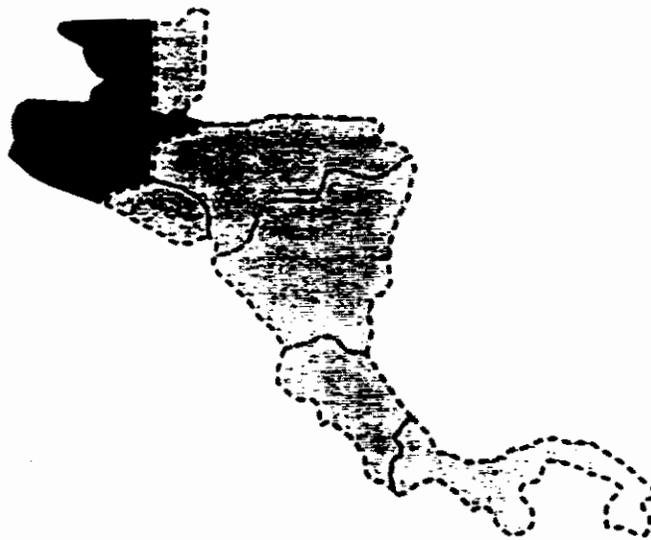


**U.S. Agency for International Development**  
**Guatemala - Central American Programs Mission**  
**(USAID/G-CAP)**

***Action Plan 1995-1996***



**May 1994**

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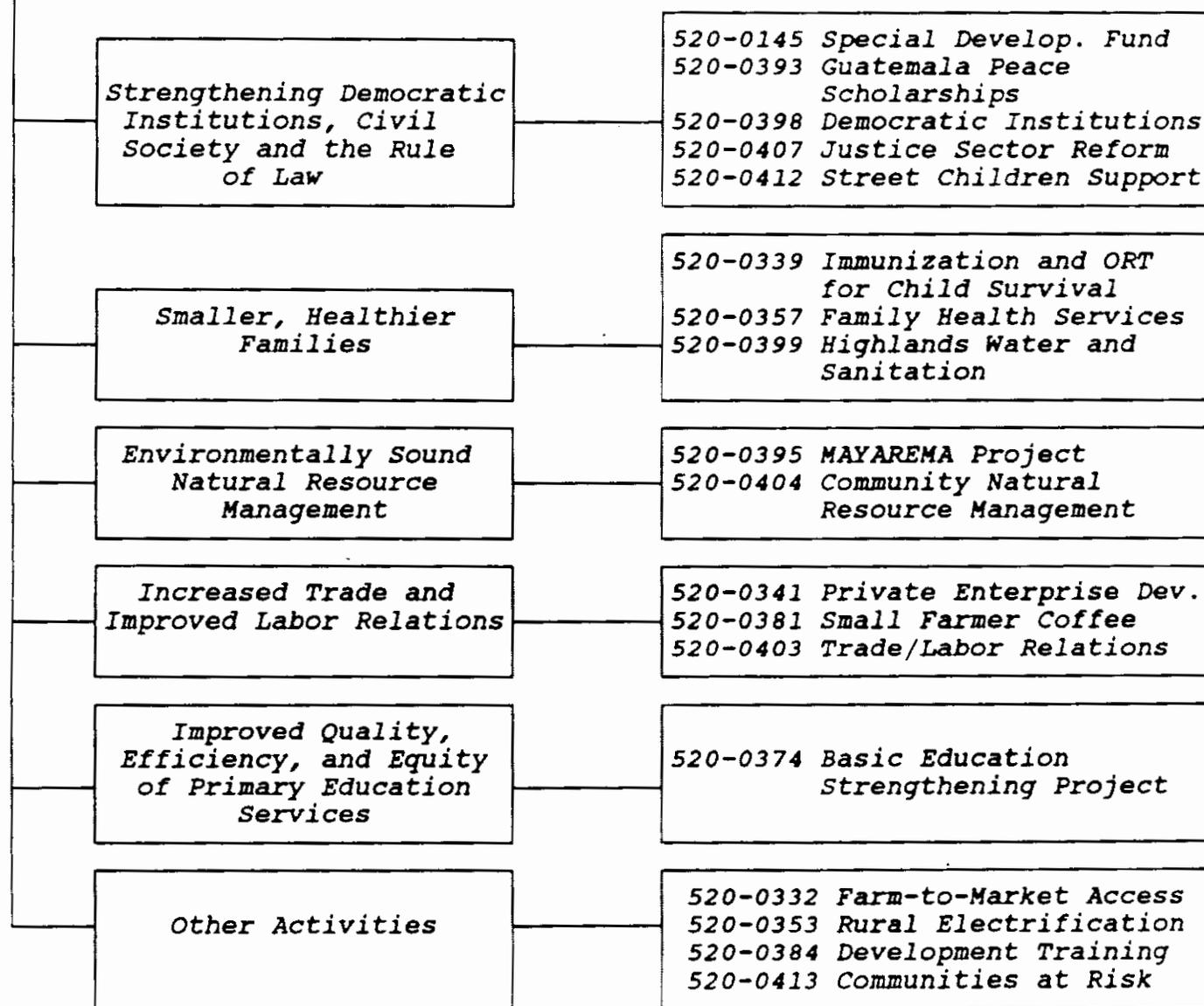
## USAID/G-CAP BILATERAL PROGRAM FOR FY 1995-1996

### Agency Goals :

- 1) Stabilizing Population Growth and Protecting Human Health
- 2) Building Democracy
- 3) Protecting the Environment
- 4) Broad-Based Economic Growth



### USAID/G-CAP Bilateral Strategic Objectives:



# USAID/G-CAP REGIONAL PROGRAM FOR FY 1995-1996



## Agency Goals:

- 1) Broad-Based Economic Growth
- 2) Protecting the Environment
- 3) Building Democracy

## USAID/G-CAP Regional Strategic Objectives:

Increased Central  
American Participation  
in the Hemispheric  
Economy

596-0147 Econ. Policy Research  
596-0176 C.A. Development  
Coordination Commission  
596-0177 Partnership for  
Democracy & Development  
596-0178 Trade Policy and Econ.  
Integration

Environmentally Sound  
Resource Management

596-0150 Regional Environment &  
Natural Resource Mgmt.

More Effective and  
Democratic Local  
Governance

596-0167 Local Government Reg.  
Outreach Strategy  
596HG010 Housing Guarantee  
Supplement for LOGROS  
Project

Other Activities

596-0146 C.A. Rural Electrific.  
Support  
596-0162 Regional Development  
Support  
596-0169 INCAP Institutional  
Strengthening

## ACRONYMS

ARI	Acute Respiratory Infection
CABEI	Central American Bank for Economic Integration
CADCC	Central American Development Coordination Commission
CATIE	Tropical Agriculture Research and Teaching Center
CCAD	Central American Commission for Environmental Development
CDD	Control of Diarrheal Disease
CONAMA	National Commission for Environment
CONAP	National Council for Protected Areas
CRS	Catholic Relief Services
CYP	Couple Years of Protection
DHS	Demographic and Health Survey
EML	Economic Modernization Loan
EPI	Expanded Program for Immunization
ESF	Economic Support Funds
ESTNA	Center for National Stability
FEDEPRICAP	Federation of Private Sector Entities of Central America and Panama
FEMICA	Federation of Municipalities of Central America
FIS	Social Investment Fund
FSN	Foreign Service National
FSNDH	Foreign Service National Direct Hire
FSNPSC	Foreign Service National Personal Services Contractor
FY	Fiscal Year
GDP	Gross Domestic Products
GOG	Government of Guatemala
GSP	General System of Preferences
GTZ	German Agency for Technical Cooperation
HB	Handbook
HG	Housing Guaranty
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IMR	Infant Mortality Rate
INCAP	Institute of Nutrition of Central America and Panama
IPM	Integrated Pest Management
ISLP	Investment Sector Loan Program
LAC	Latin America and Caribbean (Bureau of A.I.D.)
LOGROS	Local Government Regional Outreach Strategy
MBR	Maya Biosphere Reserve
MCH	Maternal-Child Health
MMR	Maternal Mortality Rate
MOE	Ministry of Education
MOH	Ministry of Health
NAD	New Activity Description

NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organization
OHRO	Office of the Human Rights Ombudsman
ORT	Oral Rehydration Therapy
PAC	Protected Areas Council
PACD	Project Assistance Completion Date
PSC	Personal Services Contractor
PRADIC	Program for the Support of Central American Integration
PEC	Plan of Economic Co-operation
PVO	Private Voluntary Organization
RENARM	Regional Environmental and Natural Resources Management Project
SAR	Semi-Annual Review
SCSP	Street Children's Support Project
SDF	Special Development Fund
SEGEPLAN	National Economic Planning Council
SICA	System of Central American Integration
SIECA	Permanent Secretariat of the General Treaty of Central American Economic Integration
SO	Strategic Objective
TBAs	Traditional Birth Attendants
TFR	Total Fertility Rate
TNC	The Nature Conservancy
UNDP	United Nations Development Program
URNG	Guatemalan National Revolutionary Union
USDH	U.S. Direct Hire
ZAMORANO	Pan American School of Agriculture

**FY 95-96 Action Plan**

***A. Strategy Overview***

**USAID/Guatemala - Central American Programs  
(USAID/G - CAP)**

## A. STRATEGY OVERVIEW

U.N.-facilitated negotiations for the end to the 30-plus year civil war in Guatemala are currently ongoing in Mexico City between the Government of Guatemala and the URNG political leadership. With the signing of a mutual Human Rights Agreement in March, 1994 and the possibility of a Peace Accord being reached by year's end, the time is now ripe for considering a new initiative to support the transition to peace in Guatemala after more than thirty years of conflict. This is the context in which the USAID/Guatemala-Central American Programs (USAID/G/CAP) mission presents its FY 1995-1996 Action Plan for its bilateral program.

### The Bilateral Program

#### Political Trends in Guatemala

The past year in Guatemala has been an historic one. Former President Serrano failed in his attempt to take over the government in May 1993 in an "auto-golpe" dissolving the legislature and the Supreme Court, and suspending certain articles of the Constitution. He justified his actions on the excessive level of corruption in the legislative and judicial branches, though ignoring those of the executive. The reaction of the Guatemalan people was immediate and effective, and diverse political and social forces unified in protest against the President's actions. The international community also reacted quickly and forcefully. Led by the United States Government, which halted all economic assistance and threatened trade sanctions, the Central Americans Presidents refused to hold their scheduled Summit in Guatemala to protest the "auto-golpe" and demanded restitution of the Constitutional government. The Secretary General of the Organization of American States visited Guatemala to explore constitutional solutions to the "auto-golpe". In a stunning reversal of events, President Serrano was forced out in a matter of days and Ramiro De Leon Carpio, the nation's independent Human Rights Ombudsman, was elected President by the Congress in accordance with constitutional procedures. These events promised a new era in Guatemala in which political "stability" from a central authority no longer takes precedence over respect for democratic institutions, human rights, and the popular will of the people.

Resolution of the immediate Constitutional crisis and De Leon Carpio's assumption of the presidency in June 1993, created very high expectations among the population as well as internationally. Widespread hopes that the new President would be able to address the pressing problems of the Guatemalan society have proven unrealistic. Guatemala is a country in which 75% of the population lives in poverty, where access to health and education services are amongst the very lowest in Latin America and the Caribbean region. Early in his presidency, De Leon Carpio presented a 180 Day Plan which constituted an ambitious, short-term social investment plan (in housing, transport, health and education) to address the most urgent needs of the poorest elements of society. De Leon Carpio faced, however, many of the same problems that Serrano had in confronting corruption in the executive, legislative and judicial branches. Going to the people, De Leon waged a "depuración" campaign in an attempt to clean out corruption. The campaign resulted in months of deadlock among the branches of government,

which was partially resolved in November, 1993, through a negotiated agreement on a package of proposed constitutional and institutional reforms. The reform package received a 5 to 1 endorsement through a popular referendum held January 30, 1994, although the rate of abstention from voting in the referendum was very high, reflecting continued disillusionment with Guatemala's institutions of government. Those reforms not requiring legislation entered into effect on April 8, 1994, while major legislation to amend the electoral law is awaiting action by Congress. The major reforms agreed to are the early dissolution of the Congress leading to new elections, the wholesale re-election of the Congress (and reduction of its size) scheduled for mid-August, 1994, and the dismissal of the Supreme Court to be replaced by a less political system.

In March 1994, the government of Guatemala and the Guatemalan National Revolutionary Union (URNG) signed a human rights accord, the details of which will be negotiated over the course of the next eight months, and agreed on a negotiating schedule for the remaining issues, leading to a global Peace Accord scheduled for December 1994. Difficult issues will be addressed during the negotiations such as the peacetime role of the armed forces, the future of the civil defense patrols, and procedures for investigating past human rights abuses.

### **The Macroeconomic Situation in Guatemala**

Overall macroeconomic results obtained in 1993 were modestly positive despite a deterioration in the fiscal situation in the second half of the year. The already difficult economic situation was exacerbated by the "auto-golpe" political crisis of May and growing instability due to tension between the executive and legislative branches under the De Leon Carpio government. Targets set under the 1992 IMF stand-by agreement could not be met by the new government and the program was essentially abandoned in June of 1993. This triggered suspension of IBRD disbursements under the Economic Modernization Loan (EML) and held up approval of a \$130 million IDB Financial Sector Modernization Loan.

Against this background, on July 3 the De Leon Carpio Government asserted its new priorities by announcing a 180 Day Plan to accelerate investments in the social sectors. The Plan reordered 417 projects selected from previously approved investments in health, education, housing, and transportation, all aimed at attacking the roots of poverty. Guatemala turned to the "Friends of Guatemala" group on September 24, 1993 with a request for emergency financing of \$150 million to enable the GOG to maintain financial stability and still fund the politically imperative 180 Day Plan without resorting to money creation in 1993.

In support of the De Leon Government, the United States pledged \$10 million in ESF and with it, was able to leverage about \$80 million from the donor community through the collaborative multilateral effort of the "Friends" group. President De Leon Carpio reported on December 20, 1993 that 74% of the 180 Day Plan resources had been executed and some 318 investment projects completed. The 180 Day Plan appears to have catalyzed a new emphasis in the GOG on the need for more effective and efficient social investment and a decentralized, community-based approach to development.

The De Leon Carpio Government made a strong effort to stabilize the economy in the second half of 1993 and continued to negotiate in good faith with the International Financial Institutions (IFIs). The GOG succeeded in coming to an agreement with the IMF on a Shadow Program and with the IBRD on the restructuring of the EML, and signed the Financial Sector Modernization Loan with the IDB.

Despite GOG actions in the right direction, including liberalization of the foreign exchange market in mid-March and freeing up of petroleum prices, the fiscal situation worsened in the first quarter of 1994. The financial stability of the Guatemalan economy was, and continues to be threatened by the magnitude of tax evasion. According to GOG estimates, tax evasion has reached 40% for the Value Added Tax and 50% for the Income Tax. These two taxes combined account for 60% of total tax revenues.

In response to the critical fiscal situation, the De Leon government submitted a tax package to Congress on April 21 which included proposed changes to the VAT, income tax, air passenger exit taxes and to the Tax Code itself as well as the introduction of an Emergency Tax. In the face of ferocious opposition from private sector interests and powerful groups within the Congress, the Congress adjourned on May 12 without acting on the package.

Without additional revenues, the GOG will not be able to carry out its follow-on to the 180 Day Plan, a two year Poverty Alleviation Program, which will be presented to the next Consultative Group meeting on Guatemala.

### **Progress Toward Strategic Objectives and Donor Coordination**

The goal of USAID's bilateral program is to promote broad-based, sustainable growth within a democratic polity and participatory society in Guatemala. The Mission has five Strategic Objectives aimed at the attainment of this goal: **Strengthening Democratic Institutions, Civil Society, and the Rule of Law; Smaller, Healthier Families; Environmentally Sound Natural Resources Management; Increased Trade and Improved Labor Relations; and, Improved Quality, Efficiency, and Equity of Primary Education Services.** The bilateral program combines targeted project interventions with close attention to the policy environment in order to realize maximum impact in the delivery of its assistance.

Five cross-sectoral precepts guide the bilateral program:

- targeting of activities to the poorest, most vulnerable populations, particularly indigenous groups;
- intense donor coordination and implementation through NGOs and PVOs to the greatest degree possible;
- close attention to the sustainability/cost recovery of the assistance provided;

- decentralization of government services; and,
- a focus on the demand (community participation) as well as the supply (institutional strengthening) side of the development equation.

Approximately 45-50% of the value of our authorized bilateral portfolio is implemented through NGOs/PVOs.

In addition, cross-sectoral representation on each of the Strategic Objective Teams has enabled the Mission to avoid a stove-pipe approach to strategy implementation, and to capitalize on the interrelationships among the objectives. Thus, natural resource management concerns are being incorporated into activities related to post-NAFTA trade, and our knowledge of Guatemala's democratic institutions is enabling the Mission and its Embassy counterparts to tailor a more effective response to workers' rights and other General System of Preference (GSP) issues.

The following provides a brief overview of progress towards these strategic objectives, as well as efforts to increase participation and access, and improve donor coordination under each objective.

Progress under the **Strengthening Democratic Institutions, Civil Society, and the Rule of Law** has been mixed. The political turmoil which began with the "auto golpe" last May and continued through January's national referendum on constitutional reforms has left many government entities that were fragile to begin with, reeling from a lack of direction, dwindling popular support, and a lost or confused sense of purpose. Thus, we have witnessed a slowdown in the accomplishments of several key democratic institutions that we support during this volatile period. At the same time, however, we are responding to new opportunities, such as the opening up of civil society and a greater tolerance for free expression, to provide support to the growing number of local NGOs that are becoming important actors in the public policy arena. In addition, judicial sector and human rights activities, such as Mayan language training for Human Rights' Office personnel involved in civic education and the requirement for Mayan court translators in the reform of the judicial sector, are specifically tailored to incorporate the needs of the Mayan population. Major other donor involvement in this area has been limited, especially in the current political environment.

With the conclusion of the Demographic Health Survey this year, the Mission will be able to report on the impact of our assistance under the **Smaller, Healthier Families** objective on the total fertility rate as well as infant, child and maternal mortality. Interim data indicate that coverage rates were over 70% for immunizations, at 30% or below for Oral Rehydration Therapy (ORT) use, and a range from 6.6% in a predominantly Mayan area to 33% for modern contraceptive use among mothers of children under five years. We are proposing to extend our Child Survival project until 1996 to consolidate and expand the coverage in immunizations, ORT, Acute Respiratory Infections, and the decentralization of primary health care services. Furthermore, the Mission plans to increase its emphasis on reaching rural Mayan communities with high impact interventions to reduce maternal/neonatal mortality and fertility. We are also

looking at innovative ways to increase local NGO involvement in the delivery of reproductive health services in order to increase the access of the poor and indigenous populations to these services.

Through its technical analyses and experiences in this sector, USAID has played a pivotal role in the design of the combined IDB/World Bank \$90 million health sector program for 1994, which will be conditioned on policy reform in the Health Ministry in favor of a new decentralized model for the delivery of services. Under this strategic objective, we also work closely with PAHO and the specialized agencies of the United Nations (UNDP and UNICEF, most notably).

In close collaboration with the Protected Areas Council (CONAP), U.S. PVOs, and local NGOs, we have made significant progress toward the **Environmentally Sound Natural Resources Management** objective through the direct involvement of 50 communities in activities to conserve the forest cover and biodiversity in the Peten. Recent data indicate a reduction in deforestation trends in the Peten area of Guatemala, with the Maya Biosphere still largely intact. Furthermore, as a result of the CARE/USAID Community Natural Resources project, twenty watersheds have been stabilized, productivity is up, and thus, the threat of out-migration to areas of environmental fragility and ecological significance is reduced.

In addition, we have provided technical expertise and analysis to the World Bank in the design of a new agricultural/natural resources sector program which will concentrate, in a first phase, on reform of the land titling and registration system and the modernization of the agricultural technology generation and transfer system to benefit small poor farmers.

Performance met or exceeded targets in six of the seven performance indicators for the **Increased Trade and Improved Labor Relations** objective: overall export earnings for 1993 reached \$1.2 billion, a growth of 14% over 1992 levels; two-way trade between the U.S. and Guatemala grew by nearly 10%, reaching a total of \$2.48 billion; and, Guatemala maintained its eligibility for GSP benefits. Our interventions assisted in the reduction of poverty through the creation of new jobs, mostly in the handicraft sector, which employs approximately 200,000 people, primarily indigenous women. Furthermore, the value-added of the coffee produced by the 2,500 small farmers assisted under the Small Farmer Coffee program with ANACAFE increased by 36% during the past year due to increased quality, reduced losses, and reduced processing costs.

In addition, we supported the training of new labor inspectors and the decentralization of the Ministry of Labor to provide greater coverage in rural areas to assist in partially meeting the concerns raised in the pending GSP petitions against Guatemala. We also shared our technical analyses with the IDB in preparation for the design of their \$50 million Investment Sector Loan Program (ISLP), and are coordinating closely with them on trade and labor policy issues as they develop their conditionality.

Performance gains under the **Improved Quality, Efficiency, and Equity of Primary Education Services** objective have been consistent since 1991, the baseline year. The combination of nation-wide, systemic interventions and targeted innovations in pilot schools in the rural, Mayan language-speaking areas have produced gains in nation-wide indicators of efficiency and equity. Repetition rates in grades one through three have decreased from 20.5% in 1991 to 19.9% in 1993. Completion rates in third grade increased from 47.4% in 1991 to 47.9% in 1993, and completion rates in sixth grade increased from 27.8% to 28.2% in 1993. The number and percentage of girls enrolled in third grade increased from 90,816 (45.5 percent) in 1991 to 108,452 (46 percent) in 1993; and the number of Mayan students enrolled in bilingual pre-primary and primary programs increased from 107,000 in 1992 to 114,281 in 1993.

The direct interventions supported under this objective -- New One Room Schools, Bilingual Education, and Girls Education -- specifically target the gender, ethnic, and rural inequities inherent in the current primary education system in Guatemala, and we intend to remain involved in these areas throughout the Action Plan period, resources permitting. These activities are stimulating major advances in student, parental, and community participation with active support from private Guatemala businesses and foundations. As our strategy evolves from a supply approach to a more demand-driven model based on community participation, we are encouraging the replication of these models by PVOs/NGOs and other donors to ensure broad-based impact and sustainability.

A donor coordinating committee, consisting of the UNDP, the World Bank, IDB, UNICEF, and GTZ, meets regularly to discuss issues regarding policy, strategy, and implementation problems. A joint analysis of the problems and a shared strategy for addressing them has led to agreement among donors to push for decentralization of education services as a critical policy issue for the GOG to address. This coordination has also resulted in the World Bank providing financial support for USAID's Girls' Education Program and the National Program of Bilingual Education (focused on the indigenous).

### **Future Directions**

We are considering two important opportunities for Mission assistance in the coming year which will not "fit neatly" within our current strategic framework, because they would be "cross-sectoral" in nature. They would be better described by the overriding Agency objectives of "support to the peace process and national reconstruction", and "poverty alleviation through micro-lending". First, the Mission is assessing both its comparative advantage and resource levels to determine what assistance might be offered if a Peace Accord is reached. While a rapid response will be necessary to address the immediate needs of the populations most affected by the armed struggle in Guatemala (see the Communities at Risk NAD), USG assistance in the post-peace era should focus on strengthening institutions and service delivery systems which will assure a GOG capacity to respond to the longer term developmental needs of those living in the regions abandoned by the GOG during the years of conflict. We also expect to coordinate closely with other donors in designing programs to meet the short and medium-term needs of the refugees and displaced persons.

Second, while a nation-wide network for microenterprise lending, established originally with USAID funding, continues to receive technical assistance from Accion International through centrally funded matching grants, there is an opportunity to expand poverty lending programs currently being implemented by seven US PVOs through PL 480 Title II monetization and centrally funded matching grants (see Poverty Reduction Stocktaking in Annex 3). Given limited DA resources and severe poverty found in the formerly conflictive areas, our direct assistance to poverty lending will be principally targeted on these areas and will have to be financed by deob/reob monies, unless additional DA funds can be provided for this purpose. This initiative is presented and justified under the Communities at Risk NAD.

### **The Regional Program**

On November 30, 1993, President Clinton, Vice President Gore and USAID Administrator Brian Atwood met with the six democratically elected Presidents of Central America and the Prime Minister of Belize. President Clinton endorsed the proposal by the Central American presidents to make the region a model for sustainable development. At present, the Central Americans are organizing themselves to implement an "Alliance for Sustainable Development", and are working with USAID to develop a conceptual and programmatic framework for such an Alliance. This alliance will be built around fostering national reconciliation, strengthening democracy and human rights, broad-based economic growth and environmentally sound protection of the natural resource base. During the Action Plan period, USAID/G/CAP plans to align its strategic framework to respond to the needs identified in the consultations with Central Americans regarding the Alliance. The challenge for the future will be to coordinate more effectively with a broad range of Central Americans and other donors in executing the "Alliance for Sustainable Development".

### **The Central American Context: Political and Economic Trends**

The violent civil conflict which afflicted Central America during the 1980s has largely come to an end, although the root causes of this conflict -- extreme poverty, large income and land holding disparities, unequal access to the political process -- still persist. The peace process that began at Esquipulas in 1986 continues, with the only country still characterized by an open civil war (Guatemala) actively engaged in peace negotiations due to be completed by the end of 1994. Today all the Central American governments have democratically elected presidents. Recent presidential elections in Honduras, Costa Rica and Panama brought new leaders from opposition parties to power, while the elections in El Salvador had former combatants participating in an actively contested run-off. In Nicaragua, political parties have reconciled their differences enough to allow the national assembly to return to a functioning state. Guatemala held a popular referendum in January 1994, which ratified a package of 42 constitutional reforms, directed largely at addressing problems of corruption and impunity.

These signs are encouraging after more than a decade of civil strife. However, the fragility of the democratic movements and persistent social and economic inequities are cause for concern as the Central Americans struggle to integrate themselves into the world economy. Peace needs

to be consolidated in Nicaragua, El Salvador and Guatemala; returning refugees and displaced persons need to be integrated into the development process of national governments. The Central Americans are beginning to tackle difficult issues such as corruption, increased participation, and investment in human capital. Decentralization and devolution of authorities are beginning to take root as a means to strengthen the democratic process and improve responsiveness to the needs of its citizens.

In the most recent (October, 1993) Central American Presidential Summit, which is a continuation of the Esquipulas peace process, the governments signed an important Protocol to the General Treaty of Central American Economic Integration. This Protocol of Guatemala formally adopts new specific objectives for the integration process and details steps necessary to achieve a Central American Economic Union. The most noteworthy feature of the Protocol was that it set up a flexible framework guaranteeing accession of all six members of the Protocol and allowing Costa Rica and Panama to adhere more gradually to the creation of a customs, monetary and political union.<sup>1</sup> It is expected that the northern four countries will move more quickly to establish an economic union, and negotiations to this end have begun.

In addition, the Protocol of Guatemala declared the Central American objective of accession to the North American Free Trade Agreement (NAFTA). With the advances in the regional integration process and NAFTA on their minds, the Central American presidents visited President Clinton on November, 30 1993. President Clinton praised the Central Americans for the progress made in resolving civil conflicts in the region, promoting regional integration and resuming economic growth. The President said that "the end of the Cold War has altered the nature but not the depth of the U.S. interest in Central America. The United States will remain engaged in assisting the region to attain peace, protect human rights, consolidate democracy and achieve sustainable development". The President reaffirmed his strong interest in extending free trade to market-oriented democracies in the region and discussed with the leaders the steps needed for further trade liberalization and the concerns for protection of worker rights, intellectual property rights, and the environment which would prepare them for accession to NAFTA. He endorsed the Central American proposal that the region become a model for sustainable development, and today, the Central Americans are organizing themselves to implement an Alliance for Sustainable Development.

The most notable result of progress in regional integration has been the increase in intra-regional trade. Trade within Central America grew by 8% in 1991, 15% in 1992, and 18% in 1993. This trend is encouraging for the potential diversification of the Central American economies which are inordinately affected by international commodity price fluctuations. It signals an expanding economy and the diversification of an economic system built around a few traditional agricultural crops controlled by an economic and political elite.

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<sup>1</sup> Belize has not yet signed the Protocol of Guatemala. Although it seeks to foster ties with its neighbors in Central America, it still remains linked to the Caribbean countries.

## **Progress Toward Strategic Objectives and Donor Coordination**

The role of the regional program, is threefold: 1) to address inherently regional policy issues and "cross border" problems, as well as prodding to keep such issues on the agenda; 2) to introduce innovative, "cutting edge" activities such as the development of non-traditional agricultural exports and environmentally sound natural resource initiatives (where and when they previously did not exist); and, 3) to provide timely expertise, input, support, and coordination on the regional front where there is a regional focus or purpose for organizing on a regional basis. In addition, although the regional program no longer provides core budget support to regional institutions, it does concern itself with the capacity of those institutions to sustain themselves and act effectively upon the regional agenda which derives from Central American integration efforts.

USAID's regional program is making important strides in promoting broad-based, equitable growth within increasingly democratic polities and participatory societies in Central America. In close concert with other donors, local and international NGOs, and the bilateral USAIDs, the Mission is applying a mix of policy dialogue and project interventions at the regional level to pursue its three Strategic Objectives: **(1) Increased Central American Participation in the Hemispheric Economy, (2) Environmentally Sound Natural Resource Management, and (3) More Effective and Democratic Local Governance.**

USAID's support for economic policy reform at the regional level under its **Increased Central American Participation in the Hemispheric Economy** objective led to the preparation of the Protocol of Guatemala which was signed by the Central American Presidents in October 1993. The institution of a common external tariff of 5-20% in five Central American countries during the past year was also facilitated by USAID support to SIECA for policy analysis and implementation. USAID is working closely with the Central American public and private sectors to move the region toward a post-NAFTA trade arrangement, with emphasis on further liberalization and integration of trade, fiscal and monetary policies as well as improved environmental and labor standards for the region. A new strategy, which is included as Annex 5, has been developed to guide future interventions. The Mission has worked closely with the UNDP and IDB to coordinate and harmonize our regional interventions to further regional integration and post-NAFTA accession.

Progress toward the **Environmentally Sound Natural Resource Management** objective is reflected in increasing support for the concept of a Central American "biological corridor" and the emergence of new organizations to foster its development. The flagship Regional Environmental and Natural Resources Management (RENARM) project has made a significant contribution to furthering the environmental efforts being made by PVOs/NGOs and other donors in terms of intensifying their involvement and experience at the regional (cross-border) level. Finally, by strengthening local NGOs, RENARM has created a far more participatory process for setting national agendas in those areas in which the project is active.

Donor "partnerships" and coordination in the regional environmental arena have been strong at the technical level, often in the form of "joint ventures". Key PVO working partners in RENARM include The Nature Conservancy, Conservation International, World Resources Institute, CARE, and Caribbean Conservation Corporation. USAID collaborates closely with the Germans and Nordics in integrated pest management, and with the Swiss and the Finns in forestry and agro-forestry. Active leadership by USAID in donor coordination at CATIE leveraged increased financial support from other donors, thereby enhancing CATIE's prospects for financial sustainability. An evaluation of the RENARM project is nearing completion, and its findings and recommendations will be used to guide the Mission in refining the strategic focus and programmatic approach of its regional environmental portfolio.

Building upon the increasing interest in **More Effective and Democratic Local Governance** in the region, Mission interventions (LOGROS) have resulted in the strengthening of FEMICA as the regional advocate for Central American municipalities, and in active policy and program dialogue supporting decentralization and the devolution of authorities to local governments in most Central American countries. The Mission, in collaboration with two bilateral Missions, is also testing approaches to enable more active citizen participation in decision making regarding the management and sustainability of municipal services. These efforts have attracted increased support for FEMICA from other donors (the Spanish, French, UNDP, the OAS), and the IDB is interested in providing resources to the municipal infrastructure finance program that our LOGROS initiative supports in CABEL.

**FY 95-96 Action Plan**

***B. Achievement of Agency Goals  
Bilateral Program***

**USAID/Guatemala - Central American Programs  
(USAID/G - CAP)**

## **B.1.A. BUILDING DEMOCRACY: STRENGTHENING DEMOCRATIC INSTITUTIONS CIVIL SOCIETY AND THE RULE OF LAW**

### **I. Mission Strategic Framework and Linkage between the Mission S.O. and Agency Goal**

This strategic objective relates directly to the Agency's goal of Building Democracy with a particular focus on strengthening key institutions and processes that are vital to the effective and sustainable functioning of a democratic society. Three indicators will measure progress against this strategic objective over time: improved **due process under the law**; a heightened degree of **individual free expression and participation**; and improved **public confidence in key democratic institutions and processes**. These indicators will be measured bi-annually through the Democratic Indicators Monitoring System (DIMS) which was designed last year as the first national survey to test public attitudes and values on democracy.

The rationale for using this type of a survey to judge progress in meeting our strategic objective is based on the realization that public opinion plays a critical role in maintaining a democratic order, as we witnessed last spring in the wake of former President Serrano's failed attempt at an "auto golpe". As the coup and the public reaction that led to the eventual restoration of democracy emphasized, an effective and sustainable democratic order needs to draw its strength from a population that supports democratic principles and the institutions of democratic government. Thus, a critical component of democratic development is the presence of an appropriate set of democratic values and attitudes, along with effective democratic institutions that represent and protect the interests of its citizens.

As the 1993 baseline survey suggests, Guatemala has a long way to go before it can claim democratic stability. The results of the analysis are that Guatemalans demonstrate only a modest level of support for their system of government in comparison to other Central Americans. They also demonstrate a low level of support for attitudes regarding both the right to participate and the right to dissent, basic liberties associated with a full-blown democratic order. A major implication of the analysis is that Guatemala's democracy is set on an extremely weak attitudinal base, given the dubious combination of low system support and low tolerance for democratic liberties shared by a large percentage of its citizens, which in turn translates into a propensity toward democratic breakdown.

