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DEVELOPMENT ASSISTANCE PROGRAM 1975 - 1980 CENTRAL AMERICA

CHAPTERS I-V

REGIONAL OVERVIEW AND ROCAP

FOR ASSISTANT ADMINISTRATOR'S REVIEW
OCT. 31-NOV. 1, 1974

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PREFACE

FRAMEWORK FOR FUTURE U.S. RESPONSE

ROCAP AS A U.S. MISSION

ROCAP was created in the early 1960's as the USG primary mechanism for maintaining relations with, reporting on and channeling assistance to the Central American integration movement. State AID/Circular 294 of October 2, 1962, and State/AID Airgram CA 4678 of October 28, 1963, spelled out ROCAP's terms of reference. CA 4678 defined ROCAP's objectives as:

1. Strengthening of existing regional economic integration institutions and their capability, under politically responsible inter-governmental or related authority, to formulate and execute regional development goals and plans.

2. Strengthening of politically responsible inter-governmental authority for mutual review and coordination of national development, fiscal, monetary, investment, and trade policies in directions which will be consonant with United States interests in the area.

3. In coordination with bilateral missions, improvement of private investment climate and promotion of private investment throughout the region.

4. Progressive elimination of barriers to free movement within the Central American common market of goods, people and capital, and close association of Panama with the common market.

5. Reinforcement of bilateral United States Missions' efforts to strengthen the economies and institutions of the six Isthmian countries as future components of a viable regional community.

6. Development of a sound base for natural growth of the Isthmian integration movement beyond the economic field into the fields of social, cultural and, eventually, political integration.

ROCAP was formally accredited to ODECA and the five Central American governments as a U.S. Special Mission by Executive Agreement on October 30, 1965. Article I of that Agreement provides:

> "The Government of the United States of America shall send a special mission (ROCAP) to maintain liaison with the Central American regional integration entities, and in order to assist in the joint effort of the Central American nations to achieve economic and social progress through the process of regional integration, shall provide such economic and technical assistance as may hereafter be requested by the respective regional integration entities and approved by representatives of the agency or agencies designated by the Government of the United States of America to administer its responsibilities hereunder."

Under this Charter, ROCAP is not a part of a specific embassy, but relates to five. It has political and economic reporting and representation responsibilities which are normally performed by embassies, but is funded as an AID dependency. It is set up to deal with CA integration, but half of its workload is related to servicing the five country missions in Central America.

The diplomatic functions have become increasingly significant aspects of the ROCAP workload in the light of the continuing impasse between El Salvador and Honduras, the political implications of the work to restructure the CACM, the disposition of the five countries to use SIECA as their common secretariat on a wide range of trade and economic problems, and the impact of regional positions on national policies and of national actions on regional ground rules. ROCAP's reporting on and analysis of regional political and economic developments materially facilitates coordination and harmonization of regional and country positions which is indispensable if realistic and accurate reflections of regional developments are to be presented to State and AID for appropriate decision-making.

Thus, through frequent consultations with the Ambassadors and their staffs, the ROCAP Director and his staff seek to achieve a realistic appreciation of the status and prospects of the integration movement, and at the same time, since the five national governments are the real architects and builders of the integration structure, the U.S. embassies in Central America play a critical role in obtaining national support for regional integration activities.

Functionally, ROCAP maintains with the five Central American USAIDs a special relationship which grows out of the integration efforts in the region. This led the Latin

American Bureau to adopt the recommendations of the 1972 Harrison Task Force to the effect that, although it is not opportune to merge the Central American USAIDs into a single regional operation, a coordinating mechanism to insure compatible and mutually reinforcing regional and national programs in Central America was needed. The Mission Directors' Coordinating Committee (MDCC) has become an established way of doing business in this region. Through the MDCC, the six Missions are forging a common strategy on policies and programs. This coordination is demonstrated in this DAP presentation. Not only have the USAIDs made their contributions to this DAP, but ROCAP has drawn on country CASPs and DAPs in developing its strategy and program. In the implementation of the approved DAP strategy, ROCAP will continue to work closely with all five embassies and USAIDs to insure mutual agreement on and compatibility of regional policies with approved country positions

ROCAP's relationship with the USAIDs also includes the provision of a wide range of technical and backstopping services which the five country Missions require but could not justify individually on a full-time basis. These services include economic analysis, agricultural technology and economics, procurement, engineering, legal matters, housing and financial analysis.

CHAPTER I

CENTRAL AMERICAN INTEGRATION

PART A

POST WORLD WAR II BACKGROUND

After World War II, the Central American countries began to stir. Traditionally rural societies, they exported agricultural products and imported manufactures from abroad. The rural sector accounted for the major part of the GDP. Land ownership was concentrated in the hands of a few powerful families. Large numbers of rural families lived on small acreage, often on marginal land. The public sector was weak, with few institutions organized to provide public services. Infrastructure was minimal, with few paved roads and little or no communications or electric facilities. There was almost no trade among the five countries. Trade patterns were almost exclusively oriented to selling primary products on the world market and buying from abroad. The predominant flavor of their economies was mercantilist, and their social systems reflected vestiges of the Spanish feudal order.

In this post-War era, reform movements emerged in the five countries. Many associated themselves with the developmental philosophy of Dr. Raul Prebisch, then Secretary General of the U.N. Economic Commission for Latin America (ECLA), who advocated industrialization and economic integration to enhance the capability of Latin America to overcome its underdevelopment.

At the same time, with the assistance of AID predecessor organizations and the UN, the five countries began to build the institutional framework for providing agriculture, health, education, public administration and other essential services for their people. The process of societal modernization, the beginning of a middle class and an awakening to the need for broader participation by the mass of the people were elements which, in varying dimensions, entered national consciousness and political action.

In the early 1950's, the Central American Governments had been considering how to overcome the obstacles to development caused by their limited potential as small, isolated economies. In the mid-1950's the five created the Organization of Central American States (ODECA) as their politico-cultural forum for cooperation. About the same period, the Ministers of Economy began meetings which gave rise to joint declarations indicating the intention to work gradually toward the formation of a regional system of economic cooperation or integration. During the early years of the movement, studies were completed and contacts begun, first between pairs of countries and, later, on a multilateral and, finally, on a five-nation basis. Their purpose was to increase trade through the mutual granting of preferences.

The United States was not an early active proponent of Central American economic integration. The role fell to ECLA. ECLA followed the thesis that countries fell generally into one of two categories: They were either industrialized, or they were raw material producers. The latter were dependent on the former because of the poor terms of trade affecting raw materials. Latin America was in the dependent category, and industrialization was the way out. Import substitution was the first step to industrialization. But, when applied to Central America, the prescription [illegible] into the [illegible] small national markets. Regional integration was [illegible] answer.

ECLA's Mexico office promoted [illegible] institutional framework, the Committee on Economic Cooperation, of which the five Economic Ministers were ex-officio members. It also secured financial assistance for the Committee and for the first regional institutions -- [illegible], ICAP and INCAP.[1] The achievements of this period are recorded in a number of treaties, mainly on commercial policy and road transport. A Multilateral Free Trade Treaty was negotiated in 1959. However, the extent of product exceptions and the failure of Honduras and Costa Rica to ratify discouraged the integrationists, whose spirits were further dampened by a concomitant reduction in ECLA funding.

Concurrently, however, the United States began to reappraise its attitude toward regional integration schemes emerging in Latin America. In February 1959, Undersecretary of State Douglas Dillon advised the OAS that [illegible]

1/ For applied research on industrial technology, public administration and nutrition [illegible] respectively.

United States would support regional integration plans throughout Latin America when they:

1. Aimed at trade creation and increased productivity;
2. Provided for scheduled elimination of barriers to intra-regional trade;
3. Were consistent with the principles of GATT;
4. Promoted increasing competition;
5. Provided for free flow of labor and capital; and
6. Provided for financing trade in convertible currencies.

These conditions for U.S. support were not fully compatible with the objectives set by the Central Americans for their integration scheme under ECLA guidance. C.A. priority aims were in terms of allocation of selected industries to each country, a preferential zone for marketing manufactured goods and a rather vague hope of arriving at a free trade zone within ten years. U.S. aims stressed competition and the prompt creation of a free trade zone. We were concerned about the effects integration might have on world trade patterns and about the free flow of labor and capital, concepts which they considered either unimportant or premature.

Neverthelesss [illegible] U.S. assistance [illegible] ed [illegible] dif- ferences. Where [illegible] the C[illegible] [illegible] stitute a "System of Integration [illegible] means to achieve balanced growth, the [illegible] urged the crea- tion of a regio[illegible] [illegible] a preferential [illegible] growth.

A summary of basic economic da[illegible] Central America is set forth on the next page.

CENTRAL AMERICA: SUMMARY OF BASIC ECONOMIC DATA

	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Total C. A.
Population						
-1973 (millions at mid-year)	5,751	3,814	2,864	2,222	1,887	16,538
-Rate of annual growth (1970-73)%	2.9	3.5	3.5	3.2	2.8	3.2
Gross Domestic Product P						
-Total 1973. Millions of 1960 CA$	2,150.9	1,133.2	637.1	760.5	1,012.3	5,694.0
-Per capita* CA$	374	297	223	342	537	344
-Annual growth 1970-73	6.5	4.8	3.9	4.1	5.1	5.3
Exports 1973 P						
-Extraregional millions of CA$	298.5	251.6	223.5	215.2	273.2	1,262.0
-Intraregional millions of CA$	137.7	106.8	13.3	61.5	69.2	388.5
Reserves June/74						
-Amount millions of $	232.8	63.4	41.6	181.3**	35.3	554.4
-Months of imports*	6.9	2.0	2.0	6.8	1.0	3.7
Central Government Tax Revenues as % of GDP 1973*	7.5	11.6	11.3	10.8	13.9	10.3

SOURCES: For population, GDP, Exports and Tax Revenues; SIECA, based on national sources in each country.

For Reserves: IMF, International Financial Statistics

* ROCAP calculations.

** May 1974

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PART B

THE COMMON MARKET

At the conclusion of the visit of President Lemus of El Salvador to Washington in 1959, he and President Eisenhower issued a joint communiqué which stated: "the establishment of an economically sound system for the integration of the economies of the Central American Republics and for a common market comprising those nations would be beneficial and would receive the support of El Salvador and the United States." On December 13, 1960, a General Treaty for Central American Economic Integration (General Treaty), signed at Managua by the Governments of Guatemala, El Salvador, Honduras and Nicaragua established the Central American Common Market (CACM). The Treaty entered into force in June 1961. Costa Rica subsequently executed an instrument of adherence which entered into force on September 23 1962.

Institutional Mechanisms

The General Treaty established the Central American Common Market. It created a Permanent Secretariat (SIECA), with headquarters in Guatemala City and the Central

American Bank for Economic Integration (CABEI) located in Tegucigalpa, Honduras.

The General Treaty provided for unrestricted reciprocal free trade among the five countries for almost all non-agricultural products originating within the region. In essence, the CACM is a loose knit free trade area with aspirations and institutions designed to move it toward higher forms of integration. It encourages industrialization via uniform tariff protection but has not achieved the status of a customs union. It does not have a common currency nor common monetary, fiscal and credit policies. Free movement of factors is limited to capital and there are restrictions on the movement of certain agricultural products considered essential to domestic consumption. The priority of the members is their own national development goals. As a result, the members have given up sovereignty only in those areas which will not infringe upon the achievement of these goals. The challenge facing the CACM is to dovetail national and regional priorities.

In subsequent years further agreements were reached; among other things these (1) established a common tariff on goods from outside the region; (2) set up an institutional structure to manage and further develop the Common Market; and (3) promoted development of industry and the physical infrastructure, mainly roads, to facilitate regional trade.

Under the General Treaty, the five countries had adopted by 1969 more than 30 protocols to facilitate the flow of trade among the five countries and to stimulate industrial investment needed for expanding trade.[1/] The principal protocols covered the creation of integration industries[2/], equalization of import tariffs, economic association, fiscal incentives for investment, a uniform Central American Customs Code, export promotion and organization of CABEI. One, the 1967 Protocol of Limón on Basic Grains, was aimed at harmonizing agricultural price and supply conditions in the five countries.

1/ It should be noted that each of these protocols required legislative ratification by each country.

2/ An integration industry is one which is allocated to one country by agreement of all five countries (i.e. tires to Guatemala, pulp-paper to Honduras).

At the same time an institutional framework emerged to facilitate the administration of the Common Market and to provide the machinery for expanding integration. ODECA, the political forum for integration which had existed since 1955, continued to function as one of the most important reinforcing mechanisms for the Central American Common Market (CACM). Besides the two central organizations set up under the Treaty -- SIECA and CABEI -- the regional machinery by the late 1960's had grown to encompass a wide range of activities. Special organizations set up prior to the General Treaty associated themselves with the CACM and new bodies were created. This regional network included:

The Central American Monetary Council whose executive secretariat manages the CA Monetary Stabilization Fund (CAMSF - the area's mini IMF) and the Central American clearinghouse.

The Central American Institute for Research and Industrial Technology (ICAITI), the regional center for applied research on adapting and developing industrial technology.

The Central American Institute of Public Administration (ICAP) for training public officials in development administration.

The Central American Institute [illegible] Business Administration [illegible], the [illegible] regional center on advanced management.

The Institute of Nutrition [illegible] America and Panama (INCAP), the [illegible] research and program center for improving nutrition [illegible] and standards.

The Tourism Secretariat for Central America and Panama (STICA), to coordinate [illegible] country efforts to promote tourism.

The Central American Export Promotion Agency (PROMECA), to develop a regional program [illegible] diversifying and expanding exports.

The Central American Federation of Chambers of Industry (FECAICA), the private industry sector's machinery for regional cooperation.

The Central American Confederation of Labor (CTCA), the union machinery for worker [illegible] cooperation.

The Central American Confederation of Universities (CSUCA), the public universities machinery for regional cooperation.

The Central American Federation of Private Universities (FUPAC), the private universities machinery for regional cooperation.

The Central American Civil Aviation Authority (COCESNA), a regional body for standards, [illegible] and cooperation on civil aviation.

The Central American Coordinating Committee for Marketing and Price Stabilization [illegible] Central American mechanism for the [illegible] and stabilization of prices of basic grains.

The <u>Central Amer[illegible] for Tele-communication</u> ([illegible]) [illegible] machinery for regional cooperation to improve communications throughout the region.

Other Central American associations and institutions burgeoned during the 1960's. In most professional fields, organizations grew up to facilitate cooperation and exchange of information. Newsmen, doctors, architects, lawyers, administrators of social security programs, civil engineers, housing specialists, among others, have their regional forums; and, with varying degrees of effectiveness, each plays a role in the network of regional interchange which the General Treaty tended to encourage.

A high point in Central American cooperation, and in its drive toward integration, was the 1968 Meeting of Central American Presidents with the President of the United States in San Salvador. In a Joint Declaration on July 6, 1968, the Central American Presidents pledged their support for a number of measures designed to move the region rapidly and irreversibly into fuller economic integration. President Johnson, reaffirming the previous stance of Presidents Eisenhower and Kennedy, reiterated his support for the integration movement in Central America. In the words of the Joint Declaration: "The President pledged the continued support of the United States of America for the Central American integration process" for which he recognized the need for 'substantial levels of foreign assistance'.

During the 1960's, CACM countries experienced a period of rapid economic growth. Both trade and manufactures expanded sharply. However, since there was no effective coordination of development policy, a truly regional economy did not emerge and frictions developed among the five countries. Moreover, the agriculture sector lagged and the benefits of integration were unequally distributed among countries, between urban and rural sectors and among social groups. The CACM, a limited mechanism, was not designed to solve many of the problems which underlay these imbalances.

Several abortive attempts were made in the late 1960's to deal with some of these problems and to carry integration further. In early 196[illegible] a significant attempt was made by the Central American Economic Council (the five Ministers of Economy). In its Resolution No. 54 of March 22, 1969, it adopted a plan designed to further increase economic cooperation by establishing a customs union and a capital market, promoting extra-regional exports and improving the coordination of policies relating to manufacturing, agriculture, infrastructure and monetary management. This plan had hardly been adopted when war broke out in August 1969 between Honduras and El Salvador. Progress on Resolution No. 54 was blocked, and the whole integration effort was seriously shaken.

The "Modus Operandi"

A major effort to overcome the crisis caused by the war and to get the integration process moving again was the resolution adopted by the Foreign Ministers in December 1969, pursuant to which they created an *ad hoc* committee to reorganize the Central American institutional system and give new life to the organs of the General Treaty. The Committee was to take on "the revision of treaties, conventions, protocols and other instruments which form the structure of economic integration in all necessary aspects, in order to complete the process of restructuring and strengthening of Central American Economic Integration." While restructuring was in process, the Foreign Ministers recommended that the Economic Ministers establish a "modus operandi" as a sort of an interim executive for the Common Market. El Salvador refused to sign because in its view the proposed draft involved an unacceptable transfer of resources to Honduras. As a result, the Ministers of Economy were unable to reach agreement. Following this the Government of Honduras, by Decree No. 97 of December 30, 1970, undertook measures designed to promote its own national production, suspended free trade with the rest of the region and broke with the common external tariff.

The "Comisión Normalizadora"

Meanwhile, a free trade zone composed of the other four countries continued to function, although with an increasing number of unresolved problems. Further difficulties were caused by monetary and financial problems in Costa Rica which led to a balance of payments crisis in

June 1971. The Governments of Guatemala, El Salvador Nicaragua and Costa Rica then agreed to create a "Normalizing Committee" (Comisión Normalizadora) to manage their relations with one another. Under this temporary system the Normalizing Committee was to have the functions which would normally have been exercised by the Economic and Executive Councils of the General Treaty. The Committee was also charged with preparing proposals to perfect the Common Market. The Committee met 13 times between June 1971 and September 1972, but then fell into disuse because new trade patterns had emerged. Subsequently, there have been numerous meetings at various levels among bilateral and multilateral groups in attempts to arrive at a more satisfactory and regularly functioning Common Market. All have agreed that it is not sufficient to return to the limited free trade situation which existed before the El Salvador Honduras war.

The Tripartite Meeting and the High Level Committee

Present efforts to restructure the Common Market had their origin in the so called "First Meeting on Perfecting and Restructuring the Central American Common Market" held in Guatemala [illegible] time, the Ministers of Economy and of Finance [illegible] five countries, along with the Presidents of [illegible] Banks, established the "Tripartite Meeting", consisting [illegible] themselves, as the decision-making body for restructuring [illegible] CACM. This group called for [illegible] Committee" (HLC) the principal function [illegible] to study the detailed proposals for restructuring contained in the SIECA document, "The Integrated Development of Central America in the Present Decade", popularly known as the "Decade Study".3/

Because countries were slow [illegible] their members, installation and working sessions of the HLC were delayed. It was not until March, 1974 that [illegible] meaningful work on restructuring began. The working [illegible] the HLC is the Consensus Paper, which records points of agreement and permits by-passing of points of discord. The agreed consensuses are to be submitted for consideration by the

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3/ The Decade Study is an exhaustive [illegible] volume survey of the optimum possibilities for [illegible] ation cooperation, and eventually, integration. [illegible] was prepared in 1972-73 by SIECA under its then [illegible] of Development, Gert Rosenthal

Tripartite Meeting and [illegible] will be incorporated into provisions of a new basic treaty (*tratado marco*) on Central American integration, the prospective end product of the [illegible].

While still rather general in nature -- as is appropriate for a *tratado marco* -- the proposals (if finally adopted) would take Central America well beyond the scope of the General Treaty of 1960, in that they would:

1. Place greater emphasis on the equitable distribution of benefits from integration;

2. Give greater priority to the employment generating effects of future investments;

3. Reduce the vulnerability of the Central American regional economy to fluctuations in demand for its primary export products;

4. Ensure that the interests of the consumer, as well as those of the producer, are considered in promoting the region's continued development;

5. Broaden the goals of integration to include social and educational objectives in addition to strictly economic integration.

