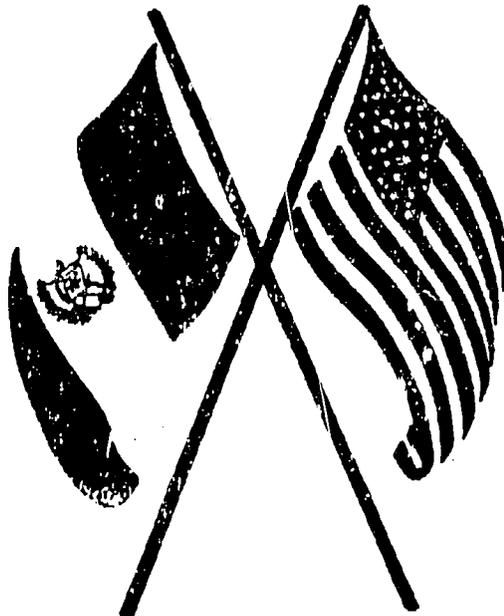


U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT
GUATEMALA

CDSS UPDATE
FY 1990 - FY 1994

December, 1988



COUNTRY DEVELOPMENT STRATEGY STATEMENT

UPDATE FOR FY 1990 - 1994

GUATEMALA

USAID/GUATEMALA

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COUNTRY DEVELOPMENT STRATEGY STATEMENT
UPDATE FOR FY 1990 - FY 1994

"The goal of U.S. economic assistance to Guatemala is to promote U.S. interests by supporting Guatemala's efforts to:

- Strengthen its democratic institutions;
- Keep its economy stable;
- Realize rapid and sustained economic growth, and
- Achieve greater participation of all Guatemalans
 - primarily the historically disadvantaged --
 - in the generation and benefits of that growth."

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USAID GUATEMALA
CDSS UPDATE
FY 1990-1994

I. BACKGROUND

A. Prologue

The following economic assistance statement is one part of the total U.S. relationship with Guatemala. Planning and implementation of all USAID activities are carefully reviewed with the U.S. Ambassador in his role as the President's representative to the host country and as the head of the Country Team to ensure that the country impact of A.I.D.-supported programs is coordinated and consistent with other economic, political and informational aspects of U.S. assistance to Guatemala in furtherance of the broad policy objectives of the United States.

B. Purpose of the Update

The Country Development Strategy Statement for Guatemala submitted in April 1984 was prepared before Guatemala had moved to democratic government and when the program was still under severe Congressional restrictions on funding levels and uses. At the time, few observers expected the remarkable progress that has since been achieved by Guatemala in both the political and economic arenas. Accordingly, the levels and types of U.S. assistance today are much higher, are expected to remain so over the planning period, and call for a broader strategy than that enunciated in the earlier document.

While today's Guatemala still faces many of the same daunting development challenges outlined in the 1984 CDSS, the progressive nature of today's leadership--public and private, the strength and speed of economic recovery during the last two years, and the growing diversity and increasing amount of donor assistance, together increase the prospects for significant progress and dictate a revisiting of the country development strategy. This updated CDSS document provides an overview of the current development environment, contains an overall assistance strategy statement and details specific LAC Objective substrategies.

C. Format for the Updated CDSS

Over the last four years, the Latin America and Caribbean Bureau has directed U.S. economic assistance in the region through a well-defined management-by-objective process, as expressed in annual Action Plans submitted by each overseas Mission. USAID/Guatemala has filed four two-year horizon Action Plans, each

year updating progress, anticipated results and critical issues against specific goals and objectives and fine-tuning the Mission's global strategy in light of emerging events. The goals and objectives selected were drawn from the findings of the National Bipartisan Commission on Central America (NBCCA), as expressed in the Central American Initiative, and are consistent with the 1987 CAI full funding report.

This CDSS update reaffirms the choice of goals and objectives and defines a five year strategy for FY 1990-94 to guide resource allocations and Mission activities. The outline of the update and its contents reflect this, particularly in PART IV, PROBLEM DESCRIPTION, ANALYSIS, AND STRATEGY BY GOAL AND OBJECTIVES. With this format, the Mission believes that the CDSS update and the annual Action Plans will be fully consistent and mutually reinforcing documents.

II. SUMMARY STRATEGY STATEMENT

A. Overall Strategy

In support of Guatemala's evolution to a more democratic and equitable nation, the U.S. development assistance strategy seeks to cooperate in the restoration of financial stability and to supply real productive resources so that Guatemala can regain a stable long-term growth pattern averaging four percent per year or better. On the other hand, it recognizes that, under present structural conditions, a large proportion of the population, perhaps the majority, would participate only marginally or not at all in the proceeds of real growth.

Thus, the program is focused on forging durable linkages between aggregate economic progress and those large segments of the population which, historically, have been left behind. Building on the substantial positive returns from the stabilization program to date, high priority is now being assigned to efforts that promote the private sector-led growth that will produce expanded employment opportunities and higher incomes, particularly in the rural and informal sectors. Looking to the equity side of the equation, there is an inescapable complementarity between private sector investment in productive capacity and public sector investment in human and physical capital. Indeed, achieving both in tandem is critical to the consolidation of a viable democracy, as is the strengthening of democratic institutions, such as the legal system, which guarantee the safety of each individual and his/her fundamental rights as a citizen.

B. Transition Resource Proposal

In Part V --RESOURCE REQUIREMENTS-- a tabular breakout by goal and objective accounts for the U.S. resources proposed to be

available to the Mission over the planning period. The following summary outlines the levels and types of U.S. assistance the Mission proposes to deploy and provides the basic underlying assumptions for these.

TABLE 1
TRANSITION RESOURCE PROPOSAL

	<u>89</u>	<u>90</u>	<u>91</u>	<u>92</u>	<u>93</u>	<u>94</u>
ESF	80	87	80	80	50	30
DA	33	35	40	50	60	65
Title I	18	18	18	18	18	18
Title II	7	9	9	9	10	10
TOTALS	138	149	147	157	138	123

Assumptions:

- Democratic government will continue in Guatemala, including the commitments to consensus building for policy decisions and inclusion of all citizens in the benefits of growth.
- Steady and continuing policy reform and market performance will permit sustained real positive growth averaging in excess of four percent a year beginning in 1989 and extending over the planning period.
- Guatemala's short-term external debt crisis (near 50% debt repayment ratio in 1987) will be under control (back to under 20%) by the end of 1992, freeing up substantial funds for investment.
- The resulting strength of Guatemala's commercial credit ratings will lessen the need for concessional BOP assistance and permit a gradual withdrawal of U.S. BOP ESF grants beginning in FY 1993.
- Development assistance needs will grow through the planning period and continue beyond it as more effective public and private sector institutions and delivery systems for socioeconomic goods and services are designed and put in place. Increased DA levels will help accelerate the delivery of socioeconomic goods and services over the CDSS period, especially to long-neglected rural areas, even as national resource levels grow, fiscal policies adapt to meet ongoing socioeconomic needs, and the institutional capacities of delivery organizations are strengthened.

III. OVERVIEW OF THE CURRENT DEVELOPMENT ENVIRONMENT

A. Political

Since the CDSS was submitted in April 1984, Guatemala has drafted a new constitution guaranteeing civil liberties and human rights, has reaffirmed its historical commitment to democracy and private enterprise, and has held universally acclaimed fair and unbiased elections which returned the country to elected civilian control after some thirty years of authoritarian, mostly military, rule.

The 1984 CDSS made only one reference to support for a possible transition to democracy and gave no hint as to how such a change might spur economic recovery and equity. However, Action Plans in the last four years increasingly have emphasized this strategy element and this CDSS update reemphasizes the primacy of the goal of strengthening democracy as an essential condition to achieving sustained economic growth with equity. In this respect, U.S. support for democratic processes in Guatemala, both moral and financial, has been steady and unequivocal over the last four years.

A full appreciation of the state of democracy in Guatemala as 1989 opens must take into account how far the nation has come since the dark days of 1978-83, when a vicious civil war, fought primarily in the highland Indian homelands and accompanied by massive human rights violations, left an estimated 140,000 dead, one million displaced internally, and 200,000 refugees. Though focused in the rural highlands, the violence and economic destruction was also widespread in the capital and other areas where bombings, assassinations and kidnappings were daily events, chilling personal aspirations and economic activity.

Mid-January 1989 marks the completion of the third year of democratically-elected government amid growing confidence that, despite numerous problems, the national consensus for a democratic form of government that emerged in 1984 is holding. Nevertheless, as impressive as gains through 1988 have been, the process remains fragile in a very real sense. Only the first steps along a difficult path to institutionalizing democracy in Guatemala have been taken. Peaceful transitions of power must occur many more times and the capacity of civilian institutions to perform must be demonstrated before the memory and fear of coups begin to fade from the Guatemalan psyche and are gradually replaced by a commitment to peaceful change through regularly scheduled elections. Guatemala still must acquire the critical mass of experience that will link democracy, the rule of law, personal security and economic opportunity in the cause/effect relationship so taken for granted in established democracies. The return to democracy and constitutional rule has provided a credible and surprisingly durable framework for political, economic and social progress. Successfully building on it to consolidate democracy is the single most important determinant for the future of a free and strong Guatemala.

Finally, the political and economic gains have yet to spread in more visible form to those who have been bypassed, particularly the highland Indians. For democracy to take firm root, the U.S. assistance strategy proposes to support Guatemalan initiatives to include this long-neglected and oft-abused segment of the nation's populace in the process of development. The strategy and associated policy dialogue are oriented toward investments that expand economic opportunities for these rural residents and others in the urban informal sector.

B. Macroeconomic

Equally as dramatic as the positive shift in the political scene in Guatemala since 1984 has been the progress on the economic front. The ESF PAADs for balance of payments (BOP) assistance and the Action Plans since 1986 detail at length the vigor and rapid pace of Guatemala's economic policy reform, the resulting stabilization gains, and the return to increasingly higher real economic growth rates each year since 1986.

The U.S. has been the only external donor providing BOP assistance to Guatemala from 1986 through 1988. It totalled \$213 million ESF (compared to ESF levels for the same period of \$675 million for El Salvador, \$352 million for Costa Rica and \$278 million for Honduras) and \$73 million in Title I and Sugar Quota Set-Asides. The U.S. assistance is credited by Guatemalan economic team leaders as the indispensable factor in the strong recovery recorded through 1988. This effective use of relatively modest ESF assistance was powered by the Guatemalan political will to take the necessary stabilization measures and by the outstanding professionalism of their economic team. The record is one of exceptional success and serves in many respects as a model.

The 1984 CDSS cited the sharp decline in Guatemala's economic fortunes from 1978 forwards, and detailed the attendant circumstances, but did not provide much insight into the root causes nor the corrective policy reform actions needed. The macroeconomic characteristics of the present program and the prospects for further growth over the planning period have been covered in considerable detail in recent year PAADs and Action Plans. That information is restated in Part II under the Economic Stabilization and Growth goal. A brief review of the background events and conditions leading to today's positive outlook is appropriate here.

In the 1960s and early 1970s the Guatemalan economy, along with Central America more generally, enjoyed a sustained period of prosperity and relative stability, fueled primarily by regional trade and by robust prices and markets for traditional commodity exports: coffee, cotton, sugar, bananas and meat. Total exports grew at an average annual rate of 8.5 percent between 1968 and 1978, at which time their value represented 21 percent of the

country's GDP. Growth in non-traditional exports, mainly manufactured goods, derived largely from the emergence of the highly protected Central American Common Market (CACM).

Economic policy during this era had tilted the economy progressively toward the manufacturing sector, a region-wide consequence of the import-substitution strategy embraced by the CACM. In retrospect, it is clear that this policy set favored urban over rural economic activity, manufacturing for the regional market over agriculture, capital intensive over labor intensive production, use of imported over domestic raw materials, exports to soft currency relative to hard currency markets, and economic activity requiring accumulation of foreign debt to compensate for low rates of domestic saving.

Guatemala entered the 1980s trapped in a steep downward economic spiral resulting from the inadequacy of misguided policies to contend with an accumulation of external shocks such as the oil price hikes of the 1970s, political destabilization in the region, stagnation of trade within the CACM, and generally low world prices for its traditional exports, as well as an increasingly violent and paralyzing guerrilla insurgency. For all practical purposes the economic gains of the 1960s and early 1970s had been wiped out. GDP, in real terms, dropped more than 5.4 percent between 1980 and 1983 (11 percent in per capita terms) and domestic employment went down by 23 percent during the same period. The decline in per capita GDP, converted to dollars, reduced average real GDP from \$1,085 in 1980 to \$964 by 1983 and to \$876 by 1986.

Given the deep-rooted nature of Guatemala's economic predicament by 1984, the strength and vigor of its recovery since then is truly remarkable. Poorly planned reform measures in 1984 and 1985 under the last military government failed, and the civilian government that entered office in mid-January 1986 inherited a disillusioned and dispirited economic community. In the face of widespread fear and cynicism, the Government acted boldly and named a first class economic team that in six months formulated and initiated a series of successively more effective policy reforms.

By the end of 1986, the decline had been halted. Additional reforms brought a return to real growth rates of 3.1 percent in 1987 and a preliminary estimate for 1988 of 3.5 percent or better. Progress through 1988 against the Government's economic gameplan exceeded targets virtually across the board, as follows:

- The exchange rate has been stabilized and unified at Q2.70 per US\$1.00, after hovering near a high of Q4 to US\$1.
- Electricity, telephone and water tariffs were all raised, and subsidies on petroleum products eliminated.

- The Central Government deficit has been restrained to below 2.5 percent of GDP each year since the Cerezo government took office.
- Inflation has been reduced from a rate of above 40% to about 12%.
- Monetary policy has been tough, and Central Bank credit to the public sector severely disciplined.
- Nontraditional exports are achieving robust growth.

The extraordinary economic progress since 1984 is expected to continue through the planning period as additional macropolicy reforms are undertaken. The policy dialogue strategy will be expanded to include sectoral policy issues, particularly those related to expansion of the agriculture sector. The decision to place greater emphasis on sector development policy dialogue, beginning with agriculture, was first surfaced in the FY 1989-90 Action Plan.

Selection of the agricultural sector for special policy reform focus and higher levels of public sector and donor investments is based on the judgements that it is:

- Guatemala's sector of greatest comparative advantage;
- a sector where the policies of the past have left the supporting infrastructure grossly underinvested, and
- the sector which represents the best hope over the short and medium term for the greatest number of historically disadvantaged Guatemalans to participate in the benefits of growth.

C. Socioeconomic

Guatemala is a significantly different and more progressive country today in political and economic terms than it was when the 1984 CDSS was submitted. These factors and the increased levels and types of U.S., other donor and national resources available make possible a bolder and broader attack on the historically deficient socioeconomic conditions and infrastructure found in Guatemala's rural areas and among its urban poor. This section describes the situation in general terms and briefly discusses a number of cross-cutting factors. Table 2 provides comparative socioeconomic statistics for Guatemala and other Central American countries.

TABLE 2
SELECTED COUNTRY DATA FOR GUATEMALA
AND OTHER CENTRAL AMERICAN COUNTRIES

Data	Guatemala		El Salvador		Honduras		Costa Rica	
	1977	1987	1977	1987	1977	1987	1977	1987
<u>Economic Indicators</u>								
GNP per capita (current US\$)	810	930	684	820	464	740	812	1,480
Income Distribution								
Highest 20 percent	60	55	47.3	—	—	—	54.8	—
Lowest 20 percent	5	6	5.8	—	—	—	3.3	—
<u>Social Indicators</u>								
<u>Population</u>								
Total Population (000's)	6,467	8,400	4,359	5,260	3,395	4,815	2,112	2,812
Annual Growth Rate (%)	3.1	2.9	2.7	2.4	3.4	3.3	2.9	2.8
Contraceptive Prevalence Rate (%)	18.2	23.6	—	47.3	—	35.0	—	68.5
Total fertility rate (%)	6.1	5.6	—	4.9	—	5.5	—	3.3
<u>Health</u>								
Life Expectancy at birth (yrs.)	58	61	61	65	57	61	71	74
Access to safe water (% pop.)	—	52	—	51	—	50	—	84
Infant mortality (per 1,000 livebirths)	92	73	95	88	98	69	38	17
<u>Education</u>								
Adult literacy rate (%)	—	52 (est)	—	—	—	—	—	—
Primary School Enrollment (as ratio of population in age group)	—	66	—	94	—	95	—	104

Notes

The source for most of the information is the FY 1989 Congressional Presentation, which contains comparable data to the extent that it was available. Income distribution data is from the latest World Bank publications. In the case of Guatemala, most of the population and infant mortality data is from the Mission's recently completed Demographic Health Survey conducted in 1987 by INCAP/Westinghouse.

The bleak portrait drawn in the 1984 CDSS of a resource-rich but seriously underinvested Guatemalan rural sector is as depressingly valid today as it was then. Despite numerous examples of successful project interventions affecting specific target groups, without a serious long-term Guatemalan commitment to deliver development services and significantly higher resource allocations, the grim social statistics cited above will remain seemingly immutable realities.

In trying to appreciate the dimensions of the challenges to development in Guatemala, particularly in the highland Indian regions, it is important to understand the degree to which the nation's much-cited geographic and cultural richness also impedes solutions to problems. Guatemala is unique in Latin America in the degree of social, cultural, geographic and economic balkanization it exhibits. More than half the population belongs to one of many indigenous groupings who speak 23 distinct languages which break down further into more than 100 dialects. The traditions and history of the indigenous population dictate economies which are built around small-scale agriculture and itinerant commerce.

