

**Local Business, Local Peace:  
the Peacebuilding Potential of the  
Domestic Private Sector**

**Case study  
Guatemala\***

\* This document is an extract from *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, published in 2006 by the UK-based peacebuilding NGO International Alert. Full citation should be provided in any referencing.

© International Alert, 2006. All rights reserved. No part of this publication, including electronic materials, may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without full attribution.



## Guatemala

# War and peace: the ongoing business revolution in Guatemala

**J. Fernando Valdez, Iván Monzón and William Godnick<sup>1</sup>**

This study on the role of the private sector in peacebuilding in Guatemala presents two cases. The first is that of FUNDAZUCAR, a foundation set up by the country's largest sugar mills to implement a corporate social responsibility (CSR) strategy in the region where sugar is produced. This region has traditionally been neglected by central government and was greatly entrenched in the country's three-decade civil war. The company's strategy focuses on social investment in the community. The other case study is of a garment assembly plant, Koramsa, which attempts to provide alternatives to joining gangs for at-risk youth from the nearby community. This is a pilot initiative in response to a problem frequently referred to as Central America's 'new war.'

The cases have much in common. Both FUNDAZUCAR and Koramsa were first identified by the Central American Institute for Business Administration, an entity affiliated with Harvard University, as leaders in CSR in Guatemala.<sup>2</sup> Both cover industries where organised labour is virtually non-existent due to historical factors and armed conflict in the case of sugar, and due to the fact that it is not allowed in the export-driven garment assembly industry. Throughout the studies, there is a clear tension between transformative efforts by the private sector to improve life in Guatemala and further deterioration of the labour sector in terms of its political bargaining power. The research may raise more questions about the nature of this tension, particularly in relation to the condition of sugar workers in southern Guatemala. The authors attempted to provide a balanced account of the initiatives, by including varied viewpoints on these issues and the cases themselves, but interviews in the interior were hampered by the severe rain and windstorms that killed more than 1,000 Guatemalans and displaced at least 475,000 more in October 2005.

It has been almost a decade since Guatemala entered into UN-brokered Peace Accords, in which the private sector did not play a positive role, as will be discussed.

The experiences described here suggest that the Guatemalan private sector may play a greater role in their long-term implementation. The report gives an overview of the country's conflict(s) and economy, before turning to an examination of the two specific cases.

## War and peace

### Background to Guatemala's armed conflict

Guatemala is the largest and most populated country in the Central American isthmus and was once home to the ancient Mayan civilisation. It borders Mexico, Belize, El Salvador, Honduras and both the Pacific Ocean and Caribbean Sea. Independent from Spain since 1838, Guatemala's history has been heavily influenced by military rule, particularly since 1954. Civilian government, albeit imperfect, was restored in 1986 but large inequalities persist between the majority indigenous Mayan population, a mixed-blood middle class, known as *ladinos* or *mestizos*, and a small aristocracy of European extraction. While Spanish is the national language, 23 Amerindian languages and dialects are also spoken.

In 1996 the government of Guatemala (GoG) and the Guatemalan National Revolutionary Unity (URNG) signed a 'Firm and Lasting Peace Accord' with UN support after 36 years of civil war. The accord was signed with the active participation of the *Asamblea de la Sociedad Civil*, or Civil Society Assembly, including actors from the private sector. Some commentators point out that the peace agreement was ambitious but has fallen short in implementation.<sup>3</sup>

According to some experts, the civil war began in 1960 after a failed nationalist insurrection by a group of military officers.<sup>4</sup> It is estimated that approximately 180,000 Guatemalans died during the conflict, 40,000 were 'disappeared', 400 villages were destroyed and an additional 100,000 were displaced abroad, primarily to Mexico and the United States.

Others maintain that the seeds of war sprouted with the assassination of Colonel Francisco Javier Arana in 1949 by leftist factions in the government of then president, Juan José Arévalo (1945-51). Arévalo was the first democratically elected president, who succeeded a series of conservative and liberal dictatorships and who, together with Jacobo Arbenz and Jorge Toriello, was one of the leaders of the civil-military movement that ended the military junta of 1944. Arana, once a member of the Arévalo government, began a process of modernisation (1944-54) that was eclectic and open to occasional inputs from both the socialist and capitalist currents in society. This eclecticism, however, was seen to threaten the interests of multinational companies operating in Guatemala, primarily in the exploitation of

agricultural products and natural resources. Arana was the logical ally of the nationalist and centre-right sectors of society, and a point of resistance against the increasing influence of orthodox communist ideologies.

Those on the other side of the political spectrum argue that the most recent civil war in Guatemala began with the 1954 removal of Arana's successor, the leftist president Jacobo Arbenz, who had governed since 1951. His exile by the military, with the support of the US Central Intelligence Agency, came in response to the nationalisation of foreign-owned industries, such as the banana plantations owned by the United Fruit Company (UFC). The UFC was by far Guatemala's largest landowner, but utilised only 15 percent of its 550,000-acre holdings. From this point forward, the GoG operated a political model that repressed popular, social and communist expression through armed violence, playing heavily into the global ideological polarisation of the Cold War.

In the 1960s, the guerrilla movements were strengthened by the support of military dissidents, student activists and other left-wing sympathisers primarily drawn from Guatemalans of mixed heritage. By the 1980s, the various insurgent groups merged to form the UNRG and included substantial numbers of indigenous Mayan combatants. At its height in 1979, the insurgency is estimated to have had up to 8,000 fighters and nearly 500,000 supporters.

In the late 1970s and early 1980s, with covert and open support from the US, the Guatemalan armed forces under the governments of General Romeo Lucas and General Efraín Ríos Montt implemented a campaign to depopulate the Mayan areas where the insurgency was most intense, resulting in the majority of the war's dead and displaced. The displacement of Mayans from their mountain homes led to the development of 'model villages', administered directly by the military. Rural villages that had withstood the conflict became militarised and all males under the age of 16 were required to serve in Civil Defence Patrols that had around 900,000 'voluntary' members in the mid-1980s.<sup>5</sup>

While the insurgency intensified, independent groups of Mayan descent began to surface, such as the Committee for Peasant Unity, which shared the guerillas' objectives but employed non-violent means in their pursuit. They were repressed, but those that survived the most violent years formed part of the future constituency that lobbied for a negotiated peace. By 1983 Guatemala was an estranged nation in the international community. This isolation led to the hard-line interests being marginalised, the election of the civilian government of Vinicio Cerezo, and the establishment of a constitutional court and a human rights ombudsman. Cerezo's five years of government led to a significant improvement in human rights, but military influence continued as was evident from the ongoing assassination of political and human rights activists.

By the late 1980s all of Central America had been brought into some form of peace negotiation through the Esquipulas Accords, stewarded by the former president of Costa Rica, Oscar Arias, who won the Nobel Peace Prize for his efforts. The Accords paved the way to negotiated settlements in Nicaragua, El Salvador and Guatemala. Part of the process was the formation of National Reconciliation Commissions, made up of prominent citizens and civil society institutions in each of the three countries. In Guatemala, 80 civil society organisations participated, although the private sector, represented by the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF), did not.<sup>6</sup> CACIF was formed in 1957 as a means of organising the actions of capital at a national level and it continues to be the most important private sector advocacy organisation in the country.

Steps taken by GoG, the armed forces and the URNG to work towards negotiations led to a series of advances and setbacks under the civilian governments of Jorge Serrano Elías and Ramiro de León Carpio until Alvaro Arzú of the National Advancement Party (PAN) came to power in 1996. By this time, despite strong opposition from within, CACIF was actively participating in the process, incentivised by the desire to join the global marketplace.<sup>7</sup> This was the year the Peace Accords were signed. The UN Mission to Guatemala (MINUGUA), which had established a presence since 1994, took charge of monitoring the Accords. The Accords included a series of agreements covering a range of issues, including the timeline for a ceasefire; demobilisation, disarmament and reintegration (DDR) of the URNG; resettlement of displaced groups; establishment of a truth commission; indigenous identities and rights; socio-economic aspects and the agrarian situation; civilian power over the military; and constitutional reform.