Some of the more specific measures proposed for embodiment in the new treaty include:

1. Use of [illegible] policy to achieve not only import [illegible] tion (as in the past [illegible] trial development, agro [illegible] fuller employment [illegible] tion;

2. Promotion of [illegible] the CACM, the achievement of a [illegible] utilization of installed industrial [illegible] and the exploitation [illegible]

3. Special [illegible] elopment of agro-industry and to [illegible] integration of industry (i.e. production [illegible] some of the inputs presently imported);

4. Expansion of the flow of Central American savings to increase the proportion of the GNP available for capital formation.

Current plans call for additional consensuses related to agriculture, foreign investment, technological transfer and social development. The timetable calls for the preparation of a draft treaty [illegible] ber 1974 and for its submission to the tripartite meeting in December. However, unless and until the Honduras-El Salvador conflict is either resolved or set aside, prospects for early adoption of such a treaty [illegible]. The option open to the Central Americans [illegible] in Chapter II, Part C.

PART C

ACCOMPLISHMENTS OF INTEGRATION: 1960-1974

Intraregional trade grew from $33 million in 1960 to $390 million in 1973, or at an average annual compound growth rate of 21%. Whereas, intraregional trade constituted only 7.5% of the total external commerce of the five C.A. countries in 1960; this proportion increased to 23.6% in 1973. Thus, intraregional trade grew considerably faster than exports to the outside world and the interrelationship of the economies of the area has substantially increased.

Intraregional financial transactions demonstrate this interrelation. Payments effected in Central American currencies through the C.A. clearinghouse increased from CA$24.6 million in 1962 to CA$322.0 million in 1973, or at an average annual compound growth rate of 26% during this eleven-year period.

There has also been a substantial increase in public and private investment. Total Gross Domestic Investment (in constant 1960 prices) rose from $381 million in 1960 to $845 million in 1972. Value added by manufacturing (in real terms) in the period 1960-1972 increased at an average annual rate of 8.1% while the ratio of manufacturing to the total output of goods and services increased from 13% in 1960 to 17% in 1972.

There is a close tie-in between the growth of intraregional trade, the expansion of value added by manufacturing and the growth of gross domestic investment. The interrelationship is due, on the one hand, to the dominant role of manufacturing in intraregional trade, and on the other, to the role that both private and public investment have played in expanding the size of the CACM since 1960. Over three-fourths of total intraregional trade consists of manufactured goods.[4/]

4/ The latter was calculated as the sum of the following four categories: Chemical Products, Manufactured Goods Classified by Material, Machinery and Transport Equipment, and Miscellaneous Manufactured Products. Foodstuffs and Beverages were excluded though these also contain a significant amount of value added by manufacturing. Their inclusion would raise the proportion of trade in manufactured goods to substantially above 75%.

The establishment of [illegible] has undoubtedly provided a strong boost to the establishment of import substitution industries by offering a region-wide market and a uniform --and relatively high-- common external tariff. Many foreign firms, desirous of establishing themselves under the common [illegible] happened to come in, while economies of scale permitted the establishment of plants that would not have been economical previously. In the period 1960-66, private fixed capital formation increased at an average annual rate of [illegible].4%; this rate slowed after 1966 to [illegible].4% until the 1969 War, and to 3% during 1969-72.

Predictions that the growth in intraregional trade would be short-lived as a result of exhaustion of opportunities for import substitution have not yet come true. In fact, the increase in intraregional trade was 23% in 1973, a very healthy gain even if allowance is made for inflation. The following factors help account for the persistence in the growth of intraregional trade and of import substitution industries. (1) The CACM has proved to be an expanding [illegible]-- market. It has been fed by increased investment (particularly public investment financed by expanded official capital inflows), increased foreign exchange earnings from exports of primary products to the outside world and growing incomes generated by expansion of a number of key economic sectors, particularly, manufacturing, industry, construction, utilities, banking and insurance. (2) The development of manufacturing industry in C.A. has not been limited to the production of final consumer goods, nor the assembly of imported components. The significant growth in a number of manufacturing categories consisting largely of intermediate and capital goods bears witness to this fact. In other words, the new consumer goods industries have given rise through backward linkages to the development of enterprises supplying them with intermediate goods and services.

The growth of manufacturing in selected industries where intermediate and capital goods predominate is illustrated by the following table:

Value Added by Selected Manufacturing Sectors 1960-7[illegible]
(In Millions of Current C.A. Pesos) 5/

	[illegible]	[illegible]	Average Annual Compound Growth Rate
Paper and Paper Products	.8	1[illegible]	23.6%
Rubber Products	1.6	[illegible].4	14.8%
Chemical Products	[illegible]	[illegible].4	15.2%
Non-Metallic Mineral Prod.	[illegible]	[illegible]	12.5%
Metal Products	[illegible]	14.[illegible]	[illegible].3
Machinery Other than Electric	1.[illegible]	[illegible].7	17.6%
Electric Machinery and Accessories	.9	1[illegible].6	14.6%

These considerations do <u>not</u>, however, lead to the conclusion that import substitution will necessarily continue to provide the engine of growth in the second half of this Decade to the same extent as during the 1960's. Quite to the contrary, the general Central American consensus is that new industry will have to be increasingly oriented toward extra-regional markets and that regional policies and institutions should be modified accordingly. The data do suggest that, in a growing

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5/ Source: SIECA, Series Estadísticas Seleccionadas de Centroamérica y Panamá, No. 14, Nov. 73, Page 91. The basic data was supplied to SIECA by the Central Banks.

market, f[illegible] ort substitution proved to be [illegible] had been presumed and [illegible] not be written off as a contr[illegible] Central American economic [illegible] substitution industries [illegible] first step in establish[illegible] can be encouraged further [illegible] intermediate goods, the pro[illegible] materials and participation [illegible] markets, thus absorbing a grea[illegible] ional labor force and attacking [illegible] presumption here is that an ind[illegible] that was st[illegible] make goods that were previously [illegible] period of time and via the [illegible] a domestic demand for s[illegible] op supply industries. Now, the [illegible] supply industries will be labor [illegible] relatively so) follows fro[illegible] the result of factor end[illegible] and cheap labor).

It is less likely that a firm will encourage the production of capital intensive goods since potential suppliers cannot compete with the manufacturer's duty free imports. However, labor intensive suppliers compete better with duty free labor intensive imports. Hence, manufacturers will tend, via backward linkage, to either encourage labor-intensive supply industries or encourage imports. It is unlikely they will encourage capital intensive suppliers.

The CACM is obviously not the only causal factor of increase in trade, investment and manufactures. The efforts of each of the five countries independently of the CACM were significant. SIECA noted in its Decade Study that the average annual growth rate of Central America's GDP rose from 4.5% during the 1950's to 6.5% over 1962-1968 and estimated that the CACM accounted for about 1.6% of this acceleration. In a preliminary analysis of the "Benefits and Costs of Economic Integration in Central America," the SIECA/Brookings Research Unit concluded that, through 1968, "annual welfare gains from integration reached CA$113 million."[6]

Another of the major accomplishments of this decade has been the development of a regional infrastructure. In communications, where no effective and rapid inter-country structure existed in 1960, there is today a network that links the countries and permits easy contact. In power, the primary thrust has been at the national level; however, over the past several years, plans for interconnecting power grids between and among the five countries have been developing rapidly. In civil aviation, under the stewardship of a regional organization, technicians have forged close working relations and are drafting plans for a long-term regional program. Then, too, a Central American Port Commission has been created to rationalize and make compatible national plans.

One of the most dramatic accomplishments was construction of highways. Although work on sections

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6/ William R. Cline, the Brookings Institution, Benefits and Costs of Economic Integration in Central America, Preliminary Draft, July 1974, p.43.

of the Pan American Highway began as early as the 1940's it was not until the 1960 and 1972 period that a road network linking the five countries was finally put into place which facilitated the flow of goods from country to country. For the most part the pre-1960 system consisted of narrow roads radiating in a starlike pattern from each capital; today, regional highways link major cities, ports and production centers throughout the five countries. The total length of paved roads has about doubled.

The mounting of a network of regional institutions has taken place, and these institutions are in place despite the Salvador-Honduras War. The only institutional casualty of the early 1970's has been ODECA, the political arm of the integration movement. In July 1973, the Foreign Ministers of Central America suspended its operations and relegated it to caretaker functions for "reasons of economy" until the restructuring process is decided upon. Nevertheless, some ODECA subsidiary organs (i.e. the Central American Defense Organization and SITCA) continue to function.

The other institutions have continued to operate and to receive budget contributions from the governments and private sector of Central America. Over the period, some organizations have been more effective than others. COCESNA and COMTELCA have become solid technical bodies recognized as substantive, subject-matter leaders with their own budgets and programs while others like FUPAC and PROMECA are still struggling to establish themselves. A few organizations found it necessary to settle for less ambitious goals than originally contemplated and have played less significant a role than anticipated. In addition, some organizations -- especially in fields like agriculture, health and education -- never jelled.

However, six or seven institutions have emerged as mature leaders in Central American development and integration. (1) SIECA has progressively broadened its scope as the Integration Secretariat; it has been the leader in redirecting regional attention from trade to the broader issues of development; and it has played a significant role as the Secretariat to the Marketing and Price

Stabilization Committee (CCMPA) in focusing on the agricultural problems of Central America. (2) CABEI has assumed a major role in funding integration projects as well as mobilizing regional and external resources for Central American development. (3) The CA Monetary Council has become the accepted mechanism for coordination among Central Banks, for joint review of monetary and fiscal problems, for operating the regional clearing-house and for managing the CAMSF. (4) ICAITI has grown to become the recognized regional leader in applied research and technology. (5) INCAE in less than ten years has become the "Harvard Business School" of the region and is one of the primary sources for top management training and improvement. (6) ICAP has continued to be the principal public administration training center in the region, shifting its focus from graduate level to in-service training needed by countries to improve public services. (7) INCAP has steadily increased its nutrition training and research capability and is developing its advisory services for helping the C.A. countries formulate and carry out programs.

The trade, infrastructure and institutional network which the CACM stimulated brought with it a number of indirect and non-measurable benefits, including an expanded interchange of technicians, advances in capacity to absorb technology, more sophisticated approaches to problem-solving and an awakening to the opportunities of integration beyond the narrow limits of free trade. Above all, experience of 13 years has led to a realization that to attack the basic problems of Central American development a broader, more comprehensive focus was required.

PART D

LESSONS OF THE INITIAL EXPERIENCE

Despite the substantial progress noted above, the fundamental development problems of the Isthmus were only peripherally attacked under the General Treaty. Increased intraregional trade was not enough. The root causes for regional underdevelopment have been identified by the Decade Study, which has helped focus Central

American thinking on four major areas needing integrated action in the next decade:

1. Rural backwardness, as reflected in per capita incomes equal to no more than 40% of urban incomes, low productivity and high rates of illiteracy, malnutrition, and mortality.

2. Widespread unemployment and underemployment in both rural and urban areas together with unequal distribution of income. SIECA estimates that urban unemployment ranges between 8% and 15% while unemployment plus underemployment in agriculture is estimated at 44% of the rural labor force.[7/] GAFICA[8/] estimates that the poorest 50% of Central America's population controls only 15% of the area's GDP and has an annual per capita GDP of only CA$74; while at the other end of the income scale, the highest 5%

7/ SIECA, Overview of, El Desarrollo Integrado de Centroamérica en la Presente Década, October 1972, pages 28-29.

8/ Grupo Asesor de la FAO para la Integración Económica Centroamericana.

of the population controls some 30 [illegible] the GDP and enjoys a median per capita GDP of CA$1760

3. Diversification and expansion of regional exports to outside markets. Attention in the 1960's was concentrated on the development of intraregional trade flowing from import-substitution manufacturing. Only in the last two to three years has this focus broadened to extraregional trade, comparative advantage, processing of local raw materials and similar considerations.

4. Institutional reform to support development, including (a) adoption of effective fiscal measures to mobilize domestic public and private savings for investment and to help reduce income inequality; (b) adoption of land reform programs; (c) establishment of joint economic planning to improve coordination of economic policies and development programs; (d) coordination of monetary policy; and (e) strengthening of regional integration institutions, including measures to make them

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9/ Statistics on income distribution (as well as those on unemployment) are of dubious reliability. Studies currently under way are expected to correct this deficiency more responsive to regional as opposed to national interests, to expand their decision-making powers, and to assure their financial independence.

Any restructuring of the CACM, however, must overcome the following critical impediments to broader integration:

1. The unequal sharing of the benefits of integration. Guatemala, El Salvador and Costa Rica were endowed with a more advanced infrastructure, technology and management capability at the time the CACM was formed. Independently and through the CACM, Nicaragua followed policies designed to attract foreign capital and encourage private investment. As a result, these four countries attracted more new industries than Honduras; and the latter has tended to serve as a duty-free market for their industrial products. Data on value added by manufacturing indicates that while Honduran manufacturing industry has grown over the period 1960-72[10], its growth rate has lagged behind that of its CACM partners. The industrialization gap has increased.

10/ At an average annual real compound rate of 6.4%

2. Intraregional trade deficits. There has been a tendency to estimate the distribution of benefits and costs of integration mainly in terms of intraregional trade balances and for countries to unilaterally take actions to redress imbalances. The deficit countries, in particular, have tended to adopt a narrow mercantilist concept and to assume that countries showing a surplus in their intraregional trade have gained at the expense of their deficit partners. During most years since 1965, Honduras, Nicaragua and Costa Rica have run trade deficits with the rest of the region. Nicaragua and Costa Rica have taken corrective measures either to control their deficits or to channel trade in support of national development objectives, but Honduras' trade deficit has grown, both under the General Treaty until 1970 and under the bilateral agreements in force since 1972. Thus, Honduras' deficit, which increased from CA$13 million in 1966 to CA$36 million in 1970, was a major factor in causing Honduras to suspend free trade with the CACM at the end of that year.

3. <u>Conflicts in development philosophy</u>. There are some differences among central bankers and policy makers on the extent to which monetary, fiscal and credit policies should be employed in the pursuit of domestic development. For example, Costa Rica's expansionary policies in 1971 and 1972 resulted in balance of payments problems and led to the adoption of a split exchange rate. Costa Rica's more conservative neighbors took a dim view of such "irresponsible" actions and successfully exerted pressure on Costa Rica to reunite the exchange rate and devalue the colon. The Costa Rica case demonstrates the need to coordinate monetary, fiscal and credit policies as a basic condition for more effective integration.

4. <u>Opposition of special interest groups</u>. While some groups find that their interests are well served by integration, others prefer a protected national market. The abolition of intraregional tariff and trade barriers affected adversely the interests of producers interested exclusively in the domestic market. These domestic producers applied pressure on their governments to halt or restrict importation of CACM products. As a result

the movement of grains has been seriously restricted, and even manufactured products have occasionally been turned back or taxed at the border.

5. Failure of the "System of Integrated Industries." A basic premise for Central American integration was that new basic industries would be equitably distributed among the five countries of the region. Two basic tools were devised to accomplish this purpose: The Agreement on the System of Central American Integration Industries, signed in 1966, and the Central American Bank for Economic Integration (CABEI). The Agreement has not worked well because the five countries have been unwilling to concede monopoly positions to each other and risk the price increases that such monopolies might entail. No real accommodation has been reached among the countries for allocating these industries, with the result that only two such integrated basic industries are currently in operation.[11/]

11/ The tire industry in Guatemala and the chemical and fertilizer industry in Nicaragua. A flat glass factory and a pulp and paper plant were assigned to Honduras, but have not been developed to date.

The Decade Study recognized the need to forego the earlier approach that concentrated on expanding free trade, and urged instead that regional resources and energies be concentrated on solving basic problems in a new context and under a new integration treaty. The Study recognized that integration alone may not be the answer to the region's development needs, it is an indispensable complementary tool to national efforts. It provides the forum through which the countries can share each other's experiences and design more sophisticated, technically sound approaches to accelerating regional and country growth and to raising the living standards of the lower income groups. The lessons of the last decade demonstrate the utility of integration in:

1. Providing producers in each C.A. country with a regional market. Integration promotes economic development in accordance with comparative advantage (as determined by natural resources, capital and skills) and permits exploitation of economies of scale. The importance of developing a region-wide market and of allocating

resources on a regional basis becomes [illegible] when it is borne in mind that the 16 million [illegible] of the CACM area have a total purchasing power equal to a U.S. city of about 1.1 million people.

2. <u>Permitting a much more rational development of the region's infrastructure</u>. The development of roads, ports, airports, power generation and distribution systems and communications can be planned much more efficiently on a region-wide basis. The integration of the road system since 1960 and the parallel growth of intraregional trade bear witness to this fact.

3. <u>Avoiding duplication of facilities and wasteful competition</u>. Joint and coordinated planning is essential in areas such as grain price stabilization and industrial development, and in the production of goods where economies of scale are significant. The wastefulness of excessive competition was reflected in the various national industrial incentives laws [illegible] of which each country was trying to outdo the other in granting tax exemptions to new industries, [illegible] which

convinced Central Americans to adopt a single regional industrial incentives law.

4. Developing jointly skills and technology. Technicians and managers can be trained more efficiently and economically in specialized regional institutions training people for the whole area in lieu of separate national institutions. Comparable economies can be obtained in research and experimentation by coordinating national efforts into overall regional programs and by sharing results.

5. Pooling of resources and sharing experience. Much is to be gained if the experience acquired by a national organization can be made available immediately to the other countries. A number of regional institutions provide opportunities for such sharing as one of their functions: e.g. PROMECA in the area of export promotion; ICAITI for industrial technology; IICA CATIE in agricultural technology; and SITCA in tourism. In the monetary area, the C.A. Monetary Stabilization Fund promotes the pooling of foreign exchange reserves and

facilitates the obtention of foreign credits for balance-of-payments assistance.

6. Facilitating the Free Movement of Capital and Labor. Greater freedom of movement of labor and capital within the region should tend to raise productivity and income. At the present time only capital and scarce categories of professional and technical labor have relative freedom of movement. With the exception of seasonal migrant labor, unskilled workers are not free to move in response to wage inducements. The C.A. governments presently do not consider lack of labor mobility a meaningful constraint to the achievement of national economic goals and hence do not consider it a problem. Part of the reason for this view is that unemployment in all countries is high, and officials are under pressure to restrict access to available jobs to their own nationals. A less pressing, but nevertheless material constraints are the uncoordinated social security systems, antiquated labor laws, border crossing problems, which all tend to discourage labor mobility.

7. <u>Strengthening the negotiating capacity of the C.A. countries in matters of common interest, especially aimed at improving their foreign trade position</u>. While integration does not offer a final solution to fundamental economic problems such as unemployment, rural backwardness and extreme inequality of income distribution, there are <u>good reasons to believe that these problems are much more tractable with integration than without</u>. This is because it is easier to redistribute a pie which is getting larger than one which is not. In the former case, it is possible for each income group (farmers, wage earners, industrialists, etc.) to get a larger piece of the pie and thereby reduce the social and economic tensions which typically accompany income redistribution efforts. Also, larger markets permit greater specialization which leads to greater productivity and higher incomes. Finally, greater mobility of labor and capital tends to make the unemployment problem easier to manage. Integration, by itself, will not solve these problems, but can create a better <u>ambiente</u> for problem resolution and permits decision makers a wider range of options.

Considering the above, the integration process needs to be strengthened since it is unlikely that the process of import substitution will be able to provide, during the latter part of the 1970's, the driving force for integration that it provided in the sixties. The Central American countries will have to develop their rural sectors and orient their industrial establishments to processing agricultural products, producing their own intermediate goods and attempt to orient their production of manufactured goods increasingly toward the export markets. This will call for substantial institutional and policy changes which can best be executed at the regional level.

Central American integration, then has two significant dimensions: its institutions and a juridical structure. The key institutions have withstood political crises and continue to take the initiative in diagnosing the problems and constraints to Central American development and in suggesting cures. For example, they have introduced new dimensions to regional development through the Decade Study. Attention to the rural sector, employment, more equitable sharing of benefits from integration and diversification have all emerged from these SIECA initiatives. CABEI has similarly sought to provide new horizons through a seven-year, one-billion-dollar regional investment plan.

