This article reviews the formal institutional framework for implementing rural development policies in Guatemala, which originated in the State modernization process promoted through the Peace Accords. The main thesis is that rural development policies will be more efficient if they are based on the institutional framework that the Peace Accords provided, which distinguishes between three levels of government: central, deconcentrated and decentralized. While the two sub-national levels execute 43% of total public investment, central government needs to target the budget on poor zones, cut subsidies to the private sector and increase the supply of public goods. At the deconcentrated and decentralized levels, the territorial approach has proven effective in generating policies, but land-use planning needs to be based on political-social covenants between local stakeholders.
I

Introduction

Recent discussion of poverty-reduction policies in Guatemala has focused on the need to implement specific measures for rural development. This approach reflects the fact that most of the poor and indigent live in rural areas (INE, 2007), and that social policies and trade liberalization have thus far done little to reduce the country’s poverty indices (World Bank, 2003 and 2004).

Rural development policies in Guatemala have originated from both domestic and external sources. The former included the Peace Accords signed in 1996, which led to specific actions targeting rural areas. Agreements on rural development included the Agreement on Social and Economic Aspects and Agrarian Situation, the Agreement on Resettlement of the Population Groups Uprooted by the Armed Conflict and the Agreement on Identity and Rights of Indigenous People, which called for the creation of new public institutions to promote policies addressing agrarian, agricultural and rural issues.

In the case of external sources, structural adjustment and trade liberalization policies initially dominated, with the aim of promoting growth in rural areas. Nonetheless, discussion has recently embraced the farm system, in its updated sustainable-livelihood version (Ellis, 2000), and the territorial approach, the latter drawing on European experience on rural development (Sepúlveda and others, 2003).

Although domestic and external debate on rural development has helped to define what policies need to be adopted in this domain, there is still a conceptual vacuum in terms how to organize public, social and private agents to promote the development of rural areas; and, as a result, institutional arrangements have gained an important place in the current debate. Public policies for rural development require dynamic institutions with capacity to implement the relevant measures and view the problem multi-sectorally with a local, decentralized and citizen-participation approach. In other words, what is needed is modern State that can put policy guidelines into practice.

This article reviews the formal institutional framework for modernizing the Guatemalan State that arose from the Peace Accords; and it discusses relevant aspects of rural development policies. The main thesis is that the existing institutions provide a framework for effectively promoting rural development policies, by affording greater sustainability to actions and strengthening State entities. Rural development policies can thus serve as a tool for consolidating Guatemalan State institutions.

The first section of the article analyses policy guidelines in Guatemala since the signing of the Peace Accords. It reviews rural public spending by central, deconcentrated and decentralized government, and the achievements and repercussions of relevant policies in the period 1996-2007. It then outlines local debates on rural development, before describing the current formal institutional structure —i.e. that supported by a specific legal framework—for promoting development in rural areas. The fifth section identifies the key aspects of this institutional framework that require strengthening; and the final section sets out the main conclusions.
II
Rural development policies in Guatemala in the period 1996-2007

1. Policy orientations

The Agreement on a Firm and Lasting Peace, signed in 1996, changed the direction of rural development policies in Guatemala. Firstly, it recognized the need to overcome the poverty, inequality and social and political exclusion that had been the main obstacles to the country’s comprehensive development and a source of political-military conflict. Secondly, it was argued that this objective could not be attained without strengthening real, functional and participatory democracy, while the economic and social development process meant forging public-policy consensuses between social actors and the Government (Government of Guatemala/Guatemalan National Revolutionary Unity, 1996).

The rural programme set out in the Peace Accords contains social, economic and agrarian components. The social programme included measures relating to health care, education and other basic services for the rural population. The economic programme focused on fostering rural competitiveness, including aspects of foreign trade, access to productive assets and increased public investment in rural areas. The agrarian programme, recognized the need to tackle this through market mechanisms, with policy instruments such as: (i) providing legal certainty on land property rights; (ii) avoiding the concentration of land-holding by imposing a land tax on large agricultural estates (latifundios) and on idle land; (iii) putting a legal framework in place for the discussion and settlement of agrarian disputes; and (iv) creating favourable conditions to enable campesino groups to gain access to land ownership.

While the peace agenda was being promoted, State deregulation, structural adjustment and trade liberalization policies were also actively promoted from 1996 onwards. Among other measures, State-owned assets were privatized and the fiscal burden of the Ministry of Agriculture, Cattle and Food was reduced, which meant fewer interventionist tools and a reduction in the number of civil servants. International trade was also promoted through trade agreements, which opened up new markets but also meant greater domestic competition.

2. Rural public spending

The Guatemalan State has implemented these policies with different degrees of progress over three government terms.1 From 1996 onwards, for example, social public spending was expanded in rural areas, and public infrastructure investment increased substantially. In the agriculture sector, the general property register was modernized, and the cadastral information register was created to improve legal certainty over land ownership; the Agrarian Affairs Secretariat was set up to provide dispute-settlement services; and the Land Fund was created as a temporary mechanism to facilitate access to land.2 In the productive domain, government investments were expanded in rural areas; the Rural Development Bank was turned into a mixed-ownership joint-stock company; and free trade agreements were promoted.

