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AGENCY FOR
CRIMINAL
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APRIL 28 1978

FROM - ROCAP/Guatemala

SUBJECT - Project Evaluation Report 78-5: 596-0040 SIECA
Institutional Assistance

REFERENCE -
FOR MO/PAV

Forwarded to IIA
xtra cys
HB 5/30/78

The attached evaluation of the SIECA-ECID activity was prepared for ROCAP by Lorenzo Perez, IIA/EA/IA. The report makes recommendations regarding the future role of the SIECA Special Studies Unit (ECID), improving dissemination to Central American institutions, increasing their involvement in the Unit's work, and discusses possible sources of financing for the Unit after termination of this project in December 1979.

BOSTER

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PAGE 1 OF 1

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PROJECT EVALUATION: 596-0040
SIFCA INSTITUTIONAL ASSISTANCE

1. MISSION OR AID/W OFFICE NAME ROCAP		2. PROJECT NUMBER 596-0040	
3. PROJECT TITLE SIFCA Institutional Assistance			
4. KEY PROJECT DATES (FISCAL YEARS:) a. Implementation Letter #24, signed December 13, 1977 b. Final Obligation: FY 1979 c. Project Terminates in December 1979			
5. TOTAL U.S. FUNDING - LIFE OF PROJECT \$2,674,000			
6. EVALUATION NUMBER 78-5	7. PERIOD COVERED BY THIS EVALUATION From: June 1976 To: Feb. 1978		8. DATE OF THIS EVALUATION April 28, 1978
9. ACTION DECISIONS REACHED AT EVALUATION REVIEW: ROCAP and ECID support the evaluation's conclusions concerning prioritization of studies, increased involvement of Central American institutions in ECID's work, and better dissemination of conclusions and work progress. Regarding the report's recommendation for future ROCAP or AID "block grant" support to ECID, ROCAP has advised ECID that it is unlikely, although support for future studies directly related to project development or evaluation would be considered.		10. OFFICER OR UNIT RESPONSIBLE FOR FOLLOW-UP Economic Office	11. DATE ACTION TO BE COMPLETED December 1979

12. SIGNATURES:

Project Officer

Gustavo Ruiz

Program Officer

Robert Hechtman

Assistant Director

Ronald Venezia

INTRODUCTION

The purpose of this report is to evaluate ROCAP Project No. 596-0040. This project is a technical assistance project to enable the Secretariat for the Economic Integration of Central America (SIECA) to expand its economic analysis capability in the areas of integration and economic development. The report consists of three parts: the first part is an analysis of the on-going research projects and a discussion of the dissemination of such studies, the second part of the report discusses institutional arrangements and the last section contains my conclusions and recommendations regarding ECID accomplishments, its future research work, institutionalization possibilities and ROCAP's involvement.

The information for this evaluation was obtained from my participation in the two evaluation seminars organized by ECID in 1977 and my visit to Central America in February, 1978. During my February visit I had the opportunity to discuss with ECID's staff the individual research projects and also to meet with officials from the Central American governments to obtain their views on ECID's work.

I. ECID's Research Program

a. Active Research Projects

The on-going ROCAP grant was given to help SIECA develop a research unit capable of doing long term research, to provide decision-makers in the region with policy options on matters affecting the economic and social community and to study key integration issues with emphasis on the agricultural sector. During the first phase of this project, ECID with the collaboration of the Brookings Institution carried out studies on the cost and benefits of economic integration, comparative price studies, employment studies in the manufacturing and agricultural sectors, a study of comparative advantage in the common market and a prototype agricultural sectoral model.

After this first series of studies, ECID has been essentially engaged in two types of research activities: one type, which has tended to occupy most of their time, consists of developing quantitative techniques and economic models which could in turn be used to analyze a number of important economic issues. Examples of these activities are the agricultural sectoral models, the macroeconometric models and the input-output tables. Another type has been to carry out studies which have either a regional

interest like the study on capacity utilization in the manufacturing sector and the extension of the price comparison study or studies which have been specifically requested by a country such as the study on the generation of employment in the Guatemalan construction industry.

