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E C L A C

Economic Commission for Latin America and the Caribbean

GUATEMALA: RECENT ECONOMIC EVOLUTION AND INTERNATIONAL  
CO-OPERATION

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ITA/88/005 "Strengthening international co-operation for Central America,  
the Caribbean and selected countries of South America".

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### General aspects

Guatemala, with an area of 108,889 km<sup>2</sup>, is the third largest country of the six that comprise the Central American Isthmus. In 1987 it had a population of more than eight million inhabitants of which only 38.2% lived in urban areas, which indicates its eminently rural nature.

Geographically, it is the northernmost country of the six nations of the Isthmus with a topography that is basically mountainous. In the north, it has a low tropical forest area richly endowed with precious woods and natural resources, where oil has recently been discovered. Its mountain system forms two watersheds: one that flows into the Pacific and the other into the Atlantic. Because of its tropical location and mountainous terrain with relatively short distances between areas at sea level and those at altitudes above 4,000 metres, Guatemala has a great variety of climates, although none of them are excessively hot or cold, which allows for a wide range of agricultural production.

Its principal economic activity continues to be agriculture, which accounts for 30% of GDP, followed in importance by trade (20%) and the manufacturing industry (14%). The main export items continue to be coffee, cotton, sugar cane and cardamom.

The country has high population growth rates. For the 1980-1985 period, annual average growth rates amounted to 2.9%, which, compared with other countries, is a considerably high figure.

Social conditions in Guatemala, expressed in basic social indicators, present a difficult situation; in the 1980-1985 period, the mortality rate was 11.5 per 1,000 inhabitants, and the infant mortality rate in 1986 was 57.1 for every 1,000 live births. Life expectancy, in turn, has increased, and was 59 years for the same period of time. Illiteracy continues to reflect the low educational level of the country, since 46% of the population was illiterate in 1986.

### 1. General overview

Just as occurred in the other countries of the area, in the 1980s, the Guatemalan economy was affected by the adverse evolution of international markets. Prices and external demand for its main export products fell, difficulties in obtaining fresh external financing were experienced and the impact of burdensome international interest rates was felt, although to a moderate degree. A shortage of foreign exchange, which prevailed throughout the decade, was the most significant constraint on growth. These trends were exacerbated by the repercussions of political disturbances prevailing in Central America and by the intensification of Guatemala's own social tensions and domestic violence.

All together, these factors contributed to an extensive economic recession, so that, between 1980 and 1989, the gross domestic product remained, on the average, 3% below that recorded in 1980, which implied a decrease of nearly 20% in the per capita product. (See table 1.)

Faced with the emergence of significant macro-economic imbalances, the economic policy generally focused on administration of the crisis, particularly through monetary and fiscal stabilization measures. In that way, economic activity was adjusted downwards to make it more compatible with external restrictions.

In this process, the Guatemalan economy underwent important changes in its operation, which generally meant a reversal in the progress achieved during the 1970s. These changes included particularly: i) a reduction in the openness of the economy to the regional and international markets and the concentration of exports in a few traditional commodities, ii) a reduction in the public sector's participation in the economy, which resulted in the weakening of already insufficient basic social services such as health and education, iii) an increase in unemployment and a contraction in the population's income. With these changes, the standard of living dropped and the chronic concentration in the income distribution structure became more pronounced.

In the overall behaviour of the Guatemalan economy, two distinct periods could, however, be seen. The first covers the years from 1980 to 1985, when the crisis became notably worse. The second period covers the latter half of the decade, when gradual recovery was experienced with a reversal in some of the trends indicated above.