An analysis of public expenditure in rural areas gives an idea of the development policies implemented in this sector. Table 1 shows that, following the signing of the Peace Accords in 1996, expenditure increased at an annual average real rate of 11%. From then on, greater attention was paid to rural infrastructure, which in the 1996-1999 presidential term accounted for 60% of total public expenditure by central government. In the most recent period analysed (2004-2006), infrastructure investment averaged 40% of the total, while social policy spending absorbed 50%. Expenditure on productive development has maintained a constant share of total public expenditure in the rural sector of about 11%. The targets set by the Peace Accords

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1 For a review of the fulfilment of the Peace Accords see, for example, MINUGUA (2004) and Government of Guatemala/Secretaría de la Paz (2007).
2 Items that are still pending include the land tax and creation of agrarian courts, which are seen as crucial for revitalizing land markets.
for social public spending and infrastructure investment have been surpassed by at least 50% in the various budgets in the period 1996-2007 (SEGEPLAN, 2008a).

The time series of the composition of rural public expenditure was estimated using the FAO methodology (Kerrigan, 2001), which divides expenditure into 25 categories. Nonetheless, over the last 10 years (1996-2006), 91% of rural expenditure in Guatemala has been in six specific areas: roads (33%), rural education (28%), agricultural productive development (10%), social infrastructure (10%), health and rural nutrition (6%)3 and the issuance of land purchase vouchers (4%).

The structure of rural expenditure in Guatemala since 1996 has matched the overall Latin American pattern (Fan and Rao, 2003), with social spending serving as the main tool for reducing poverty, while infrastructure investments and productive development have targeted export promotion, mainly in sectors with competitive advantages.

Rural development has also been assisted by government decentralization policies, since departmental and municipal government budgetary funding is a major source of financing. Public investment at the departmental and municipal levels accounted for 43% of total investment nationwide in 2007 (see table 2), when investments executed by the three government levels amounted to US$1.428 billion.

Table 3 shows rural sector investments undertaken by departmental governments in the period 2004-2007, financed by transfers from central government to the rural development councils (CODEDES). During those four years, rural investment at the departmental level totalled 2.714 billion quetzales (roughly US$362 million) and accounted for 74% of total resources received by the governments in question.

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3 The share of expenditure on health and nutrition grew by 11% over the last four years and explains the rise in social spending shown in table 1.
### TABLE 2

**Public investment implemented at the three levels of government, 2007**  
(Millions of quetzales and dollars<sup>a</sup>)

<table>
<thead>
<tr>
<th>Type of Government</th>
<th>Quetzales</th>
<th>Dollars</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>5 838</td>
<td>761</td>
<td>53</td>
</tr>
<tr>
<td>Autonomous bodies</td>
<td>461</td>
<td>60</td>
<td>4</td>
</tr>
<tr>
<td>Deconcentrated government&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1 067</td>
<td>139</td>
<td>10</td>
</tr>
<tr>
<td>Decentralized government (municipal)</td>
<td>3 587</td>
<td>468</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10 953</strong></td>
<td><strong>1 428</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Secretariat of Planning and Programming (SEGEPLAN), Avances y desafíos de las políticas públicas en la administración Berger: ejercicio de transición, Guatemala City, 2008.*

<sup>a</sup> At the average annual exchange rate of 7.67 quetzales per dollar (see Bank of Guatemala, *Indicadores económicos de Guatemala* [online] http://www.banguat.gob.gt/).

<sup>b</sup> Corresponds to central government transfers to departmental development councils; does not include investments made by the ministries on a deconcentrated basis or social investment funds.

### TABLE 3

**Composition of investments made in rural areas through the transfer to departmental development councils, 2004-2007**  
(Quetzales at current prices)

<table>
<thead>
<tr>
<th>Type of investment</th>
<th>Projects approved</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quetzales</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
</tr>
<tr>
<td>Roads and highways</td>
<td>920 365 226</td>
</tr>
<tr>
<td>Water and sanitation</td>
<td>741 770 584</td>
</tr>
<tr>
<td>Urban development</td>
<td>401 777 511</td>
</tr>
<tr>
<td>Energy</td>
<td>27 443 119</td>
</tr>
<tr>
<td>Housing</td>
<td>15 437 009</td>
</tr>
<tr>
<td>Other infrastructure</td>
<td>24 915 924</td>
</tr>
<tr>
<td><strong>Total infrastructure</strong></td>
<td>2 131 709 373</td>
</tr>
<tr>
<td><strong>Social investment</strong></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>470 073 731</td>
</tr>
<tr>
<td>Health and social assistance</td>
<td>41 083 590</td>
</tr>
<tr>
<td>Culture and sport</td>
<td>8 549 874</td>
</tr>
<tr>
<td>Other social spending</td>
<td>5 739 234</td>
</tr>
<tr>
<td><strong>Total social investment</strong></td>
<td>525 446 428</td>
</tr>
<tr>
<td><strong>Productive development</strong></td>
<td></td>
</tr>
<tr>
<td>Crop farming and livestock breeding</td>
<td>47 203 009</td>
</tr>
<tr>
<td>Industry and trade</td>
<td>5 427 217</td>
</tr>
<tr>
<td>Productive organization</td>
<td>2 333 541</td>
</tr>
<tr>
<td>Science and technology</td>
<td>1 486 154</td>
</tr>
<tr>
<td>Other productive development</td>
<td>506 224</td>
</tr>
<tr>
<td><strong>Total productive development</strong></td>
<td>56 956 145</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td>2 714 111 946</td>
</tr>
</tbody>
</table>


<sup>a</sup> Figures are percentages of the grand total.
The structure of departmental investment remained heavily biased towards infrastructure (79% of the total), with roads—construction, maintenance and widening—absorbing 43% of the total. While the social investment category at this government level does include social projects, it mainly involves infrastructure works, such as school building and remodelling (89%), the building and remodelling of health centres (8%), and the construction of sports facilities (2%).