The strategy of devoting significant resources into the development of quantitative techniques in ECID looks like a sound one in retrospect. It has certainly added a new technical capability to SIECA and it has also gained ECID the respect of the economic technicians of the region. Without this respect and the generation of goodwill by ECID through their offering of technical assistance to transfer these quantitative techniques to individual countries, ECID would probably have found it very difficult to obtain the cooperation of individual governments on research projects. As policy makers become more aware of the kind of questions the models can address, they also become more interested in ECID work. For example, there is likely to be a lot of interest in both the public and private sectors of Central America in short-term forecasts and simulations of the macro-econometric models. These models should become operational this year. The same is likely to be true of the agricultural sector models once they are operational in 1979.

Despite the interest generated by the studies chosen so far, it is also perhaps true that a greater share of the resources should have been devoted in the past years to studies which have a more immediate policy pay-off. In any event the initial high cost of model building and data gathering should be coming to end in the course of this year. This will allow ECID in the future to emphasize more studies with more immediate policy concerns using to a large extent the models constructed in previous years. I make below specific recommendations on possible new studies with this perspective in mind.

The on-going research activities of ECID include: (a) price comparison studies; (b) input-output work and studies of capacity utilization in the manufacturing sector; (c) macroeconomic models; (d) employment studies; and (e) agricultural sectoral models.

Price comparison studies

ECID Staff: Jorge Borstcheff

Consultant: Jorge Salazar Carrero ECIEP

The purpose of the study is to analyze the price structure of the five Central American countries. By collecting information

on transaction prices, the purchasing power parities of the currencies in the area can be estimated and conclusions derived about the adequacy of exchange rate levels. Due to the recent inflationary pressures in Central America there is a lot of interest in the results of this study particularly by Central Banks.

The study involves the collection of price data for consumer, capital and import goods. A price survey was done in 1973 during the first phase of the ECID activities and repeated in 1977. This price data will allow for intertemporal and across country comparisons. In addition, some work is being done on construction cost indices starting with the case of Guatemala. Dr. Jorge Salazar Carrillo the project's consultant is supposed to work in the next few months on the methodology for price comparison across countries and products. After the price comparisons are done and new purchasing power parities estimated, an analysis of the inflation impact and the incidence of fiscal policies on consumer goods prices will be undertaken. In addition the price data will be used for an analysis of potential comparative advantage in the industry. The work program, I understand, calls for the work to be completed in 1978 although I would not be surprised if there is some slippage on this work schedule.

In my meeting with some of the government participants of this project some concern was expressed about: (a) the adequacy of the indices weights which are being used to estimate the purchasing power parities (b) the comparability across countries of some of the products which have been priced (c) in the case of Nicaragua how representative is the 1973 price structure due to the distortions created by the earthquake; and (d) the need to take into account monetary policy instruments in addition to fiscal policy instruments when analyzing the government policies impact on consumer prices.

There is less written methodological information on this project. I think that ECID should circulate Salazar's methodological recommendations for the price comparison when they become available. A technical meeting on preliminary results of the purchasing power parities estimation to get feedback from government experts before finalizing the estimates would also be desirable.

It seems to me that the collected price data combined with other data available elsewhere such as consumption surveys, could be used to analyze other interesting development issues. If some funds are still available for this project, ECID should consider obtaining the help of other consultants which might help Messrs.

Borstcheff and Salazar in their work^{1/}. For example, if consumption data were available from some cities of the region, interesting demand studies could be done by income level which could shed light on how the structure of the economies are likely to change as these countries grow. A number of economists can be recommended who could help to set up or supervise work in this area: Robert Summers, University of Pennsylvania, Howard Howe, Board of Governors of the Federal Reserve System, Philip Musgrave, The Brookings Institution. For work on how inflationary pressures affect consumption patterns Roger Betancourt of the University of Maryland would be a good consultant. All of them speak Spanish except Summers.

An even more important extension of this work would be to explore short cut methodologies to estimate purchasing power parities. The methodology consists of essentially regression analysis with the dependent variable being the observed purchasing power parities (the 1973, 1977 data) and the explanatory variables readily available economic variables which explain the purchasing power parities. Summers has worked with Irving Kravis and Alan Weston in this area in connection with the International Comparison Project of Purchasing Power Parities of the United Nations. Christopher Claue of the University of Maryland is another economist who is interested in this area and might be available.

Finally, ECID could directly try to set-up a project to transfer the methodology used to collect the prices (sampling techniques, product specification, etc.) to the statistical offices publishing price indices in the area. Apparently there might be a demand for this kind of work to improve the quality of the published price indices.

