



COUNTRY PRIVATE SECTOR DIAGNOSTIC

# CREATING MARKETS IN GUATEMALA

Unlocking Private Sector Potential to Achieve Sustainable  
and Inclusive Growth and Economic Development

*Executive Summary*

September 2023

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# EXECUTIVE SUMMARY

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This Country Private Sector Diagnostic (CPSD) is a joint undertaking of the World Bank and IFC to identify policy reforms that will catalyze private sector investment and economic development in Guatemala over the next 3 to 5 years. It aims to support the Guatemalan government's efforts to facilitate the growth of a robust and competitive private sector. The intent is to identify barriers and opportunities for an increasingly dynamic private sector so as to boost its contribution to economic growth, job creation, poverty reduction and shared prosperity. The selected areas of focus, policy conclusions, and recommendations are consistent with the analytical framework presented in the Guatemala Systematic Country Diagnostic update,<sup>1</sup> which highlights the advantages of more spatially diversified development.

**Guatemala, Central America's largest economy, continues to struggle with modest rates of economic growth and high levels of poverty and inequality.** Between 2000 and 2019, annual gross domestic product (GDP) growth averaged 3.5 percent amid tight fiscal and monetary management,<sup>2</sup> but improvements in poverty and social development indicators were slow and uneven. The national poverty head count rate remains high at 56 percent,<sup>3</sup> the Gini coefficient is 0.45 percent, and 48.2 percent of the population lives in rural areas. Guatemala has among the highest gender inequality index scores and lowest rates of female labor force participation in Latin America and the Caribbean.

**With a small public sector, the primary role in driving growth and job creation must fall to the private sector.** However, private sector development and growth in Guatemala are constrained by several factors. As detailed in this report, these barriers include a weak business-enabling environment, lack of access to finance, infrastructure constraints, and governance constraints, among others. This challenging private sector-enabling environment creates substantive barriers to entry for both domestic and foreign firms, lowers returns to entry, limits competition as firms exert market dominance, and reduces innovation, thus significantly reducing potential private sector employment and productivity growth. Furthermore, these barriers lead to a flourishing low-productivity informal sector, which hinders growth in income per capita.

**Formal firms in Guatemala suffer from low levels of dynamism and innovation, which constrain their development and competitiveness.** The 2020 Global Competitiveness Report ranked Guatemala 98th out of 141 countries in business dynamism and 98th in innovation capability.<sup>4</sup> Because of low rates of firm entry, the average firm age increased from 17.5 to 28.5 years between 2006 and 2017, one of the oldest age structures globally. Rates of firm entry are also affected by the lack of antitrust regulation or a competition law in the country, which creates further barriers to entry for new companies, affects competitiveness, and diminishes the country's potential to participate in investment markets. The lack of dynamism is also reflected in businesses' reluctance to grow their workforce. Similarly, firms face an adverse innovation environment, as evidenced by the small and decreasing share of firms that report spending on research and development (15.5 percent) or process innovation (37 percent).

**The economy has undergone a shift from predominantly low-productivity agricultural activities to manufacturing and services, but quality jobs are limited.** Despite increasing employment, the growth of the services sector, which is focused mainly on the domestic market, has not generated the quality of jobs needed to sustain and improve economic outcomes. The sector is characterized by a large number of small firms that export little and operate mostly informally with low levels of productivity. Since 2014, employment opportunities in the formal sector have plateaued, leading to a decline in average income. Guatemala's large informal sector represents an average of 46 to 48 percent of GDP and provides 80 percent of total employment.<sup>5</sup> As the supply of workers seeking formal jobs rose while demand stagnated, wages fell by more than 10 percent during 2014–19, continuing a longer-term pattern.<sup>6</sup> Total investment remained low at an average of 13 percent of GDP during 2014–19, and a growing current-account surplus underscored the increasing movement of capital abroad. Consequently, creating better jobs for more people and decreasing incentives for economic migration will require a more dynamic and competitive private sector.