More generally, Guatemalans live in 16,000 plus small villages that are satellites of 335 municipalities in 22 Guatemalan departments (states). In most areas social and/or "political" allegiances are limited by village boundaries and/or family interrelationships which can vary widely, even within the limited confines of individual municipal districts. Political and social jurisdictions are further separated by severe geographical barriers--steep mountains and deep canyons. These contribute to the kaleidoscopic character of local agroecological conditions which mandate multifaceted strategies for agricultural research and extension. Thus, the difficulty of collecting accurate data and the cost per inhabitant of establishing channels of communication--roads, language, shared knowledge--or delivering services, is far greater in Guatemala than elsewhere in the region. Viable solutions will require consistently high levels of commitment by both donors and the host government for a long time to come if the harsh Guatemalan development reality is to be changed.

D. Cross-Cutting Factors

A number of cross-cutting factors, frequently interrelated, are important constraints to assessing and improving the overall socioeconomic status of rural Guatemalans, particularly the highland Indian. These cross-cutting factors surface repeatedly in the individual objective statements, but a brief preliminary treatment here is appropriate in light of their portfolio-wide relevance.

1. Statistical Collection and Analysis

A reliable statistical base against which to measure change over time is an important part of any development planning and assessment effort, particularly the type of long-term socioeconomic commitment so obviously needed for rural development in Guatemala. The macroeconomic and business database for Guatemala is reasonably reliable, but the collection and analysis of socioeconomic data, particularly for comparison and measurement over time, have proven much more difficult.

Part of the problem is the geographic isolation and the linguistic and cultural diversity in the principal socioeconomic target group, the highland Indians. Another part derives from the highly destructive effects of the February 1976 earthquake which disrupted public administration and fundamentally altered the social, religious and political patterns of much of the nation. This was followed by the rending effects of the civil war between 1978-83. The fighting was most intense in the Indian highlands, further altering socioeconomic patterns and largely invalidating prior data collection and assumptions, at least for predictive and planning purposes. Finally, the small size of the public sector itself and its limited outreach have tended to make data collection less representative and reliable even under the best of circumstances. Thus, today's socioeconomic database often is unreliable. Numbers and conclusions are frequently extrapolations from limited observations or donor project data in specific locations.

USAID sees three specific and one general effort as helping to ameliorate the statistical problem. (1) Many ongoing and all new bilateral projects have baseline data components. (2) To attempt to measure impact of U.S. assistance to the highland Indian target group over the last thirty years, USAID/Guatemala has underway (with an estimated completion date of 3/31/89) a comprehensive cross-cutting impact evaluation of U.S. assistance in the highland Indian areas. This should yield valuable insights to planning as well as an up-to-date sense of priority needs to be addressed over the CDSS planning period. (3) Given the increasingly stable and peaceful conditions now found in most areas, Guatemala's upcoming 1990 national census takes on added importance as a way to reset the full statistical base of socioeconomic indicators. The IDB and USAID are both cooperating with this effort. Finally, in the interim and over the whole planning period, the government, USAID and other donors will continue to finance such special reports, studies and surveys as are helpful to advancing socioeconomic assessment and planning interventions.

2. Absorptive Capacity

Effective delivery of socioeconomic goods and services in Guatemala historically is severely constrained by a

number of factors. The geographic, linguistic and cultural isolation of the majority highland Indian population has already been noted. This plus the small size and inefficient management of the public sector, the low level of revenues for both operating and investment purposes and inadequately trained and motivated workers, all combine to create a serious absorptive capacity challenge. Additionally, in the last eight years, there were four full changes of government amid considerable civil turmoil. Much of the institutional memory was destroyed and the existing service delivery network was badly disrupted.

In addition to the help afforded by rising donor assistance levels, USAID's relatively optimistic view of the prospects for Guatemala to remedy this historic and crippling development constraint is posited on three mutually reinforcing internal conditions: (1) achieving positive private sector-led real economic growth rates of least four percent a year over the planning period; (2) maintenance of the political will to accelerate development investments as a natural consequence of the democratic expression of popular demand, and (3) development of the institutional capacity to translate that political will into effective and sustained action. These conditions are expected to underwrite the following Guatemalan interventions, assisted by the U.S. and other donors:

- credible administration of fiscal affairs;
- systemitizing the national budget process so that investments are consistently focused each year on the highest priority socioeconomic needs, and are successfully expended;
- development of long term strategies and commitment to specific policies;
- targetted training and technical assistance in the key organizations, public and private, which are responsible for planning and delivering goods and services; and
- maximizing the development and use of private sector mechanisms for delivery of socioeconomic goods and services.

With respect to the budget process in particular, the Mission is working with the Government of Guatemala to achieve higher rates of implementation in the public sector investment budget. Guatemala's productive infrastructure is seriously underinvested and constrains both growth and equity opportunities. For the FY 1988 ESF program, the Mission successfully negotiated an agreement with the Guatemalan Government to allocate funds equivalent to or greater than the dollar value of ESF to priority development needs through a new mechanism called the Core Development Budget (CDB). Activities carried in the CDB have the highest claim to available financial, staff and technical assistance

resources. They include the socioeconomic infrastructure and service programs (including major donor activities) jointly deemed to be those most critical to achieving equity objectives. It is expected that this mechanism will continue to be used and refined in future years.

3. Human Resources Development

Any nation's greatest resource is its people and Guatemala is no exception. Freeing up individual potential goes hand-in-hand with institutional development and better delivery of such essential services as education, family and individual health, and training for employment. Specific interventions over the CDSS update period are listed in each objective statement and also encompass the more comprehensive ones noted above to correct the absorptive capacity problem. Special emphasis will continue to be placed on (1) project, nonproject and special (democracy skills) training, both public and private sector oriented, (2) limited Food for Peace Title II food aid targetted on child survival, MCH and selective PVO-managed food-for-work activities, and (3) WID initiatives fully integrated in all activities along the lines laid out in the Mission's draft WID strategy, to be completed in early 1989.

4. The Multiplier Factor

A.I.D. has had extensive experience in designing and successfully implementing activities that benefit hard-to-reach geographic locations and disadvantaged groups. However, success most often results from comprehensive financing for the full range of technical assistance and support systems that are missing in the host country. USAID/Guatemala seeks to structure its project interventions consistently as part of a process to strengthen national systems and to build incrementally on those activities which have been successful, such as immunization, vitamin A, ORT and family planning programs in the child survival area, small farmer diversification and irrigation, and promising investments in basic education and small enterprises. These incremental and scale-appropriate efforts will be continued over the planning period during which assistance resources will be used increasingly to leverage national resources through sector-wide programs, beginning with agriculture and gradually moving to other sectors, perhaps to family health and basic education.

Initiatives already underway include: (1) increasing the effectiveness of the core development budget (CDB) process as resources from a stronger economy become available and a systemitized CDB methodology steadily identifies and removes key constraints to full expenditure of each year's CDB; (2) technical assistance and training across the board to improve the efficiency of public and private sector institutions managing socioeconomic

programs; and (3) close coordination with other donors along the same lines and in support of innovative national programs, such as the Constitutional set-aside of eight percent of all ordinary domestic revenues to municipalities for local infrastructure investments.

5. Donor Coordination

Other donor assistance to Guatemala, multilateral and bilateral, totalled just under one billion dollars in new commitments from 1985 through 1988, of which the multilateral share (mostly loans) was \$528 million, led by the IDB's \$312 million. Bilateral donors (not including the U.S.) pledged \$433 million, led by Italy with \$222 million for the period 1985 through 1990. (U.S. bilateral economic assistance from FY 1985 through FY 1988 was mostly grant and totalled \$525 million.) Expectations are that if political and economic conditions continue to improve, donors other than the U.S. will also continue with new commitments. The IMF signed a sixteen month standby agreement for SDR 73 million (\$101 million) in November 1988, based almost exclusively on the policy program supported by the U.S. ESF assistance.

However, disbursements of other donor assistance (except for the IMF standby) have been very slow and the outstanding pipeline (over \$700 million as CY 1988 closes) reflects the serious absorptive capacity problem. USAID's portfolio has done better as ESF BOP and Title I assistance levels are fully disbursed in the year of obligation and, because of in-country management expertise, project disbursements each year are currently exceeding new obligations by a wide margin.

Several specific measures are underway and will continue over the planning period to coordinate solutions to common donor problems. (1) USAID's efforts to support the government's CDB process should help other donors accelerate expenditures. (2) The U.S. Mission has formalized the donor coordination process, establishing a schedule of regular meetings to exchange information on each others programs, problems and future plans. (3) The Mission views the March 1989 Consultative Group meeting as an opportunity for a major initiative toward improving all donor performance.

6. Environmental Management and Natural Resources Conservation

There is perhaps no better example than environmental management and the conservation of natural resources to highlight the frustrating complexity involved in balancing long-term national best interests and immediate needs. Guatemala is experiencing severe ecological strain against irreplaceable resources such as woodlands, watersheds, and biodiversity-rich flora and fauna. At the same time it seeks to more fully exploit the economic

value of its resource base. Much of the most endangered resource base is precisely where pressures on soil, water and forests are greatest.

Environmental issues interface most directly with the agriculture sector and are referred to in that objective statement. Suffice it to say here that effective response to such issues as reforestation, watershed preservation, pesticide controls, and biodiversity preservation absolutely define the future, but defy simple, cost effective solutions. They also are growing worse under the inadequate legal structure that characterizes Guatemala's current treatment of its environment. In this, Guatemala today is not so different than many other countries facing similar dilemmas.

Whether effective action can be taken on a scale appropriate to the real need depends first on Guatemalan national policies. As 1989 begins, there is an encouraging trend flowing from the national dialogue on this subject, but it has yet to be translated into a comprehensive policy package for legislation and funding. This is expected to happen during 1989 and will set the stage for donor contributions over the CDSS planning period. USAID's initiatives in this area will be closely coordinated with the Guatemalan national plan, with ROCAP and with other donor initiatives to ensure maximum positive impact on this necessary, but expensive and long term development undertaking.

IV. PROBLEM DESCRIPTION, ANALYSIS AND STRATEGY BY GOALS AND OBJECTIVES

A. Goal: Short Term Economic Stabilization

1. Rationale for Goal Selection

The word "stability", perhaps better than any other, describes the macroeconomic financial environment of Guatemala for most of the nation's history. Nevertheless, the distortions caused by import-substitution policies of two decades combined with a worldwide economic recession, national disaster and civil insurrection to leave Guatemala staggering in the early 1980s. The accompanying instability elicited unfortunate domestic policy responses that only worsened the problem.

Price inflation, which had averaged just over three percent for thirty years, peaked at an annual rate over forty percent in 1986. International reserves, which had been steadily and carefully accumulated over thirty years were exhausted in three. Huge debts reflecting previous exports from Guatemala to Central American neighbors proved uncollectable. Debts reflecting inputs imported to manufacture Guatemala's exports, remained due and pressing. A black market in foreign exchange appeared and flourished. Guatemalans who had wealth reacted quickly and in five years sent \$600 million (half a year's imported inputs) to foreign bank accounts.

When the Cerezo government took office in January 1986, it inherited an economy that had seen both total and per capita income decline in each of the previous five years, that was in the throes of unprecedented price inflation and unemployment, that had no foreign reserves and no willing new creditors, and that had a public sector too small to lead the economy out of the morass.

Under the circumstances, short-term economic stabilization was appropriately selected by the Government, a decision endorsed by the U.S. economic team, as the first order of business. Stabilization is an indispensable precondition to private investment, production and employment, and these in turn promote an improved quality of life for the greatest number of people. As the funding source for market-dictated private sector imports in support of production and employment, balance of payments assistance is the single largest U.S. assistance program input in support of the private sector.

2. LAC Objective 3: Stabilize Financial Structures

a. Setting

The previous section described the severe economic crisis Guatemala suffered in the early 1980s. While inappropriate domestic policy responses to regional political instability and world recession triggered the dramatic downturn, the seeds of the crisis had been planted two decades earlier with Guatemala's decision to vigorously pursue an import-substitution industrialization strategy. Hence, policies to restore macroeconomic stability must necessarily be accompanied by measures which correct the biases against agriculture and extraregional exports which have so influenced the structure of production and investment in Guatemala. Otherwise, the country's early success in stabilizing the economy will not translate into long-term, sustained per capita income growth.

Antecedents to the Economic Crisis of 1980-85:
The period 1960-1980 was one of relatively robust growth and increasing exports. This correctly reflected macroeconomic aggregates of the period. But it also concealed fundamental weaknesses that were simultaneously being integrated into the nation's economy. The latter problem developed because exceptionally high prices for Guatemala's traditional export crops created a surplus that cloaked uneconomic uses of resources. Export revenue from coffee, sugar, cotton and bananas soared from \$105 million in 1960 to \$437 million in 1970 and \$782 million in 1980.

Guatemala used this foreign exchange surplus to invest in capital and import-intensive manufacturing facilities. Of all major product categories produced in Guatemala, agricultural products consume by far the smallest proportion of imported inputs

(5 percent of product value). Manufacturing, on the other hand, consumes imported inputs equivalent to 55 percent of product value. Thus, the foreign exchange generated by traditional export crops supported the development of industries that would always need substantial foreign exchange to finance their inputs even if (when) prices of traditional crops fell.

In Table 3 below, it can be seen that, as agriculture's contribution to GDP became smaller and industry's larger, the import and capital intensity of GDP grew rapidly.

Table 3
Sectoral Contributions to GDP
and Relative Factor Intensity
1960-1980

	<u>Percentages of GDP</u>				
	<u>Agriculture</u>	<u>Industry</u>	<u>Foreign Sector (Net)</u>	<u>Capital Investment</u>	<u>Imports</u>
1960-64	30	13	-2	15	15
1965-69	28	15	-1	19	19
1970-74	28	16	-1	20	20
1975-79	25	16	-4	26	26

The middle column shows the net impact of exports and imports on GDP. It is worth noting that the interval of peak Central American Common Market activity, 1975-1979, was also the interval in which the external sector constituted the most serious drag on the economy.

The policy bias in favor of manufacturing during the 1970's clearly tilted the private productive sector to the disadvantage of agriculture. Pushing the economy in a direction so out of line with natural comparative advantage was accomplished through generous forgiveness of taxes for manufacturers and through a high tariff wall. In this way, the potential for spreading the presumed benefits of the industrialization broadly across the community was largely squandered by exempting participating firms from taxes.

The economics problems of the early 1980's reflected Guatemala's inability to sustain its now more import-dependent productive sectors in the face of lower foreign exchange availability, once export commodity prices retreated from their windfall levels of the 1970's. The rapid contraction in production and employment, weakening of the national currency and spiralling external debt experienced by Guatemala from 1980 through

1985 all point to a country starving for foreign exchange. By 1986, short-term stabilization measures to close the external gap were desperately needed, as were actions to reorient production away from import dependency.

The Government of Guatemala Stabilization Program: The details of the current Guatemalan Government's stabilization program from 1986 through 1988 have been summarized in the macro-economic overview section of this updated CDSS and in the FY 1989 ESF PAAD and will not be repeated here except to say that, from the perspective of late 1988, the Guatemalan government has been exceptionally successful in achieving the objectives of its stabilization program. Positive real growth in per capita incomes has resumed, and price inflation is vastly reduced. The policy instruments envisioned by the Government's economic team in 1986 to achieve these objectives are now in place, and commitment is strong to maintain discipline through appropriate adjustments in monetary, fiscal and exchange rate policies. Other international agencies have also recognized the soundness of Guatemala's economic program. A Stand-by Agreement was signed with the International Monetary Fund in 1988, and an Export Development Loan with the World Bank is expected to be signed in mid-1989, both providing significant balance of payments support.

Table 4, which follows, provides quantitative indications of the improvement in the Guatemalan economy since the Guatemalan government adopted its stabilization program. Several important inferences can be drawn from these data. (1) The contraction of GDP per capita had clearly been arrested by 1987. The structure of GDP growth reflects the relative gains in agriculture and nontraditional exports. (2) The demand management effort had shown exceptional success by 1987, particularly in getting price inflation more nearly under control. However, the third clear inference of the data in Table 4 is that serious problems remain to be dealt with if the nation is to build successfully on the foundation of stability thus far laid and reach a robust long-term growth trajectory. In particular, the rates of domestic saving and investment must rise further and the loss of international reserves (another facet of the low saving problem) must be reversed. Comprehensive stability of the economy can only be claimed when the foreign sector, as well as the domestic sector, is equilibrated.

Both the current Guatemalan Government and the U.S. Country Team recognized from the beginning that economic stability was a necessary condition for robust private sector-led growth, but that it was not by itself a sufficient condition. Consequently, when 1987 results demonstrated that financial stability was on the way to being fully restored, both the Guatemalan and U.S. economic teams broadened their focus by elevating the goal of market-rational and sustainable real growth to equal precedence with stability. This meant that the macroeconomic

TABLE 4
SELECTED MEASURES OF ECONOMIC PERFORMANCE

	1985	1986	1987	1988/p
GDP GROWTH (%)	-0.6	0.5	3.1	3.5
AGRICULTURE	-0.8	0.3	3.6	3.0
MANUFACTURING	-0.2	0.1	1.7	2.5
COMMERCE	-3.7	-1.8	2.5	3.1
GOVERNMENT	1.2	4.0	4.5	3.2
OTHER	0.3	2.7	3.9	4.8
PRICE INFLATION (DEC. TO DEC.)	19.0	32.7	12.0	13.0
MONEY SUPPLY GROWTH (M1,%)	54.8	18.1	11.8	6.4
PUBLIC SECTOR DEFICIT (AS A PERCENTAGE OF GDP)/a	5.9	2.7	2.3	3.2
TAX REVENUES (% OF GDP)	6.1	7.9	8.1	8.8
NON-TRADITIONAL EXPORTS (MILLIONS OF US\$)	127.0	127.8	171.6	215.0
PERCENT OF TOTAL EXPORTS	12.0	12.2	17.6	19.4
OVERALL BALANCE OF PAYMENTS DEFICIT (-) OR SURPLUS (+) (N.B. MILLIONS OF US\$, INCLUDES EXCEPTIONAL FINANCING)	68.6	48.0	-73.0	-56.0
FIXED INVESTMENT (% OF GDP)	11.1	9.8	12.2	13.3
PUBLIC	2.7	1.9	2.1	2.8
PRIVATE	8.4	7.8	10.1	10.5
DOMESTIC SAVING (% OF GDP)	7.8	9.3	5.4	7.4
PUBLIC	1.3	1.1	0.8	1.0
PRIVATE	6.5	8.2	4.6	6.4
NET INTERNATIONAL RESERVES OF BANKING SYSTEM (MIL. US\$)	-457.0	-443.9	-465.0	-566.0

a/Includes exchange losses of the Central Bank and deficit of non-financial Public Sector
p/Projected

Source: Bank of Guatemala, Ministry of Finance, and IMF

policy dialogue would stress not just the policy management of broad aggregates such as the money stock and the budget deficit, but the structural details of economic policy as well.

