

**The Regional Office for Central American Programs
(ROCAP)**

ACTION PLAN

FY 1994 - 1995

JUNE, 1993

TABLE OF CONTENTS

SECTION I:	STATUS OF STRATEGIC OBJECTIVES (Overview)	1
	I.1: An open and competitive regional economy	3
	I.2: Environmentally sound and efficient practices in natural resource management	12
	I.3: More effective and democratic local governance	19
SECTION II:	NEW INITIATIVES	28
	1) CARES (Amendment)	31
	2) LOGROS/HG	33
	3) EXITOS (amendment-option)	36
SECTION III:	ENVIRONMENT	38
SECTION IV:	RESOURCE REQUIREMENTS	40
SECTION V:	MISSION SPECIAL CONCERNS/ISSUES	42
ANNEX:	DEMOCRATIC INITIATIVES STRATEGY	43

ACRONYMS

ABS	Annual Budget Submission
AECI	Agencia Española de Cooperación Internacional
AMHON	Asociación de Municipalidades de Honduras
CABEI	Central American Bank for Economic Integration
CADCC	Central American Development Coordination Commission
CARES	Central American Rural Electrification Support
CATIE	Centro Agronómico Tropical de Investigación y Enseñanza
CBD	Commerce Business Daily
CBI	Caribbean Basin Initiative
CCAD	Comisión Centroamericana de Ambiente y Desarrollo
CEPAL	Comisión Económica para América Latina (UN)
CET	Common External Tariff
CIF	Commodity Insurance Freight
CITCA	Conference on Investment and Trade in Central America
CMCA	Consejo Monetario Centroamericano
ENR	Environment and Natural Resource Program
EAI	Enterprise for the Americas Initiative
EER	Employee Evaluation Report
EXITOS	Export Industry Technology Support
FEDEPRICAP	Federation of Private Sector Entities of Central America and Panama
FEMICA	Federation of Municipalities in Central America
FSN	Foreign Service National
GDP	Gross Domestic Products
GTZ	German Agency for Technical Cooperation
HG	Housing Guaranty
IBRD	International Bank for Reconstruction and Development
ICAITI	Instituto Centroamericano de Investigación y Tecnología Industrial
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
INCAP	Institute of Nutrition of Central America and Panama
IPM	Integrated Pest Management
IPR	Intellectual Property Rights
IUCN	International Union for the Conservation of Nature
LAAD	Latin American Agribusiness Development Corporation
LAC	Latin America and Caribbean (Bureau of A.I.D.)
LOGROS	Local Government Regional Outreach Strategy
MIRA	Manejo de Información sobre Recursos Aróbreos
MSI	Management Systems International
NGO	Non Governmental Organizations
NRECA	National Rural Electrification Cooperative Association
NTAE	Non-Traditional Agricultural Exports
NTE	Non-traditional Exports
ODECA	Organización de Estados Centroamericanos

OE	Operating Expenses
OREAT	Office of Regional Economic Analysis and Trade Development
PACA	Proyecto Ambiental para Centroamérica
PACD	Project Activity Completion Date
PDD	Partnership for Democracy and Development
POD	Program Objectives Document
POE	Point of Entry
PPAS	Program Performance Assessment
PRADIC	Program of Support for Central American Development and Integration
PRE/H	Office of Housing and Urban Program
PRISM	Program Performance Information System
PROEXAG	Non-Traditional Agricultural Export Support Project
RAHE	Regional Agricultural Higher Education
RDS	Regional Development Support
RECO	Roatán Electric Company
RENARM	Regional Environmental and Natural Resources Management Project
RFP	Request for Proposals
RHUDO	Regional Housing and Urban Development Office
ROCAP	Regional Office for Central American Programs
SICA	System of Central American Integration
SIECA	Permanent Secretariat of the General Treaty of Central American Economic Integration
TA	Technical Assistance
TFAP	Tropical Forest Action Plan
TIC	Trade and Investment Council
TNC	The Nature Conservancy
UNDP	United Nations Development Program
USDH	U.S. Direct Hire
USG	United States Government
USTR	U.S. Trade Representative
ZAMORANO	Escuela Agrícola Panamericana

Program Goal

Competitive, sustainable performance of the regional economy in a democratic environment

Strategic theme: Regional cooperation--Working with regional institutions and USAIDs

ROCAP Strategic Objectives:

Environmentally sound and efficient practices in natural resource management

0150 Reg. Environmental & Natural Resource Mgt.
0129 Regional Ag. Higher Education
0162 Regional Development Support

An open and competitive regional economy

0147 Economic Policy Research
0177 Partnership for Democracy & Development
0165 Export Industry Tech. Support (EXITOS)
0162 Regional Development Support

More effective and democratic local governance

0167 Local Governance Reg. Outreach Support (LOGROS)
HG-008 CA Shelter & Urban Development
HG-009 LOGROS Supplement
0162 Regional Development Support

Other activities

0146 C.A. Rural Electrification Support
0169 INCAP Institutional Strengthening
0176 C.A. Development Coordination Commission

SECTION I: STATUS OF STRATEGIC OBJECTIVES

OVERVIEW

The Esquipulas Central American Peace Process in the latter half of the 1980s began the process of democratization and demonstrated the potential for regional action in searching for solutions to civil war which had affected all of the countries in the region. Peace accords have been signed in El Salvador; the cessation of hostilities will allow the process of national reconstruction to begin. All of the countries in Central America have had democratically elected governments since 1990 and upcoming presidential elections in El Salvador, Honduras and Costa Rica will test the stability of these governments, as well as the peace and democratization processes. In Nicaragua, the political situation remains volatile; and in Guatemala, while official peace accords remain to be signed, refugees have begun to be repatriated. Much work remains to be done in all the countries to increase citizen participation and the administration of justice.

At the Antigua Summit in 1990, the Central American leaders committed themselves to the Central American Economic Action Plan to "strengthen their intraregional economic integration process as a stepping stone to strengthening the linkages of the Central American economy to the world market." As of this writing, some of the rhetoric has passed into reality. While much more needs to be accomplished in the coming years, the results of intensive cooperation are evident in regional economic policy management, in the interpretation and application of relevant legislation and regulations, and in particular in the elaboration of working level agreements among countries. The emergence of the regular meetings of the Economic Cabinets of the countries of the region as a significant forum for the articulation and harmonization of economic reforms manifests this trend.

The meeting of the Economic Cabinets in March 1992 in Antigua, Guatemala (with support from IDCAP, the United Nations Development Program, and the Inter-American Development Bank) marked a milestone in the integration process. There, the Economic Cabinets transformed the general commitments of regional cooperation and economic integration into common targets and specific assignments to reach those targets. While the schedule for reaching some of the key targets, especially the introduction of a common liberalized external tariff of four bands between 5 and 20 percent, has been overly ambitious, many of the initiatives launched in Antigua have yielded results. A key decision was the replacement of a cumbersome payment settlement mechanism with a *de facto* convertibility of national currencies for intraregional trade. Support funds for the payment mechanism (from the European Community) were redirected to support a revitalized Central American Bank for Economic Integration (CABEI).

The Northern Tier countries - El Salvador, Guatemala, and Honduras - moved closer economically through a multilateral agreement that outlines concrete steps toward integration. Recently, Nicaragua has become a signatory to the agreement as well - with special considerations due to the dire economic situation in the country - and the group is now known as the Central American Four.

In the environment and natural resource sector, the Central American Commission for the Environment and Development (CCAD) has emerged as an important regional advisory commission at the presidential level. At the Central American Presidents Summit last June, the leaders committed themselves to the Central American Agenda on the Environment and Development which is a synthesis of environmental issues and opinions garnered from all major interest groups in the region. The agenda was developed and written by CCAD with the support of the Regional Environment and Natural Resource Management project (RENARM). As a result of this work, the Central American countries presented a unified position at the United Nations Conference on the Environment in Rio de Janeiro. In addition, all of the Central American presidents signed an agreement for the conservation of biodiversity and the protection of priority natural areas in Central America. The challenge for ROCAP, and the RENARM project in particular, is to help assure that the countries implement the substance of the agreement.

A democratic initiatives strategy has been developed in consultation with AID/Washington and the bilateral missions, the objective of which is to promote more effective and democratic local governance. ROCAP has developed a mechanism to allow support for targets of opportunity on broader democracy issues with a regional focus. The groundwork is now being laid in the policy arena at the national and regional levels to create a consensus for decentralization and to bring the issues of citizen participation and local governance to prominence at the highest levels of government.

This Action Plan is being written while the management structures of the Regional Office for Central American Programs and USAID/Guatemala are being merged. It is expected that the reorganization plan will be complete by the time the Action Plan is reviewed in Washington. The programs described herein constitute the regional aspect of a Mission which will manage both a bilateral and a regional portfolio in the future. Because of the merger and because our staff will be managing in most cases both bilateral and regional activities, we expect to gain new insights in the dynamics of national government influence on and reaction to progress in regional cooperation. This synergy we believe will be useful to all in the region.

This is a period of transition not only for the two missions in Guatemala but also for the Agency. It is clear that the policies and priorities which will be formulated by the administration and Congress and the resources allocated in such areas as trade and investment, economic reform, and democracy - and A.I.D.'s role in implementing these policies - will impact on our programs and our ability to carry them out.

SECTION I.1: AN OPEN AND COMPETITIVE REGIONAL ECONOMY

I.(1).A Refinements/Changes in Strategic Objective/Program Outputs: Support to regional cooperation in formulating and implementing sound development policies remains a key element of ROCAP's program. Events over the last year, both in the region and in our resource levels, require a slight shift in ROCAP's strategic objective and greater focus and concentration in program outputs.

The last year witnessed an expanding role for regional cooperation in economic policy reform to open the Central American economies. Consequently, the strategic objective of an open regional economy, as articulated in ROCAP's Program Objectives Document (POD) 1992-1998, not only remains valid, but has become more attainable.

At the same time, the need for support to regional initiatives to promote policy reform has become less general. The governments of the region approach these issues with better understanding. In addition, other sources of technical assistance, both at the national and the regional levels, are available to guide and support regional institutions. ROCAP support for economic liberalization therefore will be more "demand-driven," responding to particular opportunities in areas where we have identified priorities on the basis of both USAID's broader economic policy agenda for the region and ROCAP's comparative advantage.

As the need for general policy development in trade and investment at the regional level declines in favor of a more targeted approach, we will also support regional efforts to implement the new policies and to help the regional economy in responding to the new opportunities created by an open environment. Recognizing the need for policy reform to go beyond pronouncements and changes in the legal and regulatory framework to implementation of a new economic regime, ROCAP has refocused its strategic objective in the area of economic policy:

- To support the emergence of an open and competitive regional economy.

Due to budget constraints, we have reduced the number of program outputs and, at the same time, we have attempted to strike a better balance between regional policy reform and enhanced competitiveness. Three new program outputs incorporate and substitute for the six outputs identified in the 1992-98 POD.

- Increased trade between the region and its partners

This program output incorporates the effects of greater openness in both investment and trade regimes. A more liberal trade regime stimulates both imports as well as exports, partly because rents in previously protected import substitution activities disappear, partly because exposure to foreign competition and increased information flows encourage innovation and wring out inefficiencies, making the economy internationally more competitive. A more liberal investment regime in turn is necessary to expand export capacities, generating in the process increased

imports of capital goods and related services.

- A sound, consistent investment climate throughout the region

This program output describes the end result of a successful process of investment policy harmonization and cooperation. As the countries of the region are moving forward in their integration initiatives within the framework of an open economy, they are realizing that increased policy harmonization in the region will facilitate cross-border investment and will encourage investment from abroad. Increased mobility of investment capital within the region will be necessary to take advantage of economies of scale and of different comparative advantages. Finally, cooperative policies can help in reducing (perceived) risks.

- Improved access to market and technology information for private entrepreneurs both in the region and outside

Development practitioners and theorists are increasingly targeting the stifling effects of inadequate ("asymmetrical") information on the effective functioning of markets. In improving access to market and technology information, regional cooperation and harmonization is essential. Retaining it as one of our three program outputs under the development policy strategic objective reflects the growing importance of this issue, as well as ROCAP's lead role in this area. We view this as the principal option for contributing to an increased competitiveness of the region's economy.

