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## Project Identification Document



Assistance to and Promotion of Trade Opening Through Regional Action

U.S. Agency for International Development  
Regional Office for Central American Programs

July 1992

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A

AGENCY FOR INTERNATIONAL DEVELOPMENT  
PROJECT IDENTIFICATION DOCUMENT  
FACESHEET (PID)

1. TRANSACTION CODE  
A = Add  
C = Change  
D = Delete

Revision No. \_\_\_\_\_

DOCUMENT CODE 1

2. COUNTRY/ENTITY: ROCAP/GUATEMALA

3. PROJECT NUMBER: 596-0170

4. BUREAU/OFFICE: Latin America & the Caribbean  
A. Symbol: LAC | B. Code: 05

5. PROJECT TITLE (maximum 40 characters): APERTURA - Trade & Investment Policy

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION:  
A. Initial FY: 9|3  
B. Final FY: 9|5  
C. PACD: 9|6

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 = )

FUNDING SOURCE	LIFE OF PROJECT
A. AID	\$ 6,000
B. Other U.S.	\$ 2,000
1. USAID Buy-in	
2.	
C. Host Country	\$ 2,500
D. Other Donor(s)	
<b>TOTAL</b>	<b>\$10,500</b>

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. 1ST FY 93		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ARDN	233	2,875		250		2,875	
(2) EH	233	1,000				1,000	
(3) PSEE	233	2,125		1,750		2,125	
(4)							
<b>TOTALS</b>				2,000		6,000	

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code \_\_\_\_\_

B. Amount \_\_\_\_\_

12. PROJECT PURPOSE (maximum 480 characters)

To help Central American governments choose, agree on and implement harmonized policies to open and liberalize their economies.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: 4 person-months of ROCAP staff time

Funds: \$120,000 for institutional contractor to assist in PP development;  
\$ 19,000 for 2 PSC TDY assignments to study selected issues.

14. ORIGINATING OFFICE CLEARANCE

Signature: *Irenehree Castillo*

Title: Irenehree Castillo, Regional Director

Date Signed: MM DD YY | 07 23 92

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY | | |

16. PROJECT DOCUMENT ACTION TAKEN

S = Suspended      CA = Conditionally Approved  
 A = Approved      DD = Decision Deferred  
 D = Disapproved

17. COMMENTS

18. ACTION APPROVED BY

Signature \_\_\_\_\_

Title \_\_\_\_\_

19. ACTION REFERENCE

20. ACTION DATE

MM DD YY | | |

B

## INSTRUCTIONS

- Block 1 - Enter the appropriate letter code in the box, if a change, indicate the revision number.
- Block 2 - Enter the name of the Country, Regional, or other Entity.
- Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.
- Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. (See Handbook 3, Appendix 3, Table 1, Page 1 for guidance.)
- Block 5 - Enter the Project Title (stay within brackets; limit to 40 characters).
- Block 6 - Enter the estimated Initial (A) and Final (B) FY of the Authorization/Obligation, and Project Assistance Completion Date (PACD) (C).
- Block 7 - Enter the information taken from the 'Estimated Cost Table' in the PID.
- Block 8A. - Use the 'Alpha Code'. (See Handbook 3, Appendix 5B, Table 2, Page 2 for guidance.)
- Block 8B. - See Handbook 3, Appendix 5B for guidance.
- Blocks 8C., D., & E., - Enter all amounts in thousands of U.S. dollars.
- Blocks 9 & 10 - See Handbook 3, Appendix 5B for guidance.
- Block 11 - Enter the code and amounts attributable to each concern for 'Life of Project'. For coding see Handbook 3, Appendix 5B, Attachment C.
- Block 12 - Enter the 'Project Purpose' from the PID. If more than one (1), list each one (1) in order of priority (stay within brackets; limit to 450 characters).
- Block 13 - Summarize any planning resources needed to develop the project in terms of staff and funding required. For staff, indicate whether direct hire or contract staff. Indicate the established amount and source of funding required (operative expenses or Mission funds).
- Block 14 - This block is to be signed and dated by the Authorizing Official of the originating office. The PID will not be reviewed if the PID Facesheet is not signed and dated. Do not initial.
- Block 15 - This date is to be provided by the office or bureau responsible for the processing of the PID.
- Block 16 - This block is to be completed by the authorized representative of the office or bureau responsible for the processing of the PID.
- Block 17 - Enter any comments on the action taken.
- Block 18 - This block is to be signed and dated by the Approving Official. Do not initial.
- Block 19 - Identify the action document i.e., memorandum, cable.
- Block 20 - Enter the data of the action document.

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A quiet revolution for political and economic freedom is under way in the Western Hemisphere. In its own right, it is just as profound as the revolutionary events in Eastern Europe and the former Soviet Union. Elected civilian governments hold office in almost all nations, encompassing 98% of the Hemisphere's population. The "open market" outlook now embraced by most countries in the region is a far cry from the discriminatory and protective trade and investment policies of the past. While the pace of economic reform varies, the region clearly has moved out of the economic crisis of the 1980s.

The results of the quiet revolution are impressive. Nation after nation is turning away from state controlled, import substitution-oriented economic models and turning toward market-oriented economic policies. These governments are instituting reforms in all categories, such as correcting overvalued exchange rates, establishing market-determined interest rates, reducing fiscal deficits, controlling inflation, diversifying exports, promoting investment, privatizing government enterprises, and removing price controls as well as tariff and non-tariff barriers to trade.

(A.I.D. FY1993 Congressional Presentation)

## Project overview

Central America is very much part of the "quiet revolution" evoked in A.I.D.'s FY93 Congressional Presentation. The region's history and geography add a special dimension to this historic process. Close bonds among the countries set the stage for working together in dismantling the inward-looking policies of the past and moving to market-driven, open economies. More and more, the Central American governments rely on mutual support, consensus and commitment to set targets for policy reform and to track progress. A "Central American Economic Action Plan" (PAECA), adopted at a Presidential summit meeting in 1990, translates the general commitment into a joint reform agenda. Seeking to reestablish a Central American free trade zone within a few years, strengthen economic cooperation, and open the region as a whole to the global economy, it has guided a series of regional meetings, bringing together the countries' Presidents or their top economic policy makers (the "Economic Cabinets"), that have established clear reform targets and deadlines for achieving them.

By stressing the opening of Central America to the world economy, the "new integration" deliberately distances itself from the protectionist import-substitution policies of the Central American Common Market of the past. The Central American governments have realized that integration is not an end in itself, but one element of the drive to modernize their economies, to make the most of the region's resources, and to compete effectively in international as well as in domestic markets. Together, the countries represent a much more attractive market for foreign investment. Together, they carry more weight in international trade negotiations. Thus, while actual reforms of policies that affect trade and investment remain the domain of *national* governments, regionalism and economic integration are increasingly emerg-

ing as the frame of reference and as key elements of the political economy of reform. This trend complicates the process, linking progress in one country to changes in others. It also offers new opportunities, allowing reform advocates in one country point to achievements in partner countries.

Policy harmonization and coordination are key to the new integration. Harmonization means not necessarily uniform policies, but a common framework to give prospective investors and outside trading partners a sense of dealing with one economic unit — albeit with variations within that framework in response to national needs and advantages. The necessary coordination depends on adequate technical support — to study alternatives and their implications, to monitor implementation, and carry out and administer agreed-upon initiatives. That support is critical for economic integration in an open-economy context to last. Political enthusiasm without a solid knowledge base and administrative backup leads to unrealistic targets and unworkable arrangements, sowing the seeds of failure and disenchantment.

Much of the technical support to governments meeting in regional fora is being provided by technical personnel of national government agencies and institutions. But regional fora like the Presidential summits have been charging *regional* entities with the responsibility to prepare comparative policy appraisals, draft model policy documents, prepare region-wide action plans, monitor progress, organize training in critical areas, perform staff work in international negotiations, and provide intellectual leadership in regional cooperation and economic integration. In particular, policy makers have singled out the Permanent Secretariat of the General Treaty of Central American Integration (SIECA) and the Central American Monetary Council (CMCA), assigning them an impressive range of tasks to prepare, carry out and monitor reforms of trade and investment regimes at the regional level, complementing the work of national staffs.

The private sector needs to play an active role in policy reform and economic modernization. The emerging regional scope for policy reform and debate under the "new integration" therefore also presents new challenges to the private sector. Private-sector organizations in the region have come together in the Federation of Private Sector Entities (FEDEPRICAP) to respond to this challenge.

Central America's partners are supporting regional solutions to development. The Partnership for Democracy and Development (PDD) brings together countries of the region and most of the OECD countries as well as international institutions like the IDB or the OAS to discuss development issues and assistance in a regional forum. The Enterprise for the Americas Initiative has been encouraging Central American governments to act as group in pursuing trade negotiations. The UNDP and the IDB are approaching their assistance in a regional framework; Canada and Japan also are moving in that direction.

USAID's Regional Office of Central American Programs (ROCAP) has been assisting regional efforts to open and modernize the economy. To consolidate

and focus this assistance, ROCAP is proposing a new three-year, \$6 million project, the APERTURA (Assistance to and Promotion of Trade Opening through Regional Action) Project. The Project is designed to accelerate the transition to an open and competitive regional economy by helping Central American governments choose, agree on and implement harmonized policies to open and liberalize their economies. Within the framework of the overall U.S. assistance strategy for the region, the APERTURA Project will finance technical and related assistance to entities with specific mandates from regional policy making fora in liberalizing trade, harmonizing and coordinating economic policies, or promoting investment at the regional level. In addition, the Project offers USAID Missions in the region access to specialized expertise on particular policy issues through a buy-in option.

The three-year time horizon is short for a policy support project, but the regional policy context is rapidly changing, modalities of U.S. assistance to the region are evolving, and the Project itself is somewhat non-standard. If it is demonstrably successful in supporting the drive to an open, competitive regional economy, ROCAP expects to extend its LOP (and add funding), or to launch a follow-on project.

Five elements define the Project approach:

- Given the rapidly evolving context, we will identify specific targets within the overall strategic framework through a one-year *policy and action agenda*, updated every six months, to guide Project activities. A Project Advisory Committee, comprising Program Economists and Private Sector Officers of Central American USAIDs will review this agenda at semi-annual meetings in the region. The agenda will define priorities for the regional policy dialogue, for technical assistance activities under the Project both at the regional and national levels, and for a regional analytical agenda.
- The Project will help regional policy making fora in formulating and implementing harmonized policies by making *specialized expertise and other assistance* available to support entities with regional responsibilities. A Regional Policy Support Unit, established under a contract or cooperative agreement with an appropriate U.S.-based institution, will be the conduit for this assistance.
- The Project will strengthen certain basic continuing services essential to the regional policy reform process, such as trade and investment information and analysis services, training programs for the region on specific trade and investment issues, or regional coordination of investment and trade promotion through contracts with qualified regional entities. We expect to structure these contracts or subscriptions to ensure sustainability beyond financial support from the Project.

- As needed, the Project will support comparative regional analysis of specific issues.
- Finally, the Project includes a buy-in provision for Central American USAIDs to obtain short-term technical or related assistance on issues included in the regional policy and action agenda. Currently, a buy-in authority of up to \$2 million over the three-year life of project is envisioned. During PP development, we will determine needs and likely use in greater detail.

Four elements shape APERTURA's policy and action agenda. First, Central American regional policy making fora have mapped out an ambitious program of regional liberalization, but lack the technical support to turn these commitments into real changes. The Project will provide the assistance needed to move that liberalization program forward. Second, ROCAP's strategic framework in trade and investment, responding to its mandate in implementing U.S. Government strategy and initiatives, in particular the EAI and the PDD, identifies priority targets at the regional level. Third, the agenda will reflect specific concerns of USAID Missions in each of the Central American countries. Fourth, the agenda will also address common issues arising from either national or regional bilateral trade and investment negotiations, as in the Trade and Investment Council meetings or in the IDB's investment sector loan program.

At least initially, the Project will work primarily with the core regional entities with specific mandates and tasks in the regional reform process—SIECA, CMCA, FEDEPRICAP, and possibly the Central American Development Bank (CABEI) or other institutions. Since the regional policy support system continues to evolve, though, APERTURA assistance will focus on tasks and functions, rather than be tied to particular institutions. As other (permanent or ad-hoc) entities assume policy support responsibilities, their activities may also qualify for support under the Project.

The Project will phase out any general institutional support — not related to specific tasks or mandates — provided under existing projects. Clearly, institutional capabilities and continuity are critical in defining the long-run performance of the technical support system. Therefore, targeted action support may cover management studies, introduction of new administrative systems or training of staff. But the Project will not provide blanket coverage of general operating costs. Services contracts will include appropriate overhead charges, as in any contractual arrangement.

The Project will form part of a refocused ROCAP portfolio. It will work primarily in conjunction with three other projects, one providing technical assistance to the entire value chain in non-traditional agricultural exports from all countries in the region (EXITOS/PROEXAG II) from , one supporting rural electrification, with some attention to broader energy policy issues (CARES), and a project designed to support better information management in the region (RDS).

## The "quiet revolution:" An unfinished agenda

In successive Presidential and Ministerial meetings and formal declarations, the Central American governments have affirmed their commitment to:

- pursue market-oriented policies and build economies open to world trade and investment;
- move toward a Central American free trade area on the way to joining the NAFTA and free trade arrangements with Mexico and other countries;
- harmonize their economic policies and regulatory regimes; and
- integrate their infrastructure and facilities systems and cooperate in their management in the interest of efficiency and competitiveness.

All Central American countries have launched economic policy reforms. With assistance from donors, in particular the USAIDs, they are pursuing the three elements of structural adjustment — liberalization, stabilization, and privatization — to open their economies to the world economy and make them more competitive. The record to date is impressive, albeit uneven. Many obstacles to increased trade and investment remain. These obstacles are typically anchored in the legal, regulatory and judicial framework governing trade and investment. Even when policies "on the books" change, administrative weaknesses and bureaucratic inertia often keep barriers in effect.

The concern of regional policy making fora has focused on the removal of trade barriers, both for goods and services, and on trade-related investment measures. A brief review of major issues provides the background for ROCAP's strategic choices discussed further below.

### Liberalizing trade in goods: progress in spite of political resistance and inadequate staff capabilities

*Tariff barriers:* The governments of the region have made considerable progress in unifying and reducing tariffs, generally in the context of their structural adjustment programs. They have agreed on a common external tariff (with a range of 5-20 percent targeted for the end of 1992). El Salvador, Honduras and Guatemala (the "Northern Tier") have moved ahead in turning these commitments into a free trade agreement to include increased financial integration. The three have upped the ante by opting for a customs union two year after the introduction of the common external tariff. All Central American countries have also taken the first step toward entering into negotiations for accession to the North American Free Trade Agreement (NAFTA), signing bilateral trade and investment framework agreements with the U.S. By signing these agreements, they have agreed to subject their trade and investment regimes to periodic scrutiny in bilateral consultations. They have negotiated *jointly* with Mexico, Venezuela and Colombia regarding free

trade among the partners, and are increasingly working in concert in formulating and presenting positions in the Uruguay Round of the GATT.

Even so, powerful groups in the industrial, agro-industrial, and agricultural sectors continue to resist trade liberalization. Citing the social costs of disruptions caused by structural adjustment and the inability of local industry to compete, they argue — often successfully — in favor of continuing protection. This resistance has prodded governments to rally pro-liberalization forces in part through more intensive regional cooperation.

Administrative weaknesses create another obstacle to translating political will into real change in trade regimes. Since the dismantling of tariff barriers requires complex negotiations, capability constraints are hampering progress; country as well as regional organizations are generally poorly staffed for trade negotiations with other countries and regions. In addition to lack of experienced negotiators, essential information is often lacking or available only with extensive delays.

*Non-tariff barriers (NTBs):* The Central American countries have made progress in reducing and abolishing quantitative restrictions, particularly those used to curtail imports for balance-of-payments reasons. Even so, remaining restrictions provide significant protection and may be politically more difficult to liberalize:

- customs administration, border-crossing procedures, and licensing requirements hamper intraregional trade as well as trade with outside partners, perpetuating inefficiency and corruption. A meeting of the Economic Cabinets in March 1992 in Antigua (Guatemala) zeroed in on this problem, tasking national governments with simplifying requirements and harmonizing procedures at border crossings. As one step, the governments recently adopted a common customs form;
- differences in interpreting and applying safeguards against unfair trade practices; a common regional anti-dumping code drafted by SIECA with GATT/UNCTAD assistance is under consideration. Similarly, the governments are adopting common rules of origin;
- varying laws and standards governing general commercial practices increase risks for trade;
- lack of dispute resolution procedures and poor or absent legal enforcement for contracts, patents, copyrights, etc. raise costs and create uncertainty;
- differences in health, sanitation, and environmental controls may contribute to market fragmentation; generally, though, they do not appear to impose serious barriers, and remaining problems are relatively easy to solve through unified standards. At their Antigua meeting, the Economic Cabi-

nets tasked the countries' agriculture ministers with taking the required steps to harmonize phytosanitary standards;

- quotas and quantitative restrictions, introduced mainly for food supply protection, no longer represent a major problem in the region's trade regimes;
- finally, weaknesses in exchange rate management have abated as a result of stabilization/devaluation programs, but the need for adjustment remains, especially as inflation continues.

### Trade in services: Regulatory and physical obstacles.

Improved trade in services is one of the major objectives of the Uruguay Round. In the case of Central America, free trade in services is not only desirable on general efficiency grounds. Given the size of the countries and their geographic proximity —making many "non-tradables" tradable — it is critical to allow for gaining economies of scale through competition. Efficient financial, infrastructure and information services are critical to a competitive performance of the regional economy.

*Financial and related services.* As a rule, the financial systems in the Central American countries have yet to mature. Again, the structural adjustment process has brought many improvements, but direct controls and constraints, small market size, a limited range of debt and equity instruments, and inadequate prudential regulation and supervision hamper the performance of financial markets. Continuing improvements in financial performance are a major concern of national policy reforms. Regional initiatives can strengthen this process by improving the exchange of relevant information and by focusing on transnational issues affecting the trade in financial services.

Nationality restrictions often restrain cross-border trade in financial services. These restrictions limit competition in banking, and weaken performance measured against the yardstick of world market standards. While much remains to be done in financial markets development at the national levels, the governments of the region are moving ahead with financial integration. Using this commitment to improve the efficiency, transparency and stability of financial systems will require careful staff work at both the regional and the national levels. Regional integration is farthest along in the system of stock exchanges, where FEDEPRICAP, with ROCAP assistance, has done considerable work. Unfortunately, the stock exchanges have yet to emerge as significant players in financial markets.

In these and related areas (such as insurance), existing institutional mechanisms and regional organizations offer channels for dialogue and policy change. At their Antigua meeting, the Economic Cabinets instructed the heads of the Central Banks to take the necessary steps to facilitate cross-border expansion and competition of banks and other financial institutions, and to harmonize the regulatory framework.

*Infrastructure services:* In the past, Central American countries viewed increased trade in infrastructure services as an essential ingredient of regional integration. Stressing the "natural-monopoly" character of these services, they looked for integrated planning and design of regional solutions to exploit economies of scale. This public-sector approach foundered, in large part because governments lacked the funds to follow up, even if fundable projects emerged from joint planning. As the chasm between the needs of competitive economies and the ability of governments to meet these needs is growing, some governments are looking for opportunities to attract private investors. They are opening formerly closed sectors, and developing new mechanisms for private-public sector partnerships in financing and operating infrastructure facilities. Regional cooperation and policy harmonization can provide a boost to these efforts by facilitating intraregional trade as a means to overcome market fragmentation, and by reducing risk and uncertainty. In the three key areas — energy, transportation, and telecommunications — regional initiatives are likely to focus on similar issues:

- steps required to overcome market fragmentation due to regulatory and physical obstacles;
- consistent or compatible approaches for encouraging private sector involvement to improve efficiency and mobilize investment resources, possibly including the development of "supranational" rules and regulations for investment projects that have a regional character; and
- organization and structuring of the regulatory oversight and enforcement to prevent abuses of market power by private investors and service providers.