The Growth Program: In the course of negotiating the FY 1988 ESF program, the Guatemalan Government was asked to prepare indicative 3-year projections of GDP growth, including the principal sectoral contributions. Starting with historically plausible long-term growth trends, the projections were to estimate the supporting requirements for domestic investment and savings, and for imports. Comparing these requirements with actual results in recent years would indicate the magnitude of the gaps that would have to be filled by some combination of external assistance and domestic policy adjustments. Policy dialogue specific to the ESF program seeks some combination of policy commitments that both sides agree will, when combined with the available ESF, close all the gaps. These commitments are sought as a key part of the policy dialogue early in the CDSS planning period, by FY 1991.

Along with the 1988 elevation of growth to equal priority with stability, an agricultural sector specific component was built into the macroeconomic ESF program. The Cerezo government has taken important steps to level the playing field. These include devaluation, elimination of most of the fiscal incentives provided to firms producing for the regional protected market, and initiation of a tariff reform process to lower the high CACM tariff wall. These steps help guarantee that actions to reactivate the agriculture sector will have their desired impact. The Mission thus made the decision to undertake not only DA-funded project interventions, but also sector-wide interventions in support of a revival of agriculture. Activities are oriented toward increasing participation in commercial farming by heretofore subsistence farmers, particularly in areas of the Indian highlands. With the steps taken by the current government both to stabilize the economy and remove policy biases against agriculture, the Mission has confidence that the efforts will yield significant positive returns, as they are not rowing upstream against an adverse policy climate.

The intention of the policy initiatives is not to tilt the economy to contravene market force allocation of resources. On the contrary, the thrust of this effort is to clear anti-market policy and institutional obstructions from the path of agriculture so that its growth and development can respond to price and cost signals consistent with international market prices and Guatemala's resource endowments. It is important to recognize that this does not represent an anti-manufacturing bias. Indeed, the whole point of the private market-directed development strategy to which both the Government of Guatemala and the Mission are committed is to permit the primary sector to produce the surplus of which it

is capable, so that that surplus can provide the capital needed for industrial development. The proposition to which the USAID program subscribes is simply that the kind of industrial development, and the pace at which it proceeds, should be determined primarily by market forces rather than by political or bureaucratic judgment.

b. Constraints

Most trained economic observers share the Mission's judgement that Guatemala has as much medium- to long-term economic potential as any country in Latin America and the Caribbean, with the possible exception of Chile. Its labor force is imbued with a tradition of hard work, and is regarded as dextrous and intelligent. It has a deeply entrenched aversion to Government intervention in the lives of individuals and in economic processes. Its public sector is relatively small in terms of both its tax take and its expenditures. The country has a wealth of fertile land, and modest population density. Yet, despite its rich natural endowments, Guatemala's poor are desperately poor, and are far too numerous. The present section identifies macroeconomic constraints contributing to this situation.

1) The Foreign Exchange Constraint

Guatemala, like most developing countries, produces few of the raw materials and capital goods that enter the production process. The production of these inputs is generally extremely capital intensive, uses highly skilled labor and is undertaken subject to substantial economies of scale. Consequently, they must be imported. In recent years (1965-85), Guatemalans have spent the equivalent of a little over 20 percent of GDP on imports. About two-thirds of these imports are classified as productive inputs.

The import content of production in different sectors varies widely. Agriculture consumes imported inputs equivalent to just 5 percent of the value of its contribution to GDP. Manufacturing's imported inputs come to 55 percent of its contribution. Consequently, a significant change in the sectoral structure of GDP implies a change in local demand for imported inputs. The dimensions of the foreign exchange constraints are shown in Table 5.

Table 5
Guatemala: Balance of Payments
Current Account Deficits
(Five Year Averages of Annual Data)

<u>Period</u>	Surplus (+) or <u>Deficit (-)</u> (Millions of US\$)
1960-64	-17.96

<u>Period</u>	<u>Surplus (+) or Deficit (-)</u> (Millions of US\$)
1965-69	-35.70
1970-74	-32.80
1975-79	-130.92
1980-84	-347.28

As the structure of the economy reverts over the planning period to one with a less capital intensive bias, the foreign exchange constraint should ease sharply. The Mission's agricultural and nontraditional export thrusts are geared to accelerate this process.

2) The Saving/Investment Constraint

Guatemala's economic history suggests that annual investment of 10 percent of GDP is required just to replace depreciated capital. If growth of GDP is to be realized on a sustained basis, the investment or capital formation requirement is greater. Annual growth of 4 percent, given the present structure of production, requires something like 14 or 15 percent of GDP in annual average investment spending. Actual investment in the 1980's has been closer to 12 percent. Moreover, domestic saving has been sufficient in the 1980s to finance investment of less than 10 percent of GDP. In 1987, for example, domestic saving fell to just 5 percent of GDP.

The problem is how to generate and mobilize, through financial intermediaries, sufficient savings so that more borrowers can be served. In Guatemala, what shows up in national accounts as low savings rates is, in part, a symptom of the foreign exchange constraint. The purchase of consumer durables, for example, is a form of saving in an economy in which such goods appreciate. Expectations of devaluation in the face of persistent external payments deficits make durables a sound instrument for saving. Yet purchases of durables are not ordinarily recorded in national accounts systems as savings.

Another symptom of the saving/investment constraint is a lack of public infrastructure in support of private productive activity. Public sector investment in Guatemala lags because of bureaucratic/administrative deficiencies, lack of funds, and lack of an effective articulation of public infrastructure needs by the various constitutencies. The private sector does not insist on public investment spending, in part, because it doubts the Government's will and ability to execute it. A solution to this will take time and will ultimately require that the public sector win the confidence of the private sector by demonstrating a capability to plan, design and execute projects effectively. There must be confidence that fiscal, monetary, foreign exchange and structural policy will be conducted with a steady hand and without capricious, politically motivated, or radical changes.

c. Strategy

As observed at the beginning of this section, stability and growth objectives are not rivals for the attention of foreign assistance donors. They are inseparably fused complements. In fact, the impossibility of achieving either alone for sustained periods may be one of the best documented propositions in all of economics.

Given the view expressed above, it follows that the Mission's strategy for "stabilizing financial structures," must be a strategy for achieving balanced (not equal) growth of population, production and aggregate demand. If this is achieved, it will be accompanied by increased per capita incomes, stable prices, and a self-sustaining habit of real growth. To accomplish this ambitious objective, the Mission's strategy focuses on using BOP assistance and the policy dialogue to leverage reform in four fundamental areas:

- (1) Maintenance of sound monetary, fiscal and foreign exchange policy.
- (2) A change in the structure of production.
- (3) Increased investment and domestic saving.
- (4) An increased share of GDP expenditures for the Central Government.

(1) Maintenance of Sound Monetary, Fiscal and Foreign Exchange Policy: In addition to the structural changes alluded to above, it will be essential that over the planning period the government sustain its impressive record of sound monetary, fiscal and foreign exchange policy. Basically, this entails compliance with the following guidelines:

-- Domestic monetary expansion should be triggered by gradual net acquisition by the monetary system of international reserves. In no case should the stock of money increase, for extended periods, significantly more rapidly than national productive capacity.

-- The public sector fiscal deficit for any year should be no more than 3 percent of GDP as an upper limit over multi-year planning periods.

-- The exchange rate should not permit extended periods of under-or over-valuation of the national currency, as measured by international relative prices, or of large reserves losses or gains.

(2) Change in the Structure of Production: The policy dialogue will emphasize the advantages inherent in a change of the structure of production in favor of labor and land intensive

production relative to capital and import intensive production and attempt to detail how this can be achieved.

(3) Increased Investment and Domestic Saving:
Decisions will be encouraged in the policy dialogue that result in increases of investment and domestic savings as percentages of GDP to reach reasonably stable annual average ranges of 13-15 percent and 10-12 percent, respectively. Two dialogue subpoints to be made in this respect are:

(a) Public sector investment is necessary in support of private investment. In particular, modern transport terminals, commercial use roads, vastly improved communications, water source development, and research and information dissemination are of top priority.

(b) Private investment can be encouraged by creating an environment in which wealth owners have access to as vast an array of investment instruments and financial markets internally as is available externally. Moreover, all key prices (including interest rates, wages, exchange rates as well as commodity prices) must be free to move with a minimum of regulatory interference, to reflect domestic and international market conditions. The same conditions will motivate domestic saving.

(4) Increased Central Government Expenditures:
To redress the seriously underinvested productive and socioeconomic infrastructure network in Guatemala, the policy dialogue will continue to emphasize that the Central Government expenditure share of GDP will have to increase. The Mission believes that, subject to two important provisos, that share can reach the 15 percent neighborhood during the planning period without cause for concern about "big government." The provisos are: (1) that the public sector make dramatic improvements in the selection, design, monitoring and financial control of activity expenditures; and (2) that the private sector is aware of and believes in the improved efficiency of Government in that regard. The latter will only be achieved if the Government openly invites active and meaningful participation of the private sector in seeking efficiency.

B. Goal: Basic Structural Reforms for Rapid and Sustained Economic Growth

1. Rationale for Goal Selection

The USAID/Guatemala development strategy focuses on those productive sectors which can best contribute to broadly-based self-sustaining growth. Guatemala's fertile soils, temperate highland climate and abundant water supplies endow it with a clear comparative advantage in the production of a wide variety of agricultural commodities, an advantage it is only now beginning to

realize. Agriculture currently generates more than a quarter of Guatemala's Gross Domestic Product, two-thirds of its export earnings and nearly three-fifths of its employment--this after more than two decades of underinvestment in the sector and relative neglect by policy makers more entranced by the false promise of import substitution industries.

The USAID strategy seeks to achieve expansion and diversification of Guatemala's agricultural base with emphasis on non-traditional crops having export potential and with a high degree of participation in production by owners/operators of small farm units. Industrial expansion would be closely related to agricultural expansion and based to a larger extent than in the past on processing agricultural output for export and for domestic consumption. Agricultural and related processing industries are believed to hold the most potential for maximizing employment and income gains for the Guatemalan labor force and for generating essential foreign exchange earnings for the country's import and debt service needs.

The achievement of genuinely broad-based growth, however, requires that attention be given to the problems impeding the fuller participation in the economy of a very large number of small and microentrepreneurs now operating only at the margins of the formal sector. The number of such entrepreneurs who have little access to credit or improved business technology and market information has been estimated at more than 350,000. They represent a vast potential resource for the growth of the country's economy but Guatemala will be unable to tap that potential unless barriers to their entry into the formal sector market economy are reduced or eliminated. This group will, therefore, be a major focus of USAID strategy during the period covered by this CDSS update.

2. LAC Objective No. 1: Increase and Diversify Agricultural Production

a. Setting

An exhaustive setting, constraints and strategy analysis is given in the February 1988 USAID/Guatemala Agriculture Sector Strategy document approved in Washington in mid-1988. This summary statement is drawn from that document.

In 1986 Guatemala's agricultural sector generated 26 percent of total Gross Domestic Product (GDP), 67 percent of export earnings, while employing 58 percent of the economically active population. The sector is characterized by commodities and production techniques that range from subsistence cropping using centuries old practices to technologically sophisticated export agriculture. Basic grains, i.e. corn, beans,

wheat, rice, and sorghum, account for 11 percent of the annual value of agricultural production. Some 660,000 hectares are planted in corn alone, on approximately 47 percent of total arable land in the country and on over 60 percent of the total farms. Basic grains are primarily a small farmer crop (less than two hectares per farm).

Traditional export crops include coffee, cotton, sugar, banana, cardamom and meat/meat products. In 1985, led by coffee (over 50 percent), they accounted for 95 percent of agriculture export earnings. Fast expanding, non-traditional export crops, predominantly fruits, vegetables, flowers and ornamental plants are increasing their share of export earnings each year. Guatemala is a consistently strong net exporter of agricultural products. In 1985 its balance of trade in agricultural commodities (excluding forestry) was \$844.6 million in exports versus \$119.6 in imports. Within the import category, wheat, edible oils and milk constituted over 75 percent of the value of agricultural products.

Guatemala has the region's most highly skewed land distribution. Farms smaller than 3.5 hectares include 78 percent of all farms but only 10 percent of land in farms. At the other end of the scale, farms of over 450 hectares comprise less than 1 percent of total farms but over 34 percent of the land. This minifundia phenomenon is most severe in the Indian highlands. There are also serious deficiencies in the land cadaster and titling procedures for small farms, again particularly so in the Indian highlands.

Agricultural technology development and transfer services provided through the private sector are concentrated on a few specific crops and directed toward the larger commercial producers. The vast majority of small farm owners/operators are dependent upon government agencies and resources for research, extension and credit. Historically, resources have been limited and have been channeled into the area of basic grains, while the rest of the sector has been virtually neglected.

Neither public nor private sector financing for agriculture has reflected in the last few decades the sector's importance to the national economy. In 1985, for example, the Ministry of Agriculture received only 3.2 percent of the national budget, and ranked tenth among twelve government sectors (excluding debt service). In the same year, commercial banks allocated only 16 percent (\$68 million) of its new loan portfolio to agriculture and livestock, 75 percent of which went to loans for coffee, cotton, sugar and livestock. The bulk of such loans were for short-term operating costs with little devoted to longer term investment capital requirements. In contrast, the government agricultural development bank (BANDESA) allocated 80 percent of its 1987 loan portfolio of \$28.4 million to owners/operators of small farm units for basic grain production.

Population pressures and steep terrain combine to magnify the negative effects of disinvestment and poor management in major production areas. Soil loss, resulting in reduced tillable area and fertility, is most prevalent in the densely populated highlands where small farmers engage in forest clearing and steep slope cultivation and fail to use even the most rudimentary conservation practices. Exacerbating the deterioration of the land base is rapid deforestation, particularly in the Petén and eastern regions, occasioned by exploitation for fuelwood and timber. Energy generated by burning fuelwood represents 60 percent of the country's total energy consumption and forest removal proceeds at a rate which is ten times that of public and private replacement programs. If present rates of cutting were to continue, natural woodland cover would be exhausted in about forty years.

Decreasing per capita availability of land is changing the land distribution pattern. Between 1950 and 1979 holdings in the hands of the smallest producers increased by about 60 percent. However, the area represented by these farms increased by only 31 percent, resulting in an increasing number of ever smaller marginal and sub-marginal farms. Such redistribution is not a solution to the social and political demands exerted by more than one million family members who are landless or holders of sub-marginal farms. Three trends are obvious: (1) per capita production is well below 1975 levels; (2) the best commodity performers have been basic grains, and, (3) productivity has stagnated. In addition to weak physical output increases, both the value of production and per capita productivity was less in 1985 than in 1975.

On a more positive note, in recent years non-traditional products, especially fresh and frozen vegetables and fruits, have gained increased importance, taking advantage of the country's competitive position in the international markets for such products. Much of this shift has resulted from diversification out of subsistence crops, particularly in the highlands.

Donor assistance to the agriculture sector has been and continues to be significant. The IDB places primary emphasis on support to public sector programs. During the period 1976-1986, the IDB provided a total of \$97 million in assistance loans. Areas identified by an IDB Programming Mission in early 1987 for possible future financing include \$40 million for credit, \$10.6 million for irrigation, \$36 million for livestock, \$14 million for fisheries, \$18 million for watershed management, and \$90 million for institutional restructuring and strengthening.

The Central American Bank for Economic Integration (CABEI) receives considerable quantities of seed capital from A.I.D., other international donors, and from its own members. Its activities in Guatemala are oriented principally toward the

restructuring of credit policies, with a concentration in rural agroenterprises. CABEI also finances activities for plant protection, maintenance of irrigation and drainage and rural access roads.

The European Economic Community (EEC), through its CADESCA (Comite de Accion para el Desarrollo Economico y Social de Centro America) program, supports a Central American food security program. It finances preinvestment studies which are developed into project proposals to be funded by other international donors.

The Interamerican Institute for Cooperation in Agriculture (IICA) utilizes funds provided by member countries and, at the same time, maintains contract relationships with A.I.D., IDB, UNDP and other international donors for work in five priority areas: technology development and transfer; marketing and agroindustry; rural development; plant and animal health; and, planning and analysis of agricultural policies.

Of the other traditional donors, the World Bank has not been active in agriculture in Guatemala since the 1970s. The Organization of American States (OAS) provides limited assistance principally through IICA. And FAO and UNDP provide technical assistance in agricultural planning and project identification. The World Food Program (WFP) has provided food aid worth \$56 million between 1981 and 1988 and is planning \$16 million for 1989. WFP programs focus on support of Guatemalan Government direct development programs in rural and marginal urban areas, including school feeding, environmental sanitation, WID community development training and crop diversification. In 1987 and 1988 bilateral assistance began to increase through the German Food Assistance Program (COGAAT) and the Japanese and Italian governments.

b. Constraints

On the basis of analyses conducted between 1986 and 1988, a number of important constraints to revitalizing Guatemalan agriculture were identified. For programming purposes, they are grouped here in two categories: structural and institutional.

