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Landscape of Opportunities

# GUATEMALA



BIDeconomics

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## ACKNOWLEDGEMENTS

This edition of BIDeconomics combines the technical rigor of our analysis and the experience acquired through years of work in Guatemala. Our aim has been to identify some of the country's most significant challenges and to propose pathways for action in the interest of its progress. We have applied international best practices to offer a series of useful recommendations to facilitate the development process. We give special thanks to the following experts for their contributions to this project:

- **Tomás Bermúdez**, General Manager of the Country Department for Central America (CID)
- **Marta Ruiz-Arranz**, Senior Regional Economic Advisor in CID
- **Ignez Tristao**, IDB Representative for Guatemala
- **IDB, IDB Invest and IDB Lab sector specialists** in the Country Office in Guatemala, the Central America region and Headquarters in Washington D.C.

We also thank all the public, private and civil society stakeholders in Guatemala who believe in our work and in the contributions we make for the well-being of the people.

# GUATEMALA

## Three pillars of future investing

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## INTRODUCTION

### Investing more to improve people’s lives

Guatemala has all that it takes to lay the foundations for a prosperous, inclusive and sustainable future. With the youngest population in Latin America and the Caribbean (LAC) and a majority group of working-age individuals, this country possesses a significant advantage in terms of its human capital. Due to its strategic location, close to major markets, the country has a significant advantage in terms of commercial development, while its natural wealth is a source of great biodiversity. Furthermore, the country boasts one of the most remarkable cultural heritages in the region, owing to its immense historical and tourist value.

Guatemala has been working to consolidate a stable economy. Between 2012 and 2022 it achieved sustained and moderate growth (at an annual average of 3.5 percent), thus outperforming LAC (1.3 percent), although slightly below its Central American peers (3.6 percent). It has also taken steps to enhance its macroeconomic framework. Through the implementation of prudent policies, it has bolstered the resilience of its economy against external shocks, including the recent COVID-19 pandemic. This has enabled Guatemala to face the challenges posed by the global environment.

Guatemala stands out among the region's economies for having balanced fiscal accounts, a credible monetary policy and a solid external position. As a result, prices are stable, debt levels are low (30.1 percent of GDP in 2022), and the country holds one of the best credit ratings in the region. Despite these macroeconomic strengths, Guatemala has not been able to fully leverage them to attract significant resource flows. For more than 10 years, investment rates in Guatemala have been among the lowest in LAC.

The lack of social and productive investment has had a significant impact on the quality of life of

Guatemalans, as it has affected their access to basic services and limited business growth. It has also diminished the capacity of institutions to uphold the rule of law, improve the business environment and serve the citizens. It has even made the country more vulnerable to natural and climatic events.

Chronic investment deficits to address social gaps have become evident. As a result, over the last decade, the country has made slight progress regarding poverty reduction. More than half of the population (54.9 percent in 2020) lives in this situation, which has a greater impact on people who live in rural areas, youth, women and indigenous people.

Why has Guatemala failed to attract more investment to promote a more prosperous and inclusive society, despite having abundant resources and positive economic indicators? While growth and stability have contributed to Guatemala's progress, making a leap in development requires more and better investment, in addition to stimulating productivity and strengthening institutions. With greater accumulation of human, physical and social capital, the country will be able to maximize the returns on these assets in terms of growth, sustainability and well-being.

Considering the areas with the most significant opportunities for Guatemala's development, and in order to make them a reality, we propose three investment pillars: the people, the entrepreneurial fabric and the institutions. In each pillar, we propose specific measures for the country to grow inclusively and sustainably. Improving lives requires more investment, and the IDB Group is committed to accompanying this path with technical and financial support. Our common goal of guaranteeing the well-being and progress of the people demands that we work together.

# Guatemala in the spotlight

**The largest economy in Central America, Panama and Dominican Republic (CAPRD)**

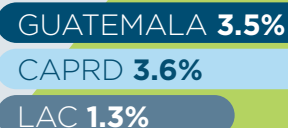


Human capital **with potential:**

> **The country is enjoying its demographic dividend:** 30% of the working age population is between 15 and 30 years of age.

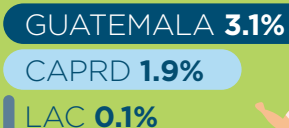
**Moderate, sustained and resilient growth (even in pandemic years)**

> **Average growth (2012-2022)**



Source: WEO, April 2023 IMF

> **Pandemic growth (average percentage 2020 and 2021)**



One of the **most stable and least indebted** countries in Latin America and the Caribbean...

> **Balanced fiscal accounts (2012-2022 average as % of GDP)**



Source: WEO, April 2023 IMF

> **Gross Public Debt 2012-2022 Average (% of GDP)**



... and it is **one step away from investment grade** according to different risk rating agencies.



**However, the country still faces significant challenges**

**The geographical location of the country makes it vulnerable to extreme weather events**

> **4<sup>th</sup>** LAC country **most exposed to climate hazards**

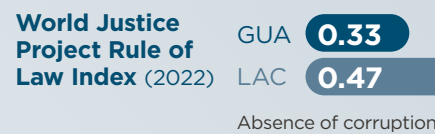
> **16<sup>th</sup>** most vulnerable country in the world

**The institutional environment shows challenges**

> **Revenues should be higher**



> **Corruption** has become the main challenge



Source: WEO April 2023, IMF and World Justice Project

**Guatemala ranks 98th out of 141 countries in the Global Competitiveness Ranking**

Source: WEF 2019

**Companies believe the following to be the main obstacles to their development:**

Institutional environment

41.1%

Informality

17.4%

Organized crime

10.2%

Lack of human capital

5.6%

Source: Enterprise Survey 2017 WB

**With higher productivity, key sectors could make a significant contribution to growth and the reduction of informality**

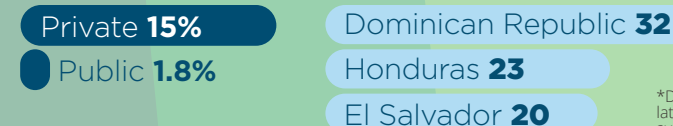
This is the share (percentage) of the different sectors in the economy



Source: ILO and Banguat

**Investment in Guatemala continues to be the lowest in the region**

> **Investment in 2022: 16.8% of GDP**



Source: Banguat and WEO April 2023, IMF

\*Data for the latest year available



# MAP OF OPPORTUNITIES

## THREE INVESTMENT PILLARS



### 1. THE PEOPLE

Actions for a fairer and more equitable society

- › Education and training for better employment opportunities
- › Essential services for a dignified life
- › Health and social protection as guarantees