Table 1  
GUATEMALA: PRINCIPAL ECONOMIC INDICATORS

|   | 1983  | 1984  | 1985  | 1986  | 1987  | 1988  | 1989 <sup>a/</sup> |
|---|-------|-------|-------|-------|-------|-------|--------------------|
| 1980 Index = 100                                  |       |       |       |       |       |       |                    |
| A. Basic economic indicators                      |       |       |       |       |       |       |                    |
| Gross domestic product at market prices           | 94.9  | 94.9  | 94.4  | 94.5  | 97.8  | 101.4 | 105.0              |
| Population (thousands of inhabitants)             | 7.5   | 7.7   | 8.0   | 8.2   | 8.4   | 8.6   | 8.8                |
| Per capita gross domestic product                 | 87.2  | 84.8  | 82.0  | 80.1  | 80.9  | 82.0  | 83.0               |
| Fiscal deficit/GDP <sup>b/</sup>                  | 3.3   | 3.8   | 1.8   | 1.9   | 2.5   | 2.5   | 3.2                |
| Money (M1)/GDP                                    | 7.7   | 7.9   | 9.7   | 9.1   | 9.4   | 9.2   | 9.4                |
| Parity exchange rate (1985 = 100.0) <sup>c/</sup> | 52.2  | 54.2  | 100.0 | 71.2  | 61.8  | 57.1  | 58.5               |
| Open unemployment rate <sup>d/</sup>              | 10.0  | 9.1   | 12.1  | 14.0  | 11.4  | 8.9   | 6.3                |
| Growth rates                                      |       |       |       |       |       |       |                    |
| B. Short-term economic indicators                 |       |       |       |       |       |       |                    |
| Gross domestic product                            | -2.7  | -     | -0.6  | 0.1   | 3.5   | 3.7   | 3.5                |
| Per capita gross domestic product                 | -5.4  | -2.8  | -3.3  | -2.3  | 1.0   | 1.3   | 1.2                |
| Consumer prices                                   |       |       |       |       |       |       |                    |
| December to December                              | ...   | 5.2   | 31.5  | 25.7  | 10.1  | 11.0  | 20.2               |
| Real wages and salaries                           | 1.2   | -9.0  | -13.6 | -18.3 | 6.8   | 1.3   | -2.3               |
| Current value of goods and services exports       | -8.3  | 4.8   | -5.1  | 0.4   | -2.6  | 11.8  | 17.9               |
| Current value of goods and services imports       | -19.2 | 8.6   | -11.8 | -17.0 | 52.3  | 9.0   | 9.6                |
| Terms of trade in prices of goods and services    | 1.4   | 2.7   | -3.9  | 24.2  | -20.7 | 3.6   | -7.6               |
| Millions of dollars                               |       |       |       |       |       |       |                    |
| C. External sector                                |       |       |       |       |       |       |                    |
| Trade balance of goods and services               | -142  | -199  | -92   | 126   | -451  | -461  | -399               |
| Net payment of earnings and interest              | 113   | 207   | 168   | 212   | 179   | 181   | 184                |
| Current account balance                           | -225  | -378  | -241  | -36   | -529  | -493  | -388               |
| Capital account balance                           | 276   | 389   | 343   | 147   | 474   | 411   | 449                |
| Change in net international reserves              | 64    | 27    | 81    | 86    | -84   | -83   | 59                 |
| Total external debt                               | 2 156 | 2 495 | 2 694 | 2 674 | 2 700 | 2 599 | 2 732              |

Source: ECLAC, based on official figures.

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Percentages.

<sup>c/</sup> For imports.

<sup>d/</sup> Refers to open unemployment.

a) The worsening of the crisis: 1980-1985

The difficulties that the external sector experienced, unprecedented over the previous 50 years, and the resulting adverse effects on the economic system are of outstanding importance. Earnings from the export of goods and services fell by one-third when they dropped from \$US 1,700 million in 1980 to \$US 1,160 million in 1985. Smaller volumes and particularly lower prices resulted in a 30% drop in the purchasing power of external sales of commodities during that period. The deterioration in demand, both within and outside of the region, led to a reversal in the diversification that had been achieved during the 1970s. The five traditional primary commodities (coffee, cotton, bananas, sugar and meat), which accounted for 50% of external sales in 1980, rose to 62% in 1985. The first two products alone increased their share from 41% to 50%. Intra-regional trade, in which Guatemala traditionally maintained a surplus position, fell more rapidly than total trade and its share of total exports fell from 30% to 20%.

The crisis in the external sector resulted in a continuous shortage of foreign exchange, which prompted the monetary authorities to establish exchange controls, multiple parities and the rationing of foreign exchange for imports. These measures placed additional restrictions on production by making it difficult to obtain imported inputs. Under these conditions, an important foreign currency market outside the banking system arose, which ultimately determined the average parity of the quetzal.

As a result of foreign exchange restrictions, the import of goods and services fell by 30% from nearly \$US 2,000 million recorded at the beginning of the decade. The collapse in the importation of capital goods, which fell by half, was particularly outstanding.