This tenuous and superficial commitment to democratic values, as revealed by the DIMS, has led us to add a new component to our strategy which will allow for a more concerted effort to strengthen civil society in order to improve public knowledge, attitudes and behaviors necessary for a deepening of democratic norms. This initiative, to be implemented primarily through local NGOs, is designed to complement and expand ongoing efforts aimed at strengthening key public sector institutions. It is our hope that by placing equal emphasis on both the "supply" and the "demand" sides of the democracy equation, we will be able to accelerate Guatemala's transition toward a more open, accountable, and participatory form of government that can and will be sustained based on its ability to effectively serve the interests of the majority of its citizens.

Our strategy for democratic consolidation includes support linked to producing the following five program outputs: **Increased public and private sector leadership** (through civic and human rights education programs and leadership training); **Greater access to equitable criminal justice** (through reform of the criminal justice system); **Increased follow up and investigations of human rights abuses** (through an improved case tracking system in the Office of the Human Rights Ombudsman -OHRO- and training in new investigative and prosecutorial techniques in the Attorney General's Office); **Improved public awareness of human rights and democratic values** (through education activities with the OHRO and local and international PVOs); and **Strengthened legislative capacity** (through support to the Guatemalan Congress).

## **II. Strategic Objective Performance**

Success in meeting these program outputs over the past year has been mixed. The political turmoil which began with the "auto golpe" last May and continued through January's national referendum on constitutional reforms has left many government entities that were fragile to begin with, reeling from a lack of direction, dwindling popular support and a lost or confused sense of purpose. As a result, we have experienced an unanticipated slow down in the accomplishment of several key program outputs during this volatile period. At the same time, however, new opportunities have presented themselves, such as the opening up of civil society and a greater tolerance for free expression. We are responding to these opportunities through a new and concerted effort to provide support to the growing number of local NGOs that are becoming, or have the potential to become, important actors in the public policy arena. Responding to emerging opportunities such as this is in keeping with the flexible programming approach that has been the hallmark of this strategic objective.

### Strengthened Legislative Capacity

- The Guatemalan Congress has been unanimously denounced by the executive branch, the media and the general public for its incompetence and corruption. USAID/G/CAP chose to put its technical assistance package to the legislature "on ice" in January 93 when it became clear that the change in congressional leadership was for the worse and that any assistance would be wasted until such time as a more effective, committed team of leaders emerged. The reforms embodied in the national referendum which passed earlier this year were aimed largely at addressing the problems associated with this discredited institution. The most pertinent reform related to this Program Output is the call for new Congressional elections which will be held in August of this year. Upon analysis of the outcome and implications of these elections, USAID, along with the Country Team Working Group on Democratic Development, will determine whether to reactivate or terminate our support to the legislative branch.

### Increased Follow-up on Human Rights Cases and Improved Public Knowledge and Attitudes of Human Rights and Democratic Values

- The performance by the OHRO has been disappointing since the departure of Ramiro de Leon Carpio last year to become President. This has affected two of our five Program Outputs. Once the flagship project of our democratic development portfolio, this institution has not maintained the reputation for excellence that it enjoyed under the stewardship of its

former leader. Many key staff people left with de Leon and the new Ombudsman has been slow to focus on some of the critical management issues facing the institution. As a result, we have seen a dramatic deterioration of the quality and quantity of educational outreach efforts along with continuing delays in the establishment of a computerized case tracking system, both of which were the primary contributors to the above mentioned Program Outputs. These difficulties with the OHRO have led us to effect two temporary suspensions of assistance and to accelerate our plans to diversify support to non-governmental institutions for the purposes of civic education and outreach, particularly among the rural indigenous populations.

- A new initiative which will contribute to the Program Outputs listed above as well as the one below is the Street Children's Support Project (SCSP) which came on line last September.

#### Greater Access to Equitable Criminal Justice

- The new Justice Sector Reform Support Project will provide the training and technical assistance necessary to prepare key justice sector institutions for the sweeping reforms that will come on line when the new criminal procedures code goes into effect this July. A critical determinant of the ability of this project to produce the intended outcome (i.e. greater access to equitable justice) will be the lifting of the Congressional hold on the component that will provide funding to the Attorney General's Office. Two thirds of the reform package is contingent on the successful implementation of new and expanded functions within the Attorney General's office as prescribed by the new code. The reform process, and the project designed to support it, can only be expected to limp along until the AG's office is brought fully into this loop.

#### Increased Public and Private Sector Leadership

- Through the Guatemalan Peace Scholarship program, more than 600 mostly rural and disadvantaged, local leaders have returned to their communities after receiving intensive technical and democratic leadership training to design local projects that model participatory development techniques. Over 366 participants have been involved in designing and implementing local projects that will ultimately benefit more than 20,000 rural, indigenous community members.
- Another 70 leaders from a variety of sectors have been engaged in a nine month seminar run by the Center for National Stability (Centro ESTNA) which fosters democratic skill building through civilian-military dialogue. The highly qualified participants, upon graduation, provide a multiplier effect in their respective sectors by applying their newly developed democratic skills in their daily lives. Recent graduates from this seminar series include several key military officials named by President de Leon to important posts, including the Chief of the Air Force and several other top zonal commanders. The annual seminar now draws more than 70% of its resources from non-USAID sources, thus insuring continuity of this activity beyond the project close out date in 1997.

Since 1990, USAID has provided support to the Office of the Human Rights Ombudsman (OHRO) to strengthen its role as guardian of human rights in accordance with the Guatemalan Constitution. Specific initiatives financed by USAID include development of a case tracking system, human rights education in the countryside, and decentralization of OHRO functions. Based largely on USAID and other donor assistance, the OHRO presence is now apparent in areas that have long been without the rule of law and abandoned by the civilian ministries of the Government of Guatemala. One such area, Aldea Baxutchil, Nebaj, was visited last year by a USAID Project Manager who was part of a fact-finding team looking at the status of communities on the fringe of conflictive zones. Señor Mejía, representing 46 families who had recently returned to the locality after 11 years in one of the *Comunidades Populares en Resistencia*, recounted the hardships that caused them to abandon life in the mountains. He also cited army efforts to force the families to live in a "model village." When they insisted that they wanted to resettle on their own land, their lives were threatened by local army authorities. Although the OHRO posters that the families had hung were ripped down by soldiers, the community's confidence in the ability of the OHRO to safeguard their basic rights led them to denounce the action. The OHRO intervened, and an army investigator recognized the abuse and assured the local OHRO representative that the lieutenant in charge would be discharged. The army has not returned to intimidate these families, and--with the knowledge that they have recourse to the OHRO--this community is committed to resettling and productively working their land.

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G—CAP (520 Bilateral Program)</b>
Agency Goal: Building Democracy
USAID STRATEGIC OBJECTIVE No. 1: Strengthening Democratic Institutions, Civil Society and the Rule of Law

Program Outcome No. 1.1	Program Outcome No. 1.2	Program Outcome No. 1.3	Program Outcome No. 1.4	Program Outcome No. 1.5
Increased Public and Private Sector Leadership	Greater Access to Equitable Criminal Justice	Increased Follow-up and Investigation of Human Rights Abuses	Heightened Public Awareness and Respect for Human Rights and Civic Responsibilities	Strengthened Legislative Capacity

Projects (#\Title)	Projects (#\Title)	Projects (#\Title)	Projects (#\Title)	Projects (#\Title)
520-0145 Special Development Fund	520-0407 Justice Sector Reform	520-0398 Democratic Instituts.	520-0393 Guatemala Peace Scholarships	520-0398 Democ. Institutions
520-0393 Guatemala Peace Scholarships	597-0002 Regional Admin. of Justice	520-0412 Street Children Support	520-0398 Democratic Instituts.	
520-0398 Democrat. Institutions			520-0412 Street Children Support	

TABLE 2.1: STRATEGIC OBJECTIVE PERFORMANCE

Guatemala					
USAID STRATEGIC OBJECTIVE NO. 1 Strengthening Democratic Institutions, Civil Society and the Rule of Law					
Indicator: Due process under the law					
Unit:	Year	Planned	Actual		
<p>Percentage of favorable ratings in DIMS on the following five items:</p> <ol style="list-style-type: none"> <li>1. Defense of human rights by judges;</li> <li>2. Treatment of public by judges and judicial employees</li> <li>3. Judicial institution helps resolve the country's problems;</li> <li>4. Courts favor rich and powerful;</li> <li>5. Courts work rapidly</li> </ol> <p>Source: Democratic Indicators Monitoring System (DIMS) to be carried out every two years. No targets are planned for interim years.</p>	1993	---	<ol style="list-style-type: none"> <li>1. 9.8%</li> <li>2. 30.3%</li> <li>3. 59.0%</li> <li>4. 7.5%</li> <li>5. 7.2% *</li> </ol>		
<p>Comments: *Item 1 - the % refers to those indicating that judges greatly assist,                      Item 2 - the % refers to those indicating that they are dealt with well or very well.                      Item 3 - the % refers to those replying yes.                      Item 4 - the % refers to those replying No.                      Item 5 - the % refers to those saying yes.</p>	1995	<ol style="list-style-type: none"> <li>1. 15%</li> <li>2. 35%</li> <li>3. 64%</li> <li>4. 12%</li> <li>5. 12% *</li> </ol>			
	1997	TBD	1995		

Indicator: Individual free expression and participation				
Unit: Percentage of positive ratings in DIMS on the following items:		Year	Planned	Actual
1. Democratic Liberties Index; Component Indices-- A. Opposition to the Suppression of Democratic Liberties B. Extensive Participation C. Right to Dissent	Baseline	1993		1. 62% A. 81% B. 66% C. 44% *
Source: DIMS to be carried out every two years. No targets are planned for interim years.	Target	1995	1. 60-64% A. 79-83% B. 64-68% C. 42-46%	
	Target	1997	TBD 1995	
<p>Comments: The Democratic Liberties Index is a compilation of ten different questions and is broken into the three component indices listed above. See the DIMS report for these questions.</p> <p>*Stability is predicted in this area for 1995. The planned numbers are stated as a range in order to take into account the 2% confidence interval (up or down).</p>				

Indicator: Public confidence in key democratic institutions and processes				
Unit: Percentage of positive responses in DIMS on the System Support Index		Year	Planned	Actual
Source: DIMS to be carried out every two years. No targets are planned for interim years.	Baseline	1993	---	40%
Comments: Stability or only a very slight increase is predicted in this area.	Target	1995	40-42%	
The System Support Index is composed of questions surrounding the following six items, which are a broad representation of the democratic order:	Target	1997	TBD 1995	
<ul style="list-style-type: none"> <li>- Courts</li> <li>- Elections Tribunal</li> <li>- Public Offices</li> <li>- Congress</li> <li>- Human Rights</li> <li>- Political parties</li> </ul>				
See DIMS for a more detailed explanation of questions.				

**PROGRAM OUTPUT NO. 1.1 Increased public and private sector leadership**

**Indicator:** Percentage of target groups (GPS, ESTNA, Congress) scoring higher on DIMS than general population

Unit: Percentage	Year	Planned	Actual
Source: DIMS to be carried out every two years. No targets are planned for interim years.	1993	-----	TBD
	1995	TBD	---
Comments: Data analysis has been delayed and this information will not be available until June 1995.	Target	TBD	---

**PROGRAM OUTPUT NO. 1.2 Greater access to equitable criminal justice**

**Indicator:** Coverage oral trial proceedings

Unit: Percentage	Year	Planned	Actual
Source: Court MIS	1993	-----	0
	1994	TBD	
Comments: The Supreme Court's MIS (CENALEX) is not currently operational. Thus, it is anticipated that the information source for this indicator will derive from the Information/Monitoring and Evaluation System to be devised by the Institutional Contractor, who will establish applicable baseline to track the project's goal of "50% coverage of oral trial proceedings nationwide" by 1997. The Institutional Contractor will come on line in July, 1994.	1995	TBD	
	1996	TBD	
	Target	TBD	

Indicator: Prosecutors/investigators using improved techniques				
Unit: Percentage	Year	Planned	Actual	
Source: Public Ministry	1993	---	0	
Comments: This component is currently subject to a Congressional Hold. Upon lifting of the hold, the information source for this indicator will derive from the Information/Monitoring and Evaluation System to be devised by the Institutional Contractor, who will establish appropriate baseline to track the project's goal of "50% of prosecutors/investigators using improved techniques in implementation of new Penal Procedures and Narcotics Legislation" by 1997. The Institutional Contractor will come on line in July, 1994.	1994	TBD		
	1995	TBD		
	1996	TBD		
	1997	TBD		
	Target			
Indicator: Coverage legal defenders program nationwide				
Unit: Percentage	Year	Planned	Actual	
Source: Court MIS	1993	---	0	
Comments: The Supreme Court's MIS (CENALEX) is not currently operational. Thus, it is anticipated that the information source for this indicator will derive from the Information/Monitoring and Evaluation System to be devised by the Institutional Contractor, who will establish applicable baseline to track the project's goal of "50% coverage of Public Defense program nationwide" by 1997. The Institutional Contractor will come on line in July, 1994.	1994	TBD		
	1995	TBD		
	1996	TBD		
	1997	TBD		
	Target			

PROGRAM OUTPUT NO. 1.3 Increased follow-up and investigation of human rights abuses				
Indicator: Reliable and efficient tracking system for human rights violations in place and operational.				
Unit: One tracking system established and functioning		Year	Planned	Actual
Source: Office of Human Rights Ombudsman (OHRO) tracking system  Comments: Establishment of the system was delayed due to institutional and political problems. The system was established in 01/94. Technical problems are still being worked out although the initial cases have been entered. System should be fully operational in six months.	Baseline	1993	---	0
	Target	1994	1	0
		1995	1	
		1996	1	

**PROGRAM OUTPUT NO. 1.3 Increased follow-up and investigation of human rights abuses**

Indicator: Percentage of human rights cases reported that receive follow-up/investigation

Unit: Percentage	Year	Planned	Actual
Source: Office of the Human Rights Ombudsman (OHRO) tracking system	1994	---	TBD*
<p>Comments: In previous years the Mission has used the absolute numbers of complaints as an indicator of both an opening in the political system (freedom/willingness to file a complaint) and the outreach capability of the OHRO, directly supported by USAID. An increase in actual numbers of complaints has been considered an indicator of progress to date, as an improved environment and the establishment of OHRO departmental offices allowed for greater confidence in reporting violations. However, these figures have become distorted overtime as the departmental offices have been used increasingly by citizens to file civil complaints as well as human rights abuses. Therefore, starting in 1993, with USAID assistance, the OHRO initiated design of a new, computerized system to categorize the nature of complaints and disaggregate the real human rights violations which will in turn receive follow-up/investigation. In the future, we will track the percentage of this sub-set of cases that receive appropriate follow-up through the legal system.</p>	1995	TBD	
	1996	TBD	
	1997	TBD	

\* This new system was to have been in place and operational by 1993. However, due to the change in Ombudsman, the loss of personnel, the temporary suspension of assistance due to the "auto-golpe" and technical problems with the system, this has been delayed. The system is now in place (as of 01/94) and the first cases have been entered. However is not yet fully operational, although it is expected that within 6 months all cases will be loaded up and OHRO personnel fully trained in the use of the system. At that time, up to date information can be added and a baseline established.



**PROGRAM OUTPUT NO. 1.4 Heightened public awareness and respect for human rights and civic responsibilities**

**Indicator:** Changes in knowledge and attitudes of selected civic education target groups.

Unit: Percentage	Baseline	Year	Planned	Actual
<p><b>Source:</b> Monitoring and evaluation system of civic education umbrella PVO.</p> <p><b>Comments:</b> Under the new NGO project to begin in 1995, an umbrella PVO will be selected to administer TA, training and seed grants to local NGOs engaged in civic education activities. The umbrella PVO will also design an evaluation system which will attempt to measure changes in knowledge, attitudes and behavior of participants in project-funded activities.</p> <p>The information collected by the PVO will be compatible with the DIMS in order to provide comparisons with national trends.</p>	Baseline	1995	TBD	
	Target	1996	TBD	
	Target	1997	TBD	

**PROGRAM OUTPUT NO. 1.5 Strengthened Legislative Capacity**

Indicator: Percentage of laws presented to plenary with professional technical assistance in key areas through the technical assistance unit:

- Social Sectors
- Budget/Finance
- Legal/Constitutional
- Energy and Mining
- Natural Resources

Unit: Percentage		Year	Planned	Actual
Source: Congress MIS	Baseline	1992	0	---
<p>This element is currently suspended due to political problems in Guatemala that inhibit the Mission from working with the current Congress.</p> <p>Baseline and targets will be set for the next Action Plan should the agreement with the Congress be reactivated. If not, this indicator will be eliminated.</p>		1993	10	---
		1994	15	
	Target	1995	20	
	Target	1996	25	
	Target	1997	30	

## **B.1.B. STABILIZING POPULATION GROWTH AND PROTECTING HUMAN HEALTH: SMALLER, HEALTHIER FAMILIES**

### **I. Mission Strategic Framework and Linkage between the S.O. and the Agency Goal**

The Mission's strategic objective for **Smaller, Healthier Families** contributes directly to the Agency's goal of **Stabilizing Population Growth and Protecting Human Health**. It also contributes indirectly to the goals of protecting the environment and broad-based economic growth. The bilateral health program seeks to reduce the population growth rate in Guatemala by reducing the total fertility rate from 5.6 in 1985 to 5.0 in 1996 and 4.2 in 2010. The program also seeks to reduce the maternal, infant and child mortality rates. The two program outputs under our strategic objective are: **Increased use of reproductive health services** and **Increased use of selected high impact child survival interventions**.

Two aspects of our Smaller, Healthier Families strategy have been modified over the past year. First, the Mission has decided to focus and intensify its support for child survival interventions. Previously, the Mission's intention was to phase out of child survival activities by mid-FY 1995 due to declining resources and the increasing involvement of other donors. However, given the magnitude and seriousness of the problems in this area, the difficulty other donors are experiencing in start up, and current USAID planning levels, we have revised this intention. Through a one year extension of its Child Survival project, USAID now plans to continue support for selected interventions to improve child health, including control of acute respiratory infections (ARI), control of diarrheal diseases/cholera, and prevention of selected immunopreventable diseases such as neonatal tetanus and measles. Efforts in this area will be complemented by efforts to work with other donors, especially the World Bank and the IDB, to help them expand their programs in maternal/child health.

The second new approach is an increased emphasis on reaching rural Mayan communities with high impact interventions to reduce maternal/neonatal mortality and fertility. While our primary focus under the S.O. is to increase contraceptive prevalence, research and experience have shown that single focus, vertical family planning programs are not likely to be successful in countries such as Guatemala. Integrated maternal-child health programs that provide immunization services, control of common childhood illnesses such as pneumonia and diarrheal disease, as well as reproductive health services are far more likely to be accepted. This integrated approach covering family planning, reproductive health, safe motherhood and selected child survival interventions will be captured under a new integrated health program slated for design in 1996. Health and child survival interventions will also continue to be supported by maternal-child health activities of the four cooperating sponsors - CARE, CRS, SHARE and Feed the Children - under the PL 480 Title II program.

The Mission's operational approach incorporates the Agency's principles and objectives of: 1) promoting the constitutional rights of Guatemalan couples and individuals to determine freely and responsibly the number and spacing of their children; 2) enhancing individual health, especially of women and children under 5 years; and, 3) making programs more responsive and accountable to the end-user through operations research.

## II. Strategic Objective Performance

The Demographic and Health Survey (DHS) is the principle tool for monitoring progress toward the strategic objective "Smaller, Healthier Families". Since the DHS is conducted at five to six year intervals, the Mission is implementing a monitoring system to allow more frequent measurement of selected indicators. This monitoring system is based on rapid assessments at the departmental and district level. During 1993, six of these studies were conducted, concentrating on ORT and immunization coverage as well as use of family planning methods. In four of the six samples shown in Table One, the percent immunization coverage (defined as the 3rd dose of polio) for children aged 12 to 23 months was over 70%; however, in another, it was 30%. In five of the six samples, ORT use was 30% or below; in only one department was coverage above the 60% program output target. The use of modern contraceptive methods

TABLE ONE

Department	Basic Indicators		
	Immunization Coverage (2)	ORT Use(3)	Modern Contraceptive Usage (4)
Amatitlán	75.2%	23.5%	24.4%
Sololá (5)	29.8%	22.2%	6.6%
El Progreso	71.2%	69.3%	32.9%
Zacapa	76.3%	30.3%	14.9%
Chiquimula	64.3%	26.4%	12.9%
Izabal	72.3%	21.2%	27.4%

among mothers of children under five years ranged from 6.6% in the predominantly Mayan areas of Sololá to 33% in El Progreso. (Note: this indicator underestimates contraceptive prevalence because women of reproductive age without children were not sampled). During 1994, additional rapid assessments will be conducted.

During 1993, the baseline study for the Highlands Water and Sanitation (PAYSA) project was completed. The infant mortality rate was 60/1000 live births and the prevalence of diarrheal disease in children under five years was 13%. Targets for this program have now been established at 48 for IMR and 7.8% for diarrheal disease. During 1994, the Project will finalize

2 Percent of children 12 to 23 months who received the 3rd dose of oral polio.

3 Percent of children less than 24 months with diarrhea who were treated with ORT.

4 Percent of mothers who desire no more children in the next 2 years, or are not sure, who are using a modern contraceptive method.

5 Includes only the 2 districts of Santiago and San Pedro.

and install the community-based monitoring system which will permit the Mission and the MOH to monitor progress toward the objectives through 1997.

Although the Mission cannot report on the performance or program output indicators in the strategic objective tree until the DHS is completed this year, we have made notable progress in project implementation. The impact of these steps will be measured by the DHS this year. PL-480 Title II Cooperating Sponsors have developed impact measures for their programs which contribute to the program output indicators for the Mission's Strategic Objective.

#### Increased Use of Reproductive Health Services

- Between 1991 and 1993, the couple years of protection (CYP) delivered by USAID supported projects increased by 17% from 361,000 to 421,000.
- During 1993, the Guatemalan IPPF affiliate (APROFAM) opened the "Quiche Project", through which APROFAM is developing and testing a new approach for service delivery in rural Mayan areas. This operations research effort and other studies supported by the Mission's buy-in to the INOPAL Project will become the basis for a new, rural strategy beginning in 1996 to raise the contraceptive prevalence rate above the current rate of about 5% for Mayan communities.
- The Quetzaltenango Hospital and Health Area completed the pilot program on maternal and neonatal health. As a result of this effort, referrals by traditional birth attendants (TBAs) to the hospital increased by 400% and the neonatal mortality rate declined from 38 to 32 in just three years. We are providing ongoing support to this program to incorporate family planning promotion and service delivery by TBAs at the community level, and to expand the program into 3 additional health areas.
- Although a Population and Development bill approved unanimously by Congress was vetoed by President Serrano in January, 1993, the National Planning Secretariat (SEGEPLAN) has taken on the issue. Technical staff have drafted a national population policy. After internal review and endorsement by the head of SEGEPLAN, the policy will be presented to the new President and his cabinet for their approval.
- After identifying a series of implementation weaknesses, the Mission began providing assistance to the MOH for the development of an implementing unit aimed at achieving improved management and support of maternal-child health and family planning activities nationwide. This unit will respond to the need for decentralized and integrated service delivery as well as improved training, supervision, and monitoring and evaluation.

#### Increased Use of Selected High Impact Child Survival Interventions

- The LAPROMED ORS production facility was inaugurated on schedule in November, 1993. This facility produces and markets high quality ORS for public sector and NGO use in Guatemala. LAPROMED and the MOH have signed a covenant regarding the mechanism for providing ORS to the MOH. The facility will be self-financed by the end of the child survival project and will guarantee a continuous national supply of ORS.

- During 1993, the Mission launched its ARI program which will cover eight high risk health areas. ARI is currently the leading cause of child mortality in Guatemala, and this program focuses on improving standard case management of pneumonia at the hospital, health center/post and community levels.
- During 1993, child survival interventions, such as Vitamin A supplements and vaccinations, were delivered at more than 1,450 PL-480 Title II food distribution sites.
- Some 320,650 rural women and their children under the age of 5 received monthly rations of between 10 to 12 food pounds of commodities. Thus, our food assistance reached a large population most at risk of malnutrition.
- As part of the institutionalization of the Child Survival project, the MOH has assumed responsibility for various recurrent costs, including vaccines, syringes, all MOH salaries, ORS and per diem. By the end of 1994, the Mission will no longer fund any recurrent costs for the child survival program.

Maria Francisca is 37 years old. "Please, " she says, " my back hurts all the time. I don't want any more children." Like the average woman of Guatemala she has six children. Another child died of diarrhea and dehydration. Her feet are splayed from the weight of hauling wood and her spine is permanently bent. Her eyes have started to fail because she sews late at night, without electricity, to make enough money to feed her family. Her husband helps out sporadically, but he is now with a second family he has started with another woman.

Last year she started visiting a health clinic for family planning counseling and services. She asks the doctor for contraceptives, and wraps them carefully in the same shawl that carries her baby. As she leaves the clinic, she stoops to pick up her heavy load of wood. She comments that there are too many people and not enough trees. Earlier this morning, she walked up the side of the volcano for two hours to get enough wood to cook dinner.

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G – CAP (520 Bilateral Program)</b>	
Agency Goal: Stabilizing Population Growth and Protecting Human Health	
USAID STRATEGIC OBJECTIVE No. 2: Smaller, Healthier Families	

<b>Program Outcome No. 2.1</b>	<b>Program Outcome No. 2.2</b>
Increased Use of Reproductive Health Services	Increased Use of Selected High Impact Child Survival Interventions

<b>Projects (Number&gt;Title)</b>	<b>Projects (Number&gt;Title)</b>
520-0357 Family Health Services	520-0339 Immunization and ORT for Child Survival
	520-0357 Family Health Services
	520-0399 Highlands Water and Sanitation
	Centrally – Funded Child Survival Grants
	MCH Components of PL 480 Title II

**TABLE 2.2: STRATEGIC OBJECTIVE PERFORMANCE**

Guatemala					
USAID STRATEGIC OBJECTIVE NO. 2 Smaller, Healthier Families					
Indicator: Total Fertility Rate (TFR)					
Unit: Average Number of Births/Woman/Lifetime		Year	Planned	Actual	
Source: Demographic and Health Survey	Baseline	1985	-----	5.60	
Comments: DHS will be carried out in October 1994 and then again in 1999.		1994	5.20	***	
		1999	4.80		
	Target	2010	4.20		
Indicator: Infant Mortality Rate (IMR)					
Unit: Deaths < 1 Year Old/1,000 Live Births		Year	Planned	Actual	
Source: Demographic and Health Survey	Baseline	1985	-----	74.4	
Target Comments: Targets may be revised based on DHS.		1994	68	***	
		1999	63		
	Target	2010	50		

\*\*\* Actual data will be available by November, 1994.

Indicator: Child Mortality (CMR)					
Unit: Deaths < Five Years Old/1,000 Live Births		Year	Planned	Actual	
Source: Demographic and Health Survey	Baseline	1994	-----	***	
Comments: This is a new performance indicator for which targets will be set based on the 1994 baseline established in the DHS. This indicator permits the Mission to monitor the impact of health interventions on a broader subset of the family (children under 5 years old).		1995	TBD		
		1996	TBD		
		1997	TBD		
	Target	1998	TBD		
Indicator: Maternal Mortality					
Unit: Deaths of women 15-49 years/100,000 live births		Year	Planned	Actual	
Source: Demographic and Health Survey	Baseline	1994	----	***	
Comments: This is a new performance indicator for which targets will be set based on the 1994 baseline established in the DHS.		1995	TBD		
		1996	TBD		
		1997	TBD		
	Target	1998	TBD		

\*\*\* Actual data will be available by November, 1994.

PROGRAM OUTPUT NO. 2.1 Increased Use of Reproductive Health Services					
Indicator: National Contraceptive Prevalence Rate (CPR)					
Unit:	Percentage		Year	Planned	Actual
Source:	Demographic Health Survey, special studies	Baseline	1987	-----	27
Comments: The targets may be revised based on the DHS findings. Between DHS measurements, the Mission can produce an estimate of CPR through Couple Years of Protection (CYPs). The Mission's long-term target is to reach a CPR of 42.8% in 2010.			1992	29.0	
			1993	30.0	
			1994	30.2	***
			1995	31.0	
			1996	31.8	
		Target	1997	32.6	

\*\*\* Actual data will be available by November, 1994.

Indicator: Contraceptive Prevalence Rate Among Mayan Couples (Mayan CPR)					
Unit: Percentage		Year	Planned	Actual	
Source: Demographic Health Survey, special studies	Baseline	1987	-----	5	
Comments: The targets will be established based on DHS findings in October 1994. Between DHS measurements, the Mission will estimate Mayan CPR in selected areas through special studies.		1994	TBD	***	
	Target	1997	TBD		
PROGRAM OUTPUT No. 2.1 Increased Use of Reproductive Health Services and 2.2 Increased Use of Selected High Impact Child Survival Interventions					
Indicator: Percentage of births with intervals of two years or greater					
Unit: Percentage		Year	Planned	Actual	
Source: Demographic and Health Survey	Baseline	1994	-----	***	
		1995	TBD		
		1996	TBD		
		1997	TBD		
	Target	1998	TBD		
Comments: The baseline and targets will be established based on the DHS. This is a new indicator which is used to measure progress under both program outputs listed above.					

\*\*\* Actual data will be available by November, 1994.

PROGRAM OUTPUT NO. 2.2 Increased Use of Selected High Impact Child Survival Interventions					
Indicator: Vaccination Coverage of Children under 12 months (DPT, Polio and Measles)					
Unit: Percentage		Year	Planned	Actual	
Source: Demographic Health Surveys	Baseline	1985	---	5%	
Comments: Between DHS measurements, the Mission will estimate coverage through small-scale, special studies. The last DHS measurement was 50% in 1987.		1993	60%		
		1994	65%	***	
	Target	1995	70%		
Indicator: ORT coverage of children under five years					
Unit: Percentage of diarrheal episodes treated w/ORT		Year	Planned	Actual	
Source: Demographic Health Survey	Baseline	1989	---	38%	
Comments: Between DHS measurements, the Mission will estimate coverage through small-scale, special studies. - The 1992 figure was expected to be lower than that of 1989 due largely to the previous suspension of the Mission's ORT/immunization project.		1992	35%	N/A	
		1993	40%		
		1994	50%	***	
	Target	1995	60%		
Indicator: Prevalence of diarrheal disease in PAYSA communities.					
Unit: Percentage of 14-day recall		Year	Planned	Actual	
Source: Community Surveys	Baseline	1993	-----	13.0%	
Comments: Annual measurements will be drawn from a community-based monitoring system in project sites.		1994	12.0%	***	
		1995	10.75%	***	
		1996	9.5%	***	
	Target	1997	7.8%	***	

\*\*\* Actual data will be available by November, 1994.

## **B.1.C. PROTECTING THE ENVIRONMENT: ENVIRONMENTALLY SOUND NATURAL RESOURCE MANAGEMENT**

### **I. Mission Strategic Framework and Linkage between the Mission S.O. and Agency Goal**

The Mission is pursuing the agency goal of **Protecting the Environment** in both its bilateral and regional programs through the strategic objective of **Environmentally Sound Management of the Natural Resource Base**. Although the two programs work with Guatemalan institutions, in the one case, and regional in the other, the environment of Central America is most appropriately viewed as an ecological continuum. The single strategic objective reflects that fact. The bilateral program focuses intensively on the challenges faced in Guatemala within the context of region-wide environmental decline, which is the challenge of the regional program.

We are using two indicators to measure progress toward accomplishment of the strategic objective: reduction of deforestation trends in selected areas, and maintenance of indicator species at viable population levels in selected sites. The process of identifying these sites is well underway with major attention focusing on areas of biodiversity significance and areas of expulsion (or out-migration.) Most significant for biodiversity conservation is the Maya Biosphere Reserve, the geographic focus of the Mayarema Project. Based on the conclusions of the recent mid-term evaluation of this project, the Mission plans to extend it to continue its very promising activities with NGOs and the GOG park service as well as expand in a more focused way into the area of environmental policy analysis and reform. The Community Natural Resource Management Project seeks to stabilize hillside agricultural production systems in selected watersheds which, in a degraded state, might prompt out-migration; further focusing of the CNRM program on the most urgent areas of expulsion is underway.

Three program outputs contribute to the strategic objective: **People employing more sustainable land use practices; Policy and market incentives for sustainable resource management and conservation of biodiversity; and, Public and private institutions playing more effective and sustainable roles in support of natural resource management.**

Although the strategic objective indicators focus most directly on non-human species (biodiversity) and habitat (forest cover), program outputs are all exclusively concerned with human practices, activities, and institutional performance. The rationale is simple: virtually all threats to environmental equilibrium are generated by our species; no other species or natural force is responsible for the environmental degradation the Agency goal is concerned with addressing. The resolution therefore lies in modifying human behavior.

### **II. Strategic Objective Performance**

The Maya Biosphere project has made significant progress toward the strategic objective through the direct involvement of communities in activities which conserve forest cover. Most recent available data indicate a reduction in deforestation trends in the Peten area of Guatemala with the Maya Biosphere Reserve still largely intact. No data have yet been collected on indicator species since this is a new indicator. Nevertheless, relevant information does exist; the need is to more finely hone the focus of the indicator and take advantage of data already in existence and available from a variety of sources. Although the Community Natural Resource Management

project has just begun implementation, it builds on the accomplishments of the recently terminated Highland Agricultural Development Project which succeeded in establishing environmentally sound agricultural production systems, among small producers, in twenty watersheds experiencing or under threat of serious degradation problems. These watersheds are stabilized, productivity is up, and thus, the threat of out-migration to areas of environmental fragility and ecological significance is reduced.

Highlights of the progress made, by planned Output, as a result of program interventions under the strategic objective, are summarized below.

