PD-ABM-675 98853

# A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT DOT MATRIX TYPE.

## IDENTIFICATION DATA

A. Reporting A.I.D. Unit:
Mission or AID/W Office USAID/G-CAP
(ES# )

B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan?
Yes [X] Slipped [ ] Ad Hoc [ ]
Evaluation Plan Submission Date: FY 95 Q II

C. Evaluation Timing
Interim [X] Final [ ]
Ex Post [ ] Other [ ]

D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date for the evaluation report.)

| Project No. | Project / Program | First PROAG or Equivalent (FY) | Most Recent PACD (Mo/Yr) | Planned LOP Cost (000) | Amount Obligated to Date (000) |
|---|---|---|---|---|---|
| 596-0147.1 | Economic Policy Research (EPR) | 1988 | 12/96 | 2,224 | 2,224 |

## ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

| Action(s) Required | Name of Officer Responsible for Action | Date Action to be Completed |
|---|---|---|
| Reengineering of SIECA oriented to design mechanism to limit its role, not to expand it. | SIECA | Completed |
| Design and establish a calendar of country contribution of quotas. | SIECA | Open |
| Design of a proposal of a long term strategy for SIECA's reengineering areas. | SIECA | 4/96 |

## APPROVALS

F. Date of Mission or AID/W Office Review of Evaluation: (Month) (Day) (Year)
William Stacy Rhodes

G. Approvals of Evaluation Summary And Action Decisions:

| | Project/Program Officer | Representative of Borrower/Grantee | Evaluation Officer | Mission of AID/W Office Director |
|---|---|---|---|---|
| Name (Typed) | Ana Vilma Pocasangre | SIECA | MKromhout, PDM | William Stacy Rhodes |
| Signature | [signature] | | MKromhout | |
| Date | 03/08/96 | | 3/11/96 | |



a

## ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

This is an interim evaluation of the Economic Policy Research project (596-0147.10) or the "EPR". The main objectives of the project were: 1. to improve upon the quality and quantity of economic policy research in the Central American region; 2. to improve upon the number of trained economists in the region; and 3. to disseminate research results via conferences, meetings and publications. The main cooperating institution is the Secretaría Permanente del Tratado General de Integración Económica Centroamericana (SIECA). The evaluators interviewed all project personnel, and read all available project documents. The main observations on the EPR project implementation and impact are:

- The EPR project must be considered a failure. Almost none of the project objectives have been met.

- The project was poorly designed from the outset. The fact that economic policy analysis in the region was poor did not imply that this project was needed.

- The choice of SIECA to take the lead on the project was a poor one. SIECA is not well respected in the region as an institution that produces useful economic research.

- On matters dealing with organizational, administrative and financial management the main observations are:

  SIECA is not implementing Price Waterhouse's organizational reforms proposed in 1992.

  The use of the accounting program, TECAPRO, recommended by Price Waterhouse, has significantly modernized and improved SIECA's financial management.

  PW's organizational reform lacked an assessment of the financial impact of its proposed reforms. It also failed to point out the lack of internal mechanisms to improve internal control as are the Treasury and an Internal Auditor.

- The evaluation noted that SIECA is better prepared to assume functions of regional harmonization. However, in terms of regional economic coordination, its present technical capability and orientation will not guarantee satisfactory results.

- Since mid-July 1994, the new leadership in SIECA started to show positive changes on technical and administrative matters. On the technical side a workplan with USAID/G-CAP funds was approved and new personnel was designated for its implementation. On the administrative side several meetings between USAID/G-CAP & SIECA, helped SIECA to resolve its main problems.

## COSTS

I. Evaluation Costs

| 1. Evaluation Team Name | Affiliation | Contract Number OR TDY Person Days | Contract Cost OR TDY Cost (U.S. $) | Source of Funds |
|---|---|---|---|---|
| William Loehr<br>Ricardo Silva | IMCC | 596-0147-C-00-5024-00 | $49,000 | Project funded |

2. Mission/Office Professional Staff Person-Days (Estimate) 10 Person/days

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 120 days



b

# A.I.D. EVALUATION SUMMARY - PART II

## SUMMARY

J. Summary of Evaluation Findings - Conclusions and Recommendations (Try not to exceed the three (3) pages provided
Address the following Items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions
- Principal recommendations
- Lessons learned

| Mission or Office | Date This Summary Prepared: | Title And Date Of Full Evaluation Report: |
|---|---|---|
| TEA/USAID/G-CAP | July 20, 1995 | The Economic Policy Research Project: An Evaluation. A Report for USAID/G-CAP. Feb./95 |

The EPR is a $4.4 million project implemented in 7 years by SIECA. The purpose of the project is: to increase the quantity and quality of economic research and analysis by economic research centers and universities in Central America on critical economic policy issues, and to raise the level of public understanding and dialogue on those issues.

The purpose of this interim evaluation is to provide USAID/G-CAP with a complete analysis of the impact of the implementation of the EPR.

The methodology used by IMCC was to review all the available information of the project in the technical and administrative management, however, this review had some problems due to the fact that for the period August 1991 to July 1994, SIECA suffered a major administrative breakdown. All documents and files on work prior to August 1991 were not available. This is the reason for the 3 period focus for the information. Period 1 includes the time from the inception to August 1991. Period 2 refers to the period of institutional breakdown at SIECA. Period 3 starts in August 1994.

The main recommendations are:

**There does not appear to be a need for a project like the EPR.**

The EPR concept was based on the idea that economic policy analysis was weak and that support for policy analysis at the regional level would strengthen it. This never happened because this project did not focus on the main problems related to regional economic policy.

<u>If SIECA is involved in a future project, it would be best if SIECA were not the lead organization.</u> If a new project occurs and assuming that an alternative institution can be found, SIECA may play some role as a cooperating organization or sub-contractor.

<u>If USAID does continue to support a project with SIECA, then the project requires tight controls.</u> In the final report a set of principles was developed that USAID can use as a guide to construct a new project with SIECA:

a. <u>SIECA cannot do everything. Tasks that it takes on must reasonably match the resources available.</u> Many demands placed on SIECA are unreasonable. SIECA is often asked to do things for which it is unprepared and has no resources to prepare itself. SIECA should be looking for ways to limit its role not to expand it.

b. <u>Without timely country financial contributions, priority tasks cannot be done.</u> USAID should not become involved in SIECA unless countries resolve to pay reasonable quotas and to do so in a timely fashion.

c. <u>One of the indispensable tasks that should be done by SIECA, and that should be paid for out of the quotas is the administration of regional agreements.</u> The administrative role of SIECA needs to be clearly defined. A core set of activities must be identified, where the core includes all tasks necessary to support institutionalized economic integration. It needs to be determined what resources are necessary to take on these core tasks, and appropriate financial quotas set for each country.

d. SIECA needs to remain flexible to respond to regional needs. USAID-funded activities need not be as flexible. USAID funds should be allocated to long term projects designed to resolve important long-term regional economic issues. They should not be applied to resolving the short-run issues placed before SIECA by its client institutions.

The main conclusions of the evaluation were:

- SIECA remains the only broadly based institution that is truly regional, is the responsible body for administering Central American economic integration and its status as such has been confirmed by the presidents and the Protocol of Guatemala.

- SIECA cannot do everything. Many demands on SIECA are unreasonable. SIECA should be looking for ways to limit its role, not expand it.

- Without timely country contributions of quotas, priority tasks cannot be done.

- If reasonable quotas are not set (and paid) to cover essential services, and if demands for additional services are not accompanied by resources adequate to the tasks, then SIECA is doomed to irrelevance.

The main lessons learned for the EPR are:

- Insufficient resources are provided to attend to the large number of demands placed on SIECA. Since there is no cost to the client organizations in demanding SIECA's services, there is excess demand for the services. Almost every meeting of the regional economic cabinets or other organizations in the C.A. economic integration subsystem results in a flood of demands for SIECA to study something. Furthermore, the number of meetings that SIECA must attend to play its role as secretariat or coordinator is enormous.

- Some of SIECA's over-burdening is self inflicted. Some of the staff believe that anything that has implications for regional integration should be studied and/or controlled by SIECA.

## ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation summary: always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Evaluation Final Report

Scope of Work/PIO/T

## COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

IMCC did a good job identifying the major issues, concerns and achievements of the EPR. They showed a broad knowledge of the area and understanding of the project.

The Mission agrees with the major findings and conclusions of the evaluation team, including:

SIECA remains the only broadly based institution that is truly regional, is the responsible body for administering Central American economic integration and its status as such has been confirmed by the presidents and the Protocol of Guatemala.

If USAID continues to work with SIECA great care will be required to make any future commitment productive. The principal conclusions have to be taken into account by USAID in any further dealings with SIECA; this has already been done in the design of the Project in Support of Central American Participation in the Free Trade Area of the Americas (PROALCA).

USAID should support projects in areas where there is potential payoff from regional cooperation, whether or not the full region is involved. USAID will support the efforts of SIECA to help Central American countries accelerate their integration into the world economy and to prepare for full participation in the Free Trade Area of the Americas (FTAA), as prescribed in the Summit of the Americas Action Plan.

Changes in SIECA's leadership in April 1995 have helped SIECA to reorganize internally, to accomplish its project level commitments and to strengthen its position as regional institution. Through a new merit-based process for the selection of SIECA's Secretary General, the Ministers of Economy of the region have significantly increased the competence of SIECA's leadership.

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USAID/Guatemala Contract # 596-0147-C-00-5024-00

# THE ECONOMIC POLICY RESEARCH PROJECT:

# AN EVALUATION

# A REPORT FOR USAID/G-CAP


**WILLIAM LOEHR**
**RICARDO SILVA**


**FEBRUARY 1995**

*The views, expressions and opinions contained in this report are those of the authors and do not necessarily reflect the views of USAID.*


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# ABSTRACT

This is a final evaluation of the Economic Policy Research Project ( Project number 596-0147) or the "EPR". The main objectives of the project were **first,** to improve upon the quality and quantity of economic policy research in the Central American region. **Second,** to improve upon the number of trained economists in the region and **third,** to disseminate research results via conferences, meetings and publications. The main cooperating institution is the Secretaría Permanente del Tratado General de Integración Ecoómica Centroamericana (SIECA). The evaluators interviewed all project personnel, and read all available project documents. Our main observations on the EPR project implementation and impact are:

- The EPR project must be considered a failure. Almost none of the project objectives have been met.
- The project was poorly designed from the outset. The fact that economic policy analysis in the region was poor did not imply that this project was needed.
- The institutions that were chosen to carry out the project were too weak to do so. SIECA in particular was not capable of carrying out the mandates of the project. SIECA is still unable to do so.
- The choice of SIECA to take the lead on the project was a poor one. SIECA is not well respected in the region as an institution that produces useful economic research.
- Guidance from AID as to what the project should be doing was very poor. There is little evidence that AID suggested research themes or evaluated research once it was done.
- Project evaluation and control by AID was almost nil. Despite severe and obvious problems with the project, AID files reflect little criticism or concern.

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# EXECUTIVE SUMMARY

## THE ECONOMIC POLICY RESEARCH PROJECT: EVALUATION

The objective of this report is to evaluate the Economic Policy Research Project ( Project number 596-0147) or the "EPR". The project was begun in August, 1988, and was extended twice, with Project Paper (PP) amendments in July, 1990 and June, 1993. The main objectives of the project were **first**, to improve upon the quality and quantity of economic policy research in the Central American region. **Second**, to improve upon the number of trained economists in the region and **third**, to disseminate research results via conferences, meetings and publications. The main cooperating institution is the Secretaría Permanente del Tratado General de Integración Económica Centroamericana (SIECA).

The scope of work for this evaluation identifies two main areas of interest. **First**, we are to evaluate the impact and implementation of the project, and **second**, administrative, financial and organizational measures taken by SIECA. The latter question arises by virtue of a study and recommendations made by Price Waterhouse, who was commissioned by AID (in 1992) to look into these matters after it became clear that SIECA had difficulties in these areas.

A major methodological difficulty was presented to this evaluation team. An abrupt administrative breakdown at SIECA caused the loss of all project-related materials accumulated prior to September, 1991. During the August 1991 until July 1994 period, records were not kept, no workplans were produced, and little research occurred. After July 1994, things improved. Therefore we divided our evaluation into three periods and dealt with each differently.

### Period 1: August 1988 - August 1991.

Work on the EPR proceeded about as planned. Research and publications occurred, seminars held etc. SIECA formed the Centro de Estudios e Investigaciones Específicas (CEIE) to administer the project and conduct research. Formation of CEIE was a condition spelled out in the original Project Implementation Letters (PILs).

All records of the period were lost. Fortunately, one of the evaluators had been asked to express an informal opinion on the project in 1991, while working on a different ROCAP project. Extensive notes from that exercise remain and formed the basis of our evaluation. Findings were:

- Research proceeded as planned.
- The quality of the research was not very high and was on subjects almost exclusively related to economic integration.
- SIECA's regional reputation as a source of useful policy input was very poor. Most policy makers considered it irrelevant.
- The educational component proceeded as planned, but did not seem to be needed. The component was dropped from the EPR after this period.

## Period 2: August 1991 to July 1994.

A new Secretary General of SIECA was not interested in the EPR. The CEIE was disbanded, all CEIE staff was either dismissed or quit. All research materials, publications and other records were destroyed. No workplans were filed with AID, and reporting on financial and administrative matters were deficient. AID commissioned Price Waterhouse (PW) to recommend changes in these areas. Our findings are simple ones:

- During this period there was no effective EPR. Almost no research was done, and what was done was *ad hoc*. It did not constitute a project as originally envisioned.
- Any research capability that SIECA had accumulated through the activities of CEIE was destroyed.
- AID management in this period was very poor. No note was made (in Project Status Reports) of the difficulties at SIECA, nor of the elimination of the CEIE.

## Period 3: July 1994 - Present

A new, but temporary Secretary General of SIECA was appointed on July 1, 1995; the position is to be filled permanently by March 31, 1995. The new Secretary General has set about reorganizing and repairing the damage of the preceding three years. Research and other activities funded by the EPR is under way, and the first acceptable workplan was filed in October 1994. Our main findings are:

- SIECA is greatly overburdened. Demands on SIECA that are implied by the Protocol of Guatemala well exceed SIECA's ability to respond.
- SIECA has almost no internal research capability.
- SIECA is not well respected as a source of useful research on economic policy issues in the region.
- Actions on the regional level, that AID may want to support, fall in areas where SIECA has little experience.

## Summary:

Our main observations on the EPR project implementation and impact are:

- The EPR project must be considered a failure. Almost none of the project objectives have been met.
- The project was poorly designed from the outset. The fact that economic policy analysis in the region was poor did not imply that this project was needed, since considerable assistance was already going to the individual countries of the region via the AID country missions, the IMF, IDB, World Bank and other institutions.

- The institutions that were chosen to carry out the project were too weak to do so. SIECA in particular was not capable of carrying out the mandates of the project. SIECA is still unable to do so.

- The choice of SIECA to take the lead on the project was a poor one. SIECA is not well respected in the region as an institution that produces useful economic research. SIECA's policy positions are generally held in low regard.

- Guidance from AID as to what the project should be doing was very poor. There is little evidence that AID suggested research themes or evaluated research once it was done.

- Project evaluation and control by AID was almost nil. Despite severe and obvious problems with the project, AID files reflect little criticism or concern.

On matters dealing with organizational, administrative and financial management, our observations are:

- SIECA is not implementing Price Waterhouse's organizational reforms proposed in 1992.

- SIECA is also neglecting to use the manuals PW prepared on financial and administrative procedures.

- SIECA has barely complied with the procedures and instructions found in the Project Modification Letters (PIMs) and the Project Implementation Letters (PILs), although not mentioned in the procedures recommended by PW, still need to be complied with for purposes of satisfying USAID's administrative and financial requirements for the ROCAP-SIECA agreement.

- The use of the accounting program, TECAPRO, recommended by PW, has significantly modernized and improved SIECA's financial management.

- SIECA's internal controls are being modernized. A Treasury Office has been created to separate treasury functions from the Accounting Office, but SIECA still lacks a permanent internal auditor.

- SIECA itself resists any internal organizational change. For example, PW's recommendations to create the Administrative Technical Committee, the Personnel Department and the Department of Macroeconomic Studies have yet to be implemented. Also, the following departments have yet to be defined in terms of functional entities: Department of Systems and Statistics, the Department of Finance and Administration and Legal Counsel.

- PW's organizational reform lacked an assessment of the financial impact of its proposed reforms. It also failed to point out the lack of internal mechanisms to improve internal control as are the Treasury and an Internal Auditor.

- SIECA's present personnel policies have improved since the previous administration, but still fall short of being satisfactory. PW's recommendations, which failed to take into account problems in SIECA's salary structure, have not been implemented.

- We noticed that SIECA is better prepared to assume functions of regional harmonization. However, in terms of regional economic coordination, its present technical capability and orientation will not guarantee satisfactory results.

## Recommendations:

1. **There does not appear to be a need for a project like the EPR.** The EPR was unfocussed, did not identify policy priorities, and overly focussed on a regional approach to problems that may have been better solved by individual country action.

2. **If AID creates another regional policy project, we do not recommend that it be done directly through SIECA.** We elaborate upon our reasons for this judgement in Section 7.2.

3. **If SIECA is involved in a future project, it would be best if SIECA were not the lead organization.** It was not in the scope of work for this evaluation to identify an alternative institution to carry out an EPR-like project, and what one would be is not obvious. However, assuming that a project occurs, and assuming that an alternative institution can be found, SIECA may play some role as a cooperating organization or sub-contractor. This would protect the project from failure on SIECA's part to deliver, and help to get around the poor image that SIECA has among policy makers.

4. **If AID does continue to support a project with SIECA, then the project requires tight controls.** We have developed a set of principles that AID should use as a guide to constructing a new project with SIECA. These appear in Section 7.3.

5. **If there is a new project, the kinds of activities that should receive support are those of interest to either individual countries or the region.** A purely regional approach should be avoided. Much of the progress that has been made in economic policy in the region has been through individual country action. Policy makers do not take well to prescriptions that are exclusively regional ones. Many activities in protection of intellectual property rights, negotiation with outside trade blocks, rules of origin, clarification of rules governing foreign investment, and others, can be of assistance to either individual countries or to the region as a whole. These should be objects of AID attention.

# SECTION 1: INTRODUCTION

The objective of this study is to provide an evaluation of USAID/G-REG's, Regional Economic Policy Research Project (Project No. 596-0147), or "EPR". The ERP began in August, 1988, under auspices of USAID/ROCAP. ROCAP was discontinued as a separate office in 1991, and its activities were rolled into USAID/G. The ERP was amended twice. The original project was to end in February, 1991, and had $1.7 million allocated to it. The first amendment extended the project to August, 1993 and added $2.2 million. A second amendment extended the project to August 1995 and raised the spending authorized by an additional $480,000. Thus, total spending authorized for the EPR amounted to a total of $4.380 million. Of that total. $1.366 million was to be occupied by AID, for economists to guide the project, and for auditing, evaluation, etc.

## 1.1 PROJECT OBJECTIVES:

The EPR has three main objectives. **First** the project is to produce studies that support the policy making process in the Central American region and lend depth to the region's policy dialog. **Second**, policy-relevant analyses are to be disseminated through a series of seminars and publications. **Third**, the EPR is to provide institutional development of two distinct types. (1) The first phase of the EPR offered training to "junior" economists in the region, normally, people who were completing advanced degrees in regional universities. The training component was discontinued after the project's first phase. (2) Assistance is also aimed at improving the region's data resources by supporting the compilation of data by SIECA.