**Although unemployment in Guatemala is relatively low, high rates of underemployment pose a significant challenge.** For workers to be enticed out of inactivity, out of the informal sector and other low-productivity activities, and into the formal sector, more-attractive jobs are needed. Creating more and better private sector jobs will also reduce the incentives for migration, limit brain drain, and help the country capitalize on its demographic dividend. Migration in Guatemala is strongly associated with economic factors, specifically with unemployment and underemployment. Emigration, primarily to the United States, has increased in recent years, boosting remittance inflows, but migration and remittances are not a durable model for long-term growth, and accelerating domestic private sector job creation remains a critical policy objective.

**The jobs challenge in Guatemala is thus one of increasing both access to waged-employment opportunities and the quality of employment and wage levels.** The CPSD and the analysis that follows are therefore focused on addressing these two employment-related challenges by fostering and facilitating an increasingly dynamic, growing, and more productive private sector.

**Limited private sector growth and competition also limit nearshoring opportunities in expanding trade with Mexico and the United States.** Guatemala's dependence on a limited number of low-value-added exports restricts its growth potential. Guatemala's economy is at an intermediate level of diversification, producing relatively simple goods and services that many countries are capable of exporting competitively. Guatemala is also less integrated into the world economy than other countries with similar levels of income per capita. Economic transformation, facilitated by addressing the constraints noted in this report, would enable Guatemala to capitalize on greater gains from trade, while also generating more and better-quality private sector jobs linked to higher-productivity growth.

**The current administration is committed to a private sector-led development agenda aimed at boosting the country's social and economic recovery.** The Guatemala Moves Forward (Guatemala No Se Detiene) program, launched in 2021, includes an ambitious strategy to boost the output of 20 major export products by as much as US\$5 billion while creating 2.5 million formal jobs by 2030. The initiative establishes a roadmap to attract more foreign direct investment (FDI)

in high-potential sectors and key export-oriented industries over the medium term, particularly to benefit from apparent nearshoring opportunities. The plan also places a renewed emphasis on tackling skill mismatches through programs led and coordinated by the Ministry of Economy and by Programa Nacional de Competitividad (PRONACOM).

**While the private sector will remain the primary economic driver, the government must also address long-standing challenges in fiscal policy and public administration to better support robust private sector development.** Guatemala's public revenues and expenditures are among the lowest in Latin America and the Caribbean, amounting to just 12.2 and 13.4 percent of GDP, respectively, in 2021. Key laws and regulations are enforced unevenly or not at all. Private firms in Guatemala face a challenging business climate that impedes their growth and development. World Bank's Enterprise Survey and the World Economic Forum's annual Global Competitiveness Report highlighted the adverse impact on the private sector of political instability, corruption, crime, an inefficient government bureaucracy, and asymmetrical competition from the large informal sector.<sup>7</sup> Another World Bank report found that deficiencies in the regulatory environment limit the entry, growth, and competitiveness of formal firms.<sup>8</sup> High administrative costs, weak rule of law, time-consuming and costly contract enforcement processes, and cumbersome insolvency procedures are among the major obstacles facing Guatemalan firms. With an improved business environment, Guatemala could benefit from investment in strategic sectors, namely, in agriculture, recreational services, and light manufacturing, especially those related to food, such as production of meat and oils, which would reduce not only poverty, but also disparities among disadvantaged groups such as women, Indigenous people, and youth.

## Cross-Cutting Constraints

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**In the aftermath of the pandemic, the CPSD is timely in supporting the country to identify key constraints for private investment and formulate appropriate policy reforms.** The CPSD focuses on three cross-cutting issues that are long-standing fundamental constraints facing the private sector: (a) limited access to finance for micro, small, and medium enterprises (MSMEs), (b) infrastructure gaps, and (c) weak governance, corruption, and ineffective dispute resolution systems.

