project proceed, the capabilities of the NEPC and implementing institutions to carry out their responsibilities will become clearer and additional training needs clearly identified.

The USAID's targets related to its regional development strategy are as follows:

-- Develop systematic management for the translation of development plans into implementing projects and the coordination of development programs within Guatemala.

-- Improve the quality of personnel working in public sector institutions responsible for providing services to rural areas through in-service and advanced training.

-- Expand services essential to rural development to localities identified as not presently being reached, but which have potential for economic improvement.

-- Encourage further decentralization of administration of public sector institutions and streamline the

UNCLASSIFIED

UNCLASSIFIED

- 62 -

bureaucratic procedures utilized in implementing activities designed to provide services to rural areas.

Within the overall framework of its regional development strategy, the Mission has selected a mix of complementary program elements designed to address the critical constraints to achieving the Mission's six long-term development goals. The following sections describe each of the USAID's proposed development goals and their functional relationships in terms of program elements.

1. Expand the Productive Resource Base of the Poor

The amount of arable land in the Highlands is, of course, fixed and has long been fully cultivated. Nevertheless, the productive capacity of land base is a function not only of size, but also quality which can be affected by appropriate investments. The present low productivity of land in the Highlands target area and the increasing population pressures set the stage for a progressively worsening cycle of overuse and deterioration of the natural resource base. Pilot projects, which include capital financing for improvements of the land base, i.e., soil conservation and irrigation, have been carried out with AID support. These activities will be expanded under the new Small Farmer Diversification Project and the future Integrated Regional Development Project and broadened to include forest management during the planning period.

In spite of potential improvements in land

UNCLASSIFIED

UNCLASSIFIED

- 63 -

productivity in the Highlands, the fixed land base is still not sufficient to support that area's growing population. Thus, in order to increase the amount of land available to the target group, AID is supporting the GOG's colonization program in the FTN. The GOG estimates that the FTN and new land areas to be opened up in the Petén could provide 100,000 to 150,000 families with holdings of 15-25 hectares each. Movement of families from the target area will also decrease the pressure on the land for those remaining, although such gains may only be temporary unless the rate of population growth is reduced.

The traditional problem of directed colonization under government sponsorship has been its high cost per settler and the large administrative structure developed by the institutions undertaking such efforts. The USAID is currently financing a pilot project in the FTN to test an alternative colonization model administered through private sector cooperatives to reduce costs and give the settlers more voice in deciding on the form of cooperative organization and type of services they will require for productive use of their new land base. The GOG role in this model is to facilitate the efforts of the cooperatives where possible and to provide the settlers with traditional public sector support services and infrastructure, e.g., roads, schools, health facilities, agricultural credit and technical assistance.

UNCLASSIFIED

UNCLASSIFIED

- 64 -

The USAID proposes to continue to support the GOG's colonization efforts during the planning period, building on the experience of the current program in order to greatly expand the program in the FTN and assist in further developing GOG and cooperative capacity to implement such activities for possible future application in the Petén. The GOG is also exploring the possibility of additional financing from the IDB and IBRD to support its colonization effort. It is anticipated that such financing, if forthcoming, would concentrate on expanding the infrastructure base and support services of the GOG in the Eastern FTN, as a follow-on to the initial colonization activities.

The targets related to this development goal are as follows:

-- Land Quality Improvement: 15,000 hectares improved through soil conservation, small-scale irrigation and forestry management practices.

-- Colonization: Demonstration of a successful colonization model for 3,600 families and replication of the program for an additional 25,000 families.

2. Increase the Efficiency in Application of Available Productive Resources

The ability of the target group to increase its income is dependent upon efficiencies in the utilization of resources as well as upon improvement in the resource base. One of

UNCLASSIFIED

UNCLASSIFIED

- 65 -

the important determinants of efficiency is the application of appropriate production technology for both on-farm and off-farm endeavors. The USAID's strategy, therefore, places heavy emphasis on research and development of technologies appropriate to farm and non-farm production in the Highlands target area. Agricultural production in the target area is presently concentrated on the traditional crops of corn and beans. Although these crops are important in terms of rural diets, they absorb relatively little labor and, even given the most optimistic projections of yields, cannot provide acceptable income levels given the current minifundio situation. Fruits, vegetables and certain livestock enterprises offer greater opportunity for more intensive use of labor and greater returns per unit of land and labor employed. The USAID, therefore, has programmed assistance to support GOG research and development of production and farm management technologies related to these farming alternatives. The GOG has also initiated, with AID support, a program of applied research and development of technologies for small-scale, non-farm enterprises. This research and development will concentrate on improving the efficiencies of existing small enterprise activities (e.g., production of small farm tools, agribusiness) which would increase market opportunities for small enterprise production.

Efficiencies in production are also dependent on the quality of human resources. New or improved work-related skills

UNCLASSIFIED

UNCLASSIFIED

- 66 -

can increase productivity and also provide expanded employment alternatives for the rural poor. To develop the human resources in the target area, the USAID has programmed assistance to support a broad range of non-formal education and extension programs. Such programs have already proven effective as a means of upgrading human resources in traditional rural areas. The USAID plans to continue assistance in this area during the planning period with the objective of further increasing coverage of the non-formal system. The USAID also plans to assist the GOG in improving the capacity and effectiveness of the Ministry of Agriculture to disseminate information on improved farm production and management technologies, particularly those relating to diversified crop production. Assistance is now being provided to the NEPC to disseminate appropriate technologies and provide management training and technical assistance services to small-scale entrepreneurs.

Literacy also can make an important contribution to the quality of human resources by increasing access to and the acceptability of new technologies, and it has a proven relationship to income-earning capacity. In formal education, the USAID is providing assistance to the GOG to increase access to primary education by improving the capacity, internal efficiencies and relevance of the rural primary education system. With respect to relevance, major emphasis will be placed on basic vocational skills training related to rural production. A major technical assistance

UNCLASSIFIED

UNCLASSIFIED

- 67 -

package to develop a bilingual education program at the pre-primary and first and second grade level is currently underway. Over the planning period, USAID assistance will focus heavily on developing the human resources of the Ministry of Education (training of teachers and administrative personnel), and further development of relevant teaching materials curriculum.

USAID targets related to the goal of increased productive efficiencies are as follows:

-- Diversified Crop Technology: Increase the number of target farmers growing high-value, labor-intensive crops from 26,000 to 100,000 over the planning period.

-- Education: Increase retention rate up to 20 percent over 1979 for monolingual Indian children in pre-primary through second grade; increase coverage of bilingual education program for Indian children from 3 percent to 5 percent and expand scope of program from pre-school to first two grades.

-- Non-Formal Education and Extension: Coverage of 100 percent of the target population or some 3.1 million people by 1986; provide training through non-formal education to 1.3 million persons through one continuing and two new field offices and two radio stations by 1986.

3. Remove External Constraints to Expansion of Productive Rural Enterprises

It is clear that even with the land opportunities offered in the FTN and later the Petén, along with land improvement

UNCLASSIFIED

UNCLASSIFIED

- 68 -

efforts in the Highlands, the agricultural sector will not be able to provide sufficient employment for the rapidly growing Highlands labor force. Rural non-farm enterprise in the long-term must provide employment alternatives to absorb the labor overflow from the agricultural sector. As in the small farm sector, one of the serious constraints to expansion of small non-farm enterprise is a scarcity of capital. The USAID is now implementing a small enterprise credit program with the National Finance Corporation (CORFINA) and will continue to support this activity during the planning period in order to increase the capitalization of small entrepreneurs.

A number of factors external to productive enterprise also affect production efficiency in the Altiplano. In large measure, these factors involve public sector infrastructure and services. Expanded production of higher value cash crops implies the need for improved marketing infrastructure and services, access roads and electric power. Likewise, increased decentralization of industry requires increased municipal support services, energy and transportation infrastructure. Resolution of these external constraints to increased on- and off-farm productivity present a major element in the USAID strategy. The emphasis during FY 1983-1988 will be providing support for the GOG development goal of increasing investments in rural infrastructure. AID assistance will focus on small-scale infrastructure leaving the

UNCLASSIFIED

UNCLASSIFIED

- 69 -

financing of major investments to the international development banks. A major objective of this assistance will be the development of institutional capacities of the Municipal Development Institute (INFOM), the Ministry of Public Works and municipal governments to implement critical small-scale infrastructure projects, e.g., access roads, markets, municipal facilities, industrial parks and electric power distribution systems. In order to maximize rural employment, stress will be placed on labor-intensive construction techniques, particularly with respect to the access roads. Certain private sector support facilities also affect production efficiency, in particular those related to marketing. To improve marketing of non-traditional crops, the USAID has a project of assistance to cooperatives to construct market facilities and develop more efficient market channels. Increased marketing efficiency of these crops is critical in order to realize the full potential benefits of improvements in the land base and agricultural production technology.

The targets for removal of external constraints are:

-- Small-Scale Enterprise and Technology: \$12 million expansion in credits to small-scale rural enterprises providing 18,000 new jobs; 2,000 small entrepreneurs receive management training through 100 short courses; 30 credit agents trained and offering assistance to small business operators.

-- Rural Public Sector Infrastructure: 75,000 new rural electric system hook-ups; construction of rural access roads

UNCLASSIFIED

at rate of 200 Kms. per year; investment in municipal infrastructure increased from \$10 million per year to \$20 million per year.

4. Increase Access of the Poor to Relevant Social Services

In the longer term, increases in relative incomes resulting from programs in the productive sectors will enhance the ability of the poor majority to satisfy the full array of basic human needs. Nevertheless, the USAID and the GOG have identified certain immediate and critical needs which impact directly on the well-being of the poor majority and thus warrant direct interventions through the social sectors. These needs are fully described in the foregoing description of the rural poor target group. The USAID's strategy for addressing these needs is to increase access of the rural poor to relevant social services; specifically, those related to health, nutrition, family planning and shelter.

a. Health

Despite efforts to improve health conditions in rural areas, data indicate that the situation is worsening. Aside from the constraint posed by limited financial resources, there are significant institutional deficiencies in terms of human resources and organization which limit the ability of the Ministry of Health (MOH) to provide an effective and efficient integrated health delivery system which could address the needs of the rural

UNCLASSIFIED

- 71 -

poor. These deficiencies are particularly apparent at the lower end of the MOH institutional structure, i.e., in the rural outreach system. That portion of the system below the level of the rural hospital (health center, health post and community level) is seriously lacking in terms of trained medical auxiliaries, supervisory personnel, and management and administrative systems. The lack of administrative management capability has impeded progress in the major areas where significant opportunities exist for improving rural health conditions; i.e., (1) coverage of the system; (2) quality and relevance of existing services; and (3) the provision of environmental sanitation facilities.

Accordingly, the USAID's program in the health sector is designed to expand the outreach and effectiveness of the rural health system and to improve the sanitary environment of the rural poor. Several important elements are already in place, or being developed, including training facilities for personnel and a network of 636 health centers and health posts. Many water and sanitation systems will be constructed under the integrated regional development projects. The USAID's objective during the planning period is two-fold: first, to continue to institutionalize the concept of integrated primary health care within the MOH by establishing a community-based delivery capability supported by the health posts and MOH auxiliary health personnel, and second, to establish a private sector mechanism for providing effective primary

UNCLASSIFIED

UNCLASSIFIED

- 72 -

health care in rural areas. The USAID's strategy involves: (1) the continuing institutionalization of the GOG's plan for extension of health services by building, renovating, equipping and staffing health posts in target departments; (2) the operational commencement of an independent, for-profit organization providing community-based primary health care services; (3) the implementation of community-level sub-projects in environmental sanitation and primary health services with emphasis on preventive care; and, (4) the replication of the integrated health system in other areas and a continuation of the training program, activities in primary health care and monitoring of the system.

b. Nutrition

The USAID views the low nutrition levels of the target groups as a multi-sectoral problem which is a function of income, availability of preventive health services, environmental sanitation, family education and population growth. Accordingly, USAID initiatives in the area of nutrition form an integral part of a number of the proposed activities. For example, nutrition education will be a major element of the medical auxiliaries' mandate under both the GOG and private sector activities and nutrition information will be included in the non-formal education programs. The proposed emphasis on rural water supplies is also designed to reduce the high rates of diarrheal disease and thereby address the malnutrition problem. The direct input of P.L. 480,

UNCLASSIFIED

UNCLASSIFIED

- 73 -

Title II resources in the Highlands will supplement the GOG's national nutrition policy which utilizes locally-produced foods for supplemental feeding of the "at risk" population. In 1978, the GOG assumed complete responsibility for the school feeding program, allowing CARE and CRS to focus on Maternal-Child Health Care programs and Food for Work projects. Between CARE and CRS, almost one-quarter of a million people are benefitted. In addition, CARE has organized a Food for Work project involving Peace Corps, the Ministry of Agriculture and the rural communities in reforestation. Over one million seedlings have been planted under this program. CARE is also involved in supplemental feeding programs in the colonization areas using P.L. 480 to support families during the start-up time until their own crops can be harvested.

c. Population

The Ministry of Health decision in April of 1980 to participate with USAID and APROFAM, the private family planning association, in a tripartite family planning project constituted a dramatic departure from the GOG's prior position on family planning which had been characterized by varying degrees of disassociation and even occasional anti-family planning polemics. The on-going project formally involves the MOH in the active implementation of family planning activities. Moreover, the dispensing of contraceptives by para-medical personnel has been given official sanction, making possible the utilization of the

UNCLASSIFIED

UNCLASSIFIED

- 74 -

Ministry's rural health delivery system, as well as the organizational infrastructure of private sector institutions such as cooperatives, to expand the availability of family planning services.

The USAID plans to start an ongoing discussion at the highest levels of the public and private sectors about the impact of population growth on the economy and resources of the country by the year 2000. In taking advantage of the positive GOG position on family planning, the USAID, during the planning period, will encourage a progressively greater role by public sector institutions as active participants in family planning programs. At the same time, we will continue to support APROFAM as a center of expertise. The expansion of the availability of family planning services and information among the poor majority will encompass the indigenous as well as Ladino populations, with special emphasis on the indigenous population within our target area. As a means of promoting the desired expansion, the USAID will sponsor the establishment of a commercial retail sales program making contraceptives available at affordable prices throughout Guatemala.

d. Shelter

In the GOG's development plans, shelter programs are given highest priority as a social need and as a means of stimulating employment in the short-term. Plans call for reprogramming of on-going housing programs to emphasize low-income shelter solutions and to accelerate the rate of housing construction

UNCLASSIFIED

UNCLASSIFIED

- 75 -

from 5,000 units/yr. to 25,000 units/yr. AID has contributed \$19 million of regional housing guaranty (HG) resources to a \$30 million Central American Bank for Economic Integration housing loan to Guatemala's National Housing Bank (BANVI).

