

GUATEMALA

Essence of opportunity

With

an area of 108,000 km² and a population of 12.2 million, Guatemala is the largest and most densely populated country in Central America. Guatemala's economy is still based around a solid agricultural sector—it accounts for a quarter of the country's GDP and makes up two-fifths of exports, primarily coffee, sugar and bananas. But in recent years, there has been significant growth in the industrial and service sectors, particularly within food production, textiles, pharmaceuticals, communications and tourism.

Since coming to power in January 2004, center-right President Óscar Berger's government has been seen as a catalyst to improving socioeconomic conditions and security—Guatemala's biggest challenges. The former Guatemala City mayor won the country's second democratic elections after a 36-year civil war ended in 1996. Now, with some catching up to do, a modernization program is underway and the government is focusing on increased competitiveness and pro-business policies. Guatemala's new direction was further sealed last July when it entered the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) with the U.S. As Guatemala's main commercial partner, the U.S. receives 34% of the country's exports and supplies 41% of Guatemala's imports.

"We are inviting investors to support us as we become more competitive. We need to drive competitiveness in a systematic and sustainable way so our people benefit"

This week, the spotlight is on Guatemala again as it hosts the 48th Annual Meeting of the Inter-American Development Bank (IDB) and the 22nd Annual Meeting of the Inter-American Investment Corporation (IIC), which will be held in Guatemala City, from 16 to 20 March. The IDB, the oldest and largest regional development bank, has been the main source of multi-lateral financing for development projects since 1959. The IIC, one of the IDB group's members, recently launched its FINPYME (Financiación Innovadora de PYME) program that will improve access to financing for smaller companies and help them become more competitive. Through FINPYME, they are offered, free of charge, the kinds of diagnostic tools enjoyed by large



Óscar Berger,
President
of the Republic
of Guatemala



Miguel Fernández,
Presidential
Commissioner for
Investment and
Competitiveness



Emmanuel Seidner,
Deputy Presidential
Commissioner for
Investment and
Competitiveness

corporations to help develop their businesses. Three hundred enterprises are initially expected to benefit from the program.

Presidential Commissioner for Investment and Competitiveness, Miguel Fernández, expects Guatemala to attract between U.S.\$600 and U.S.\$700 million in foreign direct investment (FDI) this year. Fernández says: "We are inviting investors to support us as we become more competitive. We need to drive competitiveness in a systematic and sustainable way, so our people benefit."

Guatemala's Deputy Presidential Commissioner for Investment and Competitiveness, Emmanuel Seidner, believes the country has excellent advantages within the region. Bordering on the north and west with Mexico, on the east with Belize, Honduras and El Salvador, and on the south with the Pacific Ocean, Guatemala is excellently placed, as Seidner says, as "the bridge to the Americas."

He says: "The macroeconomic stability of Guatemala means we are seen as a strong and highly attractive destination for foreign investors. We are committed to continue with investor-friendly policies to increase development and work in partnership with the private sector, to facilitate economic growth and access the world's most important markets, such as the United States.

"A cement plant construction project is already underway in San Juan Sacatepequez, which has attracted a total of U.S.\$350 million investment and in 2007, Guatemala expects to attract FDI in the tourism, industrial and financial sectors, and is also looking to develop as a center for business process outsourcing."

Within Seidner's remit is the Invest in Guatemala Agency, whose team of experts offer professional and confidential advice while

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providing networking opportunities within particular sectors. Support from the country's government as well as improvements to the tourism infrastructure has made it a priority to reintroduce Guatemala to travelers worldwide as a premier tourist destination with an array of activities. The tourism sector has contributed greatly to Guatemala's economy in recent years, so boosting tourism opportunities has been the main focus behind the complete restructuring plan of INGUAT, the Guatemalan National Tourist Institute.

"Guatemala is known for having some of the most stunning Mayan archeological sites but few people know of the ecological beauty of our rainforest and countryside. I am confident the strategies we will be implementing will prove that Guatemala truly is a world-class destination," says Willi Kaltschmitt, Presidential Commissioner for Tourism. "We are already in talks with various European airlines with a view to increasing the number of operators flying to our expanding La Aurora International Airport."

