



SEPTEMBER 2019

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*Strategic Directions for the United States International  
Development Finance Corporation (DFC)*

LEAD AUTHOR  
Daniel F. Runde

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A Report of the CSIS PROJECT ON PROSPERITY AND DEVELOPMENT

CSIS

CENTER FOR STRATEGIC &  
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- The Inter-American Development Bank
- The International Organization for Migration
- The Japan International Cooperation Agency
- The Korea International Cooperation Agency
- The Millennium Challenge Corporation
- The National Economic Research Center of Guatemala (CIEN)
- NeWay Capital
- Pan American Development Foundation
- Pronacom
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# Context

Guatemala is a country of large contrasts. It is the biggest economy in Central America, with strong macro fundamentals.<sup>1</sup> The country's economy grew by 2.8 percent in 2017, 3.1 percent in 2018, and is forecasted to grow by 3.4 percent in 2019, which is higher than its neighboring countries.<sup>2</sup> Latin America's growth has been comparatively lower at 1 percent in 2018 and a projected 1.4 percent in 2019.<sup>3</sup> Guatemala has signed numerous free trade agreements with Taiwan, Chile, Colombia, Mexico, Panama, and is part of the regional Dominican Republic-Central America Free Trade Agreement (CAFTA-DR).<sup>4</sup> Part of a Central American market that contains 49 million people, the country has a strong geographical advantage through its proximity to major economic actors like the United States and Mexico and with access to both the Pacific and Atlantic Oceans. Its natural resource endowments offer industries such as tourism, agriculture, mining, hydroelectric and geothermal energy high potential for growth (Table 1). Energy access and telecommunication are developed, albeit lacking in the rural areas.

Because of its geographical location, Guatemala also finds itself at the world's busiest drug-trafficking intersection, increasing the risk of violence and crime.<sup>5</sup> High levels of crime, drug trafficking, and violence result in staggering economic costs for the country, which contribute to its already unstable social and political climate. In 2016, Guatemala had an average of 27 intentional homicides per 100 thousand people, compared to a Latin American average of 22 and a world average of 5.<sup>6</sup> Moreover, the country has one of the highest inequality rates and the lowest educational attainment in Latin America.<sup>7</sup> Data for 2014 show that 60 percent of the population falls below the national poverty line.<sup>8</sup>

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1. "Guatemala: Staff Concluding Statement of the 2019 Article IV Mission," IMF, May 6, 2019, <https://www.imf.org/en/News/Articles/2019/05/06/mcs050619-guatemala-staff-concluding-statement-of-the-2019-article-iv-mission>.

2. "Real GDP Growth Annual Percentage Change," IMF, [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/WEO\\_WORLD/WE/GTM](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/WEO_WORLD/WE/GTM).

3. IMF, "Real GDP Growth"

4. PwC, *Doing Business: A Guide for Guatemala*, (Guatemala City: PwC, 2018), <https://www.pwc.com/ia/es/publicaciones/assets/doing-business/doing-business-2018-guatemala-en.pdf>.

5. *Guatemala: Drug Trafficking and Violence*, (Guatemala City: International Crisis Group, 2011), <https://www.crisisgroup.org/latin-america-caribbean/central-america/guatemala/guatemala-drug-trafficking-and-violence>.

6. "Intentional Homicides (per 100 000 people)," The World Bank, 2017, <https://data.worldbank.org/indicator/VC.IHR.PSRC.P5?locations=GT-1W-US-VE>.

7. "The World Bank in Guatemala," The World Bank, <https://www.worldbank.org/en/country/guatemala/overview>.

8. "Poverty headcount ratio at national poverty lines (% of population)", The World Bank, <https://data.worldbank.org/indicator/SI.POV.NAHC>.

Guatemala suffers from some of the worst poverty, malnutrition, and maternal-child mortality rates in the region, especially in rural and indigenous areas.

At the same time, the country is undergoing a big demographic shift. Its population will increase from the current 17 million to 22 million in 2032, which will result in a demographic dividend (i.e., working population surpassing the dependent population) that needs to be harnessed. Moreover, the country is rapidly urbanizing: by 2032, the urban population will reach 79 percent from the current 54 percent. The rural population will remain stable at around 8 million people.<sup>9</sup>

The Guatemalan economy is growing, yet it is not creating adequate employment opportunities for its citizens.<sup>10</sup> In the last decade, 2 million people have entered the labor market, but only 10 percent have found formal jobs.<sup>11</sup> According to the International Labour Organization (ILO) estimates, approximately 74 percent of employment is informal—that is, people working in jobs that are unregistered, including self-employment in small firms, as street vendors, and as home-based workers.<sup>12</sup> The informal labor market is characterized by low productivity jobs outside the tax system. Informal workers lack access to labor or social protections and adequate working conditions.

*The Guatemalan economy is growing, yet it is not creating adequate employment opportunities for its citizens. . . . in the last decade, 2 million people have entered the labor market, but only 10 percent have found formal jobs.*

The confluence of violence, insecurity, lack of quality job opportunities, large wage differentials with the United States, and weak government capacity to respond to these challenges has fueled a migration crisis, whereby over 815,000 Guatemalans have either migrated to urban areas or left the country altogether since 1970, with most headed to the United States. Guatemala is now the country with the most detained migrants at the U.S. border.<sup>13</sup> Of the total amount of border control apprehensions since December 2018, 77 percent of families were from Guatemala and Honduras.<sup>14</sup> The highest rates of migration are in the Guatemalan Highlands (el Altiplano) and the Huehuetenango department, which are poor, rural, and mostly indigenous.<sup>15</sup> Many Guatemalans first try to move to

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9. PRONACOM, *Política Nacional de Competitividad 2018-2032* (Guatemala City: PRONACOM, 2018), [https://www.pronacom.gt/proyectos/agenda\\_nacional\\_de\\_competitividad](https://www.pronacom.gt/proyectos/agenda_nacional_de_competitividad).

10. CIEN, *Crecimiento, Empleo e Infraestructura*, (Guatemala: CIEN, 2019), <https://cien.org.gt/wp-content/uploads/2019/05/Economia-Empleo-e-Infraestructura-documento-final.pdf>.

11. Gobierno de la Republica de Guatemala and PRONACOM, “Política Nacional de Competitividad 2018-2032,” PRONACOM, 2018.

12. “Informal Employment (% of total non-agricultural employment),” The World Bank, April 2019, <https://data.worldbank.org/indicator/SL.ISV.IFRM.ZS?locations=GT>.

13. Sandra Cuffe, “US agents’ deployment to stem Guatemalan migration raises alarm,” Al Jazeera, June 6, 2018, <https://www.aljazeera.com/news/2019/06/agents-deployment-stem-guatemalan-migration-raises-alarm-190606192634090.html>.

14. “DHS Releases Southwest Border Enforcement Statistics,” Department of Homeland Security, January 9, 2019, <https://www.dhs.gov/news/2019/01/09/dhs-releases-southwest-border-enforcement-statistics>.

15. Nick Miroff and Kevin Sieff, “Hunger, not violence, fuels Guatemalan migration surge, U.S. says,” *The Washington Post*, September 22, 2018, [https://www.washingtonpost.com/world/national-security/hunger-not-violence-fuels-guatemalan-migration-surge-us-says/2018/09/21/65c6a546-bdb3-11e8-be70-52bd11fe18af\\_story](https://www.washingtonpost.com/world/national-security/hunger-not-violence-fuels-guatemalan-migration-surge-us-says/2018/09/21/65c6a546-bdb3-11e8-be70-52bd11fe18af_story).

cities in search of employment opportunities. However, the high cost of living, lack of public services, and crime rates eventually drive them to migrate internationally. For many young people, particularly men, attempting the journey to migrate north has become a “rite of passage.” The pull factors of the United States (wage differentials, safety, and good social services) are extremely strong. As a result, remittances account for close to 11 percent of the country’s gross domestic product (GDP).<sup>16</sup>

Table 1: Country Summary

<b>Population (2018)</b>	17.2 million <sup>17</sup>
<b>Population under 25 years old</b>	9.6 million, 56.8% of population <sup>18</sup>
<b>GDP per capita (2018)</b>	\$4,549 <sup>19</sup> Upper Middle-Income Country <sup>20</sup>
<b>Fragility</b>	Guatemala is among the 58 countries classified as fragile by the OECD (2018). <sup>21</sup>
<b>Main economic sectors</b>	<p>GDP Composition (% , 2018):<sup>22</sup></p> <p>Agriculture – 10.0%</p> <p>Industry – 24.6%</p> <p>Services – 62.9%</p> <p>Employment Composition (% , 2018):<sup>23</sup></p> <p>Agriculture – 29.3%</p> <p>Industry – 20.8%</p> <p>Services – 49.8%</p> <p>Top 3 Trade Partners: United States, Mexico, and El Salvador</p> <p>Top 3 Exported Goods: Coffee, Fruit, &amp; Nuts; Apparel: Knit; and Sugar &amp; Confectionery</p> <p>Top Industries: Sugar, Textiles and Clothing, Furniture, Chemicals<sup>24</sup></p>
<b>FDI net inflows (2017)</b>	\$1.2 billion <sup>25</sup>
<b>U.S. presence</b>	USAID / OPIC / MCC
<b>Private sector development (Bertelsmann index)</b>	Private enterprises constitute the core of the formal economic sector, but most economic relationships take place within the informal and criminal sectors. There is tax evasion, illegal financing of political parties, and corruption present in the private sector. <sup>26</sup> (Index score: 6/10)
<b>Financial markets development (2013)</b>	From a ranking of 0 (worst) to 1 (best) in the IMF Financial Markets Development Index, Guatemala has a score of 0.244 (or 90th out of 183). The financial institutions subindex has a score of 0.443 (or 73rd) and its financial markets ranking has a score of 0.04 (or 103rd). <sup>27</sup>

html?utm\_term=.b6895662c1d0.

