The Limits on Pro-Poor Agricultural Trade in Guatemala: Land, Labour and Political Power

THE LIMITS ON PRO-POOR AGRICULTURAL TRADE IN GUATEMALA: LAND, LABOUR AND POLITICAL POWER*

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SUMMARY

*Economic growth is a powerful force for poverty reduction.*

The World Bank, ‘Poverty in Guatemala’, 2003, p42

*The poor do not seem to be benefiting from the existing pattern of growth.*

The World Bank, ‘Poverty in Guatemala’, 2003, p47

The persistence of rural poverty in Guatemala since the early 1990s challenges the purported association between agricultural export growth and poverty alleviation. Lack of access to education, health and credit, and the historical legacies of land inequality, labour exploitation and ethnic discrimination, are preventing growth from reaching the rural poor. Most analyses, including the World Bank’s recent ‘Poverty in Guatemala’ (2003) report, fail to consider how the economic and political power of the country’s economic elite perpetuate and exacerbate poverty.

A focus on two of Guatemala’s most dynamic agroexport sectors – sugar and snow peas (mange-tout) – which are both reputed to have had a significant impact on poverty alleviation, reveals the limits on pro-poor growth.

In the sugar agroindustry:

- The main beneficiaries of growth are the elite families who control the sector.
- The uneven distribution of benefits results from the economic and political power of the plantation owners, the absence of smallholder producers and below-subsistence wages.
- Wage labour related to sugar exports is unlikely to be a major future source of poverty alleviation, even if Guatemala has more access to Northern markets.

For snow peas, Guatemala’s major non-traditional agricultural export (NTAE):

- Growth has improved the incomes of indigenous smallholders in the highlands but exporting companies increasingly source snow peas from larger producers.
- The potential pro-poor benefits have been limited by the government’s failure to provide adequate support to smallholders and dependence on the volatile US market.

The Guatemalan government, with the support of the international community, must take action to ensure that poor Guatemalans capture a larger share of benefits from agricultural export activities. This requires:

- Full implementation of the labour code, particularly payment of the minimum wage to agricultural workers.
- A comprehensive programme of land titling and initiation of a national debate on land reform.
- New government support mechanisms for smallholders to improve future growth and employment prospects in the NTAE sector.
- Cultural programmes to change elite attitudes towards poor, indigenous Guatemalans.
1. INTRODUCTION

There is a consensus amongst neoliberal economists and international financial institutions, such as the World Bank, the IMF and the WTO, that countries with more open economies achieve higher growth rates than less open economies, and that this growth is good for poverty reduction. Part of this consensus is that agricultural trade growth – especially the export of non-traditional products – is pro-poor and inherently beneficial for developing countries. In contrast, numerous studies challenge the claim that agricultural trade is an effective source of growth and poverty alleviation.\(^1\)

The paper examines where Guatemala’s experience fits within such debates, focusing on the purported association between agricultural trade growth and poverty alleviation. In particular it asks three questions:
- Who has benefited from agricultural trade in Guatemala during the past decade and has its impact been pro-poor?
- What explains the uneven distribution of the benefits of agricultural trade?
- To what extent can employment related to agricultural exports be a major force for poverty alleviation in the future?

While data sources have improved in recent years in Guatemala, the scope for analysis is limited by the lack of comprehensive and high quality economic data, for example on the ownership structure and profit margins of the sugar sector.

2. POVERTY AND INEQUALITY IN GUATEMALA

Before examining the impact of agriculture exports in Guatemala it is necessary to understand the structure of poverty and inequality in the country.

*Poverty*

Poverty levels are extremely high:
- In 2000 56% of the population (some 6.4m people) lived in poverty, with around 16% living in extreme poverty. The situation appears to have worsened recently, with extreme poverty rising to 22% in 2002 (see Table 1).\(^2\)

- Poverty is unevenly distributed in both urban-rural terms and by region. 60% of the population live in rural areas, with 72% of rural inhabitants living in poverty compared with 28% in urban areas (Table 1). While there is poverty throughout the country, it is far lower in and around Guatemala City and far higher in a belt including the rural Northern and North-West regions, in addition to the Department of San Marcos.

- Guatemala has a long history of racism against indigenous Mayans (around 45-50% of the 11 million inhabitants), which has resulted in their economic and political marginalisation. This is reflected in the incidence of poverty. 72% of the indigenous population are poor compared with 44% of the non-indigenous population.\(^3\)
The World Bank estimates that poverty fell from 62% in 1989 to 56% in 2000. Similarly, analysis by UNDP suggests some decline in poverty, with the proportion of people living on under $1 a day falling from 33% in 1989 to 27% in 1998.4

| TABLE 1: POVERTY AND EXTREME POVERTY IN GUATEMALA5 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                | Extreme poverty (%) | Poverty (%)     |
| Total                          | 2000 | 2002 | 2000 | 2002 |
|                                | 15.7 | 21.5 | 56.1 | 57.0 |
| Urban                          | 2.8  | 4.9  | 27.1 | 28.1 |
| Rural                          | 23.8 | 31.1 | 74.5 | 72.2 |
| Indigenous                     | 26.4 | 30.8 | 76.0 | 71.9 |
| Non-indigenous                 | 7.7  | 12.9 | 41.4 | 44.0 |
| Male                           | 16.7 | 23.0 | 57.7 | 56.7 |
| Female                         | 9.8  | 15.0 | 47.4 | 52.9 |

Source: United Nations Development Programme in Guatemala (2003, 228)

Income inequality

- Guatemala has one of the most unequal income distributions in Latin America. With a Gini coefficient of 0.57, income disparities are similar to countries such as Brazil, Honduras, Lesotho and Zimbabwe.6

- Income disparities may have increased in recent years. In 1989 the poorest 20% of the population received 2.7% of national income, a figure which fell to 1.7% by 2002. In contrast, in 1989 the richest 20% of the population received 62.7% of national income, increasing to 64.0% in 2002.7

- Inequality also an ethnic dimension, with indigenous people, 45-50% of the population, claiming less than a quarter of national income.8

Land inequality

Some of the starkest inequalities are evident with respect to ownership of land:

- An estimated 2% of the population own 72% of agricultural land, which is used mostly for plantations of sugar, coffee, bananas and rubber, in addition to cattle ranches. Their properties average around 200 hectares in size (although some exceed 900 hectares) and dominate fertile regions such as the Southern Coast.