Part of the management of the project was through a steering committee, working with the institutions that were chosen to participate. Original participants were SIECA/CEIE, IESCARIBE, and INCAE, with SIECA being the lead organization[1]. IESCARIBE was dropped as a project participant when amendment 1 occurred. After amendment 2, participants were SIECA and FEDEPRICAP. The original steering committee was to be composed of people from these institutions, as well as representatives nominated by each country's Ministry of Economy and Integration. After the first phase the steering committee was broadened to include additional representation by regional institutions, and became known as "G-10" (for the Group of 10). Coordination was to be maintained between the activities of the Project and the AID bilateral missions. A ROCAP economist was to provide overall guidance and control, but it was intended that the latter play only a minimal role in the steering committee. Nevertheless, of the $4.3 million allocated to the project, over $1.3 million was budgeted for AID economists, coordinators, auditors and evaluators.

[1] SIECA is the Secretaría Permanente del Tratado General de Integración Económica Centroamericana. CEIE is the Centra de Studios e Investigaciones Específicos. IESCARIBE is the Institute for Economic and Social studies for the Caribbean Basin. INCAE is the Instituto Centroamericano para la Administración de Empresas. FEDEPRICAP is the Federación de Entidades Privadas de Centroamerica y Panamá

## 1.2 Terms of Reference

The full terms of reference for this evaluation appear in Appendix 1. In short, the evaluation has three main objectives:

1. Provide a complete analysis of the implementation impact of the SIECA component of the EPR project, including accomplishments to date.

2. Determine to what extent the administrative, financial and accounting systems developed by Price Waterhouse (1992) are in place, and what remains to be done. The Price Waterhouse study was commissioned by AID in an attempt to build adequate financial and administrative control at SIECA, a need which had become obvious by 1992.

3. Based on findings, determine areas in which SIECA should focus the remaining resources of the project component and future actions needed for completion of the project goals.

To meet these objectives, our work is divided into seven sections and a number of appendices. Sections 2-4 deal with project implementation and impact and contain the information to support many of our judgements in later sections. Section 5 addresses the specific questions about project implementation and impact that are raised in the terms of reference. Section 6 deals with systems recommended by Price Waterhouse. Section 7 provides an overall evaluation, with recommendations.

## 1.3 Methodology

*A methodological problem for this evaluation* was encountered from the outset. SIECA experienced a major administrative breakdown during the August 1991 to July 1994 period. (This will be described in Section 3 below.) All documents and files on work prior to August 1991 were destroyed. Almost no records were kept until July 1994. Furthermore, almost no records were available at AID except periodic Project Status Reports (SARs). Thus, this evaluation had to proceed without the normal track record available on most AID projects. For this reason our methodology changes for each of three periods reported upon in Sections 2-4. In each of the three periods different kinds of information were available. **Period 1** includes the time from inception to August 1991, when work was accomplished but has since been destroyed. **Period 2** refers to the period of institutional breakdown at SIECA. **Period 3** starts in August, 1994. Each of these sections will be preceded by a brief description of what we did to arrive at conclusions about each of the three distinct periods.

In the end, we emphasize what has occurred since August 1994. Prior to then the EPR must be considered a total failure, but since, there has been some progress and prospects for the last few months of the project are more encouraging. Thus, we thought it most productive to focus on what could be done now to salvage what remains of the EPR.

## SECTION 2: EPR FIRST PHASE, AUGUST 1988-AUGUST 1991.

Unfortunately, a major administrative breakdown at SIECA caused the loss of all documents related to the EPR project. From the beginning of the project, through August, 1991, a number of research reports were produced[2] but none remain. No administrative documents nor data remain from the period. Similarly at AID, no documents other than Project Status Reports (SARs) and the Project Paper (PP) remain. Thus, there is little to go on for this evaluation.

Fortunately, in March and April 1991, one of the evaluators involved here (i.e. Loehr) was involved in a research project for ROCAP on the possibilities for Panama's integration with the rest of Central America. During that engagement, Loehr was asked (by Charles Montrie of AID/ROCAP) to give an informal evaluation of the EPR project. Since Loehr was going to travel through the region, and would encounter many policy-makers along the way, feedback on the project could come at low cost. Notes remain on that activity and these constitute our main resource for evaluating the EPR during this period.

In the 1991 exercise, Loehr read a number of the research studies that were produced with project support. Detailed reviews of each of those that were read thoroughly are included in Appendix 4. During this period a major component of the project was to provide an educational component. Research papers were to be done by "junior econmists" under the direction of INCAE, and INCAE also conducted a number of seminars on economic policy issues. Therefore several of the research reports produced by the "junior" economists, who worked under INCAE direction[3] were also read. Loehr met with two of the most active participants at INCAE (Arnoldo Camacho and Eduardo Dorian) and with Enrique Delgado and his team at SIECA's Centro de Estudios Centroamericanos de Integración Y Desarrollo (ECID)[4] The project and its output was discussed with a large number of policy makers throughout the region, including in those in Panama.

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[2] A full list is contained in "Proyecto de studios en política económica, (1991)

[3] There were several papers that were presumed to fall in this catagory, but they had no authors specified, no dates and no other attribution. These studies were:

"El Salvador: El programa de ajuste estructural de 1989 en el marco del equilibrio general."

"El Salvador: Desarrollo financiero y regulación."

"Guatemala: Desarrollo financiero y regulación."

[4] ECID produced an offshoot organization called CEIE for Centro de Estudios e Investigaciones Específicas. The formation of CEIE was required by the original PILs. For most purposes the two acronyms can be used interchangably, though CEIE was the organization that was most active with the EPR project.

## 2.1 OBSERVATIONS:

In the course of the readings and discussions, the following points seemed to be problematic.

1. The project did not adequately distinguish between the research on policy issues and the training component. Sometimes it was not clear whether papers were written out of the academic interests of an economist in training or whether it was the result of having identified a policy-relevant issue.

2. There was no clear need for training of the kind that the project provided. The region already had trained economists, many of whom were underemployed. Also, some of the people supported by the project did not appear to have needed training or would have received adequate training without the EPR.

3. Performance of the three particpating institutions was very uneven. IESCARIBE produced almost nothing and what there was was of poor quality. SIECA/CEIE produced a number of studies, and did some data collection. The studies were of uneven quality and were often not of policy relevance. Furthermore the SIECA/CEIE studies seemed "inbred". The proposals for studies and evaluations were usually done "in house". Nor did there appear to be much outside influence on the choice of researchers and research teams. The studies also reflected an emphasis on economic integration as it has been in the past. This is not surprising given SIECA's mission. INCAE's particpation seemed reasonable, but even there there was some lack of focus, since it is they who manage the mixture of research and training. Usually it was not possible to distinguish between what was done for research *per se* and what was a training exercise.

4. Despite a number of studies done by SIECA/CEIE that emphasized "integration", they were little used. For example Panamanians, assessing the possible points of integration of Panama with the rest of the region, generally did not find the SIECA/CEIE work useful. APEDE in Panama, had just completed a major study of integration in the region and Panama's involvement in it. Their report refers to only a few SIECA sources, and uses them almost not at all. Even the data that APEDE chose to use do not come from SIECA. Indeed, the Project Status Reports (SARs) on file at AID note that "The studies ... are simply not having an impact". (SAR for April 1, 1990 to September 30, 1990). This despite the observation in the SAR that SIECA's studies and statistical materials are in accord with the project.

5. Policy makers throughout the region generally did not find the work of SIECA useful. Most considered the commom market "dead" and SIECA irrelevant. Indeed, even the project-related people at INCAE thought that SIECA and its approach to policy issues was irrelevant.

6. The data bank that was to be maintained by SIECA was not of high quality and in any event was unnecessary. The World Bank, the IMF, CEPAL, ministries in each country, and other organizations collect the same kinds of data. Furthermore, when Loehr tried to use the SIECA data (1991) there were enough inconsistencies in them to force him to use other sources. This had been noted in previous reports to ROCAP (Loehr, 1990).

7. The steering committee for the project was dormant. It provided little guidance to the project. Furthermore, the steering committee did not seem to represent a sufficiently broad set of interests, particularly the public sector/private sector interests.

8. As Charlie Montrie pointed out in a report of January 18, 1991, there did not appear to be a clear channel for requests for research and responses from policy makers. Our interpretation differs with Montrie's. In our view, policy makers had adequate resources available to them to develop policy issues on their own, and would not have wanted SIECA to do policy analysis for them in any event.

9. There was some duplication between work done by the project and that done by others. Data collection duplication was mentioned above in point 6. For example one seminar project (by INCAE) on "reactivación industrial " in El Salvador was supported by the project, but it was a lot like seminars that were already done in El Salvador by FUSADES on the same topic. Also, the bilateral AID missions were all supporting research projects on tax policy, protection and tariffs, financial policy and similar topics. The project was duplicating some of this but proceeding as if nothing like their work was being done in the region.

## 2.2 FINDINGS

During the 1991 exercise, Loehr offered several findings and recommendations for the EPR project. These were:

1. The steering committee for the Project should be strengthened and **used.** It should probably be reconstituted to incorporate interests of academia, (probably INCAE) the private sector (drawing from some of the private sector groups supported by AID) and the public sector. All committee members must agree to attend to committee work before they become members. Committee work could be time consuming. The main difficulty with public sector involvement was that the public sector in most countries **already had adequate research support from bilateral AID missions as part of their TA**[5]. It was probably difficult for the public sector in most countries to identify important policy issues for themselves, which were not already well attended.

   Eventually, the steering committee was broadened, and became known as "G-10", for the group of ten.

2. Having the Project work with three different institutions did not seem efficient. Moreover, strengthening the steering committee would be difficult if three institutions were involved. Centralizing the project at one institution would help a stronger steering committee focus the work of the project. SIECA/CEIE seemed like the natural focal point. Again a change of this kind

[5] One of the unspecified assumptions underlying the Project seems to have been that there were a significant number of policy-oriented research projects that were not being done in each country. However, each AID mission offered considerable opportunity for technical assistance on public policy issues. Indeed, each mission was eager to seize upon important issues and to offer TA as needed. Governments in each country were probably more inclined to use TA from the bilateral missions (rather than that of ROCAP) because more focus was on issues of interest **to them**, rather than on issues of interest to the region.

was made. IESCARIBE was dropped from the project with Amendment 1, largely for non-performance.

3. The steering committee should be used to open the process of generating policy-relevant ideas. Usually, research ideas do not occur fully developed into research projects. The committee should act like a funnel, collecting ideas and policy concerns from a broad spectrum of interests. It should then focus the ideas and develop them into research projects. It should then delegate the research as objectively as possible.[6]

4. There should be evaluations done of the research, under the direction of the steering committee. Evaluations should be technical and comprehensive. This means that the committee will have to find competent people to do the reviews and contract with them (in modest amounts) to do the evaluations[7]. There is no indication that this was ever done.

5. **An implication of number 4**, is that the research projects should be done in clusters around a central theme. In this way there would be a focus **and** a set of inquiries organized around it. For example, if the central theme were "integration in Central America", then a central theme research paper should lay out exactly what it is that is meant by "integration"; then research should be aimed at the dimensions identified as constituting "integration". Each cluster of studies would then constitute a possible seminar topic.[8] Rather than doing research around a few clusters, the research done under CEIE touched upon a large number of topics, but each was touched only lightly.

6. The seminars that were part of the Project should have flowed exclusively from the research projects. Seminars should not be created dealing with topics that are of only general interest, unless some research effort has been already done as backup. This prevents the seminars from being just "more of the same" information that is already available.

7. Efforts to publicize the research, should be through publicizing the seminars. It is there where true "dissemination" should occur. It is not likely that the press would be interested in many of the individual pieces of research by themselves.

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[6] Pure objectivity in Central America is probably not possible, but patronage can be held to a minimum. One would not want a system where the research idea, research design, implementation and evaluation were all done by the same party. The committee could start with an inventory of the research capabilities of the region, then as research projects are designed, several organizations or individuals should be asked for brief proposals. It is not likely that a full solicitation process (as would occur in Washington) could occur, but there should be opportunity for some elements of a competitive market in ideas to be developed.

[7] Evaluators from **outside** the Central American region may be useful. An outsider may be able to remove some of the tunnel-vision that can exist in the region on some issues, and bring a broader experience to bear than is available in the region. A preference should be maintained for regional researchers on the primary pieces of research.

[8] At each seminar there may be presentation of research findings and **organized discussion**. The latter may come from well informed commentators such as the people who have been contracted to do evaluations of each research effort. Indeed, part of the contract with evaluators could be that they participate in the seminar discussion.

8. The ROCAP economist managing the project should have played a much more direct role. He/she should have sat with the steering committee; participated in selecting the research; pushed for adequate evaluation; helped design seminars, etc. There was little danger of overinvolvement by ROCAP. Overinvolvement is usually avoided so that a residual remains after AID withdrawal. However, in this case it was not likely that ROCAP alone could produce a permanent research activity since initiative by some local institution (in this case CEIE) was needed to get anything done at all. Also, ROCAP was dealing with people who are already part of Central America's intellectual elite. It is not likely that they even could be influenced much by ROCAP.

   We will see in Section 3, below, that because there was little input from the ROCAP (and later AID/G-CAP) economist, the project was severly damaged. After late 1991, it did not appear that anyone was attempting to guide the project.

9. It was unwise to try to form a permanent institution **without** participation by some other major donor, such as the EEC or Japan. It was adequately productive to provide answers on important policy-related questions as Central American countries went through policy adjustments, even if the process was not institutionalized. It would have been better if a permanent set of these activities evolved, but ROCAP by itself was naive to think that it alone could leave this after the project ended.

10. The training component of the project should be dropped. There no demonstrated shortage of economics skills in the region, nor a demonstration that ROCAP's support increased the skills that were available. Indeed, this occurred with Amendment 1.

11. Duplication of other efforts in the region should be avoided. But duplication can be turned to advantage by focussing on regional comparisons. For example, at the time (ie. early 1991) each country was studying issues related to trade policy, financial reform, etc., but they were doing these as they affected each country individually. The project should not try to compete with these, but provide a regional, comparative perspective. There was no apparent attempt by SIECA to gather the often superior work done elsewhere on important issues. SIECA proceeded as if it were the only research entity in the region.

# SECTION 3: EPR SECOND PERIOD, AUGUST 1991-JULY 1994

## 3.1 THE HISTORY

On April 22, 1991 Rafaél Rodríguez Loucel was appointed as the new Secretary General of SIECA. During the first few months of his administration, SIECA's CEIE, and its director Dr. Enrique Delgado, were in the process of beginning the new phase of the EPR project which was extended by Project Paper, Amendment 1. As required by the project, Dr. Delgado and his staff developed a new workplan which would apply during the year beginning September 1, 1991.

A meeting of the project steering committee, which had just been expanded into the "Grupo de 10", was called in early August 1991 (in Antigua). The agenda was to discuss the workplan, adjust it if necessary and in general, to prepare it for submission for AID's approval. Prior to the meeting, the Secretary General had been unable to comment on the workplan, though he had been informed regarding its logic and its content. Upon opening the meeting, the Secretary General ignored the agenda (ie. the workplan) and began discussion of other matters. When it was suggested (by Dr. Delgado), that the meeting return to the agenda, Mr. Rodríguez stated to the steering committee that the workplan was that of CEIE, and that CEIE had nothing to do with SIECA. The workplan was not SIECA's.

Within a month of this meeting the entire staff of CEIE either quit or were dismissed. Dr. Delgado left for other pursuits. CEIE was eliminated as a division within SIECA[9]. Only one person from the CEIE staff remained, alone, in an office facility that had accommodated a staff of about 10. This was Dr. Delgado's administrative assistant, Mrs. Lydia Zachrisson. At the end of 1991, the CEIE office space was discontinued and Mrs Zachrisson was transferred to the main SIECA building where she became, in effect, the only remnant of the EPR program.

During the next three years (until July 1, 1994) almost none of the activities specified in the Project Papers were carried out. Furthermore, upon eliminating CEIE, SIECA lost or destroyed all of the research materials accumulated by CEIE. None of the research papers, data, publications, or administrative records survive. During the September 1991- October, 1994, there were no workplans filed, no progress reports and no research program. Accounting and financial control at SIECA was so poor that AID commissioned Price Waterhouse to recommend accounting reforms in 1992. At no time during this period was there a professional economist assigned by SIECA to the project. On occasion, when AID became insistent that workplans or accounting be provided, Mrs Zachrisson was directed by the Secretary General to produce whatever was required. On occasion, SIECA received AID approval for research requested by the Secretary General, but these projects were entirely *ad hoc*. This did not constitute a "program".

[9] The creation of CEIE was one of the conditions precedent for disbursement of funds under the program. See Article 4 of the agreement between ROCAP and SIECA.

## 3.2 THE VIEW FROM AID

None of the records at AID reflect the true state of the project. The project Status Report (SAR) for the period covering April 1, 1991 through September 30, 1991 notes that a meeting of the steering committee had occurred in Antigua in August. The only comment on the meeting was that the group "... agreed to cooperate under SIECA's coordination...". The SAR does not observe that by September 30, 1991, the entire staff of CEIE had disbanded, CEIE's director Dr. Delgado had left, and that Mrs. Zachrisson was alone in the CEIE office suite. The only observations on "problems and delays" were:

> *"Activity ... if judged by its original purpose appears to be weak".*
>
> *"The project was originally designed to increase the quantity and quality of economic research ... Its purpose has to change to strongly support such economic policy change."*
>
> *"... focus of the project should now be changed to promote and encourage the process of economic reform, deregulation and movement to free trade by helping SIECA to do whatever it can..."*

The first statement is an extreme distortion of what had occurred. The second two statements are simply vacuous. Nevertheless, the SAR recommends the release of an additional $114,000, apparently to help "SIECA to do whatever it can".

Future SARs offer no insight into what occurred. Indeed, they distort what occurred. For example the SAR for the period October 1, 1991 through March 31, 1992 notes:

> *"ROCAP sees (in support for SIECA) very promising possibilities for pushing necessary changes in economic policies to modernize and open Central American economies... The ROCAP project has been very active in providing SIECA the required technical support..."*

Yet in the same SAR, under "problems and delays" it is noted that no work plans have been submitted by SIECA. How it is possible to identify "promising possibilities" and determine "required technical support" without a work plan is not at all clear. The SAR did not identify what the "promising possibilities" were. There was still no mention that CEIE had disappeared.

Subsequent SARs continue in the same manner. No major problems with the project are identified. The SAR for April 1, 1992 through September 30, 1992 points out the problem that no economist has been contracted by SIECA and no acceptable workplan has been produced. Nevertheless, the same SAR states:

> *"In the meantime, specific activities are being approved as required to support priority needs"*

By mid-1992 it must have been clear to AID that something was amiss with the project, though this is not stated in the SARs. This is implied when in 1992, AID commissioned Price Waterhouse to recommend organizational, administrative and financial changes at SIECA. The Price Waterhouse recommendations were made at the end of 1992. The SAR for October 1, 1992 through March 31, 1993 reports that:

> *"SIECA's internal reorganization was completed in March/93 ...(following the) major recommendations that were made by the consulting firm Price Waterhouse...".*

Readers of our Section 6 will see that the recommendations of Price Waterhouse have not been put in place as of this writing (January 1995), though substitute measures have been taken in some areas. It is only in SARs after about mid-1993 that there is major concern over late, unacceptable or missing work plans.