The dynamism of the institutions is in marked contrast to the stagnated policy machinery of CACM since the El Salvador Honduras War. Despite the political conflict, the CACM has had a marked increase in the volume of regional trade. While its problem-solving machinery has been interrupted, they keep finding stop-gap arrangements to resolve specific trade disputes. While the five countries continue to search for a new formula SIECA and the other institutions inch forward through new analyses and programs to greater inter-country cooperation. While faced with questions of the political will of the five countries to act decisively on the recommendations expected in December 1974 from the HLC, the institutions are moving forward on new programs sponsored by the five countries to broaden cooperation in agriculture technology, management systems and other areas.

In short, [illegible] of [illegible] ade of Central American integ[illegible] have acquired [illegible] instruments [illegible] into more than a trading arr[illegible] are a channel f[illegible] gional programs to deal with [illegible] Decade Study.

CHAPTER II

INTEGRATION'S FUTURE: A POLITICAL DECISION

The Common Market and its component institutions, then represent no more than the first stage of Central American integration. Free trade was the initial cooperative mechanism for developing the five countries; but the original aim was not a full-scale regional development program. The experiences under the General Treaty then led to efforts by the late 1960's to broaden regional cooperation for development -- efforts which were blunted by the El Salvador-Honduras War and its aftermath. The HLC has called for "an economic and social community of Central America" dedicated to long-term regional development to replace the CACM. The decision on this recommendation in each of the five Republics will provide the real test of their political will to trade off the more narrow interests of certain domestic pressure groups for the broader opportunities afforded by regional development.

PART A

EL SALVADOR-HONDURAS CONFLICT

The major obstacle to meaningful debate on future integration remains the impasse between El Salvador and Honduras. No responsible Central American expects ratification of a new regional treaty until a settlement has been reached between these two countries.

Five years after the cessation of hostilities, the two have not signed a Peace Treaty nor restored diplomatic relations. The overriding sticking point remains the demarcation of their common border. Honduras seeks to establish the border on the basis of historical documents dating from the colonial period while El Salvador bases its position on long-standing *de facto* possession. Negotiations since 1970 have been stymied over this issue. In the Fall 1973 bilateral talks in Mexico, tentative agreement was reached on seven agenda items, but failure on the eighth --the border issue-- led to a breakdown.

The continuing deadlock is taking its toll on the CACM. Honduras remains outside of the General Treaty free-trade provisions and keeps her border closed to Salvadoran traffic and goods not only throttling Salvador's access to the Honduras market, but also impeding the flow of Salvadoran goods to Nicaragua, Costa Rica and Panama. El Salvador, in return, has withheld its approval of an augmentation of CABEI's capital (which would redound to Honduras' benefit because of preferential treatment given Honduras by CABEI) or consideration of special preferential attention to Honduras' development needs by the CACM.

The real causes of conflict between the two governments run much deeper than the precise location of the border. Certainly, the brief, bloody armed phase of the conflict in 1969 was no mere "football war", as it was inappropriately and misleadingly described. It is deeply rooted in economic and social as well as political problems. Pushed by a growing population and limited resources, the Salvadorans have become more energetic and have developed a more modern economy and a higher standard of living. They are dynamic, productive and outwardly looking. On the other hand, even with relatively abundant natural resources in relation to its population, Honduras is the least developed of the Central American Republics. It has the lowest per capita income in the region, the least-developed industrial capacity and the slowest rate of industrial growth.

While El Salvador perceives the solution to its problems as an immediate sharing of resources with its neighbors through integration, including free movement of labor and capital, Honduras fears engulfment and economic exploitation by its more advanced, more vigorous, and more populous neighbors, especially El Salvador. For this reason, Honduras seeks generous preferential treatment on the part of its Central American partners, in such areas as the allocation of industries, special tariff concessions, and the transfer of capital. El Salvador and the other CACM partners have not been disposed to make more than limited concessions to Honduras. This will be one of the major issues to be resolved once the countries begin debate and negotiations on future Central American integration.

PART B

COUNTRY ATTITUDES TOWARD INTEGRATION

The building blocks for Central American regionalism are the five countries. The major question on the future of integration is whether the political will exists in the five countries to move their present imperfect free-trade area to a higher level of regional integration.

The regional environment is the sum of the attitudes and reservations of the five countries. There is no supranational machinery -- only regional institutions which are subject and responsive to the guidelines of the five governments. The CACM has an institutional life and programs which transcend those of the five countries only so long as the five are willing to pay the bills and accept the results. The CACM is a fragile mechanism, and future integration efforts are dependent on the degree to which the five partner states see advantages to their self-interest and internal development.

The pall cast on the integration movement by the continuing impasse between El Salvador and Honduras has diminished the enthusiasm and drive of the early 1960's. Despite clear and repeated recognition of integration as the only viable path toward vigorous development, public and private sector skepticism about future progress of the CACM exists in all five countries. With ODECA's activities suspended, no regional political forum exists. The short-range political interests of the five countries strongly influence their approach to regional questions. Hence, El Salvador blocked the increase in CABEI's capitalization in early 1974 and Guatemala, to avoid price increases for integrated industries, has blocked Meetings of the Vice-Ministers of Economy which were the forum designed to deal with day-to-day problems of the CACM. Honduras has boycotted Meetings of the Economic Council since 1970, and the overall policy-making machinery has been immobilized.

Nonetheless, the countries have continued to rely on the regional institutions to carry out their approved programs. The five continue to make their annual contributions to the budgets for these institutions.[1/] All five give em-

[1/] Note: the $180,000 per year country quota for SIECA was increased by 50% to $270,000 per year in the fall of 1974.

[illegible] regional integra- [illegible] compel- [illegible] recognize [illegible] want to retain [illegible] kinds of [illegible] pre- [illegible] results of region- al integration [illegible]

Guatemala

In the [illegible] Administra- tion Guatemala [illegible] matters. To the contrary [illegible] sched- uled meetings [illegible] the HLC, its participation [illegible] mechanism [illegible] into the analysis [illegible] debated.

In his inaugural [illegible] of Guate- mala [illegible] para- graph [illegible] the country's historic dedication [illegible] America and to revitalize the CACM. The Ministers of Foreign Affairs and Economy jointly set up a high-level, inter-ministerial team -- with the representation of several other Ministries, the Central Bank and the private sector -- to develop Guatemalan positions for HLC discussion. The Government appointed a new representative to the HLC, Dr. Carlos Peralta Méndez, a former Minister of Economy who is considered among the best qualified persons in Guatemala for the job. Both Ministers have begun to take a more active role in Central American affairs -- on both the diplomatic and economic fronts. And in the July 29 to August 1 meeting of the HLC, Guatemala took the initiative for setting a firm timetable for HLC preparation of a new <u>tratado marco</u> which now is to be submitted to the five governments by the end of 1974.

However, it is still too early to determine whether these moves will be converted into sustained action by Guatemala for moving Central American integration forward. Guatemala's primary concerns remain tied to urgent national problems. Thus, although Guatemala shows signs of emerging from a lethargic role in regional integration, it is still uncertain if it has the political will t[illegible] [illegible]ss hard toward the achievement of ne[illegible] levels of [illegible]

Honduras

Honduras' primary concern is its ow[illegible] [illegible]ernal development. The López Government has launched [illegible]oad-gauged national development plan. Its attitude t[illegible] [illegible]d integration will depend greatly on the preferential [illegible]ment and arrangements that its CACM partners are pr[illegible] [illegible] to accord Honduras in a restructured integration mov[illegible]

Honduras has long felt that the grou[illegible] rules for the CACM have not been responsive to its nee[illegible] It has repeatedly asserted that it will not return to f[illegible] [illegible]rticipation in the regional market as set up under t[illegible] [illegible]eneral Treaty of Managua. Through its bilateral trea[illegible] [illegible]th Guatemala, Nicaragua and Costa Rica, Honduras has p[illegible]ally restored its trade with these countries on terms [illegible] accord preferential treatment to Honduran products. [illegible] future cooperation in the Central American community [illegible] [illegible]ditioned on the new policies norms and systems which [illegible] [illegible]lly, will [illegible] from the work of the HLC and or from the settlement of its bilateral problems with El Salvador.

Honduras, as the least-developed country in the CACM, is disappointed with its growth rate and industrial development as compared to those of its partners. Although most of the Ministers of the present López regime have worked in CACM institutions and are personally committed to integration, their primary concern is that Honduras catch up with its partners. Their goal is equality with the other CA countries, not equal opportunity. And in its national planning, Honduras has placed great emphasis on rapid mobilization of internal resources and social change as a result of broad-scale state intervention in the economy and society -- an emphasis which has aroused some suspicion in Nicaragua, Guatemala and El Salvador that Honduras is about to become the Perú of Central America.

Because of its preoccupation with internal development, Honduras initially played a negative, xenophobic role in restructuring efforts. Its conflict with El Salvador gave it the pretext for disassociating itself from the free trade aspects of the CACM and for refusing to participate in its executive ... [illegible] ... which

... almost all ... [illegible] ... reflecting it

Honduras' initial participation in ... [illegible] ... But, in the

last six months Honduras has demonstr[ated a] major change

in focus and attitude in the [illegible] ... forums in

which it participates. Recently it ... [illegible] ... a positive

approach to the ... of hand seeking ... the restruc-

turing process, preferential trade and ... [industr]ialization

concessions to accelerate its ... [d]evelopment.

Honduras has also taken the lead in se[eking] regional co-

operation on a variety of critical ... [pr]oblems it

faces -- from bananas to the oil crisis ... [and] used CACM

institutions to support its national ... [illegible]

Thus, Honduras' ... [illegible] ... integra-

tion will hinge ... [illegible] ... to extract

from its partners, and its ... [illegible] ... will be con-

tingent upon the ... [illegible] ... problems with

El Salvador.

El Salvador

This densely ... [illegible] ... [industrializ]ed country has

... [illegible] ... supporter of ... [CAC]M and identifies the process of CA integration with its most urgent national goals. The present Molina Government has consistently taken a strong stand for integration -- at least verbally. However, it has set definite limits on how far it will go in sacrificing domestic political interests for Central American cooperation.

Hence, El Salvador like the other CA countries has limits to its regionalism. When an increase in the capitalization of CABEI was proposed in January 1974, El Salvador abstained and blocked action. Why? Because it wished to apply pressure on Honduras to reopen the Pan American Highway. Further, new CABEI funds could reduce pressure on Honduras to compromise. When Honduras in the CACM proposes preferential concessions for less-developed partners (i.e. Honduras itself), El Salvador rejects the proposal. Why? Because it benefits Honduras, and El Salvador takes the position that advantages for Honduras should be negotiated only after Honduras rejoins the CACM and assumes its full obligations thereunder.

Thus, in effect, although it is the most persistent supporter of the CACM, El Salvador still approaches regional problems from its own national viewpoint. It wants a strengthened Central American community, but not at the domestic political cost of weakening its bargaining position with Honduras. Then, too, ultra-national factions exist within the country which view integration and economic concessions for integration as a betrayal.

<u>Nicaragua</u>

Nicaragua has been a constant supporter of regional integration. Both the partisans and opponents of General Somoza have taken strong pro-integration stands and have expressed support of the regional ideal.

The key political figure in the country remains General Somoza, who has been elected to a new term as President. His attitude and approach are the paramount factors in assessing Nicaragua's commitment to the regional community. His positions are realistic and self-interested. He has recognized far better than his colleagues in the other countries the pitfalls and limitations of common action by the Central American States and has skillfully conducted his country's affairs with an eye on their impact on internal development and priority national interests. It was Somoza who first saw the defects of the General Treaty in 1966-67 and took steps within the CACM framework to rectify them insofar as Nicaragua was concerned. Somoza is the least likely of the Central American leaders to be hustled into a quixotic stance for the cause of Central American unity.

Nicaragua will be a critical factor in determining the future route of regional integration. Its unique political situation affords it more stability and policy cohesion than its partners. While Somoza carries considerable weight with his colleagues, they suspect and sometimes fear Nicaragua because of the continuity of power that the Somozas have held over the country for more than 40 years. They recognize the power and connections Somoza has throughout the region. However, they recognize that he has taken an active role in trying to keep the CACM functioning and in seeking to reconcile El Salvador and Honduras.

Costa Rica

A late-comer in adhering to the General Treaty, Costa Rica recently converted its initial lukewarm participation to active advocacy of a strengthened Central American community. President Oduber, more perceptive of the advantages of regional unity in an increasingly hostile world economic milieu than his predecessor, sought a quick solution to the integration stalemate as soon as he was inaugurated. His attitude is based on a practical assessment of the economic importance of integration to Costa Rica. Costa Rica in recent years has emerged as a significant processor of Central American raw materials and an exporter of finished products. This process has provided jobs, economic opportunity and incentives to the Isthmus' best trained work force. However, the standard of living, the public education system and the expectations of its people, require that higher wages be paid in Costa Rica which the Costa Ricans regard as an economic disadvantage when related to trade with its CACM partners. And barring the disintegration of Central American regionalism, it offers Costa Rica a major catalyst in its development.

Initially miffed by the failure of his attempts at Central American summitry in May 1974, President Oduber appeared to turn away from Central American integration and look to bilateral arrangements with Nicaragua and its southern non-CACM neighbors [illegible], Colombia and [illegible]. [illegible] is now demonstrating [illegible] political disposition to go further on Central American integration [illegible] but is keeping its bilateral channels open. There is a solid perception of the potential benefits of integration, the President's favorable attitude and a number of high-level officials -- [illegible] First Vice-President [illegible] Manuel Castillo, former Secretary General of [illegible] -- who are convinced that regionalism is essential to their country's development.

President [illegible] is talking of "shared sovereignty" by the five states in promoting common economic and social development. None of the other countries has as yet [illegible] this doctrine, which does not imply supranationality but involves entrusting broader development responsibilities with resources to carry them out, to regional institutions.

The degree [illegible] "shared sovereignty" [illegible] is the debate [illegible]

Salvador-Honduras conflict is resolved. The recommendations of the HLC are summarized in the tratado marco. The terms of the debate will be set by the countries, and the negotiations on the tratado marco will be neither easy nor rapid. Furthermore, ratification by the legislatures of the countries may well be an even more difficult process.

PART C

THE CENTRAL AMERICAN OPTION

Integration is a fact of economic life in Central America. A process begun a quarter of a century ago, it has withstood the impact of a war and the vicissitudes of national attitudes. Despite severe problems, the five countries have not unraveled the structure, only forced it to mark time. The pressures for change have now set in motion new forces that are inevitably pushing the Banana Republic days into the history books of Central America.

The centripetal pulls toward integration are far greater than the historical and cultural ties of the five countries. They include economic and human factors such as:

-- The <u>continuing growth of trade</u> among the five countries in the face of the Honduras-El Salvador impasse. The sharp increase in 1973 reflects the vigor of the regional trading bloc. Strong, vested commercial, manufacturing and service industry interests are geared to regional trade, and these interests will continue to use their power to maintain at least the present CACM.

-- The <u>continued functioning of the regional institutions</u> and the continuing country contributions to their budgets. Despite uncertainties and pressures, the basic regional network of integration institutions remains in place. While the El Salvador-Honduras deadlock has stopped some initiatives to expand operations or increase budgets, the countries have continued to support the regional bodies, except ODECA, and to use their services.

-- The <u>network of pro-integration professionals</u>. A generation of technocrats has grown up in regional institutions; this generation sees regionalism not as a romantic [illegible] but as the foundation [illegible]. Many of these pro[illegible] regional institutions [illegible] governments, private indu[illegible] they form a *de facto* [illegible] in the area [illegible]ration.

-- Central Amer[illegible]tions in extra-regional for[illegible] repeatedly called [illegible], especially SIECA, to [illegible] papers on common economic [illegible] GATT, UNCTAD, trade nego[illegible] OAS. On issues ranging [illegible] energy crisis, from bananas [illegible] they have recognized a [illegible] institutions which can suppl[illegible] the national governments. [illegible]easingly drawn upon [illegible] is no evidence that the five [illegible] are prepared to take action which would prejudice their availability, and no Central American country has the human or financial capability to build its own substitute.

Recognition that powerful forces are at work to hold Central America together does not, however, lead to the conclusion that dramatic new spurts toward integration are upon us. There is, at this time, little evidence of political will or disposition in the five countries to make the hard decisions required to broaden and deepen integration. And it is anybody's guess whether the great Central American debate will be joined once the HLC submits its recommendations to the five governments.

In all likelihood, there will be no great leap forward in integration, but rather the steady spinning of the web of interrelationships. Nation states remain at the base of this regional system, and, more even than most bureaucratic organizations, they traditionally cede functions slowly. Nevertheless, the five countries now have a system that, despite all its frustrations and defects, is working and has contributed significantly to the growth of Central America.

Integration is not moving forward on a <u>gringo</u> timetable, but then it is neither derailed nor abandoned. It started without any past experience. Unlike Europe or East Africa, the five Central Americans had no established trading patterns among themselves. They had a common language, but no common infrastructure. They had a common tradition, but they had no common institutions and few uniform laws. Hence, Central American integration had to start building the track, the equipment and the stations while it trained the men and put together the shops.

In the context of these considerations, options available to the five Central American states seem to be somewhat narrowed. Area experts repeatedly caution against trying to predict courses of action which the five are likely to take and point out that the ultimate decisions will be made through compromises accommodating each's special interests. Nevertheless, there follows a discussion of the options which ROCAP believes are open to the Central Americans.

1. Let us first deal with two basic sets of conditions: (i) the impact of the continuing Salvador-Honduras impasse and (ii) the four least likely options for the countries to exercise.

First, the _status quo_ of two relatively static parallel trading groups and the existing network of regional institutions is not likely to be substantially changed until: (a) the Salvadoran-Honduran conflict is resolved; or, (b) a majority of the five countries become convinced that the conflict is not susceptible to settlement.

Second, the end of the _status quo_ will probably _not_ result in any of the following four options -- they are just not viable alternatives in Central America today without major unforeseen factors coming into play:

A. _Disbanding of the CACM and returning to pre-1960 separatism._ There are too many established linkages, commercial ties and institutional interrelationships for this to be a viable option.

B. <u>A return to the five-country CACM on the terms of the General Treaty of Managua.</u> Too many basic deficiencies in the Treaty and the inflexible stand of Honduras against application to it of the free trade provisions make this option highly unlikely. The Treaty could be reapplied as a transitional or provisional mechanism while a new system was being put in place; but even this seems an unlikely prospect.

C. <u>Action by individual states to join a non-Central American bloc.</u> The economic benefits and emotional appeal of Central Americanism still carries sufficient weight to make this an unattractive alternative to any of the five states. Their leaders seem to recognize the weakness inherent in acting alone; and even in the face of the current regional malaise, they tend to seek reinforcement from each other. This option is more appealing to Costa Rica than to the other four countries, but would become viable to it only if hope of Central American regional action were to dissipate.

D. Political Union. Central America with five Presidents, five Congresses, five Supreme Courts, four military establishments (Costa Rica has none) and five bureaucracies is just not ready to broach the problems of political union. Free trade, a customs union or even a regional economic and social community leave the national political structures in place; and any effort requiring fundamental changes of domestic political structures as the next step in regional integration has almost no chance of favorable action by any of the five partners.

2. In considering the viable options open to the Central Americans, the time factor is among the most difficult to assess. After five fruitless years of negotiations on the Salvador-Honduras impasse, there is little basis for calculating the time frame for renewed forward motion, particularly in the current uncertain and confused world and regional economic environment.

The SIECA proposal to the HLC for a new tratado marco will probably call for the creation of greatly expanded regional integration. It will propose a customs union to supplement the CACM. It will comprehend common policies on agricultural, industrial, technological and social development with harmonization of tax, exchange and foreign investment policies. The proposed treaty will provide for a greatly strengthened regional secretariat with delegated responsibility to resolve certain differences which arise among the member countries over the application of integration measures. Its goal will be the forging over time of an economic and social community for the region.

