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EVALUATION REPORT
on
CENTRAL AMERICA

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

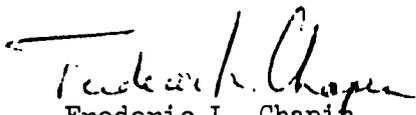
March 21, 1966

OFFICE OF
THE ADMINISTRATOR

MEMORANDUM FOR: William O. Hall, Assistant Administrator for Administration
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Albert E. Farwell, Director, USAID/Costa Rica
Oliver L. Sause, Director, ROCAP
Ambassador John Gordon Mein, Guatemala
Ambassador Raul H. Castro, El Salvador
Ambassador Joseph J. Jova, Honduras
Ambassador Aaron S. Brown, Nicaragua
Ambassador Raymond Telles, Costa Rica

SUBJECT: Evaluation Report on Central America

The Administrator has approved distribution of the attached report as indicated. The contents should not be released outside the Agency or the Department of State without prior clearance with the Operations Evaluation Staff.


Frederic L. Chapin
Executive Secretary

Attachment

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SUMMARY REPORT TO THE ADMINISTRATOR

Evaluation of AID Assistance
Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica
with special emphasis on
Central American Integration and ROCAP

The Evaluators were allotted approximately six weeks for the field trip to the five Central American countries with the understanding that the focus was to be integration progress and the U.S. institutional response. Each country was visited to obtain a summary insight into development progress as well as a special perspective on regional integration. Ten days were devoted to ROCAP conferences. In each country, findings were shared informally with Mission Directors. In a regional meeting of Ambassadors in Tegucigalpa, the Evaluators reviewed findings on regional integration and the role of ROCAP.

Central American Perspective

Economic and Political Highlights

The five Central American neighbors are commonly conditioned by climate, geography, Spanish heritage, historical association, and large reliance on agricultural export crops. But within this context there are significant differences.

There are important ideological and cultural differences. The mixed White-Indian population represent Whites and Indians of different origin. The largest minority group, the Indian sector of Guatemala, represents 54% of that country's population. Population growth rates vary from Nicaragua's 2.9% to Costa Rica's 4.1%, the world's highest. This has produced a young population throughout the region. Over 50% is below 19 years of age. Attitudes toward family planning vary because of varying attitudes of local church and government officials. Only the Honduras government identifies itself with family planning. Literacy rates vary from Guatemala's 30% to Costa Rica's 88% (a figure of dubious meaning). Population densities vary from Nicaragua's 30/sq. mile to El Salvador's 350/sq. mile. Throughout the region the highlands are densely populated and the fertile lowlands offer great opportunity for resettlement and development.

The similarities of the economies are perhaps more important than their differences. Per Capita GNP ranges from Honduras' \$207 to Costa Rica's \$367. Per Capita GNP growth in recent years ranged from virtually nil for Costa Rica to over 5% for El Salvador and Nicaragua. These latter two countries have the most active private sectors. Favorable export prices have helped all the economies in recent years. But all are vulnerable to world market prices and rely excessively on a few agricultural exports. Throughout the region low levels of taxation and public financing inhibit their ability to finance their own development. Except for Costa Rica, all countries have a low debt ratio. Although there has been progress in all countries toward self-sustaining growth, this is not a realizable goal in the immediate future. Because of political, cultural and ~~DECLASSIFIED~~ problems, economic development will be a slow process

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agricultural development additional support for irrigation, cattle and credit looks reasonable assuming improvements in management, cooperatives and marketing -- in industrial development there appears no present need for additional funds -- in basic development, there are several impressive thrusts, rural education brigades, Peace Corps, and rural Mobile Health -- they need integration possibly through the proposed Community Development Authority.

