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VOLUME II

METHODOLOGY, QUESTIONNAIRES, HEARINGS, TABULATION OF RESULTS

CENTRAL AMERICA AND PANAMA PRIVATE SECTOR ASSESSMENT

BY THE PRIVATE SECTOR COMMISSION

Designed by FEDEPRICA

Sponsored by AID/ROCAP

With INCAE's Technical Support

VOLUME II
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CHAPTER I

I N T R O D U C T I O N

Economic, political and social problems in Central America generated great concern about the need to evaluate private sector requirements in light of such problems, its role in the region's economy and how it could help solve some of the most acute national and regional problems.

The purpose of this study has been to find out, through an updated survey, the problems and obstacles to the private sector, in order to identify actions and potential foreign assistance opportunities oriented towards a revitalization of resources contributed by the private sector, to enable it to face regional problems.

This assessment has been carried out in order to be used by the private sector of each country, the governments of Central America and the international community. Among expected benefits are stimulation of analytical thinking in the private sector about its current situation, a better understanding of real and perceived problems, and formulation of creative, promising and constructive ideas on how to solve the problems.

An attempt has been made to enumerate specific recommendations in a context of what would be realistically feasible instead of what would be optimum. Of particular importance are

issues such as social progress promotion; ways to expand traditionally select business groups and entrepreneurial associations (for example: offering training courses and other services to their smaller members, etc.). An effort was made to answer such questions as: What steps and programs can be developed in the private sector for specific application to present social and economic problems? (for example: support minimum salary levels, combined seminars on business-labor management, subcontracts with small companies, etc.). How can the private sector improve its image and inform the governments, the public and members of society in general, of its role in development?

To direct the assessment, FEDEPRICA (Central American Private Enterprise Federation) appointed a Commission integrated by six Central American entrepreneurs, one from each country, which would be solely responsible for its contents. Commission members are leaders in their respective communities, with appropriate background and experience, and represent the different productive sectors of the region.

The assessment was made through surveys, hearings and interviews with representative national and foreign individuals and small, medium and large business associations, and, where pertinent, with cooperative and labor leaders; officers from public, national, regional and international institutions were also included.

CHAPTER II

M E T H O D O L O G Y

The research process has been a mixture of questionnaires given to businessmen and business groups, hearings with different groups and types of businesses, and interviews with regional and international agencies. While this process was taking place, available secondary statistical data was collected from central banks, ministries, international agencies, universities and business organizations, as well as from specific studies carried out by individuals and/or institutions.

DESCRIPTION OF THE RESEARCH PROCESS

PHASE I: INITIAL MEETINGS

The first phase was a series of meetings with top Central American private sector organizations and other relevant groups of society (political groups, unions, small business associations) in order to promote the assessment, provide information on its scope, the process and chronology of research, and obtain the collaboration of those groups in supporting the assessment and helping to identify persons or groups which should be given the questionnaires and participate in hearings, etc. Besides, the persons and/or groups chosen were asked to prepare themselves and to read necessary documents for the last phases of the research process. All those who participated in these meetings were

given a pamphlet which explained the above.

PHASE II: QUESTIONNAIRES

The main objective in giving the questionnaires was to obtain a first approximation regarding the different research issues, which would prepare and stimulate the persons and/or groups, that would later participate in the hearings (Phase III), to read related documents and make consultations on each issue. The issues would basically be the same as those discussed at the hearings.

QUESTIONNAIRE CONTENT:

The questionnaire was divided into eight sections, including the following issues: (Annex No. 2 shows the questionnaire used).

- I. The Private Sector: Definition and Composition
- II. Economic, political and social problems which hinder private sector development in the following aspects:
 1. Production Expansion
 2. Private Investment Expansion
 3. Export Increase
 4. Trade Increase
 5. Employment Increase
 6. Productivity Increase

- III. Public and private institutional framework: study of the role which public and private institutions play, according to the degree of their support to the development of the private sector.
- IV. International organizations: Evaluation of the role which these organizations play, depending on the degree of their support to the development of the private sector.
- V. Sources of Financing: Examination of the effectiveness of different sources for financing private investment.
- VI. Human resources: private sector needs and labor relations.
- VII. Perceptions with relation to the private sector: myths, little known acute problems, investment climate, public image and private sector influence and its role in development.
- VIII. Private sector actions: specific measures which the private sector as a whole may take to contribute to its own development throughout the region, improvement of its relations with the public sector, increase its contribution to social progress, and increase the size of its formally organized institutions.

SAMPLING:

The questionnaire was distributed to the different key subsectors and groups of each country. Their reply was given through representative commissions from each subsector, integrated by Boards of Directors or groups specifically organized to that effect. (Chapter III gives a tabulation of the questionnaires).

90% of the questionnaires were answered by trade associations and organizations and 10% by well known individuals. The total number of persons involved in the survey was approximately 350.

Considering that the same promotion and follow-up effort was made in each country, the relativity of replies, classified by country, shows in a certain way the level of perception or concern which the different private sectors have about their problems and needs. Thus, we can see in Table No. 1 that 79.6 % of questionnaires answered correspond jointly to Guatemala, El Salvador and Nicaragua.

Table No. 2 shows that of total questionnaires answered in each country, Guatemala, El Salvador and Nicaragua were markedly represented by the industrial sector, whereas in Honduras it was in the agroindustrial sector. Costa Rica and Panama show the same behavior for all sectors.

Table No. 1

DISTRIBUTION OF QUESTIONNAIRE RESPONSES

(PERCENTAGES)

COUNTRY	AGROINDUSTRY	INDUSTRY	SERVICES	OTHER	TOTAL
Guatemala	2.4	9.6	4.8	6.0	22.8
El Salvador	6.0	8.4	6.0	0.4	20.8
Honduras	3.6	2.4	1.2	1.2	8.4
Nicaragua	9.6	13.2	9.6	3.6	36.0
Costa Rica	1.2	1.2	1.2	-	3.6
Panamá	2.4	2.4	2.4	1.2	8.4
TOTAL	25.2	37.2	25.2	12.4	100.0%

Table No. 2

DISTRIBUTION OF RESPONSES TO QUESTIONNAIRES
SECTORS BY COUNTRY
(PERCENTAGES)

SECTOR	C O U N T R I E S					
	GUAT	SAL	HOND	NIC	C.R.	PANAMA
Agroindustry	10.5	29.4	42.8	26.8	0.33	28.6
Industry	42.1	41.2	28.6	36.6	0.33	28.6
Services	21.1	29.4	14.3	26.6	0.33	28.6
Other	26.3	-	14.3	10.0	-	14.2
TOTAL	100	100	100	100	100	100

PHASE III. HEARINGS

Subsequent to the period provided for answering the questionnaires, which ranged from three to five weeks, a series of hearings were held with private associations and other key groups of each country, so that the Central American Commission responsible for the assessment could listen to and have an open dialogue with groups from each sector and, at the same time, deeply explore the aspects mentioned in the questionnaires.

Each hearing lasted two and a half hours, distributed in the following manner:

- 1 hour: Joint or individual statements by the invited group. Presentations.
- 1 hour: Questions by the Commission
- 1/2 hour: Open dialogue between the Commission and the invited group.

In the first part each group made a statement in relation to the following issues:

- a) Principal problems and obstacles in their sector
- b) Economic, political and social aspects that they consider relevant in light of their problems and needs.
- c) Information and conclusions they considered of importance for the assessment.

d) Recommendations and solutions

Immediately after completion of the hearing, each member of the Commission made a report on it, in a special format (Annex No.3), which served as consultation document in the preparation of the final report.

Annex No. 4 is a "Plan for the Preparation and Implementation of Hearings", a brief chronogram of the preparation; this document is part of a pamphlet, which was given to the persons who participated in the meetings, for promoting and providing information on the assessment (Phase I).

Thirty eight hearings were held with a total of 24 participants, with the following relative distribution per country (Table No. 3):

Table No. 3

RELATIVE DISTRIBUTION OF PARTICIPATION
IN HEARINGS

<u>COUNTRY</u>	Number of Hearings	Number of Participants	
Guatemala	6	43	20
El Salvador	7	45	21
Honduras	6	24	11
Nicaragua	8	54	26
Costa Rica	6	19	9
Panamá	5	26	12
TOTAL	38	211	100%

The organizations or groups which participated in the hearings were basically those which had answered the questionnaire, even though most of the persons were not the same. Table 4 is a brief description of the organizations or groups which collaborated in the questionnaire and hearings.

Table No. 4

GUATEMALA

Christian Democrat Party
Agricultural and Cattle-Raising Sector
Financial Sector
Chamber of Industries
Chamber of Commerce
State Council
Construction Chamber
Tourism Bureau
Confederation of Commercial, Industrial and Financial Associations (CACIF).

EL SALVADOR

Salvadoran Industrial Association (ASI)
Construction Chamber
National Association of Henequen Growers (HENSALVA)

Salvadoran Association of Coffee Producers and Exporters
Sonsonate Cattle-Raising Cooperative
National Small Enterprise Federation (FENAPES)
Council of Agricultural and Cattle-Raising Entities
Chamber of Commerce
Salvadoran Commercial and Industrial Association (SCIS)
National Private Enterprise Association (ANEP)
Union of Salvadoran Private Enterprises (UDES)
National Aviculture Association

HONDURAS

National Association of Small and Medium Industries (ANMPI)
Sugar Growers Association
Political Parties: National Party
Christian Democrats
National Industrial Association (ANDI)
Agricultural and Cattle-Raising Sector
Financial Sector
Construction Chamber
Chamber of Commerce
Tourism Bureau
Honduran Private Enterprise Council (COHEP)

NICARAGUA

Private Initiative Superior Council (COSEP)
National Union of Nicaraguan Coffee Growers

Association of Sugar Cane Growers
Fund for the Development of Milk Industries
Association of Eastern Cotton Growers
Chambers of Industry (CADIN)
Chambers of Commerce (Managua, Leon, Masaya and Jinotega)
Union of Agricultural and Cattle-Raising Entities (UPANIC)
National Professional Confederation (CONAPRO)
Central Nicaraguan Labor Union (CTN) and other independent
labor associations.
Representatives from independent political parties
Association of Traders of Basic Products

COSTA RICA:

Chambers of Industry
Union of Chambers
Labor Sector:
 National Association of Public Employees (ANDE)
 Workers' Democratic Front
 Confederation of Costa Rican Workers
Political Parties:
 National Liberation
Independent Professionals: Well known professional groups
Service sector

PANAMA

Union of Panamanian Industrialists (SIP)
Panamanian Association of Business Executives (ADEDE)
National Cattle-Raisers Association (ANAGAN)
Chamber of Commerce
Chamber of Agriculture and Cattle-Raising
National Union of Small Industries (UNPI)

PHASE IV: SECONDARY INFORMATION COLLECTION

Parallel to filling out questionnaires and holding audiences, the technical methodology and logistic support staff, composed of a consultant group from the Central American Institute for Business Management (INCAE), collected statistical information to support or rebut the opinions expressed in questionnaires and hearings. The list of information to be collected is presented in Annex No. 5. This type of information was obtained from different sources, such as Central Banks, Planning Offices or Ministries, Statistical and Census Bureaus, private organizations, international organizations, studies, etc. These statistical data were basically for the period 1975-1980.

PHASE V. INTERVIEWS

Because of the role of the international organizations in the socio-economic development of Central America and

Panamá, the assessment included interviews with representatives of BID, World Bank, AID, some U.S. commercial banks, etc. The purpose of these interviews was to collect complementary information available at these institutions, which included social and economic development figures, plans, studies, opinions and perceptions about the Central American region.

To that effect, the Central American Commission responsible for the assessment, made a special trip to Washington and New York; where they held 26 interviews with the participation of approximately 90 persons. Table No. 5 is a summary of interviews made.

CHRONOLOGY:

Duration of the assessment was five and a half months, starting in mid-May of 1981 and ending the second week of November.