Whether the five countries are ready to agree to so far-reaching an integration scheme at this time is at best questionable. SIECA and the HLC are technical, not political, bodies. Debates within governments on HLC questions to date have tended to be technical. Only when the five governments begin to weigh the impact of the proposals on their domestic political interests and enter into top level, multi-country political negotiations, can the prospects for further integration be realistically appraised and a timetable constructed for installing the revised system. Within these pervasive caveats, a number of viable options appear open to the countries as they negotiate the new <u>tratado marco</u>:

1. If the countries determine that the Salvador-Honduras dispute is unresolvable two to four countries could elect to act without the others, leaving the door open for additional adherents to join at a later date. Since the original CACM was made up of four and later joined by Costa Rica, this option should not be passed over lightly. However, it has political risks because exclusion of one disputant could leave political scars difficult to heal.

If the Salvador-Honduras dispute is resolved before or during the negotiation, the five countries then have the following options before them:

2. Ratify the HLC-SIECA proposals for the new <u>tratado marco</u> to create a Social and Economic Community of

Central America, with a customs union and a regional authority empowered to manage the Community.

3. Accept the principles underlying the creation of the Social and Economic Community as a long-term regional goal, but with only limited initial steps authorized to harmonize selectively economic and social policies of the five countries and a strengthened Secretariat to administer the authorized regional program.

4. Reform the HLC-SIECA proposal to expand the Common Market, with an enlarged scope of regional economic cooperation to support expanded trade.

5. Reject the new tratado marco at this time but substantially amend the General Treaty to meet Honduras' specific objections to rectify most shortcomings, in order to perfect the CACM in its present institutional and conceptual form.

The imponderables of national interests, political will, economic realities and institutional capabilities militate, in ROCAP's judgment, against options 2 or 5. The region needs a new treaty to revitalize the integration as a substantial segment of Central American opinion appears to appreciate this need. It requires real and cosmetic changes to reassure itself and the outside world that the benefits of integration are as real as the trade and development statistics show them to be.

ROCAP's best estimate is that the five governments will require eighteen months to two years for making the complicated decisions related to restructuring. The analysis by each government, the domestic debate, the inter-country negotiation and compromises and the national approval process -- even in the absence of the Honduras-El Salvador dispute -- demand at least that amount of time. Then, another year or two will probably be required to set up the machinery in place and to make it operate. This process should account for a substantial portion of the DAP period.

Hence, the strategy and program which ROCAP is proposing is predicated on the juridical structure and regional institutions which now exist. ROCAP has geared its proposals to what is relevant and viable in the present environment. It assumes that only toward the end of the DAP period will substantial enough structural and operational changes have been effected to warrant basic reexamination of the proposals set forth in this DAP.

If, however, this assumption is rendered inoperative by events in Central America, the strategy will have to be reconsidered. If the countries accelerate the integration process or make decisions which vitiate the current integration effort, a thorough review of this DAP will then be required.

CHAPTER III

FRAMEWORK FOR FUTURE ROCAP STRATEGY AND PROGRAM

PART A

CONCEPTUAL FRAMEWORK

In this setting, the content and direction of US support for Central American integration must be assessed and shaped. In designing the ROCAP strategy and program for the DAP period, four basic premises underlie the conceptual framework:

First, support for the integration movement remains a priority US interest in Central America.

Second, regional development through integration remains the focal point of the ROCAP program.

Third, AID's development criteria encompass providing economic and technical assistance to integration efforts. And,

Fourth, the ROCAP program must be tailored to the realities of Central America and to channeling assistance in those substantive areas in which regional, rather than bilateral, approaches are more appropriate to attaining development objectives.

The first premise is based on US policy since the early 1960's to support Central American integration. The rationale for the USG decision to support Central American integration has been based on the greater potential it offers for meeting the aspirations of the Central American people for better living standards than isolated efforts by five small states. The faster the pace of change, the better the prospects for long-term regional stability and coherence. US interests are best served by a progressive dynamic Central America.

In practial terms, the US is more to Central America than Central America is to the US. Leaving aside strategic geographic considerations, Central America is a limited land area with few of its natural resources identified, much less exploited, and only at the threshold of effectively using its agricultural acreage. Central America is more opportunity than reality. It has promise as a supplementary supplier of food and raw materials and the potential of becoming a significant trading partner. The key to the realization of this potential lies in successful development; and, integration remains one of the keys to that development. There are few historical parallels to the CACM. Few other LDC groups with practically no commercial ties have sought to seek development through integration.

This rationale continues relevant for the DAP period as long as integration remains a vital force. As spelled out in Chapters I and II, ROCAP believes that integration has become an almost irreversible process. With all the limitations and shortcomings of the CACM which the Central Americans themselves have identified in the Decade Study, we believe Central Americans will build progressively on the considerable progress made from 1960-1974 through its so far limited integration effort.

The second premise is based on State/AID Circular 294 of October 2, 1962, and State/AID Airgram CA 4678 of October 28, 1963, which spelled out ROCAP's terms of reference, and the Executive Agreement of October 30, 1965, between the

United States and the five governments of Central America. ROCAP's purpose was explicitly tied to regional integration. ROCAP's strategy and program have consistently been focused on this purpose. ROCAP's charter has not been changed; and we believe that for the DAP period, no reasons exist which warrant basic change.

The third premise grows out of AID's legislative mandate. US policy expressly recognizes the validity of continued AID assistance to such integration movements. Article 107 of the Foreign Assistance Act of 1973 specifies: "assistance shall be utilized to encourage regional cooperation by less developed countries in the solution of common problems and the development of shared resources."

The fourth premise is based on the current status of the Central American integration movement. The five governments have not created a supranational body to direct or administer the integration movement. The CACM is run by the five governments and exercises only those powers delegated to it. It is the five countries who are the most powerful component institutions of regional integration in Central

America. In certain areas, [illegible] delegated clear-cut functions to the [illegible] and recognize their regional [illegible].

This system currently limits regional [illegible] cific substantive areas. Trade [illegible] the initial phase of regional integration [illegible] program was geared to support this [illegible] integration has broadened and now extends [illegible] of economic development activities.

Since the five countries have [illegible] ery to develop coordinated country-[illegible] in such areas as infrastructure, [illegible] diversifying foreign exchange earnings [illegible] tourism, etc.) and technological [illegible] rationally lend themselves to regional [illegible] ROCAP action. In agriculture, [illegible] tion has begun and the distinct [illegible] the USAIDs and ROCAP have been identified [illegible] tion does not yet encompass social [illegible] health or education in sufficiently [illegible] hensive terms to warrant consideration of AID programs other than at the country level through bilateral programs.

PART B

FRAMEWORK FOR ROCAP ACTION

In weighing strategy options, ROCAP recognizes that integration is a Central American movement and that the process must be directed and carried out by Central Americans. The USG cannot lead the parade -- no matter how tempting this alternative may be. AID must base its actions on a strategy of support for the Central American effort -- in the light of what and where Central America is, of what the five countries conceive their common interests to be through integration. ROCAP cannot set the goals, timetable or content of the integration effort. Fifteen years ago, five countries acted independently of each other on trade, development and diplomatic matters; today, they have significant areas of common action. Our assessment is that they will gradually broaden those areas of common action, but in accordance with their own perception of needs, advantages and opportunities.

The USG should not attempt to impose priorities on Central America, but to work within theirs. Most certainly, our effort should be aimed at broadening perspective and introducing new priorities and problem-solving techniques -- including those related to the rural problem and the rural poor, areas of past neglect. Economic and technical inputs should be used discreetly and selectively.

Just as ROCAP rejects withdrawal of US support as a meaningful policy option for the DAP period, so does it set aside the notion of the US assuming direction of the integration process. Instead, ROCAP sees the US interests best served by a policy of (a) providing relevant, discrete aid to the Central American effort which enables Central Americans to broaden and accelerate regional development through integration, and (b) working towards long-term constructive relations between the USG and the integration movement.

Hence, ROCAP's strategy and programs must be designed to achieve specific goals in the Central American context. They must be meaningful to the Central Americans as well as consistent with US development ... strategy in Chapter IV and the program in ... proposals through the DAP period.

PART C

ROLE OF OTHER DO...

ROCAP should no longer be the ... eco- nomic and technical assistance for ... movement. Undue dependence on AID assistance ... for long- term constructive and mature relat... Central America and the US. Our strategy ... the DAP period must not only be concerned with the nature and size of AID in- puts, but also with discreet effor... non-AID support on behalf of regional integration.

Two international organization... have been ... sources of assistance to the integration movement ... AID, the Inter-American Development Bank ... The IMF and OAS have provided lim... the British and German Governments have ... able loan and technical assistance.

The IDB has loaned [illegible]

vided technical assistance [illegible]

an additional [illegible] million [illegible]

ture as the second tranche of [illegible]

ment to support regional [illegible]

not yet developed a financial plan [illegible]

and technical assistance in support of [illegible]

movement, in large part because of [illegible]

its policy toward regional financial [illegible]

larly, the Andean group. The [illegible]

icy issue is important in [illegible]

IDB will be playing as a major [illegible]

for regional integration over the [illegible]

Notwithstanding this policy [illegible]

pointed IDB representative for Guatemala [illegible]

additional responsibility not previously [illegible]

field officer: IDB representative [illegible]

integration movement. Since [illegible]

August 1974, he has [illegible]

IDB grants and loans to support [illegible]

does not expect to have [illegible]

The UN has been a major source of institutional support and technical assistance for the integration movement. Through the UNDP, ECLA and specialized agencies, it has assisted SIECA, ICAP, ICAITI and INCAE. It has helped SIECA draft major sectoral analyses and formulate policy recommendations. Starting in the mid-1960's, it shifted from providing budget support for regional institutions to supplying external technical assistance required to plan and carry out regional programs. The UN is now reviewing a $12 million, five-year request for technical assistance prepared by SIECA on behalf of all the public sector regional organizations. UN assistance to Central America was recently reorganized and a new Resident Representative responsible for regional integration matters appointed. The UN timetable now calls for a field review in October 1974, to determine regional program priorities and then to determine what segments of the $12 million request can be financed.

The OAS has provided limited, but consistent, support to various integration institutions in making specific studies and training staff. [illegible] support for the Central American [illegible] provided technical assistance [illegible] been instrumental in planning, building and [illegible] the Central American Monetary Stabilization Fund.

The IBRD has not been active in support [illegible] tion movement because of a World Bank [illegible] related to country guarantees for such lo[illegible]. [illegible] has not been able to reach agreement with CA[illegible] five governments on a lending program. [illegible] with the full faith and credit of all five [illegible] collectively and severally -- an adequate guarant[illegible] public and private banks except the IBRD whi[illegible] requests a separate, specific guarantee from each [illegible] CA government under sub-loans made by CABEI with IBRD funds. Ways and means to solve this dilemma are [illegible] the parties.

Given the different sources of assist[illegible] varied content, the Central American [illegible] edly noted the need for a mechan[illegible] flow of non-AID assistance to Central America both at the regional and national level and (b) coordinate the various inputs to insure optimum effectiveness. This need remains and the interest is unabated.

Informal machinery was set up in mid-1974 at ROCAP initiative to try to coordinate IDB, UN and ROCAP support for regional integration. UN and IDB field officers responsible for backstopping Central American integration have now been assigned to Guatemala and with ROCAP have jointly created an informal field coordinating group which is attempting to review programs and to consider common strategies in relevant development areas. For example, recognizing our common interest in the rural sector, discussions have been initiated on how to make our respective programs more complementary and reinforcing. In the same forum, ROCAP has taken the lead to encourage UNIDO to move agressively to take over industrial development, a sector which ROCAP is now phasing out.

The need for coordination which goes beyond this informal field machinery is illustrated by the infrastructure sector. AID has [illegible]

tor, with the understanding [illegible]

primary source for new [illegible]

regional road power [illegible]

works. Unfortunately, this [illegible]

infrastructure staff, which [illegible]

tions (IIIs) [illegible] is [illegible]

world, faces an uncertain [illegible]

building up [illegible]'s competence [illegible]

and leadership in this [illegible]

in seeing that this capability [illegible]

In the field of agriculture [illegible]

is a veritable stampede by lending [illegible]

ter projects. ROCAP believes [illegible]

AID Tripartite Committees may help [illegible]

from these three institutions [illegible]

into Central America. It is [illegible]

USAIDs and ROCAP that the [illegible]

tions of the Tripartite [illegible]

when they are completed, will [illegible] tional sharing [illegible] project costs as well as comm[illegible] rural sector assistance.

In the case [illegible] the Tripartite Committees will [illegible] ports on all five countries have [illegible] -IBRD-IDB effort is made to [illegible] such conclusions on regional [illegible] and supplement national programs. [illegible] could be reviewed in Central America by some [illegible] stituted coordinating Central American group.

The vacuum [illegible] field level cannot be filled by summar[illegible] of meetings [illegible] side the region. The need is for a forum in Central [illegible] which permits the flow of [illegible]

For the regional [illegible] a possibility for setting up such a mechanism [illegible] USG leadership might be ECLA. [illegible] appointed [illegible] Regional Director in Mexico, [illegible] for [illegible] ing Central American integration. He recently initia[illegible] discussions with the UN Resident Representative in Guate[illegible] mala and the ROCAP Director about their meeting period[illegible] ly with ECLA on joint strategies to support Central Am[illegible] integration and coordination of policy and economic as[illegible] ance inputs to optimize our respective effectiveness.

Even such a forum would be limited. There still [illegible] large segments of the ILI community which have no perm[illegible] field representatives and which pursue separate strat[illegible] toward regional integration and Central American deve[illegible] ment in general. And, the private voluntary organiz[illegible] -- from foundations to religious agencies -- have no[illegible] brought into effective dialogue. They represent sig[illegible] resource-providers for the Central American region [illegible] true magnitude and impact of their collective [illegible] not yet fully appreciated or understood.

ROCAP will continue to encourage increased [illegible] and to facilitate the flow of information among [illegible]

-- ROCAP's primary effort will continue to be the strengthening of the capability of selected Central American institutions for formulating policies and carrying out programs needed for regional development through integration.

-- To the extent feasible, ROCAP will target its programs toward solutions for rural poverty in Central America.

-- ROCAP inputs will extend beyond the rural sector to other priority activities which support Central American initiatives to envigorate and broaden regional integration.

PART B

DIRECTION OF ASSISTANCE PROGRAM

The ROCAP strategy over the DAP period is aimed at building up regional capability to solve priority integration problems. This involves strengthening regional institutions and helping them broaden their perspectives and competence. These institutions are the solid building blocks of the Central American regional system and offer viable associates for AID in the development process.

A major element in this ROCAP [illegible] is the Central American rural problem and measures [illegible] incorporate the rural poor into national and regional life.

But, ROCAP recognizes that it [illegible] not operate as a traditional bilateral mission in [illegible] to implement this critical program element.

Under the Central American integration movement to date, agriculture has played only a minor role; and direct efforts aimed at the rural poor have [illegible] exclusive responsibilities of the five national governments. The primary target of the integration movement has been industrialization through import substitution and integrated [illegible] industries, with free trade as the instrument for insuring an adequate market for these new industries. Industrialization and free trade were to create [illegible] sources of employment and to generate resources needed [illegible] development.

However, the proposals for restructuring the CACM [illegible] forth in the 1972 Decade Study and [illegible] consideration by the High Level Committee ident[illegible] rural sector among the priority concerns for regional action. Moreover, CABEI in the last three years has begun to give serious attention to the agricultural and social sectors and to develop plans for regional financing to complement and reinforce national programs in these sectors. It will however, in the absence of unforeseen policy shifts by the five governments, still be at the national level that the direct and immediate programs in health education and agriculture for the rural poor will be carried out. The delivery system remains under the control of the five governments and national institutions and it makes no sense to duplicate them at the regional level.

Regional efforts will provide reinforcing technical and financial support for these country programs; they will consider macro regional policies like tariffs ex-change rates, prices, strategic reserves production incentives, processing and distribution systems etc. It is not foreseen that regional programs will replace or compete with national efforts directly geared toward delivering services to the rural poor. However [illegible] activities can profoundly affect this group.

substantially different. On completing a nine-month review of AID strategy for Central American rural development in July 1974, the MDCC concluded: "the USAIDs at the country level are the primary instruments for carrying out programs to directly reach the target group and that ROCAP should orient its work to those country support services which are needed by all the countries in carrying out their efforts directed at the target group."3/ The MDCC then identified certain principles which, if consistently applied, would minimize overlap between the USAIDs and ROCAP and at the same time optimize program coordination. ROCAP's role was defined as regional institution building, encouraging regional studies and action programs, a clearinghouse function and service to the other Missions.

ROCAP efforts in support of the regional rural development objective must be perceived in terms of this interaction area. ROCAP is not in competition with or an alternative of the five USAIDs. It has a distinct role to play in the

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3/ Ibid, p.9
4/ Ibid, p.9
5/ Ibid, p. 8-11

integration set[illegible]. Its efforts must be tested [illegible] of their ultimate impact on enhancing both regional [illegible] country capability to resolve problems facing the [illegible] group, but not in terms of the direct impact test [illegible] of the country programs. To illustrate this precept [illegible] from the five countries indicate that the AID-Central American target group is made up of roughly one-third land owners or [illegible] farmers, one third of farm laborers and one-third subsistence unemployeds. Each of the [illegible] country USAIDs has targeted its programs on direct [illegible] to service and assist specific segments of this target group, but additional efforts are needed to gear [illegible] resources through regional mechanisms for development of alternate employment in rural areas through agricultural processing industries, labor-intensive public works [illegible] service industries. These activities lend themselves [illegible] regional attention through SIECA-administered incentive systems, CABEI financing, improvement of available technology, regional agricultural price stabilization [illegible] facilities and development of export markets for [illegible] traditional products.

To accomplish our objectives, ROCAP assistance must also respond to selected Central American integration priorities and goals that fall outside of the rural sector. ROCAP must give due attention to other key problems like non-farm employment, low-cost urban housing, diversification of exports, transfer of industrial technology and capital market development to support not only agriculture, but also industry and commerce.

ROCAP's strategy over the DAP period is aimed at achieving that balance needed to relate effectively to Central American priorities without losing its special focus on the rural sector. ROCAP proposes discrete continuing support for non-rural aspects of Central American integration in the context of regional priorities set by the Central Americans and for helping them to augment their capacity to deal with these priorities.

ROCAP has also concluded that it can play no meaningful role over the DAP period in planning and administering education or health programs for rural people. These are activities wholly under the jurisdiction of the five govern[illegible] policies nor regional [illegible] [illegible]gned to deal with these [illegible] [illegible]s been undertaken by public [illegible] entities [illegible]ample, INCAP. However, these [illegible] progressed [illegible]iently to warrant inclusion [illegible] the restructuring of the [illegible] [illegible]volution of CABEI s Social [illegible] [illegible]fer greater promise for constru[illegible] [illegible]onal action. [illegible] will reappraise this conclu[illegible] request AID/W [illegible]nsideration of this aspect of th[illegible] strategy.

PART C

CONTENTS [illegible] ROCAP PROGRAM [illegible]NCTIONAL AREAS

ROCAP operat[illegible] in pursuit of [illegible]is strategy will be concentrated [illegible] [illegible]onal [illegible] These fo[illegible] basis for th[illegible] [illegible] [illegible]ented in Chapter V.

1. Quali[illegible] [illegible] [illegible]onal institutions. ROCAP [illegible] [illegible]tinue to pr[illegible] technical and [illegible] four of the ke[illegible]

regional organizations to which the Central American governments have entrusted the policy and program development of the integration movement.

2. Agriculture and nutrition. A regional overview arises out of the cumulative and correlated conditions, problems, needs and opportunities of the member states. ROCAP programs will seek to develop the policy framework, the technological research and information networks, the financial framework, the marketing systems needed to reinforce and accelerate country programs directed at the target group. Almost all of the loan assistance planned for the DAP period will be targeted to this area.

3. Housing. This ROCAP program is aimed at progressively upgrading the country and regional policy, financial and technological systems required to (a) help overcome the large deficit of adequate

rural and urban housing; (b) provide sustained resource mobilization; and (c) generate new job opportunities in the housing industry. ROCAP anticipates limited grant assistance with capital resources being provided under the HIG program.