**Gender and diversity**



### 2. THE ENTREPRENEURIAL FABRIC

Strategies for growth and the creation of quality jobs

- › Agribusinesses and msme, axes of formal employment and financial inclusion
- › Sustainable infrastructure for competitiveness in international markets



**Climate change**



### 3. THE INSTITUTIONS

Public capacities for optimum resource management

- › Tax collection for more and better investment
- › Transparency, public safety and justice, the foundations of a prosperous society



**Digital transformation**







# 1. THE PEOPLE

## Actions for a fairer and and more equitable society

**Guatemala stands out for having a mostly young and working-age population.** Investing in people will allow the country to take advantage of this potential, increasing its human capital and improving the living conditions of Guatemalans. Efforts should focus on closing access and quality gaps in the following areas:

- › **Education and training for better employment opportunities**
- › **Essential services for a dignified life**
- › **Health and social protection as guarantees of well-being**

The objective is to establish the necessary conditions and opportunities for Guatemalans to lead healthy lives in an environment characterized by harmonious coexistence and public safety. Better productivity will help overcome the challenges of poverty and exclusion faced by rural communities, indigenous peoples, women, and migrants.



**Gender and diversity**





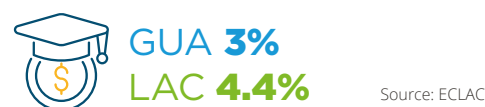


## EDUCATION AND TRAINING FOR BETTER EMPLOYMENT OPPORTUNITIES

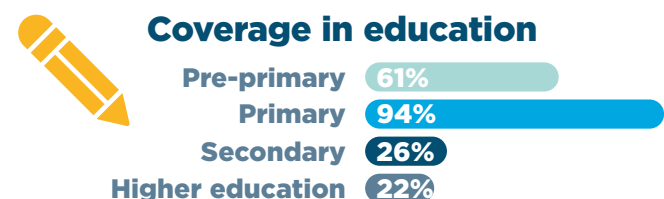
Although average schooling has improved and primary education is almost universal, progress in coverage, educational quality and retention is still behind the LAC average.

### Investing in education and training is a fundamental challenge

**Public spending on education as a percentage of GDP** (average 2011-2021)



There still remains much to be done, especially at the pre-primary, diversified cycle and higher education levels, where coverage is far lower than that of primary education. The greatest lags were found in secondary school students from low-income families, as well as in indigenous and rural populations.



The quality of education is affected by shortcomings in teacher training, equipment and infrastructure and by the stagnation in the area of intercultural and bilingual education.

On average, children and youth up to the age of 18 years complete 9.7 years of education. However, a review of the quality of their education has shown it to be equivalent to only 6.3 years.

**9 out of 10 secondary school students** do not reach the minimum level of competencies



According to the PISA-D assessment (Program for International Student Assessment for Development).

Many Guatemalans drop out of school to start working, often due to the family's financial needs, lack of resources, and high repetition rates that discourage young people from furthering their education. The lack of nearby schools or educational programs that are not aligned with specific cultural contexts exacerbates the challenges.



**Guatemala ranks last in the region in terms of students completing secondary school**

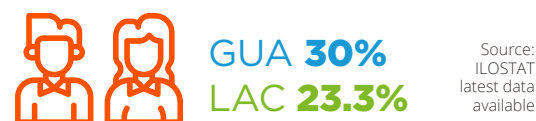
Secondary school graduation rate



Young people who drop out of the education system without the right skills often find poor quality jobs, become self-employed, or become inactive.

**The highest proportion of "NEETs" in the region**

Young people between the ages of 15 and 24 who are neither studying nor employed



This social group is vulnerable to social risks, teenage pregnancy, violence, criminal activities or migration.

**The education system is not preparing young people to meet the demands of the productive sector.** Despite the companies and public institutions offering in-service training programs, these are insufficient to bridge the skills gap, and the same occurs with labor intermediation services.



## MAP OF OPPORTUNITIES

### A. GREATER COVERAGE AND QUALITY OF EDUCATION: A PATH TO SOCIAL INCLUSION

- Expanding the educational offer through investment and improvements in infrastructure, taking into account climate resilience and digital connectivity criteria. The role played by the private sector should not be overlooked.
- Implementing new teaching methodologies, including new technologies and English, with a view to improving the quality of secondary education. In rural areas, it is essential to expand intercultural and bilingual education and enhance school content with topics related to environmental sustainability.
- Improving teacher training, recruitment and allocation processes. Furthermore, the merit-based teaching career should be overhauled and pre-primary and primary headteachers should be offered the relevant qualifications to professionalize their roles, thus improving their leadership in the schools.

### B. SCHOOL PERMANENCE: THE KEY TO DEMOGRAPHIC TRANSITION

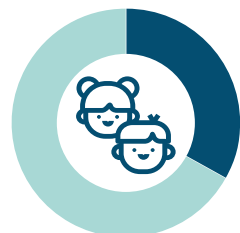
- Keeping young people engaged in education until they acquire the necessary training and skills demands:
  - » Providing teachers with the skills necessary to identify early learning deficiencies in order to reduce grade repetition rates.
  - » Reinforcing social and emotional training and soft skills in secondary education, in order to change young people's perception of the advantages of having an education and motivate them to continue.
  - » Expanding culturally relevant conditional transfer and reproductive health programs to promote the permanence of indigenous girls in the educational system.
  - » By implementing flexible methodologies and extending educational opportunities to rural communities, Guatemala can contribute to the re-entry of many individuals into the educational system.

### C. RELEVANT LABOR TRAINING: A FORMULA TO FIND QUALITY EMPLOYMENT

- Redesigning the contents of secondary education and job training curricula in line with the needs of the production sector. Vocational training should meet national standards, market demands and the multicultural nature of the Guatemalan society.
- Developing policies that involve the private sector to strengthening training and hiring schemes for vulnerable groups such as youth, women, indigenous people and returned migrants.



## ESSENTIAL SERVICES FOR A DIGNIFIED LIFE



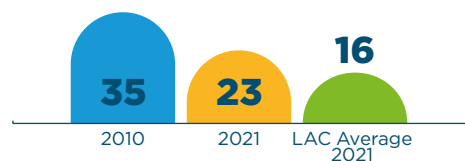
**Children and adolescents between the ages of 0 and 14 account for one third of the Guatemalan population.**

Investing in their nutritional well-being, safety and cognitive development prepares them for a healthy and productive future and grants them real opportunities for social mobility.