Input-Output Work and Studies of Capacity Utilization

ECID Staff : Carlos Molina

Consultants: Daniel Schydrowsky, Boston University

Victorio De Corbo, Western Ontario University

^{1/} In the conclusion section I recommend that this project should have less priority for BOCAP funding than the work on the agricultural sector model, or employment studies. These suggestions for additional work in this area should be read with that recommendation in mind.

The Input-Output methodology is another quantitative technique which is used by ECID. Partly with ROCAP funding an I-0 table was estimated for Guatemala. The Guatemalan I-0 table is being used in the research project on employment generation in the construction sector and it will also be used in the study of capacity utilization in the manufacturing sector. ECID has applied for a grant from CIDA to build I-0 tables for Honduras, El Salvador and Costa Rica. They are supposed to hear fairly soon on their request for funds from CIDA and are fairly confident of getting the grant. If the CIDA contract goes through, ECID would like to establish the capabilities of a data bank for I-0 work which would allow periodic updating of the tables and build a regional table for Central America.

The ECID work program calls for three studies to be done in 1979 and 1980 once the I-0 table work has been completed: employment and foreign trade patterns, a study of effective rates of protection (ERP) and a study of the domestic resource cost (DRC) to earn a unit of foreign exchange in different sectors across the region. It was not clear to me whether the latter two studies are also going to be financed by the CIDA grant. The ERP and the DRC studies are two very important ones from a regional viewpoint. The ERP study estimates the net result of government intervention in the foreign trade sector by calculating the protection rates on sectoral value added. The DRC study will show how efficiently resources are being allocated in the different parts of the region and what economic sectors should be promoted more for the purpose of export or import substitution. If these two studies need any supplementary financing, they should be considered by ROCAP if funds are available in the 1979 budget and the I-0 tables are available then. For example, the ERP methodology is the adequate one to use for the on-going review of the common external tariff of the CACM being carried out by a SICCA task force. Since the I-0 tables are not available at this time this task force will be forced to make some more gross adjustments to the nominal tariff levels. Once the ERP study is finished the results would be usable for reviewing the structure of the external tariff.

The study of capacity utilization consists essentially of two steps. A survey of the manufacturing sector is carried out to determine the causes for less than full capacity utilization and the potential for multiple labor shifts. Once the survey is completed the impact on the economy of an increase in capacity utilization is analyzed and the desirability of different policy instruments to achieve a higher capacity utilization are evaluated. A study on the phenomenon of less than full capacity utilization makes sense in a region like Central America which

is labor abundant and capital scarce. Since many of the industries have been established to serve the regional market, it is rather important to look at the causes of less than full capacity utilization from a regional perspective:

The survey is supposed to be carried out during 1978. It is difficult to determine whether this work will be finished in the contemplated time period. Some administrative arrangements remain to be completed with some of the governments which are supposed to carry out the surveys at their own expense.

Econometric Models

FCID Staff: Gabriel Siri, Juan R. Vargas, Luis R. Dominguez
Consultant: Jere Bernman, University of Pennsylvania

The work on econometric models consists of five individual macro-models linked together through the intraregional trade flows. The models emphasize the foreign trade sector by specifying the models in a way that captures the impact of international prices on domestic prices and the increasing interdependence between the countries of the region through trade flows. The domestic models are Keynesian in spirit with aggregate demand equations and the impact of the monetary sector on the real sector captured by the gap between the money demand and the money supply. The public sector is also modelled with some revenue and expenditure equations.

A number of simulations are being prepared on the final report of this phase of the work for the IDE which financed this work. One set of simulations will estimate for each country the multipliers of export price increases and public investment expenditures. Another set of simulations will explore the possibilities of monetary and fiscal policy harmonization and a third analyzes the sources of inflation and the impact on the economy. The estimation of the model has been successful. The results of the simulation will not be available for another four to six weeks. These simulations will be the real test of the forecasting and policy simulation ability of the models. I understand that good results have already been obtained for the multiplier simulations.

In connection with this work, FCID has put together an economic data base for the five C.A. countries on a consistent basis which will be made available to the governments and other institutions of the area. They have also produced time series of prices for traded goods at a fairly disaggregated level of trade categories which were not available in the area before.