The AID-financed Urban Poverty Study provides the basis for the USAID's shelter program. During the planning period the USAID's shelter strategy is to use HG and grant funds to assist in designing and implementing mechanisms to: (1) attract savings and other funds available in the financial system so as to provide a more reliable source of funds for the low-income shelter program; (2) develop incentives, guarantees and procedures which will induce greater private sector involvement in the construction and financing of such programs; (3) provide technical assistance and training to strengthen the capabilities of key institutions to promote and implement low-cost shelter programs, as well as to collaborate more effectively with each other and with private housing finance institutions; and, (4) expand formal shelter sector activity to secondary cities and rural areas.

It is expected that, as the measures to strengthen the housing finance system begin to take effect, USAID strategy will concentrate on and emphasize the objectives of expanding formal shelter sector activity in secondary cities, market towns and small rural settlements. Such a strategy will involve continued assistance to the housing cooperative movement, financing

UNCLASSIFIED

UNCLASSIFIED

- 76 -

for the provision of individual or collective basic services such as water and waste control, small home improvement credit programs, and cooperative sites and services projects in rural towns. AID's emphasis on secondary cities and cooperative shelter programs complements the investments of other donors, in particular IBRD, who are concentrating on shelter financing in the capital city. The IBRD is presently negotiating a new financing which focuses on upgrading the squatter settlements which arose after the 1976 earthquake.

The USAID's targets related to social services are as follows:

-- Access to health services will be expanded from 30 percent of the population covered to 60 percent during the next five years; access (household connection) to water will increase from 20 percent to 40 percent of the rural population; the number of latrines in the rural areas tripled over the 5-year period; reduction in the incidence of malnutrition in the pre-school age population and in pregnant and nursing mothers by 20 percent; and, reduction in the infant mortality rate from 75/1,000 to 60/1,000.

-- Reduction of birthrate from 39/1,000 to 35/1,000 and to increase the percentage of women in fertile age who are actively contracepting from 15 percent to 20 percent.

UNCLASSIFIED

UNCLASSIFIED

- 77 -

-- Water and sewer hook-ups and other urban services for 16,000 families; low-cost cooperative housing projects for 2,000 families; and, home improvement loans for 4,000 families.

5. Stimulate Private Sector Activities

The USAID has already taken the initiative and established a close working relationship with the Guatemalan private sector. Specifically, the AID strategy is to assist the private sector in playing a more active role in the socio-economic development of the country. The private sector has established a national Chamber of Enterprise (CAEM) to promote developmental activities and bring about a more pluralistic society. The new chamber consists of five operational departments: Internal Affairs; Public/Private Relations; Economic Development; Technical Assistance and Training. Those departments will actively develop and execute programs sponsored by the private sector. The planned AID grant will help shape this new institution reinforcing its developmental orientation. The new chamber has already attracted outstanding leaders from the local business community and it is expected to play a key role in the Guatemalan development process in the years ahead.

The new chamber will also promote programs complementary to the CBI program recently proposed by the President. The CAEM Economic Development Department is currently organizing a trading company which will play an important role in encouraging diversified exports to non-traditional markets including

UNCLASSIFIED

UNCLASSIFIED

- 78 -

the U.S. The new chamber is also expected to review GOG policies and lobby for a national export promotion scheme to give greater incentives to exporters. The USAID will work closely with the new chamber in helping design a viable export promotion program. Improvements in this area will help rectify the current balance of payments situation and increase domestic employment.

Finally, the CAEM will facilitate joint investment ventures in Guatemala by providing information and other investment services. The new chamber has been twinned with the San Antonio/Houston Chambers and this special relationship is expected to foster investment in improved marketing and production techniques. Thus, joint ventures can help diffuse investment risk and provide greater opportunities for technology transfer.

Targets related to this development goal are:

-- Institutionalization of the CAEM and development of the relationship between CAEM and the Chambers of Commerce of Houston and San Antonio, Texas.

-- Organization of a private sector managed trading company to encourage export diversification into non-traditional markets.

-- Establishment of a national export promotion scheme.

-- Twenty-five thousand new jobs created in new and expanded business ventures.

UNCLASSIFIED

UNCLASSIFIED

- 79 -

-- Five thousand small-scale rural industries established and operating.

6. Assist in Building Institutional Capacity

Much of the effort toward building institutional capacity has been presented previously. The USAID is planning to provide technical assistance and training to the NEPC and line ministry planning units to improve their ability to both design and implement an effective development program. Ongoing projects are creating institutional capability in the Ministries of Agriculture, Health and Education to manage programs in rural areas, and one of the major objectives of the private sector approach is to create an institutionalized capability to deal with development concerns. New projects to be implemented over this planning period will develop the ability of host country institutions to carry out research and disseminate information on appropriate technologies on diversification of small farm production, tropical agriculture, environmental protection, small-scale energy (principally of renewable source), and enhancing the role of women in the development process. A major new health project will be developed to institute an operational private sector organization to provide low-cost primary health care in the rural areas. In addition, the USAID works closely with the GOG in administering a continuing 607 Program for upgrading the technical and managerial skills of government personnel in key positions to influence the development of their country.

UNCLASSIFIED

UNCLASSIFIED

- 80 -

All these projects represent the integrated regional approach which is the basis of the USAID's long-term development strategy. Emphasis will be on effective planning and implementation of an integrated array of projects which, while solving specific development needs, lead to a sustained ability within Guatemala to solve critical problems by marshalling its own human and financial resources. The USAID will attempt to improve the process of implementation through recommending appropriate administrative changes necessary for host country institutions to increase their effectiveness.

Targets for this goal are:

-- Improve the ability of the GOG to plan for development and translate plans into effective projects. This effort will include increased coordination among planning and implementing units within the government.

-- Enhance the human resources involved in development efforts in both the public and private sectors through training programs and use of technical assistance.

-- Bring about the necessary reforms/changes in administrative regulations and practices which will facilitate the development and implementation of socio-economic improvement efforts.

-- Firmly establish the organizational mechanism to fully involve the private sector in the development process within Guatemala.

UNCLASSIFIED

UNCLASSIFIED

- 81 -

D. Special Concerns

1. Environment

Environmental concerns over soil depletion and deforestation are an integral part of the USAID's strategy related to increasing the productive base of the target group as indicated previously. In addition to these activities, however, the USAID plans to support GOG efforts in addressing other environmental concerns over the planning period, e.g., pollution and natural resource management. The USAID specifically proposes to provide technical assistance and institutional development support to assist in elaborating and implementing environmental legislation which is currently pending approval by the GOG. This legislation will establish a secretariat to study environmental problems, identify priorities, establish environmental standards and regulations and coordinate the implementation of environmental programs with relevant GOG entities, e.g., the Forest Management Institute (INAFOR) and Ministries of Agriculture, Public Works and Health. The environmental profile, now being completed, will thus be extremely useful in providing an initial data base for the proposed secretariat as well as for the Mission in designing environmental activities.

2. Energy

The USAID interest in the area of energy is limited to that which relates directly to the target group. Thus, the

UNCLASSIFIED

UNCLASSIFIED

- 82 -

strategy is to support the expansion of the electrical power distribution system to low-income users and to finance research and development on appropriate energy technologies for the rural areas. To the extent that energy is determined to be a critical constraint to small-scale rural enterprise or to improved farm management it will be incorporated into the appropriate technology research and development programs financed by AID. Assistance programmed for improving forest management in the target area will place heavy emphasis on the wood fuel aspect of the problem, since Guatemala is the Central American country most heavily dependent upon this type of energy. Due to the decreasing availability of fuel-wood, Guatemala was chosen as one of the major sites for research and demonstration activities under ROCAP's regional Fuel-Wood and Alternative Energy project.

3. Women in Development (WID)

In an effort to channel more direct benefits to poor rural women, the USAID embarked upon a strategy which involves a dual approach. In the face of FY 1980 funding constraints and the inchoate state of institutional development of women's organizations in Guatemala, the first approach was to develop a strategy to meet immediate or short-term development needs. Along these lines the USAID established a \$50,000 Special Development Fund to finance income-generating projects of rural women's groups. Fourteen groups received small grants to finance training, materials, and equipment

UNCLASSIFIED

UNCLASSIFIED

- 83 -

for a range of activities including animal husbandry, handicrafts and appropriate technology for household efficiencies. The second facet of the strategy is to respond to the constraints of women's participation in development over the medium- and long-term. In order to identify these constraints the USAID carried out a study in late FY 1980 on the status of women, including organizational efforts to increase the participation of women in development. Based on this study and experience to date, the USAID was able to prioritize needs and define a program strategy.

The goal of the USAID's WID program is to increase the current low economic status of poor rural women by increasing women's participation in development. A variety of socio-economic factors, some of which were described in the analytical section, have limited the opportunities for women to contribute to economic production.

USAID targets related to the goal of increased economic status of women will be as follows:

a. Training - increase access to educational and vocational training opportunities in marketable and more remunerative skills and in project administration and management skills.

b. Appropriate technology - provide more economical and efficient technology for household tasks thereby providing additional time for other productive activities.

UNCLASSIFIED

UNCLASSIFIED

- 84 -

c. Production - provide specialized training and seed capital for economically productive activities (e.g., agriculture, animal husbandry, food processing).

d. Institution building - develop the capacity within private and public sector organizations to implement WID projects and to integrate women into overall development strategy.

III. ASSISTANCE PLANNING LEVELS

A. Planning Levels

As presented in the previous sections the Mission is proposing two major areas of emphasis to be pursued over the planning period. To achieve the objectives of both areas of interest the Mission will require funding beyond the levels currently contemplated. Alternatives to the Mission proposal are to operate with a minimum program (Level I) or to maintain the current planning levels (AAPL's) throughout the period (Level II). The Mission proposal is presented as Level III.

Level I

The \$8 million currently planned for FY 1983 represents an absolute minimum program with the possibility of initiating only one new project in that year. If the program remained at this size throughout the planning period the USAID would have to narrow its focus to only the goal of expanding the productive resource base of the poor, and in order to concentrate resources (and limited personnel) the USAID would phase-out both health and formal

UNCLASSIFIED

UNCLASSIFIED

- 85 -

education activities as projects currently in process are completed. Programs of this size would provide only an amount sufficient to maintain a U.S. aid presence but allow little real progress towards development.

Ambassador's Comment: I consider the Level I funding totally inadequate to achieve minimum United States Government objectives in Guatemala.

Level II

Level II (see Resource Table No. 2) represents the amounts now planned for Guatemala. While this level, with the exception of FY 1983, is more than a minimum program, it falls short of what is needed to meet critical program objectives, and it excludes any ESF. It, therefore, fails to provide assistance in addressing the economic crisis in which Guatemala is now involved. With programs at this level the USAID would pursue the same basic strategy, integrated regional development, and continue the geographic concentration on the Highlands but would be unable to begin the major project embodying that basic strategy until FY 1984, with a subsequent delay in impact until 1985. Of the \$8 million allocated for FY 1983 approximately \$7 million will be needed for ongoing grants if the forward funding criteria are followed. Otherwise a minimum of \$5.1 million will be required to incrementally fund ongoing grant activity. FY 1984 funding, with the exception of PD&S, would be utilized entirely for the Integrated

UNCLASSIFIED

UNCLASSIFIED

- 86 -

Regional Development Project for the Highlands, however this amount would be less than what the Mission considers adequate for the proposed project. Not until FY 1985 would the Mission under this level have the flexibility to consider diversified programming including projects with the private sector, health and human resources. Our ability to achieve all of the goals in the strategy would obviously be circumscribed. The Mission believes, therefore, that it is important to implement as rapidly as possible these important projects intended to improve the current economic situation and address the political unrest in the Altiplano.

Ambassador's Comment: I am strongly opposed to Level II for the reasons set forth in detail in Guatemala's 3265 and 2985.

Level III

At the recommended program level (see Resource Table No. 1) the Embassy and Mission would be able to work with the new GOG and the private sector in addressing both the immediate economic situation of the country and the development concerns fostering tension and unrest in the Highlands. With this level of assistance the USAID could implement projects aimed at the accomplishment of all the goals presented previously in the Strategy Section. No sectors would need to be eliminated. Integrated regional development would remain the focal point of the strategy over the entire planning period, however, in the earlier years special attention would also be paid to reversing the present economic deterioration.

UNCLASSIFIED

UNCLASSIFIED

- 87 -

The \$50 million ESF for each of the years FY 1983-85 would be utilized, certainly in the first two years, as an off-set to the projected balance of payments deficit. It is conceivable, but cannot now be ascertained, that by FY 1985, Guatemalan recovery might be such that the proposed ESF funds would not be needed for that year. This need will have to be reassessed in next year's CDSS update. The ESF proposed would support private sector production by ensuring a reasonable flow of inputs to the export sector of the Guatemalan economy. This level of U.S. funding is intended to fill only a relatively small part of the whole balance of payments gap, but it is expected to act as a catalyst for increased flows from other donors and private commercial sources. Fifty million would be an adequate amount to clearly indicate a commitment by the United States to the stabilization of the economic situation in Guatemala and thereby increase the confidence of financial institutions and private investors. With an uncovered balance of payments gap of approximately \$167 million, U.S. ESF monies would be less than a third of that needed but in the role of catalyst would have a large impact on the long-term economic stability and growth of the country.

At the level recommended by the Embassy and USAID (Level III), AID would be able to make a significant contribution in terms of a program which would create a GOG capacity to (1) analyze constraints, identify solutions and plan a regional development effort; (2) carry out a program of complementary and regionally

UNCLASSIFIED

UNCLASSIFIED

- 88 -

integrated projects which would be a model for future GOG initiatives; and, (3) utilize the acquired experience in improved planning and implementation to increase development assistance from other international donors. In addition, the Mission will have sufficient flexibility to bring the efficiency and expertise of the private sector to bear on development problems.

With a program of this size the Mission can play an important role in shaping the overall development policies of the new government and that which follows it. It is important to understand that it is unlikely that AID will be the major donor over this period even at the proposed funding levels. IDB, for example, has individual projects that exceed the total DA funding recommended. Albeit, AID will have considerably more leverage to focus attention and resources on the obstacles to development if funding is of the magnitude proposed under Planning Level III.

Consistent with the AID role just presented, the new GOG will be looking to AID to take the lead in its efforts to develop the Altiplano. The current emergency plan for 1982 being completed within the GOG, while cutting back overall on government expenditures, will expand development programs for the Highlands. AID is clearly viewed as the best source of assistance in this endeavor and consequently can have a major impact in shaping the programs undertaken. That focus on Highland development as well as AID's role in it is expected to continue under the Three-Year

UNCLASSIFIED

UNCLASSIFIED

- 89 -

Plan ^{1/} which the new GOG will announce later this year. That medium-term Plan will carry through half of this CDSS planning period.

