

# GUATEMALA

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: GUATEMALAN QUETZAL (GTQ)

### POPULATION AND GEOGRAPHY

**Area:** 108 890 km<sup>2</sup>  
**Population:** 16.914 million inhabitants (2017), a decrease of 2% per year (2010-2015)  
**Density:** 155 inhabitants / km<sup>2</sup>  
**Urban population:** 50.7 % of national population (2017)  
**Urban population growth:** 2.7% (2017 vs 2016)  
**Capital city:** Guatemala City (16.8% of national population, 2015)

### ECONOMIC DATA

**GDP:** 137.9 billion (current PPP international dollars), i.e. 8 150 per inhabitant (2017)  
**Real GDP growth:** 2.8 % (2017 vs. 2016)  
**Unemployment rate:** 2.7 % (2017)  
**Foreign direct investment, net inflows (FDI):** 1 034.8 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 12.3 % of GDP (2017)  
**HDI:** 0.650 (medium), rank 127 (2017)  
**Poverty rate:** 8.7 (2014)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Guatemala is a unitary country with a presidential system and a classic model of division of powers. Members of Parliament (single-chamber) and the Executive are elected by universal suffrage, for periods of 4 years. Members of Parliament may be re-elected, unlike the Executive. The Supreme Court of Judicial Power is elected by Parliament. In 1996, Guatemala signed a National Peace Agreement that put an end to a 36 year-long internal armed conflict. One of the main objectives was the recognition of the indigenous people's rights, which represent about 45 % of the population.

The 1985 Constitution states that the territory is divided into departments and municipalities (Art. 224). However, municipalities constitute the only level of sub-national government. The Constitution (art 253-255), the Decentralization Act (Decree 14-2002), the Municipal Code (Decree 12-2002) and the Urban and Rural Development Councils Act (April 2002) establish the current legal framework for decentralization. Although other laws restrict the extent of decentralization, the above-mentioned laws recognize municipal governments' autonomy.

Local governments have the capacity to elect their own authorities (councillors and mayors) and to regulate and mobilize their own resources for service delivery and planning. Local elections are to be celebrated on the same day as general elections. Local governments are governed by a local council, comprised of the mayor, trustees (síndicos) and councillors, all directly elected for a four-year term and eligible for re-election (Constitution, Art. 254)

The Decentralization Act recognizes Guatemala's multi-ethnic, multicultural and multilingual structure. The Municipal Code recognizes the specific organizational arrangements and powers of indigenous communities, as well as the need to consult them on matters that are of interest to them. The Decentralization Act (arts. 17-19) and the Municipal Code (arts. 60-66) both recognize the principle of citizen participation. However, it was not until 2017 that the national government presented the National Decentralization Agenda (ANDE). Placed under the responsibility of the Executive Coordination Secretariat of the Presidency (SCEP) responsible for steering and overseeing the decentralization process, the ANDE specifies the institutional reforms and political objectives to be achieved in terms of decentralization by 2032.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Municipality ( <i>Municipalidad</i> )			
	Average municipal size: 49 700 inhabitants			
	<b>340</b>			<b>340</b>

**OVERALL DESCRIPTION.** Guatemala's territorial organisation comprises 8 regions, 22 departments and 340 municipalities, the latter being the only decentralized tier of government in the country.

**DEPARTMENTS AND REGIONS.** Departments are deconcentrated entities and, for planning and development purposes, are clustered into regions. The most populated department is the department of Guatemala, which represents 21.4% of the total population, followed by the department of Huehuetenango (7.9%) and the department of Alta Verapaz (7.7%). On the other hand, the least populated departments are El Progreso, Zacapa and Baja Verapaz.

Both regions and departments have regional and departmental councils chaired respectively by a president and a governor, appointed by the central government. The Regional Council for Urban and Rural Development includes the governors and a representative of the municipalities of each department of the region. The Departmental Council includes all the mayors of the Department, as well as representatives from the public and private sectors. A National Council for Urban and Rural Development coordinates the regional and departmental councils (arts. 225 and 226).

**MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION.** 71% of municipalities have a population size of less than 50 000 inhabitants. The most populated municipalities are Guatemala City, Villa Nueva and Mixco, while the least populated municipalities are Santa María Visitación, Santa Catarina Barahona and San Marcos la Laguna.