This work has created a lot of interest in the region. ECID has been working mostly with the Central Banks of the area and provided technical assistance to them in their econometric work. For example, ECID has given the Honduran Central Bank the computer programs which they are using to estimate and simulate the models. A number of possible forms of future co-laboration between ECID and the Central Banks are being considered at a technical level. The idea would be to make available to the Central Banks the national models and collaborate with them in the expansion and updating of the models while maintaining in ECID the capabilities for doing regional simulations. The Central Banks seem to be quite interested in this work and might be willing to give some financial support to ECID for this purpose.

The IDE financing for the building of this model was for eighteen months. The Bank is waiting to receive the report from the first phase with the simulation results before considering an additional request for additional financing for a period of 12 to 15 months to further refine the model. In this second phase of the work the models will be further disaggregated, linked to the I-O tables and the impact of macro-variables on income distribution better assessed. There is fairly high probability that the Bank will support a second phase of this work.

Although this project has not been financed by ROCAP funds, it should be very useful for any further assessment that ROCAP might do of the macro-economic perspectives of the Central American region. A.I.D. priorities are, of course, definitely more of a microeconomic variety, e.g. agricultural sector, health, etc. However, due to ROCAP concern with the Central American integration perspective the output of these models could prove to be quite useful in the future. From serving as background material for DAPs to analyzing the impact of increased trade flows within the CACM under different growth and integration scenarios the work of this group should be of interest to ROCAP. If in fact ECID begins producing periodic forecasts and policy simulation it would be to the advantage of ROCAP and country missions to consider financing part of this work which could be supportive of A.I.D.'s analytical work in the region.

Employment Studies:

ECID staff: Gustavo Leiva, Carlos Sevilla
Consultant: Clark Reynolds, Stanford University

Since its creation ECID has been concerned with the region's employment problems. In the first phase of ECID work, the Frank-Soto-Sevilla study on the determinants of labor demand in the manufacturing sector provided basic information about the capital-labor substitutability in this sector and some estimates of the

impact of technological change and integration on employment.

A parallel study was attempted for the region's agricultural sector. The study was not completed because the production function estimation was not successful due to data problems. This gap in information concerning the employment situation in the agricultural sector is being partly filled by the work that Sevilla is doing at Stanford University for his dissertation with agricultural data for Guatemala collected in another A.I.D. study.

The second major employment study done by ECID is the Reynolds/Leiva study of the employment problems of export economies in a common market. The study examines overall employment trends among the five countries in response to changing conditions of labor supply and demand during the period of the CACM. Special attention is given to the level and distribution of employment among activity sectors, wage levels, the degree of unionization, the process of labor mobility and skill composition of the work force. This is a very challenging study because it analyzes the impact of the integration process in the CA labor force in terms of its employment, income levels and income distribution. It sheds light on the question of the labor force participation (or lack of) on the benefits of the integration process. I have prepared some detailed comments on this study on a separate paper.

In addition a study is being carried out on employment generation in the construction sector. The study is quantifying the direct and indirect employment creation effects of construction activities in Guatemala. Survey information has been collected on the labor intensity of different production technologies in the construction of several kinds of dwellings. An estimate of the overall impact on the economy resulting from an increase in construction expenditures will be obtained by estimating some I-O table multipliers. This study was requested by the Guatemalan government. Other countries have expressed some interest in having a similar study done in their own countries, particularly El Salvador.

The last study, which is in the planning stage, is a study of the employment creation effects of different resources allocation strategies in the agricultural sector. This study utilizes the modelling work which has been completed in the agricultural sectoral model (discussed next). It will be presented in a seminar on employment which is being planned for next summer to report on the employment studies. This employment seminar will be held at the technical level jointly with the ILO office for Latin America. The seminar will present to the participants the

results of the ECID employment work and the results of recent ILO missions to Central American countries. In addition to disseminating the results of the analysis, the seminar will try to recommend policy guidelines to increase employment levels in the Central American region. The seminar is an excellent idea and the collaboration with ILO will help to make the seminar more interesting.

ECID has devoted a significant part of their resources to the employment question. The studies conducted so far, although having obvious policy implications, have been of an assessment type. Some of the issues researched have been the possibilities of substitution between capital/labor or to what extent the labor force has benefitted from integration. These studies were very necessary during a first phase but I believe that future work should be more geared to policy questions: what are the components of an overall employment policy in the region, cost-benefit analysis of alternative employment generation strategies, labor supply bottlenecks and other policy questions which ECID is probably better prepared to address at this point. The seminar will probably be very useful in identifying policy issues where more work is needed.

