

Private sector driving change

INTERVIEW WITH JUAN CARLOS ZAPATA

EXECUTIVE DIRECTOR, FUNDESA



JUAN CARLOS ZAPATA holds a BA in Business Administration from Francisco Marroquin University in Guatemala and a postgraduate degree in Hotel and Restaurant Management from the Cesar Ritz University in Switzerland, as well as undertaking postgraduate studies at INCAE. As CEO of the Foundation for the Development of Guatemala (FUNDESA), he has 12 years' experience in leading economic and social development programmes focused on increasing competitiveness and reducing poverty.

FUNDESA President Felipe Bosch and Former New York City Mayor Rudolph Giuliani attend a roundtable with representatives of Guatemala's indigenous communities

Arguably the biggest obstacle to improving living standards in Guatemala is the fact that public policy priorities tend to change every time a new government comes in, a problem exacerbated by the weakness of the country's institutions.

"This explains in large part, why Guatemala doesn't advance the way other countries do, almost 70 per cent of all medium level staff with in government changes every four years" says Juan Carlos Zapata, Executive Director of FUNDESA, a private sector think tank established in 1984 to push for economic and social development, with the goal of reducing poverty to 35 per cent by 2021, when the country celebrates its 200th anniversary of independence.

Responding to what it sees as the systemic failure of the country's politicians and administrators to address the country's long-standing problems, Guatemala's powerful private sector has taken the initiative, and is driving an ambitious agenda aimed at bringing about political and judicial change, while at the same time promoting a wide range of citizens' programmes to empower communities to address the issues that affect them, such as health,

education, technical training and crime.

"One of the greatest challenges we face is that we cannot continue advancing without making fundamental structural changes. This means reforming certain laws and introducing others that will allow the modernisation of the institutional framework," says Mr Zapata.

Working with Dalberg Global Development Advisors and the Center for International Development at Harvard University, to analyse the main constraints on economic growth as Guatemala began to emerge from decades of conflict in the 1990s, FUNDESA established a clear link between social inclusion and overall economic improvement. According to Mr Zapata, tackling social issues allows the private sector to "focus on increasing investment and generating more opportunities in Guatemala."

"Through our initiative known as 'Mejoremos Guate' (Let's Make Guatemala Better) the private sector is supporting an economic and social agenda through open and inclusive dialogue based on public policy advocacy. The aim is to achieve consensus on a national plan: working with civil society leaders, indigenous authorities, and the government to build



a more prosperous, egalitarian, safe, and just nation,” says Mr Zapata.

Mejoremos Guate focuses on initiatives that aim to create more employment, boost investment in education and health, and strengthen security and the rule of law.

For example, its ‘1,000 Days Window’ programme seeks to guarantee health and nutrition services for children in the first two years of life.

On education, the group has established three goals: to ensure students are in the classroom at least 180 days a year; improve teacher training; and increase student performance. Another initiative, Guatemala Visible, seeks public sector transparency by publishing information about elections and government appointments online and calling for a strengthened judicial system.

Unsurprisingly, given its roots in the private sector, FUNDESA believes that business is the key to eradicating poverty in Guatemala: “Above all, Mejoremos Guate is about generating more investments, creating employment, and improving income generation in order to help the state fulfill its obligations, thus letting us enjoy a more prosperous Guatemala. Increasing prosperity must be about creating opportunities to generate income – with the additional benefit that success in generating employment comes mainly from economic growth. Meanwhile, an increasing labour force has a more than proportional impact on the income the state receives, increasing support to the least privileged and maximising the

impact of the transfer effect,” says Mr Zapata.

Funded by donations from its members, FUNDESA also believes that Guatemala’s development is being held back by crime and an inefficient justice system. The country’s high homicide rate is extremely disturbing, with more than 31 deaths for every 100,000 inhabitants per year. As well as the cost in human lives, violence also has direct costs on economic activity. According to UN figures, these costs are equivalent to 7.7 per cent of GDP. Studies show that if the homicide rate was cut by just 10 per cent, the country’s GDP could increase by almost 1 per cent every year.

“Among these costs are direct losses in production, higher costs in health services, institutional costs to fight criminal activity, expenses in private security, and other material costs,” says Mr Zapata.