A descriptive chronogram of the time utilized in its elaboration is shown in Annex No. 1.

TABLE No. 5

REGIONAL PRIVATE SECTOR ASSESSMENT'

1. Mr. Roberto Fernández, Acting Director for Latin American and the Caribbean: The World Bank.
2. Mr. Elio Gonella, Acting Director of Office for Central America: The World Bank.
3. Mr. David Lazar, Acting Assistant Administrator, Bureau for Latin America and the Caribbean; Agency for International Development.
4. Mr. Marshall Brown, Director for Development Resources, Bureau for Latin America and the Caribbean: Agency for International.
5. Mr. John Blacken, Director for Inter-American Affairs: Department of State.
6. Mr. Emil Wlinberg, Director for Office of Central America: Inter-American Development Bank.
7. Mr. John Gurr, Deputy Regional Director for Latin America: Overseas Private Investment Corporation.
8. Mr. Elise Dupont, Assistant Administrator Designate, Bureau for Private Enterprise: Agency for International Development.
9. Mr. Everett Briggs, Deputy Assistant Secretary for Inter-American Affairs: Department of State.
10. Dr. Norman Bailey, Staff Member, National Security Council.
11. Congressman Dante Fascoll, Member House of Foreign Affairs Sub-committee.
12. Margaret Hays, Professional Staff Member, Senate Foreign Relations Committee (majority).

Chris Manior, Professional Staff Member, Senate Foreign Relations Committee (majority)

Barry Sklar, Professional Staff Member, Senate Foreign Relations Committee (minority).

13. Congressman Dan Mica, Member House Foreign Affairs Committee
14. Mr. Peter Gosnell, Senior Economist, Central America: Export - Import Bank
15. Mr. Hugh Henry - May, Senior Investment Officer: International Finance Corp.
16. Mr. M. Peter Mc Pherson, Administrator: Agency for International Development
17. Mr. Miguel Bonangelino, Division Chief, Central America División: International Monetary Fund.
18. Manolo Casanova: Director del Banco Internacional de Desarrollo BID por Estados Unidos.
19. Harvey Bale: Deputy assistant US. trade representative for Trade Policy Development.
20. Steve Bosworth: Deputy Assistant Secretary State for Interamerican Affairs.
21. Larry Miller: Vice - President Chemical Bank
22. Roberto Martínez: Vice - President Bankers Trust
23. José Manuel Fernández: Assistant Vice - President
24. Alejandro Sans: Director, Latin American Operations. Council of The Americas.
25. Margareth Sayers: Assitant Vice - President, Manufactures Hannover Trust Co.
26. David Fagin: President, Rosario Resources Corporation.

A N N E X E S

C H A P T E R I I

ANNEX I

REGIONAL PRIVATE SECTOR ASSESSMENT

ACTIVITIES	MAY		JUNE		JULY		AUG.		SEPT.		OCT.		NOV.	
	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H	1H	2H
-Initial meetings: Promotion of Assessment, questionnaire and hearings														
-Questionnaires: Distribution														
Collection														
Tabulation														
-Hearings														
-First Draft														
-Second Draft														
-Washington interviews														
-Third Draft														
-Third Draft Consultation														
-Revision and Adjustments														
-Reproduction														
-Final Report														

ANNEX No. 2

QUESTIONNAIRE

BASIC INFORMATION

A) We would greatly appreciate your providing the following information:

Date: _____

Country: _____

B) Principal activity you are engaged in (agriculture, cattle-raising, industry, mining, fishing, financial, transportation, etc.)

C) Principal groups, organizations, associations, etc. to which you belong.

D) The questionnaire has been answered as a member of:
(Name of the organization which asked you to answer it)

E) In your opinion you would classify yourself as:

Small () entrepreneur

Medium () "

Large () "

F) Number of employees who work in your company:

Up to 25 ()

From 26 to 100 ()

From 101 to 1000 ()

more than 1000 ()

SECTION I

THE PRIVATE SECTOR

In this section you are asked for your perceptions of the composition, function, current situation and future perspectives of the private sector in your country.

1. Who, in your opinion, consider themselves as part of the private sector in your country?
2. Who, in your opinion, are part of the private sector but do not consider themselves as such?
3. Which are the roles in society which belong to the private sector?
 - 3.1 In the economic field?
 - 3.2 In the political field?
 - 3.3 In the social field?
 - 3.4 In other fields?
4. Which of these roles are not being fulfilled satisfactorily? Why? Which of the causes are internal and which are outside the private sector?

5. What is the future of the private sector in your country?

What do you expect will happen to you in the next 10 years?

5.1 To the private sector in general?

5.2 To your sector in particular?

SECTION II

PERCEPTIONS ABOUT THE PRIVATE SECTOR

6. Describe the false perceptions which the private sector has about its situation and its future, which you consider to be more widely disseminated? Why have they been disseminated? How does this affect the private sector.

7. In your judgment, which are the really important problems of the private sector of which there is little awareness within the private sector itself, with respect to severity and potential impact? Indicate why and how this affects the private sector.

.8. Perceptions of other key sectors:

8.1 Which is the perception of other key sectors of the country (including public sectors) about the role of the private sector and its execution of that role? Why? (In the space which corresponds to that question, indicate the perception which that sector has of the private sector and indicate why.) (Then indicate another key sector, etc.)

8.2 How will this affect the private sector in the future?

SECTION III

ECONOMIC, POLITICAL AND SOCIAL PROBLEMS

In this section you are asked to enumerate from higher to lower, the order of importance of economic, political and social problems which hinder the development of the private sector in general and in the following specific aspects: production expansion, private investment expansion, export increase, trade growth, employment increase and productivity increase.

9. Economic, political and social problems and obstacles:
 - 9.1 Problems which hinder the development of the private sector in general.
 - 9.2 Problems which constrain production expansion.
 - 9.3 Problems which hinder private investment expansion.
 - 9.4 Problems which hinder export increases.
 - 9.5 Problems which hinder trade growth.
 - 9.6 Problems which hinder employment increases by the private sector.
 - 9.7 Problems which hinder productivity increase.
10. Making particular reference to small and medium enterprise, what specific problems not included in above mentioned points hinder their development?
11. Which institutions, organizations, actions, measures, laws, regulations, incentives, etc. of a public or private nature, national or international, have notably favored the development of the private sector? Identify those which are more relevant and explain their effect on the private sector.

12. Which institutions, organizations, actions, measures, laws, regulations, incentives, etc. of a public or private nature, national or international, have notably damaged the development of the private sector? Identify those which are more relevant and explain their effect on the private sector.
13. How do you evaluate the effectiveness of the Financial System to mobilize and direct funds to the private sector? Give specific answer.

SECTION IV

PRIVATE SECTOR ACTIONS

In this section you are asked to identify concrete actions which the private sector must take to fulfill its role with greater success.

14. What specific measures are needed for the private sector to strengthen itself so it can better fulfill its role in years to come?
 - 14.1 In the private sector's internal activities.
 - 14.2 In activities with other national sectors (including the government).
 - 14.3 In activities with international organizations

15. What activities can be carried out by the private sector, to change the attitude which other key sectors have towards it, in order to make it more favorable? (you may specifically refer to sectors mentioned by you in answering question No. 8).
16. How can the private sector increase its influence with other key sectors of the country? For each suggested action indicate which sectors you are referring to.
17. What specific measures should the private sector of the other countries of the area take to contribute to the development of the private sector of your country?
18. How can your country's private sector contribute to the development of the private sector of the other countries of the area?
19. What specific measures should the private sector take to increase its contribution to the promotion of social progress?
20. Other comments and recommendations.

ANNEX No. 3

HEARING REPORT FORMAT

GROUP INVITED _____
COUNTRY _____ DATE _____
COMMISSIONER _____

A. WRITE DOWN MOST IMPORTANT FACTS OF THIS HEARING

1. PROBLEMS

2. POTENTIAL SOLUTIONS

B. EVALUATION OF THE DIAGNOSIS AND SOLUTIONS PRESENTED

C. RELEVANT ISSUES WHICH REQUIRE FURTHER RESEARCH

ANNEX No. 4

PLAN FOR THE PREPARATION AND IMPLEMENTATION OF
THE COMMISSION'S WORK SESSIONS WITH KEY GROUPS

1) Group Identification: May 7

Each commissioner identifies six key groups in his country, which, in his opinion, it is essential and valuable to formally interview.

2) Initial contact with the groups: May 11 - 15

Each commissioner, upon returning to his country, makes the necessary contacts with groups identified (presumably through their leaders) in order to:

- a) Inform them of the purpose of the project
- b) Obtain their collaboration in organizing the groups
- c) Inform them of the future visit of staff members to prepare the work sessions of the commission with the group.

3) Preparatory session with the groups: May 18-June 5

The leader of each group will be interviewed by a member of the staff to:

- a) Identify the other members of the group, and try to confirm their participation.
- b) Explain the questionnaire to him.
- c) Obtain a preliminary identification of key issues and new ideas.
- d) Identify sources of secondary information.
- e) Set the date, place and make general arrangements for the work session of the commission with the group.
- f) Set the date for returning the questionnaire.
- g) Program a second preliminary session with the members of the group so that they can become familiar with the work session procedure.

Besides, a staff member will discuss at this time with the local liaison officer, the administrative and logistic details of work sessions.

The visits herein contemplated must be made three weeks before the work session of the commission with the groups.

4) Activities prior to work sessions

Two days before holding the work sessions in a country, the staff members must:

- a) Verify arrangements for the meeting.
- b) Confirm attendance of persons invited.
- c) Familiarize persons invited with session procedures.
- d) Update the list of key issues or new ideas with the groups.

e) Obtain the questionnaires which have been answered and the preliminary analysis.

5) Information to be provided to the commission upon its arrival to each country for use at work sessions.

The host commissioner and the staff will provide to the other commissioners, before initiating work sessions, the following:

- a) Basic data on persons invited
- b) Information on which are the key issues and relevant information on the country's background.
- c) List of questions of interest.

A part of this information will be of a general nature and will be given to the commissioners upon arrival to each country, and the other part will be specifically for each work session and will be available before the corresponding meeting.

6) Work session with invited groups

It is expected that six sessions will be held by country, with a duration of three hours per session, distributed as follows:

- a) There will be a half hour meeting with the staff, before formally initiating the session, to present and discuss information mentioned in number five.

- b) Oral presentations by the invited group to present those aspects which in their opinion are most relevant. Those documents or written presentations prepared by the persons invited, which they wish to submit to the commission's consideration, will be accepted as an integral part of the session.

Oral presentations will last from 30 to 60 minutes.

- c) Interchange of questions and answers between the commission and persons invited. This dialogue will be specially oriented towards an in depth study of some key issues and examination of new ideas.

This part of the discussion, added to the previous part, should not exceed 1-1/2 hours.

- d) Summary and conclusions meeting.

After the meeting with invited persons has finished, the commission and the staff will go over the issues discussed and will prepare summaries of the meeting, compile documentary information received, and each commissioner will turn in notes taken during the meeting and any additional or final comments in writing or tape recorded, whichever is most convenient.

