

## **DISTINGUISHED FRIENDS:**

For the different sectors that form Guatemalan society as well as for the main actors of the international community, compliance with the Peace Agreements is the main tool through which the country's political, social, economic and cultural development can be reached.

The Peace Agreements have become a point where different types of thoughts and visions of Nation converge. For this reason, the Guatemalan Government works in favor of compliance with them, because it recognizes the value and importance that society has given them. Also, it believes and trusts that, through their implementation, improvement of the citizens' living standards will be achieved, in a maintainable and sustainable way and in the long term.

In this context, the Guatemalan Government together with the Inter-American Development Bank has again summoned the Consultative Group with the object of acquiring political, technical and financial support, directed towards giving continuity to the actions that began within the framework of compliance with said Agreements. Also, the advances that the Government has achieved regarding the following of the nine commitments acquired in the Consultative Group that took place in February 2002, in Washington, will be made known

This executive report contains a synthesized description of the successes achieved. It reflects the Government's work regarding the goals that are above temporality, emphasizing that each advance in itself contains a series of decisions, measures and wills adopted and agreed upon by the State and society together.

The Guatemalan Government wishes to state its confidence that this meeting of the Consultative Group will contribute to strengthen the international community's belief in the country, its authorities and its people.

We are well aware that there is still a long way to go. However, we reiterate our commitment with Guatemala and with peace consolidation.

Cordially,

Eduardo Weymann  
Minister of Public Finance  
Guatemalan Government

# **ADVANCES OF THE NINE COMMITMENTS ACQUIRED IN THE WASHINGTON, DC. CONSULTATIVE GROUP FEBRUARY 11 AND 12 OF 2002**

## **I ACCELERATION OF COMPLIANCE WITH THE PEACE AGREEMENTS**

### **Rural Development**

The Guatemalan Government prepared a rural development policy that recognizes related points in the different proposals presented by farmers' organizations, the private sector and non-governmental organizations. Said policy is inspired in the principles of participation, solidarity, subsidiarity, inter-culture and multi-culture.

The proposal was presented at the beginning of 2003 and is being channeled through the Rural Development Inter-sector Table promoted by the United Nations System, the Organization of American States and the Government.

Together with the above, The Secretariat of Agrarian Matters was created in mid 2002, which plays an integrating roll to facilitate and counsel the work of the ordinary Government entities, for each one of the aspects of the agrarian subject.

Regarding access to land, during the period 2000 2002 the Land Fund, FONTIERRA, favored 12,979 families. During 2002, it delivered 29 farms distributed in four groups of uprooted population and 26 hectares with a value of Q.113.3 millions. The delivery of farms is accompanied by supervision of the projects being undertaken there, in order to achieve an optimum exploitation of the delivered resources.

With the object of permitting access to productive raw materials and promote agricultural productivity of the small farmers, 2.4 million sacs of fertilizers were distributed in the country's 331 municipalities, thus benefiting 650 thousand inhabitants. Also, loans for irrigation infrastructure were distributed and livestock infrastructure, electric energy introduction and gathering centers projects were promoted.

### **Multi-cultures**

In compliance with the Agreement on Indigenous Peoples Identity and Rights, the Presidential Committee Against Discrimination and Racism against Indigenous Peoples was made official by the Guatemalan Government. Said institution is formed by five members that represent

the country's cultural plurality, who were elected through a consultation system with the indigenous organizations.

Regarding decentralization and citizens' participation, the Guatemalan Government is promoting access to radio frequencies for indigenous projects. To that end, it issued government agreements that allowed civil society organizations to promote the constitutional, inter-cultural and development values and which, at the same time, do not have access to the media, the possibility to participate in the cession concourse for the right to use the frequencies, without payment and for a period of 15 years, which may be renewed. This summons was published in December of 2002, and to date the Committee for the Adjudication of Radio-electric Frequencies is in the process of depurating the files received, for their adjudication.

In matters of access to justice, the Public Ministry implemented the District Attorney's Office for Indigenous Populations. In the same way, six ethnical penal defense offices have been installed, which are contributing to the multi-cultural and multi-lingual strengthening of the law, thus improving the conditions of access to justice for these peoples.

On its part, the Judicial Branch now has bilingual personnel for their attention, among who are 43 judicial interpreters, 93 judges, 323 justice auxiliary personnel and 86 administrative employees.

Because language is one of the pillars that support culture, the educational system has promoted bilingual and inter-cultural education within the framework of educational reform, transforming the educational content with criteria associated to cultural plurality. In this context, teachers were trained, the creation of inter-cultural bilingual education schools was promoted and 67 thousand scholarships were granted to indigenous girls.

### **Decentralization**

During the present Government period, the State's openness towards citizens' participation has been increased. Therefore, three new laws were issued: The Municipal Code, the Law of Development Councils and the Decentralization General Law, which allow the simplification, decentralization and lack of concentration of public administration.