In the energy sector, attention has focused on an installed generating capacity that is patently inadequate to meet the needs of a growing regional economy. The needs are such that government resources, even with outside assistance, are likely to be inadequate to meet the needs of the region. Poor management magnifies the capacity problem:

- incomplete and badly managed interconnection systems among some countries may preclude more efficient solutions;
- national utility companies are financially weak because electricity tariffs bear little relation to costs; they therefore depend on concessional financing, from the general budget or other sources, for any investment projects. Realistic electricity tariffs have become a major concern of IMF stabilization programs;
- national utility companies also show serious management weaknesses, reflected in low operating efficiencies and high costs; poor maintenance capabilities result in high transmission losses;

- finally, the overdependence on major hydro-systems imposes its own constraints on flexible management of the existing capacity.

An adequate and reliable energy supply is critical to fostering a competitive regional economy. Alone, the public sector will be unable to meet this challenge. Policies will need to change — and are in fact changing — to lift constraints on private-sector participation in power generation, distribution, and management. Regional cooperation is critical in overcoming market fragmentation, encouraging cross-border trade, and reducing risks. It is also essential to establish controls to prevent abuses of market power as private investors build transnational conglomerates.

The problems are similar in the area of *transport services*. Several weaknesses raise effective costs to the users, impinging on the competitiveness of the region's economy:

- transport costs for export are very high relative to world competition, reflecting low volume and weak bargaining positions vis-à-vis shipping lines;
- no system exists on a regional basis for consolidating freight storage and shipments to achieve lower transport costs;
- rail and road systems are poorly maintained and connected; and
- air and seaport facilities are inadequate, a problem aggravated by the fact that they are typically run inefficiently by public sector agencies.

Regional cooperation is essential to overcoming these weaknesses, given the transnational nature of the transport system. Again, the focus of any search for solutions will have to be on policy reform, designed to mobilize resources and capabilities for investment and management to raise the performance of the system as a whole. At the regional level, FEDEPRICAP (with ROCAP support) has taken the lead in identifying problems and developing solutions. The permanent Conference of the Transport Ministers of Central American countries (REMITRAN) provides a sound forum for exploring options, reaching common commitments, and monitoring implementation.

Finally, structural deficiencies keep the region's *telecommunications* system from meeting world-class performance standards, thereby making it more difficult for the region's economy to compete in the international arena.

These deficiencies include:

- public sector monopolies with inadequate capacity and poor service;
- little provision for private sector participation; and
- technical obstacles to greater intra-regional interconnection and outdated technology currently in use or planned.

Regional cooperation in this area is critical on technical grounds to set common standards and ensure compatibility of systems. It will also figure prominently in the development of policy responses to new options and issues emerging from changes in telecommunications technology. One area of particular interest is the issue of intellectual property rights related to telecommunications.

### Investment: Shortcomings in the legal, regulatory and judicial framework

Until recently, political and military disruptions in the region undermined investor confidence and engendered a climate of uncertainty and high risk. While the situation has improved substantially as the region is hoping for a settlement of armed conflict in Guatemala following that in El Salvador, perceptions linger that the risk in most Central American countries is greater than in other countries competing for investment funds and technical know-how. As security risks abate, broad concerns have shifted to weak spots in the policy environment that contribute to distortions.

Structural adjustment programs are in place at the national level to address weaknesses in macroeconomic policies. These initiatives to create the proper macroeconomic environment for investment are combining with efforts to improve the legal, regulatory and judicial (LRJ) framework governing entrepreneurial activity. These efforts are addressing the issues of excessive red tape and adequate protection of property rights, in particular intellectual property rights. Governments are also beginning to pay increased attention to competition policy, that is, the control of restrictive business practices. In some instances, they are also looking at LRJ obstacles to private sector participation in the provision of infrastructure services — road concessioning, power purchase agreements, etc. Focusing on private sector opportunities in infrastructure, the upcoming 1993 Conference on Investment and Trade in Honduras under PDD auspices will provide an opportunity to review these obstacles on a region-wide basis and identify a specific agenda for change.

*Intellectual property rights (IPR) and technology policy:* The protection of intellectual property in the region has emerged as a key concern in bilateral and multilateral trade and investment talks, including the Trade and Investment Councils. While copyright issues have dominated international trade negotiations, restrictive provisions regarding patents and inadequate protection of trademarks and trade secrets represent serious barriers to the modernization of the regional economy. Improvements are called for both in terms of legislation and regulations on the books, and in their enforcement.

The focus on intellectual property rights issues has produced visible progress. Countries in the region have been introducing legislation and regulations to respond to the concerns of their trading partners. USAID, both in Washington and in the field, the Office of the U.S. Trade Representative, and the IDB are providing advice and technical assistance in this area, both at the regional and at the national level. It is therefore likely that countries will have

"world class" IPR legislation/regulations in place by the time APERTURA comes on-stream (second or third quarter of FY 93). Consequently, although ROCAP has been treating regional coordination in the area of IPR protection as a priority and is supporting the process of consensus-building at the regional level under existing projects, we expect that any activity in this area under APERTURA will relate to implementation and enforcement. In our policy dialogue, we will urge coordination and cooperation, partly to streamline the process for domestic and foreign owners of property rights, partly to keep administrative costs low. Central American countries have sought in the past to develop a common IPR regime. While adherence to the existing agreement is uneven, further reform efforts could build on these accomplishments to strengthen IPR protection everywhere, and to enhance the position of the region as a whole in international fora.

Ideally, adequate protection of intellectual property rights is one cornerstone of a strong technology policy. As Central American countries hasten to respond to pressures to strengthen IPR protection, they have not been paying much attention to the broader issue of improving technology policy in the region. Such improvements are crucial, if Central America is to meet the competitive challenge. Some have recognized this problem; in fact, Central Americans have argued that science and technology should be the "fourth pillar" of the EAI (in addition to trade, debt forgiveness, and investment). Improved information on production and marketing technology is one of the priorities identified under the PDD. APERTURA will therefore provide assistance at the regional level in this area. At present, a key regional entity, the Central American Institute for Industrial Research and technology (ICAITI), has been weakened by budget and political problems to play much of a role. But others, including the Central American Business Administration Institute (INCAE), have been studying issues of technological modernization under the rubric of "industrial reconversion," and are taking an active role in disseminating the results.

*Competition policy and restrictive business practices (RBP).* Restrictive business practices include abuses of market power, that is, monopolistic practices or collusion among existing businesses to limit competition. Restrictions on entry into — and, equally important, exit from — certain sectors may protect inefficient enterprises and add to the cost of doing business. When barriers to entry are linked to the protection of public enterprises, reforms become a necessary part of any privatization, if only to open the sector to private-sector competition. Any privatization that simply converts a public monopoly to a private one promises little efficiency gains. Regional initiatives need to complement national-level reforms in this area to facilitate cross-border investments and to ensure open competition in regional markets. As barriers to foreign investment fall, national monopolies may well become regional in scope.

Competition policy has not yet become a major issue in the region, except for some general references in LRJ studies. It is critical, though, to provide the environment to foster performance and competitiveness.

## Priorities for a regional policy agenda

Based on this analysis, ROCAP has articulated a strategic framework for assistance to policy reform at the regional level. This strategic framework flows from the overall U.S. strategy on trade and investment for the hemisphere, especially as enunciated in the Enterprise for the Americas Initiative and related policy pronouncements.

ROCAP's mandate implies a focus on *economic relations* among countries within the region and between the region and outside partners. The strategic framework builds on this mandate, stressing policy harmonization and joint action on common policy issues. It outlines six target areas or program outputs as a means of focusing policy reform support at the regional level, complementing reform initiatives at the national level:

- reduction or elimination of barriers to trade in goods and services, in particular non-tariff barriers. Priorities include trade in agricultural products, in particular non-traditional agricultural exports, as well as manufactured, in particular semi-finished goods; the ROCAP strategy also targets barriers to trade in services;
- enhanced production of and access to technology, in part through the implementation of "world-class" IPR protection in all countries of the region, the adoption of the necessary legal and regulatory framework, and appropriate enforcement, and through a new private-public sector partnership in the development, adaptation, dissemination and adoption of technology;
- liberalization of trade in financial services, covering debt and equity markets as well as associated financial services (such as insurance), and harmonization of legal, regulatory and judicial frameworks to encourage cross-border competition;
- improvement and harmonization in the legal, regulatory and judicial environment and in physical linkages to encourage increased (intraregional) trade in infrastructure services, especially energy, transportation and telecommunications, and increased private sector participation;
- improved coordination of trade and investment promotion activities in the region to stress competition-with other areas rather than among countries within the region — in part through the PDD framework in cooperation with other donor lead countries (Japan, Canada, the EC); and
- improvement of competition policy at the regional level, in particular the curtailment of discriminatory investment practices, such as restrictive business practices (entry barriers).

ers, abuse of economic power), differences in tax treatment, local content or labor requirements.

These agenda items are not necessarily listed in order of priority. The preceding analysis suggests specific priorities, though. The removal of trade barriers — for agricultural products, manufactured goods and services — represents the highest priority for the next few years. For both tariff and non-tariff barriers across all sectors, ROCAP can assist regional fora most effectively by clarifying the costs and benefits, as well as the winners and losers of any reforms. ROCAP can also help existing or new agencies or organizations to handle new responsibilities emerging from reforms of the trade and investment regimes, including their more effective participation in joint trade negotiations. This priority also covers the improvement of information systems on trade and investment on a regional basis. In the January 1992 meeting of the Partnership for Democracy and Development (PDD), the Central American governments have identified such improvement as a priority for assistance.

The second priority emerges from a focus on financial sector reform shared by several of the Central American USAIDs, as well as from the work on equity markets ROCAP has supported in the past. While ROCAP's concern will be primarily with financial relations among countries, trade in financial services depends on the legal, regulatory and judicial framework governing each country's financial system. Moreover, the emphasis that the Economic Cabinets have placed on the coordination of financial-sector policies also argues for appropriate support at the regional level. In close coordination with individual country programs, regional cooperation can accelerate the process of enhancing the performance of financial systems through financial integration.

The third priority is regional support to promote a coherent and effective technology policy, in particular the modernization of the countries' IPR regimes and their administration. Demands emerging from trade negotiations are providing strong incentives for Central American countries to adopt new legislation, regulations and enforcement procedures that would pass muster as "world class." Efforts to meet these demands are well underway, which suggests a limited role for the APERTURA Project in supporting the formulation of appropriate legislation and regulations when it comes on-stream in early to mid-1993. APERTURA assistance in this area is therefore likely to target administration and enforcement of the new legislative and regulatory framework at the regional level, and to make it part of an overall technology policy. Under this priority area, ROCAP has also particular responsibilities in promoting the improvement of trade and investment (market and production technology) information in the region under PDD auspices.

Issues related to trade in infrastructure services and restrictive business practices remain important, but support in this area under the APERTURA Project will depend on the evolving institutional framework. Some of these issues are in fact addressed by other projects in ROCAP's portfolio. The

Central American Rural Electrification Support (CARES) Project had begun to focus much more directly on policy issues related to the active participation of private investors in the energy sector. In addition to enhancing the competitiveness, the technical assistance provided under the EXITOS Project to producers and marketers of non-traditional agricultural exports also aims at establishing sustainable mechanisms for providing such information services beyond the life of the Project. Moreover, under PDD auspices ROCAP will provide support to a regional conference on investment and trade, scheduled for March 1993. This conference is to focus on private sector opportunities in infrastructure sectors. If this foray into joint investment promotion is successful, one component of APERTURA could conceivably provide further support in this area.

To translate this regional policy agenda into an action program for ROCAP assistance, we need to explore the institutional context further, both the structure of regional cooperation and the activities of the USAIDs as well as other donors.

## Regionalism in the reform process

### Regional integration and cooperation: A historical background

#### *1960-79*

In 1961, El Salvador, Honduras, Guatemala and Nicaragua signed the General Treaty for Central American Economic Integration, creating the Central American Common Market (CMCA); Costa Rica joined in 1963. Combining free trade within the region with protectionist tariff barriers against outside trading partners, the CMCA succeeded in stimulating intraregional trade and spurring industrialization. Import substitution and protectionism, however, did not offer a basis for sustainable growth. Economic difficulties and political conflict among members weakened the Common Market, leading to its virtual demise.

#### *The 1980s*

The first part of the 1980s witnessed economic decline and a partial dismantling of the Common Market. Social and political strife, including civil wars in Guatemala, El Salvador and Nicaragua, aggravated the economic problems. The crisis extended to Panama which had signed Limited Scope Commercial Agreements with each of the Common Market members. The 1980s became the "Lost Decade" for the isthmus (as for much of Latin America).

Although the economic and socio-political crisis continued throughout the second part of the decade, Central Americans undertook to find solutions to the problems, with full support of the international community. The meetings of Central American Ministers of Foreign Affairs with their counterparts of the Contadora Group of Latin America countries and with the European Community (the "San José Meetings") were particularly fruitful in advancing

the Central American peace process. In 1985, the Central American countries and the EC signed a General Framework Treaty of Political and Economic Cooperation.

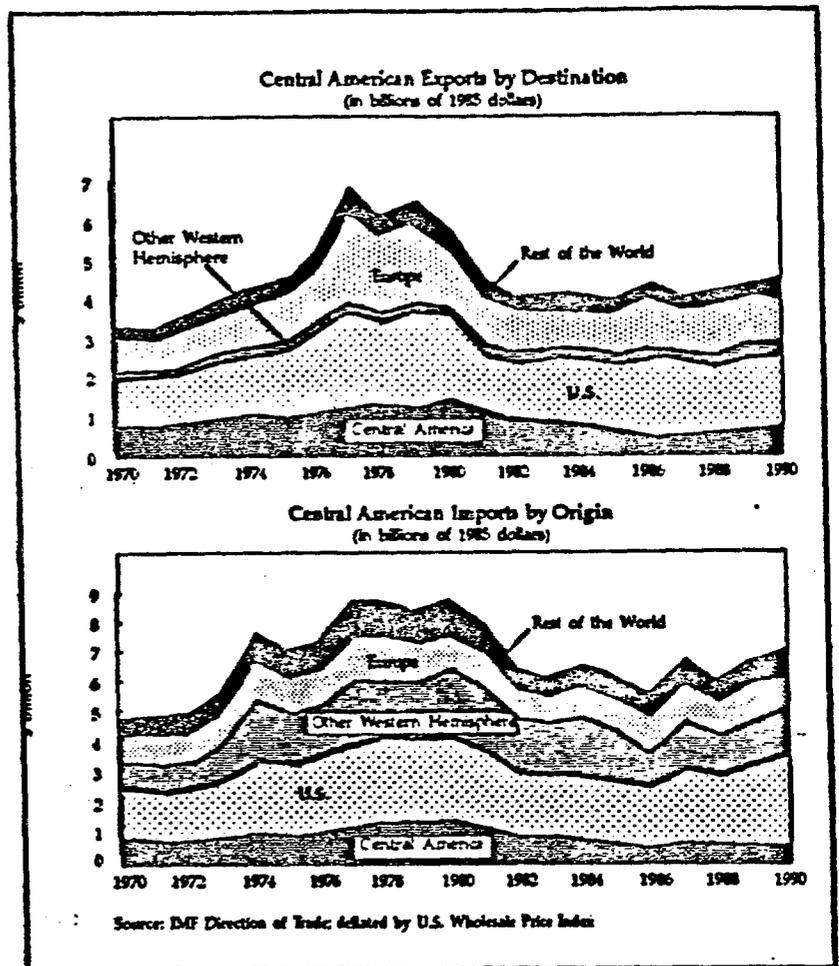
This EC-Central America agreement combined with initiatives from other quarters to find a peaceful solution to the war in Nicaragua, such as the *Contadora* Support Group, the U.S. Government, the OAS and the UN, finally culminating in a series of Central American Presidential Summit meetings, the "Esquipulas Meetings." In the second Esquipulas meeting, the five Central American governments endorsed a Peace Plan for Nicaragua presented by President Oscar Arias of Costa Rica, who received the Nobel Peace Prize for his initiative.

### The 1990s

During the June 1990 Summit, the Presidents of the Central American countries, with the Panamanian President as an observer, approved the "Antigua Declaration" and a "Central American Economic Action Plan" (PAECA). These two documents affirmed their determination to reestablish a Central American free trade zone within a few years, strengthen economic cooperation, and open the region as a whole to international markets and the global economy. The Antigua Declaration also presented the vision of a "Central American Economic Community" for the medium to long term. In subsequent meetings, the Presidents have focused on sectoral problems and the social situation, pledging their countries to a joint search for solutions.

At the December 1991 meeting in Tegucigalpa, Panama announced its decision to join the Central American Economic Community and its institutions. The now six Central American countries invited Belize, geographically a part of the Central American isthmus, to join the process. Belize, a member of the British Commonwealth, and

Honduras then organized a meeting of Ministers of Foreign Affairs of the Central American countries with their counterparts of the Caribbean Common Market (CARICOM). This meeting, held in San Pedro Sula, Honduras



in January 1992, established the basis for the development of a stronger economic cooperation between the two regions.

Efforts are also underway to revise the 1961 Regional Integration Treaty which established key regional organizations still active today. The Presidents also recently signed an Amendment Protocol to the Convention of the Organization of Central American States (ODECA), to set up a specialized political secretariat that will give technical support and follow-up to presidential decisions, and will coordinate all other sectoral regional institutions in a "Central American Integration System" (SICA). The system is to be implemented during 1993-1994.

### The current revival: A shared commitment to market economies

With all Central American countries seeking to move to a market-driven, competitive economy, governments are increasingly emphasizing *regional cooperation and harmonization as integral elements of the reform process*. That emphasis stems in part from the region's history and geography that favor close ties among the countries; currently, one also observes a remarkable personal rapport among the countries' Presidents. The new regionalism also reflects pragmatic factors:

- the positive experience with regional approaches on the political front (the Esquipulas Peace Process);
- the need for mutual support and encouragement from countries within the region — strengthening fragile reform coalitions at the national level;
- the transnational nature of most trade and investment policy issues;
- the realization that lack of coordination among neighboring countries may jeopardize expected benefits: in many reform areas, the countries face a "Prisoner's Dilemma" — if they go it alone, reactions by neighboring countries may negate the intended effects;
- the conviction that integration in an open-economy context, rather than behind protectionist walls, offers clear advantages, allowing market forces to exploit economies of scale and thereby improving the region's competitive edge; and
- a growing recognition that the Central American countries carry greater weight in international trade negotiations, including the Uruguay Round and the NAFTA, if they act as a group.

To be sure, the strength of the commitment to market forces and regionalism is uneven across countries. Even so, the governments have reached agreement on an Action Plan with specific targets. The targets refer to often sensitive

areas of trade and investment policies:

- the establishment of a Central American common external tariff to become effective by the beginning of 1993;
- joint trade negotiations with Mexico, Venezuela, Colombia, and others, and increased coordination of positions in the Uruguay Round negotiations;
- procedures to coordinate and harmonize macroeconomic policies;
- steps toward regional financial integration through simpler foreign exchange procedures and an opening to intra-regional competition; and
- the removal of non-tariff barriers (NTBs).