Overall, the project status evaluations of AID are very deficient. They do not reflect what was actually happening, and in many ways were misleading. AID should have observed the rapid deterioration of the project in about August 1991, and either repaired the damage or discontinued the project.

### 3.3 FINDINGS

It is not until November, 1994, that SIECA reported on its activities under the EPR for the period August 1991 - August 1994[10] even though trimester reports were required by the agreement between AID and SIECA. Several projects were mounted during this period, but these were *ad hoc* projects of interest to the Secretary General. These projects included:

- Development of a plan for SIECA to assist the region in negotiating the entry to trade agreements with countries outside the region.
- A study on "dumping".
- Development of several studies dealing with macroeconomic coordination and fiscal/monetary harmonization in the region.
- Drafting the documents that eventually became the "Guatemala Protocol.

None of these projects, with the possible exception of the work on fiscal/monetary policy harmonization, constitutes a "program". Each is an *ad hoc* exercise, and the first two items were very small in scale. Drafting the Protocol of Guatemala is a necessary function of SIECA. SIECA is, after all, the secretariat for economic integration, and maintenance of the related agreements is part of its responsibility. Core responsibilities of this type are probably not good candidates for a project which is supposed to examine economic policy.

The project on fiscal/monetary harmonization could be the kind of activity that the EPR project had in mind for support originally. However, without a workplan it is not possible to see how these studies fit into an overall strategy. Furthermore, our evaluation of these studies (see Appendix 4) is that they are too general to be of much use. This opinion is confirmed by a review of the same

[10] See the document "Informe de actividades proyecto AID-596-0147 investigación de políticas económicas", (Noviembre de 1994)

studies by a team of consultants from the OAS. As the OAS consultants observed about the tax studies:

> "*...estos trabajos constituyen un esfuerzo válido y útil, pero no son suficiente para avanzar sólido y rapidamente en el proceso de armonización, porque si bien identifican ... las asimetrias ... no separan con claridad los problemas y las soluciones propuestas; no estan fundadas en un analisis mas riguroso que permita sustentar los acuerdos.*" (pág. 6)

**In summary** there was, in effect, no EPR project during this period. SIECA deteriorated greatly, and the research that was done contributed little. Furthermore, inattention by AID did nothing to limit or stop the damage. No note was take of any of the major failures of the project.

# SECTION 4: JULY 1994 TO PRESENT

## 4.1 BACKGROUND

On July 1, 1994, a new Secretary General of SIECA, Dr. Gerardo Zepeda, was appointed. Unlike former appointments, Dr. Zepeda's appointment was only a temporary one. While the Economic Cabinet searched for a permanent candidate, Dr. Zepeda was to serve until the end of 1994. This period was later extended to March 31, 1995 at the latest. To begin his work Dr. Zepeda began a dialogue with the Economic Cabinet, the G-10 and other parties about a reorganization of SIECA along lines that would allow it to serve the functions it was being expected to perform.

The restructuring of SIECA is described in the document "Propuesta ... para reestructurar la SIECA". This proceeds along two lines:

First, SIECA will take the steps needed to reactivate economic integration in the region[11]. Activities along these lines include dismantling regional trade barriers, re-establishing a common external tariff, cooperation on macroeconomic matters and generally, strengthening regional integration institutions.

Second, SIECA will assist the regional economies enter into free trade arrangements with other world markets.

There is some inconsistency between these goals. Traditionally, SIECA has promoted a customs union in Central America. Along with that has been support for a considerable amount of import substitution and protection. SIECA has promoted regional action as preferable to action by individual countries. Indeed, SIECA objects to individual action because it threatens "economic integration". This is the case even when the individual action is in the best interests of the country involved and when the individual action moves the country closer to free trade.

These observations are not often reflected in documents. Rather, in discussions with SIECA staff, one often learns of significant objections to individual country policies that threaten "economic integration". For example, the current case of El Salvador's wish to eliminate import tariffs is viewed as a threat, as is Guatemala's proposal to fix all of its tariffs at 12%. Costa Rica's independent trade agreement with Mexico is held up as undesirable. Furthermore, when people at SIECA speak of tariffs, they speak of two rates: a higher one to apply to finished goods and a lower one to apply to inputs. This is because they have in mind the traditional import substitution model where high rates of effective protection are maintained by applying lower tariff rates to inputs than are applied to final goods.

SIECA has generally not supported free trade over economic integration. Thus, for SIECA, to support entering into freer trade with the rest of the world can be inconsistent with its traditional

[11] The document on restructuring often uses the term "economic integration" interchangeably with "The Central American Common Market". These two are different concepts and should be kept separate. There has never exited a common market in Central America, though there has been some economic integration.

position if it continues to insist in regional action over individual action and a customs union over other forms of cooperation.

## 4.2 SIECA'S MANDATES

The Protocol of Guatemala, signed in late 1993[12], defines the role of SIECA. In so doing it so over-burdens SIECA that it becomes ineffective. The Protocol defines as SIECA's functions:

1. To serve as the secretariat for the main institutions of economic integration and for all the institutions that do not have their own secretariat. The main institutions include the Gabinetes Económicos, composed of all ministers having economic functiona, and what is referred to as the "economic subsystem". The latter is composed of groups of vice ministers who have common interests. Furthermore, the latter can proliferate since new groups form whenever a new interest if discovered. The institutions without their own secretariat are very numerous.

   This requirement alone makes now SIECA the secretariat for 43 different organizations.

2. To serve as coordinator for those institutions that do have their own secretariat.

3. To carry out studies as directed by the Gabinetes Económicos or by the organizations in the economic subsystem.

4. Monitor compliance with the Protocol of Guatemala and all other instruments that govern economic integration in the region.

Points one and two combined with three, create a huge problem for SIECA. Every meeting of the Gabinetes Económicos or organizations in the economic subsystem results in a flood of demands for SIECA to study something. Furthermore, the number of meetings that SIECA must attend to play its role as secretariat or coordinator is enormous. In practice, SIECA's attendance is only for a presence. There is no time to prepare for meetings, or to follow up.

No resources are provided to attend to the large numbers of demands placed on SIECA. Since there is no cost to the client organizations in demanding that SIECA provide services, there is excess demand for the services. Since there is excess demand and no concept of cost of service, there are no priorities. Since there is no cost to the client, requests are often trivial and not of real interest to

[12] But the Protocol has not yet been ratified by the three states required to put it into effect. Nevertheless, SIECA is following the Protocol as if it has been ratified.

the clients[13]. SIECA cannot distinguish between those demands that are serious and those that are not.[14]

Some of SIECA's over-burdening is self inflicted. Some of the staff believe that anything that has implications for regional integration should be studied and/or controlled by SIECA. Thus, international events are studied for items to be placed on the SIECA agenda[15].

In summary, SIECA is so overburdened as to be ineffective. It cannot possibly carry out the functions as specified in the Protocol of Guatemala.

### 4.3 OBSERVATIONS.

Before reviewing the projects being carried out with EPR project support we should keep the following points in mind:

1. The research and administrative capacities of SIECA were greatly weakened during the 1991-94 period.

2. Respect for SIECA as a research institution as a source of policy prescriptions was poor even prior to 1991.

3. The duties and demands placed on SIECA by the Protocol of Guatemala (1993) increased greatly.

4. Demands on SIECA greatly exceed capacity.

5. To increase SIECA's capacity, so that it would be adequate to meet the demands now placed upon it, would require an unreasonably large infusion of resources.

6. SIECA needs to find ways to reduce the obligations that it assumes, not increase them.

7. Priorities need to be identified.

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[13] For example, SIECA staff has reported that they have been ordered to do studies for the Gabinetes Económicos, to be delivered at specific times and presumably for specific purposes such as for discussion at meetings. These have been done only to find tht the topics do not even appear on agendas or that the work either isn't needed, or wasn't used. Presumably, demands of the Gabinete should be taken more seriously than demands from lower in the heirarchy, yet these demands are apparently often capricious.

[14] There is a bias among politicians in the region to say they favor regional integration when they do not. For example, if a proposition is placed before the region's presidents, to vote for measures that promote integration, it is politically difficult for them to vote no. Politicians cannot openly oppose regional integration. Thus, there are many agreements among presidents to support integration measures which overstate their support. When confronted with decisions which are inconsistent with their agreements on integration, but which are in the interests of their own individual country, they favor the latter. The same bias exists at the ministerial level and below.

[15] For example, we were shown a list of "priorities" that were supposedly implied by the American presidents' summit that occured in Miami in December.

## 4.4 ACTIVITIES UNDER THE EPR PROJECT.

The research activities being pursued under the EPR project, during the period from July 1994 to August 1995 are described in detail in the SIECA workplan[16] dated 11 October, 1994. These, in summary, are:

A. Several activities being done under sub-contract with FEDEPRICAP. These include:

   1. An inventory of the demands from presidential meetings or from the Gabinetes Económicos.

   2. Study of Costa Rica's free trade agreement with Mexico.

   3. Development of Comités Empresariales Regionales.

   4. Comparisons of environmental laws in the region.

B. Studies being done jointly with FEDEPRICAP.

   1. Studies on intellectual property rights protection.

   2. Impacts of alternative tariff structures on sensitive industries.

C. Activities of SIECA.

   1. Tax harmonization studies.

   2. Development of a statistical data bank and information system.

   3. Development of the rules and regulations implied by the Protocol of Guatemala.

   4. Study on labor legislation in the region.

   5. Development of activities to assist regional economies in their negotiations with other trade blocks and/or other negotiations under the GATT.

This set of activities does not seem reasonable for EPR support given SIECA's capacity problems and the objectives of the EPR. Our logic is as follows:

**First**, some of these activities are basic to the functions of a secretariat and should be covered by the quota contributions provided by each country. These functions should not be supported by EPR funds. These are administrative functions; not research functions. These include A.1, a review of

[16] "Proyecto de estudios en política económica: plan de trabajo complementario en el periodo de transición" (11 de octubre de 1994)

mandates, C.3, development of the Protocol of Guatemala, and A.2 the study of the free trade agreement with Costa Rica.

**Second**, some of these are somewhat short-term studies aimed at *ad hoc* interests. They do not seem to fit into a well thought out research program. These include A.2 the study of Costa Rica's arrangement with Mexico and B.2 the study of alternative tariff structures[17].

**Third**, how the development of the Comités Empresariales Regionales (A.3) fit into the EPR is not clear and is not spelled out in any of the documents that we have seen.

**Fourth**, several activities are new to SIECA and extend SIECA into areas where there has been no activity before. This weakens SIECA by adding to an already overburdened agenda. It also pushes SIECA into areas where it is unlikely that it could make a substantive contribution without an unreasonably large infusion of resources. These areas are, A.4 the survey of environmental laws and C.4 the survey of labor laws. These cause more loss of focus than there is already[18].

Entry to these areas has another problem. Work in these areas was instigated by AID, not by SIECA or its clients. SIECA has gone along with this, because, after all, AID pays, but going along is part of the problem of self-inflicted burdens that SIECA is prone to.[19]

This leaves us with four activities that are consistent with focusing SIECA on areas where it may be able to make a contribution and areas that are consistent with the EPR. Furthermore, these are consistent with the new thrust for SIECA, to assist the region in entering world markets. These four projects are:

B.1 Survey of laws on intellectual property rights protection.

C.1 Work on fiscal harmonization.

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[17] SIECA would claim that the study of alternative tariff structures would fall within their fiscal harmonization emphasis. Indeed, it could, but in this case it does not. This study was instigated by a directive from the Consejo Arancelario, one of the organizations set up by the Gabinetes Económicos, and was in response to plans by El Salvador and Guatemala to adopt tariff structures different from the common external tariff. A response by SIECA was required by mid-February.

[18] SIECA and AID would claim that certain conditions on labor and environmental laws must be met before negotiations with the US and/or NAFTA can occur. However, these issues are not central to NAFTA, and indeed are to be dealt with by side agreements between the Canada, the US and Mexico. Negotiations with NAFTA and other groups should be based on the principle of free trade, and other issues should be left for later agreement, as has been done by the original NAFTA partner countries. Furthermore, concern over labor and environmental laws can be used as excuses for protectionism. The process of moving toward free trade could be dragged out forever if these were allowed to become central issues.

[19] In about September 1994, AID identified one of its objectives to be assistance to opening regional markets to wider free trade. Since money had already been appropriated for use by SIECA, and since SIECA was not making use of those funds, redirection of the unoccupied funds became a way for AID to pursue its objectives. Indeed, the work instigated by AID seems consistent with its own goals, though it does create an institutional problem for SIECA.

C.2 Statistical and information support.

C.5 Assistance to trade negotiations.

While statistical and information system support is a worthwhile activity, and consistent with the objectives of the EPR, it is receiving support under other AID projects[20]. The work on fiscal harmonization requires focus. This activity was carried on during the 1991-94 period, but the work has lacked focus and is not yet useful as assistance for helping the region enter world markets. This leaves only the work on intellectual property rights protection, and assistance to trade negotiations, as clearly focussed and useful activities. This is a very slim accomplishment for the EPR. None of the projects now supported by the EPR has produced any output, even in draft form, so it is not possible to comment on the quality of the work, nor on its potential impact.

## 4.5 FINDINGS

There has been some reversal of SIECA's misfortunes. New, but temporary, leadership has changed the agenda in productive ways. However, the institution is very overburdened. Focus is lacking. Excess demand for SIECA's services is unrestrained by any concept of SIECA's capacity or costs of service.

Activities supported by the EPR project are mostly *ad hoc*. There are few activities that are leading SIECA to develop the research capabilities necessary to respond to the need to insert the region into the world trading system. There are few activities designed to focus SIECA on the limited number of things that it may be able to do well. Indeed, project-funded activities are contributing to the lack of focus. In short, project activities during this period are contributing little to the project's original objectives.

[20] Statistical data collection and organization is much better at SIECA than it ever has been. Within the past six months a major effort has been made to collect data on important economic variables. The data have been "cleaned" and published, and are up-to-date.

# SECTION 5: PROJECT IMPACT/IMPLEMENTATION

The scope of work governing this evaluation divided the work into two parts, **the first** dealing with project impact/ implementation and **the second** with financial/ administrative issues. In this section we deal with impact and implementation issues and in Section 6 we turn to financial and administrative matters. The scope of work for this evaluation raises specific questions on these two dimensions. In both of the two sections to follow, these questions are addressed in a rather mechanical fashion and are then discussed briefly.

## 5.1 QUESTIONS ON PROJECT IMPACT/IMPLEMENTATION:

1. **Are the assumptions made in the logical framework of the project still valid?**

   The assumptions originally made were largely untrue from the beginning. The implication is that the project has not met and cannot meet the project purposes and goals.

**Discussion:**

The original project paper (PP) states the basic assumptions behind the EPR, and the amendments simply endorse them. The main proposition was that economic policy analysis was weak and that the project could strengthen it. There were three main flaws in the assumptions that were made after that.

**First:**While the proposition that economic policy analysis was weak may be able to stand on its own, the case that one should support **regional policy analysis** was not made in the project paper. Indeed, the project paper abruptly jumps to support for **regional** policy analysis after building the case for economic policy strengthening in general. No consideration was given to the fact that in each country at the time (1988) huge amounts of resources were being spent on policy analysis. So, the first proposition that economic policy analysis needed strengthening **by this project** was probably wrong. The second proposition that **regional** economic policy should be supported was never supported by any arguments in the PP.

**Second**: The assumption that the SIECA and the two associated institutions (IESCARIBE and INCAE) were strong enough to carry out the project was probably wrong. IESCARIBE never produced much and was soon dropped from the project. INCAE did well on the educational component of the project, but it was decided (in the first amendment) that the educational component was not needed. SIECA deteriorated abruptly beginning in 1991 and was almost totally ineffective. FEDEPRICAP was brought in as an associated institution after Amendment 2, and has been working on project-related activity only since about October, 1994. FEDEPRICAP appears to be much more able (compared to SIECA) to identify worthwhile research projects and to conduct economic research.

**Third**: The assumption that SIECA was an appropriate institution, sufficiently influential to promote better economic policy making was wrong. SIECA is biased in its defense of building a customs union and a regional approach on almost all economic issues. This is well known in Central American policy-making circles. In the 1988-91 period especially, countries considered

SIECA and its regional prescriptions almost totally irrelevant. Each country was struggling to go its own way, did go its own way, and the region is better off for it.

2. **Is there evidence that the project has improved the quantity and quality of research analysis by economic research centers in Central America?**

   There is no evidence whatsoever that the project has improved on the quantity or quality of economic analysis.

**Discussion:**

Output from the project was meagre up until August 1991. Since then there has been almost no output. Furthermore, the research function at SIECA was abandoned in late 1991 and even the research papers from the earlier period have been lost and/or destroyed. SIECA's Centro de Estudios e Investigaciones Específicos (CEIE), the establishment of which was a condition specified in one of the original PILs, was eliminated in 1991. Research output since late 1991 is little, and what there is is shallow. Now (ie early 1995) SIECA is attempting to revive the research function, but there are few resources remaining and the research projects lack focus.

3. **Is there evidence that the public understanding and dialogue on economic research issues has been increased?**

   There is no evidence whatsoever that public understanding and dialogue on economic issues has been affected at all by the project.

4. **Has SIECA's technical and administrative areas changed since the implementation of the project?**

   SIECA's capabilities have deteriorated since the project was begun. The elimination of the CEIE has alredy been noted.

**Discussion:**

While SIECA's deterioration from mid-1991 has been great, there are signs of revival. The new (and temporary) Secretary General, appointed in July 1994, has begun to search for ways to reinvigorate the organization. Many of the initiatives that he has begun could be productive, but it is too soon to tell. Most of his initiatives so far have dealt with reorganization. Moves to produce useful research may follow, but they must await a reorganization and the appointment of a permanent Secretary General.

5. **Is there evidence that project activities will be sustained beyond the project completion date?**

   There is no evidence that project activities can be or will be sustained. Current activities include only a few *ad hoc* projects. Indeed, there are almost no activities to sustain.

**6. What role will SIECA have to play in the near future, given new developments in regional economic integration and international trade?**

**Discussion:**

The role that SIECA has chosen for itself is laid out in the document ..."Propuesta ... para reestructurar la SIECA". There are two main roles. **First,** to support the deepening of the Central American Common Market (CACM). The **Second** is to assist in the insertion of the regional market into the world market. These roles conflict. The CACM, and SIECA's traditional bias toward protection is inconsistent with entering world markets. SIECA's rhetoric is that it supports open and free markets, but its actions and the logic of what it supports are inconsistent. SIECA must support the second objective, and back away from the first.

SIECA must also gain respect in the region in economic matters. SIECA's traditional stance on support for the CACM, protection and regional policy at the expense of domestic policy has made it irrelevant in the minds of most policy makers in the region.

**7. Are the priority programatic areas determined by SIECA:**

**a) Consistent with its mandates as the Economic Cabinet Secretariat?**
**b) Consistent with its role as the implementing unit of the protocol of Guatemala?**
**c) Appropriate as the lead regional institution for free trade policy?**
**d) Consistent with future needs?**
**e) Relevant to USAID's development program and strategy?**

SIECA has not identified priorities. Indeed, it has taken on so many responsibilities that it cannot possibily deal with them.