Guatemala is also hoping to establish itself as a hub for international events. As well as the annual Inter-American Development Bank convention taking place in Guatemala City this month, the

International Olympic Committee will be holding its 119th session there in July. Kaltschmitt, who sits on the Committee says: "This event will determine the host city for the 2014 Winter Olympic Games, so it will give Guatemala some excellent exposure."



Willi Kaltschmitt,
Presidential
Commissioner
for Tourism

Logistical hub

Much is being done to improve the country's infrastructure and investment possibilities. The country has two main airports: La

Aurora International (Guatemala City), the most important, which is currently undergoing a state-of-the-art makeover, and Santa Elena, in the region of Petén, which has flights to Europe and Mexico City. The governments of Mexico and Guatemala recently took another step forward by implementing the Plan Puebla Panamá, a regional development strategy that proposes a series of mega-projects economically linking southern Mexico with the tip of South America.

A road-building program is also underway to upgrade most of Guatemala's 15,100 km of highway, of which only 6,000 km has tarmac. Minister for Communication, Infrastructure and Housing, Eduardo Castillo, says: "This will be followed by an upgrade of the country's eight regional airports, the number of which will eventually increase to 22. We expect the expansion to swell the volume of air passengers from 1.8 million per year to four million.

"These investments have been aided by two fast-disbursing loans from multilateral banks, plus a new law for the strengthening of tax administration while accommodating extra expenditure stemming from damage caused by tropical storm Stan." As a result, up until November 2006, the primary balance registered a surplus of 0.3% of GDP and the fiscal deficit reached only 0.8%.

The sea port of Puerto Barrios is the capital of the department of Izabal on the Caribbean coast of Guatemala with a population of around 40,000 people. It is also the commercial heart of the region. Puerto Barrios is Guatemala's oldest port and is located 40 hours from Miami, and four hours from Honduras. Mariano Mena, CEO of Puerto Barrios says: "Our concern has always been to be at the forefront of technology and we have therefore increased productivity and security in cargo handling for all our customers. Our terminal offers a unique commitment to service, which is characterized by security and efficiency."

A business mind with a social conscience

The consortium of companies **Grupo Buena**, created by Jorge Raúl García Granados in Guatemala, is considered by many as the country's ethical business pioneer. García Granados is an audacious and groundbreaking businessman who has dared to defy the traditional Guatemalan industry sector with his fair business proposals for clients and associates alike.

His chicken and sugar importation businesses, and the manufacture of instant soups, have competed against the local monopolies and oligarchies with clean strategic actions based on high indexes of efficiency and effectiveness. Most of all, Grupo Buena competes with a strong commitment to its final clients, the less privileged classes of Guatemala.

Jorge Raúl, or "El Negro" García Granados, as he is commonly known, has successfully combined two aspects that are not usually found together in Latin America's business circles: high returns and a social conscience. Granados has often explained that he is not worried about making less money and selling his products at a significantly lower price than his competitors, if that is what it takes for mothers and fathers to be able to put a decent meal on their family table. Be that as it may, the volume of sales generated by his companies fulfill his expectations as far as the benefits of the approach are concerned.

For this reason, Grupo Buena has its doors open to welcome those who want to learn more about its activities, or would like to do business with an integral company group.



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Eduardo Castillo
Minister for
Communication,
Infrastructure & Housing

In terms of communications, the government is strongly promoting use of the Internet and e-commerce as a way of stimulating the economy. According to Minister Castillo: "In 2006 Guatemala had over 756,000 Internet users and 1.13 million telephone lines." The government has also developed an internet-based information system (Integrated System for Financial Administration) that consolidates all the financial resource data, facilitating greater transparency, control and auditing over public expenditure.

Spectrum rides the wave

Ramiro Alfaro studied in the U.S. and worked for General Electric for five years before returning to work for Guatemala's Grupo Pantaleón, which eventually led him to set up his own business, Spectrum, in 1995. Capitalizing on the growth potential of Central America, Spectrum began by investing in real estate and financial services just as sectors such as communications, banking and agro-industry were taking off. "By 2000, we had decided to focus on property management, real

"By 2000, we decided to focus on property management, real estate and asset management, while specializing in constructing shopping malls across Central America"

estate and asset management, while specializing in constructing shopping malls across Central America," Alfaro says.