The Municipal Code recognizes the possibility of developing different forms of inter-municipal cooperation for service delivery and development purposes (Art. 49-51). The role of the National Institute of Municipal Development (INFOM), which formerly exercised oversight over municipalities, is limited with respect to assisting municipalities in borrowing and project implementation.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Municipal Code, municipalities are responsible for promoting economic, social, cultural, environmental activities to ensure the quality of life of their communities (Art. 67). Their competences include own and delegated responsibilities. Own competences are the same for all municipalities and are mandatory: they include water supply, sewerage, street lighting, public markets, cemeteries, public spaces, road maintenance, building permits, public transport, waste collection, and environmental and natural resources management. Delegated competences are competences devolved by the central government through agreements (which must be accepted by the municipality), within the framework of Decentralization Act. When a function is delegated to a local authority, the central government must provide financial resources to cover for its cost. Delegated competences vary from one municipality to another and they may include pre and primary education or healthcare among other services. Municipalities can provide these services directly or through inter-municipal agreements or partnerships with the private sector.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Internal administration; Civil registration; Building permissions; Cemeteries
2. Public order and safety	Municipal police; Designation of judicial and extrajudicial agents
3. Economic affairs/transport	Local roads (maintenance and construction); Regulation of the transport of passengers and cargo and central stations
4. Environmental protection	Treatment and disposal of solid waste and sewerage; Street cleaning; Management of parks, gardens and public spaces; Management of the local environment and natural resources
5. Housing and community amenities	Construction and renovation of housing; Supply of drinking water and street lighting; Urban planning and urban development
6. Health	Sanitary control standards in markets and food and beverage activities; Regulate and control public markets and slaughterhouses; Management and administration of popular municipal pharmacies
7. Recreation, culture & religion	Management of municipal libraries
8. Education	Management of pre- and primary schools, as well as literacy and bilingual education programs (delegated)
9. Social protection	Popular municipal pharmacies

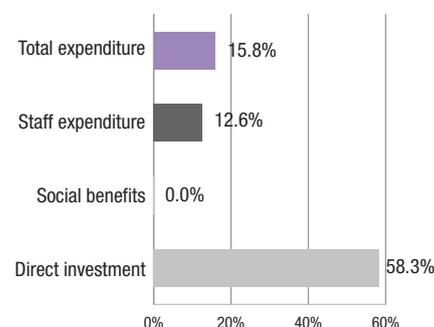
## SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities.	SNA 1993	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data : <b>Medium</b>
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**GENERAL INTRODUCTION.** Subnational government finance is regulated by the 1997 Budget Act (*Ley Orgánica del Presupuesto*), enacted in accordance with the provisions contained of Article 238 of the Constitution, which establishes how budgets should be elaborated, executed and monitored. According to Article 16 of the 2002 Decentralization Act, municipalities may be assisted by the Ministry of Finance and the Secretariat for Planning in order to comply with the provisions of the Budget Act. In 2015, Guatemala's local government revenues amounted to 1.9% of GDP, while its expenditure amounted to 2.3% of GDP and represented 15% and 15.8% of general government revenues and expenditures respectively.

### SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>179</b>	<b>2.3%</b>	<b>100%</b>	
<b>Inc. current expenditure</b>	<b>130</b>	<b>1.7%</b>	<b>72.8%</b>	
Staff expenditure	47	0.6%	26.0%	15.8%
Intermediate consumption	67	0.9%	37.2%	12.6%
Social expenditure	0	0.0%	0.0%	0.0%
Subsidies and current transfers	4	0.0%	2.0%	
Financial charges	13	0.2%	7.5%	
Others	0	0.0%	0.0%	
<b>Incl. capital expenditure</b>	<b>49</b>	<b>0.6%</b>	<b>27.2%</b>	
Capital transfers	3	0.0%	1.6%	
Direct investment (or GFCF)	46	0.6%	25.7%	58.3%



**EXPENDITURE.** Local government expenditure in Guatemala accounts for around 16 % of total public expenditure, one of the highest proportions in Central America. Two third of local expenditure is devoted to current expenditure, the rest to investments. The analysis of expenditure by region shows significant imbalances. For example, in 2015, about a quarter of local spending was concentrated in the metropolitan region, which is home to 22% of the population and less than one in 10 extremely poor people, while the Southwest region, which is home to 27% of the population and 30% of the country's poor, accounted for only 5.7% of public spending.

