The United States Agency for International Development

Central America in Crisis:

USAID Response and Strategic Approach

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01-095

FOR IMMEDIATE RELEASE
October 10, 2001

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Overview Throughout the 1990's Central America enjoyed relatively steady progress and economic growth. Democratically elected governments adopted increasingly more open economies and encouraged trade. While equity issues and disparities continued, progress in reducing poverty was made. Central America is still recovering from hurricanes Mitch and George in 1998 and two earthquakes in El Salvador in 2001. More recently, Central America has been hit by a new series of disastrous events, overlapping and exacerbating each other. The dramatic decline in the international commodity prices (e.g., coffee, bananas, oil palm, and citrus) and the recent drought are leading to reduced employment, decreased tax revenues, the abandonment of farms, loss of livelihoods, increased incidence of acute malnutrition, and increased migration out of rural areas including illegal emigration to the United States from Central America and Mexico.

Drought Conditions through the first planting cycle (May-August) have resulted in losses in the corn and bean crops in El Salvador, Guatemala, Honduras and Nicaragua and have led to transitory food insecurity. This aggravates an already difficult situation since over 52 percent of the population, over 14 million people, are poor and chronically food insecure. In August, the World Food Programme estimated that 1.5 million people were affected by the drought and the USAID missions estimated that over 790,000 people needed short-term food assistance. Availability of seeds is a problem in some areas and rainfall has been erratic and unevenly distributed throughout the drought area.

Falling Coffee Prices A glut in the coffee market has depressed prices dramatically. World coffee prices have declined by 75 percent in the last 18 months due largely to the oversupply created by new production from Southeast Asia. The loss in income for Central American farmers is on the order of $1.5 billion this year alone. Falling prices at the farm gate (currently less than one half of normal prices) means that many farmers, including small-scale producers, cannot earn enough to even cover their

production costs. Called the "Coffee Hurricane," some estimate that it could take five years for prices to recover to previous levels. Many hundreds of thousands of seasonal jobs, and hundreds of thousands of permanent coffee farm jobs are being lost. As a result, an increasing number of families dependent on coffee incomes will face hunger in the coming years.

Economic Instability Central American countries are collectively, but differently, going through a sorting out of their financial sectors. Each country has its own set of problems. Few have well regulated financial sectors despite many years of advice from the donor community and the international financial institutions. Crime statistics are on the rise. The countries are heavily dependent on the coffee sector for rural employment, farm family income, and export earnings. The crises are reducing government revenues, further weakening national financial systems and contributing to overall social and economic instability. This situation could significantly increase the potential for conflict in the region, undermine political processes, and greatly increase emigration to the United States.

USAID's Emergency Response USAID has been closely monitoring weather conditions and crop production in Central American countries during the two-year dry spell that has affected crop yields and farming conditions of small and subsistence farmers. As drought conditions worsened in the region during the first planting this year, USAID, along with other U.S. government agencies, provided assistance to affected families. Since July, USAID has collaborated actively with U.S. private voluntary organizations responsible for distributing PL480 Title II development food aid to transfer in country Title II commodities to drought emergency zones. The USG also contributed 4,800 Metric Tons (MT) of PL480 Title II commodities to the World Food Program (WFP) to assist drought-affected farmers and unemployed coffee plantation workers in the region.

In all, the USG has contributed $11.3 million in emergency drought relief to date. The distribution of most emergency food aid is through food-for-work projects aimed at improving long-term food security and rehabilitating community infrastructure. In addition to emergency and non-emergency food aid, the USG is supporting programs that provide seeds and other agricultural inputs to farmers for the second planting season (August-November) in these affected regions. The region may need additional food aid resources in the coming year if the second harvest is below normal and to help poor households cope with the effect of low coffee prices.

USAID's Strategic Approach USAID is addressing hunger in the near term. In the longer term, our focus is to address the broader challenges impeding growth in the rural areas. Our strategy emphasizes economic integration and trade, good governance, innovative uses of science and technology, and management of environmental and economic risks. It seeks to involve local and national governments, civil society and non-governmental organizations (NGOs), small and micro entrepreneurs, banks and financial institutions. Together with the Inter American Development Bank and other donors, we are working toward a more prosperous future for the rural poor.