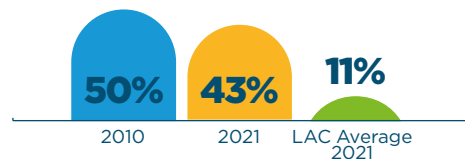
The progress made over the last decade, such as the reduction in mortality and chronic malnutrition rates in children under five, are encouraging examples of what the country can achieve

### Progress has been made for children, but the gap is still wide in comparison with the region

Under-five mortality rate, per 1,000 live births



Chronic malnutrition rate in children under 5 years of age



**1 in 2 children** under 5 are not growing well due to malnutrition

**1 in 5 children** under 5 died in 2019 from intestinal diseases (6%) or acute respiratory diseases (15%)

Other challenges facing Guatemalan households include:



Source: ECLAC

**80% of the population lives in inadequate housing conditions**

**44.2% do not have access to safe drinking water** (73% in LAC)

**56% do not have access to basic sanitation** (51% in LAC)

**54% of households still use firewood for cooking**

Difficulties in access to basic services and to safe housing, intensifies the load of unpaid work in the home, which mainly affects girls and women.



**Public investment in water and sanitation** has been close to one third compared to LAC (2011-2021)

**GUA 0.12% of GDP**

**LAC 0.30% of GDP**

Source: Infralatam (2021)



## MAP OF OPPORTUNITIES

### A. FOOD SECURITY: AN AGREEMENT FOR THE CHILDREN

- Strengthening monitoring and early warning services, such as those provided by the Secretariat of Food and Nutritional Security (SESAN), to improve the capacity to identify the population at risk of food insecurity or malnutrition.
- Increasing community and household participation in feeding, nutrition education and family farming programs would provide families with more information on hygiene and basic nutritional care, which would help reduce the risks of infectious and parasitic diseases and food insecurity associated with seasonal or climatic factors.
- Promoting the involvement of small businesses and local farmers to provide foodstuffs to school feeding programs and communities, thereby ensuring a balanced diet.

### B. QUALITY PUBLIC SERVICES: GAPS THAT CAN NO LONGER WAIT

- Allocating increased resources to investment in basic services to expand the coverage and quality of water supply and sanitation, and solid waste disposal, especially in rural areas that lag behind. These investments must be financially and climatically sustainable, efficient in the use of natural resources, and respectful of the country's natural and cultural heritage.
- Strengthening the regulatory and institutional capacities of the organizations that provide these basic services to enable a more efficient use of resources and promote the participation of the private sector.
- Continuing to expand electricity coverage and encouraging the use of cleaner energy for food preparation, such as efficient stoves, would reduce firewood consumption, mainly in rural areas.

### C. BETTER HOUSING: AFFORDABLE AND IN SAFE LIVING ENVIRONMENTS

- Improving financing conditions to boost housing demand, for example, through microfinance institutions, mortgage insurance, subsidies or preferential rates. With the involvement of the private sector, more affordable housing can be made easier to acquire.
- Relocating families that currently live in informal settlements or in areas which are highly vulnerable to climate is crucial to improve the safety and security of homes and communities.
- Improving the collection of statistical data from the sector for more timely decision making and to develop relevant strategies.
- It is possible to expand the supply of resilient housing in rural areas if the current service gaps and use of inadequate materials are addressed. Using local and sustainable, climate-appropriate products would help in this regard.





## HEALTH AND SOCIAL PROTECTION AS GUARANTEES OF WELL-BEING

The burden of infectious, endemic and chronic diseases is high, while public spending in the sector has barely increased and is one of the lowest in LAC.

### Public spending on health (2019)



**GUA 2.4%** of GDP

**LAC 4.1%** of GDP

Source: PAHO

For every 100 quetzals spent on a person's health, **56 come out of the patient's pocket** (LAC 32.5)



A significant percentage of the population has difficulty accessing health services. **There is a deficit of more than 1,000 primary health care positions.** In addition, the coverage of services is inequitable, affecting mainly rural and indigenous communities.

The efficiency and quality of healthcare services have been affected by the lack of an assistance network approach. Cultural and gender biases have also been limiting. Many young people of reproductive age, mainly indigenous women, exclude themselves from using health services.

**Nearly 70 percent of the population is socially vulnerable, whether due to low income, gender, old age or disability.** Fifty-four point nine percent of Guatemalans suffer from monetary poverty and an estimated 10.4 percent of the population has a disability.

### The coverage of social protection mechanisms is low

**15.6% of people of retirement age** receiving at least one pension (2021)  
CAPRD average 32%

**2% of people with severe disabilities** collect social protection benefits because of their condition (half the LAC average)

Source: ILO

### Social protection spending 2012-2021 (percentage of GDP)



**GUA 1.4%** of GDP

**LAC 4.3%** of GDP

Source: ECLAC

### Guatemala is the second country in LAC that allocates the fewest resources to social protection

**Conditional cash transfer programs (CCTs) have been the main instrument for addressing poverty, but they only cover 27 percent of poor families and 16 percent of those in extreme poverty.** In turn, there has been no single registry of beneficiaries or official poverty statistics since 2014.



In recent years, the country has faced an **increasing number of returned migrants almost 350,000**

They usually come back with a lower socio-economic status than when they left, facing more challenges in securing employment compared to those who did not migrate.



## MAP OF OPPORTUNITIES

### A. PRIMARY HEALTH CARE: AN INCLUSIVE AND COST-EFFECTIVE APPROACH

- Expanding the coverage of primary health care services requires more and better investments in hospital infrastructure, equipment, medicines and specialized human resources, as well as reaching the most remote areas with telehealth services.
- It is possible to adapt services to allow access to the indigenous population if regulations are designed to cater for interculturality in the healthcare sector. For example, with the implementation of traditional practices and reproductive health services in indigenous languages.
- Strengthening the networked health care service delivery system to improve quality and avoid saturation at higher levels of care.