Honduras

Least developed of CA countries and with lowest sustained rate of growth. Homogenous population. Col. Lopez President. Government marked by inertia and inability to get things done. Deep political cleavages, low level political morality and law and order, no merit system in government, low level of managerial and technical skills, and weak public sector. Bright features are wide range of activities in northern (San Pedro Sula) area. This area marked by vigorous private sector and enlightened leadership of large labor unions (fruit company). Latter serves as stabilizing and countervailing force to lethargic and conservative government in Tegucigalpa. Problem areas are large subsistence group outside mainstream of economy, weak set public institutions, inadequate infrastructure (particularly access roads), poor educational system, and low priority to agricultural development. Leadership supports integration, but insists upon its share in "balanced" industrial growth within region.

Comment on AID Program - Opportunities in the area of increasing development capacity include clarifying and penetrating the planning area; expediting project processing; sustained pressure on civil service reform and studies pointing to simplification of government and its committee structure -- in educational development, A.I.D. should enter the secondary area, including structures and teacher training after coordination with IBRD; resolve relationships with IDB and re-enter university area with assistance -- in agriculture continue the program of opening up valleys; consider university contract to develop a faculty of agriculture; review land reform in the light of experience in other countries -- in the private enterprise area, encourage streamlining of Fomento, review agricultural credit and consider any additional loan to Financiera on condition of matching, better interest rate and more geographical spread in lending -- in basic development the penetration roads open the way for a nucleus of activities at the end of the road -- a kind of "country store" offering the services of health clinics, vocational agricultural instruction, radio-phonetic literacy service, employment projects and Peace Corps participation to those who heretofore have not participated in development.

Nicaragua

Largest, least densely populated, and highest current rate of economic growth among C.A. countries. Homogenous population. Relatively stable politically and one of the strongest economies in Central America. Schick President. Gen. Somoza (youngest son) most likely successor. Image of country as fief of Somoza's tends to obscure progress there. This progress is largely in private sector. Stimulated by some effective public institutions in development field. Good foreign investment climate. Limiting

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secondary schools, and of technicians and professionals for economic development requires new emphasis on vocational, secondary and university education. This will require better cooperation between Ministries of Education and Universities.

Comment: A.I.D. has sensed this need for changing emphasis in educational development. It should now crystallize this shift in terms of policy and projects and seek national and regional action. CSUCA can help at the university level and in promoting cooperation among Rectors and Ministers of Education. We should work with UNESCO/IBRD in the secondary field. In more general terms, A.I.D. country Missions and AID/ROCAP have a full agenda of promoting coordinated action on manpower projections, education planning (possibly revive IMII), scholarship programs (for domestic undergraduate as well as foreign post-graduate study) and especially modernization of secondary and university education which is the arena where youth will make its choices. ODECA with limited ROCAP aid is moving into manpower surveys. This should be encouraged and rapidly expanded.

Agricultural development is dominated by large export operations to the detriment of the small producer of food. The counterpart of the self-sufficient plantation is the downgraded Ministry of Agriculture. The small farmer is losing out in national economic growth. Food production lags behind population growth. The principal components of corrective action have been identified: more attention to food production; diversification into lumber, fisheries and livestock; more education, extension and research; expansion of cooperatives and credit services. But implementing action requires initiative and support by the government and participation and utilization by the small producer. Clearly adequate motivation is lacking.

Comment: A.I.D. should stimulate an identification of the basic barriers to growth in the non-export sector of agriculture and of the way around them. Twenty-five years of servicio technical assistance have had only marginal impact. Attention should now turn to the pricing and marketing mechanism and the behaviorism of government. A penetrating analysis of the politico-economic environment of food production -- possibly on a regional basis -- might illuminate the problem of motivation and the role of Ministries of Agriculture. A.I.D. could then resume its support of the traditional tools of technical assistance.

Meanwhile, there is need to review the loan program of supervised credit better to know the benefits and the beneficiaries. A round-up of experience and progress on land reform in the region would also be useful.