**Discussion:**

In response to sub-questions a and b, some of SIECA's lack of priorities is due to the way it is structured as the secretariat to the Economic Cabinets and subject to the Protocol of Gutemala. Some of it is self-inflicted. As secretariat to the Economic Cabinets, any decisions made by the cabinets may force SIECA to take actions in areas where it may have little capability. Furthermore, SIECA cannot anticipate what it will be directed to do by the Cabinets. Frequently, SIECA must also respond on short notice. The Protocol of Guatemala also makes SIECA the coordinating body for over forty regional organizations. This is simply more than SIECA can reasonably do.

Some of SIECA's problems with priorities is self-inflicted. SIECA often assumes that it should be active in some areas, without receiving directives from the Economic Cabinets or anyone else.

What is needed is some mechanism to reduce the things that SIECA is responsible for to a reasonable number. Then priorities need to be set.

In response to sub-question c, SIECA is not an organization that supports free trade. They support the protection provided by a customs union. For an elaboration see pages 10-13 and

annexes I and II in the "Propuesta ... para reestructurar la SIECA". People at SIECA say that they support free trade, but in their activities and plans they do not.

Sub-questions d and e are best answered by referring to the principles of program development at SIECA stated below in Section 7.

8. **How effective has the overall design of the Economic Policy Research project been? Has the implementation differed significantly from design? What factors account for success or failure of the project?**

The overall design of the project had some serious defects from the start. Implementation has differed greatly from what was originally designed.

**Discussion:**

The failure of this project is mainly due to weaknesses in SIECA and a failure of AID to provide adequate guidance and control. **First**, the total breakdown in administration and leadership at SIECA in mid-1991 made achievement of project goals impossible. **Second**, AID management was extremely lax. Project status reports (SARs) do not even note that there had been a breakdown at SIECA. No critical review is ever offered of the research output. Project amendments occurred without seeming to note anything abnormal with the project. AID had staff positions included as part of the project's cost, but people assigned to the project seemed uninvolved. At times these positions remained unfilled. Records at AID on the project are extremely deficient. Almost nothing on the project exists. For example, workplans were usually not submitted by SIECA and of course cannot appear in the record.

9. **What modifications, if any, should be made in project plans and strategies to maximize the prospects of achieving the projects objectives?**

It is not likely that many of the project's original objectives can be met.

**Discussion:**

The project has seven months remaining and the last of the EPR funds have already been allocated. A restructuring plan has been put forward by SIECA. Priorities need to be set within the restructured organization. To help in this process, we have created Section 7 stating some principles for developing an economic policy project at SIECA. While there is little output to go on as of this writing, the topics being dealt with by FEDEPRICAP, and the outreach activities of FEDEPRICAP may rescue some project objectives. However, relative to the original scope of the EPR project, little can be accomplished at this late date.

10. **Can SIECA improve the efficiency or reduce the cost of project activities?**

**Discussion:**

There is such a short time remaining until the end of the EPR project that little can now be done. Furthermore, the last workplan for the project has been created (the first workplan in over three years) and monies have already been committed for the remainder of the project. The

suggestions made in Section 7 are oriented around creating a more efficient program should a program of this kind be continued.

## 5.2 SUMMARY

The EPR project must be considered a failure. Almost none of the project objectives have been met. Some of the most important factors leading to that failure are:

- **The project was poorly designed from the outset.** The fact that economic policy analysis in the region was poor did not imply that this project was needed, since considerable assistance was already going to the individual countries of the region via the AID country missions, the IMF, IDB, World Bank and other institutions. Even if one could build the case that there was room for another project on economic policy analysis, no case that that project should deal with regional issues was ever made in the Project Paper. Yet all work on the project was on regional issues.

- **The institutions that were chosen to carry out the project were too weak to do so.** SIECA in particular was not capable of carrying out the mandates of the project. SIECA is still unable to do so. FEDEPRICAP could have made a greater contribution to the project, but it was brought into the project too late and given too small a role. Indeed, the inclusion of FEDEPRICAP appears to be something of an afterthought. When it became very clear that SIECA was not able to use project funds to achieve project objectives, FEDEPRICAP was brought in to get some output from the project, even though FEDEPRICAP's activities seem a bit *ad hoc*.

- **The choice of SIECA to take the lead on the project was a poor one.** SIECA is not well respected in the region as an institution that produces useful economic research, but it is known as an institution that pursues an agenda that is not considered productive in policy-making circles. SIECA's policy positions consistently support economic integration in the form of a customs union, along with attendant import substitution protectionism. It also prefers joint regional policy positions and opposes individual country actions, even if individual policy maneuvers are in the best interests of an individual country. SIECA's policy positions are generally held in low regard.

- **Guidance from AID as to what the project should be doing was very poor.** There is little evidence that AID suggested research themes or evaluated research once it was done.

- **Project evaluation and control by AID was almost nil.** Despite severe and obvious problems with the project, AID files reflect little criticism or concern. Indeed, observations in the files (ie. in SARs) are often simply wrong.

# SECTION 6: ADMINISTRATIVE AND FINANCIAL MANAGEMENT

## 6.1 METHODOLOGY

The Evaluation Team chose a modified version of the methodology used by the General Accounting Office of Canada. In order to differenciate this procedure from formal auditing procedures, we did not perform a test of balance consistency or a test of consistency of other financial statements in a defined period. An intensive analysis of bills and documents of accounting was not the main concern in this evaluation, although some of these papers were analysed. We also analyzed financial administration at SIECA, without turning it into our sole concern.

We traced the flowchart schemes proposed by Price Waterhouse (PW). This process allowed the evaluation of the current office configuration and the procedures by comparing them with those recommended in the 1993 PW study. In addition, we checked for the use of accounting forms and accounting technology according to Price Waterhouse´s recommedations. Where there were differences, we evaluated the procedures in place to make sure that they met minimal accuracy standards. Price Waterhouse also installed software for accounting management, called TECAPRO (Spanish acromyms for Special Technology in Accounting and Administration). We checked the effectiveness of TECAPRO in servicing the diverse tasks requiered for SIECA´s accounting activities by comparing the status of the accounting reports before and after entering the automatated registers of transactions and automated accounting reports.

We researched SIECA's human resource policies although the data was not entirely up-to-date (the last report on salary scales is dated June 1994). Procurement procedures and selection of consultants were also our concern, however, the selection of consultants could not be observed in depth. The safety features of the computerized systems were observed in cooperation with the Directorate of Systems and Statistics at SIECA. We also reviewed the control on treasury and payments with the cooperation of the Diretorate of Management and Finance at SIECA.

Interviews with SIECA´s high officers others than the officer of International Cooperation (out of the country at that moment) were made. These interviews intended to provide a wider scope and comprehension on problems, trends and activities undertaken by SIECA. We also exchanged points of view with consultants, one carrying out research on intellectual property rights, and the other preparing the study on import duties (ordered by the Economic Cabinet), boths tasks are joint proyects SIECA-FEDPRICAP.

## 6.2 FINANCIAL AND ADMINISTRATIVE ISSUES.

**1. Is SIECA implementing the recomendations and using the material on organization that PW prepared? If so how? If not, why?**

The recomendations prepared by PW on organition-related issues are not being implemented at SIECA. Materials prepared by PW are partialy in use.

**Discussion:**
**First**: PW´s recomendations on organization-related issues beg for a different organizational structure at SIECA. As noted above, they have not been implemented, and the main reasons why are:

(a) The prior Secretary General at SIECA defined a entirely different asignment of duties at workplaces than that recomended by PW. Later, when the study of PW was realeased, he in fact ignored it. Under his assignments of duties, the Secretariat General at SIECA directly preoccupied himself with integration-related activities, leaving the Deputy Secretary General to follow-up with other SIECA offices (Systems and Statistics, Negociation and External Trade Policies, Physical Integration). Neither the Secretary General nor Deputy Secretary General took a direct concern with the office of Administration and Finance, and the CEIE was eliminated. On one hand the CEIE does not appear in the organization scheme recomended by PW; maybe because its elimination took place before the study was made. On the other hand, not making a reference to the CEIE is an important flaw. CEIE´s existance was among the main requierements of PIL No 1 (Project Implementation Letter). Furtermore, it was a pre-established conditionalty by article 4, letter c) of "Conditionalities Prior to Disbursements" of ROCAP/SIECA agreement No. 596-0147-G-00-511006-88.

(b) A full implementation of PW´s program has yet to be defined, because SIECA is looking for a new organizative structure matching its current madates. These current madates encompass over 500 activities. Furthermore, mandates emanated from the three last summits of presidents of CA amount for more than 65 activities. The last 65 activities are more concern with the modernization of the regional economy by increasing its internationalization than in issues related with the customs union. Therefore, SIECA is observing this situation in order to define a new core structure to deal with this change.

**Second**: Neither the current organizational structure nor that proposed by PW seems to be the right choice. Currently, the size, capability and duties of the office of Physical Integration is useless for the undertaking of infrastructure projects (comunications, roads, ports, energy, transportation) with regional impact. This is not even considered in PW´s report, and SIECA believes it will perform outstandingly in this matter with a staff of only two engineers! In addition to its unreasonable number of mandates, SIECA is currently the Secretary General of Economic Cabinets of CA and fulfills similar duties for some other 43 organizations, from which it is receiving mandates in indiscriminate ways. In addition, SIECA is supposed to review documents issued by any international meeting participated by regional authorities (i.e., the Summit of the Americas, Miami in 1994), to uncover potential, indirectly-expresed mandates. There is not cure for this problem in the current organizative structure nor in PW's proposed reforms.

In its paper, PW suggested the creation of an Administrative and Technical Committee to work with the Secretary General; it also recomended the creation of new lines of authority between the Secretary General and the field officies by concentrating the core activities in functional units. PW indicated that the functional units would be the Directories of Systems and Statistics, Administration and Finance, and Legal Counsel. These units would provide for all needs of the field offices. PW also suggested to create a field office of Macroeconomic Analysis, which is a good idea if we consider that SIECA does not have regular staff for this key task. Another PW suggestion was to centralize the administration and logistic planning of every project funded by international cooperation agencies; this may be achieved by expanding the duties of the Office of International Cooperation at SIECA. We could not contact the official in charge of this office, but we observed that this proposal easily would create an overlap of responsibilities within SIECA; and it would, arguably, demand a lot more funding for administration. It is important to note that PW's proposal does not even contain a rough budgetary impact analysis of carrying out the proposed reforms. PW also failed to note that SIECA had been cutting staff by more than 50% (including the elimination of CEIE) by the time the study was being prepared.

**Third:** Due to problems in organization and the non-articulated appearance of SIECA´s structure, the European Community requested a special administrative office in order to guarantee the adecuate use of EC funds by SIECA. Thus began the Office of International Cooperation. The effectiveness of this action is not clear, and one may think it rather contibuted to beaurocratize SIECA by duplicating the duties of the Office of Administration and Finance.

**Fourth**: Most of PW's organizational proposals do not satisafy the current needs of SIECA. The proposals do not solve the problem of conflict of interest within the Office of Administration and Finance which had failed to separate treasury activities from accounting activities. PW's proposal also fails to suggest a better way to cope with indiscrimianated issuance of mandates by higher authorities of regional integration (various economic cabinets, *et.al.*). Another main flaw in PW's report is the lack of attention to issues related with internal control. Adecuate financial controls at SIECA has been needed long before the PW study, but said study does not address the lack of internal financial controls within SIECA.

**Fifth:** The materials provided by PW are presented in a six-book manual. They describe the proposed organization, contain descriptive flowcharts showing in a step-by-step fashion the procedures recomended for SIECA to follow in each of ordinary financial operation (i.e., payments, contracts, control of funds in bank accounts, etc.) Also, the manual includes a set of forms for accounting purposes, most of them directly taken from the forms regularly used by SIECA´s accounting office. SIECA has continued using the forms and procedures that it used before PW's study. New forms and different procedures are simply ignored. Some slight changes were introduced in the management of treasury in the second semester of 1994. SIECA separated the role of treasury from the regular activities of the accounting office. This was done at the insistence of SIECA's outside auditing firm (not Price Waterhouse). An important factor in this change was the embezzling of funds by the prior head of the Office of Administration and Finance (around $90,000). This showed the degree of vulnerability of a non-specialized treasury function.

**Sixth**: The main input from PW's report is the implementation of the software TECA.PRO to deal with accounting proceses in a computerized manner. TECA.PRO was developed in Costa Rica by a software firm. The staff at SIECA modified the software where it did not match its needs.

Currently, SIECA´s version of TECA.PRO provide reports according to the specifications of the ROCAP-SIECA agreement. Another valuable input from PW's study is the establishment of an Office of Human Resources within SIECA. However, as is the case with most of the recomendations of the PW study, it has not been acomplished yet. The most polemic recomendation from PW is that of the Administrative and Technical Committee; some of the staff in SIECA think it contradictsf the statutary autonomy of the Secretary General.

**2. Is SIECA using the manuals developed by PW on organizational financial and administrative procedures? If so, how? If not, why?**

The manuals developed by PW on organizational and administrative procedures are not in use by SIECA. Parts of the manuals dealing with financial procedures are being used partially.

**Discussion:**

**First:** The prior Secretary General simply refused to implement the manuals prepared by PW. With the appointment of a new Secretary General at SIECA in the second semester of 1994, it was noted that the documents had disappeared. Even today, only a few have re-appeared. The evaluation team used the copy of the six manuals resting in AID´s files; we reviewed the procedures, flowcharts and forms with the staff of the office of administration and finance at SIECA.

**Second**: There are low expectations within the staff of SIECA toward the implementation of the PW manuals. On one hand, they prefer going on with self prepared manulas existing prior to PW's study. On the other hand, the PW manuals do not include departments which are currently being established (the Treasury) and others that SIECA will surely create in the short term (the internal audit unit). Prevoius to its creation, the activities of the Treasury were being performed by the Accounting Office, generating a conflict of interest because the same person that was registering transactions also was authorizing payments. The separation of these activities was strongly recommended at SIECA's most recent audit, noting it was an element facilitating the illegal transfer of SIECA's funds to personal accounts under the last administration. SIECA has obtained evidence that around $90,000 was illegaly transfered from is own funds to personal accounts of the head of the office of Administration and Finance during the term of the prior Secretary General. The absenceof key offices, namely Treasury and Internal Audit, within the study of PW, has fostered the sense of reluctancy toward the implementation of the procedures and manuals prepared by PW.

**Third:** Most of the procedures related with financial issues currently in place at SIECA and those recomended by PW are similar. This was because the procedures recomended by PW were based on the regular procedures in place at SIECA at the time of the study. The congruency is stronger in the area of accounting and it is due to the implementation of the software TECA.PRO. Every related accounting procedure was modified according to TECA.PRO´s requierements. However, some differences do exist. If the Accounting Office would have been organized exactly under the model recomended by PW, it would have needed **twice** the staff that is currently doing the same work. SIECA has a General Accountant , a special accountant exclusively dedicated to the management of the ROCAP-SIECA agreement, an assistant accountant, and administrative assistants. The improvements to the software TECA.PRO guarantee accuracy in every transaction registered for accounting purposes and allows the updating of all financial and accounting records on daily basis; it also has a backup which cannot be modified by the Accounting Office.

**Fourth:** The last audit undertaken on SIECA´s financial management (currently a draft) strongly recommended the creation of an Internal Audit Unit. This is another flaw in PW's study. It seems obvious that SIECA must have some sort of internal audit department working on regular basis, but PW did not note this important absence in SIECA's organizational structure. PW recommended a special unit for the management of human resources, but its apparent that SIECA does not even want to deal with that issue. Some of the procedures described by PW about the commitment of funds and payments indicate that the Secretary General must approve all contracts and all payments. Indeed, most of the expenditures at SIECA flow from the request of each office (Direcciones) and the Secretary General aproves the projects and the contracts, but payments are a diferent affair that do not necessarily demand his time. An inconsistency in PW's study is the suggestion of an administrative and technical committee whose activities are not clearly stated. SIECA does not seemsto be interested in establishing it.

**Fifth:** Some of the procedures recomended by PW are unnecesarily complex. For example, the procurement of supplies and equipment is performed the office (Dirección) level in coordination with the Office of Administration and Finance. PW's suggestion was that this should be done by receiving every good at SIECA's storage facility, which, in reality, is too small. Also, the process of receiving goods at the corresponding office has shown to be efficient and advantageous because it allows for quality control by the actual users of the goods. Another example of unnecesary complexity is the PW's suggested operation of the petty cash. This account involves amounts of approximately Q.1,000 at the time, however, the controls and procedures PW recommended are more appropriate for larger accounts dealing with significant sums of money.

**Sixth:** The manuals and procedures prepared by PW do not really solve important problems at SIECA. One of those is how to fullfill AID requierements when paying for airline tickets and travel advances to guests invited to international meetings promoted by SIECA. SIECA needs to keep the airline ticket and the receipt of the hotel in order to satisfy AID rules. The evaluation team was informed of the existance of travel expenses that were pending AID approval because SIECA can not provide those backup documents. There is the possibility that SIECA might have to assume this cost despite that travel expenses are an allowable cost under the ROCAP/SIECA agreements. On one hand AID is treating the guests of SIECA under the rules usually placed on AID consultants and staff. Indeed, most of those guests have to deliver the same documents--airline tickets and hotel receipts--to their own governments in order to justify their travel, so they can not give them to SIECA. On the other hand, there is no means to test if some guests have taken advantage of the situation and received travel advances from both SIECA **and** their governments and therefore prefer to give the travel receipts to their own offices. Meetings are the most visible activity of SIECA and this problem may reduce its presence.

There is other important issue not considered by PW. Central American countries are continuously late in the payment of appropriations to SIECA. PW's study falls short by not giving any financial alternative to this problem. SIECA, on its own, solved part of this problem by accepting payments in local national currencies whereas they used to be paid in US dollars. This action implies a financial risk due to exchange rate variance, however, the potential loss is minor compared with the prevailing commercial bank loan rates. The Banco Centroamericano de Integración is backing SIECA in these cases by granting it the best market exchange rate.

**3. Internally, has SIECA conducted periodic evaluations of the staff asigned to each of the programatic areas, as recomended in the PW study?**

Yes, there have been periodic evaluations of the staff asigned to each of the programatic areas. These evaluations have been undertaken in a very informal manner without any prestablished routine. Mechanims and forms recomended by PW are not being implemented.

**Discussion:**
**First:** The organization proposed by PW included an Office of Human Resources and routines and forms for regular staff evaluation. The prior Secretary General ignored the whole process. The current executive staff at SIECA is not yet convinced an Office of Human Resources is needed. At the begining of the term of the new Secretary General, there was a general evaluation of the staff in each of the programatic areas, but it was very informal. The main outcome from this evaluation was the decision to create a secretary pool run by the Office of Administration and Finance. Today, SIECA evaluates the staff of a specific programatic area by request of the head of the office, when he or she needs more staff or is willing to replace someone.

**Second:** SIECA is not new to the ways of the "old boy network" (compadrazgo) which is commonly found in Central America. Therefore, there is not an objective standard for the qualification of new staff or even for consultants. On one hand, there is some political involvement as evidenced by the lack of procedures in choosing the Secretary General. For example, this time the countries have decided the appointment will be done by contest. Guatemala is doing some heavy promotion on behalf of its own candiate. PW's study correctly pointed out that an Office for Human Resources was a way to ensure minimum technical standards of the staff at SIECA. However, the study did not mention the way to organize the selection of consultants. This may be a way to contribute in the improvement of technical papers produced by SIECA. The new temporal Secretary General is reinvigorating the process of establishing objetive qualifications for new staff. There are open contests being announced around de region for the appointment of some vacancies at SIECA.