#### People Employing More Sustainable Land Use Practices

- Over twenty new products for local and export markets, including value added enterprises, are under development, or in the market, to reduce pressure on the Maya Biosphere Reserve (MBR) by demonstrating the economic value to local communities of a sustainable managed MBR. These enterprises now provide employment to over 250 families living in the Reserve area. Examples include an ecologically oriented Spanish language school, tourism related services, biodegradable soap, natural dyes, locally produced oils and extracts, allspice, potpourri, and many similar small scale enterprises of direct benefit to local people. Introduced into areas where logging, followed by slash and burn agriculture, has been the norm, these activities are having a direct impact on reducing deforestation pressure and associated negative impacts on biodiversity, while encouraging growth of a constituency for conservation of the MBR.
- Over 100 communities are now participating in the project. Mayors of municipalities in the MBR area have created an environmental issues council to work with CONAP to identify and begin to manage colonization problems and an "agroforestry strategy" has been prepared for the MBR buffer zone with active community participation. In three communities, forest management committees have begun to work with CONAP to define mechanisms to support sustainable management of forest concessions by communities - rather than allowing that economic activity to remain the exclusive domain of outside, well-financed commercial interests, which was the norm prior to project interventions.
- Participation of women in the Maya Biosphere project is significant and growing; 2,000 women have participated in project activities ranging from community decision-making fora to micro-enterprise development. In response to clearly expressed community interest, the project now includes a specific new activity to develop economic alternatives for women.

#### Public and Private Institutions Playing More Effective and Sustainable Roles in Support of Natural Resource Management

- CONAP managed to maintain its presence in the MBR despite many obstacles, political and otherwise. With a staff of 180 employees, it slowed the tide of illegal colonization and called attention to illicit logging and other threats to the integrity of the Reserve. Through extension and demarcation programs, in association with project-funded NGOs, CONAP has continued to inform the public about the existence, purpose, and value of the MBR.

## Policy and Market Incentives for Sustainable Resource Management and Conservation of Biodiversity

- A new policy component of the Maya Biosphere project is now under development and, once authorized, will facilitate more focused attention to policy obstacles to achievement of the strategic objective, while simultaneously strengthening the capacity of the public sector and local NGOs to carry out environmental policy analysis and policy formulation in furtherance of shared conservation and biodiversity objectives.

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G – CAP (520 Bilateral Program)</b>
Agency Goal: Protecting the Environment
<b>USAID STRATEGIC OBJECTIVE No. 3: Environmentally Sound Natural Resource Management</b>

<b>Program Outcome No. 3.1</b> People Employ More Sustainable Land Use Practices	<b>Program Outcome No. 3.2</b> Policy/Market Incentives for Sustainable Resource Management and Conservation of Biodiversity	<b>Program Outcome No. 3.3</b> Public and Private Institutions Playing More Effective and Sustainable Roles in Support of Natural Resource Management
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<b>Projects (Number)\Title</b>	<b>Projects (Number)\Title</b>	<b>Projects (Number)\Title</b>
520 – 0395 Maya Biosphere MAYAREMA	520 – 0395 Maya Biosphere MAYAREMA	520 – 0395 Maya Biosphere MAYAREMA
520 – 404 Community Natural Resource Management	598 – 0780 Environment Support Project	520 – 404 Community Natural Resource Management
598 – 0780 Environment Support Project	936 – 5554 Biodiversity Support Project	598 – 0780 Environment Support Project
936 – 5554 Biodiversity Support Project		936 – 5554 Biodiversity Support Project

TABLE 2.3: STRATEGIC OBJECTIVE PERFORMANCE

Guatemala						
USAID STRATEGIC OBJECTIVE NO. 3 Environmentally Sound Natural Resource Management						
Indicator: Reduction of deforestation trends in selected areas (Petén/MBR)					Km <sup>2</sup> conserved	
Unit: Km <sup>2</sup> of forest land conserved (compared to trend)	Year	Planned	Actual			
Source: Analysis of satellite imagery from NASA and other sources. (Mayarema at present.)	1991	0	---			
Comments: RENARM supports a GIS service through CCAD, NASA, Universidad del Valle, and University of Mississippi (for Guatemala).  Analysis is bi-annual comparisons. Longitudinal trends are possible because satellite photos from the past have been analyzed. Data are still being reviewed for compatibility. (1993 data from SEGEPLAN VIII.)  See attached graph for a presentation of trend data.	1992	1,000	---			
	1993 <sup>1/</sup>	1,700	3,400			
	1994	2,400				
	1995	3,100				
	1996	4,000				
	1997	5,200				
	1998	6,500				
Target						
Indicator: Maintenance of indicator species at viable population levels in selected sites						
Unit: Biodiversity index based on standard surveying methodology	Year	Planned	Actual			
Source: Data from Mayarema (at present.)	1993 <sup>2/</sup>	----	TBD			
Comments: Analysis is year-to-year comparisons using standard surveying methodology. An index combining several species is being developed.	1994	TBD				
	1995	TBD				
	1996	TBD				
	1997	TBD				
Target						

1 Preliminary data.

2 Analysis underway.

PROGRAM OUTPUT 3.1 People employing more sustainable land use practices					
Indicator: Percent of target population adopts more appropriate land use practices promoted through the program					
Unit: Net percent adoption	Year	% Planned	% Actual		
Source: Yearly check-list inventories by implementers. (Presently Mayarema only.)	Baseline	0	0		
	1991				
	1992	2	2		
	1993	15	20		
	1994	28			
	1995	40			
Comments: Target population is presently total population in the 2.1 million hectare MBR and buffer zone area: 25,000 people (1993).	Target	58			
PROGRAM OUTPUT 3.2 Policy/market incentives for sustainable resource management and conservation of biodiversity					
Indicator: Policy regime reflects increased consideration for conservation of biodiversity					
Unit: "Yes" or "No" based on annual review of progress towards agenda.	Year	Planned	Actual		
Source: Yearly inventory by Policy Advisor/MSI	Baseline	----	TBD		
	1992				
	1993	TBD			
	1994	TBD			
	1995	TBD			
	1996	TBD			
Comments: TBD under new Maya Biosphere Policy Component.	Target	TBD			

1 Preliminary data.

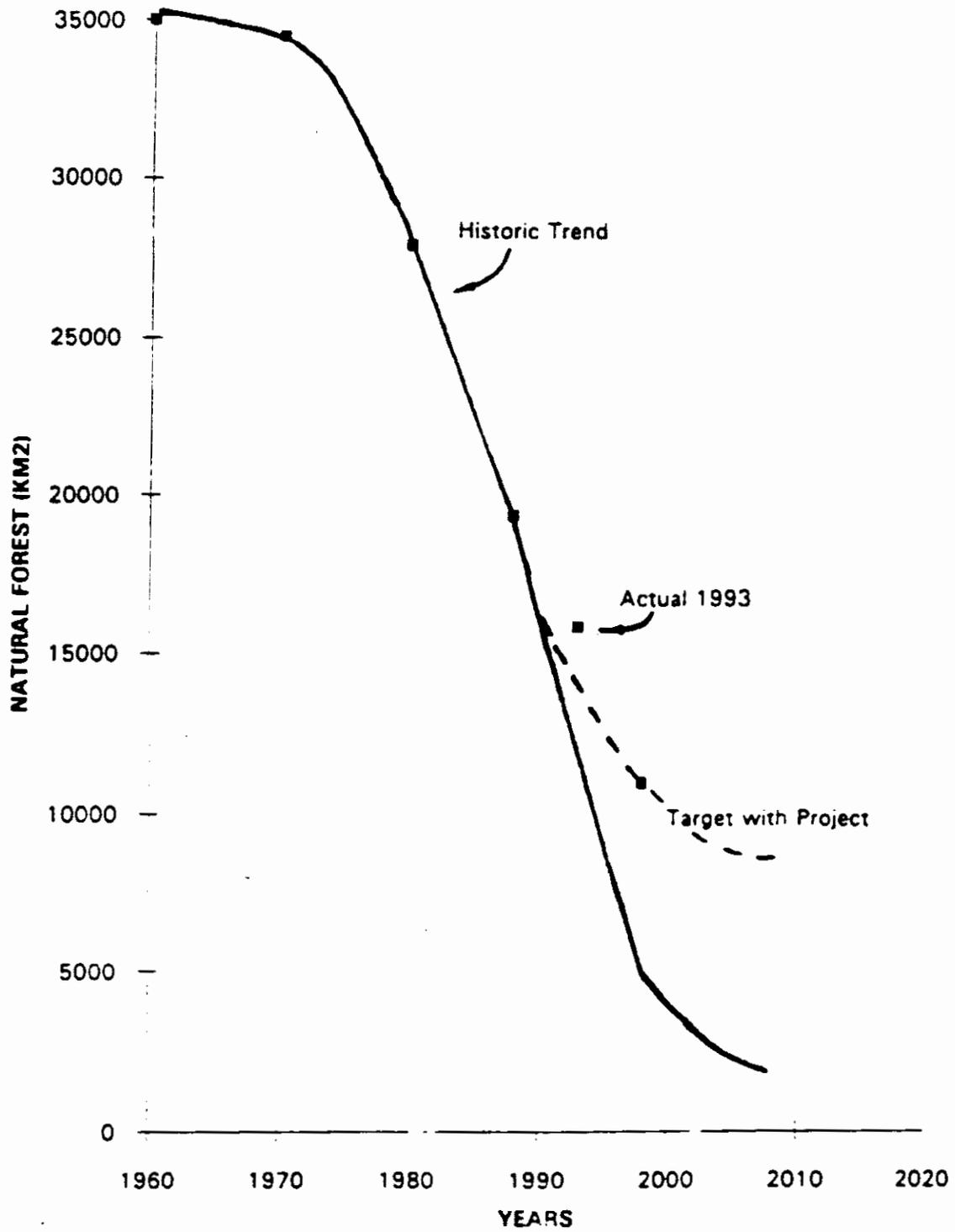
2 Analysis underway.

PROGRAM OUTPUT 3.3 Public and private institutions playing more effective and sustainable roles in support of natural resource management						
Indicator: Selected institutions have increased income from non-AID sources						
Unit: Absolute non-AID income (US\$)	Year	Planned	Actual			
Source: Yearly inventory of CONAP	1990	--	79,800			
Comments: An institution's ability to attract funds from other sources indicates not only financial sustainability, but also may be an indirect measure of effectiveness. Ability to raise funds, especially fee-for-service, is evidence that the institution is valued by clients and donors other than AID.  !/ In 1993, this \$721,900 represented 92% of total expenditures.	1991	--	460,300			
		1992	500,000	638,600		
		1993 <sup>1/</sup>	600,000	721,900		
		1994	700,000			
		1995	800,000			
		1996	900,000			
		1997	1,000,000			
	Target					

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# PETEN REGION

## Deforestation Historic Trends and Projections



Fuente: Datos del PAF/G (1960-1988); SEGEPLAN VIII (1993); AID-Projection with Project.

## **B.1.D. ACHIEVING BROAD BASED ECONOMIC GROWTH: (I) INCREASED TRADE AND IMPROVED LABOR RELATIONS**

### **I. Mission Strategic Framework and Linkage between Mission S.O. and Agency Goal**

The Mission is working to achieve **Broad-based Economic Growth** with equity through the strategic objective of **Increased Trade and Improved Labor Relations**. Expanded trade in globally competitive markets is considered the engine for achieving sustained economic growth and development. However, continued trade expansion in Guatemala will be dependent upon increased productivity, which can only occur on a sustainable basis through greater incorporation of workers into the benefits of growth and an improvement in labor relations. By combining increased trade with improvements in labor relations, this strategic objective explicitly recognizes the links between the need for increased economic growth and the need for increased participation of labor and the larger society in the benefits of that growth. The program outputs which contribute to the achievement of this objective are **an open trade policy, increased production and marketing of non-traditional exports, and improved labor relations**.

The strategic framework for this objective was modified over the past year to place increased emphasis on workers' rights and labor relations in future program initiatives in order to ensure a more equitable distribution of the benefits derived from the growth of non-traditional exports. In addition, all projects contributing to this strategic objective were reviewed and are in compliance with Section 547/599 guidance. Slight modifications were made to some projects and new language will be added to relevant agreements/contracts to ensure that the projects remain consistent with the guidance.

### **II. Strategic Objective Performance**

After initial delays due to frequent changes in Ministerial-level positions brought about in part by the May coup attempt, Guatemala made significant progress in 1993 in improving the policy environment for trade and economic growth. One concrete sign of the GOG's intent to further liberalize trade policies and take preparatory steps required for negotiation of a free trade agreement was the signing of the Trade and Labor Relations Development Program during 1993. This signified the public and private sector's commitment to support improvements in intellectual property rights protection, facilitate the investor registration process, maintain eligibility for benefits under the Generalized System of Preferences (GSP), improve the dispute resolution process and put in place GATT-consistent measures on safeguards and countervailing duties over the next five years.

A concrete measurement of success of strategic objective performance is shown by the meeting of 6 of the 7 strategic objective performance indicators for 1993: overall export earnings for 1993 reached \$1.2 billion, a growth of 14% over 1992 levels; two-way trade between the U.S. and Guatemala grew by nearly 10%, reaching a total of \$2.48 billion; and, Guatemala maintained its eligibility for GSP benefits.

More specifically, in working towards meeting the program output of an open trade policy to allow increased access to the Guatemalan market, the GOG, with support from USAID projects:

## An Open Trade Policy

- Drafted an initial version of patent, trademark and copyright legislation to bring Guatemalan legislation in line with world-class standards, and committed itself to presenting this legislation to Congress for approval by August, 1994 and announced its intention to adhere to the Paris and Berne conventions;
- Lowered the maximum external tariff from 37% to 20% and implemented a new external tariff range of 5-20%;
- Conducted an analysis of the changes required in Guatemalan legislation to adhere to a Bilateral Investment Treaty with the U.S.;
- Compiled an inventory of all laws relating to investment to facilitate the investment registration process and inaugurated the One-Stop Investor Registration Window; and
- Approved GATT-consistent legislation on safeguards and anti-dumping.

More open trade policies contributed to the growth of overall exports and an expansion in two-way trade between the U.S. and Guatemala trade in addition to spurring a recovery in non-traditional exports, as outlined below:

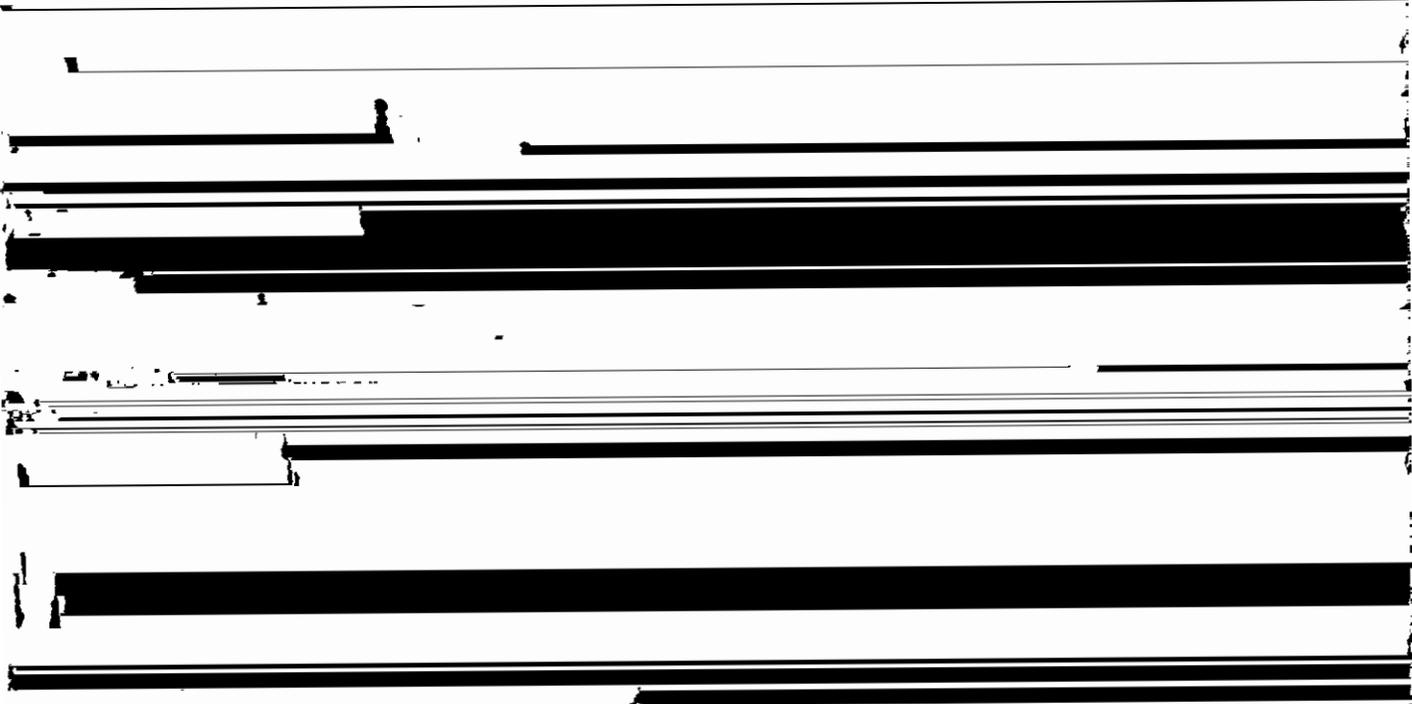
### Increased Production and Marketing of Non-Traditional Exports

- Non-traditional export earnings increased by 17%, up from 12% growth in 1992, to reach \$523 million for 1993;
- Approximately 82% of these exports (valued at approximately \$429 million) were attributable to members of the Guild of Non-Traditional Product Exporters, which receives assistance under Mission projects;
- For the first time, non-traditional export earnings (including those from exports to Central America and the rest of the world) surpassed those of traditional products such as coffee, sugar, bananas, cotton and meat, accounting for 52% of total exports;

For the small farmers in the Department of Sacatepequez, non-traditional export crops have been the key to improving their standard of living and increasing their income. For Luis, a producer of snow peas, the shift from growing subsistence crops like corn and beans to non-traditional crops has been particularly beneficial. Rather than working as a day laborer on someone else's farm, Luis now not only works on his own land, but also contracts his neighbors to help him out. Instead of living in a small wood house with a dirt floor, he now has been able to build a larger house of brick with a cement floor, electricity and sanitary facilities. In addition, he has been able to purchase a pick-up truck to transport his snow peas to market and, at times, serve as the unofficial community bus service to augment his income. Although, there are risks associated with the shift from subsistence to non-traditional export crops because prices are not as stable and the technology is more complicated, making this shift has led to a better life for Luis and the farmers in Sacatepequez.

- This growth in non-traditional exports assisted in the alleviation of poverty through the creation of new jobs. Although precise employment data is notoriously difficult to collect in Guatemala, new jobs created in 1993 are estimated to reach 19,740, for a total of 175,000 new jobs created since the non-traditional export boom began in 1986; and
- The impact of this job creation has been primarily felt among the indigenous population in the rural highlands, who have turned from growing subsistence crops such as corn and beans to non-traditional agricultural crops and from producing traditional clothing for the local market to exporting handicraft products.

To improve labor relations and ensure more equitable access to the benefits of growth, the GOC



### Improving Labor Relations

- Trained approximately 30 newly-hired labor inspectors in international workers rights standards, the relationship between trade preferences and workers rights protection, and the implementation of the reformed Guatemalan labor code;
- Opened an office to protect the rights of women workers;
- Trained Ministry of Labor staff and labor and management representatives in new labor management techniques;
- Decentralized and equipped labor inspectors' offices to provide better coverage to the rural

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G-CAP (520 Bilateral Program)</b>
Agency Goal: Broad-Based Economic Growth
USAID STRATEGIC OBJECTIVE No. 4: Increased Trade and Improved Labor Relations

Program Outcome No. 4.1 Improved Labor Relations	Program Outcome No. 4.2 Open Trade Policy	Program Outcome No. 4.3 Increased Production and Marketing of Non-traditional Exports
---	--	--

<b>Projects (Number/Title)</b>	<b>Projects (Number/Title)</b>	<b>Projects (Number/Title)</b>
520-0341 Private Enterprise Development	520-0341 Private Enterprise Development	520-0341 Private Enterprise Development
520-0403 Trade/Labor Relations Development	520-0403 Trade/Labor Relations Development	520-0403 Trade/Labor Relations Development
		520-0381 Small Farmer Coffee Project

**TABLE 2.4: STRATEGIC OBJECTIVE PERFORMANCE**

Guatemala						
USAID STRATEGIC OBJECTIVE NO. 4 Increased Trade and Improved Labor Relations						
Indicator: Increase in export earnings.						
Unit: Millions of U.S. dollars		Year	Planned	Actual		
Source: Central Bank Dollar Repatriation Data	Baseline	1991	---	1,069		
Comments: Assumes -3% annual growth rate for traditional products and a growth rate for non-traditional products of 15% annually until 1994 and 10% annually thereafter.		1992	1,118	1,093		
		1993	1,177	1,249		
		1994	1,248			
		1995	1,299			
		1996	1,357			
		1997	1,423			
		1998	1,498			
	Target					
Indicator: Increase in value of U.S. - Guatemala trade.						
Unit: Millions of U.S. dollars		Year	Planned	Actual		
Source: U.S. Department of Commerce	Baseline	1991	----	1,842		
Comments: Assumes 15% annual growth through 1993 and 10% annual growth thereafter.		1992	2,194	2,265		
		1993	2,413	2,488		
		1994	2,654			
		1995	2,920			
		1996	3,212			
		1997	3,533			
		1998	3,886			
	Target					

Indicator: Adherence to internationally-recognized labor relations standards, evidenced by continued eligibility of Guatemala for GSP benefits.					
Unit: Yes-No		Year	Planned	Actual	
Source: U.S.T.R.	Baseline	1991	Yes	Yes	
Comments: Guatemala is currently under review for alleged violations or concerns rights. A decision on whether to extend or terminate the review or suspend GSP benefits will be announced by July 1994. The main issues to be examined in the review are enforcement of the revised labor code, the labor court system and the union registration process.		1992	Yes	Yes	
		1993	Yes	Yes	
		1994	Yes		
		1995	Yes		
		1996	Yes		
		1997	Yes		
		1998	Yes		
	Target				
PROGRAM OUTPUT NO. 4.1 Improved labor relations					
Indicator: TBD					
Unit:		Year	Planned	Actual	
Source:	Baseline	1991	-----	TBD	
Comments: Indicators to measure improvements in the labor relations climate will be developed jointly with implementing institutions by July, 1994. Possible indicators include number of labor organizations formed, time required to register a new labor organization, number of disputes mediated and number of collective pacts signed.		1992	TBD	***	
		1993	TBD	***	
		1994	TBD	***	
		1995	TBD	***	
		1996	TBD	***	
		1997	TBD	***	
		1998	TBD	***	
	Target				

## PROGRAM OUTPUT NO. 4.2 Open trade policy

## Indicator: GATT agreement compliance

Unit: Number of GATT Panel findings against Guatemala	Year	Planned	Actual
Source: United States Trade Representative	1991	-----	0
Comments: The assumption is that an open trade policy is maintained unless GATT panel rulings are against Guatemala. Negative GATT findings will be reflected in a change from zero to the number of actual findings in any given year.	1992	0	0
	1993	0	0
	1994	0	
	1995	0	
	1996	0	
	1997	0	
	1998	0	
Target			

## Indicator: Number of commodities subject to quantitative restrictions or licensing on imports and exports

Unit: Absolute number	Year	Planned	Actual
Source: Ministry of Economy	1991	-----	60
Comments: Because the use of restrictions or licensing is warranted on certain types of products (such as endangered species and toxic wastes), lifting of restrictions is only being sought in cases where their imposition was for protectionist reasons.	1992	30	30
	1993	25	27
	1994	25	
	1995	25	
	1996	25	
	1997	25	
	1998	25	
Target			

PROGRAM OUTPUT NO. 4.3 Increased production and marketing of non-traditional exports					
Indicator: Light manufacturing exports					
Unit: Millions of U.S. dollars		Year	Planned	Actual	
Source: Central Bank Dollar Repatriation Data	Baseline	1991	---	67.6	
Comments: Includes processed food, glass, metal and chemical products, and wood and wood manufactures. Growth is projected at 15% annually through 1994, and 10% annually thereafter.		1992	65.4	73.0	
		1993	75.3	98.2	
		1994	86.5		
		1995	95.1		
		1996	104.6		
		1997	115.1		
		1998	126.6		
	Target				
Indicator: Non-traditional agriculture exports					
Unit: Millions of U.S. dollars		Year	Planned	Actual	
Source: Central Bank Dollar Repatriation Data	Baseline	1991	---	97.2	
Comments: Includes vegetables, fruits and preservatives, flowers and ornamental plants, and shrimp and related sea food. Growth is projected at 15% annually through 1994, and 10% thereafter.		1992	102.0	105.0	
		1993	117.0	134.5	
		1994	135.0		
		1995	148.0		
		1996	163.0		
		1997	179.5		
		1998	197.4		
	Target				

## **B.1.D. ACHIEVING BROAD BASED ECONOMIC GROWTH: (II) IMPROVED QUALITY, EFFICIENCY AND EQUITY OF PRIMARY EDUCATION SERVICES**

### **I. Mission Strategic Framework and Linkage between the S.O. and the Agency Goals**

The Mission's targeted support for improvements in Guatemala's primary education system and services is a critical element in creating the human resource base required for the country's improved economic growth and productivity, thus supporting the Agency's goal of **Broad-Based Economic Growth with Equity**. The Mission's work under this Strategic Objective is equally important to other Agency goals, especially to increased democratic participation, increased protection of the natural resource base, stabilization of population growth, and improved human health. The **Improved Quality, Efficiency, and Equity of Primary Education Services** Strategic Objective is particularly critical in Guatemala where efficiency, quality, and equity indicators in education have remained lower than those in other Latin American countries over the past decade. The Mission's policy objectives under this Strategic Objective are to increase the proportion of the GOG budget assigned to the education sector and to improve the ability of the Ministry of Education (MOE) to allocate and disburse resources for non-salaried expenditures within its operating budget. The Mission's program outputs focus on an **improved classroom environment, improved efficiency in the allocation and use of resources, and increased equity of educational policies and practices**.

The Strategic Objective is implemented through the Basic Education Strengthening (BEST) Project. To better focus resources on achievement of the Strategic Objective, the Mission reprogrammed the BEST Project in September, 1993, and reduced the number of project activities from 16 to seven, and then to six. The revised design strategy for this Strategic Objective is a two-pronged approach of combining direct delivery of services to teachers, schools, and children through high impact, high visibility interventions, along with activities aimed at long-term, systemic changes in primary education that will have an indirect impact on community members, teachers, schools, and children.

### **II. Strategic Objective Performance**

Performance gains under this Strategic Objective have been consistent since 1991, the baseline year. The combination of nation-wide, systemic interventions and targeted innovations in pilot schools in the rural, Mayan language-speaking areas have produced gains in nation-wide indicators of efficiency and equity (data on the quality indicator--average student achievement scores in third grade--will be available in December 1994). Repetition rates in grades one through three have decreased from 20.5 percent in 1991 to 19.9 percent in 1993. Completion rates in third grade increased from 47.4 percent in 1991 to 47.9 percent in 1993, and completion rates in sixth grade increased from 27.8 percent to 28.2 percent in 1993. The number and percentage of girls enrolled in third grade increased from 90,816 (45.5 percent) in 1991 to 108,452 (46 percent) in 1993; and the number of Mayan students enrolled in bilingual pre-primary and primary programs increased from 107,000 in 1992 to 114,281 in 1993.

At the program output level, a summary of progress to date follows.

### Improved Classroom Environment

- Qualitative improvements are being achieved through the consolidation of a set of bilingual education services in 800 schools in the predominantly Mayan highlands region of the country; the development of an academic achievement testing program in schools testing a number of Mission-supported programs; implementation of the innovative New One-Room School methodology that is training teachers to develop a curriculum based on local experiences and needs; and, the development of a girls' education program that is testing combinations of classroom-level interventions.
- In Interactive Radio Mathematics target areas, the experimental group showed a 16 percent gain over that of the control group; and in the Interactive Radio Spanish-as-a-second language areas, the experimental group showed a 13 percent gain over that of the control group. Achievement scores for bilingual education, girls' education, and the New One Room School Program target areas will be available in December, 1994.

### Improved Efficiency in the Allocation and Use of Resources

- Efficiency gains are being achieved through the installation and implementation of a computerized management information system in the country's eight education regions and the development of academic achievement tests for assessing the impact of the Mission's education interventions on student learning.
- Data produced and presented in the Statistical Yearbooks for 1991 and 1992 have been used for improved decision making on appropriate teacher appointments.
- Data on repetition rates in bilingual education target areas and on reductions in repetition rates in Radio Spanish and Girls' Education target areas as well as data on the percentage of teachers appropriately assigned and on reductions in the time to complete teacher appointments will be available in December, 1994.

### Increased Equity of Educational Policies and Practices

- Increased equity of educational policies and practices is being achieved through the implementation of innovative classroom practices directed at Guatemala's historically disadvantaged populations, including the strengthening of a decentralized bilingual education administrative structure and the consolidation of bilingual education services; the creation of a Ministry of Education Scholarship Program for Primary School Indigenous Girls (supported entirely by Ministry funds); the creation of a New One-Room School Program that is developing a capacity in local teachers to stimulate community participation in school life and student participation in school government, both aimed at encouraging active community participation in Guatemala's emerging democracy.
- Increased equity is also being achieved through girls' education interventions that are integrating gender considerations into the country's primary school curriculum and teaching practices and increasing financial and human resource commitments by NGOs for combinations of community-level interventions (e.g., Mayan social promoters, scholarships, and parent committees) to increase girls' school participation.





- Enrollments of Mayan students in bilingual education target areas have increased from 95,083 in 1989 to 114,281 in 1993. Data on increased participation of girls and Mayan students in target areas and on enrollments of girls in grades three and above in Girls' Education Program target areas will be available in December, 1994.

For the first time ever in the rural school of El Carmen in Baja Verapaz, a girl (María Luz) entered the sixth grade at the beginning of the 1994 school year, and she soon became an active participant in the class. After one month of classes, however, María Luz no longer came to school because she had begun to menstruate.

Following a training program conducted by the USAID Girl's Education Program, the teacher met with parents to stress the importance of the education of their daughters. He used the Girls' Education Program "story board" for teachers, which dramatizes the lives of two indigenous girls--Marta and Rosa--one who completes sixth grade and the other who drops out after second grade.

Much to the surprise of the teacher, María Luz appeared in school the next day. She told the teacher that her father had told her the story of Marta and Rosa. He told her that he didn't want her to grow up to have the sad life of Rosa, and that she must return to school. She requested, however, that the teacher excuse her from school for three days of the month. Delighted, the teacher told her that he would happily prepare work for her to do at home on those days, so that she could graduate from primary school--the first girl ever to graduate from primary school in the village of El Carmen, in Salamá, Baja Verapaz.

#### Effects on poverty reduction, increased access, and improved participation

Each of the interventions under this Strategic Objective is focused on Guatemala's poorest populations--Mayan children in Guatemala's rural areas--and contributes directly to reduced poverty, increased access, and improved participation. The interventions have already achieved increased student retention and completion, which are related to increased productivity, increased employment levels, and increased income generation, each of which is directly related to poverty reduction.

Two models for promoting increased access are emerging that use a decentralized, administrative approach on the part of the MOE and that encourage increased participation by NGOs and other private-sector institutions in education: the New One-Room School, which operates at the departmental level and builds an administrative capacity and a constituency at that level; and the *Eduque a la Niña* (Educate Girls!) multi-donor girls' education pilot project, which relies primarily on NGO, private-sector, and other donor support for funding and program implementation responsibilities. Both of these interventions are based on active community participation and decentralized implementation.

The New One-Room School program has established parent committees that are serving as a communication link between the school and the community. This participation has achieved numerous community changes, such as the construction and repair of schools and the implementation of community projects using local resources. Children are being trained to form and participate in school governments where they are learning to be catalysts for action in their

schools and community for promoting beneficial community change. Girls' Education innovations are training Mayan social promoters to motivate community members to support education for girls, creating parent committees that are responsible for promoting girls' education in their communities, training teachers in the use of girls' education materials, and providing important role models for children in poor communities of Mayan leaders who are contributing to the country's social and economic development.