The drastic contraction in imports allowed the current account deficit of \$US 575 million in 1981 to be reduced to almost \$US 250 million in 1985. With that reduction, the imbalance in the external sector was reduced from 40% to 20%.

At the beginning of the economic crisis, the external indebtedness situation was favourable. In 1979, the balance of the debt amounted to \$US 637 million, which was equivalent to 40% of the value of exports. Nevertheless, owing to considerable trade imbalances, by 1985, indebtedness had grown fourfold to reach \$US 2,700 million, an amount equivalent to twice the value of exports. The incapacity to pay the resulting enlarged debt

servicing led to a continuous accumulation of arrears and renegotiation with creditors. <sup>1/</sup>

The drop in external demand had widespread repercussions on all economic activity. Additionally, political and social tensions had prompted private sector capital flight since the end of the 1970s. This combination of factors discouraged fixed investment, which fell by nearly 50% during the first half of the 1980s. The drastic cutback in capital formation had an impact on the rate of economic activity and deteriorated productive capacity, particularly in the manufacturing and agricultural sectors. Similar effects resulted from decreased spending on infrastructure entrusted to the public sector.

In brief, overall demand fell considerably during the first half of the 1980s and resulted in lower production and employment rates. The drop in income implied a significant setback in per capita consumption.

The economic depression triggered the financial crisis in the public sector when revenue collection plummeted, producing an enlarged fiscal deficit that amounted to nearly 9% of GDP in 1981. Since the system was too inflexible to absorb a tax reform that would increase chronically low governmental revenues, the overall result of the tax modifications adopted was to lower revenues to 5% of GDP, a figure which is excessively low in absolute terms and compares unfavourably with the 10% reached in 1978. Consequently, the Government was forced to adjust expenditures, principally those for investment, which made the crisis worse. <sup>2/</sup> Through this constraint on public spending, the fiscal deficit was reduced to less than 2% of GDP in 1985. The domestic financial system was, to a great extent, aimed at financing the fiscal deficit by adapting monetary policy to public sector needs.

The exchange policy, in turn, proved to be an important economic policy tool through the establishment of a complex scheme of multiple exchange rates. Favourable exchange ratios were used to selectively provide incentives for producers of export commodities, on the one hand, and subsidized imports of essential inputs were used in attempts to control

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<sup>1/</sup> In 1984 and 1985 stabilization bonds in dollars were issued to back the debt with some creditors.

<sup>2/</sup> Strong expansion in public spending on investment at the end of the 1970s played a compensatory role when the economy showed signs of weakness.

inflation, on the other. However these practices caused considerable exchange losses for the Central Bank.

In response to the adverse evolution of external and internal demand, production fell in the main activity sectors, particularly in the production of commodities and trade. Agriculture fell approximately 5% between 1980 and 1985, because of decreased production in traditional export goods, principally coffee, sugar cane, bananas and cotton (this last item fell by more than 50%). Production for domestic consumption, however, was more dynamic, owing to the use of export croplands for the production of basic grains. Between 1980 and 1985, overall production of maize, beans and rice rose 20%. In the livestock sector, poultry production increased, but meat and dairy cattle production decreased.

The manufacturing sector was affected by reduced demand both in the Central American Common Market and in the domestic market, which resulted in a 10% production decrease and affected almost all branches of activity. The previously mentioned shortage of foreign exchange also contributed to the setback, since it was an obstacle to obtaining intermediate goods.

The basic infrastructure showed acute deterioration owing to a lack of investment in maintenance and expansion. The road network suffered considerable wear, while the communications and transport sectors experienced constraints in equipment expansion and a decrease in the quality of service.

As a result of the problems in the productive apparatus and the financial problems in the public sector, the employment situation became significantly worse. In the mid- 1980s open unemployment affected 12% of the population. Unemployment and underemployment together affected 42% of the economically active population.

The process of adjusting the economy to a lower level of activity was accompanied by important price changes. From the outset of the crisis, the authorities tried to slow down inflation through price controls and the establishment of preferential exchange rates for essential imports. Nevertheless, in 1985, general consumer prices were 60% higher than in 1980, which was closely linked to increases in the cost of foreign exchange. Excessive demand for foreign exchange pushed up the rates of markets outside the banking system and caused price increases, which were particularly sharp in 1985 and 1986 when inflation climbed to 32% and 26% respectively.



