



Guatemala – European Community

Country Strategy Paper for the period 2007-2013

DCI Committee - December 2006

INDEX

0	EXECUTIVE SUMMARY	1-4
1	OBJECTIVES OF EUROPEAN COMMUNITY CO-OPERATION.....	1-5
1.1	GLOBAL OBJECTIVES	1-5
1.2	SPECIFIC OBJECTIVES IN LATIN AND CENTRAL AMERICA.....	1-5
1.3	SPECIFIC OBJECTIVES IN GUATEMALA	1-6
2	ANALYSIS OF THE POLITICAL, SOCIAL, ECONOMIC AND ENVIRONMENTAL SITUATION.....	2-7
2.1	POLITICAL SITUATION.....	2-7
2.2	SOCIAL COHESION AND POVERTY	2-8
2.3	ECONOMIC SITUATION	2-10
2.4	TRADE AND REGIONAL INTEGRATION	2-12
2.5	ENVIRONMENTAL SITUATION, VULNERABILITY AND POVERTY	2-12
3	GUATEMALA NATIONAL AGENDA	3-13
4	OVERVIEW OF PAST AND ONGOING EC CO-OPERATION, COORDINATION AND COHERENCE.....	4-14
4.1	OVERVIEW OF PAST AND ONGOING EC COOPERATION; LESSONS LEARNED	4-14
4.2	INFORMATION ON PROGRAMMES OF EU MEMBER STATES AND OTHER DONORS, COORDINATION	4-16
4.3	COHERENCE WITH EU POLICIES AND INSTRUMENTS (POLICY MIX)	4-17
5	THE EC RESPONSE STRATEGY	5-17
5.1	GLOBAL OBJECTIVES	5-17
5.2	THE EC INTERVENTION SECTORS.....	5-18
5.2.1	<i>Fostering social cohesion through human and social development</i>	5-18
5.2.2	<i>Economic growth and trade</i>	5-20
5.2.3	<i>Non focal sector: regional integration</i>	5-21
5.3	PRINCIPLES FOR REVIEW AND EVALUATION	5-21
5.4	CROSS-CUTTING ISSUES	5-21
6	PRESENTATION OF THE INDICATIVE PROGRAMME 2007-2010	6-22
6.1	MAIN PRIORITIES AND GOALS.....	6-22
6.2	SPECIFIC OBJECTIVES AND TARGET BENEFICIARIES.....	6-22
6.2.1	<i>Fostering social cohesion</i>	6-22
6.2.2	<i>Economic growth and trade</i>	6-24
6.3	EXPECTED RESULTS (OUTPUTS)	6-25
6.4	PROGRAMMES TO BE IMPLEMENTED IN PURSUIT OF THE OBJECTIVES, TYPES OF ASSISTANCE	6-25
6.5	INTEGRATION OF CROSS-CUTTING THEMES.....	6-25
6.6	FINANCIAL ENVELOPES	6-26
6.7	ACTIVITIES UNDER OTHER EC BUDGETARY INSTRUMENTS.....	6-27

Annexes

Annex 1: CSP consultation process

Annex 2: Guatemala at a glance (including Map)

Annex 3: External trade

Annex 4: Millennium Development Goals; indicators

Annex 5: Youth issues

Annex 6: Gender profile

Annex 7: Rural sector (including agriculture and food security)

Annex 8: Environment profile

Annex 9: Donor Matrix

Annex 10: EC cooperation and lessons learned

Annex 11: Coherence with EU policies (Policy mix)

Annex 12: Migration profile

Annex 13: General criteria for eligibility to budget support

Annex 14: Summary of EC Regional Strategy for Central America

Abbreviations

AIDPI	Acuerdo sobre Identidad y Derechos de los Pueblos Indígenas
CAFTA	Central American Free Trade Area
CNAP	Comisión Nacional de los Acuerdos de Paz
CNR	Comisión Nacional de Resarcimiento
CSP	Country Strategy Paper
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Right
EU	European Union
EC	European Commission
ECLAC	Economic Commission for Latin America and the Caribbean
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HIPC	Heavily Indebted Poor Countries
IDA	International Development Agency (World Bank Group)
IDB	Inter-American Development Bank
ILO	International Labour Organisation
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NIP	National Indicative Programme
NGO	Non Governmental Organisation
RSP	Regional Strategy Paper
SIAS	Integrated Health Care System
SICA	Sistema de la Integración Centroamericana (<i>Central American Integration System</i>)
SIECA	Secretaría de Integración Económica Centroamérica (<i>Secretary for Central American Economic Integration</i>)
SWAp	Sector Wide Approach
TRTA	Trade Related Technical Assistance
UNDP	United Nations Development Programme
WB	World Bank

EXECUTIVE SUMMARY

Guatemala, overwhelmed by high levels of poverty and social inequalities, was severely hit by tropical storm “Stan” in October 2005. This natural disaster underlined structural deficiencies as well as policy and institutional shortcomings, in particular in relation to the management of the country’s environmental resources. The poor - an estimated 56% of the population - have very limited access to health and education services and are exposed to food insecurity. Slow economic progress and a weak and inequitable fiscal system are preventing any real improvement in the well-being of the majority of the population. Although Guatemalan society has seen positive developments since the end of the internal conflict, in particular in relation to democratization, the rule of law remains fragile. Institutions are weak and do not have the means to fight impunity or to efficiently combat the heightened insecurity. The political context is not conducive to full reconciliation and the Government has to extend much effort in building trust in its National Development Plan, based on the 1996 Peace Accords. In order to be fully successful, these require the continued support of the international community in general and the European Union in particular. Guatemala will only be able to meet its Millennium Development Goals (MDGs) if there is continued and serious commitment by all parties towards peace and reconciliation.

The European Commission intends to support Guatemala in its endeavours through this Country Strategy Paper (CSP) which provides a framework for EC cooperation during the period 2007-2013. The CSP highlights **social cohesion, economic growth and trade as the main themes for cooperation**. Emphasis will be on the promotion of a well governed democracy, respectful of the **indigenous people** and their rights, as well as effective implementation of **pro-youth policies** and measures contributing to **improved citizen security**. The CSP also underlines the importance of **regional integration** which will also receive attention under the EC Regional Strategy for Central America.

Cross-cutting themes which will be mainstreamed throughout the implementation of the CSP include the **environment, gender equality, and human rights**. Special consideration will be given to the situation of the **indigenous peoples** in all aspects of cooperation.

The CSP is a key element in the improved programming process introduced as part of the reform of the management of EC external assistance and subscribes to the principles of the "European consensus on Development", which focuses in particular on reducing poverty and on the MDG. The CSP was drawn up following a multi-stakeholder consultation process involving state and non-state actors, as well as other bodies from the international community, to ensure the complementarity and effectiveness of EC cooperation. The strategy will be implemented on the basis of two successive indicative programmes. Where possible, and if the necessary conditions are met, consideration will be given to sector programme support and budget support. An indicative allocation of €135 million has been earmarked for Guatemala in the period 2007-2013 under the financing instrument for development cooperation (DCI). These resources will be supplemented by projects funded from specific EC budget lines and programmes financed under the Central American and Latin American regional programmes.

1 OBJECTIVES OF EUROPEAN COMMUNITY CO-OPERATION

1.1 Global objectives

In accordance with **Article 177 of the Treaty Establishing the European Community**, the Community's development cooperation policy shall foster the sustainable economic and social development of the developing countries, the smooth and gradual integration of these countries into the global economy and the fight against poverty. The Community's policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

In November 2005, the Council, the Representatives of the Governments of the Member States, the European Parliament and the Commission approved "***The European Consensus on Development***", which provided for the first time a common vision guiding the action of the EU, at both Member State and Community levels, in development co-operation. The prime stated objective of Community development policy is the eradication of poverty in the context of sustainable development, including the pursuit of the Millennium Development Goals (MDGs), and the promotion of democracy, good governance and respect for human rights. The Consensus also stresses the importance of partnership with the developing countries and of promoting good governance, human rights and democracy with a view to more equitable globalization. It reaffirms the commitment to promote policy coherence for development, based on ensuring that the EU will take account of the objectives of development cooperation in all the policies it implements which are likely to affect developing countries, and that these policies support development objectives. It reiterates the principle of ownership of development strategies and programmes by partner countries and advocates enhanced political dialogue as well as a more prominent role for civil society in development cooperation.

1.2 Specific objectives in Latin and Central America

On the basis of **Article 179 of the Treaty Establishing the European Community**, a new Development Cooperation Instrument (DCI) was adopted in December 2006. El Salvador is eligible to participate in cooperation programmes financed under the DCI [European Parliament and Council Regulation (EC) No. ... of ... December 2006 establishing a financial instrument for development cooperation.]

The **2004 Guadalajara Summit** between Latin America, the Caribbean and the European Union emphasised **multilateralism, regional integration** and **social cohesion** (poverty reduction, fights against inequalities and exclusion), which are the main priorities for policy dialogue and cooperation.

In its **December 2005 Communication on "A reinforced European Union-Latin America partnership"**¹, the Commission restated its aim of a strategic partnership with the entire region and stressed the need for policy dialogues, targeted cooperation, promotion of trade and investment, as well as better alignment of co-operation with political agendas and with the needs of recipient countries.

¹ Communication from the Commission to the Council and the European Parliament "A stronger partnership between the European Union and Latin America" COM (2005)636 final.

In the specific case of **Central America**, co-operation has been shaped by the **San Jose Dialogue**, launched in Costa Rica in 1984, which remains the principal channel for political dialogue between the two regions. This annual dialogue was originally launched to support the peace process and democracy in the region. It was confirmed in 1996 and 2002 and widened to include other issues such as economic and social development. The **Regional Development Cooperation Framework Agreement** signed between the six Central American countries and the Commission in 1993 came into effect in 1999. This “third generation” agreement covers a broad range of co-operation sectors and provides for the establishment of a Joint Committee to oversee its implementation as well as sub-committees for detailed examination of specific sectors of the Agreement. In **December 2003** a new **Political Dialogue and Cooperation Agreement** was signed by the EU and Central America which, once ratified, will institutionalise the San Jose Dialogue and expand cooperation to include areas such as migration and counter-terrorism. It also opens the door to a future Association Agreement which has been the common strategic objective of both parties since the EU-Latin American Countries III Summit in Guadalajara at which the two regions decided that such an Agreement shall be built on the outcome of the Doha Development Agenda and on the realisation of a sufficient level of regional economic integration. At the **Vienna Summit in May 2006**, and based on the positive outcome of a joint evaluation, the Heads of State and Government of the European Union and of Latin America and the Caribbean decided to launch negotiations in view of an Association Agreement including a free trade area.

1.3 Specific objectives in Guatemala

As a member of the Central America Integration System (CAIS), Guatemala enjoys a comprehensive relationship with the EU that encompasses political dialogue, a broad cooperation framework, and a favourable trade regime under the special incentive arrangement for sustainable development and good governance within the new Generalised System of Preferences. The available instruments have allowed both partners to engage in broad-based cooperation in all areas of mutual interest. The cooperation objectives between the EC and Guatemala can be summarised as follows:

- § to foster the process of national reconciliation established by the 1996 Peace Accords by contributing to the creation and reinforcement of the necessary political and socio-economic conditions for their implementation, focusing on social cohesion (poverty reduction, fights against inequalities and exclusion), good governance and human rights.
- § to ensure that the results achieved so far in the process of transformation, democratisation and development of the country are not reversed, and that the essential reforms remain an important part of the national political agenda.
- § to support the integration of Guatemala in the region and into the world economy and to increase trade relations with the EU, mainly by means of a more consolidated regional integration process.

All of this entails the consolidation of peace and reconciliation as well as the pursuit of the political dialogue between the EC and Guatemala in relation to the Peace Accords and social cohesion. New methods of partnership with the Government and other donors in the area of cooperation (sector programme support and budget support) will be considered, where possible, and only if the necessary conditions are met.

2 ANALYSIS OF THE POLITICAL, SOCIAL, ECONOMIC AND ENVIRONMENTAL SITUATION

2.1 Political situation

The **Peace Accords signed in 1996** ended more than three decades of conflict which had left a fragmented society and a militarised State that had perpetrated massive abuse of human rights during the conflict, perpetuated social inequalities and systematically excluded and persecuted indigenous peoples. In this post-conflict scenario, peace, the consolidation of democracy and national reconciliation remain prerequisites for the implementation of the EC cooperation strategies.

A referendum in 1999 rejected a package of 47 constitutional reforms mandated by the peace agreements (18.5% turnout). These reforms would have allowed a multilingual, multi-cultural and multi-ethnic nature of the Guatemalan State, acknowledging indigenous rights, transforming the judiciary, and curbing the power of the armed forces. After the administration of President Portillo, which saw corruption allegations, a weakening of the rule of law and stagnation in important areas of the peace process, a **new administration** led by President Berger was peacefully put into place in **January 2004** following properly conducted elections in 2003. However, the Gran Alianza Nacional (GANAN) - a coalition of three small parties which supported the President's electoral campaign - was weakened when the Partido Patriota (PP) withdrew from Government in May 2004. The Frente Republicano Guatemalteco (FRG) is the main opposition party. An other influential player is the Coordinadora de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (CACIF). A number of factors still have a **negative effect** on the **political dynamic**: political parties lack transparency in their operations and do not play the role as mediators between the State and civil society; **participation by civil society is not encouraged**; access to information is restricted; political decision-making is dominated by non-indigenous males.

One of the first acts of the new Government was to make a **public commitment to implement the Peace Accords**, which was formally confirmed by the Congress in August 2005 in a framework law (**Ley Marco de los Acuerdos de Paz**) establishing procedures and mechanisms to secure the effective attainment of the objectives set in the Peace Accords. Two national commissions (Comisión Nacional de los Acuerdos de Paz – CNAP – and Comisión Nacional de Resarcimiento – CNR) were subsequently established. CNAP, an autonomous body which includes members of three branches of the State, political parties and civil society, is to coordinate the dialogue to promote consensus and guide the legal and political reforms, as well as specific programs and projects which will contribute to the full achievement of the Peace Accords. The national budget for 2006 includes funds for the setting-up and operation of the CNAP.

Furthermore, the Government **reduced the role and size of the military apparatus** (from 27 000 to 15 500 members, and also cut expenditure to 0.33% of the GIP which is an improvement on the target of 0.66 % set by the Peace Accords); it demobilised the Presidential Guard, closed some military bases and created a **Security Advisory Council**. Also to be noted is the **new legal framework aimed at fostering the process of decentralization, local development, and the participation of citizens in political and public life**, which will help to improve good governance.

However, **institutions** remain weak, in particular owing to the limited resources available to the State, and they do not contribute significantly to reducing social disparities and conflicts.

The slow pace of modernization of the regulatory framework and the lack of means to define and improve public policies are not conducive to the promotion and respect of human rights and other constitutional rights. The lack of basic regulations, the existence of protection systems (“clientelism”), and the low motivation of civil servants (the result of a weak civil service organized on the basis of an unpredictable career system), are all factors that discourage investment. Furthermore, progress is still required for consolidation of the **Rule of Law**. Despite the necessary laws, the system faces extremely difficult situations in combating the emergence of drug trafficking, illegal organized groups or juvenile delinquency. The **worsening public security situation** presents a crucial test for the government. The number of murders (in particular of women) has increased steadily in recent years. The police and the judiciary are to be modernised, in particular to combat the rising crime rates and the phenomenon of the *maras* (gangs of youths). Another key challenge for the country is drug trafficking. Although Guatemala, like the rest of Central America, is not a major drug producer, it is an important corridor for South American drugs en route to the USA and Europe². This has had an impact on both drug consumption and drug-related crime in the country, including money-laundering. In 2004, law enforcement agencies in several countries of the region reported increased seizures of cocaine, as well as stricter controls on precursor chemicals. However, there are indications that drug trafficking organisations are adapting their methods in order to thwart the law enforcement efforts. Security has become one of the priorities for cooperation and dialogue for Guatemala at sub-regional level, as well as in relations with other countries affected directly or indirectly by these phenomena (the US, Mexico, etc.). The Government is making efforts to facilitate the establishment of an **International Commission Against Impunity in Guatemala** (CICIG being the Spanish acronym),³ after an initial proposal for such a commission was ruled unconstitutional in early 2005. The defenders of human rights and those working in the legal system remain vulnerable to interference and threats. More generally, the situation in relation to **human rights** remains of concern, although a notable step forwards - which may be attributed in part to the Peace Accords - has been the opening of fora for dialogue and the “recovery” of the historical memory as a way of acknowledging discrimination against various population groups, especially indigenous people and women.

2.2 Social cohesion and poverty

Guatemala, the largest country in Central America, is a lower-middle income developing country with a population of 12.6 million. It is listed 117th (out of 173) in the 2005 Human Development Report. Half of the population is indigenous of Mayan descent, mostly **rural** and living on the margins of modern society. Guatemala has one of the highest poverty rates in Latin America and some of the weakest social indicators. Problems caused by exponential demographic growth (2.3 % per year), exclusion and inequalities have perpetuated a situation in which **56% of the population live in poverty, of which 22% are living in extreme poverty**. Relevant **MDG data and other indicators** show that much still remains to be achieved [**Annex 4**].

Guatemala has some of the worst primary health indicators in Latin America. The Peace Accords included the revamping of the public health system with increased resources and greater attention to rural areas, and a renewed emphasis on preventive strategies. However, the improvements have been modest, and malnutrition, infant mortality and the prevalence of infectious diseases such as malaria or HIV/AIDS remain serious challenges. A positive step was the creation of the Integrated Health Care System (SIAS), an innovative system making

² 2005 report by the UN Office on Drugs and Crime

³ Previously *Commission of Investigation into Armed Groups and Clandestine Security Apparatus* or CICIACS

use of services provided by non-governmental organizations in remote rural areas where there are no public health facilities. Vaccination programmes have also improved. However, overall health expenditure has not reached the target of 1.3 % of GDP. An estimated 20 % of the population is without public assistance or attention from SIAS. Challenges include the expansion of basic coverage and preventive health care as well as the more effective integration of traditional indigenous medicine and hiring of more bilingual staff.

In education, there have been signs of progress in the literacy rate (which has risen from below 60 % in 1980 to over 80 %). The goal of a 50 % increase in education spending was reached in 2001, but the current budget remains inadequate. Community-managed schools were introduced in areas not covered by the official system. Many attempts have been made to register indigenous girls in school through scholarships. Lastly, the PRONADE programme has been successful in reaching the most isolated and poor villages that have high levels of indigenous population. Bilingual education is currently available to less than 10 % of indigenous children. An extended process of transforming the primary school curriculum to incorporate multicultural aspects and elements of the history of the armed conflict has been concluded, but the changes have yet to be implemented. Matriculation rates in primary education are below 90%, and in secondary school below 30%. The rates of graduation in primary school are below 40%. The average number of years of education (3.5 years) is the lowest in Central America. To achieve basic primary education for all, a real increase of 44 to 48% in the annual education budget would be needed. Moreover, an increase of 1% in the average number of years of education would translate into a 0.33% increase in GDP.

Particularly as a result of the above, the human development index remains one of the lowest in Latin America and major differences are evident in the distribution of wealth. Although advances have been seen, the **development of various social groups is lagging behind:**

- 74% of those belonging to **indigenous communities** live in poverty and 40 % in extreme poverty, with women being more affected than men. Despite progress made under the *Agreement on the Identity and Rights of the Indigenous Peoples - AIDPI (Acuerdo sobre Identidad y Derechos de los Pueblos Indígenas)*, education and health, justice, public and private investments, basic infrastructure and other public services do not reach these populations in proportion to their demographic relevance. Half of the indigenous population is illiterate. Indigenous children living in rural areas have less than two years of education on average. In addition, the Mayan, Xincas and Garífunas suffer daily from various forms of discrimination. The UN has acknowledged various measures taken by the Government in line with the Peace Accords (and especially the AIDPI), including: the establishment of legal consultancy offices for indigenous women and units dedicated to indigenous affairs within the office of the General Attorney and the Supreme Court; the new bilingual education policy; an Indigenous Fund; a Presidential Commission against Discrimination and Racism; an Indigenous Advisory Board. However, budgetary constraints restrict the actions of these new institutions and the **2005 UNDP Human Development report**⁴ describes the many challenges ahead for a more inclusive and equitable society in Guatemala.
- Young people (minors under 18 make up 56% of the population) are also dramatically affected by the social situation. 37% of the population aged between 7 and 14 is at work and elementary school attendance is barely 35%. About 6,000 minors live on the street. Violence during the armed conflict resulted in the disappearance and death of some

⁴ Diversidad etno-cultural: la ciudadanía en un estado plural, March 2006

40,000 children, a large number of whom lost their parents or were abandoned, particularly among the Mayan populations. Guatemala is the world’s fourth largest provider of international adoptions (accounting for 95% of all adoptions in the country), many of which take place outside the legal system. In August 2005, the Government approved a **National Policy for Youth 2005-2015**. The **National Youth Council (CONJUVE)** is responsible for the coordination of activities detailed in 11 strategic axes, which include security and justice, health, employment, agriculture and rural development. An additional element of orientation is the National Policy for the Prevention of Juvenile Delinquency as designed by the Presidential Commission for Human Rights (COPREDEH). [*Youth Profile, Annex 5*]

- Lastly, women suffer considerably from discrimination. The Economic Commission for Latin America and the Caribbean (ECLAC) considers that the country ranks second for female illiteracy in Latin America and has the most marked differences between men and women (0.91) in illiteracy. 34.6% of illiterates in the country are women, of whom approximately 60% are Mayan in rural areas (in some communities, female illiteracy is as high as 90%). Indigenous women who live in rural areas make up 37% of the adult female population and the majority of them suffer from serious discrimination. The higher drop-out rates are found in rural areas among indigenous girls who are required to do heavy domestic work when they are very young. In terms of access to social services, employment and salaries, women continue to labour under severe disadvantages as compared to men. On the other hand, concern has been expressed about citizenship and the worryingly high levels of exclusion and femicides or other acts of violence against women. Finally, in terms of representation and civil participation, and despite the creation of a Women’s Parliament in 2004, much remains to be done: of the 158 Members of the national Congress, only 14 are women. [*Gender Profile, Annex 6*].

2.3 Economic situation

The indicators for Guatemala, which has a per capita GDP of approximately \$1,910, reflect a relatively **stable macro-economic framework**. However, the **slow pace of economic growth is a matter of concern**. After three years (2001-2003) of negative per capita growth, Guatemala showed a timid improvement of 2.7% in 2004, but this was well below the 6% objective of the Peace Accords and the record of 5.7% for Latin America in the same period. However, the positive trend is expected to continue thanks to increased exports and investments, encouraged by further commercial integration. Sustained growth will remain difficult to attain as the population growth remains high and large portions of the population live on the fringe of the economic system.