At the proposed planning level, a major new project will be begun in FY 1983 and, if successful, be repeated in FY 1986 providing through both phases slightly over \$30 million. Phase I, because of the need for incremental funding of ongoing grant projects, will be tranced with half proposed for FY 1983 and half for FY 1984. The Mission believes it is preferable to execute the project in tranches rather than delay its initiation and implementation because the project is intended not only to provide the basis for long-term growth but also to address immediate needs in the Highlands, such as employment, which underlie the political unrest in that region. The project's purpose is to develop the basic infrastructure, appropriate technology and services necessary to sustain long-term economic growth. Whenever possible this purpose will be accomplished by methods useful to solving short-term problems as well. For example, access roads and construction projects will be designed to be labor-intensive thereby creating employment opportunities.

1/ While the normal GOG planning cycle is five years, the current governing Junta expects to turn over power to an elected government in less than that amount of time, hence it appears the Plan will be for only three years.

UNCLASSIFIED

UNCLASSIFIED

- 90 -

HG and P.L. 480, Title II resources will be important complements to other rural programs planned for the Highlands regions. HG will be used to upgrade rural communities and secondary cities and to support new housing finance mechanisms to encourage greater private sector involvement in shelter programs for poorer families. These projects will also provide for labor-intensive construction methods which create employment opportunities in both rural and urban areas. P. L. 480 programs are proposed at slightly increasing levels over the planning period in order to maintain beneficiary levels and the current nutritional value of the food given. It is very important to avoid cutting back on this part of the assistance program at a time when the political unrest and resultant displaced persons problem are creating an increasing need for such assistance.

B. Staffing Levels

At the minimum program level (Level I) the Mission would have to concentrate the extremely limited resources into one sector thereby eliminating the health and formal education activities as current projects phased out. This concentration would lead to a reduction in staff; four U.S. direct hire and three foreign national positions would be eliminated by the end of FY 1985. A further reduction of two U.S. direct hire and three foreign nationals would take place by the end of the planning period.

UNCLASSIFIED

UNCLASSIFIED

- 91 -

With funding at Level II staffing would remain relatively stable throughout the planning period. A local national economist is proposed for addition to the staff in FY 1983 and a Guatemalan agricultural technician needs to be added in FY 1984. In FY 1985 private sector activities will reach the point where a Project Officer should be assigned full-time responsibility, therefore, the USAID proposes to add a U.S. direct hire Private Sector Officer in that year.

Under Level III - the Mission recommended level - additional staff will be required. The local national economist and agricultural technician would both be hired in FY 1983. Two U.S. direct hire officers, one from Project Development and one from Agriculture would be assigned to work on the Agrarian Transformation program and an additional Rural Development Officer would be assigned for the Integrated Regional Development effort. The Private Sector Officer would be added in FY 1984 and an additional Health Officer in FY 1985 as programs in those sectors become large enough to demand extra management capability. Staffing levels at less than this recommended amount would seriously inhibit the Mission's ability to develop new initiatives and manage such a program.

UNCLASSIFIED

UNCLASSIFIED

- 92 -

Table No. III-B-1

USAID STAFF

(Mission Recommended Level)

<u>SECTOR</u>	<u>FISCAL YEARS</u>						
	<u>82</u>	<u>83</u>	<u>84</u>	<u>85</u>	<u>86</u>	<u>87</u>	<u>88</u>
<u>U.S. Direct Hire</u>							
Director	2	2	2	2	2	2	2
Program	2	2	2	2	2	2	2
Project Development	4	4	4	4	4	4	4
Agriculture	3	5	5	5	5	5	5
Human Resources	2	2	2	2	2	2	2
Health/Population	2	2	2	3	3	3	3
Private Sector	-	1	1	1	1	1	1
ExecutiveExecutive	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
TOTAL	16	17	19	20	20	20	20
<u>Local Nationals</u>							
Direct Hire	37	39	39	39	39	39	39

UNCLASSIFIED

UNCLASSIFIED

- 93 -

Table No. III-B-2

USAID STAFF

(For AAPL Programs)

<u>SECTOR</u>	<u>FISCAL YEARS</u>						
	<u>82</u>	<u>83</u>	<u>84</u>	<u>85</u>	<u>86</u>	<u>87</u>	<u>88</u>
<u>U.S. Direct Hire</u>							
Director	2	2	2	2	2	2	2
Program	2	2	2	2	2	2	2
Project Development	4	3	3	3	3	3	3
Agriculture	3	4	4	4	4	4	4
Human Resources	2	2	2	2	2	2	2
Health/Population	2	2	2	2	2	2	2
Private Sector	-	-	-	1	1	1	1
Executive	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
TOTAL	16	16	16	17	17	17	17
<u>Local Nationals</u>							
Direct Hire	37	38	39	39	39	39	39

UNCLASSIFIED

UNCLASSIFIED

- 94 -

III.C. Resource Tables - Table No. 1: Mission Recommended LevelsSUMMARY BY APPROPRIATION ACCOUNT

(\$ Millions)

<u>APPROPRIATION ACCOUNT</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
FN	40.2	38.5	30.0	44.1	38.0	6.3
EH	2.0	0.6	--	1.2	8.6	5.4
HE	0.2	3.0	9.7	7.4	--	--
PN	1.4	1.5	2.0	2.0	2.0	2.2
SD	0.9	6.1	13.0	--	6.1	10.8
<u>Sub-Total</u>	44.7	49.7	54.7	54.7	54.7	24.7
PD&S	0.3	0.3	0.3	0.3	0.3	0.3
<u>Sub-Total</u>	45.0	50.0	55.0	55.0	55.0	25.0
ESF	50.0	50.0	50.0	--	--	--
<u>Sub-Total</u>	95.0	100.0	105.0	55.0	55.0	25.0
HG	10.0	15.0	20.0	--	15.0	--
P.L. 480	8.9	9.9	10.9	11.9	12.7	13.8
<u>TOTAL</u>	<u>113.9</u>	<u>124.9</u>	<u>135.9</u>	<u>66.9</u>	<u>82.7</u>	<u>38.8</u>

UNCLASSIFIED

UNCLASSIFIED

- 95 -

III.C. Resource Tables - Table No. 2: (AAPLs)SUMMARY BY APPROPRIATION ACCOUNT

(\$ Millions)

<u>APPROPRIATION ACCOUNT</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
FN	2.6	13.1	6.4	7.0	13.3	8.0
EH	2.6	--	--	6.0	--	6.6
HE	0.2	--	3.0	--	8.4	--
PN	1.4	1.5	2.0	2.0	2.0	2.1
SD	0.9	0.1	8.4	7.7	0.1	8.1
<u>Sub-Total</u>	7.7	14.7	19.8	22.7	23.8	24.8
PD&S	0.3	0.3	0.2	0.3	0.2	0.2
<u>Sub-Total</u>	8.0	15.0	20.0	23.0	24.0	25.0
ESF	--	--	--	--	--	--
<u>Sub-Total</u>	8.0	15.0	20.0	23.0	24.0	25.0
HG	10.0	15.0	20.0	--	15.0	--
P.L. 480	4.6	4.9	5.9	6.2	6.4	6.7
<u>TOTAL</u>	<u>22.6</u>	<u>34.9</u>	<u>45.9</u>	<u>29.2</u>	<u>45.4</u>	<u>31.7</u>

UNCLASSIFIED

ANNEX "A"

OTHER DONOR COORDINATION

The current active portfolio of the principal multilateral and bilateral lending institutions for Guatemala totalled \$615.3 million at the end of February 1982. Of this amount, the IDB had a portfolio of active loans totaling \$277.9 million; IBRD \$153.7 million; CABEI \$68.7 million and other financing organizations (Canada, Germany, Venezuela and France) \$115.0 million. Approximately 34 percent of this total has been provided for hydroelectric power generation, 28 percent for communications, 14 percent for health programs, 11 percent for housing, six percent for education, five percent for agriculture and two percent for industry and tourism. Currently, the GOG is contracting additional loans for \$327.3 million with the three multilateral institutions. Also Guatemala is negotiating loans with the West German Government for \$35 million to fund projects in the housing, agriculture and energy sectors. In addition, commitments by other donors for technical assistance amount to approximately \$10 million a year. Besides AID, which provides 30 percent to 35 percent of total technical assistance funds, UNDP is providing an average of \$1.7 million annually to assist a variety of Guatemalan institutions in the areas of national planning and programming, statistics, budget development, management and petroleum resources and industrial planning.

UNESCO's grants

UNCLASSIFIED

ANNEX "A" - Page 2 of 6

have been approximately \$50,000 annually to support non-formal education projects. The CAS has grants of \$1,372,000 and \$835,000 for 1981 and 1982 to fund small industry and handicraft development, educational research, regional development in arid parts of the Highlands and prefeasibility studies in priority areas indicated by the National Development Plan. The West German Government is active in Guatemala and has been providing technical assistance to develop a master plan for hydro-power generation. The Japanese Government is also active and is providing assistance in geothermal power generation.

An informal division of responsibility has traditionally existed among the major donors. Within this context, the IDB has concentrated on urban infrastructure, transportation, hydroelectric power generation and higher education; IBRD on telecommunications, ports, hydroelectric power generation and secondary education; CABEI on tourism infrastructure, housing, telecommunications and roads; and AID on small farm agriculture, primary and non-formal education and rural health.

However, recent Central American political and economic events have stimulated increased interest within the GOG in accelerating its rural development efforts. This coincides with the new mandates of the major donors such as the IDB and World Bank to direct greater amounts of resources at the problems of the rural poor. The entry of these major donors into areas of priority AID concerns such as

UNCLASSIFIED

ANNEX "A" - Page 3 of 6

rural health and nutrition, primary education, rural housing and small farm production, as well as their apparent willingness to attempt higher risk programs in some of the poorest areas of the country, has created the potential as well as the need for closer collaboration with AID.

Because AID's financial resources are modest in comparison to those available from the international development banks, our strategy is to create or strengthen the capacity of Guatemalan institutions both public and private to replicate on a wider scale with other donor funding low-cost rural outreach projects which have been proven successful using AID risk capital. In addition, our in-country field staff, along with AID's extensive experience as the leader in rural development, gives us the unique capability to support innovative activities which embody new concepts or developmental approaches, or in which experimental delivery systems are introduced and new technologies are tested.

This strategy has already achieved notable results. The regional-satellite rural school model, successfully completed on a pilot basis under a prior AID loan, has become institutionalized within the MOE. The World Bank has been negotiating with the MOE to expand the coverage of this cost-effective program nationwide. The World Bank's entry into rural primary education will relieve AID of the financial burden of even this type of small-scale infrastructure investment in the education sector and will permit us to concentrate

UNCLASSIFIED

ANNEX "A" - Page 4 of 6

our limited resources on the difficult areas of bilingual and basic skills training as well as administrative reform of the MOE.

The GOG is also negotiating a \$15.0 million loan with the World Bank for the construction of needed school buildings in marginal urban areas.

AID has explored with the IDB the possibility of an alternative financing mechanism to support the GOG's regional development efforts in the Western and Central Highlands. While joint financing does not appear to be a viable method of cooperation given AID and other donor regulations, design and implementation requirements and financial controls, parallel financing may present a practicable approach for increasing international donor coordination, improving implementation efficiencies, and reducing duplication of resource inputs.

The IDB is planning, with the Ministry of Agriculture, for a comprehensive program to improve small farmers' incomes in the Highlands by stimulating diversification of production away from basic grains into high value labor-intensive crops such as fruits and vegetables. The USAID project in this area has just begun. Parallel financing by AID and IDB will provide for adaptive research and extension, new on-farm technologies, credit, transportation facilities and marketing development.

The GOG is also negotiating a \$10.0 million loan with IDB to carry out an integrated rural development activity.

UNCLASSIFIED

ANNEX "A" - Page 5 of 6

The IDB and OAS are also financing a series of planning studies for future regional development programs in the rural Highlands. These studies will draw heavily on the on-going AID Integrated Area Development Studies project. This project, which will be completed in 1982, will compile a comprehensive resource data base and analyze the socio-economic relationship between market towns, secondary cities and their surrounding rural hinterlands and identify gaps in the rural infrastructure and services which are necessary to stimulate regional economic development. This analytical data base and programming mechanism will help ensure that future international donor investments in the target area are planned and implemented in accordance with a common set of priorities and will, thus, provide for increased opportunities for parallel financing in the context of an overall integrated regional development efforts.

The Mission also sees significant opportunities for enhanced coordination of PVO and Peace Corps programs in Guatemala, given their orientation and unique capacities for implementing grass roots development activities. The USAID, in collaboration with Project Hope and the Peace Corps, is carrying out an integrated rural development project in San Marcos, one of the poorest departments in the Guatemalan Highlands. The USAID has also signed an OPG with CARE, in coordination with the Peace Corps, to carry out a family fish pond development project. This project will use both CARE and

UNCLASSIFIED

ANNEX "A" - Page 6 of 6

Peace Corps resources to develop an extension capability for the fish stations in Guatemala to disseminate technology and stimulate the development of family fish ponds in the central Highlands.

Table 1
Government of Guatemala
Public Sector Investment Expenditures
Analysis of Budgeted and Actual
1974-1982
 (\$000)

	1974	1975	1976	1977	1978	1979	1980	1981	1982								
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted								
Total Public Sector Investment Expenditures	<u>128,916</u>	<u>101,664</u>	<u>115,932</u>	<u>94,988</u>	<u>376,822</u>	<u>256,753</u>	<u>320,921</u>	<u>226,342</u>	<u>371,792</u>	<u>459,824</u>	<u>579,802</u>	<u>438,491</u>	<u>734,674</u>	<u>576,166</u>	<u>594,183</u>		
1. Health Sector Expenditures:																	
Total	5,289	4,215	3,660	2,593	15,260	2,525	19,757	7,255	18,577	5,161	39,449	26,994	39,006	24,477	40,781	26,507	74,640
Rural		4,215		2,593		2,525		7,255		5,161		24,224		23,327		25,590	30,525
2. Agriculture Sector Expenditures:																	
Total	22,914	21,661	18,594	14,924	11,586	10,563	13,295	8,510	28,035	21,390	33,160	23,089	32,263	28,256	32,836	28,070	32,722
Rural	7,794			9,357		8,930		5,096		12,388		21,884		24,018		27,906	29,203
3. Education Sector Expenditures:																	
Total	7,273	4,654	3,999	3,338	5,015	4,340	3,839	2,240	4,431	2,252	7,473	2,516	6,246	5,589	7,980	3,688	33,843
Rural	3,816			3,281		3,205		1,902		1,719		1,761		5,310		3,577	17,636
4. Energy Sector Expenditures:																	
Rural: Instituto Nacional Electricificaci6n (INDE)	8,289	7,649	9,178	8,955	10,966	8,608	10,174	8,857	14,901	10,908	11,057	8,845	10,828	8,858	12,824	11,525	14,248
5. Decentralized Agencies Expenditures:																	
-Instituto Fomento Municipal (INFOMU)	3,780	4,087	3,735	3,275	9,950	6,382	13,817	7,933	14,759	8,616	15,854	9,448	10,552	10,613	20,089	9,091	17,182
-Instituto Nacional Transformaci6n Agraria (INTA)	847	590	616	602	657	647	3,318	2,048	2,347	1,741	7,817	5,971	11,497	7,625	8,008	7,956	8,515
-Empresa de Fomento y Desarrollo del Pet6n (FYDEF)	844	403	950	934	3,824	3,818	3,183	3,183	3,389	3,321	3,179	3,179	4,394	3,957	4,200	3,998	4,288
-Secretarfa de Bienestar Social							4,099	4,099	2,388	745	2,048	1,654	1,046	759	741	741	
-Desarrollo de la Comunidad Social	285	272	187	182	1,100	1,023	1,002	893	845	793	912	777	1,845	1,602	2,719	2,719	5,522
Total Expenditures (1-5)	<u>49,341</u>	<u>43,552</u>	<u>40,917</u>	<u>34,806</u>	<u>27,938</u>	<u>27,915</u>	<u>72,377</u>	<u>44,952</u>	<u>89,252</u>	<u>54,927</u>	<u>120,969</u>	<u>82,485</u>	<u>125,477</u>	<u>91,505</u>	<u>130,170</u>	<u>94,287</u>	<u>190,912</u>
Total Rural Expenditures (1-5)	<u>28,845</u>	<u>28,845</u>	<u>28,845</u>	<u>29,182</u>	<u>35,147</u>	<u>35,147</u>	<u>41,300</u>	<u>45,592</u>	<u>77,755</u>	<u>65,818</u>	<u>85,818</u>	<u>85,818</u>	<u>85,818</u>	<u>85,818</u>	<u>85,818</u>	<u>85,818</u>	<u>127,072</u>

• Estimated amounts.