### Limited Access to Finance for MSMEs

**Access to finance, particularly for agricultural producers and MSMEs, is critical to employment generation, productivity gains, and inclusive economic growth.** Many MSMEs and agricultural producers in Guatemala struggle to access financing that meets their needs, constrained by high costs, excessive collateral requirements, rigid product design, and limited consumer protections. According to IFC estimates, the MSME financing gap in Guatemala is equivalent to 22 percent of GDP, more than six times the current volume of MSME financing.<sup>9</sup> The MSME financing gap in Guatemala is larger than that of several regional peers (such as Costa Rica and Honduras) as well as the regional average. Rural areas in particular have limited access to finance, with many commercial banks

concentrating their operations in the metropolitan area. Indeed, credit to the agricultural sector accounts for less than 5 percent of the banking system's total portfolio.<sup>10</sup> Channeling greater volumes of financing through the formal financial sector requires: documentation and collateral requirements that correspond to the population's socioeconomic conditions, accelerated decision-making processes, convenient financing conditions (that is, amount, rate, term, and frequency of payment), long-term certainty of welfare gains from a good credit reputation, and long-term certainty of a sustainable supply of formal-sector financing.

**Reform efforts and investments are needed to improve access to finance for MSMEs and agricultural producers.** Recent reforms, including new leasing and insolvency laws, hold promise for improving the enabling environment for access to finance for MSMEs and agricultural producers. However, a more ambitious reform program is needed to address persistent barriers to access to finance, including to enhance and expand credit and payment infrastructures; further develop leasing and electronic factoring products; promote competition and improved product design through innovation and financial technology; mitigate risks associated with lending to MSMEs, including via expansion and development of insurance products; accelerate the digital transformation of cooperatives and microfinance institutions; and strengthen financial consumer protections.

## Large Infrastructure Gaps

**Firms in Guatemala face significant infrastructure constraints that hinder them from taking advantage of strategic access to both the Atlantic and the Pacific Oceans.** According to the Global Competitiveness Report, Guatemala ranks 114th of 141 countries in terms of transport infrastructure because of poor road connectivity and quality of road infrastructure.<sup>11</sup> About 19 percent of firms in Guatemala identified weaknesses in the transportation system as a major constraint to activity, above the Central America regional average of 16.7 percent.<sup>12</sup>

**Guatemala's transport connectivity deficiencies and poor-quality transport infrastructure pose major constraints to firms and private sector development more broadly.** Guatemala's transport infrastructure relies mainly on a road network that consists of approximately 28,000 km of registered and nonregistered roads. In relation to the country's surface area, the density of roads is below average for the Latin American region (15.5 versus 22 km/100 km<sup>2</sup>).<sup>13</sup> This translates into low road network coverage, which limits access to markets and public services, especially in the poorest areas. While Guatemala City enjoys a slightly greater quality of infrastructure, firms located outside the capital experience significant transport constraints. The national port infrastructure also plays an important role in the country's exports and imports and has seen a significant increase in mobilized volumes, which have risen 77 percent in 15 years to reach 28 million metric tons in 2019.<sup>14</sup> However, the country's two main ports, Puerto Quetzal and Santo Tomás de Castilla, have now reached their capacity and are regularly saturated, forcing the country to increasingly use Puerto Cortés, in Honduras. Guatemala also lacks logistics centers designed to support ports, airports, and urban distribution, and the logistical infrastructure is concentrated primarily around the Guatemala City metropolitan area. This limits access to markets in

rural areas by increasing costs and time associated with logistical inefficiencies, severely undermining the competitiveness of agricultural products, and limiting their export capacity, especially for small-scale producers. Addressing this gap will require more investment in refrigerated-cargo handling, trucker rest stops, logistics centers to reduce transport inefficiencies and bottlenecks, and cold-storage infrastructure in port vicinities and near major agricultural production areas.