- In contrast, smallholdings under 7 hectares constitute 87% of the total number but cover only 15% of arable land. It is on these small plots (usually under 2 hectares) that 77% of rural farmers engage in subsistence agriculture, producing mostly corn and beans.9

The above figures on land access should be treated with care as the last comprehensive survey of land use in Guatemala occurred in 1979. More recent estimates are based on surveys of particular regions but suggest that land inequalities have further increased. For
instance, in 1979 22% of rural heads of household were landless, while in 1998 this figure was estimated to have risen to 33%. In the early 1990s around half of agricultural land (belonging mostly to large landowners) was thought to be unused or uncultivated. The indigenous population face particular problems of land access. World Bank analysis demonstrated that ‘individuals in rural areas in the lowest income ranges are owners of the smallest parcels, but within each income range, the indigenous have the greatest probability of having the least land’.

One implication of this structure of poverty and inequality is that if economic growth and agricultural trade are to be pro-poor in Guatemala, they must benefit the rural poor, indigenous people, those with small landholdings and landless rural labourers.

3. SUPPLY-SIDE AND OTHER DOMESTIC LIMITS ON PRO-POOR GROWTH

According to the World Bank: ‘Economic growth is essential for expanding opportunities for poor people. As countries become richer, the incidence of poverty tends to fall.’ Their research claims to show that, on average, the incomes of the poor rise in proportion to increases in the rate of growth. However, the World Bank’s own findings contradict this claim. Their latest report, ‘Poverty in Guatemala’ (2003), suggests than while poverty fell to some extent between 1989 and 2000, this decline ‘was lower than what would have been expected given observed growth rates during that period’. With an average GDP/capita growth rate of 1.4% between 1989 and 2000, the World Bank predicted that poverty levels would fall by 9%, but their data showed that poverty fell by only 6%, from 62% to 56%. The report concludes that the data ‘could signal that the pattern of growth was not neutral (as assumed), but rather favoured the non-poor’ and that ‘the poor do not seem to be benefiting from the existing pattern of economic growth’. A UN study came to similar conclusions, arguing that achieving a 10% decrease in poverty would require a 25% rise in per capita income. These findings raise a fundamental question: what is preventing economic growth from being pro-poor?

Economic growth in Guatemala has historically been driven by the agroexport economy, particularly the coffee industry, which was established in the late nineteenth century. Agriculture remains the most significant economic sector, employing an estimated 36% of the labour force and generating around 24% of GDP. The next largest sector, manufacturing, employs 14% of the labour force and contributes an equal amount to GDP. Some 87% of the rural poor depend on agriculture, either as non-permanent day labourers on plantations or as subsistence farmers.

Although agriculture’s overall share in GDP has remained fairly constant since 1970, the contribution of the coffee industry has seriously declined since the mid-1990s. Its importance to the economy has been replaced by other agroexports. Export agriculture rose from 64.4% of all agricultural production in 1986 to 72.8% in 1998. Since the early 1990s the most dynamic sectors contributing to economic growth in Guatemala have been the sugar agroindustry and non-traditional agricultural exports (NTAEs), in addition to the maquila (garment) industry (see Section 4).

It is striking that rural poverty remains severe despite strong growth in parts of the agroexport sector. Thus it is important to ask not simply ‘why is economic growth not reaching the poor?’, but more specifically, ‘why is agroexport growth not having a greater impact on the lives of the rural poor?’ International factors such as changes in commodity prices and
limited access to Northern markets can obviously have detrimental effects on rural poverty (illustrated by the case of coffee, which lost an estimated 40-60,000 jobs in 2002 alone due to falling prices putting growers out of business). Yet domestic factors have also severely limited the opportunities for those living in poverty of reaping the benefits of growth. These can be divided into human capital and supply-side factors on the one hand, and historical and contextual factors on the other:

**Human capital and supply-side factors**

- **Education:** Although primary enrolment has increased since the signing of the final peace accord in 1996, which marked the end of 36 years of civil war, the illiteracy rate in Guatemala is still 31%, the third highest in Latin America and the Caribbean. Education coverage remains biased towards the non-poor: around 90% of non-poor children are enrolled in primary school compared with 58% of extremely poor children. There are also rural-urban, ethnic and gender disparities in access to education.

- **Health:** Guatemala is amongst the lowest-ranked countries in Latin America on indicators such as life expectancy, infant mortality and maternal mortality. Such problems particularly affect the rural poor, indigenous people and women. Malnutrition rates amongst Guatemalan children are amongst the worst in the world – some 44% of children under five are stunted. As with literacy levels, these health indicators are strongly correlated with poverty levels. Additionally, social insurance is virtually non-existent for poor Guatemalans.

- **Market access and isolation:** Access to markets by the rural poor is limited by geographic isolation and weak infrastructure. Around 13% of households do not have any form of adequate motorable road access, with even higher figures being registered for the rural poor and indigenous people.

- **Credit:** Access to credit in rural Guatemala is minimal, limiting the ability of rural households to acquire land and other assets. Only 13% of rural household applied for and received a loan in 2000, and around half the loans were from informal lenders. Non-possession of a property title also affects credit access: a mere 41% of landowner households have a formal title to their land, with only a third of poor Guatemalans possessing a title, limiting their ability to use the title as collateral for a loan. A land fund established under the peace accords to provide loans to poor households for land purchase has proven to be ineffective, inefficient and underfunded: only 5,000 of the targeted 335,000 households have participated in the programme.