MINUGUA played a major role in monitoring until it closed its by then scaled-down operations in 2004, with remnants of its role being absorbed by the UNDP and other UN agencies, alongside the continuing operations of the Organization of American States, and a host of institutions and NGOs supported by the 'Group of Friends', which consisted originally of the US, Norway, Spain, Colombia, Mexico and Venezuela. The Netherlands, Sweden and Japan later provided economic support to the programme. Despite many advances, implementation of the Accords has been limited, particularly during the recent presidency of Alfonso Portillo that ended in 2003. Major setbacks also occurred, including the assassination of Monsignor Juan Gerardi, coordinator of the Catholic Church's *Report on the Recovery of Historical Memory*, two days after its publication in 1998.

A greater institutional setback was the rejection in May 1999 of a national referendum to reform the constitution, in order to lay the legal basis for the creation of a multi-ethnic, multicultural and multilingual nation. The referendum packaged 50 proposed reforms into four broad questions. The confusion surrounding the process allowed

opponents of the Peace Accords to mobilise sufficient opinion among the non-indigenous population to win a referendum in which 44 percent voted in favour of the reforms and 56 percent against, though 80 percent of voters abstained.<sup>8</sup> The result demoralised many actors who had worked in support of the implementation of the Peace Accords and placed their very legitimacy and constitutional status in limbo.

One year after the failed referendum a Fiscal Pact for a Peaceful Future and Development, involving 131 organisations from Guatemalan society, was proposed with the purpose of decentralising government finances, transforming the tax collection system and mobilising the resources necessary to implement the Peace Accords. Derived from the Fiscal Pact was a Political Agreement for the Financing of Peace, Development and Democracy that linked the private sector with civil society organisations in an effort to fulfil the Accords. The call for a 50 percent increase in tax revenue (as a percentage of GDP) met with resistance from the private sector associations, slowing down both implementation of the Peace Accords and tax reform.<sup>9</sup>

Resources from the donor community and international financial institutions continue to be vital for the implementation of the Peace Accords and development in general. However, some analysts believe that dependence on international resources allowed the GoG and the private sector to shirk their own responsibilities for allocating resources to the peace process.<sup>10</sup>

In December 2003, Oscar Berger of PAN won the presidency and renewed GoG's commitment to the Peace Accords. He entered a political climate very different to the previous PAN administration in 1996. Homicide rates, particularly those committed with firearms, had risen after the Peace Accords and represented a serious decline in public security, particularly in Guatemala City, the capital, which had been largely unaffected by the civil war.<sup>11</sup> Drug trafficking and organised crime had become thoroughly embedded in society and its institutions.

### The rise of youth gangs

The Peace Accords were successful in that the URNG was transformed into a political party – albeit a weak one in a fragmented left – which has never advocated a return to armed conflict. However, in the years after the war, urban youth gangs called *maras*, which had always existed in one form or another, began to imitate the gangs that had emerged several years earlier in El Salvador, even taking the names of the two most important ones – *Mara Salvatrucha* and *Mara 18*. While some gang members were Guatemalans who had been deported from the US, most were Guatemalan born, entering gangs at increasingly young ages (between 12-15), and including girls.<sup>12</sup>

The gangs are both a symptom of Guatemala's underdevelopment and an impediment to future development, due to the high levels of crime associated with their activities. The line between victims and aggressors is quite blurred. Combating the youth gangs has become a priority in Guatemala, El Salvador and Honduras and more recently involved Mexico and the US, in recognition of the transnational links such groups maintain with one another. The prevailing policy is violent repression by police and sometimes the military, accompanied by lesser policies aimed at treatment and prevention. The *maras* are accused of a number of crimes from petty extortion, drug and arms trafficking to homicide, and many have links with organised crime. Death squads, allegedly composed of off-duty police officers, have carried out extra-judicial killings of members to achieve what the public security systems have so far failed to do, though this has occurred to a lesser extent in Guatemala than Honduras and El Salvador.<sup>13</sup> In 2004, President Berger shifted the debate by raising the possibility of seeking a peace formula with the *maras*.

Guatemala overcame the conflict with the URNG, but many of the socio-economic causes that underpinned the civil war persist today and are mixed together in a new 'war' against poor and marginalised youth, some criminal but others not. While the gang phenomenon has roots in high levels of family disintegration and urban migration caused by the conflict, it is also influenced by the demographic growth of the youth population and the challenges of providing jobs for low-skilled workers in a global economy. In Guatemala, the youth gang problem is primarily an urban phenomenon.

### Business and the economic dimensions of conflict

Guatemala is Central America's largest economy with a GDP of around \$18.6 billion and a per capita income of \$2,200 per head. It is the ninth largest economy in Latin America, but only 14th in terms of per capita income. Long dependent on exports of bananas, sugar, coffee and cardamom, the economy is vulnerable to changes in world agricultural prices. However, exports have diversified in recent years to include garment assembly (known as the *maquila* or *maquiladora*), flowers, shrimp, seasonal vegetables and organic crops. Corruption in the private and public sectors remains a problem. Transparency International gave the country a score of 2.2 (10 being the best) in a 2004 survey of corruption perception, the third worst among 20 Latin American countries.<sup>14</sup>

A relatively recent phenomenon is the sending of remittances from Guatemalans working abroad, mainly in the US. Guatemala recorded \$2.6 billion in remittances in 2004, of which more than 50 percent flowed into rural areas and socially disadvantaged sectors where resources are scarce.<sup>15</sup> While some analysts claim that remittances overwhelmingly subsidise Guatemalan purchases of consumer goods, other research indicates that much of the money goes toward household

investments in education and housing.<sup>16</sup> Because many Guatemalans abroad come from the indigenous, working class, it is clear that this increased inflow of resources is changing the economic dynamics, though there is a lack of research into the overall impact.

Guatemala's economy has been dominated since the colonial era by a small, land-owning elite that exploits the labour of the indigenous population to cultivate agricultural products for export. Colonial history thus perpetuated a skewed concentration of wealth that continues to this day. With the development of the global banana industry, Guatemala became one of many Latin American countries exploited by the UFC in the early 1900s. In 1924 the GoG granted the UFC 1,000 km<sup>2</sup> of land for banana production at an annual rent of \$14,000, as well as much of the nation's railway system for access to ports. US support for the overthrow of President Arbenz in 1954 was greatly influenced by the perceived threat of his rule to UFC interests.

The GoG, armed forces and private sector were vehemently anti-communist from the beginning of the conflict. The 1960s was also a decade of attempted promotion of national economic growth in the face of what was perceived to be an unfair international system – characterised by the strategy of industrialisation by import substitution promoted by the UN's Economic Commission for Latin America and the Caribbean, and by failed attempts at Central American regional economic integration. In the midst of decades of armed conflict and military rule, clusters of business interests began to coalesce. Most of them emerged from the landed, agricultural classes, but others sprang from government policies designed to promote national industry. In this environment the interests of business became intertwined with those of the state, resulting in generous concessions to a few at the cost of the majority.

The type of capitalism that resulted was one in which the government gave certain groups tariff and tax preferences, creating a systemic obstacle to equitable economic growth and income distribution. Ensuing generations of businessmen, known as *empresarios*, developed a hard-line, commercial style. With few exceptions, labour relations were highly polarised, with workers treated as just another input into production. The state played a minimal role in mediating disputes and labour unions had neither the resources nor political space to exert a moderating influence. Predictably, the empresarios sided with the state and workers with the guerrilla movements. Finding common ground became impossible, and even moderate sectors of labour were eventually 'radicalised'.

Military leaders and individual businessmen made brief alliances to deal with specific issues, combining repressive business practices with physical repression. Large numbers of union, student and peasant leaders were murdered or forced into

exile. The business sector suffered its own share of assassinations, kidnappings and material losses.

### Private sector role in the peace process

By 1996, the private sector organisation *Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras* (CACIF) was participating in peace negotiations alongside the Civil Society Assembly, with a particular focus on the Accord on Socio-Economic Aspects and the Agrarian Situation.<sup>17</sup> A year earlier, CACIF published a paper in which it offered its own vision on what needed to be done to achieve peace and development,<sup>18</sup> holding 41 meetings with GoG's negotiating commission to ensure that any agreement would not jeopardise private property or advocate agrarian reform.