The multi-ethnical, multi-cultural and multi-lingual character of the Nation is expressly recognized therein, as well as its formation in peoples. Besides, it admits the principle of juridical capacities of the indigenous communities and populations. With said laws begins the structural reform of the State's organization, incorporating ethnical and cultural criteria from the local social base. In other words, an institution to strengthen local power.

## **Women's rights**

With the object of giving women active participation in decision-making, civil society organizations and members of the Women's Sector with the support of the Women Forum and some public institutions, promoted the discussion of the preliminary project of the Law to Prevent and Sanction Sexual Harassment Conducts and proposals were made to reform the Labor Code. Both initiatives are in Congress for their approval.

The National Civil Police Office of Gender Equality was created. An institutional diagnosis is being prepared through that office, which tries to disclose the gender equity situation that exists in the institution, so that actions may be taken to promote more women's participation and leading roles.

## **Educational reform**

As part of the educational reform process, transformations in the national curriculum at the infantile, primary and middle levels are being promoted. Said modifications contain innovative criteria regarding cultural, linguistic and gender pertinence.

The total coverage of primary level reached 2.1 million students in 2002. Of the total number registered, 47.2% were female and 52.7% were male. The net school attendance rate increased to 88.5% this year.

Uprooted population was attended through a plan to guarantee incorporation into the National Educational System for populations that are victims of the armed conflict. In that context, 20 thousand boys' and girls' scholarships were delivered to children from this sector.

The process of teachers' professionalism also began in 2002, in which about 62,000 teachers participated. This project had 400 pedagogic mediators, as well as the support of three of the country's universities.

## **Reconciliation**

In accordance with the Global Agreement on Human Rights, social reparation programs for the victims of the armed conflict were promoted, especially in those cases of human rights violations, widows and less-favored communities of the rural area. In this area, exhumations were supported and accompanied; cultural and victims' dignifying was promoted, as well as the friendly resolution of human rights' violations.

It is worth mentioning that the design of the Reparation National Program was finished, which was done together with the Multi-institutional Instance for Peace and Harmony that represents the organized social organizations. Said program puts forward a series of

challenges from an integral reparation concept, divided in four areas: material, psychological and social, rehabilitation, and dignity of the victims.

With an initial base of Q.10 millions destined to the preparation of pre-investment studies for the programs to be implemented, and Q.70 millions that came from the Peace Bonds, its execution will begin in 2003. This program is designed to cover an eleven-year period, for which a project of law has been sent to the Congress of the Republic, so that it may have the highest possible performance.

### **Reduction of military forces**

In 2002, the Ministry of National Defense advanced in matters concerning the restructuring of the Army. Regarding land forces, it deactivated 18 military posts; converted two posts into military security and destined four pieces of land for military training areas.

A proposal to create military regions in the country is under study. In this sense, the creation of eight land regions, three serial regions and two naval regions is being suggested, whose approval would be a complement to the deactivation of several details and the return of the land to the State and, therefore, to civil society.

Regarding the commitment to reduce Army personnel, as well as to reorient the use and distribution of its budget, the President of the Republic and the armed institution's high command are working on a program for reduction and demilitarization.

The total cost of the Army's reduction means an extraordinary investment of approximately US\$150 millions. Even though Congress has approved this amount within the 2003 budget, it has been decided to make the reduction in three states between 2003 and 2005, thus avoiding a deficit in this year's budget execution.

### **Security and intelligence**

The Guatemalan Government is working in the dissolution of the Presidential Staff, as established in the Agreement for the Strengthening of Civil Power and the Army's Function in a Democratic Society.

In such context, the Presidential Staff (EMP) Demobilization Program was put into effect, which is divided into three stages, established for the years 2002 and 2003.

Parallel to the above, the institutionalization process of the Secretariat of Administrative and Security Affairs, SAAS, is being strengthened. This entity will substitute the Presidential Staff. The SAAS will be in charge of the security for the President, the Vice-President, ex-Presidents and ex-Vice-Presidents as well as that of their families.

A government resolution was issued to create the Security Advisory Council, CAS, which is an autonomous and permanent public institution representing civil society, through which strategic proposals will be presented addressed to the President of the Republic. At this time, the Government has consulted with civil society for its official installation.

### **Labor sector**

As part of the work promoted by the Infantile Work Eradication National Committee, the first pyrotechnic products factory without infantile labor was founded. This factory is located in the Cerro Alto village, San Juan Sacatepéquez, department of Guatemala.

This committee has a National Action Plan prepared jointly by workers, employers and government entities. It will be delivered to the Congress of the Republic in 2003 for its approval.

As a benefit for agricultural workers, and *ad hoc* group was integrated, which will supervise the protection of migrant workers that cross the border between Guatemala and Mexico. Also, an office was created at the border to facilitate the passing of agricultural workers, as well as to give them technical training.