1) Structural Constraints

Among the key structural constraints are the insecurity and uncertainty resulting from political turmoil, a perception of insecure land tenure, population pressure, land and income distribution, malnutrition among low-income groups, and crop and technology mixes, especially as they affect rural employment.

a) Land Distribution and Use: Historically, the agriculture sector has been dominated by a relatively few large landholders specializing in traditional export crops. The landholdings of the largest farmers has decreased in recent years and the shift has been toward middle-sized farms. Still, the agricultural population is characterized by a large number of subsistence smallholders, tenants and laborers. These small farmers produce the bulk of the basic grains needed to meet domestic demand, yet have little access to capital and infrastructure and employ traditional, low-yielding farming technologies. This dualistic agricultural structure impedes efficient use of the country's land, labor and capital resources.

b) Marketing/Storage/Processing: As traditional and nontraditional perishables and export crops have gained importance, the lack of marketing infrastructure has become critical. While packing and processing plants exist, they are not generally located in areas where future production increases are expected. This represents a major problem for smaller growers for whom product handling is a significant cost and risk factor.

c) Transportation: Although Guatemala has a well developed primary and secondary road system, the lack of tertiary and farm-to-market roads, particularly in the Western Highlands, limits small farmer access to modern inputs and new markets where product and service quality and reliability are critical. Road maintenance is inadequate and serious deterioration has occurred in many key primary roads, increasing transportation costs and product damage. Additionally, the lack of adequate port facilities, storage, and refrigerated transport is a deterrent to increasing exports of perishable, non-traditional products.

d) Natural Resources Management: Preliminary analyses resulting from country and regional environmental profiles, other studies and existing project activities have concluded that the natural resource base of Guatemala is in serious trouble. In many areas of the heavily populated highlands, high consumption of fuelwood, forest fires, tree pests, and land clearing for agricultural use cause timber extraction to exceed natural and programmed reforestation. An estimated 90,000 hectares are being deforested annually. Natural forest stands will disappear within 40 years if appropriate afforestation, reforestation, and forest management programs are not undertaken. Reforestation over the last few decades has also been a prime underlying factor in the chronic drought conditions in the eastern part of Guatemala. It is also seriously threatening major watershed areas of the country. Much of the land being cleared of forests is highly susceptible to erosion, particularly in the Petén and in the densely populated, intensively cultivated and steeply sloped western highland areas. Without corrective forestry and soil conservation practices, it is unlikely that productive agriculture can be sustained, even if there were to be a large increase in the

use of modern, costly inputs. Additionally, uncontrolled pesticide use is contaminating the natural resource base, particularly water supplies.

In response to these realities and to amendments to Sections 118 and 119 to the Foreign Assistance Act on Tropical Forests and Biological Diversity, the Mission is undertaking or will do so shortly, the following actions: (1) It will buy into existing centrally-funded projects and participate in ROCAP's Regional Environmental and Natural Resource Management Project. (2) Based on recommendations of the recently completed environmental assessment for the Highlands Agricultural Development project and a pesticide usage assessment, the Mission will include expanded environmentally-oriented activities in all new or amended Mission projects, as appropriate. (3) Based on a recently completed biodiversity assessment, PD&S funds will be used for TA and training to provide the Government of Guatemala's Center for Conservation Studies with a computerized biodiversity data system that will help set priorities and plan/implement future projects while also enhancing the capacity of the National Environmental Commission to become a more effective functioning unit. (4) Working from the growing data and information base, the Mission will develop a priority action and investment list for resource conservation and biodiversity activities for implementation over the CDSS period. The effectiveness and size of such investments will depend in large part on the shape of the evolving Guatemalan public policy on these important subjects.

e) Irrigation: Without supplemental water, the low moisture retention capacity of volcanic soils and a sharply delineated dry season (January-April) in most parts of the country limit crop production to one cycle per year. In 1988, the country was irrigating only 3.5 percent of its potentially irrigable land, a ratio much lower than in any other Central American country. Of the 17,300 hectares covered by some installed irrigation infrastructure, only 6,000 hectares are actually being irrigated due either to insufficient secondary canals or inadequate maintenance. The lack of irrigation inhibits diversification to crops which find their best markets during the dry season and which could support the additional costs of irrigated farming.

t) Energy: While the government has been able to meet urban power demands, only 7 percent of Guatemala's rural population has access to electricity, the lowest rate in Central America. Some 4.4 million inhabitants of rural areas are without electricity, and major areas in the heavily populated western highlands lack sufficient and reliable power for agricultural and industrial operations, which could provide off-farm employment as well as processing services for non-traditional agriculture.

2) Institutional Constraints

The institutional constraints facing the agriculture sector result from a declining public sector service network, insufficient budget and inappropriate resource allocations, declining private sector investment, ineffective farmer associations and low levels of trained and educated agriculturalists.

a) Technology Development and Dissemination: The effectiveness of the Agricultural Science and Technology Institute (ICITA) has been constrained by a limited budget, slowness to adjust to non-traditional crop research needs and reduced outreach capability. Likewise, private traditional crop producer associations have been unable or unwilling to finance and undertake for themselves the research needed to stay competitive in world markets. The dissemination of research results and the application of improved management techniques are especially difficult given the diversity of the farm sector. The Agricultural Extension Service (DIGESA) and the Livestock Extension Service (DIGESEPE), facing resource and personnel constraints, have shown only limited effectiveness in contributing to improved productivity.

b) Input Supply System: Fertilizers, seeds and pesticides are widely used in traditional export agriculture and are increasingly in demand for non-traditional products. Virtually all vegetable seed is imported. Distribution networks are unreliable and the small farmer (e.g., the small quantity consumer) is at a particular disadvantage, being subject to local product availability and uncertain prices.

c) Credit Delivery System: Small farmer access to production and investment credit is a constraint to diversification and technification programs for both traditional and non-traditional crops. Although the commercial banking system remains the main source of financing for the agricultural sector, such credit is primarily directed to the short-term working capital needs of a small number of large borrowers. As a result, non-traditional crop diversification and the technification of traditional export crops have lagged and there exists a large and unmet demand for investment credit within the sector. Currently small-scale farmers are dependent upon the government bank (BANDESA) for their production and investment credit needs. BANDESA is the largest agricultural lender in the country with a widespread rural agency network and long experience in agriculture. However, its operations are costly, bureaucratic and overly centralized, suffer from high rates of delinquency, and have shown little growth in new lending. Decapitalization and lack of liquidity have resulted.

d) Farmer Associations: Guatemala has a large number and wide variety of farmer organizations, many of which suffered during the political strife of 1975-1983 and are now heavily in debt, with weak leadership and declining memberships. Effective farmer organizations have the potential to provide inputs, credit, technical assistance and marketing support to their members. Of equal importance, they can be used to expand the outreach of other private and public institutions.

e) Agricultural Education and Training: This constraint is especially critical when introducing subsistence farmers to non-traditional crops which require higher levels of technology and the appropriate use of inputs and credit. Improved and expanded training and education programs can introduce new technology, change cropping patterns, improve the communication and dissemination of information, and generate greater efficiency in program and project implementation.

c. Strategy

The goal of sharing more widely the benefits of growth cannot rationally be pursued without an emphasis on revitalization of agriculture. Mission experience demonstrates that exceptionally high rates of return can be realized on modestly sized plots of land through irrigation and crop diversification. This, therefore, is the focus that serves as the strategic cornerstone of the Mission's agriculture portfolio for the CDSS period. Specific initiatives will develop a capability among small farmers to diversify their crops and be able to respond to price and cost signals of international markets. Support for removing public policy obstacles and undertaking public investments in supporting infrastructure is delivered by the Mission's unique agricultural sector-oriented ESF program and through P.L.-480 related self-help measures.

As stated earlier, it is the Mission's conviction that agriculture is the unquestionable sector of Guatemala's greatest comparative advantage. Thus, it is the sector that market forces, not planners or bureaucrats, point to as the spearhead of a surge toward self-sustaining long-term growth.

The Mission's objective is to eliminate policy, institutional and infrastructural obstacles to realization of the sector's substantial untapped potential. To reach the CAI 3.5 percent annual target growth rate in agricultural GDP over the strategy period, the Mission's agriculture sector strategy focuses on six intervention areas:

- (1) Land
- (2) Capital
- (3) Labor

- (4) Institutional Strengthening
- (5) Market Participation
- (6) Food Aid Integration

(1) Land: Free market operations and titling to individuals remain the governing principles in the Mission's strategy of replicating the successful Penny Foundation commercial land market approach to the difficult land access issue. Planned interventions center on using or establishing additional organizations to expand outreach. More precise operational options to achieve this are laid out in a land access concepts paper submitted to Washington in early January 1989. Thus, the Mission is committed to wider non-expropriatory access to land through expanded commercial land market mechanisms to provide greater economic opportunities to landless or landpoor families. Improved land use efficiency will be pursued through investments in small and medium size irrigation systems which will permit multicycle cropping and greater income returns on small holdings. Sustained productivity will be an objective of investments in natural resource conservation.

(2) Capital: Shortages of working and investment capital have been primary constraints to diversification and commercialization of small farm plots. Increased emphasis is being given to improving existing and developing new public and private sector credit delivery mechanisms. The special focus on BANDESA operations will continue, with attention principally to decentralization and improved administrative procedures.

(3) Labor: As new production, technology and marketing opportunities are introduced, farmers need to undergo the transition from laborers to managers to enable them to make the decisions required for more effective entry into new markets. This requires extensive and continuing investments in training.

(4) Institutional Strengthening: The Ministry of Agriculture and its dependent agencies all labor under difficult recurring cost limitations and unreliable data collection and analysis capabilities. Their ability to plan effectively and to implement programs is severely curtailed as a result. A principal focus of the policy dialogue is to provide technical assistance to improve institutional capabilities. Technology transfer, credit delivery, research and extension, and training will all become better contributors to the sector as the result of plans by USAID and other donors to strengthen both public and private sector organizations working in agriculture.

(5) Market Participation: Competitive small farmer participation in commercial agriculture requires access to an improved infrastructure network which includes collection, processing and transportation facilities so that they can make timely delivery of quality products. In addition, small farmers must have

informational systems that keep them aware of market opportunities both for production planning and at the moment of sale. In many instances, it will be advantageous for small farmers to act in concert to achieve a certain critical mass and the leverage that size commands. Continued support of farmer organizations will permit their collective interests to be well represented and to be competitive with larger producers.

(6) Food Aid Integration: The specific objectives of the Mission's food assistance program within the context of the overall CDSS and agricultural sector strategy are: (a) to use Title I commodities to contribute to balance of payments, to help achieve food security, and to facilitate needed policy and investment decisions through self help measures and associated local currency attributions; and (b) to use Title II commodities in support of limited but well targetted nutritional and food-for-work voluntary agency programs, particularly those directed to natural resources conservation.

3. LAC Objective 2: Strengthen and Expand the Private Sector

a. Setting

Given the small size of its public sector (historically rarely more than 12 percent of the country's GDP), the private sector has long been the dominant force in Guatemala's economy. In aggregate terms, agriculture and commerce each contribute about one quarter of GDP while manufacturing's contribution is approximately 15.5 percent. During the sustained growth of the 1960s and 1970s, manufacturing's share of GDP grew from just 12.7 percent in 1960 to 16.4 percent in 1979. However, as the Central American Common Market (CACM) began to unravel at the end of the 1970s, Guatemala's manufacturers saw protected export markets begin to dry up and production decline, in real terms, by nearly 10 percent by the middle of the 1980s. Thus, the continued rapid expansion in industrial output upon which Guatemala had pinned its economic future failed to materialize in the 1980s. The country is now faced with the task of fashioning a policy framework that encourages an "even playing field" for balanced private sector growth with appropriate incentives to hold private savings in the country for badly needed domestic investment.

The Mission's strategy with respect to the reshaping of the policy environment affecting the private sector is covered in Section III-A, above, and will not be repeated here. This section will focus on several key areas of intervention where carefully directed assistance can facilitate growth in private enterprise subsectors with exceptional potential for rapid expansion of output, employment and incomes.

1) Microenterprises

In recent years, the microenterprise subsector has played an increasingly significant role in the Guatemalan economy. The urban informal sector is estimated to have grown an average of 10 percent annually over the past decade. According to a 1987 survey, 26.2 percent of the country's economically active population is employed in nonagricultural enterprises employing five or fewer individuals. Several factors have contributed to the rapid expansion of the microenterprise subsector. These include continuing rapid migration from rural to urban areas, the industrial contraction of the early 1980s and the sharp drop in private sector investment since 1980 which has limited the labor absorption capacity of the formal sector.

According to a 1987 survey by the National Statistics Institute (INE), over 356,000 establishments in Guatemala employ five or fewer individuals. For urban microenterprises engaged in production and services, average employment was 2.7 workers including owners and part-time worker equivalents. Another study, which included commerce, found the number of workers in urban microenterprises to average just over two, with 93 percent of the retail businesses employing only the owners. In this latter study, 96.6 percent of the microenterprises had four or fewer employees and more than 80 percent had fixed assets of less than \$1,850.

While microenterprises are generally concentrated in central urban areas (INE data indicate that 27 percent are in the Department of Guatemala alone), they tend to be owned by migrants from rural areas. One study found that 59 percent of microentrepreneurs in the urban centers of Guatemala City and Quezaltenango had moved from rural areas. Moreover, microenterprises appear to be far more than simply a refuge occupation for the unemployed. A 1986 survey of the informal sector found that 78 percent of entrepreneurs had been salaried workers when they started their businesses, while only 5.7 percent had been unemployed.

Women are a significant force in the microenterprise subsector, with a heavy representation in commerce. Women operate 63 percent of establishments with five or fewer workers in the commercial sector. Further, women play a considerable role in productive enterprises; a recent study found that one-third of informal manufacturing firms with fewer than 10 workers in Guatemala City and Quezaltenango were operated by women.

Despite its bright growth performance, the microenterprise subsector faces a number of problems which, if resolved, could permit a substantially higher contribution by microenterprises to Guatemala's economic growth. Recent studies indicate that the greatest perceived problem for microentrepreneurs

is lack of access to formal credit channels. The problem appears to be neither the creditworthiness of the microentrepreneurs (experience here and in other countries indicates that they pay their debts as well as or better than do business people in the formal sector) nor the economic returns on loans to such businesses (when they do obtain loans from street lenders or other sources, they most often pay substantially higher rates of interest than the bankers charge).

Rather, they appear to be victims both of the attitudes of traditional financial institutions and of the legal system that inhibits entry of the microentrepreneur into the formal sector. If the microenterprise is not legally constituted as a business, it is difficult to convince a banker of its creditworthiness. Moreover, the microentrepreneur will most likely have had little or no experience with banks and, thus, have no idea how to approach one for a loan. The same is true with respect to legalizing his business. The legal procedures and documentation requirements are both lengthy and complex and cannot be completed without professional legal assistance which is not only expensive but normally inaccessible for the microentrepreneur.

Other problems include lack of training in business practices (one study showed that nearly three-quarters of microenterprises keep no records at all), scarcity of market information, limited access to new technology and products and little or no representation or voice in political decisions that affect the microenterprise subsector.

2) Savings and Credit

Credit availability is not just a problem for the microentrepreneur; it is seen as a major constraint by all types and sizes of companies but appears to be a particularly serious problem for the smaller firms which cannot meet bank collateral requirements. Clearly, it is a multifaceted problem involving traditional attitudes of the banking community, the laws and regulations governing banking operations and the limited availability of funds for lending activities, the latter closely related to low domestic savings rates and capital flight.

The Guatemalan financial system includes eighteen banks, three of which are state-owned, with some 250 banking offices throughout the country, plus a number of finance companies (financieras) and firms specializing in specific credit lines. Lending tends to be highly concentrated as shown by data on banking activities from 1984. In that year, private banks provided 63.8 percent of formal credit, state banks 9.0 percent, finance companies 18.2 percent, and the other institutions the remaining 9.0

percent. Some 45.9 percent of bank credit went to agriculture and manufacturing, and 34.0 percent went to commerce and consumer credit. Of loans to the manufacturing sector, only 4.9 percent went for capital investment. Some 81.6 percent of the banks' portfolios were in loans greater than \$50,000. Only 5.2 percent of the portfolio value was in loans of less than \$10,000. The finance companies had 94.7 percent of their portfolios in loans greater than \$50,000. Generally, banks in Guatemala show little interest in lending to small businesses. There are a variety of reasons for this, including transaction costs, strict collateral requirements imposed by the Superintendent of Banks, requirements that borrowers have a checking or savings account, and a comfortable environment in which the banks see no need to change the profitable status quo. Obviously, with such an atmosphere, there is virtually no chance that traditional banks will lend to microenterprises.

Credit instruments and banking legislation and practices will be the subject of a future USAID study of how best to increase access to formal banking channels by smaller enterprises and of how to encourage lending for long-term capital requirements. The problem of low savings rates and capital flight can be solved only through consistent policies over time to stabilize financial structures, and permit adequate returns to domestically invested capital and increase investor confidence.

3) Draw-back Industries

Experience in other countries, particularly the Dominican Republic and Costa Rica, has demonstrated the substantial employment effects that can be obtained with relatively small capital outlay through drawback industries. While Guatemala has lagged behind its neighbors in exploiting the opportunities offered in this regard by the CBI and CAI programs, its exports from draw-back operations increased eightfold between 1982 (\$5.0 million) and 1987 (\$41.4 million). Projections from a 1987 study indicate a possible market for such exports of as much as \$280 million by 1992 with potential employment gains of more than 40,000 new jobs.

While legislation was enacted in 1984 to facilitate expansion of draw-back industries, this was not accompanied by formal establishment of free zones for this purpose. The one existing free trade zone (FTZ) in the country was established in 1973, is state-owned, represents an investment of more than \$10 million and employs only about 600 workers --not a good example of how it should be done. What is needed is legislation to permit private ownership and development of FTZ facilities, programs to train workers and technical personnel, and efforts to overcome transportation bottlenecks and communications problems.