ANNEX "B"
GRAPH 2

GOVERNMENT OF GUATEMALA
TOTAL ACTUAL PUBLIC SECTOR EXPENDITURES
(Investment and Operating Costs)
1974-1982

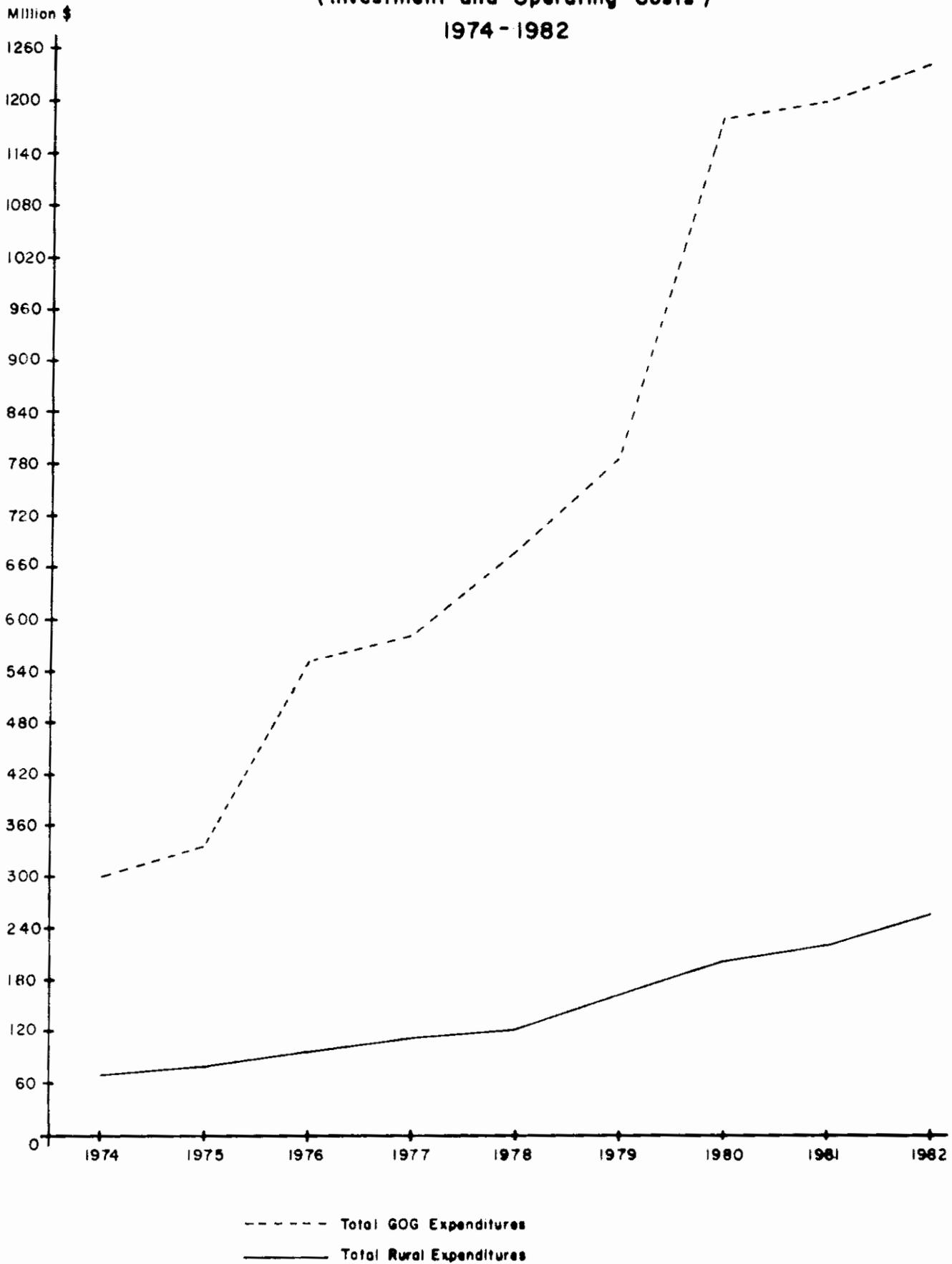
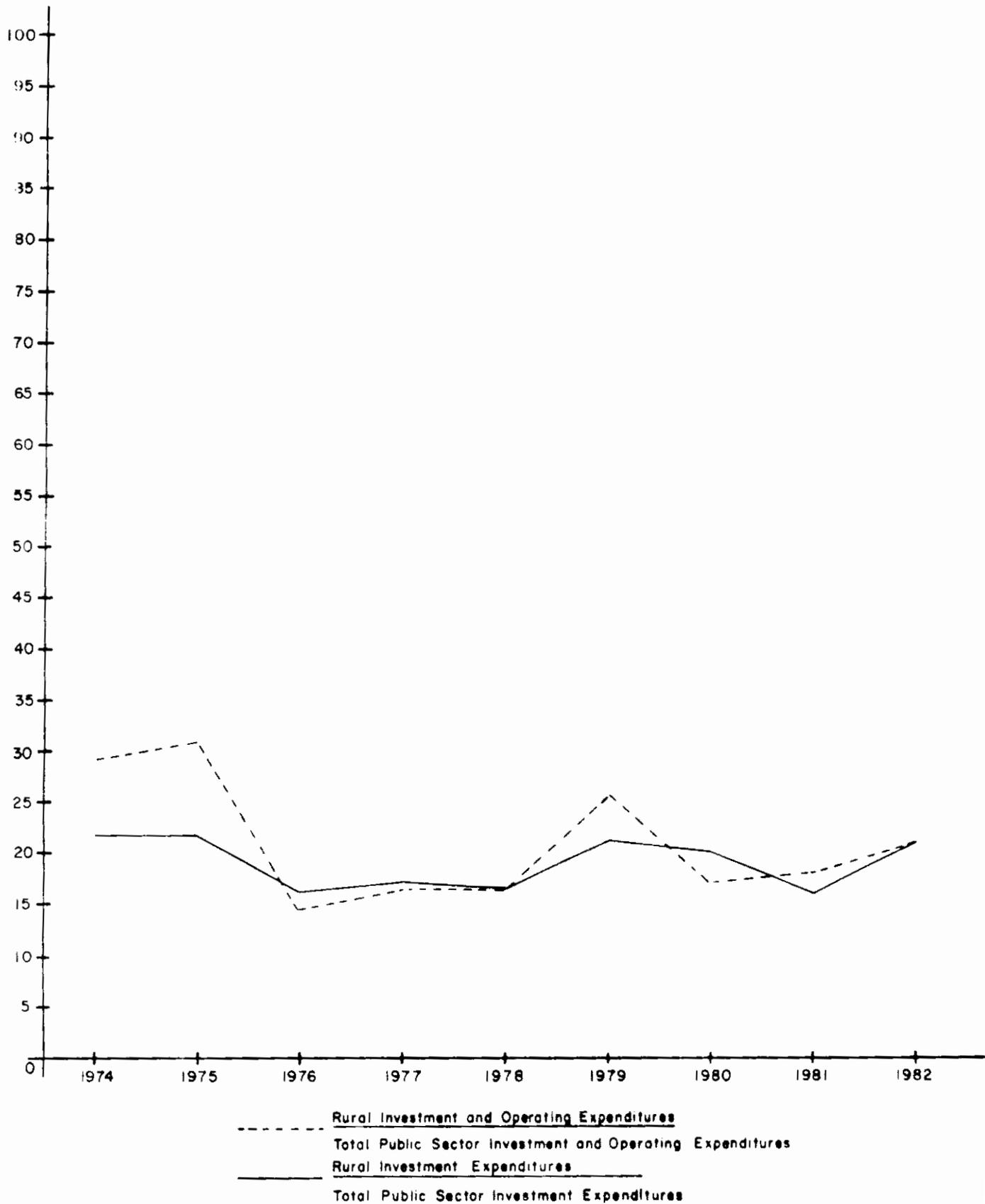


Table 2
Government of Guatemala
Total Public Sector Expenditures (Investment and Operating Costs)
Analysis of Budgeted and Actual
1974-1982
(\$1000)

	1974	1975	1976	1977	1978	1979	1980	1981	1982								
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted								
Total Public Sector Expenditures (Invest. & Operat. Costs)	318,522	305,990	370,501	344,003	680,350	549,036	715,694	599,296	835,513	697,148	924,741	809,465	1,221,478	1,178,979	1,459,450	1,190,876	1,243,761
1. Health Sector Expenditures:																	
Total	32,979	31,061	38,834	35,749	55,274	40,365	70,324	54,450	73,924	57,518	98,123	90,546	132,448	114,700	172,933	138,346	142,095
Rural	15,155	16,221	17,643	16,221	17,643	17,643	23,803	25,044	23,803	23,803	34,196	34,196	47,027	47,027	62,256	63,943	63,943
2. Agriculture Sector Expenditures																	
Total	33,707	31,383	32,370	27,721	29,172	26,156	36,913	28,662	50,415	41,138	70,491	58,068	77,740	70,922	68,904	57,190	59,968
Rural	13,379	16,393	16,393	16,393	19,755	19,755	19,828	19,828	27,812	27,812	47,697	47,697	49,645	49,645	42,833	44,976	44,976
3. Education Sector Expenditures																	
Total	54,261	50,474	55,760	53,559	67,558	65,799	78,395	72,118	93,001	80,891	129,612	111,605	148,732	141,916	182,859	163,348	162,261
Rural	18,081	16,678	19,450	16,678	19,450	19,450	20,598	21,819	31,525	21,819	31,525	31,525	39,736	39,736	49,004	56,791	56,791
4. Energy Sector Expenditures:																	
Rural: Instituto Nacional Elec- trificación (INDE)	9,532	6,819	10,555	10,598	12,151	9,899	11,700	10,186	16,676	12,544	12,716	10,504	12,222	10,022	11,967	11,453	15,410
5. Decentralized Agencies Expenditures:																	
-Instituto Fomento Rural- cipal (IFORC)	5,051	5,244	5,909	5,130	15,327	9,535	18,740	11,144	20,158	13,102	25,454	16,002	30,015	18,789	32,353	18,626	29,037
-Instituto Nacional Transforma- ción Agraria (INTA)	5,833	5,382	5,763	5,484	7,238	6,788	10,253	9,019	11,959	10,476	18,649	16,171	22,926	20,021	19,756	17,780	25,578
-Empresa de Fomento y Desarro- llo del Peten (FIDEP)	2,164	2,268	2,866	3,664	5,707	5,092	5,291	5,415	5,970	5,791	6,393	5,699	7,334	6,821	7,129	6,773	7,350
-Secretaría de Bienestar Social	2,768	2,588	3,880	3,453	4,287	4,203	9,040	8,808	7,664	5,443	6,774	4,517	6,550	6,094	7,150	6,792	5,868
-Desarrollo de la Comunidad	1,116	1,044	1,433	1,274	1,553	2,403	2,500	2,202	2,331	2,080	2,362	2,157	2,503	3,416	4,547	4,556	7,230
Total Expenditures (1-5)	166,911	158,283	157,370	146,536	196,767	170,240	243,156	202,004	282,098	229,183	370,576	315,269	441,470	392,701	509,598	424,764	454,797
Total Rural Expenditures (1-5)	69,800	78,797	94,768	94,768	112,244	123,070	168,468	201,571	220,032	220,032	256,182	256,182	256,182	256,182	256,182	256,182	256,182

* Estimated amounts.