I.(1).B Strategic Objective Performance: The region has made appreciable progress toward the Strategic Objective. The principal driving force has been the political will of the Central American governments, the impact of the policy dialogue involving the United States Trade Representative (USTR) under the bilateral framework agreements (the Trade and Investment Council process) and related trade actions or threats thereof, the bilateral USAID programs, and the programs of other donors. By working with regional institutions and policy making fora, ROCAP's efforts have contributed to a more liberal economy in the region and to regional integration.

Some of the integration/cooperation milestones of the last year which have contributed to the an open and competitive economy include:

- Agreement on SICA (System of Central American Integration) as the overall framework for integration, replacing the defunct ODECA (Organization of Central American States).
- Revision of the General Treaty on Central American Economic Integration.
- Revival of key regional institutions, including improved financing ((the Secretariat for the General Treaty on Central American Economic Integration (SIECA)); the Central American Monetary Council (CMCA); and CABEI)).
- Easing of formalities and procedures for crossing borders within the region.

- Introduction of a uniform Central American customs document.
- Agreement on common treatment of agricultural products and imports.
- Movement toward harmonization of phytosanitary standards.
- Establishment of the first commodity exchanges as pilot programs for a regional system.
- Progress on other common rules and regulations (including rules of origin, safeguards against unfair competition, etc.)
- Completion of negotiations and signing of a regional framework agreement as a first step toward a free trade agreement with Mexico.
- Free trade negotiations with Venezuela on a regional basis.

Progress at the program output level has been considerable.

Program Output 1: Increased Trade between the Region and its Partners.

These steps toward economic integration and simplification of trade settlements in 1992, as described above, have clearly led to an increase in intraregional trade. Exports to other countries in the region grew at an average annual rate of 22.6 percent between 1990 and 1992. In 1992, increases in intraregional trade accounted for almost 40 percent of total gains in exports; the surge in exports to other countries in the region contributed a full two percentage points to the overall growth (9.3 percent) of exports in 1992.

ROCAP provided support to the Permanent Secretariat of the General Treaty of Central American Economic Integration (SIECA) for the negotiation of the Common external tariff which came into effect in April 1993. SIECA (with ROCAP and UNDP support) took the lead in free trade negotiations with Mexico which resulted in the signing of regional framework agreement. ROCAP has provided direct support to the regional Economic Cabinet meetings (also through SIECA and FEDEPRICAP) which has emerged as the pre-eminent policy making body in the region. An excellent team of experts under the EXITOS project has provided technical assistance resulting in dramatic increases in non-traditional agricultural exports (NTAE). ROCAP support has contributed to the preparation of trade documents and draft agreements which as sped up the liberalization process.

Program Output 2: A Sound, Consistent Investment Climate throughout the Region.

ROCAP has supported information exchange on intellectual property rights, including the preparation and publication of a general study on the subject by FEDEPRICAP. In addition, ROCAP has provided assistance to SIECA to identify options and obstacles to fiscal policy harmonization, in coordination with the IDB, and has conducted a comparative study of the characteristics of regional financial systems which is used as a reference by CMCA.

Program Output 3: Improved Access to Market and Technology Information for Private Entrepreneurs.

Under the EXITOS project, ROCAP has improved NTAE market information service by providing a commodity data base which is available to exporters in all countries. ROCAP is assisting in the formation of the "Grupo Centroamericano de Informática" and development of a regional action plan to enhance trade and investment information under the Partnership for Development and Democracy (PDD) project.

After thirty years of United States Government investment in the region for training in business administration, law, finance, banking, public administration and in institution building, there is a critical mass of people with adequate training in this sector which can assure sustained impact and achievement of the strategic objective. Therefore, assistance is primarily directed in the policy dialogue arena (rather than training) where ideas, influence and the provision of timely, superior information is key.

I.(1).C Monitoring and Evaluation Status/Plans: The monitoring and evaluation plan has not progressed since the last POD/AP, due to the Mission's concentration on design efforts for a much larger program in trade and investment and economic reform policy. The plan will now be developed around the scaled back program described above.

This year we will evaluate SIECA's impact on regional policy making as it relates to our strategic objective, covering activities supported with ROCAP funds (in particular, the Economic Policy Research project, 596-0147) as well as by other donors, notably the UNDP and IDB. A mid-term evaluation of the EXITOS project will focus on the issue of creating a sustainable system of adequate access to market and technology information for exporters of non-traditional agricultural products.

TABLE 1.1: STRATEGIC OBJECTIVE PERFORMANCE

ROCAP (596)						
STRATEGIC OBJECTIVE NO. 1. An Open and Competitive Regional Economy						
Indicator:	Total volume of trade					
Unit:	\$					
Source:	SIECA					
Comments:	Baseline and targets will be developed during the next year in the context of our new program					
	Baseline	Year	Planned	Actual		
	TBD		---			
		1992				
		1993				
		1994				
		1995				
		1996				
	Target	1997				

PROGRAM OUTPUT NO. 1.1 Increased trade between the region and its partners						
Indicator: Value of non-traditional agricultural exports to the U.S.						
Unit: \$			Year	Planned	Actual	
Source: National Trade Data Base Comments: Baseline and targets will be established during the next year in the context of our new program	Baseline		TBD	---		
			1992			
			1993			
			1994			
			1995			
			1996			
		Target	1997			

PROGRAM OUTPUT NO. 1.2 A sound, consistent investment climate throughout the region

Indicator: Total private investment as a percentage of the regional GDP					
Unit: %		Year	Planned	Actual	
Source: FEDEPRICAP (?)	Baseline	TBD	-----		
Comments: Baseline and targets will be established during the next year in the context of our new program		1992			
		1993			
		1994			
		1995			
		1996			
	Target	1997			

PROGRAM OUTPUT NO. 1.3 Improved access to market and technology information for private entrepreneurs					
Indicator: Satisfaction index of users of T&I information services in the region					
Unit: NA		Year	Planned	Actual	
Source: Scheduled survey	Baseline	TBD	-----		
Comments: ROCAP will build on a survey of potential users of T&I info systems which will be carried out in fall of 93 as part of the regional information system being developed under the PDD. Baseline and targets will be determined at that time.		1992			
		1993			
		1994			
		1995			
		1996			
		Target	1997		

TABLE 2: STRATEGIC OBJECTIVE PROGRAM "TREE"

ROCAP (596)
Bureau Objective: Support the achievement of broadly-based, sustainable economic growth
Bureau Sub-objective: Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment and outward-oriented diversification
STRATEGIC OBJECTIVE NO. 1: An open and competitive regional economy.

PROGRAM OUTPUT NO. 1.1 Increased trade	PROGRAM OUTPUT NO. 1.2 A sound, consistent investment climate	PROGRAM OUTPUT NO. 1.3 Improved access to market and technology information
---	--	--

Projects (Number\Title)	Projects (Number\Title)	Projects (Number Title)
596-0165 EXITOS	596-0147 Economic Policy Research	596-0165 EXITOS
596-0147 Economic Policy Research	596-0177 PDD	596-0177 PDD
596-0177 PDD		596-0147 Economic Policy Research
		596-0162 RDS

SECTION 1.2: ENVIRONMENTALLY SOUND AND EFFICIENT PRACTICES IN NATURAL RESOURCE MANAGEMENT

1.(2).A Refinements or Changes in the Strategic Objective/Program Outputs: The overall logic of objectives and indicators for the Environment and Natural Resource (E/NR) program has remained the same since the last POD/AP. To focus objectives and improve progress measurement, however, two changes have been made:

1. The number of indicators at the strategic objective level has been reduced to one: "percent of hectares in targeted areas utilized appropriately, disaggregated by country, and type of land use".
2. The number of program outputs has been reduced to two: "Adoption and implementation of policy incentives and disincentives that encourage environmentally sound practices", and "Effective and sustainable E/NR organizations, institutions, and services enhancing professional and public knowledge and commitment."

1.(2).B Strategic Objective Performance: It is clear that environmental stability will not be a feature of Central American life in the near or mid-terms. It exists in no heavily populated area of the globe. The attainment of such equilibrium would require a critical mass of trained professionals, an appropriate policy regime, strong institutions and organizations, widespread public awareness and commitment, continually renewed scientific knowledge, sufficient political will, and reduced population growth rates; these conditions have not yet been achieved in Central America. Simultaneous to indications of continuing environmental decline, however, are signs that progress is being made in fostering creation of the conditions which may ultimately engender some form of stability; this progress represents movement also toward the Mission's strategic objective.

Progress which can be attributed to the ROCAP E/NR program is presented below by Program Output.

Program Output 1: Adoption and Implementation of Policy Incentives and Disincentives that Encourage Environmentally Sound Practices.

All the Presidents of Central America (except Belize) have signed a Regional Biodiversity Treaty and implementation of the Central American Tropical Forest Action Plan is well underway - both actions resulting from the initiative of the ROCAP-funded Central American Commission on Environment and Development (CCAD). The CCAD, with RENARM-funded assistance from the World Resources Institute (WRI), and through a broadly based participatory process, also oversaw the development of the Central American Agenda for Environment and Development which was presented at the Rio Conference on behalf of the Central American region.

Two new reserves have been established in Belize, amounting to 320,000 acres, and there is movement toward the declaration of what may be the last large reserve in Central America at Rio Platano in Honduras; meanwhile innovative models that address the relationship between buffer zones and protected areas are evolving in Honduras, Belize, Costa Rica, and Guatemala.

The active participation of indigenous peoples in land use decisions on the Mosquito coast in Honduras and Nicaragua, and in La Amistad park in Costa Rica and Panama results directly from RENARM project promotion of the link between forest protection and informed participation of forest dwelling indigenous groups. The value of this more inclusive approach having been demonstrated, one of the major international environmental NGOs active in the region has hired an indigenous affairs specialist to ensure that forest dwelling indigenous groups are full partners in any environmental programs associated with their traditional land holdings.

RENARM has created a unique policy analysis tool, the Green Book, which has been requested by a wide range of institutions inside and outside the region including Europe and Africa.

pesticide and pesticide residue regulations affecting the movement of agricultural products into the U.S. market.

Pesticide misuse causes uncounted but certainly thousands of cases of pesticide intoxications (or poisonings) annually; their incidence should be reduced over time by an aggressive RENARM-funded program of rigorous training in safe pesticide handling, carried out by the Pan American Agriculture School (Zamorano), which reaches thousands of families throughout the region. Treatment of pesticide intoxication, however, has been hampered by a lack of the specialized knowledge required to do so on the part of the medical community and of health providers in Central America. A RENARM-funded correspondence course on recognition and treatment of pesticide intoxication is now addressing this issue. With a target participation of seven thousand doctors and health providers over the life of the project, the program is ahead of schedule at present with an enrollment of over four thousand professionals in four countries.

In sum, through a variety of activities and programs, the RENARM and Regional Agriculture Higher Education projects are improving the knowledge and skills of natural resource managers and are training a professional cadre of natural resource managers. It is expected that these trained managers and professionals will assure sustained impact and achievement of the Strategic Objective.

I.(2).C Monitoring and Evaluation Status Plans: The RENARM project has in place an institutional contract for monitoring and evaluation. With the assistance of this in-house M&E capability, RENARM has been conducting an internal review of its own progress. In the fall of 1993 an external evaluation of RENARM will be carried out. The work of the external evaluation will be independent of the internal review but will take full advantage of data collection and analysis already completed.

The Program Performance Tables accompanying this document assume that comparisons to detect impact must be of the before-after (baseline-impact) type. For many projects, particularly innovative or complex ones (such as RENARM), this is not necessarily or primarily the case. Nevertheless, several baseline studies have aided planning and provided baseline information of relevance, if not of sufficient solidity, to reliably measure impact. These are employed at present while other approaches to impact measurement are being developed or are in early stages of implementation, eg. with-without project comparisons, within project correlations, small strategic samples, net practice adoption, and others. This process will be described more fully and will be reflected in the next POD/AP.