USAID is offering a mix of interventions to help farmers improve quality and move into higher value markets. In the case of coffee, many farmers will have to diversify into other crops and even out of agriculture given the structural nature of the crisis. USAID is working with the private sector to stimulate employment and promote income generation opportunities in secondary cities and rural areas with economic potential. These positive experiences show that removing constraints in marketing, knowledge, and bureaucracy can be very effective in improving the livelihoods of the poor. Private exporters must be able to operate in an encouraging, stable, and predictable environment. Private-public partnerships between U.S. buyers, local exporters, local NGOs, and small farmer groups are essential to ensure a flow of improved technology and to meet changing agricultural health and food safety standards of developed

countries. These types of investments have started to pay off even in spite of the lack of overall competitiveness. Much more impact can be achieved if trade capacity and competitiveness are improved and if the adverse effects of natural and economic shocks, that disproportionately affect the poor, are reduced. For example:

Nicaragua

- USAID is promoting agriculture production and small business through the provision of credit, technical assistance and policy reform.
- Highly successful microfinance activities will increase the number of loans to small producers by 20,000 for a total of 107,000 loans over a seven-year period.
- USAID is helping 64,000 farmers modernize, diversify, and expand agriculture production.
- Through NGOs, USAID will help 23,000 producers rehabilitate coffee plantations and expand cacao and commercial vegetable practices. The introduction of new crops such as cinnamon, black pepper, and avocado will hopefully spread farmer risk and minimize price fluctuation impacts in any given year.

Honduras

- USAID plans to extend a successful crop diversification program developed under the Hurricane Mitch reconstruction program and is developing business development services in key secondary cities with significant potential for rapid economic growth.
- USAID's economic reactivation strategy already is working to meet the needs of the poor by supporting key policy changes such as privatization, decentralization, and financial sector reforms.
- Approximately 48 percent of the small and micro businesses in Honduras now receive USAID-supported technical services, including 94,000 active clients (79 percent women).
- A total of 16,041 farmers received land titles under an ongoing mass land titling program.
- Approximately 15,000 rural poor families benefit from food-for-work small infrastructure development, agriculture extension and health education activities.

El Salvador

- USAID-financed programs are helping restore community infrastructure for the rural poor, focusing on the repair and reconstruction of homes, schools, health facilities, and potable water systems.
- With USAID support, over 5,500 Mitch affected farmers planted high-value crops to reactivate agricultural production and to encourage a shift away from basic grain production.
- A new rural development strategy is being developed to help El Salvador prioritize and focus on sectors that promote investment and generate employment, sectoral equilibrium, economic integration, and comparative advantage.

Guatemala

- USAID supported food-for-work agriculture development and microenterprise programs assist over 51,000 families improve income and child nutrition. Additionally 57,000 mothers and 91,000 children receive monthly food rations and health education.

- USAID is helping improve the farm-to-market road infrastructure and boost local investment in selected market towns. A key component of the strategy is to promote economic corridors and secondary cities with economic potential. This strategy already has demonstrated increased employment and incomes in two remote geographic areas.
- USAID is providing technical assistance and training to over 19,000 small and micro enterprises to help overcome their lack of access to credit and savings facilities, weak microfinance intermediaries, and limited access to technology.
- With our help, small farmers are gaining secure land titles and adopting sustainable agriculture practices.

At a regional level

- USAID's Central American Program works with regional organizations and national governments to improve trade and investment policies. USAID has worked successfully to harmonize and reduce tariffs across the region to the point where Guatemala and El Salvador are nearing a formal customs union agreement to completely eliminate tariffs on each other's products.
- Efforts to strengthen intellectual property rights protection and support an enhanced investment climate are underway.
- USAID is promoting legislation and regulatory mechanisms for energy and telecommunications to increase private investment and improve service delivery to rural areas. USAID is fostering better functioning labor markets while protecting core labor standards.