- **Taxation:** While tax revenue as a proportion of GDP increased from around 9% in 1996 to just over 11% in 2001, this ratio remains amongst the lowest in Latin America, limiting the ability of the state to provide public services and rural investment. A World Bank report has referred to the ‘discontinuous support for...tax administration reform’ in Guatemala and a ‘a tax code [that] discourages tax payer compliance’. In the years since the final peace accord was signed 93% of tax revenue increases have come from the indirect Value Added Tax (IVA) that disproportionately burdens the poor.

**Historical and contextual factors**
• **Land and income inequality:** In the late nineteenth century state policies of indigenous communal land expropriation and forced labour laws helped to create a landowning economic elite and provided them with a supply of cheap indigenous labour for the coffee harvest. While forced labour was abolished by the mid-twentieth century, the legacy is enormous disparities in rural land ownership, below-subsistence wages for most plantation workers, and extreme income inequality (see Section 2). Public protests by poor peasants against the elite’s domination of private property have frequently been met with violence by both the state and landowners, as was particularly the case during the armed conflict. Guatemala had no significant redistributive land reform programmes in the twentieth century, unlike some Latin American countries such as Peru. Lacking adequate access to land, Guatemala’s rural poor are largely unable to enter the agroexport economy as independent growers and are forced to remain as non-permanent wage labourers or subsistence farmers.

• **Ethnic discrimination and exclusion:** Indigenous Guatemalans suffer disproportionately from poverty, and land and income inequality (see Section 2). They also face wage discrimination (the average wage gap between indigenous and non-indigenous workers is 50%), unequal access to education and health care, discrimination in legal disputes over land, and have rarely occupied important political positions. Mass violence by the armed forces against indigenous Mayans during the civil war in the 1970s and 1980s, in which an estimated 200,000 people were killed, has been defined as ‘genocide’ under international law. According to one indigenous scholar: ‘Since becoming an Independent Republic in 1821, the Guatemalan state has continuously politically excluded and socially marginalized indigenous people, and discriminated against them on the basis of ethnicity’.

• **Labour rights:** Government and employer compliance with the labour code is extraordinarily lax, a clear reflection of the historical marginalisation of the labour force and the power of economic elites. The most recent data reveal that 62% of all poor workers earn less than the legal minimum wage, with this share rising to 78% for extremely poor agricultural workers and 82% for extremely poor indigenous workers (Table 2). Additionally, 84% of poor workers do not receive other benefits, such as the thirteen month salary bonus. Large landowners are increasingly shifting away from hiring workers on permanent contracts to avoid providing non-wage benefits. In 2000, agricultural wages were lower than in all other sectors, averaging Q3.2 per hour (around US 41 cents per hour), compared with Q6.9 in manufacturing and Q7.3 for all sectors. Although agricultural wages increased in real terms in the 1990s, they increased more slowly than in all other sectors, leading to higher wage inequality.

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<th>TABLE 2: PERCENTAGE OF EMPLOYEES RECEIVING LESS THAN THE MINIMUM WAGE</th>
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<td><strong>Extreme poor</strong></td>
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<td>Total % &lt; min. wage</td>
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*Source: Vakis (2003, 60) based on data from 2000.*
Civil war and post-conflict recovery: Over three decades of civil war from the early 1960s to the mid-1990s not only caused enormous loss of life, but placed severe limits on development due to lost jobs, destroyed infrastructure, lower productivity, declines in foreign investment and internal and external displacement (around 10% of the population). The peace accords have provided an opportunity for the government to reorient the country’s development path, with some important progress being made in public sector management, public revenue collection and education. Full implementation of the accords, however, is unlikely due to resource constraints and lack of political will. In addition, the country still faces severe governance problems such as massive corruption by state and military officials, and a rampant increase in violent crime.

In an extraordinary example of anodyne understatement, the World Bank’s comment on the country’s history of land expropriation from indigenous people and labour exploitation is: ‘Historically, the private sector, has had somewhat of a mixed relationship with the poor.’ This statement is a reflection of their essentially technocratic approach to the causes of persistent poverty in Guatemala. They focus on classic human capital issues such as education and health, and market access and infrastructure problems (all of which are given their own chapters in ‘Poverty in Guatemala’). It is astonishing – or perhaps not – that the World Bank’s latest report provides no detailed analysis of the economic and political power of Guatemala’s economic elite and the way this power contributes to poverty. The report’s only relevant mention of the issue in over 200 pages of analysis is a vague two-line reference to fact that ‘economic and political resources remain concentrated among the economic elite of predominantly European descent.’ Yet why is there no follow-up examination of the extent of this concentration and the consequences for poverty reduction?

The impact of these more socio-political factors on poverty alleviation in the agroexport sector emerges from a detailed focus on the ownership structure and pro-poor performance of the two most dynamic sectors in the agroexport economy: sugar and snow peas (mange-tout).

4. THE CHANGING PATTERN OF AGROEXPORTS

Guatemala’s agricultural sector grew at only 2.9% per annum in the 1990s compared to 4% across the economy. But this relatively weak growth masks the dynamism of specific elements of the agricultural export sector – namely sugar and NTAE – that made a major contribution to growth in this period. The importance of these two sectors is revealed in changes in the structure and value of Guatemala’s exports (Table 3). The most notable developments have been:

- The sharp drop in the contribution of coffee to export earnings as the sector adjusts to the structural decline in international coffee prices.
- The growth of both sugar and NTAE (such as snow peas, broccoli, miniature vegetables and mangoes) to export value equaling coffee.
- The development of the maquila sector, which is mostly under the control of Korean exporters.

This growth in sugar, NTAE and the maquila sector fuelled the annual average 9.4% increase in the value of goods and services exported from Guatemala from 1991 to 2000. The importance of non-traditional exports is reflected in their annual average growth rate of 14% between 1990 and 1998, reaching $1.2 billion by 1998.
SUGAR: MODERNISING BUSINESS SECTOR OR OLIGARCHIC STRONGHOLD?