TABLE 1.2: STRATEGIC OBJECTIVE PERFORMANCE

ROCAP (596)					
STRATEGIC OBJECTIVE NO. 2. Environmentally sound and efficient practices in natural resource management					
Indicator: % of hectares in targeted areas utilized appropriately, disaggregated by country and type of land use					
Data so far: # of countries where park/reserve management plans are standard practice; regional yearly hectares deforested; regional % of forests lost per year; % of C.A. land degraded; grams of pesticide used per hectare/year					
Unit so far: # of countries; thousands of hectares; % of forests lost/land degraded/year.	Year	Planned	Actual		
Source so far: TR&D; WRI; World Bank; J. Leonard	1992	---			
Comments: Instrument being developed to assess park/reserve management and special study on reforestation is underway employing CATIE's computerized data base - both could yield yearly data. Site specific data being collected on land use capability/practices and pest control practices for comparative studies.	1993				
	1994				
	1995				
	1996				
	Target	1997	7/7 countries		

PROGRAM OUTPUT NO. 2.1 Adoption and implementation of policy incentives and disincentives that encourage environmentally sound practices					
Indicator: Policy formulation process, adoptions, implementation, outcomes					
Unit: Trends across countries		Year	Planned	Actual	
Source: CCAD, Paseo Pantera, policy inventories	Baseline	1992	---		
Comments: Previous policy inventories have resulted in a rough baseline not summarizable on these tables. A policy inventory methodology has been developed which will permit systematic tracking.		1993		-Two new parks in Belize -Regional Biodiversity Treaty	
		1994			
		1995			
	Target	1996	TBD		

PROGRAM OUTPUT NO. 2.2 Effective and sustainable E/NR organizations, institutions, and services enhancing professional and public knowledge and commitment.

Indicator: Performance, sustainability in technical, management, financial areas					
	Year	Planned	Actual		
<p>Unit: "Units" under development. Possible: # of M.S. & B.S. graduates; people and hectares served.</p> <p>Source: A study of RENARM-supported organizations centered at PACA; tests, certifications, surveys.</p> <p>Comments: RENARM is strengthening about 50 organizations which support vast range of environmental, educational, and training activities.</p> <p>A generalizable model is being developed by MSI and PACA.</p>	Baseline	---			
		1992			
		1993			
		1994			
		1995			
		1996			
		1997			
	Target				

TABLE 2: STRATEGIC OBJECTIVE PROGRAM "TREE"

ROCAP (596)
Bureau Objective: Support the achievement of broadly-based, sustained economic growth.
Bureau Sub-objective: Encourage preservation and sustainable use of the natural resource base.
STRATEGIC OBJECTIVE NO. 2: Environmentally sound and efficient practices in natural resource management.

<p>PROGRAM OUTPUT NO. 2.1 Adoption & implementation of policy incentives and disincentives that encourage environmentally sound practices.</p>	<p>PROGRAM OUTPUT NO. 2.2 Effective and sustainable E/NR organizations, institutions, and services enhancing professional and public knowledge and commitment.</p>
---	---

Projects (Number/Title)	Projects (Number/Title)
596-0150 RENARM	596-0150 RENARM
596-0162 RDS	596-0129B RAHE

SECTION 1.3: MORE EFFECTIVE AND DEMOCRATIC LOCAL GOVERNANCE

I.(3).A Refinements or Changes in the Strategic Objective/Program Outputs: As indicated in the ROCAP Program Objectives Document which was approved in February of 1992, ROCAP has, in consultation with the Central American USAIDs, and LAC and PRE/H Bureaus during the past year, defined its strategic objective in Democratic Initiatives:

More effective and democratic local governance.

ROCAP's strategy is to support both bilateral and regional movements toward decentralization and improved local governance. At the bilateral level, ROCAP is working in close consultation with USAIDs to focus regional resources, staff and financial, on issues that (1) have implications for other countries of the region and/or (2) require resources beyond those available from the USAID.

However, the success of national level efforts will require the forging of a consensus among key agencies and organizations, both bilaterally and regionally, nationally and internationally. Within the framework of Central America's own trends towards regional integration, there are opportunities for ROCAP interventions at the regional level to support country level reforms. In general, those opportunities involve networking events which can attract high level leadership, political and professional, to regional or extra-regional fora where local governance issues can be addressed. Facilitating these events, to which USAIDs as well as ROCAP can send leaders, is a key element in the regional strategy.

A written strategy for fulfilling the objective has been prepared and is attached as an annex to this Action Plan. ROCAP designed and authorized in July 1992, the Local Government Regional Outreach Strategy (LOGROS) Project (596-0167) as the main vehicle for implementing the strategy. Currently under development is a Housing Guaranty component, which is included in this Action Plan as a New Project Description and will be integrated into the LOGROS project to improve municipal finance and investment. In addition, a regional support fund has been set up under the Regional Development Support project (596-0162) which will, in part, fund targets of opportunity in support of regional democracy initiatives which lie outside the scope of the LOGROS project.

In this, the first year of strategic objective implementation, ROCAP has just completed consultant assistance to develop program and project level indicators of strategic objective performance. The program level indicators are virtually identical to those of the LOGROS project, since the project was designed to embody ROCAP's municipal development strategy. However, an additional indicator may be added at a later date to capture the impact of the HG on municipal capital investment.

At the program level, we use the implementation of decentralization legislation and regulations as the sole indicator. New program outputs and indicators shown in the Strategic Objective Performance tables reflect the recent consultant work. During the Action Plan period, ROCAP will continue the process of refining and selecting the specific indicators on which it will be reporting.

Indications of what these refinements may entail are listed below:

Program Output 1: Improved Regional Organization for Municipal Development.

Comment: The regional federation of municipalities (FEMICA), with ROCAP support, has made substantial progress in building a network of individuals and groups in support of decentralization. Various LOGROS-funded events over the last year have identified key players and involved them in regional activities in support of decentralization. Informal feedback from participants and USAIDs indicates these events are producing the hoped-for cross-fertilization of ideas and concepts in the region.

Program Output 2: Increased Financial Independence for Central American Municipalities.

Comment: ROCAP is identifying opportunities with the LOGROS project to support legal and regulatory changes, in particular, the property tax, which will increase municipal financial independence. We will be tracking these authorities across the countries as indicators of both program and project success.

Program Output 3: Greater Municipal Authority in the Delivery of Public Services.

Comment: This is difficult to measure and track at the regional level, but indicators will focus on citizen representation on municipal service and/or budget committees use of cabildos abiertos, and use of public information campaigns to inform citizens on local issues.

I.(3).B Strategic Objective Performance: Although the strategic objective in democracy is new this year, ROCAP has moved forward in a number of implementation activities which have already made some progress in achieving regional consensus on the need for improved local governance.

At the policy level, several activities were carried out at both the regional and bilateral levels. ROCAP funded the annual Congress of the regional municipal association, FEMICA, held last August in Managua and widely attended by the region's mayors. The Congress added to the network which will be the main vehicle for achieving consensus on regional policy changes. Two other regional events were a seminar on municipal management of solid waste and an observation trip for high level Central American officials to Chile to become acquainted with the excellent Chilean experience in decentralization. The trip has already produced feedback from key officials indicating an influence.

On the bilateral side, activities to build consensus on the need for more effective and democratic local governance centered on assistance to municipal strategy development in Nicaragua and El

Salvador, assistance to the Honduras municipal association AMHON and to a private TA and training foundation, and the beginning of a small effort in highly centralized Costa Rica to raise the issues of local governance to greater prominence in the national consciousness.

The Central America Shelter and Urban Development HG (596-HG-008) was redirected to support the strategic objective. These resources will improve local government response to citizen demands for basic urban services.

Technical activities being supported by ROCAP to solve particular problems of municipal autonomy have not yet gotten underway and will be reported on in next year's Action Plan.

At present, the municipal-level human resource base with adequate training to assure sustained impact in the sector is weak but improving. One of the outputs of the LOGROS project is to mobilize a regional training capability: (1) to create consensus and foster a supportive environment to achieve the program goal and (2) to build a technical capability within the municipal system to accommodate change.

I.(3).C Monitoring and Evaluation Status and Plans: As noted above, a consultant team has completed a report on indicators to be used to track progress under ROCAP's municipal development program, which is currently supported entirely by the Local Government Regional Outreach Strategy Project. Baseline data are currently in hand, as shown on the attached tables, along with the re-defined outputs and indicators from the consultant work. The monitoring and evaluation system will be implemented by the RHUDO staff.

A mid-project evaluation is to be conducted in the fourth quarter of FY 1995.

TABLE 1.3: STRATEGIC OBJECTIVE PERFORMANCE

ROCAP (596)					
STRATEGIC OBJECTIVE NO. 3 More Effective and Democratic Local Governance					
Indicator: Decentralization legislation and regulations implemented in 5 CA countries					
Unit: No. countries		Year	Planned	Actual	
Source: Professional knowledge	Baseline	1992	---	0	
Comments: We are currently not working in Panama or Belize		1993			
		1994			
		1995			
		1996			
	Target	1997	5		

PROGRAM OUTPUT NO. 3.1 Improved regional organization for municipal development					
Indicator: Formulation of regional policy on municipal development and decentralization by FEMICA					
Unit: yes/no		Year	Planned	Actual	
Source: direct assistance	Baseline	1992	---	0	
Comments:		1993		0	
		1994			
		1995	yes		
		1996			
		1997			
	Target				
Indicator: Adoption of policy/program for municipal development and decentralization by regional network members					
Unit: No. of organizations adopting					
Source: FEMICA records					
Comments: Target organizations:		Year	Planned	Actual	
Presidential Summit PARLACEN SIECA CABEI FEDEPRICAP	Baseline	1992	---	0	
		1993	2	0	
		1994	3		
		1995	4		
		1996	5		
	Target	1997	5		

PROGRAM OUTPUT NO. 3.2 Increased financial independence of municipalities

Indicator: Ratio of locally generated revenue in municipal budget to total municipal budget						
Unit: Weighted regional average %	Year	Planned	Actual			
Source: Sector assessment	Baseline	---				
Comments: Targets TBD	1992					
Baseline:	1993					
Guatemala n/a	1994					
El Salvador 38	1995					
Honduras 85	1996					
Nicaragua 87	1997					
Costa Rica 73	Target					
Indicator: Authority to levy and collect property tax						
Unit: No. countries	Year	Planned	Actual			
Source: Sector assessment	Baseline	2	2			
Comments:	1992	2	2			
	1993	2	2			
	1994	2				
	1995	3				
	1996	4				
	Target	5				

Indicator: Authority to set fees and rates for municipal services					
Unit: No. countries		Year	Planned	Actual	
Source: Sector assessment	Baseline	1992	1	1	
Comments:		1993	1	1	
		1994	2		
		1995	3		
		1996	4		
		1997	5		
	Target				
Indicator: Authority to draft, approve and implement municipal budgets					
Unit: No. of countries		Year	Planned	Actual	
Source: Sector assessment	Baseline	1992	1	1	
Comments:		1993	1		
		1994	2		
		1995	3		
		1996	4		
		1997	5		
	Target				

PROGRAM OUTPUT NO. 3.3 Greater municipal authority in the delivery of public services					
Indicator: Basic infrastructure services under authority of municipality					
Unit: TBD		Year	Planned	Actual	
Source:	Baseline		---		
Comments: We will track a number of services across the region. Format and units TBD.		1992			
		1993			
		1994			
		1995			
		1996			
	Target	1997			

TABLE 2.3: STRATEGIC OBJECTIVE PROGRAM "TREE"

ROCAP (596)
Bureau Objective: Support the evolution of stable, democratic societies.
Bureau Sub-objective: Strengthen elected local and municipal governments through decentralization of authority and control over financial and human resources.
STRATEGIC OBJECTIVE NO. 3: More effective and democratic local governance.

PROGRAM OUTPUT NO. 3.1 Improved regional organization for municipal development	PROGRAM OUTPUT NO. 3.2 Increased financial independence of municipalities	PROGRAM OUTPUT NO. 3.3 Greater municipal authority in the delivery of public services
--	--	--

Projects (Number\Title)	Projects (Number\Title)	Projects (Number\Title)
596-0167 LOGROS	596-0167 LOGROS	596-0167 LOGROS
596-0162 RDS	596-HG-009 LOGROS (Supplement)	596-HG-009 LOGROS (Supplement)
596-HG-008 CA SHELTER AND URBAN DEVELOPMENT		

SECTION II. NEW INITIATIVES

During the Action Plan period, there will be two project amendments (CARES and LOGROS) and a possible third (an NPD for an amendment to the Economic Policy Research project may be submitted next year depending on resource availability). No new starts are proposed. In FY 1993, ROCAP plans to authorize and obligate an additional \$ 1 million (earmarked E/E funds) to the Central American Rural Electrification Support Project (CARES, 596-0146) which is being implemented by the National Rural Electrification Cooperative Association (NRECA). The PACD will be extended one year to March 1995.