In response to the economic depression, wage policy gradually became restrictive. Although nominal minimum wages had not changed since 1981, there were selective increases in the remuneration of civil servants and employees in private enterprise arranged by labour groups with strong negotiating power. Consequently, the average purchasing power of the formal sector of the economy dropped nearly 10% during the 1982-1985 period.

Basic social services underwent serious deterioration, principally in health and education where there were even deficiencies in material inputs for their operation. Lower real incomes and reduced social services implied a considerable decline in most people's standard of living. Population displacement to other parts of the country and to other nations, caused by political tension and violence, was particularly responsible for making the brunt of the crisis fall on the rural population. <sup>3/</sup> These factors increased slums in large urban areas, thereby putting pressure on the delivery of basic services.

b) The phase of gradual reactivation: 1986-1990

During the second half of the decade, there was a partial turnabout in the depressing panorama of the economy. Domestic activity showed certain reactivation (an annual average of 2.7%). One particular factor that contributed to this trend was that in 1986 a civilian government assumed power after 30 years of military rule. The change in the political climate brought some improvement in economic activity, mainly by reducing the degree of uncertainty among economic agents. Private capital formation was reactivated in 1987, mainly in construction. <sup>4/</sup>

One of the main factors that supported moderate reactivation was a flow of external resources from: i) credit from multilateral institutions, private transfers from Guatemalans living abroad and, principally, official donations through the United States Agency for International Development; and ii) a significant increase in the value of exports, although export activity is still relatively low (approximately \$US 1,260 million).

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<sup>3/</sup> It is estimated that approximately 500,000 people emigrated or were displaced domestically.

<sup>4/</sup> Private investment was renewed principally in the construction of commercial buildings, offices and housing.

These resources provided some flexibility for the external sector of the economy to increase imports, particularly intermediate and capital goods, and to reactivate domestic production. Reactivation efforts, however, caused an increase in the most important macro-economic imbalances: they increased the deficit of the external sector and the financial imbalance of the State.

The economic policy was aimed at changing some core aspects of the economy. On the one hand, there was a tendency to unite exchange markets and decrease the price controls on important goods and services. On the other, government expenditures, both current and on investment, increased with the support of greater tax revenues from higher rates of economic activity, taxes on foreign trade and, principally, official donations from the United States Agency for International Development. None the less, the fiscal deficit rose to 2.6% of GDP.

The current account balance of the external sector became worse. Between 1986 and 1989, export earnings averaged \$US 1,200 million. Faced with growing volumes of imports and high debt interest payments, the current account deficit increased significantly in 1987, 1988 and 1989 to more than \$US 500 million.

Although the shortage of foreign exchange persisted, it was attenuated by both official and private transfers, delays in the payment of debt servicing and rescheduling of debts. The financial difficulties of the public sector were reflected in the suspension of disbursements by multilateral and bilateral sources. Thus, between 1986 and 1989, the amount of the debt remained practically constant at approximately \$US 2,600 million.

Greater imports made it possible to renew overall supply, which came from almost all economic activity sectors. Agricultural production grew significantly, owing to the recovery in export commodity prices, such as those for cotton and bananas, and to the increase in basic grain production. Furthermore, non-traditional export activities, such as flowers, vegetables and fruits, became somewhat more dynamic.

The manufacturing industry reacted slowly to increased domestic demand, since the demand in the Central American Common Market continued to be depressed. The renewal of private investment was not reflected in important investments to expand productive capacity. Construction also showed certain progress, especially between 1987 and 1989.

In the energy sector, the effect of large State investments in the Chixoy hydroelectric complex at the end of the 1970s became evident when power generation capacity increased in 1987.

Reactivation of economic activity resulted in an increase in employment. Nevertheless, it was still far from moderating the growth of equivalent unemployment. Limited capacity to create new jobs contrasted notably with the 30% increase in the Guatemalan population between 1980 and 1989, which caused unemployment and underemployment combined to affect approximately half of the economically active population.

Prices continued to reflect adjustments in the exchange climate and grew annually by approximately 10% during the second half of the 1980s. Selective adjustments in wages and a minimum wage hike (1988) were eroded by inflation, which once again decreased the purchasing power of wages.