According to Alfaro: "Our property management business mainly manages condominiums, whether they are residential or commercial buildings." He claims there is a huge demand for the formalization and legalization of existing property ownership, as well as for the management of new residential and commercial property, saying "economic informality exists when there is a lack of access to the legal means needed for specialization within enterprises and for interaction via property rights arrangements."

In terms of asset management, the company developed, and now manages, the Centro Gerencial Las Margaritas Torre II—the country's leading business center—and the Miraflores Commercial Center. It has also opened another commercial center in Honduras and has planned two more shopping centers for Guatemala, to be opened in 2008 and 2009 respectively.

Meanwhile, another company, Grupo Tetra is working on an international level and has grown exponentially in the last ten years. When Jorge Hernández, its current president, took control, the company concentrated on the development of housing projects. However, due to its rapid growth since 1998, Grupo Tetra has consolidated as a holding company, grouping four business divisions, all related to the real estate sector.

"My father started up the company more than 30 years ago and we can boast the U.S. Embassy within our construction portfolio," explains Hernández. "However, when he died in 1992, I was forced to return from my studies in Mexico and take the helm. It was about the same time as the communications sector was liberalized, so we were able to capitalize on the demand for infrastructure to support communications. First we signed a deal with Lucent



José Manuel Moreno
director, DGAC

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Guatemala City—host of this year's IDB and IIC annual meetings

Technologies to build 100 telephone masts and sold them the land where the sites were to be built, while later organizing the renting of those same sites."

Grupo Tetra has used this initial business model to build infrastructure and offices for companies such as Shell, Unilever and British American Tobacco. It has become one of the most prolific Guatemalan companies operating at an international level. Hernández says: "To date, we have worked with 65 multinationals. We have had an avalanche of applications since the DR-CAFTA was announced."

A world-class destination

Guatemala reached an unexpected record of over 1.5 million foreign visitors in 2006, generating an income of more than U.S.\$1 billion, which places it among the country's main sectors, along with remittances and exports. Tourism has increased by 70% compared to 2003 and authorities expect an even higher increase this year due to the aforementioned important international events.

As well as having the largest number of Mayan ruins in Central America, Guatemala is considered the fifth most significant biodiversity hotspot in the world and is expected to tap into the growing number of eco-tourists from the U.S. and Europe. The country has 14 eco-regions, habitats ranging from mangrove forest, dry forest and thorn bushes, to subtropical and tropical rainforests and wetlands. More than 28% of the territory is a designated protected area.

As Willi Kaltschmitt, Presidential Commissioner for Tourism, says: "We have nature, archaeology and culture to offer, all in an environment where we work hard to provide safety for the tourists." He believes that government efforts to promote the heritage of the Mayan cultures that flourished across the region about 2,000 years ago will pay off, and continues, through the Guatemalan National Tourist Institute (INGUAT), to promote Guatemala as a world-class destination. The tourism industry is potentially Guatemala's main foreign exchange earner.

Kaltschmitt says: "In terms of visitor breakdown, 54% come from Central America, 29% from North America, 10% from Europe, and 4% from South America and the rest of the world. In August last year, we had 160,000 visitors, the most we have ever had in one month. By September, we had recorded 1.1 million visitors, a 12.5% increase on the previous year." Through INGUAT, the government is working with the private sector to put together a directive that will permit continuity in areas that will not be prone to political changes.

Benjamín Villegas, general manager of the 30-year-old Guatemala City Marriott Hotel, says: "As a business or tourism destination, Guatemala has so much to offer that people do not expect. For example, you can play golf all year round." As the city's largest establishment, the Marriott has 356 rooms and 30 suites, all with high speed Internet access. It also has four restaurants and excellent event and meetings facilities.