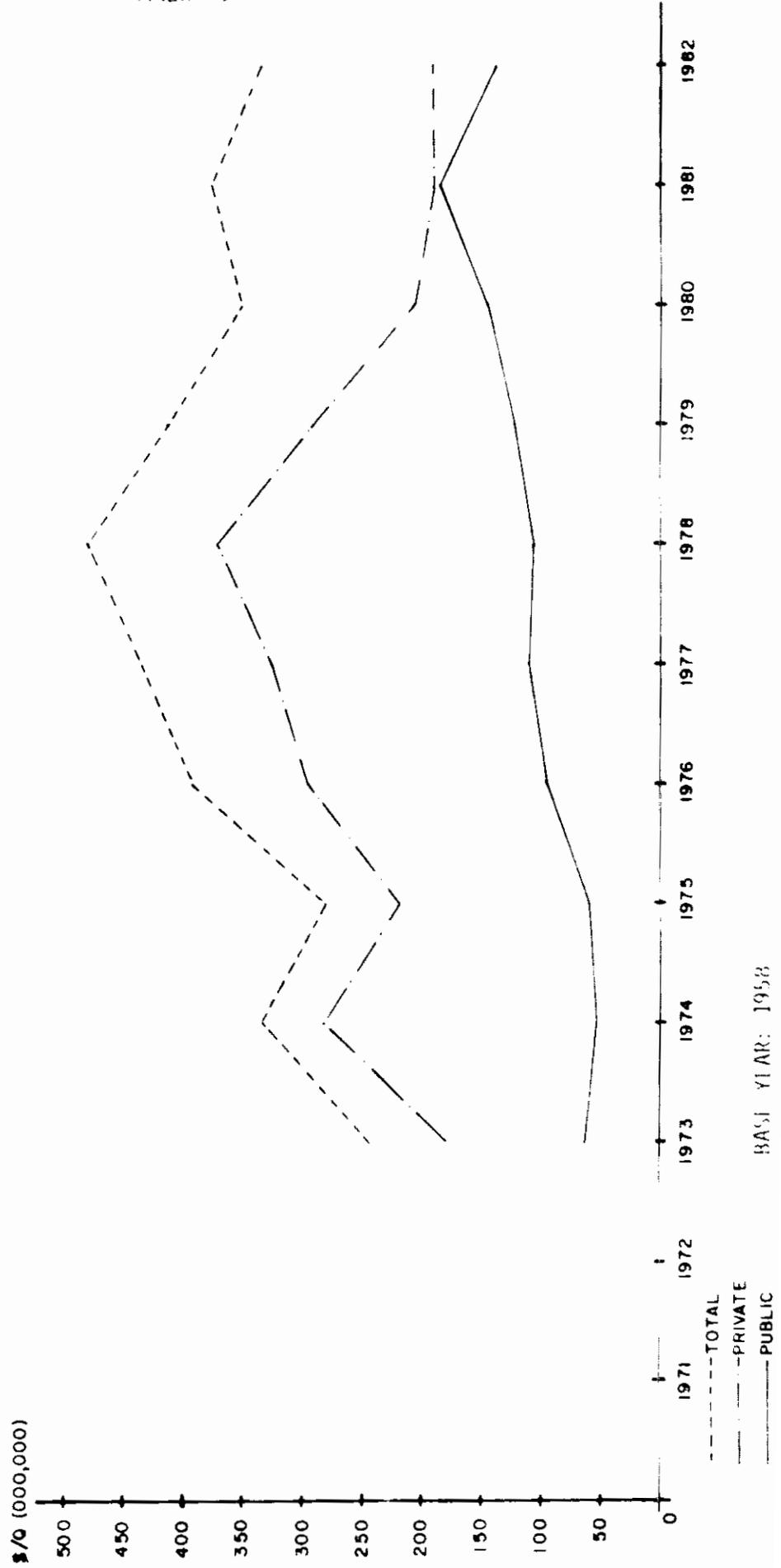
ANNEX B
GRAPH 3
GOVERNMENT OF GUATEMALA
RURAL EXPENDITURES - PERCENTAGE RELATIONSHIPS
1974 - 1982



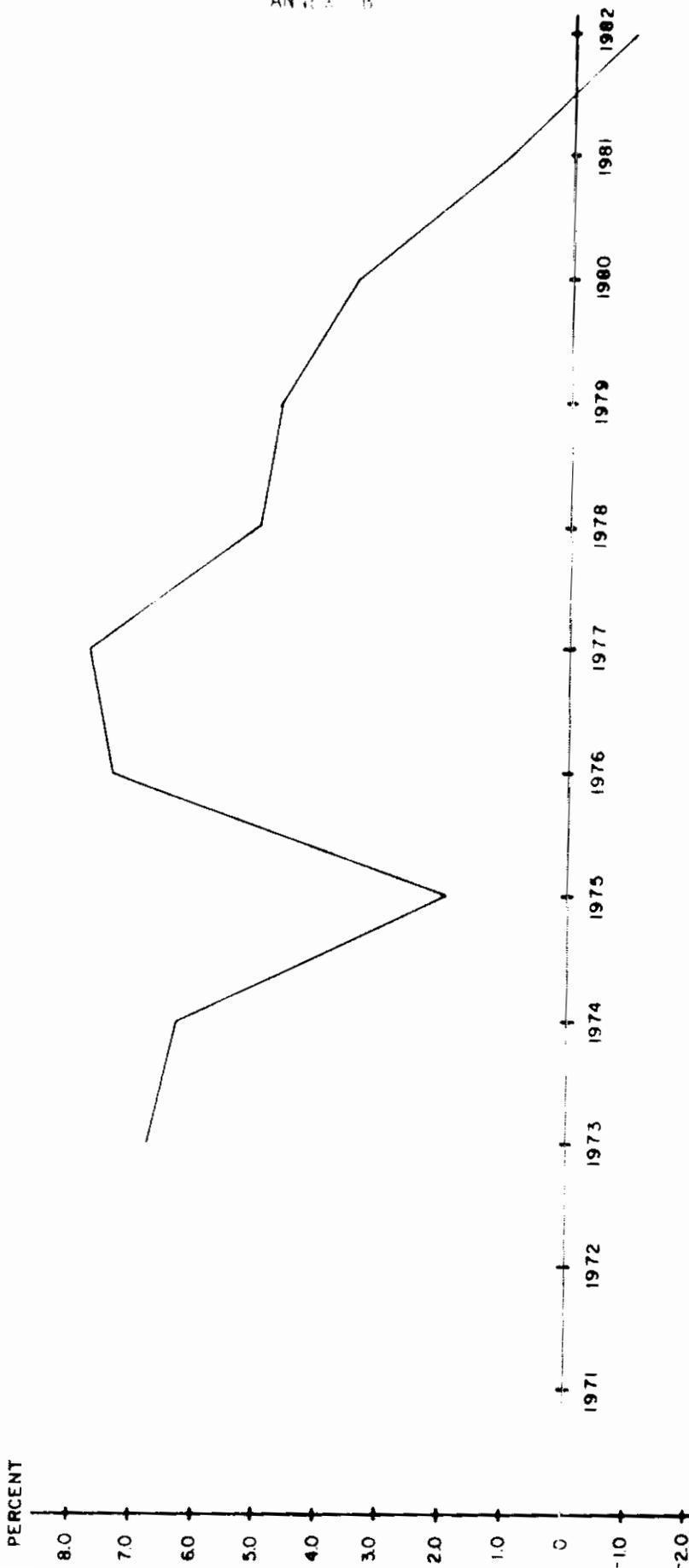
Source: Tables 1 and 2

GRAPH 4

GROSS CAPITAL INVESTMENT (In Constant Dollars)



GRAPH 5
REAL ECONOMIC GROWTH RATES



Guatemala: Investment-Employment Model

(Q'000)

	1973	1974	1975	1976	1977	1978	1979	1980	1981 ^{P/}	est. 1982 ^{I/}	est. 1983 ^{I/}
1. Gross Domestic Product (Percent Growth in real GDP)	2,552,309 (6.3)	3,151,490 (23.4)	3,645,977 (15.0)	4,365,262 (19.4)	5,480,501 (25.8)	6,070,519 (10.8)	6,903,004 (13.7)	7,852,903 (13.5)	8,873,780 (13.0)	10,027,371 (13.5)	11,030,109 (10.0)
2. Net Fixed Capital Investment (Percent of GDP)	251,722 (9.9)	332,279 (10.5)	411,287 (11.3)	710,269 (16.2)	811,114 (14.8)	965,217 (15.8)	1,000,335 (14.5)	950,201 (12.1)	913,999 (10.3)	551,505 (5.5)	507,385 (4.6)
3. Long Term Capital: Labor	10.5	12.7	13.5	14.2	15.8	16.6	19.8	22.5	25.4	28.7	31.6
4. Growth in Employment	23,930	26,636	31,058	46,340	51,336	55,146	59,552	42,231	35,984	19,216	16,056
5. Growth in Labor Force	49,667	56,419	57,812	60,246	59,723	52,245	53,312	55,427	57,089	58,802	60,566
6. Net Increase in Unemployment	21,637	19,783	16,754	205	613	5,901	3,260	13,196	21,105	39,586	44,510
7. Cumulative Unemployment	201,149	220,932	237,686	238,592	237,979	232,078	235,338	248,534	269,639	309,225	353,735
8. Labor Force (EAP)	1,547,300	1,593,719	1,641,531	1,690,777	1,741,500	1,793,745	1,847,557	1,902,984	1,960,073	2,018,876	2,079,442
9. Employment Rate	33.2%	33.2%	34.5%	34.1%	33.7%	32.9%	32.7%	33.1%	33.8%	35.3%	37.0%

Model Equations:

1. $Y_t = GDP_t$

2. $Y_t - d = i_t$

3. $(K/L)_t$

4. $E_t = \frac{it}{(K/L)_t}$

5. $L_t = f(POP, P)$

6. $L_t - E_t = g_t$

7. $U_t = g_t$

8. $L_t = EAP$

9. $U_t = \frac{U_{t-1} + g_t}{2}$

P/ Preliminary data.

I/ Assumes a nominal rate of growth in GDP of 13 percent and projected decline in domestic investment of 25 percent.

2/ Assumes a nominal rate of growth in GDP of 10 percent and stabilization in the level of public and private investment.

ANNEX "D"

GUATEMALA: UPDATE OF MACROECONOMIC ASSESSMENT

BY: Clark Joel, Ph.D.
Regional Economic Advisor
ROCAP (April 13, 1982)

I. Introduction

This report is an update of the November 23, 1981, macroeconomic assessment. It is based on extensive discussions with Guillermo Salazar, Head of the Economic Studies Department of the Central Bank, as well as with officials of the Ministry of Finance. It also makes extensive use of two excellent studies just completed by the Central Bank's Economic Studies Department entitled "Prospects for Oil Production in Guatemala."

This report will present all relevant data and analyze the significance of the major economic variables. It will focus particularly on the magnitude of the 1982 balance of payments deficit, the possible sources of its financing and the projected size of the gap for which no financing is currently anticipated. A "Summary and Conclusions" section appears in Section XI.

II. The Balance of Payments in 1981

The balance of payments situation in 1981 was analyzed in some detail in the November 23rd report as well as in Embassy cable 2083 of March 22, 1982, and will be only briefly analyzed here.^{1/}

1/ The Embassy also presented and analyzed the Central Bank's balance of payments projection for 1982 in cable 2164 of March 24, 1982.

UNCLASSIFIED

- 2 -

The Central Bank's balance of payments data for 1981 are presented in Table 1. Note that while net international reserves dropped by some \$180 million in 1981, the magnitude of the overall balance of payments deficit is actually much larger because a number of significant capital inflows designed to finance the balance of payments deficit were included "above the line" along with the autonomous capital inflows. For example, Guatemala obtained \$110 million in compensatory and first tranche financing from the International Monetary Fund in 1981, plus another \$19 million from the Central American Monetary Stabilization Fund. Thus, a total of \$129 million in compensatory financing was received which should be added to the loss in international reserves in calculating the overall deficit. Thus, the total balance of payments deficit in 1981 is estimated at about \$309 million (\$180 plus \$129 million). This substantial deficit was recorded despite the fact that imports increased only very moderately in 1981 -- by 7.3% in current dollars -- which means a slight decline in real terms. By contrast, Guatemala's overall balance of payments deficit was only \$15 million in 1979.

The major causes of this serious deterioration in Guatemala's balance of payments situation between 1979 and 1981 are as follows:

1. Deteriorating terms of trade, particularly the sharp decline in coffee prices along with lesser declines in the prices of sugar and cotton; while oil prices roughly doubled.

UNCLASSIFIED

UNCLASSIFIED

- 3 -

2. A depressed Central American Common Market which absorbs the major share of Guatemala's exports of manufactured products.

3. A substantial deterioration in the service sector related to the increase in interest payments (mostly on short- and medium-term commercial debt) and a significant growth in the tourism deficit (up from -\$38 million in 1979 to -\$103 million in 1981).

4. A significant reversal in the private capital flow: in 1979, the net capital inflow on private account was \$66 million. This changed to a net outflow of \$251 million in 1980 and to \$14 million in 1981. The net outflow of short-term private capital was \$187 million in 1981 compared with \$78 million in 1979.

III. The Balance of Payments Outlook for 1982

The Central Bank's 1982 balance of payments projection also appears in Table 1, while the U.S. Mission reorganized version is presented in Table 2. Note following:

1. The Central Bank's current account projection shows a deficit of \$583 million. The projection is realistic. The export and import data are supported in detail by the data presented in Tables 3 and 4, respectively. Petroleum exports are expected to increase sharply, from 662,000 barrels in 1981 to 3 million barrels in 1982. We have satisfied ourselves that this goal is readily attainable in view of new wells dug, the highgrade oil now coming on stream and shipments effected in early 1982. Total imports are projected to increase by only 3.9% in current dollars over the 1982

UNCLASSIFIED

UNCLASSIFIED

- 4 -

level, which means a significant reduction in real terms.

2. The Central Bank projects a substantial improvement on private capital account. While the net short-term private capital outflow was \$187 million in 1981, it is projected at only minus \$1 million in 1982. As a result, the total net private capital outflow (long-term plus short-term) is expected to change from minus \$13.5 million in 1981 to plus \$156 million in 1982 (see Table 1). The private capital flow projection is based on faith in the ability of the tighter rules governing the release of foreign exchange to stem capital flight, and may well err on the optimistic side.

3. The total net capital inflow on official and banking account is projected at \$300 million in 1982 (down from \$441 million in 1981). However, a substantial part of this projected net capital inflow is of a "compensatory" nature (i.e., specifically designed to finance the balance of payments deficit) and reflects loans that the government intends to obtain but has not yet secured.

4. The Central Bank's balance of payments projections in Table 1 arrives at a decline in net international reserves of \$127 million in 1982, compared with a drop of \$180 million in 1981. This decline in reserves is based on optimistic assumptions with respect to the government's ability to obtain IMF credit and commercial banks loans, and represents only a fraction of the actual balance of payments deficit projected for 1982. It also reflects optimistic

UNCLASSIFIED

UNCLASSIFIED

- 5 -

assumptions with respect to the private capital movement, as noted above.

5. To present a more accurate picture of the actual magnitude of the 1982 overall balance of payments deficit, the U.S. Mission has reorganized (in Table 2) the Central Bank's balance of payments projection. In Table 2, all current account transactions and "autonomous" capital flows that are not specifically designed to finance the balance of payments deficit are placed "above the line"; the possible financing of the balance of payments deficit (i.e. all "compensatory" financing are entered "below the line". Based on this presentation, the following observations can be made:

a. The overall balance of payments deficit in 1982 is projected at \$305 million, while the projected loss in net international reserves is only \$127 million.

b. The Central Bank has plans for obtaining \$178 million in new bank loans or roll-overs, bond sales and IMF credits. Except for the \$2 million utilization of the IMF reserve tranche, none of this financing is assured. However, prospects for placing \$50 million in public bonds in Britain through Lloyds Bank of London (acting as investment banker) are pretty good and negotiations with Lloyds are well advanced. Guatemalan authorities are also optimistic with regard to approval of the three credit tranches (totalling \$66 million) that will be sought from the IMF.

UNCLASSIFIED

UNCLASSIFIED

- 6 -

c. On the other hand, the ability of the Guatemalan authorities to negotiate substantial additional commercial bank loans cannot be taken for granted. The task of obtaining or rolling over additional bank loans is complicated by the fact that a private company -- García Granados -- is in default on a \$75 million loan granted by foreign banks. While the Central Bank is in no way responsible for the defaults (there was no Bank of Guatemala guarantee), the difficulties of the borrower have reflected unfavorably on Guatemala's credit standing. Continuation of the violence and the inability of both Nicaragua and Costa Rica to meet even the interest payments on the external public debt further contribute to the reluctance of foreign banks to increase their exposure.

d. Even if Guatemalan authorities were successful in obtaining all of the \$178 million listed in Table 2, there would still remain an unfinanced gap of \$127 million. Note that this amount is substantially above the size of the country's net international reserves (\$57.7 million as of March 26, 1982), which the Central Bank does not wish to see reduced further. Thus, most -- if not all -- of this remaining requirement will also have to take the form of additional borrowing.