According to the World Bank, the Guatemalan sugar agroindustry provides a model of how a modernising business sector in a developing country can make a major contribution to economic growth and poverty alleviation. Similarly, in the lead up to the signing of the Central America Free Trade Agreement (CAFTA), the head US negotiator was photographed while visiting a Guatemalan sugar mill. What explains such accolades and attention? Since the early 1980s Guatemalan sugar producers have more than doubled the area of land dedicated to sugar cane production and more than tripled production levels. Guatemala is now the third largest producer in Latin America and the sixth largest in the world. Around three-quarters of production is destined for the export market, with the majority going to Korea (48%), Russia (21%), Canada (9%) and quota exports to the United States (7%).

This section attempts to look behind the general statements about high growth in the sugar sector by asking the three questions raised in the introduction of this paper:

- Who has benefited from the sugar export boom in Guatemala and has its impact been pro-poor?
- What explains the unequal distribution of these benefits?
- Is wage labour related to the sugar sector likely to be a major force for poverty alleviation in the future?

Ownership structure

The most striking aspect of the sugar agroindustry is the high concentration of its ownership structure. Guatemala has 17 mills based in plantations that provide around 80% of cane production. While formally organised into corporations, almost all the mills (and their accompanying plantations) are controlled by major landowning families from the country’s long-established economic elite. The independent cane producers who supply the remaining 20% to the mills are also generally large landowners and often part of the economic elite themselves. Table 2 indicates the eight largest mills and the families who control them. Together they account for 77% of the country’s sugar milling.
The most well-known sugar family is Herrerra Ibárgüen, who control over 20% of sugar milling in Guatemala. Like most families in the economic elite, they have economic holdings across a range of sectors, including coffee plantations, construction, real estate and telecommunications. Similarly, the Botrán family are also rum manufacturers (they make Guatemala’s famous ‘Ron Botrán’), and are involved in finance and banking, paper production and car sales.

Such families form part of an intricate web of between 20 and 50 intermarried ruling family networks that scholars have identified as constituting an economic elite or ‘oligarchy’ in Guatemala. These are the families who help constitute the 2% of the population that controls over 70% of agricultural land in Guatemala. Most of these families are of Spanish descent, having come to Guatemala during the colonial period, but the economic elite also includes German-descended families who helped establish the coffee economy in the late nineteenth century.50 Other families within the country’s elite include:

- Castillo, Guatemala’s wealthiest family whose Cervecería Centroamericana virtually monopolises beer production and sales (with some 90% of the market), and controls other food and beverage sectors.
- Novella, owners of Cementos Progreso, which dominates the country’s cement industry
- Gutiérrez, owners of the Pollo Campero (‘Country Chicken’) fast food empire, which stretches across Central America and the United States. Their holdings also include Grupo Avicola (a poultry raising and distribution group comprising 19 companies that control over two-thirds of the Guatemalan chicken market), flour and feed mills (e.g. Molinos Modernos), meat-packing plants, major shares in newspapers (e.g. Siglo 21) and banks (e.g. Banco Industrial and Banco Reformador), power plants (e.g. Renace) and construction developments. Their interests are consolidated in the company Multinversiones. The Gutiérrez companies are currently under criminal investigation for involvement in tax evasion, tax fraud and money laundering valued at over $200m.51

There are dozens of examples of marriages within these elite family networks over recent decades that have consolidated their economic dominance and given them political connections. For instance, Silvia García Granados (from the family owning the Tierra Buena sugar mill) married Alvaro Arzu Irigoyen, a member of one of the country’s oldest oligarchic families who was Guatemala’s President from 1996 to 2000. Members of the Herrerra family network, which includes sugar baron Roberto Herrerra Ibárgüen, have married into elite families such as Beltranena, Dorién and Klee. Within the sugar elite, Isabel Botrán married into the Molina family, reputedly the largest landowners in Guatemala. The country’s current

| TABLE 4: ELITE FAMILY DOMINATION OF GUATEMALA’S SUGAR AGROINDUSTRY |
|------------------------|--------------------------|------------------|
| Sugar mill             | Milling capacity (tonnes per day, 2001/2002 harvest) | Controlling family |
| Pantaleón              | 17,758                   | Herrerra Ibárgüen |
| Magdalena              | 16,979                   | Leal             |
| El Pilar               | 15,358                   | (unknown)        |
| Santa Ana              | 14,863                   | Botrán           |
| La Unión               | 10,805                   | Molina Calderón  |
| Concepción             | 7,605                    | Herrerra Ibárgüen|
| Madre Terra            | 7,131                    | Campollo         |
| Tierra Buena           | 6,119                    | García Granados  |

*Source: International Society of Sugar Cane Technologists (2004a), Oglesby (2000, 5) and Solano (2002).*
President, Oscar Berger, is also from an elite family; he married Wendy Widman Legarde, the daughter of a wealthy coffee plantation owner, industrialist and financier, Walter Widman Luna.  

**Political privilege**

The economic elite have successfully unified over past decades to influence governments and prevent political reforms that challenge their economic privileges, including land reform, tax increases and improved labour rights. The elite wield their political influence, having an effective veto over government policy, through their control of Guatemala’s most important business association, the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Organisations (CACIF). In 1995-1996, for example, CACIF used their traditional clientalistic relationship with the state to prevent an expropriative and redistributive land reform from appearing in the Accord on Socioeconomic Aspects and the Agrarian Situation, which was one of several accords negotiated between the government and guerrillas as part of the peace talks to end the civil war.  

Several factors have helped the sugar barons grow as a political force:  
- United in the Guatemalan Sugar Association (ASAZGUA), the elite sugar growing and milling families have become increasingly influential within CACIF during the past decade and have repeatedly held the presidency of the organisation.  
- The Guatemalan state has become ever more dependent on the sugar sector as a source of foreign exchange earnings and employment.  
- Two of the three Presidents since the end of the civil war (Arzú and Berger) have been members of the economic elite sympathetic to CACIF and the sugar elite, and have appointed business association leaders to cabinet positions.  