Table: Economic and population growth:⁵

Year	GDP increase	Population increase
2002	2.2%	2.4%
2003	2.1%	2.4%
2004	2.7%	2.3%
2005	3.2%	2.3%
2006	4.0%	2.3%

Improving the tax system and the quality of social spending are important challenges for the country in its efforts to build social cohesion. Tax collection is very low (only 10% of GDP in 2004), and falling short of the modest goal of 12% set in the Peace Accords.

⁵ Source Inter American Bank for Development and UNDP. Forecasts for 2005 and 2006.

Despite improvements in 1999 and 2000, the situation has worsened since then. The tax system suffers from a narrow base, a weak administration, widespread evasion, and low taxation rates. It also relies heavily on indirect taxes such as VAT (44.7% of total tax collection in 2004) and less on income taxes (24.6% in 2004); at the same time there are many exemptions. Following unsuccessful attempts to reform the system in June 2004, the Government is experiencing a limitation of resources that could only be counterbalanced by a new tax system. As a consequence of low taxation, government social spending (13.7% of GDP in 2004) is one of the lowest in Latin America and is still insufficient to meet the commitments undertaken by the State through the Peace Accords or to achieve the MDGs. It is estimated that the country would have to spend an additional US\$ 85 million on education and US\$ 40 million on health until 2015 to reach the objectives for adult literacy, maternal mortality and malnutrition⁶. Investment, especially in the education sector, also has an impact on future employment. The recent National Surveys of Employment and Income indicate that only one third of the population is in the *formal* sector, while the rest is in the *informal* or under-employed sector. With its high population growth, Guatemala needs to attract investment and create jobs by prioritizing spending in education, in order to strengthen its human resources and stimulate national productivity. *Guate Solidaria* (see Chapter 3) accounts for more than 75% of public spending. In addition it includes the minimum expenditures laid down in the Peace Accords for various items, such as Health, Education and Housing. The public investment levels established in the Fiscal Pact fall short of the goals proposed. The same is happening with the levels of public debt that have risen from 12.6% of budget financing in 2003 to 15.9% in 2004 and 19.4% in 2005.

In addition, as CAFTA comes into effect the Government will have to face a decline in import taxes, which are already low: the estimated loss, in a scenario of moderate economic growth, is between 0.32% and 0.35% of GDP.

Guatemala's has recorded **large deficits on its current account** in recent years, due mainly to growing trade deficits. Though new industries have appeared, such as the *maquila* and non-traditional products, the fall in the prices of coffee, bananas and cardamom is partly responsible for the increase in poverty in rural areas. The deficit has been financed largely by income from privatisation and, as a result of the important migration to the USA, the increasing amounts of **remittances** by Guatemalan workers to their families. These are expected to reach as much as US\$3,000 million or 9.5% of GDP in 2005. Households receiving remittances (mainly in rural areas) tend to spend more on investment (education, micro-enterprises) than on consumption goods. This indicates that remittance expenditures can be productive for the economy as a whole, while expenditure on education by remittance-receiving households can help raise the level of human capital in the country, thereby boosting the rate of economic growth. Therefore, any action to reduce poverty in the country requires that the developmental effects of remittances be taken into account and that appropriate measures be implemented to facilitate the productive use of those resources. [Migration Profile in **Annex 12**]

Economic development in rural areas is a priority for the Government, as agriculture and related activities are an important contributor to GDP and offer potential for employment in areas where the vast majority of the population is poor and where remittances play an important role. Agriculture represents 38 % of total employment, but the resources allocated to the Ministry of Agriculture make up only 3.5 % of the total budget. The agro-model for exports adopted several decades ago has discouraged the internal production of basic food, diminishing its availability. The national output of basic food comes from small plots, in the

⁶ 2003 MDG progress report

hands of the small and medium-sized producers. The loss of capital and the agrarian regime in force limit access to factors of production such as credit, inputs, technology, etc. thereby lowering productivity. The lack of policies to support production and basic infrastructure for storage and conservation, as well as the deficient road structure, increase distribution costs. The commitment to create a national land registry is essential for the legal security of rural landholders. Official commitments to enact enabling legislation have not materialised. Similarly, commitments in the peace accords to deal with other aspects of the land question have not been honoured. These include: creating an agrarian legal code; reviewing the status of unused land and land illegally acquired during the armed conflict; and establishing legal security for land held communally by indigenous groups. FONTIERRA, the agency providing credit for land purchases, continues to receive less than its mandated budgetary allocation. CONTIERRA, the agency which is involved in the mediation of land disputes, has helped resolve some high-profile cases, but has never had the funding or institutional stability to play this role in a sustained manner at national level. [See **Annex 7**]

2.4 Trade and regional integration

The United States is Guatemala's leading trading partner (about 40% of exports in 2004) and the main source of its imports, followed by the Central American Common Market, the EU, and Mexico. Traditionally, the EU imports agricultural products from Guatemala and exports machine tools and chemical products. Germany is Guatemala's leading European trade partner for exports of machines, while Spain has become the second-largest foreign investor by consolidating its position in the energy and mobile telephone sectors, and also making inroads into the banking sector. [See **Annex 3**]

Guatemala has taken part since 1960 in a **process of integration with the other Central American countries** that has led to increased trade between them, more jobs and greater competitiveness. Progress has also been made in setting up a customs union with El Salvador, Honduras and Nicaragua. Trade between Guatemala and El Salvador is around 65% of total inter-regional trade. In 2004, one of the first decisions taken by the new government was to re-launch a bilateral trade facilitation process with El Salvador that will lead to the freer movement of goods between the two countries.

Although a member of the Central American Integration System, Guatemala is not yet part of the Central American Court of Justice. However, Guatemala City is the headquarters of the Central American Parliament (PARLACEN).

Guatemala has been a member of the World Trade Organisation since 1995 and took part with the 34 countries of the region in setting up the Free-Trade Area of the Americas (FTAA). In a desire to speed up integration with its main trading partners, Guatemala has signed free trade treaties and is negotiating other trade agreements. In March 2005, the Parliament ratified the Central American FTA with the US. This has boosted to a certain extent sub-regional integration, but the differences in treatment as between the Central American Countries could make the achievement of the Custom Union difficult and could lead to intra-regional trade flows being partly substituted by north-south exchanges. Guatemala is also taking part in the *Plan Puebla Panama* (PPP), which focuses mainly on regional infrastructure.

2.5 Environmental situation, vulnerability and poverty

The dramatic effects of Tropical Storm *Stan* on Guatemala in October 2005 provided a clear illustration of how fragile the eco-system has become and of the scale of the challenges

faced by the country in managing its natural resources to avoid further human distress. Indeed, as in other countries in the region, the link between environment and poverty reduction is particularly striking in Guatemala, the poorest part of the population also being often the hardest-hit. Conversely, in rural areas, the limited access to land and to other means of subsistence prompts the poor to use up natural resources more quickly, a situation that is exacerbated by the high rates of rural unemployment and the decline in incomes. [*Environmental Profile* in **Annex 8**]

Guatemala has large but extremely fragile forest resources and a very high environmental resource potential (ecological tourism, biodiversity, archaeology, forest resources, etc.). Population growth and development inequalities put pressure on the natural resources, which has serious adverse effects such as soil degradation. In addition, the uncontrolled occupation of lands for urban or agricultural uses has increased its vulnerability to disasters, chiefly in the North. Guatemala suffers continuous natural disasters (floods, hurricanes, droughts, etc.) aggravated by a combination of weaknesses, both in the environment itself and in the way the institutions have managed the crisis. Sustainable management of natural resources would lead to improved water supply and increased economic development, especially in rural areas where the concentration of poverty is at its highest.

Progress was made in 2001 with the creation of a Ministry for the Environment and Natural Resources. This Ministry still needs to adopt consistent public policies and stimulate genuine institutional co-ordination to allow the implementation of its policies in a coherent way and within the framework of the decentralization process. A National Coordination Office for the Reduction of Natural or Human Provoked Disasters (CONRED) is playing an increased role, though it remains constrained by limited resources and capacity.

An interesting initiative by the Government within *Vamos Guatemala* (see National Agenda above) has been to mainstream environment-related issues throughout the socio-economic programme with *Green Guate*. However, much still remains to be done, from disaster preparedness to proper sustainable management of natural resources.

3 GUATEMALA NATIONAL AGENDA

The **December 1996 Peace Accords** (13 agreements and more than 300 commitments) constitute a national development plan and establish a broad agenda which includes a number of policy actions and targets, covering areas such as economic, social and human development, public sector reforms, justice and human rights, security and reconciliation. In August 2005, a framework law (**Ley Marco de los Acuerdos de Paz**) establishing procedures and mechanisms to secure the effective achievement of the objectives set in the Peace Accords was approved (see also under 2.1 above).

The Peace Accords and the **MDG** coincide in the similarity of the issues covered, especially those of the Accord on the Identity and Rights of the Indigenous Peoples, the Accord on Social and Economic Aspects and Situation of Land Tenure, the Accord on the Resettlement of Displaced Population due to the Armed Conflict and, of course, the Firm and Lasting Peace Accord. The Government is of the opinion that Guatemala is in a position to fulfil the majority of the MDG, although it recognises that further significant efforts are still required in health (maternal mortality and infant malnutrition), education, as well as in the reduction of extreme poverty.

Guatemala is a non-HIPC country and therefore has not developed its own strategy for poverty reduction⁷ similar to the PRSP for HIPC countries. The so-called "**Strategy for the reduction of poverty, the way to peace**" was presented in November 2001 by the former Government. This strategy was supposed to be translated into regional and municipal strategies, but the process came to a halt. The current Administration has taken a new approach, adopting a **Government Plan for the period 2004-2008** which focuses on sustainable and participatory socio-economic development and includes a **Fiscal Pact**, a **Recovery Programme** entitled *Vamos Guatemala* ("Guatemala, Let's Move On"), and **measures to fight corruption and improve governance and the rule of law**. The Government is placing particular emphasis on *Vamos Guatemala* to stimulate economic activity and foster social harmony through a series of rapid impact interventions established in partnership with non-State actors. The plan comprises three strategic components:

- ***Guate Solidaria (Solidarity Guatemala)*** tackles four challenges: i) child malnutrition in vulnerable municipalities; ii) families oppressed by endemic poverty; iii) academic drop-outs who cannot find employment and are vulnerable, and iv) safeguarding cultural diversity and specificity in order to develop an effective social policy in Guatemala.
- ***Guate Crece (Guatemala Grows)*** aims to strengthen both public and private investments and encourage the search for alliances between the public and private sectors in various areas of the local economy, especially in households, transport infrastructure (roads, ports, and airports), tourism, finance and the forest sector.
- ***Guate Compite (Guatemala Competes)*** aims to increase productivity through systems supporting technological innovation, the promotion of exports, the improvement of infrastructures, and the creation of a business-minded mentality which, through the elimination of obstacles and the facilitation of administration procedures, is intended to promote national and international investment.

The Government is also building on the dynamic of **decentralisation** introduced in 2002 with a Law on Decentralisation and has decided on pilot local administration models which are intended allow an effective transfer of competencies to the municipalities concerned.

Finally, following tropical storm Stan, the Government is looking at long-term policies limiting the social tragedies witnessed as a result of natural disasters.

4 OVERVIEW OF PAST AND ONGOING EC CO-OPERATION, COORDINATION AND COHERENCE

International aid since the signature of the Peace Accords has had a major impact on Guatemala, although coordination amongst donors has not always been the most effective. In the period **2002-2006**, it is estimated that **\$ 2.6 billion** have been made available to Guatemala by the international community (including in the form of loans) with \$ 456 million from the EU (281.5 million from Member States and 174.5 million from the EC).

[Donor Matrix in **Annex 9**]

4.1 Overview of past and ongoing EC Cooperation; lessons learned

Guatemala is one of the main beneficiaries of EC cooperation in Central America with **€480 million** allocated in the period **1984-2006**. Since 2002, EC cooperation is funded through a

⁷ <http://www.segeplan.gob.gt/docs/ERP/pobreza/>

multiplicity of financial instruments, **linking relief, rehabilitation and development (LRRD)**. [Annex 10]

The CSP for **2002-2006** identifies three areas of cooperation: (i) consolidation and modernisation of government, democratisation, protection of human rights and strengthening of the judiciary (10% of the budget); decentralisation (22%); civil society (5%); gender equality (6%); taxation policy (16%); (ii) poverty eradication: education (11%); health (9%); sustainable development in the Pacific coast area (10%); (iii) economic cooperation including consumer protection (11%).

Financial support to Guatemala can be broken down as follows:

- The longer-term development of **financial and technical assistance (ALA Regulation)** with a total of **€93 million**. Programmes for €54 million have been committed in the period 2001-2005 (justice, civil society, combating exclusion and promotion of human rights, decentralization, and economic cooperation) and an additional €39 million to be committed in 2006 (local development, economic cooperation and fiscal reform).
- Support from **ECHO** which, since 1998, has been financing projects throughout Central America to promote disaster-preparedness and reduce the vulnerability of local communities to natural disasters. Following tropical storm *Stan* in early October 2005, ECHO made available €3.9 million for emergency response operations in Guatemala. LRRD was ensured through close coordination between Commission services.
- The specific EC response to Hurricane Mitch with **€16 million** under the **Programme for Reconstruction of Central America (PRRAC)** in the sectors of health, education, water and sanitation.
- The **thematic and horizontal budget lines** including the **European Initiative for Democracy and Human Rights (EIDHR)**, the budget line “**Environment and Tropical Forests**”, the **Decentralised co-operation** and **Food Security** budget lines. The total allocation available in **2005** for projects with Non- Governmental Organizations (NGOs) was close to **€27 million**.
- The **regional cooperation programmes** with schemes such as **ALbAN, ALFA, AL INVEST, @LIS, URB-AL, EUROsocial, and OBREAL**.

Some Lessons Learned:

There has been no overall country programme evaluation for Guatemala to date. However, a number of **evaluation reports** provide useful findings [Annex 10].

- Projects are not always consistent with national co-operation priorities and policies. This is more the case for projects implemented under the thematic budget lines (with the exception of the Food Security budget line, which is more results-oriented).
- Projects are in a number of cases deficient: the identification phase too often underestimates the complexities of implementation and the actual delivery mechanisms retained are not necessarily the most efficient.
- In the absence of sectoral approaches, there has been very little policy dialogue, and it is devoted primarily to strictly political issues. This is combined with a lack of ownership by the Government of cooperation activities.

The above is supplemented by reviews of EC cooperation in other Central Americas countries. As a result, it is generally agreed that the focus should be limited to a few sectors only and that aid delivery could be improved appreciably by concentrating more on sector-wide approaches, with possible budget support as in the case of other countries in the region.

4.2 Information on programmes of EU Member States and other Donors, coordination

EU Member States: Ten Member States (Austria, Germany, Spain, Sweden, Netherlands, Denmark, Italy, France, Finland and the UK) have cooperation with Guatemala and focus their assistance (\$ 281.5 million in the period 2002-2006) on **education, health, water and sanitation, the environment, governance, human rights, civil society and gender issues.**

Other donors and IFIs⁸: Since 1997 the **United States** has committed nearly \$ 400 million for the implementation of the Peace Accords and USAID allocates around \$ 50-55 million annually in development aid. The **IADB** (\$ 1,013 million) and the **WB** (\$ 558 million) have major programmes of support to Guatemala, exerting a strong influence in the macroeconomic and sectoral development spheres. The **UN system** (\$ 29 million) is very active in the country and plays a major role in sectoral dialogue and the coordination of cooperation. In June 2003 the **IMF** approved a nine-month credit facility for a total of SDR 84 million (\$ 120 million) as part of the Stand-By Arrangement to support Guatemala's economic programme. The IMF stated that faster progress in the implementation of the Peace Accords would be crucial to give the political impetus needed to achieve the objectives of the economic programme.

Sector analysis: The analysis of other donors' activities, both multilateral and bilateral, shows a certain convergence with a focus on **social development, defence of human rights, indigenous peoples and gender.** There is still a crucial need to improve co-ordination, above all with the multilateral agencies, which concentrate 84% of cooperation aid and which have a crucial role for the improvement of social cohesion in Guatemala.

Coordination mechanisms: At the highest political level, a **Consultative Group** has met on a number of occasions to monitor the implementation of the Peace Accords. However, the Government appears reluctant to hold a follow-up meeting (initially planned for 2005), particularly as regards the status and role given to the representatives of civil society. In addition, the Government sees the CG as a pledging mechanism that should convene when the country feels the need to procure additional cooperation resources). Technical coordination is therefore the privilege of a **Dialogue Group** created in the aftermath of Hurricane Mitch and bringing the main donors and international financial institutions together with the Government (represented by the Vice-President and relevant line Ministers). Other fora include: the "*Petit Comité*" on Justice; the International Group on Rural Development; the National Conference on Food; the Group on Food Safety and Nutrition; the Forum for the Coordination of Decentralization; the Cooperation Forum with the Ombudsman for Human Rights; the Conference of Donors on Trade; and the Conference of Donors on the Environment. An ad hoc consultative forum has also in the past served as a forum for dialogue between the EU (Commission and Member States) and Guatemala (Government and non civil society) on EC cooperation⁹.

Observations suggest that **improved procedures** should be considered, together with strengthening the capacities of the relevant local authorities (Secretariat General for Planning – SEGEPLAN – and the Secretariat for Executive Coordination of the Presidency - SCEP). As part of this new strategic framework for 2007-2013, and in line with its policy commitment to enhance greater coordination, harmonisation and alignment based notably on the Paris Declaration, the European Commission will stimulate a review of the coordination

⁸ The EIB is not present in Guatemala.

⁹ Initiated in 2000, the "*mesodiálogo*" ceased its activities in 2005.

structures in place, including those which facilitate dialogue and consultations with civil society. In particular, recommendations for an EU road map for harmonization will be discussed in view of reinforced EU coordination in relation to the 3Cs (coordination, complementarity and coherence) as an additional step in harmonisation.

4.3 Coherence with EU policies and instruments (Policy Mix)

The Commission's aim is to ensure coherence between EC policies (trade, agriculture, environment, health and consumer safety, internal market, competition, justice, information society, research, conflict prevention) and instruments, in particular in relation to their possible impact on Guatemala¹⁰. Some concerns have been voiced by officials from Guatemala notably in relation to the GSP mechanism, whose time-bound duration might be insufficient to attract long-term investments, and to EC trade policy on agriculture, particularly in the banana sector.

5 THE EC RESPONSE STRATEGY

5.1 Global objectives

More than a decade after the Peace Accords, Guatemala still faces many **social cohesion challenges**. These include reducing extreme poverty from 22% to 10% of the population and combating inequalities and exclusion. The CSP aims at **improved social cohesion** in Guatemala through **integrated social and economic approaches** and a **deepened regional integration process with enhanced trade dynamics**.

Although it is recognised that many sectors deserve support, the CSP proposes to **concentrate only on very specific areas which all contribute to improved social cohesion**. For example, health and the basic education system have not been chosen as they are already being actively supported by other donors or international financial institutions (IDB, WB). Also, some areas covered by the previous CSP will not be repeated. Indeed, the CSP will **complement ongoing activities financed under the 2002-2006 CSP**. This will increase the **impact and added value** of EC interventions. The EC has concentrated cooperation to date on governance (project on justice reform ongoing until end 2007), decentralisation (ongoing project), the fiscal system (new project to be implemented as of 2006), local and rural development and equitable growth (project ongoing until end 2008 in support of micro, small and medium-sized enterprises to be complemented by a new project to support economic cooperation and trade as of 2006).

CSP 2002-2006	CSP 2007-2013
<ul style="list-style-type: none"> – Consolidation and modernisation of government, democratisation and protection of human rights – Support for integrated and sustainable local development and decentralisation – Equitable and sustainable growth of the economy and of employment – Non focal: <ul style="list-style-type: none"> a. Support for taxation policy b. Regional integration 	<ul style="list-style-type: none"> – Social cohesion through human and social development <ul style="list-style-type: none"> a. Promoting a well governed democracy respectful of the indigenous people and their rights b. Reducing social violence and facilitating the integration of youth into society – Economic growth and trade – Non focal: <ul style="list-style-type: none"> Regional integration

¹⁰ A review of the coherence of EC policies and instruments can be found in **Annex 11**.

This CSP for 2007-2013 emphasises **human and social development**, in particular in the case of two very specific groups: the **indigenous communities** and **youth**. Cooperation should contribute to a more integrated and stable society less exposed to social violence and conflict. Indeed, despite achievements in the peace agenda, progress in relation to indigenous peoples is still modest, as a majority are still excluded from development and political participation and subject to discrimination and human rights violations. Furthermore, **young people**, who have limited economic prospects, are highly vulnerable as a result of structural economic and social deficiencies. The misdemeanours of the *maras* negatively affect their image as a whole, resulting in the stigmatisation and social marginalisation of an entire generation. The Government's **National Policy for the Youth 2005-2015** deserves support, in particular in relation to employment and job opportunities, business creation, agriculture and rural development, security and justice. As foreseen in the National Policy for the Prevention of Juvenile Delinquency, prevention and rehabilitation schemes will be promoted and linked to the **overall security sector efforts with a view to improving citizen security**.

The more **economic element** will concentrate on **rural areas**, where **60 %** of the population live. The focus will be on the **rural economy and local development with focus on the promotion of employment based growth** and increase incomes for young people (linked to the National Policy for the Youth), in particular those of indigenous origin. Trade related assistance will also be considered, building on the cooperation initiated under the 2002-2006 CSP.

Finally, Guatemala's **regional integration efforts** may be further bolstered through a facility designed to cover its specific needs, notably in view of the Association Agreement between the EU and Central America.

The EC's interventions will **complement those of other donors and International Financing Institutions** as follows:

- In the case of the **indigenous people**, the EC will continue to be the largest donor (followed by Japan, Norway, Canada and Finland) and work closely with the Inter American Development Bank, which has made loans available.
- In **youth**-related interventions, the EC will be one of the major contributors together with Germany, Spain, Finland, the Netherlands, Canada, Japan and Norway, as well as the IDB and the WB.
- In **rural economy and local development**, the EC will work together with Italy, Sweden, Japan, US Aid, and also the IDB, WB and UNDP.

5.2 The EC intervention sectors

5.2.1 Fostering social cohesion through human and social development

5.2.1.1 Promoting a well governed democracy respectful of the indigenous people and their rights

EC cooperation will focus on the continued promotion of good governance and human rights as well as the creation of equal opportunities in the economic, social and political processes for the indigenous peoples. *The objective will be to help narrow the existing gap in social cohesion indicators between the most excluded portion of the population and the national average.* Interventions will encourage participation of civil society and contribute directly to conflict prevention by strengthening the conditions for the implementation of the Peace Accords.