The Government installed a labor table in the department of San Marcos, formed by the Office of the Human Rights Prosecutor, the Ministry of Labor, the San Marcos Diocese, field workers and civil society representatives. Talks were held with Canadian and American authorities to obtain temporary work slots in the agricultural sector of said countries.

## **II ADEQUATE BUDGET ASSISGNMENTS GUARANTEE**

The policies promoted by the Guatemalan Government include measures directed to face the country's economic problems and to give new vigor to the implementation of the Peace Agreements.

Among them are, the readapting of the policy for indebtedness, priorities and expense retaining, as well as the strengthening of healthy financing sources. Said actions are within a plan oriented towards transparency, dynamism and efficiency of public work.

The international community roll in accompanying Guatemala in this effort has proven to be crucial. It is important to mention particularly the support by the International Monetary Fund to the economic program that Guatemala successfully implemented in 2002.

The results of the implemented economic program showed significant advances in the reaching of minimum indicative goals that the Peace Agreements contain in fiscal matters. In this sense, during 2002 the Government's fiscal deficit was 0.7% of the Gross Domestic Product, GDP, which result is one of the determining conditions of macro-economic stability in the country reached during that period.

Besides the prudent performance of public finance, the coordination among state institutions had the effect of the combined public sector deficit being within the limits established for the economic program, reaching 1% of the GDP. The executed public expense in 2002 was 12.3% of the GDP, which responds to the outline established by the Fiscal Pact and the Peace Agreements and also complies with the levels considered in the economic program supported by the IMF.

Regarding the social expenses mentioned in the Peace Agreements, the Guatemalan Government honored the minimum indicative goals, in a global way, so that the executed total social expense for 2002 reached an amount equivalent to 5.1% of the GDP, representing 41.6% of the total expenses of the Central Government.

### **III FISCAL SITUATION**

After the Stand-by Agreement signed with the IMF, the Guatemalan Government registered some expected results, among which is to obtain a tax load of 10.7% of the GDP in the year 2002.

The administrative actions were oriented towards a greater efficiency in tax collection and control of the tax debts, detecting and combating tax non-compliance, achieving employee professionalism and having systematic and transparent working plans.

Among the measures adopted are the electronic customs clearance certificate, the increase of the number of taxpayers and the deputation of the lists. Also noteworthy is the beginning of a payment system by Internet and BancaSAT to decentralize collections, the implementation of fiscal operations at customhouses, the improvement of the supervisory systems and the recuperation of tax debts through the coactive or administrative process.

Regarding the increase of the taxpayer base, a project of General Fiscal Census was started, which ended its first stage of three. The total of deputed registries in 2002 was 68,570. In January 2003, 21,663 registries were updated at the Unified Tax Registry, RTU. This activity was done through the Income Tax annual statements. To this date, the total of registries that have been deputed is 40% and it is expected to finish the process during the current year.

Together with the depuration process, fiscal operations were implemented as a tool to aid in the expansion of the tax base. Non-registered taxpayers were detected through this process, which allowed sanctions to be imposed in 3,643 cases.

In 2002, Guatemala reached the highest tax load in its history, as a result of the implementation of the Tax Reform and the administrative improvements implemented by the Superintendence of Tax Administration, SAT. The tax load reached 9.6% in 2001, 10.6% in 2002. That is an increase of 0.96%.

In net terms, the accumulated tax collection as of December 31, 2002 reached Q.19.294 millions. This amount is higher by Q.601.9 millions (3.2%) than the amount estimated in the Nation's Income and Expense Budget corresponding to that year (Q.18,692.8 millions), and Q.3,367 millions (21.1%) higher than tax collection in 2001 (Q.15,927.7 millions).

#### **IV OPENING OF THE CONSULTATION PROCESS ON THE POVERTY REDUCTION STRATEGY**

Through the Planning and Programming Secretariat of the President, SEGEPLAN, the Guatemalan Government promotes the discussion and analysis of the Poverty Reduction Strategy, ERP, among different sectors of the organized civil society. Also, it is preparing a ERP for each of the country's 22 departments, together with the Municipal Councils.

To date, the process of ERP preparation has been concentrated in 120 municipalities that represent 36% of the national total. Fifty-eight percent of the municipalities where they are being prepared, present rural levels that are higher than 75%; 49% show indigenous population of more than 75%, and in 42% of the municipalities, poverty affects more than 75% of the population. The municipal ERP's will be finished this year.

In all the country's departments, national and multi-lateral institutions support the preparation of ERP's. The national ERP will be prepared from the 22 departmental ERP's. It will be ready during the first semester of the current year.

It is important to note that for the execution of Government strategies, especially the ERP, SEGEPLAN has the support of the National System for Public Investment, SNIP, and the National System of Pre-Investment –Financing, SINAFIP. The SNIP has been incorporated as a special chapter in the project for the new Organization Law for the Budget, which will be presented to the consideration of the Congress of the Republic.