New Housing Guaranty authority of \$ 10 million, plus \$ 10 million from the existing Central America Shelter and Urban Development HG (596-HG-008) authorization, will be added as a component of the LOGROS project (596-0167), and an additional \$ 2 million in grant funds for technical assistance to support the HG activities will be authorized this fiscal year. The obligation schedule for the LOGROS project will remain as originally planned and the additional grant funds will be obligated in the out years of the project (FY 96-97).

As indicated in Table 4, an additional \$ 450,000 is being added to the current authorized LOP to carry the project through May of 1995. In addition, we are including an amendment to the highly successful EXITOS project which would add technical assistance for an agro-processing component, with a one year PACD extension through September of 1996. In the event that the LOGROS/HG project does not go forward and our democratic initiatives strategy is cut back or dropped, we will amend EXITOS as presented here, assuming resource availability.

The Economic Policy Research project (596-0147) will be extended to August of 1995 to carry on our work in regional economic reform. Assuming availability of funding in the unrestricted category, an NPD will be submitted early next year, to allow for additional funding in FY 1994 and 1995.

It is expected that the Central American Development Coordination Commission, a Congressional initiative, will be extended through the end of fiscal year 1995 (with no new funding), to complete activities which got off to a slow start.

A decision will be made in FY 1994 or 1995 to continue the activities begun under the RENARM project, based on a midterm evaluation which will begin in late FY 93 or in early FY 94. Final year of funding for the RENARM project under the present authorization is FY 95. At present funding levels, a \$ 6 755,000 mortgage will exist in FY 95. If this is to be obligated in FY 95, this implies, at a minimum, a no cost extension to the project. This will be dealt with during the evaluation.

As is evident in the project timeline (Table 3), ROCAP continues to reduce the size of its portfolio and focus the program on its three strategic objective areas. The INCAP Institutional Strengthening project (596-0169), the one remaining project (other than CARES/NRECA and CADCC which are mandated by Congress) outside the strategic objectives during the Action Plan period, will terminate in FY 94.

Plan period, will terminate in FY 94.

As part of the possible options envisioned in the Project Paper for the INCAP Institutional Strengthening project, ROCAP has begun exploring whether and how AID could contribute to an INCAP endowment fund. An NPD proposing a contribution from earmarked micronutrient funds was considered as part of the current Action Plan. Ultimately it was not included given unresolved legal questions about using DA funds for an endowment contribution to INCAP as a Handbook 3 grantee and concerns about future management implications of an endowment contribution. ROCAP does not believe it can or should assume continuing management responsibilities with INCAP beyond the LOP of the current project. However, given INCAP's relevance and contributions to Agency and regional priorities in micronutrients, child survival and other areas, ROCAP proposes to explore alternatives with AID/Washington, especially R&D, to help ensure INCAP's continuing capacity to respond to Central America needs.

Table 3: ROCAP PORTFOLIO - PROJECT TIMELINE TABLE BY PACD

Project #	TITLE	PACD				FY92				FY93				FY94				FY95				FY96				FY97			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
	Strategic Objective # 1 An open and competitive regional economy																												
586-0114	Regional Economic Recovery																												
586-0123	Export Agribusiness Dev. and Promotion																												
586-0147	Economic Policy Research																												
586-0149	Private Sector Initiatives																												
586-0165	Export Industry Technology Support																												
586-0177	Partnership for Democracy and Develop.																												
	Strategic Objective #2 Environmentally sound and efficient practices in Natural Resource management																												
586-0117	Tree Crop Production																												
586-0127	Regional Agric. Technology Networks																												
586-0129	Regional Agricultural Higher Education																												
586-0150	RENARIM																												
	Strategic Objective #3 More effective/democratic local governance																												
586-0167	LOGROS																												
	In support of all three Strategic Objectives																												
586-0162	Regional Development Support																												
	Others																												
586-0115	ORT, Growth, Monitoring and Education																												
586-0116	Technical Support for Food Assistance																												
586-0130	C.A. Peace Scholarships																												
586-0143	C.A. Shelter and Urban Development																												
586-0146	C.A. Rural Electrification Support																												
586-0169	INCAP Institutional Strengthening																												
586-0178	C.A. Development Coord. Commission																												
Total Projects (number at end of FY 4th Quarter)		15				11				8				3				2				1							

... .. Y Planned PACD extension

NEW PROJECT DESCRIPTION
(Amendment)

LAC BUREAU OBJECTIVE: The achievement of broad-based, sustainable economic growth.

LAC BUREAU SUB-OBJECTIVE: Stimulate a vigorous private sector response; encourage increased opportunities for the disadvantaged; and foster regional integration and cooperation.

MISSION STRATEGIC OBJECTIVE: A Congressional Mandate; Target of Opportunity

PROJECT TITLE: Central American Rural Electrification Support (CARES)

PROJECT NUMBER: 596-0146

FISCAL YEARS: 1993-1995 (one year PACD extension)

LOP FUNDING: Proposed increase: \$1.0 million (New LOP: \$11.0 million)

TYPE OF FUNDING: DA (E/E earmark)

A. **CONSISTENCY WITH MISSION STRATEGY:** Certain aspects of this project are relevant to our trade and investment program. This is, however, a Congressional mandate. The project goal and purpose will remain unchanged.

1. **Project Goal:** "Address rural poverty in Central America by increasing rural access to the benefits of existing and planned power sector investments." **Preliminary Verifiable Indicators:** Expanded provision of electric service in rural areas in participating countries.
2. **Project Purpose:** "Form foundations for selecting appropriate policies and investments in the rural electric subsector of the region." **Preliminary Verifiable Indicators:** (1) construct decentralized rural power systems; and (2) increase consumption for productive and economic uses by 20%.

B. **RELATIONSHIPS TO AID AND OTHER DONOR ACTIVITIES:** The principal linkages of CARES to AID activities are twofold: (1) through easing immediate energy constraints to rural development and (2) through helping Central American countries make the difficult transition to a mix of energy sources-- particularly renewable energy sources--that will help sustain economic growth. NRECA has taken special care to coordinate actions with AID bilateral Missions in the region in an effort to achieve greater economies of scale. The project is also coordinating energy assistance with the most active multilateral donors (including the IDB, IBRD and UNDP)--as well as the bilateral programs of the Canadian, Japanese and German governments--in addressing (*inter alia*) tariff increases, privatization efforts, improved efficiency of power utilities, and training.

C. RELATIONSHIP TO OVERALL A.I.D. POLICY OBJECTIVES: CARES directly supports the LAC Bureau objective of broad-based, sustainable economic growth by: (1) helping organize decentralized and private utilities; (2) fostering microenterprises through productive uses of electricity; and (3) lowering investment costs and risks through tariff and regulatory reform, sound project analysis, region-wide standards and managerial and technical training.

D. AMENDMENT DESCRIPTION: CARES was originally designed as a three year (1987-92), \$5.0 million activity that would strengthen the institutional and technical base for improved electrification programs and increase rural access to electricity in Central America and Panama. It was amended in 1990 to add an additional \$5.0 million and extend the PACD to March 1994. The proposed amendment would add an additional \$1.0 million and extend the PACD for one additional year. The activities funded by this amendment will concentrate on: (1) privatization, by supporting adoption of policies and institutional reforms required to strengthen the organizational and financial basis for rural electrification; (2) management and system efficiency, by raising and maintaining levels of technical and managerial skills aimed at reducing technical and administrative losses and operating costs; and (3) continued promotion of renewable energy resources, through consolidation of renewable energy working groups; development of sustainable financial mechanisms; identification and evaluation of market opportunities for U.S. industry; development of pilot projects; and further development of a resource data collection program in solar and wind energy.

E. PLANNED IMPLEMENTATION ARRANGEMENTS: CARES has been and will continue to be implemented under a Handbook 13 Cooperative Agreement with the National Rural Electric Cooperative Association (NRECA). An NRECA proposal for use of the increased funding will be submitted and negotiated by the Regional Cooperation Office.



NEW PROJECT DESCRIPTION
(HG Authority and Amendment)

LAC BUREAU OBJECTIVE: Development of stable, democratic societies.

LAC BUREAU SUB-OBJECTIVE: Strengthen elected local and municipal governments through decentralization of authority and control over financial and human resources.

MISSION STRATEGIC OBJECTIVE: More effective and democratic local governance

PROJECT TITLE: Housing Guaranty Supplement to Local Government Regional Outreach Strategy Project (LOGROS)

PROJECT NUMBER: 596-0167, 596-HG-009

FISCAL YEARS: 1993-1999

LOP FUNDING: Housing Guaranty: \$20 million (\$10 million in new authority);
Grant: authorized: \$6 million; proposed increase: \$2 million

TYPE OF FUNDING: Loan guaranties; Grant

A. **CONSISTENCY WITH MISSION STRATEGY:** This amendment to the LOGROS project is fully consistent with the Mission strategy in the area of more effective and democratic local governance. Use of HG funds at the municipal level will support this strategy.

1. **Project Goal:** "More effective and democratic local governance." **Preliminary Verifiable Indicators:** (1) Decentralization legislation and regulations implemented in all CA countries.
2. **Project Purpose:** (From LOGROS Project). "To contribute to the transfer of authority and control over financial and human resources from central to local governments while helping to improve local governments' response to citizen demands for improved services and political enfranchisement." **Preliminary Verifiable Indicators:** (1) Formulation of regional policy on municipal development and decentralization; (2) increased financial independence for CA municipalities; (3) greater municipal authority in delivery of urban services. **End of Project Status-(HG):** (1) Municipalities in the participating countries will be able to borrow funds from other than central pass-through agencies; (2) private sector will be playing an increased role in financing and/or providing municipal services; (3) citizens in participating municipalities will play a larger role in project selection and in resource allocation decisions at local level; (4) CABEL will have increased investment in the municipal sector.

B. RELATIONSHIPS TO AID AND OTHER DONOR ACTIVITIES: Three USAID Missions in Central America have in place or in design bilateral projects to support decentralization and municipal autonomy. The HG program will be designed explicitly to complement bilateral USAID projects in municipal development and to take advantage of opportunities where such projects do not exist. This approach could include co-funding subprojects with HG and bilateral resources, using HG funds as a capital component to bilateral municipal projects, focusing HG investments in municipalities targeted by USAIDs, and using HG funds to promote USAID policy agendas in municipal finance.

Other donors active in the municipal sector include the AECI of Spain, the German GTZ, the Interamerican Development Bank, and the United Nations Development Program. The addition of Housing Guaranty loan resources will be coordinated with activities of all these donors.

C. RELATIONSHIP OF PROJECT TO OVERALL A.I.D. POLICY OBJECTIVES: The proposed supplement will advance AID policy objectives in the area of municipal finance. Policy dialogue agenda items to be supported include: broadened citizen participation in public decision-making regarding resource allocation; full recovery of costs of improvements from beneficiaries; increased municipal financial authorities; privatization of public services; municipal control of service provision or improvements; more equitable distribution of benefits of growth, to include lower income populations.

D. PROJECT DESCRIPTION: The intent of this component of the LOGROS project is to increase municipal financial autonomy and citizens participation in financial decision-making, thereby strengthening local democratic skills and increasing public sector responsiveness and accountability to citizens.

Housing Guaranty funds will be borrowed by the Central American Bank for Economic Integration (CABEI) as a second tier lender to public and private financial intermediaries certified by CABEI as eligible borrowers in the participating countries. The intermediaries will on-lend to fund municipal infrastructure projects meeting selection criteria which reflect the LOGROS policy agenda in municipal finance, as itemized in Section C. above. Eligible projects will be those benefiting the living conditions of households below the median income: potable water, sewers, solid waste management, local streets, electricity. All projects to be funded will be carried out within the framework of LOGROS's policy and/or technical components.

For example, a LOGROS problem solving exercise designed to promote devolution of additional authority to municipalities for control of water provision could use HG loan resources for capital improvements to the municipal water system, increasing the impact of the LOGROS funded TA. In turn, the projects to be funded, whether specific LOGROS problem-solving exercises or not, would have to incorporate citizen participation in project selection and development and full cost recovery from users.