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G-CAP (520 Bilateral Program)</b>
Agency Goal: Broad-Based Economic Growth
USAID STRATEGIC OBJECTIVE No. 5: Improved Quality, Efficiency, and Equity of Primary Education Services

Program Outcome No. 5.1	Program Outcome No. 5.1	Program Outcome No. 5.1
Improved Classroom Environment	Improved Efficiency in the Allocation and Use of Resources	Increased Equity of Educational Policies and Practices

Projects (Number/Title)	Projects (Number/Title)	Projects (Number/Title)
520-0374 Basic Education Strengthening	520-0374 Basic Education Strengthening	520-0374 Basic Education Strengthening
938-5836 Improving Education Quality	938-5836 Improving Education Quality	938-5836 Improving Education Quality

TABLE 2.5: STRATEGIC OBJECTIVE PERFORMANCE

Guatemala					
USAID STRATEGIC OBJECTIVE NO. 5 Improve the Quality, Efficiency, and Equity of Primary Education Services					
Indicator: Decrease repetition rates in first through third grades					
Unit: Percentage	Baseline	Year	Planned	Actual	
Source: Ministry of Education		1991	---	20.5	
Comments: The institutional contract to provide technical assistance to the BEST project was awarded in July, 1990, and implementation planning began in late 1990. Project implementation began in early 1991. Interventions with an impact on national-level indicators reached the classroom level in the following years: Bilingual Education Services (1989); Management Information Systems (1991); New One-Room School Program ( <i>Nueva Escuela Unitaria</i> ) (1993); Girls' Education Program (1993); and Academic Achievement Tests (1992).		1992	20.1	21.8	
		1993	19.7	19.9	
		1994	18.8		
		1995	18.8		
		1996	18.4		
		1997	18.0		
	Target				
Indicator: Increase completion rates in third grade					
Unit: Percentage	Baseline	Year	Planned	Actual	
Source: Ministry of Education		1991	---	47.4	
Comments: Both third and sixth grade completion rates were selected because most school dropout occurs prior to the third grade level. In general, students who reach fourth grade tend to complete sixth grade. A measure of the effectiveness of interventions such as Bilingual Education Services, the New One-Room School program, and Girls' Education actions is the extent to which completion is increased at both the third and sixth grade levels.		1992	47.8	50.1	
		1993	48.3	47.9	
		1994	48.8		
		1995	49.2		
		1996	49.7		
		1997	50.2		
	Target				

Indicator: Increase completion rate in sixth grade						
Unit: Percentage		Year	Planned	Actual		
Source: Ministry of Education	Baseline	1991		27.8		
Comments: See comments in previous section for discussion of completion rates.		1992	28.1	28.0		
		1993	28.4	28.2		
		1994	28.7			
		1995	29.0			
		1996	29.2			
		1997	29.5			
		Target				
Indicator: Increase average student achievement scores in third grade						
Unit: Percentage		Year	Planned	Actual		
Source: Ministry of Education	Baseline	1992	---	56.9		
Comments: Student academic achievement tests were developed and pilot-tested during the 1991 school year and were applied on a national sample during the 1992 school year. A subsequent evaluation determined that the tests and the application process were flawed to such an extent that the tests could not be applied in 1993 and the results from 1992 could not be used. Test data from existing tests validated by the National Program of Bilingual Education (PRONEBI) are used here as a baseline. PRONEBI tests were applied during 1993; however, the results will not be available until July, 1994, when the <i>Annual Statistical Yearbook</i> is published. New project tests are being developed and applied during the 1994 school year.		1993	56.4	N/A		
		1994	57.8			
		1995	59.2			
		1996	60.6			
		1997	62.0			
	Target					

Indicator: Increase percentage of girls enrolled in third grade				
Unit: Number-Percentage	Year	Planned	Actual	
<p>Source: Ministry of Education</p> <p>Comments: The indicator percentage of girls enrolled is designed to measure reductions in the gender gap between boys' and girls' school attendance.</p> <p>NOTE: This indicator measures enrollment nationwide and does not reflect the variations in girls' enrollment between urban and rural areas and between Mayan and non-Mayan populations.</p>	Baseline	--	45.5	
	1991			
	1992	45.8	45.2	
	1993	46.4	46.0	
	1994	47.1		
	1995	47.7		
	1996	48.4		
Target	1997	49.0		

Indicator: Increase number and percentage of Mayan students (5-12 years old) enrolled in bilingual pre-primary and primary programs				
Unit: Number-Percentage	Year	Planned	Actual	
Source: Ministry of Education	1992	---	107,000 9.8	
<p>Comments: This indicator measures the number and percentage of students enrolled in USAID-supported bilingual education programs as compared to the total number of students (Mayan and non-Mayan) enrolled in the entire public-school system).</p> <p>NOTE: An agreement has not yet been reached among Guatemala's key actors on the definition of "Mayan." Therefore, it is not currently possible to accurately identify the number of Mayan students enrolled in bilingual programs. For this indicator, we include all students enrolled in USAID bilingual education programs as "Mayan."</p> <p>* The planned target of 20 percent for this indicator will only be achieved if the current program is expanded to 600 additional schools. If expansion does not take place, the planned percentage for 1997 will be 11%.</p>	1993	---	112,350 10.0	
	1994	117,960	N.A.	
	1995	123,850		
	1996	127,000		
	Target	1997	129,395 20.0*	

**PROGRAM OUTPUT NO. 5.1 Improved Classroom Environment**

**Indicator:** Percentage of Teachers effectively applying *Nueva Escuela Unitaria* (NEU), Bilingual Education, and Girls' Education methodologies in target schools

Unit: Percentage		Year	Planned	Actual
Source: Ministry of Education	Baseline	1994	TBD	
Comments: The BEST project is developing and applying qualitative measures for assessing the effectiveness of teachers in treatment schools in applying these methodologies as compared to a control group of teachers in schools not using the methodologies. Research is being conducted during the 1994 school year, and data will be available in December, 1994.		1995	TBD	
		1996	TBD	
	Target	1997	TBD	

**PROGRAM OUTPUT NO. 5.2 Improved Efficiency in the Allocation and Use of Resources**

**Indicator:** Increase percentage of teachers appropriately assigned

Unit: Percentage		Year	Planned	Actual
Source: Ministry of Education	Baseline	1993	---	81.6
Comments: Appropriate assignment includes: 1) assignment to the teacher's mother-tongue area; 2) assignment to the teachers' county of origin; and 3) assignment of a maximum of 40 students per teacher. The Management Information Systems activity began collecting these data during the 1993 school year. Data for this indicator will be reported in November, 1994.		1994	82.5	
		1995	83.3	
		1996	84.2	
	Target	1997	85.0	

PROGRAM OUTPUT NO. 5.3 Increase Equity of Educational Policies and Practices					
Indicator: Increase participation of girls in target areas					
Unit: Percentage/Number	Year	Planned	Actual		
Source: Ministry of Education	1994	---	TBD		
Comments: This indicator measures increases in student-teacher classroom interaction through the use of student-teacher interaction protocols. Qualitative research is being conducted during the 1994 school year, and findings will be available in December, 1994.	1995	TBD			
	1996	TBD			
	1997	TBD			
Indicator: Increase participation of Mayan students in target areas					
Unit: Percentage/Number	Year	Planned	Actual		
Source: Ministry of Education	1994	---	TBD		
Comments: This indicator measures increases in community interaction by Mayan students in project target areas. Qualitative research is being conducted during the 1994 school year, and findings will be available in December, 1994.	1995	TBD			
	1996	TBD			
	1997	TBD			

**FY 95-96 Action Plan**

***B. Achievement of Agency Goals  
Regional Program***

**USAID/Guatemala - Central American Programs  
(USAID/G - CAP)**

## **B.2.A. ACHIEVING BROAD BASED ECONOMIC GROWTH: INCREASED CENTRAL AMERICAN PARTICIPATION IN THE HEMISPHERIC ECONOMY**

### **I. Mission Strategic Framework and Linkage between the S.O. and Agency Goals**

The Mission is working to achieve **Broad-based Economic Growth with equity** at the regional level through the strategic objective of **Increased Central American Participation in the Hemispheric Economy**. Even with the recent average GDP growth of three to four percent annually across the region and an expansion of intra and extra-regional trade, economic growth in Central America has not been sufficient to assure the social well-being of the majority of Central Americans. Increased participation in the hemispheric economy, brought about through the program outputs of **increased regional economic integration and preparation for free trade agreement negotiations** is essential if Central America is to achieve sufficient levels of economic growth and generate sufficient employment to meet the needs of its population. This strategic objective is being developed in the context of the Central American Alliance for Sustainable Development.

### **II. Strategic Objective Performance**

The Strategic Objective has undergone significant revisions in the past year to reflect changes in Agency goals and resource levels, the reactivation of Central American initiatives to move forward on regional economic integration and the increased regional expectations for an eventual hemispheric free trade agreement following the ratification of NAFTA. Reflecting these revisions, a new Mission strategy has been developed to guide program interventions, which is attached as Annex 5. In addition, the proposed Regional Trade Policy and Economic Integration project (a NAD in this Action Plan) will address the new strategic directions of the Mission and respond to regional needs.

Under this strategic objective, some existing projects were amended and others were phased out to reduce our emphasis on institutional support in favor of results-oriented activities. All projects contributing to this strategic objective were reviewed and are in compliance with Section 547/599 guidance. New language has been added to relevant agreements/contracts to ensure that the projects remain consistent with the guidance. Although the Mission's regional non-traditional agricultural export development activities under EXITOS have not been included in the reformulated strategic objective framework (project activities will terminate this year), they have continued to have a significant positive impact on trade in the region and economic growth through support of new crops and producer groups. For example, project interventions led to a 75% increase in non-traditional agricultural export sales by project beneficiaries (to reach approximately \$245 million) during the 1993-1994 growing season.

Over the next year, the Mission will refine and finalize the strategic objective framework and initiate new regional activities designed to respond to the changing needs of the region. Specifically, the Mission plans to begin supporting initiatives designed to improve labor relations and protection for workers rights in the region, based on requests from regional labor ministers, and to start analyzing "brown" environmental issues, as they relate to preparation for free trade agreement negotiation.

Mission efforts in supporting policy reforms at the regional level over the past year have been effective in promoting regional economic integration and preparing for and, in some cases, beginning to negotiate free trade agreements. These policy reforms have been instrumental in increasing overall trade in the region by 18% in 1993, to \$1.2 billion. Two-way trade between the region and the United States grew to \$10.4 billion in 1993, increasing 12% over 1992 levels.

### Regional Economic Integration

During the past year, USAID policy reform programs have supported the increased interest in regional economic integration in Central America. The achievements include:

- A common external tariff of 5-20% went into effect in Guatemala, El Salvador and Nicaragua on March 1st, in Honduras on April 1st and in Costa Rica on November 15th;
- The revised Protocol of the General Treaty on Central American Regional Economic Integration (otherwise known as the Protocol of Guatemala) was approved in October 1993 which formally adopted the new objectives of the regional integration process and defined the steps required to achieve a Central American Economic Union;
- Formalities and procedures were liberalized for border crossings within the region;
- A uniform Central America customs document and standardized customs nomenclature was adopted;
- Common safeguards and anti-dumping legislation were ratified; and
- Negotiations began for free trade agreements with Colombia and Venezuela as a regional bloc and with Mexico as a sub-regional bloc.

### Participation in a Hemispheric Free Trade Agreement

As the region moved forward on economic integration, the Mission supported the Central Americans to begin to prepare the region for eventual participation in a hemispheric free trade agreement. Some of the Central American achievements include:

- A meeting between the Central American presidents and President Clinton to discuss the region's concerns related to the trade and investment diversion effects of NAFTA in which the Central Americans proposed the creation of an Alliance for Sustainable Development in the region;
- Following this meeting, the Central American presidents agreed to form a high-level technical commission to examine post-NAFTA-related trade issues, to which Guatemalan, Costa Rican and Salvadorean representatives have already been named and are active;
- Firm plans for the creation of a network of private sector technical committees to analyze and establish positions on key issues related to free trade agreement accession, including labor standard, environmental protection, intellectual property rights and non-tariff barriers;

- Examination of the possibility of amending the current Central American convention for the Protection of Intellectual Property to increase protection for trademarks in line with world-class standards; and,
- Preparation of initial analyses of the impact of NAFTA on the Central American economy in general and the manufacturing and agricultural sectors in particular.

Progress in this area was made in spite of being slowed by shifts in four Economic Cabinets due to presidential elections in Costa Rica, El Salvador and Honduras and Panama.

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G-CAP (596 Regional Program)</b>
Agency Goal: Broad-Based Economic Growth
USAID STRATEGIC OBJECTIVE No. 1: Increased Central American Participation in the Hemispheric Economy

Program Outcome No. 1.1	Program Outcome No. 1.2
Increased Regional Economic Integration	Increased Preparation For and Negotiation of Free Trade Agreements in the Hemisphere

Projects (Number>Title)	Projects (Number>Title)
596-0147 Economic Policy Research	596-0147 Economic Policy Research
596-0162 Regional Development Support	596-0162 Regional Development Support
596-0176 C. A. Development Coordination Commission	596-0177 Partnership for Democracy and Development
596-0178 Regional Trade Policy and Economic Integration	596-0178 Regional Trade Policy and Economic Integration

**TABLE 2.1: STRATEGIC OBJECTIVE PERFORMANCE**

Regional					
USAID STRATEGIC OBJECTIVE NO. 1 Increased Central American Participation in the Hemispheric Economy					
Indicator: Central American trade as percent of total intra-hemispheric trade					
Unit: Percentage/Billions of U.S. Dollar	Baseline	Year	Planned	Actual	
Source: IMF		1992	---	2 %/\$4.2b	
Comments: Quantitative measures for this indicator will be established by June 1994. Both the percentage of Central American trade in relation to total intra-hemispheric trade and the value of Central American exports within the hemisphere are shown to give a more complete picture of Central America's stance in the Western Hemisphere.		1993	TBD		
		1994	TBD		
		1995	TBD		
		1996	TBD		
		1997	TBD		
		Target	1998	TBD	
PROGRAM OUTPUT NO. 1.1 Increased Regional Economic Integration					
Indicator: Increased intra-regional trade					
Unit: Billions of U.S. Dollars	Baseline	Year	Planned	Actual	
Source: IMF		1993	---	1.2	
Comments: Quantitative indicators to be established by June 1994 based on analysis of past growth trends and projections of future growth.		1994	TBD		
		1995	TBD		
		1996	TBD		
		1997	TBD		
	Target	1998	TBD		

Indicator: Increased implementation of harmonized policies supportive of regional economic integration				
Unit: Yes/No	Year	Planned	Actual	
Source: SIECA, CA Economic Cabinets	1992	---	No	
<p>Comments: A list of policies that need to be developed and implemented for increased regional economic integration will be established by June, 1994 based on items included in the Protocol of Guatemala. This list will be reviewed annually to determine whether harmonized policies have been developed, and if they have, if they have been implemented in the region. If the overall result of this analysis is that more harmonized policies have been developed and implemented, the indicator measurement will be positive.</p>	1993	Yes	Yes	
	1994	Yes		
	1995	Yes		
	1996	Yes		
	1997	Yes		
	1998	Yes		
	Target		Yes	
<b>PROGRAM OUTPUT NO. 1.2 Increased Preparation for and Negotiation of Free Trade Agreements in the Hemisphere</b>				
Indicator: Establishment of acceptable standards for environmental, labor relations and intellectual property rights protection consistent with those required for free trade agreement accession with the U.S.				
Unit: Yes/No	Year	Planned	Actual	
Source: SIECA, Economic Cabinets	1992	---	No	
<p>Comments: This indicator will measure the extent to which either individual Central American countries or groups of countries establish environmental, labor relations and intellectual property rights protection standards consistent with those required for free trade agreement accession. By 1998, it is expected that all countries in the region will have established these standards. Interim targets need to be developed to demonstrate progress towards achieving this goal. This could be, for example, that 2 of the 6 countries have established environmental standards by 1995.</p>	1993	TBD		
	1994	TBD		
	1995	TBD		
	1996	TBD		
	1997	TBD		
	1998	Yes		
	Target		Yes	

Indicator: Free trade agreements negotiated as a region in the hemisphere				
Unit: Cumulative number of free trade agreements negotiated	Year	Planned	Actual	
Source: SIECA	1992	---	0	
Comments: The target shown for 1998 is a cumulative total, and is based on negotiations being in progress with Colombia, Venezuela and Mexico.	1993	0	0	
	1994	1		
	1995	2		
	1996	2		
	1997	3		
	Target	1998	3	
Indicator: Establishment of a regional or harmonized bilateral investment treaties				
Unit: Yes/No	Year	Planned	Actual	
Source: SIECA, Economic Cabinets	1992	---	None	
Comments: A pre-condition for free-trade agreement negotiation with the United States is the signing of a bilateral investment treaty. To prepare for free trade agreement negotiation, all Central American countries will, either individually or as a group, need to put in place open and transparent investment rules consistent with those required under a bilateral investment treaty.	1993	None	None	
	1994	TBD		
	1995	TBD		
	1996	TBD		
	1997	TBD		
	Target	1998	TBD	
Interim indicators will be established by June 1994.				

Indicator: Establishment of dispute resolution procedures					
Unit: Yes/No	Baseline	Year	Planned	Actual	
Source: SIECA, Economic Cabinets		1992	---	No	
Comments: Establishment of dispute resolution procedures is a requirement of free trade agreements. To prepare for free trade agreement negotiation, all Central American countries will, either individually or as a group, need to establish a dispute resolution mechanism.  Interim indicators will be established by June, 1994.		1993	No	No	
		1994	TBD		
		1995	TBD		
		1996	TBD		
		1997	TBD		
	Target	1998	Yes		

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## **B.2.B. PROTECTING THE ENVIRONMENT: ENVIRONMENTALLY SOUND NATURAL RESOURCE MANAGEMENT**

### **I. Mission Strategic Framework and Linkage between S.O. and Agency Goal**

The Mission is pursuing the agency goal of **Protecting the Environment** in both its bilateral and regional programs through the strategic objective of **Environmentally Sound Natural Resource Management**. The environment of Central America is most appropriately viewed as an ecological continuum. The single strategic objective for both Guatemala and the regional program reflects that fact. The regional program focuses on the challenge of region-wide environmental decline, and will increasingly seek to foster the unifying concept of a "biological corridor" through Central America.

We are using two indicators to measure progress toward accomplishment of the strategic objective: reduction of deforestation trends in selected areas, and maintenance of indicator species at viable population levels in selected sites. The process of identifying these sites is well underway with major attention placed on areas of biodiversity significance and areas of expulsion (or out-migration.)

Three program outputs contribute to the strategic objective: **people employing more sustainable land use practices; policy and market incentives for sustainable resource management and conservation of biodiversity; public and private institutions playing more effective and sustainable roles in support of natural resource management.**

Although the indicators focus most directly on nonhuman species and habitat, program outputs are all exclusively concerned with human practices, activities, and institutional performance. The rationale is simple: virtually all threats to environmental equilibrium are generated by our species; no other species is responsible for the environmental degradation the agency goal is concerned with addressing. The resolution therefore lies in modifying human behavior.

### **II. Strategic Objective Performance**

The RENARM "umbrella project" is the main vehicle for accomplishment of USAID's environmental strategic objective at the regional level. RENARM's major attention to the strengthening of local NGOs has created a far more participatory process for setting national agendas in those areas in which the project is active. Progress toward achievement of the SO is reflected in increasing support for the concept of a Central American "biological corridor" and the emergence of new organizations to foster its restoration. This concept helps guide site selection for utilization of SO indicators, and sustainability will depend on the application of appropriate natural resource management technologies in buffer zones and traditional areas of out-migration.

Attention to the plight of forest dwelling indigenous groups, truly the most invisible and forgotten of all groups in the region, has resulted in unprecedented recognition of the link between environmental preservation and acknowledgment and promotion of the rights of these historically abused and exploited peoples. Local control of resources and empowerment are guiding principles of RENARM activities in these areas.

The RENARM project was planned as a ten year project and was funded for six years. Now in year five, it is undergoing an evaluation which, along with future funding levels, will help determine the form and focus of follow-on activities in this area.

Progress toward achievement of program outputs includes:

#### People Employing More Sustainable Land Use Practices

- Thousands of farm families are planting, maintaining, harvesting, and marketing trees as a direct result of RENARM-supported agroforestry outreach programs. Benefits include reforestation, self-sufficiency in trees for fuel, poles, fences, furniture and additional employment and income as well as increased land value.
- Integrated Pest Management and pesticide management programs have reduced chemical contamination of the environment and of agricultural products as well as reduced pesticide related threats to human health throughout the region.
- Over 4,000 doctors, nurses and other health providers, trained in recognition and treatment of pesticide intoxication through the RENARM project, are providing improved health services and outreach. As a direct result, this activity has reduced the serious and widespread threat of pesticide intoxication to the health of the rural, predominantly poor population.
- Eight parks and reserves throughout Central America are operating under improved management systems, moving from "paper" park to real park status - i.e. marked boundaries, patrolling, control of access and extraction, environmental education programs, ecological monitoring, etc.

#### Public and Private Institutions Playing More Effective and Sustainable Roles in Support of Natural Resource Management

- The Central American Commission of Environment and Development (CCAD), created under the RENARM project and receiving less than \$100,000 per year in project funds, has now attracted \$6 million dollars of other donor support in furtherance of the goals of the CCAD as well as of the USAID E/NR Strategy for Central America.
- A Central America Protected Areas Council has been founded to establish and work toward the widespread implementation of regional park and reserve standards. National Eco-tourism Councils have been founded and sanctioned by three countries with the primary purpose of minimizing environmental damage of eco-tourism and to facilitating coordination of eco-tourism standards and practices among affected countries. Both organizations have governmental, non-governmental, and private sector membership. Given that tourism is arguably the major foreign exchange earner in the region now, sustainable management of the base of the growing eco-tourism industry is of significant environmental and economic importance.

- A Central America regional pesticide information bulletin and advisory service, established by RENARM and associated with the U.S. Environmental Protection Agency, now reaches hundreds of subscribers and operates on a largely self-supporting basis, providing the latest pesticide information in Spanish.
- Masters and B.S. level programs at CATIE and the PanAmerican Agriculture School (Zamorano) in natural resource management fields have been up-graded and become more environmentally-oriented. CATIE has expanded and diversified its financial base and the RENARM-supported Agroforestry program merged with the FINNIDA-supported program producing a jointly funded, CATIE-owned program, thus reducing the management burden and enhancing the efficiency of the overall operation.
- The RENARM-pioneered effort to focus attention on the important conceptual link between forest-dwelling indigenous groups and undisturbed forest areas paid off when the Nature Conservancy assumed funding responsibility for this program as RENARM funding came to an end. The Conservancy has garnered additional support for programmatic interventions in this area, which is a major departure for the Conservancy and for environmental NGOs in the region and one promising important impacts on environmental as well as social welfare concerns.
- A RENARM-funded Environmental Education M.S. degree program is now underway at the University of Idaho for fourteen young Central Americans, most of them women. The purpose of this program is to create a network of environmental educators in the region, a discipline now wholly absent, yet one critical to fostering the sorts of behavioral change crucial to the achievement of the Mission's S.O.

#### Policy and Market Incentives for Sustainable Resource Management and Conservation of Biodiversity

- The World Resources Institute is upgrading the institutional capabilities and policy analysis and formulation skills of the CONAMAs (national environmental councils) throughout the region, employing the RENARM generated policy "Green Book" as an analysis tool. The Green Book is also being employed to empower local NGOs in policy analysis and advocacy. The RENARM-funded Green Book and technical expertise have been employed in rapid analysis of proposed forestry legislation in Nicaragua, Guatemala, and El Salvador.
- The CCAD, in cooperation with the Meso American Biodiversity Legal Project and several NGOs, has guided the development of a model legal framework for a Central American biological corridor.
- The CCAD has guided and facilitated the signing by the Central American Presidents of a Regional Biodiversity Treaty.
- Massive programs in IPM and in agroforestry outreach are putting in place economic incentives to engage in more environmentally benign, natural resource based productive systems. For example, RENARM-funded research and outreach have resulted in a 20-30% reduction in pesticide costs for tomato production in Grecia, Costa Rica.

- New nature reserves have been established in Belize (over 310,000 acres). The Tawaka Sumo indigenous reserve, reflecting the interests of forest dwelling indigenous peoples and fulfilling environmental objectives, is now recognized in Honduras. The direct involvement of indigenous peoples in planning the future of the Talamanca corridor area of Costa Rica, official attention to the rights and aspirations of indigenous groups inhabiting the Bosawas reserve area of Nicaragua, and empowerment of indigenous peoples in La Amistad area of Costa Rica and Panama, demarcation of indigenous holdings in the Darien, and the establishment of the BioItza in Guatemala grew directly out of RENARM initiatives.

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G – CAP (596 Regional Program)</b>
Agency Goal: Protecting the Environment
USAID STRATEGIC OBJECTIVE No. 2: Environmentally Sound Natural Resource Management

<b>Program Outcome No. 2.1</b>	<b>Program Outcome No. 2.2</b>	<b>Program Outcome No. 2.3</b>
People Employing More Sustainable Land Use Practices	Policy/Market Incentives for Sustainable Resource Management and Conservation of Biodiversity	Public and Private Institutions Playing More Effective and Sustainable Roles in Support of Natural Resource Management

<b>Projects (Number/Title)</b>	<b>Projects (Number/Title)</b>	<b>Projects (Number/Title)</b>
596 – 0150 Regional Natural Resource Management	598 – 0780 Environment Support Project	596 – 0150 Regional Natural Resource Management
598 – 0780 Environment Support Project	936 – 5554 Biodiversity Support Project	596 – 0162 Regional Development Support
936 – 5554 Biodiversity Support Project		598 – 0780 Environment Support Project
		936 – 5554 Biodiversity Support Project

TABLE 2.2: STRATEGIC OBJECTIVE PERFORMANCE

Regional					
USAID STRATEGIC OBJECTIVE NO. 2 Environmentally Sound Natural Resource Management					
Indicator: Reduction of deforestation trends in selected areas					
Unit: Km <sup>2</sup> of forest land conserved (compared to trend)	Year	Planned	Actual		
Source: Satellite photos by RENARM-supported GIS service.	1992	1,000	---		
<p>Comments: RENARM supports a GIS service through CCAD, NASA, Universidad del Valle, and University of Florida (for the Region). Analysis will consist of year-to-year comparisons. Longitudinal trends are possible because satellite photos from the past can be bought.</p> <p>1/ At present reliable info is only available on the Maya Biosphere Reserve in Guatemala. The sample will be expanded to other critical areas of biodiversity in C.A. by next year.</p>	1993 <sup>1/</sup>	1,700	3,400		
	1994	2,400			
	1995	3,100			
	1996	4,000			
	1997	5,200			
	Target	1998	6,500		
Indicator: Maintenance of indicator species at viable population levels in selected sites					
Unit: Biodiversity index based on standard surveying methodology	Year	Planned	Actual		
Source: Data from RENARM implementers (TNC) and perhaps community surveys	1993	---	TBD		
<p>Comments: Analysis is year to year comparisons using standard surveying methodology. An index combining several species is being developed.</p>	1994	TBD			
	1995	TBD			
	1996	TBD			
	1997	TBD			
	Target	1997	TBD		

PROGRAM OUTPUT 2.1 People employing more sustainable land use practices				
Indicator: Percent of target population adopts more appropriate land use practices promoted through the program				
Unit: Net percent adoption	Year	Planned	Actual	
Source: Focused studies by implementers and/or MSI	1994	---		
Comments: During 1992 and 1993, the RENARM Project carried out focused studies on adoption rates in a specific watershed activity in Honduras. Adoption rates (based on different techniques surveyed) ranged from 14-37% in 1992 and 56-75% in 1993. Further impact studies are planned or underway. While previous studies give an indication of program impact, new targets will have to be established as the broader geographic focus of future studies is defined.	1995	TBD		
	1996	TBD		
	1997	TBD		
Target				
PROGRAM OUTPUT 2.2 Policy/market incentives for sustainable resource management and conservation of biodiversity				
Indicator: Policy regime reflects increased consideration for conservation of biodiversity				
Unit: "Yes" or "No" based on annual review of progress towards agenda.	Year	Planned	Actual	
Source: Yearly inventory by Policy Advisor/MSI	1992	---	No	No
Comments:	1993	No	No	No
	1994	TBD		
	1995	TBD		
	1996	TBD		
Target				
	1997	Yes		

**PROGRAM OUTPUT 2.3 Public and private institutions playing more effective and sustainable roles in support of natural resource management**

Indicator: Selected institutions have increased income from non-AID sources						
Unit: Absolute non-AID income		Year	Planned	Actual		
Source: Yearly inventory of CATIE, CCAD, Zamorano	Baseline	1991	---	\$15,951,521		
Comments: An institution's ability to attract funds from other sources indicates not only financial sustainability, but also may be an indirect measure of effectiveness. Ability to raise funds especially fee-for-service, is evidence that the institution is valued by clients and donors other than AID. effectiveness.		1992	N/A	\$16,735,655		
		1993	N/A	\$17,445,191		
		1994	\$18,062,410			
		1995	TBD			
		1996	TBD			
	Target	1997	TBD			

## **B.2.C. BUILDING DEMOCRACY MISSION STRATEGIC OBJECTIVE: MORE EFFECTIVE AND DEMOCRATIC LOCAL GOVERNANCE**

### **I. Mission Strategic Framework and Linkage between the S.O. and the Agency Goals**

The Mission's strategic objective of **More Effective and Democratic Local Governance** contributes to the Agency goal of **Building Democracy** by empowering citizens to actively participate in the development and consolidation of a responsive civil society. When citizens can effectively participate in the identification of needs and a democratically-elected local government can provide sustained delivery of basic social services in a transparent and efficient manner, the foundation for a strong democracy exists. We will measure progress toward achievement of the strategic objective in the degree of citizen participation in the local decision making process and the degree of empowerment given to local authorities to be more responsive to their citizens' basic needs. This requires a process of real decentralization.

The program outputs contributing to the strategic objective are: **improved regional organization for municipal development; increased financial independence of municipalities; and greater authority in the responsive delivery of public services.** Four USAID Missions (Honduras, El Salvador, Nicaragua and Panama) have, or are about to have, bilateral municipal development projects seeking the same or similar goals. Since the LOGROS project has worked closely with these Missions, the attainment of the strategic objective must be seen as the outcome of all the efforts within the sector.

During the Action Plan period, our strategy aims at consolidating the regional municipal support system to effectively promote decentralization legislation. Complementary assistance by LOGROS to the primary efforts of the bilateral municipal development projects will be key to the strategy's success and, the incorporation of Panama into the regional democracy initiatives will expand the area of influence and impact of the strategic objective.

### **II. Strategic Objective Performance**

In the second year of program implementation, the process of empowerment of local governments has taken on region-wide significance as witnessed by the growing influence of the Central American Municipal Federation (FEMICA) and the resurgence of the national municipal associations in each country. As a result, specific strategies to decentralize and to empower local governments with the transfer of authorities are now beginning to be placed on the national agendas of many Central American countries. Simultaneously, citizen participation at the local level is increasing throughout the region with the direct election of mayors. The LOGROS project, which has a grant element and a capital component for a municipal infrastructure program, is the primary vehicle for achieving this strategic objective. This project is becoming a moving force in an incipient decentralization trend in the region. The demand-driven nature and network structured concept of LOGROS is allowing us and our counterpart organizations to be responsive and "in the right place at the right time" to address political, technical and financial opportunities as they arise. Participation in the process is gradually being expanded to incorporate other sectors including political parties, legislators, NGOs, private sector and central government agencies.

Highlights of progress at the program output level include:

#### Improved Regional Organization for Municipal Development

- FEMICA, the regional advocate for Central American municipalities, has actively promoted and lobbied for important decentralization and local government issues at national and regional fora. FEMICA has become a member of the Consultative Directorate of the Central American Integration System (SICA), which endorsed its program and policy initiatives for decentralization. This ensures a voice for local government interests at the principal forum of regional integration.
- With our assistance, municipal associations throughout the region are being strengthened, which will assure increased access and participation on the part of citizens. Small and medium municipalities are becoming more active and their interests represented in national municipal associations which were previously dominated by the large, more powerful municipalities. LOGROS, at the invitation of the bilateral missions, has provided policy input to the National Decentralization Commissions in Nicaragua and El Salvador. Preliminary discussions have begun to incorporate Panama into LOGROS.

#### Increased Financial Independence of Municipalities

- A capital investment component was added to LOGROS in August of 1993 through authorization of a \$20 million Housing Guaranty (HG) loan to the Central American Bank for Economic Integration (CABEI). This new component to LOGROS will offer an independent source of financing for municipal projects, thus strengthening the ability of municipalities to be more responsive in the delivery of basic services. It will also incorporate the participation of private sector lenders with the hopes of creating a sustainable credit market for municipal infrastructure investments.
- With support from LOGROS and bilateral missions, movements being promoted by the national municipal associations of Guatemala, El Salvador and Costa Rica are gaining momentum to transfer the property tax from central government to local control. With their own tax base, municipalities in these countries will have discretionary resources to mobilize citizens to participate in the selection of priority community services, which are not being provided by the central governments.

#### Greater Municipal Authority in the Responsive Delivery of Public Services

- The LOGROS project, in cooperation with the bilateral Missions, has provided technical assistance to implement two problem-solving exercises in the devolution of authorities to local governments. In El Salvador, centralized water services are being devolved to six municipalities. In Nicaragua, the transfer of central government control over primary and secondary education to three medium-sized municipalities is taking place. Active citizen participation in decision-making regarding the management and sustainability of these services at the local level is built into the activities.