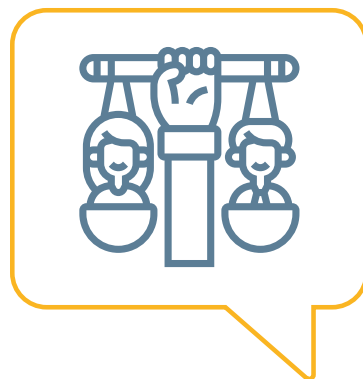
### B. SOCIAL PROTECTION: THIS IS THE TIME TO RESUME THE PATH TO OVERCOMING POVERTY

- Improving the coverage, management and targeting of CCTs, as well as other social protection programs. It is necessary to invest in better instruments to identify and target beneficiaries, in order to reduce inefficiencies and leakages. It would be appropriate to consolidate a single national database, such as the *Registro Social de Hogares* [Social Registry of Households].
- Reforming the pension system to expand its coverage and benefit more senior citizens. This can be achieved, among other measures, with a universal non-contributory pension as a base, complementing mandatory contributory pensions and voluntary options.
- Facilitating the socio-economic reintegration of individual returnees to the country through closer coordination between the institutions responsible for migration policy and health, education, labor and social protection services.
- Strengthening the institutional framework of the National Network for Support to Disabled Persons (CONADI) with a national system that will allow for the adequate registration and effective support of persons with disabilities.
- Building the capacities of the National Statistics Institute (INE) and the Guatemalan Migration Institute (IGM) to obtain up-to-date and systematic measurements of poverty levels, the situation of returned migrants and people with disabilities.

In the SPOTLIGHT

# GENDER AND DIVERSITY

Guatemala could stand out with a more equitable, fair and prosperous society by investing in its women to reduce gender gaps, particularly in terms of economic opportunities and political participation, and by improving the living conditions of the indigenous population.



Guatemala has the highest **Gender Inequality Index (GII) in LAC**

GUA **0.48** LAC **0.38**



**37.1%**

female labor force participation rate (2022), one of the lowest in LAC

**9.4%**

of women hold positions in the Legislative Branch (2022)

Although Guatemala has more women entrepreneurs than LAC in general, they have greater credit restrictions

**Women leading MSMEs**

GUA **38%** LAC **13%**

**Credit restrictions**

**52%**



**39%**

**Maternal mortality rate among young indigenous women**

**2.2 times higher** than in non-indigenous women



**Domestic violence against women**

**30 cases** per 10,000 inhabitants

Men: 5 cases



The Human Development Index of the indigenous population is **20% lower** than the national average. **0.58 vs 0.66**

**Households living in poverty**

**65%** indigenous **43%** non-indigenous

According to the Unsatisfied Basic Needs Index

**Some of the widest gaps faced by the indigenous population are in the areas of access to public services, education and health**



**Access to drainage**  
% of the population

**28%** Indigenous  
**61%** Non-indigenous

**Diversified registration**  
% of the population

**19.8%** Indigenous  
**80%** Non-indigenous

**Per capita investment**  
**4 times lower** for indigenous population

Source: INE based on the 2018



## MAP OF OPPORTUNITIES

- Increasing the supply of short-term training programs focused on rural and indigenous women. Intermediation services that implement campaigns with a gender perspective and that adapt services to the needs of the indigenous population should be promoted.
- Supporting women-led businesses is possible by promoting their participation in public calls for bids or as government suppliers.
- Developing banking products and services adapted to women's needs. Promoting digital tools would allow them to overcome access and time barriers to these services.
- Promoting the early exposure of girls to women mentors in STEM, in addition to expanding intercultural and bilingual education, would encourage indigenous girls and young women to attend school and remain in the educational system.
- Expanding the supply of inter-culturally adapted public services and designing bilingual campaigns for family planning and against gender violence would contribute to improving reproductive health.
- Adjusting the legal framework that protects women, to foster prevention and action in cases of violence, discrimination or sexual harassment in the workplace.
- Staffing prosecutors' offices with specialized officials to improve the response of services for the prevention of and attention to violence against women. Culturally relevant reporting, assistance and victim protection systems should be promoted. The work of the Office for the Defence of Indigenous Women's Rights (DEMI) should also be supported.
- A deeper gender perspective in the budgeting process would contribute to inclusion, as it would allow a more equitable and transparent allocation of public resources, taking into account the social asymmetries that place women at a disadvantage.
- It is possible to reduce the gaps in public investment aimed at the indigenous population with coordinated efforts that prioritize projects and initiatives that best respond to the specific needs of each people.
- Improving statistical capacity to obtain updated disaggregated data would facilitate the development of strategies that lead to gender inclusion as well as the inclusion of the indigenous population.



**Further reading:**

- » Cerrando brechas de género en el mundo del trabajo: Centroamérica, México, Panamá y República Dominicana
- » Etnoingeniería: diseñar obras desde la diversidad étnica
- » Pueblos indígenas en Guatemala: desafíos demográficos, lingüísticos y socioeconómicos: análisis comparativo de los censos 2002 vs 2018





## 2. THE ENTREPRENEURIAL FABRIC

### Strategies for growth and for the creation of quality jobs

**Guatemala's economic strength is largely due to the private sector.** Investing in entrepreneurs and the labor force is vital to preserve the achievements and leap to the next level, which is to increase productivity and business formality. To that end, the main stakes could be the following:

- › **Agribusinesses and MSMEs, the axes of formal employment and financial inclusion**
- › **Sustainable infrastructure for competitiveness in international markets**

The aim is to reverse the cycle of low productivity, informality and poverty, in order to create better jobs and enhance Guatemala's participation in global value chains.



**Climate change**







## AGRIBUSINESSES AND MSMEs, AXES OF FORMAL EMPLOYMENT AND FINANCIAL INCLUSION

The productive sector is an essential player in the path towards boosting prosperity, improving people's well-being and creating jobs in the formal sector. Informality disproportionately impacts the most vulnerable population and hinders efforts to increase productivity and reduce poverty.

### Informality is double that of an economy like Costa Rica's

Informal employment rate  
(% for latest available year)

GUA **79.6%**

LAC average **61%**

Source:ILO

The agricultural sector is key for exports and for the employment of rural and indigenous population, but it is the sector that faces the most barriers to its development.



**Agribusinesses account for 9% of GDP**  
**45% of exports**  
**They employ 30% of the population**

However, many of them are small businesses and often face land ownership issues. **Nearly 89 percent are informal producers and 72 percent of workers live in poverty.** Among the main causes of this backwardness there is lack of training and technology adoption in the sector, limited basic and productive infrastructure, and difficulties in accessing credit and insurance to protect them against climate vulnerability



**Less than 3% of bank credit** is allocated to agricultural activity

**Only 6% of small producers** have access to formal financing

**MSMEs account for 99.6% of all companies in Guatemala and create 80% of jobs**

However, because they operate informally, many of them have limited access to the resources they need to grow and enter the formal economy.



**8.4% of bank credit** is allocated to MSMEs

**22% of GDP** is required to finance these companies (not considering informal ones)

It is also necessary to focus on other labor-intensive sectors which have high returns due to their linkages with the national economy.