ECID has only one staff member working on employment issues. Although ECID could also carry out employment studies with its current staff working in modelling activities, it might be worthwhile to add to its staff or to his consultants a labor economist with experience in developing countries.

Agricultural Sectoral Models

ECID Staff : Carlos Gutierrez Luna, Carlos Pomareda
Consultants: Lehman Fletcher, Iowa State University, and
Roger Norton, IBRD

This research effort **consists** of an agricultural sectoral model for Central America based on five separate country models which are subdivided into each country's agricultural regions. The country models are linked through the trade of some key agricultural products. The models are of the linear programming type similar to the CHAC model built by the IBRD for Mexico.

The models are disaggregated by important crops, farm sizes and technologies for each agricultural region. Agricultural prices are determined endogenously and risk factors will be introduced in the production relations of the national models. In addition to the models themselves this research provides the means and incentives to establish a data bank of each country's agricultural sector.

This kind of modelling technique is very useful in analyzing resource allocation and comparative advantage questions in the agricultural sector. The models are indicative in nature. Some examples of the kind of policy simulations which could be addressed with these models would be the impact on output and employment of changes in price support policies, and of policies promoting the use of certain agricultural inputs like fertilizers. In addition, the models could also be used to evaluate agricultural development projects.

The ECID has also developed a research proposal on the quantification of the impact of Central America's agricultural policies on the consumption/nutrition levels of the population of the area. This research proposal has been developed in conjunction with the Institute of Nutrition of Central America and Panama (INCAP). INCAP has been studying the consumption of foods and its nutritional components by low income groups. With the INCAP consumption information of low income groups (small farmers, rural wage earners and the urban poor) and the ECID model, a quantitative assessment could be done of the impact of agricultural policies on the consumption pattern and nutritional status of different consumer groups.

This project has been discussed with the IBRD and the Nutrition Economics Group of AID. Both have expressed interest. Ms. Van Haeften of the Nutrition Economics Group will be visiting Guatemala in the near future and intends to call on ECID to explore further the possibilities of collaborating together.

There is a lot of interest in this kind of modelling work since there is a great demand in Central America for analytical tools which would help to rationalize policy making in the agricultural sector. The Honduras government has been working for some years on an agricultural sectoral model with the A.I.D. country mission financing some of the technical assistance. Work has already begun in Costa Rica and Nicaragua. The Guatemalan and El Salvador governments are setting agricultural sectoral groups to start the national work with the assistance of ECID.

The difficulties in this kind of work should, however, not be underestimated. Work has to proceed from collecting basic production information on the agricultural sector to estimating some production parameters and running and validating the linear programming model for a particular year. In addition, there are serious coordination problems in this project due to the fact that the work will be carried out in six different places. Differences in the quality and the availability of agricultural data, in the land tenure system and in technologies used in the region,

are just beginning to be addressed.

In this context Gutierrez Luna and Pomareda explained to me that at the present time they were facing a trade off between actually pushing ahead themselves with the regional modelling work in Guatemala or using a significant amount of their time in helping to set up and get started the country teams who are going to be working in this project. They claim that the amount of time required to set up each country team was seriously underestimated and that the lack of computer software facilities in each of the countries was not foreseen. A L.P. computer program is only currently available in Honduras and arrangements are being made for program rental in Guatemala and Nicaragua with financial arrangements still to be worked out in Costa Rica and El Salvador. In addition the amount of necessary disaggregation of the national models was apparently also underestimated. Each country wants to disaggregate its national model at the level of its agricultural regions. The scope of the work has consequently become much larger.

In many ways this research project has become more of a technical assistance project. ECID's current views are that it is better to train the staff of the countries as they go along to make sure that the models will be operational in each country. In this context they are applying to the FAO Educational Office for a grant to conduct a 2 month seminar in the area to train the economists who are going to work in the project.^{1/}

As things stand now, ECID work program calls for the country teams to be in place by the end of the year and a regional model tied to only two or three agricultural regions of each country in operation by the end of 1979^{2/}.