ANNEX No. 5

SECONDARY INFORMATION

- 1) Role of the private sector { regional
by country
- * Employment generation (Total for the entire economy and by sector)
 - * Amount: Total and by subsector
 - * % of total and of subsector
 - * Separate urban and rural
 - * Public employment/evolution of the economy
 - * Production volumes vs. total country volume
 - * Total
 - * By subsector
 - * % of total contribution and of subsector
 - * Participation in exports { Total
Sub-total
 - * Trade relations
 - * Participation in investment { Total
Sub-total
 - * Contribution in taxes and salaries paid
- 2) Investment (1975/80)
- * Entire source at the national level
 - * Uses

- * Sector in which it was invested
 - * Capital flight
 - * Emigration of professionals and technicians
- 3) The role of financial assistance (1975/1980)

- * National
- * Regional
- * International { Private
Public

In each one look into the following:

- * Amounts Procedures
- * Terms Technical Assistance
- * Conditions Personnel Training
- * Destination

Local Currency

- 4) Access to Credit Convertible to foreign currency at
official exchange rates
- 5) Present attitudes of sources of financing towards C.A.
(Distinguish governments from entrepreneurs)
- * Availability
 - * Risk perception
 - * Number of financial institutions

- 6) Public debt { Internal
External { International organizations
International Commercial Banks

7) Private sector organizations

- * Objectives
- * Interests
- * Motivations
- * Capabilities
- * Number of members and its evolution
- * Age
- * Current programs: effectivity and efficiency; objectives; means

8) Profitability of the private sector oriented towards exports (coffee, cotton, sugar) (1975/80)

- * Behavior
- * Production costs structure: evolution
- * Price controls, quotas, inflation, etc.

9) Existing studies:

- * FEDEPRICA and affiliates
- * INCAE
- * International organizations
- * Private and public organizations
- * Central Banks
- * Individual, others.

- 10) Political map of each country, with a brief description of principal groups, using the Ilchman-Uphoff scheme.
- 11) Land ownership, land utilization, areas of under cultivation, agricultural employment.
- 12) Social statistics: health, nutrition, housing, education.
- 13) Petroleum imports: volume, cost, price.

CHAPTER III
QUESTIONNAIRE RESULTS^{1/}

TABULATION

The tabulation of questionnaires for each country is presented below, analyzing the opinions and replies to each specific question.

Each question is given and next to it appears the relative frequency of each opinion about it. H (high): 70 - 100; M (medium): 40 - 70; L (low): under 40%

SECTION I

THE PRIVATE SECTOR

In this section they were asked to give their opinions about the composition, function, present situation and future perspective of the private sector of their respective countries.

1/ Due to the low percentage of questionnaires obtained in Costa Rica, it was decided that a tabulation of that country would not be made.

1. WHO, IN YOUR OPINION, CONSIDER THEMSELVES AS PART OF YOUR COUNTRY'S PRIVATE SECTOR?

(PERCENTAGES)

SECTORS	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA	CENTRAL AMERICA
Medium and Large Enterprises	100	100	100	100	10	100
Small Enterprises	59	59	71	57	57	
Managers and Professionals	26	27	--	37	33	33
Workers and Campesinos	21	12	--	23	--	16
Labor Sector (Syndicates)	21	35	--	17	--	19
Non-Profit Trade Associations	31	29	14	20	--	23
Other Non-Profit Associations	10	23	14	13	--	14
Independent Workers	26	23	43	40	33	33

2. WHO, IN YOUR OPINION, ARE PART OF THE PRIVATE SECTOR BUT DO NOT CONSIDER THEMSELVES AS SUCH?

(PERCENTAGES)

SECTORS	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA	CENTRAL AMERICA
Small Enterprises	31	47	43	57	--	43
Managers and Professionals	37	41	57	23	17	33
Workers and Campesinos	26	29	28	10	--	19
Labor Sector (Unions)	21	29	28	13	--	15
Non-Profit Trade Associations	5	29	28	13	--	15
Other Non-Profit Associations	5	12	57	17	17	16
Independent Workers	31	70	57	43	33	47

* This table does not mean that the differential percentage shows the contrary, but it rather shows the existing correlation between questions 1 and 2 in that they do not consider themselves as part of the private sector, although others think they are. This reflects, as it was noticed in questionnaires and hearings, the lack of integration among these and the need to strengthen private associations, oriented towards increasing its membership and integrating those sectors which have not traditionally belonged to it.

3. WHICH ROLES OF SOCIETY BELONG TO THE PRIVATE SECTOR?

3.1 IN THE ECONOMIC FIELD?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Efficient production through investment in agricultural, commercial and industrial sectors	H	H	H	H	H
Technology Innovation and Acquisition	H	H	H	H	H
Employment Generation	H	H	H	H	H
Just Worker Compensation	H	H	H	H	H
Increase Foreign Exchange	H	H	H	H	H
Planning and Decision-Making at national level	H				
Pay Taxes		H	H	H	
Open New Markets		H			
Become Government Suppliers				H	
Attract International Credit				H	

3.2 IN THE POLITICAL FIELD?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Active participation in program planning	H		H	H	
Selection of Executives for government positions	H				
Supervision, orientation and moderation	H				
Defend free enterprise	H	H	H		H
Advise, orient, censure and criticize as means of protecting free enterprise		H		H	H
Acquire political knowledge		H	H		
Reaffirm its existence as a support to democratic regimes				H	H
Form groups to obtain decision making power				H	
Promote pluralistic politics; power alternation; surveillance				H	
No role				L	

3.3 IN THE SOCIAL FIELD?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Active participation in improving the socio-economic conditions of workers	H		H	H	H
Create awareness of the importance of workers as a production factor and their right to participate in exploitation of resources. Must be made through labor sector reciprocity and not coercion.	H				
Promote, plan and implement health, housing and education programs as means of giving participation to workers	H	H	H	H	H
Create awareness of the need to humanize existing conditions		H			
Create employment and pay just salaries			H		H
The social field is the responsibility of the State and the private sector must only watch and moderate				H	

3.4 IN OTHER FIELDS?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Cooperation with government, cultural activities		H	H	H	H
International relationships with other private sectors			H	H	
Attract foreign investment			H		
Promote scholarships				H	
Promote religious activities and spiritual values				H	
International spokesman on what is happening in the country		H			
Spokesman on the importance of its role in development		H			

This page was missing from the original Spanish version.

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
<u>EXTERNAL CAUSES (CONT.)</u>					
Excessive State protectionism			H		
Armed invasion of Central America by leftist factions	H		H		
<u>INTERNAL CAUSES</u>					
Capital flight	M			M	
Professional and technical flight				M	
Lack of knowledge	H	H	H	M	H
Political, economic and social problems				M	
Lack of entrepreneurial unity and awareness in economic decisions	H	H	H	M (in the past)	H
Lack of leadership		H			
Deficient entrepreneurial formation and innovative capacity development	H	H	H		H

4. WHICH OF THESE ROLES ARE NOT BEING SATISFACTORILY FULFILLED? WHY? WHICH OF THESE CAUSES ARE INTERNAL AND WHICH ARE EXTERNAL TO THE PRIVATE SECTOR?

ECONOMIC

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
None	H	H	H	H	
<u>EXTERNAL CAUSES</u>					
Nationalization	M	H	H	H	H
Governmental Bureaucracy	H		H		
Unfair Government competition				H	
Government corruption	M		H ^{1/}		
Undefined rules of the game	M	H		H	
Legal insecurity				H	
Physical insecurity	H	H		H	
Lack of financing	H	H			
Ambivalence					H
Leftist influence	H				H
Lack of definition	M				
Economic Policy					H
Lack of confidence in government					H

^{1/} Sometimes stimulated by the private sector itself

POLITICAL

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
None	H	H	H	H	M
<u>EXTERNAL CAUSES</u>					
Lack of pluralism				H	
Restricted freedom of expression				H	
Cohesion/repression		H		H	
Attacks on the private sector by leftist ideologies	H	H			
Nationalization. Little participa- tion of the private sector in decision-making	M	H	H	H	H
<u>INTERNAL CAUSES</u>					
Lack of private sector organiza- tion, strategy and defined policies	H		H	H ^{1/}	H
Conformism	M		H	H ^{1/}	
Lack of leadership	H	H			H
Non-political formation of private sector	H	H	H	H	H

1/ In the past

SOCIAL

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Null	M	H	M	H	M
<u>EXTERNAL CAUSES</u>					
Labor sector indoctrination and uprising	M	H	L	H	H
Systematic attack on private sector diminishes efforts made	H	H		H	
Private sector fears it does not have the capacity to stimulate worker awareness				M	
Lack of private sector participation in social decisions	H	H	H		H
<u>INTERNAL CAUSES</u>					
The private sector fails in the social field because they do not respond adequately to the advances of socialist doctrines, nor do they solve their differences in this field	H	M	H	H	H
Lack of awareness of their role in society	H		H		H

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
<u>INTERNAL CAUSES</u>					
Lack of unity and integration	H	H	H		H
Lack of publicity to create awareness of the role of free enterprise	H ^{1/}		H		

1/ in the past

5. WHAT IS THE FUTURE OF THE PRIVATE SECTOR IN YOUR COUNTRY? WHAT DO YOU EXPECT WILL HAPPEN TO IT IN THE NEXT 10 YEARS?

5.1 TO PRIVATE SECTOR IN GENERAL AND 5.2 TO YOUR SECTOR IN PARTICULAR

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
It can disappear		H	H	H	
Survive if it can prove its role in the economy			H	H	H
Depends on its fight against subversion and totalitarian sectors	H		H	H	
Depends on U.S. policy and assistance	H	H ^{2/}			
The future of the agricultural sector is uncertain because it is the one most seriously affected by subversion, agrarian reform, etc.	H			H	
After the crisis they will agree to be indispensable to society	L ^{1/}			L	
Depends on political results in Central America and CACM	M				
Industrial sector will disappear				M	
Commerce will subsist				H	

1/ Mainly agroindustrial, professional and financial sectors

2/ Financial, military and establishment of rules of the game

SECTION II

PERCEPTIONS ABOUT THE PRIVATE SECTOR

6. DESCRIBE THOSE FALSE PERCEPTIONS WHICH THE PRIVATE SECTOR HAS ABOUT ITS SITUATION AND FUTURE, WHICH YOU CONSIDER MOST COMMONLY DISSEMINATED.

WHY HAVE THEY BEEN DISSEMINATED? HOW DOES IT AFFECT THE PRIVATE SECTOR?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Responsible for all evils		H	H	L	H
<u>Causes:</u> Communist propaganda		H	H		
Publicity and State control			H		
Believes it cannot be substituted as means for generating economic and social development		L			L
Politics to politicians		L			
Entrepreneur believes that capitalism is obsolete and therefore should leave road free for socialism					L
Is going to disappear				H	
Consider it an enemy without strength or courage	H			H	
It will survive				L	
The private sector can always operate with the same scheme vis a vis government and labor problems	H			L	

7. IN YOUR OPINION, WHICH ARE THE REAL IMPORTANT PROBLEMS FOR THE PRIVATE SECTOR, ABOUT WHICH THERE IS LITTLE AWARENES WITHIN THE SECTOR ITSELF, REGARDING THEIR SEVERITY AND POTENTIAL IMPACT?

INDICATE WHY AND HOW IT AFFECTS THE PRIVATE SECTOR.