## 2. Principal problems of the Guatemalan economy

The change in the political climate during the second half of the 1980s helped to improve the outlook of the Guatemalan economy, although tensions and politics that make progress somewhat vulnerable still persist.,

The flow of new external resources and renegotiation of the external debt have given certain breathing space to the external sector, which has supported reactivation. However, traditional export activity continues to operate at a low level because of international market conditions. Non-traditional exports are beginning to receive some governmental encouragement, but their importance in total exports is still minor.

The productive apparatus shows serious problems. The structure of agricultural and industrial production continues without any change in orientation that would adapt it to the structure of international supply and demand. Furthermore, substantial margins of idle capacity in the manufacturing sector persist, in addition to problems of technological obsolescence.

Productive infrastructure and of basic services deteriorated considerably because of the financial crisis in the public sector. The expansion and maintenance of highways was restrained, and the significant lag in telecommunication services has only begun to be surmounted in recent years.

The structural problem of underemployment is closely associated with the existence of a dual society, characterized by a modern urban sector with relatively high income and a largely rural sector with accumulated deficiencies and low standards of living. The rural area, in turn, is characterized, on the one hand, by the high concentration of large landholdings in the hands of few owners, and on the other, by numerous small landholdings where the rural population produces at subsistence levels.

Poverty indicators in Guatemala are among the highest in Latin America. Poverty affects approximately two-thirds of the population, of which half fall below the line of critical poverty. Between one-third and one-fourth of the child population suffers from undernutrition. Adjustments in prices for basic inputs has weakened the consumption capacity of the lowest income strata of the population.

Deficits in public services have been high for ages and became more acute with the reduction in the investment capacity of the public sector during the 1980s. Public health institutions that had been able to attend one-third of the population of Guatemala have witnessed reductions in their capacity and in the quality of their services. At the beginning of the 1980s, mortality among the population under five years of age accounted for more than 40% of the deaths in the country.

The educational level has traditionally been low. Only half of the population knows how to read and write and the low educational level affects not only the workers in the formal and modern sector of the economy, but particularly the rural population, where less than half of the child population receives basic school education.

### 3. International co-operation in the 1980s

In the 1980s, the international co-operation received by Guatemala increased substantially. In 1988, there were 378 technical and financial co-operation projects supported by both multilateral and bilateral institutions. Towards the end of 1989, these institutions had committed resources which, since 1965, accumulatively amounted to \$US 2,400 million. Of these commitments, \$US 1,700 has been disbursed, with 59% came from multilateral sources and the rest from bilateral institutions.

Co-operation received by Guatemala fell within the following categories: medium- and long-term loans, donations in cash and in kind, loans in kind and loans to support balance of payments.

From a sectoral standpoint, the main users of multilateral and bilateral financing were:

|                                  |       |
|----------------------------------|-------|
| Energy                           | 29.4% |
| Transport, industry<br>and trade | 13.3% |
| Agriculture                      | 11.9% |
| Education                        | 5.0%  |
| Housing and urban<br>development | 6.0%  |
| Communications                   | 4.8%  |
| Tourism                          | 7.0%  |
| Health and social<br>welfare     | 11.2% |

As far as technical co-operation is concerned, in 1988, Guatemala received contributions from multilateral and bilateral sources that amounted to \$US 20 million. Outstanding bilateral resources were contributions from Italy (18%), Germany (12%), China (8%) and Japan (5%).

Technical co-operation is distributed in the following sectors:

|                       |     |
|-----------------------|-----|
| Humanitarian aid      | 17% |
| Agriculture           | 15% |
| Institutional support | 13% |
| Industry              | 12% |

In the 1980s, the institutional framework of Guatemala for international co-operation underwent notable consolidation with the establishment of the General Directorate for External Financing and Trusts (DFEF) in 1981 as a division of the Ministry of Finance. This institution was entrusted with the administration of external financing and of inter-institutional co-ordination for the implementation of projects funded through with external loans and donations. Together with the General Secretariat of the National Economic Planning Council (SEGEPLAN) and the Banco de Guatemala (BG), these

governmental entities are in charge of the overall management of international co-operation flows from the initial steps up to implementation and assessment.

In spite of the significant progress that the establishment of this interinstitutional group represents, the overall management of international co-operation still presents certain difficulties, including particularly deficiencies in the institutional administrative apparatus and the weak capacity of human resources in the design and implementation of programmes and projects.