## **V APPROVAL OF A FINANCIAL SECTOR INTEGRAL REFORM**

In the financial sector, the Guatemalan Government had as fundamental commitment the approval of the new financial legislation by Congress. Said commitment was complied with when, on June 1, 2002, the Congress of the Republic approved the Organic Law of the Bank of Guatemala, the Monetary Law, the Law of Banks and Financial Groups and the Law of Financial Supervision.

In the same manner, it had the goal to reduce inflation and maintain an adequate level of international monetary reserves. As a consequence, the central bank kept a disciplined monetary policy, coherent with a balanced fiscal situation and the strengthening of the banking system. For 2002 it was considered that inflation would be between 4% and 6%, and that the monetary issue would grow approximately 8%.

### **Monetary sector**

The stand-by agreement signed with the IMF contains a series of criteria regarding the monetary and fiscal parameters that must be complied with quarterly. In the monetary sector, the central bank had to comply with two performance criteria. The first refers to minimum international monetary reserves, for an amount of US\$2,091 millions, and the second corresponds to a ceiling of net internal assets, for – Q6,628 millions.

As of December 31, 2002, the International monetary reserves reached US\$2,289 millions, exceeding the goal by US\$198 millions, while the net internal assets were at –Q.8,313 millions, which represent Q.1,685 millions below the mentioned ceiling. The net position of the Central Government with the Bank of Guatemala contributed to obtain these results, which was at Q.4,901 millions, that means Q.63 millions under the maximum limit.

In the meantime, international reserves were at satisfactory amounts for the size of the country's economy (Q.23,67919 millions accumulated as of December 2002), which is complemented with the patrimonial reestablishment of State assets for an amount of Q.16 thousand millions, and with loans from the IADB and the IBRD for US\$355 millions and US\$155 millions, respectively. These resources have been destined to maintain stability of the national financial system, to prevent eventual bank crises.

### **Strengthening of the financial sector**

Concrete measures were taken for putting the financial system on a sound basis, which will allow the withdrawal from the market of some banking institutions, in an orderly manner. In this context, the State

considered necessary to capitalize the Crédito Hipotecario Nacional so that it could absorb the Banco del Ejército and the Banco del Nor-orienté, in an orderly merger process.

It should be mentioned that this mechanism is of an exceptional nature, while the integration of the Banking Protection Net is completed, which includes the capitalization of the Savings Protection Fund, SPF, to which the government has contributed more than Q.35 millions. Also, with the objective of strengthening the banking security net, the Congress of the Republic approved the creation of the Bank Capitalization Fiduciary Fund, which will be used to financially support the process to put on a sound basis and strengthen the national financial system. The start of this fund is in process.

On the other hand, the Legislative Branch approved several financial laws, whose objective is to modernize this sector and to create favorable conditions for foreign investment and good practices demanded by the international community. As mentioned before, these laws are: the Organization Law of the Bank of Guatemala, the Monetary Law, the Financial Supervision Law, the Law of Banks and Financial Groups. These laws together with the taking of effect of the Law of Free Foreign Exchange Negotiation, constitute the support for a healthy financial system.

## **VI END IMPUNITY, IMPROVE CITIZENS' SECURITY AND GUARANTEE OF HUMAN RIGHTS**

### **Human Rights**

The Guatemalan Government, through the Presidential Committee of Human Rights, COPREDEH, worked on a proposal from the Executive in matters of Human Rights, called National Action Plan. This proposal has been consulted with the civil society through different workshops that took place in different parts of the country.

This initiative has the approval of the Presidency of the Republic and the High Level Committee, integrated by COPREDEH, the Ministries of Foreign Affairs, of the Interior and of National Defense, the Peace Secretariat, and the Public Ministry. Civil society has expressed its interest in having this proposal assume the commitment to establish the bases for national reconciliation.

It is foreseen that the National Action Plan will be finished by this year, once the observations are incorporated into the matrix that has been presented before government entities and civil society.

On January 16, 2003, because of numerous accusations received, the Human Rights Prosecutor issued a resolution in which he recommends to the President of the Republic to send a law initiative to Congress to

create the Investigative Committee of Illegal Bodies and Clandestine Security Devices, CICIACS. The Government has agreed to design such entity, through the Human Rights Watch international organization, as well as its range and limitations. The integration and participation of UNO and OAS representatives has also been requested.

### **Reform and modernization of Justice Administration**

The Coordinating Office for the Modernization of the Justice Sector, ICMSJ, started three Justice Administration Centers in different zones of the country's interior. The Judicial Branch continued to enlarge its courts infrastructure that included remodeling of 24 peace courts and building 12 more.

On the other hand, 16 new mediation centers were created, which have uncluttered the justice tribunals. With them, the dialog culture, pacific conflict resolution and the reduction of litigation costs have been promoted. Mediators receive training courses to assist people in their own language, according to the particular and traditional forms of the communities' conflict resolution.