**Tourism represents 8.2% of GDP**  
**6% of employment** in 2019



**Construction represents 5% of GDP**  
**8% of employment** in 2019

Both areas are lagging behind in terms of governance, investment, financing, human capital and coordination with other development policies.



## MAPA DE OPORTUNIDADES

### A. AGRICULTURAL SECTOR: A DRIVER FOR GROWTH AND WELL-BEING IN RURAL AREAS

- Prioritizing investments in basic infrastructure and logistics for the consolidation of productive chains, access to markets, and the creation of efficiency through technology and digital transformation.
- Promoting programs to provide agricultural inputs and skills training in agriculture, in addition to improving the sector's productivity, would increase the participation of rural women.
- Creating financing instruments and expanding the availability of digital services in rural areas to facilitate the formalization of farmers and MSMEs.
- Updating the land registry systems so that small producers can use their land as collateral when applying for credit.

### B. MSMEs: FORMALIZATION FOR PRODUCTIVITY

- Promoting new productive financing facilities tailored to the MSME segment. For example, the MSME Guarantee Fund.
- Supporting funding schemes for value chains and fintech companies, to add to the list of alternative instruments for financial inclusion.
- Implementing business development programs for MSME management, such as financial training and technical assistance in thematic areas.

### C. TOURISM AND CONSTRUCTION: NATIONAL SOURCES OF EMPLOYMENT

- Investing in tourism infrastructure, logistics and lodging services, ensuring the preservation of natural and cultural heritage.
  - » These investments could be combined with employment support programs focused on returning migrants and the rural population.
- Encouraging vocational training and in-company training to increase the employability of vulnerable groups.
  - » The global services sector could include returning migrants with bilingual skills and people with disabilities.
  - » The construction sector could increase the offer of jobs for women and young people with low levels of education.



## SUSTAINABLE INFRASTRUCTURE FOR COMPETITIVENESS IN INTERNATIONAL MARKETS

Guatemala's strategic location, solid trade agreements and tariff preferences favor its competitiveness and productive integration into global value chains. However, these advantages do not really translate into more dynamic exports: the supply is one of low complexity and low value added. **The low quality of the productive infrastructure has limited the competitiveness of the Guatemalan industrial sector.**

**Ranked 102nd (among 141 countries) in the infrastructure pillar of the Global Competitiveness Index**, only above Nicaragua in the CAPRD region.

**Ranked 125th (among 160) in the Logistics Performance Index**, in the bottom positions among LAC countries, along with Venezuela and Haiti.

**Public investment in infrastructure has been persistently low:**

**0.6% of GDP** on average between 2015 and 2021 (second to last in the region).



**Transport**  
GUA **0.53%**  
LAC **1.11%**



**Water**  
GUA **0.14%**  
LAC **0.30%**



**Telecommunications**  
GUA **0.0%**  
LAC **0.13%**



**Energy**  
GUA **0.02%**  
LAC **0.42%**

Source: Infralatom

The lack of public resources and a business environment conducive to investment have restricted the participation of the private sector and FDI.

**These lags raise companies' logistics costs and lead to an increase in the value of their products of up to 29%.**



**There are 151 meters of roads per square kilometer, of which only 67 meters are paved.**

Third CAPRD country with **the lowest rate of paved roads**, only surpassing Honduras and Nicaragua (with 30 meters each).

Urban growth, mainly in Guatemala City, has not been accompanied by greater investment in the public mobility system. This has increased the rate of motorization and vehicle congestion, increasing travel times, greenhouse gas emissions and traffic accidents.



**The public transportation system is inefficient, low quality, and fleet renewal is lagging behind for a greener one.**

**The digital lag in terms of infrastructure and skills limits technology absorption.** The availability of cutting-edge technologies, such as broadband internet access, is limited.

**The country ranks last in LAC in mobile fixed broadband penetration and second to last in fixed broadband subscriptions per 100 inhabitants.**

**Mobile broadband**  
GUA **16.5**  
LAC **64.2**



## MAP OF OPPORTUNITIES

### A. INTEGRATION WITH VALUE CHAINS: OPPORTUNITY FOR INNOVATION AND GROWTH

- Increasing investment in physical and digital infrastructure, specifically at border points, to minimize logistics costs and transit times of goods.
- Implementing the Agile Import Window (VAI) to optimize trade facilitation and integration processes. In addition, it is essential to ensure its coordination and interoperability with the Single Window for Exports (VUPE) and the Central American Digital Trade Platform. Similarly, it is important to implement the Single Window for Investor Services (VUAI).
- Designing and executing country branding campaigns for effective export promotion and to attract foreign investment.

### B. GREEN INFRASTRUCTURE: EFFICIENCY THAT CONTRIBUTES TO COMPETITIVENESS

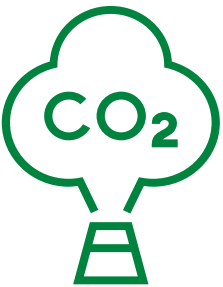


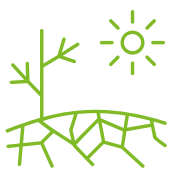
- Increasing public and private investment in the development and maintenance of logistics and transportation infrastructure, with a view to improving the road axes and logistics corridors linking the Atlantic and Pacific ports, the metropolitan ring of Guatemala City, and connectivity between Mexico and El Salvador.
- Expanding infrastructure services and strengthening logistics systems. Also building institutional capacity and allocating resources to the institutions responsible for the construction and maintenance of highways, rural roads and signaling.
- Implementing an integrated, sustainable, clean and gender-sensitive mobility system is possible by supporting urban mobility projects such as the Metrorail, AeroMetro and Bus Rapid Transit (BTR). It is also necessary to support initiatives for the renewal and electrification of the fleet and active mobility programs (those that encourage walking and cycling).
- Strengthen the institutional capacity of PPPs by seeking to attract greater private participation in infrastructure projects, with more expeditious and transparent processes that provide for compensation in the event of the early termination of contracts.

**In the SPOTLIGHT**

# CLIMATE CHANGE

Guatemala is highly exposed to extreme weather events that impact efforts to address poverty, food insecurity, lack of employment and migration. These increasingly frequent and intense extreme events, also impact the existing productive infrastructure, hindering efforts to increase the country's competitiveness.