Cooperation will aim at:

- Strengthened public institutions, in particular those having a role in the promotion and protection of the economic and social rights of the indigenous peoples, as described in the Accord on the Identity and Rights of the Indigenous Peoples and enshrined in the ILO Convention 169.
- Public policies that recognise and address the specific situation of the indigenous peoples, particularly in the most excluded regions.
- Political processes at the local and national levels which involve participation of indigenous peoples and partnerships with civil society.
- Reduced discrimination, particularly of indigenous women.
- Recognition of and respect for cultural diversity.

Main risks:

- Resistance to the implementation of the Peace Accords (in particular the Agreement on the Identity and Rights of the Indigenous People) and ILO Convention 169.
- Unwillingness to promote effective political representation of the indigenous peoples at local and national levels.
- Insufficient budget resources to implement Government policies.
- Fragmentation within the indigenous movements and organizations.

5.2.1.2 Reducing social violence and facilitating the integration of young people in society

The last census in 1992 recorded that 49% of the population was less than 18 years of age. Most have limited qualifications and skills after leaving the education system. The full **integration of youth into society is essential in order for the current levels of violence and insecurity to be reduced.** The EC therefore considers it essential that the **National Policy for Youth 2005-2015**, and the related National Policy for the Prevention of Juvenile delinquency, is supported and that particular attention is given to young people who are vulnerable to joining gangs, as well as former gang members through rehabilitation measures. Lessons will be learned from the successful experiences in neighbouring countries and linkages will be established with the overall security sector policies in Guatemala as well as the efforts at regional level.

As stressed by the European Consensus on Development and in line with the ILO agenda, the principles of “decent work”, social dialogue and core labour standards will be promoted. Furthermore, linkages with the Information and Communications Technologies sector (ICT) will be explored.

Cooperation will aim at:

- Effective implementation of the National Youth Policy 2005-2015 in particular in relation to democratic participation by young people, security and justice, employment and job opportunities, business creation, agriculture and rural development.
- Improved vocational training resulting in increased quantity and quality of human capital and reduced unemployment.
- Reduced citizen insecurity through prevention and rehabilitation.
- Improved awareness and understanding of youth issues (including the socio-economic structural deficiencies which are the root causes of juvenile delinquency), and reducing mistrust and persecution of this social group.
- Improved democratic participation by the young.

Main risks

- Limited capacity on the part of the State hampering the effective implementation of pro-youth policies.
- Limited political commitment to structural change and to multi-sectoral policies addressing the root causes of youth delinquency.
- Scarcity of budget resources and weak security institutions preventing the complex phenomenon of the *maras* from being addressed in an effective manner.
- Inadequate policy and responses (essentially reactive and repressive) in relation to juvenile delinquency, in particular as a result of popular pressure.
- Absence of dialogue between civil society and the State, resulting in conflicting approaches
- The resistance of organised criminal networks.

5.2.2 Economic growth and trade

Cooperation will focus on economic and trade development, the fight against poverty, malnutrition, exclusion, and gender inequality. It will support the implementation of participatory, inclusive and sustainable policies aimed at local development, decentralisation and market integration (national, regional and international).

Cooperation will be based on an assessment of the € 20 million “Rural and Local Development” programme designed in 2006, and focus on **long-term and inclusive rural economic growth and food security**. In continuation of past cooperation, emphasis will be placed on the more depressed and isolated areas, through the development of assets and the combinations required to take advantage of economic opportunities (natural, physical, financial, human, social, political, and institutional assets) including the role played by remittances. Support will be provided to agricultural and non-agricultural activities, including food security related (with special consideration given to nutritional aspects) in highly vulnerable areas, in close partnership with other actors, including the Ministry of Agriculture. Market integration will be addressed, through the improvement of market information and the business climate, as well as the identification and development of new paradigms of competitiveness. In this framework, support will be given to national and regional authorities for the development of enabling policies and a facilitating institutional framework. The identification of focal regions will build upon government strategies and the critical mass deriving from past and ongoing EC programmes. Concentration on specific geographical areas will make it possible to continuously evaluate the impact of the cooperation. Cooperation in relation to market integration will be further considered and based on the Trade Needs Assessment which will be carried out in 2007 under the CSP 2002-2006 as well as an evaluation of the programmes implemented by then.

This support to economic growth presents itself well to the mainstreaming of environment related themes (including the promotion of sustainable resource management, the provision of basic environmental education and awareness raising, sustainability impact assessments and their follow-up, the promotion of more sustainable production and consumption patterns). In addition, a comprehensive **country environment profile** with operational recommendations (and associated environmental indicators) will be considered.

Due consideration will be given to the linkages between environment and economic development resulting notably from increased regional integration and trade flows.

Cooperation will aim at:

- Effective implementation of a rural development policy.

- Economic growth in rural areas, in particular through diversification.
- Reduced food insecurity.
- Improved trade at all levels, including the implementation of customs and trade facilitation and the acceptance of international standards such as the WCO Framework of Standards to Secure and Facilitate Global Trade.
- Improved management of natural resources and risk prevention.

Main risks:

- The impact on economic and social development of natural disasters.
- Macroeconomic and financial sector instability.
- Unsatisfactory public spending agenda.
- Absence of effective devolution of capacity and resources to the more depressed regions through decentralization, and investment in human capital and rural infrastructure.
- Absence of political willingness to promote and implement a rural development policy;
- Ineffective coordination between line ministries and social funds.

5.2.3 Non focal sector: regional integration

The integration of Guatemala into the world economy and enhanced regional integration are essential factors for the diversification of the economy, the reduction of economic volatility and the promotion of a more equitable distribution of the fruits of growth, thereby contributing to social cohesion. A new qualitative step will be achieved with the negotiation of an Association Agreement between the EU and Central America but this will impose additional challenges on Guatemala. The reform agenda of regional integration will be mainly supported by EC cooperation with the region in its entirety. However, to be fully successful, the reform agenda will necessitate specific national efforts so as to translate the regional ambitions into national reform policies. There is thus a clear rationale for operating a country-based “integration facility” on top of the RSP. The exact coverage of this facility will be tailored in such a way as to address the main shortcomings or potential assets identified after evaluating Guatemala’s preparedness to regional integration. This will be based on the joint assessment of regional economic integration in Central America which provides a clear picture of the region’s shortcomings and achievements in its effort towards reaching the level of economic integration for the negotiation of an Association Agreement with the EU. Further needs arising from the negotiating process and the implementation of the Association Agreement will also be systematically reviewed and further elaborated on the basis of the Trade Needs Assessment to be undertaken in 2007.

5.3 Principles for review and evaluation

The implementation of co-operation in Guatemala will be reviewed once a year. This will include a report on progress and compliance with the CSP orientations as well as dialogue on conditionality and indicators. To this end indicators will be specified in the preparation of individual programmes of support, which could include a statistical sub-module when necessary.

At the latest by 2010, or if there is any major change at the request either of the Commission or the Government of Guatemala, a mid-term review will take place to examine cooperation under the NIP 2007-2010 and to reflect on the preparation of the NIP 2011-2013.

5.4 Cross-cutting issues

As stipulated in article 3.3 of the Regulation establishing a financing instrument for development cooperation, the mainstreaming of the following cross-cutting issues shall be ensured: **promotion of human rights, gender equality, democracy** (including conflict prevention), **good governance**, the **rights of the child** and **indigenous peoples' rights, environmental sustainability, and combating HIV / AIDS**. **Culture** will also be taken into account,. [see details in the National Indicative Programme].

6 PRESENTATION OF THE INDICATIVE PROGRAMME 2007-2010

6.1 Main priorities and goals

Programming for 2007-2013 will ensure as far as possible the continuity of EC initiatives launched under the previous programming exercise and focus on:

- § **Social cohesion** (in particular poverty reduction) through the promotion of a well governed democracy, respectful of the indigenous people and their rights, and the reduction of citizen insecurity as well as an improved integration of youth in society.
- § **Economic growth** (through support to the rural economy and local development) **and trade**.

The EC **gives precedence to sectoral approaches which include specific objectives, benchmarks and conditions**. As part of this CSP, the EC will therefore gradually replace the project approach with support to coherent national policies in each sector or area of co-operation. Budget support will be privileged when the eligibility criteria are met, including satisfactory macro-economic conditions and public finances (see Annex 14). The European Commission will promote the definition of key medium-long term sector policies through:

- . enhanced policy dialogue with the Government and closer consultation with non state actors in Guatemala. This should also lead to a greater correlation between the scale of the cooperation resources provided by the EU at large and the impact of sectoral measures.
- . closer coordination with other players in the international community to ensure coherence and complementarity, notably in relation to macro-economic indicators and those with an impact at local level.

The EC, notably in relation to the possible delivery of EC cooperation through budget support modalities, will make available allocations to: strengthen the country's institutional capacities (civil service supported by adequate monitoring systems and trained in the management of public finances, etc.); support the Government in the design of public policies; facilitate information exchange; to improve dialogue between all stakeholders (for example through communication campaigns, establishment of regular consultation process with private sector and civil society and public fora in the media). The Commission will pay particular attention to ensuring adequate consultation mechanisms with civil society and between civil society and the State entities. Where necessary, environmental assessments will be carried out so as to make the best use of environmental opportunities and minimise any action which could damage the environment.

6.2 Specific objectives and target beneficiaries

6.2.1 Fostering social cohesion

6.2.1.1 Promoting a well governed democracy respectful of the indigenous people and their rights

Specific objectives:

- Strengthening of institutions aimed at enhancing the political participation and representation of indigenous peoples and promoting and protecting their rights and cultural diversity (for example, the Legal consultancy offices, the Presidential Commission against Discrimination and Racism, the Indigenous Advisory Board).
- Fostering public policies and affirmative action in favour of the indigenous peoples particularly the poorest communities.
- Supporting the implementation of social and economic policies targeting the poorest indigenous communities.
- Developing the capacities of indigenous organizations in the formulation of contributions for public policies and programs at the local and national levels.
- Improving awareness of political parties about the need to enhance participation and representation of indigenous peoples.
- Increasing awareness of cultural diversity issues and social cohesion.

Target beneficiaries (indicative):

- Presidential Commission against Discrimination and Racism
- Indigenous Advisory Board
- Legal consultancy offices
- FODIGUA
- Indigenous communities and their organisations
- Civil Society organisations involved with the indigenous communities

6.2.1.2 Reducing social violence and improving the integration of young people in society

Specific objectives:

The EC will support the **National Youth Policy 2005-2015** (CONJUVE) and the **National Policy for the Prevention of Juvenile delinquency** (COPREDEH). In particular in relation to democratic participation by young people, security and justice, employment and job opportunities, business creation, agriculture and rural development. In its dialogue with Government, the Commission will put particular emphasis on the following:

- Vocational and technical training targeting young people as well as non-formal vocational training ;
- Creating employment opportunities for socially and economically excluded young people, particularly girls. Employment created through training programs when relevant and under the right labour market conditions.
- Raising awareness of youth problems (drug addiction, alcoholism, gang-related issues, sex education and the restoration of family and civic values) and improved dialogue between civil society actors and government on the complexity of youth issues and the socio-economic structural deficiencies which are the root causes of juvenile delinquency including conflict prevention and resolution initiatives.
- Reducing citizen insecurity through prevention (integration of youth in society - notably through sports and culture - but also collection and registration of small arms), rehabilitation (former young criminals rehabilitated and reintegrated into society and protected from retaliation) and social capital initiatives at community level, involving democratic interaction with the police forces.

Target beneficiaries (indicative):

- Ministry of Labour and Social Security.
- Community social services and local security enforcement actors
- CONJUVE
- Vocational training centres
- Private sector
- Rehabilitation houses and centres run by civil society actors
- Youth organisations.
- Youth, in particular
 - Those vulnerable to joining criminal groups;
 - Those most affected by poverty;
 - Former gang members.

6.2.2 Economic growth and trade

The EC will support the **country policies for decentralisation, rural development and food security and promote employment based growth as well as trade**. In its dialogue with Government, the Commission will put particular emphasis on the following:

Specific objectives:

- Support to the rural development policy (fostering decentralisation) and economic growth in rural areas involving sustainable land tenure and registry.
- Support to the food security policy aiming in particular at reduced malnutrition.
- Training rural labour for direct linking with job opportunities at the local level (micro and small enterprises), focussing on the complementarity of agricultural and non-agricultural incomes, as well as to job opportunities outside agriculture during inactivity and/or periods of crisis.
- Strengthening social infrastructure in rural areas (social services and basic water and sanitation for the most vulnerable).
- Reducing physical isolation of rural communities by facilitating access through economy-related infrastructure (local and regional markets, business inter-connectivity, spatial development, etc).
- Reducing gaps between service providers and users, employers and employees or the central administration and the rural community.
- Strengthening the capacities of key economic actors at the local level (municipalities, private sector, cooperatives, etc.).
- Promoting sustainable resource management and improving disaster preparedness in the most disaster-prone regions as well as mainstreaming disaster prevention in development planning.
- Market integration (national, regional, international) through trade related assistance.

Target beneficiaries (indicative):

- Ministry of Agriculture and Food Security
- Ministry of Trade and Economy
- Ministry of Environment
- CONTIERRA and FONTIERRA
- Development Councils and Municipalities
- Rural communities
- Private sector operators such as small and medium enterprises, cooperatives, etc.
- Civil Society actors, including indigenous organisations

6.3 Expected results (outputs)

For each CSP component, a list of indicators based on the relevant MDG will be formalised during the inception phase of programme identification and appraisal.

Indicators related to the Millennium Declaration [see also in annex]:

Indicators	1999	2000	2001	2002
Proportion of population below \$1 per day	10.0	15.7	16.0	21.5
Prevalence of underweight children (under-five years of age)	24.2	n.a.	24.2	21.9
Net enrolment ration in primary education	81.0	84.0	85.0	n.a.
Primary Completion Rate	n.a.	n.a.	58.7	59.0
Ratio girls to boys in primary and secondary education	n.a.	92	92.5	n.a.
Under 5 mortality rate	n.a.	49.4	n.a.	49.0
Proportion of 1 year old children immunised against measles	83.0	n.a.	91.0	92.0
Proportion of births attended by skilled health personnel	n.a.	n.a.	40.6	n.a.
HIV prevalence among 15-24 year old women	0.9	n.a.	0.85	n.a.
Prop. of pop. with sustainable access to improved water source	n.a.	92	n.a.	92.0

6.4 Programmes to be implemented in pursuit of the objectives, types of assistance

The EC will support where possible sector policies. EC Cooperation will be implemented either through a **project approach** or through **budget support**. [See **Annex 14** in relation to budget support].

Cooperation could include technical assistance (promotion of policy dialogue, institution building), training, studies, promotion of exchanges and dissemination of information, experience and best practices.

6.5 Integration of cross-cutting themes

Cross-cutting issues will be mainstreamed through dialogue with State and Non-State Actors, participation in government-led coordination activities, the establishment of benchmarks and the transfer of know-how in the areas concerned, on the basis of the following principles:

Good governance, democratisation and human rights will be promoted. **Conflict prevention** will be also reflected in the programmes designed, in close coordination with initiatives by EU Member States. This will be an important element of the security related cooperation (reduction of citizen insecurity).

Gender equality will be promoted on the basis of the experience accumulated by the EC as well as recommendations by the gender coordination forum (*Mesa de Genero*). The outcomes of the programme “Combating exclusion (rural-indigenous women)”, which runs until 2008, will produce and disseminate further capacity in this area. In the rural areas, the elimination of all forms of discrimination against women will be promoted as well as their access to and control of physical, economic and social assets, their exclusion from local politics, and combating of gender-based human rights abuses.

The issue of **youth**, including the **rights of the child**, will be considered in particular when developing actions in rural areas and at local level. The protection of children and young people's rights, as well as the implementation of other non-discriminatory policies that favour youth and children, will be considered as a way to mitigate the risks of further marginalising of this category of the population.

All interventions will take due account of the situation of **indigenous peoples** and the measures required for the protection and promotion of their rights, as well as the enhancement of their participation. Cooperation will promote the strengthening of institutions that serve the interests of indigenous populations, combating of all forms of exclusion and the promotion of multicultural public policies and public service in rural areas in particular.

The EC will ensure that **environmental sustainability and the protection of natural resources** are taken in consideration in the implementation of the CSP, in particular through actions for the youth and indigenous communities, and especially in rural areas. Mutual supportiveness of economic development (notably resulting from deepened regional integration and increased trade flows) and environment will be promoted. A Country Environment Profile, including environmental targets and indicators, will facilitate the review of environmental mainstreaming in EC cooperation. Intervention in the rural areas will take into account the criteria set for evaluating environmental impact, sustainability and management and will be consistent with EC environmental policy, the Central American regional strategy (including the Regional Environmental Profile) and future actions to reduce vulnerability in Latin America. Initiatives targeting the rural economy will be launched as part of EC cooperation: to raise awareness among key actors; to ensure that the principle of sustainable development and environment protection is taken into account in public policies; to integrate novel thinking in relation to climate change and biodiversity; to reduce vulnerability to natural disasters (in the spirit of the Kobe World Conference on Disaster Reduction). Coordination will be promoted between DIPECHO action plans and other EC actions, in particular those related to environment and risk management (the EC PREVDA regional programme in particular).

The **fight against HIV/AIDS** will be considered, on the basis of the government's policy agenda on HIV/AIDS and on sexual and reproductive health in particular.

The **cultural dimension** will be taken into account, in particular as part of the youth component of the CSP.

The implementation of the programme will pay particular attention to the issues of **decent work and core labour standards**.

6.6 Financial envelopes

The National Indicative Programme covers Financial and Technical Assistance and Economic Cooperation, with a provisional figure being presented for each sector as indicated in the CSP. The allocation for Guatemala in the period 2007-2013 has been set to € 135 million.

However, the exact amount should be tailored to the needs and objectives. Before launching NIP-2, a mid-term review of the CSP, involving all relevant Commission services as well as stakeholders in Guatemala, will be undertaken. NIP-2 is therefore only indicative, as the results of the mid-term review could provide grounds for some changes. The final selection

of projects and the corresponding amounts will be based on the outcome of detailed identification and preparation studies carried out by the Commission¹¹.

(in M€) – Indicative Breakdown	NIP 1				NIP 2
	2007	2008	2009	2010	2011-2013
§ Focal sector 1: Social cohesion	20.3 M€ (15%)		27.0 M€ (20%)		
§ Focal sector 2: Economic growth and trade			6.8 M€ (5%)	33.8 M€ (25%)	47.1 M€ 35%
Total	20.3 M€		33.8 M€	33.8 M€	47.1 M€

6.7 Activities under other EC budgetary instruments

In addition to funding under the financing instrument for development cooperation earmarked in support to this CSP, Guatemala also benefits from the Central American Regional Indicative Programme and from the Latin America Regional Indicative Programme, according to their respective programming. Further activities could be financed in Guatemala through specific thematic programmes to reinforce the impact of EC assistance, notably through stronger participation of civil society and effective integration of cross-cutting issues. The following thematic programmes are of relevance:

- **Investing in people**, in support to actions which directly affect people’s living standards and well-being. This includes the funding to the **health related Global Fund (GFATM)**. EC contributions should fit in with the general objective of improving social cohesion. In this context, the EC health policy establishes the link between health and poverty, between health and well-being and development, including a reference to AIDS and other contaminating diseases. *Inter alia*, the EC should aim to make assistance more efficient, with greater ownership and participation by the recipient States. The outcome of Eurosocial, the EC regional programme, should also be taken into account, especially as regards institutional capacity-building for health policy.
- **Environment and the sustainable management of resources, including energy**. Action could address environmental sustainability and the protection of natural resources as well as initiatives on climate change, biodiversity or the vulnerability of the country to natural disasters. Coherence between the **EU Water Initiative** and measures under this CSP could be enhanced, including (i) gender mainstreaming, (ii) intraregional cooperation and technology transfer and (iii) education and availability of know-how for the public.
- **Non State Actors and local authorities in development**. When co-financing civil society initiatives, preference should be given to supporting processes and policies rather than financing of local projects. Priority could be given to proposals supporting the focal sectors in the CSP and the main cross-cutting issues, but preserving the independence of civil society. The aim would be to back up civil society, in particular local stakeholders,

¹¹ The table does not include support under the **regional integration facility**. Envisaged as a “non-focal sector”, its design, allocation and exact content will actually depend on several factors or processes, including: the joint evaluation process as regards regional integration, the negotiation process leading up to a possible Association Agreement between Central American countries and the EU, the actual support measures contained in the EC Regional Strategy Paper and the Trade Needs Assessment to be commissioned in 2007.

in participating in designing global, sectoral and development policies and being actively involved in the consultation processes.

- **Food Security.** Rural poverty requires a multi-dimensional approach that includes low incomes, inequity in access to production factors and basic services, low health and education standards, degradation of natural resources, vulnerability to natural disasters, and lack of political power. Rural development strategies should tackle all these issues and incorporate rural poverty strategies, such as food security and sustainable natural resources management. At national level, the European Commission follows a policy of adapting its action to the specific national context and encouraging political and sectoral dialogue, including the private sector, civil society and NGOs.

Finally, funding under the EIDHR and ECHO are to be noted:

- **European Initiative for Democracy and Human Rights**, in particular for governance (including possible assistance for election observation), gender and ethnic equity issues.
- **Humanitarian funding (ECHO), in particular through DIPECHO in relation to disaster preparedness.** Action in this area should be targeted on reducing risks by ensuring that the most vulnerable populations in the regions affected by recurring natural disasters are prepared in advance and on increasing the response capacity by incorporating and coordinating activities at local, national and regional levels. National policies will be encouraged in order to ensure sustainability of DIPECHO actions and standardization of risk management procedures nation-wide

*

**

Annexes

Annex 1: CSP consultation process

Annex 2: Guatemala at a glance (including Map)

Annex 3: External trade

Annex 4: Millennium Development Goals; indicators

Annex 5: Youth issues

Annex 6: Gender profile

Annex 7: Rural sector (including agriculture and food security)

Annex 8: Environment profile

Annex 9: Donor Matrix

Annex 10: EC cooperation and lessons learned

Annex 11: Coherence with EU policies (Policy mix)

Annex 12: Summary of EC Regional Strategy for Central America

Annex 13: Migration Profile

Annex 14: General criteria for eligibility to budget support

ANNEX 1 - CSP CONSULTATION PROCESS

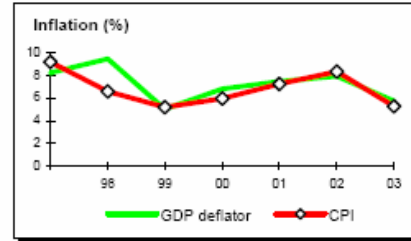
The preparation of the CSP for Guatemala in the period 2007-2013 has unfolded through several stages.