6. The Central Bank has decided to go to the IMF for second, third and fourth tranches. It is not known as yet what conditions the IMF would attach to these additional credits. Fortunately, the

UNCLASSIFIED

UNCLASSIFIED

- 7 -

Guatemalan authorities have taken measures to reduce sharply the budget deficit in 1982 (See Section VII), while a further 10% reduction in the operating budget has been decided upon. These changes should go a long way toward satisfying the usual IMF conditions.

In conclusion: Of the \$305 million overall balance of payments deficit projected for 1982, the authorities have plans to cover only \$178 million. Of this amount, only \$138 million is reasonably assured -- \$68 million from the IMF, \$50 million through Lloyds and \$20 million from a commercial bank in Spain -- leaving a gap of some \$167 million for which no financing is as yet in sight. Failure to secure this financing would force the authorities to permit a further decline in international reserves or in forcing real imports to decline even more than already projected.^{1/}

IV. A Proposal: Borrowing \$200 Million with Oil Pledged as Collateral

Guillermo Salazar, Head of the Economic Studies Department of the Central Bank, developed an interesting proposal to enable the Central Bank to borrow \$200 million from foreign commercial banks with a portion of the country's oil production pledged as collateral. In a careful projection he developed with the help of the oil companies, he forecast an increase in the total production

1/ By about 4% from the 1981 level.

UNCLASSIFIED

of crude from 1.5 million barrels in 1980 to 3.9 million barrels in 1982, 11 million by 1985 and 21.9 million in 1988. The total export value of this oil was estimated at \$115 million in 1982, \$307 million in 1985 and \$613 million by 1988. Foreign exchange revenues accruing to the Guatemalan Government is projected to be 55 to 60* (depending on the volume of production) of the total export figure.

On this basis, Salazar calculated that 25% of the projected oil revenues accruing to the Government of Guatemala would be sufficient to service the \$200 million loan (assumed to have a maturity of 10 years and to carry an interest rate at least equal to the Libra Bank rate). This 25% share would be deposited in a special account of the lending bank. At this point, the proposal has not yet been approved by the Central Bank, but it appears to have considerable merit. Even if approved and acceptance by a foreign bank, however, it is not likely to result in significant foreign exchange proceeds until 1983.

V. International Reserves

The country's net international reserves were as follows between the end of November 1981 and March 26, 1982:

(In Million of Dollars)

November 27, 1981	78.3
December 31, 1981	47.6
March 26, 1982	57.7

Thus, there was a \$31 million loss during the last month of 1981, followed by a \$10 million recovery over the first quarter of

UNCLASSIFIED

- 9 -

this year. The Central Bank explained the recovery in terms of a reduction in the short-term foreign debt (maturity of 1 year and less) which declined from \$137.1 million on December 31 to \$93.2 million on March 26.

Gross international reserves declines from \$314.6 million on December 31 to \$285.4 million on March 26. However, only about half of this reserve is liquid as the balance represents claims on other Central American central banks which, for the time being, cannot be collected in convertible currencies.

IV. The Gross Domestic Product

The Central Bank's projection of the Gross Domestic Product for 1982 (with preliminary estimates for 1981) in terms of constant quetzales, is presented in Table 6. Note that the GDP is projected to decline by 0.7% in real terms, while imports of goods and services are expected to decline by 5.7%. ^{1/} Gross private investment is expected to remain at the same level as in 1981, while public sector investment is projected to decline by 14% (See Table 6).

Given the expectation that imports of goods and services will decline by 5.7% in real terms, the expectation that real GDP will decline by less than 1% may appear optimistic. In defense of its GDP projection, the Central Bank notes that the decline in the real

1/ All figures cited here are in real terms.

UNCLASSIFIED

UNCLASSIFIED

- 10 -

GDP will be cushioned by a drawdown in inventories, projected to decline by Q55 million in 1982 (Table 5), and by the impact of the improvement in the terms of trade related to the reduction of the rate of inflation abroad and the improvement of the prices of Guatemala's export products. Still, it is suspected that a 5.7% reduction in the real value of goods and services imported is likely to depress real GDP by more than the 0.7% projected, particularly since the composition of imports is not expected to change significantly between 1982 and 1981 (see Table 4).

VII. Fiscal Operations of the Central Government

The Central Government's total budget for 1982, including both operating and investment expenditures, amounts to Q1,545 million. However, it is not expected that all of this expenditure will actually be carried out. Using historical ratios of executed to budgeted amounts, the Central Bank projects total expenditures in 1982 at Q1,279 million, compared with Q1,313 million in 1981, a reduction of 2.6% (see Table 7). On the basis of its own estimates of revenue collections, the Central Bank projects an overall deficit of Q420 million in 1982, down from Q572.4 million in 1981, a reduction of 26.6% (Table 7). Total tax collections are projected to increase by 9.7% (slightly above the expected rate of inflation) while total non-tax revenues are projected to increase by

UNCLASSIFIED

UNCLASSIFIED

- 11 -

43% above the 1981 level. The main factor behind this substantial increase in non-tax revenues is the growth of royalties from petroleum production, projected to increase by Q46.4 million or 174% over the 1981 level.

With regard to expenditures, the Central Bank expects operating expenditures to rise by only 2.9% above the 1981 level, which means a decline in real terms. Note that the Ministry of Finance is currently seriously studying the possibility of cutting operating expenses by 10% below the budgeted amount, a reduction that has not been allowed for in the Central Bank's projections. Capital expenditures are scheduled to decline by Q55 million or by 9% in comparison with the 1981 level, which could mean a 17% reduction in real terms.

If the Ministry of Finance follows through with its proposed curtailment of the operating budget (as is expected), the reduction in the overall deficit would be even greater than the 26.6% now projected by the Central Bank.

With regard to financing the deficit, note that internal financing is projected to account for Q473 million and foreign loans and bonds placed abroad for Q250 million. Of the latter amount, some \$200 million in loans is considered practically assured.

The above analysis is based on the best current data and estimates of the Central Bank. The new Minister of Finance, Dr. Leonardo Figueroa, has recently stated publically that some

UNCLASSIFIED

UNCLASSIFIED

- 12 -

government expenditures -- estimated at about Q60 million -- were made outside the approved budget. These outlays are not included in the figures analyzed above. On the other hand, the new Junta Government proposes to undertake a careful analysis of the capital budget with a view of determining whether some projects should be halted and cancelled owing to irregularities in awarding the contracts or to a finding of non-essentiality or low priority at this time. The government also plans to reduce the operating budget by 10% as noted above. It is not known how these various adjustments^{1/} will affect the overall budget and the magnitude of the budget deficit. An update of the fiscal analysis will be required once the budget revision currently under way has been completed.

VIII. Monetary Situation

Changes in the money supply and bank credit between the end of 1981 and the end of 1982 are projected in Table 8. Note the following:

1. Money supply (defined as currency plus demand deposits) will increase very little during 1982, only by 0.9%.

^{1/} Note that they will be partially offsetting: the incorporation of extra-budgetary expenditures would tend to increase the budget deficit, while the other adjustments completed would reduce it.

UNCLASSIFIED

UNCLASSIFIED

- 13 -

quasi-money (i.e. savings and time deposits) is scheduled to increase by 4.5%.

2. Total bank credit by the consolidated banking system should increase by 12%. However, bank credit to the private sector would increase by only 4.9% (less than the likely rate of inflation), while bank credit to the public sector is to increase by 25%.

3. The Bank of Guatemala will expand its total net credit by \$200 million during the year, all of which is to go to the public sector. No increase will be granted to the commercial banks for relending to the private sector.

In conclusion: The country's monetary policy in 1982 will be handled with traditional conservatism and restraint. The private sector may be squeezed.

The monetary program for the second quarter of 1982 calls for the issue of bonds and treasury letters for Q110 million to finance the public sector in accordance with the amount provided in the budget, and for a credit extension of Q35 million to commercial banks and private financial institutions. The Central Bank note that the latter amount is adequate in view of the fact that as of February 26, 1982, the commercial banking system enjoyed an adequate level (Q188 million) of liquidity.

UNCLASSIFIED

IX. Consumer Prices

The average annual price index for urban consumers showed an increase of 11.4% in 1981 over 1980 (see Table 9). The rate of inflation has slowed in recent months. Thus, between December 1981 and December 1980 the increase in the urban consumer price index was 8.8% (Table 9), while the price increase between January 1982 and January 1981 is only 3.3% (see Table 10). According to official statistics, the urban consumer price index actually declined by 1.3% between December 1981 and January 1982 (Table 10). This decline is mostly due to the reduction in the price of fuel, apparel & footwear, and household goods. While the accuracy of the official statistics may be questioned, there is no doubt that the rate of price increase in Guatemala in 1981 was one of the lowest in the hemisphere.

X. TREND IN DEBT SERVICE CHARGES

Data on the trend in debt service charges between 1976 and 1981, with projection through 1983, is presented in Table 11. Note that the debt service ratio (total debt service payments over merchandise exports), traditionally lower than 3%, climbed to 4.3% in 1981 and is projected to rise to 6.7% in 1982 and to 6.9% in 1983. Between 1979 and 1983, both interest and principal payment more than doubled. While the debt service ratio still has not reached alarming proportions, it is clear that Guatemala must begin to watch the magnitude of the debt it contracts on commercial terms

UNCLASSIFIED

- 15 -

and finance as much as possible of its new external debt with concessionary loans.

XI. Summary and Conclusion

Guatemala's balance of payments deficit for 1982 is projected at \$305 million, only slightly below the \$309 million deficit now estimated for 1981. The Central Bank is reasonably confident that it will be able to obtain \$66 million from the IMF, \$50 million in public bond sales through Lloyds Bank of London and a \$20 million loan from a Spanish bank. It is less sure of being able to obtain another \$40 million in new bank loans or rollovers. Even if it were successful in obtaining all the financing it is currently seeking, there would still be an unfinanced gap of \$127 million for which no funding is in sight. Note that the Central Bank's balance of payments projection already assumes a decline in imports of about 4% in real terms which, in the Central Bank's optimistic assessment, is consistent with a decline of 0.7% in the real GDP. In the U.S. Mission's view, the decline in the real 1982 GDP may well be higher. In any event, it is clear that if the necessary funds to meet the \$305 million deficit cannot be found, real imports would have to be depressed further, forcing an additional decline in the real GDP, which would inevitable be associated with a further increase in unemployment. The aggravation of the already dangerous unemployment and reduced real income situation would play into the hands of the extreme left in this country, which next to Mexico and Panama, is of greatest importance to US interests in Central America.

UNCLASSIFIED

UNCLASSIFIED

- 16 -

The Government of Guatemala has decided to go to the IMF for the second, third and fourth tranches. The fact that the Central Government's fiscal deficit for 1982 is expected to be at least 27% below the 1981 level should go a long way toward meeting the IMF's conditions. Another 10% reduction in the operating budget is under serious consideration by the Ministry of Finance, and further economies may be effected in the capital budget as a result of review and cancellation of some questionable projects. On the other hand, some extra-budgetary expenditures were effected during the first quarter of 1982 which will have to be incorporated in the approved budget. A thorough review of the Central Government's 1982 budget is currently under way.

Guatemala will continue to follow a conservative monetary and credit policy. The money supply is scheduled to increase by less than 1% between the end of 1981 and 1982. The consumer price index for the urban areas increased by 8.8% during the year ending on December 31, 1981.

To meet its long-term balance of payments problem, Guatemala can count on the rapid increase in its petroleum exports. It may be able to use its future oil revenues as collateral to obtain a \$200 million bank loan, though this proposal has not yet received official approval. Even if an interest foreign bank can be found, the proceeds are not likely to become available in time to assist with the financing of the 1982 balance of payments deficit.

UNCLASSIFIED

TABLE 1

BALANZA DE PAGOS INTERNACIONALES DE GUATEMALA
AÑOS : 1981 - 1982

-Millones de Quetzales-

CONCEPTO	1981 p/		1982 p/	
	DEBITO	CREDITO	DEBITO	CREDITO
I. OPERACIONES CORRIENTES				
a) <u>Mercaderías</u>				
Importaciones (FOB)	1 580.0	1 304.0	1 642.3	1 407.2
Exportaciones (FOB)	1 530.0	-	1 642.3	-
	-	1 304.0	-	1 407.2
b) <u>Servicios</u>				
Transporte	651.0	235.8	681.0	241.1
Ingresos por Inversiones	180.4	29.7	190.0	40.9
Turismo y Viajes	160.0	55.1	210.0	40.0
Seguros	133.0	30.5	110.0	24.6
Servicios de Gobierno	18.7	15.5	21.0	17.1
Misceláneos	18.1	45.6	20.0	43.5
	140.8	59.4	130.0	75.0
c) <u>Transferencias</u>	5.6	95.4	8.0	100.0
Total (a + b + c)	2 236.6	1 635.2	2 331.3	1 748.3
II. OPERACIONES DE CAPITAL				
a) <u>Capital privado</u>				
A largo plazo	650.4	636.9	538.1	694.3
A corto plazo	48.5	222.2	60.5	218.0
	601.9	414.7	477.6	476.3
b) <u>Capital oficial y bancario</u>				
A largo plazo	75.0	516.6	138.1	438.2
A corto plazo	25.0	416.7	48.1	328.2
	50.0	99.9	90.0	110.0
Total (a + b)	725.4	1 153.5	676.2	1 132.5
III. SALDO NO DETERMINADO	6.8	-	-	-
TOTAL OPERACIONES INTERNACIONALES (I + II + III)	2 968.8	2 788.7	3 007.5	2 880.8
IV. CAMBIO EN LAS RESERVAS MONETARIAS INTERNACIONALES (aumento -)	-	180.1	-	126.7
GRAN TOTAL	2 968.8	2 968.8	3 007.5	3 007.5

p/ Preliminar
e/ Estimación

TABLE 2

PROJECTION OF 1982 BALANCE OF PAYMENTS
(In millions of dollars)

	<u>Debits</u>	<u>Credits</u>	<u>Net</u>
Exports (FOB)	-	1,407	1,407
Imports (FOB)	1,642	-	-1,642
Services, Net	681	241	- 440
Transfers, Net	8	100	92
Current Account	<u>2,331</u>	<u>1,748</u>	<u>- 583</u>
Total Non-Compensatory Capital Flows (Net)	<u>676</u>	<u>954</u>	<u>278</u>
Private Capital, Long-Term, Net	61	218	157
Private Capital, Short-Term, Net	477	476	- 1
Official Loans, Net	32	199	167
Financing of POL Imports (Venezuela- Mexican Credits), Net	4	61	57
Bank Loans to be Repaid by the Bank of Guatemala	102	-	- 102
Total of Above	3,007	2,702	<u>- 305</u> ("Basic Balance" Deficit)
Proposed Financing of Deficit		<u>178</u>	<u>178</u>
New Bank Loans (and/ or Roll-overs of Existing Loans)	-	60	60

	<u>Debits</u>	<u>Credits</u>	<u>Net</u>
IMF Reserve Tranche	-	2	2
Other IMF (2nd, 3rd & 4th tranches)	-	66	66
Public Bond Sales (to Lloyds Bank)	-	50	50
Remaining Gap	-	-	- 127

Source: Central Bank data (as of March 11, 1983). Presentation was reorganized by ROCAP's Economic Advisor.