**DIRECT INVESTMENT.** Direct investment represents 25.7% of local expenditure, reflecting the fact that capital investment is a major function of local authorities. They represent a very large share of national public investment, according to international standards (for example, comparable to the average of OECD countries of 56.9% in 2016), although their share in GDP remains low (0.6% vs 1.7% in the OECD). Local governments' investments are mainly

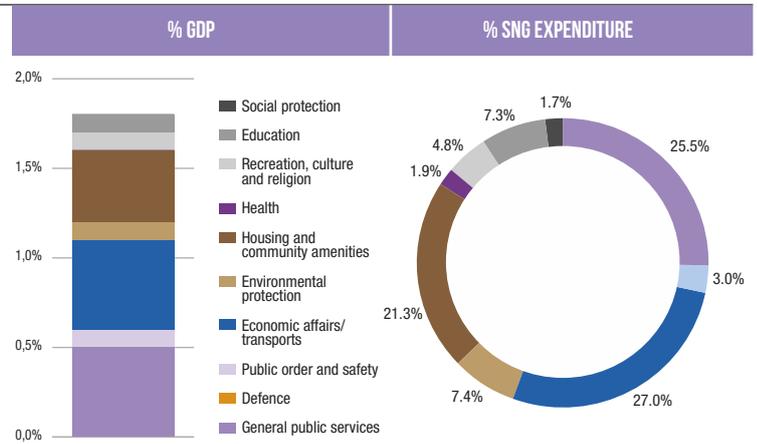
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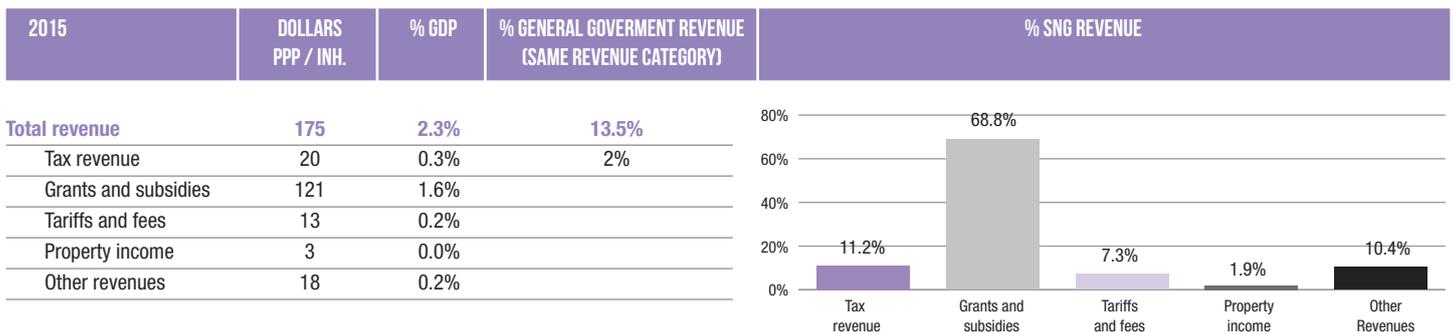
directed towards the construction and maintenance of public infrastructure (urban and rural roads, bridges, waterways, parks and green spaces) as well as land-related activities. There is an inversely proportional relationship between capital investment and municipal size: the share of local budgets allocated to capital investment increases as the size of municipalities decreases.

## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Local government expenditure is concentrated in four sectors: public administration (civil registration), economic affairs (roads), environmental protection (waste management and sewerage) and cultural and recreation activities and infrastructures. The remaining local expenditure is devoted to water management and community development (housing and community amenities). Three of these sectors concentrate almost 60% of local expenditure (administrative functions, roads and transport, water management and community development). The role of local governments is very limited in the provision of education, health and social protection services.



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



**OVERALL DESCRIPTION.** On average, sub-national governments received the equivalent of 13.5% of total government revenue in 2015. The main sources of sub-national revenue are transfers as provided for in the Constitution, shared taxes (in particular a percentage of VAT, resulting from the 1996 Peace Agreements - VAT-Paz), municipalities' own revenues (which may have fiscal and non-tax origins) and subsidies granted to cover decentralised responsibilities agreed with the national government.

Guatemala has a considerable vertical fiscal imbalance: in 2015, local government revenues represented 2% of general government revenues, while local expenditures represented 15.8% of general government expenditures. Central government transfers are intended to reduce this fiscal imbalance. According to a 2017 study by the Inter-American Development Bank on fiscal decentralization in Central America, this trend in fiscal imbalances is comparable to that of other countries in the region, such as El Salvador and Honduras.

Transfers account for more than two thirds of local government resources. They play an important role in equalisation: the Gini inequality coefficient of municipalities' own resources, which stands at 0.369, decreases to 0.160 with the addition of transfers.

**TAX REVENUE.** Guatemalan municipalities are responsible for the levying and collection of taxes entrusted to them by the central government. If local authorities are unable to collect taxes, they can ask the national government to carry out the task on their behalf.

The main sources of local governments' own revenue are taxes whose collection, administration and use have been transferred to them by the national government, including the Single Property Tax (*Impuesto Único Sobre Inmuebles* - IUSI), a tax for the maintenance of public spaces called "ornamental ticket" (*boleto de ornato*), and various indirect taxes on activities or others. 36 % of municipalities' own revenue is derived from local taxes.