4. <u>Diversification of foreign exchange earnings</u>. The activities encompassed hereunder are designed to substantially increase the capacity of Central America to earn additional financial resources needed for its own self-sustaining development. These activities include tourism, export market development, identification and production of non-traditional agricultural and industrial items for export and applied technology for better exploitation of Central American raw materials and primary products. ROCAP will continue to strengthen regional research, service and information agencies which can help foment, orient and coordinate the work of public and private action

entities in the five countries. The ROCAP plans are oriented to grant activities which can lead to lending assistance by other ILI's.

PART D

PROGRAM COMPONENTS

ROCAP will focus on the following six program components in each of its functional areas of activity:

1. Improving policy-making capability by selected regional institutions on the broad range of development and trade matters which fall within their competence. Special attention will be given to incorporating agriculture into the integration process and to the incentives and approaches needed to alleviate and resolve rural problems.

2. Substantially augmenting regional capacity to absorb and apply technology for upgrading the quantity and quality of agricultural and industrial production in the area. Special

attention will be given to (a) food processing, nutrition, recycling of wastes and elaboration of regional raw materials; and (b) the design of viable technology packages for the use of small farmers and small entrepreneurs.

3. Setting up regional information systems which permit the widespread systematic and sustained diffusion of data among private and public organizations throughout the Isthmus. These systems are to facilitate the flow of basic, applied, operational and market information needed for expanding production, employment, exports and technology.

4. Expanding regional capacity to mobilize Central American resources for financing the Area's own development. The thrust will be aimed at designing systems and providing the seed capital needed for sharply increasing domestic and non-concessional external funds in connection with sustained regional development in

agriculture, diversification of exports from Central America, generation of non-agricultural jobs and improvement of living conditions by better housing.

5. Promoting regional efforts to broadly expand gainful employment opportunities, principally outside of primary agricultural activities. Through agribusiness, labor-intensive rural infrastructure projects, housing and the construction industry, tourism and export promotion, a major ROCAP thrust is and will continue to be directed toward developing new and economically viable long-term job sources for Central America's rapidly increasing population.

6. Improving the capability of public sector managers to plan and administer programs. Among other activities, attention will be given to upgrading the effectiveness of agricultural, health and education managers directly involved in programs to help rural people solve problems.

CHAPTER V

ROCAP PROGRAM

PART A

INTRODUCTION

The strategy outlined in Chapter IV can be cast for program purposes as a two-pronged approach aimed at:

1. Strengthening the ability of regional institutions to develop policies and programs furthering C.A. integration; and

2. Assisting in the formulation of, and providing support to, programs by regional institutions which reinforce national level efforts to "incorporate" the rural sector and attack causes of rural poverty.

The first prong of the program approach broadly encompasses those activities primarily undertaken pursuant to USG interest in supporting integration. The second prong addresses the priority objective set by the Central American AID Missions and is designed to stimulate and assist in the formulation and execution of programs at the regional level which complement national efforts, especially the program objectives of the USAIDs.

As generally defined in Chapter IV, the ROCAP program is concentrated in four functional areas: (1) qualitative improvement of regional institutions, (2) agriculture and nutrition, (3) housing, and (4) diversification of foreign exchange earnings. The framework and thrust for ROCAP's activities in these areas over the DAP period are set forth in this Chapter. Each functional area is reviewed in terms of the six program components set forth in Chapter IV.

Within each of the functional areas, the program components attack six problems: policy-making, technology transfer, information transfer, mobilization of capital, employment generation, and management improvement. The following matrix shows the relationship between "functional areas" and program "components" in the ROCAP program and the regional institutions supported in each program "component".

Program Components	Functional Areas: Qualitative Improvement Regional Institutions	Agriculture	Housing 1/	Diversification of Exchange Earnings
Policy-making	1-2-3-7	1-4-5-9-14	2-3	1-8-9-11
Technology Transfer	1-3	4-5-8-10-14	2-3	8-9-11
Information Transfer	1-3	2-4-5-9	2	2-8-9-11
Mobilization of Capital	1-2-13	2-11	2	2-11
Employment Generation	1-2	5-8-11	2	2-8-9-11
Management Improvement	1-6-7-11	4-6-7-10	2	2-6-7-11

1/ All program components are involved in programs with national level housing institutions.

REGIONAL INSTITUTIONS

1. SIECA
2. CABEI
3. ICAITI
4. IICA
5. CATIE
6. ICAP
7. INCAE
8. PROMECA
9. SITCA
10. ZAMORANO
11. LAAD
12. ODECA
13. CAMSF
14. INCAP

PART B

QUALITATIVE IMPROVEMENT OF REGIONAL INSTITUTIONS

Among the panoply of regional entities, four play a special role in broadening and consolidating regional integration:

SIECA, the policy formulator and secretariat for the General Treaty;

CABEI, the regional development banker;

ICAITI, the regional technology center; and

INCAE, the regional graduate school of management

ROCAP support to these regional institutions will be targeted in those functional areas in which each can best contribute to development through integration.

-- In policy development, primarily SIECA.

-- In transfer and dissemination of industrial technology, ICAITI. In connection with agricultural technology, CATIE and IICA as part of the agricultural sector program.

-- In mobilization of financial resources, CABEI.

-- In employment generation, SIECA for policy analysis and formulation; ICAITI, CATIE and IICA for technology and programs; CABEI for financial resources needed for programs.

-- In management improvement, INCAE.

The ROCAP program will selectively assist them in improving their capability to deal with key integration problems, especially those related to the rural sector. It is contemplated that most of this assistance will be through grants which provide the external and program assistance needed to effectively expand institutional capacity and upgrade its effectiveness. As a general rule, ROCAP will seek to avoid budgetary support and will not provide funds to pay salaries of their regular staff. If, in special circumstances growing out of the critical importance of the activity, consideration need be given to budget support, ROCAP will not only set firm time limits to its contribution but also require a financial plan from the regional institutions for progressively reducing the AID budget support

over the life of the [illegible]. [illegible] en-
able regional [illegible] nec-
essary [illegible]
have [illegible]
project [illegible].

Each plays [illegible] role in [illegible]
to the integr[illegible] and [illegible].
Each has [illegible].
Each is a [illegible]
Central America. [illegible]
ROCAP [illegible]
program [illegible],
helping [illegible]
and program [illegible]
regional [illegible]
with each of [illegible]
merely on the [illegible]

of Central America. [illegible] through these organizations that [illegible] of [illegible] institutions can be systematically [illegible] specific problems related to the [illegible].

One additional [illegible] of special comment. The Central [illegible] Fund (CAMSF) was [illegible] balance of [illegible] loss of reserves as the [illegible] in the balance of payments [illegible] of member Central Bank reserves; [illegible] stability and the free convertibility [illegible] CAMSF also was to contribute to the [illegible] policies in the context of regional [illegible] and to assist with the formulation of [illegible].

A $10 million AID [illegible] with the five Central American [illegible] 1970 which, until the fall of 1974 [illegible].

However, with the [illegible] in the summer of 1974 and the serious [illegible] balance of payments position of the region [illegible] are expected soon. ROCAP plans no further assistance [illegible] CAMSF. It will, nevertheless, continue [illegible] Executive Secretariat, as it has in the [illegible], particularly [illegible] regards policy formulation and mobilization of capital.

SIECA

1. Introduction

Established under the General Treaty in 1961, SIECA serves as the secretariat of the integration movement and coordinates policy development in areas of common interest to the five countries. It monitors the application of the General Treaty, implements integration programs, and prepares analytical studies needed by the region in formulating such policies and programs as common tariffs, industrialization, agriculture, regional customs operation and diversification of exports.

It is supported principally through contributions from member governments, which contributions are larger than those made by any C.A. country to any other multi-lateral organization. Operating on a budget of about $1.5 million, SIECA currently employs at its headquarters about 100 professionals, working in nine departments (Industry, Agriculture, Economic and Social Programming, Fiscal and Tariffs, Infrastructure, Commercial Policy, Computation and Statistics, PROMECA-Export Promotion, and Financial and Administrative). SIECA also maintains a representative in each Central American country and an office in Europe.

SIECA is the regional leader and "think-tank" of the movement toward a restructured CACM.

2. Policy Making

In 1972, SIECA prepared the 12 volume "Decade Study" in which the mistakes of the past were recognized and in which the outline for restructuring the CACM was formulated. SIECA now acts as the secretariat for the High Level Committee (HLC), composed of one representative from each country, which has the job, based on the Decade Study, of making recommendations for the restructuring and perfecting the CACM. During the HLC meetings, SIECA has used its influence to help resolve problems and encourage consensus papers which will form the bases for the new tratado marco.

SIECA is also called upon to prepare position papers on problems common to all or some of the CACM countries. For example, when the petroleum crisis arose, SIECA prepared technical documents for discussions with the Venezuelans in an attempt to obtain preferential status. Also, when specialized trade preferences were discussed with Ambassador Eberle, SIECA prepared position papers for use by each of the countries. In these and other areas, reliance is placed on SIECA's expertise. As a result, SIECA has become the center of the region's problem-analysis and problem-solving machinery.

To strengthen its problem-analysis capability, ROCAP assisted SIECA to form a Special Research Unit and contracted the Brookings Institution to advise it in examining the major integration issues. This assistance will be continued during the DAP period.

Working with SIECA's top leadership, this Unit is developing a model to quantify the costs and benefits each country can expect from integration. Such an analysis is required if the costs and benefits of integration are to be equitably shared -- a problem which is crucial to

Honduras' re-entry into the CACM. The Unit is also studying the present and future comparative advantages of the C.A. region to permit development of a rational industrial development policy for the region. Employment and unemployment are also being studied [illegible] policies which will encourage [illegible] the region's labor force. Initial results of research [illegible] work have been encouraging, and in FY 1975 a macro study of the C.A. agricultural sector will be included in the Unit's study of future comparative advantage.

Assistance over the DAP period will be focused on key development problems. The agricultural sector will be given special attention to determine those regional policies needed for increasing production through rational development areas of comparative advantage in the various countries, increasing small farmer income and expanding rural employment. A macro study of the Central American agriculture will be initiated in CY 1975.

The tariff structure will be another major concentration point. The impact of tariff policies and alternatives on income, income redistribution and labor intensivity will continue to be analyzed. This research will be aimed at identifying the appropriate mix of incentives under the tariff structure [illegible] achievement of development [illegible].

The selection of other areas for future joint SIECA-Brookings study will be geared to the priority problems facing the Central Americans in development through integration.

Working with CABEI, IICA, CATIE and other regional organizations, SIECA has assumed the leadership in the establishment of a regional policy-making forum on rural development.

Clearly, SIECA can and should play a critical role in policy formulation. ROCAP believes that the U.S. interests are best served by continued support to SIECA.

3. Technology Transfer

Drawing heavily on advice and guidance of ICAITI, IICA and other technical organizations, SIECA has the responsibility for undertaking studies and formulating policy options in such areas as industrial development (including food processing), fiscal incentives and investment criteria for optimizing the development of regional technological capability. The state of the technological [illegible] one of the determining factors in development decisions and policy formulation.

Although SIECA is not designed as an instrument for transferring technology, it is a source of new technology to the region. The Special Research Unit (Brookings assisted) is a specific illustration. Ultimately, the experience of this Unit will create a cadre of trained economists capable of applying the latest research technologies such as, mathematical models, input-output analysis and linear programming. This special knowledge will be transferred within the region by this cadre.

Further, SIECA is a major publisher of technological information directed towards users in Central America.

Thus, SIECA is deeply involved in the technological transfer process, both as a customer and as a transfer agent. This is an activity worthy of continued ROCAP support.

4. Information Transfer

SIECA is the heart of a regional information system directed towards the collection and analysis of data. For example, it is SIECA that is the principal source of standardized economic, financial, trade, demographic and industrial data. With respect to the latter, it recently sponsored a seminar with the users of industrial statistics designed to better acquaint them with the effective use of statistics and to improve the information gathering process so as to update the quality of the product.

SIECA data is obtained from many sources, of which CABEI, the national governments, the CAMSF and INCAE are of notable importance. In addition, it collates world economic data on behalf of the five governments from such sources as the IBRD, IDB, AID, UN, the European Common Market, U.S. Departments of Labor and Commerce, etc.

In a different area, SIECA, working in close collaboration with CABEI, recently published a manual on maintenance of roads, bridges and drainage structures. The reason this was prepared was to meet the need expressed by all of the Ministries of Works for an authoritative source document to teach and to guide those responsible for highway maintenance in proper procedures and practices.

ROCAP support to SIECA is designed to improve the quality of information flow and to encourage the continued expansion of SIECA information and analytical work [illegible] additional areas of economic and technical importance to the region.

5. Mobilization of Capital

SIECA is not engaged in mobilizing capital as a principal activity as are CABEI and LAAD. However, its role in defining policies and priorities for public investment and in setting the ground rules for private investment gives it a unique importance in this functional area.

SIECA formulates the policies which have a profound effect on investment, both domestic and foreign, in Central America. Recently, as a result of hemisphere wide discussion about transnational corporations etc., the investment climate in the region became a source of concern to entrepreneurs. SIECA, recognizing that such a situation could only lead to a loss of needed investments, brought the matter to the attention of the HLC and was the behind-the-scene force which guided the

HLC in taking a public policy position that the Central American states welcomed foreign investments and that such investments would be governed by groundrules fair to the investor.

ROCAP, through close working [illegible] with [illegible] leaders as well as under the Brookings [illegible] its efforts to provide discussion [illegible] policies best calculated to encourage productive public and private investment throughout the region.

6. <u>Employment Generation</u>

SIECA, and particularly the Special Research Unit, is engaged in the scientific analysis of the CACM employment problem. The Unit is examining such factors as labor absorption rates in major economic sectors (including agriculture); free movement of labor in the region, the interrelationships between employment and income distribution; the differences in economic result between capital intensive and labor intensive investment policies; and various cost-benefit relationships.

ROCAP, in supporting the Unit and in [illegible]ding its scope to give particular attention to the rural [illegible], hopes that policies will emerge, for implementation by [illegible] national governments and regional institutions such as CA[illegible], designed to create increased numbers of [illegible] [illegible]ly in the rural areas.

7. Manag[illegible]

The scientific approach of SIECA to ma[illegible] problems encourages rational decision-making which is at the heart of the management process. SIECA, across the [illegible]ard, helps the national governments to better manage [illegible] [illegible]tivities in two principal ways. First, by [illegible] [illegible]on in the hands of the decision-makers on a [illegible] and, second, by exposing decision-makers to [illegible] of management. In addition, SIECA works closely wi[illegible] [illegible]CAP in defining priority areas for public administration [illegible]ing in the five countries and regional institutions.

ROCAP supports SIECA in these efforts in the many ways described earlier in this paper. In addition, close working relationships between SIECA and ROCAP on the management side, particularly internal fiscal administration, have proved fruitful in streamlining SIECA's own procedures and practices. ROCAP also encourages SIECA personnel to participate in management courses sponsored by CABEI and INCAE and in Project Management Seminars such as that being planned for Central America in late 1974 by AID/SER/PM/MD.

CABEI

1. Introduction

Concurrent with negotiation [illegible] al Treaty, a project to create a [illegible] and, CABEI [illegible] Central [illegible] [illegible] was formally established [illegible] its principal offices in Tegucigalpa, Honduras [illegible] liaison offices in each of the other four countries.

A president, an executive vice-pre[illegible] five staff offices and seven operating departments [illegible] out CABEI's work. CABEI management reports [illegible] irectors, one Director representing each of [illegible] ies. This Board, in turn, reports to the Assembl[illegible] made up of the Central Bank President and Economic Mi[illegible] f each country. CABEI began with 20 employees and now has [illegible] rmanent staff of approximately 275 including 82 profes[illegible] ls.

CABEI is the region's development ba[illegible] with a remarkable growth record. In its thirteen year [illegible] as the financial institution of the integration eff[illegible] it has approved 570 loans aggregating over $500 million. It has financed forty-eight per cent of the regional infrastructure projects. Its investments in the industrial sector are about equal to the total of the national development banks of the five countries. It has established a secondary mortgage market for the financing of middle and low income homes.

To illustrate the scope of its undertakings, CABEI is the banker and administrator of:

--an industrial loan portfolio of $111,500,000;

--a tourism infrastructure program of $20,000,000;

--a highway infrastructure portfolio of $190,000,000;

--an electric transmission system of $28,000,000; and,

--a telecommunications network of $16,400,000.

CABEI is seeking financing for projects which include a $60 million regional disease (malaria, yellow fever) eradication program; a $5 million vocational agricultural training program; a $15 million rural infrastructure program, with special attention to small irrigation projects; a grain stabilization fund of $30 million; and a $20 million small farmer warehouse network.

Some of these new programs are just moving off the drawing boards and lack initial funding, but all have been conceived in conjunction with SIECA and the planning councils of the five countries, and all have the approval of the CABEI Boards of Directors and Governors.

Despite serious political and [illegible] setbacks affecting the region, CABEI performance [illegible] clearly reflects the cohesive influence it exerts in the move toward regional integration. Its financial growth indicates the confidence felt in it by the countries. To illustrate, during the past five years of El Salvador-Honduras impasse, the Banks' resources rose from $213 million to $437.3 million - a 101% increase. Total loans approved grew from $171 million to $505 million, a 200% increase. Disbursement went from $19.8 million to $52 million, a 160% increase and net profits increased from $2.6 million to $5.3 million, a 100% increase. CABEI has managed to reduce its cost of operations to 1.8% of loan portfolio value.

The Bank has an authorized capital of $60 million. Of this amount $52 million has been subscribed, and of the subscription, $41.5 million has been paid-in to date by the five Member Countries.

Present Member Countries' subscriptions will assure annual capital payments to CABEI up to April 1977. In order to finance CABEI's Seven-Year Investment Plan (1973-1980), approved in September 1973, the authorized capital must be raised from $60 million to $15[illegible] million. Beginning in April 1978, each country would be [illegible] to make annual capital payments of $3 million [illegible] years. All Member Countries have agreed to the increased capital, with the exception of El Salvador which abstained. El Salvador has indicated that it will approve this capital increase once greater progress has been made in normalizing CACM operations and restructuring the regional integration movement.

As detailed below, CABEI's external borrowings as of 1974 total $372 million.

<u>External Borrowings (Millions of Dollars)</u>

AID	$ 182.5
IDB	72.4
Bonds	10.0
Other	107.4*
	$ 372.3

*Lines of credit from European countries, Japan, Mexico, U.S. Export-Import Bank and five U.S. commercial banks.

CABEI's ability to mobilize resources through its private industrial activities is demonstrated by [illegible] performance under ROCAP's $30 million export diversification loan (#010). CABEI fully met the $30 million matching contribution and the additional $40 million from [illegible] borrowers required under the loan [illegible].

[illegible] CABEI marketed [illegible] difficulty its first bond [illegible] million in January 1974. It was not formally given a credit rating as the bonds were not sold on the open [illegible]. This issue may be followed by further [illegible] later on this year [illegible] million to the [illegible] and $15 million to the Government of Venezuela. [illegible] bond issues totalling $20 million are scheduled [illegible]. In this regard, it is interesting to note that CABEI is developing an advantageous position over the C.A. governments [illegible] mobilizing resources through the [illegible] abroad. CABEI enjoys the full faith and credit guarantee of all five governments plus the advantage of combining the credit backing of all five C.A. countries. These factors, plus its earnings record and good prospects apparently make [illegible] easier for it to float bonds in the [illegible] market [illegible] any of the [illegible] .

[illegible] and reserves total [illegible] million, [illegible] 19[illegible]:

	[illegible]	[illegible]	[illegible]	[illegible]
Surplus	[illegible],[illegible]	[illegible]	[illegible]	1/
Reserves	[illegible]	[illegible]	[illegible]	1/
Required [illegible]	[illegible]	[illegible]	[illegible]	1/
	[illegible]	[illegible]	[illegible]	[illegible]

1/ [illegible] .