Specific examples of projects undertaken by departmental councils include street paving; remodelling of parks, markets or public buildings, and the construction of community sports halls and facilities. This not only demonstrates the lack of coordination with central government policies, but also raises serious doubts as to the efficiency and effectiveness of public investment undertaken by this government level in terms of poverty reduction.

Departmental governments channelled just 2% of their total resources into productive development (56 million quetzales in 2004-2007), where the agricultural sector absorbed over 83%. Projects in this sector include forestry, irrigation, and various production-oriented initiatives.

The public budget at the municipal level accounts for 33% of total national investment. In 2006, rural municipalities administered 70% of these resources, worth to 2.945 billion quetzales (roughly US$ 328 million). Table 4 shows investments made in 45 poor rural municipalities, where—as at the departmental level—infrastructure investments predominate. The “Other activities” category includes administrative expenses, which absorb a high percentage of the funding received.

Considering the expenditure of all three levels of government (centralized, deconcentrated and decentralized), rural public spending amounted to US$ 272 per person in 2006. This figure surpassed the US$90 recorded in Guatemala in 2003 and US$140 per capita Latin American average reported by FAO (Kerrigan, 2001), whose estimates only included central government outlays. This means that Guatemalan rural development policies must consider the budgets of deconcentrated and decentralized government as a major funding source.

3. International cooperation for rural development

Although grants from international cooperation, both bilateral and multilateral, represent roughly 2% of total annual rural expenditure, their importance stems from the fact that they provide technical assistance which will later be reflected in public policies.

In 2007, international development agencies had committed a total of US$282 million in grant projects for Guatemala (to be executed over five years), of which 78% corresponded to rural development initiatives (IICA/USAID, 2007a). The main investment categories of bilateral cooperation are productive development (41% of total commitments), followed by support for infrastructure (35%) and health and human resources (24%).

Non-reimbursable multilateral cooperation, part of which targets the country’s emerging needs and the rest is channelled into pre-investment in promising loan projects, totalled US$251 million in 2007, of which US$140 million (56%) corresponded to rural development projects to be implemented over a five-year period. The funding thus obtained was destined for social programmes (81% of the total), productive development (16%) and infrastructure (3%).

### TABLE 4

Composition of expenditure in 45 poor rural municipalities, 2005

(Quetzales and dollars at current prices)

<table>
<thead>
<tr>
<th></th>
<th>Quetzales</th>
<th>Dollars</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>239 389</td>
<td>31 499</td>
<td>43.0</td>
</tr>
<tr>
<td>Social spending</td>
<td>139 851</td>
<td>18 401</td>
<td>25.0</td>
</tr>
<tr>
<td>Productive development</td>
<td>636</td>
<td>84</td>
<td>0.1</td>
</tr>
<tr>
<td>Other activities</td>
<td>176 309</td>
<td>23 199</td>
<td>32.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>556 185</td>
<td>73 182</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4. Achievements and outcomes of rural policies in Guatemala

Table 5 shows the main indicators of the progress achieved by rural development policies. In the social domain, the proportion of households with access to drinking water, sanitation, electricity, healthcare and education expanded, with the corresponding indicators growing at rates above 30% in the period 1994-2006. For example, in 2006, 86% of Guatemalan households had access to drinking water, sanitation and electrification, and the proportion exceeded 75% in the rural area. In terms of productive infrastructure, the road network has expanded by 25% over the last 12 years, and the number of telephone lines has increased by over 1,200%. Traditional agricultural exports, such as sugar, coffee, cardamom and bananas, grew by 68% in the period 1994-2006, while non-traditional agricultural exports —fruit, vegetables and others— expanded by 255%.

Rural development policy outcomes can be measured through progress in reducing poverty in the country. Table 6 displays the main poverty indicators, which shows that total poverty shrank from 61% to 51% between 1990 and 2006, while extreme poverty decreased from 20% to 15%.

### Table 5

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to drinking water (thousand families)</td>
<td>1 701</td>
<td>n.a.</td>
<td>2 052</td>
<td>2 239</td>
<td>32.0</td>
</tr>
<tr>
<td>Access to sanitation (thousand families)</td>
<td>1 447</td>
<td>n.a.</td>
<td>1 651</td>
<td>2 239</td>
<td>55.0</td>
</tr>
<tr>
<td>Coverage of electric power system (thousand families)</td>
<td>1 095</td>
<td>1 414</td>
<td>1 934</td>
<td>2 213</td>
<td>102.0</td>
</tr>
<tr>
<td>Coverage of basic health services (million people)</td>
<td>0.5</td>
<td>2.2</td>
<td>3.1</td>
<td>4.1</td>
<td>720.0</td>
</tr>
<tr>
<td>Net primary school enrolment rates (percentages)</td>
<td>69.0</td>
<td>78.0</td>
<td>88.0</td>
<td>96.0</td>
<td>39.0</td>
</tr>
<tr>
<td>Road network (km of highways)</td>
<td>12 162</td>
<td>13 856</td>
<td>14 044</td>
<td>15 188</td>
<td>25.0</td>
</tr>
<tr>
<td>Access to telephone services (lines per 100 inhabitants)</td>
<td>n.a.</td>
<td>5</td>
<td>14</td>
<td>66</td>
<td>1 220.0a</td>
</tr>
<tr>
<td>Traditional agricultural exports (in millions of dollars)</td>
<td>633</td>
<td>1 229</td>
<td>798</td>
<td>1 061</td>
<td>68.0</td>
</tr>
<tr>
<td>Non-traditional agricultural exports (in millions of dollars)</td>
<td>204</td>
<td>290</td>
<td>424</td>
<td>723</td>
<td>255.0</td>
</tr>
</tbody>
</table>


a Represents the growth rate for the period 1998-2006.