As a result, ASAZGUA has been able to mould state policies in its favour, for instance by obtaining high tariffs on sugar imports to protect the elite’s domestic monopoly, evident in the upward trajectory of the domestic price of sugar since the 1980s. The Guatemalan state’s increasing dependence on the sugar sector is illustrated and symbolised by the fact that municipal authorities sometimes have to borrow money from the sugar mills to cover pay-roll expenses. According to a study by Elizabeth Oglesby, ‘the growth in sugar production reflects the class position of the azucareros, their power vis-à-vis the state and the ways that long-standing patterns of accumulation continue to be embedded in national politics’.  

Even Guatemalan business leaders themselves acknowledge the economic and political influence of the sugar sector. This emerged in an interview I conducted in 2000 with agroindustrialist Humberto Preti Jarquin, formerly President of both the Chamber of Agriculture and CACIF, and a director of the National Coffee Association (ANACAFE):  

**Who are the most powerful businessmen in Guatemala?**

Novella, Gutiérrez…Paiz, Ibárgüen, the sugarcane growers, Herrera Ibárgüen is very powerful, I’d say [long pause] I’d say probably 30 families are very powerful, very very powerful here.  

**Something I don’t understand is how these families influence the business organisations […]**

Well, Mario Montano is President of the Chamber of Industry – he’s a Novella, from the cement company. There’s a Castillo in the Chamber of Finance, a Torrebiarte in both the Chambers of Industry and Finance. […] The sugarcane growers, they are eight families. The eight sit down and they all reach agreement. I would say that at the moment CACIF can function at the rhythm that the Guatemalan Sugar Association wants.
A number of analysts highlight the wealth of Guatemala’s sugar elite and evidence from interviews with Guatemalan business leaders suggests that their profits have been vast. However, it is unclear exactly how much money they have made through their control of sugar mills and plantations, and political influence. This must await detailed research on profit margins in the sugar sector.

**Labour and poverty alleviation in the sugar industry**

What have been the effects of the oligopolised sugar sector on labour and employment? Has the sugar sector benefited the poor at the same time as the economic elite? At first glance the development of the sugar agroindustry appears to have had a major impact on poverty alleviation in Guatemala:

- **More jobs:** The sugar sector is highly labour intensive and soaked up surplus labour when the cotton industry declined in the 1980s. The sector employs around 60,000 workers, at least two-thirds of whom are temporary harvest labourers working between November and May.

- **Higher wages:** Harvest wages in the sugar sector (which pays on a piece-rate basis) average around 75% above the rural minimum wage of Q3.16 (US 41 cents) per hour. The mean wage in 2000 was about Q1300/month (US$170) with the fastest cutters earning around Q2000.

- **Improved non-wage benefits:** To obtain productivity increases, plantation owners have improved diets and health care for harvest workers (who are even weighed periodically to ensure they don’t lose weight while at work). The National Sugar Foundation (FUNDAZUCAR) has also undertaken housing and education projects that have helped some workers and their families. For those men able to cut the required minimum of five tonnes of cane a day, the non-wage benefits of employment can be significant.

There are, however, several reasons why development of the sugar sector has not made a greater impact on poverty alleviation in rural Guatemala:

- **Absence of smallholders:** Guatemala’s sugar agroindustry does not have a significant smallholder sector that would allow relatively small-scale and poor farmers to grow cane, sell it on to the mills and thereby reap the benefits of the growth in sugar agroexports. This is primarily due to the land inequalities in the country (see Section 2) and the domination of fertile sugar-growing land on the Pacific Coast by the eight major sugar families. Instead, poor inhabitants from the rural coast and highlands are forced to work as piece-rate labourers on the plantations.
• **Below-subsistence wages:** Despite being above the agricultural minimum wage, wages in the sugar sector remain below subsistence levels. As noted above, the average wage in the sector is around Q1300 per month yet according to the National Institute of Statistics the monthly cost of a family ‘food basket’ is about Q1,200, with Q2,100 required for food, clothing, health, education and transport. Academic studies argue that the industry maintains its competitive edge by increasing productivity while keeping wages low to minimise labour costs. In Colombia, by contrast, sugar cane cutter wages are around one-third higher than in Guatemala.61

• **Stagnant employment:** Employment levels have not increased significantly since the early 1990s. The industry has been able to increase production through higher worker productivity (around 400% greater in the mid-1990s than in 1980) rather than by providing more jobs.62

• **Limited bargaining power:** After disruptive strike action in the early 1980s by unionised workers, plantation owners sought to eliminate union influence by shifting from a permanent plantation workforce to using seasonal, non-unionised labour. The labour force is thus able to exert little influence over wages and conditions. Additionally, non-permanent workers have weaker claims to government-legislated benefits such as the thirteen month salary bonus, and have little chance of being employed by the sector in the off-season.63

• **Gender exclusion:** The modernised sugar sector provides few direct benefits for women. Whereas in the past women were employed during the harvest, involved in jobs such as irrigation, picking up stray canes and applying fertilizer, such tasks are now mostly mechanised. For more than a decade mill owners have insisted on male cutters coming to the harvest without their families (as was traditionally the case), so they don’t become ‘distracted’ by non-work matters.64

• **Poor conditions:** Working conditions during the harvest are extremely arduous. Work begins at 5am and often continues until after nightfall, workers are expected to work on Sunday and holidays and, according to one study, the ash and soot from burning create health conditions similar to ‘labouring in a nineteenth century coal mine’.65

*The future of the sugar sector*

Although growth in the sugar sector has been minimal during the past two years, the introduction of CAFTA in 2005 provides some growth prospects for Guatemalan sugar agroexports by permitting a gradual increase in the US import quota.66 Yet the above analysis suggests that growth in the sugar sector is unlikely to bring clear pro-poor benefits to rural Guatemalans. The concentration of ownership amongst economic elites and the influence of these elites in the state permits them to maintain their control of economic assets, to marginalise the rural labour force and to capture the benefits of growth. Without major changes in the structure of economic and political power within Guatemala, including land distribution, economic growth in the sugar sector is unlikely to be a saviour for those living in poverty.