**Rural areas also suffer from major gaps in electric, digital, and water infrastructure.** Guatemala has a liberalized electricity market, with 86 percent private sector participation in electricity generation.<sup>15</sup> However, rural electrification rates remain low: 16.3 percent of the rural population lacks access to electricity, far more than the share of the urban population (3.4 percent).<sup>16</sup> Furthermore, access to digital infrastructure, including computer and internet access, is limited, with accessibility in rural areas lagging that in urban areas and the Guatemala City metropolitan area.<sup>17</sup> Water and sanitation services are also deficient: 14.7 percent of the rural population lacked access to improved water services in 2018, compared to 4.6 of their urban counterparts.<sup>18</sup>

**Public investment in infrastructure in Guatemala is low by regional and global standards, averaging 0.6 percent of GDP over 2015–2019 (above only that of Brazil).**<sup>19</sup> Relatedly, stagnant tax revenues hinder the government's ability to invest more.<sup>20</sup> The InfraSAP study emphasized that budget execution in road infrastructure has increased recently, but there are concerns about the quality of spending.<sup>21</sup> The lack of an overall inventory establishing the state and level of damage across the road network is a major knowledge gap limiting the government's ability to independently establish priorities for road maintenance.<sup>22</sup> The COVID-19 pandemic and natural disasters have reduced public spending on infrastructure and have damaged or reduced the stock of infrastructure. This public infrastructure financing constraint further emphasizes the need to foster and enable private sector investment in infrastructure.

### **Weak Governance, Corruption, and Ineffective Dispute Resolution Systems**

Guatemala's performance on global indexes of governance quality, economic competitiveness, and public sector integrity has worsened significantly since 2015. The steady weakening of institutions has continued to erode trust in the state: in 2020, about half the population believed that corruption had recently increased, from 40 percent in 2016. A weak contractual and institutional environment hinders the development of the private sector, slowing job creation and undermining firm-level productivity. A World Enterprise Forum survey identified crime and corruption as the most important challenges to doing business in Guatemala.<sup>23</sup> In addition, political fragmentation has contributed to an increasingly sluggish and unresponsive legislative process. Furthermore, perceptions of corruption and abuse of power have increased over the last six years, undermining an already weak social contract. Corruption weakens the business and investment climate, and more than 70 percent of firms consider corruption to be a major constraint on growth.<sup>24</sup> Recent reports by LAPOP and the World Justice Project indicate that political corruption and undue influence are growing as limits on government powers weaken.<sup>25</sup> In addition, the extortion rate has dou-

bled in recent years, driven by the growing prevalence of gangs and drug trafficking. Crime-related costs are estimated at about 3 percent of annual GDP.<sup>26</sup>

**This weak governance environment poses challenges in attracting FDI in Guatemala, largely because of the failure to implement a legal system that aligns with international standards.** Many of the issues that Guatemala faces in attracting FDI are structural, including a lack of institutions and codes of conduct to enable juridical certainty for investment. Although Guatemala has created specific institutions to deal with and promote FDI,<sup>27</sup> evidence indicates that the heavy bureaucracy has been a deterrent to investment.<sup>28</sup> Rent seeking in such an environment is endemic. Potential investors or their agents are often required to personally visit numerous offices to obtain proper and complete information.<sup>29</sup> This becomes extremely burdensome and costly for investors.

**Alternate dispute resolution (ADR) instruments can be part of the solution to attract FDI.** ADR, as a transparency-enhancing tool, can provide mechanisms for accountability and redress, not only for states and investing companies, but also for Guatemalans and Guatemalan firms. Creating new types of contracts for concessions of public goods and commodities, and harnessing the potential of ADR as a way to improve governance, could be an important step in attracting FDI and facilitating domestic investment.