Looking at [illegible]'s Seven-Year [illegible] Plan [illegible] clearly the Bank's ability to [illegible] its capital [illegible] mobili- the required [illegible] resources. [illegible] for the first five years of the Plan [illegible] that the Bank exp[illegible] to disburse over this period [illegible] -- about $[illegible] lion per country [illegible] or roughly [illegible] million annually per country [illegible] program. [illegible] million [illegible] [illegible]

quarterly to discuss a full [illegible]. Informally ROCAP personnel are working with [illegible] at all levels. The ROCAP role as a counselor [illegible] by the Bank and the openness and [illegible] of this relationship reflects the growing [illegible] Central American institution.

D. Mobilization [illegible]

This is [illegible]'s primary [illegible] development through integration. [illegible] is the largest and most important development banking [illegible] in the Isthmus. It has created a significant [illegible] of capital for financing integration and for [illegible] projects related to integration.

CABEI has enjoyed the [illegible] governments even during the [illegible] of its ability to respond to their [illegible]. It has provided a mechanism for [illegible] sources not only for financing [illegible] also for developing a regional [illegible] make financial and program management decisions and to carry out projects.

As has been pointed out, CABEI is an instrumentality of the five governments. Its operations are clothed with the full faith and credit of all five individually and collectively. Its programs are approved by them; its projects financed only after their approval. Its policies and priorities flow from those which the countries set for SIECA in the overall direction of the CACM. CABEI is a pivotal element in the integration movement and works in consonance with established regional priorities.

In the planning for a restructured Common Market by the HLC, CABEI is given a central role. At present, CABEI is the Bank for Economic Integration. Under the projected <u>tratado marco</u>, CABEI is to become the regional development bank for the economic and social progress of the five countries. Its scope will be extended to serve development needs which go beyond integration <u>per se</u>.

It is because of this Central American support for CABEI and its own demonstrated ability to both mobilize resources and carry out projects that support for CABEI remains a major element in the ROCAP program over the DAP period. Building on the experience gained in implementing ten AID loans and three HIG's, ROCAP will be channeling funds and occasional technical assistance to help enable CABEI carry out the role that the Central Americans assign to it.

The main thrust of ROCAP's support to CABEI will be to broaden its capability as the banker's development bank, especially in support of national and regional efforts for rural development. New projects with CABEI will seek to develop innovative re-discounting, guaranty and supplemental financing techniques and systems aimed at insuring the liquidity and turn-over needed to complement and reinforce national credit programs for reaching small farmers and generating new off-farm rural employment. CABEI is not seen as a competitor with national development finance institutions, but as the central financial mechanism for accelerating and broadening the program efforts of these national institutions. With a relatively large Central American f[illegible] serve this central banking function, the five co[illegible] would not be able to generate sufficient domest[illegible] sources to mount a sustained attack on the causes [illegible] underdevelopment, especially rural poverty. The r[illegible] could remain indefinitely dependent on external co[illegible]nal loans for its development.

While other international Lending [illegible]itutions should succeed AID as CABEI's prime lender, R[illegible] intends to assist CABEI to improve its capability [illegible] mobilize the financial resources needed for the regi[illegible]s development programs. Certainly the soundness of the institution as a development bank, and the competence of its management are factors carefully considered by any potential lender. Also important are financial mechanis[illegible] by CABEI through which monies obtained will be [illegible] effective use. CABEI's ability to conceive and operate [illegible] inter-bank arrangements, rediscount funds, sub-loan [illegible] devices, or institutional "block participations" [illegible] influence its ability to obtain loans, issue bonds or [illegible] new capital inputs for its programs. ROCAP will continue to assist in improving the quality of all of these operations.

ROCAP will also vigorously support CABEI's efforts to obtain increased financial and technical assistance from the other ILIs, particularly the IDB and IBRD. While it has access to the IDB and IBRD, CABEI has not been able to establish full understanding with these institutions over programs and policies. The difficulty with IDB relates to how that institution is going to deal with sub-regional development banks such as CABEI. With the IBRD, it is a technical legal problem related to a provision in the World Bank's Charter that each loan granted by the Bank must have a guaranty by the recipient government. The USG should act constructively and forthrightly in helping to resolve these problems. CABEI's continued success will rest, to a [illegible] on the degree to which these institutions [illegible] To illustrate, the first five years of [illegible] ment Plan require $45 million in loans from [illegible] for infrastructure projects, a larger than [illegible] a primary focus on AID financing. If [illegible] does not come forward with these resources [illegible] have difficulty reaching the targeted [illegible] goals and regional economic growth will necessarily suffer.

While concessional lending must continue to flow into CABEI for some of the programs, especially those related to new initiatives in rural and social development, it must now begin to systematically reach out to [illegible] markets of the world and tap these resources. CABEI has matured sufficiently to do so. Only if CABEI is able to draw [illegible] on the international capital markets and deal as an equal in the market place can CABEI achieve that level of institutional strength for which ROCAP has aspired and toward which AID has dedicated its concessional loan assistance. ROCAP will continue to encourage and assist CABEI in this effort.

4. Employment Generation

CABEI's lending for industrial, [illegible] diversification and tourism development has an obvious [illegible] immediate impact on creating employment. In the agriculture and housing sector programs projected over the DAP period, for which CABEI will serve as the central financial institution, employment generation is a central [illegible] objective and, CABEI will play a key role in seeking to achieve this objective.

In another aspect of employment generation, CABEI will be playing a special innovative role: namely, labor-intensive road construction. In order to [illegible] knowledge of conditions under which labor could be substituted for machinery, ROCAP included a requirement in Loan 596-L-114 [illegible] CABEI undertake a research program to determine the circumstances under which increased [illegible] of labor input, relative to capital, can be achieved in road construction in Central America. Since the World Bank has been doing some pioneering research on this [illegible] in field, CABEI has contacted the [illegible] with [illegible] joint study to define those [illegible] make sense in the Central American [illegible]. CABEI will [illegible] itor the construction of [illegible] farm-to-market roads which will be built with [illegible] labor [illegible]

capital. The idea [illegible] to com-
pliment labor with [illegible] schedules
will be adjusted [illegible] facilities
in rural areas. [illegible] will
prepare specific[illegible] secondary and
farm-to-market [illegible]
for the countries [illegible] as the cat-
alyst and financi[illegible] under
the direction of [illegible]

ROCAP has worked closely [illegible] in
promoting research and encouraging [illegible] sive civil
works and we intend to continue [illegible] activ-
ities.

ICAITI

1. Introduction

ICAITI, the Central American Institute for Industrial Research and Technology, was established by the five countries in 1955 and subsequently became one of the [illegible] institutions under the General Treaty of Managua. At the present time it employs approximately [illegible] professionals and operates on an annual budget of about $1,[illegible],000. In addition to contributions from the five countries, ICAITI has received assistance, over the years, from the United Nations, the OAS, IDB, private research institutions and ROCAP. In the 1970's, ICAITI started competing for contracts and grants in a number of technical fields and has been successful in winning both on a competitive basis. [illegible] technology to SIECA and the Central American governments; it prepares for SIECA policy papers on technology for the HLC and international meetings.

Over the years ROCAP assistance has enabled ICAITI to develop a top quality research capability. However, the requirements for technology of all types, from the recycling of waste material to agro-industrial [illegible] such substantial resources that ICAITI continues to need [illegible] nal assistance if it is to respond to the requirements of Central America. One project in which AID and [illegible] aborated is CODOT, a consortium of U.S. [illegible] lifornia, Michigan State, Rhode Island, [illegible] Wisconsin.

ICAITI activities are [illegible] owards three program components: policy-making, [illegible] transfer, and information transfer. In the following [illegible] ions we have related ROCAP's future cooperation with [illegible] to these program components. ICAITI, as a by-product [illegible] its principal work, also plays a limited role in mobilization of capital, employment generation and management improvement. With respect to capital mobilization, [illegible] nduced investment in new economic [illegible] introducing new technology into the region. For [illegible] an animal feed industry has been developed based on [illegible] destroyed by-products from items such as coffee, [illegible] and pineapple. While its focus is more on scientific [illegible] than employment, its efforts have repeatedly created new industries and new jobs.

Finally, although ICAITI has done some management training, especially conducting courses on PERT and CPM, this is strict-ly subsidiary to its primary technological work.

2. Policy-Making

ICAITI has taken the lead in seeking policies calculated to develop a flow of technological [illegible] into Central America as well as supporting applied research in the region. The influence of ICAITI is most notable in its ability to convince the five countries that substantial resources should be al-located for technological development. ICAITI speaks for the scientists in Central America.

The ROCAP effort with ICAITI continues to be one of pro-viding financial support for specific discrete projects [illegible] for regional development and encouraging ICAITI to advocate policies in Central America [illegible] development.

3. Technological [illegible]

As indicated previously, one of ICAITI's principal activ-ities is encouraging the flow [illegible]

information seminars, workshops [illegible] consultation by its specialists. In addition [illegible] publications directed at technical activities. [illegible] of the information moves through ICAITI's limited [illegible] industrial data bank and transfer network. [illegible] position to serve the five countries by [illegible]. [illegible] also intimately involved with ROCAP projects involving agricultural technology, being implemented by IICA, and with the non-tradi[illegible] export project of PROEXCA.

Under the [illegible] contract, [illegible] proposes to expand and broaden the current outreach [illegible] which has been develo[illegible] and to explore new techniques for [illegible] dissemination [illegible] the results of ICAITI research [illegible] and small producer organizations through [illegible]. [illegible] also plans to use ICAITI [illegible] to provide specific [illegible]

[illegible]

[illegible]

[illegible]

INCAE

Intr[illegible]

INCAE, the Cen[illegible] Amer[illegible] [illegible]ool of Business Administration, was created in 1964 as [illegible] [illegible]ter of advanced management education serving [illegible]. It is located on the outskirts of M[illegible]agua, Nic[illegible]. [illegible] Harvard Business School provide[illegible] initial [illegible] [illegible]NCAE in the form of student and teach[illegible] exchanges, [illegible] of case studies and teaching materia[illegible], and seminar[illegible] [illegible]anced management courses for senior executives. [illegible] [illegible]ime, the school has concentrated on producing top qual[illegible] [illegible]ully-accredited business administr[illegible] [illegible] [illegible]ed exposed to the development [illegible]. It has become a resource for [illegible] government. INCAE currently has 14 full-time, U.S.-[illegible]red, professors.

The MBA program [illegible] [illegible] AID grant and loan assistance [illegible] school's activ[illegible] [illegible] within [illegible] [illegible]ecialization [illegible]

[illegible]

1. An Agribusiness course was established to conduct studies of agribusiness problems, provide technical assistance, improve agribusiness technology through short courses and seminars, and improve agribusiness management, training, and research.

2. A Development Banking course to prepare graduates for work in both private and public sectors. The program is based on the premise that development banks should not be simply channels through which funds flow, but rather instruments of development that should be mobilizing new sources of capital, creating new opportunities for the utilization of capital and stimulating private initiative.

3. A Family Planning Management course through which the problems of initiating and implementing family planning programs in El Salvador and Costa Rica have been studied.

4. A public sector management activity to survey problems in Central America and prepare an INCAE action program directed towards improving the management practices of top-level government officials.

INCAE is presently [illegible] programs for inclusion in the M[illegible]. These are:

1. Integration [illegible] which will [illegible]rch the problems of C.A. [illegible] in collab[illegible] with other regional ins[illegible] and provid[illegible] where issues can be discuss[illegible] ed.

2. Export Developm[illegible] — to investig[illegible] export possibilities and [illegible] technologies [illegible] for their development.

Besides the MBA program, INCAE offers [illegible] week Advanced Management Program (AMP) and short seminars [illegible]gned to upgrade the management practices of senior executiv[illegible] the private and public sectors. These activities have [illegible] very well received, not only by Central Americans but [illegible] extra-regional participants. INCAE now [illegible] the [illegible] campus in Managua, in Ecuador for [illegible] and, starting this year, in the Caribbean.

The academic program operates at a [illegible] which INCAE is attempting to meet th[illegible]

1. Its Advisory Center. Established in early 1973 as an independent subsidiary, its purpose is to provide advisory assistance to governments in development planning and policy-making. Its initial work has been related to planning for the reconstruction of earthquake-devasted Managua.

2. Funding raising from the public and private sectors of Central America. This activity, organized by INCAE founders and graduates, taps substantial resources annually.

3. Foundation and IDI grants. The Clark and Tinker Foundations have made special contributions for the development of the School. In addition, specific projects have been funded such as:

   -- For agribusiness research and cases, by the Central Bank of Nicaragua and the IDB.

   -- For development banking and finance, research and courses, by the IDB, the Central American Monetary Council and the Central Bank of Panama.

   -- For family planning [illegible] and public sector management [illegible]

ROCAP's cooperation with INCAE [illegible] specifically geared to Central American management [illegible].

D. [illegible]

INCAE draws students for its MBA and special programs from all of Latin America.[1/] [illegible] students from Central American private companies and [illegible] make up the majority of the student body.

Many of its annual class of [illegible] MBA candidates are selectively chosen by parent companies or by government agencies for the two-year term. These return to responsible positions with the prospect of rapid promotion in their sponsoring organizations. [illegible] of fresh managerial [illegible] programs like the [illegible] operating management concepts and practices. [illegible] the short two-week courses, conducted for selected audiences on special subjects, surface [illegible] conference [illegible] regional leadership [illegible]

1/ The first [illegible] as follows:

[illegible]

potential and constraints in the [illegible] agribusiness. A series of seminars in Honduras brought [illegible] and military leadership together [illegible] brain [illegible] some of socio-economic problems and to discuss [illegible] management might be used [illegible] try to solve [illegible]

ROCAP takes [illegible] pride in [illegible] in the development of INCAE, first through grants and then with a $3.9 million loan. This assistance [illegible] INCAE establish its initial physical plant and [illegible] finance its program development. At the time of [illegible] in April 1972, it was anticipated that [illegible] would be able to expand its facilities so as to [illegible] and educate a larger group of students. The [illegible] come from this larger group of students was to be a [illegible] source of financing to cover the school's annual [illegible] budget.

The Managua earthquake in December [illegible] has materially altered this situation. [illegible] of this earthquake, even though it [illegible] little physical damage, as if it were [illegible] Managua. [illegible] is because [illegible] than 60 per cent [illegible] [illegible] campus [illegible] dents [illegible]

PART C

AGRICULTURE

1. Introduction

The first decade of the Central American integration experience gave little attention to the agriculture sector. Under the General Treaty and its implementing protocols, efforts were concentrated on industrialization and commerce in manufactures. Although 215 agricultural products fell within the free trade systems, only the 1967 Protocol of Limón dealt with the most important segment of agricultural trade among the five countries, basic grains. There was no comprehensive effort to develop a regional strategy or policies for common action to accelerate rural development. Reflecting Central American priorities, ROCAP had no significant agricultural program through the 1960's.

The importance of the rural sector to Central American integration was recognized and emphasized in the SIECA Decade Study of 1972; and the High Level Committee, in its recommendations to the five governments on restructuring the Common Market, is affording this sector special attention and is laying the groundwork for regional action in the future.

Recognizing the emerging importance of agriculture in regional development planning, the MDCC in late 1973 created a Sub-Committee on Rural Economic Development to assess the rural sector in Central America and to identify those action programs at the regional level which could best lead to accelerated rural development and facilitate implementation of country programs. The Sub-Committee prepared a profile of rural Central America, consolidating data from all five countries into a composite picture of the region as a whole.

The assessment emphasized the importance of agriculture in the economy of Central America and implicitly endorsed the conclusion of the Decade Study that there can be little real future regional integration without fully incorporating the sector which provides 90% of extra-regional exports, over 90% of the food consumed in the area, and employs 70% of the work force. Yet, this vital sector from 1960-1971 grew at less than half the rate of the overall economy (4.2% for agriculture against 8.8% for the economy as a whole).

The assessment highlighted the relatively low priority afforded this sector by regional and national authorities.

tices, inefficient ... no

access to capital. ...

and what organi... ing farmer ...

tions not only kee... the

farmer's income ... his

taking advantage of ... and new

technology.

Contrasting ... with small ... agriculture, is

the modern rural sector. Characterized ... scale, ex-

tensive agricultural practices, ... the produc-

tion of export crops -- primarily ... sugar, ba-

nanas, livestock and ... of the land, re-

ceives almost all of ... monopolizes

nearly all of the new investment ... agri-

...

The income to the ... this

modern sector represents the overwhelming ... of the

agricultural sector's contribution ...

The lack of ...

incentives and ... the

heart of these problems. Not only are there no effective mechanisms for organizing and delivering applied research and needed skills, but credit and other inputs range from unavailable to inadequate. The current capacity of national systems to deliver information on markets and technical data on improved production methods is far below the levels required for envigorating the rural sector in general and for substantially mobilizing the small farmer. Applied research, moreover, is rarely organized into usable form, either for decision-making by those who could use it to develop policy or for application by the small farmer. Agricultural research tends to be unrelated to the socio-economic environment in which it is to be used or to the risks which small producers must face if they are to apply it profitably. And the countries lack the capacity to deliver the information that has been developed to the rural poor.

Acting on this assessment, the MDCC in July 1974 defined the policy framework and guidelines for joint ROCAP-USAID cooperation in developing a rural sector program.

-- <u>The Target Group</u>: "The poorest majority of rural dwellers."

-- <u>The Objective</u>: "The creation of the environment and the establishment of the socio-economic conditions which will provide the poorest majority of the rural population with increased opportunity for, and sustained participation in, the expanding benefits emanating from development."

-- <u>USAID-ROCAP Roles</u>: "That USAIDs at the country level are the primary instruments for carrying out programs to directly reach the target group and that ROCAP should orient its work to those country support services which are needed by all the countries in carrying out their efforts directed at the target group."

In this context, the ROCAP agriculture program for the DAP period has been formulated. It is geared to the current stage of regional integration in this sector. It is aimed at supporting Central American regional initiatives to build the critical institutional and technological infrastructure needed for developing policies and carrying out programs which complement and reinforce national rural development efforts. It affords a flexible base for fine tuning our collaboration to new directions and dimensions for regional rural development which will emerge as the restructured economic and social community of Central America is put in place by the five countries. The MDCC will be our AID forum for insuring USAID-ROCAP understanding and cooperation.

In designing this effort, ROCAP is working to coordinate criteria and inputs with the UNDP-FAO, IICA, the Rockefeller Foundation and other International Donor Institutions (IDIs) providing agricultural assistance at the Central American regional level. Of particular importance in this effort are the IBRD-IDB-AID Tripartite Agricultural Teams now making joint analyses of the rural sector of each of the Central American countries, which hopefully can result in a regional sectoral overview once the country analyses are completed -- an overview which could lead to inter-agency cooperation at the regional level for the DAP period.

2. Policy-Making

SIECA stands at the center of regional policy formulation. For the past two years, ROCAP has been working with SIECA on the development of policies and programs on basic grains, agricultural diversification, bonded warehousing and agricultural information exchange. Coupled with ECLA-UNCTAD and FAO inputs on the diagnosis of Central American agriculture, SIECA is now developing both competence and interest in rural development.

Over the DAP period, SIECA will remain the focal point of ROCAP's inputs for policy development. Under the SIECA contract with the Brookings Institution, agriculture will become a major and continuing subject of policy analysis and formulation. Working with SIECA and CABEI, with collateral support from the other IDI's, attention will be given to the study and definition of guidelines on priority areas for investment to not only accelerate rural growth but also the incorporation of the target group into development and the improvement of the quality of rural life.

Under the proposed restructuring of the Common Market, SIECA is already exploring various alternatives for setting up a policy-making forum on rural problems which would include the key national as well as regional policy-makers. The tratado marco, now in preparation, includes provision for such a forum; and ROCAP will cooperate with [illegible] to lend such assistance as may be required [illegible] emergence of compatible [illegible] and norms. In this connection, ROCAP anticip[illegible] of the SIECA-Brookings contract throughout [illegible] period to assist in the policy analysis required for [illegible] regional decision-making on the key economic [illegible] issues affecting this sector.