<p><b>4<sup>th</sup> country in LAC most exposed to climate hazards... and 16<sup>th</sup> most vulnerable worldwide</b></p>	<p><b>USD 1,320 million</b> were the <b>economic losses from climate change</b> between 2010 and 2019</p>	 <p><b>Despite the fact that the country generates less than 0.1% of global GHG emissions, it is the leading emitter in Central America</b></p>
 <p><b>49% of the territory is exposed to landslides 44% to flooding</b></p>	 <p>Equivalent to <b>16% of the average annual expenditure</b></p> <p>Without the implementation of urgent and ambitious measures, by 2030, this cost could reach <b>5.8% of GDP per year</b></p>	<p><b>54.8% due to deforestation and forest degradation</b> <b>Every year, Guatemala loses the equivalent of 50,000 soccer fields</b></p>
 <p><b>3.5 million people are vulnerable to droughts</b></p>	<p>The sectors most affected by weather events are: road infrastructure, health, education, water and sanitation, housing, agriculture and livestock</p>	<p><b>15.7% from transportation</b></p> <p><b>15% from electricity generation</b></p> <p><b>9.3% due to agriculture and livestock</b></p>

Despite this context, there are economic opportunities that go hand in hand with the preservation and sustainable management of natural capital. In other words, these are opportunities that can yield significant social and environmental returns and benefits, while reducing emissions and advancing the country's climate resilience.



## MAP OF OPPORTUNITIES

- Redouble investment efforts for climate change mitigation and adaptation strategies, which would position Guatemala as a potential beneficiary of climate finance. Through the issuance of thematic bonds or sustainability-linked bonds (green or blue bonds), carbon credits for REDD+, among others.
- Promoting conservation and sustainable forest management initiatives would ensure basic ecosystem services (water, protection against disasters) and the creation of sustainable and resilient economic opportunities.
- Developing resilient and low-carbon agricultural and agroforestry practices would contribute to food security, preserving natural capital and biodiversity and improving the sector's competitiveness.
- Promoting a multi-sectoral approach would facilitate a proactive approach to disaster risk management and climate change adaptation. Involving the private sector and local governments in climate action is key.
- Investing in resilient, low-carbon green-gray infrastructure and in risk transfer mechanisms would reduce the impacts and costs of climate change. It is important to manage the fiscal risk of natural disasters by making the climate agenda part of the fiscal policy. The implementation of results-based budgeting, which, in addition to having the gender focus mentioned above, should be sensitive to climate change and biodiversity, should be continued.
- Decarbonizing the energy and transportation sector is possible if planned gradually and fairly. The funding of decarbonization and climate adaptation activities should be scaled up in general.
- Including an adaptation and mitigation approach in the development of infrastructure would reduce its vulnerability to climate change.
- Promoting sustainable agriculture with the relevant technical assistance would encourage climate-smart practices and crop diversification. It is also important to have appropriate insurance mechanisms and public resources to prevent and respond to emergencies.
- Encouraging private investment for the generation of renewable electricity, for the production of clean fuels and for the expansion of rural coverage would boost progress in the field of energy efficiency. It would also minimize the use of fossil fuels and firewood in factories and households.
- Including the climate agenda in the fiscal policy by designing financial strategies to: manage climate risk and disaster response; quantify public spending on climate change; and invest in green, sustainable and resilient infrastructure.



**Further reading:**

- » La economía del cambio climático en Guatemala
- » Desarrollando medios de vida sostenibles en el Corredor Seco de Guatemala
- » ¿Cómo influye el cambio climático sobre la migración en América Latina?





# 3. THE INSTITUTIONS

## Public capacities for optimum resource management

The institutions are essential for the effective delivery of basic goods and services, peaceful coexistence and to attract investment. To this end, improvements are recommended in the following areas:

- › Tax collection for more and better investment
- › Transparency, public safety and justice are the foundations of a prosperous society

The goal is to strengthen public sector institutions and implement more efficient government policies and programs, for the sake of optimizing public investment and promoting more inclusive growth.



**Digital transformation**





## TAX COLLECTION FOR MORE AND BETTER INVESTMENT

**Guatemala's public finances have been one of the pillars of its macroeconomic stability.** However, they still face significant challenges, such as increasing fiscal revenues and improving the quality and transparency of public spending.

Revenue collection has been increasing as a result of the institutional strengthening of the Tax Administration Superintendency (SAT) and the rebound of the post-pandemic economic growth.



Guatemala continues to be among the LAC countries **that collect the least revenue in proportion to the size of its economy**

### Tax revenues as % of GDP



Source: WEO, April 2023 IMF and ECLAC

### Tax expenditures are high

(deductions, exemptions or special treatments)  
**2.7% of GDP**



**Public spending has been chronically low** Average (2009-2022)

**GUA 13.7% of GDP**  
**LAC 33.6% of GDP**

Source: WEO, April 2023 IMF

Its structure prioritizes operating expenditures over investment expenditures, partly due to a lack of flexibility in their allocation and a review of their quality.



**Average social spending has also been lower than that of the region,** although it was increased to respond to the COVID-19 emergency

### Social spending (% of GDP)



Source: WEO, April 2023 IMF and ECLAC

These factors have undermined the effectiveness of spending to reduce social and infrastructure gaps. They have also affected the performance of public administration, civil service, government procurement, and digital transformation processes.

Guatemala has good budget management international practices, using results-based management (RBM) principles and taking into account the gender approach. However, its performance is measured more by the resources executed than by how effectively they are used. This explains why the goals set in governmental strategic plans are quite often not achieved. **It is worth mentioning the National Open Budget Initiative, although it has made scarce progress in terms of transparency.**



## MAP OF OPPORTUNITIES

### A. TAX REVENUES: NEW RESOURCES FOR NEW SOCIAL GAINS

- Redesigning tax legislation should serve to reduce tax evasion, review tax expenditures, reevaluate preferential regimes, and improve tax progressivity, particularly for gender-biased taxes.
- Adjusting the taxation of digital transactions in the face of growing e-commerce would help increase tax revenues. The introduction of environmental and health taxes is also key. The former, to promote the use of renewable energies, and the latter, to encourage healthier lifestyles.
- Modernizing tax requirements to allow Online Electronic Invoices (FEL), in the form of a credit invoice, to give MSMEs access to faster financing at more competitive rates.
- Deepening digitalization and improving the capabilities of SAT staff in order to improve its governance, auditing and relationship with taxpayers.