**Table 1: Strategic Objective Program "Tree"**

<b>USAID/G-CAP (596 Regional Program)</b>		
Agency Goal: Building Democracy		
USAID STRATEGIC OBJECTIVE No. 3: More Effective and Democratic Local Governance		

Program Outcome No. 3.1	Program Outcome No. 3.2	Program Outcome No. 3.3
Improved Regional Organization for Municipal Development	Increased Financial Independence of Municipalities	Greater Municipal Authority in the Responsive Delivery of Public Services

Projects (Number>Title)	Projects (Number>Title)	Projects (Number>Title)
596-0162 Regional Develop. Support	596-0167 LOGROS	596-0167 LOGROS
596-0167 LOGROS	596-HG-006 CA Shelter & Urban Development	596-HG-006 CA Shelter & Urban Development
	596-HG-010 LOGROS (Supplement)	596-HG-010 LOGROS (Supplement)
		Bilateral Municipal Development Projects

TABLE 2.3: STRATEGIC OBJECTIVE PERFORMANCE

Regional						
USAID STRATEGIC OBJECTIVE NO. 3 More Effective and Democratic Local Governance						
Indicator: Empowerment of local governments to be more responsive to their citizens						
Unit: Cumulative number of countries with local governments empowered	Source: Professional knowledge with input from FEMICA	Year	Planned	Actual		
		1992	---	0		
<p>Comments: We will analyze decentralization legislation as it relates to the devolution of political, fiscal and administrative authorities to municipalities. Based on professional judgement and analysis we will determine (jointly with FEMICA) when sufficient progress has been made to state that decentralization legislation in a specific country is beginning to have a positive impact on the empowerment and autonomy of local governments.</p> <p>1996--Guatemala and Honduras            1997--El Salvador            1998--Nicaragua and Costa Rica            (Panama is pending)</p>		1993	0	0		
		1994	0			
		1995	0			
		1996	2			
		1997	3			
	Target	1998	5			
Indicator: Citizen participation increased in the local decision making process						
Unit: Percentage of citizens in region participating	Source: CID/GALLUP Opinion Polls and analyses from FEMICA	Year	Planned	Actual		
<p>Comments: An omnibus poll will be conducted annually from 1994 through 1999. FEMICA will commission these polls and report to USAID on an annual basis including interpretative analysis by country and the region as a whole.</p> <p>The baseline will be established in September, 1994.</p>		1994				
		1995				
		1996				
		1997				
		1998				
	Target	1997				

PROGRAM OUTPUT 3.1: Improved Regional Organization for Municipal Development					
Indicator: Adoption of a policy/program for municipal development and decentralization by regional network members.					
Unit: Cumulative number of regional and national organizations adopting policy/program or action plans that support and promote decentralization and the empowerment and autonomy of local governments.	Year	Planned	Actual		
Source: FEMICA records and reports	1992	0	0		
Comments: Target organizations: Presidential Summit; SICA; PARLACEN; SIECA; CABEI; FEDEPRICAP; and the municipal associations in Guatemala (ANAM); El Salvador (COMURES); Honduras (AMHON); Nicaragua (AMUNIC); and Costa Rica (UNGL).  * PARLACEN and AMHON.	1993	2	2*		
	1994	5			
	1995	7			
	1996	10			
	1997	11			
	Baseline	0			
	Target				
PROGRAM OUTPUT 3.2: Financial Independence of Municipalities					
Indicator: Increased Municipal Revenue					
Unit: Average ratio of municipal revenue to total public revenue	Year	Planned	Actual		
Source: Official statistics	1992	---	TBD		
Comments: Through this indicator, we will be measuring municipalities' revenues against total public revenues. Municipal revenue includes locally generated revenues and financial resources transferred from the central government. Total public revenue is comprised of the current revenues of the central government and the current municipal revenue. The reported indicator is a weighted average ratio for the five countries of the region. SIECA report will provide this information.  The baseline will be established in July, 1994.	1993	TBD			
	1994	TBD			
	1995	TBD			
	1996	TBD			
	1997	TBD			
	Baseline				
	Target				

Indicator: Authority to collect property tax or equivalent					
Unit: Cumulative No. of countries with authority to collect property tax or equivalent					
	Year	Planned	Actual		
Source: Legislation	1992	---	1	Baseline	
Comments: Municipalities being permitted to collect property tax or equivalent is considered a big step toward their financial independence. Since 1992, only Honduran municipalities have this right in the Central American region. By 1995, the rest of the countries in the region will have passed legislation allowing municipalities to collect property tax.  1992--Honduras 1993--Nicaragua 1994--Guatemala and El Salvador 1995--Costa Rica (Panama pending.)	1993	2	2		
	1994	4			
	1995	5		Target	

Indicator: Authority to establish and execute local user fees, rates, and budgets				
Unit: Cumulative number of countries	Year	Planned	Actual	
Source: Legislation	1992	---	2	
<p>Comments: Among the principal causes that affect local governments' provision of public services is that fees for those services are fixed and imposed by entities other than those that provide the services. This happens also with municipal tax rates and even with municipal budgets. In 1992, only Honduras and Guatemalan municipalities were permitted to establish and execute local user fees and budgets. By 1997, legislation will have been passed devolving this right to municipalities in the rest of Central American countries.</p> <p>1992--Guatemala and Honduras  1993--El Salvador  1995--Costa Rica  1997--Nicaragua  (Panama pending.)</p>	1993	3	3	
	1994	3		
	1995	4		
	1996	4		
	1997	5		
	Target			

Indicator: Sustainable access by municipalities to public and private financing				
Unit: Number of municipal projects financed by CABEI	Year	Planned	Actual	
Source: CABEI records and reports	1993	---	0	
<p>Comments: A HG program will be implemented by 1994 to finance municipal infrastructure projects. Seventy projects are planned to be funded over a period of four years (1994 - 1997). Sustainability will be assured by use of financial inflows to generate 20 more loans for 1998 and 1999.</p>	1994	10		
	1995	25		
	1996	25		
	1997	10		
	1998	20		
	1999	20		
	Target			

PROGRAM OUTPUT 3.3: Greater municipal authority in the responsive delivery of public services					
Indicator: Basic public services under authority of municipalities					
Unit: Cumulative number of countries with at least four out of five public services devolved to local governments		Year	Planned	Actual	
Source: FEMICA and Municipal Associations	Baseline	1993	---	0	
Comments: The target services are: water; education; health; drainage systems; and natural resources administration.  1995--Nicaragua 1996--El Salvador 1997--Guatemala and Honduras 1998--Costa Rica		1994	0		
		1995	1		
		1996	2		
		1997	4		
	Target	1998	5		

## **B.2.D. STABILIZING POPULATION GROWTH AND PROTECTING HUMAN HEALTH: WINDOWS OF OPPORTUNITY**

The Mission has examined the feasibility of addressing the Agency's strategic goals of stabilizing population growth and protecting human health on a regional basis. Based on current staffing and budget levels for the regional program, the Mission is currently able to focus intensive efforts only in three rather than four strategic areas. Therefore, in the population and health sectors, we will adopt a "targets of opportunity" and facilitative approach rather than develop a full strategic framework with objective(s), program outputs and indicators. The one remaining health project in the regional portfolio is the institutional strengthening project at INCAP (The Central American Institute for Nutrition). This project's PACD is December of 1995, more than twenty years after USAID began to work with this institution in the fields of nutrition and a variety of other health interventions. Current project activities are oriented toward creating a sustainable institution, emphasizing country contributions, cost recovery, and fee-for-services so that INCAP will no longer be dependent on USAID resources for its basic operational support.

Health ministries in the region generally perceive health and family planning programs as matters of national responsibility, requiring national and local service delivery capacity. Missions of the region have established strong relationships with Ministries of Health in each of the countries and have assisted them to establish programs to deal with issues like child survival and reproductive health. Nevertheless, there are areas of policy, and in some cases, cross-border health issues (eg. like cholera and AIDS) where there is potential for expanded regional coordination.

There may be possible windows of opportunity for low cost, facilitative actions by USAID/G/CAP for regional activities which could address problems that span the isthmus, especially when there are appropriate institutions capable of receiving and acting with such support. The following are examples of current regional efforts in this sector:

- LAC's Accelerated Immunization Project with PAHO concentrates on issues of common interest such as elimination of polio and measles and trans-border transmission of diseases.
- INCAP has developed a curriculum for training of health workers in prevention and treatment of cholera. This curriculum is designed to be administered by mail. INCAP's "distance education" model was developed through a LAC regional buy-in to an Office of Health project and is available for use in any of the countries of the region.
- Through the Regional Natural Resources Management Project (RENARM), the mission is funding a program at INCAP for the detection and treatment of pesticide intoxication in which over 4,000 medical workers and doctors from across Central America are being trained.
- The Central American Regional Water and Sanitation Network (RRAS-CA) is administered by the UNDP/World Bank water and sanitation program. A regional coordinator located in Guatemala has facilitated regional planning efforts and generated regional resource inventories. The USAID/W WASH project has provided assistance to this effort.

- A variety of centrally-funded activities are being implemented regionally by INCAP, including the SUSTAIN project.

LAC/DR has prepared a NAD for a regional program to reduce HIV/AIDS. The project will address multi-country, cross-border HIV/AIDS transmission issues. It will selectively reinforce country activities with regional significance and promote coordination and collaboration among countries throughout the LAC region and particularly in subregions such as Central America. Resources will initially be focused on Central America. An important issue in the NAD is whether the project would be designed and managed by USAID/W or USAID/G-CAP. If provided the necessary technical staff and financial resources, the Mission could provide important coordination services in this activity.

## "OTHER" PROJECTS

Below is a list of all active projects under both the bilateral and regional portfolios that do not now directly support any Mission Strategic Objective (SO). On the bilateral side, it should be noted that nine "other" projects have been terminated since the Mission first developed its SO framework for the Action Plan submitted to LAC in the beginning of FY 1992. The Special Development Fund (SDF) represents a special case among the "other" projects that are still active. On an annual basis through SDF, the Mission finances approximately \$200,000 worth of community-based, small infrastructure activities which support U.S. Government policy interests in Guatemala and relate directly to the Mission's Health, Education and Democracy Objectives. Therefore, this Project will continue as long as funding is available, and, indeed, could increase in size as part of a post-peace accord program, depending (again) on available resources. The remaining five "other" projects represent valuable development interventions which are in their final stages of implementation and will leave behind independent, sustainable mechanisms/organizations (e.g., Cooperative Strengthening), have supported investments designed to benefit the rural poor (e.g., Farm-to-Market Access Roads, Rural Electrification, Pilot Commercial Land Markets), or have provided training related to several of the Mission's SOs (Development Training and Support). These projects were initiated in the 1980's when Mission funding levels were significantly higher than they are today. Over the last two years, the phasing-out of these projects has proceeded in a fashion that has steadily reduced USAID's involvement (note that deobligations far exceed obligations over the last two years), while safeguarding USAID's investment by ensuring long-term impact. All but the Roads and Rural Electrification Projects will be closed-out by the end of FY 1994.

Recent funding of the active "other" projects in the regional portfolio have generally responded to formal earmarks and USAID directives (C.A. Rural Electrification Support, INCAP Institutional Strengthening). As in the case of the bilateral portfolio, no new funding of "other" projects is anticipated.

<u>BILATERAL PROJ./NUMBER</u>	<u>PACD</u>	<u>OBL. SINCE FY92</u>	<u>REAL MORTGAGE*</u>
Spec Dev Fund/0145	N/A	\$ 444,000	\$200,000/yr
Coop Strength/0286	8/94	(\$ 436,000)**	None planned
Roads/0332	3/95	(\$5,648,000)**	None planned
Land Mrkts/0343	8/94	None	None planned
Rural Elec/0353	8/95	\$1,200,000	None planned
Dev Trng/0384	1/95	None	None Planned

<u>REGIONAL PROJ./NUMBER</u>	<u>PACD</u>	<u>OBL. SINCE FY92</u>	<u>REAL MORTGAGE*</u>
Rural Elec/0116	3/95	\$1,500,000	None planned
INCAP/0169	6/95	\$2,804,000	None planned

\* While Mission financial data shows that some of these projects have mortgages (often as a result of deobligations), this column reflects actual funding plans.

\*\* Negative figures reflect deobligations.

**FY 95-96 Action Plan**

***C. Portfolio Analysis***

**USAID/Guatemala - Central American Programs  
(USAID/G - CAP)**

### C. PORTFOLIO ANALYSIS

Based on the approval of NADs included in this Action Plan, the Mission proposes to proceed with the design of one new start and one amendment under its bilateral portfolio in FY 1995. The new start, Support to Communities at Risk, is contingent upon a negotiated settlement to end the more than thirty-year long civil conflict that has exacerbated the living conditions of Guatemala's rural poor. The Communities at Risk project will utilize NGOs now active (or which can mobilize quickly) in the conflictive areas to meet near term needs. The planned amendment to the Immunization and Child Survival Project will allow the Mission to continue to finance basic, preventive health services, including maternal survival initiatives, for an additional 12-16 months. This will allow for the design of a comprehensive child survival/family planning project which would begin at the time the Mission's Family Health Services Project ends (August 1996.) In addition, the NADs for two FY 94 Amendments have been approved by LAC and are under design: Maya Biosphere Reserve--Policy Component, and Democratic Institutions--Civic Education Component. Factoring in all these additions/extensions to the bilateral portfolio, the Mission will still steadily reduce the number of active projects and focus its efforts in areas which are consistent with Agency strategies; the needs of Guatemala's poorest, most underserved sectors; and the potential for greatest impact of USAID resources.

In relation to its regional portfolio, this Action Plan proposes one new FY 95 start, the Regional Trade Policy and Economic Integration Project. Through this initiative, the Mission will increase regional preparedness to enter into free trade agreements and stimulate economic integration, thereby promoting accelerated, broad-based, sustainable growth. Design of this project will be coordinated closely with the bilateral missions to identify interventions that, implemented on a regional basis, will best respond to the USG goal of establishing a Western Hemisphere Free Trade Area. In addition, the evaluation of Phase I of the Regional Natural Resources Management (RENARM) Project is just wrapping up. This is the first step in what will be a collaborative effort with the bilateral missions to identify the successes and shortcomings of RENARM to date, and design follow-on activities that reflect both the realities of environmental degradation throughout Central America and current funding availability, while ensuring that activities undertaken are characterized by the real comparative advantages of regional approaches. The Mission intends to submit a NAD for LAC approval as soon as the RENARM evaluation process is completed (late FY 1994), and design/authorize Phase II in FY 1995. Both of these FY 95 starts will respond to the needs identified in consultation with the Central Americans regarding the ASD. As with the bilateral portfolio, the Mission expects to continue the process of focusing and concentrating regional resources through this Action Plan period.

## NEW ACTIVITY DESCRIPTION

(New Start)

### **1. Basic Data**

- |                          |                                |
|--------------------------|--------------------------------|
| a) Project Title:        | Support to Communities at Risk |
| b) Project Number:       | 520-0413                       |
| c) Funding Source:       | DA/ESF                         |
| d) Duration:             | FY 1995-FY 1998                |
| e) Proposed LOA Funding: | \$6,500,000                    |

### **2. Strategic Fit with Agency/Bureau Goal**

This Project will address obstacles to development in areas that are historically underserved by governmental and non-governmental organizations, especially those communities in formerly conflictive zones. It should be noted that, while Guatemala ranks 113th among the 175 countries listed on the U.N.'s "Human Development Index," indicators in a representative area that would be targeted under this Project (the Ixil Triangle) would place that region around 150th on the list. Selection criteria for specific activities will emphasize participation, local partnerships and integrated approaches to addressing obstacles to economic growth, civic development, healthier families and rational management of natural resources in selected communities. Therefore, while this Project is seen as a short-term, geographically focused, immediate impact initiative, it will be consistent with the Agency's strategic priorities and preferred approaches.

### **3. Consistency with Mission Strategy**

- a) **The Project's Goal** is to improve the living conditions of the rural populations (especially Mayans) most affected by civil violence and extreme poverty. As this Project would be a direct response to a negotiated settlement between the Guatemalan rebels (the URNG) and the GOG, it is considered a "target of opportunity" that will relate to several Mission Strategic Objectives. However, since the Project will be designed primarily to respond to the short-term basic needs of resettlement communities or those communities previously inaccessible to USAID assistance due to security concerns, it will be difficult to link its impact to the 5-8 year timeframe for the Mission's Strategic Objectives. Notwithstanding, the political imperative of supporting the peace process and the need to provide bridge support between the signing of an accord and the expansion of normal government and non-governmental services to the Project's target areas will make this initiative crucial to U.S. foreign policy and humanitarian interests in Guatemala.
- b) **The Project's Purpose** is to provide basic services to poor Guatemalans in selected previously conflictive areas.
- c) **Activity Description:** Funding will be provided to local PVOs and community groups through an umbrella grant (and possibly direct grants to larger NGOs) to address the most critical problems faced by individuals in areas that have been devoid of most basic services during more than thirty years of civil conflict. The GOG's Secretariat General for Economic Planning has begun efforts to focus GOG and donor resources in

Guatemala's poorest regions (generally the same as those most affected by civil violence). Based at least in part on these efforts, target populations for this Project will be identified in consultation with Guatemalan and international organizations. While it is expected that basic services eventually will be delivered even in these areas through conventional mechanisms (including the possibility of support through on-going USAID projects with the Ministries of Health, Education, Public Works, Energy and Mines), this expansion will take time. However, local and international NGOs will be in a better position (both because of mobilization capacity and acceptance in the communities) to assess needs quickly and develop appropriate local responses in the wake of a peace accord. The umbrella mechanism would permit a wide range of organizations access to USAID resources within the criteria established during project design.

It is expected that the primary geographic focus of the Project will be Baja Verapaz, Alta Verapaz, Quiché, Huehuetenango and San Marcos, with more specific targeting to ensure impact on the neediest populations. Interventions financed might include: health education, especially related to water systems initiatives financed by any of the social investment funds now established in Guatemala; child survival and family health activities; small community-level infrastructure projects; local credit funds and technical assistance related to agricultural production; poverty lending for income generating activities; and environmental planning and management. These activities could be complemented by expanded Title II food aid assistance (including initiatives financed through monetization) to the targeted geographic areas.

- d) **Impact on Poverty Alleviation:** While the Project is not so ambitious as to claim an impact on the root causes of poverty in Guatemala, the targeting of resources will, at least in the short-term, increase the earning potential and quality of life in targeted communities. Through coordination with the Mission's systemic interventions and other donors, it is expected that this Project will form a bridge to broader sustainable development efforts, and establish models to reduce the transaction costs of such initiatives.
- e) **Dialogue Agenda:** Given a peace accord, it is not expected that any major policy obstacles to the implementation of this Project will exist. The Mission will, however, work with the Embassy to encourage the GOG to facilitate NGO operations throughout the country once the security situation permits. The Mission will also discuss modifications of the GOG-financed Regional Development Councils that would allow them to manage rotating credit funds that could support the objectives of this project.
- f) **Donor Coordination:** Already, many donors have expressed their support for the various peace/social investment funds that have been established in Guatemala. It is expected that this interest would increase in the wake of a peace settlement. However, quick response is unlikely through most of these mechanisms. The Mission will work closely with the U.N. and other bilateral donors in the design of this Project so as to ensure its complementarity with their broader, longer-term initiatives.

#### 4. Policy and Design Issues

- a) **Sustainability:** This Project is not specifically designed to leave behind on-going long-term activities, though in some cases (e.g., local credit funds) this will probably occur. However, the strengthening of community-level capacity will assist populations to develop and manage sustainable economic opportunities and social interventions in the absence of USAID funding. The groundwork laid by the rapid response activities financed through this Project will also help ensure the sustainability of initiatives financed by the GOG and other donors, and will facilitate the expansion of on-going USAID projects into the target communities.
- b) **Potential Issues:** 1) Will special resources be made available in the wake of a peace accord or will current planning levels (ESF and DA) be maintained in order to finance this Project? 2) Will the grantee/contractor charged with management of the umbrella mechanism be able to coordinate activities in a way to maximize integration and impact? 3) From the Washington perspective, are there any policy priorities (relative to types of interventions, implementing agencies or geographic focus) that the Mission should incorporate into selection criteria.
- c) **Global Bureau/LAC Regional Linkages:** To our knowledge, no USAID/W-funded projects are active in the areas that would be the target of this Project. However, several such projects (especially those related to micro-enterprises, poverty lending, agricultural production and health) might shift their current geographic focus after a peace accord. As the design of this Project is finalized, the Mission will share its selection criteria (both technical and geographic) with USAID/W offices managing activities in Guatemala in order to encourage their support.
- d) **Management Requirements:** The project will be managed through an umbrella grant to include an SDF-like mechanism as well as PVO sub-grants. Since the project potentially spans several different strategic objectives, a determination on which office in USAID/G-CAP will manage the project and how technical interventions will be coordinated, will be made after the NAD review.
- e) **Timetable/Resources:**

<u>Illustrative Amendment Budget (\$000s)</u>	<u>Obligation Plan</u>	
<u>Category</u>	<u>Amount</u>	
Sub-grants	4,000	FY 1995 2,000
Technical Assistance	500	FY 1996 <u>4,235</u>
Training	1,000	TOTAL 6,500
Administration	<u>1,000</u>	
TOTAL	6,500	

- f) **Recommendation:** While start-up of this Project is contingent on a peace accord, we recommend that LAC approve the concept of establishing rapid response mechanisms to work through PVOs and community groups to provide basic services for populations in

the areas of Guatemala most affected by more than 30 years of civil violence as outlined in this NAD. Based on this conceptual approval, the Mission will undertake the analysis needed to quickly authorize a Project in the event of a peace accord. The Mission expects to be in close contact with the Embassy and Washington as this process unfolds.

**NEW ACTIVITY DESCRIPTION**  
**(Amendment)**

**1. Basic Data**

a) Project Title:	Immunization and Oral Rehydration Therapy Services for Child Survival
b) Project Number:	520-0339
c) Funding Source:	DA
d) Duration:	FY 1997 (16 months beyond current PACD)
e) Proposed LOA Funding:	Current LOA           \$19,408,000
	Proposed Increase   \$ 2,400,000
	New LOA               \$21,808,000

**2. Strategic Fit with Agency/Bureau Goals**

This Project addresses the severe health problems of the Guatemalan population by supporting the Ministry of Health (MOH) in its efforts to lower infant and child mortality rates. As such, the Project is consistent with the Agency's priority of improving the general health of infants and children in countries where health conditions impede sustainable development. The Mission has been active in the area of child survival since 1985, with the overall goal of reducing infant mortality through the promotion of selected high impact child health interventions. USAID is the largest contributor of technical assistance to the MOH for expanded program of immunizations (EPI), control of diarrheal disease (CDD), and acute respiratory infections (ARI). This last amendment to the Project (to be authorized in FY 1995) will allow the Mission to consolidate ten years' of institution building efforts of the national health system (particularly strengthening local service delivery capacity) as design work is completed to integrate child survival and reproductive health activities (specifically targeting rural Mayans) into a new flagship project under the Smaller, Healthier Families strategic objective.

**3. Consistency with Mission Strategy**

- a) The **Project's Goal** is to continue and sustain morbidity and mortality reductions throughout Guatemala caused by the common early childhood diseases.
- b) The **Project's Purpose** is to increase the MOH's capacity, especially at the health area level, to manage and deliver child survival services (immunizations, CDD and control of ARI). With this amendment, immunization coverage targets will be raised from 70% to 80% for children between 12 and 23 months for DPT, polio, and measles vaccinations. In addition, the Project will set targets for reducing the incidence of neonatal tetanus. Project targets in the areas of CDD and ARI are 60% coverage with oral rehydration therapy (ORT) and 80% appropriate pneumonia case management, respectively.
- c) **Activity Description:** With this Amendment, the Project will focus on three components during its last year of implementation. It is expected that these components will feed directly into a late-FY 1996/early FY 1997 new start that will combine child survival and

reproductive health initiatives. (The Mission's Family Health Services Project ends in August 1996.) The tree components are:

i) **Improved Local Management Systems**: The MOH is designing a new service delivery model that focuses on greater delegation of authority to the health area level including operational planning and resource allocation/execution. The USAID Child Survival Project supports this process of decentralization by strengthening selected administrative systems (inventories, maintenance, personnel, cold chain, transportation, budget planning) and enhancing managerial capabilities, as well as by improving the quality and use of the health information system. By the current PACD in August 1995, the Project will have finished the design and installation of the administrative and health information systems in the country's 24 health areas. In addition, the health areas will have one year of experience using the systems through a process of on-the-job training. Under the amendment, the Project will monitor the performance of the systems established and the ability of key personnel to use them adequately. Additional training and/or adjustments to the systems will be possible, allowing the Project to consolidate and further institutionalize the gains made in decentralization and improved management capability.

ii) **Integrated Service Delivery**: The Project also supports the delivery of three key child survival interventions: expanded program for immunizations (EPI), control of diarrheal diseases (CDD) and control of acute respiratory infections (ARI). At the central level of the MOH, these three programs are vertically managed. Although service delivery is supposedly integrated at the local level (health centers, posts and promoters), in reality health centers and posts struggle to design coherent, integrated service delivery approaches. Under the amendment, the Project will work with the lower levels of the health system to improve integrated service delivery in such areas as training and supervision of personnel, logistics, health education/promotion activities, and monitoring and evaluation. In addition, the Project will identify health areas and/or districts whose key coverage indicators are below the target (e.g., 80% immunization coverage or 60% ORT use) and devise locally appropriate strategies to improve service delivery to these underserved, high risk populations. Based on available data, the majority of these underserved groups are located in rural, indigenous areas; therefore, special attention will be given to identifying and reducing institutional and cultural barriers to effective service delivery.

iii) **Maternal and Neonatal Mortality**: The maternal mortality rate in Guatemala is estimated at 248/100,000 live births, reaching over 400 in some departments. Neonatal mortality comprises over half of the infant mortality rate. Recently USAID led a multi-donor initiative to support the MOH and NGOs to reduce maternal and neonatal mortality. Interventions will focus on improved management of high risk births in hospitals and health centers, and improving community based obstetric and neonatal care through training of traditional birth attendants (TBA's). With the addition of \$1.1 M in POP funds, interventions will focus on the three principal causes of maternal mortality: hemorrhage, sepsis, and eclampsia as well as the principal causes of neonatal mortality: sepsis, asphyxia and low birth weight. The project activities will be a replication of a successful pilot program in Quetzaltenango where neonatal mortality in the hospital dropped from 38 to 32 in 3 years.

- d) **Impact on Poverty Alleviation:** Health problems in Guatemala are among the most severe in Latin America. High infant and maternal mortality rates result from poor sanitary conditions, widespread malnutrition, a chronically under-funded and inefficient public health system, and low access to and use of modern health services. All the child survival interventions to be implemented through this Project as well as the strengthening of the MOH capacity to manage its scarce resources will significantly contribute to improved health conditions of the poorest Guatemalans, especially infants and young children living in rural areas.
- e) **Donor Coordination:** Other donors, especially the Pan American Health Organization (PAHO) and UNICEF are active in the areas of EPI, CDD/ORT and ARI. USAID uses the interagency MCH Committee, chaired by the MOH, as the principle mechanism for coordination of donor assistance and transfer of USAID experience and lessons learned. Especially in the areas of health information systems and ARI standard case management, USAID, PAHO and UNICEF are not only coordinating their activities, but also integrating technical assistance in a coherent program in which each donor is assuming specific responsibilities. The Mission is also working closely with the World Bank and the Inter-American Development Bank as they design a large health sector reform program based on policy benchmarks relating to increased GOG budget support for health care, decentralization and support of the MOH's new service delivery model. This program will build on USAID's initial successes in promoting decentralization and strengthened management.

#### 4. Policy and Design Issues

- a) **Sustainability:** This Project has made considerable gains in supporting the GOG/MOH to develop and implement sustainable approaches for service delivery. For example, the MOH has gradually assumed responsibility for various recurrent costs including salaries, maintenance of refrigerators and vehicles, purchase of vaccines and ORS, and per diem, among others. Although the MOH now includes all of these items in its annual budget, low budget execution remains a serious problem because of cash flow problems and a cumbersome and inefficient GOG procurement system. Furthermore, overall GOG support for the health sector remains unacceptably low. USAID will work with the multilateral banks to address budget execution problems through decentralization and strengthened managerial capability, and to increase overall GOG support to the health sector. The Project has also worked with the University of San Carlos to develop a sustainable ORS production facility in Guatemala.
- b) **Potential Issues:** i) The ten-year PACD of the Child Survival Project is August 31, 1995. This amendment will require delegation of authority to the Mission Director to approve a PACD extension to December 31, 1996. ii) Since neonatal mortality comprises over 50% of infant mortality, the Mission is committed to adding this project component. However, based on experience in Guatemala and elsewhere, the most effective approach to reducing neonatal mortality is an integrated one which also includes maternal mortality. Are there any limitations to using POP/reproductive funds for integrated neonatal/maternal health activities?

- c) **Global Bureau/LAC Regional Linkages:** As part of the current Project, the Mission has executed a small buy-in to the Global Bureau's BASICS Project. The Mission would execute a follow-on buy-in to BASICS for technical assistance in the area of integrated service delivery. The Mission also has a buy-in to the G/RD/Health Mother Care Project for assistance with effort to reduce maternal and neonatal mortality.
- d) **Management Requirements:** The Office of Health and Education will continue to manage this Project under current staffing patterns. The Mission plans to implement the activities through an extension to the current institutional contract.
- e) **Timetable/Resources:**

NAD submitted to LAC	May 1994
PP Amendment Authorized	Dec. 1995
Obligation to MOH/BASICS buy-in	Feb. 1995

<b>Illustrative Amendment Budget (\$000s)</b>	<b>Obligation Plan</b>
<u>Category</u>	<u>Amount</u>
Technical Assistance (contract)	2,100
Buy-in (BASICS)	<u>300</u>
TOTAL	2,400

It is expected that all obligations will be incurred in FY 1995.

- f) **Recommendation:** Based on the fact that this amendment represents an extension to the on-going Project and is consistent with Mission/Agency strategies and U.S. priorities in Guatemala, it is recommended that LAC approve this NAD. Since this amendment would entail an extension to the PACD beyond the Mission Director's 10-year authority, it is recommended that, as part of the Action Plan approval, LAC delegate authority to the field to approve the PACD extension.

## NEW ACTIVITY DESCRIPTION

(New Start)

### **1. Basic Data**

- |                             |  |
|-----------------------------|--|
| a) Project Title:           | Regional Trade Policy and Economic Integration Project |
| b) Project Number:          | 596-0178   |
| c) Funding Source:          | Development Assistance                                 |
| d) Duration:                | FY 1995-FY 1999  |
| e) Proposed LOA<br>Funding: | \$5,245,000  |

### **2. Strategic Fit with Agency/Bureau Goal**

Consistent with the Agency's strategy for broad-based economic growth, project activities will address Central American policy and regulatory impediments to development of regional markets and exports, including interventions designed to improve the enabling environment of policies, regulations and laws that affect commerce. Improving the enabling environment for commerce across the region through policy harmonization, liberalization and effective implementation will help prepare the region for eventual negotiation of a free trade agreement with the United States, in keeping with the stated U.S. goal of creating a Western Hemisphere Free Trade Area and with the trade agreement process started by NAFTA. In addition to supporting policy reforms to open markets and providing the framework for expanded export development, the project will also address key constraints to NAFTA accession (or similar arrangement), including the adequate protection of workers's rights and environmental standards. This project will be designed to support the broad-based economic growth objectives of the Central American Alliance for Sustainable Development which is currently being developed by the Central Americans and the United States Government.

### **3. Consistency with Mission Strategy**

- a) The **project goal** is to increase Central American participation in the hemispheric economy to lead to greater and sustained regional economic growth. The Mission's strategic objective and the project goal are identical. The Mission is still refining the strategic objective, but is considering using the indicator of a sustained or increasing share of Central American trade in the overall trade of the hemisphere as a measure of achievement of the project goal.
- b) The **project purpose** is to strengthen regional economic integration which is oriented toward insertion in the global economy and to increase regional preparedness for and negotiation of free trade agreements. Progress will be measured by increases in intra-regional trade, implementation of harmonized regional policies critical for economic integration, the establishment of standards for environmental, labor rights and intellectual property rights protection acceptable to those countries or groups of countries with which Central America is negotiating free trade agreements, establishment of a regional dispute resolution mechanism, negotiation of a regional or the harmonization of bilateral investment treaties and the signing of free trade agreements with other hemispheric trading partners.

c) **Project Description:** This four-year \$5.2 million project will be the Mission's flagship project under the strategic objective of Increasing Central American Participation in the Hemispheric Economy. The project purpose will be achieved through:

i) technical assistance and training which promotes regional policy harmonization, reform and implementation in key areas for negotiation of free trade agreements such as environmental standards, labor and intellectual property rights protection, dispute settlement procedures and commercial policies,

ii) technical assistance and training to establish a common regional policy framework and implementation capacity supportive of increased regional economic integration encompassing areas such as infrastructure, customs, and product standards, and

iii) coordination, analysis and dissemination of information to policy-makers in the region on topics of importance for regional trade and economic integration.

The project will focus on supporting two components:

i) The Policy Reform and Implementation component will be implemented through agreements with regional institutions such as the Secretariat for Central American Economic Integration (SIECA). Other regional, local and U.S. organizations, both "public" and non-governmental, may also be awarded grants and contracts to identify the main policy constraints to negotiation of free trade agreements and greater regional economic integration, to outline proposals for regional policy harmonization or standardization, to improve the regional technical capacity to implement policy changes, and to support national-level policy reform (on a demand-driven basis) which contributes to the project purpose.

ii) The Information Coordination component will reinforce the changes proposed under the Policy Reform component and support regional consensus and dialogue through the analysis and dissemination of information on key topics related to free trade agreement negotiation and regional economic integration through seminars, periodic publications and in-depth analysis of policy issues.

The design and implementation of both project components will be closely coordinated with Central American Bilateral Missions, other donors and regional and national organizations to ensure that the project responds to priority needs, is not duplicative of other activities, and complements and reinforces ongoing bilateral policy dialogue activities.

d) **Impact on Poverty Alleviation:** Policy reform activities to be financed under the project will create a more open and enabling environment for trade and economic expansion and contribute to greater protection of workers rights, leading to increased intra and extra-regional trade, expanded labor opportunities and overall economic growth. As Central America participates more fully in the hemispheric economy, living standards and quality of life in the region should improve, although directly attributing these changes to specific project activities will be difficult. To address this issue and measure the people-level

impact of the project, special studies will be conducted focusing on the impact of specific policy changes on the quality of life.

- e) **Dialogue Agenda:** As a policy reform project, careful delineation of the policy dialogue agenda, taking into account the requirements for free trade agreement accession, the steps agreed to in the Protocol of Guatemala to increase regional economic integration, and regional political commitment for policy reform implementation, will be critical for project success. The agenda, which will be more fully developed in consultation with the LAC Bureau, other USG agencies (e.g. USTR), the public and private sector in the region and with the Central American Missions during project design, is expected to include such issues as the establishment of standards for the protection of the environment, labor rights and intellectual property rights consistent or better than those negotiated under NAFTA, harmonization and increased transparency of investment laws in the region to facilitate accession to bilateral investment treaties or similar agreements, establishment of a regional dispute resolution mechanism and harmonization of the legal and regulatory framework for regional transportation, taxation and other trade-related policies.
- f) **Donor Coordination:** The Mission has been coordinating its regional economic integration and trade development programs with the IDB and the UN (the two other major donors in this area), and has, in some instances, co-financed activities on economic integration and liberalization with SIECA and FEDEPRICAP. As the IDB and the UNDP complete their current regional projects and develop new initiatives, the Mission will maintain close contact to ensure that our efforts continue to be complementary. At the current time, the Mission is working closely with the IDB on an assessment of strategic issues related to regional preparation for free trade agreement accession. This assessment will provide valuable information for project design.