16. PRONACOM, 2018.

17. “Population, total” The World Bank, 2018, <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=GT>.

18. “Guatemala: Population (Age 0-24),” United Nations Department of Economic and Social Affairs (DESA), <https://population.un.org/wpp/Graphs/Probabilistic/POP/0-24/320>.

19. “GDP per capita (current US\$),” The World Bank, 2018, <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=GT>.

20. “World Bank Country and Lending Groups,” The World Bank, <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.

21. “States of Fragility Reports,” The Organization for Economic Cooperation and Development (OECD), 2018, <http://www.oecd.org/dac/conflict-fragility-resilience/2-2-Map-500.jpg>.

22. “Agriculture, forestry, and fishing, value added (% of GDP),” The World Bank Group, 2018, <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=GT>.

23. “Employment in industry (% of total employment) (modeled ILO estimate)” The World Bank Group, 2018, <https://data.worldbank.org/indicator/SL.IND.EMPL.ZS?locations=GT>.

24. “Guatemala: Economy,” globalEDGE, [https://globaledege.msu.edu/countries/guatemala/economy#source\\_1](https://globaledege.msu.edu/countries/guatemala/economy#source_1).

25. “World Investment 2018: Investment and New Industrial Policies – Country Fact Sheet: Guatemala,” United Nations Conference on Trade and Development (UNCTAD), 2018, [https://unctad.org/sections/dite\\_dir/docs/wir2018/wir18\\_fs\\_gt\\_en.pdf](https://unctad.org/sections/dite_dir/docs/wir2018/wir18_fs_gt_en.pdf).

26. Bertelsmann Stiftung, *BTI 2018 Country Report: Guatemala*, (Gütersloh, Germany: Bertelsmann Stiftung, 2018), [https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2018/pdf/BTI\\_2018\\_Guatemala.pdf](https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2018/pdf/BTI_2018_Guatemala.pdf).

27. Katsiaryna Sviryzdenka, *Introducing a New Broad-based Index of Financial Development*, (Washington, DC: IMF, 2016), <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Introducing-a-New-Broad-based-In->



The Guatemalan economy needs to grow at 6 percent per year for the next 20 years to double its GDP per capita, create formal jobs, and build a more inclusive society. Yet there are several impediments for the private sector in Guatemala to expand and create formal jobs at scale. These include weak institutions (respect of the rule of law and property rights) and pervasive corruption, low political will to reform and weak government capacity at all levels, high crime and theft, inadequate infrastructure, underdeveloped capital markets, and low human capital. The private sector leadership also has opposed tax reforms or tax increases commensurate with regional averages, thus denying the state the revenue needed to provide basic state services.

Several presidential candidates in 2019 have campaigned on a job creation platform and have reiterated the need to address the root causes of migration.<sup>28</sup> Yet, Guatemala lacks a “country vision.” There are many renowned think tanks, thought leaders and private sector groups that have good ideas and have drafted competitiveness plans that could be readily implemented. However, there is no clear leadership or political will to carry these plans through. Elites (in the government, private sector, non-governmental organizations (NGOs), and the Catholic church) have to come together in agreement on what success looks like for Guatemala and what kind of country they want to become in the future. In the eyes of some experts, many Guatemalans have a “dream mentality,” not a “project mentality.” Those ideas need to be brought into fruition through concrete projects.

The United States and the development community can help realize that country vision. The United States has been an active supporter of Guatemala (and the other Northern Triangle countries of El Salvador and Honduras) by being the largest aid donor, trading partner, and investor in the country. The United States is Guatemala’s biggest and most valuable economic partner, with over 200 U.S. firms investing in the country and a total foreign direct investment (FDI) of \$16.2 billion in 2017.<sup>29</sup> The United States contributes to 20.8 percent of Guatemala’s total direct inward investments, followed by Mexico (15.6 percent) and Colombia (9.6 percent).<sup>30</sup> The United States has provided significant amounts of technical assistance and military presence.

*In the eyes of some experts, many Guatemalans have a “dream mentality,” not a “project mentality.” Those ideas need to be brought into fruition through concrete projects.*

The new U.S. International Development Finance Corporation (DFC), working with other U.S. agencies and DFIs, can assist the government and private sector actors to improve the enabling environment and invest in key sectors that can be catalytic in terms of job creation. It is important to note, however, that while donor support may reduce migration to the United States, it will be a medium- to long-run endeavor. In the short run, Guatemalans will continue to migrate to the United States until Guatemalan cities can offer adequate social services to their people and GDP reaches a level at which citizens are not enticed to leave.

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dex-of-Financial-Development-43621.

28. “Elecciones 2019 : Planes de gobierno de candidatos y partidos en Guatemala,” *Prensa Libre*, June 5, 2019, <https://www.prensalibre.com/guatemala/politica/planes-de-gobierno-de-los-candidatos-2019-en-guatemala/>.

29. U.S Department of State, *2018 Investment Climate Statements: Guatemala*, (Guatemala: U.S. Department of State, 2018), <https://www.state.gov/reports/2018-investment-climate-statements/guatemala/>.

30. U.S Department of State, “*2018 Investment Climate*.”

# Opportunities and Challenges for Private Sector Development

Guatemala has the largest economy in Central America (a GDP worth \$75.6 billion), yet it faces many challenges in its business environment that impact private sector growth and fuel migration to secondary cities and the United States.<sup>31</sup> Guatemala faces branding issues—a bad country image abroad and uncertainty towards capital investments, especially in indigenous areas—which deters private investments into the country.

Despite continued efforts to address corruption and impunity through the United Nations initiative, the International Commission against Impunity in Guatemala (CICIG), and others, the day to day environment remains opaque: Guatemala ranks 144 out of 180 countries in Transparency International's Corruption Perceptions Index.<sup>32,33</sup> The political situation in Guatemala is marked by continuing corruption scandals and calls for reform. Widespread corruption, impunity, judicial inefficiency, and deep socioeconomic divisions continue to be key challenges for the government. A growing number of complaints from U.S. stakeholders regarding corruption and transparency are pressuring change.<sup>34</sup>

Citizens and businesses face insecurity due to a range of factors including petty crime, extortion, kidnapping, murders, and narco activities. The Guatemalan government is slow to react and lacks adequate technical capacity. There is a lack of political will to undertake tough but necessary reforms. The civil service suffers from high levels of turnover and often multiple ministries are working to address the same issue without any coordination (for example, on youth unemployment). There is weak rule of law and respect for private property rights. Many laws are in limbo, sitting in Congress with no action, such as Ley de Servicio Civil (the civil service law) and Ley de Infraestructura Vial (the road infrastructure law). Legislation on ILO Convention 175 on part-time work was passed at the end of June 2019 which will help formalize labor, offering part time-workers legal and social protections.<sup>35</sup>

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31. Ibid.

32. "CICIG International Commission against Impunity in Guatemala," United Nations, <https://www.un.org/un-dpa/es/node/183334>.

33. "Guatemala," Transparency International, <https://www.transparency.org/country/GTM>.

34. U.S. Commercial Service, *Doing Business in Guatemala: 2016 Country Commercial Guide for U.S. Companies*, (Washington, DC: U.S. Department of Commerce, 2016), [https://build.export.gov/build/groups/public/@eg\\_gt/documents/webcontent/eg\\_gt\\_101917.pdf](https://build.export.gov/build/groups/public/@eg_gt/documents/webcontent/eg_gt_101917.pdf).

35. Luis Gonzalez, "Publican reglamento que da certeza jurídica al trabajo a tiempo parcial," *Republica*, June 27, 2019, <https://republica.gt/2019/06/27/reglamento-convenio-175-oit/>.

There is also a vacuum in terms of legislation or regulation on indigenous consultation. Guatemala is a signatory of ILO's Convention 169, but currently there is not one unified law or regulation to guide consultations between private companies wanting to invest on indigenous land, which leaves companies uncertain about the future of their projects.<sup>36</sup> While stakeholders have different opinions on the concept of indigenous consultation overall, all agree that there needs to be clarity in order to encourage investments.