- § A fact-finding mission of consultants was fielded in **November 2004** to take stock of the situation on the ground, gather suggestions and produce a diagnostic report.
- § The findings thereof were considered in the formulation of an **EC Concept Note**, which was used as a basis for consultations with government, the civil society both at central and regional level, the EU Member States and the donor community.
- § The Concept Note was published on the Commission Website¹², being available for further comments by all stakeholders. It received the positive opinion of the parties consulted and more pertinent comments were incorporated.
- § The authorities provided an efficient technical and logistical back-up for the discussions and participated actively therein. A **Seminar on Social Cohesion held in March 2005** that gathered a wide representation of government authorities, civil society representatives, the private sector and the donor community, was another occasion to discuss the programming concepts and to pinpoint its translation into the response strategy of the CSP.
- § In **December 2005**, DG RELEX and the Regionalised Delegation further discussed in Guatemala the formulation of the strategy and the national indicative programme with state and non state actors as well as partners from the international community, including EU Member States.

¹² http://europa.eu.int/comm/external_relations/guatemala/csp/cn_guatemala_07-13.pdf

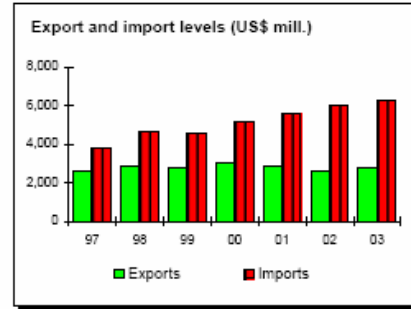
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
<i>(% change)</i>				
Consumer prices	4.5	11.8	8.4	5.3
Implicit GDP deflator	6.6	14.5	8.0	5.8
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	8.9	11.6	11.2
Current budget balance	..	0.5	3.0	2.1
Overall surplus/deficit	..	-2.0	-0.3	-1.6



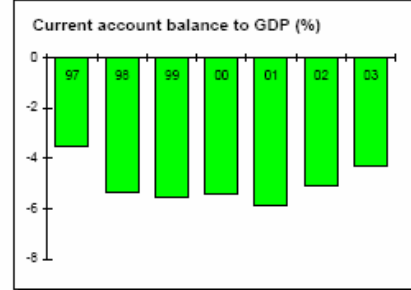
TRADE

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total exports (fob)	..	1,462	2,622	2,787
Coffee	..	267	262	..
Sugar	..	153	227	..
Manufactures	..	855	1,670	1,750
Total imports (cif)	..	2,599	6,078	6,300
Food	..	452	1,496	..
Fuel and energy	..	315	647	..
Capital goods	..	759	1,547	1,483
Export price index (1995=100)	11	81	150	152
Import price index (1995=100)	14	87	142	144
Terms of trade (1995=100)	81	92	105	106



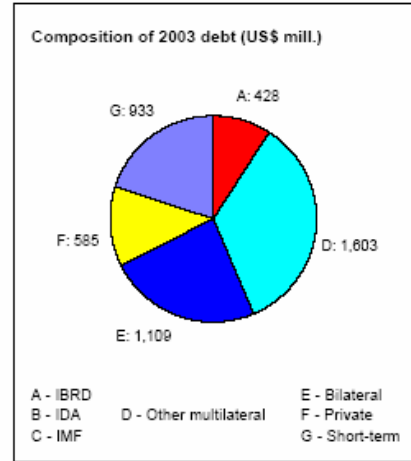
BALANCE of PAYMENTS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Exports of goods and services	1,172	2,016	3,786	4,025
Imports of goods and services	1,314	2,970	6,628	6,885
Resource balance	-142	-954	-2,842	-2,860
Net income	-113	-107	-277	-350
Net current transfers	30	311	1,942	2,136
Current account balance	-225	-750	-1,177	-1,074
Financing items (net)	234	955	1,154	1,454
Changes in net reserves	-10	-206	23	-380
Memo:				
Reserves including gold (US\$ millions)	232	600	2,287	2,667
Conversion rate (DEC, local/US\$)	1.0	5.6	7.8	7.9

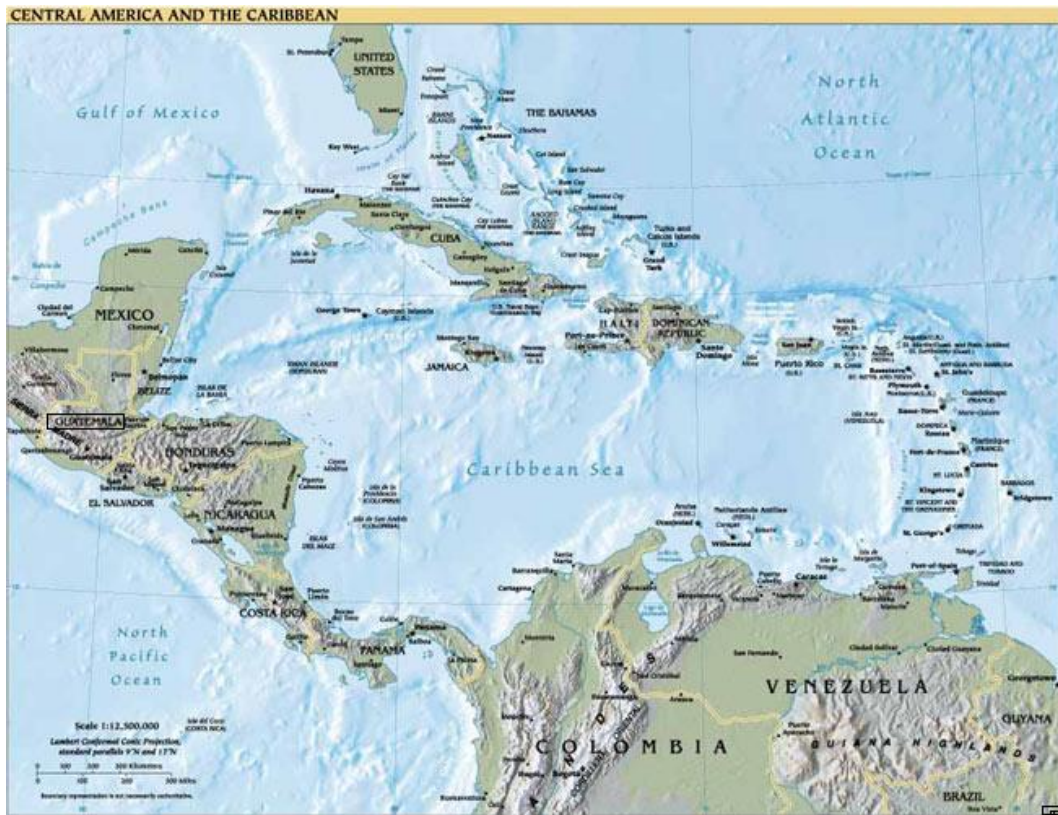


EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	1,824	3,190	4,676	4,658
IBRD	193	178	400	428
IDA	0	0	0	0
Total debt service	189	306	405	440
IBRD	27	56	36	37
IDA	0	0	0	0
Composition of net resource flows				
Official grants	22	83	152	..
Official creditors	87	-40	167	-62
Private creditors	145	12	-50	-48
Foreign direct investment	45	143	110	..
Portfolio equity	0	0	0	..
World Bank program				
Commitments	19	52	238	30
Disbursements	20	1	83	45
Principal repayments	14	40	13	18
Net flows	7	-39	70	27
Interest payments	13	16	22	19
Net transfers	-7	-55	47	9



MAPS



ANNEX 3 - EXTERNAL TRADE**PRINCIPALES PRODUCTOS DE EXPORTACION**

Monto en miles de US\$. Peso en Toneladas Métricas. Período: 2001 -2004/*

PRODUCTO	AÑO							
	2001		2002		2003		2004 /*	
	Valor	Volumen	Valor	Volumen	Valor	Volumen	Valor	Volumen
CAFE	306.450,91	246.829	261.779,99	207.443	299.394,02	249.888	203.131,12	128.785
BANANO	185.047,60	873.829	216.282,87	975.391	209.981,63	936.114	106.948,56	478.806
AZUCAR	212.625,58	1.130.244	227.047,55	1.360.030	212.274,12	1.386.491	93.115,46	620.651
PETROLEO	100.758,40	1.058.583	149.393,00	1.285.435	173.375,37	1.133.358	83.300,47	528.168
MATERIALES PLASTICOS Y SUS MANUFACTURAS	71.297,93	42.821	70.673,63	40.612	79.612,74	39.754	44.845,55	20.428
CARDAMOMO	96.095,14	15.065	93.293,52	19.158	78.885,22	28.615	42.869,08	15.589
PRODUCTOS FARMACEUTICOS	73.481,61	4.460	75.817,31	3.829	78.822,86	4.336	41.338,04	1.974
PRODUCTOS DE PERFUMERIA, TOCADOR Y COSMETICOS	61.850,06	17.532	68.091,31	21.796	70.883,88	23.911	37.244,15	11.334
DETERGENTES Y JABONES	72.895,68	85.991	65.451,03	70.534	72.289,07	80.791	36.015,41	40.362
GRASAS Y ACEITES COMESTIBLES	33.717,58	76.715	39.625,79	75.664	65.139,20	107.871	35.612,92	53.034
PREPARADOS A BASE DE CEREALES	75.443,74	58.591	68.522,67	50.565	69.893,91	57.151	34.729,84	30.231
BEBIDAS LIQUIDOS ALCOHOLICOS Y VINAGRES	32.515,81	68.905	37.199,84	98.239	51.243,49	148.761	27.860,67	83.399
CAUCHO NATURAL (HULE)	26.581,72	41.051	30.236,77	46.730	37.695,23	45.251	24.888,29	23.431
INSECTICIDAS, FUNGICIDAS Y DESINFECTANTES	49.742,58	13.463	37.054,20	53.582	29.092,91	26.870	23.821,14	15.256
MANUFACTURAS DE PAPEL Y CARTON	71.376,71	67.939	51.917,96	40.778	50.620,22	45.968	23.459,42	17.856
LAMINA Y ALAMBRE	51.499,44	81.476	25.264,58	44.604	30.800,35	48.205	21.597,42	26.517
HIERRO Y ACERO	32.411,65	95.205	23.270,33	66.552	32.542,86	79.770	20.821,04	34.410
MAQUINAS Y APARATOS MECANICOS PARA USOS ELECTROTECNICOS	36.707,47	7.771	39.147,11	6.462	32.778,30	5.872	19.287,14	3.545
OTROS DERIVADOS DE PETROLEO	9.784,13	39.824	12.876,73	51.839	20.849,48	97.635	19.006,23	96.427
LEGUMBRES Y HORTALIZAS	38.559,77	190.634	31.035,06	143.402	31.997,58	107.787	18.802,39	50.397
TUBERIA Y SUS ACCESORIOS	25.097,54	51.167	24.382,01	47.700	23.210,32	40.618	16.525,13	20.317
BATERIAS ELECTRICAS	18.399,17	9.941	18.464,51	9.760	35.805,83	16.537	16.281,91	7.550
PRODUCTOS DIVERSOS DE LA INDUSTRIA QUIMICA	40.712,15	89.230	33.661,54	91.926	32.014,32	52.197	15.795,65	22.649
MELAZAS DE AZUCAR	9.988,32	210.004	15.879,33	275.918	1.926,77	40.496	15.270,29	340.937
MANUFACTURAS DE CERAMICA	13.916,19	36.145	19.110,14	45.798	27.112,25	54.825	13.952,72	30.602
TOTAL EXPORTACIONES	2.411.677,71	5.648.994	2.275.834,23	6.075.066	2.412.533,21	5.728.307	1.321.725,24	3.140.686

/* Cifras Actualizadas hasta junio de 2004

Fuente: Cifras Proporcionadas por la Dirección de Análisis Económico, MINISTERIO DE ECONOMIA DE GUATEMALA

**GUATEMALA: COMERCIO EXTERIOR
PRINCIPALES MERCADOS DE EXPORTACION**

Monto en miles de US\$. Período: 2001 -2004/*

PAÍS	AÑO			
	2001	2002	2003	2004 ^{/*}
ESTADOS UNIDOS DE AMERICA	642.497	663.574	716.416	378.793
EL SALVADOR	477.108	430.169	463.867	242.663
HONDURAS	295.306	245.674	250.761	140.234
COSTA RICA	156.340	123.439	131.254	76.302
NICARAGUA	130.612	122.244	135.684	73.834
MEXICO	79.054	75.025	104.691	62.692
PANAMA	43.388	52.375	66.767	38.395
ALEMANIA	58.300	46.144	46.285	32.922
CANADA	42.737	34.910	36.725	25.851
COREA DEL SUR	93.955	85.581	59.439	23.693
SUIZA	11.693	26.818	16.135	20.197
ARABIA SAUDITA	55.855	46.253	35.950	18.716
ITALIA	16.438	14.112	19.954	16.343
PAISES BAJOS	15.827	14.008	24.666	16.210
BELICE	13.763	16.524	26.892	14.153
REPUBLICA DOMINICANA	19.930	30.082	28.397	13.490
JAPON	42.293	29.137	20.484	12.083
RUSIA	31.321	19.031	46.724	11.708
MALASIA	5.769	13.122	17.000	10.658
BELGICA	11.946	11.712	12.426	9.853
VENEZUELA	7.705	15.425	3.000	7.462
REINO UNIDO	9.121	8.716	8.276	5.322
JAMAICA	6.249	4.556	5.245	4.230
EMIRATOS ARABES UNIDOS	9.498	10.340	9.628	3.802
JORDANIA	1.382,93	3.048,55	3.122,32	3.742,32
TOTAL EXPORTACIONES	2.411.678	2.275.834	2.412.533	1.321.725

/ Cifras Actualizadas hasta junio de 2004*

Fuente:

Cifras Proporcionadas por la Dirección de Análisis Económico, MINISTERIO DE ECONOMIA DE GUATEMALA

ANNEX 4 - MDG & INDICATORS

GUATEMALA – 2002- Objetivos y Metas propuestos	Situación Actual	Estimación de Cumplimiento	Desafíos y Prioridades
<p>1. Erradicar la Pobreza Extrema y el Hambre</p> <p>§ Reducir a la mitad a la proporción de personas con ingresos menores a un dólar por día</p> <p>§ Reducir a la mitad la proporción de personas que sufren hambre</p>	<p>§ La incidencia de la pobreza extrema, medida con base en el porcentaje de personas cuyos ingresos son inferiores a un dólar diario (ajustado por la paridad del poder adquisitivo) se ha reducido en la última década.</p> <p>§ Si se mantuviera la tendencia de este indicador de pobreza, utilizado principalmente para realizar comparaciones internacionales, se podría alcanzar la meta de reducirlo a la mitad en el año 2015.</p> <p>§ Sin embargo, al analizar la evolución de la incidencia de la pobreza según algunas características seleccionadas se encuentran disparidades significativas.</p> <p>§ El porcentaje de niños menores de cinco años con peso inferior al normal para su edad (desnutrición global) se redujo de 34% a 24% entre 1987 y 1998, pero en la región Nororiente pasó de un 27% a un 29%.</p>	<p>§ Potencialmente Probable</p>	<p>Políticas Sugeridas en el informe</p> <p>§ Los principales desafíos se encuentran en cómo beneficiar en mayor medida a la población indígena y rural, y en especial a la población de la Región Norte y de Noroccidente, debido a que se encuentran con los mayores índices de pobreza extrema de país y a que concentran un porcentaje significativo de la población extremadamente pobre.</p> <p>§ Ello plantea desafíos nacionales y locales, no sólo en materia de inversión pública, sino también para impulsar un proceso de crecimiento económico con equidad acompañado de la extensión de la calidad y cobertura de servicios de educación y salud.</p>
<p>2. Alcanzar la Educación Básica Universal</p> <p>§ Asegurar que en el año 2010, todos los niños y adolescentes puedan completar los 3 niveles de educación básica.</p>	<p>§ En el 2000 la tasa neta de escolarización (TNE) de la enseñanza primaria fue 84%, por lo que hubo un progreso significativo respecto a 1991, cuando era de 72%.</p> <p>§ Si se mantuviera la tasa de progreso lograda por Guatemala durante la década de 1990 se puede afirmar que potencialmente es posible alcanzar la cobertura de educación primaria universal en el año 2015.</p> <p>§ Sin embargo, en la medida en que un país se acerca a la meta se dificulta continuar con la tasa de progreso, debido a que es más difícil y costoso llegar a la población más apartada y dispersa.</p>	<p>§ Potencialmente Probable</p>	<p>§ Entre los principales desafíos están determinar qué políticas y programas tendrán el máximo impacto en mejorar la calidad de la educación (el aprendizaje de los estudiantes), y en la incorporación y retención de los estudiantes, especialmente de los que actualmente están más rezagados.</p> <p>§ También se requiere definir e implementar una política de descentralización, de financiamiento y de evaluación permanente del sistema educativo. Es fundamental darles una formación inicial universitaria de alto nivel a los maestros.</p>
<p>3. Promover la igualdad entre los sexos y la autonomía de la mujer.</p> <p>§ Eliminar la disparidad de género en la educación primaria y secundaria hasta el 2005 y en todos los demás niveles hasta el 2015.</p>	<p>§ En el 2000 la razón entre las tasas brutas de escolarización de la enseñanza primaria y secundaria entre niños y niñas fue 0.92, es decir hubo un progreso respecto 1991, cuando era de 0.88.</p> <p>§ Si se mantuviera la tasa de progreso lograda por Guatemala en esta razón, durante la década del noventa, sería poco probable alcanzar la paridad de género en la enseñanza primaria y secundaria en el año 2005.</p>	<p>§ Poco Probable</p>	<p>§ Uno de los principales desafíos es mejorar el acceso universal en los distintos niveles de enseñanza, tanto para hombres como para mujeres, y no centrarse exclusivamente en reducir las disparidades de acceso de las mujeres.</p> <p>§ Además, es fundamental promover la implementación de programas que promuevan la incorporación temprana y la retención de las mujeres en la escuela (reducir el costo de oportunidad de las mujeres) y romper los estereotipos existentes de las mujeres en la sociedad (eliminar los conceptos estereotipados de los papeles masculino y femenino en todos los niveles de enseñanza).</p>
<p>4. Reducir en 2/3 la tasa</p>	<p>§ Si se mantuviera la misma tendencia de reducción de la tasa</p>	<p>§ Potencialmente Probable</p>	<p>§ Los principales desafíos son contar con un presupuesto adecuado, voluntad política para</p>

<p>mortalidad de menores de 5 años:</p> <p>§ Reducir en 2/3 partes la tasa de mortalidad infantil</p>	<p>estimada de mortalidad de la niñez (niños menores de cinco años) a partir de la década del ochenta, se podría alcanzar la meta de una tasa de mortalidad de la niñez de 23 defunciones por mil nacidos vivos en el período 2012-2017.</p> <p>§ Para establecer la meta se utilizó como punto de referencia la tasa estimada de mortalidad de la niñez para el período 1990-1995, es decir, 68 defunciones por cada mil nacidos vivos.</p>		<p>que los procesos sean sostenibles, seguir avanzando en la institucionalización de los compromisos de los Acuerdos de Paz y mejorar los sistemas de información y seguimiento.</p>
<p>5. Mejorar la salud materna</p> <p>§ Reducir la tasa de mortalidad materna en 3/4 partes</p>	<p>§ Si se mantuviera la tasa de progreso lograda por Guatemala en la razón estimada de mortalidad materna en la década de los noventa no se alcanzaría la meta de una razón de mortalidad materna de 55 defunciones por cien mil nacidos vivos en el 2015.</p> <p>§ Además, parece existir un consenso entre los expertos del tema en Guatemala de que estas estimaciones adolecen de un grave subregistro.</p>	<p>Poco Probable</p>	<p>§ Los principales desafíos identificados son ampliar y consolidar el proceso de Reforma del Sector Salud, reforzar el SIAS como una estrategia de extensión de cobertura y prestación de servicios de calidad, reforzar la coordinación IGSS-MSPAS, descentralizar el desarrollo de los recursos humanos para responder a las necesidades locales (calidad y cantidad de atención), promover la participación ciudadana en los servicios de salud (con énfasis en los servicios para la atención materno-infantil).</p> <p>§ Además, se requeriría contar con un presupuesto adecuado y con voluntad política para que los procesos sean sostenibles, al tiempo que se asegura la institucionalización de los compromisos de los Acuerdos de Paz y se mejoran los sistemas de información</p>
<p>6. Combatir el VIH/SIDA, y otras enfermedades</p> <p>§ Haber detenido e iniciado la reversión de la propagación del VIH/SIDA en el 2015.</p> <p>§ Reducir la incidencia del paludismo y otras enfermedades graves</p>	<p>§ Desde 1984 a 2001 se han notificado un total de 4,369 casos (74% son hombres). El 20% de los casos es en personas entre 15 y 24 años de edad.</p> <p>§ Se estima que la cantidad de casos es mayor que los contabilizados.</p> <p>§ La tasa de incidencia de casos de malaria confirmados se incrementó de 0.4 a 3.1 por mil habitantes entre 1990 y 2001. No se tiene información de la proporción de la población en zonas de riesgo que aplica medidas eficaces de prevención y tratamiento de la malaria.</p> <p>§ La tasa de incidencia de casos de tuberculosis registrados se redujo de 32 a 24 por cien mil habitantes entre 1996 y 2000, más del 90% de los cuales fueron Bk+.</p>	<p>Poco Probable</p>	<p>§ Los principales desafíos son desestigmatizar a los grupos en riesgo de VIH/SIDA, integrar a los diferentes actores sociales a todas las acciones para prevenir la malaria iniciando en las localidades alto riesgo, institucionalizar la coordinación intersectorial, mejorar la capacidad de vigilancia y control, mejorar la focalización en poblaciones más vulnerables, caracterización epidemiológica, fortalecer las áreas de salud y promover la descentralización.</p>
<p>7. Asegurar un medio ambiente sostenible</p> <p>§ Haber logrado en el 2015 que todas las políticas y programas del país hayan integrado los principios del desarrollo sostenible y se haya revertido la pérdida de recursos naturales</p>	<p>§ En la década de los noventa aumentó la superficie de las tierras protegidas para mantener la diversidad biológica ya que pasó de 2,608,213 a 3,201,673 hectáreas (115 áreas protegidas) entre 1990 y 2002 (de 24% a 29% del territorio nacional).</p> <p>§ En 1990 las emisiones totales de dióxido de carbono fueron 0.9 toneladas métricas per capita.</p> <p>§ Las emisiones de dióxido de carbono por energía se</p>	<p>Potencialmente Probable</p>	<p>Los principales desafíos son:</p> <p>§ Concienciar sobre la importancia de los recursos humanos y el medio ambiente contar con una masa crítica de profesionales que impulsen las políticas y los programas para garantizar la sostenibilidad del medio ambiente.</p> <p>§ Lograr un apoyo financiero adecuado para impulsar las políticas y los programas del medio ambiente, asegura el cumplimiento de las leyes y reglamentos relacionados con el medio</p>

<p>(ambientales)</p> <p>§ Reducir en 2/3 la proporción de la población sin acceso al agua potable entre 1990 y 2015</p>	<p>incrementaron de 0.4 a 0.7 toneladas métricas per capita entre 1990 y 1999. se ha logrado incrementar la proporción de población con acceso a fuentes de abastecimiento de agua y de servicios de saneamiento. Entre 1989 y 2000 esta proporción a nivel de país pasó del 75% al 85% en el caso del origen y el abastecimiento del agua, y del 57% al 79% en el caso del servicio de eliminación de excretas.</p>		<p>ambiente, y contar con un ordenamiento legal en el tema del agua, con un ente rector.</p>
-------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------------------------------------------------------------------------------------------

ANNEX 5 - YOUTH PROBLEMATICS IN GUATEMALA

1. Youth & social violence

Crime and violence caused by street gangs or *maras* has grown in significant proportion during the last decade in Guatemala, El Salvador and Honduras. Facts and figures are hard to capture not only because of the nature of the problem, traditionally under registered, but also because the statistical weaknesses found in related local institutions - police, internal security agencies and youth ministries. Nonetheless, regional media, governments and public opinion agree that gangs became a huge problem that can no longer be ignored.