#### **4. Policy and Design Issues**

- a) **Sustainability:** Improvements in the policy environment and in policy implementation leading to greater regional economic integration and preparation for and negotiation of free trade agreements will provide the policy framework and enhanced institutional capacity required for sustainable regional economic growth. To ensure that changes in policies are actually implemented, the Mission will only engage in analysis and recommendations for policy reform where there is clear regional commitment to move forward with the policy change.
- b) **Potential Issues:** Although the Mission has worked with SIECA, FEDEPRICAP and other regional organizations on regional economic integration and trade issues, past efforts have tended to focus on the production of studies with more limited attention paid to implementation of recommendations contained in these studies. This project will require a shift among implementing organizations to focus on results and on the implementation of the policies, regulations or standards developed under the project. Success in policy reform implementation will be dependent upon close contact with the public and private sector in the region to gauge commitment to policy reforms and ensure that what is being done on a regional level is complementary and mutually reinforcing to national-level reform efforts.

- c) **Global Bureau/LAC Regional Linkages:** The Mission is aware that the LAC Bureau is considering the development of a new regional project to provide technical support on NAFTA-related issues. If this project is developed, the Mission would look to it for additional technical support in the implementation of our activity.
- d) **Management Requirements:** Project funds will be obligated through HB 3 and HB 13 agreements or contracts with regional, local or U.S. organizations. Since this project will become the main vehicle for working on regional economic integration and free trade issues and is designed to replace other regional projects that are terminating in the Mission, it will not create a significant new Mission management burden. The project will be managed by current Mission USDH and FSN staff.
- e) **Timetable/Resources:**

NAD submitted to LAC	May 1994
PP Design	Sept - Dec 1994
Project Authorization	December 1994
Project Obligation	March 1995

Illustrative Budget (\$000s)	Obligation Plan	
<u>Category</u>		<u>Amount</u>
Technical Assistance	2,995	FY 1995: 1,945
Training	2,000	FY 1996: <u>3,300</u>
Project Management	<u>250</u>	TOTAL 5,245
TOTAL	5,245	

- f) **Recommendation:** Because this project is consistent with Mission and Agency strategies as well as the stated U.S. intent to eventually enter into a Western Hemisphere Free Trade Agreement, it is recommended that LAC approve this NAD.



Table 3: USAID/G - CAP (596) REGIONAL PORTFOLIO - PROJECT TIMELINE TABLE BY PACD (Continued)

Strategic Objective Project Number/Title	FY 92				FY 93				FY 94				FY 95				FY 96				FY 97							
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
4. In support of all Three Strategic Objectives																												
596-0162 Regional Development Support																												
5. Other Projects																												
596-0115 ORT, Growth, Monitoring and Education																												
596-0116 Technical Support for Food Assistance																												
596-0130 C.A. Peace Scholarships																												
596-0146 C.A. Rural Electrification Support																												
596-0169 INCAP Institutional Strengthening																												
Total Projects (number at end of FY 4th. Quarter)				15				12				10				6				6				3				3

\* EARTH portion of project 596-0129 is managed by USAID/Costa Rica whose PACD is 9/30/95

\*\* Includes HG-006 and HG-010

# Extension expected based on Evaluation/NAD to be submitted by 9/94

### **3. Central and Regional Projects**

#### **a) Coordination between USAID/W and Mission**

In recent years the Mission has made efforts to identify central and regional projects active in Guatemala in order to better link USAID resources provided through these mechanisms to the Mission's Strategic Objectives. Based on several different sources (BHR/PVC, data from the Global Bureau Congressional Presentation, personal knowledge), the Mission has developed a list of about 50 central and regional projects that at least claim to be active in Guatemala. (See listing below.) However, the Mission has little or no information about most of these projects. Impact reports are not shared with the Mission, financial data is not available, contacts with implementing agencies are rare, and coordination with managing offices in Washington is often no more than processing requests for country clearances (and in some cases, even this doesn't happen). Moreover, approximately one-fourth of the projects cited do not support Mission Strategic Objectives.

While the resources provided through these projects are significant, the Agency currently has no system in place that allows missions to comprehensively channel them to priority areas or incorporate the projects and their impact into strategic objective frameworks. For example, in State 260558 (dated 26 January 1994) the Global Bureau reported that in FY 1993 it disbursed nearly \$4 million through its projects in support of various initiatives in Guatemala. However, 7 of the 19 projects listed had not been coordinated in any way with the Mission. Indeed, in at least one case (Food Technology), funds were apparently disbursed in support of activities in Guatemala despite the Mission's advice that this was an inappropriate use of USAID resources.

It has also been suggested that in the future centrally and regionally managed funds will be attributed to mission strategic objectives. In order for this to happen in a realistic and useful manner, we believe the following actions must be initiated by USAID/W: 1) a survey of all on-going projects funded by USAID/W to determine which countries are supported; 2) a comprehensive report to missions and their review to confirm this information; 3) assignment of USAID/W, implementing agency and mission points of contact for each project active in a given country; 4) sharing with missions of periodic planning, financial and impact reports; 5) prior review by missions of all activities that will occur in the host country; 6) determination by missions (based on the information cited above) of support (or lack thereof) to country programs by USAID/W projects; 7) phasing-out of country-specific activities that either do not support mission objectives, or cannot be managed by the missions to the extent that adequate coordination can occur.

We have made progress in the areas cited above, and USAID/W offices have been as helpful as possible. However, until a USAID/W-based system comprehensively links missions to central and regional projects and considers mission strategic objectives as the primary design criteria for country-specific initiatives, there will always be activities underway that are unknown by missions or non-supportive of mission priorities. Under such circumstances, any effort to focus and report the impact of USAID/W funds on country programs (within the context of a comprehensive analysis of the programming and impact all USAID resources in country) will be incomplete.

**b) Projected USAID/W Support to Mission Programs**

As can be seen from the attached table, many USAID/W activities complement the Mission's Smaller, Healthier Families Strategic Objective. The Mission will require continued core funding from R&D projects during the Action Plan period as follows:

AVSC Project No. CP-3068-A-3017	\$ 50,000
DHS-Macro International	\$ 100,000
Mothercare Project	\$ 300,000
<u>Contraceptive Commodities</u>	<u>\$1,500,000</u>
TOTAL	\$1,950,000

In addition, the Mission expects to execute buy-ins to the Mothercare and DHS Projects for \$200,000 and \$100,000 respectively in FY 1995.

## USAID/W FUNDED PROJECTS

### 1. SUPPORTS STRATEGIC OBJECTIVE, CAN BE MANAGED BY MISSION

<u>Project No.</u>	<u>Project Title</u>	<u>Strategic Objective</u>
N/A	Project HOPE/Child Survival	Health
N/A	Project HOPE/Vitamin A	Health
N/A	CARE/Community Outreach	Health
N/A	International Eye Foundation	Health
N/A	Onchocerciasis	Health
936-3035*	Population Policy Initiatives (Options)	Health
936-3045*	Training Reproductive Health II	Health
936-3050*	POP Council (INOPAL)	Health
936-3057	Central Contraceptive Procurement	Health
936-3068*	Asst. Voluntary Surg. Contraception	Health
936-5116	Vitamin A for Health	Health
936-5991*	Demographic Health Services	Health
936-6006*	BASICS	Health
936-5122	OMNI	Health
936-5966*	Breastfeeding & Maternal & Neonatal	Health
938-0500	Project Concern International	Health
598-0797	Trade & Investment Development	Trade/Labor Relations

\* Mission funding provided.

### 2. SUPPORTS STRATEGIC OBJECTIVE; BEYOND MISSION CAPACITY TO MANAGE

N/A	Partners of the Americas	Democracy
N/A	Integrated Pest Management	Natural Res. Mgt.
N/A	North/South Development	Trade/Labor Relations
597-0000	Regional Administration of Justice	Democracy
598-0601	Coop. Assoc. of States for Scholarships	Democracy
598-0644	ICITAP	Democracy
598-0779	Caribbean Project Dev. Facility	Trade/Labor Relations
936-0705	Farmer to Farmer	Natural Res. Mgt.
936-0158	YMCA	Democracy
936-0158	RODALE	Natural Res. Mgt.
936-0158	TECHNOSERVE	Natural Res. Mgt.
936-3038	Logistics Management	Health
936-5836	Improving Educational Quality	Basic Education
936-0158	ACCION Intern.	*
936-0158	FINCA	*
936-0158	KATALYSIS	*

\* Targets of opportunity.

3. DO NOT SUPPORT MISSION'S STRATEGIC OBJECTIVES

<u>Project No.</u>	<u>Project Title</u>	<u>Strategic Objective</u>
N/A	ISRAEL Cooperative Development	N/A
N/A	Partners of the Americas (Disaster Preparedness)	N/A
N/A	U.S. Geological Service/Volcano Disaster Assistance Program	N/A
N/A	Amigos del Bosque/Parque Zoológico Minerva	N/A
598-0791	RTAC II	N/A
936-0015	Appropriate Technology International 936-0158	N/A CRSN/A
936-0158	Food for the Hungry Int.	N/A
936-5120	Food Technology and Enterprise	N/A
936-5438	Development Strategies for Fragile Lands	N/A
936-5730	Renewable Energy Application/Training	N/A
936-5952	Applied Diarrheal Disease Research	N/A
936-5972	AIDS Technical Support	N/A
936-5992	Applied Research Child Survival Service	N/A

**FY 95-96 Action Plan**

***D. Resource Requirements***

**USAID/Guatemala - Central American Programs  
(USAID/G - CAP)**

## 1. Program Resource Requirements: Program Funding

On the bilateral side (520), the resources needed to carry out our proposed program for FY 1995 will be \$19,105,000 in POP and DA funds, \$2,000,000 in ESF, and \$10,500,000 in PL 480. This level of resources will be critical, especially if a peace accord is signed this year, to strengthen democratic institutions and to support communities at risk (returning refugees and displaced persons) who are living in extreme poverty, have been most affected by the conflict, and have not had access to basic health and education services during the war. For FY 1996, we will need \$19,105,000 in POP and DA funds and \$10,500,000 in PL 480 resources. It should be noted that the mission has integrated its food aid program into the strategic objective of **Smaller, Healthier Families** and it has become an important resource in carrying out that objective.

For the regional program (596), our requirements are \$10,399,000 in DA resources for FY 1995 and the same amount in FY 1996. Of this amount, \$2,000,000 each year will support a Central American Alliance for Sustainable Development. A separate strategy document is presently being prepared for this Alliance and will be vetted at the Summit of the Americas in December 1994. Once a strategy is finalized in consultation with the Central Americans and approved, specific activities will be designed in the areas of democracy and human rights, broad-based growth, and the environment. New activity descriptions or amendments to current activities for the Alliance will be presented out of cycle or in next year's action plan. The New Activity Description for the Regional Trade Policy and Economic Integration project presented in this action plan will be designed to support the Alliance, as well.

**TABLE 4**  
**BILATERAL PROGRAM (520)**  
**SUMMARY PROGRAM FUNDING TABLE**  
**Dollar Program (\$000)**

FUNDING CATEGORY	FY 94 Estimated	FY 95 Requested	FY 96 Requested	
<b>POPULATION</b>			100% FY95 *	75% FY96
S.O. 1 Smaller, Healthier Families				
520-0357 Family Health Services	7,643,000	6,277,000	4,000,000	3,000,000
Sub-Total POP	7,643,000	6,277,000	4,000,000	3,000,000
<b>DEVELOPMENT ASSISTANCE</b>				
S.O. 1 Smaller, Healthier Families				
520-0339 Immunization & ORT for Child Survival	0	1,215,000	0	0
Sub-total	0	1,215,000	0	0
S.O. 2 Consolidation of Democratic Institutions and Processes				
520-0000 Project Development & Support (PD&S)	10,000	50,000	0	0
520-0398 Democratic Institutions	1,222,000	461,000	875,000	875,000
520-0407 Judicial Sector Reform	0	0	1,000,000	1,000,000
Sub-total	1,232,000	511,000	1,875,000	1,875,000
S.O. 3 Improved Management of the Natural Resource Base				
520-0000 Project Development & Support (PD&S)	92,000	100,000	100,000	100,000
520-0395 Mayarema	1,675,000	4,931,000	5,349,000	2,500,000
520-0404 CNRM	870,000	1,282,000	682,000	682,000
Sub-total	2,637,000	6,313,000	6,131,000	3,282,000
S.O. 4 Increased Trade and Improved Labor Relations				
520-0000 Project Development & Support (PD&S)	140,000	150,000	150,000	150,000
Sub-total	140,000	150,000	150,000	150,000
S.O. 5 Improved Primary Education Services				
520-0000 Project Development & Support (PD&S)	5,000	0	0	0
520-0374 Basic Education Strengthening	3,000,000	3,000,000	2,514,000	2,514,000
Sub-total	3,005,000	3,000,000	2,514,000	2,514,000
Others				
520-0145 Special Development Fund	200,000	200,000	200,000	200,000
520-0413 Assistance to Communities at Risk	0	1,439,000	4,235,000	3,750,250
Sub-total	200,000	1,639,000	4,435,000	3,950,250
Sub-Total DA	7,214,000	12,828,000	15,105,000	11,771,250
<b>ECONOMIC SUPPORT FUNDS</b>				
S.O. 2 Consolidation of Democratic Institutions and Processes				
520-0398 Democratic Institutions	0	500,000	0	0
520-0407 Judicial Sector Reform	1,500,000	1,000,000	0	0
Others				
520-0413 Assistance to Communities at Risk	0	500,000	0	0
520-0415 PAAD (Cash transfer program)	10,000,000	0	0	0
Sub-Total ESF	11,500,000	2,000,000	0	0
<b>P.L. 480 TITLE II PROGRAM</b>				
S.O. 1 Smaller, Healthier Families				
Food Aid Program	13,350,000	10,500,000	10,500,000	10,500,000
PROGRAM TOTAL	39,707,000	31,605,000	29,605,000	25,271,250

\* The control DA number for FY 95 is \$19,105,000, it assumes we can transfer \$1,094,000 from POP to DAF.

Lotus: AP95-96

**TABLE 4**  
**REGIONAL PROGRAM (596)**  
**SUMMARY PROGRAM FUNDING TABLE**  
**Dollar Program (\$000)**

FUNDING CATEGORY	FY 94 Estimated	FY 95 Requested	FY 96 Requested	
<b>DEVELOPMENT ASSISTANCE</b>			100% FY 95	75% FY 95
<b>S.O. 1 Environmentally Sound and Efficient Practices in Natural Resource Management</b>				
596-0000 Project Development & Support (PD&S)	30,000	100,000	50,000	50,000
596-0129 Regional Agricultural Higher Education (RAHE)	250,000	0	0	0
596-0150 Regional Natural Resource Management (RENARM)	4,338,920	6,024,000	5,000,000	5,000,000
Sub-total	4,618,920	6,124,000	5,050,000	5,050,000
<b>S.O. 2 More Effective and Democratic Local Governance</b>				
596-0167 Local Government Regional Outreach Strategy (LOGROS)	900,000	2,000,000	2,000,000	1,500,000
Sub-total	900,000	2,000,000	2,000,000	1,500,000
<b>S.O. 3 An Open and Competitive Regional Economy</b>				
596-0000 Project Development & Support (PD&S)	1,080	100,000	49,000	50,000
596-0147 Economic Policy Research (EPR)	200,000	0	0	0
596-0165 Export Industry Technology Support (EXITOS)	1,193,000	0	0	0
596-0178 Regional Trade Policy & Economic Integration	0	1,945,000	3,300,000	1,200,000
Sub-total	1,394,080	2,045,000	3,349,000	1,250,000
<b>Other</b>				
596-0000 Project Development & Support (PD&S)	0	30,000	0	0
<b>In support of all three objectives</b>				
596-0162 Regional Development Support (RDS)	30,000	200,000	0	0
Sub-total	30,000	230,000	0	0
<b>PROGRAM TOTAL</b>	<b>6,943,000</b>	<b>10,399,000</b>	<b>10,399,000</b>	<b>7,800,000</b>

## 2. Program Management Requirements: Workforce and OE

At the beginning of FY 94, the operating expense budgets of USAID/ Guatemala and the ROCAP Missions were combined, reflecting the merger of the two Missions. Since then, the Mission has reexamined every line item in its budget and evaluated every personnel position, US, FSN as well as PSC, in a continual effort to identify and eliminate duplication of effort, thus reducing operating costs.

A two day retreat of USDHs, PSCs and Senior FSNs with the new Mission Director was held in which the Mission's goals and objectives, management, and personnel issues were discussed in the context of the merger, with an eye toward the most efficient use of resources. All FSN and FSNPSC positions, as well as USPSC and TCNs, have been reviewed and as a result, cost savings have been made due to substantial reductions in the workforce. These savings will become more apparent during the next fiscal year after severance payments are realized in the current period. These reductions were real in terms of Mission employees and were not merely an exercise in converting individuals from operating expense to project funded accounts. Whenever possible, vacant positions were eliminated or early retirement options were offered; but in a number of cases, the Mission had to make the difficult decisions to terminate the employment of several dedicated and hard-working FSNs in order to reduce its personnel force.

Every aspect of office operations has been and continues to be scrutinized in an effort to utilize resources as prudently and cost effectively as possible. Travel, training, and conference expenditures have been reduced; office budgets have been carefully reviewed for the benefits to be obtained from such expenses. Communication expenditures, as well as copying cost outlays, have been reduced and tighter controls have been initiated over the use of expendable supplies. With the exception of needed computer hardware and software equipment for the USAID/W required conversion of the Mission's accounting system, NXP procurement has been eliminated.

In FY 1994 we had hoped to be able to reduce our OE budget further than projected. However, we recently received new guidelines on the FSN Severance Trust Fund requiring us to reimburse \$334,453.77 to our local currency Operating Expense Trust Fund for deposits made to the FSN Severance Trust Fund in FY 1992 using FY 1994 OE dollar resources. This requirement was contained in State 117218 and was unanticipated. The OE savings that we have been able to accumulate this fiscal year will be used to fund this one-time requirement.

RHUDO operating costs are not included in the Operating Expense Budget levels since they are not paid from the OE account. RHUDO USDH staff levels are not included in the staffing tables since those FTEs (2) are included in PRE/H staff levels. However, five RHUDO staff positions (3 FSNPSC, 1 USPSC, and 1 TCNPSC) are included in our Mission staffing tables.

As a result of this effort, which has been going on for five years, our operating expense fund levels have been reduced from \$9.95 million in FY 89 to \$4.8 million in FY 94. Our projections for the Action Plan years are \$3.8 million for FY 95 and \$3.6 million for FY 96.

For FY 1994, we have requested \$1.85 million in Trust Fund authority. In FY 1995 and FY 1996, we request \$1.6 million and \$1.5 respectively. At the current usage rates we have sufficient Trust Funds to last for 4-5 more years.

OE FUNDED POSITIONS IN USAID/GUATEMALA-CENTRAL AMERICAN PROGRAMS					
	1990	1993	1994	1995	1996
USDH*	42	33	24	22	21
USPSC	4	3	1	1	1
PASA	0	0	0	0	0
FSNDH	47	36	16	13	13
FSNPSC	183	137	127	106	98
TOTALS	276	209	168	142	133

\* USDH levels do not include 2 RHUDO positions reported separately under PRE/H ceiling.

Staffing Levels:

In the previous table, we have used combined levels for the bilateral and regional missions for historical perspective. This gives better insight into the dramatic downsizing of the new Mission and the economies being realized by the merger.

In 1990 the two missions had a combined OE funded FTE level of 276. This was reduced to 168 in 1994 and is projected to be further reduced to 142 in 1995. By 1996, we anticipate another 6% reduction. This represents a 49% reduction in OE staffing levels over the six year period. USDHs were reduced by 48% and USPSCs by 75%.

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, improved performance rating and bonus system, and the possibility of cross training FSNs with other Missions.

To reduce staffing levels beyond what has been projected here would represent real risks to successfully implementing a regional and bilateral program in a unified management structure, and to maintaining proper internal controls in the Mission.

**TABLE 5**  
**USAID/GUATEMALA(520 & 596)**  
**OE FUNDING REQUIREMENTS**  
**(\$000)**

<b>OE/TRUST FUND LEVELS</b>			
<b>(By Major Function Code)</b>	<b>FY 94</b>	<b>FY 95</b>	<b>FY 96</b>
U100 U.S. Direct Hire	745.1	520.0	430.0
U200 F.N. Direct Hire	375.1	320.0	336.0
U300 Contract Personnel	1,447.8	1,260.0	1,220.0
U400 Housing	570.5	550.0	550.0
U500 Office Operations	1,211.5	1,150.0	1,064.0
U600 NXP Procurement	100.0	0.0	0.0
<b>Sub-Total Core costs</b>	<b>4,450.0</b>	<b>3,800.0</b>	<b>3,600.0</b>
Downsizing Cost: U100	0.0	25.0	0.0
U200	0.0	0.0	0.0
U300	350.0	0.0	0.0
<b>Sub-Total Downsizing Costs</b>	<b>350.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total OE/TF Costs</b>	<b>4,800.0</b>	<b>3,800.0</b>	<b>3,600.0</b>

AP95\Table5

<b>Mission Staffing Requirements</b>												
	<b>FY 94</b>				<b>FY 95</b>				<b>FY 96</b>			
	<b>USDH</b>	<b>USPSC</b>	<b>FSN</b>	<b>Other*</b>	<b>USDH</b>	<b>USPSC</b>	<b>FSN</b>	<b>Other*</b>	<b>USDH</b>	<b>USPSC</b>	<b>FSN</b>	<b>Other*</b>
Total FTEs or Workyear	24	14	187	11	22	12	166	6	21	6	146	3
Of which Project funded	0	13	44	11	0	11	47	6	0	5	35	3

\* Other = PASAs and TCNs

\*\* USDH FTE category does not include 2 RHUDO positions since they are reported under PRE/H ceilings.

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May 1994

**FY 95-96 Action Plan**

***E. Mission and AID/W issues***

**USAID/Guatemala - Central American Programs  
(USAID/G - CAP)**

## **E. Mission and AID/W Issues**

### **Bilateral Program**

1. The Mission's planning levels for FY 1995 include \$7,371,000 in Population Funds. This amount exceeds the current mortgage of the Family Health Services Project by \$1,0940,000. Therefore, the Mission will not be in a position to obligate this full amount to the Project. However, discussions have been held with LAC to shift these extra Population Funds to other high-priority areas (primarily basic education, child/maternal survival, but also possibly poverty lending, environment, democracy, and support of the peace process). Based on the most recent PPC guidance on the use of Population Funds, can the Mission use excess POP funds (without trading the earmarked funds for sustainable development DA) to finance maternal/child survival initiatives under the Immunization/ORT Project? If not, can these funds be traded for non-Pop Funds so that the Mission can finance its other high-priority areas cited above?
2. USAID/G/CAP has been approached by FINCA and CARE regarding the prospects of expanding their poverty lending programs in Guatemala with Mission, private donor, and USAID/W APPLE match resources. The Mission does not have funding in its FY 1994 OYB to finance these activities, given the 33% reduction in non-Pop DA, the 22% reduction in PL 480 Title II resources, and the \$2.5 million recision requirement in FY 94. We are interested in providing modest levels of assistance targeted on the poorest segments of Guatemala society in FY 95, either in the context of a peace accord (under the Communities at Risk NAD) or if there is no peace agreement, as a separate poverty alleviation initiative. Possible sources of funding for this initiative include monetization under PL 480 Title II, the \$1.09 million surplus in the Pop account, FY 95 deob/reobs, or new DA resources. If the latter is not an option, then does the Mission have USAID/W concurrence to use up to \$1.5 million in FY 95 deobs to finance poverty lending? We understand from State 110183 that the latter use of deobs is a priority of the Administrator; yet, we are hesitant to pursue this avenue with the interested PVOs if these monies will be held hostage to next year's recision requirements. Is there Agency agreement on this use of deob monies for poverty lending?
3. Given that one third of the Mission's total resources for the bilateral program come from PL 480 Title II, it is critical to our strategic objectives that program tonnage levels not suffer any further reduction from the Congressional Presentation level of 27,544 tons indicated for FY 95. Further cuts in FY 96 levels will result in reduced impact achieved under the Smaller, Healthier Families objectives and little to no resources available for poverty lending through monetization.
4. If a Peace Agreement is signed in CY 1994 or early 1995, will there be additional ESF to support implementation?

5. In recent years, the Agency has increased its efforts to focus and concentrate all USAID resources in strategic areas where U.S. assistance could have the greatest impact on development. As part of this process, all USAID-funded activities (those managed in Washington as well as by the missions) should be subject to the same criteria for programming, accountability and impact measurement. While missions have attempted to identify and track the implementation of central and regional projects active in country, no system is in place (on an Agency-wide level) that ensures consultation with missions during the design of activities managed in Washington, nor are there standard reporting requirements (neither between contractors/grantees and missions, nor between USAID/W offices and the missions) that ensure in-country monitoring, scrutiny as far as support to mission strategic objectives, accounting of resources spent in-country, or comprehensive analysis of impact. Given the Agency's growing interest in "attributing" central and regional resources to specific countries and objectives, what steps can USAID/W take to ensure better coordination and information-sharing with missions?

### Regional Program

1. USAID/G-CAP administers regional projects in all Central American countries, including two (Belize and Costa Rica) which are closing out by the end of FY 1996. The regional portfolio is, for the most part, implemented through regional institutions and NGOs operating regionally. The mission believes that activities which are regional in nature and/or are implemented through NGOs whose headquarters are in Costa Rica or through regional institutions (such as CATIE, SIECA, CABEI, FEMICA, FEDEPRICAP, etc.) should continue in those countries where there is not a bilateral mission.

2. What is PRE/H's commitment to continue to provide resources and staffing to support USAID/G-CAP programs during the Action Plan period? Will the current allocation of two FTEs, along with the program and OE support necessary to their effective use, be continued over the Action Plan period.

3. LAC/DR/HPN has developed a NAD for a LAC Regional Program to reduce HIV/AIDS. The Project (to be designed in FY 1994 and obligated, through an institutional contractor, in FY 1995) would be managed out of USAID/W, and would include the establishment of sub-regional coordinating mechanisms. What are the relative advantages of designing and managing this Project's Central American component out of Washington, as opposed to design and management by the Mission charged with Central American Regional Programs?

4. The Regional Democracy Program is presently focused exclusively on strengthening local governance through fostering decentralization of authority at the municipal level. No other elements of the Agency's strategic objective are currently addressed by the C.A. regional program managed in Guatemala, although a number of regional efforts in the justice reform area continue to be managed in USAID Costa Rica. Should USAID/G-CAP take on additional responsibilities for a larger scope of work on DI at the regional level, and if so, how should the transition be made?

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***F. Technical Annexes***

**USAID/Guatemala - Central American Programs  
(USAID/G - CAP)**

# **Technical Annex 1**

## ***Performance Measurement***

## **Performance Measurement**

With the merger of the bilateral and regional programs into one USAID Guatemala-Central America Programs, the Mission has revised and adjusted its overall strategic objective framework and program performance measurements. The two separate and dissimilar objectives in the natural resource management area have been reformulated as parallel regional and bilateral strategic objectives with uniform performance and program output indicators. The statement of, and indicators for, the strategic objectives **Exercise of Inalienable Rights** and **Open and Competitive Regional Economy** have undergone complete change. For the remaining strategic objectives, lesser adjustments have been made to yield performance indicators which better measure and depict the real results of our assistance.

The Mission's performance measurement system works with data through several levels of aggregation and significance, building on the monitoring and evaluation systems of individual projects and finally arriving at performance indicators agreed upon by the Mission Strategic Objective Teams for each of the strategic objectives. The following describes specific changes in strategic objectives, program outputs, and indicators and a report on the status of monitoring and evaluation plans for each of our strategic objectives.

### **Bilateral Program**

#### **1. Smaller, Healthier Families:**

This year the Mission is adding a new performance indicator, maternal mortality rate (MMR), which will measure mortality of women of reproductive age per 1,000 live births. MMR serves to monitor the impact of selected reproductive health interventions on women. The 1994 Demographic Health Survey (DHS) will be used to establish targets for MMR and the other performance indicators established for this strategic objective.

Since the DHS is carried out at five to six year intervals, the Mission is implementing a monitoring system based on rapid assessments at the departmental and municipality levels. In 1994, these rapid assessments will be conducted to identify departments and municipalities where special interventions will be required to increase immunization/ORT coverage or improved delivery of family planning services. Also during 1994, the Mission initiated operations research activities to test the effectiveness of selected reproductive health and family planning interventions.

#### **2. Strengthening Democratic Institutions, Civil Society and the Rule of Law:**

The reformulation of our democracy objective from **Sustained Exercise of Inalienable Rights** to the current emphasis on strengthening key institutions, civil society and the rule of law that are vital to the effective and sustainable functioning of a democratic society, signals a shift in our strategic focus. Based on our experience with impact measurements, we concluded that the original objective was beyond attainment in the 5 to 7 years time frame of our program. The revised strategic objective is more practical and represents a more plausible linkage with our program outputs.

Performance indicators and program outputs remain unchanged for the strategic objective. Baseline data on the higher level performance indicators was established in the 1993 Democratic Indicators Monitoring System (DIMS) survey which will be updated every three years. A complete monitoring and evaluation plan has been established to assure regular data collection on program output indicators.

### **3. Environmentally Sound Management of the Natural Resource Base:**

With the merger of the former ROCAP and the former USAID Guatemala into a single mission, the relationship between the two strategic objectives in the areas of environment and natural resource management was reconsidered. Through this process, the environment of Guatemala was seen more clearly as integral to the ecological continuum which is the environment of Central America. Although expressed in somewhat differing ways in various settings, the threat to environmental equilibrium throughout the region was recognized as that posed by human mismanagement of the natural resource base. This common threat, its localized and regionwide impacts, and the various elements required for a lasting solution, are reflected in the revised Mission strategic objectives, performance indicators, program outputs and indicators, which are now identical for the regional and bilateral programs.

The monitoring and evaluation tools used to measure progress toward attainment of the strategic objective and program outputs will be similar or identical for both programs, while the data employed will be either of regional significance or reflect the more focused nature of the bilateral program.

### **4. Increased Trade and Improved Labor Relations:**

The statement of the strategic objective was changed as well as the program outputs and performance indicators to reflect changes made in the design of the flagship project under this strategic objective, the Trade and Labor Relations Development Project. Investment as a output was dropped from the strategic objective and labor relations highlighted even more.

At the strategic objective level, one performance indicator was changed to reflect overall export earnings rather than only those of non-traditional products. Another indicator on private investment was eliminated and replaced by an indicator marking adherence to internationally recognized workers rights standards. The program output of a **sound investment environment** was replaced by **improved labor relations**. Indicators have yet to be developed for this program output.

In general, the indicators were standardized to measure performance during the period from 1991 to 1998.

## **5. Improved Quality, Efficiency, and Equity of Primary Education Services:**

Since the last Action Plan period, the basic education strategic objective was modified as a result of several months of reprogramming activities under the flagship project for the objective. The Mission benefited from the close collaboration of LAC/DR in the revision of the strategic objective tree. Equity has been added as a focus of the strategic objective because of the Mission's decision to expand its support for girls' education policy and technical level interventions, and because of the intent of the Nueva Escuela Unitaria (one-room school program) methodology and Bilingual Education Services activity, in increasing the participation and enrollment of Mayan students.

Data are currently being collected for all five performance indicators and will be reported in December, at the end of the school year. The indicators were revised in consultation with LAC/DR, Mission and Ministry of Education staff. In addition to continuous monitoring activities, qualitative evaluation studies will be conducted during CY 1994 and will measure teachers' effectiveness in applying Bilingual Education, Nueva Escuela Unitaria, and Girls' Education methodologies in target schools. Qualitative research will also measure increases in the participation of girls and Mayan students in target schools.

### Regional Program

#### **1. Environmentally Sound Management of the Natural Resource Base:**

The changes in the now parallel bilateral and regional strategic objectives are discussed under the bilateral section.

#### **2. More Effective and Democratic Local Governance:**

The Mission has selected two new performance indicators for this strategic objective. They are: empowerment of local governments to be more responsive to their citizens; and, citizen participation increased in the local decision-making process. These indicators assure a more accurate measure of the "effective" and "democratic" aspects of our strategic objective. Program outputs have not changed since the last Action Plan, but some of the output indicators have been dropped, added or modified.

**Adoption of policy/programs for municipal development and decentralization by regional network members** will be the only indicator measuring achievement of improved regional organization for municipal development. To gauge **increased financial independence of municipalities**, we will use the ratio of municipal revenues to total public revenue. This is a more accurate measure than the previously proposed ratio of locally generated revenue in municipal budgets to total municipal budget. Two indicators have been combined into one which now is defined as authority to establish and execute local users fees, rates, and budgets.

To measure the achievements of the new Housing Guarantee supplement to the LOGROS Project, we added a new indicator: sustainable access by municipalities to public and private financing.

The Mission has established an in-house tracking system to monitor progress in five Central American countries. At the strategic objective performance level, we will contract to undertake a poll to obtain baseline data on citizen participation in the local decision-making process. We expect results by October 1994. Baseline data missing for particular countries on the ratio of municipal revenue to total public revenue will be available in July through a study being conducted by SIECA.

### **3. Increased Central American Participation in the Hemispheric Economy:**

This strategic objective has been completely reformulated and indicators revised to reflect changes in resource levels, the Agency's strategic directions and Central American initiatives. The statement of the objective has been changed from **An Open and Competitive Regional Economy** to the more narrow objective of **Increased Central American Participation in the Hemispheric Economy**. This new focus derives from the mutual interest of the US and Central American in an eventual expanded free trade association and support for increased Central American regional economic integration.

Program outputs were revised in line with the new formulation of the strategic objective and are now stated as **increased regional economic integration** which will be measured by increased intra-regional trade, private investment and policy harmonization in the region; and **increased preparation and negotiation of free trade agreements** indicated by the number of free trade agreements and Bilateral Investment Treaties negotiated as well as establishment of minimum standards in areas relevant to accession to a NAFTA-like free trade agreement.

Data sources are available for each of the indicators though some targets are yet to be quantified pending final approval of the new strategic objective framework.