I believe that the ECID approach is the correct one because unless the government teams learn how to use and maintain the models the benefits of this project will quickly be lost and the regional model will only be as good as the individual country models are. But I am concerned whether this work program can be finished on time between now and the end of 1979. I believe that the technical assistance nature of the project should be acknowledged by both ECID and ROCAP and a clear understanding be worked out of

1/ I intend to get an AID letter sent to FAO supporting this application and encouraging them to finance this course.

2/ The number of agricultural regions in each country vary but typically range in a number between 5 and 8.

what is expected by the end of 1979. In this context I would like to recommend that Pomareda's stay in Guatemala be extended until the end of 1979. Pomareda has been handling the more technical aspects of the model building and even if an adequate replacement were found the change is bound to push back the work schedule. In addition, it is also imperative that an overlap of at least six months exist between Pomareda and his successor so that the new person can become familiar with the work.

b. Studies Dissemination

In my interviews with government officials throughout the region it was obvious that there has not been enough dissemination of the studies. ECID held two evaluation seminars at the suggestion of ROCAP in 1977 which were attended by government technicians from the five countries and from some regional institutions. In addition, in the summer of 1977 ECID held one day seminars in each of the five countries to present to each of the governments, the results of the first group of studies. The seminars were held in the Central Banks and government officials working in the economic and integration areas were invited to attend. It was clear from my meetings, however, that this dissemination work has not been enough.

Part of the dissemination problem is that there are two different audiences that have to be reached: one is the technical and the other is the policy-makers audience. The studies seem to have been fairly well disseminated to the technical audience in both the government and academic circles but the dissemination success with regard to the policymaker audiences has been mixed at best. This is not completely ECID's fault since there has been a very high turnover of personnel at the ministerial and subministerial level in the area in recent years due to a number of government changes. Nevertheless, the channels of dissemination which have been used to reach the policymakers (the one day country seminar or the booklet on the research program) might not be the most effective ones. Policymakers have little time to attend seminars and many times they need to be presented the study results in layman language. I make some recommendations in the last section of my report to help in the dissemination of ECID's work.

A related issue to the dissemination question is the use that has been made of these studies. The original ECID concept was that it would be an institution which would engage in long term research on issues of policy relevance for the integration process and hence SIFCA. In principle one would have expected

that at one point or another some of the study results would have been discussed by some political body of SIECA. In practice as far as I know there has been little of this kind of use. This is not too surprising given the difficult times that the integration movement has been going through in Central America since the El Salvador/Honduras conflict. This is also partly due to the fact that it was not until fairly recently that a basic set of studies were available. The utilization of the ECID studies on matters of integration and economic policy by the governments will partly depend in the future on the relevance of the studies and on the leadership of ECID, SIECA and any other governmental body associated with ECID. Such a utilization will be more likely, the closer ECID ties are with these governmental organizations other things remaining the same. This is an important fact to keep in mind when discussing the institutionalization of ECID.

II. ECID Institutional Arrangements

ECID is currently a part of SIFCA. It has been receiving between \$50,000 to \$80,000 in budgetary support from SIECA in recent years. ECID contacts with the governments of the region have been made through the SIECA framework. However, due to the nature of both ECID's and SIECA's work there does not seem to have been much interaction between ECID's staff and the rest of SIECA's staff or much utilization of ECID studies at high political levels in SIECA.

Some administrative friction has arisen within SIECA due to the fact that the ECID salary scale is much higher than that for the rest of SIECA. This administrative problem, although not an insurmountable one, is a serious consideration in the minds of both SIECA and ECID directors when considering future institutional arrangements between ECID and SIECA. An even more important financial consideration is that the Secretary General of SIECA, Licenciado Mayorga Cortes, does not believe that the SIFCA budget could absorb a significant drop in ROCAF financing of the ECID budget. SIFCA has been having difficulties in getting the governments to approve increases in its budgets. Also, given SIECA future work activities any increases in SIFCA budgets would seem to be pretty much committed to non-ECID activities.

Because of these financial considerations there is a mutual agreement between Enrique Delgado, ECID's director and Mayorga Cortes to try to find new sources of financing for ECID and in the process make ECID more independent of SIECA. Implicit in

this agreement is the notion that FCID's ability to carry out long term research would be more assured if other institutional supporters are found. The details of a new institutional arrangement have not been completely worked out partly because the final arrangement would depend on the new sources of financing for FCID. SIFCA would prefer that such new sources of financing be outside the regular budgetary process of SIFCA so that FCID would not compete for "integration" funds with SIECA.