3. Technology Transfer

The inadequacy of information delivery [illegible] with illiteracy, are major constraints in [illegible] meaningful [illegible] of the delivery system is a reflection of [illegible] hensive research efforts to develop low-risk [illegible] nological [illegible]

Each country has units engaged in rural [illegible] socio-economic research, usually conducted [illegible] with little inter-agency [illegible] Much of th[illegible] velopment [illegible] sharing i[illegible] the neighboring countries. Hence [illegible] duplication of effort and [illegible] resources.

A major thrust [illegible] DAP period [illegible] technological capacity needed to [illegible] efforts. [illegible] are designed to [illegible] in which the five [illegible] research to the [illegible] ecological and [illegible] of [illegible] provide regional machinery for [illegible] coordinate research efforts and [illegible] cooperation.

1. Soil fertility [illegible] light of the soaring [illegible]

[illegible] required by [illegible] country programs [illegible] efficient and [illegible]ductive combinations of factors which can be applied to [illegible] soil conditions throughout the area.

2. Small farmer income generation. Also, in cooperation with [illegible] program will analyze possibilities and techniques for [illegible]ltiplecropping which could lead to greatly increased [illegible] [illegible]duction of production risks and improved profits [illegible] directed towards small farmers falling into [illegible].

This [illegible] is designed to facilitate five country cooperation [illegible] CATIE through joint identification of priorit[illegible] [illegible] of research, coordination of exper[illegible] in the [illegible] [illegible]ical [illegible] of Central America and [illegible] of re[illegible].

3. [illegible] [illegible]ing on studies alrea[illegible] done by [illegible] this project seek[illegible] to start the process of exploit[illegible] the [illegible]ntial for crop diversification in C.A. [illegible] [illegible] those carefully [illegible] which [illegible] [illegible]ly increase direct employment and [illegible] for [illegible] [illegible] rural laborers and which offer agro-indu[illegible] with its [illegible]ndant increase in job [illegible] [illegible] IICA and CATIE [illegible] will [illegible] program. Development of [illegible] [illegible] CATIE [illegible] national level institutio[illegible]

aim of additional ROCAP grant assistance is to help ICAITI reach that level of scientific competence required for it to reasonably service the food technology needs of the region.

2. LAAD. This unique project is aimed at developing and upgrading agro-industries through private sector action. One of its key ingredients, whenever required, has been to introduce new agribusiness technology through advice and assistance from U.S. businesses participating in LAAD. This [illegible] for [illegible] is only beginning and will be accentuated under the second loan to LAAD.

3. [illegible]. Grant assistance is planned for [illegible] expand its research on specific nutritional [illegible]

of the rural poor, for developing operational programs for improving their diets and for testing out mass delivery systems.

In all of these technological efforts country-regional cooperation is an essential ingredient. In each specific project, this cooperation will be specifically spelled out. For example, CATIE and IICA are building into the projects in which they will be participating advisory and technical bodies made up of planning and research officials of the five governments. Through the MDCC, ROCAP and the USAIDs will insure the two-way flow of information and evaluation needed for effective regional-national program cooperation.

[illegible]

There is now no effective regional agricultural information system in Central America which can provide the data and analysis needed by policy-makers, technicians or producers to make rational decisions and choices.

The development of agricultural [illegible] and the insti- [illegible] technological [illegible] mechanism for receiving, processing and transferring technical and socio-economic data in a rapid and systematic form.

ROCAP is currently working with IICA to analyze in depth the needs and base for such an information system and has proposed a new grant to implement it. Research data and technical information from within and outside the region will be linked with public and private organizations at the regional and national levels. The system will also incorporate basic sociological, ecological and economic data on the various geographic areas of Central America needed for policy and program development.

Special emphasis in the dissemination process will be given to technological packages ("techpacs") geared to the needs of small farmers in specific geographic areas, for use through the national delivery systems to end-users at the farm level. These "techpacs" will combine information and recommendations on the essential inputs required by the farmer to optimize income and land use. They will include guidance on land preparation, seed,use of fertilizer, harvesting methods and current market price data.

Delivery to the small farmer will be through national programs.

A system for the integrated two-way data flow will be set in motion between the regional center and the respective Agricultural Ministries, National Planning Councils and National Research Institutes and, through them, to farm organizations and small farmers.

Under the direction of an appropriate [illegible]nal-national executive council, a core organization probably related to IICA will serve as the data gathering, [illegible] retrieval and dissemination center. CATIE, with [illegible] [illegible]rica's most complete technical library already established, forms a prime resource and input into the system and the [illegible] American School at Zamorano will be drawn upon for elements [illegible] applied research and training at the national and regional [illegible]. ROCAP working with the USAIDs will also be studying the [illegible] [illegible]iate mechanism for disseminating needed information on [illegible] [illegible]mer organizations and service systems for reaching small [illegible]mers.

CABEI, ICAITI and SIECA have dual roles [illegible] the system; providing informational inputs to it, and drawing upon it for the data and analysis required for decision-making, policy recommendations and investment criteria which are their areas of direct responsibility.

LAAD will also play a role in regional information transfer. It has established four marketing companies in the U.S. which provide outlets for the products of many of the fifty-two companies which it has assisted in Central America. These marketing companies provide a constant flow of information on market prices, demand levels, transportation, handling and packaging methods and other technical data required to bring the product of the C.A. enterprises to foreign markets.

Then, too, [illegible] is currently being [illegible] better analyze agricultural export opportunities, [illegible] market information or prices, [illegible] for Central American products and to disseminate [illegible] formation [illegible] producers, wholesalers and [illegible] national organizations. The availability of market information and analysis on a fast and constant basis should encourage increased, diversified production and [illegible] large and profitable exports [illegible].

[illegible]

Capital is, and is expected to continue to be, [illegible] limiting factor for priming rural development. Not only is the total [illegible] [illegible] sugar, [illegible]. [illegible] Central American countries, [illegible] of the [illegible] [illegible] the [illegible]

Hence, one of [illegible] primary constra[illegible] to effectively assisting the small [illegible]rmers has been th[illegible] relative inaccessibility of credit [illegible] to [illegible] make capital improvements and fi[illegible] credit is theoretically availab[illegible] [illegible]edit deliver[illegible] are inadequate at best; and wh[illegible] [illegible]very systems [illegible] the lack of formal land titles and/or [illegible] systems [illegible] protect the banking system again[illegible] limit th[illegible] [illegible]iveness of the "delivery system" [illegible] potential [illegible]. And, small farmer credit by itself does not neces[illegible]ly lead to higher income for the small farmer; the a[illegible] of adequate financing machinery to cover h[illegible] storage and [illegible] requirements often force him [illegible] at the [illegible] inopportune time, [illegible] to take advantage of favorable price fluctuations.

More [illegible] Indeed, all of the exte[illegible] would [illegible] alleviate the shortage. What is nee[illegible] is a Com[illegible] domestic [illegible] public and private [illegible] in th[illegible] tion pr[illegible] and to design the credit system as part of a broad-ba[illegible] to integrate credit, improved production information, [illegible] marketing and processing into a [illegible]-ordinated program for, by and with the small farmer.

The ROCAP program over the DAP period is based on technical [illegible] SIECA and CABEI in the design and progressive installation of regional machinery for mobilizing Central American resources for necessary small farmer credit and for providing the seed capital required to test out promising systems. The machinery should be designed to [illegible] and reinforce existing public and private country programs rather than duplicate or compete with them. In this effort ROCAP hopes to enlist the technical and financial [illegible] of the other [illegible] including the IBRD, IDB, UNDP and [illegible]

[illegible] agricultur[illegible] It has proposed a seven year, $125,000,000 agricultural [illegible]ment plan [illegible] geared to supporting national [illegible] regional [illegible] agricultural [illegible]. [illegible] seed [illegible] a program [illegible] connect[illegible] will be encouraged to adapt its experi[illegible] the [illegible] market for housing [illegible] liquidity into the rur[illegible] sector financing [illegible] the five countries, thereby [illegible] mobil[illegible] as well as Isthmian funds [illegible].

The CABEI-[illegible] will [illegible] primarily directed toward:

1. A grain [illegible] fund, [illegible] to provide [illegible] and [illegible]

2. A small farm[illegible] warehousing and warrant lending system, [illegible] permit small farmers to receive [illegible] the[illegible]

3. A small [illegible] program, [illegible] a regional system for [illegible]

The feasib[illegible] grain stabilization [illegible] program will be the subject of intensive study over the next twelve to eighteen months. Parallel to the land purchase program, CABEI and ROCAP will explore the role that CABEI might play in expanding the flow of production and capital improvement (irrigation, conservation, on-farm storage, equipment, etc.) credit to the target population.

At the same time, ROCAP will continue to support LAAD in its specific role of stimulating greater Central American private investment in agribusiness. By developing joint ventures and assuring capital and/or management expertise, it is attracting idle or less efficiently used capital to productive investment in key agriculture support industries and services. The experience of its first couple of years has demonstrated that U.S. private enterprise can significantly foment local investment in agro-industry. A second AID loan is proposed for early in the DAP period to insure the cash flow and reinvestment potential needed for LAAD to carry on this unique capital mobilization effort without the need for further AID concessional support.

6. Employment Generation

At [illegible] the agricultural program are concerned and efforts to reduce rural under- and unemployment. As present, the region generally is seeking to increase agricultural production by applying technology suited to abundant use of capital and land and minimum use of labor. No technology could be more ill-adapted to the realities of Central America which with the exception of certain Caribbean countries (Haiti, Jamaica and Trinidad), is unmatched in the Western Hemisphere for its high man-land ratio.

In the design of the various ROCAP agricultural projects from technological packages and multicropping to agricultural diversification and agribusiness, labor-intensivity is a significant factor in our analysis and counsel. The technology and farm practices which ROCAP will advocate are built around the optimum use of abundant and rapidly increasing labor in relation to land.

In our analysis of agricultural options for Central American rural development, ROCAP is giving prime attention to the labor factor in evaluating the appropriateness of various production technologies. We are seeking to ascertain crop by crop the amount of land required to provide a unit of employment. The basic unit becomes a man-year of employment and the analytical question becomes: For a given crop or cultivation practice, what land area is required to provide a man-year of remunerative employment, at what cost and with what probable return to investment. Expressed in goal form, this becomes: To identify the mix of agricultural production practices and agricultural [illegible] area of land necessary in order to provide the minimum number of year of employment and to ascertain [illegible] bility, market demand and [illegible] for applying this mix efficiently.

Knowing that approximately 100,000 new rural workers enter the Central American labor force annually and that opening up new lands will be more costly than changing tech-nology and cropping systems -- [illegible] the socio-psychological problems of introducing change -- the problem is one of choosing the mix of practices and products which require the least land for the desired generation of employment and income.

In the development of the various agricultural sub-projects, this approach is accepted operational criteria. Using the diversification project as an example, the basic in-formation is drawn from cost-of-production and income studies of the five national governments as well as [illegible] results from farm experiments. The data bring together [illegible] costs, operating expenses and fixed investment by crop, man-days of labor required for each production practice (i.e. planting, cultivating, harvesting, etc.) in order to establish the man-days of work and income [illegible] various crops (basic grains, fruit crops, [illegible] pasture). From this analysis comes policy [illegible] on the introduction of new crops to diversify production as well as increase employment opportunities and raise [illegible] income.

In a similar sense, ROCAP recognizes that, even applying the most labor-intensive formula to agricultural production programs, displacement of farm labor must be expected. With about 70% of the region's work force employed in agriculture, with high rural under- and unemployment and with the anticipated annual 100,000 man increase in the rural work force, jobs must also be created off the farms to absorb this surplus. Recognizing the limited absorptive capacity of manufactures, and the already difficult problems of urban centers to deal with the labor force already concentrated there, ROCAP's rural program contemplates the development of rural off-farm employment. A key element in this aspect of the ROCAP program is LAAD, which in promoting new agro-industries over the past two to three years has helped create nearly 5,000 new full-time jobs, an estimated 3,500 of which are in rural areas. A second LAAD loan early in the DAP period is aimed at broadening this initial experience and testing out the continuing direct and indirect effect on rural job opportunities afforded by agribusiness and the other key farm-to-market linkages which service and stimulate small farmer production. ROCAP expects the LAAD project to help demonstrate to SIECA, CABEI, the five governments and the private sector the job-generation potential of rural off-farm employment and practical approaches to harnessing this potential.

The infrastructure and the quality of life in rural Central America needs to be substantially and progressively upgraded. Capital improvements such as small irrigation and conservation projects are needed to upgrade land use, and farm roads are required to facilitate the movement of inputs to farmers and produce to markets. ROCAP will be working with SIECA and CABEI over the DAP period to develop financial systems for funding such infrastructure projects and in the elaboration of norms and systems best suited to employing large numbers of under- and unemployed rural labor, especially during those seasons when labor demand in agriculture drops off; for example, in El Salvador, there is usually a labor shortage in the crop-picking or harvesting season (mid-October to late February) followed by massive rural unemployment the rest of the year. The ROCAP Housing Program, by developing financial mechanisms and sound building techniques for low-cost rural housing can reinforce rural job-generation efforts.

ROCAP anticipates seed capital loans to CABEI by the middle of the DAP period to install a Central America-wide program for financing rural infrastructure development.

7. Management Improvement

Public sector administration of most small farmer programs leaves much to be desired. An international technician recently observed that the ineffectiveness of most Central American agencies is tolerated by the small farmer only because of his own abysmal lack of efficient farm production methods.

To the MDCC, the need to help regional and national agricultural institutions is a major continuing constraint to effectively reaching the target group. Indeed, how can AID programs effectively help small farmers to improve their practices and upgrade their management capability when the regional and national public and private agencies directly entrusted with working with small farmers have such limited managerial expertise.

For this reason, the MDCC established a special Sub-Committee to explore the possibility of developing a Central America-wide program to upgrade the managerial competence of public agencies. The MDCC turned to INCAE for advice and guidance in developing such a program. INCAE has already been investigating public sector management practices and providing management training in the field of family planning programs under a Ford Foundation Grant; and, it is negotiating an additional $75,000 Ford grant to allow it to expand its current effort, with special attention to family planning and related efforts in rural areas.

The MDCC is primarily interested in initially exposing key public officials responsible for rural programs to modern management concepts and methods and making them aware of the advantages for across-the-board improvement in their agencies' performance. In turn, the MDCC hopes to stimulate inter-country interest and cooperation in developing Isthmian programs with the financial support of CABEI and the technical assistance of INCAE, ICAP and IICA in systematically upgrading public and private sector effectiveness in reaching and dealing with the target rural population.

Over the DAP period, ROCAP, as the agent for the MDCC, will contract with INCAE for (a) planning and initiating specialized programs on top management practices for key public sector officials from the five countries, (b) undertaking selective case studies for identifying various techniques and systems for introducing and incorporating more efficient farm management practices among small farmers, and (c) designing a long-term Central American program with the probable participation of ICAP and IICA to progressively upgrade management of programs aimed at the target groups, involving a number of Central American regional and national institutions.

PART D

HOUSING

1. Introduction

In 1960, Central America had few effective instruments for systematically addressing the needs of its people for adequate housing. Over the past decade, AID has encouraged and supported Central American efforts to build an institutional framework capable of progressively increasing the supply of adequate housing for urban and rural middle, lower middle and lower-income groups. This framework has sought to develop a housing industry capable of long-term growth as a dynamic sector of regional development.

The heart of this framework is the secondary mortgage market, operated by CABEI, to provide the liquidity and criteria needed for long-term development of a Central American housing construction industry. This reinforces the national programs in each of the five countries. National Housing Agencies (INV's) exist in all five countries. In four of the five countries, national housing banks, FHA systems, and strong savings and loan systems or mortgage banking institutions are attracting internal capital as well as channeling external capital into middle income housing. In the fifth country, Honduras, a savings and loan system has been started and will soon be strengthened by the adoption of new legislation creating a National Housing Bank and FHA institution.

In addition, non-profit private sector institutions engaged in low-cost housing development exist in Honduras, Costa Rica and El Salvador; and negotiations are going forward with BANVI in Guatemala and BAVINIC in Nicaragua to create similar institutions in those countries.

For the DAP period, ROCAP aims at upgrading the functional effectiveness of this institutional framework. Its target will be the harnessing of this framework to provide low-income shelter for rural and urban people who want, need and can afford to pay for it. This group represents 40% of the population of Central America. It was selected by ROCAP as its target group because:

1. Low-income families in Central America are living in almost sub-human conditions.

2. The migration of people from rural to urban areas is continuing at a rapid pace. Urban populations are increasing at a rate of approximately 7% per year. Provision of adequate low-cost housing in the rural sectors, in conjunction with agricultural development programs, can help slow the rural-urban migration; and similar programs in the urban areas are necessary to house those already there.

3. Population growth has been described as "explosive". It is estimated that between 20 and 40 per cent of the population now live in squatter areas on the periphery of urban centers, and that these squatter areas will double in the next 10 years as rural to urban migration and population growth continue.

4. National governments throughout the region have recognized the enormity of the problem and have established low-cost housing for both rural and urban areas as a top priority.

The attack on the problem of financing adequate shelter for this segment of the population has two major thrusts -- the first on a regional basis through the Housing Finance Department of CABEI, and the second on a bilateral basis directly to institutions in each country.

The CABEI program involves the use of a large allocation of housing investment guarantee (HIG) resources and capital to be raised through the sale of mortgages or mortgage participations. Roughly 30% of the HIG loan recently authorized is earmarked for the purpose of purchasing lower-income mortgages on [illegible] income housing (below $3,000) utilizing the same mechanisms developed for their middle-income, secondary-market operations, i.e. mortgages originated by the savings and loan mortgage finance institutions of each country.

The bilateral programs involve a greater technical assistance input. It is planned to create substantial new programs involving [illegible] departures from the traditional use of [illegible] development [illegible]es, such as experimental projects involving rental-purchase programs and advanced technical support for [illegible] housing activities of the [illegible] housing institutions and local-level governments; and strengthening institutional capability in the private sector, with special attention to housing cooperatives.

It is recognized, however, that a principal constraint on the effective utilization of HIG resources for these major new Low Cost Housing programs is the resistance to commercial market interest rates on long-term housing finance, which reached historic highs in the second quarter of FY 1975.

ROCAP has been encouraged to note that all five Cent[illegible] American countries have taken action to raise the maxim[illegible] interest rates payable on mortgage financing during this [illegible] period, a clear indication that the Isthmus Governments [illegible] Central Bankers are facing up to the realities of the world capital markets. At the allowable rate for HIG financing in effect in October, 1974 the program would allow very [illegible] margins for cooperating institutions except in Nicaragua.

Maximum interest rates (excluding fees, commissions, [illegible] Premium and other charges) as of October, 1974, were as fol[illegible]

Costa Rica	12%
El Salvador	11%
Guatemala	11%
Honduras	12%
Nicaragua	13%

ROCAP has discussed with representatives of CABEI and the housing finance industry in the five countries the possibil[illegible] of limiting borrowings to the amounts required for twelve mo[illegible]'s operations in the expectation that rates will decline in early FY 1976. Other innovative approaches such as "floating" interest rates during the disbursement period are also being explored.

2. Policy Making

ROCAP will assist in the preparation and promulgation of national housing policies in each C.A. country to attempt to bring about the attitudinal changes required to allocate newly mobilized capital resources toward low-cost housing development outside the capital cities. In so doing, close coordination will be maintained with each C.A. USAID.

With CABEI, the ROCAP work plan encompasses: (1) completing the formulation and installation of policies, procedures and regulations for a secondary mortgage market which will both supply liquidity to and absorb excess liquidity from national housing finance systems, at the same time raising additional capital through sales of insured mortgages or mortgage participations; and (2) progressively increasing the flow of resources toward low-cost housing finance.

We expect to provide to CABEI, and through CABEI to the national housing finance systems, technical assistance in the field of the operations and administration of a secondary mortgage market operation on the order of the Federal Home Loan Mortgage Corporation.

By the year 1978, we hope, by working through CABEI, to standardize construction norms and building unit modules, mortgage forms and procedures, etc., throughout the C.A. region.