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Integration Progress

The principal achievements to date have been in developing a common market and in making a start in institution building. It has been, for the most part, an impressive start that augurs well for the future. Historical racial divisions and cultural differences and disparities in level of development within region will continue to be troublesome. Integration and regional institutions have not yet been sold adequately at the national level and to the people. Regional institutions do not yet have the muscle or prestige to make tough decisions involving priorities among countries. This should come. Progress in economic area continues to be best road to an integrated politico-economic community. Meanwhile some of the principal institutional problems are as follows:

- . ODECA is the parent organization with its own secretariat. It is reaching for a regional role in education and social programs and offers promise as a vehicle for progressive political integration. SIECA is the Secretariat for the Council of Economic Ministers and tends to concentrate on economic affairs. Both agencies need guidance to keep them off a collision course. ODECA needs more muscle. Separate financing of regional organizations reduces ODECA leverage.
- . The joint Planning Service is to be merged into SIECA. This should be done in a way that will not confuse planning and SIECA operations and that will facilitate development of regional and coordinated country planning. Presumably, SIECA will have an overall responsibility for regional economic planning. This will require harmonization with ODECA's interest in manpower and educational planning and ODECA's political interest in economic planning.
- . CSUCA needs to find a modus vivendi among the rectors, private universities and Ministers of Education.
- . CABEI, INCAITI, ESAPAC, INCAE and other regional organizations, will need help as they further define their roles and their relationships.
- . A puzzling problem is presented by the pattern and practice of distributing regional offices equitably among the countries. This is a realistic approach to stimulating support for new organizations and to dampening competitive feelings. But there may be a large payoff later in costly coordination.
- . Aside from these illustrative institutional tasks, there will, of course, be a continuing agenda of special studies, policy proposals and new operations.

Activities of International Agencies

IBRD, IDB, IMF, EX-IM Bank, Ford Foundation, FOA, and the UN Special Fund are, in addition to A.I.D., the most active international agencies in Central America. Most work with the separate governments. Some work with regional organizations. UN Special Fund's San Salvador office is the only regional office aside from ROCAP. IDB has 3 offices in the region, each serving several countries. Ford Foundation is reportedly about to place a representative in San Jose. IBRD is currently making a

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occasional mishap in performance and some abrasion in relationships, the net balance of results is clearly on the asset side. Ambassadors and Mission Directors recognize the U.S. policy line of support for integration and seek a constructive relationship in the ROCAP. Technical officers often suggest new roles for ROCAP and urge stronger staffing. Leading Central American figures speak well of ROCAP and ODECA has now initiated accreditation action for ROCAP.

There are now approximately 300 A.I.D. U.S. nationals (including direct-hire, PASA and contract) in Central America. Half are in Guatemala City and almost a third with ROCAP. ROCAP is largest mission in the area.

The problems are largely the strengthening of ROCAP, clarifying ROCAP relations with the country missions on a specific project by project basis, and improving liaison between ROCAP and country mission personnel generally.

Recommendation:

The Evaluators suggest that it is now timely for State/AID to take a clarifying, constructive step, namely -- identify ROCAP as a mission with a State/AID political-economic assignment appropriately headed by a chief with the personal rank of Ambassador.

In such a setting the evaluators envisage:

- . A U.S. team of Mission Chiefs pursuing U.S. objectives in Central America through country and regional channels -- each with a special assignment -- each supporting others as appropriate -- all with a collective responsibility for a properly balanced total effort.
- . A ROCAP Chief with political experience, supported by an A.I.D.-type deputy.
- . A ROCAP program in four areas -- political and economic studies as a basis for U.S. assistance to C.A. integration -- technical assistance to integration institutions -- regional technical assistance projects serving all or several countries as may be agreed upon -- a pool of technical experts as determined by country mission needs.
- . A ROCAP-Mission relationship resolved in a new cooperative setting within the framework of new Washington guidance specifically on such subjects as the following: cable clearances; attendance at and reporting on regional meetings; calling and participating in meetings of ROCAP and country mission personnel; timely review and coordination of country programs with ROCAP programs; reporting on respective activities, etc.
- . A corps of regional specialists with rotational assignments between ROCAP and country missions.
- . A stronger ROCAP staff in the politico-economic, agricultural and educational fields.