## Identifying Sector-Specific Opportunities

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The CPSD also identifies sector-specific opportunities to attract private investment over a 3- to 5-year horizon. Prospective investment opportunities were evaluated according to six selection criteria, which assessed their potential to (a) increase economic growth, (b) foster inclusiveness, (c) support climate change mitigation and adaptation, and (d) improve governance, as well as their consistency with (e) Guatemala's investment attraction strategy and (f) World Bank analytical expertise. The CPSD prioritizes investment opportunities that foster inclusive job creation, especially among female workers, as well as those that promote progressive formalization of informal activities. The climate change and environmental impacts of prospective opportunities are assessed in terms of forest protection, the reduction of CO<sub>2</sub> emissions, and enhanced resilience to weather-related shocks. The selection process also incorporates the feasibility of various measures. Finally, the investment opportunities are evaluated in terms of their consistency with the government's priorities for attracting investment and with the body of analysis underpinning World Bank operations in Guatemala. The selection process is supported by two quantitative tools and a desk review of key World Bank analytical work on export competitiveness in Guatemala.

**Arising from this analysis, two primary sectors of focus are identified: agriculture and light manufacturing.** These two sectors are priority sectors for the government and have significant potential to drive more inclusive development. The agriculture sector, in which Guatemala has a comparative advantage, could boost job creation, especially in rural areas, and exports. Light manufacturing has sig-



nificant employment generation possibilities, export potential, economic inclusiveness, and potential to foster innovation.

## Agriculture

**The agrifood sector is central to Guatemala’s economic development, employment, and food security.** Agricultural production in 2022 made up 10.6 percent of GDP and employed over 2.5 million people, equivalent to 32 percent of all workers.<sup>30</sup> Agriculture is also the main source of income in rural areas, employing 70 percent of rural workers and 81 percent of Indigenous workers in rural areas, most of whom are employed in primary agriculture.<sup>31</sup>

**Agricultural exports show significant potential.** Exports of nontraditional agricultural products, particularly fruits such as papayas, avocados, and berries, have increased and have considerable room to grow. Furthermore, apart from producing and exporting raw material, there are opportunities to increase value added by improving product quality, engaging in additional processing, or developing new commercial uses for traditional and nontraditional products. Improving quality or expanding the portfolio of specialty, organic, fair trade, or environmentally friendly products offers new market opportunities for traditional products such as coffee, cardamom, and bananas. Increased processing capacity could enable the production of dehydrated or frozen fruits and vegetables. Secondary processing such as making vegetable paste, sauces, canned products, and vegetable chips could also generate opportunities for job creation and diversification.

**The sector’s competitiveness is constrained by low levels of diversification and sophistication and the limited adoption of new and more productive technologies.** In addition to the cross-cutting constraints noted above, agriculture is further constrained by low and stagnant labor productivity—about one-third of that in services and industry, particularly in rural areas.<sup>32</sup> In 2019, 80 percent of the sector’s workers were employed in primary agriculture and the remaining 20 percent worked in processing. The sector’s low value added per worker reflects an environment where 90 percent of workers are informal, 80 percent of farms are smallholdings of less than 0.7 hectares, and 60 percent of farmers are engaged in subsistence production with few or no agronomic plans or technical support.<sup>33</sup>

**Postharvest losses present an important constraint.** This hindrance is caused by insufficient investment in storage and preservation facilities, including cold storage; limited market information; and lack of uptake of improved handling and management practices. Guatemala loses 20 million tons of food annually, equivalent to 38 percent of total production. These losses correspond to 15 percent of the available agricultural land, 9 percent of the country’s total greenhouse gas emissions, and 4.2 percent of annual GDP.<sup>34</sup> In addition, infrastructure constraints noted above and a lack of information about market locations and prices lead to high levels of food loss at the farm level and additional upstream losses along the value chain.

## Light Manufacturing

**The manufacturing sector accounts for approximately 20 percent of GDP and shows significant growth potential.** Light manufacturing benefits from preferen-

tial trade agreements, proximity to the United States, and recent reforms to improve the overall business environment. Guatemala benefits from strong comparative advantages in some of its light manufacturing exports, but unfortunately, most of Guatemala's exports are of low complexity. Manufactured exports have stagnated at around 15 percent of GDP. Most manufacturing activities are concentrated in the Guatemala City metropolitan area, although some decentralization has been enabled by infrastructure improvements and industrial parks in other parts of the country. Importantly, the manufacturing sector has been key in including traditionally marginalized groups in the economy, although it has historically represented only between 12 and 14 percent of the total workforce, which contrasts with close to 30 percent in sectors such as agriculture and retail. However, about 53 percent of workers in manufacturing activities are women and 46 percent of workers identify as Indigenous (Maya, Xinka, or Garífuna), greater proportions than those observed in the rest of the economy.