Efforts are also underway to breathe new life into regional integration, including a major revision of the 1961 Regional Integration Treaty and the strengthening of regional entities providing support for regional policy making fora. The results of the latest meeting of the Economic Cabinets in Antigua (March 1992) signal a growing regionalization of economic policy reform, with clear targets and deadlines for continued liberalization of trade and investment regimes, including the removal of remaining foreign exchange controls. The recently signed treaty establishing a Northern Tier (El Salvador, Guatemala, Honduras) free trade zone represents a milestone in the "new integration" process.

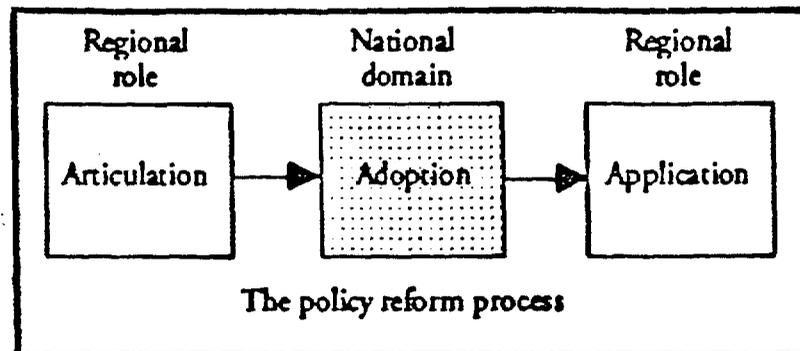
## The role of technical support in regional policy development

### *Policy reform and technical support*

The regional policy-making process today is entirely a matter of sovereign governments acting together. While the countries have some mutual treaty obligations, there is no regional authority appointed to judge or enforce compliance. Any joint policy decision has to be implemented by the national governments subscribing to it. Even so, regional fora play an increasingly important role in reaching policy decisions. Thus, *regional policy development* is a complex process by which the governments reach agreements on what economic policies and actions they will *each* carry out, with the national governments as the implementing agencies.

Accepting some simplification, one can distinguish three phases of the policy reform process. The first phase, *articulation*, covers the identification of a problem, the development of a consensus to do something about that problem, the development and appraisal of alternative solutions or approaches, and the choice of a course of action. The second phase, *adoption*, refers to all elements of the process to turn the policy decision into an operating policy — the drafting, introduction, and ratification of appropriate legislation and regulations. The third phase, *application*, comprises the administrative (as well as judicial) actions required to implement the newly adopted policies. In

the context of Central America, the commitments reached in regional policy making fora have become an important elements in policy articulation. Similarly, regional cooperation often comes into play in implementing particular innovations; for example, a task force of the Central Banks has been set up to implement the new exchange regimes jointly. That suggests the following structure of the policy reform process:



This simplified schematic highlights the role of regional cooperation in the reform process, (currently) focusing on the articulation phase, and (perhaps more strongly in the future) on application and monitoring. The adoption phase — putting policies into effect — remains the domain of national governments. How effective regionalism is therefore depends on national follow-up, which in turn depends on the ability of policy makers to communicate clearly the commitments reached at regional meetings.

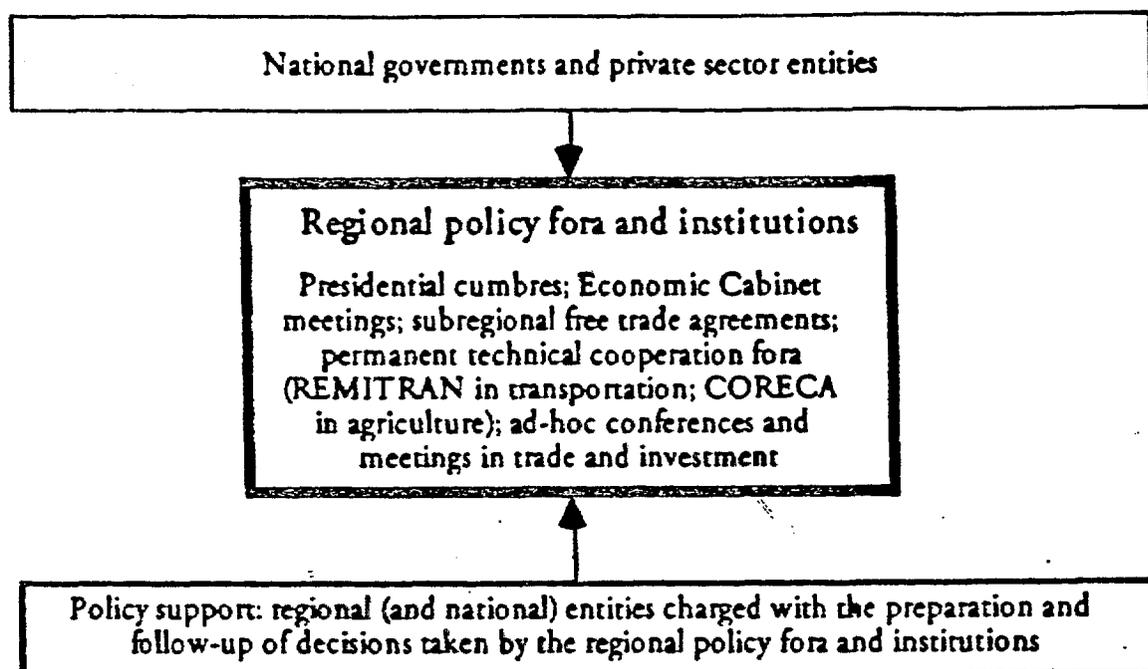
We see three elements of the *regional policy development system* engaged in the policy reform process: (1) the national governments, (2) the *regional policy making fora*, such as the periodic meetings of the government leaders and policy-making officials (the Presidents and the Economic Cabinets), free trade agreements on a general or sectoral basis, or permanent or ad-hoc technical cooperation fora, such as the quasi-permanent conference of Ministers of Transportation (REMITRAN) or the Regional Agricultural Cooperation Commission (CORECA), and (3) the policy support system — including both national-level agencies (such as Ministries of the Economy or Central Banks) and regional organizations (or entities with technical responsibilities at the regional level).

The *national governments* are the basic units of political and economic power and authority to adopt and implement economic policies. The rules by which government leaders can enter into international agreements and commitments vary according to the countries' constitutional structure, their procedural laws, and their political power structure. Internal and external considerations interact in complex ways in the decision-making processes.

The governments work through *regional policy making fora* on policy reform and harmonization. The *Presidential summits*, starting with the Antigua meeting of July 1990, have given the leading impulses to the new regional-

ism. At these summits, the Presidents have declared emphatically their support for new directions and instructed their cabinet ministers to formulate suitable plans and programs to follow up.

The *Economic Cabinets* (Ministers of the Economy, Finance, Agriculture, and Planning, and the heads of Central Banks) that are now meeting on a regular basis represent perhaps the most important regional policy forum, bringing together the region's leaders on economic policy making. The way in which these officials have "clicked" into a body able to make forceful and courageous decisions is encouraging. Their interaction and mutual support have contributed to a pace of economic liberalization that would have seemed overly ambitious only two years ago. The Economic Cabinets are also seeking



to increase the frequency and intensity of consultation through quasi-permanent bodies comprising second-tier policy makers (Vice Ministers).

While the Economic Cabinets do not include private-sector representatives, the organized private sector — including FEDEPRICAP officers — is regularly invited to participate either formally in meetings related to specific issues, or informally in gatherings or workshops at the meeting site.

In the area of agricultural policies, the *Comisión Regional de Cooperación Agrícola* (CORECA) has provided a forum for the coordination of agricultural policies in the region. It focuses on such issues as the liberalization of trade in agricultural goods, or the harmonization of policies regarding phytosanitary standards. IICA has been providing some technical assistance to CORECA.

### *Technical support at the regional level*

The Presidents initially called on their "Ministros Responsables" to work out the details and programs to implement the new policy guidelines. The Ministers of Economy, originally charged with managing the earlier integration movement in the context of the Central American Common Market, however, did not have the staff nor the technical capacity to deal with the large range of matters involved in policy harmonization, liberalization, and integration. The Presidential Summits as well as the Economic Cabinets therefore looked increasingly to regional entities for the necessary technical support in preparing and following up on the periodic meetings.

The structure and responsibilities of these regional entities still remain rooted in the regional integration efforts of the past. The earlier integration efforts spawned some fifteen principal regional organizations and at least 70 other regional entities to deal with a broad range of concerns. For better or for worse, these entities are tasked with providing technical support to the regional policy making fora. They differ widely in terms of visibility, capabilities and interests.

With ROCAP support, ten principal Central American regional institutions and associations (appropriately, though perhaps somewhat grandiosely, named the Group of Ten or G-10) met in Antigua in August 1991 to discuss their roles in the new regionalism. The group included the following organizations (see also box on p. 23):

SIECA —	the Permanent Secretariat of the General Treaty of Central American Integration;
CMCA —	the Central American Monetary Council;
FEDEPRICAP —	the Federation of Private Sector Entities of Central America and Panama;
FECAICA —	the Central American Federation of Chambers of Industry;
CABEI —	the Central American Bank for Economic Integration;
ICAP —	the Central American Institute for Public Administration;
ICAITI —	the Central American Institute for Industrial Research and Technology;
CADESCA —	the Central American Development Action Committee (of the Latin American Economic System, SELA);
CORECA —	the Council of the Ministers of Agriculture of the region (including Panama, Mexico and the Dominican Republic); and
CEPAL —	the UN Economic Commission for Latin

America (working out of its Mexico office).

Realizing the need for technical leadership and support at the regional level, these organizations agreed to work together and offer their combined expertise to regional policy making fora. The G-10 succeeded in drafting a policy agenda for achieving integration in an open-economy context (*Acciones para la reactivación, fortalecimiento y reestructuración de integración y la inserción de Centroamérica en la economía internacional*) that shaped the action program adopted by the Economic Cabinets in their meeting in Antigua in March 1992.

The policy-making authorities clearly want and need assistance from the regional technical support apparatus. They have provided new leadership and financial support for SIECA, appointed it as Executive Secretariat for the Economic Cabinets, and mandated it to perform a number of functions in support of the regional policy reform and integration movement. The Central American governments have also begun to address some of the problems that have paralyzed CABEL in recent years, thereby building the basis for CABEL to act as a real regional development bank. They are looking to CMCA for technical leadership in efforts to accomplish the harmonization of macroeconomic, especially monetary and exchange rate policies.

Policy makers are relying on regional entities for a range of functions and assignments:

- to analyze problems and issues in a comparative framework, incorporating the regional point of view and serving as a regional clearinghouse for information on the impacts of particular initiatives on the six or seven countries involved;
- to sponsor and conduct consensus-building dialogue on policy issues;
- to collect and disseminate consistent, reliable and timely information on policy measures and economic events in the member countries;
- to track and evaluate results of regional and country policy measures;
- to develop or disseminate model solutions (codes, legislation) for particular policy reform tasks;
- to provide expertise in complex intra-and extra-regional policy negotiations;
- to implement policy decisions that have a regional operational dimension; and
- to offer or facilitate access to critical expertise in highly technical areas that can best be used jointly by the Central American countries.

The institutional framework determining what the exact content of these

functions will be, and how they will be organized, managed, and implemented is evolving. It is likely to change further, depending on the pace and direction of regionalism in economic policy reform — which of course depend in part on the performance of the technical policy support. In this process, SIECA is likely to play a central coordinating role, with the more specialized entities taking on tasks consistent with their mandates and capabilities.

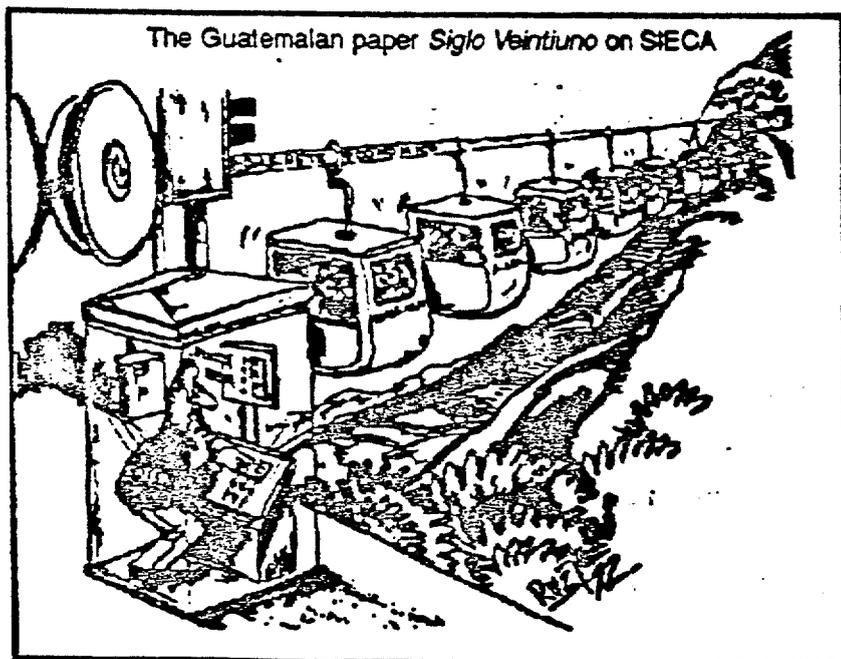
As Central American governments embrace regional cooperation as an integral part of the policy reform process, the success or failure of regional initiatives will affect the progress of national-level reforms. Successful regional initiatives can provide strong impulses to reform drives in individual countries. Any setback at the regional level in turn will weaken the overall momentum of reform. While political will and commitment remain the key to progress at the regional level, they are not sufficient. Lasting success ultimately depends on the availability and use of adequate technical support needed to articulate, promote, and appraise regional reform initiatives.

### Gaps and weaknesses in technical support for regional policy development

As demands for technical, analytical, logistical and administrative support at the regional level are growing, the weaknesses of existing entities and arrangements are becoming apparent. Part of the problem is the original approach of endowing the regional integration movement with a full range of support

organizations, without providing a secure way of financing these institutions and enabling them to attract appropriate staff. To be sure, during the heyday of the Central American Common Market, organizations such as SIECA were highly respected as sources of information and advice. Once the Common Market began to flounder, though, the financial and personnel needs of regional support entities took a backseat to the demands of domestic constituencies and agencies. All of the existing institutions, with the possible exception of the Central American Monetary Council, emerged from this period of more

or less benign neglect weakened and largely unable to meet the new demands. (See box for brief highlights of the situation of the members of the Group of Ten.)



## The G-10: a thumbnail appraisal

The Group of 10 includes "strictly" Central American institutions as well as institutions with broader membership that have a Central American focus.

SIECA is becoming the technical support mule of the new integration process. Governments and regional policy making fora tend to think of SIECA first for specific technical studies or for general logistical support. SIECA has been trying to cope with the various demands, but is facing severe limitations in terms of staff capabilities and financial resources. It has recently managed to get itself out of debt, and to obtain sufficient operating funds from the governments. But its organizational structure and technical capabilities can best be described as being in a state of flux, a situation that is jeopardizing its ability to take full advantage of technical assistance provided by ROCAP, the UNDP, IDB, and other sources.

The CMCA focuses on the tracking and analysis of macroeconomic, in particular monetary and exchange rate, policy issues. It is highly respected as a source of technical information and advice, but will need to develop complementary skills in policy dialogue and negotiation to play a more prominent role in helping to harmonize macroeconomic policies in the region. It is the recipient of technical assistance from various quarters, in particular the IMF, the UNDP and the IDB.

Created to involve the private sector more actively in the policy debate at the regional level, FEDEPRICAP has taken an activist role in rallying private-sector support for pursuing development through policies that stress openness and competition. Seeking to develop its proper role in this process as a federation of national business associations, FEDEPRICAP has registered hits, such as the annual Congress of Free Enterprise, as well as a few misses. Increasing involvement of donors other than ROCAP in its programs attests to its growing reputation.

FECAICA (Central American Federation of Chambers of Industry) represents more the established views of manufacturing. It has been lobbying, for example, to rescind the commitment to a 5-20-percent tariff range that Central American governments had agreed on in favor of a wider band (which would of course provide higher rates of effective protection).

The regional development bank, CABEL, seems to be emerging again as a viable regional development bank, after it became virtually paralyzed as a result of financial problems. In the past, CABEL had been used as a mechanism to compensate for gains and losses from integration, which did not necessarily encourage prudent lending practices. Under new management, it has been addressing its arrears problems, and is taking a more active stance. CABEL has been attracting countries for outside the region as members.

ICAP (the Central American Institute for Public Administration) had been given a mandate as the lead institution for human resource development in the public sector, akin to the role of INCAE for the private sector. Alas, it is currently playing a minor role in the region because of operational and financial problems.

ICAITI (Central American Institute for Industrial Research and Technology) was created to meet a critical need at the regional level with respect to research and development, and technology application. It is currently unable to perform its role as envisioned, having failed to establish an adequate financial basis for continued operation, either through user fees or through reliable support from the governments of the region, to help address the central problem of the technology gap for the region.

As the Central American Development Action Committee of the Latin American Economic System (SELA), supported by Latin American governments, CADESCA is not specifically an organ of Central American integration. With headquarters in Panama, it conducting useful work on policy issues related to economic relations between Central America and its neighbors to the South, especially in the area of agricultural products.

With support from IICA (Inter-American Institute of Agricultural Cooperation), CORECA, the Council of the Ministers of Agriculture of the region (including Panama, Mexico, and the Dominican Republic), is playing a critical role in the coordination of the region's agricultural policies. Agricultural products, especially foodstuffs, present some sensitive issues in the liberalization of intraregional trade. They also account for the lion's share of the region's exports. Common policies with respect to quality and phytosanitary standards and pricing policies can therefore contribute effectively to improved economic performance in the region.

The last member of the G-10 is CEPAL (or ECLA — Economic Commission for Latin America), a regional UN institution, working from its Mexico office.

The Central American governments have revived some of the public regional organizations, renewing their mandates, expressing new demands for their services, and providing additional financial resources. Some of the institutions are undertaking efforts to rebuild their capacity to play their role effectively. For example, CABEL has worked to consolidate its financial position and secure the renewed support from the Central American governments. Similarly, SIECA is currently engaged in an effort to streamline its operations and make better use of available talent and support to respond to the mandates of the Economic Cabinets and Presidential *cumbres*.

Even so, time is running short. The region's political leaders have committed their countries to an ambitious agenda of integration and joint action on economic policy reforms. Implementing this agenda will severely tax the capabilities of their governments and of the regional support entities. Technical support at the regional level therefore needs to improve to respond to new exigencies and opportunities, to put in place the processes and mechanisms to make integration work in support of an open, competitive regional economy.

## The context for ROCAP assistance

### The overall policy framework for U.S. assistance

The strategy governing U.S. assistance and development policy in the hemisphere has undergone fundamental changes over the last few years. The U.S. policy today stresses development through enhanced trade and investment. The U.S. also seeks to work more closely with its partners in the developed (OECD) world to structure a coherent approach to promote development in the region.

The clearest expression of the new approach is the *Enterprise for the Americas Initiative* (EAI). Drawing on the lessons of the Caribbean Basin Initiative, the EAI seeks: (1) to move to a hemispheric free trade zone through the Uruguay Round of the multilateral trade negotiations and through free trade agreements, with individual countries or with groups of countries; (2) to encourage investment by providing access to new capital resources for countries that have undertaken appropriate investment regime reforms; and (3) to make debt relief available to countries implementing stabilization and structural adjustment programs sanctioned by the IMF or the World Bank. A *Multilateral Investment Fund* (MIF) to be established in the Inter-American Development Bank (IDB) is intended to support market-oriented investment policy initiatives, to privatize government-owned industry, strengthen the productivity of the work force, and help small entrepreneurs gain access to capital. The U.S. government is planning to provide \$100 million per year over five years. The Japanese government has matched the U.S. pledge, and other governments have indicated their support.