## **VII REACTIVATION OF ECONOMIC GROWTH**

### **Competitiveness**

With the object of making it easier to coordinate actions between the government and business sectors, the Competitiveness National Program was created. Besides the participation of government representatives, the presence of the organized private sector is important, which is represented by the Chamber of Tourism, the Exporters of Non-Traditional Products Trade Union Association and the Federation of Small and Medium Enterprises.

Their activities are being oriented towards improving the country's competitive level, through the improvement of the business climate, the development of micro, small and medium enterprises, and through the formation of clusters.

This program has been strengthened by the subscription of a loan with the World Bank, to finance the projects and actions in support of the country's competitiveness.

Because of the fall of international coffee prices and considering the perspectives of the grain's future, the Government began the execution of the trust fund denominated Financial Support to the Guatemalan Coffee Sector. It is expected to restructure the coffee-growers' bank debts with it. In that context, the Congress of the Republic approved the negotiation and issue of treasury bonds for a total of US\$100 millions.

Up to June 2002, Q.298 millions had been executed, with an average of US\$31,800 per beneficiary.

### **Opening of the economy to the internal and external market**

The Legislative Branch approved the Consumer Protection Law, which substitutes Decree 1-85, which did not have the legal instruments to allow the consumer's and user's full defense. This law has been qualified as modern and based on international standards.

The Office for the Attention and Assistance of the Consumer, DIACO, has done a permanent vigilance job in order to protect the consumer's rights. To this effect, it attends the accusations presented through a campaign called Cat for Hare (to swindle). Furthermore, it has given impulse to goods and services quality and price monitoring programs.

Facing the challenges of a world economy that increasingly globalizes every day, the Government of Guatemala has given priority to the commercial negotiations agenda, with the object of increasing and improving access to production that can be exported from the country to external markets. This can be done through negotiation and execution of Free Trade Agreements and other bilateral, regional and multilateral agreements.

At present, there are three commercial treaties with third countries that are in force: Free Trade Agreements CA3-Mexico, Free Trade Agreements CA-Dominican Republic, and Partial Scope Agreement Guatemala-Cuba. Also, six more are being negotiated, among which are the Free Trade Agreements with the United States, Canada and the NAFTA.

Because of the favorable impact of external opening of the national economy, the goods and services domestic market competition is being promoted and strengthened and, therefore, higher efficiency levels in the productive activity are being encouraged. Regarding the deeper commercial opening process, it is important to notice that during the last five years, the customs duties applied in Guatemala registered a market tendency to decrease, having passed from the tariff average of 8.4% in 1998 to a 5.2% in 2002. It is foreseen that once the free trade agreements are in force, the average of the import tax tariff will show a behavior towards even greater reductions.

### **IX DIALOG PROMOTION AND NATIONAL UNITY**

The Guatemalan Government believes that coordination and dialog are fundamental pillars in a democracy. Therefore, it has tried to promote them in each of the areas of the State's activity, in order to achieve

empowerment of public policies with each one of the social sectors and groups.

In that context, communication channels have been opened and nourished both formally and informally, with union sectors, farmers, Indians, human rights groups, rural area, political sectors and the private sector.

Since the Consultative Group of February 2002, together with United Nations Organization and the OAS, the Government began the so-called Inter-Sector Dialog Tables, whose objective is to ease the discussion processes between different social actors and the State. Through the generation of mutual trust conditions, efforts are being made to create a better governing climate and a strengthening of the frame efforts for compliance with the Peace Agreements.

Also, the effort is being made to maintain and deepen the dialog spirit that has prevailed in the Consultative Group, creating spaces in which constructive interchange is generated, consensual agendas are planned, and actions and activities are identified that the State and participating actors can develop. The Inter-Sector Dialog Tables are trying to reach connected and substantive agreements.

To this date three tables are operating: Peace Culture and Reconciliation; Indigenous Population, and Political Defense Consultation. Meanwhile, the Economic Development and Rural Development tables are ready to be installed. A sixth table on Human Rights, Justice and Security, is also in an advanced stage of preparation and close to installation.

The Inter-Sector Dialog Tables are independent from each other. Each one is specific because of the methodology, execution time, themes covered and actors summoned. However, they have in common that they are as open and inclusive as possible, rejecting any type of conditioning or veto. They are promoted with the idea of national interest prevailing over sector interests and they are spaces to treat substantive and not occasional problems of the Peace Agreements.

The international community has an active participation in the process, assuming three basic roles: 1) Joint sponsorship through OAS and United Nations Organization; 2) Participative, providing technical and methodology criteria that are useful to make way for dialog, and 3) Honor witness, guarantor of the dialog rules and monitor of compliance with the agreements reached.