The participation of citizens in financial decision-making is considered critical, not only to the financial success of the HG component, but to the democracy-building focus of LOGROS. When citizens have a role in project selection, development, and financing, they are (1) more likely to be willing to pay for the resulting service; (2) more careful in their choices of how to

allocate their scarce resources; and (3) more likely to hold public officials accountable for the use of their funds. Indeed, citizen participation in decisions regarding resource allocation is perhaps the most fundamental and significant feature of democratic participation.

The HG loan component of LOGROS will also use CABEL's own funds, initially 30% of total project costs. Municipalities will contribute in kind or in cash. If the lending mechanism established proves successful, the loan program could be expanded. LOGROS DA funding will need to be increased over the LOP to cover the additional management costs of the HG component, as well as additional TA and training to support the loan program.

E. PLANNED IMPLEMENTATION ARRANGEMENTS: The HG component will be implemented by the CABEL (see above) and public and private financial intermediaries in the participating countries.

F. SUSTAINABILITY OF PROPOSED ACTIVITIES: The HG loan program will be sustained by CABEL's own funds, municipal revenues, and, eventually, private investors in the municipal sector.

G. MISSION MANAGEMENT ROLE: The component will be managed by the Regional Housing and Urban Development Office for Central America (RHUDO/CA), which is also managing the LOGROS project.

H. POTENTIAL ISSUES AND OR INNOVATIVE PROGRAM APPROACHES: Municipalities currently have to depend on inefficient and non-responsive central agencies for implementation of urban service projects. The HG Supplement to LOGROS will increase municipal control over project selection and financing.

Issues include (1) coordination with USAID programs, including development of policy agendas consonant with country situations and bilateral policy agendas; (2) the additional management costs of the HG portion, implying an eventual increase of \$2 million in the LOP funding for the LOGROS project; (3) the need better to estimate effective municipal demand for project funding and to identify potential financial intermediaries at the country level; and (4) the need to establish clear selection criteria for the projects to be funded, such that the LOGROS policy agenda is advanced but the financial soundness and attractiveness of the loan program is not compromised, either for CABEL or the intermediary institutions. All these issues will be addressed in project design.

NEW PROJECT DESCRIPTION

(Amendment)

LAC BUREAU OBJECTIVE: Support the achievement of broad based, sustainable economic growth.

LAC BUREAU SUB-OBJECTIVE: Encourage a vigorous private sector response to a favorable policy environment.

MISSION STRATEGIC OBJECTIVE: A more open, competitive regional economy

PROJECT TITLE: Export Industry Technology Support (EXITOS)

PROJECT NUMBER: 596-0165

FISCAL YEARS: 1994-1996 (One year PACD extension)

LOP FUNDING: Proposed increase: \$5.0 million (New LOP: \$13.5 million; plus \$5.0 million buy-in)

TYPE OF FUNDING: DA

A. **CONSISTENCY WITH MISSION STRATEGY:** This amendment to the EXITOS project is fully consistent with the Mission strategy to further a more open regional economy in Central America. EXITOS contributes to a more open regional economy by providing technical assistance to the produce industry to promote the sales of non-traditional agricultural commodities. The project works to directly improve trade and investment in Central America by supporting expansion of non-traditional exports, improving agribusiness technology, increasing agribusiness and trade linkages, and increasing regional investment in export business.

1. **Project Goal:** "Make a significant contribution to a more open, competitive regional economy." **Preliminary Verifiable Indicators:** (1) CA trade linkages with US and neighboring markets increasing by 15% per year; (2) Number of CA agribusinesses increasing by 10% per year.
2. **Project Purpose:** "Increase the sales and/or volume of Central American non-traditional exports." **Preliminary Verifiable Indicators:** (1) CIF POE sales of EXITOS NTAE client businesses increase by 15% per year; (2) Aggregate NTAE export sales for CA increase by \$60 million by EOP; (3) POE NTAE export volumes increase by 12% per year over LOP.

B. **RELATIONSHIP TO AID AND OTHER DONOR ACTIVITIES:** EXITOS activities support USG's Enterprise for the Americas Initiative (EAI) and its Caribbean Basin Initiative (CBI). EXITOS works collaboratively with the bilateral CA USAIDs in the implementation of

their trade and investment portfolios and coordinates with private sector institutions involved in research and development projects.

C. RELATIONSHIP TO OVERALL AID POLICY OBJECTIVES: EXITOS directly supports the LAC Bureau objective of broad-based, sustainable economic growth by: (1) increasing the sales of non-traditional agricultural exports; (2) strengthening the private sector organizations promoting trade and investment; (3) promoting agribusiness development and trade linkages with U.S. and neighboring markets; and (4) increasing investment in market information systems and technology development dissemination.

D. AMENDMENT DESCRIPTION: EXITOS was originally designed as a four year follow-on activity to the successful NTAE (PROEXAG) project. EXITOS has proven very successful and has been implemented at an accelerated level. The proposed amendment for \$5.0 million will continue present technical assistance activities at their current levels for: (1) agricultural production; (2) post harvest crop management and quality control; (3) marketing; and (4) information dissemination and technology transfer. It will add technical assistance for agroprocessing activities through the new PACD of September 1996 (a one year extension).

Under the amendment EXITOS will continue to work mainly in those areas directly related to agricultural promotion activities such as agricultural conventions (Agritrade, Floritrade, Aquatrade) and in strengthening information sources in the region. As the NTAE industry has progressed, it is apparent that agroprocessing has become an important alternative for the fresh produce industry. Its inclusion in the amendment will open a new arena for project assistance and became an integral part of services currently provided.

E. PLANNED IMPLEMENTATION ARRANGEMENTS: The ROCAP Office of Regional Economic Analysis and Trade Development (OREAT) manages project implementation through a personal services contract and an institutional contract with Chemonics International. An RFP will be prepared and the services required to implement this amendment will be announced in the CBD as an increase in the level of effort and scope of work to the EXITOS project. A new contract, or an amendment to the existing Chemonics contract, as appropriate, will be negotiated.

F. SUSTAINABILITY OF PROPOSED ACTIVITIES: Project activities per se will not necessarily be sustainable. However, produce/commodity businesses having received project assistance will continue their business activities and serve as catalysts for other new and similar businesses.

G. MISSION MANAGEMENT ROLE: OREAT will continue to manage implementation of the EXITOS project with the support of Mission support offices.

H. POTENTIAL ISSUES AND/OR INNOVATIVE APPROACHES: There are no major issues related to this amendment.

SECTION III. ENVIRONMENT

III.A. Major Conservation Challenges: Biological diversity and the integrity of tropical forests in Central America continue to be threatened by an array of factors. The most basic threat is the region's extremely high rate of population growth. All other challenges are subsets of this one; no other natural force, no other species is producing the symptoms of environmental stress which are so clearly evident and which are the indicators employed in assessing the state of the environment.

Expansion of the agricultural frontier into marginal lands continues as more extensive, rather than more intensive use of land predominates as the response to decline of soil productivity and land availability. In addition to direct destruction of forests and consequent decline in forest-based bio-diversity, resultant soil erosion and agricultural runoff affect hydrologic systems and downstream coastal ecosystems thus multiplying the initial impact.

The decline of bio-diversity and loss of forest cover will eventually undercut the substantial and growing but fragile-as-the-environment eco-tourism industry - with negative impacts on local and national income and on economic incentives for greater attention to conservation.

The generation and dissemination of environmental science, policy reform as a product of a more open and better informed policy dialogue process, strengthening of institutions concerned with preservation of the environment, and vigorous enforcement (by appropriate means) of environmental policies, laws, and regulations - in the context of reduced rates of population growth - are the basic elements of the response required; implementation of the implied agenda of remedial activities on a scale commensurate with the task in and of itself constitutes a significant part of the environmental challenge.

III.B. Progress: Although the environmental corner most definitely has not been turned in Central America, any more than it has anywhere else in the world, progress is being made in establishing conditions favorable to continuing and expanding the sustained effort required.

ROCAP support to CCAD (the Central American Commission on Environment and Development) and its support for, and close collaboration with U.S.-based environmental NGOs has fostered the enactment of a Biodiversity Conservation Treaty, signed by all of the Presidents of Central America (except Belize.) ROCAP is also instrumental in the design and establishment of new parks and reserves totaling over one million acres and in strengthening management of these protected areas, in close collaboration with the environmental NGO community. A Central American Protected Areas Council has also been established recently comprising CCAD, our NGO collaborators, and the private sector.

ROCAP is responsible for the reorientation and strengthening of existing degree programs into strong environmentally oriented B.S. and M.S. degree programs in Central America (at CATIE and Zamorano) which, over the life of the RENARM project, will turn out over one hundred professionals. Assuming a thirty year career for each, this will result in three thousand person

years of professional environmental service in Central America as a direct result of project activities. This does not include the establishment of a permanent educational capacity which will continue to produce environmentally oriented professionals well beyond the life of this one project.

ROCAP has established innovative, collaborative programs with U.S.-based environmental NGOs, the US. Environmental Protection Agency, the Peace Corps, numerous Central American institutions, and other donor agencies to carry out programs in biodiversity conservation, environmental education, establishment and strengthening of parks and reserves and in safe management and use of pesticides. Examples include the training of an estimated 7,000 doctors and other health providers in the recognition and treatment of pesticide intoxication, the training of thousands of farm families in the dangers of pesticide misuse, the establishment and training of a network of Central Americans at the Masters level in Environmental Education - a program which has begun to attract other donor support, and the incorporation of the interests of indigenous groups into the forest protection programs of environmentally oriented NGOs.

ROCAP is responsible for thousands of farmers planting trees on farms throughout Central America through program-supported research and extension. We continue to support research on the most appropriate tree species and management practices for the range of ecological and socio-economic conditions prevalent in the region, the development of agroforestry extension materials, as well as maintaining the most complete computer data base on tropical multi-purpose trees in the hemisphere.

III.C. Recommended Follow-up: The RENARM project will continue implementation along the lines indicated above. Decisions on any adjustments in relative emphasis among its various activities during the remainder of its first phase (which ends in 1995) or for its second phase (scheduled to terminate in 1999) will await the evaluation of this project late in FY 1993.

SECTION IV. RESOURCE REQUIREMENTS

Operating Expenses: ROCAP requested \$1,763,400 for Operating Expenses in last year's Annual Budget Submission. After implementing some cost savings, this amount was unilaterally reduced to \$1,576,261. We were quite surprised when the approved level was finally established at \$1,375,000 which was a reduction of 22% from the level requested in the Annual Budget Submission.

With the consolidation of the USAID and ROCAP Missions, further cost savings will be realized in the long run. We are concerned that in the short run that the costs attributable to the reduction of staff (severance pay for FSN staff) and direct transfers of USDH staff will increase our estimates of Operating Expense requirements. We are not prepared at this time to submit a revised budget because not all of the decisions regarding the reorganization and timing have been made. We propose to submit a revised Operating Expense Budget at the time the Annual Budget Submission is due in AID/W (the end of May or early June). We expect that the implementation schedule will be further developed at that time so that a reasonable budget can be developed. We do commit ourselves to make every attempt to live with the level provided by the LAC Bureau. If we cannot live within that level, we will provide detailed information to explain any request for an increase.

In future years, the budgets of both Missions will be consolidated. We do anticipate that there will be cost and staff reductions over the next several years resulting in a decrease of Operating Expense requirements.

Trust Funds: USAID/Costa Rica provides \$75,000 annually in Operating Expense Trust Funds for the operations of ROCAP's office in Costa Rica. This funding is budgeted and reported by ROCAP in its monthly reports. USAID/Costa Rica has indicated that this level of funding will continue through FY 94.

Internal Controls: The Mission strongly supports the Agency's increased emphasis on establishing and maintaining internal controls. The Mission's Management Control Review Committee meets on a quarterly basis to review the status of outstanding control weaknesses and review follow-up actions. In addition, a report is sent to the Mission Director each month detailing progress towards resolving unsatisfactory findings. The timely resolution of such weaknesses are then reflected in the EERs of responsible Office Chiefs. All Internal Control Assessment weaknesses have been completed and closed.

Staffing Levels: This section will be submitted at a later date, once the consolidation of the management structure of USAID and ROCAP is complete.