4) Institutional Framework

The private sector represents a very diverse and complex slice of Guatemalan society. One fundamental difference exists between the organized, wealthy and sophisticated elite largely headquartered in Guatemala City and the informal sector of small businessmen and artisans located throughout the country. The former wields considerable political power through its organized chambers as well as through its business and personal ties with the public and private sectors, while the latter lack any real organized voice in economic or political affairs. The organized private sector is also highly centralized in Guatemala City (only the Chamber of Commerce has regional branches), as is political power, the financial system and most large business enterprises. The greatest expression of this sector's political power is concentrated in the Comite de Camaras Agricolas, Comerciales, Industriales y Financieras (CACIF), the umbrella lobbying arm of all the chambers.

The organized private sector also has its share of divisions and rivalries. Different business organizations are organized by economic sector (the chambers of industry, tourism, and commerce, often with subgroup "gremiales" organized by specific business activity), managerial ties (e.g. the Guatemalan Managers Association or AGG), political lines (CACIF), or the professions (lawyers, engineers, etc.). However, on certain issues (e.g. the size of the public sector, taxes, and privatization of state enterprises) the organized private sector can be very unified. One example of such unity was the private sector's collective and decisive opposition to the tax package proposed by the last military government in April 1985, and again in October 1987, when the current government attempted implementation of a poorly defined tax reform package with no prior consultation with the private sector on its scope and content.

Since 1986, the Mission has worked closely with the Chamber of Entrepreneurs (CAEM), an association of younger businessmen created to take advantage of incentives offered by the CBI, to develop a capacity within the private sector for national policy research and analysis; with the Guatemalan Management Association (AGG) to provide mid-level training in general management, marketing and finance; and with the Non-Traditional Exporters' Guild to increase its export market analysis capabilities. The USAID also maintains an on-going dialogue with the leadership of CACIF, CAEM and other similar organizations on national policy issues of concern to the private sector and its various interest groups.

b. Constraints

1) Structural Constraints in the private sector are generally associated with credit and finance. They include entrenched attitudes as to the "natural" market for lending activities (short-term working capital for manufacturing, traditional agricultural production and commercial transactions) which largely exclude loans for long-term capital requirements and for smaller enterprises. A key structural constraint to expansion of the private sector is the country's sharply reduced domestic savings rate since the beginning of the 1980s which has averaged between 35 and 40 percent below savings rates for the 1960s and 1970s. Until investor confidence in the stability and long-term growth prospects for the Guatemalan economy is restored, it is unlikely that domestic savings rates will revive to their historical levels. Other structural constraints are the result of long-standing public sector underinvestment in the basic infrastructure--particularly roads and port facilities--needed to support an expanding private sector.

2) Institutional Constraints include even the industry, trade and professional organizations that serve the interests of the elite formal sector. Despite limited technical assistance to date, such groups as CACIF, CAEM, the AGG and the Non-Traditional Exporters' (NTE) Guild still lack the policy analysis, data gathering and training capabilities to effectively serve the needs of their constituencies and to carry on an effective dialogue with public sector policy makers. At the other end of the spectrum, the small and microenterprises are left with virtually no organized voice in national affairs and with no means to meet their technical assistance, training and information needs.

3) Policy Constraints facing the private sector include many of the policy dialogue issues and constraints discussed in Section IV-A above. In addition, current banking laws and regulations, particularly those requiring collateral valued at substantially more than the face amounts of loans, effectively close access to formal banking channels for small and micro enterprises. Other laws and regulations make the process for legalizing small and micro businesses more complex, lengthy and expensive than the owners of such enterprises can afford. The lack of legal status acts as a bar to their participation in many transactions with the formal sector. For example, a firm without such status cannot issue a legally acceptable invoice nor can it qualify for a bank loan under existing banking regulations. In another area, existing legislation governing the operation of free trade zones and draw-back industries in Guatemala are more restrictive than in neighboring countries. This places Guatemala at a disadvantage in attracting new ventures and investments in such industries and results in the potential loss of significant employment and income gains for the Guatemalan labor force and of substantial additional foreign exchange earnings for the country's economy.

c. Strategy

The Mission's Private Sector Strategy concentrates on four interdependent areas of emphasis:

(1) Monetary and fiscal reforms to improve the climate for private sector growth;

(2) Other reforms and programs that reduce or eliminate specific constraints to growth of the private sector;

(3) Technical assistance to strengthen the institutional capacity of organizations that represent or serve the private sector;

(4) Technical assistance, access to credit, and other interventions to facilitate entry into the formal sector market economy of the large number of small and microenterprises which now operate marginally in the informal sector.

(1) Monetary and Fiscal Reforms:

USAID/Guatemala will continue to encourage the Government of Guatemala to undertake the monetary and fiscal policy reforms and refinements that in the most fundamental way underwrite business climate and conditions that lead to the prosperity of the private sector. The Mission's policy dialogue in conjunction with the ESF program is the primary instrument for accomplishing this.

(2) Other Reforms: The Mission will define and factor into its ESF policy dialogue the additional reforms and refinements that are necessary to remove or alleviate other specific constraints to private sector growth. These might include reform of tax policies that favor manufacturing over agriculture such as those employed to stimulate the growth of import-substitution industries during the 1960s and 1970s. Another area for reform might be in the lengthy and costly legal procedures now required for the establishment of a business enterprise that inhibit the entry of small or micro enterprises into the formal system. Still another area for policy dialogue would be to encourage demonopolization of inefficient state enterprises, particularly those in energy distribution, communications and transport, or to seek improved Government performance in carrying out major public sector infrastructure investments essential for the expansion of the private sector. Improved roads to key ports and better cargo handling facilities at such ports are examples of activities which could be included in the Government's Core Development Budget to improve the competitive position of Guatemalan exporters in international markets. The details of specific policy dialog issues to be taken up in support of private sector development will be spelled out in successive Action Plan documents during the period covered by this CDSS update.

(3) Technical Assistance: Funding will be provided for technical assistance and training interventions that contribute to strengthening the capacity of selected private sector institutions (a) to negotiate and reach consensus with the Government on national, political, economic, and social issues that affect not only the business climate but also the general welfare; and (b) to provide support services, market information and training in improved management techniques for member businesses. The objective here is to strengthen trade associations and other organizations that represent the private sector so that they will have a stronger voice in national affairs and be better able to act responsibly in dealing with critical issues affecting the future of their country. Such organizations can also play a key role in the transfer to their members and others of technology and modern management practices that will foster the expansion and growth of the private sector.

(4) Small Business Development: USAID project interventions will direct technical assistance, training and credit to specifically identified, historically disadvantaged individuals and groups who, while demonstrating the capacity to engage in production and employment generating activities, have thus far been unable to obtain the initial capital and technical knowledge required for entry into the market. This includes a large number of microentrepreneurs who now operate marginally in the informal sector and have been unable to overcome the attitudinal, legal and regulatory barriers to entry into the formal sector.

Experience in other countries (e.g., ADEMI in the Dominican Republic) indicates that relatively small amounts of unsubsidized credit and technical support can often make the difference in moving the microentrepreneur to full participation in the market place. Moreover, small and microenterprises tend to generate more employment per dollar (or quetzal) invested than do larger businesses and offer greater opportunities for the entry of women into the market place on an equal footing with their male counterparts. A major component of the Mission's strategy will be the establishment of an organization or group of organizations capable both of representing the interests of the microentrepreneur and of providing needed training, technical assistance and market information while facilitating access to credit and longer-term capital resources.

C. Goal: Wider Sharing of the Benefits of Growth

1. Rationale for Selection

The wider sharing of the benefits of growth in Guatemala will come only gradually over time. The main thrust of the Mission's program is to establish the conditions that will generate growth so that there will be benefits to be shared.

However, in any developing country such as Guatemala, there are problems that simply cannot wait for growth to provide the means for their solution. A child in a remote village who suffers from acute malnutrition is lost forever if food does not reach him in time. If he survives the malnutrition but falls victim to disease because there is no immunization program to protect him or because he had only contaminated river water to drink, society still suffers his loss. And, if he weathers the myriad health hazards he faces and grows to adulthood without the basic education necessary to prepare him to provide for his family and to contribute productively to his society, how much has been gained? Conditions that threaten life or that degrade the quality of life available to large numbers of a country's citizens must be dealt with on a priority basis not only on humanitarian grounds but because economic growth is dependent to a significant degree on the vitality and aspirations of the society in which it takes place.

In most respects, a wider sharing of the benefits of growth is a natural consequence of success under the two preceding goals. With economic stabilization, there is less price inflation and essential goods and services are more readily available at affordable prices to the poor, relatively fixed-income groups. Without it, escalating prices and scarcities of essentials fall most heavily on these groups. Likewise, successful structural reforms that produce broadly based economic growth spread the benefits of that growth through the creation of jobs and increases in incomes.

Another form of sharing the benefits of growth is the provision of essential infrastructure and social services such as education, public health and sanitation by the public sector. Such services, when delivered effectively at reasonable cost, lay the groundwork for viable, broad-based and long-term economic growth by creating a healthy, well-educated and productive population. The improvement of such social services, whether provided through public or private sector institutions, is a major focus of the Mission's program.

2. LAC Objective 8: Increase Access to Voluntary Family Planning

a. Setting

1) Demographic Situation

High fertility is one of the major development problems facing Guatemala. Population growth rates continued at present levels (2.9 percent) would severely strain the Government's capability to deliver the socioeconomic services that underwrite the capacity of the economy to provide an adequate livelihood for a majority of Guatemalans. The pressure exerted on natural resources by this rapid population growth is also a critical development issue.

The contraceptive prevalence was 25 percent in 1983; in 1987, prevalence was 23.6 percent. This apparent drop in prevalence is caused by an increase in the number of women in the reproductive age group, such that even as the absolute number of users increased, it did not keep pace with the increasing number of fertile-aged women. This situation, also occurring in other countries in the region, is likely to continue because at least half of the population is under age 15 and entering fertile age in increasing numbers. Thus, the FY 89-90 Action Plan target of 35.3 percent prevalence by 1990, based on projections by the University of Chicago's Social Development Center using old data must be adjusted in light of the more recent information. These new data suggest that with present institutional capacity, political will, and level of public awareness, a prevalence rate of 28.0 percent by 1990 is a more realistic and feasible target.

On a more positive note there is a significant unmet demand for family planning services. According to the 1987 Demographic and Health Survey (DHS), among women in reproductive age in union who are not using any form of contraception, 49.8 percent desire no more children and 28.9 percent want to space births of any additional children by at least two years.

2) Delivery of Services

a) Public Sector

(1) The Ministry of Health (MOH): The MOH currently serves about half of the population through its network of some 1,000 rural health centers and 36 health posts, and national hospitals. Through 1988 three temporary family planning methods (oral contraceptives, vaginal tablets and condoms) were available at all MOH facilities. In 1989, 50 MOH centers will add the IUD and two national hospitals will initiate a reproductive risk reduction program that includes the provision of voluntary surgical contraception based on medical indications. The 1987 Demographic and Health Survey (DHS) found that 23 percent of all family planning users named the MOH as their source of contraception.

(2) The Guatemalan Social Security Institute (IGSS): The IGSS serves the health needs of approximately 8-10 percent of the population, mostly in urban areas. The urban IGSS clinics provide comprehensive care while the rural clinics generally provide only accident coverage. The 1987 DHS found that 9 percent of all family planning users named the IGSS as their source of contraception.

b) The Private Sector

(1) The Guatemalan Association for Family Welfare (APROFAM): APROFAM has 14 integrated family planning and maternal child health clinics--four in the capital city and 10 in departmental cities. These clinics offer all medically approved methods of family planning as well as prenatal, postnatal and well baby care, immunizations, oral rehydration therapy and routine gynecological services. Preliminary results under APROFAM's integrated services approach in mid-1987 showed dramatic increases, with some clinics showing a tripling of caseload. Bilingual staff have been hired to work in areas where there is a large percentage of Mayan speakers.

APROFAM's service network includes over 1,800 distribution posts staffed by local volunteers. Oral contraceptives, vaginal tablets and condoms are available at these posts as well as referral for other methods. APROFAM also has a small program which supports private sector firms wishing to provide contraceptive services to their workers through training, supplies and technical assistance. The 1987 DHS found that 39 percent of all family planning users named APROFAM as their source for contraception, the largest single source of services in Guatemala.

(2) The Importers of Pharmaceuticals, Inc. (IPROFASA): IPROFASA provides oral contraceptives, vaginal tablets and condoms to over 1,000 commercial outlets throughout Guatemala. The majority of these outlets are located in urban and marginal urban centers. Well planned mass media campaigns have been used to advertise IPROFASA's products. According to market studies, IPROFASA has the largest market share for vaginal tablets and condoms. 1988 operations research will form the basis for rural market outreach activities in 1989. In the 1987 DHS, 7 percent of all family planning users named the pharmacy as their source of contraceptive supplies.

(3) The Guatemalan Association for Sex Education (AGES): AGES, primarily an education rather than a service delivery program, has grown from a small urban based project that primarily served youth to a national organization with centers in five departmental capitals. These centers provide family life education programs for both Mayan and Spanish speakers. An innovative standards-of-life education program for women is being implemented by AGES in eight small Mayan speaking villages. Research has shown that Mayan women have the lowest levels of literacy and the highest levels of maternal and infant mortality as well as the highest levels of fertility. Operations research from this program will lead to the more effective outreach to rural Mayan communities. AGES has also started a small, pioneering AIDS prevention and awareness building program in the national capital which is designed to reach people at higher risk to this disease.

(4) Private Physicians, Health Maintenance Organizations, Employee Associations, and Private Voluntary Organizations: According to the 1987 DHS, 20 percent of all family planning users named a private physician or hospital as the source of their contraceptive services. With the exception of some PVOs, these providers tend to be located largely in urban or semi-urban areas where middle and upper income families are concentrated. APROFAM provides both training and supplies to this sector as does IPROFASA through their visits to doctors' offices and clinics. A new PVO coordinating and service support organization to be added to the family planning project in 1989 will be an additional mechanism for expanding coverage through the provision of supplies and training to the private sector.

3) Other Donors

The other major donor in population has been the United Nations Fund for Population Activities (UNFPA) through its implementing agency, the Pan American Health Organization (PAHO). Major assistance in the Maternal-Child Health/Family planning area by UNFPA began in 1983 with activities designed to strengthen the MCH services of the Ministry of Health through the training of midwives and rural health promoters. Community participation, information/education and communication, natural family planning methods, training in population education, a demographic survey and population and development policy activities have also received support. The total UNFPA budget during the 1981-1987 period was \$2.241 million and \$1.5 million is planned for 1988-91.

b. Constraints

1) Structural Constraints

Guatemala has a dramatic ethnic differential in the utilization of social services in general and family planning in particular. The Mayan segment, which represents almost half the population, tends to marry at younger ages, have more children at closer intervals and have a much poorer health status than the Ladino population. Mayan women use contraception at a far lower rate (5.5 percent versus 34 percent) than their rural Ladino counterparts. Some of this lower utilization is explained by uneven distribution of services as well as the geographic isolation of Mayan groups. Cultural and linguistic determinants such as the social and economic pressures for large families commonly found in traditional agricultural societies, also operate to cause low utilization rates. Other factors are the pronatalist religious tradition and the lack of a proactive public policy for family planning.

2) Institutional Constraints

The MOH historically has had difficulty expanding health service coverage in the country. Resources have been limited and the culturally and geographically dispersed population (fully 15,000 communities have 500 or fewer inhabitants) limit the effectiveness of top-down delivery systems for family planning and health services. There are an estimated 300 private organizations providing some kind of health service of variable levels of financing, outreach, quality and coverage, but even these reach only a small percentage of the total population.

3) Policy Constraints

Article of the 1984 Constitution guarantees Guatemalan couples the right to choose the number and spacing of their children and has resulted in a more service-oriented public sector. Historically, however, public sector family planning programs have had a cyclical and occasionally stormy history in Guatemala with virtual abandonment of these programs by the public sector in the mid-70's, again in 1979 and, most recently, early in 1986. This has led to public sector programs which are characterized by ragged availability or non-existent services throughout the country over sustained periods. Programs in the private sector, on the other hand, have shown steady growth over time. However, their coverage, is only beginning to reach beyond urban and Ladino populations.

Strategy

The Mission's family planning strategy focuses on four interrelated elements:

(1) Provision of family planning services increasingly in facilities oriented to a total family health package;

(2) Extension of outreach to greater numbers of younger recipients, with special focus on designing educational campaigns of particular relevance to distinct cultural and linguistic groups;

(3) Expansion of existing services providing channels;

(4) Establishment of new service delivery channels.

(1) Family Health Approach: Based on studies to date and the positive APROFAM and AGES experiences in the 1987-88

period, the Mission plans to integrate its health and population programs over the next five years, focusing increasingly on the health of the family unit as a whole and expanding the number of service providers, both public and private. The historically controversial and politicized nature of family planning in Guatemala has led the Mission to conclude that the viability of these programs can be best assured by reducing the traditional separation of family planning from maternal and child health services.

The strategy for family planning programs, therefore, becomes one of improving the total health status of mothers and their children, rather than exclusively working to reduce fertility and the concomitant population growth. Services will be cast in terms of "reproductive risk". Operationally, this means (1) helping a woman regulate her fertility so that she becomes pregnant during the safest periods of her reproductive life and at desired intervals between pregnancies; (2) helping the mother have the safest possible pregnancy, both for herself and for her unborn child; and (3) minimizing the risks during the immediate post-partum period for both mother and the newborn. This approach gives women greater control over their life options, including participation in productive employment, and community development.

(2) Outreach to Greater Numbers of Recipients:

A key objective is to reach significantly greater numbers of new users who are rural, relatively young, and are likely to be more interested in spacing future births. To this end, assistance will be provided which strengthens and expands existing delivery-channels, both public and private, and promotes the establishment of new ones. All will provide an integrated package of maternal-child health services in a comprehensible and culturally acceptable manner to both the Ladino and Mayan segments of the population.