In terms of social and physical infrastructure, the country is weak on both fronts. There is a lack of quality infrastructure, especially in transport infrastructure such as roads, ports, public transport, and airports, which makes it hard for businesses to reach markets. Guatemala has poverty, income inequality, and malnutrition indicators that are similar to sub-Saharan Africa. Malnutrition and chronic hunger (one of the highest in the region) is a tremendous concern with over 46.5 percent of children under five stunted and two-thirds of the population living under \$2 a day.<sup>37,38</sup> UN agencies, including the World Food Program (WFP), have been working towards food security since 1974 with little improvement. Low education attainment and quality of education are problematic in the country.<sup>39</sup> Enrollment has increased by 18 percent since 2015, yet maintaining enrollment remains a challenge. Moreover, according to the latest PISA study, 9 out of 10 children (under the age of 15) that are in school do not attain the basic knowledge required in reading, math, and science.<sup>40</sup> In addition to the low quality of education, many youth lack basic life and vocational skills.<sup>41</sup> All of these factors are glaringly worse for the indigenous population.

On the World Economic Forum (WEF) competitiveness scale for 2018, Guatemala holds average or below average positions. With an overall score of 53 percent (or 96th of 140), this country ranks as one of the lowest in *Institutions* (44 percent or 123rd), *ICT Adoption* (31 percent or 112th) and *Infrastructure* (56 percent or 96th) for its Enabling Environment section.<sup>42</sup> Guatemala also scores 53 percent (or 101st) in *Skills* for its Human Capital section, 51 percent (or 110th) in *Labor Market* for its Markets section, and 31 percent (or 100th) for its *Innovation Capability* in the Innovation Ecosystem section.

The 2017 World Bank Enterprise Survey for Guatemala specifies the obstacles for firms in the country. The top challenges identified by firms include *Corruption* (chosen by 23 percent of firms), where 69 percent saw corruption as a major constraint and 38 percent disclosed that the lacking legal system contributed to its magnitude, *Political Instability* (21 percent of firms), where crime and disorder were seen as major constraints, and the *Informal Sector* (17 percent of firms), where competition with informally registered firms impeded their businesses' success.<sup>43</sup>

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36. "C169 - Indigenous and Tribal Peoples Convention, 1989 (No. 169)," International Labour Organization (ILO), [https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C169](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C169).

37. Axel van Trotsenberg, "Guatemala Steps Up Fight against Malnutrition," The World Bank, May 20, 2019, <https://www.worldbank.org/en/news/opinion/2019/05/20/guatemala-intensifica-la-lucha-contra-la-desnutricion>.

38. "Guatemala," World Food Programme, <https://www1.wfp.org/countries/guatemala>.

39. Ibid.

40. Ana Lucía Ola, "El 90% de los estudiantes de 15 años no logra el nivel básico de conocimientos," *Prensa Libre*, December 12, 2018, <https://www.prensalibre.com/guatemala/comunitario/el-90-de-los-estudiantes-de-15-aos-no-logra-el-nivel-basico-de-conocimientos/>.

41. "Guatemala: Education," USAID, July 30, 2019, <https://www.usaid.gov/guatemala/education>.

42. "Guatemala: Global Competitiveness Index 4.0 2018 Edition," World Economic Forum, <http://reports.weforum.org/global-competitiveness-report-2018/country-economy-profiles/#economy=GTM>.

43. "Enterprise Surveys: Guatemala (2017)," The World Bank, <https://www.enterprisesurveys.org/data/ex->



Access to finance is not an impediment for established enterprises. There is a network of oligopolist and liquid banks that are highly risk averse—they do not lend to micro, small, and medium-sized enterprises; smallholder farmers; or for infrastructure projects. Their activity is mainly limited to short term lending for private consumption, big corporations, or government financing. Furthermore, weak credit registries are an impediment for laypeople who need financing, for example, to start or grow their businesses. Guatemala has underdeveloped capital markets, especially bond markets, which hampers long-term financing for needed infrastructure projects. The pool of savings is limited since local institutional investors such as pension funds and insurance companies are nonexistent.

However, the country has numerous untapped opportunities for economic growth and job creation. To achieve Guatemala's development goals, public investment is essential and yet remains constrained by a lack of resources. The government collects the lowest share of public revenues in the world relative to the size of its economy (12.4 percent of its GDP in 2017, parallel to the regional average of 22.8 percent for the same year) and given Guatemala's capacity for macroeconomic recovery, the next 15 years represent an opportunity to reduce poverty through more rapid economic growth.<sup>44</sup> While pro-poor policy reforms could yield marginal improvements, accelerating growth will be crucial to achieving the country's medium—and long-term—social objectives.<sup>45</sup>

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ploreconomies/2017/guatemala#informality.

44. "Details of Tax Revenue – Guatemala," OECD, <https://stats.oecd.org/Index.aspx?DataSetCode=REVGTM>.

45. "The World Bank in Guatemala," The World Bank.

# Fostering Private Sector Growth: The Role of the New DFC in Guatemala

Numerous official donors are working in Guatemala to assist in its development journey (Box 1 and 2). As of 2017, the United States is the largest bilateral player, supplying \$173 million in foreign assistance,<sup>46</sup> while the Inter-American Development Bank (IDB) is the country's largest multilateral partner. Donors coordinate activities in-country through a G13 group that meets at three levels: 1) a dialogue group at the level of ambassadors, 2) a coordination group at the level of the heads of international donor agencies, and 3) a technical working group.<sup>47</sup> This G13 group meets regularly but lacks implementation powers, and government counterparts are not holding their side of the bargain. Very few projects have been jointly undertaken by donors. There is also a lack of information and understanding by the Guatemalan private sector on which donors are present, what they fund, and what development finance tools are available.

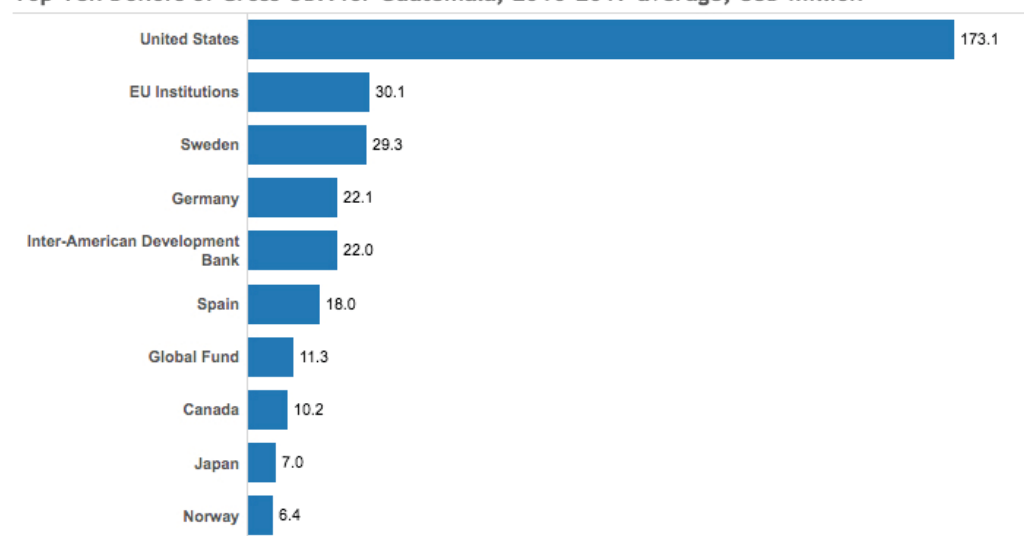
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46. "Aid at a glance by recipient – Guatemala," OECD – DAC, [https://public.tableau.com/views/OECD DACAidata-glancebyrecipient\\_new/Recipients?:embed=y&:display\\_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no](https://public.tableau.com/views/OECD DACAidata-glancebyrecipient_new/Recipients?:embed=y&:display_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no).

47. "Guatemala Country Development Cooperation Strategy 2012-2020," USAID, March 16, 2012, <https://www.usaid.gov/guatemala/cdcs>.

Figure 1: Top Bilateral Donors in Guatemala

Top Ten Donors of Gross ODA for Guatemala, 2016-2017 average, USD million



Source: OECD, « Aid at a glance : Guatemala, »Data, [https://public.tableau.com/views/OECDACAidataglacebyrecipient\\_new/Recipients?:embed=y&:display\\_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no](https://public.tableau.com/views/OECDACAidataglacebyrecipient_new/Recipients?:embed=y&:display_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no).

#### BOX 1: MULTILATERAL DEVELOPMENT BANKS OPERATING IN GUATEMALA

- **The Inter-American Development Bank (IDB):** As of today, the IDB has 699 projects completed in Guatemala.<sup>48</sup> Their active portfolio has a total approved amount of \$819 million allocated in various sectors (e.g. \$310 million for the modernization of the state, \$150 million for education, another \$150 million for transport, and \$100 million for health).<sup>49</sup> In their efforts to reduce corruption in Guatemala, the IDB Group Strategy for 2017-2020 assigns priority to public administration and transparency, reducing the gaps in access to basic services by the poor, and the promotion of actions to stimulate private investments.<sup>50</sup> With the collaboration of the Guatemala, Honduras, and El Salvador governments in 2017, the IDB implemented \$750 million to support the Alliance for Prosperity project which has leveraged an additional \$1.75 billion in funds from public and private sources in the Northern Triangle.<sup>51</sup>
- **IDB Invest:** Parallel to the larger IDB Group, which uses both private and public sector financing, IDB Invest aims to finance projects through private-sector mechanisms. This institution seeks to improve productivity and promote social inclusion by advancing clean energy solutions and modernizing agricultural and transportation systems.