The negotiations between the U.S., Canada and Mexico for a *North American Free Trade Agreement* (NAFTA) mark a historic step, building on the bilateral agreement signed between the U.S. and Canada in 1988 to include

Mexico. The "fast-track" procedures made possible by Congressional action in May 1991 allow the treaty implementing the NAFTA to be approved or rejected without line item vetoes. Major objectives include the elimination of all tariffs and of non-tariff barriers (on services as well as goods) over a period of years, promotion of an open investment climate, and full protection of intellectual property rights. Through the negotiation of framework agreements on trade and investment, the EAI is addressing trade issues with other countries. Trade and Investment Councils for each country created under these framework agreements are now beginning consultations on the types of economic reforms needed to meet the prerequisites for a free trade agreement. All of the Central American countries have signed bilateral framework agreements with the U.S.

The *Partnership for Democracy and Development* (PDD) was created to bring about a regional focus in Central America on the issues that relate to democratization and development. This multilateral forum brings together the OECD countries, the six Central American nations (including Panama), and the Latin American Group of Three (Mexico, Colombia, and Venezuela) in a partnership to support the process of policy reform for Central America that will address constraints to further strengthening democratization and integration into the world market place. The plenary session in Ottawa in January 1992 served to highlight specific priorities in both political and economic development.

ROCAP has shaped its overall program in the area of trade and investment on the basis of the principles and concerns of the EAI. It has also been given the mandate to address specific priorities that defined in the context of the PDD.

## Economic and related reform programs at the national level

### *A.I.D. policy reform programs*

With few exceptions, all the A.I.D. Missions in the region use Economic Support Fund resources to promote policy reforms. Targets cover the gamut of structural adjustment stabilization measures aimed at curtailing budget deficits, liberalization to open national economies by strengthening dialogue, consensus-building and the analytical base for reforms, and privatization to reduce direct intervention and participation by the public sector. The reforms aim at removing trade barriers, both tariff and non-tariff; enhancing the investment climate by identifying and mitigating regulations impeding the inflow of foreign investment and technology; and improving the performance of financial systems in mobilizing and allocating financial resources. USAIDs are closely coordinating this support for policy reform with related initiatives by other donors, notably the World Bank and the Inter-American Development Bank, as well as the IMF.

With respect to LRJ issues, the Trade and Investment Council (TIC) process is becoming a key element of the continuing policy dialogue, highlighting specific issues and providing incentives for their resolution.

### *A.I.D. trade and investment programs and projects*

All USAID programs in Central America work with national governments and business associations to remove restraints to trade and investment. For example:

- the *Honduras* Mission targeted the reform of legislation governing investment. Through its technical assistance programs, it helped bring about a draft investment law that eliminates or minimizes government registration and oversight of foreign investment;
- USAID/*Guatemala* has contributed directly to fiscal reform. It is now seeking improvements in selected areas of the LRJ framework for investment. Other efforts include a strengthened International Executive Service Corps (IESC) program to provide advice on production and marketing to exporters, and the design of more effective incentives for the drawback industries.
- *Panama*, characterized by high protective tariff regimes and — besides the entrepreneurial activities in the Free Trade Zone — a stifling investment climate, will benefit from the Mission's new trade and investment program that will strive to increase nontraditional exports and investment through reforms to the regulatory and policy framework and through technical assistance to producers to help them enter foreign markets.
- USAID/*Belize* will provide heightened emphasis to sustainability of economic growth driven by private sector investment, with special emphasis on resource planning and management. Its focus in the future will be on the preservation and sustainable use of the natural resource base in support of overall economic development, including trade and investment growth.
- USAID/*Nicaragua* has assumed a leadership role in re-vamping that country's economic policy regime, through both conditionality and appropriate technical assistance.
- USAID/*El Salvador* has been instrumental in moving the country's adjustment program forward.
- Finally, USAID/*Costa Rica*'s program is addressing a wide range of issues related to economic policy reform, including changes in the legal, regulatory and judicial framework governing that country's financial sector.

### *Other donors*

In each of the Central American countries, the USAID Missions work closely with the World Bank and the IMF, who typically have the lead in assisting in

the design of stabilization and structural adjustment programs. The IDB is becoming more active in policy reforms, largely through its investment sector loan program, focusing on LRJ issues. Other bilateral donors at the national level, particularly Canada, Spain, Sweden, and Japan, pay less attention to policy reform, stressing more sectoral, infrastructure, or human-resource development objectives.

At the regional level, patterns of assistance are evolving. Key among these will be the Inter-American Development Bank (IDB) is emerging as a key player at this level through a technical assistance program (PRADIC) to support

- the *Consejo Monetario Centroamericano* (CMCA) in coordinating macroeconomic policies;
- SIECA in developing an information base on regional and intraregional trade and trade barriers, regional negotiating strategies with other blocs, and assessing gains and losses of alternative liberalization strategies; and
- FEDEPRICAP in analyzing costs of productive inputs (including infrastructure services) and their effects on the competitiveness of the region's industry.

The United Nations Development Program (UNDP) coordinates the Special Plan of Cooperation for Central America (PEC), which comprises a number of technical and financial cooperation projects in the region. These projects, supported by several donors, include external debt assistance and financing to reactivate the Central American Common Market. The UNDP also acts as a clearinghouse of information on assistance programs in the region. The European Community has engaged in a broad dialogue with Central America, the "San José Process." The EC offers trade concessions to Central American countries, although it may also take them away as intra-European concerns take over (as in the case of bananas). Since many of the outward manifestations of the Central American drive toward integration are modeled on EC institutions, the EC has taken the lead in supporting some of these institutions. A typical example was its support for an attempt to revive the compensating mechanism for intraregional trade; at their recent meeting, the Economic Cabinets appear to have abandoned that attempt.

The creation of coordinating mechanisms at the policy and program levels — the Partnership for Democracy and Development (PDD), the Central American Development Coordination Commission (CADOC), the IDB/CA Consultative Group, the "San José Meetings" and the "San José Protocol" and others reflect a willingness among donors to coordinate programs. The PDD in particular is emerging as a useful forum of cooperation, encouraging the formulation of a common framework of priorities in trade and investment, as well as in the strengthening of democratic institutions. For example, partly within the PDD context, Canada's assistance strategy in the region is increasingly stressing trade and investment. Similarly, Japan is examining opportunities for increased assistance in this area. ROCAP has begun to coordinate regional assistance programs systematically with other donors at

the working level in the field.

### ROCAP's role

The U.S. has stressed its interest in strong, competitive market economies in the hemisphere in several policy statements, ranging from the Enterprise for the Americas Initiative to the Central American assistance strategy ("Central America 2000") developed by A.I.D.'s Bureau for Latin America and the Caribbean. Support for structural adjustment and policy reform therefore forms the cornerstone of the U.S. assistance to Central America, both through the USAIDs working with individual countries, and ROCAP and others working with regional fora and institutions.

A.I.D. originally established ROCAP as the vehicle for supporting Central American regional initiatives. That mandate, together with ROCAP's experience, provides the basis for responding effectively to the new regionalism. ROCAP's activities in trade and investment form one of three components that make up its integrated strategy for the next five to seven years, with the environment and democracy providing the focus for the other two.

With respect to environmental and natural resources, ROCAP has taken the lead in Central America in supporting efforts to ensure sound and efficient management of these resources. ROCAP's activities in this area, primarily structured in the framework of the RENARM Project, are designed to implement A.I.D.'s environmental strategy for Central America.

In the area of regional support for programs to strengthen democratic institutions and processes, ROCAP is currently in the process of focusing its strategy further. This strategy will build on its involvement in assisting the decentralization movement in the context of its regional municipal development program.

For trade and investment, ROCAP assistance will be critical to reach the targets of the regional policy agenda by strengthening the performance of the regional policy support system. If the support system fails to rise to the challenge, the pace of policy reform is likely to slow. Any improved performance of this regional policy support system will require not only better performance by existing regional entities and organizations, but also the emergence of new patterns of cooperation among governments and between business and government, the exchange of information, the search for consensus, and the interactions in implementing policy for consensus and the interactions in implementing policy decisions. To provide the needed assistance to such a dynamic process requires both technical competence and political sensitivity. These two themes will govern ROCAP assistance to trade and investment policy reform in the region. ROCAP intends to channel the major part of this assistance through the APERTURA (Assistance to and Promotion of Trade Opening through Regional Action) project to consolidate and focus its current activities in this area, to provide needed technical expertise in the short run and to work with Central American institutions to develop that expertise in the medium to long term.

## ROCAP's strategic focus in trade and investment

The introductory analysis to this document (see pp. 12-13) already outlined the structure of ROCAP's strategic framework in the area of trade and investment. Focusing on *economic relations* among countries in the region and between the region and its economic partners, this strategic framework highlights six target areas (not necessarily in any order of priority):

- reduction or elimination of barriers, in particular non-tariff barriers, to trade in agricultural as well as manufactured goods, and to trade in services;
- improvement of production and marketing technology, through the implementation of "world-class" IPR protection in *all* countries of the region, and through increased efforts in technology development, adaptation, dissemination and adoption;
- liberalization of trade in financial services, and harmonization of legal, regulatory and judicial frameworks to promote integration and cross-border competition;
- improvement and harmonization in the legal, regulatory and judicial environment to encourage trade in infrastructure services as well as increased private sector participation;
- coordination of trade and investment promotion activities in the region under PDD auspices; and
- harmonization of competition policy at the regional level, in particular curtailment of discriminatory and restrictive business practices.

The analysis above further identified three priorities within these target areas for the APERTURA Project: (1) removal of trade barriers, (2) promotion of a coherent and effective technology policy, in particular the modernization of the countries' IPR regimes and their administration, and (3) liberalization of trade in financial services. (The illustrative policy and action agenda in Annex B focuses on these three priorities.)

One important point: ROCAP interventions by themselves could not expect to achieve an appreciable impact in any of these areas; in the absence of country-level programs, we would have narrow our programmatic focus considerably, given our resources. In seeking to complement and reinforce country-level programs in support of policy reform, however, ROCAP needs to cast its net a little wider to ensure flexibility and an appropriate programmatic context in responding to targets of opportunity. We also expect that the proposed buy-in option, which has received support from a majority of the USAIDs in the region, will provide a vehicle to accelerate the pace of policy reform in Central America within a common framework, improving the soundness of efforts to harmonize policies, and thereby strengthening the overall impact.

## Project description

### Project approach

The approach of the APERTURA Project reflects the context and the institutional setting. Unlike USAIDs, ROCAP does not have counterpart institutions with policy making powers, such as government departments or agencies. It can help shape the pattern of policy reform by providing appropriate assistance and guidance to the organizational entities charged with preparing the appraisal of policy options for consideration by regional policy making fora, and, perhaps more importantly, with implementing the decisions reached at these fora. Appropriate assistance and guidance is required to ensure that decisions to open the economies of the region are fully implemented, and that decisions to strengthen ties among countries in the movement toward economic integration in fact support the movement to an open, competitive regional economy. Balancing the needs of integration with the demands of open competition requires consummate analytical, political and administrative skills. The APERTURA Project is designed to provide the required expertise in the short term, and to ensure the full development of such skills in the medium to long term.

The strategic context implies a dual role for ROCAP assistance. Assistance at the regional level is needed to advance national-level agendas. In addition, ROCAP will address trade and trade-related investment issues not adequately covered by individual country programs or best handled by regional fora. Through the proposed buy-in mechanism, APERTURA will provide support to USAIDs in priority areas of the common policy and action agenda.

In the face of an evolving role for regionalism, ROCAP assistance should allow for and encourage new approaches and solutions, strengthening and sustaining the regional process of consensus-building, policy articulation, and follow-up. As the Central American governments search for effective ways of regional cooperation in opening their economies, tying assistance to strengthen technical policy support at the regional level to the existing institutional structure is likely to hamper rather than help progress. Clearly, we have to work through existing or emerging Central American institutions. ROCAP assistance seeks to strengthen flexible responses, including *ad-hoc* arrangements, to keep the Central American reform process moving. That approach requires that we will need to adapt our assistance to the needs of the policy support process and institutions as they evolve over time.

Some of the policy issues addressed by regional fora will be easily and quickly decided and resolved. Others, however, facing complex political obstacles in getting agreement among five, six or seven countries, may require protracted study, dialogue, negotiation, and administrative effort over several years. Policy support at the regional level (and external assistance to it) needs to be flexible enough to adjust to unpredictable accelerations and delays. The experience with change in the region over the last six months alone vividly demonstrates the importance of flexibility and quick-response capability.

## Project goal and purpose

The policy goals for the region established by A.I.D.'s Bureau for Latin America and the Caribbean furnish the *goal* for the APERTURA Project: the realization of an open competitive Central American economy. This project adds its contribution to that of the bilateral USAID programs and the other U.S. policy initiatives, including the EAI, PDD, and CADCC, as well as of the other multilateral and bilateral donors. We will track and evaluate progress in tariff, NTB and RBP reduction, IPR protection, and resulting growth in trade in goods and services through a variety of country, regional, and external agency channels.

The *purpose* of the project is to help Central American governments choose, agree on and implement harmonized policies to open and liberalize their economies. The Project will assist regional as well as national institutions and entities in preparing policy options for decisions by the Central American governments, working together at the regional level, and in implementing these decisions in concert through market-based mechanisms.

This assistance to regional policy support will serve the needs of Central American economic policy makers. It will include information, analysis, dissemination, dialogue, and policy implementation and tracking functions. The Project approach will also facilitate improved donor coordination in regional assistance programs. Finally, it will integrate private enterprise more closely and effectively into the process of consultation and decision-making in trade, investment, and integration policies.

## How the Project will work

The APERTURA Project will provide assistance to regional and national entities charged with specific policy support tasks by regional policy making fora. Through its activities and a buy-in option, it will also make specialized technical expertise available to USAIDs seeking to assist their respective host governments in responding to specific mandates emerging from integration and policy harmonization. At least initially, project assistance at the regional level is likely to focus on the core entities charged with specific tasks by regional policy making fora — principally SIECA, CMCA, and FEDEPRICAP. Over its three-year life, the Project will focus on technical support services, including policy appraisal and follow-up pertinent to the implementation of PAECA and related regional reform initiatives.

While the Project will work primarily with the core entities to help them carry out pending assignments from regional policy making fora, these entities will not enjoy exclusive access to Project assistance. Other entities with clear responsibilities in the regional policy reform process will be eligible for assistance for particular activities. Such entities may include industry federations, public or private-sector regional commissions addressing specific issues such as transport or non-tariff barriers, or even more ad-hoc multi-nation groups undertaking innovative cooperative actions that will further the process of removing barriers to trade and investment in the region.

APERTURA may also complement assistance to regional entities charged with administering new policies.

*Setting the Project agenda and A.I.D.'s role in this process*

In their periodic meetings, the Central American Presidents and Economic Cabinets address the full range of trade and investment obstacles. The Presidents set the basic policy agenda and priorities, and the Economic Cabinets refine them further. The mandates that have emerged from these regional fora reflect a broad agenda and priorities. To prepare sound policy analysis and recommendations and to facilitate and monitor actions to follow-up decisions taken at the Summit and Cabinet meetings requires policy studies, conferences, workshops, and information gathering on problems and progress in the reform process. The specific content and priority of items in the agenda will continue to change according to the needs and priorities of the Central American national governments, and their perceptions of the relevance of regional action in the reform process. These perceptions in turn depend on the track record of resolving issues, adopting agreed-upon policies, and achieving results.

The specific policy items to be addressed by the APERTURA project are thus first and foremost derivative of the agenda set by the Central Americans, as filtered through ROCAP's regional policy agenda outlined above (p. 12-13). Since policy reform is not a linear process, a rigid agenda over a longer time horizon — like the Project's three-year life — is inappropriate. Instead, ROCAP will provide guidance for this Project through a *policy and action agendas* for one year at a time, updated every six months. This agenda will reflect upcoming needs and lessons learned. It will provide a framework for management control and oversight, without giving up the flexibility essential for regional support to economic policy reform.

ROCAP will formulate the annual policy and action agenda in close cooperation with the USAID Missions. Program Economists and Trade and Investment Officers of USAIDs in Central America will form a Project Advisory Committee, which will meet twice a year. At these meetings, the Project Advisory Committee will review progress during the past year, and comment on the draft agenda for the coming year. The ROCAP Project Manager will also maintain more informal contacts with the Missions through field visits and periodic written communications to ensure continuing coordination. A sample policy and action agenda for the Project for the period July 1992 to June 1993 is shown in Annex B. While the Project itself will not be operating by July 1992, the agenda will provide guidance for assistance under existing projects, and serves to illustrate the concept and to elicit comments.

By making the Project itself the vehicle for coordination with USAIDs, we will avoid any conflicts or duplication between ROCAP and USAID activities. We will also be able to respond effectively to needs at the national level emerging from the regional cooperation process. At the same time, close coordination will facilitate follow-up on relevant commitments and decisions at regional policy making fora by integrating it into USAID activities.

### *Project elements and management structure*

The management structure and input delivery system for this Project are expected to include the following elements to provide the needed flexibility with adequate controls; these options will be explored in greater detail in the PP design process and revised as appropriate:

- a Regional Policy Support Unit (RPSU) to manage *technical assistance* and training activities;
- *training* for the staff of regional and national entities, both in the U.S. and in the region;
- subscriptions for specified *continuing regional support services*, such as information collection, analysis, and dissemination;
- *targeted action support* for regional entities established to carry out particular functions or charged with new responsibilities;
- support for *comparative economic policy research* within ROCAP; and
- support for *regional conferences and workshops*.

A buy-in provision will provide USAIDs with access to specialized technical expertise and training services.

The *Regional Policy Support Unit* (RPSU) will be the principal management unit and channel for technical assistance and training activities for regional policy support. Conceived as a temporary entity to be set up in Guatemala by a (U.S.) university, non-profit organization, or institutional contractor, the RPSU would provide access to specialized technical expertise and training resources to qualifying regional and national entities and fora for activities furthering the process of regional policy formulation, appraisal and consensus building. It would have the needed staff to provide technical leadership, and to handle the management and administrative requirements of technical and training assistance, under direction from ROCAP. In the PP analysis, we will also explore options to have the RPSU handle funds for targeted action support to qualifying regional institutions.

Qualifying regional institutions (or national institutions with regional responsibilities) could request from ROCAP technical or training assistance for particular tasks or activities — the preparation of draft documents, execution of analytical studies or feasibility analyses, and development of improved management structures and capabilities. This assistance will be provided through the RPSU. Any such assistance will require an appropriate counterpart contribution according to a schedule to be specified. Overall, the Project will seek to maintain an average counterpart contribution of 25 percent.

Short-term *technical assistance* provided under the Project will cover a broad range of regional policy concerns, across the entire spectrum of trade-related

issues, including trade in services. We expect to identify likely priority areas of expertise in greater detail in the PP design.