In the most general area, an explicit financing policy that defines general guidelines for obtaining co-operation or for negotiations that will assist in the joint task of the interinstitutional group has not yet been consolidated. This deficiency is particularly evident in making external co-operation compatible with economic and social development priorities. In general, obtaining international co-operation has been governed more by the programmes that the co-operating institutions offer than by the demand for co-operation based on the needs of the country.

Closely associated with the above considerations is the lack of technical guidelines in the institutional group of co-operation promoters (DFEF, SEGEPLAN and BG) that would provide a macro-economic and sectoral context for co-operation negotiations. There is also a certain lack of co-ordination among the institutions that has prompted different users to negotiate international co-operation independently. There is still a need for overall criteria, assessment of programmes and projects under way and a system for the exchange of basic interinstitutional information on forms of international co-operation.

During the 1980s, numerous technical and financial problems in programmes and projects supported by international co-operation hindered their implementation. The effects stemming from the financial crisis in the public sector affected the implementation rate of some programmes. In this regard, the lack of counterpart financing in national currency and arrears in the payment of interests on loans from multilateral and bilateral institutions affected the continuity of disbursements. This was particularly the case during 1988 and 1989.

In technical and operational factors, the lack of suitable prefeasibility and feasibility studies for programmes and projects is

outstanding. This situation is associated with the lack of personnel with the technical skills required for these tasks. Furthermore, note should be taken of the lack of managerial capacity to administer the projects under way, which results in time-lags and low implementation rates. Unsuitable programming and budgeting of domestic resources, which increased difficulties, should also be mentioned. Technical and operational aspects have also been affected by the bureaucratic complexity of administrative processes and procedures in the different institutions involved in the administration of international co-operation.

#### 4. Administration priorities during 1986-1990 and long-term objectives

The civilian administration that assumed power in 1986 set forth the Programme for Economic and Social Reordering (PRES) whose principal objectives included internal and external stabilization. Among the main policy lines the following are outstanding: i) simplification of the exchange system through the unification of exchange rates; ii) reduction of the fiscal deficit and credit and monetary control; iii) reform of price controls; and iv) improvement in the management of the foreign debt.

Although some progress was made in the stabilization and reactivation of the economy, the Government has recognized the persistence of significant economic and social problems. The 500-day programme for the 1989-1990 period, which was announced in 1989, is a short-term action plan. It proposes to continue with the macro-economic policies to reactivate production and stabilize the external and fiscal sectors. Its principal policy guidelines are:

- Austerity and efficiency in the public sector;
- Investment programmes in the social area (promote employment, housing education, and so forth);
- Defence of natural resources and the environment, and
- Regional development

Since external financial restrictions are one of the principal obstacles to reactivation, it has been decided that the governmental group to negotiate international co-operation should be strengthened.

The present administration has also formulated general long-term objectives for the country. <sup>5/</sup> The social project is intended to modernize the production structure with greater equity and social participation. Basically, it seeks greater participation in the international market with priority granted to non-traditional exports and tourism. It also seeks to strengthen the productive apparatus through greater national economic resources.

The general objectives are based on:

- An increase in the people's standard of living;
- Political and social stability;
- Sustained economic growth and improved productivity;
- Increases in rates of savings and investment;
- Increased exports;
- Increased employment and income;
- Access to agricultural property, credit and technology;
- Achievement of food security and the promotion of small-scale production and marketing

In the social area, specific objectives are widespread access to basic education and the restructuring of the education system; expansion of access to health and of the coverage of the social security system. Additionally, efforts seek to facilitate access to housing.

The project includes a regional approach that seeks to harmonize the development of the different regions and to achieve the participation of diverse social groups. Provisions are made for the tapping of natural resources in each region, which would be complemented by the training of human resources in accordance with regional needs.

In the environmental area, plans include environmental improvement and the protection of natural resources.

In the field of institutional development, the project envisages modernization and improvement of the public sector. This implies restructuring the institutional apparatus to upgrade its efficiency by reducing bureaucracy, decentralizing functions and eliminating administrative regulations to the maximum.

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<sup>5/</sup> See the programme "Guatemala 2000: a strategy for peace and development".



The project calls for strengthening trade and financial relations with the exterior. It also provides for stepping up international co-operation in its different forms.