48. "Guatemala," Inter-American Development Bank (IADB), <https://www.iadb.org/en/countries/guatemala/overview>.

49. Ibid.

50. Ibid.

51. "IDB Group pledges \$750 million for key infrastructure projects in the Northern Triangle," IADB, June 14, 2017, <https://www.iadb.org/en/news/news-releases/2017-06-14/northern-triangle-in-major-infrastructure-push%2C11824.html>.



In 2018, IDB Invest financed \$120 million through Banco Industrial Guatemala, where the latter issued \$300 million under its diversified payments rights program, of which the IDB Group will purchase \$100 million in notes.<sup>52</sup> This will allow the expansion of Banco Industrial's mortgage portfolio for low- and middle-income segments and help the development of micro, small, and medium enterprises (MSMEs) in Guatemala. Another \$75 million loan through the Banco G&T Continental-SME Partnership later that same year was made to support women-led SMEs as well as to help strengthen the bank's equity position.<sup>53</sup>

- **The World Bank/IFC:** The World Bank<sup>54</sup> Group IDA-IBRD has 12 active investments in the country totaling \$392.7 million<sup>55</sup> as of June 2019, with a total value of loans of \$277.7 million.<sup>56</sup> In May 2018, the IFC provided a \$10 million loan to the largest nonprofit microfinance institution in Guatemala, Fundación Genesis Empresarial, to support micro and small business entrepreneurs who lack finances.<sup>57</sup>
- **The Central American Bank for Economic Integration (CABEI)** is an important multilateral development bank which underlines the importance of environmental sustainability through their work. In 2018, it approved \$193.2 million and disbursed \$115.1 million in disbursements to the country, of which 63.7 percent went towards the Strategic Access of Competitiveness, of Integration (21.6 percent), and of Social Development (11.1 percent).<sup>58</sup> CABEI supports the Guatemalan government through funding infrastructure investments such as the 2018 Hospital Infrastructure and Equipment Investment Program (totaling \$193.2 million).<sup>59</sup>

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52. "Banco Industrial DPR Financing," IDB Invest, <https://www.idbinvest.org/en/projects/banco-industrial-dpr-financing>.

53. "Banco G&T Continental – SME Partnership," IDB Invest, <https://www.idbinvest.org/en/projects/banco-gt-continental-sme-partnership>.

54. "World Bank Open Data," The World Bank, <https://data.worldbank.org/>.

55. "Guatemala," The World Bank, <https://financesapp.worldbank.org/en/countries/Guatemala/>.

56. "IFC Summary," The World Bank, <https://financesapp.worldbank.org/en/summaries/ifc/#ifc-isp/countries=GT/>.

57. "IFC Provides \$10 Million for Guatemala's Fundación Genesis to Expand Access to Finance for Micro and Small Business Entrepreneurs," The World Bank, May 29, 2018, [https://ifcextapps.ifc.org/ifcext/pressroom/ifc-pressroom.nsf/vwAllDocumentsByUNID\\_NL/644D3039A17CF74F8525829C005FE6C4?opendocument](https://ifcextapps.ifc.org/ifcext/pressroom/ifc-pressroom.nsf/vwAllDocumentsByUNID_NL/644D3039A17CF74F8525829C005FE6C4?opendocument).

58. "Republic of Guatemala," Central American Bank for Economic Integration, <https://www.bcie.org/en/member-countries/founders/guatemala/>.

59. Ibid.

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## BOX 2: MAIN BILATERAL AGENCIES AND DEVELOPMENT FINANCE INSTITUTIONS OPERATING IN GUATEMALA

- **Japan International Cooperation Agency (JICA):** Japanese foreign aid also plays a significant part in development efforts in Guatemala.<sup>60</sup> JICA has two major programs in the sectors of health (the Children's Health Project in Quetzaltenango, an investment of \$2 million) and education (the Project for Improving Mathematics Teaching Methods in Guatemala, an investment of a nondisclosed amount).<sup>61</sup> Their other sizeable projects include a 2012 ODA loan agreement for the ZONAPAZ Road Improvement Projects I and II (among others) which amounted to \$920,000 and \$68,000 respectively to improve existing transportation and socioeconomic issues.<sup>62</sup> In 2017, JICA further promoted the Life Improvement Approach in Guatemala and performed regional development strategies in order to correct remaining disparities in the country.<sup>63</sup>
- **Europeans Development Finance Institutions (DFIs):** In addition to the previously mentioned actors, European presence and involvement in Guatemala cannot be overlooked. For the 2014-2020 period, the EU contributed €186 million in three main sectors of intervention: food security, peace and conflict resolution, and competitiveness.<sup>64</sup> As of 2017, the Swiss Investment Fund for Emerging Markets (SIFEM) is indirectly invested in Guatemala through investee companies in various sectors, such as financial intermediation (e.g., ADICLA, CDRO, and Fafidess), agriculture and fishing (e.g., FECCEG), water and energy (e.g., Hydro systems and Hydroelectrica Santa Rita), consumer services (e.g., MBMG), and consumer goods (e.g., Productos Roland).<sup>65</sup> From the Netherlands, the Dutch development bank, FMO, has also made investments in Guatemala in the power sector.<sup>66</sup> FMO invested \$15.5 million in 2018 for Kingo's<sup>67</sup> off-grid solar systems to provide better access to energy.<sup>68</sup> They have also approved a larger \$100 million sum in syndicated loans to Banco Agromercantil de Guatemala (BAM) in 2013, providing long-term financing that was found to be lacking in the country.<sup>69</sup> The Swedish International Development Cooperation Agency

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60. Japan International Cooperation Agency, *Japan International Cooperation Agency Annual Report* (Tokyo, Japan: JICA, 2018), [https://www.jica.go.jp/english/publications/reports/annual/2018/c8h0vm0000dxws0g-att/2018\\_all.pdf](https://www.jica.go.jp/english/publications/reports/annual/2018/c8h0vm0000dxws0g-att/2018_all.pdf).

61. "Activities in Guatemala: Children's Health Project in Quetzaltenango," JICA, <https://www.jica.go.jp/guatemala/english/activities/activity02.html>.

62. "Signing of Japanese ODA Loan Agreement with the Republic of Guatemala," JICA, November 6, 2012, [https://www.jica.go.jp/english/news/press/2012/121106\\_01.html](https://www.jica.go.jp/english/news/press/2012/121106_01.html).

63. Japan International Cooperation Agency, *Japan International Cooperation Agency Annual Report*.

64. "International Cooperation and Development: Guatemala," European Commission, [https://ec.europa.eu/europeaid/countries/guatemala\\_en](https://ec.europa.eu/europeaid/countries/guatemala_en).

65. "Indirect investee companies of SIFEM, as per 2017," Swiss Investment Fund for Emerging Markets, 2017, [https://www.sifem.ch/fileadmin/user\\_upload/sifem/pdf/en/Portfolio\\_companies\\_as\\_per\\_December\\_2017.pdf](https://www.sifem.ch/fileadmin/user_upload/sifem/pdf/en/Portfolio_companies_as_per_December_2017.pdf).

66. "Guatemala," The Netherlands Development Finance Company (FMO), <https://www.fmo.nl/search?q=guatemala>.

67. "Home," Kingo Energy, <http://www.kingoenergy.com/>.

68. "FMO leads USD 15.5 Million finance for Kingo's off grid solar services in Guatemala," FMO, August 30, 2018, <https://www.fmo.nl/news-detail/a35300e6-2140-4f03-893f-7dfac9299376/fmo-leads-usd-15-5-million-finance-for-kingo-s-off-grid-solar-services-in-guatemala>.

69. "USD 100 million syndicated loan for BAM," FMO, November 6, 2013, <https://www.fmo.nl/news-detail/>

(SIDA) also had seven activities in 2017 with the combined value of \$5 million. Finally, the German Development Finance Institution (GIZ) supports these endeavors in Guatemala with activities in three thematic priority areas agreed upon by the governments of Guatemala and Germany: democratic governance with equal rights, education, and environment and adaptation to climate change.<sup>70</sup>

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Currently, U.S. assistance to Guatemala is guided by the U.S. Strategy for Engagement in Central America (the Strategy), launched in 2014 by the Obama administration, to complement the Plan of the Alliance for Prosperity (AFP) in the Northern Triangle, which was proposed by the presidents of El Salvador, Guatemala, and Honduras. For FY 2016-FY 2018, Congress appropriated \$2.1 billion for the Strategy, but the Trump administration has suggested cutting aid to Guatemala by 36 percent for FY 2020 (compared to FY 2018) to instead emphasize security over development.<sup>71</sup> Many critics acknowledge that the Alliance for Prosperity is a good initiative but lacks resources on the part of the three countries' governments. Also, it is riddled with too many goals, no precise monitoring of progress, and it is unclear what success looks like for the initiative. Additionally, the role of the U.S. government is not adequately defined, and the priorities are too broad.