TABLE 3

VALOR (FOB), VOLUMEN Y PRECIOS MEDIOS DE LAS EXPORTACIONES
AÑOS: 1981 - 1982

CONCEPTO	1981		1982	
	Valor millones Q.	Volumen miles qq.	Valor millones Q.	Volumen miles qq.
TOTAL	1 304.0		1 407.2	
CENTROAMERICA	378.9		350.0	
RESTO DEL MUNDO	925.1		1 057.2	
Café Oro	322.5	2 693.5	355.5	2 926.7
Algodón Oro	173.4	2 717.1	134.4	2 450.0
Azúcar	85.2	4 338.2	90.0	5 000.0
Banano	50.0	7 477.7	62.4	8 000.0
Cerveza	32.8	314.1	33.5	310.0
Cardamomo	34.3	95.8	48.0	120.0
Níquel	--	--	--	--
Petróleo	22.4	661.6	96.0	3 000.0
Productos Químicos	30.0		33.8	32.00
Cacao	1.2		1.4	
Miel de Purga	11.5		13.0	
Tajazo	18.0		20.4	
Peiscado, crustáceos y moluscos	13.7		15.3	
Semilla de algodón	15.6		17.6	
Chicle y Chiquibul	0.5		0.5	
Plantas, semillas, flores y raíces	9.7		11.0	
Artículos de estuario	1.7		1.8	
Otros minerales	3.0		3.4	
Lana de algodón	5.0		5.7	
Tejidos, hilos e hilazas	5.0		5.7	
Miel de azúcar	2.5		2.7	
Acetatos esenciales	2.8		3.2	
Artículos típicos de algodón	0.7		0.7	
Madera	0.5		0.5	
Caucho	7.5		8.5	
Frutos y sus preparados	4.6		5.3	
Productos alimenticios	10.0		11.2	
Producción de vidrio	1.0		1.2	
Productos metálicos	3.0		3.4	
Verduras y legumbres	9.0		10.1	
Otros	48.0		56.0	
% Exportación con cuota	296.1	2 305.1	315.5	2 474.7
Exportación sin cuota	26.4	308.4	40.0	500.0
% Bienes				
% Preliminar				
% Estimación				

TABLE 4
ESTRUCTURA Y VALOR CIF DE LAS IMPORTACIONES

-Millones de Quetzales-

GRUPO ECONOMICO CEPAL	1981 P/		1982 e/		Variación	
	Valor	%	Valor	%	Absoluta	Relativa
TOTAL	1 715.0	100.0	1 762.6	100.0	67.6	3.9
A. Bienes de Consumo	341.2	19.9	341.0	19.1	-0.2	-0.1
1. No Duraderos	224.6	13.1	228.6	12.8	4.0	1.8
2. Duraderos	116.6	6.8	112.4	6.3	-4.2	-3.5
B. Materias primas y productos intermedios	512.1	31.6	569.4	31.9	26.3	4.2
1. Metálicos	63.6	3.7	65.0	3.7	2.4	3.8
2. Otros	478.5	27.9	502.4	28.2	23.9	5.0
C. Combustibles y lubricantes	410.5	24.0	428.9	24.1	18.4	4.5
D. Materiales de Construcción	99.9	5.8	101.4	5.9	4.5	4.5
E. Maquinaria, Equipo y Herramienta	300.5	17.5	325.1	18.2	24.6	8.2
1. Para la Agricultura	16.3	0.9	21.1	1.2	4.8	29.4
2. Para la Industria	221.4	12.9	234.4	13.1	13.0	5.9
3. Para el Transporte y la Comunicación	62.8	3.7	69.6	3.9	6.8	10.8
F. Diversos	20.8	1.2	14.8	0.8	-6.0	-28.5

P/ Preliminar
e/ Estimación

B. de P. 24/2/82

TABLE 5
OPERACIONES DE CAPITAL
AÑOS : 1981 - 1982

-Millones de Quetzales-

CONCEPTO	1981 P/		1982 P/	
	DEBITO	CREDITO	DEBITO	CREDITO
CAPITAL PRIVADO A LARGO PLAZO				
Acciones, bonos y activos				
Reparación de capitales	0.3	0.6	0.5	1.5
Inversiones Extranjeras	--	3.3	--	3.0
Préstamos y aportes en especie	6.0	126.7	10.0	110.0
Préstamos en efectivo	--	16.3	--	15.0
Otros	42.2	63.7	50.0	75.0
	--	11.6	--	13.5
CAPITAL PRIVADO A CORTO PLAZO				
Depósitos en el exterior	601.9	414.7	477.6	476.3
Obligaciones comerciales	--	--	--	--
Préstamos en efectivo	280.9	345.5	292.5	391.3
Otros	140.4	65.6	110.0	75.0
	180.6	3.6	75.0	10.0
TOTAL CAPITAL PRIVADO	650.4	636.9	538.1	694.3
CAPITAL OFICIAL Y BANCARIO A LARGO PLAZO	25.0	416.7	48.1	328.2
Valores Públicos	--	--	--	50.0
Préstamos Oficiales	22.9	158.1	31.8	198.8
Líneas de crédito Banco de Guatemala	1.2	74.0	12.0	16.0
Financiación Compras de Petróleo	0.9	50.5	4.3	61.4
Derechos Especiales de Giro	--	5.2	--	--
Financiación Compensatorio FMI	--	88.0	--	--
Financiación (primer tramo de crédito)	--	22.0	--	--
Financiación FMI (tramo reserva)	--	17.6	--	2.0
Diversos	--	1.3	--	--
CAPITAL OFICIAL Y BANCARIO A CORTO PLAZO	50.0	99.9	90.0	110.0
Líneas de crédito Banco de Guatemala	50.0	90.0	90.0	110.0
Líneas de crédito otros bancos	--	9.9	--	--
Otros	--	--	--	--
TOTAL CAPITAL OFICIAL Y BANCARIO	75.0	516.6	138.1	438.2
TOTAL OPERACIONES DE CAPITAL	725.4	1 153.5	676.2	1 132.5

P/ Preliminar
E/ Estimación

B. de P. 1V/3/82

TABLE 6

PRODUCTO GEOGRAFICO BRUTO Y SUS COMPONENTES POR TIPO DE GASTO
 AÑOS: 1981 - 1982

-Millones de Quetzales de 1958 - ✓

CONCEPTO	1981 a/	1982 b/	VARIACION	
			Absoluta	Relativa
1. Gastos en consumo de las personas e instituciones sin fines de lucro	2 372.1	2 419.5	47.4	2.0
2. Gastos en consumo del gobierno general	222.0	210.4	- 11.6	- 5.2
3. Formación geográfica bruta en capital fijo	379.1	353.0	- 26.1	- 6.9
3.1 Privada	193.0	193.0	0.0	0.0
3.2 Pública	186.1	160.0	- 26.1	- 14.0
4. Variación de existencias	30.9	- 55.4	- 86.3	
GASTO BRUTO DE LA NACION	3 004.1	2 927.5	- 76.6	- 2.5
5. Exportación de bienes y servicios	559.8	590.2	30.4	5.4
6. Menos: Importación de bienes y servicios	433.7	409.0	- 24.7	- 5.7
PRODUCTO GEOGRAFICO BRUTO	3 130.2	3 108.7	- 21.5	- 0.7

a/ Cifras estimadas

b/ Cifras proyectadas

/amide, C.N. 10-3-1982

TABLE 7

SITUACION FINANCIERA DEL GOBIERNO CENTRAL
AÑO 1981-1982

-Miles de Quetzales-

CONCEPTO	1981	1982	Variación	
			Absoluta	%
INGRESOS TOTALES	740 370.8	858 900.0	101 821.2	13.8
A. INGRESOS CORRIENTES	1 739 015.4	856 600.0	100 076.6	13.6
1. Tributarios	651 767.8	715 000.0	63 232.2	9.7
a) Directos	110 304.1	113 200.0	2 895.9	2.6
Sobre la renta	104 330.3	106 500.0	2 169.7	2.5
De las empresas	82 728.4	89 500.0	6 771.6	8.2
De las personas	21 601.9	17 400.0	- 4 201.9	- 19.5
Sobre patrimonio	5 515.6	5 800.0	284.4	5.2
Sobre herencias, legados y Don.	458.2	500.0	41.8	9.1
b) Indirectos	541 463.7	601 800.0	60 336.3	11.1
Importaciones	102 800.1	107 400.0	4 599.9	4.5
Exportaciones	68 176.4	57 400.0	- 10 776.4	- 15.8
De café	43 057.7	35 400.0	- 7 657.7	- 17.8
De banano	10 323.7	10 000.0	- 323.7	- 3.1
De otros productos	14 795.0	12 000.0	- 2 795.0	- 18.9
Timbres y papel sellado	260 659.3	314 600.0	53 940.3	20.7
Sobre ventas	156 370.7	186 400.0	30 029.3	19.2
Otros impuestos	104 288.6	128 200.0	23 911.4	22.9
Alcoholes y bebidas alcohólicas	43 012.8	49 000.0	5 987.2	13.9
Impuesto s/ alcohóles	36 238.4	42 500.0	6 261.6	17.3
Impuesto adicional 65-79	6 774.4	6 500.0	- 274.4	- 4.1
Cigarrillos y tabacos	20 587.2	23 500.0	2 912.8	14.1
Impuesto s/ cigarrillos	18 266.0	20 200.0	1 934.0	10.6
Impuesto adicional 65-79	2 321.2	3 300.0	978.8	42.2
Aguas gaseosas	5 621.4	6 600.0	978.6	17.4
Traslación de bienes	1 657.1	2 200.0	542.9	32.8
Consumo de petróleo	20 746.9	20 300.0	- 446.9	- 2.2
Circulación de vehículos	8 641.9	9 500.0	858.1	9.9
Sanidad Pública	391.1	400.0	8.9	2.3
Uso de Servicios	4 886.6	5 400.0	513.4	10.5
Actividades comerciales	3 476.8	4 600.0	1 123.2	32.3
Otros impuestos	806.1	900.0	93.9	11.6
2. No Tributarios	87 247.6	141 600.0	37 644.4	43.1
Rentas patrimoniales	13 209.1	13 100.0	- 109.1	- 0.8
Venta de artículos estancados	316.7	600.0	283.3	89.5
Servicios públicos	10 737.9	11 800.0	1 062.1	9.9
Utilidades de empresas del Estado	1 469.3	2 000.0	530.7	36.1
Transferencias ctes. sector privado	5 929.0	5 300.0	- 629.0	- 10.6
Transferencias ctes. sector público	3 911.3	5 700.0	1 788.7	45.7
Montepío	11 476.8	13 400.0	1 923.2	16.8

CONCEPTO	1981	1982	Variación	
			Absoluta	%
Ingresos específicos	12 985.8	16 000.0	3 014.2	23.2
Venta de petróleo	26 644.3	73 000.0	46 355.7	174.0
Ingresos varios	568.4	700.0	131.6	23.2
B. INGRESOS DE CAPITAL	1 355.4	2 200.0	844.6	62.3
1. <u>Donaciones</u>	13.2	800.0	786.8	0.0
2. <u>Otros Ingresos</u>	1 342.2	1 400.0	57.8	4.3
TOTAL DE GASTOS	1 312 809.0	1 279 000.0	- 33 809.0	- 2.6
A. FUNCIONAMIENTO	722 138.4	743 400.0	21 261.6	2.9
B. CAPITAL	590 670.6	535 600.0	- 55 070.6	- 9.3
SUPERAVIT O DEFICIT PRESUPUESTAL	572 438.2	- 420 100.0	152 338.2	26.6
AHORRO EN CUENTA CORRIENTE	16 877.0	113 200.0	79 615.0	471.7
ENDEUDAMIENTO NETO	545 533.2	430 100.0	-115 433.2	- 21.2
A. NEGOCIACION DEUDA PUBLICA	706 164.4	722 800.0	16 635.6	2.4
1. <u>Interna</u>	611 113.8	472 900.0	-138 213.8	- 22.6
a) Bonos del Tesoro	493 338.8	322 900.0	-170 438.8	- 34.5
b) Letras de Tesorería	117 775.0	150 000.0	32 225.0	27.4
2. <u>Externa</u>	95 050.6	249 900.0	154 849.4	162.9
a) Préstamos	95 050.6	193 900.0	104 849.4	110.3
b) Bonos	--	50 000.0	50 000.0	--
B. AMORTIZACION DEUDA PUBLICA	160 631.2	292 700.0	132 068.8	82.2
1. <u>Interna</u>	150 258.4	273 300.0	123 041.6	81.9
a) Bonos del Tesoro	81 626.9	110 700.0	29 073.1	35.6
b) Letras de Tesorería	67 775.0	150 000.0	82 225.0	121.3
c) Acreedorías	856.5	12 600.0	11 743.5	0.0
2. <u>Externa</u>	10 372.8	19 400.0	9 027.2	87.0
a) Préstamos	10 372.8	19 400.0	9 027.2	87.0

CONCEPTO	1981	1982	Variación	
			Absoluta	%
SUPERAVIT O DEFICIT FINANCIERO	<u>- 26 905.0</u>	<u>10 000.0</u>	<u>36 905.0</u>	<u>137.2</u>
DEUDA FLOTANTE	<u>41 994.6</u>	<u>-34 800.0</u>	<u>-76 794.6</u>	<u>-182.9</u>
<u>A. CREACION DEUDA FLOTANTE</u>	<u>105 558.8</u>	<u>65 200.0</u>	<u>-40 358.8</u>	<u>-38.2</u>
1. Gastos causados	1 312 809.0	1 279 000.0	-33 809.0	- 2.6
2. Gastos pagados	1 207 250.2	1 213 800.0	6 549.8	0.5
<u>B. PAGO GASTOS EJERCICIOS ANTERIORES</u>	<u>63 564.2</u>	<u>100 000.0</u>	<u>-36 435.8</u>	<u>-57.3</u>
TOTAL DE PAGOS	<u>1 270 814.4</u>	<u>1 313 800.0</u>	<u>42 985.6</u>	<u>3.4</u>
VARIACION DE CAJA	<u>15 089.6</u>	<u>-24 800.0</u>	<u>-39 889.6</u>	<u>-264.4</u>
SUPERAVIT EJERCICIOS ANTERIORES	-.-	5 000.0	5 000.0	0.0
SUPERAVIT O DEF. GLOBAL DE CAJA	<u>15 089.6</u>	<u>-19 800.0</u>	<u>-34 889.6</u>	<u>-231.2</u>
SUPERAVIT O DEF. GLOBAL FINANCIERO	<u>-26 905.0</u>	<u>15 000.0</u>	<u>41 905.0</u>	<u>155.8</u>

FP. 22-3-82
/mrrb.