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Little awareness of the danger it faces, in believing that it could survive within a marxist-leninist context		H			
Existing separation between the public and private sectors		H	H		
Lack of organization, unity and strategic planning on the part of the private sector regarding political, economic and social issues	M	H	H	H	H
Communist penetration in C.A.	H				
Low productivity					L
Government corruption	L		L		
Government bureaucracy	L				
Obsolete legislation	L		L		L
Dependence on international prices	L				
Negative image of private sector	L		L		L

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Insecurity, violence	L			H	
Lack of rules of the game	L		M		
Population growth	L				
Lack of health and education					L
Price control					
Inflation					L
Labor problems					L
Lack of incentives					L
<u>HOW WILL THIS AFFECT THE PRIVATE SECTOR?</u>					
It will disappear	M	H	M	H	L
Will generate new resources to adapt to change and make strategic plans	M		M	M	M

8. PERCEPTIONS BY OTHER SECTORS

8.1 WHICH IS THE PERCEPTION OTHER KEY SECTORS OF YOUR COUNTRY (INCLUDING PUBLIC SECTOR) HAVE OF THE ROLE OF THE PRIVATE SECTOR AND ITS PERFORMANCE IN FULFILLING THAT ROLE? WHY?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
<u>GOVERNMENT SECTOR:</u>					
The private sector is causing instability	H			H	
Is a privileged class which enjoys too many exemptions		H	H	H	
<u>RELIGIOUS SECTOR:</u>					
Does not make sufficient efforts to solve social problems	H	H		H	
Is an exploiter		H			
<u>MILITARY SECTOR:</u>					
Consider its position positive and necessary	H				
Does not trust the private sector		H			

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
<u>POLITICAL PARTIES:</u>					
The participation of the private sector in the political process is favorable	H			H	
<u>MISCELLANEOUS (IN GENERAL):</u>					
Sector without social conscience, opportunist					M
Motivates political, economic and social changes					M
<u>LABOR SECTOR:</u>					
Cautiously observing participants	H				
Cause of social and economic unbalance	L				
Mistrust. The private sector is an exploiter			H		
Joint participation is needed to defend democracy				H	

CAUSES OF SUCH PERCEPTIONS:

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
The private sector has not defended itself, pointing out its role in the country's social and economic development				H	
Misunderstanding of its role on the part of government and workers	H				
Disorganized reaction without trying to undertake a systematic defense campaign				H	
Does not demand a true and rational government position				H	

8.2 HOW WILL THIS AFFECT THE PRIVATE SECTOR IN THE FUTURE?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
It will disappear		H		H	H
It will be seriously affected	H			H	
Government will take unfeasible decisions without measuring the consequences, which will widen the gap between government and private sector	H				
Labor pressure will increase				H	
The private sector will seek solutions to generate employment and social welfare	M				
It will become stronger and solidly organized, making strategic plans to overcome difficulties	M			M	

SECTION III

ECONOMIC, SOCIAL AND POLITICAL PROBLEMS

IN THIS SECTION YOU ARE ASKED TO ENUMERATE, FROM MOST TO LEAST IMPORTANT, THE ECONOMIC, POLITICAL AND SOCIAL PROBLEMS WHICH HINDER THE DEVELOPMENT OF THE PRIVATE SECTOR IN GENERAL AND THE FOLLOWING ASPECTS SPECIFICALLY; PRODUCTION EXPANSION, PRIVATE INVESTMENT EXPANSION, EXPORT INCREASE, TRADE GROWTH, EMPLOYMENT INCREASE, AND PRODUCTIVITY INCREASE.

9. ECONOMIC, POLITICAL AND SOCIAL PROBLEMS AND OBSTACLES

9.1 PROBLEMS WHICH HINDER THE DEVELOPMENT OF THE PRIVATE SECTOR IN GENERAL

9.1.1 AT THE PRIVATE SECTOR LEVEL IN YOUR COUNTRY

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Nationalization		H	H	H	
Political uncertainty in the region and in the country	H	H	H	H	
Lack of definition of rules of the game	H	H			
Very bad economic and social planning	H	H	H		H
International defamation	H				
Lack of labor discipline				H	
Pressure by labor unions	H	H			

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Physical insecurity causes drop in investment and fear of becoming involved	H				
Incipient industry	L				
Government corruption	M				
Demographic explosion	M	H			
Government bureaucracy	H				H
Nonliquidity and lack of financing		H		H	
Foreign Currency Shortage		H		H	
CACM deterioration		H			
World Inflation		H	H		H
Low prices for traditional export products					
Traditional single cropping		H			
Lack of natural resources		H			
Utilization of industrial installed capacity: 25-60%		H			
Lack of confidence in government's political scheme		H	H		
Little interest of capitalist countries in the country's problems		H			

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Lack of productivity			H		H
Absence of legal regime		H	H		H
Differences in personal income		H			
Hate among classes		H		H	
Lack of capital			H		H
Fiscal aggression				H	H
Lack of consumers					H
Government control			H		H
High bank interest rates			H		H
Little access to technology			H		H
Lack of investment projects adequate to reduced market size			H		
Lack of participation by the different sectors in decision making		H	H		
Absence of a basic infrastructure			H		
Low education level		H	H		
Malnutrition, poor health and housing			A		

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Promulgation of demagogic laws, which have not been given due consideration, stimulated by leftists					H

9.1.2 AT THE LEVEL OF THE ECONOMIC ACTIVITY YOU ARE DEDICATED TO.

Lack of financing	H	H	H		
High cost of credit resources	H	H	H		
Bureaucratic financial institutions	H	H	H		
Lack of markets	H		H		
Price controls	H		H	H	
Inflation	H				
High cost of raw materials	H		H		
Labor pressure	H		H	H	
Government bureaucracy		H			H

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Government laws		H			H
Law which regulates professional practice				H	
"Exaggerated" influence of internationalist elements in all sectors				H	
Foreign currency shortage				H	
Shortage of technicians				H	
Lack of security and confidence				H	
Education plans in the hands of totalitarian external elements				H	
Shortage of electric energy and transportation				H	
No participation in the National Education Council				H	
Priority of political objectives over education				H	
Deficient higher education				H	

9.2 PROBLEMS WHICH HINDER PRODUCTION EXPANSION

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Lack of financing	H	H			H
High cost of financial resources	H	H			H
Financial bureaucracy	H	H			
Shortage of markets	H	H	H		H
Inflation	H				
High cost of materials	H	H			
Foreign currency shortage		H		H	
Lack of commercialization technicians			H		
Capital shortage	H	H	H		H
Lack of confidence in the political future				H	
Unjustified invasions, expropriations and confiscations				H	
Utilization of the country's resources for military priorities				H	
Labor sector anarchy				H	
Excessive government bureaucracy				H	H
Low worker productivity					H

9.3 PROBLEMS WHICH HINDER PRIVATE SECTOR EXPANSION

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Personal and property insecurity	H	H			
Lack of financing	H	H		H	H
Capital shortage	H	H		H	H
Absence of a state of law		H		H	
Uncertain future		H		H	
International commitments			H		
Conservative mentality			H		
Lack of consistency in government policies			H	H	H
Low prices of export products reduce the country's economic power			H		
Expropriations, confiscations, etc.				H	
Labor problems (anarchy)				H	
Government laws and controls					H
Low worker productivity					H
High tax rates					H
Lack of coherent economic policy					H

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Low production				H	
Increased government agricultural activity				H	
Shortage of qualified manpower				H	
Decisions made by incapable and inexperienced persons				H	

9.4 PROBLEMS WHICH HINDER EXPORT INCREASE

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Inadequate government foreign policy	H	H			H
Government bureaucracy	H				
High costs vs low export prices	H				H
CACM inoperative	H				
Free trade changes not applied		H			
Central American preferential system is adequate for present conditions		H			
Shortage and high cost of transportation	H				H
Low international prices	H		H		
High export taxes	H				H
Destruction of property by guerrillas	H				
Lack of incentives			H		
Transformation industry not export oriented			H		

9.4

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Low production				H	
- Increased government agricultural activity				H	
- Shortage of qualified manpower				H	
- Decisions made by incapable and inexperienced persons				H	

9.5 PROBLEMS WHICH HINDER TRADE GROWTH

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Currency shortage	H	H	H		
Inflation	H		H		H
Unfair government competition	H			H	H
Customs bureaucracy	H				
Limited market	H				
High oil prices	H				
Shortage of foreign currency for imports		H		H	
Low production		H	H	H	
Lack of coherent taxation policy			H		
Lack of entrepreneurial aggressiveness			H		
Lack of infrastructure (highways, etc.)			H		
Government control				H	H
Decline in trade with Central America					
High delinquency rate				M	

9.6 PROBLEMS WHICH HINDER EMPLOYMENT GENERATION ON THE PART OF THE PRIVATE SECTOR

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Lack of investment	H			H	
Increasing social burden, labor agitation	H				
Agricultural cycle independent from international prices	H				
Labor code and its amendments stimulate unemployment	H				
Points mentioned in 9-1 to 9-5		H	H		
Work shortage, as it is controlled by public sector				H	
Popular power (housing)				H	
Shortage of qualified manpower, as it is involved in non-productive activities (army, militia, etc.).				H	
Lack of financing				H	
Incoherent and contradicting labor policies					H

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
High labor costs					H
High cost of financing					H
Demand restriction					H

9.7 PROBLEMS WHICH HINDER PRODUCTIVITY INCREASE

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Lack of professional and technical education	H	H			H
Low level of education restricts improvement motivation	H		H		
Lack of research and innovation	H	H			
Lack of adequate technology	H	H	H		
Shortage of qualified manpower	H				
Lack of entrepreneurial integrated formation		H			
Lack of awareness of the role the entrepreneur must play in social and economic change		H			
Political strikes		H			
Country's political situation		H			
Workers unwillingness to work			H		
Deficient utilization of production units			H		
Rupture of the hierarchy: anarchy, labor				H	

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Union pressure to take control of enterprises "Power to the Workers"				H	
Professional and technical flight				H	
Shortage of new equipment and spare parts due to foreign currency shortage				H	
Labor laws, which far from stimulating harmony, increase management/labor tension				H	

10. WITH RESPECT TO SMALL AND MEDIUM ENTERPRISES, WHAT SPECIFIC PROBLEMS, NOT INCLUDED BEFORE, HINDER THEIR DEVELOPMENT?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Bureaucracy and high cost of financing	H	H	H	H	H
Lack of access to sources of financing	H	H	H	H	H
No managerial capacity, nor any possibility of contracting it	H	H		H	H
No resources to carry out adequate studies of their projects	H				H
Lack of adequate technology	H	H			H
Fiscal and social burdens affect small enterprises more (need for preferential treatment)		H	H		
Political pressures to align them with government organizations conditionstheir financing				H	
Agrarian reform vs. government collectivism				H	

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Restrictions to free trade of basic products				H	
Absence of a coherent policy for the development of small enterprises					H

11. WHICH INSTITUTIONS, ORGANIZATIONS, ACTIONS, MEASURES, LAWS, REGULATIONS, INCENTIVES, ETC., PUBLIC OR PRIVATE, NATIONAL OR INTERNATIONAL, HAVE CONSIDERABLY FAVORED PRIVATE SECTOR DEVELOPMENT? IDENTIFY THE MOST IMPORTANT AND EXPLAIN THEIR EFFECT ON THE PRIVATE SECTOR.

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Fiscal incentives to C.A. trade			M		
Central American Common Market	H	H	H	H	M
Economic integration process	H	H	H		
Banks	H	H	M		
Laws issued by government	M				
Agricultural development law		H			
FEDECREDITO		H			
FEDECACES		H			
IDB		H	H	H	H
CABEI	H	H		H	
WORLD BANK	H		M		H

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Creation of the Economic Development Fund		H			
Social Security		M			
Financing for housing		M			
Laws for development of exports; hunting and fishing; tourism.		H			
CONADI			H		
BANADESA			H		
EXIMBANK			M		
BIRF			M		
AID			H	H	H
FOMDFI			M		
BANCO NACIONAL DE FOMENTO			L		
INFOD			L		
COHDEFRA			L		
Private Initiative Superior Council (COSEP)				H	
Government's literacy program				H	

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Law against cattle stealing				H	
Law to control female cattle				H	
Mexico, Venezuela, USA, Canada				H	
Industrial incentive laws					H
International financial center					H
Free circulation of the dollar					H

12. WHICH INSTITUTIONS, ORGANIZATIONS, ACTIONS, MEASURES, LAWS, REGULATIONS, INCENTIVES, ETC., PUBLIC OR PRIVATE, NATIONAL OR INTERNATIONAL, HAVE CONSIDERABLY HINDERED PRIVATE SECTOR DEVELOPMENT? IDENTIFY THE MOST IMPORTANT AND EXPLAIN THEIR EFFECT ON THE PRIVATE SECTOR.