The United States has also been providing aid to Guatemala through several successful regional initiatives, such as the Central American Regional Security Initiative (CARSI) for combating narcotics trafficking and preventing transnational crime, the President's Emergency Plan for AIDS Relief (PEPFAR), and Food for Peace.<sup>72</sup> These aid programs address key issues that hinder the country's development and security: drug trafficking, inadequate access to food, and inadequate access to health services (Box 3).

The U.S. Congress remains invested in the Strategy. In February 2019, it passed the FY 2019 Consolidated Appropriations Act (H.J.Res. 31, P.L. 116-6), which included \$528 million for Central America.<sup>73</sup> The act did not provide specific funding amounts for individual countries but instead gave the Department of State the authority to allocate funding among the Central American nations.

A common criticism of U.S. development investments in Guatemala is that it has been focused primarily on small, isolated projects in the Highlands (or el Altiplano), which is the region with the highest levels of migration. In the opinion of many experts, the projects tend to be "one-off projects" with minimal impact or future sustainability and concentrated only on select communities. There is also confusion on the different funding strategies and priorities of U.S. agencies. Moreover, another critique is in regard to measuring the impact of U.S. government (USG) interventions: mostly short-term output data is collected (such as

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a710cf6c-eb05-4eaf-b6a4-f38f9681ab1f/usd-100-million-syndicated-loan-for-bam.

70. "Guatemala," Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), <https://www.giz.de/en/world-wide/395.html>.

71. Maureen Taft-Morales, *Guatemala: Political and Socioeconomic Conditions and U.S. Relations* (Washington, DC: Congressional Research Service, 2019), <https://fas.org/sgp/crs/row/R42580.pdf>.

72. Ibid.

73. United States Congress, House, *H. Rept. 116-9 - Making further continuing appropriations for the Department of Homeland Security for fiscal year 2019, and for other purposes* (Washington, DC: 116th Congress, 2019), <https://www.congress.gov/congressional-report/116th-congress/house-report/9/1>.



the number of beneficiaries reached) as opposed to more medium-term effects (whether the intervention changed behavior or made the beneficiary self-sufficient). However, it should be noted this performance and monitoring system is currently being upgraded.

In the case of the U.S. Agency for International Development (USAID) interventions, critics point out that the agency has very good intentions but is stretched thin in too many areas, has a short-term quick win approach, and lacks coordination with other USG programs on the ground. The programs end up being “a drop in the bucket.” Many projects are in geographic areas like the Highlands that have little development infrastructure, so they are not sustainable—the beneficiaries are not connected to markets and the value chain, so they cannot sustain themselves economically in the medium run. If USAID resources are cut, the beneficiaries cannot sustain themselves past the life of the project. It has been characterized more as a subsistence/humanitarian approach, not a real economic growth approach. Furthermore, there is a criticism that the United States uses tied aid—specifically, that USAID spends much of resources on consultants’ overhead (principally U.S.-based contractors) without building local capacity.

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**BOX 3: A BRIEF DESCRIPTION OF ACTIVE U.S. PROGRAMS IN GUATEMALA**

- **U.S. Agency for International Development (USAID):** USAID investments in Guatemala total over \$199 million in the 2012-2021 period. In Guatemala, USAID seeks to address the drivers of irregular migration to the United States, including high levels of violence and insecurity, pervasive poverty, and chronic malnutrition. USAID has geographically targeted its programming in the Northern Triangle to focus on those communities whose residents are most likely to migrate to the United States, including the agricultural sector in the Western Highlands of Guatemala. In Guatemala, extortion-related annual losses have been valued at between \$60 and \$400 million annually, with the Northern Triangle representing the epicenter of criminal extortion in Central America. To address this challenge, USAID has supported the implementation of new investigation and case management models in the government of Guatemala’s Specialized Prosecutors’ Offices for Extortion and Anticorruption.<sup>74</sup> With a projected funding of \$37 million for the Youth and Gender Justice Project (May 2016-February 2021), this USAID project aims to facilitate resilience and provide support and improved services to victims of violence—in particular, youth, women and minorities—in order to decrease juvenile recidivism and improve the overall Guatemalan justice system.<sup>75</sup> The \$40 million Community Roots Project (December 2016-December 2021), focuses on migration and the prevention of crime and violence through community-level interventions that create diverse opportunities for the Guatemalan youth.<sup>76</sup>

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74. “USAID/Guatemala country fact sheet,” USAID, July 2018, [https://www.usaid.gov/sites/default/files/documents/1862/Guatemala\\_External\\_Fact\\_Sheet\\_July\\_2018.pdf](https://www.usaid.gov/sites/default/files/documents/1862/Guatemala_External_Fact_Sheet_July_2018.pdf).

75. “Improving the Guatemalan Justice System,” Chemonics, <https://www.chemonics.com/projects/improving-guatemalan-justice-system/>.

76. “USAID/Guatemala Community Roots Project: Addressing Causes of Violence and Migration,” FundsforNGOs, <https://www2.fundsforngos.org/latest-funds-for-ngos/usaidguatemala-community-roots-project-addressing-causes-violence-migration/>.

- **Millennium Challenge Corporation (MCC)** is currently partnering with the Guatemalan government to improve governance by implementing anti-corruption efforts. MCC aims to benefit the country's development infrastructure with their \$28 million threshold program by improving education, access to employment, and enhancing private investment opportunities. So far, this agency has administered a \$19.3 million project supporting the Guatemalan Ministry of Education.<sup>77</sup> They aim to refine the quality of secondary education and prepare the youth entering the labor market with an improved set of strategies and tools in the technical and vocational training sectors. Additionally, their \$5.8 million Resource Mobilization Project allows the MCC to work closely with the Government of Guatemala to promote transparency in Public-Private Partnerships (PPPs) so as to improve customs operations and boost tax revenues.<sup>78</sup>
- **Overseas Private Investment Corporation (OPIC) programs:** OPIC has recently disbursed a loan of \$150 million to Banco Industrial to increase mortgage lending to low- and middle-income borrowers and expand access to affordable housing in Guatemala.<sup>79</sup> One of OPIC's new initiatives prioritizes the Northern Triangle, and over the next two years, OPIC aims to catalyze \$1 billion in private sector investments, which is expected to result in 10,000 new jobs for the region.<sup>80</sup>
- Since 2006, the **U.S.-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR)** has fostered significant trade relations between Guatemala and the United States. From 2005 (pre-CAFTA-DR) to 2017, U.S. exports to Guatemala increased by 143 percent, whereas Guatemalan exports to the United States increased by only 28 percent during the same period. Guatemala was the United States' 43rd largest trading partner in 2017. That year, total U.S.-Guatemala trade in goods and services reached \$13.5 billion, and U.S. exports to Guatemala amounted to \$8.5 billion. The majority of U.S. exports were made up of mineral fuels, articles donated for relief, machinery, electrical machinery, and cereals. U.S. agricultural exports include corn, soybean meal, wheat, poultry, and cotton. The majority of U.S. imports from Guatemala were comprised of bananas, plantains, knit apparel, woven apparel, coffee, silver, and gold, amounting to about \$4 billion.

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77. "Guatemala Threshold Program," Millennium Challenge Corporation, <https://www.mcc.gov/where-we-work/program/guatemala-threshold-program>.

78. Ibid.

79. "OPIC Provides \$150 Million to Banco Industrial to Expand Access to Affordable Housing in Guatemala," OPIC, December 20, 2018, <https://www.opic.gov/press-releases/2018/opic-provides-150-million-banco-industrial-expand-access-affordable-housing-guatemala>.

80. "The Northern Triangle," OPIC, <https://www.opic.gov/opic-action/regional-priorities/northern-triangle>.

Moving forward, with the new DFC coming on board, the United States has an opportunity to deploy its agencies more effectively by developing a more coordinated approach, which aims at enhancing economic growth and private sector development. This approach needs to be consistently communicated throughout the country and region.

### *A “Team America” Approach: Strategic, Coordinated, and Medium Term*

The launch of the new DFC in October 2019 is a chance for U.S. agencies to follow a more coordinated and holistic approach to economic growth and development. The DFC has a chance to push for better interagency coordination—a “Team America” approach—since currently the work is fragmented and mainly focused on solving basic humanitarian needs. This commitment must come from the top as a clear message from Washington headquarters and the U.S. ambassador on the ground so the message will trickle down to the country staff.

The DFC needs to rethink its country strategy in conjunction with USAID, the Millennium Challenge Corporation (MCC), and others to one that is more medium to long term than just piecemeal short-term projects (5 years or less). The DFC needs to identify strategic investments in Guatemala that consider a regional (Central American) perspective since Guatemala is embedded in a market of over 49 million people. The DFC could choose to focus on two to three areas of impact and follow a holistic approach to economic development among all U.S. development agencies working on the region. These areas of engagement might be smaller and riskier endeavors where the agency can make a difference. It will require the DFC to be pushed out of its comfort zone, trading financial returns for higher development impact. In this regard, it will be important to have an impact measurement system to quantify the progress of USG engagement: Did the programs work, or did they have unintended negative consequences?

### *Creating Awareness of the DFC and Its Development Finance Tools*

Currently, there is confusion or a lack of knowledge in the private sector in Guatemala on the kinds of USG development finance tools that can support their endeavors. Moving forward, the DFC should try to more clearly outline and advertise the development finance instruments it has to offer (i.e., products offered) and required processes, given that its new mandate has significantly expanded the toolkit it can use, to include equity investments, first loss guarantees, and local currency financing.