#### A contentious relationship: business involvement in Guatemala's peace process

The Peace Accords signed between the Guatemalan government and the *Unidad Revolucionaria Nacional de Guatemala* (URNG) in 1996 were heralded as a success because they included unprecedented social and economic commitments. Almost a decade later, much of what was promised has not been delivered. Fiscal adjustment and increased taxation to address the growing social needs in Guatemala are still 'pending'. In addition, the post-conflict crime rate in Guatemala has soared.

The Guatemalan peace process began as a democratisation process in the 1980s with an effort to limit the military's control over politics and the economy. CACIF played a central role in this transformation and was instrumental in persuading the military first to accept economic liberalisation reforms and then democratic transition, culminating in the election of a civilian president, Vinicio Cerezo, in November 1985.

Founded in 1957, the organisation was able to play this role due to a gradual shift in business leadership from members of the traditional sectors to members of a modernising group, with family ties to traditional agriculture but active in commerce, finance and agro-industry, and with increasing connections to international markets and networks. It was this business faction that, by the end of the 1990s and until the Peace Accords were signed in 1996, became involved in efforts to provide continuity to the political opening by seeking a negotiated end to the country's armed conflict.

This was no easy bargain since the modernisers faced intense opposition from hardliners in the private sector. When peace talks were launched, the government's Peace Commission scheduled numerous meetings between the guerrillas, political parties, religious groups, academics and other groups. Among them, the first meeting between CACIF and the URNG in Ottawa, Canada in 1990 was the only one not to produce a joint statement. Resistance to President Jorge Elías Serrano's attempt to suspend constitutional provisions and turn back the democratic clock in 1993 temporarily reinvigorated the pro-peace faction and provided an impulse for the creation in 1994 of the *Comisión Empresarial de Paz* (Business Peace Commission, or CEPAZ).

CEPAZ's official purpose was to lead CACIF in determining the private sector's positions on the peace negotiations. Its creation also suggested that the modernising faction had come to appreciate – and was willing to act more assertively on – the link between ending conflict and improving their economic prospects. Increased conditionality on development assistance and growing international condemnation of the private sector's perceived tolerance of Guatemala's dark human rights record had not escaped the group. As a result, CEPAZ created a group of influential businesspeople to pursue three goals: to monitor and exert influence over the peace particularly with regard to the socio-economic issues under discussion; and to embark on a mission of persuasion within the private sector.

However, profound divisions in the business community complicated CEPAZ's capacity to participate in and shape the peace process. Incomplete economic modernisation had left a chasm between the traditional and modern sectors. In addition, sectors had different readings of the costs of conflict. The Guatemalan conflict had lingered for decades in the countryside, was geographically confined and, except for a bloody interval from 1979-83, was generally of low intensity. The majority of businesses did not acknowledge that the conflict interfered with their activities, leading many to believe that a negotiated solution was unnecessary. As a result, the sectors most prone to benefit from and support negotiations gained neither economic nor political leadership, while economic hardliners remained effective in obstructing advances on the peace front.

Because of these tensions, CEPAZ did not become part of the *Asamblea de la Sociedad Civil* (Assembly of Civil Society), a group of diverse social organisations intended to serve as civil society interlocutors. Members of the pro-peace faction were included in the Peace Commission but failed to earn the backing of the entire private sector. Illustrating the difficulties encountered, CEPAZ was unable to prevent the *Coordinadora Nacional Agropecuaria* either from withdrawing from CACIF in protest over CEPAZ's support of negotiations, or from filing lawsuits for treason against the government's negotiators.<sup>19</sup> In sum, private sector participation in peace talks was highly ineffective in terms of meeting its original

objectives, failing both to represent business interests at the negotiating table or to 'sell' the peace process to the business community.

One of the most important points of contention in the peace process was the Accord on Social and Economic Aspects and the Agrarian Situation (among the last and most controversial to be signed) which addressed issues of state modernisation and social development. Previous attempts at reaching agreement had failed due to business resistance to tax increases and to recognition of the social function of property, one of the main demands of the URNG and Guatemala's popular movements in general. The importance of these issues to the business community was clear from anecdotal evidence. "To complete the first draft of the socio-economic accord," the leading government negotiator recalled. "I met with CACIF 42 times, but only 21 times with the guerrilla leadership. Led by CEPAZ, business finally accepted a VAT increase but conditioned it to a (seemingly unrealistic) GDP growth rate of 6 percent."

That peace agreements were reached in Guatemala at all can be largely credited to the UN, which facilitated contacts between the parties, drafted agreements and committed funds to their implementation. The role of the international community also proved crucial in exerting pressure on Guatemalan business to accept a tax arrangement. Hints by the international donor community that Guatemala's failure to meet its fiscal commitments would jeopardise further funding signalled the limits of donor patience with domestic resistance to sharing the peace burden.<sup>20</sup> On the other hand, the dire economic prospects for Guatemala predicted by the Inter-American Development Bank instilled concerns that business stood to lose substantially in economic terms if key reforms – including fiscal reform – failed to be adopted.<sup>21</sup>

Ten years after the signature of the Peace Accords, the Guatemalan private sector has consistently resisted key reforms, such as tax increases. By the end of 2004, most peace commitments had been rescheduled several times or had simply not been met.<sup>22</sup> Post-conflict Guatemala has not enjoyed high levels of economic growth, nor has it seen income from remittances as an engine for growth. When the UN mission closed its offices in Guatemala at the end of 2004, the Secretary General noted that 'serious problems' continued to 'plague Guatemalan society'. "Guatemala has fallen short of its obligations," he continued, "... to substantially increase tax revenues to pay for much needed social investments."<sup>23</sup> In this way, peace consolidation in Guatemala has been marked by instability, which is partly attributable to the contentious relationship that still exists between business and peace.

*This case has been written for Local Business, Local Peace by Angelika Rettberg.*

## The private sector: addressing old and new conflict issues

Following its ‘business lobby’ approach to peace negotiations, a shift in perspective and approach is discernable in the private sector, particularly in the sugar and garment sectors analysed in the following case studies.<sup>24</sup> Sugar is one of Guatemala’s traditional exports and is representative of the plantation economy. Garment assembly in *maquiladora* plants has emerged as part of a globalised economy in which multinationals seek the lowest labour cost for the production of goods. The exploitation of rural labour in agriculture was one of the root causes behind the armed conflict. *Maquiladoras* disallow the unionisation of their urban workers.

With the passage of a Central American Free Trade Agreement (CAFTA) (between the Central American countries, the Dominican Republic and the United States) set to enter into force in January 2006, the sugar and *maquiladora* industries will enjoy enhanced access to the US market. It should be recalled that US industrial interests fought hard to keep these two sectors out of CAFTA in order to protect the US sugar industry and what remains of its garment-manufacturing base. The fact that the US Congress passed the agreement by just two votes is testimony to the strength of these interests. Under CAFTA, Guatemalan sugar producers will increase their exports by 25 percent to 48,000 tonnes per year while the textiles agreement allows Guatemalan manufacturers just enough edge for their operations to remain competitive with Asian rivals. The remainder of this report focuses on recent transformations within these industries.

The first case study concerns the Sugar Growers Foundation, or FUNDAZUCAR, the social wing of the Sugar Growers Association. FUNDAZUCAR has transformed its role between the industry, workers and the communities of southwest Guatemala, one of the regions most affected by the armed conflict, to become an agent of sustainable development. The second case examines Koramsa, a garment-assembly plant owned by local entrepreneurs that employs more than 10,000 workers. Koramsa has pursued an innovative policy of human resource development in recent years, including the integration into a production line of youth at risk of joining gangs.