### Table 6

<table>
<thead>
<tr>
<th>Year</th>
<th>Total poverty (Percentages and thousand people)</th>
<th>Extreme poverty (Percentages and thousand people)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
<td>Rural</td>
</tr>
<tr>
<td>1990</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2000</td>
<td>19</td>
<td>81</td>
</tr>
<tr>
<td>2006</td>
<td>28</td>
<td>72</td>
</tr>
</tbody>
</table>


a The data for 1990 measure poverty using income indicators, whereas in 2000 and 2006 poverty was estimated on the basis of consumption.
Although total poverty increased in absolute terms, it decreased relatively by five percentage points between 2000 and 2006.

A comparison of data between the rural and urban zones shows that urban poverty increased from 19% to 28% in 2000-2006 while rural poverty retreated from 81% to 72%. This reflects the fact that poverty has migrated from rural areas towards urban zones, particularly in the extreme poverty category.

If the current pace of poverty reduction is maintained, under an optimistic scenario Guatemala would have an extreme poverty rate of 13% in 2015, which would exceed the first Millennium Development Goal (MDG) by three percentage points. It was precisely this modest progress reducing poverty that led the country to embark on a debate on rural development policies, which is analysed in the following section.

III

The national debate on rural development policies

Given the progress made in terms of poverty reduction and the existence of a number of outstanding issues in relation to the Peace Accords, a process of dialogue and debate on the orientation of rural development policy was inaugurated in 2002. In that year, the Government of Alfonso Portillo set up an inter-sector roundtable to formulate a national policy on this issue; and this initiative was taken up again in 2004 by the Óscar Berger administration. The discussions and agreements reached in the various dialogue mechanisms clarified the vision and general objectives of rural development, the main elements of which are commented on below.

1. Policy orientations

The roundtable mainly discussed the following issues: (i) the population to be targeted by the policies; (ii) the importance of the productive focus to complement the social agenda; and (iii) unresolved aspects of the agrarian dispute. It was agreed that the target of the policies would be the poorest groups in rural areas —those that have suffered exclusion and marginalization ever since the colonial period. Accordingly, the final beneficiary was identified as the small scale rural economy, which in Guatemala is indigenous and campesino. From the standpoint of agricultural social organizations, this meant the chance to strengthen campesinos as a social class; and for government mechanisms, it represented a chance to target policies on the country’s poorest municipalities.

The focus on the campesino economy also required policies targeted on promoting rural production; while social policies must continue, priority needs to be given to productive investments in the rural sector. As discussed in the roundtable, the objective is to energize the campesino economies. Stimulating production requires strategic public investments, so the various government mechanisms must cease to be observers of processes and become proactive agents of rural development. Likewise, productive development needs to take account of local advantages and conditions, which means formulating differentiated policies.

The roundtable failed to reach a general consensus on the agrarian issue, because conversations were interrupted by disagreements between business groups and the campesino sector. Campesino organizations argued that targeting policies on the poorest groups meant providing them with productive assets, among which land is a fundamental element.

4 Participants in the roundtable included government delegates, representatives from the academic sector, political parties, the campesino and indigenous sector, small-scale rural producer organizations, rural women, business associations and the environment.

5 The closing statement of the Comprehensive Rural Development Dialogue and Participation Roundtable, which concluded in September 2006, claims significant progress, including agreements reached on the main variables that determine rural development, a vision of the rural area in 25 years’ time, the principles and approach that should guide comprehensive rural development policy, and its main lines of action (Government of Guatemala/Gabinete de Desarrollo Rural, 2006, p. 43).
At the same time, access to land meant an increase in the campesino population, the aim of which would be to strengthen campesinos as a social class. Given that one of the quickest ways to make land available is to redistribute it, social organizations proposed the expropriation of improperly used farms (e.g. for drug trafficking) and idle land as the main policy tool. Nonetheless, the business sector saw expropriation as a threat, since it would set a precedent for a confiscatory agrarian policy. The rural business sector is in favour of agrarian policies aimed at revitalizing land markets, and the creation of rural development instruments based on non-agricultural sectors such as handicrafts and ecotourism.

While these differences are being resolved, identification of the campesino economy as a policy target would help reactivate the land market. Rural development based on the campesino economy has significant effects on factor markets. For example, greater agricultural productivity translates into greater demand for land and, given that production is based on labour-intensive crop growing, medium- and large-scale farms tend to become fragmented while small ones expand, thus favouring changes in the agrarian structure.

As the agrarian issue is the key issue in the ideological and social class struggle in rural zones, it looks set to remain a feature on the critical path of rural development (IICA/USAID, 2008). Discussions on this subject need to be based on consensus; and progress in defining policy targets and the role to be played in rural development by the Government are points of convergence that would make it possible to unblock the debate on agrarian policy in Guatemala.