**Further developing the light manufacturing sector could help unleash Guatemala's growth.** Light manufacturing has significant employment generation potential with positive impacts on marginalized and vulnerable groups. While the sector has been pivotal in positioning Guatemala as a strategic actor in regional value chains, there are opportunities for further integration in global value chains.

**Guatemala is in a unique position to expand its light manufacturing sector, building on government reforms and policy priorities and leveraging the ongoing nearshoring trend.** To leverage the country's geographic advantages, authorities should continue to support initiatives aimed at attracting new investments and retaining existing ones. Numerous opportunities present themselves. Fostering the development of domestic inputs for the light manufacturing sector could enhance Guatemala's strategic relation to North America and presents growth opportunities for higher-value textile and apparel products. Allowing for flexibility in the minimum wage could help increase the competitiveness of regions beyond Guatemala City; one way to do so could be to institute different minimum wage categories to reflect the significant differences in productivity across Guatemala's geography. Alleviating congestion on key trade routes would reinforce Guatemala's position as a nearshoring partner. Introducing measures to help firms comply with the tax authority's requirements would help smaller firms be more productive and competitive. Advancing workers' skills would help attract new investments in more sophisticated stages of the light manufacturing value chains. The various industrial land regimes could benefit from greater clarity and transparency regarding the regulations governing each area and would support efforts to attract foreign investment in manufacturing amid the ongoing nearshoring trend. Finally, greater banking sector engagement with light manufacturing firms (especially apparel) could help unleash greater growth for the sector.

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## Summary of Key Recommendations

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Table ES.1 presents a summary of the key recommendations. More-detailed recommendations are included in subsequent sections.

**TABLE ES.1**  
**Recommendations**

Challenge	Recommendations	Implementing agencies	Short or medium term
<b>LIMITED ACCESS TO FINANCE BY MSMEs</b>			
<b>Weak enabling environment for access to finance for MSMEs.</b>	Implement the leasing law and building capacity of industry to develop and scale leasing products.	MINECO and association of leasing entities	Short
	Amend the banking law to allow MFIs and cooperatives to access the credit registry, push forward the draft law on credit bureaus, and identify the institution that will be responsible for the oversight of credit bureaus.	SIB, MINECO, BANGUAT, Junta Monetaria, and Congress	Medium
<b>Limited availability of diverse and innovative financial products for MSMEs.</b>	Strengthen the ecosystem for electronic factoring, including through capacity building with financial institutions.	MINECO, SAT, and SIB	Short
	Enact an activity-based and proportionate legal and regulatory framework to enable the development of fintech, including e-money operators and crowdfunding platforms.	SIB, BANGUAT, and Congress	Medium
<b>INFRASTRUCTURE GAPS</b>			
<b>Weak regulatory frameworks and governance</b>	Revisit discussions to introduce changes to the regulatory framework regarding procurement processes and contract types, acquisition of the right of way, and dispute settlement, among others.	Congress	Short
<b>Little investment in infrastructure by regional standards</b>	Develop funding arrangements that include private participation and risk-sharing contract modalities such as output- and performance-based road contracts to complement budget resources in line with the needs of the Road Development Plan (2018–2032).	MINFIN, MICIVI	Medium
<b>Rigid public-private partnership framework</b>	Revise and reform the purchasing power parity law and related institutional framework to create institutional procedures and interinstitutional coordination arrangements that facilitate the purchasing power parity project preparation and approval process (with clear roles). <sup>a</sup>	CONADIE, ANADIE, and municipalities (for licenses)	Short to medium
<b>LEGAL FRAMEWORK, DISPUTE RESOLUTION, AND GOVERNANCE</b>			
<b>Weak adherence to international judicial norms, bureaucracy around enforcement, and contractual disputes and settlements</b>	Strengthen legal units and ADR offices in certain ministries and government entities so that they can provide sound advice to the public administration on contractual issues.	Procurador General de la Nación and Congress	Medium
	Consider the creation of specialist courts, or a chamber within a court, to deal with FDI issues.	Procurador General de la Nación and Congress	Medium
	Include clauses in contracts that provide greater legal certainty, particularly those contracts that may be subject to international FDI standards.	Procurador General de la Nación and Congress	Medium