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Communist actions and Cuban and Nicaraguan influence	H				
The great powers and their concept of using the Central American region as experimental field for their development models	H				
Carter's Human Rights policy	H	M			
Discredit campaign by Amnesty International	H				
Regulating public institutions	H				
Excessive control laws	H				
Government bureaucracy	H	H	H	H	
Agrarian reform		H			
Nationalization of the banking system		H			
Control of basic products exports					

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
AID and tied loans		M			
ILO (regulations not applicable to developing countries)		M			
OAS		L			
Government tolerance towards syndicates		M			
U.S. political actions have influenced the adoption of damaging measures by the government		H			
International press and its discredit campaign		H			
COHDEFOR			L		
National Agrarian Institute			L		
Price Control			L		

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
General government actions				H	
Government related organizations (CDS, CST, ATC, etc)				H	
Taxation				H	
Monopolization of communication media				H	
Politicalization of the army				H	
Unfair government control				H	
Inadequate economic planning				H	
Relations with URSS and Cuba				H	

13. HOW DO YOU EVALUATE THE EFFECTIVENESS OF THE FINANCIAL SYSTEM TO MOBILIZE AND DIRECT FUNDS TO THE PRIVATE SECTOR. BE SPECIFIC IN YOUR REPLY.

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Ineffective and deficient	M	H	H	H	
Partial in its distribution of resources	M		H	H	
Monetary Council is slow in making decisions	M				
Slow negotiations		H			H
Able private banking, but affected by great public investment projects and budget deficit which draw resources from it			H		
Little oriented to country's development, conservative ideas (promotes real state and consumption instead of productive activities)			H		
Bureaucratic and politicized				H	
Loans conditioned to affiliation to government organizations				H	

14. IN THIS SECTION YOU ARE ASKED TO IDENTIFY CONCRETE ACTIONS THE PRIVATE SECTOR MUST TAKE TO FULFILL ITS ROLE WITH GREATER SUCCESS. WHAT SPECIFIC MEASURES ARE NEEDED FOR THE PRIVATE SECTOR TO BECOME STRONGER AND TO BETTER FULFILL ITS ROLE IN FUTURE YEARS?

14.1 WITH RESPECT TO PRIVATE SECTOR INTERNAL ACTIVITIES

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
To strengthen, consolidate and unify it, at the national and international level, providing support and sharing experiences (all sectors, big and small)	H	H	H	H	
Common national, international and regional front, to defend the private sector	H	H	H	H	
International publicity to improve the image	H	H	H	H	
Organization and planning oriented towards improved labor/management relations	M				
Publicity at national level on the benefits of the private sector	H		H	H	
Participation of the labor sector in profits		H			
Access to sources of power and improved relations with government, to obtain participation and stop nationalization.		H		H	

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
At the national level become integrated with unions, church, professional associations, etc.		H		H	
Active participation in the development of integrated Central American capitals and technology		H			
Increase efficiency and productivity	M		H		
Stop capital flight and attract foreign investment			H		
Increase and assure participation in planning and development organizations, national and international			H	H	
Avoid external influences in labor-management relationships		H			
Promote, motivate and implement health, housing and education programs	M				
Exert pressure on the international organizations to provide direct funding to the private sector		H		H	

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Participate in international organizations, in the analysis and planning of solutions to the problems of the region		H	H		
Request more agility and objectivity on the part of international organizations, which have a high degree of participation by bureaucrats and technocrats		H			
Promote methods of insuring local and foreign investors against political risks (expropriation, confiscation, etc.)			H		
Promote the obtention of massive, soft financing for technical assistance, improved productivity and development of new projects			H	H	
Assume complete responsibility for the development of the country and dedicated above all to the economic aspects				H	
Request financing from the government based on development plans for each subsector				H	

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Demand compliance with the laws and elimination of those which are restrictive (communication media, trade)				H	
Clearly define areas in which the government will not interfere				H	
Prepare a new labor code with the participation of all sectors				H	
Promote technification of the labor force				H	
Continuous interchange of information with international organizations				H	H
Creation of political capacitation groups which instruct members of the private sector					H
Maintain contact with all sectors and collaborate with private organizations in technical, social and cultural programs					

15. WHAT ACTIONS CAN THE PRIVATE SECTOR TAKE TO OBTAIN A FAVORABLE CHANGE IN THE ATTITUDE OF OTHER KEY SECTORS TOWARDS IT? (YOU MAY REFER SPECIFICALLY TO SECTORS MENTIONED BY YOU IN ANSWER TO QUESTION No. 8).

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Disinterested participation in government	H				
Common front with government against communism	H				
Define jointly with the labor sector rules for management/labor relations	H				
Establish professional information centers on political and economic activities		H			H
Completely fulfill its social function and cooperate in community development			H	H	
Open its doors to the labor sector by showing concern for its members and families			H	H	
Big entrepreneurs must support small entrepreneurs			H		

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Closer relationship with government to explain social expectations which could be satisfied in a state of law and free enterprise				H	
Carry out training courses and seminars on communication to disseminate the objectives of the private sector					H
Establishment of common objectives, interchange and discussion in forums and panels.					
Flow of information and interchange of experiences on the role the private sector must play, and obtain greater political participation					

16. HOW CAN THE PRIVATE SECTOR INCREASE THE LEVEL OF ITS PARTICIPATION IN DECISIONS MADE FOR THE COUNTRY BY OTHER SECTORS? INDICATE WHICH SECTORS YOU REFER TO FOR EACH ACTION SUGGESTED

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
<u>POLITICAL</u>					
Normal relations	H				
Accept and respect its role	H				
<u>LABOR</u>					
Accept it as an integral part of the economic process. Diminish politicalization. Increase contact in social field	H	H	H	H	H
Just retribution for work	H	H		H	H
Just social benefits	H	H			
Inform of private sector's objectives in this area	H	H			
Joint committee to resolve problems		H		H	
Equitable share of profits					H
Scholarships for employee's children			H		H

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
<u>MILITARY</u>					
Informational relation and less opportunistic	H				
Closer relation to explain the importance of private sector and collaborate in military actions to pacify the country			H		
<u>GOVERNMENT</u>					
Unify actions to fight corruption and bureaucracy and seek integrated solutions to problems	H				
Clear presentation of private sector's position - within a market economy			H		
Seek participation in it and demonstrate that its sole purpose would be to improve the country			H		
Open communication for defense and national sovereignty purposes					H

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Promote the unity of all sectors to seek greater participation in the Council of state, from which they were displaced				H	
Participate in decision making mixed commissions				H	
Not react violently towards the change process				H	
Seek and provide economic and moral support					
Demonstrate efficiency and continue to seek the means to dialogue				H	
<u>IN GENERAL</u>					
Maintain open communication channels with such sectors as La Prensa, universities, democratic workers, public officers, church, with the idea of keeping an honest dialogue and educating and creating awareness in its participants. All of these with the purpose of counter-attacking marxist-leninist indoctrination efforts.				H	

17. WHAT SPECIFIC MEASURES SHOULD THE PRIVATE SECTOR OF THE OTHER COUNTRIES OF THE AREA TAKE TO CONTRIBUTE TO THE DEVELOPMENT OF ITS COUNTRY'S PRIVATE SECTOR?
18. HOW CAN THE PRIVATE SECTOR OF YOUR COUNTRY CONTRIBUTE TO THE DEVELOPMENT OF THE PRIVATE SECTOR OF THE OTHER COUNTRIES OF THE REGION?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Common active front	H	H		H	
Unification of powers	H	H		H	
Interchange experiences	H ^{2/}	H	H	H	
Common planning and strategy	H	H		H	
Creation of Central American multinationals without seeking individual favoritism	H				
Jointly promote enforcement of the democratic system	H	H		H	
Reactivation and restructuring of the CACM	H	H	H	H ^{1/}	
Joint credit negotiation for the private sector		H			
Seek U.S. support to block communist penetration	H				
Establish Central American institutions to train entrepreneurs on political and economic matters	H				

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Transmit the experiences of having before tolerated a corrupt government and then supported another which is resentful and receives advice from countries of ideologies adverse to private sector interests				H	
Not permit its elimination so it can serve as an example and stimulus for the area				H	

1/ With preferential treatment to Nicaragua

2/ In Central America and at a world level

19. WHAT SPECIFIC MEASURES MUST THE PRIVATE SECTOR TAKE TO INCREASE ITS CONTRIBUTION TO SOCIAL PROGRESS PROMOTION?

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	PANAMA
Promote cooperativism, companies which negotiate jointly or individually, and industrial complexes which generate employment	H				
Just retribution to human resources		H			H
Health, housing & education programs with worker participation		H	H	H	
Restructure the administration of funds for social benefits in order to avoid bureaucracy		H			
Investment in agricultural activities and acquisition of adequate technology		H			
Cultivate basic grains, to feed the population, with such efficiency as to permit low prices			H		
Pay their taxes so that the government can carry out its social work				H	
Just salaries					H
Monetary incentives to worker productivity					H

CHAPTER IV

HEARINGS

TABULATION AND REPORTS

INTRODUCTION

The perceptions of the different private sectors of the Central American region are presented in this chapter, based on the series of hearings held in each country.

This is the work of the Central American Commission, responsible for the assessment, and is an integrated report of what it heard and discussed in each one of the hearings. Each commissioner, based on "report sheets" on hearings (see chapter II: Methodology, Hearings), filled out by himself and the other commissioners, made summaries by country which were later integrated into one document.

SUMMARY OF HEARINGS

This summary presents the problems and solutions which are more relevant to the private sector itself; even though most of the problems are a consequence of the political and destabilization factors which affect the region, these and the solutions to them are outlined in the summary, in order to concentrate attention on specific and direct measures. This does not mean that the political problem is not important; on the contrary, as mentioned in most of the hearings, this is the main problem in addition to the armed destabilization

campaign with the support of Russia, Cuba and other countries, which has resulted in lack of confidence, physical and property insecurity, capital flight, disinvestment, market restriction, increased labor pressure, decline in productivity and profitability, general decrease in production volume, closing of enterprises and, as a final result, the increment in unemployment, which also contributes to the destabilization process. The general opinion is that the political problem of the entire region (more acute in some countries) should be solved first, and once confidence in the system has been restored, implement other measures so that positive results can be obtained.

If the reader wants to have an in-depth view of the political problem and other problems presented in this summary, to the extent they were presented at hearings, then he must refer to the results by respective country tabulated after the summary of hearings.

PROBLEMS AND OBSTACLES TO THE CENTRAL AMERICAN PRIVATE SECTOR

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
Stagnation of the CACM as a consequence of its being based on import substitution for a market which is too small, more than "economic integration" it has been "free trade". Its instability and unilateral measures taken by the countries have deteriorated its initial objectives	X	X	X		X	
Lack of financing, internal and external; costs of financing are high and too much bureaucracy in negotiations to obtain it. Little efficiency of internal financial institutions	X	X	X	X	X	
Government reform policies are destructive for private enterprise		X	X	X		X

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
Absence of a clear, coherent and above all stable, economic policy	X	X	X	X	X	X
Unemployment increase	X	X	X		X	X
Inflation and energy problem	X		X	X	X	
Foreign currency shortage	X	X		X	X	
Production decline	X		X	X		
Deterioration of terms of trade	X	X	X	X	X	
Leaving out or small enterprises in all aspects: loans, organizations, incentives, and preferential laws		X				
Attacks and discredit of private enterprise, internal as well as international. There is a systematic campaign to damage free enterprise	X	X	X			

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
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Destabilization plan stimulated by Soviet penetration through Cuba	X	X		X	X ^{2/}	X
Agrarian reform system which advocates collective property instead of individual		X	X	X		
Legal basis unclear and unstable and in some cases anarchic and partial		X	X	X		
Unstable institutional base		X	X	X		
Price control and government intervention	X			X		X
Deficient public administration and excessive bureaucracy			X	X	X	X
Capital flight due to lack of confidence in the system and uncertainty	X ^{1/}			X		
Decline in local and foreign private investment	X		X	X		

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
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Decline in tourism, which is a significant source of income

X

X

High degree of indebtedness and widening of the balance of payments gap

X

X

Budget deficit and taxation policy incoherent with specific needs of each sector

X

Illiteracy

X

X

60% Indian population, with subsistence economies

X

No participation of the private sector in the country's social and economic planning

X

X

X

X

X

X

Government corruption

X

Inadequate labor policy to promote employment, production and to give true protection to workers

X

X

X

X

X

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
Lack of unity of entrepreneurial sector		X	X			
Political problems and armed subversion	X	X	X			
Trade terms unfair for country's economy				X	X	
Lack of technology and research			X			X
High taxation rates which are a disincentive to investment				X	X	
Control and repression by party in power, with marxist-leninist ideologies which tend to eliminate private enterprise				X		
Decline in profits, losses due to looting, robbery, patriotic tax, payment of back salaries, low productivity, foreign currency shortage						X

GUATEMALA EL SALVADOR HONDURAS NICARAGUA COSTA RICA PANAMA

Confiscation of enterprises
in general

X

Professional and technical
flight due to lack of
attractive employment oppor-
tunities. Law which
regulates professionals is
repressive and politicized

X

Personal insecurity

X

Politically stimulated
labor anarchy

X

C.A. private sector violating
contracts with its distri-
butors in Nicaragua

X

Unfair government competi-
tion, particularly with
respect to availability of
foreign currency

X

Establishment of government
organizations parallel to
those of the private sector
to exert political pressure
on producers

X

GUATEMALA EL SALVADOR HONDURAS NICARAGUA COSTA RICA PANAMA

Lack of unity of the private sector; it defends its personal interests and not the principles of free enterprise

X

1/ In the case of Guatemala it is also stimulated by low interest rates in comparison with those of other countries

2/ Also beginning to show signs of destabilization.