TABLE 4
ROCAP/GUATEMALA (596)
SUMMARY PROGRAM FUNDING TABLE
DOLLAR PROGRAM

Funding Category		FY 93 Estimated	FY 94 Requested	FY 95 Requested
Strategic Objective # 1				
An Open and Competitive Regional Economy				
Development Assistance				
596-0147	Economic Policy Research	634	580	500
596-0165	Export Industry Technology Support (EXITOS)	2,000	2,402	0
SUB-TOTAL		2,634	2,982	500
Economic Support Fund				
596-0177	Partnership for Democracy and Development	787	0	0
SUB-TOTAL		787	0	0
Strategic Objective # 2				
Environmentally Sound and Efficient Practices in Natural Resource Management				
Development Assistance				
596-0129	Regional Agricultural Higher Education *	1,500	748	418
596-0150	RENARM	6,200	5,030	6,755
SUB-TOTAL		7,700	5,778	7,173
Strategic Objective # 3				
More Effective and Democratic Local Governance				
Development Assistance				
596-0167	Local Governance Regional Outreach Support	730	1,360	2,000
SUB-TOTAL		730	1,360	2,000
In Support of All Three Objectives				
596-0162	Regional Development Support	443	900	1,325
596-0000	Project Development & Support (PD&S)	131	178	200
SUB-TOTAL		574	1,078	1,525
All Other Projects/Activities				
596-0146	Central American Rural Electrification Support	1,000	0	0
596-0169	INCAP Institutional Strengthening **	189	0	0
SUB-TOTAL		1,189	0	0
SUB-TOTAL DA		12,827	11,198	11,198
SUB-TOTAL ESF		787	0	0
PROGRAM TOTAL		13,614	11,198	11,198

* Includes \$ 1,124,000 of Deob-Reob money for FY 93

JCA/Tab4

** Does not include \$200,000 add-on (OYB transfer) for Vitamin A earmark for FY 93

SECTION V. MISSION SPECIAL CONCERNS/ISSUES

1. The Bureau has proposed to allocate \$748,000 of E/E earmarked money in FY 1994 to that portion of the Regional Agriculture Higher Education project (596-0129) which is managed by Costa Rica (the EARTH school). This is less than half of the amount needed to maintain implementation of the project next year. If no additional E/E money is allocated for this project and additional funds are deemed necessary to maintain implementation through the PACD, this will put more pressure on our scarce unrestricted funds which are presently being used to fund the EXITOS project, the regional economic reform agenda under the Economic Policy Research project, and democracy initiatives under the LOGROS project.
2. The focus and viability of a regional trade and investment/economic reform program depends in part on the emerging trade policy agenda of the administration and the Congress, in particular, support for the North American Free Trade Agreement and the Enterprise for the Americas Initiative, and a determination of A.I.D's proper role in implementation in this sector.
3. If Operating Expenses are further reduced in FY 1994, the travel budget for the regional program will be severely cut back. This implies a reduction in our ability to fulfill our oversight responsibilities for our projects in the region.
4. Is there a management issue for AID/W regarding centrally funded projects which are utilizing INCAP as an implementing agency, once ROCAP no longer has a Health Nutrition Advisor in country (August 1993) and the PACD of the INCAP project (596-0169) has been reached (July 1994)?
5. A general concern, which has implications for management in all field missions, is the increasing uncertainty regarding the OYB allotment process, in terms of timing, coordination and support between AID/W and missions. This impacts negatively on program planning, and has direct negative repercussions on project implementation.

ANNEX

DEMOCRATIC INITIATIVES STRATEGY

**REGIONAL SUPPORT TO DEMOCRATIC INITIATIVES:
A STRATEGIC FRAMEWORK**

INTRODUCTION

In 1992, ROCAP, in consultation with USAID Missions, Embassy representatives, and LAC Bureau staff, defined its strategy in Democracy. The strategic objective which emerged from these consultations is:

More effective and democratic local governance.

The LAC Bureau voiced the additional concern that ROCAP be able to take advantage of its position as a regional entity to promote broader democratic initiatives in Central America, even though they might not contribute to the strategic objective defined above. Accordingly, on the advice of a consultant team contracted to help ROCAP develop its strategic objectives and indicators, such regional activities were subsumed under ROCAP's cross-cutting theme of promoting regionalism, and the development of its Democracy strategy left to focus only on local governance.

It is important to recognize that this strategic objective, and the strategy which is elaborated herein, does not constitute a comprehensive regional strategy for the promotion of democracy in Central America. It is a narrowly defined, though by no means insignificant, contribution to the consolidation of democracy. Its genesis, further described below, is in years of experience in implementing shelter and urban development programs in the region.

The following strategic framework lays out the rationale for ROCAP's activity in local governance and describes how ROCAP intends to approach the sector.

PARAMETERS OF ROCAP'S ROLE AND APPROACH

ROCAP's role reflects, in part, the presence of the Regional Housing and Urban Development Office for Central America (RHUDO/CA) with ROCAP in Guatemala. This move brought to ROCAP a body of experience in designing and implementing shelter and urban development programs in the region. RHUDO's experience had led to the conclusion that municipalities were potentially more effective instruments for delivering basic services to residents than were central governments, but that the municipalities were constrained in their ability to provide services by laws, regulations, and policies that reserved power and resources to central agencies. Central governments, however, are often out of touch with the needs of local communities; central agencies are overwhelmed by increasing demands; and governments are unable or unwilling to

budget adequate funds to meet local requirements.

Meanwhile, for the first time in a century, all the Central American countries can boast of democratically elected national governments. The change from dictatorial rule to rule by elected leaders, however, did not automatically transform centralized control by bureaucracies which have not traditionally been held accountable to the people for their actions.

Drawing these two themes together, AID has recognized that municipalities have a primary role to play in the process of building a democratic system and in promoting efficient and effective economic and social development. However, they need to participate in the formulation and execution of national decentralization reforms and in the broader dialogue on national development; they need to be able to respond to citizen needs for land and basic infrastructure services and to participate in creating the conditions needed for local development; and they need to involve their citizens actively in municipal decision-making regarding the generation and allocation of resources.

The fusion of improved municipal service delivery and decentralization of democratic development is at the heart of ROCAP's strategy. Both themes are considered essential to the effectiveness of the strategy in contributing to Latin America bureau objectives in democracy promotion.

ROCAP's strategic approach is designed to contribute to the LAC Bureau's regional goal of supporting the evolution of stable democratic societies. It addresses two LAC/Democratic Initiatives sub-goals: (a) help create a pluralistic, autonomous, vigorous civil society that can balance and limit state power while providing channels for the articulation and practice of democratic interests; and (b) strengthen the democratic culture--values, attitudes, beliefs, and information that support democratic pluralism and are required for effective leadership.

Further, ROCAP's strategic objective directly supports LAC/DI objectives, as defined in LAC/DI's 1992-1993 Action Plan:

- support for the decentralization of power by strengthening local and municipal government;
- strengthen pluralism and citizen participation through labor unions, business organizations, and other grassroots organizations and associations; and
- strengthen democratic values and information through formal and non-formal civic education and other innovative approaches, and strengthen leadership through training that exposes present and prospective leaders to democratic values and practices.

These last three objectives are especially key to understanding ROCAP's approach. The strategy described herein will make it clear exactly how the objectives will be served.

In addition to the goals and objectives of the LAC bureau, however, other parameters have influenced the design of ROCAP's local governance strategy. These include:

- the need to define a strategic objective within the Central American context such that ROCAP can make progress towards it with our expected resources and that we can measure that progress;

- the Central American context itself, which requires that a regional strategy take account of existing movements towards decentralization and municipal autonomy and of the existing close ties among Central American countries which offer many opportunities for regional-level action;

- bilateral USAID goals, objectives, and programs related to decentralization and municipal development.

THE PROBLEM

The basic problem to be addressed by ROCAP's strategy is the excessive centralization of governments in all the Central American states. This problem has several aspects:

Lack of appropriate authorities at the local level.

In spite of the growing recognition of the need for more responsibility and authority at the municipal level, the locus of power and resources remains at the center. For decentralization to be effective, it must be reflected in a restructured relationship between the central and local governments. In such a relationship, the local government has an established role to play in the democratic process by participating in setting the agenda for growth and by implementing the policies that support the agenda. Such a restructuring is a complex and, of necessity, long-term process, as it implies a shift in power relationships. It is this shift, however, that makes municipal decentralization a critical element in the democratization of Central America, for without it, citizens do not have an effective forum for making their demands heard.

AID experience in providing technical assistance and training to municipalities in the 1970s highlighted this problem: in spite of the expenditure of considerable amounts, municipal administration did not improve significantly. No matter how capable the municipalities, they cannot operate effectively without the proper authorities to carry out their functions.

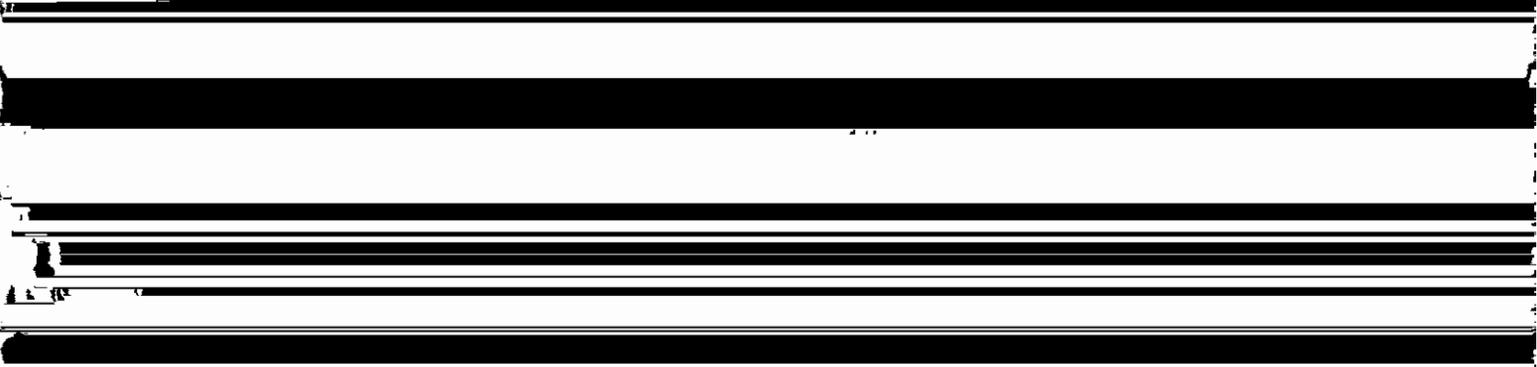
Currently mutually reinforcing policy and institutional development agendas at the national and local levels do not exist, giving rise to very practical difficulties:

Existing central-local fiscal relations tend to reinforce national

level control at the expense of local government autonomy and capacity building. The majority of local government investment is provided and managed by central sectoral agencies. Revenue sharing programs perversely reward fiscal irresponsibility and discourage local revenue generation by making up deficits: the bigger the deficit, the bigger the central subsidy. The taxing authority of municipalities is limited and unclear. National systems and procedures limit municipalities' ability to plan and budget local development activities.

Another aspect of the centralization constraint is the centralized financing and management of local development activities. Centralized management of publicly held lands (traditional communal lands and others) and natural resources is also common throughout the region. Furthermore, in almost all countries, central agencies have primary responsibility for the preparation of local urban land use and development plans.

Because central agencies are spread so thin, structured to account to national-level leaders and to address national level problems, that they are very removed from the developmental context in local communities, it is not surprising that their provision of infrastructure and services needed by the municipalities and their



planning and management of land and natural resources is ineffective. Local governments, meanwhile, are prevented from filling the vacuum by legal restrictions and limited capacity. So the cycle continues.

The lack of responsive and effective local governments

The transfer of responsibilities and resources from central to local government signals a diffusion of governmental power and a new role for municipalities. As central government roles change from those of "doers" to those of "facilitators," so must municipalities progressively be equipped to plan and manage their new role. Unfortunately, the municipal systems of Central America are not fully prepared to assume these new roles and responsibilities.