One possible new source of financing for FCID could be the Consejo Monetario Centroamericano (the Central Banks association). Central Banks in Central America, as in other places, have significant flexibility in the money they can spend on research. The people I talked to at the Central Banks, were receptive to the idea of FCID submitting requests for funds to the Central Banks. These requests would probably have to be in the form of service contracts with FCID committing itself to provide some technical services to the Banks. However, some overhead cost could be financed this way.

Other new sources of financing could be CAFEI, or the C.A. governments directly through their treasury ministers or through the SIFCA budget. The probability of obtaining funds from CAFEI on a continuous basis is smaller. CAFEI might be interested in having FCID undertake specific analytical reports for them but it does not seem to be interested in long term arrangements. Whether the C.A. governments will be willing to appropriate money directly into FCID or through SIFCA is an open question. I encountered a lot of skepticism when I discussed this possibility. There are already quite a number of regional institutions: as a result, governments are reluctant in principle to finance new ones. Below are my recommendations with regard to the institutionalization of FCID and sources of financing.

III. Conclusions and Recommendations

1. FCID has produced high quality work in the areas of integration and economic development. This high quality work is well recognized in the region and the institution has a very good reputation in both government and academic circles.

2. There is also agreement both in SIFCA and in the governments that FCID has filled a need that existed in the region for an institution with long term research capability. FCID seems to have played a catalytic role in carrying out long term research. A number of studies have been organized where all the governments of the area have cooperated and economies of scale in research

have been exploited by having ECID play a coordinating role.

3. There has not been enough dissemination of ECID's studies. I would recommend that the following or similar steps be taken to improve the dissemination channels.

a. Distribute studies in draft form to government and academic institutions to obtain their comments at an early stage. This would allow economists who are not directly involved in the project to comment, and would provide researchers with preliminary results long before the publication of the final results.

b. When seminars are held, the papers to be discussed in the seminar should be evaluated well in advance to allow the participants to review the material. Otherwise the seminar could easily become a monologue with not enough participation from the invited participants.

c. Some sort of newsletter containing executive summaries of the studies could be circulated by ECID. The idea would be to summarize the studies and its results to policymakers in language that they can understand. It would probably be better if each newsletter would limit itself to one study. It would not have to be a periodic publication but given the number of existing studies one would expect to see three or four a year. This kind of newsletter would force the ECID staff to ask themselves what has been found in the studies which is relevant to policymakers. It would also keep ECID work in front of the people working in these areas in Central America.

d. Maintain the option that interested readers can obtain ECID studies with a charge for reproduction. The strange situation now exists that the first series of studies are out of print and cannot be obtained.

4. With regard to the institutionalization of ECID, I believe that it is unavoidable that ECID look for new sources of financing. The most promising source is the Consejo Monetario of the Central Banks. However, I believe the original reason for being of the institution would be defeated if ECID were to be taken out of SIECA altogether. ECID could stay under the umbrella of SIECA and it should at a minimum continue to get the same financial support from SIFCA that it has in the past. It would be very hard to understand why SIECA could not allocate \$75,000 to \$100,000 of its annual budget to ECID in the near future, especially at a time when ECID is in a position to turn out analysis with a higher policy pay-off. A board of directors could be organized

for ECID where representatives of SIECA, the Consejo Monetario and other contributing agencies could be represented. Such a board would approve research projects and establish guidelines for ECID activities.

5. I believe that it is desirable that ECID should maintain some relationship with SIECA for two reasons in addition to the financial advantages:

a. Institutional ties with SIECA will retain the possibility that the results of studies on economic integration will be utilized by the political body of the region in charge of promoting integration. If ECID were to be taken completely out of SIECA the chances of this policy utilization will be smaller. The academic freedom of ECID could still be maintained under this arrangement.

b. The Central American governments would probably be reluctant to support another regional organization given the number of institutions already in existence. It would be hard to defend the separation of ECID from SIECA when ECID was supposed to increase the analytical capability of SIECA.