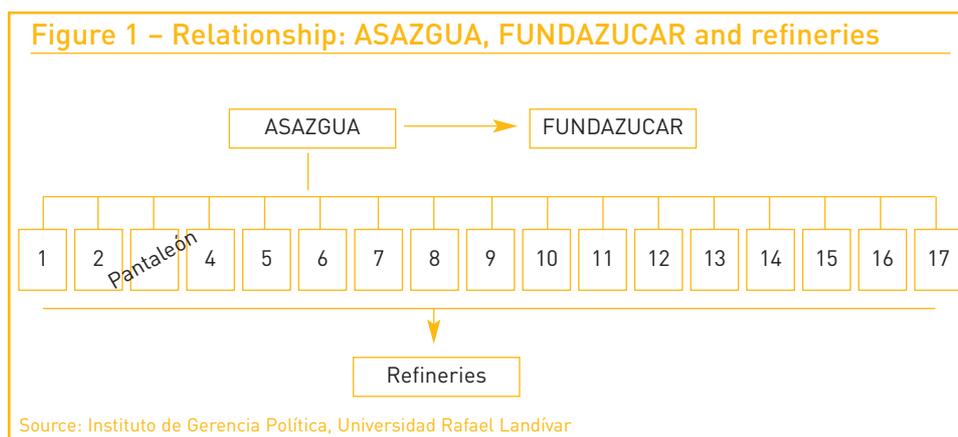
Most academic and NGO analyses of the Guatemalan private sector are highly critical of CACIF and the business community for not playing a more constructive role in peace negotiations and post-conflict development. The examples of FUNDAZUCAR and Koramsa, below, demonstrate how changes are beginning to occur – at least at the core business level – that may imply a more positive role in the future.

## The sugar industry: from paternalism to CSR?

Guatemala’s sugar industry ranks third in Latin America after Brazil and Cuba, and is the second most important source of foreign exchange after coffee. It occupies 11

percent of the national territory, accounts for 13 percent of total exports and earns around \$317 million annually. Exports consume more than 60 percent of total production. Sugar farming provides around 300,000 direct and indirect jobs.

The first sugar refinery was established in Guatemala in 1591 and relied mainly on African slaves and the indentured labour of the indigenous population. The modernisation of technology and labour relations is a development of recent decades and followed similar transformations in the coffee industry. FUNDAZUCAR was founded in 1990 as the social-investment arm of the Sugar Producers' Association (ASAZGUA). The lead protagonist in ASAZGUA is Pantaleón Refinery, an individual member of the association that is described in further detail below. Figure 1 provides a visual clarification of the relationship between ASAZGUA, FUNDAZUCAR and individual refiners, such as Pantaleón.



From February to March 1980, in the most brutal days of the conflict, more than 70,000 sugar workers in southwest Guatemala launched a strike that lasted 17 days and embroiled 80 plantations. They protested against low salaries, long working hours and the enclosed work camps where sugar workers depended entirely on employers for their basic needs. They were inspired by the relative success of leftist factions in the Salvadorean civil war and the Sandinista revolution in Nicaragua.

Initially headed by the union in the Pantaleón sugar refinery, the strike eventually engulfed the entire industry after police opened fire on strikers, killing one worker and injuring many others. In later years, sugar union activists suffered assassination, disappearance and forced exile, entrenching the labour conflict with the armed conflict at large. Critics of the state were widely perceived as enemies. Only after the late 1980s were more nuanced approaches given any space.

The 1980 strikes achieved modest raises in the sugar workers' daily wage, but the violence continued. By 1990, the owners of the major plantations and refineries decided that something had to change. With this in mind, they set up FUNDAZUCAR to devise an entrepreneurial strategy that would have an impact on national policies.

### **FUNDAZUCAR: a human face for the sugar industry?**

The Pantaleón sugar mill, founded in the early 1800s, is the largest and one of the most profitable sugar refineries in Central America, employing 10-12,000 workers.

In the late 1980s the owners of Pantaleón and other mills travelled to Australia, Brazil, Colombia and South Africa to find out how the industry operated elsewhere. During these missions they learned that not only were they behind the curve in the application of modern technologies, production techniques, branding, management and human resource practices, but that they lacked policies on CSR, conflict resolution and family welfare.

ASAZGUA was established in 1957 and brought together the country's then 17 sugar mills together in one industry chamber. After sharing their experiences abroad in the 1980s, ASAZGUA members decided to take three actions:

- Establish a new philosophy in labour relations; a new technological framework for sugar production; and a research centre
- Develop a world-quality system for domestic distribution and infrastructure for exports, administered by a private company
- Create an autonomous foundation to address the social concerns of the industry and its workers.

All three actions were seen as steps toward guaranteeing the industry's competitiveness for the future and the decision coincided with the private sector's more systematic engagement in the peace process.

ASAZGUA established FUNDAZUCAR in 1990 with each mill paying a quota for every tonne of sugar produced, yielding an annual budget of \$1 million. FUNDAZUCAR's mandate is to work with the communities where sugar is produced, as well as those housing large proportions of their workforces. Pantaleón mill's owners and managers played a leading role in setting up the foundation. The challenge from the outset was to transform the sugar barons' practices to market production, accompanied by well-thought-out and targeted social investments.

Pantaleón maintains its own separate foundation, which pilots many of the initiatives that are eventually implemented by FUNDAZUCAR. Many of the other

16 sugar mills also maintain individual foundations. In Pantaleón's case, it promotes local investment projects in health, education and the environment, coordinated with FUNDAZUCAR, and other activities in Guatemala City and the highlands. FUNDAZUCAR acknowledges on its website that the framework of the Peace Accords strengthens its ability to meet the goals established for improving education, health and municipal development in the 56 municipalities where it focuses its work, primarily in southern Guatemala.

### **Transforming relations with the labour force and communities**

The proposed reinvention of the plantation and mill owners required extensive lobbying in the industry and with the GoG. The first tangible change was eliminating the traditional practice of collective hiring of families, or other preferential groups, and a shift towards a system in which individuals were hired on their merits. The second required a change to the law governing remuneration in the industry. The old law allowed sugar producers to pay employees up to 30 percent of their wage in food from the company commissaries. It was replaced by an updated minimum wage, complemented by bonus payments based on productivity. The third innovation, and the most difficult, was the replacement of the worker colonies where sugar producers formerly met housing, health and other basic needs. The banana industry in Guatemala and other Central American countries experienced similar challenges as it tried to maintain global competitiveness by reducing the overhead costs that today's economy expects to be taken care of by private savings and government investment. While there is obvious self-interest in reducing costs, the Guatemalan sugar industry, via FUNDAZUCAR, has sought to mitigate many of the negative effects of transforming the industry to maintain competitiveness.

FUNDAZUCAR often makes financial contributions to specific causes, such as the National Cancer Society or anti-tuberculosis campaigns, but its most significant efforts involve the furthering of Education, Health and Participative Municipal Development initiatives in the 56 municipalities where it has a presence. In cooperation with the National Association of Municipalities and the National Institute for Municipal Strengthening, FUNDAZUCAR has outlined a process involving mayors, departmental governors, churches, youth, university students and journalists in developing long-term municipal and regional development strategies.<sup>25</sup> This work is coordinated with the national Secretariat for Planning. However, the ability to coordinate effectively with the government is often influenced by the political party of the mayor of a municipality, or the attitudes of ministry officials towards the participation of the private sector in the public sphere. With the support of government agencies and the Soros Foundation's Guatemala programme, FUNDAZUCAR has provided local planning assistance to dozens of local governments in the southern regions.

Despite coordination challenges, FUNDAZUCAR has played a key role in several national legal reforms including the Law of Sub-Municipal Entities and the National Educational Law. The former deals with the distribution of resources to municipal and sub-municipal governments, allowing for a greater percentage to remain in the communities in which they are generated. It also seeks to further the concept of a professional civil service in government. The latter has helped reverse years of legal and institutional discrimination against girls in the elementary school system. Traditionally, only 45 percent of Guatemalan women have completed elementary school and in rural Guatemala only 20 percent of primary school graduates were girls.<sup>26</sup> FUNDAZUCAR obtained resources and support from the World Bank, UNDP and USAID to carry on its work through a project called *Eduque la Niña* (Educate the Girl). The first stage of the project was increased the rate of successful completion of elementary school by girls in the southern region by 6.1 percent, though it still remains relatively low.

In many sugar-producing company towns, the health and education systems have been shifted to a new model of service delivery. While some schools and clinics continue to be funded by FUNDAZUCAR, others have been folded into the National Programme for Self-administered Education (PRONADE), a controversial system because it devolves power from the Ministry of Education to localities where pupils' parents decide on the use of resources and the hiring of teachers, although the schools still form part of the national education system. PRONADE helps to identify communities without schools and works towards setting them up. In this setting the children of sugar workers have access to schools, but their costs are not reflected as company overheads, rather as a combination of resources channelled from FUNDAZUCAR, the national government and international agencies.