Most of the tax revenue is generated by the IUSI, which accounts for 71% of local tax revenue and 7.9% of the total revenue of municipalities but only 0.2% of GDP. The remainder, namely sales taxes and ornamental tickets, represent about 10% of the municipalities' own revenues.

However, there is a territorial disparity in tax power. The main urban areas collect per capita incomes more than four times higher than those of medium-sized municipalities and more than five times higher than those of small municipalities.

**GRANTS AND SUBSIDIES.** Transfers represent almost 70% of local government revenue and include general purpose and capital expenditure transfers, although no data on transfers to local governments, broken down into earmarked and general purpose transfer categories, were found available. In accordance

with the Constitution, 10% of the State's ordinary revenue is transferred to local authorities, 90% of which must be allocated to programmes and projects in the fields of education, health, infrastructure and public services (Article 257). The remaining 10% can be used to finance operating costs.

As defined in the 1996 Peace Agreements, local authorities also receive 12.5% of VAT revenues (shared taxation). 75% of these transfers are for investments in education, health, infrastructure and public services, while the remaining 25% can be used to cover current expenditure and pensions. Municipalities receive 50% of the tax levied on private vehicles and motorcycles and 20% of the tax on extra-urban transport and vehicles used for professional activities (for road construction and maintenance). Local authorities also receive 20% of the tax on boats (for water infrastructure and maintenance) and 30% of the air traffic tax (for the maintenance of electrical infrastructure). A portion of the profits made on oil is also transferred to municipalities (0.2 GTQ for each gallon sold of higher or regular gasoline in their jurisdiction, with the exception of Guatemala City where the tax is limited to 0.1 GTQ), and is earmarked for transportation and road infrastructure and maintenance.

According to the Municipal Code, all these funds are distributed according to a formula based on the size of the municipal population, the municipal own income per capita, in proportion to the number of villages and hamlets in each municipality (art. 119).

**OTHER REVENUES.** Other municipal revenues include service fees and charges (which represent 24% of own revenues) and revenues from the sale of assets. In contrast to taxes, municipalities have considerable autonomy in creating and charging fees for services. In total, these other sources of revenue represent 63% of local governments' own revenues. Non-tax revenues are collected through administrative fees, services, rents, income from municipal companies, concessions or inter-municipal cooperation and donors.

In addition, municipalities also receive 0.5% of the 1% royalty that is paid in exchange for mining - the other 0.5% being received by the state.

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>1</b>	<b>0.0%</b>	<b>0.8%</b>	<b>100%</b>
Financial debt*	1	0.0%	0.8%	100%

\* Currency and deposits, loans and bonds

**FISCAL RULES.** According to a 2016 IMF study, in Guatemala, there is no law on quantitative fiscal targets or fiscal responsibility that determines the requirements for fiscal collection objectives, budget deficits or expenditure ceilings. Nevertheless, following the 1996 Peace Agreements, it was agreed that tax collection should not represent less than 12% of GDP and that the budget deficit should not exceed 2% of GDP as implicit fiscal rules.

**DEBT.** According to the Municipal Code, municipalities may borrow from national banks without any approval from the central government, although the borrowing is limited to the repayment capacity (based on the balance between income and expenditure) and the duration of the mandates of local authorities (arts. 110-117). In practice, the loans are contracted through the National Institute for Municipal Development (INFOM). Municipalities need central government approval to borrow from international banks and issue bonds. They can use tax and transfer revenues as collateral.

Although regular reports on municipal debt are required, there is no standardized data. There is no national system and/or office to ensure detailed monitoring of municipal public debt. The Comptroller General (CGC) does not have a database on municipal debt and within the Ministry of Finance (MINFIN), the Public Credit Department has no mechanism to corroborate the information presented by the country's municipalities. According to data collected, the level of local debt is very low (0.01% of GDP and 0.8% of general government debt).



Lead responsible: UCLG  
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**Socio-economic indicators:** World Bank // UNDP // UN Desa // ILO // National Institute for Statistics.

**Fiscal data:** Guatemala's Finance and Economics Ministry // National Institute for Statistics (INE) // Central Bank of Guatemala.

**Other sources of information:** International Monetary Fund (2016) Guatemala: Fiscal Transparency Evaluation // Portal of municipal governments. Integrated financial administration system. Ministry of Public Finance // National Institute for Statistics // Porto Augusto, Eguino Huáscar and Rosales, Walter (2017) Panorama de las finanzas municipales en América Central, IADB