As new systems are established and new responsibilities are being assigned, additional demands will be placed on staff capabilities. *Training* will be offered under the APERTURA Project for the staff of regional or national entities, either in the U.S. or in the region. Three types of training are considered under the Project, preferably in conjunction with technical assistance to the respective entity:

- Short-term training (up to 11 months) at specialized institutions in the United States or at qualified Central American institutions, in areas like economic and policy analysis, statistical methods, or financial techniques;
- short-term training of the staff of selected institutions in-country to become familiar with new systems, or to acquire a common knowledge base related to the mandate of the respective entity; and
- study tours to look at institutional solutions and approaches in other settings relevant to the performance of the regional policy support system, such as the functioning of joint customs administration, or close cooperation among countries in establishing and administering IPR protection schemes.

At this point, we cannot see any need for long-term (degree) training under the Project; in any case, the three-year LOP virtually rules out any such training. We expect that much of the required training for the improvement of the regional technical support system would best be handled under the arrangement with the RPSU to ensure that training is linked to specific functional requirements. The illustrative budget shows a separate training component to highlight the importance of this element.

While support under the Project focuses on functional, rather than institutional, needs, certain basic services require a stable institutional structure. Such services include region-wide collection and reporting of statistics on trade-related phenomena, logistic support to key regional fora like the periodic meetings of the Economic Cabinets, or consensus-building on market-oriented trade and investment policies at the regional level in the private sector through periodic conferences and workshops. To support such services in a manner that emphasizes function rather than institution, we expect to finance functional grants for *continuing regional support services* by selected institutions on a competitive basis. These "subscriptions" will be for a limited period of time, and will incorporate a gradual reduction in the level of support over time to encourage the search for sustainable solutions.

Particular regional initiatives may also require direct organizational support for startup or adaptation to new tasks or arrangements. For example, countries may agree to unify the administration of a common intellectual property rights code, with a single office handling all or some aspects of the regis-

tration of patents and trademarks on a regional basis. A joint customs administration is scheduled to form part of the Northern Tier free trade area as it evolves into a customs union. Similarly, the governments may seek to strengthen a unified oversight of trade in financial services or encourage multi-country cooperative arrangements to further the harmonization process. Another example might be devising and implementing a system for the consolidation of air freight shipments among several countries on a pilot basis. In such cases, the Project might provide a *one-time institutional action support* to launch the operation, complementing any technical assistance or training support, channeled through the RPSU or other appropriate grantees. Clearly, to qualify for such action support, the organization would have to offer not only an adequate counterpart contribution, but also provide evidence of specific operational responsibilities. Institutions charged with general coordination or support functions would not be eligible for such targeted action grants.

The APERTURA Project provides core support for implementing the regional policy and action agenda. To formulate that agenda and monitor its implementation, ROCAP will require direct technical expertise outside of the RPSU structure. We therefore expect to bring on a trade economist on board under a PSC arrangement. The work of that individual will be governed by the annual agenda, that is, it will respond to some extent to the needs and preferences of USAID Missions. In addition, with limited staff, ROCAP will require the services of one person to manage the Project internally. Finally, under an existing agreement, APERTURA will pick up the contract of the Project Manager for ROCAP's activities in the energy area, arguably the most important component of infrastructure services. The preliminary budget includes funds for these PSCs.

Finally, APERTURA will also provide financial support to relevant *regional conferences, workshops, etc.*, designed to advance the regional process of improving trade conditions.

#### *Relationship to other ROCAP activities*

The APERTURA Project will form the core of ROCAP's activities in the area of trade and investment. It will take over from and expand on two current projects (Economic Policy Research and Private Sector Initiative) that provide assistance to public and private-sector regional entities engaged in economic policy development and appraisal. Two other projects, one (CARES) focusing on rural electrification, including related policy issues, the other (EXITOS) providing technical assistance to and through private-sector organization on production and marketing of non-traditional agricultural exports. While these two projects concentrate on technical advice, they offer excellent means of surfacing and addressing policy issues at the "ground level." As noted, we expect to pick up the contract of the PSC Project Manager for the CARES Project under APERTURA.

The Regional Development Support (RDS) Project, now being amended, will provide critical support to policy development at the regional level. This

support will take the form of assistance to information management in the region. APERTURA may address specific questions related to the management of information relevant to trade and investment policy making at the regional level, but would draw on the specialized expertise being developed under the RDS Project to ensure that trade and investment information systems take advantage of and fit into overall structures.

We also expect that stronger links to the other elements of the ROCAP will emerge. For example, tourism presents special issues in natural resource management. It is also an important service industry, with trade-related problems. Coordination of policy advice in this area could not but enhance the effectiveness of the message.

#### *Coordination with other donors*

Coordination with other donors active at the regional level, in particular the multilateral development banks (World Bank and IDB), the UNDP, Canada, Japan and the EC, will form a critical part of the Project. At a general level, we will share with these organizations our annual policy and action agenda. We have also been working very hard to establish the relationships needed to coordinate closely at the working level. Other donors have similar agendas and are looking at the same regional institutions. In this situation, the task of coordination is in the detail — to know exactly the scope of work for a particular assignment. We will continue to cultivate these contacts and hope to strengthen joint planning exercises with key donors involved with the same regional entities, which we have already initiated.

ROCAP also has clear responsibilities, related to trade and investment, in the Partnership for Democracy and Development. The PDD is evolving into a strong mechanism for coordinating strategic planning of assistance at the regional level, in particular with the IDB, as well as with the Canadian and Japanese assistance organizations.

#### **Project management**

The RPSU fielded by a cooperating organization or contractor will perform front-line technical assistance and training management functions. The RPSU cooperative agreement or contract is expected provide funding for technical assistance, U.S. based and local short term training, equipment or commodities necessary for operating the local RPSU office, and for the management and monitoring of any targeted action support or other assistance program for qualifying regional entities, if appropriate. The specific management responsibilities of the RPSU will include:

- identifying and contracting short term specialists needed for project implementation as well as monitoring their work and providing necessary administrative/logistical support;
- commodity procurement that may be needed;
- managing any subgrant component of the project, specifically targeted action support to qualifying institutions (to be

confirmed in the PP analysis), under the direction of ROCAP;

- preparing and updating annual workplans for short-term technical assistance and training in response to the annual policy and action agenda, and providing periodic reports to ROCAP; and
- working in close consultation with the ROCAP Project Manager as well as the members of the Project Advisory Committee in the USAIDs.

ROCAP will assign a full time local PSC, financed under the Project, to manage this project and carry out AID liaison functions with USAIDs in the region to ensure a continuing dialogue and feedback on Project progress and performance.

We will examine the management functions of the RPSU and ROCAP further in the project design.

### Budget

	Units	Quantity	Cost per unit	Total cost
<b>Regional Policy Support Unit</b>				
• Resident technical assistance	Person-years	3	250,000	750,000
• Logistical support	Person-years	3	80,000	240,000
• Short-term technical assistance	Person-years	5	250,000	1,250,000
Project management and analytical support	Person-years	6	150,000	900,000
Subscriptions for regional support services	Service units	4	75,000	300,000
Targeted institutional action support	Number	6	200,000	1,200,000
<b>Training</b>				
• U.S. based	Person-months	18	10,000	180,000
• In the region	Person-months	36	5,000	180,000
Support to conferences, workshops, etc.	Number	6	50,000	300,000
Evaluations and audits	Number	2	50,000	100,000
Contingency	Percent	11%		600,000
<b>Total</b>				<b>6,000,000</b>

## Project Monitoring and Evaluation

The attached Logical Framework (Annex A) suggests preliminary project outputs and indicators of goal, purpose and output achievement. Periodic progress assessments during the life of the Project will focus on these indicators.

### *Monitoring*

The RPSU will be responsible for monitoring input delivery and progress in achieving output target identified in the annual policy and action agenda. The ROCAP project manager will review periodic reports produced by the RPSU as well as the more comprehensive reports submitted on an annual basis as input into the policy and action agenda review.

The Project Advisory Committee described above will also have a broad monitoring role through its involvement in reviewing accomplishments on the policy and action agenda, and in commenting on the draft agenda for the following year.

### *Evaluation*

For the development of performance indicators that we will use to assess the impact of APERTURA, OREAT will draw on ROCAP's Program Performance Assessment System (PPAS) now under development. An independent contractor (or contractors), funded under the Project, will conduct a mid-term and a final project evaluation. These evaluations will use the Project log frame, supplemented by appropriate PPAS indicators.

## Summary of analyses

### *Social considerations.*

This project is an "overhead" contribution to the current historic Central American countries' effort to liberalize, open and integrate their economies with each other and with the international market. That broader movement will no doubt have far-reaching social and political as well as economic effects on Central American society.

### *Socio-cultural context*

The instability and conflicts of the past decade reflected the failure of the societies to progress. Economic and social advances are therefore the key to social peace and constructive political activity.

### *Beneficiaries*

If the potential rates of growth and development can be attained, the roughly half of the labor force living in primitive conditions can be brought into modern conditions of life, and the other half can reach productivity levels approaching those of the developed countries. The effort will both require and support advances in education, health and economic and social welfare

generally.

If reasonably rapid growth rates of employment and income can be reached, it is likely that the complex of democratic governments and public and private associations will insure reasonable distribution of the enlarged resource flow and appropriate sharing of benefits.

### *Participation*

Since the project operates at the highest levels of public policy, the scope for direct popular participation is limited. However, a major objective of the program is to help organize a system and process for the private sector to make their views and support known in the processes of public policy formation. Ideally this process would lead to a consensus in which all social groups would understand and support agreed-upon policies and measures, and know what to do to do their part.

### Socio-cultural feasibility

The regional efforts supported by this project fit central American socio-economic characteristics because the overall movement is mainly a Central American initiative, and also a proper response to the countries' development problems and to their situation in the world economy. It is as if Central America has awakened to a new and correct understanding of what it needs to do.

### *Impact*

The goal of this project will help the people meet their basic human needs by providing large increases in productive employment for a large part of the labor force, by promoting access to needed capital for private and public investment, to modern technology and management, and to the pressures for efficiency and productivity from international competition:

A key to rapid Central American growth probably lies in industrial component manufacture and assembly industries. A strong impact of this trend to date has been to provide relatively well-paid jobs to Central American workers who otherwise might have to expend their efforts on very low returns in the informal sector or subsistence agriculture. Export manufacturers have estimated that local workers reach physical productivity levels equivalent to 80 percent of developed country standards within three years. If Central America can manage to absorb its available labor force in such employment at wages of \$1-2 an hour, Central America's prospects will be revolutionized, and the road will be open to unprecedented progress.

### Economic and financial considerations.

#### *Economic appraisal*

As an advisory and technical support element in the whole complex of regional development policy making, this kind of project has no directly identifiable or measurable economic product. Benefits occur in terms in-

creased efficiency because of better resource allocation and management, reduced deadweight losses, more equitable income distributions, and faster growth. Enumerating these effects is difficult enough; trying to attribute them (or some portion) to one particular project is an exercise in futility. Standard economic return or cost-benefit calculations therefore provide no guidance in assessing the economic value of the Project.

In that situation, one frequently used alternative looks at the required economic benefits that would yield an acceptable rate of return. To get some order of magnitude of the required benefits, focus for the moment only on expected impacts on overall economic growth. For simplicity's sake, assume that the Project's effects come in with a two-year lag after startup, and that they last for ten years. In that scenario, an annual benefit of \$1.7 million for year 3 to 16 would yield a respectable internal rate of return of 15 percent. That level of benefits would require an increase in the region's growth rate of 0.005 percentage points. Clearly, that number is small enough to be totally absorbed in statistical noise, but it does serve to illustrate the potential effects of even a marginal improvement in growth performance as a result of better policies through regional cooperation.

Another way of looking at it is as an expenditure of 5 to 6 cents per Central American per year — a negligible addition to the total bilateral and multilateral donor programs in the region. Given the need for and reasonable prospect of doubling per capita output in the next decade, (an increase from about \$1000 to \$2000) the cost of the project represents a very small insurance premium to improve the chances for success.

#### *Financial feasibility*

The point here is that the project offers extreme cost-effectiveness because it aims at "topping off" the overall donor and "host region" efforts at the highest priority points where its absence or delay would do the most harm to the regional movement. The overall expenditure proposed for advisory and technical support services is a level judged to be adequate for the purposes and objectives of the project and administratively feasible for ROCAP and the participating regional entities, based on experience with the preceding related projects.

### **Project Paper design strategy**

*Time frame.* The Project Paper (PP) design is expected to take place during October-December 1992, with project authorization expected by January 1993.

*The design task.* Following approval of the PID by A.I.D./Washington, ROCAP will contract with a qualified U.S. consulting firm for assistance in the development of the PP. We are also employing two summer interns (June-August) to examine specific issues of importance to the PP design (financial sector LRJ systems, and regional trade and investment information systems). The essence of the design task is to define in greater detail what

ROCAP can and should do at the regional level to support the Central American liberalization and integration movement. This means analyzing further what the Central Americans are doing and planning to do, and deciding what to do to support and influence that movement. To ensure proper coordination we will consult with the bilateral AID missions through both periodic country visits and regional meetings.

We expect that the major regional organizations, SIECA and FEDEPRICAP, in devising their own strategies, approaches, and work plans, will have an important role in setting the overall framework and *ambiente* in which the project will operate. We will therefore seek to have them assign technical personnel to work with our design team, perhaps also establishing an ad-hoc interagency committee to review the design work.

*The PP design team:* The PP design team will comprise:

- designated ROCAP staff (OREAT, PPD and others), including two summer interns, supplemented by
- institutional contract funded specialists to provide various technical services needed for project design; and
- at least two designated professionals furnished by selected Central American regional organizations (probably SIECA and FEDEPRICAP), with credentials and responsibilities in economic and trade policy to work with the team on at least half-time basis.

*The design process:* The design team will be expected to:

- 1) gather information on regional progress in addressing trade and investment issues;
- 2) identify problems in this area;
- 3) review the trade and investment and related assistance of USAIDs and other donors in Central America relevant to opening up the regional economy;
- 4) assess the processes currently in place for regional cooperation on trade and investment issues;
- 5) identify gaps or weaknesses in the regional policy formulation/harmonization process, and propose ways that these can be addressed adequately;
- 6) assess the implementation arrangements outlined in this document, develop options as needed, and develop specific criteria and systems for awarding subscriptions or providing targeted action support;
- 7) assess the proposed system for ROCAP/USAID collaboration in setting the policy agenda to be addressed by the Project, preparing annual Project work plans and implementing policy reforms; and

- 8) respond to specific needs which may arise as the design process evolves.

The draft PP will be submitted for review by the USAIDs in the region prior to authorization.

## Relevant experience with similar projects.

A recently completed study sponsored by AID's LAC Bureau and PPC/CDIE examined the impact of a number of AID-supported trade and investment promotion organizations in the CBI region. This survey concluded that wide availability of standardized information and the improvement of the investment and export environment were the key elements in stimulating investment and exports. In contrast, customized, targeted services directed to a limited number of products were less successful.

In line with these conclusions, the main thrust of this Project is the regional harmonization of policies, laws and procedures that facilitate investment and exports, the diffusion of standardized information and other services region-wide, and the development of regional solutions to upgrade regional infrastructure services.

More directly, ROCAP has been promoting this movement with two projects which this project will supersede:

- The Private Sector Initiatives Project helped launch FEDEPRICAP as an effective voice of private sector institutions to influence public actions in the right direction, particularly through their ability to act in concert at the regional level. This Project builds upon those results. FEDEPRICAP has become the principal vehicle for articulating private sector concerns and strategies on transportation bottlenecks to exports to global markets, particularly nontraditional exports. Issues of high conference and charter tariffs and inadequate physical infrastructure have been considered and acted upon at regional public sector fora, including that of the Central American Ministers of Transportation (REMITRAN). Similarly, FEDEPRICAP plays an important role in eliciting and expressing private sector concerns over obstacles to the efficient channeling of capital, and in forging a private sector consensus on strategies to create or strengthen institutions that will effectively mobilize and allocate capital. It has conveyed these concerns to public sector principals at integration fora, drawing attention to issues such as the need for transparency in equity transactions in national capital markets and for the removal of obstacles to transnational capital movements.
- Concurrently, the Regional Economic Policy Studies project was working to promote a systematic public sector

effort to analyze development policy issues and to organize a process of dialogue and consensus among the governments of the region. The Central American Presidential Resolutions reviving Central American regionalism with a liberalization and world market focus, the resultant Economic Cabinets organizing a systematic consultation process, and the rejuvenation of SIECA now offer the opportunity to accelerate the process to a speed hardly imagined when we began.

This Project now seeks to combine these earlier private and public sector movements into an integrated process for effective regional policy reform and implementation that will support and increase the momentum for effective change already achieved.

One example of the potential effectiveness of a central technical assistance unit for the region, in this case working with private sector institutions in the Central American countries, is the EXITOS (formerly the PROEXAG) project. This project responds to specific requests from qualifying institutions and works with them to define the scope of the actual technical assistance required.

The proposed Regional Policy Support Unit also builds on related experiences in other A.I.D. programs. For example, under the Private Sector Policy Support Project in Sri Lanka, a unit established by the University of Maryland has been working with a broad range of private sector organizations (from the country's premier Chamber of Commerce and Industry to the association of trishaw drivers) in defining and specific technical assistance requirements on economic policy issues.

**Annex A**

**APERTURA Logical Framework**

## APERTURA Logical Framework

Program or sector goal/target	Objectively verifiable indicators, measures of goal achievement	Means of verification	Important assumptions for achieving goal
An open, competitive regional economy in Central America	Reduced tariff and non-tariff barriers; adequate protection of IPR; increased trade in financial services; improved (cross-border) competition policies; increased trade in infrastructure services; improved information on trade and investment	Review of data from regional public and private sector sources, including SIECA, FEDEPRICAP, CADCC, PDD, and SICA; review of IMF, IBRD, IDB and A.I.D. and other donor evaluation reports; special studies; approval/acceptance in trade negotiations	The political and social situation in the region will continue to remain calm, creating a stable environment for trade and investment. No major trading partners will revert to protectionist measures that would adversely affect Central America. Governments of the region will continue to adhere to market-driven development policies.