## **VIII INCREASE OF TRANSPARENCY**

After the meeting of the Consultative Group in February 2002, the Guatemalan Government signed a letter of intentions with the World Bank that means a commitment to begin reforms in the system for prevention, control and sanction of impunity, with participation of civil society and the international community.

The constitution of the National Committee for Transparency and against Corruption has been one of the most important participation exercises done together with different sectors of society. To reach its creation two national workshops were done, with participation of up to 120 delegates from the State and civil society.

Said committee is in charge of making a diagnosis on corruption in the State, its causes and effects, as well as the lack of transparency in public administration, the private sector and civil society. In the same manner, it will design a strategy that establishes measures and actions to combat and eradicate it.

The corruption accusations within the Department of Anti-drug Operations – DOAN, of the National Civil Police, have as a result the disarticulation of that office and the implementation of the Anti-drug Analysis and Investigation Service, SAIA. The results since it started, have been encouraging.

On the other hand, the Government has given all types of facilities and support to the Public Ministry in the investigation of social impact cases, where severe corruption and influence trafficking are presumed. Some of the most notorious among them are the one of the Crédito Hipotecario Nacional, the so-called Twin Banks and the Ministry of the Interior.

At the same time, the Judicial Branch has integrated a Committee to Combat Corruption that has representatives of the justice operators and the civil society, and whose results are in process.

As to compliance with the Fiscal Pact, to effort has been centralized in keeping a fiscal balance based on a moderate deficit, which has contributed to macro-economic stability. In 2002, an important effort was made to increase the tax load, achieving an important increase.

Also, additional measures were adopted in non-tax matters, that ensure the integral fiscal reform in subjects such as the modification to the Tax Code and the Penal Code, and other dispositions with the object of improving the quality of information, such as links with the Integrated System of Financial Administration, SIAF, the Congress of the Republic and the National General Accounting Comptrollership.

## **XI HAND IN HAND WITH THE MICRO, SMALL AND MEDIUM ENTREPRENEUR**

The Ministry of Economy continues to promote the National Program for the Micro, Small and Medium Enterprise. Said program has the objective of reducing the poverty levels through the increase in the generation of income and productive employment.

It gives financial assistance in appropriate conditions, as well as entrepreneurial technical assistance services. It is directed to men and women dedicated to productive activities in services, industry, agriculture, handicrafts, commerce and tourism, with the financial intermediation of non-banking institutions. It also contemplates direct financial assistance for duly organized groups of producers.

It must be highlighted that a good part of the program's success is attributed to the fact that loans are given in an agile manner, and the possibility of accepting non-conventional guarantees. Also, participation of non-banking financial intermediaries has been a determining factor in having almost no defaulting loans. To this date, about 35 intermediaries have participated, among base associations, service foundations, non-government organizations and first degree cooperatives, many of which are affiliated to the National Federation of Credit and Loan Cooperatives, FENACOAC.

All operations with the trust funds are approved in a National Council that has representatives of the public and private sectors. The decisions are adopted with a majority vote of its members, based on projects that have the support of technical studies of the Vice-ministry of Economy.

Since 1995, the program has approved loan operations for an approximate total of US\$30 millions that have benefited nearly 65 thousand micro, small and medium entrepreneurs in the country. Around 60% of the loans were granted to enterprises in the rural area.

As of 1999 the training and technical assistance activities have been intensified especially in commerce, with which 30 thousand beneficiaries have been reached. Others were assisted in association groups. At present, six associations are being supported, with direct attention to 700 handcraft producers.

The success that the program has reached has opened perspectives for duplicating operations in the short term. Through a loan granted by the Central American Bank of Economic Integration, BCIE, in 2003 the program will have US\$30 millions more. This is only pending approval by Congress.

## **SPECIFIC FOLLOW-UP REPORTS**

### **X SPONSORING INTEGRAL RURAL DEVELOPMENT**

For the Guatemalan Government rural development is a process of change in the lives of rural men and women, through economic growth with social equity and productive methods and consumption patterns that sustain ecologic balance.

Therefore, in the period 2000-2002 the Government's direct investment in this matter reached Q.5,722 millions, which has been possible thanks to the decided support of the international community. Said amount includes the joint actions among the Ministry of Agriculture, Livestock and Nutrition, MAGA, the social funds and some specific projects.

The MAGA in particular, destined 95% of its budget to direct investment in actions oriented towards attention to rural area small and medium producers. It destined Q.1,984.8 millions to the execution of the rural development policy, distributed in the following manner:

#### **MAGA's Budget Execution, Total and oriented to Rural Development (in thousands of quetzals)**

| <b>Year</b>  | <b>MAGA's total budget execution</b> | <b>Budget execution oriented to rural development</b> |
|--------------|--------------------------------------|---|
| 2000         | 397,390.0                            | 356,728.6   |
| 2001         | 879,391.0                            | 847,080.8   |
| 2003         | 818,430.1                            | 781,024.9   |
| <b>TOTAL</b> | <b>2,095,211.1</b>                   | <b>1,984,834.3</b>                                    |

The main financing sources for the investments made by the MAGA in matters of rural development, are: 56% with Treasury resources (33% with ordinary income and 23% with funds of cash and bank decrease); 22% with Treasury resources affecting specific accounts (tax income, IVA-Paz and other Treasury resources); 1% with institutions resources; 16% with external loans, and 5% with donations from abroad.