The sweet smell of success

The current optimism and positive expectations have not been felt for a long time in Guatemala, and taking advantage of these energies is a challenge for President Berger's government. One area is agrarian reform and it is hoped the President will push through the legislation needed to conduct the land registration, promised in the 1996 peace accords, and will invest in the countryside in a way that creates small landowners aided by all the training, technology and credit required.

Guatemala's privatized and highly successful sugar industry has become one of the principal sources of foreign exchange for the country. It currently accounts for 23.82% of Guatemala's total agricultural output, and 13.65% of the country's total exports. Armando Boesche, general manager of Guatemala's Sugar Producers' Association (ASAZGUA), says: "The industry makes up 3% of the GDP and generates much of the country's employment—300,000 direct jobs and 33,000 in sugar cane cutting."

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ASAZGUA was set up under statute in 1957 in Guatemala City. It is a non-profit, autonomous entity made up of four different organizations that work to improve the efficiency of the sector across all areas, including social, technological and exportation. Boesche says: "The world is changing, and if we do not look forward, we are not going to grow."

With this in mind, ASAZGUA set up the CENGICANA research center to investigate potential markets, which, Boesche notes, "shows the sophistication of our industry today. Also, through our FUNDAZUCAR foundation, we have given our employees, from the cane cutters to the managers, the knowledge, skills and capacities needed to work independent of foreign support. We educate the workers' families and offer financial packages to buy homes and leisure products, all of which have triggered social development in the sector. This goes beyond just business and is a socioeconomic model for Central America."

In 2005-06, production increased slightly due to an expansion in planted areas from 194,000 to 200,000 hectares. This increase was directly related to the increase in international prices. Guatemala exports around 60% of its total production and is considered the world's sixth largest sugar exporter and third in Latin America, accounting for around 4% of net world exports. Guatemala is fully exploring the prospects of export and production of fuel alcohol (ethanol), in view of the potentially huge markets opening up in China and in the wealthiest, most industrialized nations of Asia, Europe and the U.S.

The country produces 32.9 million tons of sugarcane and 3.6 million tons of sugar each year, enough to produce 183 million liters of ethanol a year to cover the local market. Some of Guatemala's 17 sugar mills already produce ethanol that is not used as a fuel and there are plans to refit them for ethanol production. In 2005, the Bioethanol Company started building a factory that will produce 150,000 liters a day to export to the U.S. from 2008.

Raising the bar on rum

At the turn of the last century, several Guatemalan pioneer families in the liquor industry individually established their



Armando Boesche,
general manager,
ASAZGUA

Where our future takes off



A virtual impression of Guatemala's new La Aurora International Airport

The new International Airport of La Aurora, based in Guatemala City, is set to become a point of reference in Guatemala and Central America.

The existing airport is being transformed into what will be the most important air hub in Central America, as it seeks Category 1 standards under the supervision of the U.S.'s Federal Aviation Administration (FAA). The new La Aurora, operational from May 2007, has been designed to absorb the growing number of airlines and passengers using its facilities. Passenger numbers are already increasing at a rate of 10% a year and are slated to reach double digits as the airport grows in regional and global relevance.

"La Aurora will have the capacity to attend the growth in demand of air traffic and passengers for the next decade, and we contemplate further expansion over the next 25 to 30 years," says José Manuel Moreno, director of the Guatemalan General Directorate of Civil Aeronautics (DGAC), the agency that oversees the modernization of all the country's air transport facilities. "I personally assured the FAA that Guatemala's air travel standards will be upgraded to meet international norms and regulations."

La Aurora has become the star project of this far-reaching modernization bid that also includes the rehabilitation and construction of passenger terminals, runways and aprons of four other airports—Mundo Maya, Petén (north); Retalhuleu (south coast), San José (south coast) and Puerto Barrios (western Atlantic coast)—which will be certified for both international and domestic use, as well as 21 other municipal airports, thereby providing the infrastructure needed to increase the development of tourism, commerce and the whole economy, while providing comfort, security and efficiency for passengers in a country with a lot to offer.