(3) Expansion of Existing Service Provider Channels: Expansion plans over the CDSS period include the following: (a) A major effort to improve information-education-communication strategies will seek to promote the understanding that family planning is a conscious decision that couples can make throughout the reproductive life of the mother. Education program linkages will be sought to encourage primary school attendance and reduce dropout rates among young Mayan women, a measure expected to modify fertility patterns among this group. Culturally appropriate messages in local languages which minimize the need for literacy skills will also be emphasized. (b) The MOH will add a range of family planning services to several hundred new health centers and posts (with extensive other donor assistance), primarily in rural and semi-rural areas. These facilities will provide a full range of temporary reversible methods for women wishing to space their births. (c) limited improvements to hospitals wishing to provide voluntary surgical contraception services through a reproductive

risk management strategy. (d) The MOH will begin establishment of a referral relationship with rural midwives, providing them training and limited supplies. (e) APROFAM will increase its number of community-based contraceptive distributors to 2,200, primarily in the rural, Mayan areas of the country. (f) IPROFASA will implement marketing strategies in rural and Mayan areas, using sales outlets such as the various types of pharmacies, as well as non-pharmacy channels.

(4) Establishment of New Service Delivery Channels: The Mission has concluded that, beyond the above measures, to have an impact on health indicators in a reasonable timeframe, new delivery mechanisms must be established for the extension of health services to presently unserved or underserved populations. The Mission seeks to do this by entering into project agreements through a PVO channelling organization to reach part of the 300-odd private organizations already engaged in child survival or maternal health services. The agreement will include a mix of birth spacing, immunizations, growth monitoring, acute respiratory infections and oral rehydration therapy activities. The Mission plans to contract a qualified U.S. organization which can serve as an intermediary or as a parallel to a Guatemalan organization for channeling technical and financial resources to local groups interested in expanding their activities in child survival, family planning and maternal health.

3. LAC Objective 10: Reduce Infant and Child Mortality

a. Setting

1) Health Status

Although official statistics for health trends in Guatemala showed improvement between 1970 and the early 1980s, they remained well behind most other developing countries with comparable per capita GDP. It is clear that there continues to be a dramatic difference in health status between the Mayan and Ladino communities. Additionally, because of the lack of reliable, current data, it is not known with confidence whether health trends remained positive during the civil insurrection and economic recession years of 1981-1985. Until an operative national health information/data system is in place, conclusions must be based on inferences from special studies and surveys such as the 1987 Demographic Health Survey (DHS). The following status report should be seen in this context.

Over the past 23 years, the infant mortality rate (IMR) in Guatemala has decreased substantially from 130 (per 1,000 live births) in 1960 to 70 in 1983. According to the 1987 DHS data, the IMR has been 73.4 per 1,000 live births from 1982-87; survey data estimate the IMR for the period 1977-81 at 86.4. The

general impression is that the IMR levelled off between 1980 and 1985, but with continuing dramatic geographic and socioeconomic variability.

Young children and women 15-49 years die mainly as a result of preventable diseases such as diarrheal diseases, acute respiratory infections (ARI), immuno-preventable diseases, including neonatal tetanus, complications of pregnancy and childbirth and malnutrition. About 50 percent of maternal deaths are related to early or late child bearing, close spacing and high parity, and to a variety of perinatal causes.

Abortion is a major health problem that was believed to be responsible for half the cases of maternal mortality in 1977 and was still the second most frequent cause of maternal mortality in 1983. In 1983, 27 percent of all reported deaths were attributed to diarrhea; 10 percent to perinatal problems; 9 percent to immuno-preventable diseases, primarily measles and pertussis; and 5 percent to malnutrition.

Immunization coverage of children under age five, and particularly those in their first year, with the six antigens (tetanus, diphtheria, pertussis, polio, measles and BCG) is still low. Child mortality from these diseases directly accounts for about 9 percent of reported deaths and also contributes indirectly to illness and death, often in a "sub-clinical" or less recognizable form, as diarrheas (measles, polio) and acute respiratory infection ARI (measles and pertussis).

Intensive immunization campaigns, conducted since 1986 have increased general coverage, but because of the incompatibility between services reporting and campaign statistics, coverage figures are very inconsistent. Findings from surveys carried out in 1983 and 1987 (DHS Surveys, 1983 and 1987) place coverage of 12 to 23 month old children at the following levels for 1983 and 1987 respectively: DPT 3- 28.3 percent and 35.9 percent, Polio 3 - 28 percent and 39.3 percent, measles - 54.4 percent and 55.3 percent, and BCG - 57.6 percent and 50.7 percent respectively. The 1987 DHS Survey record tetanus toxoid coverage for pregnant women at 13.6 percent, still a low portion of the targetted population.

Diarrheal disease continues to be a major cause of death of children under age five in Guatemala, reflecting the vicious cycle between diarrhea and malnutrition. Lack of potable water, poor sanitation and related poor hygiene practices are its principal causes. The MOH reports that of the documented infant/child deaths in 1983, almost 9,000, were directly attributable to diarrhea, at the rate of 72.2 deaths per 10,000 children under-five. The proportion of deaths due to diarrhea in young children was estimated at 22.8 percent of total young child deaths, a rate which has most likely not changed substantially in recent years.

Recent programs to prevent diarrheal related deaths due to dehydration and nutritional damage promote the use of oral rehydration therapy (ORT) and the management of feeding practices during diarrhea. The two DHS surveys (1983 and 1987) showed that ORT use by children less than 60 months of age with diarrhea during the previous 2 weeks or ORS increased from 8.8 percent in 1983 to 16.7 percent in 1987.

According to a 1987 WASH report, 70.6 percent of the urban population had easy access to potable water and 41.2 percent had sanitation facilities, a decrease from 1980 when it was 88.9 percent for water and 44.4 percent for sanitation. While the rural population has fared better since 1980 (increasing from 18.6 percent to 26.5 percent for water, and from 20.9 percent to 28.6 percent for sanitation), coverage is still low.

According to 1985 MOH data, 18 percent of the Guatemalan population is under age 5, 45.9 percent is under age 15, and 22 percent are women of childbearing age (15-44 years). The total maternal-child health (MCH) target population (women 15-44 and children under five years) represents 38.2 percent of the entire national population.

Malnutrition is a significant health problem in Guatemala. A 1980 study showed some degree of malnutrition in 72.6 percent of children under five. Recent analysis (Franklin, 1987) suggests that chronic malnutrition in Guatemala may have worsened over the past five years, compared to the preceding years. The Encuesta Simplificada found 34 percent of children under age three to be at nutritional risk (with a weight-for-age ratio two standard deviations below that recommended by the WHO). Children at highest risk are those between 6 and 18 months of age and those living in rural areas. There are no easy solutions to malnutrition. A multisectoral approach is required, but difficult to implement. Emphasis must be shifted to supporting child survival initiatives such as ORT, immunizations, breastfeeding, better targeting of Title II and other supplementary feeding programs and improved access to clean water.

2) Provision of Services

a) Public Sector

(1) The Ministry of Health: The MOH is the most significant institution in the health sector, officially responsible for providing both curative and preventive services to the entire population, and with an estimated coverage of some 50 percent of the population. It is a large bureaucracy, more oriented towards urban than rural areas, and tertiary care rather than primary care. The MOH administers a system of hospitals, health centers and health posts and implements a variety of specific vertical programs in maternal child health, communicable disease

control, vector control, nutrition, water and sanitation, and family planning. As in most developing countries, Guatemala's public health sector is not fully capable of providing sufficient high quality services to have a major impact on the health status of the population. This is particularly true in rural Mayan speaking areas. The average number of encounters with an MOH facility per rural Guatemalan in 1984 was approximately 0.3/year.

(2) Guatemalan Social Security

Institute: The Guatemalan Social Security Institute (IGSS) is the second largest public health system in Guatemala, currently serving around 10 percent of the population. IGSS provides mainly curative care to workers and their families in the major urban areas and the agro export areas of the country. The Armed Forces and the Police cover an additional approximate 5 percent of the population.

b) The Private Sector: There are several programs in the private sector which complement public sector services and cover an estimated 30 percent of the population. These include: private physicians, clinics, and hospitals, pharmacists, Health Maintenance Organizations (HMOs), institutes, foundations, missionary groups, private voluntary organizations (PVOs), and some industrial and agricultural concerns. These organizations often limit participation in the benefits provided to selected membership or client groups and characteristically display a fierce independence stemming from their particular mission and objectives.

The largest health service coverage in the private sector is provided by ANCAFE and AGROSALUD, serving approximately 140,000 farm workers and their families. Their services are predominantly curative and in the case of ANCAFE, it is yet unknown if the services will be provided beyond 1992. Two pre-paid health maintenance organizations in Guatemala serve an additional population of over 14,000 people--Salud Total is a privately owned for-profit HMO with 4,000 members in Guatemala City; La Medica Guatemalteca is a private company with 51 shareholders which had 10,000 individual affiliates and 16 companies with their employees as members in 1986. Numerous smaller employer affiliated services provided by Cervezeria, Pepsi Cola and sugar milling operations each serve populations up to 5,000 people.

There are over 300 health-related PVOs which provide services emphasizing primary health care, nutrition, water and sanitation, and family planning. The Mission is providing major funding for PVOs which have family planning programs--APROFAM and AGES. Funds have also been provided in recent years for small scale primary health programs sponsored by U.S.-based PVOs such as Project HOPE, Project Concern International, the International Eye Foundation and Foster Parents Plan.

3) Other Donors

The MOH National Five-Year Plan, published in November 1986, is explicitly committed to avoiding duplication and dispersion of efforts and to achieving more effective use of resources in the national system. It also sets forth as a general objective greater technical cooperation among donors and the establishment of adequate coordinating mechanisms. This effort is most pronounced in the Child Survival program. The 1987 National Child Survival Plan document includes a "sources and uses" table which is organized by MOH-defined "areas of need". A.I.D. is clearly the largest donor supporting child survival activities. UNICEF follows in the size of contributions. PAHO, WHO, and INCAP are the other major contributors. Continued close coordination of all donors in the national child survival program is a key objective over the CDSS planning period. PAHO is the implementing agency for the \$20.0 million A.I.D.-sponsored "Regional Accelerated Immunization Project" which supports the implementation of the national immunization program in areas which are not financed by the bilateral Mission project.

The United Nations Children's Fund (UNICEF) also contributes to Guatemala's Child Survival Program with vaccines and oral rehydration salts, and general assistance to the national child survival program, especially in the areas of immunizations, acute respiratory infections, breast feeding and growth monitoring. UNICEF is also the implementing agency for funds originating from the European Economic Community (EEC) and the Italian Government in support of Child Survival interventions.

The Institute of Nutrition for Central America and Panama (INCAP) provides technical assistance to the MOH in five areas utilizing grant funding from ROCAP'S five-year Regional Child Survival Project: (1) The development of national plans and strategies for child survival programs; (2) Training, curriculum development and training materials on the control of diarrhea, growth monitoring, immunizations, and respiratory infections; (3) Operations research in health delivery of child survival interventions, especially diarrheal disease control and infant/maternal nutrition; (4) The development of evaluation and monitoring systems for child survival activities; and, (5) Basic research on diarrheal disease and related nutritional problems of mothers and children.

b. Constraints

The major constraints to improvement of the health and nutrition status of high risk populations in Guatemala are summarized in three categories. Some constraints will be addressed in this objective's strategy, while others involve broader issues of economic development and political dislocation.

1) Structural Constraints: a) Infrastructure: The wide dispersion of rural settlements in Guatemala and the geographic isolation of many of them makes the coordination and staffing of health posts a serious problem. Staffing is further complicated by the linguistic and cultural diversity of the highland Indian population. b) Economic: Economic constraints which impact on the health sector are of two types. General constraints include scarce public health funds due to limited national budgets (7.7 percent of total public expenditures in 1985) expensive tertiary (hospital-based) care with high recurrent costs (80-90 percent for salaries and infrastructure) and growing inflation (13.5 percent since 1980). Client constraints include increasingly high cost of medicines on the open market and declining household resources, both of which increase nutritional vulnerability.

2) Institutional Constraints: The MOH must also deal with the uneven distribution of its own capital and human resources, heavily concentrated in urban areas. Accordingly, there is inappropriate allocation of scarce resources (personnel, supplies, pharmaceuticals and facilities) to urban based tertiary care facilities rather than to rural primary health care facilities, inadequate management of programs with debilitating weaknesses in supervision, logistics and human resource development and absence of a coherent, functioning information system which clearly limits the MOH's capacity to display and allocate resources or make rational decisions regarding health programs. Finally, a persistent image of poor quality health services contributes to a persistent pattern of patient underutilization and staff morale.

3) Policy Constraints: Some of the most serious and continuous problems in the health sector relate to the MOH's organizational structure (highly centralized and fragmented) with frequent changes of personnel at all levels. Centralized decision-making has overwhelmed the time and attention of senior MOH personnel and delayed implementation of the most elementary activities. The fragmentation of administrative hierarchies has inhibited integration of programs such as MCH which require local level coordination. One consequence of this has been the tendency of the MOH to develop programs in response to donor interests and funds.

c. Strategy

Guatemala is an official Agency-designated Child Survival (CS) Country. The Mission has developed a CS Strategy which addresses specific Guatemalan CS health/nutrition needs and which is coordinated with the Mission Food Aid Strategy. The main objective of the Mission's overall effort to reduce infant and child mortality for the CDSS period is the development of sustainable institutional capacities in both the public and private sectors which can provide effective maternal child health services.

The technologies required to address the major health and nutrition problems of Guatemala are relatively simple; however, the effective and efficient allocation of human, financial and material resources is complex.

To this end, the Mission has developed a phased implementation strategy for the CDSS period, a continuum whereby systems are introduced which support development of a comprehensive Maternal and Child Health Program with an eye to expansion and integration of selected child survival interventions, including family planning.

The Mission's Strategy concentrates on five interdependent areas of emphasis:

- (1) A well-defined and targetted MCH Program focus.
- (2) The operational integration of MCH and Family Planning Services.
- (3) Institutional strengthening of the public and private sectors;
- (4) An increased and expanded private sector involvement; and
- (5) Selective water and sewerage interventions.

1) MCH Program: The technical orientation of the Mission's Child Survival Strategy will be a continued focus for developing a maternal child health program which emphasizes the interrelatedness of the mother and child, with emphasis on diarrrheal disease control (DDC), immunization and high risk births (HRB), and with limited initial support for Acute Respiratory Infections (ARI). The Mission will use limited amounts of FFP Title II commodities delivered through the U.S. voluntary agencies CARE and CRS as an incentive to attract target populations to MCH service delivery programs. These activities are consistent with the Mission Food Aid Strategy. A key feature in this program focus is the recognition of the importance of the mother and the associated potential behavioral impact of client-oriented health education.

2) Integration of MCH/Family Planning Services (Family Health Program)

The Mission recognizes that full service integration will be attainable only gradually and over a minimum period of 4-5 years. Movement towards this integration is a process that underlies Mission activities in health and population during this period. At present, the Ministry of Health focuses on the

child, and private sector family planning services focus primarily on the mother. The challenge is to promote the adoption of a more comprehensive approach by both sectors to the health needs of both mother and child.

The rationale for this integration is highlighted in the Family Planning Strategy Section and is predicated on experience and studies which have shown that the effectiveness of both sets of services--family planning, on the one hand, and health services or child survival interventions, on the other--is greatly increased when they are integrated in rational, systematic ways. The literature also demonstrates that program efficiency (lower costs per unit of services) increases with integration. Programmatic logic also suggests that, if health services are "packaged" or provided in such a way to deal with the entire family--or at least the mother and her children--at the same time and in the same setting, efficiencies would accrue both for the mother and the service providers themselves.

Recent research and experience clearly indicate that child survival and family planning are closely interrelated. Child survival is a key variable in fertility, as the "demographic transition" so often referred to is affected not only by factors such as contraceptives use, literacy and socioeconomic status, but also by the expectations parents may have of their children for reaching maturity and achieving economic productivity. At the same time the survival of the child is related not only to immunizations, ORT and other child health services, but also to family size, the length of birth intervals, breastfeeding and weaning practices.

The fact is that the infant mortality rate remains high despite concerted efforts by donors and the MOH. An integrated services approach offers the potential of tapping into already existing child survival service networks (e.g. immunizations) to deliver family planning services, and vice versa. It also blends and moderates the "separateness" of vertical family planning activities while contributing to greater awareness among women that the issues of family/child welfare are interrelated. The strategy required is one which reduces the rates of mortality and fertility.

3) Institutional Strengthening in the Private and Public Sectors

Public sector weaknesses, such as centralization, fragmentation, and systems limitations, limit the quantity and quality of services delivered as well as their sustainability. Therefore, a principal strategic thrust is to continue Mission commitment to strengthen MOH institutional capacity through long/short-term technical assistance in order to develop the

MOH's capacity to plan, implement, and evaluate child survival interventions specially for immunizations and ORT programs. Specifically, both the Mission and the MOH have given priority to establishing an effective Health and Management Information System (H/MIS). Other system strengthening required for the implementation of priority child survival programs includes logistics, supervision and training support. This public sector systems support will continue throughout the period of this CDSS. Similarly, the Mission intends to develop and institutionalize child survival service delivery capacities of PVOs and other private sector entities.

4) Private Sector Involvement

The Mission recognizes that the public sector alone will not be able to satisfactorily address all problems related to access and utilization of health services. The private sector's involvement in health programs offers a dynamic complement to the MOH's service delivery. The Mission's policy dialogue agenda will seek a closer, reciprocal relationship between the public and private sectors. This relationship will allow this increased involvement of private sector entities in the expansion of health services, with special emphasis on improved access to integrated MCH services.