2. Policy instruments

Although the roundtable did not define suitable policy instruments for revitalizing the campesino economy, several national studies have been undertaken on this technical issue (Barrios and Mellor, 2006; IICA/USAID, 2008). Firstly, identification of the indigenous and campesino economy as a subject of policy is consistent with academic arguments on poverty reduction. The recent literature contains wide-ranging discussions on the potential of small-scale agriculture as a poverty reduction tool (World Bank, 2007; Mellor, 2007; Christiaensen, Demery and Kühl, 2006; Hagglade, Hazell and Reardon, 2005). The main argument is that agriculture generates a demand effect, in that agricultural growth based on small-scale production generates income for a larger number of farmers and wage-earning farm workers, who in turn demand agricultural and non-agricultural goods and services on domestic markets. This fosters urban employment and activity in local non-agricultural sectors, thereby provoking multiplier effects and virtuous circles for poverty reduction (Christiaensen, Demery and Kühl, 2006; Mellor, 2007).

Nonetheless, if agriculture is to become a successful tool of poverty reduction, certain minimum conditions need to be satisfied (Hagglade, Hazell and Reardon, 2005; Mellor, 2007), such as a significant increase in the production of tradable agricultural goods. Moreover, the greater productivity of an exportable good should generate a substantial increase in local incomes, and thus a massive and equitable distribution of corresponding profits. This can be achieved if production is in the hands of small-scale producers and if labour markets socialize incomes; and in Guatemala this involves the campesino economy. Non-agricultural sectors also need to emerge and consolidate, which, among other factors, requires an efficient and strengthened framework of public institutions that can adapt to the dynamic of local markets.

In the case of Guatemala, Barrios and Mellor (2006) and IICA/USAID (2008) identified the main tools for promoting economic growth based on campesino economies; and these are compatible with those highlighted by Allcott, Lederman and López (2006), López (2005) and Fan and Rao (2003), in terms of their emphasis on the public-good nature of development policies. The instruments in question are as follows: (i) promotion of agricultural research and extension; (ii) creation of productive infrastructure, mainly roads and irrigation systems; (iii) improvement of productive organization; and (iv) access to financial markets.

3. The territorial approach to rural development

The territorial approach, for which the theoretical underpinning is provided by the new economic geography (Fujita, Krugman and Venables, 1999), has gained popularity in Guatemala despite being exogenous to the national debate on rural development. Its key argument is that regional characteristics are what determine a region’s economic development, rather than the characteristics of people.
Economic agents “agglomerate” in specific localities for the purpose of generating suitable conditions for economic growth (Fujita, Krugman and Venables, 1999). Moreover, some regions offer positive externalities that can promote development; but this also means that the economic backwardness of a region reflects a lack of institutions that agglomerate economic agents for the purpose of exploiting its natural advantages.

Regionally differentiated policies thus need to be formulated to improve equity between the various regions of a given country and optimize resource use (e.g. create jobs). Such policies originate from regional planning in which local agents jointly identify policies and, at the same time, are able to attract local funding to implement the actions prioritized in the social consensus.

National policy objectives can also be achieved, since the territorial approach makes it possible to identify the productive potential of campesino economies, and convene local productive sectors to pool resources and pursue common development goals. Here, the approach encounters an appropriate institutional framework in the State decentralization and modernization policies being promoted in Guatemala through the Peace Accords, which were set out in the Law on Development Councils, the Law on Decentralization and the new Municipal Code, as discussed in the next section.

IV

The formal public institutional framework for rural development

Guidelines for State modernization in Guatemala are based mainly on two sources (Sojo, 2000) and in practice have been promoted with varying degrees of intensity. Firstly, there are initiatives driven by the economic ideology of structural adjustment and trade liberalization, which aim to downsize the government apparatus and enhance the effectiveness of fiscal policy (expenditure and tax revenue). The key mechanisms proposed in this area are the concessions system, the dis-incorporation of State enterprises and privatization (Méndez, Gálvez and Vásquez, 2008), along with decentralization, less State intervention and incentives for citizen participation.

Secondly, the peace process in Guatemala has also generated proactive measures to create a more equitable, inclusive and participatory society, with the Peace Accords being used to attempt to move from an authoritarian counter-insurgency State towards a democratic and inclusive one with a stronger civil society. From this perspective, decentralization and citizen participation can be seen as ways of enabling the population to take ownership of its development process (SEGEPLAN, 2008a).

As both schools of thought have influenced national policies, it can be concluded that modernization of the State in Guatemala pursues two major objectives: improving efficiency in the provision of public goods and services by the State, and reducing exclusion and social discrimination (Sojo, 2000; SEGEPLAN, 2008a). The main instruments deployed to achieve these objectives are decentralization —i.e. the strengthening of local power— and creation of the dialogue and consensus mechanism between the State and society.

Guatemala has created a legal framework to achieve the goals of State modernization, represented mainly by the so-called participation and decentralization laws: the General Law on Decentralization (Decree 14-2002), the Law on Urban and Rural Development Councils (Decree 11-2002) and the Municipal Code (Decree 12-2002). This legislation sets up a formal structure for formulating, implementing and evaluating public

6 Recently, there has been discussion of reform of the political system as another essential element for modernizing the Guatemalan State (SEGEPLAN, 2008a).