### **I COMPLYING WITH THE PEACE AGREEMENTS**

Through the Peace Secretariat, SEPAZ, the Guatemalan Government continues to comply with the Peace Agreements, by treating the five thematic axels established in the Agreements on the Timetable to Implement, Comply and Verify the Peace Agreements. These are as follows: 1) Resettling, 2) Incorporation and Reconciliation; 3) Integral Human Development; 4) Sustainable Productive Development, and 5) Modernization of the Democratic State.



Spreading of the Agreements as well as the definition of the roll that each State office has in their compliance, was followed-up through the work of the bilateral, non-bilateral and specific committees.

Regarding the Agreement on Indigenous Peoples Identity and Rights, there were programs promoted together with the Post of Defense Counsel for Indigenous Women, as well as formative workshops directed towards organizations such as Copmagua, Cnoc, Comg, Adim and Majawil Q'ij, among others.

Parallel to the above, the revision of the current legislation on the Cultural Patrimony, Spirituality and Sacred Places of the Indigenous Peoples was promoted.

Attention to populations affected by the armed conflict was continued. In this context, 1,120 houses were delivered and 5,478 subsidies were approved in 12 of the country's departments, benefiting the same number of families. This is part of the first phase of the Housing Program for uprooted and demobilized population.

Also, 24 exhumation projects and three burials were executed in the departments of Chimaltenango, Huehuetenango, Alta Verapaz and Petén. The victims' families were accompanied and oriented during the forensic process before the Public Ministry, in the ocular inspections and before the Civil Registry.

In compliance with the Agreement on the Strengthening of Civil Power and Army's Function in a Democratic Society, the President of the Republic approved a new military doctrine that restructures, modernizes and professionalizes the armed institution.

A plan directed towards the disarticulation of military details located in different parts of the country was executed. The process was divided in three phases, between October and December of 2002. During these phases it was possible to deactivate 18 military units.

## **II GENERATING TRUST IN OUR ECONOMY**

With the purpose of consolidating trust of the economic agents as to the macro-economic performance, in 2002 the monetary, exchange, and credit policy of the Bank of Guatemala was addressed to propitiate stability of the general price level and to avoid volatility in the money and exchange markets.

Within this frame, a strategy addressed to four fundamental action areas was applied: 1) Strengthening of the currency through free circulation of foreign currencies; 2) Coordination with the State's financial policy; 3) Sustainability of the current account deficit of the

balance of payments, and 4) Negotiation of a macro-economic program with the International Monetary Fund, IFM.

The implementation of active monetary and fiscal policies thus far in 2003 has allowed the consolidation of stability in the main macro-economic variables. In the external sector, the international monetary reserves as of March 5, 2003, were at US\$2,424.3 millions, which amount is higher in US\$54.7 millions than the balance registered on December 31, 2002 (US\$3,369.9 millions).

The exchange rate has continued to be stable. As of March 5, 2003, said variable was at Q.7.83 per US\$1.00, while the level reached in December 2002 was of Q.7.81 per US\$1.00. Said behavior is attributed partly to the private capital flows that have entered the country from neighboring country investors, as well as to the increase of family remittances and the placement of Peace-Bonds.

As far as weighted average interest rates both on deposits and loans of the banking system, they continued with a tendency to stabilize at lower numbers, going from 16.2% and 6.8% on December 26, 2002, to 15.76 and 6% respectively as of March 6 of the current year.

In matters of inflation, so far this year it is at 5%. This number is significantly lower than that observed during the same period of the previous year (9%). This result is a consequence of the implementation of an active monetary policy and to the discipline directed towards the consolidation of stability in the general price level.

In the fiscal sector, the objective was to reduce the combined deficit of the public sector, reorienting public expense towards social expense and to prevent the contingencies of the banking system restructuring. In this sense, fiscal policy had the goal in 2002 of reducing the combined deficit of the public sector to 1.5% of the GDP. According to figures of the Ministry of Public Finance, towards the end of 2002 the Central Government's deficit was 1% of the GDP.

## **THE BALANCE OF THE PEACE AGREEMENTS AND THEIR INSTITUTIONALITY**

Contrary to other societies in a post-war period, Guatemala has not gone through a rearming of the parts nor has there been revenge after the end of the armed conflict. This is an achievement worthy of being mentioned and recognized.