TABLE 8

PANORAMA MONETARIO
AL 31 DE DICIEMBRE DE 1981 y 1982
- Millones de quetzales -

CONCEPTO	BANCO DE GUATEMALA				BANCOS				CONSOLIDADO			
	1981	Variación		1981	Variación		1981	Variación		1981	Variación	
		1982	Absoluta		Relativa	1982		Absoluta	Relativa		1982	Absoluta
I. MONETIZACIÓN MONEDA	-101.5	-333.3	-100.8	302.7	5.7	5.7	5.7	-97.8	-307.6	-209.8	214.5	
1. Activo Externo	321.1	144.4	-126.7	-39.5	24.3	24.3	24.3	345.4	218.7	-126.7	-36.7	
2. Pasivo Externo	424.6	597.7	83.1	17.6	18.6	18.6	18.6	443.2	526.3	83.1	16.8	
II. ACTIVOS INTERMEDIOS NETOS	770.1	510.1	260.0	25.3	1,592.4	1,646.4	57.0	3.6	2,096.2	2,773.0	13.0	
1. Actividad Crediticia	869.5	1,079.5	209.0	22.7	1,421.6	1,494.6	73.0	5.1	2,362.1	2,773.0	11.9	
1.1 Al Sector Púb. Neto	739.5	539.5	209.0	27.4	71.9	71.9	71.9	892.4	1,062.4	260.0	24.9	
1.1.1 Al Gobierno Central	757.7	944.1	186.4	26.2	81.3	81.3	81.3	839.0	1,037.4	198.4	23.6	
1.1.2 Al Sector Sector Púb.	-17.2	-105.5	1.6	-5.9	-10.4	-10.4	-10.4	-34.6	-35.0	1.6	-4.4	
1.2 Al Sector Privado	130.0	540.0	74.0	1.9	1,199.7	1,527.7	73.0	4.9	1,497.7	1,572.7	4.9	
1.3 Al Sector Extranjero	74.7	74.7	74.7	74.7	-100.0	-100.0	-100.0	74.7	74.7	74.7	74.7	
2. Otras Activaciones	-90.4	-98.4	-8.0	-1.4	-113.5	-113.5	-113.5	-105.9	-205.9	-92.9	-11.9	
III. CUBIERTA DE LIQUIDEZ EXISTENTE EN GUATEMALA	695.6	672.8	-22.8	-1.4	1,094.1	1,652.1	557.0	3.6	1,998.4	2,061.6	63.2	
IV. OTRAS ACTIVACIONES	684.6	672.8	-11.8	-1.4	-	-	-	-	-	-	-	
1. Monerario en Circulación	493.3	469.5	-23.8	1.5	-	-	-	-	-	-	-	
2. Eneaje Bancario	281.3	267.3	-14.0	-5.6	-	-	-	-	-	-	-	
V. MEDIO CIRCULANTE	403.3	469.5	66.2	1.5	334.9	335.2	0.3	0.1	738.2	744.7	6.5	
1. Monerario en Circulación	403.3	469.5	66.2	1.5	-	-	-	-	403.3	469.5	66.2	
2. Depósitos Monetarios	-	-	-	-	334.9	335.2	0.3	0.1	334.9	335.2	0.3	
VI. CUASIMONEDARIO	-	-	-	-	1,269.2	1,316.9	56.7	4.5	1,269.2	1,316.9	56.7	
VII. MEDIOS DE PAGO	403.3	469.5	66.2	1.5	1,595.1	1,652.1	57.0	3.6	1,998.4	2,061.6	63.2	

TABLE 9

INDICE DE PRECIOS AL CONSUMIDOR, AREA URBANA, REPUBLICA
AL MES DE DICIEMBRE DE 1981

(Enero-diciembre de 1975=100.0)

BIEN Y GRUPO	1980		1981		VARIACIONES PORCENTUALES				
	Diciembre	Promedio mensual a diciembre	Noviembre	Diciembre	Promedio mensual a diciembre	Con mismo mes, año anterior	Con mes diciembre año ant.	Con mes anterior	De las promedios
INDICE GENERAL	172.8	166.1	188.8	187.9	185.1	8.8	8.8	- 0.5	11.4
Alimentos	164.2	156.1	173.9	172.1	173.7	4.8	4.8	- 1.0	11.3
Carnes y preparados de carne	184.9	180.5	191.0	190.0	193.9	2.8	2.8	- 0.5	7.4
Cereales y sus productos	141.6	139.9	154.2	155.7	153.8	9.8	9.8	1.0	9.9
Huevos	134.8	122.3	126.9	132.6	129.7	- 1.6	- 1.6	4.5	6.1
Leche y sus productos	140.1	136.3	169.6	169.1	162.6	20.7	20.7	- 0.3	19.3
Tubérculos y leguminosas	211.4	170.8	157.1	150.6	166.3	-28.6	-28.8	- 4.1	9.1
H Verduras	158.8	153.2	194.0	160.9	173.2	1.3	1.3	-17.1	13.1
Frutas frescas	176.2	167.4	199.8	200.5	176.6	13.8	13.8	0.4	5.5
Azúcar, sal y condimentos	206.9	180.5	226.1	232.3	233.7	12.3	12.3	2.7	29.5
Café, té y otros	183.4	184.1	173.8	171.9	184.3	- 6.3	- 6.3	- 1.1	0.1
Otros productos	159.6	141.6	178.7	180.3	177.1	13.0	13.0	0.9	25.1
Vivienda, combustible y servicios	207.1	198.7	236.8	236.8	223.7	14.3	14.3	0.0	12.6
Alquiler de vivienda	211.8	204.7	236.7	236.7	225.8	11.8	11.8	0.0	10.3
Combustible	215.4	211.6	232.6	232.6	225.7	8.0	8.0	0.0	7.1
Servicios	169.9	159.3	223.8	223.8	199.3	31.7	31.7	0.0	25.1
Vestuario y calzado	200.5	194.7	228.1	228.1	218.4	13.8	13.8	0.0	12.2
Vestido de hombre y de niño	185.9	181.2	224.0	224.0	210.6	20.5	20.5	0.0	16.2
Vestido de mujer y de niña	169.0	163.0	184.7	184.7	180.1	9.3	9.3	0.0	10.5
Vestido de niño menor de 2 años	181.2	173.5	211.3	211.3	212.3	16.6	16.6	0.0	27.4
Calzado	284.4	279.0	316.8	316.8	303.8	11.4	11.4	0.0	8.5
Bienes para el hogar	138.6	137.8	147.1	147.1	143.0	6.1	6.1	0.0	3.6
Textiles para el hogar	190.9	187.5	225.1	225.1	206.4	17.9	17.9	0.0	10.1
Muebles	135.9	135.9	137.7	137.7	136.9	1.3	1.3	0.0	0.7
Equipo de cocina	143.2	142.8	148.9	148.9	143.9	4.0	4.0	0.0	0.8
Aparatos eléctricos	113.8	113.6	114.7	114.7	115.6	0.8	0.8	0.0	1.8
Equipo de limpieza	155.7	152.6	158.9	158.9	159.0	2.1	2.1	0.0	4.2
Gastos de transporte	140.8	139.3	157.2	157.2	153.4	11.6	11.6	0.0	10.1
Transporte particular	206.4	199.9	219.8	219.8	221.0	6.5	6.5	0.0	10.6
Transporte colectivo	108.5	108.5	125.2	125.2	122.1	15.4	15.4	0.0	12.5
Gastos diversos	168.6	162.8	184.1	184.1	182.0	9.2	9.2	0.0	11.8
Cuidados de la salud	166.0	171.9	196.9	196.9	199.9	5.9	5.9	0.0	16.3
Aseo personal	209.5	192.0	237.5	237.5	230.1	13.4	13.4	0.0	16.2
Educación y cultura	158.0	158.2	170.7	170.7	169.0	8.0	8.0	0.0	6.8
Recreación	153.4	147.3	166.7	166.7	165.7	8.7	8.7	0.0	12.5
Artículos de limpieza	123.6	121.0	139.1	139.1	133.3	12.5	12.5	0.0	10.7
Tobaco	164.0	164.0	164.0	164.0	164.0	12.2	12.2	0.0	12.2
Bebidas para servir en casa	139.3	138.0	150.0	150.0	149.1	7.7	7.7	0.0	8.0
Otros gastos	185.8	181.4	197.2	197.2	195.6	6.1	6.1	0.0	7.8

FUENTE: Dirección General de Estadística
Anuale 25.1.82

TABLE 10

INDICE DE PRECIOS AL CONSUMIDOR, AREA URBANA, REPUBLICA
AL MES DE ENERO DE 1982

(Enero-diciembre de 1975=100.0)

RUBRO Y GRUPO	1981			1982		VARIACIONES PORCENTUALES			
	Enero	Diciembre	Promedio mensual a enero	Enero	Promedio mensual a enero	Con mismo mes, año anterior	Con mes diciembre año ant.	Con mes anterior	De los promedios
INDICE GENERAL	179.5	187.9	179.5	185.4	185.4	3.3	-1.3	-1.3	3.3
Alimentos	169.8	172.1	169.8	173.4	173.4	2.1	0.8	0.8	2.1
Carnes y preparados de carne	193.6	190.0	193.6	194.0	194.0	0.2	2.1	2.1	0.2
Cereales y sus productos	142.1	155.7	142.1	155.7	155.7	9.6	0.0	0.0	9.6
Huevos	137.5	132.6	137.5	130.2	130.2	-5.3	-1.8	-1.8	-5.3
Leche y sus productos	152.7	169.1	152.7	170.0	170.0	11.3	0.5	0.5	11.3
Tubérculos y leguminosas	211.4	150.6	211.4	140.8	140.8	-33.4	-6.5	-6.5	-33.4
Verduras	161.3	160.9	161.3	157.6	157.6	-2.3	-2.0	-2.0	-2.3
Frutas frescas	174.8	200.5	174.8	197.6	197.6	13.0	-1.4	-1.4	13.0
Azúcar, sal y condimentos	231.0	232.3	231.0	252.0	252.0	9.1	8.5	8.5	9.1
Café, té y otros	187.1	171.9	187.1	171.9	171.9	-8.1	0.0	0.0	-8.1
Otros productos	168.7	180.3	168.7	181.0	181.0	7.3	0.4	0.4	7.3
Vivienda, combustible y servicios	212.0	236.8	212.0	224.8	224.8	6.0	-5.1	-5.1	6.0
Alquiler de vivienda	217.0	236.7	217.0	234.8	234.8	8.2	-0.8	-0.8	8.2
Combustible	220.4	232.6	220.4	213.4	213.4	-3.2	-8.3	-8.3	-3.2
Servicios	176.9	223.8	176.9	203.3	203.3	14.9	-9.2	-9.2	14.9
Vestuario y calzado	207.3	228.1	207.3	210.5	210.5	1.5	-7.7	-7.7	1.5
Vestido de hombre y de niño	198.4	224.0	198.4	214.4	214.4	8.1	-4.3	-4.3	8.1
vestido de mujer y de niña	171.3	184.7	171.3	139.6	139.6	-18.5	-24.4	-24.4	-18.5
Vestido de niño menor de 2 años	208.9	211.3	208.9	191.5	191.5	-8.3	-9.4	-9.4	-8.3
Calzado	288.1	316.8	288.1	335.8	335.8	16.6	6.0	6.0	16.6
Bienes para el hogar	139.7	147.1	139.7	142.6	142.6	2.1	-3.1	-3.1	2.1
Textiles para el hogar	193.8	225.1	193.8	243.4	243.4	25.6	8.1	8.1	25.6
Muebles	136.1	137.7	136.1	133.5	133.5	-1.9	-3.0	-3.0	-1.9
Equipo de cocina	143.9	146.9	143.9	155.1	155.1	7.8	4.2	4.2	7.8
Aparatos eléctricos	115.5	114.7	115.5	93.4	98.4	-14.8	-14.2	-14.2	-14.8
Equipo de limpieza	157.6	158.9	157.6	145.5	145.5	-7.7	-8.4	-8.4	-7.7
Gastos de transporte	150.8	157.2	150.8	156.4	156.4	3.7	-0.5	-0.5	3.7
Transporte particular	221.7	219.8	221.7	220.5	220.5	-0.5	0.3	0.3	-0.5
Transporte colectivo	115.8	125.2	115.8	124.1	124.1	7.2	-0.9	-0.9	7.2
Gastos Diversos	179.2	184.1	179.2	188.0	188.0	4.9	2.1	2.1	4.9
Cuidados de la salud	200.7	196.9	200.7	189.6	189.6	-5.5	-3.7	-3.7	-5.5
Aseo personal	223.9	237.5	223.9	242.4	242.4	8.3	2.1	8.3	2.1
Educación y cultura	166.3	170.7	166.3	181.4	181.4	9.1	6.3	6.3	9.1
Recreación	164.1	166.7	164.1	164.3	164.3	0.1	-1.4	-1.4	0.1
Artículos de limpieza	129.9	139.1	129.9	142.9	142.9	10.0	2.7	2.7	10.0
Tabaco	184.0	184.0	184.0	204.0	204.0	10.9	10.9	10.9	10.9
Bebidas para servirse en casa	147.7	150.0	147.7	146.9	146.9	-0.5	-2.1	-2.1	-0.5
Otros gastos	191.3	197.2	191.3	204.0	204.0	6.6	3.4	3.4	6.6

FUENTE: Dirección General de Estadística

/AMC C. N. 4-3-1982

TABLE 11

TREND IN DEBT SERVICE CHARGES
On the External Public Debt
(In Millions of Dollars)

	(1)	(2)	(3)	(4)
	<u>Principal</u>	<u>Interest</u>	<u>Service Payments</u>	<u>Debt Service Ratio*</u>
1976	5.7	9.1	14.8	1.9
1977	7.8	9.9	17.7	1.5
1978	14.9	15.6	30.5	2.8
1979	18.9	25.1	44.0	3.6
1980	17.3	28.5	45.8	3.0
1981 Proj.	25.1	31.4	56.5	4.3
1982 Proj.	33.0	60.7	93.7	6.7
1983 Proj.	49.0	58.0	107.0	6.9

*Total debt service payments as a percent of merchandise exports.

Source: For 1976-78, IMF, Guatemala: Country Economic Memorandum, Feb. 4, 1980, pages 66-67. For 1979-83, unofficial projections by Banco de Guatemala.