7 Although concessions, dis-incorporations and privatizations have been relatively successful in terms of rural development and the administration of natural resources in Guatemala (Méndez, Gálvez and Vásquez, 2008), this article focuses on the formal institution of decentralization and participation arising from the Peace Accords.
policies; and it also provides for resources to be devolved the deconcentrated and decentralized government levels. Broadly speaking, these laws define three levels of government (i.e. its vertical organization); and they also identify formal mechanisms for reaching consensus and agreement (the urban and rural development councils system) and the agencies that implement public policies (see diagram 1).

In terms of public policy implementation, the highest level in the hierarchy is the Central Government, consisting of the President, Vice President and Cabinet of Ministers. In the case of rural development policies, the Government is represented by the specific Rural Development Office (GDR) created in 2006 (Government Agreement 471-2006). This entity, consisting of seven ministers and five secretaries, coordinates the rural development policies and programmes implemented by the Government. Also at this level of government, the Social Cabinet is responsible for coordinating national policy on social issues. The GDR thus has a microeconomic promotion approach, while the Social Cabinet focuses on education, health and nutrition. The fact that Central Government is represented in a specific office means that the sectoral vision of development has been abandoned in favour of a functionally operational and politically oriented scheme (Méndez, Gálvez and Vásquez, 2008).

The role of the deconcentrated government level is mainly to plan and coordinate actions in the departmental and local domains, where government bodies reach public policy consensuses with social and private stakeholders. The deconcentrated government is headed by departmental governors, who are appointed by the President of the Republic and report to the Minister of Governance. In the case of rural development, this government level also includes departmental offices of the ministries and secretariats comprising the respective cabinet, as well as social investment funds.

**Diagram 1**

Diagram of the formal institutional framework for rural development

Source: Prepared by the author on the basis of participation and decentralization laws.
Decentralized government is represented by the municipalities, which have autonomy to elect their own officials. Stronger municipal government is the key objective of State decentralization policies both in Guatemala and throughout Latin America. Municipalities have been assigned various productive and social coordination and promotion functions, financed out of their own funds and transfers from Central Government.

Each government level has its own formal mechanisms for forging consensuses and agreement on public policies, known as Development Councils.\(^8\) The Central Government has the National Urban and Rural Development Council (CONADUR), which consists of representatives from indigenous groups, campesinos, women, rural and urban entrepreneurs, academia, development and sector non-governmental organizations (NGOs), departmental governors, mayors and the ministerial cabinet. The Planning and Programming Secretariat of the Office of the President (SEGEPLAN) fulfils technical secretariat functions for the Rural Development Office and CONADUR, for which it serves as interface in articulating the debate between the two mechanisms.

At the deconcentrated or departmental government level, policies are decided upon in departmental development councils, consisting of representatives of indigenous peoples, women's groups, campesinos, urban and rural entrepreneurs, universities with presence in the relevant department and deconcentrated offices of the ministries, together with the mayors of each department and the departmental governor, who chairs and coordinates the mechanism. The SEGEPLAN departmental office serves as technical secretariat.

Similarly, the decentralized or municipal government level coordinates policies in the municipal development councils (COMUDES), which consist of syndics and councillors from the municipal corporation in question, up to 20 representatives from community development councils (COCODES), together with representatives from society and the ministries that maintain a presence in the municipality in question. In this case, the relevant municipal planning office serves as COMUDE technical secretariat.

The legal framework described above regulates the financial resources allocated to deconcentrated and decentralized governments. In the first case, the State transfers to departmental development councils the equivalent of one percentage point of the revenue collected from value added tax (VAT) levied at a flat rate of 12\%. Under the Constitution of the Republic, municipal governments receive 10\% of the general State income budget, 1.5 percentage points of VAT, and various percentages of the taxes on oil distribution, vehicle circulation, and central collection of the single tax on real estate property. As shown in table 2, the municipalities execute 33\% of the public investment budget, while departmental councils undertake another 10\%.

The State modernization policies promoted through the Peace Accords have made it possible to develop a formal institutional framework for designing and implementing public policies. Nonetheless, this has not enabled public or private stakeholders or civil society to formulate or agree upon specific policies, because, despite being appropriate, the mechanism is not yet fully operational. The next section analyses the fundamental aspects that need to be improved to consolidate the institutional framework for formulating and implementing public policies in Guatemala, with the emphasis on rural development.

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\(^8\) The Law on Development Councils also created the Regional Urban and Rural Development Council (COREDUR), but this will not be discussed in this article since, in practice, it is not operating.
V

Strengthening of the formal institutional framework for rural development

At the present time, the scope of policies at the three government levels is not clearly defined; and the existing legal framework does not specify the type of public policies to be applied at each level, except for the specific functions of municipal government. Definition of the scope of policies at each level will provide a frame of reference for identifying institutional strengthening needs.

An initial claim might be that Central Government is responsible for providing national public goods and services; foreign trade and macroeconomic policies, and those for adapting to and mitigating climate change, are formulated at this level, for example. The recent literature argues that central governments should refrain from implementing policies that subsidize private goods, since this generates political rent-seeking (de Ferranti and others, 2005; López, 2005; Allcott, Lederman and López, 2006) and interferes with the proper workings of deconcentrated and decentralized governments. In the case of rural development, the Specific Rural Development Office should focus on agricultural research and extension policies, creation of infrastructure (mainly roads and irrigation systems), improvement of productive organization and facilitation of financial markets.