To this end, a PVO coordinating and support mechanism will be developed to channel resources and to assist PVO's working in child survival activities to improve their own organizational and outreach capacities. The new organization will focus attention on such areas as: 1) intensified delivery of family planning services and information in rural areas, especially the Highlands; 2) strengthening of selected services for the mother (e.g., pre-natal, post-natal); 3) continued integration of selected child survival services into family planning programs; 4) development of new private sector mechanisms for delivery of birth spacing and child survival services to unserved and underserved populations; and 5) improved program supervision and logistics systems. PVOs active in the health field will be identified and informed of the grant program to support private sector health activities, and those choosing to participate will receive management training and technical assistance and be given access to the new clearinghouse of information in the sector.

An additional strategic shift in the PVO area is further integration with MOH MCH activities of food aid resources presently administered by CARE and CRS. The MOH is expected to standardize growth monitoring components of the program. World Food Program coordination with the MOH is expected to be part of this effort.

Another example of how the Mission will proceed to explore alternatives in the private sector is its interest in the informal sector, traditionally consisting of popular

distributors, vendors, and Mayan local community groups and churches. The recently initiated "merolicos" operations research activity is one attempt to investigate and test the potential of using the merolico microentrepreneur to market IPROFASA contraceptives and other health products such as oral rehydration salts, vitamins, parasite medicines, etc.

These initiatives were designed to expand access to health services by harnessing both formal and informal private sector entities. To further expand service delivery, additional selective studies and analyses of private sector health programs and their effectiveness will be explored. Dependent upon lessons learned, consideration could also be given to additional new private sector health ventures.

(5) Water and Sanitation Interventions

In an attempt to address the continuing high rates of diarrheal disease, the Mission will focus on providing improved access to water and sanitation in rural communities (other donors have significant plans for water and sanitation programs as well) and basic community health education to reduce the incidence of diarrhea. The Mission will continue to provide assistance to both the public and private sectors (primarily through PVO's) during the CDSS period. Because of inadequate supplies of potable water, poor sanitation and related poor hygiene practices are principal causes of diarrhea contributing to Guatemala's high infant/child mortality rates. Thus, water and sanitation interventions must be closely integrated with the Mission's other child survival efforts.

The Mission's strategy will continue to be one of supporting higher Guatemalan Government budget allocations to extend access to safe water and basic sanitation to an increasing percentage of remote rural communities. This initiative will complement the investments of the IDB and other donors to Guatemala's rural water supply and sanitation sector. The IDB is the major donor in this area. Because of the magnitude of the problem, USAID will also finance the installation of water systems through such PVOs as CARE. A continuing challenge to all parties is to make the systems more viable through education in health standards and in ways to ensure the sustainability of systems through community participation and fee assessments for maintenance, cost recovery and expansion.

4. LAC Objective 12: Improve Educational Opportunities

a. Setting

Guatemala cannot reach its full potential as long as some fifty percent of the population remains illiterate. Raising health standards, restraining population growth, expanding

adoption of new higher-value crops by small farmers--sustained success in these diverse areas depends in large measure upon access to quality education, especially at the primary level, for all Guatemalans. Indeed, empirical evidence from around the world shows that growth in aggregate GDP and individual incomes is closely related to investment in education.

As 1989 begins, the level of educational achievement observed in Guatemala is low by almost any measure. Recent year surveys indicate that eighty-seven percent of the population of Guatemala has not finished primary school. Official Ministry of Education statistics indicate that only 68 percent of the country's 1,460,000 primary school age children were enrolled in school in 1988. Enrollment ratios are even lower in rural areas and among the indigenous population.

Many factors cause enrollments to be low. Principal ones include: (1) The population of Guatemala is widely dispersed, with as many as 16,000 villages, many too small or isolated to allow the Government or the communities themselves, under current resource conditions, to build a school and/or maintain even one teacher. (2) The annual internal migration of many rural families in search of agricultural work, results in children being taken out of school in the middle of the school year. (3) A perception in some segments of the rural population that formal education is of little utility, especially for girls, causes some parents to decide not to enroll their children even though educational services may be available. (4) Low quality of instruction and the resulting high failure and grade repetition rates cause many families, especially among the indigenous population, to give up on education after a year or two and to withdraw their children. (5) The need to put children to work to help support the family sometimes causes families to keep children out of school.

More than half of all rural schools have less than six grades, and about seventy-five percent have only one or two teachers. Teachers are often poorly trained and receive little support or supervision. Few classrooms have textbooks or other teaching materials. The official curriculum is generally regarded as out-of-date, too difficult, and of little practical relevance or interest to Guatemalan students.

As a result of these deficiencies, the primary school system is extremely inefficient. Fifty percent of children who begin school have to repeat the first grade. About 30 percent have to repeat subsequent grades. The problem of academic failure and grade repetition is greater in rural areas, where overall repetition in all grades is almost 60 percent, compared to 40 percent in urban areas. Because of high repetition and attrition, only about 37 percent of students who enroll in school succeed in

finishing sixth grade. The fact that many Guatemalans manage to complete only one, two, or three grades of primary school means that much of the adult population is functionally illiterate. All of these indicators are even poorer among the highland Indian population.

Other levels of the educational system also suffer from problems and deficiencies. Secondary school opportunities are extremely limited. The lack of public secondary schools forces many students into low-quality private schools or normal schools. Many others are simply unable to enroll in secondary school. The quality of secondary education, except for expensive, elite private schools, is generally poor. University education is the one bright spot in the educational scene. Public and private universities offer a variety of options to students in terms of costs and course offerings, and the quality of some university programs is good.

The major institution for vocational skill training in Guatemala is INTECAP, a Ministry of Labor program financed by a one percent payroll tax. With centers in most departments (states), INTECAP is comparatively well-equipped and well-financed. The Ministry of Education operates 36 IDB-financed secondary-level training centers which enroll 20,000 students. Private vocational training schools in areas such as tourism and data processing have also proliferated in recent years.

Guatemalan government educational expenditures, although still the lowest in the region, have not only grown in real terms in recent years, but have also increased as a percentage of the gross domestic product and as a percentage of total government spending. Total government spending on education in 1987 represented 16.4 percent of total government spending and 2.5 percent of gross domestic product. MOE expenditures alone now represent 13.8 percent of total government spending and 2.2 percent of gross domestic product.

Primary education receives a larger share of MOE expenditures than any other level of education, but its share is still not commensurate with its share of total students. Secondary and higher education account for about 40 percent of Guatemala's educational budget.

Education is a labor intensive service, and a high proportion of education spending is allocated to personnel. For 1988, wages and salaries represented 94 percent of total direct expenditures, while goods and services represented only 6 percent. Evaluations of public education in Guatemala consistently draw attention to the absence of books and other basic educational materials in the classroom. The reason is the low share of the educational budget allocated to this category of expenditures.

Private education is available as an alternative for Guatemalan students at all levels, but principally in urban areas. Nationwide, about 367,000 students are enrolled in private primary and secondary schools, about 23 percent of the total enrollment of 1,575,000. Public primary and secondary school enrollment is 1,208,000. Eighty-seven percent of the private school enrollment is concentrated in urban areas. The quality and efficiency of private education is extremely variable. Overall, however, private education is somewhat more efficient than the public education system. Urban public schools require an average of 9.3 years of instruction to produce a sixth grade graduate, while urban private schools take an average of 7.7 years.

AID has traditionally concentrated most of its resources for the education sector on improving the public primary school system and has not supported private education. This is because the greatest need has been for improvement of primary school services for rural children, particularly among the indigenous population. This group relies almost exclusively on the public education system.

Besides A.I.D., the other two major donors in the education sector are the World Bank and the IDB. The World Bank financed the construction of vocational secondary schools during the 1960's but, after the 1976 earthquake, switched to supporting construction and reconstruction of primary schools through two major loan projects. In 1989 the World Bank is expected to sign a new \$30 million loan for construction of rural classrooms, for primary school textbooks and for teacher salaries. The IDB has financed construction of vocational training facilities for INTECAP, facilities for the largest Guatemalan private university, and three junior high agricultural schools. In 1982 the IDB also became interested in primary education and negotiated a \$30 million loan for construction of rural primary schools and training of teachers. UNESCO is presently financing a small program to modernize and regionalize the official primary school curriculum.

b. Constraints

1) Structural Constraints: Guatemala is a difficult environment in which to attempt to deliver quality educational services. Linguistic diversity is one element of the Guatemalan setting that makes provision of educational services complicated and expensive. The existence of twenty-three linguistic minorities requires that separate textbooks be written and separate teachers be trained for at least the largest linguistic groups, a time-consuming and expensive task. It has been found that the children coming from the different Mayan language groups have very little chance of finishing even the first grade if they are not provided with special bilingual education services.

2) Institutional Constraints

(a) Planning

Planning is a major institutional constraint. The Ministry of Education is presently unable to process and analyze its educational statistics quickly and completely enough to influence the allocation of resources. Enrollment statistics, needed for allocation budgetary and personnel resources, are normally compiled with a one to two year delay. Student academic records, needed for admission to secondary schools and the university, are laboriously recorded into ledgers by hand, and are almost impossible to access. Disbursements of funds by different Ministry units are not tracked effectively, resulting in delays in authorizing expenditures and in the failure to utilize available funds. Budgeting, personnel management, and planning decisions are made without current statistical information and without computers. As a result, available resources are poorly distributed, wasted, and sometimes even lost.

(b) Low Quality of Instruction

The low quality of instruction is another institutional factor that makes education ineffective. Normal schools produce a large surplus of certified teachers, but the quality of teaching remains generally poor. Teachers are often poorly motivated. They tend to use lecture and rote memorization techniques in the classroom. They do not have the special skills needed to manage multi-grade classes and students who are not native Spanish-speakers. They often do not identify with the community in which they teach, and make little effort to involve local people or resources in the school program. A related problem is the lack of instructional materials. Textbooks are in short supply, requiring that large amounts of time be spent copying materials from the blackboard into student notebooks. Because of poorly trained teachers and poorly equipped classrooms, students fail to learn, repeat grades over and over, and eventually drop out of school. This pattern is enormously wasteful of Guatemala's human and financial resources.

(c) Inadequate Financial Resources

High costs and budget limitations constrain the development of good educational services. The high cost of school construction; the recurrent costs of teacher salaries, instructional materials and textbooks; and the rapidly-expanding population of school-age children will continue to make it prohibitively expensive for the Government of Guatemala to provide universal primary education in the foreseeable future.

c. Strategy

In response to the LAC Bureau Strategy for Basic Education and a Congressional earmark reserving new funding for the basic education area, USAID/Guatemala has completed a new Basic Education Subsector Assessment and will finalize a new Education Sector Strategy Paper in early CY 1989. All recent studies recommend increasing the priority assigned to basic education. AID's experience, both worldwide and in Guatemala, confirms the importance of investment in basic education as a fundamental service which directly supports the achievement of developmental and policy objectives in other critical sectors.

The economic rates of return to investment in primary education are higher than the returns for investment in other areas of the education sector. An informed, literate electorate is essential to meaningful popular participation in democratic processes. Furthermore, AID has a continuing long-term commitment to supporting the development of primary education services for the indigenous population of Guatemala. Therefore, it will be the Mission strategy to increasingly concentrate resources from the education account in programming to support the improvement and expansion of primary education services.

Over the next five years, the Mission program will focus on improving the efficiency, coverage and administration of primary education. To help improve the efficiency of the primary education system, assistance will be provided to the Ministry of Education to upgrade the quality of instruction in primary schools. Mission studies have shown that a major cause of the extremely high dropout and repetition rates that characterize Guatemalan primary education and unnecessarily waste scarce resources is poor teaching, especially of mathematics, science and languages. Reducing the high failure, dropout and repetition rates and increasing the retention and completion rates by improving primary school instruction, primarily in the Highlands region, will therefore be the first and highest priority of programming in the education sector.

However, the focus will be broadened to support selected new services, such as in-service teacher training, on a national scale. Coverage and access will be addressed through expansion of bilingual education and development of new, lower cost nontraditional primary school services. To improve administration, MOE efforts to decentralize and regionalize its activities, and streamline its bureaucracy will be supported as will development of a management information system.

The strategy involves a coordinated effort with the World Bank, which is also initiating a major new effort to strengthen Guatemala's primary education system. The World Bank project will provide new textbooks to help improve the quality of

primary school instruction. It will also finance construction of new three-grade schools and teacher salaries to expand coverage of the first three grades of primary education. AID, therefore, will not support textbooks, teacher salaries or school construction. Instead, a major new project is being designed which will reinforce the World Bank project by providing additional, complementary services to improve and expand primary education. The Mission's strategic thrusts will be in the following four priority areas:

- 1) expand bilingual education,
- 2) provide support services to classroom teachers,
- 3) provide a low-cost distance primary education service for communities with no primary school or with incomplete primary schools, and
- 4) improve the management of the Ministry of Education.

1) Bilingual Education

In the area of bilingual education, curriculum and materials developed under two previous bilingual education projects will be improved and coverage of bilingual education will be expanded well beyond the 400 schools presently served. The ultimate objective is full coverage, but given resource realities, this is a long term objective that goes beyond the CDSS planning period. The new project will also work to gradually reorganize bilingual education so that it will be more fully institutionalized within the Ministry of Education.

2) Teacher Support Services

Ministry of Education efforts to improve support services to teachers will be assisted. The Mission has studied the problem of poor quality teaching in some detail and has concluded that the best way to achieve immediate impact is through in-service training for practicing teachers which can produce rapid, demonstrable improvements in teachers' mastery of curriculum subjects, teaching techniques and morale. The new project will build the capacity to provide permanent, ongoing in-service teacher training to all the public primary school teachers in the country. It will also provide a program of standardized academic achievement testing to identify areas in which instruction needs to be improved. Finally, it will provide packages of learning materials and supplies to enrich the classroom environment and make teaching easier.

3) Primary Distance Education

The development of a distance education system will be undertaken to provide primary education services

outside of the formal school system. Initially, the distance education service will provide instruction in grades 4 to 6, complementing the World Bank's project which is providing grades 1 to 3. Eventually, the distance education system would cover all six primary grades so that educational opportunities can be made available to anyone who, for whatever reason, has been unable to complete primary school. The distance education component will use technologies such as radio, programmed instructional materials and local community promoters to lower costs and accelerate the pace at which primary school coverage is expanded.

4) MOE Institutional Development

Technical assistance, training, and data processing equipment will be provided to the Ministry's planning unit to facilitate the gathering, storing and processing of statistical information. The planning unit will develop the capacity to provide accurate and timely educational statistics and to formulate comprehensive master plans for the future by projecting and simulating the impact of different policy options. It will be able to allocate budgetary resources more precisely according to needs. This system will also support the Ministry's effort to regionalize administrative functions by providing an effective data and communication link between the central Ministry and eight regional administrative offices. In conjunction with this component, technical assistance and training will be provided to support a Ministry initiative intended to streamline the administration of education and make educational services more flexible and responsive to community needs.

The Mission intends to concentrate its efforts and resources on this Basic Education Initiative for at least the next ten years, continuing and strengthening a long-term commitment to improving primary education services in Guatemala. Other possibilities for investments in other areas within the education sector will be explored through feasibility studies and pilot projects.

In the areas of secondary and university education, AID will maintain a presence through staff development support that can be provided through the various Mission scholarship and training projects. Local universities will continue to be involved in the program, but more as providers of training and technical services to support primary education activities than as recipients of development assistance. Also, the Mission is currently evaluating the Altiplano Higher Education Project and may, in the future, make a decision to continue that effort, which offers opportunities for indigenous students to attend university to prepare them for leadership positions in the future.

In the area of vocational skills training, the Mission will explore the possibility of supporting the development of a Private Sector Advisory Council to run a modern skills certification system. The objective could be to make existing training more responsive to the needs for trained manpower in the private sector job market. In the area of nonformal education where USAID/Guatemala has undertaken a series of pioneering projects over the last ten years, a broad "wrap up" evaluation of this general area of programming will be undertaken. A number of important non-formal education techniques, such as social marketing and radio education, have been refined and validated through past project activities with such techniques now being integrated effectively into other projects in the different social sectors. Further specific "nonformal education" projects, are, therefore, not needed.

In the area of adult literacy training, a number of literacy programs are already under way in Guatemala. The Mission's approach is to support a post-literacy program in the private sector to complement ongoing public and private sector adult literacy programs. The private sector organization "Amigos del Pais", will continue receiving support to expand the circulation of its easy-to-read newspaper which helps new readers maintain and improve their literacy skills. In the long run, however, the Mission is convinced that the permanent solution to the problem of illiteracy is high quality universal primary education.

AID's program of support for bilingual primary education services for indigenous children has become a showpiece of Agency programming in the education sector. Successful policy dialogue has led to the institutionalization of bilingual education in the Guatemalan Constitution. The World Bank has joined in with support for the printing of some of the bilingual textbooks. For the first time, indigenous children will have a chance to gain entry into the social, economic, and political mainstream of their country. Clearly, this general area of programming requires additional strong AID, other donor and Government of Guatemala commitment. In conjunction with ongoing technical and financial support in this area, AID will continue to encourage the Guatemalan Government to invest more heavily in the education sector in general, and in primary education and bilingual education in particular. The national commitment to bilingual education needs to be further solidified, and bilingual education needs to be integrated more fully into MOE programming.

Greater awareness of the need to make educational services more economical and cost-effective will be promoted, and dialogue concerning ways of reducing the tremendous waste and inefficiency in the national educational system will continue. Finally, during this CDSS period the Mission will continue to try to expand its own involvement in and funding levels for the education sector, which we regard as one of the most fundamental requirements for long range economic, social, and democratic development in Guatemala.