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Appendix 1

Evaluator Notes
on
Guatemala, El Salvador, Honduras
Nicaragua, and Costa Rica

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FACT SHEET ON COMMON MARKET COUNTRIES

| Item | Date | Unit | Region | El | | | | | Costa |
|---------------------------------------|-----------------------|-------------------|-----------------|-------------------|-------------------|--------------------|-------------------|--------------------|-------|
| | | | | Guatemala | Salvador | Honduras | Nicaragua | Rica | |
| Area | 1962 | 1,000 sq. mi. | 170.1 | 42.0 | 8.2 | 43.2 | 57.0 | 19.7 | |
| Agric. Land | 1962 | % | 23 | 19 | 58 | 38 | 12 | 20 | |
| Population | 1965 | Mill. | 12.6 | 4.4 | 2.9 | 2.3 | 1.6 | 1.4 | |
| Population Growth | 1965 | % | 3.2 | 3.0 | 3.2 | 3.1 | 3.0 | 4.1 | |
| Population Density | 1965 | Per sq. mi. | 134 | 100 | 350 | 50 | 30 | 70 | |
| Population - under 20 | | % | 52 ^a | m.a. | 54 ('61) | 58 ('61) | 58 ('63) | 44 ('63) | |
| Literacy | Latest | % | 46 | 30 | 48 | 45 | 50 | 88 | |
| Life Expectancy | Latest | Yrs. | 49 | 45 | 58 | 44 | 50 | 58 | |
| Caloric Intake | Latest | Per cap per day | 2,210 | 2,175 | 1,975 | 2,200 | 2,300 | 2,550 | |
| GNP - 1962 prices | 1965 | Per cap | 290 | 298 | 280 | 215 | 324 | 363 | |
| GNP - 1962 prices | 1964 | Per cap | 282 | 290 | 271 | 208 | 313 | 363 | |
| GNP - Growth rate | 1950-51 to 1964-65 | % | 4.9 | 4.3 | 5.5 | 4.3 | 6.0 | 5.5 | |
| GNP - Growth rate in | 1965 | % | 6.0 | 6.0 | 6.5 | 6.4 | 7.0 | 4.2 | |
| GNP - Agric. | 1962 | % | | 30 | 32 | 44 | 38 | 33 | |
| GNP - Mfg. | 1962 | % | | 13 | 16 | 13 | 13 | 14 | |
| GNP - Trade | 1962 | % | | 26 | 23 | 14 | 20 | 10 | |
| Improved Roads | 1962 | Per 1,000 sq. mi. | 131 | 142 | 375 | 45 | 40 | 457 | |
| Electric Power | 1964 | Per cap KW | 130 | 95* | 120 | 57 | 140* | 375 | |
| People per auto vehicle | 1962 | Persons | 82 | 99 | 105 | 142 | 103 | 37 | |
| Trade within the region | 1964 | % | 15 | 16 | 20 | 19 | 7 | 10 | |
| Trade with U.S.A. | 1964 | % | 40 | 40 | 30 | 52 | 39 | 50 | |
| Exports -- coffee, bananas, cotton | 1964 | % | All three--65% | Coffee, Cotton | Coffee, Cotton | Coffee, Bananas | Coffee, Cotton | Coffee, Bananas | |
| | | | | 60 | 72 | 54 | 61 | 67 | |
| C.O.L. Rise | Aug. 1963-1964 | % | | -0- | 2.0 | 4.8 | 4.2 | 2.7 | |
| C.O.L. Rise | Dec. 1963-Dec. 1964 | % | | -2.0 | -0- | 3.8 | 2.0 | 1.8 | |
| Gold and For. Exch. Res. | Dec. 1964 | Mo. of Imp. | 3 | 3½ | 3 1/3 | 2½ | 3 3/4 | 1 3/4 | |
| Debt Service | 1964 | % of Exp. | | 5.6 | 4.2 | 2.6 | 2.9 | 15.8 | |

Excluding Guatemala

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