La Aurora will be Central America's air hub

The new La Aurora will resemble the old airport in name and location only when it begins passenger operations, as every aspect of the structure has been expanded and improved. A total of 107,000 m² of new buildings are to be completed by the end of 2007. "All of this means Guatemala will have the largest passenger terminal with the latest technologies in the region," Moreno explains.

Eighteen boarding points will give access to 18 airliners—four of which will be capable of attending Category E aircraft such as the Boeing Jumbo 747 or Airbus 340 at the same time—while incoming passengers will be met with reception facilities four times larger than the original ones, and improved exit placement. New elevators and escalators have also been incorporated to allow easy passage between levels, with special certified access for those with disabilities. The duty-free area will triple in size, and there will also be a three-fold increase in take-off, landing and maneuvering capacity.

This is surely enough to make La Aurora the first-rate international airport Guatemala needs to take off. As Tirso Cordova, national coordinator for this ambitious project, notes: "This is a perfect example of what can be achieved when entrepreneurial efficiency and vision is applied to the execution of public funds in a project that benefits the whole country and its competitiveness."



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own companies throughout the country. Among them are Industria Licorera Guatemalteca (est. 1914), Industria Licorera Euzkadi (est. 1930), Industria Licorera Zacapaneca (est. 1930) and Industria Licorera Quezalteca (est. 1939). According to Roberto García Botrán, president of Industrias Licoreras de Guatemala: "By the end of 1944, the liquor industry had earned an important role in the country's economy and needed to obtain investment capital to improve equipment and acquire new technologies."

This modernization process led to the unification of the companies and the formation of the industrial group Industrias Licoreras de Guatemala, which pushed for improvements and standardized production quality. García Botrán says: "The company took the integration process further in 1959 with the sole purpose of unifying marketing,

distribution and sales efforts in the market." Today's "unified" vision includes an in-house printing company, which takes care of internal and external marketing needs, label printing, regional distribution, product transportation services and is developing a very strong commitment towards a globalized market. Besides rum, García Botrán, a grandson of the company founder, also produces vodka, whisky, aguardente and liqueurs. Italy is the number one market for their products, followed by the U.S.

The bottling plant, warehouse, export center and offices of Industrias Licoreras de Guatemala are located on the outskirts of Guatemala City. There are four different lines in operation; low priced items for the domestic market; premium products; export products and one for speciality bottles. The plant has the capacity to store over a million liters in its warehouse and can produce at least 100,000 cases per year for the export market. Industrias Licoreras' extensive line of products accounts for 98% of the domestic spirits market.

In addition to its comprehensive line of Botrán rums, the company also produces Ron Zacapa Centenario—"a must in every serious rum drinker's collection," says García Botrán. "One of the keys to the success of these rums is that after distillation, which is done at sea level, the rum is taken to an aging facility in the mountains, where it develops its characteristic body, flavor and aroma. Current aging capacity is at 2.6 million liters.

Two principal characteristics make this rum unique. The rum uses only virgin honey as its base rather than molasses and it is bottled only after it has been blended for more than a year. The fermentation, distillation and aging facilities of Industrias Licoreras are a perfect example of the harmonious marriage between new technology, environmental consciousness and a respect for tradition. Fermentation takes place in closed containers that allow for the capture of carbon dioxide, which is later filtered, then liquefied under pressure and sold.



Roberto García Botrán
president, Industrias Licoreras de Guatemala

"We have a golden opportunity to become the company that distills the best rum in the world, and I am convinced that within 10 years, we will have reached that goal"

Next the wash is distilled in the continuous column still. Upon exit from the still, the wash still contains some methane gas that is extracted and burnt at the boiler plant to produce the steam needed for distillation, and more than enough electricity to run the equipment in the plant. The spent wash is then routed via underground pipes some five miles to the sugarcane fields where it is used to irrigate and fertilize the soil.

García Botrán sees a bright future ahead: "In 2007, we will enter the French and U.K. markets and will consolidate operations in some existing markets," he says. "It is not about selling everywhere but selling where people truly appreciate the quality of Zacapa. We have a golden opportunity to become the company that distills the best rum in the world and I am utterly convinced that within ten years we will have reached that goal, having multiplied our sales five-fold."

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