Deconcentrated or departmental governments should focus on policies that make the most of local competitive advantages. Examples would be the building of roads to connect departmental capitals or storage centres in strategic localities. The investments to be undertaken should be identified collectively by the various local stakeholders, for which reason there is no a priori definition of local rural development policies. But even in this case, one can apply the principle of giving preference to those oriented towards the provision of public goods and services rather than subsidizing specific sectors (López, 2005; Allcott, Lederman and López, 2006; Schejtmann and Berdegué, 2003).

State decentralization has made municipal governments responsible for providing public services locally. The Municipal Code identifies 15 specific municipal competencies, including health, education and security. The resources they receive under the Constitution have to be invested in projects relating to education, preventive health, infrastructure works and public utility services, while transfers obtained from VAT are channelled into infrastructure, education and health projects.

1. Central Government

Central Government needs strengthening basically in two areas. Firstly, it is necessary to improve the efficiency and effectiveness of public policy instruments; and, secondly, public policies can be strengthened if political actors use the mechanisms provided by CONADUR to reach agreement on policies, find strategic partners, and reduce the costs of public dialogue.

Public policy efficiency and effectiveness at the central level can be improved by prioritizing public expenditure in the poorest localities of rural areas and by targeting campesino economies. Policy effectiveness also involves cutting expenditure on private subsidies and increasing instruments to boost the supply of public goods and services. This requires coordination at the highest political level.

Several recent studies (World Bank, 2003; Vergara and Lavarreda, 2006) have addressed the issue of social spending efficiency in Guatemala. The World Bank (2003) claimed that public expenditure on social protection programmes was regressive, since the wealthiest quintile absorbed 46% of social investment while the poorest quintile received just 8%. This study concluded that none of the country’s social protection programmes was well targeted, as there was little focus on the poorest sectors.

As rural poverty in Guatemala is geographically biased (most of the poor live in the national altiplano), the policy choice is to target social programmes on those parts of the country (World Bank, 2003). In this regard, although some programmes have been implemented already such as Guate Solidaria Rural and the strategy to reduce chronic malnutrition that started in 2005, and more recently the programme of conditional transfers that began in the second
half of 2008, it is essential to continue targeting resources on poor localities and population groups, to make rural social spending more effective in reducing poverty.

Priority also needs to be given to policy instruments that aim to stimulate the supply of public goods. Expenditure on productive agricultural development, for example, consists essentially of fertilizer programmes and the Bosques y Agua para la Concordia programme (the latter serving as a mechanism for compensating civil self-defence patrols for their participation in the armed conflict), which are clearly private subsidies. If this type of subsidy were reduced and investment in public goods expanded, it would be possible to increase agricultural growth (López, 2005; Allcott, Lederman and López, 2006).

Policy targeting on poor population groups and localities and on the supply of public goods requires institutional coordination at the highest political level. Various methods have been used for this in Guatemala, such as presidential appointment of Governmental Commissioners to coordinate government ministers; inter-agency councils or commissions, in which a collegiate board of involving the government and private entities performs the coordination; and specific government offices consisting of a few ministries and secretariats, chaired by the Vice President. As the latter represent the only mechanism recognized in the institutional structure (SEGEPLAN, 2008a, p. 211), it is recommended to continue strengthening them to increase government capacity for coordination, supervision and evaluation of public policies.

Central Government has an interest in CONADUR for two reasons: firstly, the system of urban and rural development councils is a suitable structure for seeking consistency and correspondence between national and decentralized policies. Secondly, CONADUR makes it possible to streamline policy consensus and negotiation, reducing the transaction costs of the respective dialogue and also generating partners to implement the measures involved. It is better to have a single formal interlocutor than numerous roundtables.

A recent example of attempts to relate local policies to national ones was the Regulation for Administering the CODEDE Contribution (IICA/USAID, 2008), approved by CONADUR in December 2007. This legal mechanism created economic incentives for departmental councils whose investments were aligned with public policies; and regulatory criteria were introduced for fulfilment in the projects undertaken by the various departments. As a political consensus mechanism, CONADUR played a major role in the approval of this regulation.

Civil society, for its part, can channel its demands and influence decision-making through institutionally created spaces. For example, it can play a major role in reducing private subsidies, taking advantage of the possibility offered by development to supervise public policies. Nonetheless, the use of the space provided to them by CONADUR is a political decision that social stakeholders have under-valued.

2. Deconcentrated government

The main weakness at the deconcentrated government level has been identified by SEGEPLAN, which argues that processes to nurture participation, enforce decentralization and strengthen local power have been implemented haphazardly, prioritizing financial decentralization without clear rules. As a result, municipal actions and those undertaken by development councils—financed by central government transfers—have lost touch with public policies (SEGEPLAN, 2008a, p.219). The deconcentrated level of government is the interface between local policies and national ones; and it is also where rural development policies are planned and implemented.

The territorial approach to rural development makes sense at the departmental level, as shown by over 22 local planning exercises undertaken in Guatemala, which proved to be effective tools of public governance in guiding processes of participation, decentralization and strengthening of local power (SEGEPLAN, 2008a). For that reason, strategies to strengthen the deconcentrated level of government focus on the local planning process.