**Third:** There was some staff reorganization with the appointment of the new Secretary General (SG). However, some unsatisfactory situations inherited from the prior administration still remain. These have become obstacles for implementing PW's reforms on human resource management because SIECA feels that performing regular personnel evaluations under the current structure may send a wrong message or a false sense of permanence.

The evaluation team also perceived dissatisfaction over the way SIECA's pension fund was phased out. Some senior staff were paid off, but without interest earnings nor institutional aportations. Wages were severely modified by the prior SG creating gaps and imbalances between position and salary. We could not this issue too much in depth because the most recent available information is dated July of 1993. From that we noted that remuneration for the High Directive level (SG and advisers) is in accordance to international standards for similar possitions. Wages at the executive level (Directors of Offices) are lower than that paid to a similar position by the private sector in the region. Wages for technical asistants and secretaries are competitive with the private sector. The lower level in the scale is is met by the assistants in diverse duties; their wages are lower that those of the private sector for similar positions. Recently they received a modest increase in their wages but they are still underpaid. These sensitive issues were not even noted in the PW's study.

**Fourth**: The PW study did not analyze this gap in wages, which is an extremely important issue for the current operation of SIECA. The absence of this analysis certianly lowered the PW study's credibility among SIECA employees, especially when it came to human resource management reforms. SIECA employees tend to resent the level of wages paid to international consultants, which creates a poor working environment. Any reforms suggested for the current payroll of SIECA must bear in mind SIECA's budgetary limits. It is important to realize that some international entities (i.e., OAS) are facing hard times because of wrong or poor wage policies.

**Fifth:** Informal staff evaluations at the beginning of the current SG's term produced a better distribution of workers. A problem created by the prior SG was an excessive number of secretaries and administrative assistants. The current SG has made available computer training for word processing and spreadsheet applications, according with the schedule defined by the Office of Systems and Statistics. This part of the staff was also concentrated in a pool which solves demand of services. It is working all right.

**Sixth**: SIECA does not observe some general principles about conflict of interest when recruiting its staff. Usually, people that quit their jobs during a prior term fly back when a new SG is at the helm, despite the urgent need for renewal of persons and ideas within the institution. The evaluation team also observed that people who used to work for international donor agencies as project officers engaged with SIECA eventually become SIECA staff as soon as they retire from the international entity. These observations are not intended to criticize their technical capabilities; we only say there is a significant probability of a conflict of interest that may cause damage to the already poor image of SIECA. There is an official document containing regulations for management of human resources (Reglamento General de Relaciones Laborales del SIECA,) dated July, 1992, but it does not deal with conflict of interest-related issues.

**4. Has SIECA improved (administrative and financially) with the implementation of the PW study and its recommendations?**

Yes, despite the very partial implementation of recommendations of the PW study, it has produced important improvements where implemented.

**Discussion:**
**First:** A major impact of the PW study is in the area of accounting. The implementation of the software package TECAPRO has had an important impact in terms of efficiency, exactness and up dating of accounting on regular basis. Just by registering the corresponding account, TECAPRO updates every related record, and it is possible to obtain whatever financial report desired at any time. Other improvements are the preparation of payroll by computer; before of this the general accountant had to expend about one week every month preparing this, nowadays it is done in less than one day. TECAPRO is also linked to the treasury and control balances in bank accounts for the issuance of payments. This improves controls and management of funds by reducing mistakes in control of balances at banks. It also facilitates financial control in the implementation of diverse projects and the whole operation of SIECA.

**Second:** When the administrative and organizational procedures recommended by PW are similar to those already in place at SIECA, they are reasonably fulfilled. Those are: registering of new goods within the regular inventory, purchases of goods and services, and control on vehicles (gasoline and

maintenance). Other recommendations dealing with the management of human resources, reform of the organization of offices and authorities within SIECA, and the creation of the office of macroeconomic studies are not being implemented. Although this situation shows a poor improvement of SIECA's organization, we may say the current flowcharts demonstrate SIECA is in compliance with every requirement related with the management of funds by the project ROCAP/SIECA. Furthermore, SIECA has extended the same procedures to the other projects undertaken with different donors. SIECA may not be implementing the entire set of recommendations of the PW study, but one must note it has successfully implemented the detailed procedures of the 67 PILs (Project Implementation Letters) and the 11 PMLs (Project Modification Letters) requested by AID.

**5. Does SIECA have appropriate internal control structures and enough flexibility to respond to present and future demands and responsibilities related with the economic modernization strategy that the Central American countries have agreed upon?**

No. The internal control structure at SIECA presents organizational flaws. There is not an office of internal audit. SIECA seems to lack the capability for implementing changes within its organization. It is also clear that SIECA has not found its role in the new framework of the economic modernization strategy, which reduces its impact and turns its technical inputs irrelevant.

**Discussion:**
**First:** The current internal control structure at SIECA is strongly linked to the Office of Administration and Finance. This office does not want to lose its influence on this issue. The creation of an Office of Internal Audit was a recommendation made at SIECA most recent audit, as part of the ROCAP/SIECA agreement. As a consequence of the absence of an adequate internal control structure, during the prior term of the SG, approximately $90,000 was illegally transferred from the funds of SIECA to personal bank accounts of the prior Director of Administration and Finance. Fortunately those funds did not belong to any specific project and some of them have been recovered.

**Second:** The requirements of the new economic modernization strategy imply a major reform of SIECA's current organization, a reorganization that SIECA may never be able to adopt. The experience with the PW study indicates SIECA is unwilling to undertake a major administrative reform. Lack of administrative flexibility at SIECA is forcing some donors to demand an special unit for the administration of their projects. For example the EC demanded the creation of the Office of International Cooperation within SIECA. PW recommended to concentrate the management of every cooperative project in the Office of International Cooperation. The problem with this suggestion is the Office of International Cooperation overlaps with the regular offices of SIECA and duplicates functions; also the EC may want to keep its exclusive unit under its own control. This scheme may increase bureaucracy without solving the major problems at SIECA, namely a lack of focus in its economic approach, and lack of internal control.

**Third:** SIECA is able to comply with the requirements of accounting and funds management. However, the lack of an appropriate structure of internal control still remains. TECAPRO makes the process of accounting and production of reports a very satisfactory one. However, it does not replace the lack of internal audit on regular basis. For example, an internal audit would not allow the

mistakes leading to the noncompliance of requirements related with travel advances, currently going on at SIECA.

**Fourth**: We are not sure about SIECA's ability to respond to new demands and responsibilities arising from the new economic modernization strategy. This problem cannot be analyzed only in relation with its current administrative capabilities. Theoretically, the administrative structure must be flexible and able to adapt itself to policy requirements. However, at SIECA, we observe diverse trends. The position of the senior staff is driven by the import substitution approach promoted by CEPAL in the 60s. It makes no sense with the economic strategy agreed upon by the countries, because it is based on further internationalization of the individual economies. There is also a line of resistance to introduce administrative reforms because the current structure serves the purpose of an economic integration approach, based on the customs union scheme. The matter of reform is almost a personal issue with the persons that originally conceived the organization of SIECA.

Another issue related with the capability of SIECA to undertake a new approach to regional integration based on the economic modernization strategy, is the temporary character of the Secretary General. It has restrained a deeper change in the "assembly lines" of SIECA. With the current approach and organizational structure, SIECA has not found its role in the new environment. The Protocol of Guatemala of 1993 created a huge charge of duties on SIECA. The institution must now serve as executive secretariat for the Economic Cabinets of Central America and for some other 43 regional institutions. Everyone is now placing demands on SIECA about almost everything. Due to the absence of a definition on the new organization, no new funding have been agreed by the CA countries in behalf of SIECA. In addition, the advisers seem to enjoy looking for activities that may fall in the scope of SIECA, even if SIECA has not been directly commissioned to undertake such tasks. The last count of mandates indicates around 500 diverse activities pending of treatment by SIECA. Sixty-five of them come from the three most recent presidential summits. SIECA has neither gathered the mandates by theme nor priorized them. The main effort in this field has been focused to accommodate mandates within some unspecified "macro-programs". FEDEPRICAP has provided SIECA with software designed to record the mandates. However, at the time of this evaluation, the information had not yet been incorporated. We want to note here that many of the mandates require the urgent preparation of studies by SIECA, but SIECA does not have resources to cope with everything. It is common that the studies are not even analyzed by the requester, even if prepared on time.

**Fifth:** Throughout the evaluation we observed the current structure allows SIECA to play some role in the harmonization of Central American laws by collecting information from every country and legal provisions related with foreign investment, intellectual property rights, internal trade, customs regulations and so on. Most of these services are already provided by international firms, but there is evidence of many requests on these issues are currently being addressed to SIECA by public and private sector organizations, both locally or foreign-based. The most outstanding performance within SIECA is shown by the Office of Systems and Statistics. This Office has shown effective service and demonstrated an ability to solve problems. It has defined an information technology platform, implemented a computer network, assisted in the computerization of the accounting office, and successfully updated the data bank containing Central American economic statistics. The last achievement is quite tremendous, simply because the statistics had not been updated in five years. There are files containing the import duties structure of each country, figures related with the

international trade of the region, and its platform may provide support to the tasks of legislative harmonization. This kind of information is very useful for foreign investors.

**Sixth:** SIECA's weaknesses become clearly apparent when it is judged as a coordinator of the economic integration process. SIECA clearly does not have the organizational capacity to fulfill this task and the amount of funds demanded are huge. SIECA has never taken the opportunity to establish links with the corresponding technical units in the individual countries. It simply does not integrate with the Secretaries or Ministries of the diverse countries in order to define ideas or investment projects with potential regional impact. SEICA's opinions in economic issues usually are controversial if not destructive. In many cases, SIECA creates dissent and confusion by labeling policy measures that an individual country is taking in its best interest as non-cooperative, simply because other countries may not be capable of establishing the same policies simultaneously.

**Seventh**: Technical opinions by SIECA are not well respected among the policy makers in the region. Most of them perceived them as irrelevant. It is a problem because SIECA continues support a scheme of import substitution, which implies protectionism. The team was able to observe a joint SIECA/FEDEPRICAP study-in-progress on import tariff reduction. It was clear that the local manufacturers were not interested in reducing import tariffs and that SIECA was equally disinterested in initiatives that were not in line with the objectives of the common tariff structure (minimum of 5% and maximum of 20%). It is very probable that the final version of the study will argue against any modification of the current rates, despite that policy makers of individual countries have expressed interest in further reductions (Guatemala has suggested a flat rate of 12%, and El Salvador is looking for a zero rate).

We noted that FEDEPRICAP and SIECA are using the World Bank software package SINTIA.T in order to support its research. SINTIA.T is software developed for World Bank short term missions. Its main purpose is to provide a fast assessment of effective rates of protection (ERP), and real average rates. The software does not assesses the impact of surcharges and other factors such as quantitative restrictions and ill-defined value added taxes that usually increase the level of ERP. With the use of just SINTIA.T, it is not possible to determine the impact on employment and deviation of commerce due to any variation of rates on international trade. SINTIA.T is also unsuitable for the analysis of the potential effect on investment and productivity due to any variation of rates on international trade.

**6. Does SIECA meet the minimum standards for financial management required by USAID of grantees, or will it meet the standards by the PACD?**

Yes. SIECA meets the standards for financial administration as required by USAID and there is not a reason to think the situation will change in the short term. There are only two flaws we may note (a) the nonexistence of an office of internal audit (never a request of USAID) and (b) the management of the process of travel advances. SIECA has not yet organized this process according with USAID standards.

**Discussion:**

**First:** SIECA maintains a perfectly auditable accounting system and it keeps records of the last three years of transactions. This is the main regulation stated in the agreement ROCAP-SIECA. SIECA also complies with the requirements of the 67 PILs and the 11 PMLs. Most of them refer to the management of funds and procedures for registering transactions.

**Second:** The processes of procurement and recruitment match the USAID requirements, since SIECA coordinates this activity with the USAID-G Project Officer.

**Third:** Most of the advance payments and the management of funds match the USAID standards. The only exception we could identify was the related with travel advances, explained above.

**Fourth:** Although there is no substitute for internal audit office, SIECA has improved financial management by using the software TECAPRO when computerizing accounting procedures. SIECA also improved the control of funds and payments with the organization of an office of treasury. The office of internal audit would perfect control mechanism by institutionalizing them. By the end of this evaluation no decision had been taken about the organization of the internal audit.

**Fifth:** As we explained above, SIECA has not matched the standards of AID for the management of travel advances. A radical solution to this issue is not to issue travel advances but paying the travel expenses only after filing documents at SIECA.

**Sixth**: Other procedures not directly related with ROCAP/SIECA agreements present a reasonable safety margin. This is despite the absence of internal auditors. These processes are related with maintenance of inventories, control of vehicles, control of deposits at banks, management of petty cash and regular procurement. We find worthy to note that SIECA has extended the USAID standards for procurement and contracts to operations with other donors. These rules are in the manual ECID-AID-SIECA. This manual does not fit the recommendations of PW but it matches the PILs (project implementation letters) and PMLs (project modification letters.)

## 6.3 SUMMARY

SIECA matches the standards of financial administration set by USAID. It does comply with the PILs and PMLs. We noted that the PW study of 1993 is not being implemented. This is because: (a) It did not identify key issues such as the organization of the treasury, the internal audit, and some alternatives to face the problems created by the delays of the countries in paying their quotas; (b) The Secretary General at SIECA is working on a temporary basis. He simply cannot undertake a major reform without an official appointment.

A major impact from the PW study is the implementation of the software TECAPRO. This software is designed to manage accounting procedures and its implementation has had a positive impact within SIECA. TECAPRO has made more efficient the preparation of payrolls, registering of transactions and the issuance of accounting reports matching the requirements of AID. The Office of the Treasury has also benefitted from TECAPRO. The software aids in the control of balances at the banks, the issuance of checks, and prepares reconciliations. The Office of Systems and Statistics at SIECA modified the original TECAPRO so the SIECA's version is a superior one.

There is some resistance by SIECA in proceeding with the reforms purposed by PW. On one hand SIECA is looking for a different role in the process of regional integration. On the other hand PW did not identify the amount of resources needed to carry out the reform but it appears they must be huge.

There have been changes in the organization of SIECA but they are entirely *ad hoc*. The establishment of the Treasury solved the conflict of interest within the Office of Accounting and introduced more security to the management of funds. There exists the possibility to organize an Office of Internal Audit but it depends of the final recommendations of the external audit (December 1994) acted in compliance with the ROCAP/SIECA agreement.

PW and AID did not note the dissolution of the CEIE (Spanish acronyms for Center of Specified Research). The organization of the CEIE was a major requirement for implementing the EPR project. We could not find documents showing any modification to this requirement and there in not formal annotation of this event by the official of project at AID.

Difficulties with the compliance of AID requirements for financial administration are small. We observed some problem with the travel advances. SIECA has not been able to obtain airline tickets and receipt of hotel from some guests invited to regional meetings. This problem may be solved if SIECA stops providing travel advances and simply reimburses the money expended by the guests when they deliver the documents.

SIECA's current organization may allow it to have a role as a data supplier. SIECA may obtain information related to legal harmonization on issues such as regulation on foreign investment, import duties, protection of intellectual property rights, etc. Furthermore, SIECA carries a large data bank with macroeconomic data of the region, amount of trade by line in the customs list, and some other statistics. This information is currently being requested on a regular basis by organizations from both the private and the public sector. In July of 1994 there were around 60 requests related with free trade zones, import duties, foreign investment regulations etc.

In contrast with the possibilities mentioned above, SIECA is currently overwhelmed by the duties as coordinator of the regional economic integration. SIECA is searching for its role in the new environment of the Protocol of Guatemala. The countries of the region decided to set an economic modernization strategy rather than insisting in the customs union approach. At the core of the strategy is the insertion of the economies in the world market. SIECA will need a lot of years in order to become a useful technical adviser, in light of this new approach. At least four of the current six programmatic areas are designed to cope with coordination issues in the old fashion (customs union).

Although it may be aside of the main scope of this evaluation, we would like to note a major financial problem in SIECA. As long as the participating countries do not comply with a timely payment of their quotas, SIECA seems condemned to its current role.

# SECTION 7: RECOMMENDATIONS.

## 7.1 MAIN RECOMMENDATIONS

The main recommendations that flow from the observations made above are as follows:

1. **There does not appear to be a need for a project like the EPR.** The EPR concept was based on the idea that economic policy analysis was weak and that support for policy analysis at the regional level would strengthen it. While economic policy analysis may have been weak it was never clear that a regional approach was required. Furthermore the EPR was unfocussed. What policies were in question was never resolved. Finally, policy analysis at the country level was never as weak as the Project Paper implied and resources were available when policy analysis was required. Furthermore, policy analysis in each country has improved greatly since the EPR began in 1988.

2. **If AID creates another regional policy project, we do not recommend that it be done through SIECA.** SIECA is a very weak organization, its interests are too dispersed and it has already demonstrated its inability. Furthermore, SIECA is not considered a useful source of policy analysis by policy makers in the region. We summarize our thoughts on SIECA in Section 7.2.

3. **If SIECA is involved in a future project, it would be best if SIECA were not the lead organization.** It was not in the scope of work for this evaluation to identify an alternative institution to carry out an EPR-like project, and what one would be is not obvious. However, assuming that a project occurs, and assuming that an alternative institution can be found, SIECA may play some role as a cooperating organization or sub-contractor. This would protect the project from failure on SIECA's part to deliver, and help to get around the poor image that SIECA has among policy makers.

4. **If AID does continue to support a project with SIECA, then the project requires tight controls.** We have developed a set of principles that AID should use as a guide to constructing a new project with SIECA. These appear in Section 7.3.

## 7.2 SIECA

We have recommended that AID find some other institution to take the lead role if an EPR-like project is continued. Indeed, this recommendation holds for any regional project. We do not make this recommendation lightly, since SIECA is the only broadly based, regional institution. Furthermore it is the institution that has been officially established to administer and monitor economic integration in Central America. Therefore, to reject SIECA may be politically difficult. Important observations are:

1. SIECA is weaker now in economic analysis than when the EPR project was begun. There is no regular economic analysis staff. The CEIE has been disbanded. The intention of the EPR project, to build an economic policy analysis capability, by developing that capability at SIECA, has failed completely.

2. SIECA is vastly overburdened. The Protocol of Guatemala makes SIECA the technical secretariat for over forty organizations. Any regional meeting of presidents, ministers, vice ministers and many others usually results in directives to SIECA to study something. This places so many demands on SIECA that little more than a polemical, and/or trivial response can be forthcoming.

3. SIECA over-burdens itself. In addition to explicit demands for research, SIECA adds projects that it believes are within its domain. For example, whenever there is a regional meeting, SIECA examines the decisions and accords for issues that it (SIECA) thinks are in its domain and adds those to the research agenda, even where no specific mandate has been established.

   AID has not helped reduce the over burdening. Indeed, during late 1994, AID instigated SIECA work in the areas of environment and labor. These are areas where SIECA had not been active, and where it is not at all clear that SIECA should be active. These simply added to the overcrowded agenda.

4. Regional groups, (e.g. Gabinetes Econónicos) place demands on SIECA as if responses come at no cost. No consideration is given to the resources available[21], no funds are ever appropriated for special projects, and countries are normally in arrears on their quota payments to SIECA. In any event, quotas have remained fixed since 1984. As with any other good or service which carries a zero price, there is excess demand for SIECA's services.