Their capacity to generate and administer revenues; to formulate and implement revenue programs; and to plan, program, and budget investments is weak, giving opponents of decentralization another rationale for withholding further responsibilities and authorities. Tradition has consigned local government to a subservient role in national politics. For many decades, municipalities in Central America have lacked the legal,

also no denying that there is a serious lack of trained personnel to formulate and execute local development policies and programs. The requirements are huge, but the countries in the region do not have the institutional capacity in place to provide relevant training and technical assistance to municipalities, despite the existence of centrally-run "municipal development institutes" in virtually every CA country. Also lacking are salary and career plans that would attract and retain better trained staff.

Low levels of citizen participation in public decision-making

Citizen participation in local development decisions and activities is inadequate in each of the countries. Yet, local politics is where citizens stand their best chance of learning the skills they need to participate in a democratic system. And the benefits to democracy of improved local governance will not be realized if citizens cannot hold their local leaders accountable for their decisions. Local election mechanisms need to be developed which maximize accountability.

Elections are only the beginning of citizens' role in local decisions. Community leaders and organizations need to learn how to increase their effective participation in local decision-making. Little if any provision is made for citizen participation in the setting of municipal policies, plans, and programs, nor in taxation and investment decisions. Conversely, citizen attitudes and habits of non involvement, and dependence on central entities for basic services need to change to orient them towards greater self sufficiency. Only when citizens have some "ownership" of public plans and policies will they be willing to pay for them.

CONSTRAINTS

ROCAP's strategy in local governance is to respond to the above problems by addressing, at the regional level and via support to USAIDs, the following constraints:

A. Lack of a policy framework and consensus to support structural change.

The lack of clear policies on decentralization throughout the region acts as an obstacle to greater progress in devolving resources and responsibilities to municipalities. Mutually reinforcing policy agendas at national and local levels are needed to achieve sustainable improvements in municipal capacity and in the municipalities' participation in decisions that affect them.

Many commonalities characterize the situation of municipalities in Central America, and all countries share a growing trend towards decentralization, though there are wide variations in the strength and expression of that trend. Countries that are only contemplating certain changes or that are just beginning their

efforts could benefit from a common frame of reference for considering and analyzing potential changes. For example, Guatemala has passed a law requiring that 8% of the central budget be transferred to municipalities for capital investments. El Salvador mayors, seeing the increased resources this mechanism makes available at the local level, are advocating a similar measure there. However, the Guatemala experience has also been instructive in that the 8% has been withheld or delayed by the central government, often for political party advantage, underscoring the weakness of the transfer mechanism as a means to true autonomy.

B. Lack of systematic mechanisms for sharing/exchanging information and experiences gained from country level activities.

This constraint is closely related to the above. Although there is a plethora of regional institutions and activities, systematic information sharing does not occur, so there is no way for countries at different stages of development to learn from the best of what their neighbors may have to offer. USAIDs in the region have access to sophisticated information management resources, but those resources are only as useful as what gets put into them, and much of what is being done in the various countries is not being widely or systematically disseminated.

C. Limited bilateral resources, both staff and financial.

Although a number of USAIDs had significant municipal development training activities in the 1970s, the recent resurgence of interest presents different issues and ideas as the concept and conditions have changed over time. There is a recognition that training alone, for example, is not enough to address the problem of weak municipalities. Faced with continuing pressures on staff resources, few Missions are in a position to add new technical expertise. Financial resources in some countries are also being reduced, yet most USAIDs view the rising interest in municipal development on the part of their host countries as something to which they wish to be responsive.

WHY A REGIONAL APPROACH?

There is a strong rationale for taking a regional approach to promoting democracy in Central America through support for increased devolution of authority to, and strengthening of, local governments. Central America's common origin of the political, institutional, and legal frameworks for local government permits the development of a common conceptual framework, adaptable to country-specific problems. Regional experience and opinion can be brought to bear on constructing a policy framework to address what are, basically, country-level policy issues and problems. Knowledge of successful measures taken to increase municipal autonomy in other countries has made decision-makers more

confident in adopting similar policy changes in their own countries. Awareness that one country is the only country without certain municipal powers can, conversely, encourage the outlier to accept change (e.g., Panama is taking steps to elect its mayors, becoming the last CA country to do so). Also, some changes with sensitive political implications are easier to promote regionally than bilaterally (e.g., property taxes in some countries). Finally, opinions favoring greater devolution of authority to local governments which emerge from regional fora can serve as a powerful impetus to bilateral change.

The regional approach, on the technical level, offers opportunities to foster information exchange; to identify, test, and apply new approaches to solving common municipal problems; to take advantage of regional economies of scale in the use of limited AID resources; and to fill gaps in country programs. Regional training, for example, can improve cross-fertilization of ideas at the same time that it offers major economies of scale.

But even more critical from the point of view of impact, is that there is a commonality of interest and need, if not total commitment, across all Central American countries. The following section summarizes the status of local governance issues in each of the Central American countries.

El Salvador-- El Salvador's municipalities and mayors are playing a key role in the peace and reconstruction process; after 10 years of war, Salvadoran society has directed its energy to consolidating peace. With considerable assistance from AID, the municipal system in El Salvador has achieved the following advances: (a) increased levels of citizen participation in local development projects through the cabildos abiertos; (b) their association of municipalities (COMURES) has been restructured and revitalized and taken on a more influential role; (c) approval of a local tax system which permits municipalities to determine their own fees and rates; (d) a decentralization commission has been appointed to look at municipal autonomy, and preparation of a national decentralization strategy is in process. Currently, the GOES is considering a municipally-controlled property tax. All these are demonstrations of political will to strengthen the municipal system.

However, there continue to exist obstacles to a more definitive municipal role in El Salvador's economic, social, and political development: (a) the "winner take all" elections to Municipal Councils, which results in one-party control of the councils and lack of representation of other parties in proportion to their local strength; (b) the municipalities' extreme dependence on external resources for meeting budget requirements; and (c) the reluctance of central government institutions to decentralize authorities to municipalities. A bilateral USAID project, now being developed, will address these obstacles.

Nicaragua--At the urging of its municipalities, the new Government of Nicaragua has taken some important actions to strengthen municipal institutions. The GON has transferred the administration of the property tax and has devolved to the municipal level, on a pilot basis, the administration of services which used to be under central control: water and, soon, education. These actions have been taken without a broader strategic context. Supported by AID and other donors (GTZ and UNDP), the GON is now trying to build consensus among different institutional and political sectors to formulate such a strategy. USAID is the lead donor in this effort. Implementation of the strategy in Nicaragua's polarized political environment and highly centralized state will require a major effort of negotiation and education.

Honduras--In 1990 the Honduran congress unanimously approved a new Municipal Law containing the basic elements of a decentralization process--transfer of resources, authorities, and powers to municipalities. The law (a) provides the municipalities with their own local tax base in addition to transferring 5% of the national budget to them; (b) establishes several mechanisms for citizen participation in local decision-making; (c) shares between local and national entities the control and management of natural resources; (d) provides the municipalities with full administrative autonomy in the approval of their budgets and fees and enables them to administer local public services, among other provisions. The Municipal Law was recently supplemented by a reform in the electoral law, motivated by AMHON (the national association of mayors), which provides for separate ballots for national elections from those for local elections, permitting greater influence for citizens over local affairs and reducing the influence of the machinery of the political parties. Three years later, the results of the law are generally positive, due largely to the efforts of AMHON and of USAID's Municipal Development Project. Honduras now faces the challenge, at both the national and local levels, of implementing and consolidating the process of decentralization which the Municipal Law has begun.

Panama--Panama lags behind the rest of Central America in that it does not even have elected mayors. There is general consensus on the need to change this, however, and the legal steps needed to bring it about have begun.

Guatemala is a mixed picture. From the political point of view, a constitutional endorsement of decentralization and the transfer of 8% of the national budget to local governments have created a favorable backdrop for the movement toward local autonomy. Local government is so structured that with a few key changes, especially in the area of financial independence, the community itself could come to play an important role in its own development through its elected leadership. For example, local elections allowing for candidacies of local leaders not affiliated with the national parties would permit the community to participate without

dependence on the capital city, centralist political interests that dominate almost all political parties in Central America. On the other hand, the split of the mayoral term into a two-year term for two thirds of mayors and a five-year term for the rest, weakens the municipalist movement by reducing the political importance of local leadership and by making mobilization and alliances for reform more difficult to maintain. Guatemala's municipal association, ANAM, itself in the process of reform and democratization, so far has not been able to play a significant role in mobilizing the municipalist movement.

From the economic point of view, the municipality is completely dependent on centrally-controlled structures, such as the Congress for tax and fee authorities, and with the exception of water, on State run autonomous agencies, for services. Normally, municipalities need to beg resources even to meet payroll and operational costs, the 8% being restricted to capital investment. At the present time it appears that this dependence could be eliminated, or at least decreased, through a law transferring the property tax to municipal control. Although public opinion appears to favor local government autonomy vis-a-vis this law, strong special interests are at risk and passage at this point is uncertain.

Costa Rica--For many years, the concept of decentralization has been discussed in political and legislative circles of Costa Rica. For example, a number of legislative initiatives for increasing local government autonomy have been before Congress, one for as long as 10 years. The Reform/Modernization of the State Program, operating through two presidencies under different parties, includes a component directed toward devolving some functions to local government. On the other hand, with the exception of a few, although important, political figures, the prevailing mood appears to be against major, structural change in local government. The scale of government in Costa Rica favors centralization and the central provision of services has not been notably deficient. Activities of the two major political parties ignore local issues as unimportant to them politically. Even the members of local communities are accustomed to expect almost nothing from local leadership. This is reflected by opinion polls.

The situation of local government in Costa Rica corresponds to political structures designed to keep it weak. Leadership, divided between the Council President and the City Executive, hides responsibility and discourages redress by vote. Even if that were not the case, the Council President's term is only for a year, which makes an impressive showing of leadership and responsiveness to the community almost impossible. To add to this negative picture, the local government budget is completely dependent on centralist structures, to cover operating costs, not to speak of capital investments, where, in order to minimize the role of local leadership, central government has created a structure of parallel community organizations to funnel resources directly to

communities, bypassing locally elected leadership. As far as the parties are concerned, the minimum political advantages and visibility permitted a local leader are not attractive to the politically talented. The result is, in general, lackluster local leadership. Advances in decentralization in Costa Rica will require substantial, structural changes.

What is clear from this very brief review of the countries of Central America is that there is already considerable consensus on the need for more decentralization, but also a lot of obstacles to overcome. In many of the countries, most notably Honduras, El Salvador, and Nicaragua, USAID Missions are already contributing to the decentralization/municipalist currents. ROCAP's strategy is to build on national and bilateral movements with regional approaches that reinforce them. In countries without bilateral programs, like Costa Rica and Guatemala, ROCAP's strategy, as articulated in the LOGROS Project Paper, is to undertake whatever consensus building support seems feasible in the national context and provide Missions with advice and input as requested. In Panama, there has been a decision that regional resources in municipal development will not be used unless and until mayors are directly elected.

STRATEGIC ELEMENTS AND APPROACHES

Practical decentralization and municipal reform and development in Central America will be the work of at least a decade. Neither system-wide reform of municipal laws and the processes of central government control and financial aid, nor technical and financial assistance to individual municipalities will suffice on their own to strengthen democratic processes and social and economic progress through municipal development. In order to achieve that goal, the municipalities themselves must be progressively mobilized, organized, and supported as essential actors in policy dialogue and decision-making. In turn, citizens and local organizations must be brought into the process, learning how to cooperate on community goals, as well as to make demands on their local officials and how to hold those officials accountable for their decisions.

ROCAP's approach is to support both bilateral and regional movements toward decentralization and improved local governance. At the bilateral level, ROCAP is working in close consultation with USAIDs to focus regional resources, staff and financial, on issues that (1) have implications for other countries of the region and/or (2) require resources beyond those available from USAID itself. (These issues are further discussed in the following section on The Program.)

However, the success of national level efforts will require the forging of a consensus among the key agencies and organizations, both bilaterally and regionally, nationally and internationally. Within the framework of Central America's own trends towards regional integration, there are opportunities for ROCAP

interventions at the regional level to support country level reforms. In general, those opportunities involve networking events which can attract high level leadership, political and professional, to regional or extra-regional fora where local governance issues can be addressed. Facilitating these events, to which USAIDs as well as ROCAP can send leaders is a key element in the regional strategy.