Other factors are likely to place even greater limits on the extent to which the sugar sector can be a major force for poverty alleviation in the future:
• **Mechanisation:** Currently around 25% of the harvesting is fully mechanised and in future years industry sources suggest that this figure will rise to around 40-50%. Thus increases in production and exports are unlikely to provide a significant number of new jobs. In fact, further mechanisation is likely to reduce employment opportunities in the sector.

• **Milling capacity:** The biggest sugar mills have limited spare capacity, with the four largest already running at over 95% capacity. Rapid expansion of sugar milling is thus limited unless new mills are built, an unlikely prospect in the short- to medium-term due to the high capital outlays involved and uncertainties about future international sugar prices.

In sum, the pro-poor potential of the sugar sector has been sacrificed for the benefit of the sugar barons, who use below-subsistence wages to effectively subsidise their costs and ensure their profits.

6. SNOW PEAS: UNSUSTAINABLE PRO-POOR IMPACT

Alongside the sugar sector, non-traditional agroexports (NTAE) have been the most dynamic element within Guatemala’s agricultural export economy for the past two decades and were a major contributor to economic growth in the 1990s. NTAE such as snow peas, broccoli, melons and berries were first introduced in the 1980s with the support of multilateral and bilateral aid programmes, particularly from USAID. Since then NTAE have been widely lauded for giving small farmers high-return export opportunities that are lifting them out of poverty and for providing an alternative to employment in the coffee sector in the context of the sharp deterioration of international coffee prices.

Amongst the crops receiving the most praise is snow peas, also known as mange-tout. Snow pea production in Guatemala was just 3.7m pounds in 1986; by 1995 this figure had increased almost ten-fold to 36.1m pounds. In the 1990s snow peas quickly became one of the country’s most important NTAE. In 2001 snow pea exports were worth US$12.4m, providing 28% of the country’s vegetable export earnings, with almost all sales going to the United States. Between 1997 and 2001 Guatemala was responsible for 16.8% of snow pea exports from the developing world, making it the joint leading exporter with Zimbabwe.

As in the case of sugar, this section attempts to answer three questions.

- Who has benefited from the development of snow pea production and exports and has the impact been pro-poor?
- What explains the unequal distribution of these benefits?
- Is wage labour related to snow peas likely to be a major force for poverty alleviation in the future?

**Structure of the snow pea sector**

While NTAE production has been controlled by large-scale farmers in many Latin American countries, this is not so in Guatemala, particularly in the case of snow peas. Around 90% of Guatemala’s snow peas are grown by an estimated 18,000-20,000 relatively small-scale, mainly indigenous Mayan farmers in the highlands, usually on plots of under two hectares. The smallholder basis of snow pea production places it at the opposite end of the economic
spectrum to sugar cane production. This structural difference gives snow peas huge potential as a pro-poor export crop.

The competitiveness of the snow pea sector is largely due to the organisation of producers in cooperatives or associations that allow them to share costs and risks and have access to technical assistance. The family basis of most businesses helps them cover the high labour input required, with women playing a major role in planting, harvesting and marketing.73 Most small farmers plant around one-third of their land with snow peas (and sometimes other NTAE crops), leaving the remainder for subsistence crops such as maize and beans.74

Small-scale producers either sell their produce directly to large export companies or on the night market to brokers or ‘coyotes’. The export companies, who control around 50% of the export market, engage producers in ‘satellite farming’: the company advances seeds, fertilizers and chemicals to the farmer, who agrees to pay for them when the crop is harvested. The farmer receives, according to one study, ‘what amounts to a high-interest loan’, promising to sell his crop to the export company (although the latter does not promise a price).75 The exporter has the contractual right to reject the crop if its quality means it may be rejected by US border officials for health reasons or by US buyers for cosmetic reasons. Most of the risk of the harvest is therefore carried by the farmer.76

Pro-poor impact

There is no doubt that snow pea production has had significant pro-poor impacts in Guatemala:

- **Income**: It has provided increased income, particularly to indigenous Mayans, in some of the poorest regions in the rural highlands. Monthly earnings in the sector are, on average, more than 50% higher than the earnings of those working in the traditional agricultural sector and rose more rapidly between 1995 and 2001. In 2001 average earnings in the snow pea sector were an estimated Q1200 per month, compared with around Q700 per month in the traditional sector.77

- **Reported economic benefit**: Household survey data suggest that, in several highland communities with a concentration of Kaqchikel Mayans, some 58% of NTAE growers say their economic situation has improved by adopting crops such as snow peas and broccoli.78

- **High returns**: Snow peas provide higher returns than most NTAE and have returns around 15-times higher than traditional crops such as corn.79

- **Jobs**: Snow pea production has provided alternative employment and income in regions devastated by the collapse of the coffee economy, where tens of thousands of seasonal harvest jobs have been lost since the late 1990s, and small-scale coffee production is unsustainable.80

Despite the benefits that have accrued in the sector, there are both international and domestic factors that have limited the pro-poor effects of snow pea exports, making their long-term poverty reduction potential appear unsustainable. Among the problems discussed below, two stand out: the volatility of the export market and the demise of smallholder growers.
International limits on pro-poor impact

- **Non-tariff barriers and volatile demand**: During the first decade of snow pea production in Guatemala, ever-increasing amounts of pesticide were used to ensure high yields and unblemished products that would appeal to US consumers. In the 1990s, increasing concern over harmful pesticide residues prompted the US Food and Drug Administration to increase monitoring of food imports: Guatemalan snow peas were found to be the most serious violator, breaching US regulations on pesticide levels. Snow peas were impounded and US demand plummeted. Between 1995 and 1996, for instance, Guatemalan snow pea exports dropped over 25%, having a disproportionate impact on the smallest producers (who tended to use more pesticides such as Chlorothalonil). Exports are only now beginning to recover, and still remain at the levels of the early 1990s.