5. The result of observations 2-4, is that there are no priorities for work at SIECA.

6. The policy prescriptions made by SIECA are held in very low regard by policy makers in the region. In most cases, SIECA is considered irrelevant as a source of economic analysis and policy guidance.

7. SIECA often enters fields in which no reasonable amount of resources could create the expertise necessary to make anything other than a trivial response to issues. (e.g.. on most infrastructure issues)

8. SIECA often enters fields where issues are better resolved by the private sector, making input from SIECA at best trivial; at worst destructive (e.g.. attempts to influence manufacturing)

9. SIECA often enters fields where decisions will be made by individual countries no matter what SIECA does, and where the capabilities of SIECA are trivial in comparison to those possessed by individual countries. (e.g.. taxation, exchange rate management, labor policy)

10. SIECA has a natural bias to promote a customs union in Central America. It is not at all clear that a customs union would improve upon economic development in the region. Indeed, standard economic thinking on customs unions lead to the conclusion that a customs union

[21] Indeed, we have heard the comment that there is no concern about this because the international donors will finance whatever is needed.

in Central America would reduce economic welfare. (See the classic, Allen (1961). Also see Lachler (1989) and Loehr (1990)).

11. SIECA has a natural bias to oppose any individual country from "going it alone". This is true even where the actions could be of great benefit to the individual country (e.g. Costa Rica's agreement with Mexico; El Salvador's interest in removing import duties entirely) and where it is not likely that consequences are great for the remaining individual countries.

The last two points deserve some elaboration. When one examines a large number of documents produced by SIECA, and when one has continual discussions with SIECA personnel[22]one cannot fail to see a pattern of consistent promotion of a customs union, protection (particularly for the manufacturing sector), and a preference for collective regional action over individual action. This is not surprising. After all, SIECA is the secretariat for economic integration and is designed to support the institutionalized form that economic integration has taken, IE. a customs union. There are few research documents produced under SIECA control that do not recommend protection and collective action. Indeed, many studies **assume** that collective action is preferable to individual action, even though in may be in the individual countries' own best interest to take individual action, and even though the countries **do** take individual action.[23]

Often, if one were to take SIECA recommendations seriously progress in Central America would be set back. Insistence on pursuing these recommendations could be destructive of the progress that has been made in each country acting in its own best interest. All countries have had to struggle with their own domestic situation to achieve what they have. If they also had to struggle with conditions in their neighboring countries, and the coordination rules that would be implied, slower progress would be made. For this reason SIECA is usually considered irrelevant in policy-making circles in Central America.

While SIECA has certain biases, it is not necessary that AID support those biases. There are many kinds of regional cooperation that can occur without confronting SIECA's biases. In its relationship

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[22] One of the authors of this report (Loehr) has been involved in a number of research projects on regional issues, usually as a consultant for ROCAP. These projects stretch back to 1985. Loehr has had many conversations with SIECA personnel in the intervening years, as well as many conversations with policy makers in the individual Central American countries about SIECA. Impressions in this part of the text are based in part on that experience.

[23]For example see the recent research reports by Bonilla. (1992) which are reviewed in Appendix 4. His study on the "Gestion Macroeconómico en Centroamérica" reaches "conclusions" that are trivial at best; destructive at worst. There is no information in Bonilla's work that is not known by anyone who works with economic policy in any of the countries of the region. Furthermore anyone familiar with the field could have guessed the outcome of this paper without reading it. The "conclusions" are by assumption, not as a result of analysis (of which there is none). For example one "conclusion", among other similar ones, is "La implementación de reglas (de coordinación monetaria) podrían servir para el ordenamiento monetario en los países participantes y de consiguiente para fortalecer la integración de la zona". As in the Bonilla paper on macroeconomic conditions, his work on money and credit reaches similar polemical "conclusions". An example of a recommendation that has no support whatsoever is "... es recomendable ... el establecimiento de un sistema monetario regional que provea estabilidad para todos los paises considerados en bloque." Neither of these "conclusions" are demonstrated. Many similar polemical "conclusions" are found in almost all SIECA-supported documents.

with SIECA, AID must try to support those activities that are simultaneously of interest to the individual countries, acting alone or in subregional groups, as well as being in the region's interest if all countries happen to act together.

## 7.2 PRINCIPLES FOR AID REGIONAL ECONOMIC POLICY SUPPORT.

Despite the negative view of SIECA expressed in the above observations, SIECA remains the only broadly based institution that is truly regional. It is the responsible body for administering Central American economic integration and its status as such has been confirmed by the presidents and the Protocol of Guatemala. Fortunately, SIECA is now redesigning itself.[24] Also, a new and permanent secretary general is supposed to be appointed by the end of March 1995. Thus, if there is a time for AID to have influence on the organization, it will probably be in the next year or so. While we do not recommend a continuing project with SIECA as the primary beneficiary, it is not clear what other institution would be appropriate to play the lead role in another EPR-like project instead of SIECA. If AID continues to work with SIECA great care will be required to make any future commitment productive. The following is a list of principles which is designed to raise the probability that AID assistance will have an impact in the long run.

1. **SIECA cannot do everything. Tasks that it takes on must reasonably match the resources available.**

   Many demands placed on SIECA are unreasonable. SIECA is often (even usually) asked to do things for which it is unprepared and has no resources to prepare itself. SIECA should be looking for ways to limit its role, not expand it. Parties demanding services from SIECA now do so as if there is no cost involved, and SIECA voluntarily take on tasks that it has no resources to follow up on.

   **Therefore**: a redesigned SIECA must plan a set of activities that matches its resources. Some activities should be identified as indispensable and financial quotas set to carry out these activities.

2. **Without timely country contributions of quotas, priority tasks cannot be done.**

   **Therefore**: AID should not become involved in SIECA unless countries resolve to pay reasonable quotas and to do so in a timely fashion.

3. **One of the indispensable tasks that should be done by SIECA, and that should be paid for out of quotas is the administration of regional agreements.**

   SIECA is normally called upon to draft protocols, regional agreements, etc. and to monitor the administration of agreements. This is its most obvious direct role as a secretariat. Without this minimal function there is no institutionalized regional cooperation among Central American countries.

[24] See the document Propuesta ... para reestructurar la SIECA", November 1994.

**Therefore**: The administrative role of SIECA needs to be clearly defined. A core set of activities must be identified, where the core includes all tasks necessary to support institutionalized economic integration. Then it needs to be determined what resources are necessary to take on these core tasks, and appropriate financial quotas set for each country. Quotas should be set to cover all basic costs of the core set of administrative activities. AID should provide no resources whatsoever to assist SIECA in its core administrative operations.

4. **Demands placed on SIECA, over and above the minimum specified in 3 above, must be accompanied by resources to carry out the task.**

   Currently, the institutions demanding services from SIECA perceive no cost in doing so. SIECA itself creates demands on itself for which resources are unavailable. These actions lead to an excess demand for SIECA's services. SIECA is thereby put in the untenable position of either being unable to respond or responding in a trivial, polemical way. Placing a cost on SIECA's services would cut down on the demand for them, provide resources and identify priorities.

   **Therefore**: Some mechanism must be created so that those who demand services from SIECA, other than those essential services covered by country quotas, must provide resources to do them. It is appropriate, that as part of the redesign of SIECA, AID may provide some funding to design a payment mechanism.

   A potential mechanism exists. The Protocol of Guatemala identifies a Consejo Ejecutivo, which in practice has never been formed. The Consejo Ejecutivo could be used as a "funnel" to collect the demands made by the Economic Cabinets and other organizations (the "clients"), to set priorities, mobilize resources and allocate tasks. Upon receiving a request for service from a client, the Consejo would determine how much serving the client would cost, and who could serve the client best. The Consejo Ejecutivo may consider sending work to SIECA or any other organization. **If** after conveying a cost estimate to the client, **and if** the client can acquire and allocate resources to the project, **then** the Consejo Ejecutivo assigns the work to the appropriate party. The Consejo Ejecutivo should operate on its own funds, not on part of funds assigned to SIECA. Furthermore, to maintain competition in ideas, the Consejo Ejecutivo should be able to assign work to anyone who is best able, not just to SIECA.

5. **If reasonable quotas are not set (and paid) to cover essential services, and if demands for additional services are not accompanied by resources adequate to the tasks, then SIECA is doomed to irrelevance.**

   **Therefore**: AID support should be conditioned on points 2-4 being satisfied.

6. **SIECA needs to remain flexible to respond to regional needs. AID-funded activities need not be as flexible.**

   SIECA needs to be able to respond to the exigencies of regional agreements, policy needs, etc. It is appropriate that this is so, and as long as resources are made available to respond in this way there should be no problem for SIECA. However, AID resources should not be spent responding to the crisis of the hour. If there are important areas of policy to be explored with the help of AID

resources, then this exploration should be planned from the outset. In the past, especially after 1991, EPR monies have been largely wasted on pursuing short-run interests.[25]

**Therefore**: AID funds should be allocated to long term projects designed to resolve important long-term regional economic issues. They should not be applied to resolving the short-run issues placed before SIECA by its client institutions.

7. **Some activities should be eliminated from SIECA's portfolio.**

There are several areas where it is impractical for SIECA to become involved in other than a monitoring capacity. Some of these areas are:

**A. Where the level of technical expertise required is so great that no reasonable amount of resources could make SIECA effective.** For example, in the area of infrastructure it is not possible for SIECA to provide non-trivial input without an unreasonable expenditure. Infrastructure planning requires too many costly technical skills. If the Gabinetes Económicos, or any other clients of SIECA require input on infrastructure issues they should contract with other specialized parties. The same can be said for work in the areas of environment, health, and perhaps others.

**B. Where countries will act in their own best interests no matter what SIECA does.** Experience in Central America shows that when it comes to taxation, exchange rate management, labor policy, major investments, and perhaps other areas, countries pay no attention to SIECA or its positions.

**C. Where resources elsewhere are much better than those resources that could be mustered by SIECA and where those resources are already being applied to questions of concern.** SIECA simply cannot compete with some other organizations on some issues and should leave the field. In many cases the resources available to local ministries, or those associated with bilateral operations of the World Bank, the IDB, IMF and AID missions are so much better than those available to SIECA that the latter cannot compete. SIECA has often behaved **as if** questions were not being studied elsewhere, when in fact they were by superior resources.[26]

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[25] For example, at the time of this writing, AID monies are being used to support two SIECA consultants to estimate the impact of changes in the common external tariff that have recently been proposed. This project originated from a demand by the Consejo Arancelario that SIECA should provide the analysis for a meeting to be held in February. SIECA would claim that studies of tariffs is within its domain as the secretariat for economic integration. If this is so then it should be paid for out of quotas, no out of an EPR-like project. SIECA might also claim that this topic is within its special studies of tax harmonization. But the study in this case did not arise from that set of activities, but from a demand by a client group. The project on the proposed tariff measures is entirely *ad hoc*.

[26] It is infrequent that one finds reference to other studies in SIECA documents. For example, SIECA studies of tariffs, fiscal policy, taxation, monetary policy, etc., are presented as if there are no other studies of these topics being done in the region. However, an enormous number of such studies **are** done routinely, and usually in much greater depth than the SIECA studies. Indeed, SIECA studies often (even usually) appear trivial in comparison to studies of the same topics done elsewhere. SIECA would respond to

**D. Where an outcome will be and should be determined by the private sector.** For example, SIECA has in the past concerned itself with the manufacturing sector, its modernization, promotion, etc. It is naive to think that SIECA can have any influence over the manufacturing sector. Furthermore, experience has shown that the eventual form of the manufacturing sector should be left to the private sector. The same can be said for any specific productive sector, though in the past SIECA has not concerned itself much with non-manufacturing.

**Therefore**: AID should identify areas where it is not practical to advance economic understanding by providing reasonable amounts of resources to SIECA. Areas that do not appear to be productive from the point of view of AID funding are: physical infrastructure, environment, labor and employment, exchange rate management, taxation, agriculture, manufacturing.

**8. AID should be neutral on the customs union issue.**

SIECA has a bias in favor of promoting a customs union as a necessary ingredient in promoting regional integration.[27]

In theory and in practice, economic arguments usually show that customs unions among developing countries, **decrease economic welfare**. Furthermore, in promoting a customs union, SIECA supports protection, rhetoric about competition and freeing markets notwithstanding. An example of the protection implied by SIECA's stand on the customs union issue are clearly expressed in the recent document on restructuring SIECA (pages 11-13). These ideas are inconsistent with other statements about entering world markets.

**Therefore**: AID should offer no support for projects associated with the promotion of a customs union, including projects that analyze a common external tariff. Studies of this type, if required by SIECA's clients should be paid for out of other resources.

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this criticism by saying that theirs is a regional view. But their regional view is normally just the adding up of a set of individual country views. The individual country views are normally much better handled by the superior resources available to the individual countries.

[27] SIECA's unwavering promotion of a customs union implies an import substitution strategy of development. During the 1980's and early 90s, the countries of Central America struggled to rid themselves of the legacy of this strategy. All countries reformed their protective devices on their own, each moving at its own pace. By the early 90's all countries of the region had pursued individual reforms that left them all with similar tariff structures and exchange rate regimes. Only then did they re-enter agreements on a common external tariff, but by then, doing so was easy since it had already happened *de facto*. The outcome was not due to the influence of SIECA, but to the actions of each country following up on its own self interest. Indeed, SIECA's persistent pursuit of a customs union is perhaps the main reason for it being considered irrelevant by most policy makers in the region

**9. If SIECA is to be a participant in future EPR-like projects, it should not be the primary implementing institution reaching agreement with AID.**

The failure of the current EPR project was largely due to a failure at SIECA. (Though there was significant failure within AID as well.) Recent steps by the temporary Secretary General have begun to reinvigorate SIECA, and if progress continues SIECA may become a useful participant in future projects. However, the permanent Secretary General is not yet appointed, and it was in part due to the poor performance of the last Secretary General that the EPR was a failure, Unfortunately, in underdeveloped institutions, individuals do matter. Furthermore the steps to reinvigorate SIECA have barely begun so what the outcome will be is very uncertain, even with a compatible Secretary General. Other reasons for removing SIECA from a central role include:

- SIECA seems to have a tendency to try to keep activities "in house". This is reinforced by a tendency to consider any economic issues as regional issues, and therefore within SIECA's domain.

- Competition in ideas should be maintained. If SIECA is the central organization in a project then project activity will tend to reflect economic integration and the traditional biases of SIECA. SIECA should have to compete with others for project support.

- Competition among alternative institutions would reduce the likelihood of project failure should one institution fail.

- SIECA's poor reputation among policy makers must be overcome. It's reputation may be enhanced by allowing SIECA to do a few things well, and letting other institutions do what does not seem to be in SIECA's domain.

**Therefore**: AID should not contract directly with SIECA. Some mechanism should be found whereby SIECA must compete with other entities for project resources.

**10. AID should support projects in areas where there is potential payoff from regional cooperation, whether or not a customs union exists and whether or not the full region is involved.**

In its own redesign, SIECA has identified as one of its major thrusts ..."La inserción de la economía regional en la economía mundial"[28]. This thrust should receive support from AID. AID should support activities where SIECA can assist either the region acting as a whole, or parts of the region, including individual countries should they choose to move ahead without waiting for the others. This implies the need for SIECA to cooperate with and interact with organizations that are not committed to regional integration *per se*.

Insertion of Central American countries in the world economy will require that well established conditions be met. That is, the conditions facing the Central American countries are often already fixed by agreement among large countries and Central American countries have little or no

[28] See the "Propuesta...para reestructurar la SIECA" (1994)

influence on what those conditions are. The main choice is conform or not. Furthermore, the conditions that must be met must be met by individual countries, via international treaties. Whether or not the countries act as a group is of little relevance, though in the end all must meet **the same** conditions. For example, GATT rules prevail in most negotiations. Central America can little affect those rules, whether acting as a group or individuals. Thus, SIECA may be able to help countries conform to GATT rules. Any countries dealing with the U.S. must conform to rules governing intellectual property. Those rules are well established or are evolving in a way that is not and will not be influenced by Central America. Again the question is conform or not. Furthermore countries individually must conform and agree. SIECA can help the region by helping the individual countries.

**Therefore**: AID should support the efforts of SIECA to help insert the Central American countries into the world economy.[29] Two thrusts already existing at SIECA are reasonable candidates for support. One of those is assistance to the region in entering broad trade agreements such as NAFTA. The other deals with assisting with the installation of acceptable intellectual property rights protection. Other areas may be identifiable too. Work in developing efficient customs clearing procedures, on documenting procedures for rules of origin, or on establishing reasonable rules against unfair trade practises come to mind.

[29] This is another reason that AID should not support the customs union biases of SIECA and the protection that that implies. Insistance on a customs union implies protection that is inconsistent with entering the world economy, and restrictions on individual action upon which entering the world economy depends.

## APPENDICES

1. SCOPE OF WORK

2. INTERVIEWS

3. DOCUMENTS REVIEWED

4. STUDIES REVIEWED AND EVALUATED

**SECTION C - DESCRIPTION/SPECS./WORK STATEMENT**

## SCOPE OF WORK

## INTERIM EVALUATION STATEMENT OF WORK

## Project 596-0147.10 SIECA

### INTRODUCTION

The following scope of work is for the interim evaluation of the Economic Policy Research Project (EPR) Project No. 596-0147.10, component with the Permanent Secretariat for Central American Economic Integration (SIECA).

The project was authorized on August 29, 1988, for a two-year period ending February 28, 1991. The authorization was amended on July 18, 1990 to extend the PACD of the project to August 31, 1993, and further amended on June 15, 1993 extending the PACD to August 28, 1995.

The Institute of Economic and Social Research of the Caribbean Basin (IESCARIBE), the Permanent Secretariat for Central American Economic Integration (SIECA), the Central American Institute for Business Administration (INCAE), and the Federation of Private Sector Entities of Central America and Panama (FEDEPRICAP), are the grantees for this project.

This project was designed to help selected regional entities and researchers in Central America to be better prepared to work in the area of economic policy change, and thus assist the Central American countries' joint efforts towards the harmonization of economic policies, modernization of their economies, and preparation to participate in the international economy.

The total authorized U.S. Government contribution level for the project is $3.9 million, distributed among the four institutions.

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ACTIVITY TO BE EVALUATED

Project number 596-0147.10

Title Economic Policy Research (EPR)

Subcomponent with the Permanent Secretariat for Central American Economic Integration (SIECA)

| | | |
|---|---|---|
| **Cost** | USAID | US$2,224,000 |
| | SIECA | US$ 550,000 |

**Authorization date:** August 20, 1988

**Project Assistance Completion Date (PACD):** August 28, 1995

## II. PURPOSE OF THE EVALUATION

The purpose of this interim evaluation of the SIECA component of the Economic Policy Research Project, EPR (596-0147.10) is to assess the extent and significance of the actual versus planned progress toward the achievement of the project goal purpose and, outputs after six years of implementation. Based on the findings, the evaluation should identify the short term effects of the project (planned vrs. unplanned, positive vrs. negative) and the probability of sustained impact.

The results of the evaluation will be used by USAID/G-CAP to determine if changes in the design and implementation procedures are needed in order to increase the probability that project investments will meet the stated purpose and goal of the project.

This interim evaluation has three objectives, which are as follows:

1) Provide a complete analysis of the implementation impact of the SIECA component of the EPR project, including accomplishments to date.

2) Determine to what extent the administrative, financial and accounting systems developed by Price Waterhouse are in place, and what remains to be done.

3) Based on findings, determine areas in which SIECA should focus the remaining resources of the project component and future actions needed for completion of the project goals.