Part of the challenge for the new DFC is a lack of knowledge about OPIC (and now the DFC) as an entity because it is a Washington-based agency. This lack of physical presence makes it difficult for people to understand what the institution has to offer and makes it more difficult for OPIC to understand countries’ needs. Guatemalan companies and institutions consider face-to-face interactions to be valuable and necessary for business dealings. The DFC should aim to have more local presence on the ground, but it does not need to create unnecessary bureaucracy (such as an office in each country where it operates). It can follow different models to fill this gap:

- A Central America/Northern Triangle office housed in the USAID/U.S. Embassy equipped with investment officers (with emerging markets banking experience, at a minimum) to source deals, who can travel regularly to each country.



- A local partner(s) that has been previously vetted and can help source deals and facilitate investments.
- A DFC office in-country, with more operational and decision-making leeway in-country (not so centered in D.C.), following an MCC model with more agility and decision-making at the country office.
- A dual-hatted USAID-DFC investment officer in-country.
- An explicit DFC agreement with the International Finance Corporation (IFC) (or another DFI on the ground) to pursue deals together.

### *Greater Collaboration with Development Partners*

There is also a significant gap between intentions and outcomes in donor collaboration and coordination of country activities. Although donors meet regularly in Guatemala through the G13 group, there is a need to join resources and implement concrete initiatives that would help move the private sector development agenda forward. As the largest donor in Guatemala, the United States has an opportunity through the DFC and USAID to push for tangible and concrete collaboration initiatives. Some examples of areas where donors could undertake joint work to fill the private sector void include:

- setting up a project preparation facility to fund feasibility studies and assist government agencies in putting together a pipeline of bankable projects
- training government staff in project preparation
- conducting joint due diligence on projects
- applying the same environmental, social, and governance standards in projects
- conducting joint project evaluations
- cofinancing (syndication) or co-guaranteeing projects

### *A More Strategic Use of the Development Finance Toolbox*

One critical area where USAID and the DFC could work jointly with the U.S. Department of Treasury is using technical assistance to mobilize domestic savings and develop domestic bond markets to fund longer-term investments. Access to financing is not a major impediment for the private sector in Guatemala, at least for established firms.<sup>81</sup> The local banking sector is liquid, but it is risk-averse. It does not fund sectors such as affordable housing, small farmers, and large infrastructure projects.

Rather than focusing on lending and grants, Guatemala's private sector needs more sophisticated development finance products such as expanding the use of OPIC and Development Credit Authority (DCA) guarantees in underserved sectors, using grants to fund project preparation facilities, investing in tech innovation funds as anchor investors, and using first loss guarantees for startups and innovative firms. These are riskier propositions where the Guatemalan private sector and foreign investors are unwilling to finance, yet these are areas where the DFC, working with other USG agencies, can have a significant impact:

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81. "Enterprise Surveys: Guatemala (2017)," The World Bank.

- **Tool 1: Using Technical Assistance to Untap Local Savings and Creating a Robust Domestic Institutional Investor Base:** The Guatemalan financial system is small and capital markets are underdeveloped.<sup>82</sup> Long-term financing for infrastructure is lacking. The International Monetary Fund's (IMF) Financial Markets Development Index scores Guatemala 0.443 (or 73rd out of 183 countries ranked) for the Financial Institutions index and a score of 0.04 (or 103rd) in its Financial Markets index. The DFC could work with USAID and other development partners on the ground to develop Guatemala's long-term domestic savings pool of institutional investors (such as pension funds and insurance companies). The DFC could also leverage the technical assistance work of the U.S. Department of Treasury's Government Debt Issuance and Management Program to help Guatemala develop its bond market.<sup>83</sup> This U.S. Treasury team has worked with the governments of many developing countries to assist them in creating regulatory frameworks and markets for local currency government securities.
- **Tool 2: Scaling Up the Use of DCA Guarantees for Underserved Sectors:** The DCA (which is currently housed at USAID but will transfer its operations to the new DFC) provides loan portfolio guarantees to established banks and financial institutions to generate additional lending in underserved developing markets that have liquidity issues. These are partial guarantees that the DCA provides to commercially viable banking institutions to incentivize them to expand their lending operations to sectors that have development impact such as agriculture, small and medium-sized enterprises (SMEs), and affordable housing. The guarantees cover no more than 50 percent of the loan amount and are offered in both foreign currency and local currency (although, in the latter, DCA commits to a dollar-denominated exposure cap).<sup>84</sup> In the case of Guatemala, the DCA could work with local banks to provide guarantees for underserved sectors linked to global value chains such as agro-processing. Usually, local cooperatives or banks (such as BANRURAL) lend to established agricultural firms but do not reach small farmers that need longer-term financing to purchase equipment or access a better variety of seeds in order to increase productivity.
- **Tool 3: Setting Up a Regional Enterprise Fund for The Northern Triangle:** A Northern Triangle Fund would help provide more stability and economic opportunity to the region. The region needs stronger local markets, policy reforms, and more job opportunities domestically. Enterprise funds function like private equity funds but use USG funding to stimulate economic development by investing in the private sectors of developing countries. A regional fund would achieve economies of scale and attract large-scale investments. Within the Northern Triangle countries, the fund could be headquartered in the biggest economy—Guatemala. The fund could help galvanize its three neighbors in strategic areas such as regional infrastructure and agro-processing and can achieve a positive demonstration effect for further investments into these three countries.<sup>85</sup>

82. Bertelsmann Stiftung, *BTI 2018 Country Report: Guatemala*.

83. "Office of Technical Assistance - Government Debt Issuance and Management Program," U.S. Department of the Treasury, <https://www.treasury.gov/about/organizational-structure/offices/Pages/OTA-government-debt.aspx>.

84. "Development Credit Authority: Putting Local Wealth to Work," USAID, 2018, [https://www.usaid.gov/sites/default/files/documents/1865/DCA%20One-Pager%20for%20Financial%20Partners\\_FY2015\\_Final.pdf](https://www.usaid.gov/sites/default/files/documents/1865/DCA%20One-Pager%20for%20Financial%20Partners_FY2015_Final.pdf).

85. Daniel F. Runde and Romina Bandura, *Time for a Third Wave of Enterprise Funds* (Washington, D.C.: CSIS,

- **Tool 3: Cultivating SMEs and Entrepreneurship through Anchor Investments and First Loss Guarantees:** Many common Guatemalans lack access to energy, healthcare, education, and financial products. At the same time, many sectors in Guatemala currently lack the financial, technological, and entrepreneurial capacities needed to scale up. There is minimal technology and entrepreneurship guidance or formal curricula in Guatemala's education system despite the fact that technology is a sector many young people are drawn to. Additionally, burdensome laws make it difficult for small- and medium-sized businesses to be established and operate and can end up penalizing entrepreneurs for failing business ideas—which constricts creativity and “out of the box” solutions. For example, Chile has innovative models to fund emerging companies such as Start Up Chile and G100, a fund that invests in MSMEs.<sup>86</sup> Guatemala is now also beginning a ScaleUp Xela initiative to fund SMEs growth.<sup>87</sup>

The DFC could support trusted and experienced private equity fund managers in-country and play a catalytic role in the formation of funds along certain key themes like innovation, agribusiness, SME growth, and infrastructure. The DFC could act as an anchor investor in each fund and provide first-loss insurance for local private investors to mobilize the domestic capital held off in the sidelines. The funds would also act as originators of debt financing opportunities for their portfolio companies, either through a separate debt facility funded by DFC or through a fast-track credit underwriting process. Through close interagency cooperation, the DFC could also assist the fund managers in securing technical assistance grants to create business accelerators that help emerging local companies become investable, scalable companies.

## *Investing in Strategic Sectors*

Finally, the DFC should evaluate its comparative advantages and invest in key sectors where it can make an impact in development. The National Competitiveness Plan for Guatemala (2018-2032) lays out 11 clusters that could be developed by 2032 to generate 5.6 million jobs.<sup>88</sup> These include forestry products (wood, paper, cardboard), agriculture (spices and cardamom), processing of agricultural products and beverages, maquila, tourism (conventional and nostalgic/historical), construction (housing and infrastructure), and IT and call centers.<sup>89</sup> To implement the competitiveness plan, three geographical areas are laid out at the national, regional, and municipal level. The plan calls for the development of a network of nine robust intermediate cities consisting of Ciudad de los Altos, Ciudad de las Verapaces, Ciudad Guatemalga, Ciudad de Oriente, Ciudad de Nor-Occidente, Ciudad de Puerto Barrios, San Jose, Peten, and Pachoy.

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2018), <https://www.csis.org/analysis/time-third-wave-enterprise-funds>.

86. Start-Up Chile, <http://www.startupchile.org>; G100 ASECH, <https://g100.asech.cl/>.

87. Daniel Isenberg, “In Guatemala, Scale Up Brings New Opportunity to a Troubled Triangle,” Babson College, July 16, 2019, <http://entrepreneurship.babson.edu/scale-up-xela-guatemala/>.