In the past the government required sugar plantations to provide employees with basic health, education and literacy training. The Ministry of Education has now accredited FUNDAZUCAR as an institution certified to train teachers. This is important since small towns depend on the ministry sending qualified teachers from larger, urban cities, but they generally spend only a short period in rural schools. There are now more possibilities for recruiting, training and retaining teachers locally.

FUNDAZUCAR also supports the creation of Self-Financing Health Units to take control of formerly company-run clinics or to establish clinics where none existed before. As in education, the programme is jointly financed with resources from FUNDAZUCAR, the Ministry of Health and international aid agencies. These efforts focus on preventive medicine and health care. While this transformation benefits the sugar producer by removing costs from its balance sheet, the new delivery system allows for greater local participation by beneficiaries and promises greater sustainability if the sugar industry encounters difficulties due to increased competition, or fluctuations in world prices.

### Preliminary analysis of the FUNDAZUCAR approach

FUNDAZUCAR and its affiliates are acting from a combination of civic duty and self-interest to transform a traditionally rigid and paternalistic industry into one that is more competitive in the world marketplace. Over the years labour unions in the sugar industry have been marginalised to the point that today only one mill, Palo Gordo, has one. Though one study indicates that the conditions of sugar workers have improved in recent years, others disagree.<sup>27</sup>

According to one national labour leader, there is a wide difference between the quality of life enjoyed by permanent workers in the sugar mills and the seasonal cane cutters. The latter are hired informally by intermediaries, rather than the sugar mills directly, and are often paid below the minimum wage for their labour. According to a 2005 survey of sugar workers, only 10 percent were organised into unions nationally, though 65 percent expressed interest in belonging to one and 70 percent believed management would not permit them to be formed on their plantations.<sup>28</sup> The authors of this study were unable to carry out sufficient research to develop an accurate understanding of the magnitude of change in labour conditions in the sugar industry in recent years. This is definitely a critical area for further research particularly in assessing the role of the private sector in contributing to Guatemala's long-term peace and stability. There are, however, no documented accounts of violence against workers on sugar plantations, and the industry has become a partner in local development, education and healthcare, via FUNDAZUCAR, so it seems fair to conclude that the situation is improving.

The transformation of Guatemala's sugar plantations and refineries can be characterised by three stages of evolution – conflict, adjustment and transformation: The conflict period was characterised by high levels of armed violence and physical repression in which sugar producers and workers viewed one another as adversaries, or in a paternalistic relationship. Entire families were employed together and most workers lived in plantation housing. Contracts were verbal and salaries were paid in a combination of cash and foodstuffs. This period was marked by excessive child labour, low productivity, high employee turnover and frequent labour disputes that easily became entangled in broader political and military conflicts.

Against the backdrop of the worst phases of violence in which the industry and workers became enmeshed, the adjustment period from 1979-90 witnessed changes whereby a series of entrenched practices were phased out. During this phase, many mills and plantations established departments for employee relations and some built accommodation for seasonal workers. The modernisation process also produced procedural manuals for workers and incorporated international best practices, such as those espoused by the International Standards Organisation. Individual producers started philanthropic foundations to support isolated initiatives in

education and health. But the natural environment was still not taken seriously, and labour unions disappeared in all but one company despite International Labour Organisation rules and best practice.

The period from 1990 to the present has been a period of transformation, primarily through the creation of FUNDAZUCAR. The sugar sector developed a strategy of international competitiveness that included technological innovation, export promotion and an agency specialised in maritime shipping. Business owners from the sugar industry diversified into electricity generation, ethanol production and financial institutions as part of a national private sector strategy. FUNDAZUCAR began to partner and collaborate with a variety of national and international institutions in the education and health sectors, proving itself a partner in long-term sustainable development and perhaps preventing fresh conflicts by treating some of their root causes.

### The garment industry and youth gangs: addressing Guatemala's 'new war'

From 1978-84 a series of initiatives by entrepreneurs resulted in the US-Caribbean Basin Economic Recovery Act, which formalised the practice of establishing clothing-assembly plants in the countries of Central America and the Caribbean. Known as *maquilas* or *maquiladoras*, these companies exploited the lax regulations, low labour costs and tax exemptions granted by host governments to produce exclusively for export, chiefly into the US market. The economic justification for the new, deregulated plants was that they provided employment for low-skilled workers in countries with high unemployment, and that the money circulated from their wages and the sub-contracting of input industries and services would have secondary effects in national economies. The US government invested millions of dollars promoting the development of the *maquilas*, though in Guatemala the policy mainly benefited multinationals or South Korean companies, which own 60 percent of the country's garment plants.

There were 200 *maquilas* in Guatemala in 2005, employing more than 140,000 workers (75 percent of them women) and generating 15 percent of the country's annual foreign income. While Guatemala's textile sales to the primary market of the US do not compare with Honduras or El Salvador, it is the 17th largest exporter of textiles to the US, ahead of Nicaragua and Costa Rica. The passing of a free trade agreement with the US, Dominican Republic and four other Central American countries in 2005 will give the industry some advantage in competing with Asian producers. The Association of Non-Traditional Exporters (AGEXPRONT), a participating member in CACIF, is the representative organisation of the textile industry and promotes sectoral activity through technical assistance, training, public

relations, marketing and export promotion. Most of the industry is located in or around Guatemala City and 94 percent of production is destined for the US.

During the final years of the armed conflict, the *maquilas* were criticised for not allowing workers to organise in unions, which resulted in a complaint by the International Federation of Textile Workers before the World Trade Organization.<sup>29</sup> The situation began to change with the entry into force of various international agreements governing the textile industry and market. AGEXPRONT and its affiliates have adopted internationally accepted standards in relation to production, quality control and labour practices, including codes of employment conduct, but this has not so far resulted in the unionisation of the *maquilas* labour force. These developments are relevant to the present case study in that the emergent international norms have compelled companies to improve the conditions of their workers and the communities in which they are located. There are limits, however, to the changes possible for an industry that is transient and does not require major outlays in capital investment. During the writing of this report, two South Korean companies abandoned their Guatemalan operations in the middle of the night, indicating the ease with which employers in the textile industry can run away from their obligations.

### Koramsa and the Puente Belice community

Koramsa is a Guatemalan-owned *maquiladora* established in 1998 that produces around 100,000 pairs of trousers a week for brands such as Gap, Old Navy and Liz Claiborne. The company stays competitive with Chinese and other Asian manufacturers because of its proximity to the US market and more recently due to the passage of the CAFTA. Koramsa provides a variety of services to its workers including on-site medical, eye and dental clinics, a pharmacy, family planning services, lunch vouchers, banking, discount shoes, and child care and Saturday school for employees' children.

Its factory is located in Guatemala City near a landmark known as the Puente Belice, or Belize Bridge. The *colonias* or neighbourhoods around Puente Belice are home to approximately 4,000 of the city's poor who live in precariously built dwellings exposed to air and ground pollution, and the daily risk of unstable hillsides.<sup>30</sup> The area was first settled after the 1976 earthquake and continued to grow with the rural exodus that began in the armed conflict and accelerated thereafter. The neighbourhoods of Puente Belice are controlled by the *Mara Salvatrucha* (MS) youth gang.

The MS maintains a constant presence in Puente Belice, having defeated all its rivals in recent years. The police treat youths from these communities harshly because of

their appearance, even if they are not active gang members. In 1996 the parish of the Catholic Church in Puente Belice, represented by Father Manolo Maqueira, launched a series of artistic and cultural programmes, sports and *ad hoc* vocational training in a bid to prevent young people from drifting into the gangs and participating in anti-social behaviour. This culminated in a Club for Youth Integration serving Puente Belice and eventually the idea of creating a project to prepare the area's young people for the life of work. Before proposing the project to Koramsa, the Church conducted a feasibility study with the help of professional consultants to find out what was needed and what could be done.

Although the behaviour of male gang members was most often identified as Puente Belice's main problem, the study determined that it was non-gang females between the ages of 15-24 who were at greatest risk of physical abuse, poverty and social exclusion. Only 19 percent of this group was in work while nearly 80 percent expressed a desire to hold a job. The two main sources of employment for women with low levels of education in Guatemala are the informal commercial sector and the *maquiladoras*. The study recommended initiating a project in cooperation with a local factory to produce school uniforms for the national market. The Church and community sought out various potential collaborators of which Koramsa was one.