The regional approach facilitates networking with ideas and experiences while increasing the cost effectiveness of specialized technical assistance and training. Most importantly, it is systematically addressing common policy and institutional development issues in order to provide the basis for sustainable municipal development in the region over the long term.

The regional approach recognizes that different kinds of activities in different countries can have synergistic effects if the regional framework is there to provide dissemination, communication, and reinforcement of national efforts. The strategic issues with which a regional approach must deal include the need to: (1) formulate and execute mutually reinforcing national and local policy and institutional reforms; (2) renew and strengthen existing, though obsolete, institutional support systems for municipal development; and (3) develop and implement the democratic process at the community, municipal, and national levels.

THE PROGRAM

ROCAP's contribution to the regional framework for local governance is embodied in the Local Government Regional Outreach Strategy (LOGROS) Project (596-0167) but also includes several other elements.

The program has two main features: (1) helping to build a regional environment for policy change in the municipal systems of Central America by constructing a regional policy framework; and (2) helping to improve the capacity of municipalities to respond to their new roles by supporting the implementation of policy changes. ROCAP considers both these foci essential to the achievement of lasting change.

The LOGROS project design reflects these two features; the project has a consensus building, or political, component and a problem-solving, or technical, component. The project, its strategic approach and place in ROCAP's democratic initiatives program, is described in some detail in the Project Paper, dated August 21, 1992 and available from ROCAP.

In addition to LOGROS, ROCAP is also funding activities within the local governance strategic objective with a component of the Regional Development Support Project (596-0162). These activities have contributed significantly to the development of the objective

itself, as well as building regional consensus on decentralization issues. Finally, ROCAP and RHUDO are now developing a Housing Guaranty project as a component of the LOGROS project. The HG is being explicitly designed to promote policy changes identified under LOGROS as being essential to improved local governance.

The Policy Framework

The Strategic Objective of improved local governance is being addressed at the regional level through the construction of a framework of policies to promote structural change in favor of decentralization to municipal levels. The framework will help to organize individual decentralization actions into a system which changes the way central and local levels of government relate to each other and to their citizens. The framework will be constructed through a process of regional consensus-building, which will in turn be used to refine and promote the policies being advocated. Details of the components of the framework are contained in the section below on Program Outputs.

Regional meetings, conferences, seminars, and publications will be the major vehicles for building consensus. Studies directed at particular policy issues will inform the regional dialogue. Information from the studies and events will be disseminated regionally. In order to be effective in bringing about change, these instruments of consensus building will be carried out in partnership with Central American institutions who are promoting the municipal agenda. These institutions at the regional level include the Federacion de Municipios del Istmo Centroamericano (FEMICA), PARLACEN, FEDEPRICAP, SIECA, CABEI, national municipal associations, private sector investors, and central government agencies where appropriate. All bilateral or national level relationships will be closely coordinated with the USAID Missions. In addition, ROCAP is consulting with other donors in the municipal sector, such as the AECI of Spain, GTZ of Germany, the Interamerican Development Bank, and the UNDP.

The addition of Housing Guaranty resources will provide another means of encouraging policy reform. The HG program now being designed will provide for policy-based disbursements. The policies to be supported will be those defined in the framework, tailored carefully to the individual country or countries involved. The local currency equivalents of the disbursements will be used for investment, both public and private, in municipal infrastructure projects which, under the HG statute, must benefit below-median income households.

Implementation

ROCAP strongly believes that policy change must be accompanied by tangible results in order to improve the quality of citizens' lives, thereby consolidating support for democratic systems of government. The strategic approach therefore includes a component

for technical assistance and training support to the resolution of specific problems of local governance, such as decentralized municipal service delivery. This support is provided for in the LOGROS project design and is further described in the Project Paper. Housing Guaranty resources will also be directed at increasing the level of capital investment in the municipal sector.

This component of the strategy is entirely demand driven, designed to focus on problems as they are identified, to select those that have the best potential for regional application, and to disseminate results widely and systematically throughout the region through publications, workshops, and observation visits.

Some examples of candidate problem solving exercises are: implementation of decentralized provision of water services in selected municipalities (Nicaragua, El Salvador), a metropolitan solid waste authority (Honduras), and municipal administration of primary education (Nicaragua).

PROGRAM OUTPUTS

The local governance program outputs are organized under four headings:

1. A regional policy framework. The program will promote political and administrative decentralization that improves local governance. Although this output will be developed throughout the life of the program, experience to date enables us to sketch its outline in terms of reforms on which there already exists a degree of consensus and which might be refined over time:

- a. More democratic representation of local interests
 - 1) direct election of mayors
 - 2) separate slates for local elections and elimination of national party candidate slates
 - 3) ability of local electorate to recall local elected officials
 - 4) legal oversight of municipal finances at the local level
- b. Increased financial independence of municipalities
 - 1) authority to levy taxes and fees, collect and allocate revenues at municipal level
 - 2) ability to implement financial authorities
 - 3) municipal control over budget preparation, approval, and execution
- c. More opportunities for citizens to participate in local governance
 - 1) regular, or at least predictable, holding of local elections
 - 2) more open town meetings to elicit citizen input on public issues, particularly resource generation and allocation
 - 3) citizen representation on local planning committees,

as appropriate

- 4) public information campaigns to inform citizens on local issues affecting them
 - 5) local government/private sector partnerships to address common problems
- d. Expanded authorities for municipalities over appropriate governmental functions: at this stage, candidate functions for municipal control include: water, sewers, education, natural resources and environment, health, land use planning, economic development
 - e. A more influential role of municipalities in national development, i.e., more local input to national development plans, projects, and decisions
 - f. Improved and expanded local service delivery, especially for lower income groups

Parts of the above list are still illustrative and will be further defined, analyzed, and refined as implementation of the LOGROS project progresses.

2. A functioning regional network. Although the network could be viewed as a means to build consensus, rather than an output in itself, ROCAP considers it a key output because it represents the institutional foundations of improved local governance in Central America. During the design of the LOGROS project, it became apparent that there is no one institutional "home" for decentralization, especially at the regional level. The success and sustainability of the local governance strategy depends on the network of individuals and institutions which will disseminate and advance the municipal agenda: municipal officials and associations, community leaders and citizen groups, chambers of commerce, legislators, politicians, central government decision-makers, business leaders, special interest groups, donors, and USAIDs.

Not all these players will agree on the policy reforms to be advocated, but some level of accommodation of the interests they represent must be achieved in order to build a meaningful and effective consensus for change. Once that consensus is reached, the network is the framework within which it will be converted into action.

3. Resolution of specific constraints to decentralization. The policy changes being advocated must be made "real" in the sense that they produce meaningful improvements in people's lives if Central Americans are to remain committed to democracy. At the program level, this concept is reflected in the directing of LOGROS resources to the solution of specific problems at the local level.

4. A regional training framework. The regional program resources available, as well as previous experience with municipal training, make unrealistic an effort to provide skill training for municipal

officials. These types of activities, in any event, are more appropriately handled by bilateral programs, where they exist.

Instead, ROCAP's program strategy is to use regional resources (1) to assess and evaluate the capabilities of regional training providers to carry out municipal training; (2) to help clarify the most appropriate roles for different types of training providers in the region; and (3) to help develop municipal training programs to fill unmet needs common to more than one CA country, in order to take advantage of regional economies of scale.

PERFORMANCE INDICATORS

Because so much of the work of improving local governance must take place at the bilateral level, establishing regional indicators for the success of ROCAP's strategy is complex. Recent work by PADCO, Inc. and RHUDO has established a system for tracking LOGROS project performance which also contains the framework for program monitoring. (See Indicators for Performance Measurement, PADCO, Inc. for ROCAP and RHUDO/CA, draft, April 1993.) ROCAP's current Action Plan contains information on the program indicators being used now, but these will be revised based on the final consultant report and recommendations.

United States Government
MEMORANDUM

DATE: June 22, 1993
FROM: Terrence J. Brown, Director, USAID/Guatemala
SUBJECT: ROCAP Action Plan Addendum: Resources
TO: Peter Bloom, LAC/DR

The attached substitutes for the current section in the ROCAP Action Plan, Section IV, Resource Requirements. We have just completed the analysis of the merger of the two Missions, and I thought it would be useful to have the consolidated OE and FTE tables for discussion during Action Plan week.

I would appreciate your circulating these pages to the concerned offices.

cc: Jim Vandebos, LAC/CEN
Joseph Stepanek, LAC/DP

SECTION IV. RESOURCE REQUIREMENTS

Operating Expenses: ROCAP requested \$1,763,400 for Operating Expenses in last year's Annual Budget Submission. After implementing some cost savings, this amount was unilaterally reduced to \$1,576,261. We were quite surprised when the approved level was finally established at \$1,375,000 which was a reduction of 22% from the level requested in the Annual Budget Submission.

With the consolidation of the USAID and ROCAP Missions, further cost savings will be realized in the long run. We are concerned that in the short run that the costs attributable to the reduction of staff (severance pay for FSN staff) and direct transfers of USDH staff will increase our estimates of Operating Expense requirements. The combined Operating Expense Budget for both ROCAP and USAID/Guatemala for FY 1993 is \$5,175,000. We have requested an increase of \$100,000 in FY 1993 to cover non-recurring costs related to the reorganization. Our ability to live within these FY 1993 levels provided by the LAC Bureau was primarily due to only funding nine months of FSN salaries for USAID/Guatemala. In FY 1994, we anticipate the net operating expense costs to be \$5,100,000. There will be additional costs related to the reduction of eight USDH positions, the funding of a full twelve months of salaries for the remaining FSN staff, and the payment of severance payments to FSN staff who will leave. In 1995, we project the net operating expense costs to be reduced to \$4,800,000. These costs include the mandatory increases in rent, FSN retirement, and the anticipated increases in FSN salaries and benefits, and utilities. Other savings will be realized by maintaining operational travel at FY 1992 levels despite increases in air fares and per diem, moving more project funded staff into the USAID Office building, and minimizing the procurement of non-expendable property.

Trust Funds: USAID/Costa Rica provides \$75,000 annually in Operating Expense Trust Funds for the operations of ROCAP's office in Costa Rica. This funding is budgeted and reported by ROCAP in its monthly reports. USAID/Costa Rica has indicated that this level of funding will continue through FY 94. The ROCAP Office in Costa Rica will be closed during FY 94.

Internal Controls: The Mission strongly supports the Agency's increased emphasis on establishing and maintaining internal controls. The Mission's Management Control Review Committee meets on a quarterly basis to review the status of outstanding control weaknesses and review follow-up actions. In addition, a report is sent to the Mission Director each month detailing progress towards resolving unsatisfactory findings. The timely resolution of such weaknesses are then reflected in the EERs of responsible Office Chiefs. All Internal Control Assessment weaknesses have been completed and closed.

Staffing Levels: It is no longer practical to review staffing levels for ROCAP independently now that the merger has been initiated to combine the regional and bilateral Missions into one operation. Therefore we will use combined levels for the two Missions for historical perspective pre-'93. This gives better insight into the dramatic downsizing of the bilateral Mission and the economies being realized by the merger.

In 1990 the two Missions had a combined FTE level of 335, this has been reduced to 212 in 1993 and is projected to be further reduced to 196 in 1995. This represents a 41% reduction in staffing over the five year period. These savings are heightened by the fact that the percentage of reductions in the most expensive personnel categories - USDHs, USPSCs and PASAs have been much higher than the overall average of 41%. USDHs were reduced by 47%, USPSCs by 70%, and PASAs by 71%.

In order to continue to meet the Mission's needs despite the high percentage of USDH reductions, the Mission has been involved in a comprehensive FSN career enhancement program which includes training, an improved performance rating and bonus system, and the possibility of cross training FSNs with other Missions.

To bring down the staffing levels any faster than what has been projected would present real risks to the success in combining the regional and bilateral Missions and increase program vulnerability to an unacceptable level. This reduction though quite ambitious has been developed to insure that the needs of both the bilateral programs and regional programs will not suffer, and internal control of the mission will continue to be maintained at a high level.

CONSOLIDATED FTE LEVELS

06/14/93

	1993	1994	1995
USDH	35	27	23
USPSC	17	8	7
PASA	4	3	2
FSNDH	36	27	27
FSNPSCs	172	147	137
TOTALS	264	212	196