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This evaluation report is to provide answers to the questions stated in section IV (Statement of Work) of this scope of work, conclusions (interpretations and judgements) that are based on the findings, and recommendations based on an assessment of the evaluation exercise.

## III. BACKGROUND

The goal of the project is to support economic policy reform and economic growth through an expanded public policy dialogue and knowledge of public issues.

The purpose is to increase the quantity and quality of economic policy research and analysis by economic research centers and universities in Central America on critical economic policy issues, and to raise the level of public understanding and dialogue on those issues.

The Grant Agreement with SIECA was for the purpose of increasing the quality and quantity of analysis and research on critical economic policy matters to advance the process of modernization of the economies of the Central American countries, and to increase the level of public understanding in this area through the processes of dialogue and information. SIECA's activities focused primarily on economic policy studies and dissemination to governments, and internal strengthening of its regional statistics and library programs.

In July 1992, USAID/G-CAP contracted Price Waterhouse to design and implement an organizational, administrative, financial, and accounting system in SIECA, able to capture, process, register, consolidate and report the transactions of the EPR project. This reorganization was very important for SIECA's modernization and also was the key determinant in extending the existing Grant Agreement with them.

In July 1993, an extension of the Grant Agreement with SIECA was signed. The new extension provides assistance until August 28, 1995. The amendment to the Agreement supports SIECA's activities as called for by the C.A. Economic Cabinets and the mandate which emanates from the new Protocol, signed in Guatemala in October, 1993.

USAID/G-CAP recently presented a revised regional economic strategy within our strategic objective framework. The new Regional Trade and Investment Strategy could influence SIECA's future direction by requesting that project activities be focused on new priorities during the last 12 months of life of the project.

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## IV. STATEMENT OF WORK

This interim evaluation of SIECA component of the EPR project will provide USAID/G-CAP with information on key issues related to two specific areas of interest:

1) Project implementation and impact

   This part of the evaluation will address the conditions at the time of design, the assumptions employed, the original goal and purpose of the project. It will then continue with the project paper amendments, objectives, purpose, and output-input relations.

2) Financial, administrative and accounting systems

   This part will review the PW study to the establishment of financial, administrative, and accounting systems; the manuals prepared by PW for SIECA, implementation of recommendations by SIECA, and follow-up to the activities.

The specific questions to be answered by the evaluation team in each of these two areas of interest are as follows (in order of importance for USAID/G-CAP).

..... <u>Questions to be answered about the project impact/implementation</u>:

1. Are the assumptions made in the logical framework of the project paper still valid?
   If not, what are the implications for meeting project purposes and goals?

2. Is there evidence that the project has improved the quantity and quality of research analysis by economic research centers in Central America? If not, why not?

3. Is there evidence that the public understanding and dialogue on economic research issues has been increased? If not, why not?

4. Has SIECA's technical and administrative areas (strength and weaknesses) changed since the implementation of the project? What areas can still be improved?

5. Is there evidence that project activities will be sustained

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beyond the project complementation date? If not, why not?

6. What role will SIECA have to play in the near future, given new developments in regional economic integration and international trade?

7. Are the priority programmatic areas determined by SIECA:

   a) Consistent with its mandates as the Economic Cabinet Secretariat?
   b) Consistent with its role as the implementing unit of the Protocol of Guatemala?
   c) Appropriate as the lead regional institution for free trade policy?
   d) Consistent with future needs?
   e) Relevant to USAID's development program and strategy?

8. How effective has the overall design of the Economic Policy Research project been? Has the implementation differed significantly from design? What factors account for success or failure of the project?

9. What modifications, if any, should be made in project plans and strategies to maximize the prospects of achieving the project's objectives?

10. Can SIECA improve the efficiency or reduce the cost of project activities?

. <u>Questions to be answered regarding the administrative, financial and accounting system</u>:

1. Is SIECA implementing the recommendations and using the material on organization that PW prepared? If so, how? If not, why?

2. Is SIECA using the manuals developed by PW on organizational, financial and administrative procedures? If so, how? If not, why?

3. Internally, has SIECA conducted periodic evaluations of the staff assigned to each of the programmatic areas, as recommended in the PW study?

4. Has SIECA improved (administratively and financially) with the implementation of the PW study and its recommendations?

5. Does SIECA have appropriate internal control structures and enough flexibility to respond to the present and future demands and responsibilities related with the economic

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modernization strategy that the Central American countries have agreed upon?

6. Does SIECA meet the minimum standards for financial management required by USAID of grantees, or will it meet the standards by the PACD?

## V. METHODS AND PROCEDURES

Evaluation Methodology

The contractors shall submit an initial work plan as part of their proposal (see Report Section), and recommend evaluation methods to be used. The data collection and analysis methods to be used by the contractor should include at the minimum:

1) For the first part of the evaluation (impact/implementation), the Consultants should review EPR Project Paper and the Project Paper amendments, records and documentation (from both USAID and SIECA), periodic reports, assessments and final reports. In addition, the Consultants should review the 14 policy studies developed by SIECA under the EPR project.

2) For the second part of the evaluation, the Consultants should review and indicate the impact of the implementation of the PW study, regarding administrative, financial and accounting management.

Interviews should be conducted with key personnel in the following institutions:

1) SIECA
2) USAID/G-CAP
3) SIECA's clients in C.A. such as the Central American Monetary Council (CAMC), Federation of Private Sector Entities of Central America and Panama (FEDEPRICAP), Secretariat for Central American Integration (SICA), etc.
4) Key Government Economic Staff and high ranking members of the Economic Cabinets

It is anticipated that the evaluation will require approximately four (4) weeks to be completed.

## VI. REPORTING REQUIREMENTS

The Contractor shall provide the following series of reports on this interim evaluation:

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a. A proposed report outline shall be prepared and submitted prior to arrival in country. This will serve as the principal basis for discussions and planning.

b. The Consultants shall provide USAID/G-CAP with a detailed workplan, schedule, methodology, list of proposed interviews, and assignment of team member responsibilities within three (3) working days after arriving in country.

c. The Consultants shall provide USAID/G-CAP with an oral briefing and draft English evaluation report before leaving country. The draft report will include issues discussed in the exit review and will contain the following sections:

1. Executive Summary - stating the development objectives of the project being evaluated; purpose of the evaluation, methodologies, findings, conclusions, recommendations, and lessons learned about the design and implementation of these activities.

2. Table of contents

3. Body of report, that includes discussions of:

4. Purpose of the interim evaluation

a. Economic, political and social context of the project

b. Team composition and methodology

c. Evidence/findings of the assessment

d. Conclusions drawn from the findings

e. Recommendations, based on the assessment

f. Appendices, including a copy of the interim evaluation scope of work, a list of documents consulted, and individuals and agencies consulted. Additional appendices may include a brief discussion of methodologies and technical topics if necessary.

g. The Team will draft the Evaluation Summary Abstract and Summary (Sections H and J of the Evaluation Summary form).

d. The Consultants shall provide USAID/G-CAP with a final report within 15 working days after receiving Mission's comments on the draft report. The final report will incorporate Mission's comments and be produced in English and Spanish, one (1) original and five (5) copies of each version. A diskette with the report files in mutually agreed upon software language

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will also be delivered.

USAID/G-CAP review will be conducted after the dra
presented in conjunction with the exit conference.

.....End of Section C.....

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## APPENDIX 2: PEOPLE INTERVIEWED

**FEDEPRICAP**

José Edgardo Gonzales R., Director Administrativo

José Manuel Salazar, Director Ejecutivo

Emannuel Hess, consultant

**SIECA**

Enrique Delgado, consultant and former director of CEIE

Gustavo Ruiz, former EPR project administrator for AID

Juan Blas, consultant, on leave from the Ministry of Finance, Guatemala

Gerardo Zepeda B., Secretario General (Acting)

Norman J. Caldera C. Undersecretary General

Ana Rosa Batres de Buco, Dpto de Informática

Marco Antonio Palacios, consultant on protection of intellectual property

Ernesto Torres Chico, Dpto de Mercado Común

Marco Conde, Dpto. de Infraestructura.

Alicia de Pereira, consultant on negotiations and relations under GATT

Oscar Bueso, consultant on fiscal harmonization

Laura Quinteros de Aguilera, Dpto. de Mercdo Común

Hersson Rodriguez, Director de Informática

**USAID**

Randall Peterson, Chief Economist

Ana Vilma Pocasangre, EPR Project administrator

Lydia de Zachrisson Director de Administración y Finanzas

Licenciado René Najarro, responsable de asuntos financieros de los proyectos de la USAID en Guatemala.

## APPENDIX 3: DOCUMENTS REVIEWED

The following list does not include the research papers that were read and evaluated. Those appear in Appendix 4.


Allen, R.L. (1961)
"Integration in Less Developed Areas", KYKLOS, XIV:2 pp. 315-335.

AID

Project Paper: economic Policy Research Project Number 596-0147 (8/25/88). Also Amendment No. 1 (7/18/90); Amendment No. 2 (6/15/92).

Project Status Reports. The AID file contained SARs beginning with the period April 1, 1988 to March 31, 1989, through the latest dated October 1 1993 to March 31, 1994. A SAR for one intervening period was not found, ie for October 1, 1989 to March 31, 1990.

Evaluation report Regional Economic Policy Planning ROCAP Project No. 596-0147 by Charles Montrie (January 18, 1991)

FEDEPRICAP

Hacia centroamérica por la via de moderna infraestructura (abril de 1993)

Ayuda Memoris de la sesión de pensamiento estratégio San José, C.R (Febrereo de 1994)

Resumen ejecutivo de ...programas y proyectos de FEDEPRICAP ejecutadas desde 1990 y en ejecución en noviembre en noviembre de 1993 (Nov. de 1993)

Tratado de libre comercio Costa Rica- Mexico: repercusiones para centroamerica Resumen de estratégia (25 de enero de 1995)

Indicadores de grado de preparaación ("readiness") de Cost Rica para integrarse al NAFTA (dieiembre de 1994)

Principales actividades y proyectos, 1995

Implementing hemispheric integration, by José M. Salazar y Eduardo Sperisen (January 27, 1995

Integración en Marcha various issues

The Free Trade Area of the Americas (FTAA): The Challenge for Small Countries, by José M. Salazar

Estado de la competitividad en el istmo centroamericano by Helio Fallas V. (marzo de 1994)

Estratégia general, programas y proyectos para el desarrollo de la competitividad en el istmo centroamericano by helio Fallas V. and José M Salazar (Marzo 1994)

Loehr, William,

Integration in Central America: Considerations for Panama For AID/ROCAP (Loehr and Associates, May 10, 1991)

Balance of Trade and Payments in Central America: Prospects for the CACM and Recommendations for ROCAP (Loehr and Associates, February 9, 1990)

OAS

Evaluación de la marcha del progreso de armonización tributaria en centroamérica: Proposición de reordenamiento. Prepared by consultants to the OAS, Angel Boccia y Luis Illanes (Septiembre de 1994)

Price Waterhouse.

Informe Final del Estudio Sobre la Secretaría Permanente del Tratado General de Integración Económica Centroamericana. Mayo de 1993. Seis Tomos.

Manuales de Organización, Procedimientos Administrativo-contables y Financiero para la Secretaría Permanente del Tratado General de Integración Económica Centroamericana. 1993. Flujogramas, Manuales y Formatos.

Salazar, José M.

"Problemas de la integración regional", Actualidad Económica, Septiembre 15, 1994.

SIECA

Propuesta que presenta el Secretario General a la consideración del Consejo Económico y Ejecutivo para reestructuar la SIECA. (n.d. but about November, 1994)

La nueva etapa de la integración económica centroamericana (16 de agosto de 1994)

Proyecto de estudios en política económica: Resumenes de estudios realizados en el período septiembre 1988 - agosto 1991.

Plan de trabajo complementario en el período de transición: Solicitud de financiamiento ante USAID/G-CAP.

Informe de actividades: Proyecto AID-596-0147, investicación de políticas económicas. Noviembre de 1994.

Informe de actividades: Proyecto AID-596-0147, investicación de políticas económicas: octubre - diciembre 1994. Enero de 1995

Lista de estudios en ejecución en la SIECA n.d. but about January 17, 1995)

Informe de la reunión. Primera reunión del grupo técnico GATT Guatemala, 14-15 diciembre, 1994)

Ronda Uruguay: Compromisos de los paises centroamericanos en materia de acceso a mercados. Prepared by Dra. Alicia Pereira (11 de Noviembre de 1994)

La salvaguardia en el sistema multilateral de comercio. prepared by Dra. Alicia Pereira (noviembre 1994)

Plan de acción de corto y mediano plazo para que la SIECA apoye a los gobiernos en sus relaciones económicas internacionales prepared by Arturo Fajardo Maldonado (agosto de 1992)

Impactos de cambios en el arancel de importación (enero de 1994)

Reglamento centroamericano sobre practicas de comercio desleal y clausula de salvaguardia (29 de enero de 1993)

Los impuestos especificos al consumo y el proceso de armonización tributaria en centroamérica prepared by Pluvio Mejicanos Loarca (enero de 1993)

Programa de armonización tributaria en centroamérica, prepared by Pluvio I. Mejicanos loarca (octubre de 1992)

Programa de la dirección de negociaciones y política comercial externa (n.d. buut about January 1995)

Cumbre de las Americas plan de acción (n.d.)

Plan de trabajo 1995 Dirección e mercado común, enero de 1995

Protocolo al tratado general de integración económica centroamericana Protocolo de Guatemala. This was published in the Bolotín Informativo, edición especial, 1993.

Agenda Económica Centroamericana 1995.

Modelos entidad relación de los subsistemas económico, político y social del Sistema de Integración Centroamericano, 1994.

Documento de reorganización y objetivos para la Dirección de Sistemas y Estadísitica de la SIECA. 1994 a 1995.

Guias de procedimientos administrativos y financieros para el Convenio de Donación SIECA-ROCAP No. 596-0147. Dirección de Administración y finanzas de la SIECA. Mayo de 1992, actualmente en aplicación.



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Segunda Reunión Conjunta del Consejo Económico y del Consejo Ejecutivo del Tratado General. Organización Interna de la SIECA a Sep 30 de 1994. Sep 30 de 1994. Circulación restringida.

Reglamento General de Relaciones Laborales entre la SIECA y su Personal. 1992. Vigente.

Bolotín Estadístico Vol. 3, Núm. 1 (enero de 1995)

Series estadisticos seleccionados de centroamerica Noviembre de 1994.

Segunda Reunión Conjunta del Consejo Económico y del Consejo Ejecutivo del Tratado General. Organización Interna de la SIECA a Sep 30 de 1994. Sep 30 de 1994. Circulación restringida.

Modelos entidad relación de los subsistemas económico, político y social del Sistema de Integración Centroamericano. 1994.

Documento de reorganización y objetivos para la Dirección de Sistemas y Estadísitica de la SIECA. 1994 a 1995

Guias de procedimientos administrativos y financieros para el Convenio de Donación SIECA-ROCAP No. 596-0147. Dirección de Administración y finanzas de la SIECA. Mayo de 1992, actualmente en aplicación.

Thomas & Associates,
Proposal to Provide Technical Assistnce for the Modernization of Central American Trade Law, Vancouver, B.C. (July 5, 1993)



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## APPENDIX 4: EVALUATIONS OF SELECTED REPORTS SUPPORTED BY THE ERP

The following pages review selected research papers produced by the ERP. As indicated in the text of this evaluation, all project research materials produced within SIECA prior to September 1991, have been destroyed. No copies of reports produced prior to September remain at either SIECA or AID. However, in an earlier assignment for ROCAP, one of the evaluators for this project (Loehr) happend to have read and evaluated most of the research papers produced before April 1991. Notes from that period have been used to produce most of the following reviews. Studies produced after September 1991, and reviewed here are indicated with an asterisk (*).

STUDY:

Balsells C., E. and Barrera O., A.

"Guatemala: Factores Determinantes del tipo de cambio en el mercado negro", INCAE, no date.

OBJECTIVE:

To explain exchange rate discounts in black markets in Guatemala.

METHOD:

Statistical/econometric. The paper reviewed some of the literature on the topic and then chose to apply a model used previously by Caceres and Nunez in the case of El Salvador.

EVALUATION:

This is clearly a paper that is part of the training projects for junior economists at INCAE. The paper is very terse and academic. It presents several mathematical formulas which flow from parts of the literature, but does so in an extremely confusing manner. The notation is not always clear. The statistical test that they provide is revealed, but there is no discussion of the data that fed the model, nor or the results.

CONTRIBUTION:

The contribution could have been significant if there had been some discussion of what the results mean. The theoretical formulation (not always clear) seemed intuitively reasonable, but without a discussion of the implication of the work, there is little contribution.

STUDY:

Delgado, et.al. "Impactos de los cambios del arancel de importacion Centroamericana" SIECA/CEIE, (1990)

OBJECTIVE:

The study does not state what its objectives are until page 8. The objective was to create an instrument to measure efficiency, via measures of effective rates of protection (ERP), then to calculate ERP for "sensitive" industries. Industries in volume one were Textiles, Clothing, Shoes, Paper and Tires. Volume two deals with six additional industries. This review is based only on volume one plus the executive summary.

METHOD:

The method was to take a survey of firms in each industry, observing inputs, outputs, prices and tariffs for each. Calculations of ERP then followed the standard approach described by Balassa (1971) or Samayoa (1991).

EVALUATION:

There are several potential problems with this study that may invalidate all of the conclusions.

1. The work is based on a survey of firms. The kind of survey required is very difficult to do. Unfortunately, very little attention is directed to discussing the nature of the survey, the problems that were anticipated and the way the proper response was obtained. Furthermore, the firms surveyed are very few. Rather than trying to cover a few firms in all the countries they would have been better off trying to get a significant number of firms from only one country. In part one, there were only 40 firms surveyed in five industries.

2. This entire exercise hinges on comparisons of domestic prices with international prices. International prices are needed for both tradable inputs and outputs. Often we are faced with a domestically produced good, sold in very distorted markets, for which there is only an imperfectly substitutable import. The problem is very difficult for determining the international value of tradable inputs. Very detailed information is needed on exactly what the inputs are. General descriptions of the inputs is not sufficient. Despite these potential problems, there is no discussion of the problem. The study dedicates only one sentence to this, stating that they looked for an international price for "un bien lo mas similar posible".(p.31) Furthermore, this was said in the context of final goods. What occured with input prices is not stated, but it does seem that the international price information did not come from the firms interviewed.

3. I suspect that the international prices used in the study were poor. One would expect that if we are dealing with a well defined good, the international prices of that good in each of the CA countries would be about the same (though not exactly equal). Furthermore, we would expect that the prices of goods produced in the region would also be about the same, differing only in transportation costs. If this were not the case then goods would flow from cheaper to expensive locations until prices were equalized or non-tariff barriers exist. In the latter case, the entire basis for this study falls apart.

Unfortunately, the prices reported do not conform to expectations. For example, (p. 43) the international price for "bond blanco" in Guatemala and El Salvador is identical, but the price "ex fabrica" is very different. The price is $1250 in Guatemala and $1061 in El Salvador. The case of tires is worse. The international price for automobile tires in Guatemala is put at $19 while the same thing is $50 in Costa Rica. The local price "ex fabrica" in Guatemala is $24.46 and in Costa Rica $65.35. The prices of "blue jeans" vary by huge proportions. These price differences simply do not make sense. The research team should have been alerted to possible problems here when they discovered that several goods had prices below international prices. These should have been export goods, though it was not stated that they were. At least some discussion of this was called for.