#### **Koramsa's response to local youth disenfranchisement**

The owners of Koramsa had known Father Maqueira for some time when he first approached them with the Puente Belice project. Several executives had previously worked in the sugar industry where they had been exposed to emerging CSR practices. These relationships and experiences made key executives open to some form of collaboration.

Koramsa was willing to support the project from the outset, but believed that the provision of machinery and training alone was not enough to produce a profitable business venture. At the same time, the management did not judge the market for school uniforms robust enough to justify a production line. So instead of offering 'employment' to participants from Puente Belice, it agreed to provide 140 at-risk youths with a 'scholarship' of vocational/occupational training opportunities for which the participants would also be given a grant to pay their school fees. In addition to hands-on training in the production of jeans and trousers, they would also receive health services from the company clinic.

#### **Identifying participants**

The Puente Belice community identified the youths eligible to participate in the project, sending them to Koramsa for interviews and evaluation. Gang members were not permitted entry into the project, but their siblings were targeted for inclusion. The project does not tackle the youth-gang problem head-on; instead, it seeks to drain the pool of future recruits. There are three reasons why the

project decided not to incorporate active gang members. First, the project pursues a preventive philosophy. Secondly, Koramsa does not have expertise in the rehabilitation of youth offenders. And thirdly, the company was unwilling to increase existing security levels, which would have been necessary if gang members were to be sufficiently protected.

Participants in the scheme had to demonstrate responsibility, an interest in improving their living conditions and be registered at a local school or training institute. Upon acceptance, they are given technical training where they learn the basics of operating machinery and making trousers. Once training is complete, participants are assigned half-day shifts on an assembly line making trousers, depending on their study schedule. Due to their youth and inexperience, participants are given breaks and meals, as well as a series of other privileges appropriate to their age. At the end of each month, their grant money is deposited in a bank account to pay for school, personal and family expenses.<sup>31</sup> Once the 12-month training cycle (the ‘scholarship’ period) is over, the participants have the option either of applying for a formal job at Koramsa or pursuing their university studies on a scholarship.

The first group trained by Koramsa consisted of 40 participants aged 15-20, of whom 64 percent were female. The production facility was inaugurated as the *Linea Padre* (‘Father Line’) in recognition of Father Maqueira’s efforts. At first, participants worked alongside regular employees, but due to differences in age, experience and skills, Koramsa decided to open a separate assembly line for the Puente Belice participants. By mid-2005 the project incorporated 150 participants.

#### Resources allocated to the project

At least 15 Koramsa staff members have been involved in the Puente Belice project, or are in regular contact with the participants. Among them are a full-time supervisor of the *Linea Padre*; human resource assistants who hire, orientate and train participants and evaluate their performance; and a production manager who assigns production quotas and evaluates quality. Beyond this immediate group, few of the company’s 10,000 employees were initially aware of the *Linea Padre* project. When word got out, some employees, whose children were also mixed up with gangs, asked Koramsa to help them. The company refers them to Father Maqueira to be received at the Club for Youth Integration.

Koramsa spends \$4,000 per month to cover the costs of the *Linea Padre*, its participants and their educational scholarships. Although the project produces trousers just like any other section of the plant, the production speed is much slower and the rejection rate on quality grounds much higher. A normal

assembly line produces 1,200 items per day; the *Linea Padre* produces only 150 with the same number of personnel.

### Project impacts

The original project has since doubled to two production lines and 40 participants will attend university in 2008 thanks to the opportunities provided by the Puente Belice scheme. Interviews with participants appear to reveal, albeit anecdotally, increased levels of self-esteem, greater ability to articulate career and educational goals, and a new sense of ‘belonging to something beyond the neighbourhood.’<sup>32</sup> Numerous participants now work full-time for Koramsa.

### Challenges to Koramsa’s intervention

While the impact of the Puente Belice project on its participants has been largely positive, gang members reacted savagely to the empowerment of youths in the communities they have grown used to dominating. At least two participants have been targeted and murdered, though they previously had no gang affiliation. Unfortunately it was beyond the scope of this research to understand precisely the motivation and details behind each of these tragic cases, though such research would be necessary to get an accurate picture of the overall benefits of the project and its future strategy for dealing with such challenges.

Living in the violent area of Puente Belice, neighbours or family members of participants are sometimes killed or seriously injured in incidents of gang violence, which affects the morale of participants in the workplace. While Koramsa is not equipped to provide counselling after such events, Father Maqueira and his collaborators do try to address trauma in their work. Moreover, the levels of poverty of many participants are such that the overall health of some is seriously affected. In some instances they are malnourished, meaning that they cannot realise their full potential in the project. It is evident that if such projects are to be successful, they need to be embedded in public efforts at addressing wider issues, such as health provision.

Other challenges and limitations to the project were identified in interviews with participants and Koramsa staff:<sup>33</sup>

- **Motivation.** Some participants are interested only in the income-earning element of the project and not in the broader educational opportunities it offers
- **Management attitudes.** Koramsa managers and executives have had differences of opinion concerning the appropriateness of the Puente Belice project. Their concerns mainly relate to workplace security, production

efficiency and the allocation of business resources. Koramsa's decision not to hire active gang members appears to respond to the first of these concerns, though it may have been difficult to overcome stereotypes of youth gang behaviour, and youth in general.

- **Productivity.** Because participants are on a learning curve, overall productivity from the *Linea Padre* is low compared to company norms. Koramsa also found that correcting production defects on the *Linea Padre* is difficult, costly and time-consuming. Some in management believe participants should have work experience prior to entering the project, not for technical reasons, but to ensure they have acquired appropriate work habits.
- **Coverage.** The project reaches approximately 150 young men and women per year among a target population of thousands. While it is not possible for Koramsa to attend to the needs of the entire population, the limits of the project's impact are underscored by the absence of other public or private interventions.

Table 1 opposite summarises and analyses the short-term impact of the Puente Belice project.

## Conclusions

This report analysed three different private sector responses to historical, ongoing and emerging conflicts in Guatemala: a society that has only recently emerged from a three-decade civil war. It first explored lobbying activities at the political level where business sought to influence the Peace Accords. The second case study, FUNDAZUCAR and its affiliates, focused on a traditional, rural industry that embarked on a strategy of CSR out of self-interest as it seeks to survive in a global marketplace that has rendered its centuries-old practices redundant. The means of production employed by the sugar industry and other agricultural sectors in Guatemala had perpetuated the conditions that contributed to the civil war by concentrating wealth and land in the hands of the few. Collectively transforming the sector, including labour relations and community development strategies, can be seen as a gradual move towards preventing new wars in the countryside. At the same time, through FUNDAZUCAR, the industry continues to play a major role in the development of regions where sugar cane is grown through a variety of creative schemes for municipal development, education and the provision of health services. These schemes serve the companies' interests by removing these expenditures from their cost structures, allowing them to be more competitive in the international market. While these changes appear to have had a positive impact on the sugar-producing regions, it is not clear whether they have benefited all of the industry's workers to a substantial degree, particularly seasonal workers.

**Table 1 – Analytical framework for Puente Belice project**

Action	Positive outcomes	Negative outcomes
Expert advice in the development of a pre-project feasibility study	Realisation that project was not financially viable on its own  Awareness raising among company executives regarding the violence and insecurity in surrounding communities	Product is sellable to Koramsa clients, but <i>Linea Padre</i> production is not profitable on its own and has a high rejection rate
Company took ownership of vocational training project	Company resources made possible the purchase of equipment  Further sectors of company were brought into project (e.g. human resources, production, supplies, maintenance)	Difficulties in assimilating at-risk youth in an enterprise without previous experience in such a project
Opening of special assembly line for project participants	Created space with greater flexibility and less pressure on participants	Creation of internal company debates on risks of incorporating at-risk youth
Designation of supervisor/trainer for <i>Linea Padre</i>	Accompanies participants and provides them with targeted guidance	Perceived protection by supervisor of participants and their work
Orientation for participants jointly organised with high school	Provides links to academic study environment	Takes more time to integrate into assembly line
Transfer of participants to separate assembly line	Greater autonomy in the workplace	Isolation from the rest of company
Entrance into the labour market	Improved workplace and manual/technical skills	Skills somewhat limited to <i>maquila</i> industry

By contrast, Koramsa, the subject of the third case study, is representative of the urban *maquiladora* garment-assembly industry that has taken root throughout Central America and whose employees come from poor neighbourhoods, or have migrated from the rural areas in search of opportunities. Unions are non-existent, and both the industry and the government ensure they do not emerge. In addition to global competition, primarily from China, the greatest threat to workers in the *maquilas* is the violent delinquency of youth gangs and organised criminals who extort, threaten, assault, rob and sometimes kill workers en route to work and school.