SOLUTIONS TO THE OBSTACLES OF THE CENTRAL AMERICAN PRIVATE SECTOR

(PERCENTAGES)

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
Industrialization based on opening up of world markets, with free flow of production factors as a means for enterprises to become more efficient and competitive	X	X				
Stimulate and liberalize foreign investment	X	X	X	X		
Massive foreign investment channeled directly through the private sector (not through the government). It could be managed by a committee, with the participation of all sectors (including small enterprises, unions, campesino organizations, etc.). Creation of an international fund	X	X	X	X		X

GUATEMALA EL SALVADOR HONDURAS NICARAGUA COSTA RICA PANAMA

Effective and active integration of the labor and campesino sector and other sectors which traditionally have not participated in organized private sector; in general, widen the bases of the private sector

X X X X

Seek active participation of private sector in the decision-making process, have representatives in government

 X X X

Undertake an international campaign to publicize the benefits derived from the private sector and free enterprise, which at the same time counterattacks the bad image which has been created. Integrate all private, national, Central American and international sectors, in order to form a common front to defend the rights of private enterprise; promote mutual support and defense, interchange of experiences and constant communication.

X X X X

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
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Restructuring of the CACM, making an effective "economic integration" which permits the free flow of factors. Continue the revision of tariff and customs regulations. Make every effort to ensure that countries do not apply restrictive unilateral measures to trade without consulting with the other countries of the region

	X	X	X	X		
--	---	---	---	---	--	--

Limit public investment as a measure to control inflation

	X					
--	---	--	--	--	--	--

Turn to the private sector government enterprises and programs and ensure that government investment is truly effective and not a mere presentation of physical works. Leave to the private sector those areas in which it is more efficient than the public sector

	X		X			X
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	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
--	-----------	-------------	----------	-----------	------------	--------

Professional and technical training. New technologies X

X

X

Economic and technological assistance from developed countries; liberalization of international trade and true application of generalized system of preferences X

X

Support agroindustry as a principal basis for development

X

X

X

X

Revise and amend legislation and contain government corruption

X

Saving and austerity program, especially with respect to foreign currency

X

Define economic policy and rules of the game to restore investor confidence

X

X

X

	GUATEMALA	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA	PANAMA
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Promote a substantial improvement of trade terms with developed countries

X	X	X	X	X	X
---	---	---	---	---	---

Greater awareness of the private sector with respect to the national reality and a positive and constructive attitude for the benefit of the country

				X	
--	--	--	--	---	--

Take advantage of the government's incapacity and determine needs which can be fulfilled by the private sector

				X	
--	--	--	--	---	--

H E A R I N G S

G U A T E M A L A

Guatemala's social and economic development, as that of the rest of the countries of the region, has been conditioned by different internal and external elements. The sectors interviewed coincided with respect to the causes of problems and only very few were viewed and analyzed from a different perspective. Among problems more highly emphasized at hearings held in Guatemala, are those related to instability, the energy crisis, high degree of indebtedness, low production, inflation and unemployment, lack of technology, the drop in tourism, excessive bureaucracy and deficient public services.

Historical Aspects:

One of the problems which have affected economic and social development in Guatemala, and which has given it a very special configuration, is the structure of its population, of which more than 60% are Indians who practically constitute a "nation within a nation", as they speak different dialects and languages derived from Quiche, Cachiuel, Zutuhil, etc. Their economy is one of subsistence, cultivating whatever they need for their own consumption in small tracts of land and complementing their income with seasonal cropping, cutting or cultivation of products such as coffee, cotton, sugar cane, etc.,

which demand more manpower than is permanently available at production centers during the specific season.

This important part of the population does not participate in generating the Gross Domestic Product, but is a heavy burden for the State, as it has to cover increased expenditures needed to construct schools, hospitals, roads and to develop programs directed towards social integration.

PRESENT PROBLEMS

I) SUBVERSION

1) All sectors interviewed in Guatemala emphasized that the greatest problem affecting the country is the subversive movement, which under the pretext of modifying present structures and improving the country's economic and social situation, has pretended to obtain power through a process of violence. It is considered that this subversive movement, which was intensified at the end of 1979, after the Sandinist National Liberation Movement in Nicaragua and the subsequent political crisis which is affecting El Salvador, is being developed with technical, human, financial and military support from countries of a marked Marxist-Leninist tendency of America as well as the rest of the world.

This limiting factor to the economic, social, and political development of the country was repeatedly mentioned by the different groups interviewed, as well as the feeling of fear and uncertainty among the population, capital flight, low production and unemployment, lack of internal and external financing, the drop in tourism, etc. They considered that almost all the problems that affect the country derive from subversion. The subversive movement has been supported at the international level by different means of social communication and foreign organizations and associations, who have intensified a publicity campaign against Guatemala, making obviously false and painful accusations against the country, arguing that human rights are not respected and propitiating a rupture of the country's democratic system and social and economic regime. Besides, socialist parties and governments, confused by the campaign to deteriorate the country's image, and ignoring our realities, have helped the economic and political boycott against Guatemala.

2) Decline in Investment

Subversive activities mentioned above, and the social and political problems of Nicaragua and El Salvador, have resulted in a severe stagnation of private investment.

In effect, private investment decreased by 12.4% in 1979, and the tendency increased in 1980, as there was a 19.2% decrease,

due to the shortage of foreign private financial resources to finance new projects and also because due to the bad image given Guatemala before the international community, there have been restrictions on long term financing for the private sector and on short term loans to purchase machinery; raw materials and inputs needed for the country's productive process.

3) Drop in International Monetary Reserves

The climate of insecurity and uncertainty which prevails in the country stimulated a large outflow of foreign currency which, added to the slump in prices of the country's main export products and the deterioration of Guatemalan exports to other Central American Common Market member countries, has generated a considerable drop in the level of the country's international monetary reserves. From 1978 to 1980, there was a loss of Q330.3 million in net reserves, as the Q681 million the country had in 1978 decreased to Q351.3 million in 1980.

4) Production Decrease

The country has shown a considerable decrease in agricultural and industrial production. This restricting phenomenon has been influenced by terrorism, which has created fear and uncertainty among farmers as they have seen their crops destroyed and roads and production centers damaged. Besides, the slump in the prices of the country's principal export products, especially coffee, sugar, cotton, etc.

has influenced a reduction in areas planted. The agricultural situation of the country has worsened with the appearance of coffee rust, as well as restrictive production policies adopted by international coffee and sugar organizations. On the other hand, industrial production has been adversely affected by restrictive measures to trade adopted by Nicaragua and El Salvador, as well as exchange measures adopted by Costa Rica.

5) Unemployment:

The different sectors interviewed coincided in mentioning the unemployment and sub-employment problem in Guatemala, which has intensified migration from the rural areas to the city in search of new employment and income opportunities. However, the severe contraction of private investment, loss of traditional markets (such as Central America), and the lack of financing, are also generating unemployment among city workers thus creating a contraction of internal demand. The unemployment and sub-employment rates are attributed to the large growth of the economically active population and, of course, to insufficient generation of productive employment. Due to a deeply rooted religious historical background, aggravated by the educational level of the majority of the Guatemalan population, family planning and orientation problems have not had a positive effect.

6) Internal Revenue Decrease

The Government has been unable to take care of the principal levels of public expenditure due to the decrease in internal revenue, as there is a direct proportional relationship between the prices of agricultural export prices and the country's internal revenue. Even though such revenue has not decreased in absolute terms, its level is insufficient to cover the country's requirements. In 1980, there was a fiscal deficit of Q368 million caused by a large increase in public investment, that made it necessary to issue bonds in an amount over 300 million quetzales, which no doubt draw available resources away from the country's productive sectors.

7) Taxation Policy

There is a manifest inconsistency in the country's taxation policy as in the agricultural sector, especially on principal export products such as coffee, cotton, meat and sugar, taxes are paid on export value, regardless of whether producers and/or exporters make a profit or not, whereas the rest of the taxpayers pay taxes on profits. This is not only unjust but a disincentive to the country's agricultural sector.

8) Inflexible Bank Interest Rates

The Bank of Guatemala has followed a very conservative and inadequate policy of maintaining unchanged interest rates, active as well as passive. The freeze on bank interest rates has stimulated capital flight as interest rates are much higher in neighboring countries such as Mexico, Panama and the United States.

9) Price Control and Government Intervention

Price control has been a disincentive to the production of basic products, making investment unattractive and consequently provoking a shortage of such products.

This situation has been further aggravated by the tendency of greater intervention of the State in the importation and commercialization of basic grains, basic products, fertilizers, insecticides, etc. and has caused the precarious economic situation of many enterprises.

10) Financing

There was consensus in pointing out that one of the greatest problems is the shortage of capital resources, as some international financial institutions have considered Guatemala to be a high investment risk, reducing or totally suspending external financing, due to the bad international image given to our country. Short term financing and supplier credits for purchasing raw materials and finished products have also been reduced and the national banking system has

been unable to satisfy increasing credit requirements.. Lack of internal resources, foreign financing and direct foreign investment, have caused a state of unliquidity of the national banking system which has had a damaging effect in productive activities and in the country's levels of employment and consumption.

11) Tourism

Internal and external subversive agitation and a hardening of international relations with Guatemala, have caused a great reduction in tourism, with its natural economic and social implications such as a drastic reduction in the income of numerous hotels, restaurants, taxis and artisanries, and an aggravation of the country's unemployment. In some countries of Europe and cities of the United States, the campaign to deteriorate Guatemala's image has reached illogical limits, to the degree that there have been threats against travel agencies which sell air tickets to Guatemala, boycotts propitiated by international labor organizations, and personal delivery of pamphlets against Guatemala to travellers to this country. The organized international campaign against Guatemala, world recession, the energy problem, the situation prevailing in Nicaragua and El Salvador, and the case of Belize, are contributing to make the situation of Guatemala's tourism industry more difficult day by day.

II) .INFLATION

In Guatemala, as well as in the rest of the region, inflation has been felt with more intensity due to the shortage of capital resources, the absence of adequate technology and a high dependence on foreign resources. From 1975 to 1980 the consumer price index went up a 66%. The index had annual increases of 7.9% in 1978, 11.5% in 1979 and 10.7% in 1980.