88. PRONACOM, *Política Nacional de Competitividad 2018-2032* (Guatemala City: PRONACOM, 2018), [https://www.pronacom.gt/proyectos/agenda\\_nacional\\_de\\_competitividad](https://www.pronacom.gt/proyectos/agenda_nacional_de_competitividad).

89. Call centers offer relatively high pay for young people. The main issue facing the U.S. government's investment in this sector is that it has been deemed as a competitor to U.S. jobs, which restricts the USG's ability to invest.

Given Guatemala's pressing needs to generate employment and the comparative advantage of USG programs in the region, the DFC could make investments in the following three sectors:

- *Supporting Agro-Processing*
- *Developing Secondary and Smart Cities*
- *Supporting Infrastructure*

#### **SUPPORTING AGRO-PROCESSING**

Many Guatemalans rely on agriculture and farming for their livelihoods, with close to 30 percent of the labor force employed in the agriculture sector. However, the sector's productivity is very low and many agricultural products lack a value-add. The country holds enormous potential in expanding this sector as it is recognized as a leader in nontraditional agricultural exports in the region.<sup>90</sup> USAID and the U.S. Department of Agriculture already work in Guatemala with local farmers to improve crop production, expansion, and diversification (e.g., snow peas, coffee, green beans, and other staple foods).<sup>91</sup> Feed the Future also helped Guatemala generate \$47.8 billion in annual agricultural sales. Some value chains that could further be developed are forestry products, coffee retailers, sugar derivatives, and spices such as cardamom. One way to support this sector would be through DCA's loan portfolio guarantees. By supporting sustainable farming practices and expanding value chains, the DFC can work with other USG programs on the ground to generate jobs in this sector and help alleviate poverty on a large scale.

#### **DEVELOPING SECONDARY AND SMART CITIES**

Urbanization in Guatemala lags behind other Latin American countries. Currently, 51 percent of the population lives in urban areas versus an average of 81 percent in Latin America.<sup>92</sup> Moreover, half of Guatemala's population is concentrated in Guatemala City, while the rest of the population lives in rural areas, typically in small villages and communities. People from all around the country migrate to Guatemala City in search of economic opportunities and public services because they cannot find it elsewhere, which puts a strain on the capital's limited public resources.

Building up six to eight mid-sized cities would help decentralize the country's population from Guatemala City and provide employment opportunities and services to those seeking better standards of living. Investments need to be strategically focused to develop small- and mid-sized cities through road networks, affordable housing, public transport, IT, and smart apps. Fostering interconnectivity amongst these cities is also crucial to access global markets.

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90. "Guatemala: Economic Growth through Agriculture Food Security," USAID, September 2018, [https://www.usaid.gov/sites/default/files/documents/1862/Sector\\_Brief\\_Agriculture\\_Sept\\_2018.pdf](https://www.usaid.gov/sites/default/files/documents/1862/Sector_Brief_Agriculture_Sept_2018.pdf).

91. Ibid.

92. "Urban population (% of total population)," The World Bank, <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?locations=ZJ-GT>.



*People from all around the country migrate to Guatemala City in search of economic opportunities and public services...building up six to eight mid-sized cities would help decentralize the country's population and provide employment opportunities.*

Building a broader digital strategy for cities needs to be one of the country's top priorities. More than two-thirds of the population in Guatemala lack 4G access, so facilitating mobile internet infrastructure and introducing digitization for various platforms (e.g., e-government services) would increase the quality of services for citizens and prevent delays, corruption, and increase the country's attractiveness for potential investors and business partners.<sup>93</sup> With broadband internet and mobile electronic payments, better financial technology would enable easier access to markets and various day-to-day living essentials.<sup>94</sup> One way this can be promoted is through the introduction of smart apps such as Uber and Airbnb, which not only benefit the economy but also foster increased trust among the population and authorities.<sup>95</sup>

The development of smart cities (that is, the use of IT and technology to improve the functioning of a city) is necessary to the improved and sustained development of Guatemala and an area where the DFC could play an important role. The DFC could leverage firms like AT&T and JP Morgan with their Smart Cities Program and Global Cities Initiative (respectively) to hasten their progression towards the development of smart cities.<sup>96</sup> To do this, the DFC could use a range of development tools including loans, guarantees, and equity investments to help Guatemala in its development of intermediate and smart cities. Some areas where the DFC could provide assistance are hard and soft energy infrastructure, technical assistance, city planning and governance, investments in data nerve centers, citizen services such as digital governments, data dashboards, and performance monitoring.<sup>97</sup>

#### **SUPPORTING INFRASTRUCTURE**

There is a need for better investment in infrastructure in Guatemala and the Northern Triangle region. This is seen as the top issue impeding investment and development of the country, keeping the country from creating new institutions, having a broader tourism industry, and isolating rural and indigenous communities. Public infrastructure spending in Guatemala is the lowest in the region at 1 percent of GDP in 2017.<sup>98</sup> The most pressing needs are road networks (both rural and connecting cities); bridges (to address flooding issues); trading ports (both Atlantic and Pacific); and, in rural areas, hospitals and other

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93. Matthew Rooney and Andrea Durkin, *Toward a digital strategy for competitiveness and integration in the Northern Triangle* (Dallas, TX: George W. Bush Institute, 2019), pp.4-7.

94. Ibid.

95. Ibid.

96. Agnes Dasewicz, Todd Moss, Dan Runde, and Kate Steel, *America's Global Infrastructure Opportunity: Three Recommendations to the New U.S. Development Finance Corporation*, (Washington, D.C.: CSIS, 2019), <https://www.csis.org/analysis/americas-global-infrastructure-opportunity-three-recommendations-new-us-development-finance>.

97. Ibid.

98. Valentina Flamini and Lulia Teodoru, "More and Better Infrastructure in Guatemala," IMF, February 28, 2017, <https://www.imf.org/external/np/blog/dialogo/022817.pdf>.

basic health/sanitation needs, potable water, and internet. Due to underperformance in various infrastructural sectors, Guatemala went down in ranking (according to 2012 data) in logistical and cargo transport.<sup>99</sup> The country is 9th out of 26 Latin American countries in truck transportation, 22nd in air transportation, and 12th in maritime transportation.<sup>100</sup> The poor road conditions and immense traffic jams result in decreased national productivity.<sup>101</sup>

Moreover, telecom and broadband services remain underfunded in Guatemala. While internet and telecommunication access are available in urban areas (roughly 35 percent of the population has Internet access as of 2016), rural parts of the country are still largely unconnected, with one of the lowest teledensities in the region.<sup>102</sup> Fixed telephone lines are being used to connect rural parts of the country (10 subscriptions out of every 100 with fixed lines), whereas mobile telephone usage is high (126 subscriptions out of 100 habitants).<sup>103</sup> Despite a moderate connectivity rate in urban Guatemala, the asymmetry of connectivity throughout the country leads to unbalanced development. Digital infrastructure is an area that U.S. companies have a comparative advantage and where the DFC could play an important role in the future. The DFC could facilitate public-private partnerships for digital infrastructure development by participating in loan syndications with other DFIs and providing political risk insurance to foreign investors.

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99. PRONACOM, *Política Nacional de Competitividad 2018-2032*.

100. Ibid.

101. "Guatemala to improve and rehabilitate the national road network with IDB support," IADB, February 7, 2019, <https://www.iadb.org/en/news/guatemala-improve-and-rehabilitate-national-road-network-idb-support>.

102. "Guatemala," CIA World Fact Book, <https://www.cia.gov/library/publications/the-world-factbook/geos/gt.html>.

103. Ibid.

## About the Authors

**Daniel F. Runde** is senior vice president, director of the Project on Prosperity and Development, and holds the William A. Schreyer Chair in Global Analysis at CSIS. A global thought leader and change agent, his work centers on leveraging U.S. soft power and the central roles of the private sector and good governance in creating a more free and prosperous world. Mr. Runde has been recognized for influencing the debate on USAID-State Department relations, as an architect of the BUILD Act, and led the debate surrounding the role and future of the World Bank Group. Mr. Runde has also influenced thinking about U.S. economic engagement with Africa (of which he is in favor of much more) and domestic resource mobilization. Mr. Runde holds the Officer's Cross in the Order of Isabel la Católica, a Spanish Civil Order.

Previously, Mr. Runde held senior leadership roles at the International Finance Corporation (IFC). From 2005 to 2007, he was director of the Office of Global Development Alliances (GDA) at the U.S. Agency for International Development (USAID), and he led the GDA partnership initiative by providing training, networks, staff, funds, and advice to establish and strengthen public-private partnerships. His efforts at USAID leveraged \$4.8 billion through 100 direct alliances and 300 others through training and technical assistance.

Mr. Runde is the chairman of the Advisory Committee on Voluntary Foreign Aid (ACVFA) and serves on the board of the International Foundation for Electoral Systems (IFES), the Millennium Challenge Corporation (MCC) Advisory Council, and the Ashesi University Foundation (a private university located in Accra, Ghana). Mr. Runde is a regular contributor to The Hill and hosts a podcast series, Building the Future with Dan Runde: Freedom, Prosperity, & Foreign Policy.