One of the achievements of the Peace Agreements has been the opening of spaces for the participation of different social protagonists and of all the ideological and political currents. This great array of social sectors and political forces has formed the main sustenance of the democratization process that is beginning to show in our country. Even

though reciprocal mistrust has not been overcome, new practices have begun of the relation between the State and civil society that work with their ups and downs among the social tensions that are yet to be resolved. Several social actors such as women, farmers, indigenous peoples, handicapped persons, environmentalist organizations, human rights advocates and others have taken advantage of the spaces to strengthen their movements. These movements, at the same time, have made the contents of the Peace Agreements part of their respective agendas and have promoted the start-up, from their sector's perspective.

The Peace Agenda has been legitimized by the political discourse as *commitments of the Guatemalan State*. At the same time, based on agreed-upon proposals and on social pressure and mobilization, some State institutions have begun to be transformed, accepting the definition of public policies and institutional changes that are derived from the Peace Agreements.

However, the population's scarce knowledge of the Peace Agreements and the low impact of compliance with the commitments in their daily life have provoked a lack of interest towards them. In civil society and its organizations there has been a certain degree of dispersion and fragmentation, and therefore they have been unable to exercise an effective pressure towards the State so that it will comply with the commitments.

When the constitutional reforms were not approved in the Popular Consultation in 1999, some of the Peace Agreements' strategic themes have remained set for a later social and political pressure process for their adoption, which has been impossible to constitute into a moral and political force sufficient to make existing political forces to comply with these fundamental commitments.

There are a number of laws and public policies derived from the Peace Agreements that were presented by different actors of Guatemalan society, with the participation of Government institutions and supported by the Peace Agreements' Accompaniment Commission which, after several years of having been formulated, have not been approved or are not yet in force.

The international environment is significantly different from what it was six years ago. The logic of international cooperation favors the macro-economic balance and, on the other hand, the Peace Agenda competes more every time with other type of international agendas.

### **Rights and identity of indigenous peoples**

The Agreement on Indigenous Peoples' Identity and Rights has started a development and conscience consolidation process among the

indigenous peoples regarding their rights as a people and their condition as a discriminated people.

Also, the conscience of belonging to a diverse and plural nation in cultural and ethnical matters has begun among big sectors of the population. However, the transformation of the laws and public policies that tend to end discrimination towards indigenous peoples is still only beginning and there is indifference and resistance from important actors of national life.

The transformation process of traditions and prejudices that are reflected in daily life is even more complex. Actually, social, economic, political and cultural discrimination towards indigenous peoples is still very much alive in the country, without it being perceived by many Guatemalans.

### **Access to land and rural development**

In compliance with the content of the Agreement on Social and Economic Aspects and Agrarian Situation, there have been advances in some aspects of the implementation and functioning of the Land Fund. Even though this mechanism is important and necessary, it is insufficient to respond to the demand for land and the urgent need for agrarian transformation.

No formulas have been found to recuperate the indigenous communal lands and those adjudicated in an irregular manner. Also pending is the approval of various laws and policies regarding the agrarian subject, among them the Law of Information and Cadastral Registry.

### **Fiscal system**

The State's low income continues to be one of the major problems of the process to implement the Peace Agreements. Notwithstanding efforts made by the Peace Agreements' Accompaniment Commission to increase the tax load, the actions taken by the Government and international pressure, there is still a systematic resistance characterized by a culture opposed to paying taxes.

At this time the goal to elevate it to 12% of the GDP continues to be postponed, even though the economic conditions are not the same as those prevailing in 1996. Neither has the economy grown at 6% of the GDP as estimated in the Peace Agreements. With a low tax load and a resistance to its increase, it has not been possible to comply with important commitments and obligations, especially in matters related to social development. Expense execution is also deficient. Efforts have been made through the Integrated System of Financial Administration, SIAF, to ensure transparency and improve efficiency.

## **Resettling and incorporation**

The State has complied with the commitments regarding access and compensation of rights on land for the resettlement of up-rooted and returned population, partially with the contribution of housing solutions.

As to the incorporation process of the demobilized URNG persons, according to the corresponding agreement, it is in its final state, whose main characteristic should be its sustainability, through access to social and economic programs.

Consensus was obtained for a Compensation National Program, with the purpose of repairing, compensating, restituting, rehabilitating and dignifying the victims of the armed conflict, as established in the Agreement of Human Rights and the recommendations of the Commission for Historic Clearing.

## **Women's participation**

In the majority of Peace Agreements, specific commitments were included directed to strengthen women's participation in political, economic and social spheres. Also, the State assumed the obligation to promote the elimination of all form of discrimination against women and to incorporate the gender perspective in the development of strategies, plans and programs.

Important advances have been made such as the opening of the Indigenous Woman Defense Office, the creation of the Woman's National Forum, the incorporation of the gender perspective in the educational reform and the inclusion of women's representation in several levels of the Law of Urban and Rural Development Councils.

Also, the women's movement has taken advantage of the political spaces that have been opened for the promotion of laws, public policies and institutions in favor of gender equality.