Several analysis trace the emergence of gang activity to the early to mid-1990's when US immigration laws changed, permitting the deportation of illegal aliens with criminal records in the US, back to their countries of origin. Rough estimates put the number of deported aliens, based on criminal grounds, at 38,000 in 1996 and almost 80,000 by 2003. The great majority was sent back to the Central American region. US authorities did not keep track of how many criminals they sent back nor did they alert their counterparts in Central America about the background of those being deported. Many observers conclude therefore that the gang problem is essentially imported. But the import theory of gangs from the US appears as a rather simplistic explanation for a complex problem that has developed thanks in part to the sequencing and combination of several socioeconomic factors. If anything, deported criminals arrived at a moment ripe for the development of a gang culture.

Gangs are attributed vicious crimes that range from robbery, assault, rape and murder, to drug use and drug trafficking, increasing their rejection by societies. Undoubtedly, crime rates have gone up in Guatemala and other countries, reflected not only in the flourishing of private security firms but also on the daily reports carried by newspapers, news broadcasts and the less than reliable public statistics. The governments of Honduras and El Salvador have taken extreme measures by decreeing anti-gang laws that include arbitrary raids and arrests, many times violating basic legal rights. Although Guatemala has not implemented similar policies, allegedly there have been the so-called 'cleansing operations' by the police.

Anti-gang policies tend to tackle the symptoms rather than the cause. They respond to a social problem that was not foreseen but could have been easily forecasted a few years ago because of the rampant social and economic hardship. In societies that offered almost no decent and dignified jobs or opportunities, joining a gang seems to be a rational livelihood strategy for many young men who are poor and excluded. Several studies¹³ point out that gangs offer protection and a sense of belonging in a society where traditional family values are undergoing marked transformations, and where poverty is still regarded as a personal choice. But most importantly to gang members is that this type of negative social organizations can generate an income, whether by perpetrating crime or extortion, or as more recently claimed, by integrating into the drug trafficking chain. So the question of why exist gangs in Central America seems ludicrous. Instead, policymakers should ask how can gang activity be prevented or defused.

¹³ See: *Participatory urban appraisal and its application for research on violence*, Environment & Urbanization, McIlwaine, C. y Moser, C. (1999)

Box 1: Maras and the Drug Cartels

Just as it is hard to know how many gangs and gang members exist, so it is too prove a link between gang activity and major drug cartels. Reports and studies allege that gangs have now become part of the drug trafficking chain. Although they present little evidence to substantiate these claims, now it is probably more than a half truth. Drugs are part of the gang culture and, as such, gang members come in contact with drug lords and traffickers. Police files and reports reveal that gang members are at least part of the distribution ring of drugs in marginal neighborhoods and red zones. But recent news reports have gone further, claiming an actual alliance between drug cartels and gangs to distribute and protect drug shipments in their route to the northern border with Mexico. The same news reports claim that gang members have become hit men for the drug cartels who use them as cheap and reliable labor.

Given the state of the justice system in countries like Guatemala, it easy to question such allegations even if raids or drug busts were to prove otherwise, since the police and the army have themselves been implicated in drug trafficking. Other analysts suggest that Central American governments wish to implicate gangs in drug trafficking in order to receive additional aid from the US. The theory is not far fetched, since not long ago Honduran newspapers claimed that Al Qaeda was recruiting gang members for terrorist activities against US interests. So far this did not prove true.

2. Inequality and poverty

In the mid nineties Guatemala and El Salvador were both in the process of recovering from conflict and long and ferocious civil wars. Guatemala, in particular, has suffered a cruel conflict that severely damaged social relations, divided the country and further eroded the trust in the State. The essence of the conflict and the objective of the organizations behind the armed movements had been to redress the high rates of poverty and inequality. The peace process that culminated in 1996 was supposed to be the start line of a long term process to reduce the poverty and inequality that had sparked the conflict in the first place. However, the Peace Accords did not anticipate the substitution of a central authoritarian State that had kept in check common crime and violence. Thus, the influx of criminals from the US during this period was fortuitous, when Guatemala was trying to consolidate democracy and define the new role of the State.

By that time, a population growth rate of almost 3% in the last three decades had translated into a total population of over 12 million, with an overwhelming majority (50%) of young people under the age of 17¹⁴. All the while, the economy had not produced the jobs and opportunities that the new generations demanded. And despite modest progress in some social indicators during the preceding 15 years, education remained low, health access were - and still is - among the worse in the world, and over 56% of the population live beneath the poverty line. Nothing had been planned to revive the semi-agrarian-post-conflict Guatemalan economy.

At present, Guatemala's economy is still relatively undiversified and depends on a few sectors for foreign currency and the creation of jobs. It especially relies on agriculture, which is the biggest employer, and a few sectors such as the garment, services and tourism industries, that once were thought to have the potential of turning out new jobs for the growing working force. All fell short of expectations. In addition, the persistent concentration of productive assets - such as land, knowledge, financial resources and infrastructure - in a small part of the

¹⁴ Data from the 2002 Population and Housing Census, INE 2002.

population stunted any poverty reduction efforts. Along with low fiscal revenue and public spending, Guatemala's poverty roots stay put to this day.

3. Youth & employment

Social policies addressing the needs of the youth are still ascent, whether for training, rehabilitation or insertion into the workforce. A good proportion of young people enter the workforce right out from primary school, which is often left unfinished. This has repercussion on what is know as child labor. According to recent employment surveys, child labor is relatively high in Guatemala: as many as 31% of all children under 14 are actively working. In rural areas, child labor begins even at a younger age since many children start working between the ages of 7 and 10 years, usually helping around the house or their parents in the field. This leaves little or no time for school¹⁵. When questioned about this behavior, households cited poverty as the main reason¹⁶. In addition to start working at a young age, the jobs accessed by children are the worst paid - and sometimes unpaid - and under the worst conditions. In urban areas, the great majority of these jobs are found in the informal economy, without the right to the minimum salary, vacation or other benefits. Children who take these jobs are likely to stay trapped in the informal economy for the rest of their productive lives: almost 2/3 of the total Guatemalan work force - all ages - belongs to the informal economy according to the same employment surveys.

On the other hand, rehabilitation for troubled youth is absent. Few public and private programs deal with former gang members, street children and other vulnerable youth. Some NGOs and public programs work with troubled youth in training, recreational activities and stay-in-school schemes. But these services are few in between and cannot take care of the whole demand.

In the case of gang members who are caught and thrown in jail, they face a grim future. They have a good chance of spending the rest of their adult lives in and out of the penitentiary system. In fact, the prison system is often referred as a recycling bin for criminals, where they meet other criminals and make contacts for future illegal activities. Far from rehabilitating, the prison system in Guatemala and other countries in the region, further pull the young into a hopeless and vicious cycle.

For the young people who stay away from gangs and illegal activities, the labor market offers limited choices. Successful insertion into the workforce and income potential depend very much on skills and education¹⁷. But a good education is a commodity that not everyone can afford. For instance, the current formal education curriculums overlook labor market needs and future trends, closing many doors in a diverse labor market. Schools also have a hard time retaining students beyond the first four grades, among other reasons because children from poor homes are pulled out by their parents. Thus, in Guatemala not only do kids come out ill prepared but schooling rates remain among the lowest in Latin America.

Work opportunities for this type of labor force especially in rural areas are mostly in the agricultural sector which also has the lowest returns, perpetuating a subsistence based livelihood system. Agricultural and non-agricultural opportunities with higher returns are reserved for those with more education and access to other assets - productive land, communications, diversified labor markets, etc. In urban areas schooling rates may be slightly

¹⁵ Data from the Employment and Income Surveys of the National Institute of Statistics.

¹⁶ See the *Guatemala Poverty Assessment*, The World Bank 2003.

¹⁷ See the *Guatemala Poverty Assessment*.

higher than in rural ones, but competition for jobs in the formal sector is also fiercer. As above mentioned, the majority of the labor force is underemployed and juggles more than one job at a time, most likely in the in the informal sector.

ANNEX 6 - GENDER PROFILE (World Bank)

	GUATEMALA				Latin America & the Caribbean		Low Middle Income Countries	
	1980	1990	1995	2000	1980	2000	1980	2000
GNP per capita (US\$)	1,220	970	1,400	1,700	2,070	3,700	800	1,380
Population								
Total (millions)	6.8	8.7	10.0	11.4	356.4	510.0	1,801.0	2,369.5
Female (% of total)	49.4	49.5	49.5	49.6	50.0	50.7	49.5	49.4
Life expectancy at birth (years)								
Male	55	59	61	62	62	67	63	67
Female	59	64	67	68	67	74	67	71
Adult illiteracy rate (% of people aged 15+)								
Male	39.0	31.2	27.4	24.0	17.4	10.1	18.9	9.0
Female	55.1	46.8	42.7	38.9	22.8	12.1	35.5	19.4
LABOR FORCE PARTICIPATION								
Total labor force (millions)	2	3	4	4	129	220	885	1,250
Labor force, female (% of total labor force)	22	23	26	29	28	35	41	43
Unemployment								
Total (% of total labor force)	1.7	3.9	0.8	1.9	..	9.2	4.9	4.3
Female (% of female labor force)	..	4.6	0.8	1.4	..	10.5	..	..
EDUCATION ACCESS AND ATTAINMENT								
Net primary school enrollment rate								
Male	..	..	76	86	..	96	..	92
Female	..	..	69	82	..	94	..	92
Progression to grade 5 (% of cohort)								
Male	..	..	52	57	..	..	..	..
Female	..	..	47	54	..	..	..	..
Primary completion rates (% of relevant age group)								
Male	..	46	52	60	..	86	..	98
Female	..	39	45	52	..	93	..	96
Youth illiteracy Rate (% of people aged 15-24)								
Male	26.2	19.5	16.9	14.6	10.1	5.2	6.6	3.8
Female	43.0	33.8	30.3	27.3	11.1	4.7	15.1	6.5
HEALTH								
Total fertility rate (births per woman)	6.3	5.3	5.1	4.6	4.1	2.6	3.1	2.1
Contraceptive prevalence (% of women aged 15-49)	18	..	32	38	..	..	..	..
Births attended by health staff	..	..	34	41	..	..	..	..
Maternal mortality ratio (per 100,000 live births)	..	..	..	240	..	193	..	112
Child malnutrition prevalence, weight for age (% of children under 5)	..	..	27	24	..	..	..	9
HIV prevalence rate (% of people aged 15-24)								
Male	..	..	..	1.2	..	0.7	..	0.5

Female 0.9 .. 0.3 .. 0.8

ANNEX 7 - RURAL SECTOR INCLUDING AGRICULTURE AND FOOD SECURITY

Development in rural areas is critical in Guatemala: agriculture is an important contributor to the Gross Internal Product (especially its contribution to the foreign currency income, as well as for the generation of employment); population with high levels of poverty and extreme poverty reside in the said areas and is vulnerable to food insecurity; there is a direct relation with sustainable development due to the relation with the use and exploitation of the natural resources.

In the **economic** area, the influence of the on going processes at the international level on the Guatemalan agricultural sector turns agriculture into a **highly sensitivity** activity, as the fluctuation in the foreign market demand and supply of primary or semi-processed products, and the international prices that stimulate or contain the agricultural exports, greatly impact this sector. The Gross Production Value (GPV) of agriculture has been growing slightly, from Q1.275,5 million in 2000 up to Q1.354,8 million in 2003. However, in relation to the total GIP, the contribution of the sector decreased from 2000 to 2002 and slightly increased in 2003. This can be partly explained when considering the deceleration of the world-wide economy, which negatively affected the international trade and the market prices of the basic products. This is particularly significant in the case of Guatemala, as the farming exports are a very important portion of the national exports. The input of the sector to the **total exports value** is approximately **44 %**. The traditional agricultural exports constituted by **coffee, sugar, cardamom and banana** correspond to **78 %** of the total agro exports value and the **non traditional exports** around **21 %**. When these exports decreased, so did the foreign currency income and the commercial deficit of the country increased.

The permeation of tendencies through the system of prices may imply **social and political** distress for Guatemala, as other factors, such as the lack of a rural development policy, increase the vulnerability of the country. There are multiple causes for not obtaining a greater growth of the national exports. These causes go from the **deficiencies in the production, phyto-sanitary controls, and quality of the products**, to elevated transaction costs, weak institutionality of the sector, scarce financing and macroeconomic policies (monetary and exchange) which are not favorable to the exporting activity.

Regarding the **environment**, it is estimated that **60,3 %** of the twelve million inhabitants of the country reside **in the rural area** and nearly **40 %** of the economically active population works in the **agricultural sector**. This fact has profound and broad effects for the Guatemalan population, especially those who are in a state of poverty and extreme poverty.

According to the categories for the **use of land**, Guatemala has 3,6 million hectares for agricultural use. 1,8 million hectares of this land have no limitations and 2,0 million hectares have been improved, which corresponds to 33 % of the total national territory. The results of the IV Farming Census (2003) show that 52 % of the cultivated land is dedicated to permanent and semi-permanent cultivation, whereas 48 % to annual or temporary cropping.

Although from 1979 to 2003 all comparable crops show growth in their production per hectare, the results obtained in 2003 are below the average for Central America. Permanent cultivation is vital for the national economy. Traditional agricultural products, which constitute a significant portion of the total agricultural exports of the country, are included in this category. There are 728.113 farms with permanent cultivation, with a cultivated extension

of 508.875 hectares, of which 76,4 % correspond to private land or land within a private property scheme; 10,1 % is communal land; 9,4 % correspond to mixed schemes (private property or lease); and the remaining 4,1 % include other forms of land tenure.

Land with agricultural and forestry vocation is indistinctively used for agricultural purposes in the country. There is **no ordinance for the use of land according to its vocation**, and in reality, the use of land responds to the land tenure structure. In turn, the land tenure structure is based **on historical and socioeconomic factors**, which, in many cases, are not the most adequate economically and environmentally speaking. In any case, abstracting from these circumstances, when comparing the land used for agricultural purposes with the extension of land with agricultural characteristics or vocation, it is possible to affirm that only 56 % is being used at the moment.

In relation to the **forestry sub-sector**, it is important to emphasize that the national territory is eminently of forestry vocation: 40,2 % of the territory has preferably forestry aptitude and the 24,6 % has productive forestry vocation. This last characterization includes activities for forestry management and ordinance for the production of timber and non-timber goods. Due to this fact, Guatemala has a great potential for economic development through the exploitation of the forestry resources: its climatic advantage, its proximity to the United States market, and its low manual labor costs, allow a comparative advantage in relation to other countries with a greater development in the sector. The 2003 national forestry inventory shows similar figures to the 2002 forestry coverage map, with a surface of 4.046.016 hectares. 30,6 % of this surface is comprised of lithophytes forests; 3,7 % correspond to coniferous forests; and 2,9 % to mixed forests. Forest property is defined under three types of schemes: **national property** forests comprised of 1.367.133 hectares of land, which represent 37,8 %; **private** forests with an extension of 1.531.133 hectares, equivalent to 37,8 %; and **municipal and/or communal** forests which have 934.630 hectares are, equivalent to 23,1 %. Forestry plantation has been promoted in Guatemala since 1976, through different programmes and projects. The most recent is the “*Programa de Incentivos Forestales, PINFOR*” (Forestry Incentives Programme) initiated in 1997 and still effective. This programme supported the plantation of 33.900 hectares in 2002, with an average of 5.600 hectares per year; this programme has duplicated the maximum annual rates reached by previous reforestation programmes. The **wood for industrial and energetic uses** continues to be the main product of the forest. According to the registries, the breakdown is practically half for industrial use and the other half for energetic purposes.

Guatemala is part of the global list of countries with **the highest rates** of land tenure concentration. **3 % of the properties** (*latifundia* or large agroexport companies) **occupy 65 % of the arable land**, whose productive activity is mainly oriented to export agricultural products such as coffee, sugar cane, and banana. These productive schemes require the hiring of seasonal manual labor to operate. Whereas **the minifundia or small extension farms** (less than 4 hectares) **occupy only 11 %** of the land dedicated to crop production. The **large agricultural farms** possess **high quality** soil; most of their production is destined to export. On the contrary, the *minifundia* are small extension farms which, with the exception of some areas of the central highlands, have soils that are not apt for cultivation, generally eroded and with a forestal vocation, as they have worn away due to the intensive cultivation cycles. Sub-family farms as well as micro-farms are classified under this category.

Due to their extension and quality of soil, these properties **do not have the capacity** to **satisfy the survival needs** of the families who reside there, as their average extension is **1,46**

hectares. The small farm producers aim their activities to the food production for **family consumption** and in a minimal part for commercialization in the internal market. Their crop production is especially composed of basic grains and vegetables. The *minifundia* are concentrated in the departments that have the highest density of indigenous population and the most elevated poverty levels. In several cases, this situation leads to a **limited access** to food, creating a state of **food vulnerability** for the most unprivileged populations, which mainly affects **under five infants** and the indigenous population. Chronic malnourishment affected 49,3 % of this population, whilst 20 % were in a severe chronic malnourishment situation. These rates are amongst the highest for Latin America.

Between the 1964 and the 1979 census (a 15 years interval), the large farms maintained or increased their extension, whereas the fragmentation of the *minifundia* was accentuated, which constituted a determining factor for the increase in the number of families demanding land. However, when comparing the 1979 and 2003 censuses (a 24 years period) a slight increase in the extension of the *minifundia* surface is observed. This increase is not sufficient since the concentration of land (78 %) continues to be in a small group of farms (7,96 %). The rural sector continues to be of a vital demographic, occupational and income generating importance for Guatemala. The farming land is highly concentrated: nearly 94 % of the farms occupy a limited land surface, (micro and sub-family farms), whilst 1,5 % of the farms with more than 64 “*manzanas*” of land, constitute nearly 63 % of the farming surface.

The **use, tenure and property of the land** have been one of the **historical foundations** for the construction of social relations, the economy and the State in Guatemala. The **enormous asymmetries and the profound excluding character** that has prevailed in the development of these socio-politic realities, along with the consequences of the civil war, **inadequate jurisprudence**, and a **weak land market**, have resulted in multiple social conflicts of an agrarian character.

The **agrarian reform policies** of the last 50 years and the actual **weak system of fiscal pressure** over the land have resulted in the definition of market prices that are incompatible with the effective value, which could be calculated over the real agronomic and forestry potentials. This has led to a **freeze of the land market**, which constitute one of the main pressure generating knots of the social conflict.

The agrarian problematic exacerbated during the 1999 – 2004 period, noticed in the formulation of demands by the agro social actors, mainly peasants. The manifestation methods most privileged by the peasant organizations were: a) land occupations; b) blocking of roads and obstruction of the free mobilization of vehicles and persons; c) marches towards the central government headquarters in the capital city; d) occupation of public buildings.

Land conflicts have been a constant for more than a century and most of the problems have been resolved through *de facto* measures or have not been resolved at all. Due to the **lack of confidence** of the population in the institutions, a series of conflicts have not been reported. For example, there are territorial disputes that have been concealed. This increases the permanent risk of violent outbreaks out of the control of the local authorities or the central government. These problems can be addressed through the redefinition of the agrarian policy, including amongst others, an integral policy of rural development, a suitable territorial ordinance, and socio economic development policies to improve the quality of life of the indigenous and peasant population.

The harsh socio-economic conditions of the rural areas are intensified by the **lack of security in land tenure and ownership**, which does not stimulate the investments, and **excludes the small producers from financing alternatives**. This exclusion is, in part, due to the lack of

diversification of the guarantees required by financial institutions for the granting of productive credits, which are given on **mortgage securities**.

At the organizational level, there are **numerous models of associative management** in Guatemala, introduced during the '70s and the '80s through various legal schemes (Cooperatives, Associative Peasant Entrepreneurs, Producers Associations, Civil Organizations and other). Nevertheless, these associative schemes continue to be **very fragile** either in their organizational capacity or in their capacity to manage business. The development strategies of the Governments for this type of organizations is based exclusively on the support for the **increase of production**, which has serious limitations as the potential benefits are neutralized by the seasonal nature of the production, its **low value added**, and the **commercialization in disadvantageous conditions**. Some experiences in supporting programmes co-financed by the European Cooperation have achieved interesting results which could serve as a basis for validating an **intervention strategy** for the promotion of the development of rural organizations, using, as a tool, small agro-industrial enterprises in rural settings. This requires a flexible **financing model**, which allow for the creation, legalization and equipment of **small agro-industrial enterprises**.

The country **lacks adequate and specific legal instruments** to address the complexity of the agrarian dynamics, and the prevailing contradictions between the actual jurisprudence and the customary practices of the Indigenous Law, not yet recognized by the State. Additionally, the laws, regulations and procedures related to the agro sector have no structural coherence and do not represent a body that is capable to provide an expeditious and informed response to the land related conflicts and the agrarian processes. There is no national cadastre, the registry of properties is insufficient, the rural population does not have legal security on their land and it is onerous and almost inaccessible for the poor to obtain it, and land conflicts must be solved in judicial contexts that do not apply a specific jurisdiction.

Between 1954 and 1987, 2,772,417 hectares were given to 139,328 beneficiaries through different programmes implemented by the State. During the same period, 83,3 % of the land was assigned through a private property scheme. Also, 60,9 % of the beneficiaries were subject to this adjudication scheme.