The gang phenomenon emerged in Guatemala in the years after the UN-brokered Peace Accords and is increasingly regarded as a ‘new war’. In response to actors in the neighbourhood contiguous to its facilities – the Catholic Church, local schools and community members – Koramsa decided to support a pilot vocational project in the name of CSR even though the project did not provide it with clear, short-term, economic benefits. The impact has been significant for a small target group in the troubled community of Puente Belice, but its relatively small reach limits the magnitude and sustainability of that impact. While some of the young men and women who train on the *Linea Padre* may later join Koramsa or study at university, these types of initiatives are only sustainable if the industry as a whole joins forces, as was the case in the sugar industry.

While Koramsa is working to drain the pool of recruits to the youth gangs and FUNDAZUCAR is addressing some of the historical tensions between capital and labour in the countryside, neither views its activities explicitly in terms of peacebuilding or conflict resolution. Instead, they regard their projects as types of CSR.

It is worth noting that both cases promote business models that exclude labour unions on the grounds that there is no need to politicise the relationship between workers, owners and management. These strategies warrant further analysis as organised labour struggles to adapt to the global marketplace, and as business as an interest in society becomes increasingly organised at the political level. At present, Guatemala has one of the lowest levels of organised labour in Latin America. The country’s most important business interest group, CACIF, does not make any mention of unions in its policy statements. These focus instead on the need for maximum flexibility in the labour market, the freedom to hire and fire, and new types of contractual arrangements. In fact, the disappearance of labour unions in the sugar industry may have helped pacify relations in the countryside in recent decades, but such benefits are unlikely to be sustained in the long term. This is something agricultural industries throughout the world are trying to address in a global marketplace. Meanwhile, the *maquiladora* industry is union-free almost by definition.

One should also mention the marginal role played by the state in both the FUNAZUCAR and Koramsa cases. Generally it is only mentioned in regard to tax

exemptions, clientelism and as a lobbying target when one industry or another wants a change in policy. This leads on to several underlying questions for Guatemala. What role should the state play in social integration, conflict resolution and local development? And in mediating between labour and industry? Under the current circumstances and budget constraints, what role can the state feasibly play? How far is it appropriate for the state to permit the private sector to act as an agent of public policy making? What impact does such a role from business imply for the state? Even if CSR holds benefits, does it contribute more in the short run to the companies' bottom line than it does to medium and long-term economic development for its target beneficiaries? What vision do the main actors in the Guatemalan economy have of the state and society?

Despite their political shortcomings and overall reach, the cases do show some promise. FUNDAZUCAR and the sugar industry have contributed to reducing the rural development deficit at the heart of the country's armed conflict by empowering local leaders to develop their own development agenda, and provide better health and educational services to their populations. Koramsa has begun to identify strategies for dealing with the root causes of the new wars involving youth gangs and other poor, at-risk youth living in the same communities. Whether Koramsa, other industry actors and public institutions will be able to join forces sufficiently to reduce the growth of urban violence remains to be seen. What does seem clear is that the implementation of Guatemala's peace agreements and the prevention of new types of violent conflict will not be possible without the participation of the national private sector.

### Post-script

Just as the case study of Koramsa was reaching completion, the company announced the layoff of thousands of Guatemalan employees due to changes in its relationships with key international clients. The news raises questions about the feasibility of introducing CSR strategies within the garment-assembly industry. Industries that choose their location based on cheap labour, minimal taxation and lax regulations are to a significant degree working at odds with the long-term goals of meaningful CSR programming, though currently Koramsa continues to support the *Linea Padre* and the Puente Belice project, but has had to move its location so as to not exacerbate tensions between regular employees and project participants, who may be resented by employees and ex-employees given the difficult circumstances.

## Acronyms

AGEXPRONT	Association of Non-traditional Exporters
AZASGUA	Association of Sugar Producers of Guatemala
CACIF	Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations
CAFTA	Central America Free Trade Association
CEPAZ	Comisión Empresarial de Paz (Business Peace Commission)
CSR	Corporate social responsibility
DDR	Disarmament, Demobilisation and Reintegration
FUNDAZUCAR	Sugar Producers' Foundation
GoG	Government of Guatemala
MINUGUA	UN Mission to Guatemala
MS	Mara Salvatrucha gang
PAN	National Advancement Party
PRONADE	National Programme for Self-administered Education
UNDP	United Nations Development Programme
UFC	United Fruit Company
UNRG	Unidad Revolucionaria Nacional de Guatemala
USAID	US Agency for International Development

## Endnotes

- 1 Fernando Valdez researched and wrote the FUNDAZUCAR case history and Iván Monzón researched and wrote the cases of Koramsa and the Puente Belice project. William Godnick provided support to the introductory and concluding sections, as well as the adaptation of material from Spanish to English. Fernando Valdez would like to thank María Silvia Pineda, the executive director of FUNDAZUCAR, and particularly Regina Wagner, for sharing material from her book, *Historia del Azúcar* (2005), before its publication. He would also like to thank Miguel Fernández, Presidential Commissioner for Competitiveness and Investment and Fausto Chicas from the Pantaléon Sugar Mill in Guatemala. Iván Monzón would like to thank the following employees of Koramsa for their help with this research: Karla Alonso, Miguel Fernández, José García, Wendy Maltez, Paola Matamoros and Alvaro Ruíz. In addition he would like to thank Father Manolo Maqueira from San Antonio Roman Catholic Parish and Rony Perla from Puente Belice High School.
- 2 Casper, A. (2003) *Centro de Acción de Responsabilidad Empresarial Guatemala* (San José, Costa Rica: Instituto Centroamericano de Administración de Empresas).
- 3 Mera, A. (2002) *Guatemala: La Paz Pendiente* (Bogotá, Colombia: Fundación Ideas para la Paz).
- 4 Costello, P. (1997) 'Historical Background' in *Negotiating Rights: The Guatemalan Peace Process. Accord: An International Review of Peace Process* (London, UK: Conciliation Resources).
- 5 Schirmer J. (1999) *A Violence Called Democracy: The Guatemalan Military Project 1982-92* (Philadelphia, US: University of Pennsylvania Press).
- 6 Azpuru, D. (1999) 'Peace and Democratization in Guatemala' in Arnsion, C. J. (ed.) *Comparative Peace Processes in Latin America* (Washington DC: Woodrow Wilson Center Press).
- 7 Ibid.