As a consequence, Guatemala is classified, on a global scale, as one of the least competitive places to do businesses because of the high security costs. More than the direct cost this represents, says Mr Zapata, it is important to mention the lost opportunities from investments that never occur as a consequence of the high risk of violence.

Mejoremos Guate works with a range of citizens’ platforms, such as the anti-crime initiative Alertos, which involves communities and individuals in reporting crime and dealing with delinquency at a local level.

“Reducing crime is a gradual process: it requires prevention and dissuasion measures, such as focusing on the needs of vulnerable groups, reclaiming local environments, and risk control, along with peaceful

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Members of the FUNDESA Board and its Intercultural Commission meet with the Indigenous Authorities

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Juan Carlos Zapata addresses the Council of the Americas’ Regional Leadership Conference, Guatemala City, 2014

conflict resolution through mediation and respect for human rights. At the same time, our police and security forces need better training and resources,” says Mr Zapata. He argues that the judicial process needs to be improved by strengthening the institutions involved and by separating functions. “Finally, we need to focus more on the rehabilitation of offenders, which means better prison infrastructure, attention to minors, and finding solutions other than simply locking more people up.”

FUNDESA says that the steady improvement in the country’s economy and business environment – as well as a reduction in the homicide rate – are results of the partnership between the public and private sectors.

But challenges remain. “One of the areas that we have been working on is how to reduce conflict activity towards large investments in rural areas,” says Zapata. “We are working on our key issues in the long term, but in the short term we have to generate the opportunities and build the infrastructure in order to improve our competitiveness and productivity, thereby reducing poverty,” he explains.

Guatemala’s ‘Arab Spring’

The uncovering of a massive tax fraud ring in Guatemala has prompted widespread public outrage, with thousands of people taking to the streets to protest, and sparking a political crisis as September’s general elections draw near.

On April 16, authorities arrested 22 people – including the current and former heads of Guatemala’s tax collection agency – in the culmination of an eight-month long investigation into a criminal network used to defraud the state.

The crime ring was dismantled by a joint investigation by Guatemala’s Public Prosecutor’s

Office and the CICIG, the International Commission Against Impunity, and implicates officials in the highest levels of government. Although Vice President Roxana Baldetti was not directly linked to the fraud ring in the initial investigation, when her private secretary, Juan Carlos Monzón Rojas, was identified as its leader, she resigned under increasing public pressure.

The criminal network has been called ‘La Linea’ (The Line), in reference to a certain cell phone number that businesses used to illegally negotiate the amount they were required to pay in customs taxes. Thanks to the network, businesses received a 25 per cent “discount” on the fees when their property cleared customs; approximately 50 per cent was paid to the state and the rest to the defrauders. Prosecutors estimate that Guatemala lost around US\$120 million in tax revenue to the scam, and the ongoing investigation has begun to reveal corruption that extends to the judicial branch.

“Guatemala is often cited as one of the most unequal countries in Latin America, and the recent scandal is just one illustration of the incredible divide between the country’s haves and have-nots. In the case of La Linea, for example, individuals at the top of the chain allegedly raked in millions of dollars per year while state institutions went underfunded, lacking important resources,” says Mr Zapata.

Mr Zapata points out that for the first time in Guatemala’s recent history, public condemnation of state corruption has come not solely from progressive voices, but from a truly diverse cross-section of Guatemalan society, including the powerful private sector lobby group, CACIF, with which FUNDESA works closely. Many feel that Baldetti’s resignation is not enough to address deep concerns about the way the country is governed.

Furthermore, the network uncovered by the CICIG reflects what is often referred to in Guatemala as a larger “pact of impunity” – an arrangement between powerful sectors to protect their interests, resources, political power and invulnerability to prosecution. There are also widespread demands, backed by FUNDESA, for wrongdoers to return stolen money.

Optimistically, Mr Zapata believes that the corruption scandal, and the widespread anger it has prompted, could be the tipping point for Guatemala, ushering in the reforms FUNDESA has been campaigning for.

“The important thing now is that this scandal doesn’t derail the political process: we have elections due in September, and they must go ahead. And a new government must take office in January. If this happens, then the new administration can begin addressing the concerns of people and to implement the change this country needs,” says Mr Zapata.