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## APERTURA Logical Framework

Project purpose	End-of-project status	Means of verification	Important assumptions for achieving purpose
<p>Help Central American governments choose, agree on and implement harmonized policies to open and liberalize their economies</p>	<p>1. Consistent, common or compatible legal and regulatory provisions and administrative and judicial procedures in place in (a) intellectual property protection, (b) unfair trade practices, (c) financial markets supervision, (d) customs administration (including nomenclature, rules of origin, operating procedures, etc.), and (d) private sector participation in infrastructure sectors.</p> <p>2. Improved relevance, quality and timeliness of technical support (studies, analysis, dialogue, dissemination and negotiating services) provided to regional policy making fora (Presidential summits, Economic Cabinet meetings), including enhanced performance of T&amp;I information systems, and of systems to monitor progress in formulating, adopting and implementing harmonized trade and investment policies at the regional level.</p> <p>3. Effective donor coordination for regional trade and investment assistance projects within a common policy framework.</p> <p>4. Private enterprise fully integrated into the consultation/decision making process in trade and investment policy development.</p>	<p>Ad-hoc and periodic evaluations conducted by ROCAP or regional entities; annual review of performance on policy and action agenda by Project Advisory Committee (representing USAIDs); tracking of policy convergence across countries; observation of satisfaction with performance of regional policy support system in meeting mandates and task schedules of regional policy making fora</p>	<p>The international donor community maintains current levels of technical support and consensus on the appropriate directions for development policy. The countries in the region maintain the political will to sustain regional efforts and processes seeking to remove obstacles. Investment resources remain available for efficient allocation within the region.</p>

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## APERTURA Logical Framework

Outputs	Objectively verifiable indicators	Means of verification	Important assumptions
<p>1. Policy studies and model codes completed and results disseminated and discussed in workshops and regional fora.</p> <p>2. Effective (a) inter- and (b) intra-regional trade agreements devised, negotiated and operational.</p> <p>3. Information dissemination and monitoring system operational to facilitate and track national policy reforms and regional policy harmonization.</p> <p>4. Functioning system for donor coordination. Donor actions to reflect coordination in the design and implementation of their programs. Current and new regional assistance fully complementary.</p> <p>5. Short-term training for some 50-60 professionals working in regional policy support entities or otherwise involved in technical support.</p> <p>6. Increased presence or participation of private sector organizations in regional policy development and implementation.</p>	<p>1. Completed reports and model codes; awareness of and satisfaction with these products by opinion leaders in public and private sector.</p> <p>2. (a) Conclusion of specific agreements; implementation of and adherence to such agreements.</p> <p>2. (b) A regional framework agreement signed.</p> <p>3. Trade and investment information network in place; levels of requests, utilization, and user satisfaction; reliability and timeliness of statistics.</p> <p>4. Frequency of donor coordination meetings; effective donor participation in development, implementation and review of annual policy and action agenda; complementarity of projects.</p> <p>5. Proper status and responsibilities of trainees sponsored; relevance and usefulness of training; satisfaction of trainees and supervisors with impact of training.</p> <p>6. Level and pattern of participation of private sector representatives in regional policy making fora; satisfaction with influence by both public and private sector representatives.</p>	<p>Official records; appraisals by Project Advisory Committee; periodic reports by ROCAP and regional policy support institutions; policy declarations and formal announcements on signed agreements emanating from regional economic meetings.</p> <p>Special studies and evaluations of changing trade (both goods and services) and investment patterns in the region.</p> <p>Surveys of perceptions of outside trade negotiators and investors.</p> <p>Project records on donor coordination and training outputs.</p> <p>Direct observation and key informant interviews.</p>	<ul style="list-style-type: none"> <li>• Regional policy support entities (such as SIECA) will actively seek to fulfill their mandate.</li> <li>• Central American governments continue to maintain their overall consensus on coherent trade, integration and liberalization policies and programs.</li> <li>• U.S. and other donor bilateral and regional programs will provide needed technical and financial support.</li> </ul>

## APERTURA Logical Framework

Inputs	Objectively verifiable indicators	Means of verification	Important assumptions
1. Technical assistance: 14 person-years 2. Management assistance and oversight (logistical support): 3 person-years 3. Funding for continuing regional support services: \$300,000 4. Targeted institutional action support: \$1.2 million 5. Support to conferences, workshops, etc.: \$300,000 6. Training: 18 person-months U.S.-based training; 36 person-months training in the region	[As indicated in description of inputs.]	Project records; audits and evaluations	The programmed funds will become available as intended.

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**Annex B**

**Illustrative policy and action agenda,  
July '92 - June '93**

## Illustrative policy and action agenda July '92 - June '93

Policy targets	Policy reform steps	Policy support system action	Lead regional entity	Key cooperating agencies	
<b>Priority: Remove trade barriers</b>					
(1) Introduction of common external tariff by January 1993	Adjustment in tariff schedules in all Central American countries	Establish regional compliance monitoring and reporting system	SIECA	UN/ITC, UNCTAD/GATT	
		Appraise implications of number of bands within common floor and ceiling	SIECA, FEDEPRICAP	USAID; UNCTAD/GATT	
		Assess impact of differences in external and intraregional tariff schedules	SIECA	USAID; UNCTAD/GATT	
		Surveys and analysis of private sector on impact of tariff reforms	FEDEPRICAP	Country associations	
		Conduct consensus building seminars and conferences	FEDEPRICAP	Country associations	
	(2) Reduction of non-tariff barriers	Specific improvements of border crossing procedures (Economic Cabinets 3/92)	Monitor implementation of mandated changes in border crossing procedures	SIECA, FEDEPRICAP, Transport Users Group	USAID;
			Survey experience of transport operators with new procedures	FEDEPRICAP	Country associations
			Appraisal of implications of new scheme of transnational financial settlements	CMCA	IDB
		Improvements in settlements of trade and related financial transactions (Economic Cabinets 3/92)	Assessment of further need for compensation scheme	CMCA	IDB
			Development of new transport (port) linkages to US markets	Analysis of costs and benefits associated with alternative East Coast ports (including backhaul)	Transport Users Group, FEDEPRICAP
Negotiation of new port arrangements	Transport Users Group, FEDEPRICAP				

(3) Formation of Northern Tier Free Trade Area (NTFTA)	Elimination of tariffs on all goods (with defined exceptions)	Appraisal of implications for trade within NTFTA, between NTFTA and other Central American countries, and with other countries	SIECA	USAIDs
		Assessment of implications of NTFTA on trade in services	SIECA, CMCA	USAIDs
(4) Joint international trade negotiations	Introduction of joint customs administration	Development of procedures, reorganization, and training	? (New organization?)	UNCTAD/GATT
	Strengthening regional trade negotiation capabilities	Training of trade negotiators at the regional level	SIECA	IDB, UNDP
<b>Priority: Financial sector reform</b>				
(1) Improved operation and interaction of equity markets in the region	Develop a workable ADR system (in at least one country)	Appraisal of implications of regional ADR-type system for stock market operations and oversight	FEDEPRICAP, CMCA	USAIDs, IDB
	General strengthening of equity markets and stock exchanges	Study of sources of funds for investments equity markets and relative importance of outside equity sources	CMCA	USAIDs, IDB
		Conduct regional capital market seminars on financial instruments	FEDEPRICAP, BOLCEN	SEC
		Conduct training seminars on stock exchange operations, including appraisals of experiences elsewhere in the hemisphere (Chile)	FEDEPRICAP, BOLCEN	USAIDs, other countries
(2) Improved cross-border competition in banking and other financial services	Implementation of directives to Central Banks (Economic Cabinets 3/92)	Analysis of current obstacles to cross-border competition — establishment of bank branches, etc.	CMCA, FEDEPRICAP	USAIDs
		Monitoring of impacts of changes in I.R.J framework related to trade in financial services	CMCA	USAIDs
		Development of procedures for handling disputes in cross-border competition among financial institutions	CMCA	USAIDs

(3) Policy harmonization in prudential supervision of financial markets	Adoption of legislative and regulatory changes to reduce major differences	Comparative assessment of the legal and regulatory framework and its implementation for banks and non-bank financial institutions	CMCA	USAIDs
		Preparation of specific recommendations and development of model codes and procedures	CMCA	USAIDs

**Priority: Technology policy/modernization of IPR regimes**

(1) Adoption of "world-class" IPR regimes in all countries	Development and adoption of "world-class" IPR regimes	Enhanced information exchange on developments in IPR among Central American countries	SIECA	USAIDs, Country Missions LAC/DI, USTR, PTO IDB
		Comparison of proposed IPR legislation/regulations, possibly formulation of model codes	SIECA	USAIDs, Country Missions LAC/DI, USTR, PTO IDB
		Consensus building for improved IPR protection (appraisal of costs and benefits)	FEDEPRICAP	USAIDs, Country Missions LAC/DI, USTR, PTO IDB
		Exploration of implications of joint IPR protection administration		

**Other activities**

(1) Improvement of trade and investment statistics collection and distribution	Enhancement and expansion of existing systems	Needs appraisal, including T&I statistics "user groups" from both the public and the private sectors	SIECA, CMCA, FEDEPRICAP, INCAE	USAIDs, PIDD
		Negotiation of agreements on lead responsibilities for different types of statistics among core regional entities	SIECA, CMCA, FEDEPRICAP, INCAE, and others as appropriate	USAIDs, PIDD
		Strengthening of networking of T&I related data bases in the region	SIECA, CMCA, FEDEPRICAP, INCAE, and others as appropriate	USAIDs, PIDD
(2) Improved organizational effectiveness of selected core regional entities, in particular FEDEPRICAP and SIECA	Introduction of new organizational and financing structures to enhance efficiency and institutional stability	Management of transition to financially independent organization for FEDEPRICAP (including bridge financing)	FEDEPRICAP	IDB, EC, others

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Conduct and implement  
reorganization study for  
SIECA to improve its use of  
outside expertise in policy  
development and appraisal  
(project management model)

SIECA

UNDP, IDB

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## Glossary

APERTURA	Assistance to and Promotion of Trade Opening Through Regional Action
BID	See IDB
CABEI	Central American Bank for Economic Integration (also known as BCIE — Banco Centroamericano de Integración Económica)
CACM	Central American Common Market
CADCC	Central American Development Coordination Commission
CADESCA	Comité de Acción para el Desarrollo Económico Social de Centroamérica — Central American Development Action Committee (of SELA)
CAEC	Central American Economic Community
CARES	Central American Rural Electrification Support (ROCAP Project)
CARICOM	Caribbean Common Market
CEPAL	UN Economic Commission for Latin America (aka ECLA)
CIDA	Canadian International Development Agency (aka ACDI)
CMCA	Consejo Monetario Centroamericano — Central American Monetary Council
CORECA	Comisión Regional de Cooperación Agrícola — Regional Agricultural Cooperation Commission (it includes Mexico as a member)
EAI	Enterprise for the Americas Initiative
EC	European Community
Economic Cabinets	Ministers of Economy, Finance, Agriculture, Planning, and Central Bank Presidents of Central American countries
EXITOS	Export Industry Technology Support; also known as PROEXAG II (ROCAP project)
FEDEPRICAP	Federación de Entidades Privadas de Centroamérica y Panamá — Central American and Panamanian Private Enterprise Federation
G-10	Group of ten regional institutions: CABEI, CADESCA, CMCA, FECAICA, FEDEPRICAP, ICAITI, ICAP, CEPAL, CADESCA, SIECA
FECAICA	Federación de Cámaras y Asociación de Industriales de Centroamérica — Central American Federation of Chambers of Industry
ICAITI	Instituto Centroamericano de Investigación y Tecnología Industrial — Central American Institute for Industrial Research and Technology
ICAP	Instituto Centroamericano de Administración Pública — Central American Institute for Public Administration
IICA	Instituto Interamericano de Cooperación para la Agricultura — Inter-American Agricultural Cooperation Institute

INCAE	Instituto Centroamericano de Administración de Empresas — Central American Business Administration Institute
INCAP	Instituto de Nutrición para Centroamérica y Panamá — Nutrition Institute for Central America and Panama
GATT	General Agreement on Tariffs and Trade
IDB	Inter-American Development Bank
IESC	International Executive Service Corps
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LOP	Life of project
LRJ	Legal, regulatory, judicial
NAFTA	North American Free Trade Agreement
Northern Tier	El Salvador, Honduras and Guatemala
NTBs	Non-tariff barriers
OAS	Organization of American States
ODECA	Organización de Estados Centroamericanos — Organization of Central American States
OECD	Organisation for Economic Co-operation and Development (comprising all industrialized countries)
OREAT	ROCAP's Office of Regional Economic Analysis and Trade Development
PAECA	Central American Economic Action Plan
PDD	Partnership for Democracy and Development (also referred to as ADD: Asociación para la Democracia y Desarrollo)
PEC	(UNDP) Special Plan of Cooperation for Central America
PP	Project Paper
PRADIC	IDB-financed Program of assistance to Central American investment and trade
PROEXAG	Non-Traditional Agricultural Export Promotion Project (ROCAP project)
RBP	Restrictive business practices
RDS	Regional Development Support Project (ROCAP project)
REMITRAN	Conference of Transport Ministers of Central America
RENARM	Regional Natural Resources Management Project (ROCAP project)
ROCAP	Regional Office for Central American Programs, U.S. Agency for International Development
RPSU	Regional Policy Support Unit
SELA	Sistema Económico Latinoamericano — Latin American Economic System

SICA	Sistema de Integración Centroamericana — Central American Integration System
SIECA	Secretaría Permanente del Tratado General de Integración Económica Centroamericana — Permanent Secretariat of the General Treaty of Central American Economic Integration
T&I	Trade and investment
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program

TO: John Wall, LAC/DR/CEN  
FR: U. Ernst, ROCAP/OREAT *UE*  
RE: USAID Mission comments on APERTURA draft PID  
DATE: July 29, 1992

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Attached the cables and one memo from the Central American USAID Missions regarding APERTURA. They were all very helpful, except for the one from Nicaragua, to which we responded by cable (also attached). Salvador did not send a cable, but we met with them and got their inputs — some good comments on the original purpose statement, which we changed in in response, and questions about the appropriateness of the proposed focus on IPR (similar to the comment from Guatemala on that issue).

I have not done a comment-by-comment breakdown of our responses. We incorporated many of the suggestions through editorial changes, highlighting certain points, or toning down others.

The most important changes in the PID from the version the USAID Missions saw are the following:

- reduction of the LOP from 6 to 3 years, with a corresponding reduction of the LOP funding from \$12 to \$6 million;
- change in the purpose of the Project from upgrading the performance of the policy support system to the current emphasis on helping Central American governments harmonize trade and investment policies;
- clearer elaboration of the role of the components of the Project, with corresponding changes in the Project budget;
- a change in the ranking of priorities between financial integration and intellectual property rights protection, stressing support for implementation in the latter category;
- an increased emphasis on coordination of investment and trade promotion as a result of our growing involvement in the 1993 Conference on Investment and Trade in Central America under PDD auspices;
- addition of the buy-in option; and
- a clarification of the general institutional support vs. functional support issue.

We have also added thumbnail appraisals of key regional institutions (the G-10); we are not sure that a full institutional analysis is required (especially at the PID stage), since we do not tie our assistance to particular institutions.

Look forward to seeing you next week; I'm sure we'll be talking in between. Let me know whether you need anything else at this point.



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MANAGUA 025150/01

WITHOUT ANY CLEAR VISION OF HOW SUCH ASSISTANCE WILL BRING ABOUT THE NEEDED POLITICAL DECISIONS AT THE COUNTRY LEVEL. WE SUSPECT THAT THE SIX YEAR TIME FRAME OF THE PROJECT IS PARTLY RESPONSIBLE FOR WHAT SEEMS TO BE A LACK OF FOCUS IN THE DESIGN. TO OVERCOME THIS, WE WOULD SUGGEST A MODIFICATION OF THE PID TO SHORTEN ITS TIME FRAME TO PERHAPS THREE YEARS AND FOCUS ITS EFFORTS ON THE FOUR AREAS OF IMMEDIATE CONCERN MENTIONED ABOVE. (THIS DIMINUTION IN THE LENGTH OF THE PROJECT, OF COURSE, WOULD IMPLY A PROPORTIONATE REDUCTION IN THE PLANNED LOP A.I.D CONTRIBUTION.) THE PP DESIGN SHOULD THEN PRESENT AN ACTION PLAN SHOWING HOW THE INDIVIDUAL GOVERNMENTS WOULD BE BROUGHT ON BOARD IN EACH OF THESE FOUR AREAS WITHIN THE THREE YEAR TIME PERIOD. THIS ACTION PLAN COULD THEN INCORPORATE A FOCUSED PACKAGE OF TA TO REGIONAL INSTITUTIONS, TA TO GOVERNMENTS, AND BILATERAL POLICY DIALOGUE WHICH WOULD BRING THE REGION MEASURABLY CLOSER TO FULL INTEGRATION AND READINESS TO BEGIN SERIOUS DISCUSSIONS OF A FREE TRADE ARRANGEMENT WITH THE U.S., AT THE END OF THE THREE YEAR PERIOD.

4. THIRD, WE BELIEVE THAT THE PID ITSELF SHOULD ACKNOWLEDGE MORE FULLY THAT MUCH PROGRESS IS ALREADY BEING MADE TOWARDS REGIONAL COORDINATION EVEN IN THE ABSENCE OF SIGNIFICANT DONOR SUPPORT. THIS MIGHT IN SOME EYES CALL INTO QUESTION THE NEED FOR PROJECT ASSISTANCE TO A REGIONAL INTEGRATION PROCESS ALREADY WELL UNDERWAY. TO ADDRESS THIS CONCERN, WE SUGGEST THAT THE DOCUMENT EXPLAIN PRECISELY WHAT APERTURA WILL ENABLE THE QUOTE GROUP OF TEN UNQUOTE TO ACCOMPLISH THAT THEY COULD NOT OTHERWISE ACCOMPLISH ON THEIR OWN.

5. FOURTH, EVEN ASSUMING THAT THE FOCUS OF THE PROPOSED TECHNICAL ASSISTANCE EFFORT IS SHARPENED AS DESCRIBED ABOVE, WE QUESTION WHETHER IT IS ESSENTIAL AT THIS TIME TO PROCEED WITH ALL THE OTHER INPUTS DESCRIBED IN THE PID AND SUMMARIZED ON PAGE 24 OF THAT DOCUMENT. THE RPSU, ROCAP PROJECT MANAGEMENT, TRAINING, CONFERENCE AND WORKSHOPS, AND CONTINGENCY COULD ALL, IT SEEMS TO US, BE CUT BACK SUBSTANTIALLY WITHOUT HARM TO THE ESSENCE OF THE PROJECT -- THE ENACTMENT OF REGIONAL POLICY REFORMS.

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6. FIFTH, USAID IS DISAPPOINTED TO SEE THAT THE PID EXCLUDES CORECA (THE COUNCIL OF CENTRAL AMERICAN AGRICULTURAL MINISTERS) FROM THE REGIONAL POLICY-MAKING INSTITUTIONS APERTURA WILL ASSIST. THIS ORGANIZATION, ACTING WITHOUT ANY DONOR SUPPORT, HAS ALREADY MADE A SUBSTANTIAL CONTRIBUTION TO THE DEVELOPMENT OF EFFECTIVE INTER- AND INTRA-REGIONAL TRADE POLICIES THROUGH SUCH INITIATIVES AS THE LIBERALIZATION OF MOST CENTRAL AMERICAN BASIC GRAIN TRADE AND THE REDUCTION OF NON-TARIFF BARRIERS AT BORDER CROSSINGS. IF A STREAMLINED TECHNICAL ASSISTANCE EFFORT AS DESCRIBED IN PARAS TWO AND THREE ABOVE IS UNDERTAKEN, WE BELIEVE THAT CORECA, GIVEN ITS ALREADY-DEMONSTRATED PROCLIVITY TO DEVISE AND ENACT SUCH POLICIES, IS JUST THE TYPE OF ORGANIZATION THAT WOULD BE ABLE TO ABSORB AND BENEFIT FROM SUCH ASSISTANCE.

7. IN SUM, WHILE USAID/NICARAGUA FULLY ENDORSES THE DRAFT PID'S OBJECTIVES, WE BELIEVE THAT THE PROJECT MECHANISM DESCRIBED IN THIS DOCUMENT IS FLAWED. WE RECOMMEND THAT INSTEAD OF SEEKING AID/W CONCURRENCE TO PROCEED WITH PP DESIGN, ROCAP SHOULD INSTEAD RESHAPE THE DRAFT PID ALONG THE LINES WE HAVE SUGGESTED. AS THE ABOVE WILL SURELY GIVE YOU AMPLE FOOD FOR THOUGHT, WE DO NOT AT THIS POINT THINK IT WILL BE NECESSARY FOR ROCAP STAFF TO TRAVEL TO MANAGUA TO DISCUSS THIS DOCUMENT, THOUGH WE APPRECIATE YOUR OFFER TO DO SO.