- **Dependence on the US**: The restrictions placed by the US on snow pea imports could have potentially been challenged as discriminatory under international agreements, such as the WTO’s SPS Agreement. The most detailed study of the sector concludes that, ‘based on available evidence, it is not clear that the United States would have succeeded in defending all of its restriction’. The Guatemalan government, however, chose not to mount such a challenge, fearing the damage that might be done to exports of other Guatemalan products to the US, the country’s main export market.

- **Price volatility**: Snow pea prices have shown a high degree of short-term price fluctuation on the international market, creating uncertainty for the smallest producers who find it hardest to ride out fluctuations due to cash flow problems. This problem is lessened by short harvest times (10-12 weeks) and phasing crops on different plots staggered throughout the year.

Domestic limits on pro-poor impact

- **Decline of smallholders**: Detention of snow peas at the US border has prompted export companies to work with better-resourced large-scale farmers able to introduce strict production controls and thus meet US requirements. This has pushed many small farmers out of the sector completely or forced them to sell to intermediary ‘coyotes’ who offer prices up to a third lower than export companies.

- **Limited number of producers**: Only 23,000 households produce NTAE compared with the 650,000 involved in subsistence agriculture, and only 5% of extremely poor farmers produce NTAE. The poorest farmers, with plots under 0.5 ha, are generally unable to become NTAE producers: they rarely have the funds to cover the high input costs of snow pea production, which are around 13 times higher than for corn, nor do they have sufficient land to divert from subsistence crops.

- **Lack of government support**: Government programmes to help producers change farming methods and pesticide use to meet US requirements have often been ineffective at reaching small-scale, indigenous farmers, partly because of their top-down, non-participatory approach. The Guatemalan government has also failed: to provide sufficient credit to allow more smallholders to enter NTAE production; to offer adequate insurance to cover small-scale producers against price drops and major...
crop losses; to extend marketing support for cooperatives to help farmers reduce reliance on big export companies.87

- Gender inequalities: A number of studies demonstrate that NTAE production, including in the snow pea sector, has deepened household gender inequalities, with women providing more unpaid agricultural labour than in the past through their participation in planting and harvesting.88

- Other agronomic problems: High pesticide inputs required for NTAE crops such as snow peas ‘have impaired workers health, brought on pest resistance and environmental damage (such as contamination of waterways), and thus led to elevated costs’.89 Such agronomic problems, including soil degradation, have resulted in a consistent drop in NTAE yields in some regions, and are threatening subsistence crops.90

- Falling land accumulation rates: Some development analysts predicted that NTAE production, particularly of snow peas, would allow smallholders to use their profits to increase their landholdings, thereby reducing land inequality in Guatemala.91 However, recent research shows that such benefits for smallholders are declining. First, smallholders who adopted NTAE accumulated land at more than three times the rate of non-adopters in the 1980s, but this rate dropped dramatically in the 1990s. Second, while the landholdings of small adopters grew faster than those of larger adopters in the 1980s, this trend reversed itself in the 1990s.92

The future of the snow pea sector

The pro-poor impact of snow pea production has not been sustained, with large producers increasingly reaping the benefits. It is no wonder that the World Bank has been forced to conclude, in the case of Guatemala, that ‘non-traditional exports could serve as a potential source of growth, but their reach has been limited in scope, particularly for the poor’.93 In many ways this is a story about failure by the Guatemalan government – the failure to provide sufficient credit, insurance and marketing support to small-scale NTAE farmers to allow them to compete with large producers.

The prospect of increasing competition provides another reason for the government to take action to help small-scale producers. At the height of the snow pea boom, in 1995, Guatemala supplied over three-quarters of the snow peas imported by the United States. Since then competition for the US market has risen significantly. By 2001 Guatemala’s market share had dropped to 57%, with Mexico taking 33% of the market and Peru becoming increasingly competitive.94 As Central and South America become further integrated into the US economy, this competition is likely to become stronger rather than weaker.

7. CONCLUSION: PUBLIC POLICY OPTIONS

Agricultural export growth in Guatemala since the early 1990s now appears like a lost opportunity. In the sugar sector wealthy families from the economic elite have been the main beneficiaries while cane cutters continue to earn below-subsistence wages. In the snow pea sector, small-scale farmers have received insufficient government support to allow them to compete with larger producers. Agricultural trade growth has not fundamentally altered the
breadth and depth of rural poverty in Guatemala, nor has it had a substantial impact on land and income inequality.

What are the public policy conditions under which poor Guatemalans might capture a larger share of benefits from agricultural export activities?

Leaving aside discussion of necessary changes in global trade rules, such as the elimination of unfair tariff barriers in rich countries that prevent market access for Guatemalan agricultural produce, there are strong grounds for extensive reforms at the national level.

Guatemala clearly needs basic human capital and supply side reforms such as improved health care, education and rural infrastructure. More specifically, the government should focus its attention on helping small-scale farmers who have the potential to benefit from NTAE production. This will require new support programmes to improve their access to credit and insurance, and that provide them marketing support.

Beyond this it is essential for the Guatemalan government, with the support of the international community, to pursue fundamental reforms that tackle problems related to labour rights, land inequality and the power of the economic elite – issues on which the World Bank’s strategy for reducing poverty in Guatemala is disconcertingly silent.95

**Full implementation of the labour code**

- The government must meets its legal obligations by enforcing its own labour code, particularly provision of the minimum wage for rural workers and other non-wage benefits such as the thirteen month salary bonus. This should also have an effect on reducing wage disparities between indigenous and non-indigenous people and between women and men.

- The minimum wage should be raised to subsistence levels and non-wage benefits in the labour code should be extended to cover temporary and seasonal workers.