### B. PUBLIC SPENDING: NOT ONLY HIGHER, BUT BETTER QUALITY

- Advancing in the implementation of results-based budgeting that is also gender-sensitive and with sustainability criteria. It is essential to consolidate a system that is capable of reducing earmarked budget allocations so that spending is flexible and effective.
- Modernizing the management of procurement, contracting and public supply in order to encourage competition, transparency and efficiency in government procurement. This requires updating the regulatory framework, digitizing processes and ensuring interoperability between the different public systems, facilitating procedures and monitoring performance.
- Strengthening the pre investment and investment components of the National Public Investment System as well as its national and sub-national domains, creating capacities for the evaluation and risk management of projects, including PPP-led initiatives.
- Strengthening the civil service to increase the transparency, execution and effectiveness of public resources.



## TRANSPARENCY, PUBLIC SAFETY AND JUSTICE, THE FOUNDATIONS OF A PROSPEROUS SOCIETY

Guatemala has stagnated in the process of building institutional capacity, and has experienced regression in some indicators. This is reflected in the quality and timeliness of public services, as well as in the perception of transparency.



### Several institutional quality indexes show stagnation or regression

Index	Ranking	Position/LAC	Change*
Rate Effectiveness of the Government (2021)	146/192	16/20	= (2020)
Corruption Perception Index (2022)	150/180	27/32	↓ (2021)
World Justice Project Index (WJP) 2020-2021	127/139	26/32	↓ (2019-2020)

### Companies point at insecurity, corruption and inefficient bureaucracy as the greatest hindrances to their growth

At the same time, they acknowledge the need to make a leap in digitalization, both to simplify procedures and to evolve the still emerging capital markets and the fintech industry. The underlying objective is to broaden financing options and attract institutional investors.



Guatemala has declined in the **Corruption Perception Index, reaching its lowest position in 2022.**

### 150 out of 180 countries

Finally, the costs of having a low regulatory quality stand out. Despite advances in the simplification of administrative procedures and the passing of leasing and insolvency laws, companies still face lengthy processes to start their business and obtain permits, as well as difficulties in hiring due to labor regulations.

### Governance Indicators



**Regulatory quality**  
GUA **40.9**  
LAC **52.6**



**Political stability / Absence of violence**  
GUA **23.5**  
LAC **50.1**

Source: Worldwide Governance Indicators

**On the other hand, public safety and justice challenges hinder the suitability of the approach to crime and violence.** The homicide rate has dropped, but crimes such as extortion have also doubled.

**The increased digitization of the court system has improved its capacity to prosecute crimes.**

However, delays in sentencing persist and prison overcrowding exceeds 360 percent.



## MAP OF OPPORTUNITIES

### A. TRANSPARENCY AND ACCOUNTABILITY: GREATER TRUST IN INSTITUTIONS

- Developing digital systems which can be operated by several public entities, to make the validation of asset and interest declarations more effective. Analytical tools should be available to guarantee public access to information and update the regulation governing conflicts of interest.
- Effectively implementing the Access to Public Information Act and reviewing the powers of the governing body to issue sanctions in cases of non-compliance. Consolidating an open data policy by standardizing government information and filing schedules.
- A strengthened management of the Office of the Comptroller General of Accounts (CGC) would contribute to building public auditing and integrity systems. To this end, it is essential to upgrade processes and professionalize human resources.
- Promoting a national strategy against corruption by strengthening the institutional and digital capacities of the Presidential Anti-Corruption Committee (CPCC) pursuant to international standards. The risk-based approach should be prioritized and the filing of complaints streamlined.
- Promoting an Open State that will bring the government closer to citizens through greater social participation and policies that will cater for the inclusion of women and vulnerable groups.

### B. REGULATORY QUALITY: IMPROVING THE BUSINESS CLIMATE

- Advancing in the regulation of money laundering in order to reach international standards.
- Designing and implementing a comprehensive regulatory improvement policy, including a strategic plan and training programs for the legal and technical areas in charge of regulation.
- Developing and adopting a Guide for the Drafting of Legislative Acts, with basic principles of good regulatory practices.

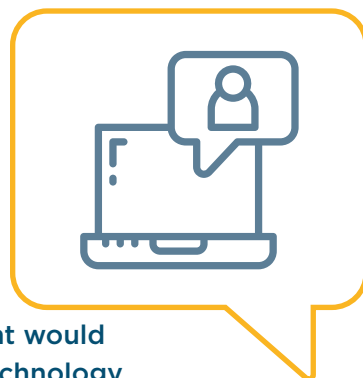
### C. SECURITY AND JUSTICE: MINIMUM STANDARDS FOR CITIZENS AND BUSINESSES

- Improving coordination between public safety and justice institutions to strengthen their capacities and technological development. There is a recommendation to create specialized criminal investigation and gender violence units for crime prevention. Building the operational, investigative and planning capacities of the National Civil Police is key.
- Promoting alternative conflict resolution mechanisms, such as restorative justice or mediation.
- Improving the quality of prevention and public safety services with the aim of protecting at-risk youth and vulnerable populations from the dynamics of violence.