8. AGAIN, WE THANK ROCAP FOR THE EARLY OPPORTUNITY TO COMMENT ON THIS DESIGN. GODARD

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#5150

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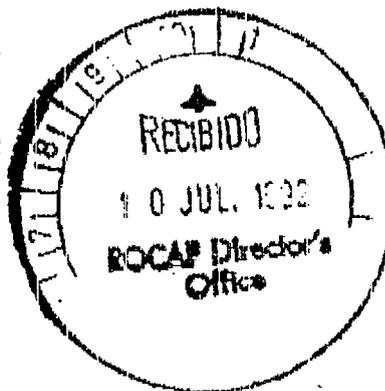
MANAGUA 225152/22

ACTION ROCP INFO AMB DCM ECON AID/5

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R 091032Z JUL 92

09-JUL-92 TOR: 18:31  
CN: 17865  
CERG: AID  
DIST: ROCP  
ADD:

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TO RUEHGT/AMEMBASSY GUATEMALA 0048  
INFO RUEBMD/AMEMBASSY MANAGUA 0032  
RUEHSJ/AMEMBASSY SAN JOSE 0030  
RUEFSN/AMEMBASSY SAN SALVADOR 0039  
RUEEZF/AMEMBASSY PANAMA 0029  
BT  
UNCLAS TEGUCIGALPA 05905



AID FOR ROCAF

AIDAC

E.O. 12356: N/A

SUBJECT: COMMENTS ON DRAFT APERTURA PID AND AMENDMENT TO REGIONAL DEVELOPMENT SUPPORT PROJECT

USAID/EONDORAS APPRECIATES OPPORTUNITY TO REVIEW SUBJECT PROJECT DOCUMENTS. COMMENTS ARE PROVIDED BELOW:

A. APERTURA PID.

1. THE PROJECT PROPOSES TO WORK WITH REGIONAL ORGANIZATIONS SUCH AS SIECA, FEDEPPICAP, CABPI, ETC., TO DEVELOP POLICY REFORMS IN THE AREAS OF REGIONAL TRADE AND INVESTMENT. HOWEVER, IT DOES NOT RECOGNIZE THAT POLICY REFORMS MUST BE IMPLEMENTED BY THE INDIVIDUAL GOVERNMENTS IN THE REGION. THE PP WILL NEED TO EXPAND ON HOW THE PROJECT WILL WORK, SPECIFICALLY ANSWERING THE FOLLOWING QUESTIONS: WHICH WILL BE THE KEY IMPLEMENTING ORGANIZATIONS AND BASED ON WHAT CRITERIA? HOW WILL THESE IMPLEMENTING ORGANIZATIONS INTERRELATE? WHAT WILL BE THE ROLE OF COUNTRY ORGANIZATIONS AND LOCAL GOVERNMENTS? HOW WILL IMPLEMENTING ORGANIZATIONS ENSURE PROPER FOLLOW-UP BY INDIVIDUAL GOVERNMENTS? THE MISSION BELIEVES THAT PRIVATE SECTOR INVOLVEMENT IS ESSENTIAL IN THE REFORM PROCESS. WHAT WILL BE THE ROLE OF THE PRIVATE SECTOR IN THE PROJECT?

2. THE PID STATES THAT A REGIONAL POLICY SUPPORT UNIT (RPSU) WILL BE THE PRINCIPAL MANAGEMENT UNIT FOR THE PROJECT. ALTHOUGH THE RPSU IS CONCEIVED AS A TEMPORARY ENTITY, WOULD NOT THIS JUST ADD ANOTHER LAYER TO THE IMPLEMENTATION PROCESS? DURING PP DEVELOPMENT, ROCAF SHOULD INVESTIGATE WHETHER THE SERVICES TO BE PROVIDED BY THE RPSU BE CONTRACTED OUT DIRECTLY TO THE INSTITUTIONS AND GROUPS WHICH FORM THE REGIONAL POLICY SUPPORT SYSTEM. IN THIS CASE, THE LONG-TERM ADVISOR CONTEMPLATED TO STRENGTHEN ROCAF'S TECHNICAL LEADERSHIP MIGHT HAVE AN EXPANDED PROJECT MANAGEMENT ROLE.

ACTION
ROCAF
PPD
INFO
DER
DUE DATE
7/17/92
ACTION TAKEN
(See index)

RECEIVED  
92 JUL 10 9:01  
USAID/GUATEMALA

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TEGUCIGALPA 009906

3. WHAT IS JUSTIFICATION FOR 12 MILLION DOLLAR FUNDING LEVEL? DURING DEVELOPMENT OF THE PROJECT PAPER MISSION RECOMMENDS THAT ROCAP DELINEATE RELATIONSHIP BETWEEN INPUTS LISTED ON PAGE 24 AND OUTPUTS LISTED IN LOGFRAME TO JUSTIFY FUNDING.

4. CLARIFICATION: MISSION UNDERSTANDS THERE WILL BE A MECHANISM FOR DIRECT PARTICIPATION BY MISSIONS THROUGH BUY-INS OF SIMILAR INSTRUMENTS. WOULD APPRECIATE MORE INFORMATION ON THIS ASPECT OF THE PROJECT WHEN DEVELOPED.

E. REGIONAL DEVELOPMENT SUPPORT PROJECT AMENDMENT.

MISSION SUPPORTS CONCEPT OF REGIONAL INFORMATION CLEARINGHOUSE. IT COULD SERVE AS AN EXTREMELY USEFUL MECHANISM FOR GENERATING AND TRANSMITTING COMPARATIVE ECONOMIC DATA OF BOTH AN INTRA-REGIONAL AND EXTRA-REGIONAL NATURE. GIVEN THE LEVEL OF EFFORT ENVISAGED, IT SHOULD BE CLEAR THAT THE ONUS FOR INFORMATION GENERATION, COORDINATION AND TRANSMISSION RESPONSIBILITY SHOULD BE ON PROJECT PERSONNEL, WITH MINIMUM INPUT (OTHER THAN SPECIFIC INFORMATION REQUESTS AND PERIODIC TRANSMISSION OF PROGRAM DOCUMENT STATISTICAL MATERIALS) REQUIRED AT THE MISSION LEVEL. ARCOS

BT  
#9906

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TEGUCIGALPA 009906

UNITED STATES GOVERNMENT  
memorandum

DATE: June 25, 1992

REPLY TO  
ATTN OF: Terrence J. Brown, Director, USAID/G

SUBJECT: USAID/Guatemala Comments on the APERTURA PID

TO: Ms. Irenemaree Castillo, Director, ROCAP

I appreciate the opportunity to comment on the subject draft PID. As you know, expanded private sector trade and investment is one of the USAID's strategic objectives. We have focused considerable attention on issues such as trade barriers, intellectual property rights, and financial services in the course of developing a FY 92 new project under this objective. As the various consultant analyses are completed in these areas over the next two weeks, we will provide copies to ROCAP.

As we stated at the time of the review of the ROCAP POD/AP, we recognize and support a regional emphasis on trade and investment issues. At the same time, we continue to consider that this support should be focused, demand-driven, flexible, and highly staff-intensive. The draft PID does not reflect these critical elements. I am concerned that ROCAP will be consumed by the management demands of developing and implementing a complex project, rather than effectively collaborating with the bilateral Missions in integrating our efforts to support expanded trade and investment at both the country and regional levels.

The draft PID defines a project which is unnecessarily large and long. Major structural change is taking place at a much faster pace than anticipated by the project. It would facilitate and accelerate project development if the project were refocused to at most a three-year time horizon, perhaps with a follow-on project developed subsequently.

-2-

Our experience is that consultants are not instruments of policy dialog, and studies can easily substitute for action. Sharply reduced resources (and therefore reduced project management complexity) are called for, with a much narrower focus. For example, after the difficulty we have had in terms of reaching agreement with USTR on IPR assistance, I do not think this is a valid area of assistance. USTR's vision of model world class legislation is not Central America specific. While some short-term assistance aimed to link national IPR legislation makes sense at some point in the future, the train is already so far out of the station on this issue in El Salvador, Honduras and Guatemala that it should not be a major focus of the ROCAP project.

Regarding financial services, again, selected short-term assistance may be helpful, but the real key to modernizing the financial sector is at the country level, as the studies on this issue in Guatemala point out. Transferring weak financial systems across borders does not help. Also, if Guatemala is like other so-called stock markets in the region, trading largely consists of short term debt paper amongst a very small group. Without national level standards for accounting, disclosure, and risk valuation, little will really happen at the regional level.

There can be effective assistance provided in the technical issues related to reducing trade barriers, particularly expanding the northern three trade agreements to other countries. Again, these would tend to be focused, short-term interventions, not long-term contractors looking for ways to keep busy.

More broadly, it is very unclear how project activities will link to project purpose, or how valid the project purpose is. I would see ROCAP's role as a service function to regional entities and country programs, helping shape bilateral policy dialog. Given the pace of change, focussing technical assistance and training on regional organizations may perhaps

-3-

delay the overall impact of the project. If the proper information and analyses are available directly to Central American governments and bilateral USAIDs, policy change could be faster and more efficient.

A final area of concern is the use of a contract or grant-funded intermediary channelling funds to regional institutions. Other than technical/legal problems, this appears to have the project agenda and priorities set by a third party. This is an ineffective approach in a policy-focused project. Direct AID control is essential.

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GUATEMALA FOR ROCAP, INFO USAID

E.O. 12356: NA  
SUBJECT: APERTURA PROJECT DRAFT PID AND REGIONAL  
DEVELOPMENT SUPPORT PROJECT DRAFT PP SUPPLEMENT

1. USAID/BELIZE HAS THE FOLLOWING ISSUES/COMMENTS ON  
THE APERTURA PROJECT DRAFT PID:

A. ALTHOUGH POLICY AREA TARGETS AND PRIORITIES ARE  
IDENTIFIED, THE PID NOTES THAT ROCAP'S LACK OF DIRECT  
LINKS TO COUNTERPARTS WITH POLICY MAKING POWERS RULES  
OUT CONDITIONALITY. THUS, THE APPROACH IS BASICALLY  
OPPORTUNISTIC AND RESPONSIVE, WHICH IN TURN MAKES IT  
DIFFICULT TO PREDICT OUTCOMES AND SET TARGETS OF  
ACHIEVEMENT. TARGETS ARE TO BE SET IN THE ANNUAL  
PLANNING PROCESS. THE PROJECT PAPER SHOULD ADDRESS  
THE ISSUE OF HOW TO MONITOR AND MEASURE PERFORMANCE  
UNDER THESE CONDITIONS.

B. THE APPROACH OF ESTABLISHING A CENTRALIZED  
REGIONAL POLICY SUPPORT UNIT TO PROVIDE SHORT-TERM AND  
LONG-TERM TECHNICAL ASSISTANCE TO A NUMBER OF REGIONAL  
INSTITUTIONS MAY BE PRACTICAL FROM THE STANDPOINT OF  
ROCAP'S ADMINISTRATIVE BURDEN. HOWEVER, IT IS  
COSTLY--NEARLY 45 PERCENT OF THE POLICY UNIT BUDGET IS  
FOR MANAGEMENT AND TECHNICAL OVERSIGHT AND LOGISTICAL  
SUPPORT TO THE UNIT.

C. THE NUMBER OF CONFERENCES AND WORKSHOPS--22 OVER  
THE SIX YEAR LOP--AND THE AMOUNT BUDGETED--DOTS 1.1  
MILLION--SEEM HIGH.

D. THERE ARE SOME GAPS IN THE LINK BETWEEN THE  
LOG-FRAME AND PROJECT DESCRIPTION, E.G., WITH REGARD  
TO THE FOLLOWING THREE PROJECT OUTPUTS:

- EFFECTIVE TRADE AGREEMENTS DEVISED... THE PROJECT  
DESCRIPTION IDENTIFIES REMOVAL OF TRADE BARRIERS AS A  
PRIORITY, BUT IT IS NOT CLEAR HOW THE THREE ELEMENT



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PROJECT APPROACH WILL PRODUCE TRADE AGREEMENTS.

- INFORMATION DISSEMINATION AND MONITORING SYSTEM AND FACILITIES TO TRACK POLICY REFORMS... IT IS NOT CLEAR HOW PROJECT ACTIVITIES WILL PRODUCE THIS SYSTEM, AND THERE MAY BE OVERLAP WITH THE INFORMATION CLEARING HOUSE TO BE ESTABLISHED UNDER THE REGIONAL DEVELOPMENT SUPPORT PROJECT AMENDMENT.

- FUNCTIONING SYSTEM FOR DONOR COORDINATION... IT IS NOT CLEAR HOW PROJECT ACTIVITIES WILL PRODUCE THIS SYSTEM, NOR HOW THIS OUTPUT RELATES TO PROJECT PRIORITIES.

WE ALSO NOTE THAT SOME POLICY AREAS IDENTIFIED AS PRIORITIES, E.G., INTELLECTUAL PROPERTY RIGHTS, ARE NOT REFLECTED IN THE LOG FRAME.

2. WITH REGARD TO THE PROPOSED AMENDMENT TO THE REGIONAL DEVELOPMENT SUPPORT PROJECT:

A. THE DRAFT PP SUPPLEMENT LEAVES AN IMPRESSION THAT THE PROPOSED INFORMATION CLEARING HOUSE IS FOCUSED ON U.S. GOVERNMENT INFORMATION AND NEEDS. THIS COMES THROUGH ESPECIALLY IN FIGURE 3-1, WHERE ALL OUTGOING INFORMATION APPEARS TO BE CHANNLED THROUGH U.S. GOVERNMENT ENTITIES. WILL THE TARGET USER GROUPS, PARTICULARLY THE REGIONAL INSTITUTIONS, BE DIRECT CLIENTS OF THE CLEARINGHOUSE?

B. THE RELATIONSHIP BETWEEN THE INFORMATION NEEDS AND ACTIVITIES UNDER APERTURA AND THE INFORMATION CLEARING HOUSE REMAINS UNCLEAR. SCASSA

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APERTURA

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 INFO RUEEC / SECSTATE WASHDC 0229  
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 RUEPTG / AMEMBASSY TEGUCIGALPA 2015  
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 RUEPZP / AMEMBASSY PANAMA 0653  
 RUEBEE / AMEMBASSY BELIZE 9425  
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UNCLAS SECTION 01 OF 03 GUATEMALA 006520

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INFO FOR LAC/CEN

E.O. 12356: N/A

SUBJECT: USAID/NICARAGUA COMMENTS ON DRAFT PID FOR  
ROCAP APERTURA PROJECT

REF.: MANAGUA 005450

1. SUMMARY: ROCAP GREATLY APPRECIATES COMMENTS ON THE APERTURA PID OFFERED BY USAID/NICARAGUA. WE WILL TAKE THEM INTO CONSIDERATION IN PREPARING THE FINAL VERSION OF THE PID FOR SUBMISSION TO WASHINGTON. SOME OF THE POINTS RAISED, HOWEVER, REST ON MISUNDERSTANDINGS THAT COULD HAVE EASILY BEEN CLEARED UP IN A FACE-TO-FACE MEETING AS WE HAD PROPOSED. WE ARE ESPECIALLY DISTURBED ABOUT THE LACK OF COMMENTS ON THE PROPOSED COOPERATIVE APPROACH TO IMPLEMENTATION OF THE PROJECT, THAT IS, THE PROPOSED PARTNERSHIP BETWEEN ROCAP AND THE USAID MISSIONS. MOREOVER, WE ADMIT TO SOME DISCOMFORT OVER SUGGESTIONS IN REFFEL THAT SEEM TO CALL FOR ROCAP TO BECOME ACTIVE IN PROVIDING TA TO INDIVIDUAL GOVERNMENTS OR IN GUIDING BILATERAL POLICY DIALOGUE.  
END SUMMARY.

2. PARAGRAPH 2 OF REFFEL SUGGESTS THAT THE PROJECT SHOULD BE FOCUSED ON A FEW SPECIFIC AREAS OF REGIONAL POLICY REFORM (NON-TARIFF BARRIERS, BARRIERS TO TRADE IN -- ESPECIALLY FINANCIAL -- SERVICES, INTELLECTUAL PROPERTY RIGHTS, AND HARMONIZATION OF LEGAL, REGULATORY, AND JUDICIAL REGIMES). ON PAGES 2 TO 9 OF THE DRAFT PID WE EXAMINE THE MAJOR CHALLENGERS OF POLICY REFORM AT THE REGIONAL LEVEL WITHIN ROCAP'S OVERALL STRATEGIC FRAMEWORK IN TRADE AND INVESTMENT, AND CONCLUDE THAT THE TOP THREE PRIORITIES ARE QUOTE THE REMOVAL OF TRADE BARRIERS -- FOR AGRICULTURAL PRODUCTS, MANUFACTURED GOODS, AND SERVICES UNQUOTE, THE QUOTE REGIONAL SUPPORT TO THE MODERNIZATION OF THE COUNTRIES' IPR REGIMES UNQUOTE, AND COORDINATION OF FINANCIAL

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SECTOR POLICIES TO FACILITATE TRADE IN FINANCIAL SERVICES. THESE PRIORITIES ARE ALSO HIGHLIGHTED ON PAGE 12, AND ARE USED TO STRUCTURE THE ILLUSTRATIVE POLICY AND ACTION AGENDA ATTACHED TO THE PID. WE ALSO STRESS HARMONIZATION OF THE LEGAL, REGULATORY AND JUDICIAL ENVIRONMENT IN KEY INVESTMENT AREAS, TOP OF PAGE 8. IN OTHER WORDS, WE FULLY AGREE WITH THE SUGGESTED FOCUS, AND ARE CONFIDENT THAT WE APPARENTLY FAILED TO GET THAT MESSAGE ACROSS.