## **Technical Annex 2**

***Sections 118 and 119 of the FAA  
(Tropical Forest and Biodiversity Activities)***

## Sections 118 and 119 of the FAA (Tropical Forest and Biodiversity Activities)

Major Conservation Challenges: The integrity of tropical forests and biological diversity in general, in Guatemala and throughout the Central American region, continues to be threatened due to a number of factors. The most fundamental threat is the region's extremely high rate of population growth. Closely related are abusive land use practices resulting from and exacerbated by inappropriate policy regimes and weak governmental institutions. All other factors are subsets of these; 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 in response to declining 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 chemical runoff affect hydrologic systems and downstream coastal ecosystems thus multiplying the initial impact.

Tourism is perhaps now the most important single source of foreign exchange for the region. The decline of bio-diversity and loss of forest cover will eventually undercut the substantial and growing eco-tourism industry - with negative consequences for local and national income streams, and with reduced economic incentives for greater attention to conservation.

The NAFTA agreement, in effect, has pushed the environmental border of the United States south to Guatemala and Belize. As Mexico moves to meet its NAFTA-related environmental obligations, the market incentives which encouraged environmental degradation south of the U.S.-Mexico will migrate further south to Central America.

The basic elements of the response required include generation and dissemination of environmental science, a more open and rational policy reform process, strengthening of institutions concerned with preservation of the environment, and vigorous enforcement of environmental laws and regulations - in the context of reduced rates of population growth, equitable administration of justice, and democratic participation of stakeholders (including the traditionally excluded poor) in the decision-making process. 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.

### Progress:

Although the environmental corner most definitely has not been turned in Guatemala or regionwide in Central America, any more than it has any where else in the world, progress is being made in establishing conditions favorable to continuing and expanding the sustained effort required.

Within Guatemala, Mission-supported activities with the national park service (CONAP) and NGOs have greatly reduced the trend toward illegal colonization of the Maya Biosphere Reserve (MBR) which is located in the largest intact tropical forest in the region. Additionally, hundreds

of families in the MBR area are now engaged in profitable enterprises promoted by the Mission, which reduce pressure on the Reserve while demonstrating the economic benefit of a sustainably managed Reserve. Local municipalities have formed an environmental issues council to promote sustainable management of the MBR and reduce the prevalence of destructive practices. Work also continues with thousands of small-scale hillside farmers to stabilize their productive resource base, raise their standards of living, and, in the process, reduce pressure throughout-migration on more fragile areas such as the Maya Biosphere Reserve.

In addition to growing support regionally for the concept of a Central American biological corridor and the emergence of new organizations to foster its creation and restoration, the Mission has supported the work of the World Resources Institute in upgrading the institutional capabilities and environmental policy analysis and formulation capabilities of the national environmental councils (CONAMAs) throughout C.A. The mission, in association with the Wildlife Conservation Society, is providing research grant funding to dozens of Central American biological scientists in fields related to biodiversity conservation. We are also working with other NGOs, both international and local to identify and sustainably manage hundreds of thousands of hectares of ecologically significant and threatened areas throughout the isthmus - in cooperation with local communities.

The mission has fostered the growing attention now devoted to forest dwelling indigenous peoples by environmental NGOs - to the benefit of environmental goals and the advancement of simple social justice for historically exploited populations. Mission-funded programs have provided technical assistance services to literally thousands of small farm families in such areas as pesticide management, Integrated Pest Management, agroforestry, hillside agriculture, and natural resource management practices - with beneficial impacts both economic and environmental.

#### Recommended Follow-up:

The Mission plans to amend its flagship regional environmental project (RENARM) in light of its evaluation, now underway, and in light of budgetary conditions prevailing over the coming years. In addition, the Mission plans to extend the Maya Biosphere project to continue its very promising activities with NGOs and the GOG park service as well as expand in a more focused way into the area of environmental policy analysis and reform. The Mission's continuing activities in the areas of population and primary school education will help further its environmental objectives in the longer term.

## **Technical Annex 3**

### ***Poverty Reduction Stocktaking***

## Poverty Reduction Stocktaking

The United States Government has provided economic assistance to Guatemala over the past forty-eight years. Our development efforts have been diverse yet all were ultimately aimed at reducing poverty especially in the Highlands region of Guatemala where most of our assistance has been focused. We have encouraged policy reform and structural adjustment to stimulate economic growth, made substantial investment in the social sectors, promoted improved agricultural technology and the linkage between environmental sustainability and food production, and enabled increased access to factors of production and opportunity for income generation for the poorest sectors of Guatemalan society. A 40 year evaluation of USG programs in the Highlands concluded that the USG assistance portfolio has been logical, consistent, and surprisingly well sustained over the years.

The "core" programs of our current strategy to assist Guatemala to attain broad-based sustainable development have been in place for a long time. They include health and education sector programs, support for democratic institutions and processes, environmental programs, and anti-poverty activities which enhance the contribution of the productive sectors to equitable growth. While we have moved forward with programs and projects with national reach, much of our assistance is focused on the rural areas where the greatest number of indigenous, and therefore poor, people are found. A recent IDB study shows that nearly 87% of Guatemala's indigenous people live in poverty and a large percent of those in extreme poverty.

In recent months, the Mission took stock of our efforts to reduce poverty in Guatemala. The success of our extensive investment in the social sectors, and support to economic policy reform and structural adjustment are well documented. Thus we decided to focus only on support to the productive sectors over the past five years. The objective of the stocktaking was to gauge the impact of our assistance to the productive sectors on reducing poverty, and to answer the question of what worked and what did not work well. We expected this stocktaking would lead to a consensus on where USAID's comparative advantage lies in combatting poverty in Guatemala. Eventually, the stocktaking could serve as a point of departure for developing a Mission poverty reduction strategy.

The projects and programs examined in the stocktaking included agricultural technology and land acquisition for small farmers, natural resources management, rural credit unions and cooperatives, infrastructure, food aid, non-traditional export development, and microenterprise and poverty lending programs. In an attempt to capture the impact of all USG funded assistance to the productive sectors, we sought information on centrally funded projects and matching grant activities being carried out in Guatemala, though not within the management of the Mission. To better determine what may be a niche for USAID in the near future, we also gathered information on what other donors are doing in these areas.

Poverty in Guatemala has risen in the past five years in spite of strides made by USAID-funded programs in expanding economic opportunities for the poor. Recognizing that little or no reduction in poverty can occur in a stagnant or declining economy, and that failure to make needed structural adjustments most harms the poor over the long-run, USAID played a key role in the last seven to eight years in encouraging and supporting economic adjustment in

Guatemala. As a result of stabilization and structural adjustments efforts, beginning in 1987 the rate of economic decline was at least contained and a modest rate of real economic growth achieved thereafter. Without the average 3.9% real growth rate in the years since 1987, millions of Guatemalan poor would have been even worse off than without structural adjustment.

The contribution of the productive sectors to reducing poverty has been quite impressive and like macroeconomic adjustment, without it, the slide into poverty and extreme poverty would have been even worse. The Highlands Agriculture Development Project supporting both the Guild of Non-Traditional Exporters and agriculturalists, created nearly 175,000 direct jobs, expanded production of agricultural and industrial exports in new areas, and increased income by 53% for more than 4,000 farmers now engaged in non-traditional agricultural production. Much of the 65% increase in non-traditional exports from Guatemala between 1991 and 1993 can be attributed to the activities financed through this and other USAID projects. In areas where the expansion of non-traditional export activity has been greatest, poverty levels have fallen.

Approximately 1,000 farmers benefitted under the Agribusiness Development Project which from 1985-1990 provided small farmers with profitable outlets for their fruit and vegetable production through new or expanded agribusiness enterprise in rural areas. The Small Farmer Coffee Project has funded agricultural extensions services and credit to more than 2,300 farms resulting in 86% higher yields and income to small coffee farmers. The Pilot Commercial Land Market Project has provided 1,392 poor families with access to farm land, education and health services therefore increasing incomes and well-being.

Both rural electrification and farm to market access roads contributed to the alleviation of poverty in the more than 400 communities where electricity for productive uses was introduced and in hundreds of communities touched by 350 road projects in the Highlands region of Guatemala. Rural cooperatives and credit unions with over 88,000 members have increased the incomes of their members and prepared them for further business expansion as a result of USAID-funded training and technical assistance.

USAID support to microenterprise development in Guatemala has also been a success story; an example of a program that attained full sustainability. Under the Mission's Microbusiness Program, nearly 9,000 new job opportunities were generated, two national microenterprise lending institutions were established and gained access to Guatemala's private bank credit, and 16,290 microentrepreneurs received 33,260 loans totaling Q94.7 million as well as technical and managerial assistance. The two lending institutions, Genesis Empresarial and PROSEM, now receive funding from the Guatemalan banking community and other donors, continuing to serve the small and microentrepreneur. USAID continues to provide support to these programs through PVC's centrally funded matching grants to Accion International.

USAID support to poverty lending programs insures that assistance is targeted to rural poor, mainly indigenous women. Village banks activities are being funded under the Mission's PL-480 Title II monetization programs with SHARE and CRS, and by centrally funded matching grants with Katalysis, YMCA, Project Hope, FINCA, and Food for the Hungry. Given the

Mission's limited resources and the need to target these resources for maximum impact, the Mission will provide direct support for poverty lending in the formerly conflictive areas as part of our efforts to assist in consolidating peace in Guatemala upon the signing of a Peace Accord. The impact of these activities is yet to be documented in a systematic way. Total USG funding for microenterprise and poverty lending for the period 1986 to 1998 is estimated to be over \$22 million.

The results of our stocktaking indicate that in addition to investment in the social sectors, the importance of the productive sectors in generating opportunities for the poor is not to be underestimated. A variety of interventions in the productive sectors, beyond credit-driven poverty alleviation programs, have proven effective in increasing the income and assets of the poor and improving the entrepreneurial and managerial abilities of small farmers and proprietors of small rural and urban enterprises.

As other donors take the lead in poverty reduction programs (the World Bank with support to the Social Investment Fund), rural development for small producers (the International Fund for Agricultural Development applying USAID experiences) and microenterprise development (the IDB with \$10 million credit program), USAID Guatemala's niche could be found in two approaches. One is continued support to village banking programs which benefit rural indigenous women. However, such a strategy would be highly dependent on increased levels of PL 480 Title II monetization, additional DA, or deob/reob monies, and coordination between USAID Guatemala and Washington on centrally funded grants for poverty-lending activities. Secondly, the bilateral program could continue to support activities to improve agricultural technology, promote environmentally sound farming practices, and increase access to credit and entrepreneurial training for small farmers and rural businesses.

USAID Guatemala's current portfolio supports our broad strategy for assisting Guatemala to achieve sustainable development with equity. Within that strategy fits the objective of reducing poverty in Guatemala. We do not expect that the main direction and emphasis of our program would change substantially if the Mission should decide to develop a separate poverty reduction strategy. Our stocktaking exercise has confirmed the efficacy of first investing in the human resource base and then complementing those efforts with targeted interventions in the productive sectors.

## **Technical Annex 4**

### ***Donor Coordination Matrix***

**MAJOR DONORS  
SUPPORT TO REGIONAL CENTRAL AMERICA  
1994 -- 1996**

Donor	U.S./Donor * Complementary Programs	Resource Levels (\$ Millions)	Performance Indicators	Future Initiatives
IDB	Regional Program for Central American Integration and Development (PRADIC)	2.5 (Grant)	Increased regional integration, private sector development, effective consultative group	PRADIC II, in planning stage Regional Environmental Information Exchange, (\$1 m)
UN AGENCIES	UNDP Human Development Strategy C.A. Economic Cooperation Plan (PEC)	Not Available 114.3 (Grant)	Poverty reduction, provision of basic services Services to uprooted populations, improved agriculture & infrastructure, sustained use of natural resources	
EUROPEAN UNION	Cooperative Development and Support in Central America Maternal Infant Health	27.0 (Grant) 21.3 (Grant)	Not Available Not Available	Regional Integration, in identification stage

\* Not a complete listing of all donor programs; only those that complement U.S. programs

**MAJOR DONORS -- SUPPORT TO GUATEMALA**  
1994 - 1996

Donor	U.S./Donor * Complementary Programs	Resource Levels (\$ Millions)	Performance Indicators/ Expected Results	Future Initiatives
IBRD	Economic Modernization	120.0 (Loan)	Strengthen public finances, improve public enterprise efficiency, liberalize trade	Agriculture Sector, \$20 - 25 million, project in identification stage
	Health Sector Reform	30.0 (Loan)	Decentralize / privatize services	
	Basic Bilingual Education	30.0 (Loan)	Increase coverage, improve quality and efficiency of grades 1 and 2; improve education administration	
	Social Investment Fund	20.0 (Loan)	Social safety net program	
IDB	Financial Sector Reform	130.0 (Loan)	Increase competition and efficiency of modern financial sector	Approved 12/93, not yet disbursed
	Health Sector Reform	50.0 (Loan)	Decentralize / privatize services	
	Microenterprise Global Credit	10.0 (Grant) 10.0 (Loan)	Approved 1992, undisbursed	
UN AGENCIES	World Food Program	18.1 (Grant)	Improve food security	Sustainable Peten Development, \$120 million, in identification stage Guatemala City Environmental Program, \$60 million, in planning stage Environmental / Natural Resources sector, TBD Investment Sector, \$50 million, for 1994 Social Investment Fund, \$20 million, identification stage Education Sector, \$50 million, in planning stage
	UNDP Sustainable Economic Growth Strategic Area	7.2 (Grant)	Various	
	UNDP Poverty and Human Development Strategic Area	6.7 (Grant)	Various	
EUROPEAN UNION	Democratic Initiatives	24.0 (Grant)	Respect for human rights, improved AOJ	Peace/Reconciliation, \$1.6 (1994 - 1995)
	Natural Resources	71.7 (Grant)		
GERMANY	Rural Development in Quiche	1.7 (Grant)	Improved food security	Support to Displaced and Refugees, \$20 million
	Tropical Agroforestry in Peten	4.5 (Grant)	Rational management of resources	

\* Not a complete listing of all donor programs; only those that complement U.S. programs

# **Technical Annex 5**

***Strategy for Increased Central American  
Participation in the Hemispheric Economy***

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## Executive Summary

With the passage of the North American Free Trade Agreement and the historic meeting between President Clinton and the Central American presidents in November 1993, the stage was set for a new era in regional relationships, based on a vision of mutually supportive trade relationships (and potentially a hemisphere-wide free trade area) and the creation of an Alliance for Sustainable Development. In light of these changes, the Mission has reviewed its regional trade and economic growth programs and revised its strategy to ensure greater complementarity between our programs, new Central American and U.S. policy directions, and the activities of bilateral and regional donors.

Although regional average GDP growth has been three to four percent annually and intra and extra-regional trade has greatly increased, economic growth in Central America has not been sufficient to assure the social well-being of the majority of Central Americans; Central American countries still are clustered largely at the bottom of the ranking on the human development index in the LAC region, with four of the six countries receiving rankings only marginally better than the two lowest performers in the region. Therefore, the goal of the Mission's five year strategy is to support **increased Central American participation in the hemispheric economy, to lead to greater and more equitable economic growth and an increased standard of living in the region.**

Without increased Central American participation in the hemispheric economy, brought about through **greater regional economic integration and preparation for accession to free trade agreements**, Central America will not be able to maintain sufficient levels of economic growth to meet the needs of its population. Specifically, this strategy will support two complementary sets of activities to ready the region for greater participation in the international economy: 1) **preparation of the region for negotiation of free trade agreements**, using NAFTA as a basis, and 2) **support for increased Central American regional economic integration.**

Preparing the region for eventual participation in a Western Hemisphere free trade zone will require a liberalization and harmonization not only of trade, macroeconomic and investment policies, but **an improvement in environmental, intellectual property rights and labor policies** as well, in accordance with the side-agreements negotiated under NAFTA. Supporting increased Central American regional economic integration will not only respond to the regional drive to create a trading bloc capable of competing in international markets and participating in free trade agreements, but also encourage a more efficient use of the region's resources and modernization of the economy.

Through a focus on analysis, dissemination and implementation of trade, environmental, labor, investment and other policy reforms related to accession to an eventual Western Hemisphere free trade agreement and to greater regional economic integration, the Mission will be able to contribute to increased Central American participation in the hemispheric economy and to increased regional economic growth.

## Strategy for Increased Central American Participation in the Hemispheric Economy

### I. Introduction

In 1992, the Regional Office for Central American Programs (ROCAP) of USAID selected as one of its strategic objectives **the creation of a more open and competitive regional economy**. The rationale for choosing this objective was that a more open and competitive regional economy **would contribute to greater economic growth and therefore an increased standard of living in Central America**. The selection of this objective also recognized the growing and renewed enthusiasm for regional economic integration among the Central American countries<sup>1</sup> themselves, driven by the need to assume a more competitive stance and greater integration into the global economy. Because of their size and stage of development, individual Central American countries are not separately able to compete in the global economy on a sustainable basis nor are they attractive marketplaces for foreign trade and investment; but as a regional economic bloc with 30 million people and a market of \$35 billion, Central America has the potential to be a better and more efficient trading partner and a richer, more attractive market.

A number of recent developments, such as the approval of the North American Free Trade Agreement (NAFTA) which raised expectations of eventual hemispheric free trade, the reactivation of Central American initiatives to rapidly move forward on regional economic integration, the U.S. and Central American interest in creating an alliance for sustainable development and the reduced level of USAID resources for Central America, have made it necessary to review the strategic objective as developed in 1992 and revise it to reflect the new realities. In addition to examining the needs of the region, this revision took into account overall U.S. Government policy towards the region, new USAID strategic directions, the status of Central American economic integration, other donor activities, USAID bilateral and regional initiatives, the cast of Central American institutions, and projected resource levels. The outcome is a more focused strategy for regional trade and economic development, concentrating on supporting the new strategic objective of **increased Central American participation in the hemispheric economy**, and an updated strategic objective framework for USAID activities in the region.

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<sup>1</sup> Central American countries are defined as Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, unless otherwise noted. Belize and the Dominican Republic have not been explicitly included in this strategy, although it may be necessary to incorporate one or both countries depending on how closely they are involved in the regional economic integration process.

## II. Overall Policy and Strategy Context

### A. U.S. Government Policy towards Central America

In the early 1990s, U.S. Government policy towards the Americas was embodied by the Enterprise for the Americas Initiative, which envisioned the creation of a hemispheric free trade zone as well as increased funding for investment and debt relief for countries which had made appropriate policy changes. In a historic meeting with the Central American presidents in November 1993, President Clinton accepted the Central American proposal to work together on an Alliance for Sustainable Development, that would include the objective of achieving sustainable economic growth in the region partially through the creation of a Western Hemisphere Free Trade Area. The recent approval of NAFTA, which will open free trade among Mexico, the U.S. and Canada over the next ten to fifteen years, is the first step towards realizing the goal of hemispheric free trade. Additional steps towards the creation of a Western Hemisphere Free Trade Zone, such as the negotiation of framework agreements with all six Central American countries, have also been taken. Through these agreements, Central America has pledged to work towards creating an open and predictable environment for trade and investment, eliminating non-tariff barriers, and developing international trade and economic interrelationships as well as committing to recognize the importance of the protection of intellectual property rights, of the environment and of workers rights in accordance with international standards.

As a result of the framework agreements, annual bilateral Trade and Investment Councils (TIC) were established to discuss trade policy and related issues. Although to date these meetings have been held on a bilateral basis, because of the great similarity of the issues that are addressed (see Annex I for a summary of the TIC agendas of El Salvador, Guatemala, Honduras and Panama), a suggestion has been made (both from within the U.S. Government as well as by some Central Americans) that the meetings be held on a regional basis to not only streamline the TIC process, but also to reinforce Central American regional economic integration efforts, since it is possible that future free trade negotiations would be with the region as a whole rather than with individual countries.

### **Regional Economic Integration and Free Trade**

Readying the region for greater participation in the international economy and for accession to free trade agreements has not only been happening through mechanisms such as the framework agreements and the TICs, but also through advances in Central American regional economic integration. Greater Central American regional integration has been viewed both by the Central Americans and by the U.S. as a crucial step towards developing a regional economic bloc capable of competing in the international marketplace. The theory behind the new regional integration movement is that increased regional economic integration will lead to a more efficient allocation of the factors of production, greater regional macroeconomic stability through the coordination of national policies, and a reduction in production costs through the exploitation of economies of scale and greater

specialization among the member countries. Taken together, these factors will boost the competitiveness of the Central American economies and improve their position in world markets. Similarly, access to world markets will be facilitated through the creation of a larger trading area that will be more attractive to prospective investors and trading partners.

Reiterating U.S. support for the complementary objectives of greater regional economic integration in Central America and hemispheric free trade, in his message to Guatemalan President De Leon Carpio before the October 1993 Central American presidential summit, President Clinton said: *"I am deeply committed to supporting free trade as a means of promoting job creation and greater economic prosperity throughout the hemisphere. The North American Free Trade Agreement is an important step toward that broader goal. I also fully support your efforts to achieve regional integration."* A few weeks later, in a historic meeting with the Central American presidents, President Clinton renewed his support for sustainable economic development in Central America and the U.S. commitment to continue to assist in that process. At the same time, he announced the U.S. intention to develop a proposal to mitigate the negative impact of NAFTA on Central American trade and investment flows and to work with the Central Americans as the U.S. develops a policy on accession to NAFTA for other countries.

#### B. USAID Global Program Strategies

In the past, USAID and other international donors have espoused a variety of strategies to achieve rapid and sustainable economic growth. These include import substitution, export promotion, basic needs fulfillment and private enterprise development, among others. More recently, as understanding of the linkages between sustainable development and economic growth has evolved, donors have turned to market-based formulas for achieving economic growth, with the rationale that competitive markets are the best and most efficient way to organize the production of goods and services since greater domestic and external competition provides the incentive to encourage entrepreneurship and technological progress. The new USAID strategies support this market-based focus as do the initiatives of the Central Americans themselves. Four inter-related strategic areas of focus have been established for USAID as a whole: 1) encouraging broad-based sustainable economic growth; 2) protecting the environment; 3) stabilizing world population growth and protecting human health; and 4) building democracy, all four of which are crucial for the achievement of sustainable economic growth and development.

Activities under this strategic objective will focus on a subset of the issues identified in the USAID economic growth strategy and in the regional Central American strategy, taking into account available resources, institutional capabilities, comparative advantages in the region and other donor and bilateral Mission activities. Specifically, activities will focus on strengthening the Central American market through interventions designed to establish an appropriate enabling environment for private sector growth. This will include the reduction of policy barriers to increased intra and extra-regional trade and the harmonization and improvement of regional policies on issues crucial for the negotiation

of free trade agreements, such as the environment, labor, intellectual property rights and dispute resolution procedures. Activities pursued under this strategy will be complemented by other Mission activities that relate to promoting sustainable economic growth in the region. More detail on the specific activities that will be supported under this strategy is provided in Section V.

### C. Central American Regional Economic Integration

In 1960, El Salvador, Costa Rica, Guatemala, Honduras and Nicaragua initiated the creation of the Central American Common Market based on an import substitution and industrialization philosophy, with the gradual goal of achieving a complete economic union. The process was successful in dramatically increasing intraregional trade flows, which grew from approximately \$35 million in 1960 to close to \$1.2 billion in 1980, in current values. However, the international oil crisis, inadequate national economic policies, inequitable benefits of trade, inefficient production policies, falling prices for traditional agricultural exports leading to a lack of necessary hard currency and political turmoil in the region cut those trade figures by more than half by the mid 80's, and the Central American regional economic integration process stagnated as each country struggled to survive on its own.

The year 1986 marked a new beginning in the region. The Central American presidents signed the Esquipulas Declaration in which they pledged to move towards democratic systems of government. By 1990, most Central American countries had freely elected, democratically oriented governments and had begun to rationalize their economic policies. At a presidential summit meeting that year in Antigua, Guatemala, the Central American governments, now with the inclusion of Panama, pledged to strengthen and renew the economic integration process but with the new objective of using it as a platform to launch Central America into the global marketplace rather than as a protectionist device. Through the Antigua Declaration, the Central American governments affirmed their commitment to:

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

The implementation of these initial commitments to rapidly restore a free trade area (including a new uniform tariff system, reduction of non-tariff barriers, and liberalization of the payments mechanism, among other complementary measures) reversed the negative

trend of intraregional trade, with trade within Central America growing by 8% in 1991 and 15% in 1992 to reach nearly \$1 billion. By mid-1991, the Northern Tier Countries (originally composed of El Salvador, Guatemala, and Honduras but later expanded to include Nicaragua in the now named CA-4), decided to seek a complete economic union by the year 2000.

Other demonstrations of the Central American commitment to liberalizing trade and opening regional markets were the establishment of a common external tariff of 5 to 20% ad valorem among five Central American countries<sup>2</sup> in 1993, a rate which is much lower than the that had been established in the former CACM; easing of formalities and procedures for border crossings within the region; introduction of a uniform Central American customs document and modification of customs nomenclature; ratification of common safeguards and anti-dumping legislation and movement towards harmonization of phytosanitary standards.

Continuing these efforts, the Presidents of the six Central American countries signed a Protocol to the General Treaty of Central American Economic Integration (known as the Protocol of Guatemala) in October 1993, through which the new objectives of the integration process were formally adopted and the steps to achieve a Central American Economic Union were defined. (See summary in Annex II.) The most noteworthy features of the revised Protocol were that it did not impose a rigid calendar of events, and that each member was left free to choose which areas of the process to participate in, and to do so at a pace consistent with its internal economic and political situation.

This flexibility guaranteed the accession of all six members to the Protocol, with Costa Rica and Panama deciding to become less than full members at the present time. Costa Rica decided, for example, to participate only gradually in the creation of a customs, monetary or political union and also indicated it will not accompany its partners in liberalizing the flow of labor in the short run. Panama's participation was even more limited, adhering only to a limited free trade zone and agreeing to participate in the Central American Bank for Economic Integration (CABEI) and the Permanent Secretariat of the General Treaty of Central American Economic Integration (SIECA) as a full member. With the flexibility inherent in the Protocol of Guatemala -- now the basic legal framework of the economic integration process -- the fast-track approach of the CA-4 and the more gradual approach of Panama and Costa Rica are both accommodated.

Although it is unlikely that all the countries in the region will move at the same speed, full regional integration is neither necessary nor sufficient for individual countries or subgroups within the region to secure the benefits of free trade. Regardless of the approach taken to the economic integration process, all six countries are interested in negotiations to

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<sup>2</sup> This tariff range was put into effect in Guatemala, El Salvador and Nicaragua on March 1, 1993; in Honduras on April 1, 1993 and in Costa Rica on November 15, 1993.

adhere to or take advantage of international trade initiatives, such as NAFTA, as a region. By stressing the opening of Central America to the world economy, the "new" Central American integration movement deliberately distances itself from the protectionist import substitution policies of the Central American Common Market of the past. The Central American governments have realized that integration should not be an end in itself, but one element of the drive to modernize their economies, to make the most of the region's resources, and to compete effectively in international as well as domestic markets.

### III. The Setting, Development Problem and Constraints

#### A. The Setting: The Central American Economy

The Central American isthmus embraces the six countries of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama, covering a total area of nearly a half a million square kilometers with a population of approximately 30 million and a combined GDP of \$35 billion. For purposes of comparison, the regional Central American economy is at present less than one percent of that of the three NAFTA countries combined; however, GDP growth in Central America has been positive, averaging 3.5 percent annually since 1990, notably higher than the 1.3 percent growth of the LAC region over the same period.

The economic structures of the six Central American countries are fairly similar, depending on agriculture for approximately one quarter of their GDP (with the exception of Costa Rica and Panama, with percentages of 18 and 11% respectively) and to a lesser extent on manufacturing, ranging from a low of 9% of GDP for Panama to a high of 23% in Nicaragua. Approximately 45% of agricultural activities in the region still focus on traditional products, such as coffee, bananas, sugar, cotton and meat, although there has been a dramatic increase in the export of non-traditional agricultural commodities such as melons, snow peas, onions, and other vegetables. Central American industrial activity centers around agricultural and food processing, followed by textiles and apparel. The Central American countries represent relatively open economies, with the ratio of trade (exports plus imports) to GDP ranging from a low of 40 percent in Guatemala to a high of 80 percent in Costa Rica.

The United States is the region's main trading partner, serving as the market for approximately two-thirds of the region's exports (mainly textiles and apparel and traditional and non-traditional agricultural products), and supplying more than 55% of the region's imports (mainly manufactured goods, machinery and transportation equipment). All countries in the region, except Costa Rica, have a trade deficit with the U.S. Intraregional trade, composed mainly of manufactured goods, has taken on increasing importance as well, climbing from \$790 million in 1990 to more than \$1 billion in 1992, at an average annual growth rate of 21%. The European Union absorbs about 20 percent of the region's exports (mainly coffee and bananas) and supplies around 11 percent of the region's imports (mostly chemicals, machinery and transport equipment). Two-way trade with Japan and other industrial countries is relatively small, altogether amounting to about 10 percent.

#### B. The Development Problem

Even with regional average GDP growth of three to four percent annually and greater dynamism in intra and extra-regional trade, economic growth in Central America has not been sufficient to assure the social well-being of the majority of Central Americans; Central American countries still are clustered largely at the bottom of the ranking on the human

development index (a composite ranking of national income, adult literacy and life expectancy) in the LAC region, with four of the six countries receiving rankings only marginally better than Haiti and Bolivia, who are the lowest performers.

Achieving sustained and equitable economic growth in the region requires, among other factors, political and macroeconomic stability, an adequate and well-managed natural resource base, availability of labor and capital resources, access to infrastructure and technology, existence of entrepreneurship and an appropriate commercial policy environment. Some of these factors are being addressed through bilateral and regional USAID programs; others are being addressed by international donors, national governments or the private sector. For example, the World Bank and the IMF have been involved in encouraging macroeconomic sectoral reforms through structural adjustment programs in Central America. Likewise, USAID already has developed an extensive program to address natural resource management issues on a regional basis and has worked bilaterally and regionally on encouraging political stability through support for democracy. This strategy will focus on addressing those factors which directly affect trade and economic development; specifically, policy reform activities will be supported that improve the enabling environment for private sector growth and that result in improved regional coordination to ready the region for accession to free trade agreements and increase regional integration.

Other cross-cutting issues which are important to sustainable development, such as ensuring broad-based participation and equity in the distribution of benefits, will be addressed by this objective as much as possible. For example, to the extent that the regional program focuses on broad policy issues such as establishing internationally-recognized workers rights standards, there will be a positive long-term impact on the equitable distribution of benefits. However, given the nature of regional activities with their focus on policy reform and on working with regional counterparts which respond to national member organizations, issues of equity and participation will not be as directly addressed as at a national level, where activities have a visible impact on and closer relationship to project beneficiaries.

### C. Constraints to Increased Central American Participation in the Hemispheric Economy

In the Central American context, the lack of a policy environment and institutional framework that supports trade and investment is a key constraint to achieving broad-based, sustainable economic growth. Without increased trade and private investment in the region, brought about through greater regional economic integration and greater participation in the world economy, Central America will not be able to maintain sufficient levels of economic growth to meet the needs of its population. The Mission's strategy seeks to remedy those problems and constraints that directly inhibit trade and sustainable economic development both within and outside the region and that are within the Mission's manageable interest. Most important among these on the substantive side are the lack of an enabling environment for private sector growth and inadequate labor and environmental

policies and on the procedural side, insufficient regional coordination, as described below. The Mission will focus on supporting a select number of policy changes to address these constraints, to be determined by resource levels, the availability of institutional counterparts and regional political commitment and interest.

#### **Inadequate policy environment and insufficient policy enforcement**

Deficient policies, laws and regulations and the absence of adequate policy implementation and enforcement provide barriers to the free flow of goods, services and capital within countries, among the Central American countries themselves and between the region and the rest of the world. This deficiency has led to a lack of private productive investment, insufficient growth in exports to finance rapidly rising imports, unchecked exploitation and degradation of the natural resource base, incomplete protection of labor rights and an inefficient allocation of the factors of production, slowing regional economic growth. Mission activities will be focused only on those policies for which there is a comparative advantage to addressing them at the regional level and where there is political will to implement policy reforms.

- **Inadequate and weak enforcement of environmental protection policies:** Inadequate environmental protection and conservation policies as well as weak enforcement of existing laws and policies has led to exploitation and degradation of the natural resource base, putting the sustained economic development of the region at risk. The threat is at least as strong from implicit policies and practices as it is from explicitly environmental policies. Without continued access to clean air and water and a sustainable supply of natural productive inputs, such as forest materials, future economic development will be limited. As the economies of the region grow and become more industrialized, policies are needed that will address cross-border pollution, guard against the creation of "pollution havens" and strengthen the development and enforcement of common standards for environmental protection.
- **Lack of protection for labor rights:** The lack of consistent and adequate protection of labor rights in the region has not only placed the region under growing international scrutiny and jeopardized continued access to trade privileges granted under the Generalized System of Preferences, but also has led to models of labor-management relations that pit workers against management, resulting in lower productivity and decreased competitiveness.
- **Lack of an enabling environment for private sector growth and increased trade and investment:** An inadequate commercial policy environment in the region inhibits private sector growth and increased trade and private investment. Among the more important policies that inhibit growth are tariff and non-tariff barriers to trade, lack of protection for intellectual property rights, inadequate dispute settlement procedures, cumbersome business start-up procedures, institutional and financial barriers to the participation of small firms in the economy, unclear policies regarding

foreign investment, weak capital and financial markets and restrictions such as licensing and quantitative limits on exports and imports.

### **Inadequate regional collaboration and coordination**

The rapid implementation of decisions on regional economic integration has been constrained by inadequate coordination of regional actions and actors and the lack of appropriate technical support, leading to frustration when political decisions are not acted upon in a timely fashion. Although certain steps have been taken to more precisely define the roles of regional institutions, such as the recent establishment of the Central American Integration System (SICA) and the definition of organizational roles in the Protocol of Guatemala, it is too early to evaluate whether this in itself will be able to improve regional coordination. Actively promoting complementarity and harmonization of both public and private sector actions on a regional basis will be key to ensuring that the political decisions that have already been made are implemented.