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**Sarah Baumunk** is a researcher and policy adviser with Catholic Relief Services. She was previously a research associate with the CSIS Americas Program, where she worked primarily with the Future of Venezuela Initiative in the areas of research, public outreach, and development. She holds an MPA and an MA in international relations from the Maxwell School at Syracuse University, with concentrations in Latin American studies and the intersection between security and immigration. She also holds a BA in Spanish, with minors in Latin American studies and chemistry, from Wake Forest University.



# Annex: Project Description

## *Background*

The Project on Prosperity and Development (PPD) at CSIS partnered with the Smith Richardson Foundation (SRF) in January 2019 on a research project examining the strategic directions for the new U.S. development finance institution, the United States International Development Finance Corporation (DFC). This report provides an independent, medium-term assessment for the DFC as it begins operations in October 2019. The recommendations produced in this report lay out a vision for the next 5 to 10 years that are acceptable to both sides of the U.S. political spectrum—Republicans and Democrats alike.

CSIS was one of the Better Utilization of Investment Leading to Development (BUILD) Act’s key architects. Over the past seven years, CSIS participated in several Congressional hearings and produced numerous research materials in support of the BUILD Act and development finance modernization (see Annex C for a listing of related research). Starting in 2011, CSIS has run a very active program to strengthen and enable development finance in the United States. Some examples of our written work include “Sharing Risk in a World of Dangers and Opportunities” (2011), “Development Finance Institutions Come of Age” (2016), and, most recently, “The BUILD Act Has Passed: What’s Next?” (October 2018). PPD Director Daniel F. Runde testified twice regarding the BUILD Act.

The DFC is not designed to be simply another development finance institution—in addition to a greater proposed focus on development impact, it is an agency also embedded in the U.S. foreign policy and national security architecture. This report offers concrete and independent ideas on how the DFC can better support U.S. national security interests but also highlights its limitations. Within this context, the three key U.S. national security challenges that CSIS highlights include a) China’s rising influence in the developing world, b) actions the United States and others can do to further mitigate violent extremism, and c) addressing the root causes of migration. The main questions we sought to answer through this project are:

*How the DFC can support U.S. foreign policy, development, and national security goals via a series of key strategic questions:*

- *Where and how can the DFC counter the rise of China as a development player?*
- *Where and how can the DFC address instability and counter the rise of violent extremism?*

- *Where and how can the DFC address the root causes of migration?*

CSIS approached the project through a two-part method:

- a bottom-up approach, consisting of country case studies to better understand local stakeholders' views on the DFC; complemented by
- a top-down approach, consisting of the expertise of Washington-based policymakers and high-level staff from allied development finance institutions.

During the first half of 2019, CSIS met key stakeholders (U.S. embassy teams, local business leaders, country government officials, and multilateral development agencies) in three developing countries to gather views on the ground on how the DFC could be most effective in meeting their country's needs. CSIS focused on three very different but strategically important regions of the world: Central America, North Africa, and Southeast Asia. Within these regions, we chose the Philippines, Tunisia, and Guatemala as country case studies due to a large U.S. influence or presence and their representation of the three key U.S. national security challenges of China's rise, violent extremism, and youth migration. Over 25 experts were consulted in each country. These case studies have been published as separate papers.

CSIS also convened two private roundtable discussions in Washington, D.C., with nearly 30 stakeholders from various academic institutions, multilateral development banks, private sector entities, and allied development agencies. Finally, 15 in-person interviews were conducted to better understand how the DFC can fit into a changing development landscape, work more collaboratively with other partners, focus on the proper sectors, and achieve its development impact and financial goals.

## *Country Case Studies*

CSIS chose the Philippines, Tunisia, and Guatemala as case studies to provide a series of lessons learned for future programs by the United States International Development Finance Institution (DFC). These countries are representative of the major U.S. geostrategic issues of China's rise as a development player, violent extremism, and forced migration. In choosing the countries, CSIS sought to balance representation in different regions and varied economic structures and development status (two are lower middle income—the Philippines and Tunisia—while one is a fragile, upper-middle-income country—Guatemala). These case studies have been published as separate papers.

In each country, CSIS met with government officials, executives from businesses, directors of aid agencies, high-level staff at U.S. embassies, security actors, bilateral development finance institutions (DFIs) and multilateral development bank (MDB) representatives (the Asian Development Bank [ADB], the Inter-American Development Bank [IADB], the African Development Bank [AfDB], and the World Bank), chambers of commerce members, and think tanks. CSIS also interviewed counterparts of the DFC, such as Japanese, Korean, and German stakeholders in both the private and public sector, to hear their perspectives.

During the first half of 2019, CSIS interviewed 80 stakeholders in those three countries (31 in Tunisia, 22 in the Philippines, and 27 in Guatemala) as well as 15 experts from DFIs and other development agencies. CSIS also undertook an extensive desk review that

utilized the publications listed in Annex C.

The following questions were asked in all three countries:

- What are some areas that you think the new DFC will be able to pursue in collaboration with other development finance institutions (DFIs)?
- What concrete joint projects or products should be pursued? What new products or approaches would you like the new DFC to undertake?
- If you have ever collaborated with the Overseas Private Investment Corporation (OPIC), what were the main barriers hindering the process?
- How can the DFC leverage the work of the other U.S. development agencies (OPIC, Millennium Challenge Corporation [MCC], Export-Import Bank of the United States [EXIM], U.S. Agency for International Development [USAID])?
- What types of new financing instruments are needed?
- Do you see a role for the new DFC in working with impact investors?
- What do you foresee as the DFC's main limitations?
- What three key technologies will have the most impact in achieving the Sustainable Development Goals?
- How can DFIs accelerate and enable the adoption of key technologies in developing countries?
- How have DFIs in the past supported telecommunications infrastructure development (e.g., cellphones)?
- With new technologies like big data or 5G wireless communication entering the markets, how can DFIs be more strategic about the risks they pose to society?

The Philippines exemplifies a developing country where the contested security and economic forces of China and the United States are present. Its location in the South China Sea makes it an attractive area of investment for U.S. and Chinese firms. The Philippines case study was meant to inform the DFC on the tools, technical assistance programs, and sectoral approaches that Southeast Asian countries need but China cannot offer. Questions to stakeholders in the Philippines included:

- What strengths do you identify in the U.S. approach (government programs, private sector) compared to China's? What are the U.S. weaknesses?
- What are some areas that you think the new DFC will be able to pursue in collaboration with other DFIs on the ground? (e.g., infrastructure? Small and medium-sized enterprise [SME] development? entrepreneurship?)
- How should the DFC approach infrastructure financing?
- What tools and approaches are most needed in the Philippines? Southeast Asia?
- How can the DFC collaborate with the government of the Philippines and its other partners to engage youth and counter violent extremism? What are the most promising economic sectors to engage youth?

Tunisia is a good example of the Middle East and North Africa (MENA) region's challenges, which include weak private sectors, youth disengagement from the workforce, and the potential for violent extremism. The youth unemployment rate in Tunisia has not dipped below 30 percent since 2010. Even youth that are highly educated (tertiary level) struggle with unemployment levels over 60 percent because of the low demand for highly skilled labor in Tunisia. These high levels of unemployment have led to as many as 6,000 suspected Tunisian youth joining violent extremist groups in recent years.<sup>104</sup> The Tunisia case study aimed to guide the DFC on how it can collaborate and work with allies and other DFIs, specifically in economic sectors that can engage youth. Questions to stakeholders in Tunisia included:

- What should be the DFC approach to private sector development in Tunisia?
- What tools and approaches are most needed in Tunisia? North Africa?
- What are the most promising economic sectors to engage youth?
- How can the DFC collaborate with the government of Tunisia and other partners on the ground to engage youth and counter violent extremism?

With close to 17 million people, Guatemala is a good representation of the problems in the Northern Triangle—particularly the perennial challenge of migration that stems from a lack of jobs and internal security. The challenges in the Northern Triangle will likely last for the next 20 years and will continue to impact U.S. national security. Countries in the Northern Triangle face a significant gang and criminal activity problem that magnifies a lack of economic opportunity as gangs find recruits among the region's unemployed or underemployed. Although there is less overall gang violence in Guatemala, Guatemalans migrate mostly to the United States because of extreme poverty, especially among its very large indigenous community. The Guatemala case study strived to inform the DFC strategy on the specific tools and approaches that are needed to develop the private sector in ways that mitigate economic migration. Questions to stakeholders in Guatemala included:

- What are the most successful approaches and financing instruments to develop the private sector in Guatemala? What are the main challenges? What should be the DFC's role?
- Which promising industries or sectors should the DFC focus on in order to trigger economic growth and employment?
- How can the DFC leverage the work of other U.S. government programs in combatting the root causes of migration?
- How can the DFC collaborate with the government of Guatemala and other partners on the ground to provide better alternatives to migration?

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104. Counter Extremism Project, "Tunisia: Extremism & Counter-Extremism," (New York, NY: 2019), Counter Extremism Project, [https://www.counterextremism.com/sites/default/files/country\\_pdf/TN-07252019.pdf](https://www.counterextremism.com/sites/default/files/country_pdf/TN-07252019.pdf).



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