The marked decrease in the production of basic grains, the stagnation of private investment in the manufacturing sector, and government policy of covering budget deficits with bond issues, have been determining internal factors of Guatemala's inflationary process.

Decisive external elements of the inflationary process are the increasing and systematic rise in the price of oil and oil byproducts, the instability of the dollar in the foreign exchange market, and the expansion of markets in the Soviet Union and China for agricultural products, capital goods, raw materials, and technology, which has caused an increase in the prices of such goods and services.

III) TECHNOLOGY SHORTAGE

Technology shortage is a serious problem for the country, as it is generating idle installed capacity and low productivity, and lack of training is contributing to aggravate the employment and sub-employment problem.

IV) LABOR PROBLEM

The Guatemalan labor union movement has been responding mainly to political objectives, forgetting the economic and social interests of the workers.

Several of the Marxist-oriented unions have contributed to creating a climate of violence in enterprises selected intentionally to destabilize the national economy and to try to obtain power through violence. Nevertheless, many enterprises maintain excellent relationships with their respective unions. However, great bargaining conflicts have been created for political reasons, such as solidarity strikes and non-compliance by unions with the work conditions stipulated in their agreements.

V) PUBLIC ADMINISTRATION

A series of problems related with the country's public administration were pointed out, emphasizing excess bureaucracy, deficient public services, noncompliance with the laws of the country by the State, such as not inviting public bids for contracting work and services; and malfunctioning of decentralized public service entities which, with rare exceptions, only show losses which have to be covered by the nation's budget. This situation has been aggravated by the fact that the large amounts of investment by the government

are not in keeping with the real needs of the country, and Guatemalan construction industry has been displaced by foreign companies, losing a great share of the benefits which could be obtained from construction of public works.

VI) RELATIONSHIPS WITH THE REST OF THE REGION

The Central American region, for the past two decades, has been trying to achieve integration so that accelerated social and economic development could be obtained through a concerted regional effort. Unfortunately, during the past 20 years, the region has been affected by a series of adverse circumstances which have hindered the improvement of the Central American Common Market. The unilateral actions of some governments (like Nicaragua which imposed high excise taxes); the war between Honduras and El Salvador in 1969; the earthquake which destroyed the capital of Nicaragua in 1972; and deep political and social changes in Nicaragua and El Salvador in 1979, have further deteriorated the Central American Common Market and are obstructing the possibilities of a fast recovery. Due to these political and social phenomena, which have reduced the capacity to pay for imports, each country of the region is adopting unilateral measures to reduce its imports, including imports of products manufactured in Guatemala.

The measures adopted by the Central Reserve Bank of El Salvador and the Central Bank of Nicaragua of restricting provision of foreign currency for purchasing certain goods, has in effect caused considerable damage to Guatemalan exports. These problems have been further aggravated by different exchange regulations adopted by Costa Rica's Central Bank, since September 24, 1980, which include authorizing only 50% of essential foreign currency required for imports (the other 50% must be obtained in the parallel market), the disposition to let the Colon fluctuate freely according to foreign currency supply and demand behavior, until the rate of exchange is unified; all of these have had a negative effect effect on intraregional trade.

The normalization of the Central American Common Market is vital to Guatemala, as a great part of its industrial production is for export to the region, having reached a level in 1980 of 441 million Central American pesos, which represented 29% of our total exports.

VII) RELATIONSHIPS WITH THE REST OF THE WORLD

A. United States of America

The United States of America is the principal market for our products and is, at the same time, our main supplier. Therefore, Guatemala is directly affected by any changes in U.S. foreign economic policies. Unfortunately the United States tends to protect its products. The protectionist policy of the United States is not really an isolated or transitory phenomenon; it is an already existing structure, to which new instruments

and modalities of additional protection are incorporated; increasing the use of measures not related to customs regulations, such as quantity restrictions, compensatory rights, subsidies to domestic production, "voluntary" agreements to limit exports, all of which have negative effects on regional exports, particularly sugar, coffee, meat, textiles, leather goods, natural flowers and others.

Even though the United States has a Generalized System of Preferences in effect, it is a unilateral measure which, due to its safeguard clauses and the complexity of its procedures, it is not the solution for trade problems between Guatemala and that country.

Aside from international barriers, whether or not related to customs regulations, our trade relations with that country have further deteriorated due to the slump in the prices of our principal export products, while the prices of products imported from the United States have risen considerably, deteriorating even further the terms of trade.

On the other hand, there has been a drastic reduction of direct investment and loans from the United States and international financial organizations in which the U.S. have an important participation, which has affected the country's production system and has contributed to the process of social and economic instability of Guatemala.

Our problems with the United States of America can be summarized as follows:

- a) Trade problems due to the establishment of quotas, compensatory rights, sanitary measures, etc.
- b) Suspension of financial assistance.
- c) Restriction of U.S. tourism to Guatemala.
- d) Lack of military assistance.

B. Relationships with the rest of the world

The rest of the industrialized countries have in recent years increased protectionist measures, creating a negative impact on international trade and seriously damaging Guatemala. This new protectionism, greatly intensified after 1973 with the collapse of the monetary system, as currencies were allowed to float, and the energy crisis are some of the factors which have hindered the economic development of our country.

SOLUTIONS

Some of the principal solutions suggested to above mentioned problems are given below. These are not in any order of priority as they are intertwined.

1. Political Stability

It is necessary for the country to achieve political stability and it is the responsibility of the government to make every effort to obtain the peace and tranquility required.

Such political tranquility would stimulate the national and foreign investment which the country needs, and would contribute to improve the image of our country which has been distortedly presented. This, no doubt, would improve our relationships with other countries.

2. Financing

Given the conditions pointed out in the assessment, and the country's present economic situation, financing is required for the private sector to be able to improve the national economy.

Such financing should also include public sector programs if they are really essential to the country.

3. Revision of U.S. Trade Policies

It is necessary that the U.S. revise its trade policies with Guatemala, as the present quota system, non-tariff trade barriers, and protectionism, do not allow an orderly growth of the country's productive activities, especially of those agro-industrial products which we export to that country.

4. Administrative Function

The government of the Republic must revise its social and economic policies with a view to adopting a system of austerity in public expenditure, improved channeling of available resources, limiting the operations of decentralized entities and, if possible, return some of those entities to the private sector.

Public works must really be for the common good, not only to show physical improvements, and funds must be correctly administered.

5. Technology

One of the most critical problems which Guatemala faces is the lack of technology to increase productivity and thereby improve the welfare of the population.

The training of Guatemalans is also of vital importance, as one of the factors which is contributing to aggravate the unemployment problem is the lack of skilled labor.

6. Inflation

Measures which tend to restrict inflation should be adopted, such as: restriction of public investment, especially that financed with government bond issues.

7. Foreign Policy

That developed countries do not discriminate in providing the economic and technological assistance they have promised; that international trade be liberalized; and that the General System of Preferences really be applied.

8. Labor/Management Relationship

In order to improve the country's productive level and help it become more competitive in the domestic and international markets, it is essential to achieve a close labor/management relationship. It is necessary that union

organizations remain apart from foreign ideologies and instead dedicate their efforts to the integrated development of the workers.

9. Central American Common Market

It is necessary that the governments meet and give serious consideration to the problems which affect the Central American Common Market, and that they suppress those measures which are restricting free regional trade.

They should continue revising customs policies, carry out programs for the physical integration of the area, such as uniform transit, customs and sanitary regulations, and suppress barriers not related to customs, especially those imposed because of international money reserve problems.

H E A R I N G S

EL SALVADOR

Salvadoran private enterprise is organized into two large associations: the National Private Enterprise Association (ANEP), which groups large and medium enterprise associations, and the National Federation of Salvadoran Small Enterprises (FENAPES), which groups small enterprise associations.

Interviews in El Salvador were carried out with these confederations and their principal component associations: With ANEP and with the Salvadoran Industrial Association (ASI), the Chamber of Commerce and Industry and the Council of Agricultural and Cattle-Raising Entities (a group of associations itself); with FENAPES and with the Salvadoran Commercial and Industrial Society (SCIS). An interview was also held with the Union of Salvadoran Entrepreneurial Leaders (UDES), which is a group of young managers and entrepreneurs.

Results of the hearings are given below:

I. NATIONAL PRIVATE ENTERPRISE ASSOCIATION (ANEP):

ANEP presented a diagnosis of the country's situation which may be summarized as follows:

El Salvador is a country which shares with many others the basic characteristics of underdevelopment, but which besides has four specific problems which condition its history:

- a) Small territorial extension with a high population density.
- b) The rapid growth of the population.
- c) Almost complete lack of natural resources, and
- d) High degree of economic dependence on three export products (coffee, cotton and sugar) the prices of which are determined by volatile international markets.

In the opinion of ANEP, this leaves El Salvador but one solution, over a long term, of being able to provide employment and increasing income to its population: industrialization complemented by tourism development within a regional scheme.

It is the opinion of ANEP that industrialization can only be achieved if Salvadoran economy moves towards world markets, and if efforts are successful in promoting foreign investment to complement internal savings. To achieve these goals, it is necessary to make fundamental economic reforms to create a

propitious climate for the development of the country's private initiative. ANEP has carried out a study on how this can be achieved, assigning the market the role of creating economic opportunities, and the government the role of insuring that the entire population takes advantage of these opportunities through education, housing and health programs.

As part of the economic problems which would have to be solved to carry out these reforms, ANEP mentioned the stagnation of the Central American Common Market (CACM), because it is based on a framework of import substitutions in a market which is too small. ANEP mentioned the term "Economic Integration" as the initial objective of the process, which later gave way to the more limited free trade of industrial products; this concept could be more relevant for a future treaty if all the countries would choose to open up to world markets, as it would allow free transit of production factors, which would result in more competitive efficiency of the Central American area vis a vis the international market.

In the short term, ANEP perceives that the country is facing a definite destabilization plan on the part of Cuba and the URSS, which is taking advantage of the problems of the country to promote the establishment of a pro-Sovietic regime in El Salvador. This plan started in the beginning of the

sixties with the formation of terrorist groups, which years later formed political agitation fronts called "movements of the masses".

The terrorist groups started kidnapping and murdering entrepreneurial leaders (since 1971), obtaining sizeable amounts of rescue money. As the decade moved on, to these activities were added the movements of the masses, which in the cropping season moved to the field to hinder the picking of agricultural products and the rest of the year they operated in the city taking industrial enterprises (in so called "peaceful takeovers"), keeping employees and executives as hostages until they forced labor agreements which were ruinous for the enterprises.

As a result of such takeovers, many enterprises had to close, mainly those which operated in the free zone and were dedicated to exports outside the Central American region.

All of these caused a climate of great economic and political uncertainty, which caused a drop in investment, capital flight, and the decrease of economic growth rates.

With the fall of General Romero's regime, violence increased to its current level.

The present government, the last of a succession of Juntas, is supported by ANEP in its fight against the guerrillas, but is strongly criticized for their reform policies. ANEP

considers, that in the manner in which they are being carried out, they are destructive for the economy, generate more unemployment and endanger the fight against the guerrilla because they increase popular dissatisfaction. ANEP stated that it was not in favor of undoing the reforms, but of modifying them to make them more productive and stable. Ideas to achieve this are included in above mentioned plan. Besides, ANEP insists that expropriated properties be paid for.

ANEP considers that all of this is aggravated by a total lack of economic policy on the part of the government, by the uncertainty which the government foments with speeches and declarations which ANEP considers demagogical, and by the continual attack on the private sector by the government. To this is added administrative inefficiency and incapacity, which creates an economic chaos situation which only benefits the extreme left.

In the beginning of last year ANEP analyzed its situation -- vis a vis the government to decide what position to take with it, and from six possibilities (which range from active opposition to support) it chose communication, i.e. to dialogue for the purpose of obtaining the participation of the private sector in government, and through it, support the sector. After 18 months of efforts, ANEP has not managed to establish

an effective communication. The Christian Democratic Party, when it became part of the Government Junta in January of 1980, established as its policy that the private sector must not be accepted within the government and it has maintained that policy to date.