4. One of the main imported inputs in manufacturing is capital goods. To properly value domestic value added, one should determine the value of imported capital goods for each firm, establish correct international values and then depreciate accordingly. This was not done. In a recent study in El Salvador (FUSADES, 1990) this made a great difference in effective rates of protection. No attention was paid to this in this study.

5. Inputs that are imported from other Central American countries should be treated as if they are subject to the same tariff as applies to goods imported from the rest of the world. Since the CA market is a protected one, CA trade prices reflect protection. However, it appears (p. 86) that inputs imported from CA were considered to carry only the internal CA tariffs, which would have been zero under the CACM agreements. This point is not clear in the text.

6. The study claims to report on the change in ERP that would result from policy reforms. But, changing tariffs would change the cost structure of the firms. Each of the firms would then readjust its production to the new set of tariffs. How they change, or even if they change was not addressed here.

Overall, I have little confidence that the results presented are a reasonable representation of effective protection in the region.

I have been very critical, but I should point out that of all the studies done at CEIE this is by far the most ambitious and the most difficult to carry out. Furthermore the objective of the study was probably more useful than any of the others. An ambitious and difficult study is always easier to criticize than something dull and unimportant. I suspect that at the beginning, the researchers and AID did not appreciate the difficulty of doing this work and that the time and money devoted to it were too little.

CONTRIBUTION:

The study should be looked upon with caution. It does not provide a basis by which good cross-country comparisons can be made. Furthermore the document has not contributed much to the debate in the region as to what the effect of policy is on effective protection. The results of the study are simply stated. There is no comparison with other studies, nor are there any "conclusions per se.



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STUDY:

Esguerra, M. "Caracteristicas del comercio y evaluacion de los acuerdos de alcance parcial entre Colombia y Centroamerica", SIECA Julio, 1989

OBJECTIVE:

To describe the acuerdos and to test the hypothesis that they make a difference.

METHOD:

The author attempts a number of statistical tests based on the assumption that Colombian imports from Central America should be a function of relative prices, income and the existance of the agreements. The latter is represented by a dummy variable for the periods before and after the agreements came into effect (1984). As theoretical work goes, this is pretty thin stuff. Central America offers no concessions to Colombia so the test is a one-sided affair. Also, there are agreements only with Guatemala, Honduras and Costa Rica.

EVALUATION:

The method chosen (regression analysis) should probably not have been used. The data are very few since the acuerdos were put in place only in 1984. Also, as the author points out, the trade between Central America and Colombia is extremely small (indeed it is close to insignificant) and varies a lot from year to year. One would not expect much statistical success from this, even if the model structure were well specified. Sure enough, the author finds almost nothing. The conclusion is that the acuerdos haven't done anything for trade.

CONTRIBUTION:

There is a minor contribution here in that the details of the agreements are specified and that the author has concluded that they had no discernable effect. This is not much, but given the fairly trivial trade with Colombia one would not have expected too much more. Given Monteagudo's work, this paper was unnecessary.

STUDY:

Gochez, R.A. "Analisis de la tributacion que afecta la formacion de los mercados de capital en centroamerica...",SIECA/CEIE, Octubre de 1990.

OBJECTIVE:

As the name of the paper implies, the focus was on the taxes that affect the functioning of capital markets. There is more to it than this. The author also wanted to identify national tax treatment that may hinder the efficient functioning of a region-wide capital market. He also wanted to suggest some tax harmonizxation within the region.

METHOD:

The method was largely descriptive. That is, the author did not allude to the theory of taxation. Rather, he identified what taxes applied to capital transactions in each country and pointed out how they affected incentives in each case and/or how they differed across countries.

EVALUATION:

The author's conclusions and recommendations probably could have been offered without doing the study. They are(page 75):

1. Corporate earnings should be taxed the same as ordinary income
2. Corporate earnings should be taxed the same no matter the sector of activity of the corporation.
3. Taxes for "papel sellado y timbres" should not apply to financial transactions.
4. Within the region there should be harmonization of conceptual issues such as place of residence, legal jurisdiction, definition of earnings, depreciation, etc.

The author also recommended that there be coordination of monetary and fiscal policies and that there be established a region-wide "bolsa". These latter do not seem to flow from the discussion in the paper, but rather from the predilections of the author.

CONTRIBUTION:

This seems like a useful contribution, especially since:

-tax systems are being studied and the intention is to undergo tax reforms in all countries of the region. Most of this is supported by AID.

-capital markets in the form of "bolsas de valores" are being organized.

- all countries are reforming their financial systems.

This study provides an inventory of tax treatments that specialists might find useful in analysing any of these areas.

STUDY:

Gollas, M. "El Comercio de Mexico con Centroamerica y los Acuerdos de Alcance Parcial SIECA/CEIE Nov. 1989

OBJECTIVE:

Not clear. It is only on page 21 that objectives are mentioned at all and then they are vague. From the later text it appears that he wanted to determine whether the bilateral agreements were "trade creating".

METHOD:

When he finally gets around to mentioning method (p.23) it is not clear why he has chosen the method that he has and he appears to be confusing a "method" with a test. A test (statistical or otherwise) would be something that flows out of using a method. A test is not a method in itself.

The main part of the paper shows that he is probably not even using the test correctly. He shows a large number of extremely simple regression equations, but he is misinterpreting the lot of them. He has almost zero degrees of statistical freedom and gives no overall test statistics.

EVALUATION:

This paper is very poor. He is not sensitive to the statistical task that he is attempting. He has a lot of unsubstantiated statements. Also there are things that just don't make sense. For example, he shows a number of income elasticities, before and after an "acuerdo". These often shift signs from the "before" case to the "after" case. This shouldn't happen, but he seems to be unaware that it shouldn't. (It is probably due to his very bad "sample"). Oddly, in his summary he makes no reference to the empirical work.

CONTRIBUTION:

There is no real contribution here. There is a bit on trade relationships between Mexico and CA but this is not much.

STUDY:

Monteagudo, J. "Armonizacion de los Acuerdos Bilaterales de Alcance Parcial de Centroamerica con Mexico" SIECA/CEIE Sept. 1990

OBJECTIVE:

To specify exactly what the coverage is of the bilateral treaties existing between Mexico and each of the Central American states.

METHOD:

The method is descriptive. He inventories all of the agreements, specifies what goods are covered, and what the trade preferences amount to.

EVALUATION:

This is a good catalog and must represent a lot of detailed work. The author points out that these treaties provide special tariff treatment by Mexico for goods imported to Mexico from each of the Central American countries. The CA countries offer no special treatment for Mexican goods. The author argues that in future, Mexico should continue to offer nonreciprocated concesssions to CA, but then argues that when these agreements are renewed negotiation should be with the region rather than with the individual countries. The reasons offered all amount to seeking the extra strength that could come with a regional stance. This may backfire if Mexico sees the regional stance as representing extra strength and therefore decides to seek some reciprocity. Countries seeking nonreciprocal benefits may be better off appearing weak.

The author does not examine the usefulness of the tariff concessions given the current tariff structure of Mexico. When the agreements were struck, mostly in the pre-1985 period, Mexican tariffs were high (though not as high as Central American tariffs) Now, Mexico has a uniform 15% on all imports, with few exceptions. Even large cuts in this may not add up to much.

CONTRIBUTION:

This is a very specialized work. It is not necessary to publish this kind of thing because it would be used by so few people that publication would not be justified. However, the work will come in handy when negotiations are opened up with Mexico on regional preferences. Exactly what goods are now covered and what the Mexican preferences are can be found here. Presumably, one could also do statistical work on whether the existing preferences have made any difference. The author points out that the preferences are only on tariffs and not on non-tariff barriers.



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STUDY:

Monteagudo, J. "Centroamerica: Examen de los Acuerdos Bilaterales de Alcance Parcial", SIECA/CEIE, (1991)

OBJECTIVE:

To describe the bilateral agreements between the Central American countries and the countries of the Latin America Free Trade Association. This amounts to agreements with Mexico, Venezuela and Colombia.

METHOD:

The method is descriptive. Trade and trade balances are described between Mexico, Venezuela and Colombia and the CA countries. General details are given on the bilateral trade agreements.

EVALUATION:

The paper is very straightforward. It simply describes what the trade agreements cover and what the trade preferences are like. There is no analysis per se but there are a number of observations about what the agreements are like, the total amount of trade covered by them, ect. The texts of the agreements are presented in an appendix, and occupy most of the monograph.

CONTRIBUTION:

The main contribution is the inventory of agreements and what the trade preferences in them are. It becomes clear however, that only the agreements with Mexico cover any significant trade and even with Mexico the trade covered by the agreement is very small.

Publishing this paper was probably a mistake. The inventory that it provides is useful to only a small audience, and an unpublished paper would have done as well as a published one to reach those interested. This is particularly the case in light of Monteagudo's other paper focusing on the agreements with Mexico. The other paper has much more detail. People interested in the Mexico agreements would be better advised to go directly to the other paper.

STUDY:

Morales, C. "Analisis de la aplicacion de la legislation centroamericana sobre el valor aduanero de las mercancias," SIECA/CEIE August, 1990.

OBJECTIVE:

To establish criteria by which countries can best establish reasonable value for imports for tax purposes.

METHOD:

The method is largely a descriptive, legal one.

EVALUATION:

This topic is not one that would normally be studied by economists and is not normally part of studies dealing with economic policy. This has more to do with legal considerations than economics.

CONTRIBUTION:

This is probably of some use to the legal community, but even there, there seem to be some deficiencies. For example, the entire document deals with placing proper value on items. There was no demonstration that proper valuation was a problem (though perhaps we can presume that it is). But this is only part of the problem. Often deciding what the item is is more important. Importers can save money on duties if they can have the goods classified as falling in classifications that bear low tariffs. This was not dealt with.



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STUDY:

Pazos, F. "Acuerdos bilaterales de alcance parcial entre Venezuela y paises de centroamerica", ESCARIBE, July, 1989.

OBJECTIVE:

to examine the CA trade with Venezuela and comment on the agreements.

METHOD:

Descriptive

EVALUATION:

There is almost nothing here. The author shows trade flows betwen Venezuela and CA over the past several years. He comments that with the exception of Venezuelan oil, trade is insignificant. Trade did not change after the agreements (1986), therefore, the conclusion is that they have no effect.

CONTRIBUTION:

This is trivial.

STUDY:

Rodriguez, et.al. "Alternativas de desarrollo:...Cuenca del Caribe." Presented to SIECA (Agosto, 1989)

OBJECTIVE:

The objective was to analyse the CBI-related possibilities for improving economic performance in CA.

METHOD:

The method was very descriptive. There was no theoretical perspective presented nor empirical focus.

EVALUATION:

The discussion in this paper is, for the most part very general and "textbookish". The discussion is normally at a fairly unsophisticated level for economists, though it may provide some information for non-economist policymakers.

The bulk of the text is very general. For example, the first 39 pages are about development in general and are not focused on CA. Section V (page 104+) has general material on the CBI. Pages 78-90 survey export promotion measures, but that too is extremely general. There's nothing new here. They really only come up with two recommendations. One of those is a bad idea and the other is obvious. The bad idea is that export promotion can be helped by a differentiated CAT (as they have in Costa Rica) where the CAT rate depends on how desirable the activitiy is. This opens up the whole gamut of centralized economic decisionmaking problems that we should be trying to avoid. The obvious recommendation is that there should be export promotion organizations formed in each country. At the time of the study, these already existed.

CONTRIBUTION:

There is almost no contribution here. The work may be of some use to non-economist policy makers, but I suspect that they could get the information more efficiently from other sources (eg. from US Econ officers, AID private sector officers or private sector promotion organizations.)

STUDY:

Samayoa, O. "Sesgo Antiexportador: Teoria y Aspectos Metodologicos", SIECA/CEIE 1991

OBJECTIVE:

Objective was to identify and measure distortions caused by:

-taxes and tariffs on inputs and outputs
-subsidies or "incentives" offered for exports
-exchange rate disequilibria

METHOD:

The method is the rather standard one offered by Balassa (1971), dealing with effective rates of protection(ERP). This elaborates on computing the effects of the variables of interest.

EVALUATION:

The document I examined was reported to be a draft (dated feb. 1991). Some of the equations shown seem to be unnecessary and the exposition is clumsy. For example, there is consideration of the elasticities of supply and demand for foreign exchange leading up to a calculation of what to do with a currency overvaluation. This is unnecessary. He could have gone right to his result without introducing the elasticity stuff, since the elasticity material is only one limited view of how to handle this problem. The main point that is clouded is the he does have a method for dealing with overvaluation, however it's measured. Throughout, the argument is not always easy to follow and the examples are not always clear. There are also some notational mistakes. There should be a clear, numerical example given. There is an example, but it is not clear.

The analysis is done correctly and the kind of equations and calculations that he is after are useful. Indeed, this kind of thing is very useful and not always accessable to policy-oriented economists. He has not fully exploited what he has written however. He has presented the results as indicating antiexport bias. Indeed it does this, but it also shows effective rates of protection for any goods, not just exports. Whenever the ERP is negative, there is antiexport bias. The paper should be expanded to show that he is focusing on the special case of negative ERP.

CONTRIBUTION:

This is a useful description of how to calculate ERP. There is no new theoretical work, but it is pragmatic. The contribution could be expanded by an elaboration on what has been done in the paper.

STUDY:

Samayoa U., Otto (1990)

"Politicas de desarrollo de las exportaciones de productos no tradicionales en centroamerica," SIECA/CEIE.

OBJECTIVE:

To analyse economic policy measures and export promotion measures in the region, to recommend policy improvements and to identify areas for possible regional cooperation.

METHOD:

The method is fairly straightforward. He defines export promotion as measures designed to increase the incentives for exports and to increase the competitiveness of exports. Comparisons are then made among the export promotion efforts of each country. Each country (Guatemala, El Salvador, Honduras and Costa Rica) has a seperate appendix describing its efforts; the comparisons are based on these observations.

EVALUATION:

This paper is simple in the sense that there is nothing very theoretical in it, yet, Samayoa has included some of the basic theory in a form that is accessable to those willing to commit a bit of time. There is a bit of loss of focus toward the end of the piece, but this is minor. Samayoa introduces an empirical exercise to estimate the demand for and supply of exports. But the mosel is never fully developed. Furthermore, his conclusions do not need, nor do they receive, much support from the empirical exercise.

CONTRIBUTION:

The comprehensive and comparative nature of this paper makes it very useful to a policy dialog. I twould be a very good paper to use to orient discussion of export promotion in the region.

STUDY:

Zepeda B., G. (1989)

"Estudio sobre los obstaculos al comercio en centroamerica." SIECA/CEIE (Setiembre)

OBJECTIVE:

To identify obstacles to trade in the region in practice, as opposed to in theory. The author is aware that tariffs etc, are obstacles, but he was looking for things that are either taken for granted or overlooked, such as problems at the aduanas, on border crossings, with transportation problems, etc.

METHOD:

The method was entirely descriptive, requiring an inventory of all the things, many of them small, that could impede trade. Thee was a general discussion of these problems, but then a country-by-country search for formal and informal obstacles.

EVALUATION:

This is one of the least academic papers in the series and probably the most useful. It identifies and describes the many obstacles that must be overcome to engage in trade in the region. Many of these obstacles are petty, but the accumulation of them surely impedes trade significantly. The paper shows that after all the discussion of the "big issues" such as integration and policy harmonization, the countries of the region haven't even done those things to integrate themselves that are most simple. These obstacles should be removed first, before any sincere discussion of "integration" can occur.

CONTRIBUTION:

This is very useful. It should be read by anyone who is trying to think about economic integration in the region.

STUDY:*

Mejicanos Loarca, Pluvio I.
"Programa de armonización tributaria en Centroamérica", (Octubre e 1992

OBJECTIVE:

This study was in response to a directive from the Gabinete Económico which resulted from accords reached at a meeting in Antigua (March 1992) to reactivate the proces of tax harmonization.

METHOD:

The method is purely descriptive. There is no analysis. Tables are presented for each of the five countries showing kinds of taxes, revenues from each and the organization of the tax adminisration.

CONTRIBUTION:

The contribution of studies like this one is very slight. It is not clear at all what one could do with information like that shown in the study. There are no real conclusions, except to say that attention should be payed to tax harmonization, but that "conclusion" seems to be more by assumption than by result of analysis. Furthermore one could easily take issue with the idea that taxes need to be harmonized. Tax policy flows almost exclusively from the political/economic situation of each country. There is no indication that any country considers regional concerns when developing tax policy. Furthermore, tax policy in Central America is determined more by tax administration than tax design. This is not dealt with

In short, this study is either naive to think that countries should or would harmonize taxes, or it is useless, since it contains no analysis. It is probably both.



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STUDY:*

Bonilla, Francisco Heriberto
"Gestion Macroeconómico en Centroamérica: política fiscal y cambiaria (SIECA, 1992)

OBJECTIVE:

The objective is to survey events and trends in fiscal and exchange rate policy and to help design a coordinated program of fiscal harmonization.

METHOD:

The method is entirely descriptive of what the trends are in each country.

CONTRIBUTION:

The contribution is trivial at best; destructive at worst. There is no information in here that is not known by anyone who works with economic policy in any of the countries of the region. Furthermore anyone familiar with the field could have guessed the outcome of this paper without reading it. The facts that fiscal deficits are associated with inflation, exchange rates have been overvalued but are getting better, etc. are well known. It does not take a study to repeat this.

Worse, the "conclusions" are biased. The "conclusions" are by assumption, not as a result of analysis (of which there is none). For example one "conclusion", among other similar ones, is "La implementación de reglas (de coordinación monetaria) podrían servir para el ordinamiento monetario en los países participantes y de consiguiente para fortalecer la integración de la zona". This is not demonstrated. Furthermore this would be destructive of the progress that has been made in each country acting in its own best interest. All countries have had to struggle with their own domestic situation to achieve what they have. If, as the author suggests, they had to also struggle with conditions in their neighboring countries, and the coordination rules that would be implied, no progress would ever be made. Conclusions such as this one are the main reason why SIECA is considered totally irrelevant in policy-making circles in Central America.



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STUDY:*

Bonilla, Francisco Heriberto
" Política monetaria y crediticia en Centroamérica" (SIECA, 1992)

OBJECTIVE:

The objective is to survey events and trends in monetary and credit policy and to help design a coordinated program of fiscal harmonization.

METHOD:

The method is entirely descriptive of what the trends are in each country.

CONTRIBUTION:

The contribution is trivial at best; destructive at worst. As in the Bonilla paper previously reviewed, recommendations for regional coordination are polemical. For an example of a recommendation that has no support whatsoever see page 2..." es recomendable ... el establecimiento de un sistema monetario regional que provea estabilidad para todos los paises considerados en bloque." This is absurd, and contributes to SIECAs poor reputation in the region.

STUDY:*

FEDEPRICAP/SIECA
"Hacia Centroamerica por la via de moderna infraestructura: transporte, energía y telecomunicaciones", (abril 1993)

OBJECTIVE:

The objective is to take an inventory of what the infrastructure is now and what projects are "on the table".

METHOD:

The method is simply to take an inventory.

CONTRIBUTION:

There might be a contribution to business people from outside the region who are unfamiliar with where the ports, roads, etc. are and what their capacities are. However, the list of projects seems to be just a "wish list". There is not much indication as to how well thought out the projects are or whether they are realistic at all. For example, to speak of a project to build a modern railroad connecting Panama to Mexico strains credibility.