## IV. Assessment of bilateral and regional donor initiatives

### A. Multilateral Donor Activities

The major multilateral donors involved in regional trade and economic integration activities are the United Nations Development Program (UNDP) and the Interamerican Development Bank (IDB). Both donors are currently in the process of completing major regional programs, but both plan to design follow-on activities. The UNDP, through the Special Program of Economic Coordination for Central America (PEC), has been supporting institutional strengthening of the Secretariat for Central American Economic Integration (SIECA) and technical assistance to train international trade negotiators, automate customs clearance procedures and develop a short-term social and economic indicators system.

The IDB, through the Program for the Support of Central American Integration (PRADIC), has worked with the Central American Federation of Private Sector Institutions (FEDEPRICAP), SIECA and the Central American Monetary Council on institutional strengthening and implementation of regional integration commitments. In addition, the IDB has assisted in the mobilization of financial resources and technical assistance for the region through coordination of meetings of the Regional Consultative Group. The IDB is currently financing a study on NAFTA and various considerations that should be taken account by the region as whole in formulating a regional strategy for addressing NAFTA and future free trade agreement negotiations.

To date, neither donor has specifically focused on promoting a more open policy environment supportive of regional economic integration and incorporation of the region into the world market through preparation for accession to future free trade agreements. More information on these donor programs is found in Annex III.

### B. USAID Activities in the Region

USAID is the most active donor supporting trade, investment and economic integration programs, providing over \$1.8 billion in the past three years to Central America through both regional and bilateral programs. All bilateral USAID Missions in the region have programs related to improving national economic growth. Some have concentrated mainly on export promotion, others on small enterprise development and still others on privatization and financial markets. All bilateral USAID Missions in Central America have focused to some degree on promoting non-traditional export development and on improving the overall legal and regulatory framework for trade, investment and economic growth. A description of both bilateral and regional USAID projects is found in Annex IV.

### C. Regional Comparative Advantage

The argument for a regional and not solely a bilateral approach is based upon the great degree of similarity among the Central American countries in terms of the issues they face in joining the international market and on the greater willingness on the part of the international community to negotiate with Central America as a region rather than individual countries. Declining resource levels among international donors also argues for a regional approach to more effectively use scarce resources to find common solutions to common problems. Because all six Central American countries have already committed to forming an economic union (with the CA-4 promising to do so by the year 2000) and have expressed their interest in further negotiations with the U.S. on a free trade agreement, it makes sense to begin addressing common issues on a regional rather than a national basis. As more pressure is brought to bear on Central America by the implementation of NAFTA, they will be inclined to move towards regional free trade and the joint negotiation of other international free trade agreements. In fact, Central America is already negotiating a free trade agreement as a region with Columbia and Venezuela and the CA-4 is beginning to do the same with Mexico.<sup>3</sup>

USAID's advantage in implementing regional programs as compared to other international donors is determined by its field presence in the region, its experience in managing both regional and bilateral programs and its strong bilateral and Central American regional relationships that can be leveraged to promote regional consensus. As the most active trading partner with Central America and one of the closest, the evolution of a hemispheric free trade area is in the interest of the U.S. and is one way to encourage continued economic growth in Central America to increase the rate of development and raise the standard of living.

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<sup>3</sup> Costa Rica negotiated and signed a free trade agreement with Mexico in April 1994, which will take effect in January 1995.

V. Strategy for Increased Central American Participation in the Hemispheric Economy

The goal of this five year strategy is to support **increased Central American participation in the hemispheric economy** to lead to greater economic growth and an increased standard of living in the region. Specifically, the strategy will support activities that address the limitations of the current policy framework to increased intra and extra-regional trade and sustainable economic development and that encourage more effective regional coordination to eventually lead to: 1) increased regional economic integration and 2) preparation for free trade agreement negotiation.

A. Program Priorities: Preparation for Free Trade Agreement Negotiations and Support for Regional Economic Integration

Program priorities were determined by examining the U.S. prerequisites for accession to a free trade agreement, the basic principles of NAFTA, the TIC and Central American Economic Cabinet agendas, the Protocol of Guatemala, and the constraints to increased trade and economic growth on a regional basis, and establishing the areas where there was a convergence among U.S. interests, development needs, and Central American initiatives, but not an overabundance of other donor assistance. Two basic areas have been selected where the Mission will be able to have the most impact and where there is a clear intent to proceed not only on a political but also on a technical level. Specifically, this strategy will:

1. **Support Central America in preparing for negotiation of free trade agreements**, using NAFTA as a basis for analysis, to increase the region's ability to become more integrated into the world economy; and
2. **Support greater regional economic integration** through the implementation of actions contained in the Protocol of Guatemala and the priority agenda of the Central American Economic Cabinets to increase the attractiveness of the region to foreign trading partners and lead to more sustainable regional economic growth.

These areas will be addressed through concurrent activities, taking into account the strong linkages between greater regional economic integration and the ability of the region to participate more fully in the world economy. Both preparation for free trade agreement negotiations and support for increased regional economic integration will address the regional constraints of an inadequate policy environment and insufficient policy enforcement in the areas of the environment, labor rights and the enabling environment for private sector and trade growth as well as inadequate regional collaboration and coordination. Specific interventions that are envisioned under this strategy and an illustrative policy agenda are detailed below.

### **Preparation for Free Trade Agreement Negotiations**

Areas that will be included under the general framework of preparation for free trade agreement negotiations are support for policy, legal and regulatory reforms and implementing mechanisms that lead to a more open trade regime and an improved climate for growth on a regional basis combined with greater protection of the natural resource base and of labor rights. Specifically, activities supported under this strategy will focus on: 1) identifying the conditions and responsibilities inherent in preparation for free trade agreement negotiations, 2) identifying capabilities required to meet these responsibilities at a national or regional level, 3) working with the public and private sector to develop an action plan for implementation and 4) identifying policy reform strategies to be followed while the region prepares for free trade agreement negotiation.

This could include, for example, the establishment of provisions to protect natural resources and natural-resource based products and the development and implementation of minimum labor rights standards, consistent with international norms. Other major issues that would be examined in free trade negotiations and that could be addressed through this strategy are the conditions required for accession to an investment treaty with the U.S., an examination of required intellectual property rights standards, the implementation of internationally recognized dispute settlement procedures, reduction of tariff and non-tariff barriers, increasing market access for services, and the establishment and application of uniform standards and rules of origin. A more complete list of policy issues that have been identified as crucial for free trade agreement accession is found in Annex V.

### **Support for Regional Economic Integration**

The Protocol of Guatemala will be used as the basis for determining action areas supportive of regional economic integration, but because of the breadth of activities covered in the Protocol, our interventions will be confined to those where there is regional institutional commitment for short-term action and follow-through, where they complement activities pertinent to preparation for free trade agreement accession and where there is not a conflict with other donors' activities. This could include areas such as the harmonization of national export development policies, the establishment of region-wide standards for product quality, and coordinating national policies related to transportation of goods. Depending on how rapidly integration proceeds, we may also provide assistance related to the harmonization of monetary policies and to training regional trade negotiators in basic negotiating skills.

### **Illustrative Policy Agenda**

An initial list of policy issues to be addressed under this objective includes:

- o harmonization and upgrading of intellectual property rights laws on a regional basis to world-class standards

- o harmonization of regional labor legislation and standards to be consistent with those included in international conventions
- o establishment of minimum environmental protection standards and enforcement mechanisms consistent with those approved under NAFTA
- o establishment and implementation of a regional dispute resolution mechanism
- o harmonization and improvement of the legal and regulatory framework for regional transportation to lower costs in the region and encourage increased private investment
- o reduction in tariff and non-tariff barriers to intra and extra-regional trade
- o harmonization and increased transparency of regional investment laws to facilitate accession to a bilateral investment treaty or similar agreement and
- o harmonization of regional rules of origin

#### B. Program Approach

Activities under the strategic objective to support an open and competitive regional economy will be characterized by an orientation towards results, complementarity with bilateral Mission and other donor programs, and an effective use of human, financial and institutional resources.

#### **Managing for Results**

In the past, regional projects and other donors have supported a wide range of studies whose recommendations were not implemented, not relevant or not politically feasible. Based on an analysis conducted by the Mission, more than 150 studies have been done by donors and regional institutions on topics related to regional economic integration since 1990, with the majority of the recommendations included in these studies not acted upon or taken into account in regional activities. (There have been notable exceptions; the Mission, for example, funded the development of the basic document that was signed in October 1993 as the Protocol of Guatemala.) To avoid producing studies of dubious worth in the future, special care will be taken to ensure that when studies are undertaken, there is a clear political commitment to move in that policy direction, that follow-up to the results of the study will be a vital part of the process and that there is an investment in the outcome of the research on the part of the counterpart institution.

#### **Increased Coordination with Bilateral Missions and Other Donors**

An important characteristic of activities under the revised strategic objective will be increased coordination with and reliance upon the programs of bilateral USAID Missions and international donors, to ensure complementarity among our programs and the most effective use of resources. As resources destined for the region decline, it will become even more important to leverage all the resources available for maximum results. As two Missions in the region begin a phase out of their programs, and activities related to investment promotion, the development of export processing zones, and possibly even institutional support for export development organizations are reduced or eliminated, the regional Mission in Guatemala can play a role in fostering regional economic growth and ensuring sustainability and continuity of USAID activities through information dissemination and analysis. Emphasis will be placed on the analysis of regional economic integration policies, decisions, economic and trade statistics and other common regional topics and the dissemination of these findings to the bilateral USAID Missions and other appropriate organizations in the region, to encourage the free flow of information.

### **Efficient Use of Resources**

The third defining characteristic of regional economic growth activities will be an effective use of human, financial and institutional resources. To maximize the benefits that can be gained from our limited resources, our relationships with counterparts will be continually assessed to ensure that we are working with institutions that adequately represent our regional partners and that have sufficient political and financial commitment to the policy reforms for which support is requested. Institution building will not be a focus of activities under this objective; we will strive instead to work with the most sound and technically capable institutions that require only limited amounts of program support.

### **Checklist for Review of Activities**

Reflecting this revised approach, new activities will be subjected to a review that will include responding to the following questions:

- Is there regional institutional commitment to implement the results of the study, seminar or activity that is being financed? Will the activity provide measurable results?
- Does the activity fall within either the changes required for preparation for negotiation of a free trade agreement or is it required to implement specific agreements reached in the Protocol of Guatemala supportive of regional economic integration?
- Has care been taken to ensure that the activity does not duplicate but complements the activities of other donors and bilateral USAID Missions?

This type of analysis will help ensure that project activities adequately reflect the needs of the region, do not duplicate ongoing or past activities and complement the activities of other donors and bilateral Missions.

## VI. Strategy Implementation

### A. Project Activities

The strategy will be implemented through the activities of three of the Mission's current regional projects and through new regional projects as needed, through coordination with and leverage of bilateral Mission activities in the region and through USAID centrally-funded projects where appropriate.

The primary regional projects supporting this objective are the Economic Policy Research Project, the Partnership for Democracy and Development and the Central American Development Coordinating Commission (CADCC). The Economic Policy Research Project supports specific action-oriented technical assistance to strengthen the private sector role in trade negotiations and to implement actions outlined in the Protocol of Guatemala. The Partnership for Democracy and Development, which is in a transition phase, is supporting the design of a regional trade and investment information system, while CADCC supports the development of regional policy positions on a range of issues, including free trade agreement accession as well as broader social development issues. In addition to these projects, the regional portfolio will be adapted and new projects developed as current activities are phased out to more fully address the activities outlined in this strategy. A new regional project is planned for design and obligation in FY 95.

Types of activities that will be supported by regional projects and by Mission staff include: technical assistance for the development of model regional policies and regulations supportive of a more open economy, preparation of draft regional agreements, training linked to the implementation of regional initiatives, support for regional dialogue and consensus-building, on-going monitoring of key trends and factors relevant to regional policy harmonization and regional economic performance, and active dissemination of findings conclusions and recommendations of regional analyses. More specifically, this could include:

- undertaking a comparative analysis of intellectual property rights protection in the region and promoting a regional consensus on the benefits of implementing world-class IPR legislation based on a costs/benefits analysis;
- conducting a "policy audit" of the framework for intra and extra-regional trade development in the region to determine those policy areas that need improvement to increase the region's competitiveness in light of NAFTA and other competitors;
- analyzing the impact of NAFTA on the region and the standards established in NAFTA to develop recommendations for improvements in regional environmental, labor, investment, market access and other policies and regulations

- working with the private and public sectors to improve the regulatory framework for regional transportation to lower costs in the region and developing new transportation linkages with the U.S. and other markets; and
- establishment of regional dispute resolution procedures.

#### B. Implementing Institutions

There are a number of governmental and non-governmental organizations involved in the regional economic integration process, with varying degrees of technical ability, stature and involvement. A chart showing the current organizational structure of the governmental organizations involved in integration is attached in Annex VI as well as a listing of the most important institutions involved, with a brief assessment of their capabilities and of our past relationship with them. At the current time, the Mission will continue to work with the regional umbrella organization of the public sector for economic and trade issues (SIECA), the regional umbrella organization for the private sector, the Federation of Private Institutions in Central America and Panama (FEDEPRICAP) and with various contractors and consultants. It is possible that the set of institutions that implements the program activities will change over time, as the mix of activities changes and the capacity of other regional institutions develops.

#### VII. Strategic objective framework

The goal of the regional economic growth strategic objective is to **increase Central American participation in the hemispheric economy**. The achievement of this goal will be measured by an increased percentage of Central American trade in terms of hemispheric trade as a whole.

The **program outputs** for the strategic objective will be **increased regional economic integration and preparation for and negotiation of free trade agreements**. As Central America harmonizes and liberalizes its trade-related policies at the regional level, providing a more transparent and secure economic environment, more intra-regional trade will result. Likewise, as Central America prepares for and negotiates free trade agreements in the hemisphere, based on the conditions negotiated under NAFTA and the principles contained in the GATT, the development of improved standards relating to environmental protection, intellectual property rights, and labor will occur, in addition to the creation of a regional dispute resolution mechanism and the negotiation of regional or the harmonization of bilateral investment treaties.

Attainment of the strategic objective is directly supported by three current regional Mission projects (CADCC, the Economic Policy Research Project, and the Partnership for Democracy and Development Project) and a new regional project that is being designed (the Regional Trade Policy and Economic Integration Project) as well as by bilateral

USAID projects. A list of the bilateral projects that potentially contribute to the attainment of this objective is found in Annex IV.

<p><b>Mission Strategic Objective</b> Increased Central American Participation in the Hemispheric Economy</p>
<p><b>Strategic Performance Indicators</b></p>
<ul style="list-style-type: none"> <li>- Central American trade as percent of total intra-hemispheric trade increased from 2% in 1992 to Y in 1998</li> <li>- Value of Central American trade in the hemisphere increased from \$4.2 b in 1992 to Y in 1998</li> </ul>

<b>Program Outputs</b>	
<b>Increased Regional Economic Integration</b>	<b>Increased Preparation for and Negotiation of Free Trade Agreements in the Hemisphere</b>
<b>Program Indicators/Project Level End of Project Status (EOPS)</b>	
Increased intra-regional trade from \$.9b in 1992 to Y in 1998	Establishment of acceptable standards for free trade agreement accession for environmental protection, labor relations and intellectual property rights protection by 1998
Implementation of harmonized policies supportive of regional economic integration	Establishment of dispute resolution procedures by 1998
	Establishment of regional or harmonization of bilateral investment treaties by 1998
	Free trade agreements negotiated as a region in the hemisphere by 1998

<b>Projects Contributing to the Strategic Objective</b>	
Economic Policy Research	Economic Policy Research
CADCC	CADCC
PDD	PDD
Regional Trade Policy and Economic Integration Project (New Activity)	Regional Trade Policy and Economic Integration Project (New Activity)

ANNEX I

Comparison of Central American Trade and Investment Council Agendas - 1992

Topic	El Salvador	Honduras	Guatemala	Panama
GATT	*	*	*	*
Intellectual Property Rights	*	*	*	*
NAFTA/EAI	*	*	*	*
Investment regime	*	*	*	*
Trade Liberalization	*	*	*	*
Price Band Elimination	*	*	*	*
Market Access (chicken parts)	*	*	*	*
Labor Code Reform	*		*	*
Privatization	*		*	*
Phytosanitary regulations / procedures	*	*	*	
Bilateral investment treaty		*	*	*
Norther Tier status	*	*	*	
Government procurement policies		*	*	
Central American Common Market	*	*		
Tariff reforms		*	*	*
NAFTA Parity		*		
International coffee agreement	*			

THE ECONOMIC UNION'S AGENDA (as agreed to in the Protocol of Guatemala)

1. Establishment of a Free Trade Zone

- a. Elimination of tariff and non-tariff barriers and quantitative trade restrictions
- b. Establishment of uniform technical norms and health, phytosanitary, quality and environmental standards
- c. Establishment of trade rules such as dumping, unfair trade practices and subsidies

2. Establishment of a Customs Union

- a. Unification of customs legislation, methods and procedures
- b. Establishment of a regional customs service or administration
- c. Coordination and harmonization of tax and other policies affecting intra-regional trade

3. Establishment of Integrated Monetary and Financial Policies

- a. Harmonization of macro-economic policies, especially those relating to monetary and fiscal policies
- b. Establishment of procedures for the free movement of capital, the development of capital markets and their integration and the linking of regional stock exchanges

4. Encouragement of Factor Mobility

- a. Establishment of policies that encourage the free movement of capital and labor

5. Development of External Trade Relations

- a. Establishment of policies that encourage exchange rate stability
- b. Development of joint trade policies to increase market access, develop and diversify exports and improve regional negotiating capacity
- c. Establishment of common rules of origin, safeguards legislation, technical norms and regulations governing unfair trade practices
- d. Harmonization of national export development policies

6. Harmonization of Regional Sectoral Policies

- a. Development of regional policy on development of tourism
- b. Development of regional agricultural development and agricultural pricing policies
- c. Development of regional industrial modernization policies
- d. Development of regional anti-monopoly policies that encourage free competition

- e. Development of regional consumer protection policies
- f. Development of physical infrastructure and harmonize related policies
- g. Development of policies to increase the role of the private sector in the provision of infrastructure
- h. Harmonization of banking, insurance, stock, and intellectual property rights legislation

7. Increase Regional Productivity

- a. Development of regional policies to promote a more efficient use of human and natural resources
- b. Development of regional policies that encourage scientific and technological development
- c. Development of regional policies that protect the natural resource base

Both Costa Rica and Panama agreed to adopt only certain aspects of the Economic Union Agenda. Listed below are the commitments they made during the Presidential Summit in October 1993:

Panama

- 1. Participation in SIECA;
- 2. Participation in CABEI; and
- 3. Analysis of options for furthering its participation in the economic integration process.

Costa Rica (at the present time)

- 1. Will not participate in the customs union;
- 2. Will not participate in the monetary union; and
- 3. Will not liberalize the movement of labor.

THE AGENDA OF THE C.A.-4

The agenda of the C.A.-4 countries is the same as the one set forth for the Economic Union, with the difference being that dates have been set for the accomplishment of specific phases of the integration. These target dates are listed below:

- 1. Achieve a customs union by 1996
- 2. Complete fiscal policy harmonization by 1999
- 3. Achieve a monetary union by 1999
- 4. Achieve complete economic union by 2000

### Description of Other Donor Programs

Apart from USAID, the most active donor in terms of regional activities is the United Nations, followed by the Interamerican Development Bank. To simplify the analysis, only programs that address issues on a regional basis are included.

#### 1. United Nations Development Program (UNDP)

In 1989, the United Nations created a program to coordinate and strengthen donors' assistance for Central American regional projects. This program was called the Special Plan of Economic Cooperation for Central America (PEC). The priorities of the PEC are:

- \* Support for plans of action outlined in Central American presidential summits;
- \* Resource mobilization activities;
- \* Support for institutional and sectoral macroeconomic studies, keeping in mind complementarity between the regional and national levels; and
- \* Emphasis on institutional strengthening and the development of human resources at the national and regional levels.

The PEC will only be in place until May 1994, but many of its components will continue to be financed by UNDP directly, by other U.N. agencies or with bilateral cooperation from the Office of Special Projects of the UNDP.

The sectors that have been addressed by the PEC include: uprooted populations, agriculture, infrastructure, social development, sustainable development of natural resources, environment and the private sector. Specific current projects under this framework have a funding level of \$4.238 million, and include institutional strengthening of SIECA, international trade negotiations, automation of customs clearance procedures, and development of a short-term social and economic indicators system.

#### 2. Interamerican Development Bank (IDB)

The IDB has one active program in Central America - the Program for the Support of Central American Integration (PRADIC) - which was established in June, 1992 and will end in December, 1993. The program has two objectives: 1) strengthen the regional integration process and regional institutions and 2) assist in the mobilization of financial resources and technical assistance to support integration goals. Activities under

PRADIC include a trade study through SIECA, a study on regional competitiveness, productivity and macro/microeconomic constraints through FEDEPRICAP and a study on regional fiscal and monetary policies through the Central American Monetary Council (CMCA). USAID has provided complementary support for the PRADIC activities with FEDEPRICAP and the CMCA.

PRADIC also coordinates the activities of the members of the Regional Consultative Group for Central America, which is comprised of 50 members, with 21 representing donor countries, 11 representing multinational organizations and 6 representing the Central American governments.

To help them direct future program efforts, the BID is conducting a study on NAFTA and what the region can do to prepare itself for eventual negotiations of a free trade. This study should be completed by mid-June for presentation to the Economic Cabinets who will use the study as a basis to develop a regional post-NAFTA strategy.

## Description of Bilateral and Regional USAID Projects

### A. Bilateral USAID activities

All bilateral USAID Missions in the region have programs related to improving national economic growth. Some have concentrated solely on trade and investment, others on small enterprise development and still others on privatization and financial markets. What is lacking is a coherent regional framework to complement these bilateral activities and leverage them for the most results. Following is a description of bilateral USAID programs in Central America that focus on economic growth. Where possible, programs of each Mission have been matched to one of the six constraints identified above for ease of reference. An examination of this classification of current projects show that all USAID Missions in Central America have focused to some extent on non-traditional export development and improving the overall legal and regulatory framework for trade and economic growth.

#### 1. USAID/Honduras

##### **Legal and regulatory framework**

USAID/Honduras has two programs addressing the legal and regulatory framework, the Policy Analysis and Implementation Project and the Structural Adjustment Program. These projects have a life of project (LOP) funding total of \$41.4 million, and were just authorized within the last year. The Policy Analysis and Implementation Project has a PACD of 6/97 and the Structural Adjustment Program has a PACD of 6/95.

##### **Human resource development**

The \$15 million Honduras Peace Scholarship program provides training for over 500 Hondurans through short and long-term scholarships in a variety of areas. The project PACD is 6/97.

##### **Export development**

Through the Export Development and Services Project, USAID/Honduras is working on developing export promotion and export development services (production, processing and marketing) through the private sector. The LOP total is \$26.1 million, with a PACD of 6/94. In addition, through the Small Farmer Organizational Strengthening Project, funds are being provided to increase agricultural productivity and diversify the productive base. This project has a LOP funding level of \$50 million and a PACD of 3/95.

## 2. USAID/El Salvador

### **Legal and regulatory framework/Export development**

The \$47.9 million Industrial Stabilization and Recovery Project, which will end in September, 1994, is focused on monitoring macroeconomic policy and stimulating the growth of non-traditional exports, through technical assistance, training and credit programs. The Agribusiness Development Project, also slated to end in 9/94, was designed to provide technical assistance, training and credit to private enterprises for the production and marketing of non-traditional agricultural products. The \$26 million Free Zone Development Project, suspended in October 1992, also contributes to export development. In addition, the \$500,000 Technical Assistance to Businesses Project, managed by the International Executive Service Corps, provides technical assistance to the Salvadoran private sector.

## 3. USAID/Guatemala

### **Legal and regulatory framework/Export development**

The \$9 million Trade and Labor Relations Development Program focuses on a policy reform agenda related to intellectual property rights and the investment approval process as well as project activities designed to promote trade policy reform, non-traditional export development and improved labor relations. This program will end in 1998, and is the last assistance that will be provided to this sector. The \$10 million Private Enterprise Development Project, with a PACD of January 1995, was designed to strengthen the role of the private sector through non-traditional export development, training for small and medium enterprises and improving the efficiency of the public sector.

### **Human resource development**

The \$12 million Guatemalan Peace Scholarship project provides short and long-term technical training in a variety of fields for both the private and public sectors. Past training has included handicraft and non-traditional agricultural export producers.

## 4. USAID/Costa Rica

### **Legal and regulatory framework/Export development**

The Financial Services Project focuses on providing support for a policy environment favorable to the expansion of financial services, and will be active until June 1995. The Non-traditional Agricultural Exports Project provides support to CINDE to coordinate production and investment promotion activities and encourage a policy environment conducive to export development. This project ended in September 1993.

**Human resource development**

The Training for Private Sector Development Project is designed to upgrade the skills of the Costa Rican private sector. It will last until September 1994.

5. USAID/Panama

**Legal and regulatory framework/Export development**

The \$1 million Economic Policy Development Project provides training in international trade, microeconomics and macroeconomics to strengthen the GOP's policy making ability. The \$2.5 million Trade and Investment Development Project promotes the development of light industry and agribusiness exports and the adoption of policy changes supportive of free trade.

6. USAID/Nicaragua

**Legal and regulatory framework/Export development**

Through the Private Agricultural Services project, USAID/Nicaragua is promoting the strengthening of private agricultural organizations and non-traditional agricultural export production to diversify the economy and reduce dependence on traditional crops. This project will end in March 1996. A significant amendment is planned to expand assistance to producer associations and cooperatives. The Private Sector Support Project has been amended to focus on financial sector reforms, privatization of infrastructure and promotion of exports. The Mission is also implementing an Economic Policy Analysis and Implementation Project. This project will end in December 1997.

B. USAID regional programs

In addition to the bilateral USAID portfolios, there are also currently six regional projects that relate to creating a more open and competitive regional economy, which are described below, and are in various stages of implementation.

**Legal/regulatory framework**

The \$4.38 million Economic Policy Research (EPR) project, with a PACD of 8/95, provides funding to SIECA and FEDEPRICAP to support economic research and analysis. There is a mortgage of approximately \$260,000 and about \$1.2 million in unprogrammed funds with SIECA. FEDEPRICAP is focusing on two discrete research activities: identification of the competitiveness of six industrial sectors in Central America and the development of a strategy for regional infrastructure improvements.

### **Export Development**

The \$7.2 million EXITOS project is designed to provide technical assistance and training to Central American non-traditional agricultural exporters in production, post harvest, packaging, processing, marketing, information management, library systems and sustainability of the counterpart organizations. This project will end in September 1994. The current pipeline is \$2 million, with a mortgage of \$1.28 million. All funds are programmed for the support of the technical assistance team. This project has been very successful in introducing new non-traditional export crops and in improving the skills of individual producers. To maintain the positive momentum caused by this project and its predecessor, PROEXAG, the Mission is looking at ways to ensure its sustainability and the institutionalization of some of its activities.

The \$20.7 million Export Agribusiness and Development Promotion project provides financing for non-traditional agricultural export projects through the Latin American Agribusiness Development Corporation (LAAD). The PACD is 3/94. The remaining almost \$3 million is being programmed for loans in Central America, concentrating on Nicaragua and Panama.

### **Regional coordination**

The \$1.234 million Support for Partnership for Democracy and Development (PDD) project will support the establishment of an information system in trade and investment for Central America by completing three studies (a demand analysis, a compilation of existing information services and system design) in coordination with other OECD countries. Other accomplishments to date include hosting a Trade and Investment Conference for Central America and funding a plenary session of PDD organizations. The project PACD is 6/97. Questions have recently been raised about the need for the PDD, the Central American commitment to continuing with this forum, and whether it just adds another layer of meetings to the already complicated Central American organizational structure.

The \$497,850 Establishment of the Central American Development Coordinating Commission project was designed to create the Central American Development Coordinating Commission (CADCC) and begin the CADCC consultative mechanism, through which research results on a wide range of social and economic topics would be disseminated to Central American governments representatives, and private and public sector organizations. The project goal is to finance 20 studies, with four already approved. These four studies relate to Central American labor legislation, implications of trade liberalization with Mexico on the agricultural and cattle sectors and Central American industry and its competitiveness. The PACD of the project is 9/95. This project could be used to support a research agenda that complements the regional economic integration process.

### Central Elements of a Free Trade Agreement

#### Open and Transparent Trade Regime

- o Agreed rules for the application of standards and rules of origin
- o Adoption of anti-dumping and safeguards procedures

#### Increased Market Access

- o Provisions to permit the distribution of goods and for expanded access to government procurement
- o Effective market access for services on a broad scale
- o Elimination of tariffs over an agreed phase-out schedule
- o Phase-out of non-tariff barriers

#### Improved Investment Climate

- o An investment chapter containing the substantive equivalent of a bilateral investment treaty
- o Protection of intellectual property rights in line with world-class standards
- o Adoption of consultative and dispute settlement procedures

#### Miscellaneous

- o Special provisions to handle natural resources and natural resource-based products
- o Protection of workers rights in accordance with international standards

Description of Selected Regional Institutions

1. Central American Integration System (SICA)

SICA was created in February 1993 to serve as the legal and institutional mechanism to coordinate the activities of all regional governmental institutions. Its general secretariat would provide technical and executive support services to the meetings of the Central American presidents and the Ministers of Foreign Affairs, and in coordination with SIECA and other sectoral regional secretariats would perform similar services for any council established to monitor specific regional issues. Its offices are located in San Salvador.

2. Permanent Secretary of the General Treaty of Central American Economic Integration (SIECA)

SIECA, with offices in Guatemala City, was created in 1960 during the original Central American Common Market, as the technical public sector regional executive secretariat. Its current mandate is to act as the secretariat for the Economic Cabinet meetings and for the meetings of the Ministers of Economy, Trade and Finance. SIECA was recently reorganized to improve its responsiveness and strengthen its technical capacity. Assistance under the PDD and EPR regional projects is provided to SIECA for specific policy analyses and technical assistance; SIECA is used as a means to implement the CADCC regional project. No assistance is provided for institutional support. The UNDP has a fairly extensive project with SIECA focusing on institutional strengthening.

3. Federation of Private Sector Entities of Central America and Panama (FEDEPRICAP)

FEDEPRICAP was founded in 1987 as an autonomous association of Central American private sector entities to promote, develop and increase private enterprise and its role in social and economic development in the region. It is located in Costa Rica and is made up of the private sector development and policy-making cupula organizations of the six Central American countries and Belize. Substantial institutional support was provided to FEDEPRICAP by ROCAP under the Private Sector Initiatives Project from 1989 through June 1993. Since June 1993, limited assistance has been provided for specific research activities under the EPR project. FEDEPRICAP is recognized as having a strong technical staff, and has been successful in getting private sector views incorporated into the regional economic integration process. The IDB and the EC also have programs with FEDEPRICAP. Issues it is currently facing are

institutional sustainability in light of declining donor resources and limited local financial support and how to better meet the needs of its members.

4. Executive Secretariat to the Central American Monetary Council (CAMC)

The CAMC, located in Costa Rica, is a public sector regional organization composed of the central banks of all member countries of the Central American Common Market. It was originally established in the 1960s to promote cooperation among the central banks, maintain currency stability and expedite intraregional trade payments through a regional clearinghouse. It now serves as the technical coordinating body of the central banks on regional integration matters, and is the principal public sector entity involved in regional financial sector policy reform and monetary policy adjustments. Recent technical assistance under the EPR project focused on analyzing the feasibility of creating a Central American capital market. The IDB is also currently supporting the CAMC through PRADIC.

5. Central American Agricultural Council (CAC)

With the Ministers of Agriculture of the six countries of the isthmus, the Protocol of Guatemala established the Central American Agricultural Council (CAC), tasked with achieving the full integration of intraregional agricultural policies. Its technical secretariat is located in the Costa Rican offices of the Interamerican Institute for Cooperation on Agriculture (IICA); it works in close cooperation with SIECA, as the Ministers of Agriculture are also members of the Economic Cabinet meetings.

6. Federation of Central American Exporters Associations (FECAEXCA)

FECAEXCA is composed of the primary exporter associations of each Central American country. It has a rotating presidency and focuses on issues that are primarily of interest to exporters, such as alternative transportation routes. It does not have a permanent staff; its presidency and headquarters rotates among the member organizations every year. It has been important in encouraging regional dialogue and cooperation among the exporter federations.

List of Resources Consulted in Developing the Strategy

USAID/ROCAP Documents

ROCAP Regional Economic Policy Planning	1/91
Political and Economic Policies of Central America	7/91
ROCAP Trade and Investment Strategy	10/91
Briefing Document: <i>The Americas Group</i>	10/91
Analysis and Recommendations for ROCAP's Strategy and Project Development in the Area of Trade and Investment: <i>The Americas Group</i>	10/91
Regional Support to Trade and Investment: A Strategic Framework	2/92
APERTURA Project Identification Document	7/92
Northern Exposure: Launching the new integration in the Northern Tier Agreement	9/92
APERTURA Project Paper	1/93
Regionalism and Central American Development	4/93
The Need for External Assistance	4/93
Formulating a Strategy	4/93
ROCAP and the Regional Policy Reform Effort	4/93
ROCAP Action Plan	5/93
Central America: Economic Integration Activities Analysis: <i>Nathan Associates</i>	10/93

USAID/W Documents

Economic Assistance Strategy for Central America 1991-2000	1991
USAID Strategy Papers	10/93

Miscellaneous

The Premise and the Promise: Free Trade in the Americas, Sylvia Saborio	1992
AID's Private Sector Strategy at a Crossroads, GAO	1992
Central American Economic Cabinets Action Plan	3/92
Trade and Investment Council Meeting, U.S./Panama	1/93
Trade and Investment Council Meeting, U.S./Guatemala	2/93
Trade and Investment Council Meeting, U.S./El Salvador	3/93
Trade and Investment Council Meeting, U.S./Honduras	5/93
Protocol of Guatemala	10/93