3. Technology Transfer

Housing technology needed for effectively addressing low income and rural housing has an important place in ROCAP's activities. ROCAP intends to finance short-term technical advisors at the national level to devise financial and technical methodologies for rural, low-income housing programs.

ROCAP is exploring appropriate Central American mechanisms for experimenting with new indigenous building materials and methods. Special attention will be given to the introduction of training in new technologies and the use of indigenous materials, such as asphalt stabilization of the traditional adobe blocks. ROCAP is working with CABEI on the study of indigenous raw materials for construction and expects it to contract ICAITI for this purpose. Preliminary talks have also been held with representatives of the International Institute of Housing Technology at the California State University at Fresno in regard to the development of a regional training institute for skilled construction supervisors.

4. Information Transfer

Dissemination of information in the housing field is to be done largely through the Permanent Central American Conference on Housing and Urban Development (COPVIDU), the Inter-American Savings and Loan Conference, CABEI and ICAITI.

ROCAP was instrumental in creating COPVIDU, an annual regional housing conference. Between 150 and 250 delegates from 11 countries, composed of private builders, architects and engineers, and representatives of government ministries, housing institutions, and planning councils, have attended the Conference each year to discuss national housing plans and policies, conservation of land, high-rise and low-cost housing technology, urban planning, and other subjects of vital interest in the field.

COPVIDU represents the best available channel for exchange of information between Central American representatives of the housing industry and urban planning field, as well as the best forum for presenting to the C.A. delegates new ideas and concepts from other Latin American nations, the U.S. and other non-C.A. nations.

ROCAP has contracted with ICAITI to develop a library and bibliography of all published data related to low-cost housing available in C.A., with a selective input of U.S. publications in the field. ICAITI will also do an in-depth study of the capacity of the existing housing construction industry. Information generated by this study is expected to be available by January of 1975 and will be disseminated through the next COPVIDU Conference.

5. Mobilization of Capital

Historically, external assistance for housing and national housing programs have been directed primarily at housing for lower-middle and middle income groups, "the emerging middle class".

AID has supported with grants and seed capital loans the development of mortgage insurance (FHA) and savings and loan systems in Guatemala, El Salvador, Costa Rica and Nicaragua, and has provided technical assistance to start a saving and loan system in Honduras. The result of this effort has been the attraction of internal savings amounting to approximately $80,000,000 throughout the region. At least one country (Guatemala) has become self-sufficient in mortgage finance resources for middle-income housing.

An institutional secondary mortgage market has been created for the C.A. region through the infusion of both AID loan and HIG resources into CABEI. Mortgages totaling nearly $40 million have been discounted by CABEI, and applications are pending for another $60 million.

ROCAP plans to utilize this institutional framework to mobilize capital for financing shelter for the lower-income group, especially those outside the major urban areas.

It is necessary to understand clearly that (1) the private capital markets have <u>not</u> financed any housing below the level of about $5,000 (present value) but <u>have</u> developed, as described above, a system of housing finance utilizing insured mortgage instruments which has proven highly successful in resolving middle and upper-income housing finance problems in specific areas, and that (2) the public housing institutes have developed almost <u>no</u> capital market (with the exception of the payroll tax system in El Salvador) while investing more than $100 million dollars of subsidized funds in lower-income urban housing.

At the national level, we propose to, in effect, combine the two systems by (1) changing the attitudes of the representatives of the two sectors through the provision of [illegible] nical assistance, and (2) providing moderate amounts of [illegible] resources to develop low-cost housing demonstration pr[illegible] at least half of which will be outside the major metro[illegible] areas, by public and private agencies which have dem[illegible] experience in the field.

The mortgage portfolio generated by pilo[illegible] be insured by the national "FHA" Agency, and, in [illegible] administered by private housing finance entities [illegible] Mortgage Banks). As insured mortgages, they shou[illegible] same investor confidence presently being placed in [illegible] on middle and higher-priced housing, and will thus [illegible] private capital so desperately needed in the fie[illegible]

At the regional level, CABEI will reserve up [illegible] its housing finance resources (30% at the outset) f[illegible] purchase, at par value, of insured mortgages genera[illegible] national level in excess of local demand. CABEI wil[illegible] in turn, to sell blocks of such insured mortgages, or pa[illegible]a-tions therein, both intra-regionally (within Central Am[illegible] and internationally (in the world market). ROCAP wil[illegible] vide such technical assistance as CABEI may need in set[illegible] up and making functional this integrated system.

As the capital market in housing finance develops in accordance with the ROCAP strategy expressed above, the system may well become a model (and entering wedge) for the development of national-regional capital markets in other fields, such as small farmer land acquisition financing.

6. Employment Generation

The ROCAP housing program is [illegible] home building projects. It [illegible] fort to develop a construction industry which is capable [illegible] absorbing large numbers of workers. Building on the experience in most developed countries, the construction industry is one of the primary conduits through which unskilled [illegible] labor is trained for non-farm employment.

Over the DAP period, the employment [illegible] of this [illegible] tor will receive continuing study. ROCAP [illegible] CABEI will [illegible] assessing both the quantitative and qualitat[illegible] effects; [illegible] we will be ascertaining the desirability of skill improvement programs as integral parts of the total effort.

Central consideration, however, will be on job generation effects, not on a boom-or-bust basis, but as a continuing source of employment. The impact of housing development on employment in the economies of LDC's is only now becoming appreciated. A recent study performed by a Federal Home Loan Bank Board economist indicates that for purposes of national economic growth in developing countries, an investment in housing produces results approximately the same benefits as those produced by an equal investment in what is considered the traditional industrial sector. Sustained programs for producing housing generate not only employment in construction, but employment in construction materials and allied industries, such as home furnishings and appliances. And the ROCAP program intends to stimulate such direct and indirect employment opportunities.

7. Management Improvement

As considered necessary for the management of the housing program by CABEI and national-level housing institutions, ROCAP will make available non-technical management assistance. Through short-term visits by senior officials of the FHLBB and FHLMC, contact will be established with the managers of the regional and national housing program to provide guidance in general management practices within the housing context.

PART E

DIVERSIFICATION OF FOREIGN EXCHANGE EARNINGS

1. Introduction

The fourth functional area involves activities directed towards the diversification and expansion of the region's foreign exchange earning capacity and rests on the following considerations:

-- There is excessive dependence on the export of a few primary products. In 1972 coffee, bananas, and cotton accounted for 67% of the total value of Central America's extraregional exports. As shown in the following table, this dependence is down from 82% in 1960, but the area still remains unduly vulnerable to adverse price fluctuations in world markets for its major export products.

Central America: Extraregional Exports by Major Products

- Millions of CA$ -

	1960		1966		1973	
	Value	%	Value	%	Value	%
Total	407.4	100.0	662.2	100.0	1277.7	100.0
Traditional Products	333.8	81.9	528.4	79.8	863.0	67.5
Coffee	234.5	57.6	287.4	43.4	494.5	38.7
Banana	61.9	15.2	107.0	16.2	217.7	17.0
Cotton	37.4	9.2	134.0	20.2	150.8	11.8
Rest of Products	73.6	18.1	133.8	20.2	414.7	32.5

Source: SIECA. For 1960 and 1966, Series Estadísticas Seleccionadas de Centro América y Panamá No. 14. For 1973, Centro América: Estadísticas Macroeconómicas 1970-1973.

-- Low income elasticity of demand for the area's principal primary products means that over the long-term the growth of demand barely keeps pace with world population growth.

-- Import substitution should not be relied upon to continue to produce the same stimulus to growth as it has in the past. At the same time the need to expand and diversify foreign exchange earnings is not just based on long-term development considerations. It is an urgent problem that must be met vigorously and immediately. Analyses indicate that the region is facing a serious balance of payments problem in 1974. It is likely to persist over the next 3 to 5 years. ROCAP estimates that the 1974 regional balance of payments deficit may fall within the range of $150 to $180 million. Costa Rica and Honduras have the largest deficits. The cause of the problem is that the price of oil and other imported products increased more rapidly than the prices of the region's primary export products. The effects of hurricane "Fifi" are going to further exacerbate the situation.

With respect to merchandise exports, Central America has considerable potential. There is an excellent market in the U.S. for both fresh and processed fruits and vegetables. In the furniture and wood line, the availability of a broad variety of woods, and the labor intensiveness that characterizes the furniture industry, give Central America a strong comparative advantage in the U.S. market. The substantial for[illegible] for a pulp and paper [illegible] that many labor inten[illegible] assembly, clothing and food processing have or can easily develop, a significant comparative economic advantage in Central America.

Central America possesses certain other advantages which are conducive to the [illegible] production and export of non-traditional agricultural commodities:

It is close to U.S. and other major world markets. The region is essentially a hard currency area in which exchange risks are minimal.

Climate and growing conditions are such that Central American agricultural products can be sold when similar products are scarce in world markets.

Many C.A. products, both raw and processed, have been identified as being highly competitive in world markets.

Tourism is a particularly promising foreign exchange earner. World-wide tourism is growing rapidly, especially in dollar areas. The World Bank has estimated that international tourism has the potential of becoming the fifth most important source of foreign exchange to C.A. after coffee, bananas, cotton, and sugar.

The tourism industry is characterized by relatively high income and employment multipliers. In the short-run, it has been estimated that the GNP increases $[illegible] for every $1 of tourist expenditures. An investment required to create a job in tourism is lower than in other major industries. The Mexican experience has shown that two direct and five indirect jobs result from the construction and utilization of a hotel room for international tourism.

The natural and cultural attractions of Central America which include beach sites, Mayan ruins, and an agreeable year-round climate suggests that a modest effort to develop a tourism industry could result in very high return to the region. And, finally, the general level of prices in the region are lower than in other tourism areas.

There are, however, serious constraints on both the development of non-traditional exports and tourism.

First, although C.A. governments recognize the desirability of diversifying exports and increasing tourism, they typically do not have the institutional capacity to develop action programs. In the absence of action plans, few incentives to diversify exportsare provided at the national level and efforts to encourage tourism growth have been minimal and misdirected.

Second, producers are not aware of how to produce goods for export in sufficient quantities nor are they aware of the quality, quantity and standardization demands of the foreign market. There is a clear need to accelerate the transfer of technology and marketing data.

The most pressing need in tourism is adequate facilities and services. In addition, tourism information about attractions in C.A. is not widely disseminated and a general lack of understanding prevails about the tourist's needs and preferences.

Third, there are not enough entrepreneurs who can identify opportunities and bring the resources to bear to expand diversified exports or develop tourism services.

ROCAP efforts to address and resolve these problems are reflected in the discussion of the program components below.

2. Policy-Making

SIECA is now completing studies which will indicate a range of non-traditional agricultural products for which the region has a comparative advantage and which production, if undertaken, can lead to significant job creation and income growth. SIECA will provide guidance to the countries on tariff restructuring and fiscal incentive programs to promote a more rational utilization of the region's resources and expand these exports. ROCAP will continue its support of these SIECA studies and, as required, its efforts to implement, on a regional basis, the incentives and policies needed for diversifying exports.

In tourism, the Secretariat for Central American Tourism Integration (SITCA) is furnishing technical expertise and policy guidance on tourism development to the five C.A. tourism institutes. CABEI is working with SITCA to establish the priorities for tourism infrastructure to develop international tourist attractions in the region. Included will be beach resorts in Honduras and Costa Rica and archeological ruins in Guatemala.

In this sector, ROCAP will continue to support specific projects developed by SITCA and CABEI for upgrading the tourist industry of the Isthmus. One of the new CABEI-SITCA program thrusts relates to the integrated development of all the elements needed by the five governments to put a viable tourist package together -- elements needed to attract both private investment in facilities and the tourist. These packages will include necessary planning, infrastructure, private investment in hotels and local [illegible], policies and incentives, etc., for a government to capitalize on its potential for tourism. ROCAP is now assisting CABEI and SITCA in a concerted effort to put local investors in touch with international tourism professionals and in impressing on the top echelons of national government the potential of tourism and the importance of realistic dealings with such professionals. We expect this common undertaking to be a major program activity throughout the [illegible]AP period.

3. Technology Transfer

As indicated previously, one of the serious constraints on the development of non-traditional exports is the lack of standards, norms and experience with a [illegible] spectrum of marketing problems. Basically, these are [illegible] problems.

The Central American Export Promotion Agency (PROMECA), a division of SIECA, has been working, in close collaboration with ICAITI, on diversified product development, quality control, packaging technology and transportation problems. As indicated previously, ROCAP will support ICAITI's applied research on Central American raw materials and processing of primary products [illegible] broad[illegible] [illegible] base for developing new export lines. The information on these new opportunities will be channeled through PROMECA to the National Export Centers in each country which, in turn, can disseminate it to producers and exporters.

ROCAP will continue to fund specific tasks performed by ICAITI and will provide more generalized support to PROMECA with special emphasis placed on getting existing technology into the hands of potential users.

On the tourism side, the principal problem is the putting together of appropriate tourism packages by SITCA, CABEI and national governments as discussed previously. ROCAP hopes to tap the technology largely controlled by private investors by stimulating the creation of the incentives and infrastructure propitious for long-term investments.

4. Information Transfer

PROMECA, working with ICAITI, has developed a fast-feed and response information transfer system to supply the National Export Centers in each of the five countries with world market data on diversified products. This system will be integrated into the regional agricultural information network being developed with IICA. In addition, the system is designed to provide "packages" of information to potential investors about non-traditional export opportunities.

Additionally, [illegible] is sponsoring [illegible] and workshops on export [illegible].

ROCAP has and [illegible] information networks looking for [illegible] the time [illegible] to the National Export Center [illegible] the sale of [illegible]mation will be sufficient to make [illegible] self-supp[illegible].

SITCA, basically, [illegible] regional [illegible] promotion agency with establi[illegible] with [illegible]ld-wide tourism industry, the OAS and [illegible]. As [illegible] previously, the interrelationship be[illegible] national gove[illegible] CABEI, SITCA and the private sector [illegible] need accurat[illegible] of tourism information on a tim[illegible] of large [illegible] tourism development is to succeed. [illegible]'s efforts [illegible] this information flow will contin[illegible] receive [illegible] ROCAP grant support.

[illegible]

The basic probl[illegible] mobilizing [illegible] for non-traditional export activities [illegible]. [illegible] and LAAD, often working [illegible], have had [illegible] success in agribusiness ventures [illegible] on a group of over-the-counter security transactions which may eventually lead to a greater participation by the public in investments in companies in Central America. ROCAP has supported both CABEI and LAAD with loan funds for these purposes and is preparing an IRR for a second LAAD loan.

In the tourism area, ROCAP has worked with CABEI to stimulate private and public sector interest in tourism. Loan funds were provided to help CABEI develop experience and competence in funding private tourism facilities outside the capital cities and for infrastructure in selected areas where natural tourism attractions could be developed. While ROCAP does not contemplate additional loans over the DAP period, a major effort will be made to assist CABEI, SITCA and the national governments not only in putting together soundly conceived tourism projects with the effective participation of the private sector, but also in interesting other international lending agencies in reinforcing CABEI's financial resources for regional tourism development.

c. Employment Generation

With [illegible] employment, especially in the rural areas, [illegible] follows that efforts to diversify exchange earnings and increased job opportunities are inexorably intertwined. ROCAP considers new job generation one of its most important efforts. As mentioned in the introduction section of this part, LAAD has had extraordinary success in employment generation while at the same time enjoying the benefits of soundly conceived business ventures. Similarly, the lending by CABEI under AID Loan 596-L-010 has demonstrated that this type of activity has an extremely beneficial effect on the creation of new jobs. ROCAP is going ahead with a second LAAD loan, will continue to support CABEI efforts under Loan 010, and is actively encouraging CABEI to seek new funds for this purpose from other International Lending Institutions, particularly the IDB.

Tourism, as previously stated, has an extremely high multiplier effect on employment. This reason, among others previously stated, warrants ROCAP's continued efforts to encourage soundly developed tourism programs. In its cooperation with SITCA, CABEI and the national governments, the employment effects will receive special attention; and, if circumstances warrant, ROCAP would be prepared to consider appropriate grant funding for regional facilities to train

Central Americans in key skills needed for efficient treatment of tourists.

7. Management Improvement

Both LAAD and CABEI make a substantial input to the quality and effectiveness of Central American management by virtue of their activities in the field of non-traditional export products.

CABEI has moved teams of management people into companies to which it has made loans to assist in the solution of managerial problems. While CABEI's motivation has been to protect its investment, the lessons learned have usually helped the beneficiary companies back to sound business practices and to economic viability.

LAAD, in its operations, often provides a substantial management input into the companies to which it makes loans or in which it invests. The area of financial analysis is one where LAAD managerial skill has been clearly evident. Further, LAAD, drawing on its parent companies, can often provide a particular service which, for practical purposes, might be otherwise unobtainable in Central America.

As part of its work with LAAD and CABEI, ROCAP will continue to encourage this very practical means of management improvement. It will further seek to strengthen the relationships of CABEI and LAAD with INCAE, in order to insure the most effective and constructive flow of management expertise throughout the region.

In the tourism area, ROCAP's effort will be based on building working relations between the tourism "professionals" and Central American public and private agencies in order that the substantial management experience of the professionals can be brought to bear on upgrading the management of the region's tourist business. Working with and through SITCA and CABEI, ROCAP inputs will be directed toward building a Central American cadre of managers capable of directing private and public tourism efforts by the end of this DAP period.

LIST OF ACRONYMS

AMP	-	Advanced Management Program
BANVI	-	National Housing Bank (Guatemala)
BAVINIC	-	Nicaraguan Housing Bank
CABEI	-	C.A. Bank for Economic Integration
CACM	-	C.A. Common Market
CAMSF	-	C.A. Monetary Stabilization Fund
CASP	-	Country Assistance Strategy Paper
CATIE	-	Tropical Agricultural Research
CCMPA	-	C.A. Coordinating Committee for Marketing and Price Stabilization
COCESNA	-	C.A. Civil Aviation Authority
CODOT	-	Consortium for the Development of Technology
COMTELCA	-	C.A. Regional Committee for Telecommunication
COPVIDU	-	C.A. Conference on Housing & Urban Development
CPM	-	Critical Path Method
CSUCA	-	Confederation of C.A. Universities
CTCA	-	Confederation of C.A. Workers
ECLA	-	Economic Commission for Latin America
FAO	-	Food and Agriculture Organization
FECAICA	-	C.A. Federation of Chambers of Industry

FHA	-	Mortgage Insurance Organization
FHLBB	-	Federal Home Loan Bank Board
FHLMC	-	Federal Home Loan Mortgage Corporation
FUPAC	-	C.A. Federation of Private Universities
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
GOCR	-	Government of Costa Rica
GOH	-	Government of Honduras
HLC	-	High Level Committee
HIG	-	Housing Investment Guaranty
IBRD	-	International Bank for Reconstruction and Development
ICAITI	-	C.A. Institute of Research and Industrial Technology
ICAP	-	C.A. Institute for Public Administration
IDB	-	Interamerican Development Bank
IDI	-	International Donor Institutions
IICA	-	Interamerican Institute for Agricultural Sciences
ILI	-	International Lending Institutions
IMF	-	International Monetary Fund
INCAE	-	C.A. Institute of Business Administration

INCAP	-	Institute of Nutrition for C.A. and Panama
INV's	-	National Housing Institutes
IRR	-	Intensive Review Request
LAAD	-	Latin American Agribusiness Development Corporation
LA/DP	-	Latin American/Development Program (AID)
MBA	-	Master of Business Administration
MDCC	-	Mission Directors Coordinating Council (AID)
OAS	-	Organization of American States
ODECA	-	Organization of C.A. States
PROMECA	-	C.A. Export Promotion Agency
SIECA	-	Permanent Secretariat of the General Treaty of C.A. Economic Integration
SITCA	-	Secretariat for C.A. Tourism Integration
UN	-	United Nations
UNCTAD	-	United Nations Commission for Trade and Development
UNDP	-	United Nations Development Program
UNIDO	-	United Nations Industrial Development Organization
USG	-	United States Government
ZAMORANO	-	Pan American Agricultural School (Honduras)