As an outcome of the Peace Agreements, and specifically the "*Acuerdo sobre Aspectos Socioeconómicos y Situación Agraria*" (Agreement on Socio-economic aspects and the Agrarian Situation), the juridical framework regulating land issues has been modified. Despite the fact that there is currently a more complete agrarian law, there is still a gap regarding the establishment of a legal framework that would allow for the resolution of land conflicts in a more transparent and efficient manner.

The PROTIERRA "*Unidad Técnico Jurídica, UTJ*" (Legal Technical Unit) is the responsible for the formulation and implementation of the cadastral process through different projects, with the support of cooperation agencies (Sweden, The Netherlands, World Bank, Navarra, Germany, Norway, France and UNDP). The goal is the **definition of a National Registry and Cadastre project**, coordinating with the "*Registro de la Propiedad Inmueble*" (Registry of the Real Estate) for its formulation. These efforts should be aimed at the **creation of the "Registro de Información Catastral, RIC" (Cadastre Information Registry)**, currently under consideration for its approval by the Congress. Additionally, the UTJ is responsible for the elaboration of the **juridical and normative frameworks and the methodologies** for the implementation of the "*Catastro Nacional de Guatemala*" (National Cadastre of Guatemala),

as well as to support the agrarian strategy through short, mid and long term programmes and projects. At the strategic and conceptual level, the UTJ defined cadastre as a technical process for the recollection of legal and descriptive information of all the property within the national territory, foreseeing the constant actualization of the information. This model of cadastral process aims at the regularization of land tenure.

The present Government is making some **efforts** to resolve the most serious problems of food vulnerability, such as the creation of a Vice-Ministry for Food Security, to face the most difficult situations and managed, through the “**Frente Nacional contra el Hambre**” (**National Front against Hunger**), the situations of emergency. The *MAGA* and the World Food Programme have made a “*Cartografía y Análisis de la Vulnerabilidad a la Inseguridad Alimentaria*” (Cartography and Analysis of the Food Vulnerability and Insecurity), to locate the population at high risk of food insecurity, designing a Standard Analysis Framework, with the objective of improving the efficiency and effectiveness of the **food aid programming**, the incorporation of the analysis to the support for the governmental programme for the alleviation of poverty, and its use in the planning of interventions.

The “*Secretaría de Asuntos Agrarios*” (Secretariat for Agrarian Issues) has been recently created, with the principal functions of **defining a State agrarian policy**, coordinating the governmental actions in agrarian matters, and promoting the establishment of a new juridical agrarian ordinance.

This secretariat should promote and accompany the process of elaborating a **unified proposal for rural development, commonly validated by consensus** which should, in turn, generate from the proposals of the estate and the different civil society groups. A consultation with the civil society and the private sector is planned, to validate this unified proposal. Additionally, there is a need to promote the elaboration of the necessary legislation to comply with the Peace Agreements, which establish the need to create a **new juridical framework on agrarian matters**.

FOOD SAFETY IN THE CONTEXT OF RURAL DEVELOPMENT

1- Poverty and food safety context

Guatemala concentrates 39 % of the undernourished population in Central America. Every minute a child dies for problems related malnutrition. The indicators classify Guatemala as one of the most vulnerable countries in terms of food insecurity in Latin America. This is a consequence of low income, reduced capacity for food production, and high levels of malnutrition and vulnerability to climatic phenomena.

Since the signature of the Peace Accords, the situation in Guatemala has deteriorated and the purchasing power of the majority of the rural population is not enough to cover their nutritional needs.

The traditionally social exclusive environment and the agricultural model for exports adopted by last governments has relegated the traditional agriculture to less productive and marginal lands, transforming it into an self-consumption activity for the majority of small farmers. The lack of politicise providing incentives and the limited access to factors of production, such as land and credit, have resulted in meager yields, i.e., low productivity. Rural employment opportunities are scarce together with low education levels do not allow these populations to have access to better remunerated jobs.

In this context, 60 % of households - most of them rural and indigenous populations - do not possess enough income to acquire half of the cost of the basic food basket. The proportion of the family revenue dedicated to food grows in detriment of the expense dedicated to education and health. In 2002, to afford the cost of the basic food basket, it was required 1.5 times the minimal agricultural salary and 1.4 times the minimal non-agricultural sector wage to cover the cost of the basic food basket. The remittances of almost 1.5 million Guatemalan emigrants helped to alleviate poverty at the family level.

Regarding malnutrition, 60 % of the municipalities of Guatemala present severe problems in the average height of students. Almost 50 % of the 5-year-old children suffer from chronic malnutrition. On the other hand, the respiratory diseases and diarrhoeas are the main cause of infant mortality (45/1000). Infectious diseases during pregnancy and childbirth are behind 45 % of women death. Poor coverage and quality of basic services such as health and sanitation are behind these figures. Families without formal education and of indigenous origin are the most affected. Moreover, the absence of nutritional education and the lack of access to the information translate into an inefficient use of food.

2-Lessons learned from previous EC interventions

Rural development and environment preservation have been EC priorities in the last few years. In coherence with the regional dimension of the problem, the EC has initiated recently a regional action for the standardization and systematization of food information, and the implementation of a system of indicators of alertness of the populations and the most vulnerable regions, contributing to the forecast and early alert in situations of crisis to feed and nutritional to the regional level.

3-Strategic priorities for the interventions of Food Security

Food insecurity is the most important determinant of the potential for human development and of the processes of economic and social integration of the current and future generations of Guatemalans.

In coherence with the identified priorities, EC interventions in the area of the Food Security will be around two areas:

1- The information and the nutritional education of the populations to raise awareness among public opinion and to generate local dynamics in favour of food safety, contributing to the strengthening of the participation of local communities and indigenous populations in the decision-making processes at local, regional and national level.

Food education and information will also help to improve the nutritional indicators. This should be complemented with a major efficiency in the management of resources, a better utilization of the food at the family level through an increase in the capacity of attention to children nutrition, and the promotion of agro-environmental practices better adapted to the sustainable management of natural resources.

2- Raising awareness of the local and regional authorities to bring about changes in aptitude to design and implement regional strategies targeting the most vulnerable populations and regions

The sustainable management of natural resources and the environmental vulnerability will be an element of vital importance to be taken into account while designing food security interventions.

ANNEX 8 - ENVIRONMENTAL PROFILE

PHYSICAL ENVIRONMENT

The country of Guatemala has a small territorial extension but with a natural and cultural diversity that is unique throughout the world. Its position as a bridge between two massive continents, its variety of water conditions and terrestrial shapes, its latitudinal amplex, pluvial and weather, among other factors, are responsible for the existence of assorted physical settings in the zone, conditions that are apt for the evolution of varied ecosystems and species as well as for the development of diverse social economic activities, jointly with the other countries in the Central American region.

Geographic Setting

The Republic of Guatemala borders to the north and west with Mexico, to the east with Belize, the Caribbean, and Honduras and El Salvador, and to the south with the Pacific Ocean. Its territory is 108,889 square km, and it is located between the nearctic and neo-tropical biographic regions

Geology and Topography

Guatemala is one of the few places in the world in where three tectonic plates converge within a limited space: Cocos, Caribbean and North American. The country is crossed by the Caribbean and North American plates, thus originating an extensive system of the Motagua, Polochi and Jocotan – Chamelecon faults, from which several secondary systems are derived

All of the Departments in Guatemala are exposed to seismic threat, although with different levels of risk, ranging from the lowest risk level in the extreme northern portion of the country, to the southern coast, central high plane areas, as well as the zone in the Motagua Fault, that records the highest seismic activity and the greatest magnitudes (FLACSO, 1996).

The territorial topography is mainly irregular, with altitudes ranking from sea level to 4,220 meters above sea level (masl) at the crater of the Tajumulco volcano, same that is the highest point in Central America

The country is crossed by the Los Andes mountain range that is divided into 2 branches – Sierra Madre and Los Cuchumates. The first originates in the central highlands of the country and has a series of secondary systems that reach into the territories of Honduras and El Salvador. The second branch forms a system that crosses the country from the Mexican border to the Atlantic Ocean. In addition to the mountain ranges the country has a series of valleys and highlands, woodlands and plains, all derived from the different geological processes that originated the national territory, forming 11 physiographical provinces.

Guatemala has a volcanic chain totaling 37 volcanoes that cross the country from west to east.

Climate

Due to the intercontinental position of the country and having two ocean masses in its proximity, separated by the mountain range system that crosses the country from west to east, there are several climates and micro climates grouped in the six climate regions – Northern plains, Northern Cross Section Strip, Meseta and Plateaus, Bocacosta, Pacific Coastal Plain and the Eastern Zone (According to the Institute of Seismology, Vulcaneology, Meteorology, and Hydrology)

The mean temperature at sea level is 27 °C for the Pacific Ocean and 28.2 °C for the Atlantic and from sea level the annual mean temperature descends 1°C per each 100m increase in altitude. The relative humidity varies from 60 % in the east to 85 % in the north, with a national average of between 79 and 80 %.

Between 915 and 2,440 masl, the zone with the greater part of the population, the days are warm and the nights are cold, with an average annual temperature of 20 °C. The climate in the coastal region is of a tropical nature – the Atlantic has higher humidity than the Pacific, with an annual average temperature of 28.3°C.

The seasonal rains are from May to September with an annual rainfall in the northern of between 1,525 and 2,450 mm; the mountains in the southern part of Guatemala City receive nearly 1,320 mm as a yearly average. The annual average precipitation throughout the country is 2,034 mm, varying from 500 to 6,000 mm, generating an annual metric water volume of 127 km³.

The climate conditions in the country are greatly affected by abrupt changes that generate impact and create vulnerability in 4 main areas – social as well as environmental – and therefore different initiatives are being implemented with specific actions to reduce the gases for the greenhouse effect in the different industrial sectors that generate the same. These 4 main areas are used as a series of indicators to measure the progress of the diverse strategies that are implemented, and are health, agricultural production, forest resources, and water resources

Hydrology

Because of its mountainous topography, the country is divided into three superficial water runoff regions: Pacific, Atlantic and Caribbean and Gulf of Mexico. The following chart shows the general characteristics of the national runoff regions.

Runoffs of Guatemala				
Runoff	Area (Km ²)	% of area in the country	Number of Runoffs	Average Water volume (M ³ /seg.)
Pacific	23,990	22	18	393
Caribbean	34,259	31	7	628
Gulf of Mexico	50,640	47	10	1,672
Total	108,889	100	35	2693
Source: MAGA, 2001.				

0.9 % of the national territory (950 km²) is occupied by continental waters – lakes and lagoons.

The current problem regarding the water resource mainly focuses on the reduction of precipitation, while relating these problems to the effects of the climate changes on this resource; used as an indicator through the effects caused by the reduction, such as decrease in underground water, contamination of the resource, and the effects of the latter on the health of consumers

Soil

The territory's condition distributes the capacity for land use as follows: 34.4% for agricultural crops; 17.0% non-tilling agricultural crops; 41.2% non-agricultural crops; 7.1% with a protective forest vocation, and 0.3% of the surface is covered with water bodies (MAGA).

The demand for land is persistent and it can be observed that the rural households have a high dependency on forest products and agricultural production, thereby provoking land occupation for farming use, reducing the forest coverage and increasing the space for human settlements. This reduction of the forest cover is an extremely important indicator that points out the expansion of the agricultural frontier as well as the actual and current use of the land

Air

During the last two decades, Guatemala City has undergone a rapid and disorderly growth toward the municipalities that form**** up the total department, with the subsequent limitations of infrastructure, basic services, and an overwhelming increase in vehicular traffic. The consequence of this growth has been the considerable deterioration in the air quality at national level. It is therefore necessary to exert a strict control of the main source of atmospheric contamination – the automobile load****. There are multiple indicators to monitor the quality of air by measuring the different levels of airborne contaminants such as Total Suspended Particles (TSP), Particles Under 10 micros (PM₁₀), Nitrogen Dioxide (NO₂), among others.

Biological Conditions, Biodiversity, Ecology and Conservation of Nature

Because of its privileged geographic position, Guatemala poses a wide variety of natural ecosystems that range from coastal – marine in the Pacific and Atlantic to the high – mountain bush lands in Huehuetenango. 29.36 % of the national territory forms part of the Guatemala Protected Areas System (SIGAP) in where the majority of these systems are represented as samples of the important biological and cultural diversity of the country

Flora and Fauna – Wildlife

The biological wealth of the country is distributed into 14 land eco-regions that have different natural communities and characteristic species. Regarding the flora species, there are 7,754 plants that are registered, 1,171 of which are of an endemic nature. In terms of the diversity of fauna species, there are at least 209 species of reptiles of which 6 are marine turtles that are registered as under severe danger of extinction. As for the remaining vertebrates, its is estimated that there are 651 fish species, 189 mammal species, 498 species of resident birds and 205 migratory bird species. This natural diversity, along with the wide ethnic assortment in the country has in turn generated different, distinct and varied forms of interaction and use

of wildlife species as well as an intense domestication that is fundamental for the diet of Guatemalans and of many other countries. The current practices based on the intensive, extractive, and unsustainable use of this natural patrimony have increased their degradation and depreciation. We must keep in mind that one of the main indicators is the reduction of the different wildlife species, be it flora or fauna.

Marine Resources

The coastal area of Guatemala shelters a wide variety of Marine Ecosystems that sustain and facilitate economic activities linked to port services, tourism, aquaculture, and commercial fishing. They also provide environmental services that protect the coastline and stabilize the sediment, reason for which their destruction creates a hard impact not only on the environment but also on the national economy.

Social Economic, Social cultural and Human Health Conditions

Archeological and Cultural Heritage

The national territory conserves the footprints and remains of the pre-Colombian era and of the colonial stage, the most important being Tikal, Quirigua, Zaculeu, Aguatec – Dos Pilas, Yaxha, Mirador Rio Azul, Caminal Juyu, and Mixto Viejo. The Spanish influence is added to these manifestations of pre-Colombian culture, expressed in the language, religion, art, and architecture. The architecture of Antigua Guatemala stands out with its Spanish baroque buildings and the city has been declared a patrimony of mankind

The country's culture is tightly bonded to its original ethnic roots, representing another factor with great potential for the national tourist offer.

There are enormous differences between the modern style of the city and the customs and traditions of the different and distinct groups of Mayan descendent that are mainly settled in the highlands or plateaus in the central region of the country

Recreation, Landscapes and Visual Aspects

The wide variety of natural ecosystems that are found throughout the country provide an ample range of landscapes that represent different opportunities for recreation

The tourist and recreational offer of the country provide the opportunity to carry out multiple activities, uniting the efforts of the different sectors with tourism potential, such as the cultural, environmental, and social sectors

Social Economic Aspects

Economy

The country's economy is based on the use and beneficial exploitation of the natural resources on behalf of the agricultural, livestock, forestry and hydro-biological sectors. The contribution of the farming and livestock sectors to the national GDP is 23.5 % and represents 83 % of the total exports.

Within the industrial sector, the majority of Guatemalan industries operate in the small commercial scale. The main export products are: coffee, sugar, bananas, shrimp, fish and lobster, textiles, and beef

Tourism

Tourism has become a very important economic line, being a large generator of foreign currency, second only to the coffee income. During the 90's, the number of visitors surpassed half a million per year (Segura, 1997). Ecological tourism in 1998 reached approximately 300 thousand visitors to the protected areas.

Only Tikal, the main archeological center in the country, was visited by almost 150 thousand visitors. According to the Bank of Guatemala, the number of tourists that entered the country in the year 2000 totaled 830 thousand persons, 290 thousand of which were from El Salvador. The number of tourists that enter the country constitutes the best indicator in this item line. It is expected that tourism, along with forestry, agro-industry, clothing and textiles will be the future driving power of the national productive economy.

Agriculture, Forests and Fishing

Agriculture continues to be the activity that mobilizes the national economy, in spite of the crisis undergone by the activities that most contribute to the generation of employment and the income of foreign currency from international trade, coffee crops being the most affected. During the 90's, the beef industry moved from the southern region of the country to the northeast, mainly to the Peten, clearly representative of the pressure that is exerted on new land, with forests, for fomenting and developing this economic activity

In the last part of the 90's, a new activity awakened the interest of the economic sectors in crisis, forestry; and although it currently participates on a minimal scale in the GDP, this participation is expected to increase in the measure that new forestry areas become linked to the industrial activity and to future environmental services markets.

In regard to the fishing sector, the main intake from the sea is mainly crustaceous, fish and mollusks. On a lesser scale, calamari is exploited and other species with high potential, such as tuna, have not been fully taken advantage of. Large scale fishing for export represents 82 % of the total activity.

Population

Guatemala is a multiethnic, multilingual and plural-cultural country with 23 ethnic-linguistic groups. The indigenous population represents 43 % of the total population in the country.

The total population of the country is 11.4 million, of which 61.4 % live in the rural area and 50.4 % is constituted by males who also form 80.1 % of the economically active population (EAP) in the country.

During the last 2 decades, the population density varied from 55 inhab/km² to 105 inhab/km², with regional extremes of 1,209 inhab/km² in the metropolitan region and barely 9 inhab/km² in Peten.

Infrastructure and Transportation

Infrastructure has been developed throughout the country in support of economic activity. It has been represented by building roads, seaports, airports, railroad lines and telecommunications, with 14,118 kilometers of highways and secondary roads of which 355 kilometers have been paved (blacktopped) in the year 2000. The main routes that cross the country are from east to west, the Pan-American and Inter-American highways. The main ports are Puerto Barrios on the Caribbean and Santo Tomas de Castilla, Puerto Quetzal, Puerto Champerico and Puerto San Jose on the Pacific

The railroad network is 1,139 kilometers long, the majority of which belong to the Ferrocarriles de Guatemala enterprise that is managed by an international corporation. The country has two international airports with several other small airports to handle domestic commercial and private air traffic. As of 1998, the country privatized the majority of postal, telephone and telegraph services.

Water and Sanitation

The supply of potable water to the 331 municipalities comes from 70 % of surface water and 30 % of underground water; 66 % use gravity distribution systems, 18.5 % use pump systems and 15.2 % are combined systems. By the year 1999, the Municipal Water Corporation of Guatemala City was obtaining 55 % of its water from surface sources and the remaining 45 % from wells

It is estimated that the metropolitan area's demand for water is 8 m³/sec., with a current deficit of 1 m³/sec for the Municipality of Guatemala. The lack of measuring devices in the majority of municipalities, low price for the service, and up to 70 % arrears in collection does not allow recovering even the costs for the adequate operation and maintenance of the systems.

As previously mentioned, the availability of water resources greatly surpasses the current and even the potential use, and presents a problem mainly with decrease in the resource, contamination and its subsequent health effects

In the sanitation sector we can point out that of the 331 municipalities in the country, only 24 have treatment plants for potable water and of these only 15 are in working condition; in other words, only 4.5 % of the municipalities. There are a total of approximately 49 registered plants for treating sewage water although 6 are out of order, others are only partially or inadequately functioning and only 15 are currently running.

Of the 223 urban centers with over 2 thousand inhabitants, only 24 apply any type residual water treatment (the majority are primary treatments), the rest discharge the residual water directly into the rivers (MSPAS-OPS, 2002). This is the origin of water contamination problems, and one of the most important indicators to observe is the number of chloroforms that are present in the water.

There is no policy for making an efficient use of the water, therefore the trend toward wasting this fundamental resource

Public Health

The problems in the health area are due mainly to the contamination of water resources and the close relationship between poverty and the access of public services (SNU, 2003). There have been several projects to improve the coverage of potable water service, although according to public data, the same rates still prevail, the service is at a standstill and the only sector that is being covered in the population growth. Cholera, that had been totally eliminated, has reappeared in the country and the number of cases is on the rise, especially in the poorer areas of the country

In the year 2000, acute diarrhea episodes were the second cause of disease and the second cause of mortality, surpassed only by acute respiratory infections and pneumonia.

ENVIRONMENTAL POLICIES, LEGISLATION AND INSTITUTIONAL FRAME

The environmental legal framework in Guatemala is derived from its political constitution: Article 64 states the national interest of conservation, protection and improvement of the patrimony and the creation of park reserves; Article 97 deals with environmental protection and ecological balance on behalf of the state, municipalities and inhabitants, and many other Articles refer to matters of an ecological nature. But, in spite of the policies and regulations, there are voids that deter and impede integrated and coherent actions for protecting the natural resources that are being subjected to degradation. This is the case of the soil and water resources whose use is regulated by a series of legal instruments, of a diverse nature and hierarchy, and that present regulatory voids and are difficult to apply and enforce in the actual practice. During the last five years, several Water Law and Land Law projects have been submitted although these have not gone beyond the stages of technical version and consultation.

The emission of environment-related laws and regulation increased as of 1986: Law for Improving the Environment, Law of Protected Areas, Forestry Law, Law of National Reserves, and others. This has produced a series of changes in the environmental juridical framework and acknowledges the country's institutionalism, creating new entities that are responsible for environmental management - INAB, CONAP, CONAMA, and MARN.

Until 1999, there were 46 international environmental treaties in force in Guatemala that are automatically integrated into the national norms, and the competent institutions for executing the international commitments regarding environment are MARN, CONA, MAGA and INAB as part of the latter.

The projects have been the most important instrument for Environmental Management in the country and the majority of environmental projects have been alternative projects. Another of their characteristics is that they emerge from different sources and therefore not all projects are registered in an information centre, thereby complicating their interpretation and analysis.

The environmental projects have subsidized geographic areas that have little or no government presence. According to the "Institutional Strengthening of Environmental Policies" (FIPA/AID), nearly 100 projects have been executed between 1995 and 2003.