(Table continues next page)

TABLE ES.1

**Recommendations** (continued)

Challenge	Recommendations	Implementing agencies	Short or medium term
	Allow introduction of ADR mechanisms, including arbitration, for both domestic and FDI-related contracts, and promote negotiation and conciliation as means of conflict resolution.		Medium
<b>AGRICULTURE<sup>b</sup></b>			
<b>Small farmers lack access to profitable markets.</b>	Support the integration of small farmers into cooperatives which can increase farmers' access to finance, as well as allow them to increase exports and reach new markets by sharing costs of these among small- and medium-scale producers.	MAGA and COCODES	Medium
<b>Low technical capacity weakens export competitiveness.</b>	Provide training in agricultural and business practices and technologies.	MAGA, ICTA, AGREQUIMA, and academia such as IARNA and CEEA	Medium
<b>Inadequate infrastructure limits production, quality, transport, and market access.</b>	Promote and implement MAGA's National Policy of Irrigation, to facilitate small producers' access to investment strategies in the field.	MICIVI	Short
	Improve roads throughout the country, with special focus on connecting main highways to production areas.	MINECO and AGEXPORT	Medium
<b>Lack of access to finance hampers productivity growth in the agriculture sector.</b>	Design agricultural insurance products and schemes for small farmers and extend them to biological risks, such as pests and diseases. In addition, encourage private participation in agricultural insurance by addressing provisions or policies on agricultural insurance.	MAGA	Medium
<b>Lack of R&amp;D hampers the development of adequate vegetative material, pest control, and compliance with phytosanitary requirements.</b>	Identify the potential impact of climate change on existing cultivations, and climate-smart agriculture techniques to mitigate and adapt to such effects.	SIB, MAGA, and insurance companies	Short
	Establish long-term agriculture and agribusiness policies for strategic products, with specific attention to climate change.	MAGA, MINECO, and PRONACOM MAGA	Short Medium
<b>Fragile institutional and regulatory systems undermine the efficiency and efficacy of public spending and public policy design.</b>	Enhance regulation and compliance regarding pesticide use in accordance with export markets and provide alternative products alongside restrictions.	MAGA, OIRSA, and AGREQUIMA	Medium
<b>LIGHT MANUFACTURING</b>			
<b>Limited domestic production of key inputs</b>	Ensure that the GNSD or a similar public-private dialogue remains in place to attract private investment.	MINECO, MINFIN	Short
	Create local supplier development programs to link local suppliers with foreign investors and existing leading firms in Guatemala.	MINFIN	Short