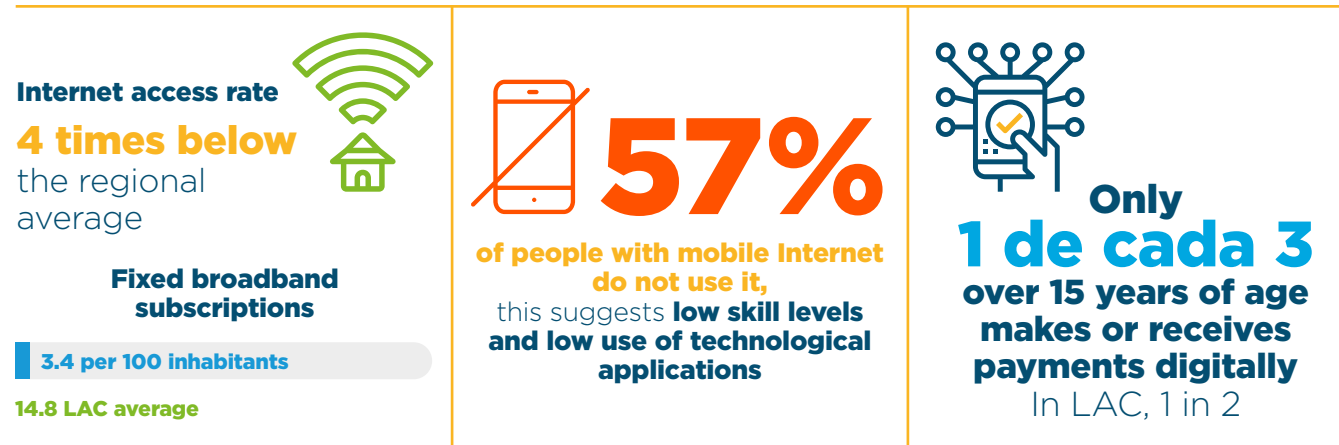
**In the SPOTLIGHT**

# DIGITAL TRANSFORMATION



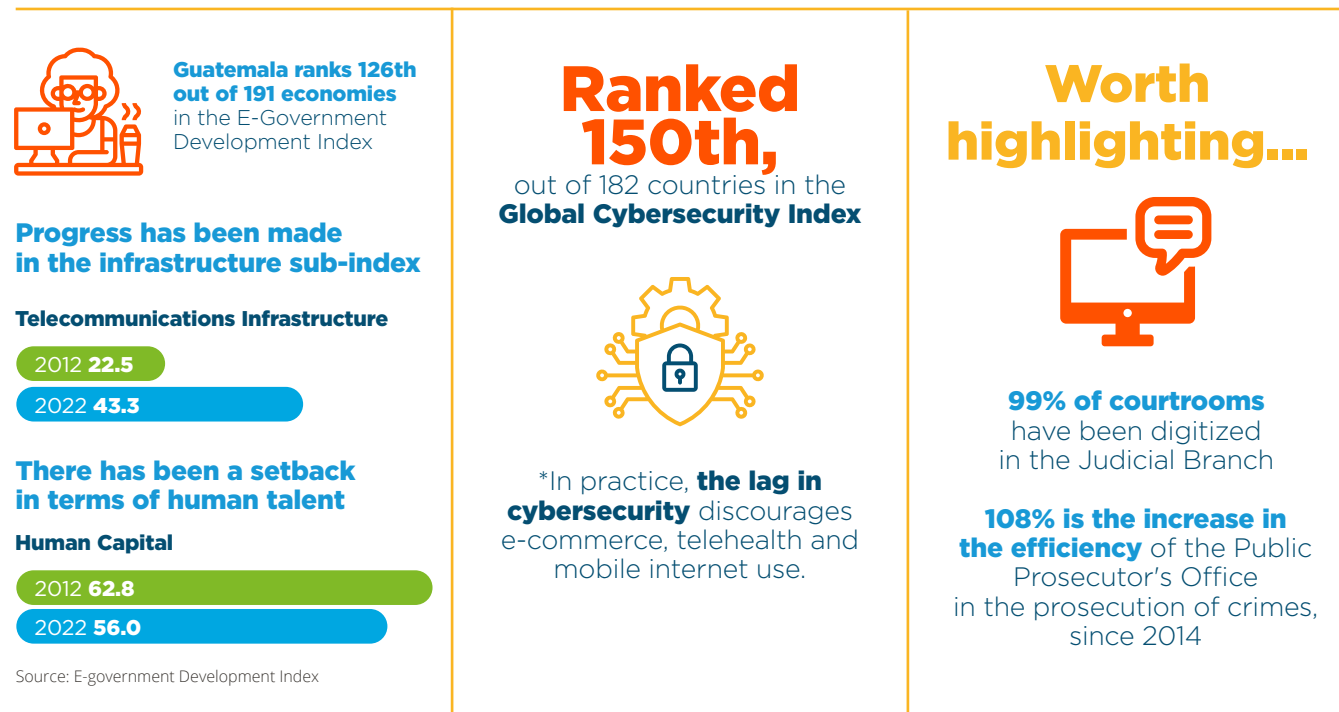
**DIGITAL ACCESS, USE AND TECHNOLOGY ADOPTION BY THE POPULATION**

Greater investment in telecommunications and digital skills development would contribute to overcoming the current challenges in access and use of technology.



**E-GOVERNMENT AND CYBERSECURITY**

E-government is a key instrument to improve the efficiency and transparency of government institutions.



## MAP OF OPPORTUNITIES

- Defining an entity responsible for the governance and coordination of the national digital transformation agenda and providing it with leadership and resources. This would be a solid starting point for the development and use of new technologies in public management.
- Defining a digital transformation strategy, shared by all government bodies, to build a common agenda and a clear roadmap, with digital development guidelines and directives for each institution. The missing legal reforms should be promoted to legally shield digitalization in all governmental organizations.
- Implementing a digital agenda to streamline and make public sector procedures more transparent, in order to bring services closer to citizens.
- Advancing in the implementation of digital tools would lead to the implementation of interoperability platforms, digital identity, digital signature and a single portal to access public services, among others.
- Undertaking a process streamlining and reengineering plan would help strengthen government management and cyber security systems. It is key to strengthen both data protection programs and those that help mitigate digital security risks.
- Defining a planned and intensive use of technological infrastructures and tools associated with the electronic legal case files to improve the productivity and quality of justice.
- Furthering the digitization of the justice system would make its processes more efficient and expand its services to rural areas.



**Further reading:**

- » Digitalizar los servicios públicos - Oportunidades para América Latina y el Caribe.
- » Guía de transformación digital del Gobierno.
- » Transformación digital empresarial. ¿Cómo nivelar la cancha?



# FINAL CONSIDERATIONS

**1** **The way to improve the lives of Guatemalans and promote a more prosperous and inclusive society is to invest in its people,** its entrepreneurial fabric, and the country's institutionality. Making a leap in development requires more and better investment, that is, quality investment. The returns on these investments would be reflected in higher productivity, prosperity and shared wealth, overturning the current cycle of low investment, low productivity, high informality and poverty, a dynamics that consolidates the country's structural vulnerabilities.

**2** **Guatemala can and should leverage the strengths it has shown in recent years,** which have made it one of the most resilient economies in Latin America and the Caribbean. This is a key moment to do so, with a mostly young population and a trustworthy economic management. Despite being a country of contrasts, it has proven that it has the potential to transform its good growth and stability indicators into well-being, with a greater accumulation of human, physical and social capital.

**3** **The participation of ALL sectors of society**—government, private sector and civil society— in the process that will make relevant investments and reforms a reality in the areas which show the most significant opportunities for development, is vital. The IDB Group is a strategic ally to achieve these objectives. Our common goal of guaranteeing the well-being and progress of the people demands that we work together.







**To learn more about the challenges and opportunities approached in this document**



**THE PEOPLE**

- » Protección social y pobreza en América Latina y el Caribe: las claves de la región. [FIND IT HERE.](#)
- » Panorama y perspectivas de la seguridad alimentaria en Centroamérica, Panamá, República Dominicana (CAPARD) México y Haití. [FIND IT HERE.](#)
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- » Lidar con la deuda: menos riesgo para más crecimiento en América Latina y el Caribe. [FIND IT HERE.](#)

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