[CSP FOR GUATEMALA]

ANNEX 9 - DONOR MATRIX 2002 - 2006 (USD)

Temas																					
	Alemania	Dinamarca	España	Finlandia	Francia	Holanda	Italia	Reino Unido	Suecia	Total PM	CE	Canadá	Japón	Noruega	Suiza	USAID*	China	BID	Banco Mund	PNUD	TOTAL
1.1 Gobernabilidad democrática	19 110	6 776	0	0	0	21 199	3 125	0	13 367	63 578		160	415	444	0		0	0	400	4 249	69 245
1.2 Derechos Humanos	16 350	0	0	608	1 700	4 362	873	425	6 531	30 849	6 170	113	275	2 350	4 035		0	50 000	0	9 091	102 884
1.3 Fortalecimiento de la Administración pública	0	0	1 590	0	220	0	0	0	0	1 810	11 000	437	0	4	0		200	108 000	0	42 409	163 860
1.4 Seguridad y justicia	0	0	916	20	96	3 389	0	0	7 045	11 466	12 240	55	1 550	2 462	400	20 000	1 500	89 000	25 950	36 868	201 491
1.5 Políticas sociales	0	0	0	0	0	0	514	0	9 757	10 272	0	0	240	0	0	69 500	0	289 800	0	3 377	373 189
1.5.1 Educación	18 120	0	9 000	2 400	965	2 307	631	0	0	33 423	30 212	3 515	17 056	5 305	0		0	15 360	29 960	36 258	171 089
1.5.2 Salud	0	0	0	1 450	42	6 260	0	0	0	7 752	15 872	8 007	32 797	36	400		0	55 440	1 040	76 594	197 937
1.5.3 Otros (hygiene amb. Etc.)	1 920	0	0	0	0	3 383	1 350	0	0	6 653	0	32	58 826	4 003	100		0	310 000	0	3 058	382 672
1.6 Desarrollo rural y local sost	0	0	715	0	0	0	7 051	0	8 057	15 823	44 448	59	13 062	0	7 250	18 000	0	239 532	18 560	45 793	402 528
1.7 Fortalecimiento del Poder C	0	0	0	0	0	0	0	0	0	0	10 223	30	90	3 092	0		0	0	0	8 744	22 179
1.8 Seguridad Alimentaria	0	0	4 155	0	0	159	1 000	0	10 626	15 940	2 109	7 454	6 080	672	0	85 000	0	0	0	4 302	121 556
1.9 PYME y empleo	1 800	0	0	0	0	0	11 300	0	0	13 100	16 000	6	0	0	10 000		0	0	4 590	62 355	106 051
2. Int. Regional																					
Integración Aduanera	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0
Integración Económica y Come	0	0	150	0	0	0	0	0	800	950	0	0	0	0	5 370		0	15 700	0	0	22 020
Integración Política	0	0	0	0	0	0	0	3 150	0	3 150	0	0	0	0	0		0	0	0	0	3 150
Seguridad	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0
Migración	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0
Educación	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0
3. Bir.																					
Sector Social	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0
Sector Económico	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0
4. Extr. Inv.																					
Medioambiente	0	17 068	2 012	0	0	40 308	0	0	0	59 387	19 818	0	2 146	302	6 300		0	85 300	0	5 648	178 902
Género	0	0	0	0	0	1 783	323	0	4 710	6 815	480	2 650	0	952	350		0	0	100	1 448	12 796
Identidad y Derechos de los pueblos indígenas	0	0	0	79	0	0	0	0	0	79	6 000	185	3 000	2 390	400		0	70 000	0	1 192	83 246
Diversos	1 440	0																			
TOTALES	57 300	23 844	19 103	4 557	3 023	83 150	26 168	4 375	60 093	281 613	174 572	22 703	135 536	22 012	34 605	192 500	1 700	1 328 132	80 600	341 386	2 615 359

* Período 2004-2009

ANNEX 10 - EC COOPERATION AND LESSONS LEARNED

1. Cooperation to date

Guatemala is one of the principal beneficiaries of EC cooperation in Central America with € 480 million allocated in the period 1984-2006.

Since 2002, a **structured CSP framework** guides EC cooperation which is funded through a multiplicity of financial instruments, **linking relief, rehabilitation and development (LRRD)**. The CSP for **2002-2006** is articulated on the following priorities:

- § Consolidation and modernisation of the State including democratisation and protection of human rights (21%);
- § Local development and decentralisation (52%);
- § Equal and sustainable growth of the economy and the employment (9%).
- § Support to the fiscal system and economic cooperation (6%) (in preparation).

Financial support to Guatemala can be broken down in the following categories:

First category, support from **ECHO**, which, since 1998, has been financing projects throughout Central America to promote disaster-preparedness and reduce the vulnerability of local communities to natural disasters. Following Tropical Storm *Stan* in early October 2005, ECHO made available in excess of €4 million for Guatemala. LRRD was ensured through close coordination between Commission services.

Second category, the specific EC response to Hurricane Mitch with €16 million under the **Programme for Reconstruction of Central America (PRRAC)** in the sectors of health, education, water and sanitation.

Third category, the longer term development **financial and technical assistance (ALA Regulation)** with a total of €93 million. Programmes for €54 million have been committed in the period 2001-2005 (justice, civil society, fight against exclusion and promotion of human rights, decentralization, and economic cooperation) and an additional €39 million to be committed in 2006 (local development, economic cooperation and fiscal reform).

Fourth category, the **thematic and horizontal budget lines**. The total allocation available in 2005 for projects with Non Governmental Organizations (NGOs) was close to € 27 million.

- Guatemala was retained as a focus country by the **European Initiative for Democracy and Human Rights (EIDHR)** in the period 2002-2004 and received support for: improved public policies regarding human rights, a more effective fight against impunity resulting in improved reconciliation, indigenous people. The interventions, to the tune of €3.9 million, are implemented by civil society actors and international non governmental organisations. It is worth mentioning that an EU Electoral Observation Mission took place in 2003 for the monitoring of the legislative and presidential elections. In addition, Guatemala has benefited from some significant bilateral and regional financing in the area of promotion of a culture of human rights, equity, tolerance and peace.
- Under the budget line “**Environment and Tropical Forests**”, a number of projects have been retained, some of which have a regional dimension.
- A large number of projects have been supported through the **Decentralised co-operation** budget line with NGOs in social development (15 projects in excess of €10 million).

- **Food Security** related interventions are supported through the relevant budget line. Two projects for €1.5 million were in implementation in 2005 and Guatemala is also eligible under the regional food security programme (PRESANCA).
- One project representing €4.4 million was in implementation under the **Rehabilitation Budget line**.
- One grant for a **maternal health project** was awarded under Budget Line B7-6212 for a total of €1.2 million.

Fifth category, the regional cooperation programmes:

- ü **ALBAN**, for higher education scholarships, with 4 to date (representing however less than 1% of the those awarded in Latin America);
- ü **ALFA**, in support to Higher Education Institutions;
- ü **AL INVEST**, for cooperation between SMEs in the EU and Latin America with 2 Eurocentros established;
- ü **@LIS**, focusing on the information society related partnerships;
- ü **URB-AL**, for partnerships between local communities;
- ü **EUROsociAL**, focusing on social cohesion and in particular the policies of education, health, justice, fiscal policy and employment;
- ü **OBREAL**, networking universities from Latin America and Europe.

2. Lessons learned

Some lessons learned so far, especially arising from the CSP 2002-2006:

- § The peace accords remain a valuable instrument for the modernization of the State, the institutionalization of the participation of civil society as the strengthening of a modern economy and inclusive society.
- § The support to the economic part of the agenda of the peace agreements should be strengthened (notably support to fiscal reform). The same applies to programmes of economic cooperation such as support for micro, small and medium enterprises to foster job creation and reduce the size of the informal sector.
- § The pace of project execution has been slower than planned. There have been difficulties in the follow-up and the evaluations as well as the existence of weak indicators to measure progress. Monitoring exercises are essential to answer these limitations.
- § The need to realize that the process of regional integration is a long term issue.
- § The importance of the complementarity between the regional and national programming with reinforcing activities and projects.
- § The need to consider in project cross-cutting issues such as the youth.
- § The need to further reflect on coordination modalities involving civil society actors.
- § The participation of the EC in various coordination fora with other international donors (Consultative Group, Group of Dialogue, Forum of coordination on decentralization, donors' conference on trade, etc.) has been very positive allowing for complementary and coherence in the various projects financed by the international community.
- § Further synergies should be developed with IBD and other international financial institutions as well as the UNDP with whom already a coordination and exchange of information mechanism exists in the framework of MDGs and the Project and Report on the Development of the Democracy in Latin America (PRODDAL).
- § Tropical storm Stan has again demonstrated that in the future more attention and funds should be allocated to fighting environmental degradation and disaster prevention.

3. General evaluations concerning Latin America

Fight against Drug trafficking

- Evaluation de la coopération Nord-Sud dans la lutte contre les drogues et la toxicomanie - 05-2002 - ref. 951570 ev

Economic Cooperation

- Evaluation of Economic Cooperation between the European Community and partner states in Asia and Latin America - 08-2001 - ref. 951595 ev
- Clarifying the definitions of EC economic co-operation with third countries - 08-2002 - ref. 951636 ev

Education

- Evaluation of EU Mobility Grant-Awarding Programmes - 04-2002 - ref. 951632 ev

Environment

- Evaluation of the Environment and Forests Regulations 2493-2000 and 2494-2000 - 11-2004 - ref. 951660_exec_sum_es

Food Aid

- Thematic Evaluation of Food Aid Policy and Food Aid Management and special operation in support of Food Security - 07-2004 - ref. 951657

Gender

- Evaluation of the integration of Gender in EC development co-operation with third countries - 03-2003 - ref. 951644_ev

Human rights – Democracy - Governance

- Synthesis report on EC activities in the field of Human Rights, Democracy and Good Governance - 08-2001 - ref. 951613 ev
- Voter education in the context of electoral support - 09-2001 - ref. 951598 ev

Regional cooperation

- Evaluation de la Stratégie régionale de la Commission Européenne en Amérique Latine - 7-2005 - ref. 951661_vol1_es (ver paginas 7, 8, 9 = 15,16,17 en el pdf)

4. Evaluations including specific indications for Guatemala

Environment

- Ambiente Regional - Tribunal de de Cuentas (2005)

Population

- Thematic evaluation of Population and Development oriented programmes in EC external co-operation - vol 2 COUNTRY REPORT FOR GUATEMALA

ANNEX 11 - COHERENCE WITH EU POLICIES (POLICY MIX)

To assess the coherence of the CSP for Guatemala, this annex presents relevant EU policies and guidelines affecting the country. All these policies have a link with the past and future EC development policy towards Guatemala. For each, different categories and levels of EU interventions are addressed, assessing the complementary and coherence:

- § cooperation instruments: bilateral, sub-regional and regional, with a special focus on the complementarity of horizontal programmes and other financial instruments such as thematic budget lines;
- § regulatory instruments and international agreements;
- § policy and political dialogue (bilateral and regional).

Trade & development

Article 133 of the EU Treaty constitutes the legal basis for the EU's trade policy. It states that the objective of this policy is «*to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers*». It covers all the main aspects of trade in agricultural and non-agricultural goods, services as well as key aspects of trade related aspects of intellectual property, investment and competition. Its main objectives in the case of Central America are:

- § to strengthen and expand bilateral trade relations between the EU and Central American countries on the basis of transparent and non-discriminatory multilateral rules, and notably by means of strengthening cooperation throughout the WTO negotiations launched at Doha.
- § to support the regional trade and economic integration process in Central America.
- § to support Central America in completing its international commitments, in particular fight against drug trafficking, international labour standard, human rights and environment, through autonomously granting market access to EU markets via the GSP scheme.
- § to support the integration of the Central American countries into the world economy by implementing their existing WTO commitments and to assist them in the negotiations and implementation of new commitments resulting from the new WTO round (Doha Development Agenda).

The strategy set out in this CSP, in particular with regard to economic co-operation, is fully in line with the achievement of these objectives. However, for the third item, Central America, including Guatemala, is seeking a deeper relation notably through an association agreement, since Guatemalan authorities consider this to be a much more powerful tool to attract FDI.

Support in trade-related matters is provided through the CSP and by the RSP for Central America and Latin America.

Some concerns have been voiced by officials from Guatemala, including in relation to the GSP mechanism, whose time-bound duration might be insufficient to attract

long-term investments, and to EC trade policy on agriculture, particularly in the banana sector.

Common Agriculture Policy (CAP)

The "*Common Agricultural Policy*" (CAP), created by the Treaty of Rome, sought to increase the productivity of European agriculture, ensure reasonable living standards for farmers, stabilise farm produce markets and guarantee a stable food supply at fair prices for consumers. Since then, many changes to the CAP have been made, modifying price policy (reduction of prices support), restricting market interventions, regulating output, and introducing a system to control spending on agriculture involving an adjustment of market management to restore market balance; furthermore, more assistance is provided for social and environmental measures to stimulate development in rural areas. Those changes focussed on the evolution of the global economy and the need to implement WTO commitments to reduce market distortions.

Few agricultural commodities covered by the CAP enter into competition with Central American products. A notable exception is bananas and since the EU is an important destination for Central American products, Central American banana producers have voiced significant grievance concerning the impact Community policy in this field has had on their market access. Guatemala, even though not a significant exporter to the EU, has joined the request for WTO arbitration on the EU's proposed new tariff for bananas submitted in March 2005 by a group of Latin American (banana exporting) countries. Guatemala, together with other Latin American countries, is engaging critically the EU agriculture policy (suspected of having influenced different world markets) in international organisations.

Sanitary and phytosanitary control Policy – consumers protection

The external dimension of the Community policy in this sector aims to ensure a high level of protection of health, safety and economic interests of the consumers, as well as the protection of public health in the EU. The implementation of this principle is sometimes perceived as a measure of non-tariff trade protection that prevents the access of some products – mainly agricultural, but also meat - to the European markets even if the same principle is applied to European-made products.

At the same time, some Central American countries have raised concerns about non-reciprocal treatment by the EC in the implementation of certain Community principles of health inspection, such as that of regionalisation but also agreement of control institutions. Confusion is also added by the fact that the US and the European SPS (Sanitary and Phytosanitary Measures) systems are different.

This sector is of utmost importance for both regions. This strategy is therefore in accordance with those important preoccupations and the EC has considered support for Guatemalan exporters in order for them to be able to fulfil EU requirements. Officials from Guatemala have indeed expressed concerns on the demanding criteria guiding sanitary and phytosanitary controls.

In addition, a specific effort is associated to SPS; Guatemalan experts are benefiting, like other developing countries, from a specific training system to SPS requirements by the EU.

Internal market

The principal aim of this policy is to strengthen the process of economic integration for a liberalisation of the markets as well as the development of a legislative framework compatible with that of the EC in order to:

- assure a suitable level of protection of industrial and intellectual property,
- prevent money laundering,
- protect personal data,
- guarantee minimum standards for public calls for tender, avoiding any kind of restrictive measure of the markets.

Regulatory convergence is a factor of mutual benefits, by supplying trade and investments and favouring the investments of the EU companies abroad.

Competition policy

The interest of introducing competition policy in the EU relations with third countries, mainly in the negotiation of trade agreements, is based on the establishment of a stable and clear legal framework for the relations between economic operators in order to prevent commercial conflicts.

At the same time, the discriminatory treatment between companies of both parties is avoided with respect to direct investments or access to the services market. Likewise, the EU takes part in multilateral co-operation in this sector in the framework of the World Trade Organisation (WTO). The WTO working group on "trade and competence" examines the possibility of strengthening the convergence of policies for which a multilateral horizontal action might be explored by the EC.

The EU competition policy and the CSP are in accordance since interventions promoting competition policies are included, in particular in the regional context.

Research and development policy

In the EU, international co-operation in this area is covered by the Research Framework Programmes through two principal axes:

- An international co-operation dimension for each thematic research programme and,
- a specific international S&T Co-operation programme that contributes to the solution of common or sustainable development problems in third countries and regions,

It should be noted that specific instruments of the EU Research Framework Programmes, that will be continued further under the 7th Research Framework Programme (2007-2013) also support research collaboration:

- Exchanges of researchers from third countries are highly encouraged at all stages of research careers in FP6 under the Marie Curie activities,
- under the ERA-NET scheme the coordination of the bi-lateral cooperation programmes between EU Member States and Third Countries will be further reinforced.

Moreover S&T Promotion Platforms recently launched with Latin-America will further develop other possibilities for Guatemala widening our partnerships from a predominately bilateral to a bi-regional context.

Governance, capacity building, rule of Law

This is one of the decisive components for policies and reforms toward social cohesion. The level of social cohesion, economic development, environmental sustainability and human rights, all depend on the quality of governance. Good governance is a critical factor to reach the Millennium Development Goals even though no specific indicator relates to it. The 2002 White Book and the 2003 Communication on governance identify a set of recommendations for action:

- The building of capacities to support developing countries design pertinent reform programmes,
- The strengthening of synergies and coherence between the different instruments and policies of the European Commission and the European Union,
- The reinforcement of national and regional partnerships to coordinate the donor community and to ensure complementarity between individual donors,
- The support to human rights and democracy, governance and rule of law.

The present strategy takes into account these recommendations. In the case of human rights and democracy, the EC mobilises support through the European Initiative for Democracy and Human Rights budget line ([see below](#)).

Human rights, democracy, indigenous people and democracy

Democracy, the rule of law, human rights and fundamental freedom are basic principles of the European Union, independently of the fact that national Governments are responsible for these to be respected. In support to the promotion of these principles, the EC has developed different instruments and priorities for action. In doing so, it has been guided by the following:

- The stimulation of coherent support policies, looking for a better coherence between cooperation and external relations, complementarity between the EC and Member States, and the integration of these issues as cross-cutting within other policies and actions of the EU.
- Give a greater priority to human rights and democracy in the relations with third countries,
- Have a more strategic focus when addressing programmes and projects in the areas concerned.

This is of particular relevance for Guatemala and therefore reflected in the CSP, which focuses specifically on indigenous peoples in order to promote the respect of human rights as well as to foster equal opportunities in the economic, social and political processes. The promotion of human rights and democratisation will furthermore be mainstreamed in all dynamics of the EC cooperation.

Guatemala was retained as a focus country by the European Initiative for Democracy and Human Rights (EIDHR) in the period 2002-2004 and received support for: improved public policies regarding human rights, a more effective fight against impunity resulting in improved reconciliation, indigenous people. The interventions

are implemented by civil society actors and international non governmental organisations. It is worth mentioning that an EU Electoral Observation Mission took place in 2003 within the framework of the IEDDH. In addition, Guatemala has benefited from some significant bilateral and regional financing in the area of promotion of a culture of human rights, equity, tolerance and peace. For the future, social cohesion should be added as a focal sector within the EIDHR and additional attention would be given to supporting democracy, gender and ethnic equity.

In addition, the Andean and Central American countries received a special treatment within the framework of the Generalised System of Preferences linked to their international commitment in relation to Human Rights.

Environmental policy

The priorities for EC environmental cooperation with Central America are based on the following:

- The objectives and principles included in the 6th Community Environment Action Programme (6 EAP, 2002-2011), in particular those related to climate change, biodiversity, health and quality of life, natural resources and waste.
- The mainstreaming of the environmental dimension into development policy, stressing the links between environment and poverty, and between environment policy and management of disasters;
- The encouragement of Central America to implement its international commitments under the different multilateral environmental agreements.

The above imply major changes which lay beyond the competence of environmental organizations and which are to address governance, education, economic policy and other sector policies. The integration of the environmental dimension in social cohesion is a fundament the EC is aiming to raise through policy dialogue. In this context, the Andean and Central American countries received a special treatment within the framework of the Generalised System of Preferences linked to their international environmental commitments.

A specific assessment has been carried out at the level of Central America to determine the environmental profile of the region. One of the main conclusions is that environmental issues have to be better addressed by a global mainstreaming through all sectors rather than by specific financing. Environment is also addressed by the regional strategy for Latin America and horizontal programmes (e.g. education/ALFA; trade and Investments/AL-INVEST; local management/URB-AL).

Two specific EC horizontal budget lines for the environment have been mobilised over the years to provide funding for environment related interventions in Central America. A recent evaluation of these budget lines stressed the need for these to better reflect the principles described above. More specifically, concerns were raised in relation to the sustainability of the financed projects, their coherence with the national policies and, overall, preoccupations about the pertinence of project selection with regards to the needs of the country and the sub-region. The evaluation noted that the environment could be better addressed by these financial instruments and be considered in a long-term perspective, notably if country-specific terms of references coherent with the political priorities of the EC vis a vis the benefiting countries were drafted for the calls for proposals.

The CSP stresses the importance of mainstreaming environmental sustainability and the protection of natural resources and the importance of supporting initiatives in relation notably to climate change, biodiversity, or vulnerability of the country to natural disasters.

The EC policy and contributions are a direct encouragement to the “Green Guate” scheme of the Government of Guatemala (a component of “Vamos Guatemala”, the programme of socio-economic recovery) which ensures that environmental concerns are taken into account in the development policies of the country.

Health and poverty

If social cohesion is set at the centre of the EU-LA relations, the EC health policy establishes the link between health and poverty, between health and well-being and development, including a reference to AIDS and other contaminating diseases. There is a consensus to make assistance more efficient with more ownership and participation of the recipient States.

Assistance related to AIDS, tuberculosis and malaria is financed through the Global Fund using parallel administration, and often subcontracting activities to the national authorities. Some organisations are voicing the incoherence between the way the Global Fund is acting and the objective of reinforcing ownership.

The regional programme Eurosocial includes a provision for institutional capacity building in health policy and is open to the participation of Guatemala.

Conflict prevention

In its Communication on conflict prevention, the Commission announced its intention to focus its co-operation programmes more clearly on addressing the root causes of conflict in an integrated manner. In this context, the Commission will seek to incorporate specific conflict prevention (or resolution) measures into its various sectoral programmes.

A first analysis of potential sources of conflict in Guatemala puts in evidence several issues of concern: the low credibility of the political parties and corresponding public dissatisfaction, limited transparency in public affairs, corruption, relative weakness and politicisation of the judicial system, juridical insecurity, lack of social cohesion (also at regional level), the over-dependence on a reduced number of commodities. Addressing the agenda of social cohesion directly contributes to conflict prevention. In this respect, and though Guatemala has not benefited from the specific EC budget line for conflict-prevention, the CSP is compatible with the conflict prevention policy.

Linking emergency, rehabilitation and development (LRRD)

Emergency aid addresses the immediate needs of populations affected by crisis. Rehabilitation is designed to support - in the mid-term - the building of development capacities of the affected populations. There is no standardised model for linking emergency to rehabilitation and rehabilitation to development.

This link has been of particular relevance for Guatemala and Central America after the conflicts of the eighties and, more recently, after hurricane Mitch (through the

Regional Programme for Rehabilitation and Reconstruction of Central America). Regional mechanisms of preparedness are under way, but at national level, Guatemala is back in the phase of development after having experienced the previous phases.

In addition, ECHO's disaster preparedness programme (DIPECHO) targets vulnerable communities living in the main disaster-prone regions of the world, of which Central America. DIPECHO is to reduce risks by ensuring prior preparedness for the most vulnerable populations in the regions affected by recurring natural disaster. It increases the response capacity by incorporating and coordinating activities at local, national, and regional levels.

Migration, justice and home affairs:

The current policy concerning immigration could have an impact on the development of Guatemala and some Central American countries due to the extreme importance of remittances from immigrants in hosting countries in the macro-economic equilibrium (remittances represent 5% of the GDP). For the moment, given the fact that the emigration flow from Guatemala is directed to the USA, the impact above mentioned is very limited. However, migration within Central America is a factor to take into account when addressing national and regional problems.