D. Goal: Promote Democracy and Strengthen Democratic Institutions

1. Rationale for Selection

After some three decades of autocratic military and civilian governments, Guatemalans voted for a return to democracy in November and December 1985. The elected government that took office in January 1986 inherited the social and economic problems and political divisions of many decades, including a national economy ravaged by recession and guerrilla warfare. Despite difficulty in reaching consensus with the private sector, labor and other groups on specific economic and political reform measures, the Cerezo administration moved effectively in its first three years and displayed considerable political courage in making many of the hard choices necessary to initiate economic recovery, begin to broaden the base for political participation and economic opportunity, and bolster Guatemala's fragile democracy.

In terms of U.S. interests in the Central American region, Guatemala occupies a unique position because it has both the largest population and strongest economy in the region and because it has so recently returned to democratic government. The success of democracy and of free market economic reform in Guatemala will have a profound effect on the entire region and act as a brake on Marxist-Leninist expansionism.

2. LAC Objective 14: Strengthen Democratic Institutions

a. Setting

The entire U.S. assistance program has as a principal objective the strengthening of democracy in Guatemala in the firm belief that a democratically-elected and freely functioning government represents the best guarantee for the protection of political and civil liberties and of access to economic opportunities for all citizens. Earlier, this document reviewed the steady progress Guatemala has made in this respect since the dark days of late 1983 when serious breakdowns in Guatemala's economic and political systems were compelling a growing national consensus for change.

The resulting conviction of a vast majority of Guatemalans at that time of the need for a democratically-elected government to guarantee personal safety, to spur economic recovery and to promote broader participation by all elements of society in the benefits of economic growth, led to the drafting and approval of a new Constitution in 1984 and the conduct of free and fair municipal, congressional and presidential elections in November and December, 1985. These were followed by successful mid-term

municipal elections for smaller towns in late Spring of 1987. A second full slate of municipal, congressional and presidential voting is scheduled for late 1991.

A measure of the new environment of freedom is that the press, public and private sector interest groups and opposition political parties freely criticize the country's elected leadership and push their own agendas, unfortunately often with as much unsubstantiated innuendo as facts. Again remembering the past, efficiency and integrity in government operations are major issues on everyone's minds and are frequently cited by the opposition as justification for curtailing democracy. The new constitution provides for independent executive, legislative and judicial branches of government. Yet each of these has serious institutional deficiencies and inadequate resources for effective operations. Specific laws fleshing out many constitutional mandates still remain to be drafted or are mired in relatively ineffective Congressional processes. Increased respect for human rights is evident in the more open political atmosphere, but abuses continue and public confidence remains tentative, especially in remote rural areas of the Indian highlands.

b. Constraints

Constraints to the consolidation of democracy in Guatemala can be grouped under four interrelated headings toward which corrective actions and resources can be directed, i.e. (1) attitudinal, (2) educational, (3) institutional, and (4) financial.

1) Attitudinal: Despite the nation's progressive commitment over the past four years to democratic government, there is still widespread and deep scepticism for the long-term prospects. This is particularly true among the rural Highland Indian population for whom democracy as a form of government is directly measured against progress in personal security and economic opportunity. The nation has no standing tradition of solving problems through democratic processes. On the contrary, it has a long tradition of dictatorial rule and violent transfers of power.

While currently committed to the democratic opening as a bold political decision, many --perhaps a majority of Guatemalan citizens-- only hope for, rather than believe in, its eventual consolidation. For the urban, educated ladino, this is expressed as cynicism and a lack of confidence in the capabilities and integrity of elected leaders. For the highland Indian, it is fatalism reflecting a lifetime of abuse and neglect by the power centers of Guatemalan society. Distinguishing between elective office and the people who exercise it and effecting changes by ballot is an unfamiliar exercise. Attitudinal problems are deeply embedded and will change only slowly.

2) Educational: Closely tied to the attitudinal constraint is the general lack of civics education. There are informal short programs done by the public and private sector, i.e. the Guatemalan Bar Association (Legal needs), Women Lawyer's Association, the Congress, the Ministry of Education and other associations, but these are mostly one-time efforts for limited audiences. Presently there is no formal curriculum at any level of the education system for the study of government processes. This is especially needed given the provisions the new constitution and the vast amount of new and adjusted laws and regulations they necessitate. No political parties and public interest groups produce occasional analyses and briefs for democratic government, but resources are limited and the audience is small, albeit influential.

Creating more popular understanding of democracy and thus commitment to it is further constrained by the generally low state of public education overall, by the particularly difficult educational needs of the linguistically and culturally distinct Mayan population (21 different languages), and by the lack of any sustained national experience linking democracy, rule of law, personal security and economic opportunity in the cause/effect relationship so taken for granted in established democracies.

3) Institutional: As noted above democracy has little effective meaning for highland Indian and other disadvantaged groups who frequently lack such fundamentals as personal security and economic opportunity. A number of realities attest to the seriously underinvested and underdeveloped institutional structure in Guatemala: (1) Guatemala's very low performance levels under such social indicators as literacy, education, infant and child mortality and morbidity, life expectancy (each worse yet among the highland Indians). (2) Public safety forces unable to guarantee the most basic human rights and frequently accused of abuses themselves. (3) Courts unable to provide citizens effective and timely redress of wrongs or to resolve differences in a peaceful, fair manner.

Traditional development institutions (such as the ministries of education, health, agriculture, and supporting agencies and private voluntary organizations) are an important part of achieving effective democratic government, but are noted here more for their general development role. The principal institutions most directly associated with the development of democracy in the sense of LAC objective 14 are those in the judicial and legislative branches of government. Although progress has been made in each of these, much more is needed by way of policy development, resource allocation, staff training, equipping, and outreach of services.

The court system and the National Police both need extensive skills training in order to establish a more efficient interface of their separate but overlapping functions in the criminal justice system. While the Congress must devote its attention to strengthening its committee system and developing its permanent professional staff, it must at the same draft and promulgate --together with other branches of government and the private sector-- a more comprehensive set of policy statements, laws and attendant budget allocations to build on the democratic framework provided by the 1984 Constitution. More generally, the entire structure of civil service employment must be vastly improved, to include freeing it from partisan political upheavals and providing professional training programs and adequate compensation to retain talented personnel.

4) Financial: Inadequate financial support is a universal constraint to all development entities in Guatemala, including those in the democracy sector. Donor resources serve as an important institutional development funding source and as bridge financing for operations. Reaching sustained economic growth levels with enlightened fiscal and development policies is the only way to ensure the long term self-sufficiency of operations. The resource scarce situation at present is expected to improve only gradually over the planning period, forcing difficult decisions on priorities for investment.

For example, the March 1988 sector assessment for the administration of justice detailed an exhaustive list of policy, procedural and structural reforms that alone could cost many millions to implement and even more on an annual operating basis. While vigorous support is intended, resource levels from all sources are expected to be only a relatively small percentage of the total need and investment decisions must reflect this reality.

c. Strategy

The FY 1989-90 Action Plan restated the Mission's strategic interest in strengthening and consolidating democracy in Guatemala by focusing on improving the institutional effectiveness of specific organizations, i.e. the judiciary, the legislative and electoral systems. Deepening popular confidence and expanding participation in democratic development processes are also critical components of the strategy. Thus, keeping in mind the setting and constraints statements made above and the clear linkage (particularly for the highland Indian) between personal security and economic opportunity on the one hand and continued commitment to and consolidation of democracy on the other, the Mission strategy is

to focus programming and policy attention and resources on the following interrelated and mutually reinforcing democracy activities:

- (1) Strengthening the Administration of Justice
- (2) Support for Elections
- (3) Strengthening the National Congress
- (4) Democracy Training

(1) Strengthening the Administration of Justice: In very significant ways the administration of justice stands center stage in Guatemala's search for a more tranquil and democratic society. The lack of an effective system to redress grievances and to resolve differences is a root cause of so much of the civil unrest and many of the personal vendettas that have plagued the country in modern times. Guatemala has one of Central America's better defined administration of justice systems, at least on the books, to address these problems. The principal problems constraining its operation have been a lack of political will to make the system work and a woeful shortage of resources.

The fundamental operating principle in this sector is respect for Guatemalan ownership and direction of the program. The role of the National Commission will be respected and efforts made to strengthen it. Today's Guatemala is committed to improving the system as rapidly as possible. The country has highly respected and competent leadership in the key organizations in the sector. However, substantial legal reforms are needed to streamline and depoliticize the system and to professionalize the career service. This legal reform is underway and is a precondition for effective donor assistance and the use of national resources.

In this context, substantial U.S. assistance over the CDSS period is planned to finance the range of priority needs identified in the justice sector assessment completed in the Spring of 1988. This assessment was reviewed by all the major players in the sector and endorsed. The most immediate needs have been included in the Mission's 1988 bilateral project. Expansion to help the Guatemalan justice sector counterparts fund the balance of critical needs is expected early in the CDSS update period. It is expected that the Harvard cooperative agreement and the ILANUD regional program will also be expanded. USAID program managers will continue to pursue close coordination with other U.S. Country Team elements for these efforts, and with the U.S. Department of Justice's ICITAP program and other donors. USAID direct assistance will also be made available for discrete activities with Guatemalan academic and private sector legal groups in support of the national program.

(2) Support for Elections: USAID plans to support as necessary national elections in late 1990, municipal elections in mid-1992, and national elections again in 1995. Elections must become the undisputed method of acquiring and

transferring power. U.S. assistance requirements for this purpose are expected to be relatively modest and will include direct USAID grants to the Supreme Electoral Tribunal and selective bilateral, LAC Bureau and USIS inputs to public service groups in support of publications, training, seminars, etc. designed to deepen popular understanding and acceptance of democracy.

(3) Strengthening the National Congress: Other U.S. assistance resources will continue to support initiatives to develop a strong and independent National Congress by focusing specifically on development of the permanent professional staff and the functional committee system, as well as on international exchanges to improve Guatemalan legislative skills and other countries' understanding of Guatemala.

(4) Democracy Training: The Mission views the Central American Peace Scholarships (CAPS) program as an important factor in reaching the rural population and creating strong popular support for and participation in democracy and development. This program and other more recent general training initiatives involving the public sector, labor and business, will continue at high funding levels throughout the planning period. Training for public sector officials is one part of creating more effective service organizations and marshalling public consensus for more favorable and professional treatment of the civil service.

Other participatory initiatives to broaden outreach and multiply democratic development initiatives in rural areas will be encouraged. These include such activities as private voluntary agency efforts; Peace Corps; special development activities in collaboration with PVOs, especially those with a highland Indian focus; and training and technical assistance in support of effective implementation of the Constitutionally-mandated program under which municipalities receive 8 percent of central government tax receipts.

V. RESOURCE REQUIREMENTS

A. Introduction

The transitional outline for resource requirements presented in Part II-B, above, establishes FY 1993 as the Mission's best estimate of the date by when ESF balance of payments assistance to Guatemala can begin to be phased out. The outline also points to the long-term commitment to Development Assistance and Title II that is needed and projects higher DA levels beginning FY 1990.

The increased requirement for DA assistance is based on several factors. (1) Guatemala's socioeconomic infrastructure and human capital development in rural and marginal urban areas have been seriously underinvested for virtually all of its modern

history. (2) The consolidation of democratic government mandates that these long-neglected needs be redressed. (3) The democratic process itself is the most substantial guarantor of Guatemalan commitment to stay the course, and enhances prospects for success. (4) The higher levels of DA requested over the planning period are in the expectation that reforms already underway in institutional structures, the budget process and service delivery will be increasingly successful, thus reducing the problem of absorptive capacity.

Given this set of assumptions, the following is an indicative scenario of how the projected planning period assistance would likely be applied against established goals and objectives. The amounts used are considered to be the minimum levels needed to address effectively the goals and objectives selected. Adjustments to reflect actual availabilities, Congressional and Agency earmarking, evolving Guatemalan realities, and other special needs and opportunities will likely be necessary as the period unfolds.

Available funding will be allocated early in the planning period for mortgage requirements and some new starts. However, funding will be increasingly concentrated in successful long-term (ten year) projects or sector programs reflecting the goals and objectives given in this CDSS update, specifically the agriculture sector and Highlands Agriculture Diversification programs, national child survival programs (immunization, ORT. Vitamin A enhancement), microenterprise and small business development, bilingual education, and the administration of justice and other democracy initiatives.

As stated earlier, local currency attributions related to ESF (with the exception of the Operating Expense Trust Fund) and most of Title I will be in the general budgetary support mode through the CDB mechanism as a deliberate policy initiative intended to improve the Guatemalan Government's budget allocation and expenditure processes in favor of a more coherent and effective national development program and donor coordination.

B. Dollar Requirements by Goal/Objective and Assistance Account

TABLE 6
(U.S.\$ Millions)

GOAL/OBJECTIVE BY FUNCTIONAL ACCOUNT	FISCAL YEAR					
	1989	1990	1991	1992	1993	1994
I. <u>Goal</u> : Short term						
Economic Stabilization						
<u>Objective</u> : Stabilize						
Financial Structures						
<u>Development Assistance</u>	1.8	2.5	3.0	2.0	2.0	1.0

GOAL/OBJECTIVE BY FUNCTIONAL ACCOUNT	FISCAL YEAR					
	1989	1990	1991	1992	1993	1994
<u>Economic Support Fund</u>	70.5	78.4	70.0	70.0	40.0	20.0
<u>P.L.-480 Title I</u>	<u>18.0</u>	<u>18.0</u>	<u>18.0</u>	<u>18.0</u>	<u>18.0</u>	<u>18.0</u>
TOTAL	90.3	98.9	91.0	90.0	60.0	39.0
II. Goal: Structural Reform for Rapid and Sustained Economic Growth						
A. Objective: Increase Diversify Ag Production						
<u>Development Assistance</u>	11.5	11.1	14.0	20.0	25.0	29.0
<u>P.L.-480 Title II (Agroforestry)</u>	<u>.5</u>	<u>1.0</u>	<u>1.5</u>	<u>2.0</u>	<u>3.0</u>	<u>3.5</u>
TOTAL	12.0	13.1	15.5	22.0	28.0	32.5
B. Objective: Strengthen and Expand the Private Sector						
<u>Development Assistance</u>	6.5	7.5	8.0	8.0	10.0	11.0
III. Goal: Wider Sharing of Benefits of Growth						
A. Objective: Increase Access to Voluntary Family Planning						
<u>Development Assistance</u>	4.0	4.4	4.0	4.0	4.0	4.0
B. Objective: Reduce Infant and Child Mortality						
<u>Development Assistance</u>	2.6	2.9	3.0	3.0	3.0	3.0
<u>P.L.-480 Title II (MCH)</u>	<u>5.8</u>	<u>7.0</u>	<u>7.0</u>	<u>6.8</u>	<u>6.8</u>	<u>6.5</u>
TOTAL	8.4	9.9	10.0	9.8	9.8	9.5
C. Objective: Increase Educational Opportu- nities						
<u>Development Assistance</u>	5.3	5.6	6.0	8.0	9.0	10.0
IV. Goal: Promote Democracy						
Objective: Strengthen Democratic Institutions						
<u>Development Assistance</u>	1.3	1.0	2.0	5.0	7.0	7.0
<u>Economic Support Fund</u>	9.5	8.6	10.0	10.0	10.0	10.0
<u>P.L.-480 Title II (Urban FFW)</u>	<u>.7</u>	<u>1.0</u>	<u>.5</u>	<u>.2</u>	<u>.2</u>	<u>--</u>
TOTAL	11.5	10.6	12.5	15.2	17.2	17.0
GRAND TOTAL	<u>138.0</u>	<u>147.0</u>	<u>147.0</u>	<u>157.0</u>	<u>138.0</u>	<u>123.0</u>

C. Staffing Implications

Flowing from resource and program plans as set forth in this updated CDSS, the Mission foresees the following personnel implications. Fine-tuning of personnel needs will continue to be accomplished through the Annual Budget Submission documents.

USDH, PSC and FSN Mission staff levels are expected to remain relatively constant at present levels throughout the planning period. It should be kept in mind that administrative and controller support staff constitute 37 percent of the total on-board USAID personnel and serve both the bilateral Mission and ROCAP. The Controller's Office serves USAID Mexico as well. These factors plus as-yet unforeseen program implementation and vulnerability dictated requirements may call for some additional staff.

Project contractor staff levels will follow the established practice that such needs are time-limited within the life of the project and are determined and justified during the project design stage. The Transition Resource Proposal projects higher DA levels and, reflecting the labor intensive nature of the project mode, the number of U.S. contractors is expected to rise correspondingly over the planning period. The actual numbers needed may eventually be somewhat lower: (1) because of the Mission's desire to increase Guatemala's focus wherever feasible on national sector level initiatives complemented by traditional projects; (2) because of anticipated institutional improvements in the counterpart organizations, and (3) because of efforts to hire locally. However, the first two trends will be some time in coming and short-term (through FY 1991) contractor needs probably will follow traditional patterns except that the technical assistance agreements will be more deliberately focused on institutional improvements.

D. Operating Expense (OE) Narrative

As with personnel requirements, the details of OE expense requirements will continue to be spelled out in the Annual Budget Submission (ABS) documents. In the 1988 Action Plan process, the Mission was credited by the Bureau with achieving one of the highest ratios of program dollars expended to Operating Expense dollars used. The Mission intends to continue this performance. To do so, the following actions are planned: (1) The Mission will continue to hold dollar OE requirements to the minimum, offsetting dollar uses for in-country costs (such as FSN salaries, space, maintenance, some contract costs) with local currency Trust Funds negotiated each year as part of the ESF balance-of-payments agreement. (2) If the Guatemalan Government continues to agree, ROCAP expenses will continue to be included under the Mission's local currency Trust Fund agreement. However, it is expected that the other USAIDs and host governments will also contribute to the maintenance of ROCAP. (3) Pursuant to Agency guidelines, to the

fullest extent possible, contractor costs associated with project activities will be designed into new or amended project and other activity financial plans. (4) Given the phase-down plan for ESF balance of payments assistance in the latter part of the planning period, special attention will be paid to define the attendant OE implications early enough to ensure continued smooth operations for both the bilateral and ROCAP Missions.