**Land titling programmes and a national debate on land reform**

Guatemala’s peace process failed to solve the fundamental problem of land inequality. Organisations such as the National Indigenous and Peasant Coordinator (CONIC) continue campaigning for restitution of expropriated communal lands, property titles for lands historically occupied by Mayan people, and the right to land in lieu of pay owed to workers by plantation owners. In the ten months that President Oscar Berger has been in power, there have been dozens of land occupations by peasant organisations and over twenty forced evictions (one from a farm owned by a relative of the President), frequently involving the use of extreme violence by state authorities and sometimes resulting in the deaths of campesinos.96

Guatemala needs an expropriative and redistributive land reform. This is especially urgent at a time when extreme poverty and malnutrition are increasing. It would permit the poorest rural inhabitants to meet their subsistence needs, present opportunities for growing cash crops and provide collateral for obtaining loans to pursue educational and other goals.97 The economic elite, united in CACIF, continue to block land reform proposals and keep it off the political agenda.
Given this context the government should:

- Initiate a national debate on land reform with discussion of alternatives to market-based solutions, which have not been reaching the rural poor.

- Pursue a mass programme of land titling that gives poor farmers legal title to land that they have often farmed for decades.

- Inject financial and other resources into two land-related bodies created as part of the peace accords: the Land Fund (FONTIERRA), responsible for providing credit to campesinos to buy land; and the organisation charged with resolving land conflicts (CONTIERRA).

- Cease using force, and respect human rights and legal procedures, when dealing with land occupations.

**New research on the elite and cultural programmes to change elite attitudes**

There is insufficient high-quality data on the economic basis of elite power in Guatemala. Remedying this requires:

- New research programmes on the ownership structure and profit margins in key economic sectors where the economic elite have substantial influence, such as sugar, bananas, coffee, forestry, food and beverage, cement and chicken. The World Bank could usefully allocate 5% of the resources for its next project on poverty in Guatemala to this task.

The political and economic power of Guatemala’s business elite is deeply entrenched and almost impossible to eradicate in the short- to medium-term. Given this, it is important to pursue long-term strategies of change. A significant reason why the elite do not take poverty in their own country seriously is that they have very little direct understanding of it, living almost completely isolated from poor, indigenous Guatemalans, hidden in gated communities, offices and country clubs in and around Guatemala City, and often educated and living abroad. The government and international agencies should support innovative strategies to change elite attitudes, for instance:

- Cultural programmes in which young members of the elite (such as students at the private neoliberal Francisco Marroquín University) experience the lives of poor, indigenous farmers and engage in one-to-one dialogues with them. These might be modelled on the World Bank’s ‘Grass Roots Immersion Programme’ (GRIP), in which international staff spend time living with a poor family in a rural or urban area in a developing country. They could also be modelled on some of the highly successful projects in US prisons in which criminals have been exposed to their victims’ perspectives and experiences as a means of encouraging empathy and thereby reducing reoffences.

Such reforms are particularly urgent given that the rural poor are about to be faced with the implementation of the Central American Free Trade Agreement (CAFTA) in 2005, which is
expected to have a devastating effect on the subsistence economy due to the dumping of cheap maize imports from the United States, as has occurred in Mexico under NAFTA. Agroexport growth could, given the right conditions at the national level, prevent the rural poor from becoming poorer.
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1 For a summary of these debates see Oxfam (2002, 128-133), Green, Morrison and Murphy (2004, 10-13) and Dorward, Kydd, Morrison and Murphy (2003, 75, 77).
5 ‘Extreme poverty’ is defined as the yearly cost of a ‘food basket’ providing the minimum daily calorific requirement of 2172, giving a figure of Q1,912 (US$245). ‘Poverty’ is defined as extreme poverty plus an allowance for non-food items, giving a poverty line of Q4,319 (US$554) (World Bank 2003, ii, 7).
8 World Bank 2003, ii.
9 Vakis 2003, 77.
11 Quoted in Hernández Alarcón (1998, 3).
12 World Bank 2003, 42.
13 Oxfam 2002, 129.
14 World Bank 2003, 43.
15 World Bank 2003, 43, 47.
17 World Bank 2003, 45.
19 The decline of coffee in Guatemala is well-documented. See, for example, Boteach (2002).
20 Oglesby 2004, 557.
21 World Bank 2003, 57.
22 Dorward, Kydd, Morrison and Murphy 2003, 76, 83.
24 World Bank 2003, ii.
26 World Bank 2003, iii.
27 World Bank 2003, 55.
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34 World Bank 2003, v, 54.
35 Jonas 2000, 33.
36 Cojtí 1998, 66.
37 World Bank 2003, 52.
38 Vakis 2003, 57, 60.
40 World Bank 2003, ii-iii.
41 Sieder et al January 2002, 4-11; World Bank 2003, 150.
42 World Bank 2003, 158.
43 World Bank 2003, 32.
44 Inter-American Development Bank 2004, 7.
45 Agecrepot 1999, 9, 13.
46 The Central Bank does not provide aggregate data on the export earnings of non-traditional agricultural products. These estimates are based on analysis of Central Bank data on export earning growth in three categories: vegetables, fruit, and flowers. Between 2002 and 2003 the total export earnings of these three categories grew 17.7% compared with an overall growth rate in export earnings for all products of 6.3% (www.banguat.gob.gt).
47 Oglesby 2004, 553.
48 The average area harvested for 1980-1985 was 77,711 ha, increasing to 174,800 ha for 1995-2000; sugar production was 510,494 tonnes for 1980-1985, rising to 1,549,875 tonnes for 1995-2000. Production has risen further in recent years, to around 1.8m tonnes in 2002 (International Society of Sugar Cane Technologists 2004a).
49 USDA 4-9/2003, 6.
52 Casaus Arzú 1992, 100, 150, 155.
54 Oglesby 2004, 564.
55 Oglesby 2000, 4-5.
56 Krznaric 2003, 84.
57 Oglesby 2004, 559; Krznaric 2003, Ch. 3.
58 International Society of Sugar Cane Technologists 2004b.
While there are no longer any unions in the sector a few mills have company-controlled 'solidarity associations' (Oglesby 2004, 560, 568).