c. From the point of view of ROCAP, I believe that this project has been a worthwhile one. The main objective of the project has been fulfilled: an analytical capability has been added to SIECA and its reputation established in the area. The question arises what, if any, should be the involvement of ROCAP after 1979. I recommend two kinds of future involvements for ROCAP and other parts of AID after 1979:

a. Given the analytical capabilities of ECID, its financial problems and the need which AID has for economic analysis in the region, I think that ROCAP, AID/Washington or the country missions should be open to new research project proposals from ECID. The joint ECID/INCAP proposal on agricultural policies and the nutritional content of consumption levels is a good example of a project of great interest to AID and which would help support further the work already going on in ECID. AID participation in specific projects would also help to ease ECID financial problems in the future. ROCAP might want to take the leadership in jointly identifying with ECID research areas of mutual interest.

b. In addition to AID financing project-specific work, I believe ROCAP should closely monitor ECID efforts in obtaining new sources of financing. I believe that, in principle, enough institution-building support has been given to ECID but that

realistically the problems of financing an institution like ECID should not be underestimated. In the U.S., research institutions similar to ECID finance a minimum level of operations from the revenues of an original endowment which originally set up the institution and from the income of on-going projects. In the ECID case, ROCAP's financing has played the role of the endowment and it is hard to find an alternative substitute of funding giving the existing budgetary constraints in the region. Under these circumstances, I recommend that ROCAP give serious consideration to giving a new block grant to ECID for two or three more years after 1979. In exchange for this new grant ROCAP could have the opportunity to call upon ECID analytical capability on a number of integration policy issues. Something in the neighborhood of \$100,000 might be adequate for these purposes. ROCAP could make its contribution contingent on the Central American governments making appropriate contributions to ECID through SIFCA's budget. Some of the analytical areas where ROCAP could benefit from the ECID expertise are mentioned below where I identify which parts of the ECID research programs should have higher priority for ROCAP. I do not believe that ROCAP should be too defensive about considering this kind of financing in the future. In the past, ROCAP has financed the work of temporary technical groups assigned to do a specific SIFCA project like INTAGRO. In this case, ROCAP would be identifying, a priori, a specific research group which has been established in the region and which could perform a number of tasks. At the same time by doing this, ROCAP might be making sure that a worthwhile institution created under its auspices is not lost for the region.

7. With regard to ECID's research program, a number of recommendations can be made in addition to the ones made when discussing the ongoing studies:

a. ECID should be in a position by 1979 to carry out projects with a more immediate policy focus after having developed successfully a number of analytical tools and establishing a basic data bank in a number of economic areas. A better balance should be achieved between basic research (model building and data gathering activities) and applied research (studies addressing specific policy questions) - so far the emphasis has been on basic research.

b. ECID should try to utilize the models it has developed to periodically forecast economic conditions or simulate alternative policies. The macroeconomic models, the agricultural sectoral models and the input-output tables could be used

for these purposes. The marginal cost of producing frequent analytical papers in these areas is relatively low once the models are in place.

c. FCID should give higher priority in the future to specific development and integration problems in choosing new research projects rather than emphasizing more general subjects such as employment and integration and building models. Some areas where there seems to be interest are: (a) possibilities for regional coordination in the industrialization policies - what could be called industrial programming; (b) a study on the methodology of how to take into account in the formulation of national economic plans, the constraints and advantages open to the countries by the integration process; (c) an analysis of future supply bottlenecks in the region, both in product and labor markets; (d) monetary problems such as monetary policy implications of economic integration proposals and the impact of monetary policies on employment levels; (e) methodological studies on how to improve the price indices published in the area; (f) specific policy recommendations which address the unemployment and sub-employment problems in different parts of the region and (g) the whole area of existing living standards in the region and what are desirable policies to reduce income inequalities.

8. With regard to ROCAP priorities and FCID ongoing studies, I believe that the agricultural sectoral modelling should continue to receive priority. In fact, ROCAP should inform the country missions of Central America of the work which is being done and should inquire whether the country missions are in a position to finance some of the work on the domestic models as was done by the Honduras Mission. The remaining ROCAP funds for the 1973-79 period are almost fully committed to the capacity utilization study, the employment seminar, the price study and the study on the Guatemalan construction sector. There is no reason to believe that with this ROCAP funding, these ongoing activities cannot be concluded on time. If for any reasons the completion of these studies fall behind schedule, I would give priority to the completion of the set of employment studies and the study on capacity utilization: in that order, after giving first priority to the agricultural sectoral study. If funds are still available and the CIDA financing for the construction of the input-output tables have been obtained, ROCAP might consider contributing to the effective rate of protection and domestic resource cost studies in 1979.