3. PARAGRAPH 3 OF REFTEL STATES THAT QUOTE THE PROJECT DESIGN DOES NOT SEEM TO TAKE INTO ACCOUNT THE FACT THAT POLICY DECISIONS TOWARD REGIONAL INTEGRATION CAN ONLY BE MADE BY THE INDIVIDUAL GOVERNMENTS UNQUOTE. TWO POINTS ON THAT. FIRST, GOVERNMENT REPRESENTATIVES HAVE BEEN MAKING DECISIONS ON REGIONAL INTEGRATION IN REGIONAL FORA, AS EVIDENCED BY COMMITMENTS AT REGIONAL SUMMITS AND OTHER MEETINGS. SECOND, IMPLEMENTATION OF SUCH DECISIONS IS CLEARLY RECOGNIZED IN THE PID AS THE DOMAIN OF THE NATIONAL GOVERNMENTS, AS ILLUSTRATED IN THE CHART ON PAGE 11. AS WE DETAIL IN THE PID, WE SEE THIS PROJECT ESSENTIALLY AS A COMPLEMENT TO THE EFFORTS OF USAID MISSIONS TO ADVANCE POLICY REFORM IN AREAS WHERE REGIONAL COOPERATION MATTERS AND HELPS. WE CONTINUE TO BELIEVE, AND OTHER USAID MISSIONS SEEM TO SHARE THAT BELIEF, THAT TECHNICAL ASSISTANCE TO INDIVIDUAL GOVERNMENTS REMAINS A TASK FOR THE BILATERAL MISSIONS (ALTHOUGH WE HAVE RAISED THE OPTION OF BUY-INS INTO APERTURA IN AREAS WHERE SHARED RESOURCES MAY BE MOST APPROPRIATE). EFFECTIVE SUPPORT FOR POLICY REFORM IN A PARTICULAR COUNTRY REQUIRES A SOUND UNDERSTANDING OF THE POLITICAL ECONOMY. A REGIONAL INSTITUTION LIKE ROCAP CANNOT ASPIRE TO UNDERSTAND FULLY THE NUANCES OF THE POLICY DEBATE IN SIX OR SEVEN COUNTRIES. IN OTHER WORDS, WE LOOK TO USAID MISSIONS FOR LEADERSHIP VIS-A-VIS INDIVIDUAL GOVERNMENTS. THAT'S WHY WE ARE PROPOSING ANNUAL (OR SEMI-ANNUAL, AS WAS SUGGESTED AT THE CONFERENCE OF TRADE AND INVESTMENT OFFICERS IN WASHINGTON) CONSULTATIONS WITH THE MISSIONS ON THE POLICY AND ACTION AGENDA FOR THE PROJECT. WE CERTAINLY SEE NEITHER THE PID NOR THE PP AS A PLACE FOR PRESENTING AN ACTION PLAN THAT WOULD QUOTE INCORPORATE ... TA TO GOVERNMENTS, AND BILATERAL POLICY DIALOGUE UNQUOTE. BILATERAL POLICY DIALOGUE AND RELATED TA ARE UP TO THE USAID MISSIONS. ROCAP'S SUPPORT CAN

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4. WITH RESPECT TO THE TIME FRAME FOR THE PROJECT, THE DRAFT PID EXPLICITLY ACKNOWLEDGES THE FUTILITY OF TRYING TO MAP OUT A DETAILED POLICY AND ACTION AGENDA OVER A LONGER PERIOD, FOR AN ENVIRONMENT THAT IS RAPIDLY CHANGING. THAT'S WHY WE PROPOSE TO HAVE PROJECT IMPLEMENTATION GUIDED BY AN ANNUAL POLICY AND ACTION AGENDA, TO BE DEVELOPED IN CLOSE COLLABORATION WITH THE USAID MISSIONS. WE THEREFORE WELCOMED THE SUGGESTION AT THE RECENT TAO CONFERENCE OF REVIEWING/REVISING SUCH AN AGENDA EVEN MORE FREQUENTLY, THAT IS, SEMIANNUALLY. THE OVERALL TIME FRAME PROPOSED FOR THE PROJECT IS SIMPLY A REFLECTION OF OUR EXPERIENCE THAT CONTRIBUTING TO POLICY CHANGE IS NOT A SHORT-TERM PROPOSITION. IF WE WANT TO INVOLVE A RESPECTED U.S. INSTITUTION IN PROVIDING POLICY ADVICE AND GUIDANCE TO REGIONAL FORA, WE NEED SOME DEGREE OF CONTINUITY TO BUILD RELATIONS AND INFLUENCE. INTEGRATION DONE RIGHT WILL NOT BE A MATTER OF SNAP DECISIONS. AT THE SAME TIME, THE PID ACKNOWLEDGES THAT CONDITIONS MAY CHANGE, AFFECTING THE PREMISES FOR EFFECTIVE INTERVENTION AT THE REGIONAL LEVEL. AT THIS POINT, WE REGARD THE MID-TERM EVALUATION AS A DECISION POINT. DURING PP DESIGN, WE WILL EXPLORE THIS ISSUE FURTHER, AND EXAMINE THE OPTION OF SEPARATE PHASES FOR PROJECT IMPLEMENTATION.

5. WHILE WE GREATLY APPRECIATE CONFIRMATION OF OUR CONCLUSION THAT REGIONALISM IS RESURGENT, WE ARE FRANKLY RAFFLED BY THE CHARGE IN PARA 4 OF REPTEL THAT THE PID DOES NOT ACKNOWLEDGE QUOTE THAT MUCH PROGRESS IS ALREADY BEING MADE TOWARDS REGIONAL COORDINATION EVEN IN THE ABSENCE OF SIGNIFICANT DONOR SUPPORT UNQUOTE. ON PAGES 12 TO 14 OF THE PID WE DESCRIBE IN SOME DETAIL THE PROGRESS IN REGIONAL COOPERATION. THE POINT IS THAT WEAKNESSES IN THE SUPPORT SYSTEM ARE JEOPARDIZING THAT PROGRESS. AGREEMENT ON DE FACTO CONVERTIBILITY OF NATIONAL CURRENCIES FOR INTRAREGIONAL TRADE IS ONE THING. SETTING UP THE INSTITUTIONAL AND ADMINISTRATIVE PROCEDURES TO MAKE IT WORK ON A SUSTAINABLE BASIS IS ANOTHER. WHETHER DONOR SUPPORT, INCLUDING ROCAP'S OWN PROGRAMS, HAS BEEN INSIGNIFICANT PROBABLY DEPENDS ON ONE'S PERSPECTIVE. IN ANY CASE, APERTURA BY ITSELF WOULD NOT REPRESENT A REAL INCREASE OF OVERALL RESOURCES AT THE REGIONAL LEVEL PROVIDED BY ROCAP, IN PART BECAUSE IT REPLACES TWO CURRENT PROJECTS NOW BEING PHASED OUT. INSTEAD, APERTURA REPRESENTS AN ATTEMPT TO FOCUS OUR SUPPORT AND TO TIE IT MORE CLOSELY TO THE PROGRAMS PURSUED BY THE USAID MISSIONS.

6. AS TO HOW APERTURA WILL ENABLE THE QUOTE GROUP OF TEN UNQUOTE TO ACCOMPLISH THAT THEY COULD NOT OTHERWISE ACCOMPLISH ON THEIR OWN, THE CASE OF SIECA MIGHT BE ILLUSTRATIVE. SIECA HAS DONE GOOD (AND SOMETIMES EXCELLENT, AND SOMETIMES POOR) POLICY WORK IN THE PAST. IT WAS REGARDED AS A SOURCE OF RELIABLE AND TIMELY INFORMATION, IN TERMS OF BOTH DATA AND ANALYSIS. IT

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HAS BEEN UNABLE TO MAINTAIN THAT REPUTATION BECAUSE OF INADEQUATE SUPPORT AND THE LULL IN REGIONALISM PRECEDING THE RECENT RESURGENCE. ITS WEAKENED STATUS NOTWITHSTANDING, PRESIDENTIAL COUNCILS AND MEETINGS OF ECONOMIC CABINETS HAVE DEMANDED ANALYSIS AND ACTION FROM SIFCA. EVEN WITH SIGNIFICANT SUPPORT FROM US, THE UNDP AND NOW THE IDB, SIFCA FINDS IT DIFFICULT TO COPE WITH ALL THESE NEW DEMANDS AT ONCE. IN THE SEVENTIES, SIFCA BENEFITED GREATLY FROM A QUOTE TWINNING ARRANGEMENT UNQUOTE WITH THE BROOKINGS INSTITUTION, PROVIDING A LEARNING ENVIRONMENT FOR ITS STAFF, AND LENDING THE WEIGHT OF ACKNOWLEDGED EXPERTISE TO ITS POLICY ADVICE. IDEALLY, THE PROPOSED REGIONAL POLICY SUPPORT UNIT WOULD PLAY A SIMILAR ROLE, FOR SIFCA AND OTHER PERMANENT OR AD-HOC ORGANIZATIONS CHARGED WITH ADVISING POLICY MAKERS AT THE REGIONAL LEVEL.

7. PARA 5 OF REFTEL RAISES THE QUESTION ABOUT EFFORT LEVEL AND INPUTS. WE FULLY AGREE THAT THE PROPOSED STRUCTURE NEEDS TO BE SUBJECTED TO FURTHER SCRUTINY, TO ASSESS THE LEVEL OF OVERHEAD SUPPORT TO BE PUT INTO A

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CONTRACT OR TO BE PROVIDED BY ROCAP STAFF DIRECTLY AND INDIRECTLY. THAT ISSUE WILL BE A MAJOR CONCERN IN THE PP DESIGN, AND WE WILL REVIEW IT FURTHER PRIOR TO ANY SUBMISSION TO WASHINGTON.

8. WE REGRET THAT USAID/NICARAGUA CAME AWAY WITH THE IMPRESSION THAT THE PID EXCLUDES CORECA FROM THE REGIONAL POLICY-MAKING INSTITUTIONS APERTURA WILL ASSIST, BUT CANNOT EXPLAIN WHY. ON PAGE 12, THE DRAFT PID HIGHLIGHTS THE ROLE OF CORECA BOTH IN THE CHART, AND IN THE TEXT, IMMEDIATELY AFTER DISCUSSING THE PRESIDENTIAL COUNCILS AND THE ECONOMIC COUNCILS. WE ARE ALSO STRESSING AGRICULTURAL TRADE ISSUES IN THE REMOVAL OF TRADE BARRIERS, WHICH IMPLIES A SIGNIFICANT ROLE FOR CORECA.

9. AGAIN, ROCAP APPRECIATES THE COMMENTS SUBMITTED BY USAID/NICARAGUA. WE WOULD ENCOURAGE FURTHER COMMENTS, IN PARTICULAR ON THE PROPOSED PARTNERSHIP BETWEEN ROCAP AND THE USAID MISSION IN THE FURTHER DESIGN AND ULTIMATE IMPLEMENTATION OF APERTURA, AND ON THE OPTION OF ANY BUY-INS. CASTILLO. STROCK  
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DEVELOP THIS FURTHER. EXACTLY WHAT WILL BE COLLECTED  
AND HOW WILL IT IS FOCUSED WILL DETERMINE HOW USEFUL  
IT WILL BE IN HELPING TO ADVANCE A REGIONAL POLICY  
AGENDA.

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UNCLAS SECTION 01 OF 02 SAN JOSE 05352

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E.O. 12356: N/A

SUBJECT: APERTURA DRAFT PID - SOME OBSERVATIONS

REF: A) BELIZE 3450, B) MANAGUA 5150

1. USAID HAS REVIEWED THE DRAFT PID APERTURA AND OFFERS THE FOLLOWING COMMENTS FOR CONSIDERATION:

2. QUESTIONS

- PRESIDENT BUSH'S EAI HAS EMPOWERED THE USTR TO ESTABLISH THE NAFTA AGENDA THROUGH THE TIC PROCESS VIS-A-VIS POLICY REFORM FOR COUNTRIES SEEKING NAFTA ACCESS. THE BID HAS BEEN CHARGED WITH IMPROVEMENT OF THE INVESTMENT SECTOR AND TREASURY HAS BEEN DESIGNATED AS THE AUTHORITY FOR DEBT RENEGOTIATION. HOW WILL APETURA LINK WITH THE USG'S POLICY-SETTING AGENDA? WHAT IS THE PROCESS? IS PDD AN APPROPRIATE OR ADEQUATE FORUM? WHY? WHAT IS THE PROJECT'S TIE-IN TO THE TIC PROCESS?

- ASSUMING A "REGIONAL APPROACH" IS THE MOST APPROPRIATE ONE AND U.S. POLICY FOR NAFTA IS ENCOURAGING IT, REGIONAL COORDINATING INSTITUTIONS WILL NEED TO BE STRENGTHENED. WHILE THE PID MENTIONS THIS FACT, IT SIMULTANEOUSLY STATES THAT THIS IS NOT AN INSTITUTION BUILDING PROJECT. HOW WILL THE SYSTEMS ESTABLISHED UNDER THE PROJECT THROUGH REGIONAL INSTITUTIONS SUPPORT AND SUSTAIN A FREE TRADE MOVEMENT WITHOUT CONCURRENTLY STRENGTHENING THE INSTITUTIONS CHARGED WITH THOSE THE EFFORTS? TO WHAT EXTENT HAVE INSTITUTIONAL ANALYSES BEEN PREPARED TO ASSESS THE STRENGTHS, CAPABILITIES AND WEAKNESSES OF THE "G-12"?

- THE PERFORMANCE OF FEDEPRICAP HAS BEEN MIXED, AT BEST. WHAT ROLE DOES THE PROJECT EXPECT FEDEPRICAP TO UNDERTAKE?

- THE EXPERIENCE WITH GOVERNMENT-CONTROLLED

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REGIONAL ORGANIZATIONS HAS PROVED THAT POLITICAL SENSITIVITIES AND IMPERATIVES FREQUENTLY UNDERMINE THE INSTITUTION'S BROADER PURPOSES. IS THERE EVIDENCE THAT REGIONAL ORGANIZATIONS WILL BE CAPABLE OF RESPONDING ANY DIFFERENTLY IN THIS ACTIVITY? IF SO, HOW ARE THEY EXPECTED TO BE RESPONSIVE WITHOUT INSTITUTION BUILDING?

- THE ROLE OF THE PRIVATE SECTOR, IN-GENERAL, IS CRUCIAL IN GENERATING THE PUBLIC CONSENSUS TO ASSURE THAT NATIONAL POLICY REFORMS ARE APPROPRIATE AND SUSTAINED. YET, THE PRIVATE SECTOR INVOLVEMENT IN THE POLICY-SETTING DELIBERATIONS UNDER THE PROJECT SEEM NEGLIGIBLE, AT BEST. HOW WILL THE PRIVATE SECTOR ORGANIZATIONS BE INCORPORATED INTO THE PROCESS? GIVEN FEDEFRICAP'S MIXED REPUTATION, IS THEIR ORGANIZATION EITHER SUFFICIENTLY CAPABLE OR APPROPRIATELY POSITIONED AS AN INSTITUTIONAL VEHICLE FOR GENERATING PUBLIC CONSENSUS? HOW WILL THE PROJECT INCORPORATE THE CONCERNS AND PERSPECTIVES OF NATIONAL PRIVATE SECTOR ORGANIZATIONS (I.E. CAMARAS, EXPORT PROMOTION AGENCIES, LOCAL IFI'S ETC)?

- THE PROJECT MENTIONS A "POLICY SUPPORT SYSTEM". DOES A "SYSTEM" REALLY EXIST OR IS IT SIMPLY A LOOSE CONFEDERATION OF ORGANIZATIONS WITH SEPARATE AND, PERHAPS, COMPETING OBJECTIVES?

### 3. COMMENTS:

- C.A. REGIONAL ORGANIZATIONS ARE LARGELY GOVERNMENT CONTROLLED. WE'VE SEEN THE RELATIVE INEFFICIENCY OF GOVERNMENT-CONTROLLED "REGIONAL" ORGANIZATIONS. PERHAPS THE SELECTION AND SUPPORT OF A FEW GOOD PRIVATE INSTITUTIONS TO ACT AS COORDINATING BODIES WOULD BE MORE EFFECTIVE IN THE LONG RUN.

- IT SEEMS THE PID IS UNCLEAR ABOUT THE MAIN OPPORTUNITIES FOR INTERVENTION. RESOURCES SHOULD BE SET-ASIDE TO ADDRESS NATIONAL TARGETS OF OPPORTUNITY, IDENTIFIED BY USAID'S, WHICH WILL LEAD TO THE REMOVAL OF THE CONSTRAINTS IDENTIFIED UNDER THE PROJECT. PERHAPS THE COMPONENTS SHOULD BE MORE CLEARLY IDENTIFIED AND ELABORATED. FOR EXAMPLE:

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- 1. REGIONAL POLICY SUPPORT: TA GROUP TO SUPPORT ECONOMIC POLICY-MAKING WORKING THROUGH EITHER SEICA OR CMCA TO HELP ESTABLISH THE REFORM AGENDA AND PROVIDE DIRECT SUPPORT TO ECONOMIC MINISTERS. THEY (THE TA GROUP) WOULD BE AN EXECUTIVE BODY FOR THE REGIONAL DELIBERATIONS ON POLICY HARMONIZATION. ALSO, MISSION'S SHOULD BE ABLE TO ACCESS THIS GROUP (BUY-IN) FOR SPECIFIC BILATERAL POLICY DEVELOPMENT NEEDS.

- 2. INSTITUTIONAL SUPPORT: SUPPORT TO ONE OR TWO ORGANIZATIONS (PREFERABLY PRIVATE) TO HELP INSTITUTIONALIZE SYSTEMS NEEDED TO REFORM AND SUSTAIN FREE-TRADE.

- 2A. INFORMATION COORDINATION AND DISSEMINATION: A SUBCOMPONENT UNDER INSTITUTIONAL SUPPORT TO PROVIDE TA TO CREATING AND SUSTAINING A SYSTEM OF INFORMATION GATHERING AND DISSEMINATION THROUGH ONE ORGANIZATION, PERHAPS SIFCA. (IN THIS SENSE, THE RDS PROJECT COULD BE SUBSUMED BY APERTURA).

- 3. TARGETS OF OPPORTUNITY: FUNDS SET-ASIDE TO CONTRACT TA AS REQUESTED BY MISSIONS TO ADDRESS SPECIFIC TARGET OF OPPORTUNITY WHICH LED TO REMOVAL OF CONSTRAINTS, I.E. STUDIES, CONFERENCES, TA ETC.

- AS CURRENTLY DESIGNED THE PROJECT SEEMS UNUSUALLY ELABORATE AND EXCEPTIONALLY UNWIELDLY. PERHAPS, THE "NET" IS BEING CAST TOO BROADLY FOR THIS TO BE A MANAGABLE, CONSTRUCTIVE INTERVENTION.

- A NARROWER FOCUS ON PRIORITIES AND CLEARER DEFINITION OF EXPECTED INTERVENTIONS AND ACCOMPLISHMENTS WOULD BETTER SERVE THE PURPOSE.

#### 4. CLARIFICATIONS:

- THE PID LACKS CLARITY ON THE CAPABILITIES, ROLES AND RESPONSIBILITIES OF THE NUMEROUS ORGANIZATIONS INVOLVED.

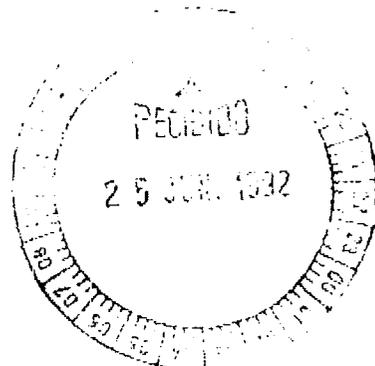
- THERE IS NO INDICATION OF WHO THE COUNTERPART WILL BE. WHO SIGNS THE PROAG?

- AN ORGANIZATIONAL CHART ILLUSTRATING THE COMPLEX LINES OF AUTHORITY AND INTERACTION WOULD HELP TO GRAPHICALLY PORTRAY THE PROJECT'S STRUCTURE AND MAKE IT MORE UNDERSTANDABLE.

- THE PROJECT MENTIONS "SUBSCRIPTIONS FOR REGIONAL SUPPORT". IT WOULD HELP TO ELABORATE WHAT THAT IS AND HOW IT IS EXPECTED TO OPERATE.

#### 5. THE FOLLOWING ARE ISSUES FOR THE REGIONAL DEVELOPMENT SUPPORT PROJECT AMENDMENT:

- A. THE AMENDMENT IDENTIFIES CONTINUED FUNDING OF LONG-AND SHORT-TERM TECHNICAL ASSISTANCE TO



IMPROVE REGIONAL INITIATIVES IN THE FIELDS OF ENVIRONMENT AND NATURAL RESOURCE CONSERVATION, DEMOCRATIC INITIATIVES, AND HEALTH AND NUTRITION. HOW WILL THIS T.A. BE SELECTED FOR EACH ONE OF THE C.A. COUNTRIES? WILL THEY LINK WITH THE MISSION'S CURRENT PROJECTS?

- B. THE REGIONAL SUPPORT FUND WILL FINANCE PARTICIPANT TRAINING. WHAT KIND OF TRAINING IS EXPECTED TO BE GIVEN AND IN WHAT FIELDS?

- C. WHAT WILL BE THE MISSION'S SUPPORT FOR THAT PROJECT? HOW MUCH MANAGEMENT LOAD DOES THIS PROJECT BRING TO THE MISSION?

6. MISSION APPRECIATES THE OPPORTUNITY TO PROVIDE INPUT TO ROCAP'S PROJECT DEVELOPMENT PROCESS.  
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