- 8 MINUGUA (2002) *Report for the Consultative Group Meeting in Guatemala* (Guatemala City, Guatemala: MINUGUA).
- 9 Rettberg, A. (2003) 'Managing Peace' *Revista: Harvard Review of Latin America* Vol.2, No.3 (Cambridge, US: Harvard University).
- 10 Pearce, J. (1999) 'Peacebuilding in the Periphery: Lessons from Central America' *Third World Quarterly* Vol. 20, No. 1 (Oxford, UK: Routledge).
- 11 Godnick, W. (2002) *Stray Bullets: The Impact of Small Arms Misuse in Central America* (Geneva, Switzerland: Small Arms Survey).
- 12 World Vision (2002) *Faces of Violence in Latin America and the Caribbean* (San José, Costa Rica: World Vision).
- 13 Inter Press Service, 4 October 2004.
- 14 Transparency International (2004) *Corruption Perception Index 2004* (Berlin, Germany: Transparency International).
- 15 USAID (2005) *Development and Remittances to Guatemala: Issues, Challenges and Opportunities for US Cooperation* (Washington DC, US: USAID).
- 16 Adams, R. (2005) 'Remittances, Household Expenditure and Investment in Guatemala' *World Bank Policy Research Working Paper* No. 3532 (Washington DC, US: World Bank).
- 17 Azpuru op. cit.
- 18 Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (CACIF) (1995) *Guatemala: reflexiones del pasado, consideraciones del presente y recomendaciones del futuro* (Guatemala City, Guatemala: CACIF).
- 19 Vielman, G. A. (1998) *Tiempo perdido* (Guatemala City, Guatemala: private edition).
- 20 MINUGUA (1998) *Second Report: Verification of Compliance with the Commitments Made in the Agreement on the Implementation, Compliance, and Verification Timetable of the Accords* (New York, US: UN).
- 21 IADB (2002) *Economic Synthesis of Guatemala* (Washington DC, US: IADB).
- 22 MINUGUA (2002) op. cit.
- 23 UN Information Service (2004) 'Guatemala Mission Successful Example of UN Peacebuilding with Lessons for Other Operations, Says Secretary General in Message to Closing Ceremony' SG/SM/9595, CA/27, 17 November 2004.
- 24 Azpuru op. cit.
- 25 ASAZGUA (2004) *Informe Anual* (Guatemala City, Guatemala: AZASGUA).
- 26 Juarez and Associates (2002) *Girls Education Monitoring System: Guatemala Country Study* (Washington DC, US: USAID).
- 27 Leguizamón, F. and Ickis, J. (2005) *Pantaleón* (San José, Costa Rica: Social Enterprise Knowledge Network); and author's personal interview with former sugar worker and leader of the *Coordinadora Nacional de Organizaciones Campesinas* (National Coordinator of Peasant Organizations), Guatemala City, December 2005.
- 28 Coordinadora Nacional de Organizaciones Campesinas (CNOC) (2005) *Situación de los Trabajadores del Campo en Relación a Contrato, Salario, Condiciones Ambientales, de Salud y Formas de Organización*, (Guatemala City, Guatemala: CNOC).
- 29 UNDP (2001) *Informe sobre el Desarrollo Humano 2000* (Guatemala City, Guatemala: UNDP).
- 30 Asociación para el Avance de las Ciencias Sociales (AVANSCO) (2004) *Sistematización de la Experiencia de Trabajo con Jóvenes del Área del Puente del Belice en la Ciudad de Guatemala* (Guatemala City, Guatemala: AVANSCO).
- 31 Universidad Rafael Landívar (2004) *Diagnóstico del Proyecto Puente Belice* (Guatemala City, Guatemala: Oficina de Responsabilidad Social/URL).
- 32 Colegio Puente de Belice (2005) *Sistematización de Grupos Focales: el Impacto Personal del Proyecto en las Vidas de los Participantes* (unpublished paper).
- 33 Ibid.

## References

- Adams, R. (2005) 'Remittances, Household Expenditure and Investment in Guatemala' *World Bank Policy Research Working Paper* No. 3532 (Washington DC, US: World Bank).
- Asociación para el Avance de las Ciencias Sociales (AVANSCO) (2004) *Sistematización de la Experiencia de Trabajo con Jóvenes del Área del Puente del Belice en la Ciudad de Guatemala* (Guatemala City, Guatemala: AVANSCO).
- Asociación de Azucareros de Guatemala (ASAZGUA) (Various) *ASAZGUA Informe Anual* (Guatemala City, Guatemala: ASAZGUA).
- Asociación de Investigaciones Económicas y Sociales (ASIES) (2005) *IV Encuesta a la Industria de Vestuario y Textiles* (Guatemala City, Guatemala: ASIES).
- Azpuru, D. (1999) 'Peace and Democratization in Guatemala' in Arnson, C.J. (ed.) *Comparative Peace Processes in Latin America* (Washington DC, US: Woodrow Wilson Center Press).
- Bucheli, M, and I. Read (2001) *Historical Chronology of the United Fruit Company* (Palo Alto, California: United Fruit Historical Society).
- Casper, A. (2003) *Centro de acción de responsabilidad empresarial Guatemala* (San José, Costa Rica: Instituto Centroamericano de Administración de Empresas).
- Centro de Investigaciones Económicas y Sociales (CIEN) (2001) *Análisis de la economía informal en Guatemala* (Guatemala City, Guatemala: CIEN).
- Colegio Puente de Belice (2005) *Sistematización de grupos focales: el impacto personal del proyecto en las vidas de los participantes* (unpublished paper).
- Comisión de la Industria de Vestuarios y Textiles (VESTEX) (2005) 'Estadísticas de la industria textil' (Guatemala City, Guatemala: Comisión de la Industria de Vestuarios y Textiles/AGEXPRONT).
- Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras (CACIF) (1995) *Guatemala: reflexiones del pasado, consideraciones del presente y recomendaciones del futuro* (Guatemala City, Guatemala: CACIF).
- Coordinadora Nacional de Organizaciones Campesinas (CNOC) (2005) *Situación de los trabajadores del campo en relación a contrato, salario, xondiciones ambientales, de salud y formas de organización* (Guatemala City, Guatemala: CNOC).
- Costello, P. (1997) 'Historical Background', in *Negotiating Rights: The Guatemalan Peace Process*. (London, UK: Conciliation Resources).
- Godnick, W. (2002) *Stray Bullets: The Impact of Small Arms Misuse in Central America* (Geneva, Switzerland: Small Arms Survey).
- Juarez and Associates (2002) *Girls Education Monitoring System: Guatemala Country Study* (Washington DC, US: USAID).
- Laurance, E. J. and Godnick, W. (2001) 'Weapons Collection in Central America: El Salvador and Guatemala' in Faltas, S. and DiChiaro, J. (eds.) *Remnants of War* (Baden Baden, Germany: Nomos Verlag).
- Leguizamón, F. and Ickis, J. (2005) *Pantaleón* (San José, Costa Rica: Social Enterprise Knowledge Network).
- Mera, A. (2002) *Guatemala: La Paz Pendiente* (Bogotá, Guatemala: Fundación Ideas para la Paz and Universidad de los Andes).
- UN Mission to Guatemala (MINUGUA) (2001) *El Pacto Fiscal Un Año Después* (Guatemala City, Guatemala: MINUGUA).
- UN Mission to Guatemala (2002) *Report for the Consultative Group Meeting in Guatemala* (Guatemala City, Guatemala: MINUGUA).
- Painter, J. (1997) *Guatemala: False Hope, False Freedom: the Rich, the Poor, and the Christian Democrats* (London, UK: Latin America Bureau).

- Pearce, J. (1999) 'Peacebuilding in the Periphery: Lessons from Central America' *Third World Quarterly* Vol. 20, No. 1 (Oxford, UK: Routledge).
- Pérez, J. and Pratt, L. (1997) *Industria Azucarera en Guatemala: Análisis de Sostenibilidad* (San José, Costa Rica: Centro Latinoamericano para la Competitividad y Desarrollo Sostenible).
- Rettberg, A. (2003) 'Managing Peace' *Harvard Review of Latin America* Vol. 2, No. 3 (Cambridge, US: Harvard University).
- Small Arms Survey (2005) *Small Arms Survey 2005: Weapons at War* (Geneva, Switzerland: Small Arms Survey).
- Schirmer, J. (1999) *A Violence Called Democracy: The Guatemalan Military Project 1982-92* (Philadelphia, US: University of Pennsylvania Press).
- Transparency International (2004) *Corruption Perception Index 2004* (Berlin, Germany: Transparency International).
- United Nations Development Programme (UNDP) (2001) *Informe sobre el Desarrollo Humano 2000* (Guatemala City, Guatemala: UNDP).
- Universidad Rafael Landívar (URL) (2004) *Diagnóstico del Proyecto Puente Belice* (Guatemala City, Guatemala: Oficina de Responsabilidad Social/URL).
- US Agency for International Development (USAID) (2005) 'Development and Remittances to Guatemala: Issues, Challenges and Opportunities for US Cooperation' (Washington DC, US: USAID).
- Valdez, J. F. (2003) *El Ocaso de Un Liderazgo: Las Elites Empresariales tras un Nuevo Protagonismo* (Guatemala City, Guatemala: Facultad Latinoamericana de Ciencias Sociales).
- Wagner, R. (forthcoming) *Historia del Azúcar*.
- World Bank (2005) 'International Bank for Reconstruction and Development: Country Assistance Strategy for the Republic of Guatemala' (Washington DC, US: World Bank).
- World Vision (2002) *Faces of Violence in Latin America and the Caribbean* (San José, Costa Rica: World Vision).