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TABLE ES.1

**Recommendations** (continued)

Challenge	Recommendations	Implementing agencies	Short or medium term
<b>Labor costs, due to a high minimum wage, are high compared to the productivity of the average Guatemalan worker.</b>	Review and adjust the minimum wage to reflect the significant differences in productivity across Guatemala's geography.	Ministerio de Trabajo	Short
<b>High logistics and tax compliance costs, along with delays in international trade.</b>	Modernize DIPAFRONT's drug inspections.	Ministerio de Gobernación Congreso	Medium
	Introduce uniform criteria that firms can follow with regard to purchasing goods at discount and coexporting.	Empresa Puerto Quetzal	Medium
<b>Insufficient technical skills across the workforce for increasingly sophisticated manufacturing sectors.</b>	Organize training for entrepreneurs, MSMEs, and university students to help them leverage the electronic invoice system to prepare their own tax returns.	SAT	Short
	Develop worker skills in the electronics sector via makerspaces, technology transfer program, and a program to rent INTECAP machinery to start-ups to help workers develop skills required to build products and prototypes.	INTECAP, MINECO	Short
<b>Long delays to approve ZDEEP and zonas francas.</b>	Develop clear, transparent, and comprehensive guidelines on the requirements to become a zona franca or a ZDEEP user and developer.	MINFIN, SAT	Short
<b>Insufficient knowledge of financial instruments by banks in the MSMEs sector.</b>	Identify nongovernment risk management financial instruments for banks to provide financing options to the light manufacturing subsectors.	MINECO, SIB, BANGUAT	Short

Note: AGEXPORT = Guatemalan Association of Exporters; AGREQUIMA = Association of Agricultural Chemical Guilds; ANADIE = National Agency of Alliances for the Development of Economic Infrastructure; BANGUAT = Banco de Guatemala; CEAA = Center for Agricultural and Food Studies; COCODES = Consejos Comunitarios de Desarrollo; CONADIE = Consejo Nacional de Alianzas para el Desarrollo de Infraestructura Económica; DIPAFRONT = Division of Ports, Airports and Border Areas; GNSD = Guatemala No Se Detiene; IARNA = Instituto de Agricultura, Recursos Naturales y Ambiente; ICTA = Institute of Agricultural Science and Technology; INTECAP = Instituto Técnico de Capacitación y Productividad; MAGA = Ministry of Agriculture, Livestock and Food; MFIs = microfinance institutions; MICIVI = Ministry of Communications, Infrastructure and Housing; MINECO = Ministry of Economy; MINFIN = Ministry of Finance; PRONACOM = Programa Nacional de Competitividad; R&D = research and development; SAT = Superintendency of Tax Administration; SIB = Superintendency of Banks; ZDEEP = Special Public Economic Development Zones.

a. Changes suggested by National Agency of Alliances for the Development of Economic Infrastructure (ANADIE) in its proposal to reform the purchasing power parity law (Decree no. 16-2010) from June 2020 may guide the implementation of this recommendation, although it may require a medium-term horizon.

b. Specific crop recommendations are included in section 4.1.

## Notes

1. World Bank, "Guatemala SCD Update: Building a Stronger Social Contract through Productive, Inclusive and Sustainable Growth" (Systemic Country Diagnostic update, World Bank, Washington, DC, 2022).
2. Data from World Bank national accounts and Organisation for Economic Co-operation and Development (OECD) national accounts data files.
3. The poverty rate is calculated at the international poverty line of US\$6.85 per person per day in 2017 purchasing power parity terms.
4. K. Schwab and World Economic Forum, ed., *The Global Competitiveness Report 2019* (Cologne: World Economic Forum, 2019).
5. Hulya Ulku and Gabriel Zaourak, *Unleashing Central America's Growth Potential* (Washington, DC: World Bank, 2021), <http://hdl.handle.net/10986/35503>.
6. Labor market survey data report falling wages; national accounts data report a stable labor share in GDP.

7. World Bank, “Enterprise Surveys,” (Washington, DC: World Bank, 2017), <https://www.enterprisesurveys.org/>; Schwab, *Global Competitiveness Report*.
8. World Bank, “Guatemala: Policies for Business Recovery, Jobs and Economic Transformation” (Washington, DC: World Bank, 2021). <http://documents.worldbank.org/curated/en/099800512082125310/P172557045791502b0ab0c03eaa078408cc>.
9. IFC, MSME Finance GAP Database, updated 2018. Online: <https://www.smefinanceforum.org/data-sites/msme-finance-gap>.
10. SIB (Superintendency of Banks), 2022.
11. Schwab, *Global Competitiveness Report*.
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