An evaluation of local planning made by IICA and USAID (2007b) found that the main challenge for the CODEDES was not to improve the technical aspects of planning, which will always be improvable, but to take advantage of its different stages—i.e. dialogue, consensus building and negotiation—to mobilize public and private resources to achieve common development goals. This means firstly a phase of negotiation and forging agreements on the objectives and territorial vision held by key local stakeholders; and, secondly, channelling financial resources from civil society, the private sector and
the Government into actions and projects that are negotiated and agreed upon in the planning process. In other words, strategic planning must become a political-social covenant between local stakeholders to transform the local area in question.

Turning local planning into a political-social covenant requires greater participation from local stakeholders—mainly civil society and the private sector—because government mechanisms predominate when defining actions. As a political consensus-building process, local planning needs to define practical measures, responsibilities and deadlines, and use them to exert social and political pressure to ensure that the relevant actors fulfil their respective commitments. For that purpose, iiica/usaid (2007b) has recommended creating legal instruments such as local contracts which indicate the penalties to which actors would be liable failure to comply.

The greatest challenge facing local planning at the departmental level is to shake off the informal institutional framework inherited from 36 years of civil war, in which local stakeholders have generally been reluctant to participate in development processes. This can be achieved by making sure that what is agreed upon in planning processes is reflected in investment projects. Hence the importance of linking local planning to the process of preparing the State budget, which has not yet happened: most of the projects identified in local planning processes are not reflected in the department’s investment budget. Departmental governments need to be capable of reaching the political agreements needed to channel resources into local actions.9

In short, the main functions of deconcentrated government are to coordinate and plan public policies at the departmental level. While the territorial approach is a proven tool for identifying and ranking public investment priorities, its scope needs expanding to encompass a larger number of social and private stakeholders, and to turn local planning into a political-social covenant with mechanisms to give incentives for implementing actions. This would make it possible to ensure the sustainability of the territorial approach to rural development and, at the same time, strengthen the formal institutional framework for citizen participation. The challenge is to overcome the reluctance that prevails in this regard, which will be achieved if the political covenants are really applied locally. Land-use planning at the departmental level is seen as a suitable tool of rural development that also contributes to modernization of the State at its deconcentrated level.

3. Decentralized government and international cooperation

Various studies on municipal governance (e.g. Letelier, 2007) have identified the following substantive issues in “municipalism”: linking municipal expenditure to public policies, increasing municipal revenue and improving the type of investments they undertake. It is also essential to expand municipal planning capacities; and the strengthening of citizen participation in political consensus-building and negotiation would help improve national democratic processes. As the link between national policy and local interests materializes at the departmental level, it would be important to strengthen this government mechanism to enhance the effectiveness of municipal policies.

International cooperation could play an active role in consolidating the formal institutional framework for rural development. Its most important contribution, whether productive, participatory or circumstantial, would be to provide technical assistance to ensure that public policy formulation and consensus-building includes what is planned at the local level and strengthens civil organization.

9 The real chance of departmental governors being able to reach political agreements locally is a matter for concern. For example, the Governor of the Department of Huehuetenango, appointed by the President, has little political support for negotiating with the 31 mayors and 10 district deputies who are elected democratically.
VI
Conclusions

The behaviour of rural development policies in Guatemala is like an out-of-tune and dis-coordinated orchestra: there are considerable financial resources available —more than the Latin American average—but effects in terms of reducing poverty have been few. This statement applies to the central, deconcentrated and decentralized government levels alike. Recent debate on rural development policies suggests that an initial measure would be to strengthen the institutional framework for formulating, reaching consensus on and implementing public policies.

The Peace Accords proposed an institutional structure that would adapt to the new rural development guidelines by creating a logical institutional framework to promote citizen participation and build consensus around public policies. Nonetheless, although the legal framework is in place, political and social actors in practice “do not play on that field”. This article identifies a number of measures to strengthen the institutional framework for peace and rural development, for application at the three government levels, which could be promoted by public, private or social stakeholders.

At the central level, citizens would be more likely to have their proposals made binding if they really participated in CONADUR, rather than doing so in “dialogue roundtables”, the conclusions of which are not subsequently reflected in public policies. Through participation in CONADUR, citizens would need to retarget investment in public goods—which have been identified in the national debate—and eliminate rent-seeking mechanisms that favour specific pressure groups. Central government, meanwhile, could streamline the process of reaching policy consensus if it dealt with a single interlocutor (CONADUR), thereby reducing the cost of negotiating and reaching agreements while also generating partners for policy implementation.

The departmental level of government is perhaps what most needs strengthening and where the territorial development approach has the greatest repercussions. Here it is crucial to ensure that what is agreed on at the departmental level is reflected in public policies, which means that all stakeholders need to have clearly established commitments and targets in local development plans. The public-social contracts that have been implemented in several Latin American countries might be a suitable mechanism for achieving this goal and for increasing financing for local investments in public goods.

Municipal governments (decentralized level) still need to improve the technical capacity of their planning offices. It is also important to continue encouraging citizen participation in the supervision and formulation of public policies. The territorial development approach has proven an effective way to generate policies and pool efforts among the various social actors at the local level.

The promotion of local policies within the existing formal framework would help to make rural development policies more sustainable. At the same time, it would strengthen the formal institutional framework for participation and inclusion, since it would have clear objectives justifying its existence: i.e. prioritizing public and private investments. This will also contribute to modernization of the Guatemalan State, which is essential for achieving genuine development and successful participation by Guatemala in the economy of the twenty-first century.

(Original: Spanish)

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