Information Society

The main co-operation objectives pursued with Latin America in the Information Society field are the following:

- Promoting social cohesion through the development of an inclusive Information Society and fighting the digital divide within and between countries and regions and, in such, contributing to governance and to the economic and social development of Latin American countries;
- Fostering regional integration and the integration of Latin American countries in the global Information Society;
- Promoting investment and reinforcing commercial exchange with Latin America by creating a favourable environment in the region, notably by promoting efficient regulatory and policy frameworks, as well as open and global standards;

These objectives are specifically addressed by the Latin American regional strategy and the @lis programme which includes a high level regular policy dialogue between Latin America and the European Union.

Food security, rural development and sustainable resource management

The European Commission recognises that rural poverty is a multi-dimensional problem that includes low incomes, inequity in access to the production factors, low health and education standards, degradation of natural resources, vulnerability to natural disasters, and little political power. Rural development strategies should tackle all these issues and incorporate rural poverty strategies such as food security and sustainable natural resources management.

At national level, the European Commission sets out a policy of adapting its actions to the specific national context and to encourage political and sectoral dialogue including the private sector, civil society and NGOs.

The CSP is in line with this policy, in particular with respect to the multi-dimensional aspect of rural development. Guatemala has benefited from the thematic food security budget line in addition to the regular cooperation instruments. This combination of a thematic budget line and development cooperation has been very positive and introduced cohesion in the EC assistance.

Integration of the gender factor

The Community's strategy on gender equity lays out a global framework to promote equality between men and women in five areas: economic life, equality of participation and representation, social rights, civil life and roles, gender stereotypes.

As detailed in Annex 2, gender issues are an important concern in Guatemala. Gender is one of the main crosscutting issues of the present CSP and will be included in all activities as a contribution to the EC programme "Fight against exclusions" which is to assist build a more equal political, institutional and human development.

Although a specific gender budget line exists, it is not active in Latin America.

Participation of Non State Actors (NSA) in development

The European Commission's policy is based on the recognition that ownership of strategy is the key to the success of development policies. Therefore, the most wide-ranging participation of all segments of the society must be encouraged and implemented, respecting both the particular situation of each partner country and the central role of the Government complemented by decentralized authorities. Beside the implication of NSA in the present strategy, the Commission is committing direct financing to NSA through horizontal/thematic budget lines.

Besides sector budget lines detailed in other chapters, the Commission has been co-financing development activities proposed by NGO for many years. Progressively, priority has been given to activities initiated by partner organisations and to larger projects. This financing is concentrated in two budget lines: the Co-Financing budget line and the Decentralised Co-operation budget line. The aim of these budget lines is to add a specific dimension to the EU development co-operation. Such financing has been particularly active in Guatemala.

When co-financing the Civil Society and NGO in particular, a strong preference should be given to support processes and policies rather than financing local projects. Priority should be given to proposals complementing the focal sectors of the CSP and their main crosscutting issues, but preserving the independence of Civil Society. The aim is to back up Civil Society, in particular its local actors, in participating to the design of global, sectoral and development policies, and in being active in the consultation processes, in particular in the Harmonization and Alignment process.

The EU drug strategy

At the external level, the EU drug strategy is based on strengthening coordination in the fight against drugs and on supporting the development of relations with third countries. The EU action is guided by the principle of shared responsibility: partnerships with third countries that address their overall social and economic development. This has been concretised by the EU-Latin American Action Plan of Panama adopted and ratified in 1999.

One should recall the special treatment received by the Andean and Central American countries, within the framework of the Generalised System of Preferences, in support to their efforts in combating drugs.

The objectives of the present CSP are coherent with the instruments put into place by the EC in its relations with Central America to fight drug trafficking. The Latin American regional strategy includes a new specific provision between the EU and Latin America to take place in addition to the *ad hoc* policy dialogue.

Education and training

The European Commission recognizes the vital importance of education in reducing poverty, and as such, this CSP is fully coherent with the EU education policy. Education priorities for the EC are:

- basic education, in particular primary education and teacher training,
- work-related training,
- higher education, especially at regional level.

At the level of primary education, the Commission is participating in the “Education-for-All” initiative (EFA-FTI). It is committed to improve the efficiency of the education system, stressing as much quality and quantity of education. At the level of higher education, the focus is on institutionalizing networks, exchanges of students, teachers and professors between Europe and the rest of the world. Guatemala is participating to the regional projects ALβAN and ALFA, and to different initiatives of networking and exchange of students and teachers. Those initiatives are considered positive and should continue. These will contribute to the achievement of the CSP objectives for Guatemala which include a focus on vocational training and basic education for young people.

Economic and financial affairs

In its international policy on economic and financial affairs towards Latin America, the Commission has two main priorities supporting the global agenda towards Latin America:

- to foster macro-economic stability and convergence;
- to promote social cohesion.

In matter of macro-economic convergence, the Commission participates in the policy dialogue amongst policy makers of Latin America, transmitting its own experience. This exchange of experience is crucial for supporting regional economic integration, and is significant in helping the Central American integration agenda. Activities are financed and to be financed at the level the Latin American RES. Among other actions, the Commission contributes is supporting activities of the Economic Commission for Latin America and the Caribbean (ECLAC).

Fisheries and Maritime Affairs

The common fishery policy has the objective to protect fish resources by regulating the amount of fish taken from the sea, to help the fishing and aquaculture industries to adapt themselves to the constraints of the market, and to maintain a common organisation of the market.

Regarding third countries, the objectives are to set up fisheries agreements and to negotiate for common conservation measures in deep-sea fisheries, in order to guarantee both conservation and sustainable exploitation of fish resources. This includes close collaboration with developing countries to help them become more effective in fisheries matters, and support to the efforts to combat illegal and unregulated fisheries.

In the case of Guatemala, there is a common objective on Atlantic tuna. Both the EU and Guatemala are members of the Western Central Atlantic Fishery Commission and the Inter-American Tropical Tuna Convention and closely collaborate within these bodies, looking for the respect of international practices (management of fish resources, dolphin-safe catching). There is no restriction to the import of Guatemalan fish products to the European Union.

Employment and social affairs

In its 12 April 2005 Communication on **Policy Coherence for Development**, the Commission has defined coherence commitments in the overall framework of the EU sustainable development strategy. These commitments were endorsed by the Council (GAERC) on 24 May 2005. The Community proposed an integrated social and economic approach that regards economic, employment and social cohesion as interdependent elements with a view to fighting inequalities.

Employment is a crucial factor to achieve a high level of social cohesion. The Community will promote investments that generate employment and that support human resources development. The respect of fundamental labour rights (core labour standards), as defined by the International Labour Organisation, is a key element of the EU policy.

The Declaration of Guadalajara of May 2004, specifically underscores the commitment *"to the principles of decent work proclaimed by the International Labour Organisation, in the belief that respect for workers' rights and dignity is vital for achieving poverty reduction and sustainable social and economic development for our peoples"*.

In this respect, the Community will promote decent work for all in line with the ILO agenda. Special emphasis will be given to the progressive integration of the informal sector into formal economy, on social dialogue and on corporate social responsibility.

In the field of employment policy, Central America has reaffirmed its commitments to the ILO principles and core labour standards through a Declaration made on 30 June 2005 by Labour ministries and representatives of employers and unions in support of employment and decent work. The objective of this programme includes promotion of international labour norms, employment creation, expansions of social protection and strengthening social dialogue.

ANNEX 12 - GUATEMALA MIGRATION PROFILE ¹⁸

Migration flows in Guatemala have traditionally played a role in the economy and livelihood strategies of the population. In the last 50 years two important emigration waves can be distinguished: the first during the 1980's due to the armed conflict; and a second in the 1990's (which still continuous to this day). Both had different destinations and types of persons migrating. In the first case, migration flows were bound for the Southern border area of Mexico and migrants were considered refugees. This wave stopped as the conflict itself came to an end. An important part of these refugees returned to their communities or were relocated under the Peace Accords.

The second wave of migration is sometimes called 'economic migration' because the aim of the migrants is to find better jobs, living conditions and opportunities. In the case of Guatemala, this migration is almost exclusively (97%) bound for the US.

There is no single profile of the outbound Guatemalan migrant, although some characteristics have been discerned: the great majority is men (73%) between the ages of 20-45; they are sons (51%), husbands (17%), sons and daughter in law (2%), brothers (12%), other relatives (10%), fathers, fathers in law (4%) and grandsons (1%). Their education level is varied. Only 4% have no education, 20% have at least some primary formation, and 31% finished primary school; twelve percent (12%) have secondary education and 6% some secondary education. Nineteen percent (19%) finished tertiary education and 6% have some tertiary education. Those with some college or university education make-up 0.6% of migrants, and 0.5% had finished university.

It is estimated that around 1.2 million Guatemalans (10% of the population) live in the US, and that some 100 thousand to 120 thousand migrate (or try to migrate) to the US each year. Most of this migration is illegal. Also, over 80% of them were sending remittances in 2004. The national bank, *Banco de Guatemala*, estimates that migrants sent close to US\$3 thousand million in 2005. This figure represents almost 10% of the GDP. The impact of remittances in the economy is not yet well understood as neither are the social and political consequences of this migration. Nevertheless, it has become evident that this is a phenomenon that requires more attention from stakeholder governments.

Economic Impact

The economic impact of remittances is enormous: the US\$3 thousand million received in 2005 represent almost 10% of the GDP. They are also the largest source of foreign currency and have helped maintain a stable exchange rate and a record high foreign currency reserve. But their impact at micro scale still leaves much room for debate. Although remittances have been hailed by governments and international organizations as a potential instrument for poverty reduction and community development, in reality the evidence shows a less ideal story.

Some inferences can be made on the impact of remittances at the household level, using education indicators and how remittances are used. It has already been said that most migrants have some primary and secondary education. Additionally, the 2005 International Organization for Migration (IOM) survey revealed that 48% of households use the money to purchase household basics such as food and clothing; 20% use it to repair and/or maintain income generating tools, equipment and family businesses; 15% is invested in a business or

¹⁸ With information from *Cuadernos de Trabajo Sobre Migración*, IOM.

saved; and other 15% goes to “social investments,” including education and health. Another survey¹⁹ (2000) of living conditions showed that only 9% of the population in the poorest quintile, benefited from remittances; in contrast 13% of the population in the richest quintile benefited from remittances, 11% in the fourth, and only 4% in the second poorest quintile. Although the evidence is inconclusive, experts agree that most households who receive remittances (from illegal migrants) are just above and below the poverty lines and use the money they receive accordingly.

Thus, the notion that Guatemalan migrants come from the poorest households seems to be partially invalid. The poorest often lack or have small stocks of the assets needed for migration, such as education, access to infrastructure and information, to name a few. Furthermore, a trip to the US, whether legal or illegal, could barely be afforded by the average poor household in Guatemala in addition to having less capacity of becoming indebted (i.e. to pay for trip expenses). Finally, the poorest are just too busy getting by to dedicate the time, the effort or run the risks, migrating requires.

Even though a relatively small percentage of remittances are invested or saved²⁰ there is information that shows that micro enterprises financed by or through remittances benefit an important number of the population. Remittances sent by legal and illegal aliens are responsible for either helping start-up or sustaining up to 312 thousand small and micro enterprises in the same number of households. Also relevant is the fact that among these households there are small farmers (28%), who use remittances to expand and/or improve their agricultural production. The main impact in the economy, says the IOM, is that remittances are keeping households from falling into or deeper into poverty.

Social and political impacts

Illegal migration is transforming Guatemala both socially and culturally. As it has happened in Mexico for over two decades now, entire villages and communities are finding themselves with a significant proportion of the young male population leaving for the US (remittance recipient population is mostly women--56%--and remitting population are mostly men --68%). Since the great majority of migrants cannot return to visit the country because of their immigration status, families become separated. This has broken traditional family ties in communities across the country and created uncertainty among families who loose contact with relatives who tried to migrate illegally.

The nature of illegal migration has also brought the phenomena of semi-permanent or undetermined migration. Illegal emigrants can be gone for months or years or until deported. An illegal migrant's stay in the host country depends on personal plans, but also on deportations and amnesty policies. It is also not rare for migrants to come back after investing or saving their earnings in Guatemala, and this in part responsible for inspiring the new generations of emigrants. An important contribution made by those who return is the transfer of skills, ideas and even technology to their communities. Other migrants stay permanently abroad, never returning to their home country (at least while they are considered illegal aliens), and yet others are deported within days, weeks, months or years of migrating. It should be noted that those who are caught and deported experience different treatment from authorities²¹. Those who are caught during the trip probably suffer the most, falling victims of abuse by police and immigration officers, organized crime and thugs.

¹⁹ Banco Mundial (2004), *La Pobreza en Guatemala*.

²⁰ Only 4.6% of all enterprises in the IOM survey were directly financed using remittances.

²¹ Figures for deportations are vague, but estimates for 2004 put it at 7 thousand Guatemalans deported from the US.

Many deaths are reported each year as the result of abuse, negligence, robberies and preventable accidents in crossing passes in all three countries involved.

Another problem related with deportation, is the border crossover of youth gangs (also known as maras). Although it is not well documented, it is believed the maras phenomenon began sometime in the eighties with Salvadoran migrants and refugees' sons who were later deported. This youth transposed Los Angeles style gang culture to their home countries and with time the cultural flow was reversed. Today the symbols and behavior codes of Central American gangs have been transposed to the Mexican South and North Borders, as well as to L.A. and other major US cities. In addition, US authorities are concerned that the maras are now deeply involved in drug trafficking and distribution.

This has had an important effect in the way Central American governments treat the issue of migration. Until a few years ago the phenomena went ignored until the economic implications became evident. The US government also began to exert pressure on authorities to tighten regulations and border control, notably after the 2001 terrorist attacks in the US. But in Guatemala efforts to deal with problems of illegal migration (and deportations) have been lukewarm²². Migration policy is still regulated by the Migration Law, which remains inward looking, and has no instruments to deal with problems faced by Guatemalan citizens who migrate illegally to the United States. Much remains to be done in regard to human rights violations, mistreatment of migrants by authorities, the repatriation of remains, services for Guatemalans living illegally in the US, services for deportees and services for third country migrants. Political will to address the problems seems to be still lacking.

In this area the most promising hope for reforming policy is the *Puebla Process* where Guatemala is working with Mexico, Dominican Republic, Canada and the US to improve the regional dialogue on migration. Although no decisions are made at the Process, the meetings serve at least to inform policymakers in each country about each other's migration policy. Clearly more will need to be done to counter the current anti-immigrant feelings in the US and the negligence in their home country.

A new concern rising from the emigration and related remittances, is the apparent complacency of the Guatemalan government with the use of an otherwise less productive workforce and the financing of basic services (with remittances). With some of the worse social indicators in Latin America, there is the danger that the government considers remittances a private transfer that relieves it from its obligations like investing in education and healthcare, social protection and other pro poor policies. The current government has also stalled a much needed fiscal reform that would make tax collection more progressive and help the government to close its expenditure gap. Recent research shows that Guatemala spends half as much in social sectors (as a proportion of its GDP) than the Latin American average. Doubling the social spending would yield a 100% increase in Guatemala's social indicators. Other alternatives such as borrowing soft loans from international organizations are ignored. Remittances could therefore be used as an excuse by the government to play its role.

Finally, remittances are coming under scrutiny after authorities in the US and recipient countries have become aware of the use of remittances to launder money (micro laundering). Recently, in El Salvador a money transfer company was discovered to be a cover for money laundering. Also, in Dominican Republic a few years ago, a similar scheme was discovered. The rapid rise of remittances in Guatemala from US\$1,600 million in 2002 to 3 thousand

²² The last attempt was a lobby carried out by the Guatemalan government for a Temporal Protection Status visa, for illegal Guatemalans in the US.

million in 2005 has also raised suspicion. Although no concrete actions have been taken yet, some protective policies could potentially impinge on clean remittances.

ANNEX 13 - GENERAL CRITERIA FOR ELIGIBILITY TO BUDGET SUPPORT

The following, prepared as a standard text for CSPs in the region of Central America, is of certain relevance to Guatemala though it needs to be read taking into account the realities of this country.

Budget support is direct or indirect support to the budget of the beneficiary state, managed in accordance with that state's budget procedures. All kinds of budget support represent a support to the balance of payments and a financing of the budget deficit for the beneficiary country.

- § Macroeconomic budget support has also been called support for structural adjustment, support for economic reforms and budget support for poverty reduction. It covers the overall macroeconomic and budget framework of the beneficiary country.
- § Budget support to sectoral policies includes budget support provided within a specific sectoral framework (e.g. food security, health, education, transport, etc ...). It does not imply targeting of aid funds towards the sector, since the previous experiences in this respect have produced distortions in the budgetary process and narrow impacts within the sector. Besides, fungibility of resources renders targeting as a virtual exercise.

Countries eligible for macroeconomic budget support must have a viable medium-term macroeconomic framework (or a PRSP in the case of IDA countries) supported, but not necessarily financed by the Bretton Woods Institutions. In general, where such a country needs to finance its external financing gap, this type of support can be justified. At the same time other needs of budgetary nature, such as those caused by the need to finance any economic or social policies agreed with donors, will also be considered.

Budget support for implementing coherent sectoral policies agreed with donors (e.g. the World Bank, EU Member States, etc), may be provided as sectoral budget support separate from - or in parallel with - macroeconomic programmes. Generally the sector budget support will be complementary to macroeconomic budget support. In practice, it is difficult to conceive of providing sectoral budget support in the absence of a macroeconomic support programme.

Work has been done on defining what a sectoral programme is and what minimum conditions it should fulfil. The general view within the donor community is that a sectoral programme should meet at least three criteria if it is to qualify for budget support. The criteria are:

- § there must be a sectoral policy document and an overall strategic framework, designed after consultation of the stake-holders;
- § there must be an annual budget, and a perspective of sectoral medium-term expenditure framework; the sectoral support programme can be an accelerator in the production of an MTEF;
- § there must be a sufficient degree of coordination among donors within the sector, under the umbrella of the government.

Transparent, accountable and effective management of public expenditure and publicly open and transparent rules on public procurement are of paramount importance. In the absence of internationally agreed standard for Public Finance Management (PFM), the Commission is adopting a dynamic concept of PFM improvement within a medium term perspective. Recent work in the field of PFM by the Public Expenditure Accountability Programme (PEFA, www.pefa.org) financed by several donors, has been instrumental in setting benchmarks in order to appreciate PFM.

The assessment of the public finances of a beneficiary country is one of the fundamental pillars for the implementation of EC budget support. It is important to ensure both beforehand and in the course of implementing any support, that the direction of public finances management is improving satisfactorily. Improvement in the quality/effectiveness of public expenditure is one of the most important elements to be addressed in the analysis

The Commission may co-finance all support programmes together with other interested donors, such as the World Bank or the EU Member States. This should be reflected in the negotiation between Government and donors of a single framework of support in which the same objectives, disbursement schedule, conditions / verification indicators will apply, whilst leaving each donor free to make its own financing decisions. The arrangement could be formally embodied in a memorandum of understanding and a code of conduct applicable to all donors.

Analysis of medium-term macroeconomic framework and poverty reduction policies (for IDA countries) is an essential part of appraising support programmes. This is a continuous analysis process method.

ANNEX 14 - REGIONAL STRATEGY FOR CENTRAL AMERICA

The guiding principles that will underpin the 2007-2013 regional strategy for Central America are as follows:

- *Strengthening political and economic relations between the EU and Central America*, which is the main instrument for facilitating the negotiation and implementation of an Association Agreement based on the mutual interest of both regions;
- *Contributing to the sustainable socio-economic development of Central America*, which would be the key instrument for developing classical development cooperation activities as set out in the 1993 Framework Cooperation Agreement and the Cooperation Chapter of the 2002 Political Dialogue and Cooperation Agreement signed between the EU and Central America;
- *Supporting the consolidation of the process of regional integration in Central America*, for which the Commission would provide support to the Central American integration agenda, building on the current regional cooperation programme channelled through the SG-SICA, SIECA and other regional institutions and taking advantage of the comparative advantages and specialised knowledge of the Commission in the area of regional integration.

Regional integration is not only a means of promoting political stability and sustainable development, but also constitutes a fundamental element of the EU and Central America's common strategic objective, the negotiation of an Association Agreement including a Free Trade Agreement. In this context, focusing cooperation on supporting the process of regional integration in Central America is fully in line with the Commission's priorities, reiterated in Guadalajara and will enable the Commission to capitalise on the solid basis established under the current regional strategy. It is underlined that the Commission is essentially the key actor in supporting with grant funds the process of establishing a customs union, developing and implementing common policies and strengthening regional institutions.

In principle, support for increasing social cohesion, the other key challenge that confronts the Central American region, will be provided through the country-level strategies, as will also be the case for sectoral initiatives including areas such as education, health, rural development and decentralisation.

Thus the main objective of the 2007-2013 Regional Strategy for Central America will be to support the process of political, economic and social integration in the context of the preparation of an Association Agreement with the EU. Within this objective, three groups of potential interventions can be considered.

The first group will include the **strengthening of the institutional system of the process of Central American integration**. In this context, cooperation may be directed to regional institutions, inter-governmental systems of coordination and national entities involved in the integration process. It is underlined that this support will be limited to the involvement of these institutions in questions strictly related to regional integration. Specific provision will be made to include the participation of civil society in the preparation and implementation of programmes in support of the regional integration process.

The second group will focus on: the **consolidation of the Central American customs union**; support for specific aspects of the economic integration process such as trade

facilitation, services and investment and intellectual property rights; and the development and implementation of other harmonised and common policies and legislation within the Central American region that will contribute to the creation of a common market. For the latter, initiatives that could be considered may range from fiscal policy and labour legislation to environmental measures, inter alia.

The third group of intervention will cover aspects of **strengthening regional security** in the context of mitigating the impact of the free circulation of goods, capital and persons. This constitutes a response to the growing wave of insecurity and crime in the region, which has its origin in the high levels of poverty and social exclusion and has been exacerbated by migratory trends and the opening of borders.

With regard to the orientation of support to the economic integration process, the Joint Assessment of regional economic integration in Central America that is being carried out by the Ad hoc Joint Working Group is expected to provide a clear picture of the region's shortcomings in order to reach a sufficient level of economic integration that will permit the negotiation of an Association Agreement. In addition, further needs arising from the process of negotiating and implementing an Association Agreement will be systematically taken into consideration in the design of support programmes under this strategy.

Finally, the coherence of the regional strategy for Central America with both the Regional Strategy for Latin America and the Country Strategies for the individual Central American Republics is assured through its fundamental regional integration focus. This approach permits: a) the Regional Strategy for Latin America to concentrate on horizontal issues and areas where the transfer of knowledge between the EU and Latin America is of critical importance; and b) the Central American country strategies to focus on nation-building policies such as governance, rule of law, social cohesion and sectoral programmes including decentralisation and local development.