Of special concern for ANEP is the "Communitarian" ideology of President Duarte as such ideology rejects the market economy in favor of a State-controlled economy through "communities" in enterprises and neighborhoods.

ANEP believes that there must be a free election process to let the population choose its destiny; this election must be accompanied by a military solution to the problem of the guerrillas, which oppose the election process. ANEP believes that the Christian Democrats have not seriously decided to hold free elections, but it is rather acting in a manner which indicates that they want to manipulate the process to remain in power indefinitely.

As examples of this, ANEP cited control of the Central Election Council by the Christian Democrats, as there are no members from other parties; lack of freedom of press for all, except Christian Democrats; and lack of freedom to hold meetings except their own.

As a serious obstacle to the solution of these problems, ANEP indicates that the Salvadoran conflict has become international in nature: the extreme left, which is internally weak in terms of support given to it by the population, has initiated an international support movement through its political organism, the Democratic Revolutionary Front (FDR), with assistance from similar groups in other countries, projecting a false democratic image; on the other hand, the Christian Democratic Party, which is also politically weak in El Salvador, has tried to create an international image of being a "center" government, which it is not, calling "extremists" all those who oppose it. ANEP believes that it is necessary to change those images because internal decisions depend more each day on international opinion; however, it does not have sufficient resources to do it, although it is continuously working towards that end.

ANEP proposes the following solutions:

- a) Free elections so that the people may choose their destiny.
- b) Participation of the private sector (including unions and campesino organizations) in the transition government.
- c) A plan which includes the private sector from enterprises to unions and campesino organizations.
- d) The creation of a movement of assistance to the country following the guidelines of the Truman doctrine, with economic, military, diplomatic and political assistance from the United States and other democratic countries. Economic assistance to the government would be the seed of this movement but the bulk would be made up of private investment in the country.
- e) Entrepreneurs must participate in national politics through political parties.

II. NATIONAL FEDERATION OF SALVADORAN SMALL ENTERPRISES (FENAPES)

FENAPES pointed out that the Salvadoran crisis is fundamentally political and it has intensified because El Salvador has turned into an experimentation field for the superpowers and international political movements. FENAPES sees the present government as being as dangerous as the guerrilla, because with its demagogy and incapacity it is destroying the country in the manner desired by the guerrillas.

They are worried because the country is bankrupt, unemployment is increasing, there is no confidence in the government, there is no economic policy, there is corruption, there is no foreign exchange and the nationalized banking system gives no loans to small enterprises despite the liquidity of the banks. This is a consequence of the government's incompetence and its ideology against private enterprise. In the opinion of FENAPES these are more important than guerrilla activities in accounting for the economic fall of the country, despite the fact that guerrilla activities are oriented towards precisely that end.

FENAPE indicated that in facing all those problems the private sector has not been united because big enterprises assumed in the past the right to represent the entire sector and FENAPES feels left out. They also pointed out that there is a serious lack of leadership in the private sector.

With respect to the internationalization of the conflict, FENAPES pointed out that neither the Christian Democrats nor the FDR are strong locally, however, they are deeply influencing the history of the nation due to their international connections. Private enterprise, on the contrary, has no foreign assistance the same as other democratic sectors.

They also indicated that Christian Democrats and the FDR have undertaken international misinformation campaigns, which have given a distorted image of what is happening in the country.

When asked about their preference between the Christian Democrats and the extreme left, FENAPES considered them equally oriented towards the destruction of the private sector, only using different tactics. The extreme left is a "fast death", the Christian Democrats a "slow death".

FENAPES proposed the following solutions:

- a) It is necessary to seek a political solution to the conflict.
- b) The establishment of an international fund is needed to be used for the economic recovery of the country.
- c) It is necessary to create a technical, non-political commission, with the participation of small enterprise, to allocate those funds.

- d) That there be institutional participation of the private sector in government, to provide balance and recover the country's confidence. Make the transition government pluralist.
- e) Definition of the rules of the game by the government, and confirm the rules through attitudes and actions.
- f) That private sectors of other countries help the Salvadoran private sector to make it clear at the international level, that in the present circumstances private enterprise is sinking and therefore needs immediate assistance.
- g) FENAPES considers that elections are not a viable solution at this time as Martial Law is in effect and there is no freedom.
- h) It is necessary that the private sector widen its bases, getting closer to unions and campesino organizations.

III. COMMERCIAL AND INDUSTRIAL SOCIETY (SCIS)

The SCIS, which groups small businessmen and industrialists and is a part of FENAPES, considered that the fundamental problem of its sector is that the small entrepreneur is becoming smaller, and his enterprise is becoming a family business, in a process which tends to extinction. SCIS attributes the causes of such problem to aggressive attitudes of the government towards the private sector, laws or proposed laws based on demagoguery, subversion and existing problems within the structure of the country.

As a concrete example SCIS cited the proposed Labor Code, containing measures which are destructive for small and medium enterprise, such as:

- a) The obligation on the part of all enterprises of opening a savings account for each one of its employees, depositing one month's salary for each year of work in the enterprise, with a retroactive effect. This would bankrupt all enterprises which have liquidity and profitability problems.
- b) Complete immovability of employees, who could not be fired even if they were given severance pay.
- c) Two persons could convoke and enforce a strike.

- d) Immediate equalization of salaries in the different productive sectors, which would bankrupt small enterprises which use less capital intensive technologies than big enterprises and therefore cannot pay the same salaries.
- e) Longer vacations and other benefits which are not within the reach of enterprises.

Besides, the SCIS pointed out that the nationalization of the banking system has resulted in a reduction of credits to small enterprises, an increase in negotiations and guaranties required, and a longer period needed to obtain a decision. This reduction is not due to lack of funding because the banks have liquidity but to a bureaucratization which results from the management of productive activities by the government. Officers which worked at the levels where decisions were taken no longer want to do so, and they pass on the files to higher levels where they require more negotiations and guaranties. Terms also tend to be shorter. As a sector the SCIS considers it needs technical assistance, working capital financing, and that their points of view are not considered nor taken into account by the government.

SCIS considers that there are many government organizations where it should be represented and is not.

Focusing the private sector as a whole, SCIS thinks that big entrepreneurs forgot in the past to establish closer links with small enterprises and for this reason it did not obtain unanimous support when the government carried out agrarian reform, banking and export expropriations. This lack of unity is seen as a severe problem which has to be resolved; in their opinion, big enterprise still lacks awareness of the importance of small enterprise.

The lack of unity of the private sector, adds SCIS, creates a debility at this time when government is attacking the entire sector. The country's policies are out of the reach of the private sector, in the hands of persons who are destroying the country with their demagogy. Asked about their preference between Christian Democracy and FDR, they considered them equally destructive for private enterprise, more slowly the Christian Democrats and faster the FDR.

In the long term, SCIS is extremely worried about the demographic problem as it considers it a threat to the peace and stability of the region and it considers it should be addressed by all the countries of the area.

The SCIS proposes the following solutions:

- a) Participation of private enterprise in the transition government.

- b) Closer relationship with the labor sector in order to make joint, useful proposals oriented towards the economic recovery and development of the country.
- c) Entrepreneurs must participate in country politics and not only in business association movements.
- d) Legislation which recognizes the importance of small enterprises.
- e) Foreign assistance given directly to the private sector.
- f) Small enterprise representation in government organisms.
- g) Provide credit as well as technical assistance to small enterprises. A professional technical assistance fund could be created.

IV. SALVADORAN INDUSTRIAL ASSOCIATION (ASI)

ASI considers that the greatest danger faced by the private sector in El Salvador is the establishment of a Marxist-Leninist regime such as the guerrillas want to impose. The type of ("communitarian") socialism which the Christian Democrats want to impose in the country may contribute to this result, because it tends to destroy the economy, facilitating the access to power of an armed and organized minority such as the extreme left.

ASI sees the present government as incompetent and demagogical, dedicated to defeating the extreme left without thinking of the consequences for the country. This creates a climate of insecurity which promotes disinvestment and unemployment. The unwillingness of the government to listen to other sectors, contributes to maintaining a political apathy which is extremely dangerous at this time and which has been an important cause of the present political chaos. Aside from this, there is the terror deliberately created by the extreme left.

ASI also considers that the international image is seriously distorted and this has a negative effect because international influence in the country is great.

ASI is concerned about the existence of collective State farms created by the Agrarian Reform. It believes they

should be given as individual property to those benefitted, who could later organize into cooperatives to take advantage of economies of scale.

The solutions proposed by ASI are:

- a) Balance the power of the Government Junta,
- b) Hold elections so that power will come from the people.
- c) Strengthen the democratic forces of the country.
- d) Political participation of the entrepreneur.
- e) Campaign to improve the international image.
- f) Carry out an emergency economic recovery plan.
- g) Gradually open the economy to international commerce to convert it into an export economy.
- h) Close relationships with unions and campesino organizations.

V. COUNCIL OF AGRICULTURAL AND CATTLE-RAISING ENTITIES

This Council is a part of ANEP and includes agricultural and cattle-raising sector organizations.

Principal problems are visualized as coming as much from the government as from the guerrilla, besides from adverse conditions of the country with respect to lack of natural resources in relation to a growing and numerous population.

According to the council there is a serious lack of confidence in government and in the future, which has caused disinvestment in production. Unemployment is increasing, by 40% in the agricultural and cattle-raising sector according to estimates by the council; and urban unemployment has increased to 35,000 persons in the last year.

Government is not increasing employment at the collective farms created by agrarian reform, where productivity is increasingly low due to bureaucratic administrative incapacity and corruption.

Farm owners displaced by agrarian reform have not received compensation for properties confiscated - having been promised payment in non-negotiable bonds at interest rates much lower than the inflation rate. These entrepreneurs do not wish that the agrarian reform be annulled and their properties returned to them, but rather that they be paid

in negotiable bonds to permit their reincorporation into the economy as entrepreneurs. They are adverse to the creation of collective farms because, instead of contributing to the stabilization of the country by creating new jobs, they keep the campesino as a worker in enterprises which are increasingly inefficient and yield less benefits for them.

The Council is greatly concerned about the destruction of local businesses in rural areas, due to the lack of investment and economic activity in general. Small entrepreneurs whose activities depended on agriculture are facing their disappearance all over the country. These local economies would be hard to replace, once they have been destroyed.

According to data obtained from the Council, the cotton production went down by 32% in 1980-81, and collective farms cultivating that product lost C.26.6 million (U.S.\$10.6 million at the official rate of exchange). Cultivated area for that product has decreased from 130.000Mz. in 1979 to 84.000 this year.

In coffee production, aside from disastrous international prices, there is the serious threat of coffee rust which in a few years could destroy most of the country's productive capacity if it is not eradicated. Coffee rust appeared in the country a year and a half ago, and to date there is no national program to eradicate it and very few entrepreneurs are doing it because of the constant threat that the agrarian

reform will extend into the second stage. This is also a disincentive for producers to make the annual investments needed to maintain a high level of coffee production, as producers do not want to become indebted, to eradicate coffee rust or make other investments, knowing that the farms will be taken away from them, will not be paid for, and they will be indebted with the banks.

Besides, as a result of nationalization of coffee exporting the processing margin has increased, which means that the producers receive less than they would if exports were handled by private enterprises. Real costs per quintal are C.130 and the price the government pays is C.90. All of this is seen by the Council as a serious threat to the country's economy, which obtains most of its foreign currency from coffee exports.

With respect to the private sector, the Council considers that it lacks political awareness and unity.

The following solutions were proposed:

- a) Participation of the private sector in politics.
- b) That the unification of the sector be pursued.
- c) That agrarian reform be paid in negotiable bonds, or bonds which can be used to guaranty the obtention of loans to make investments which permit displaced owners to reenter the economy.

- d) That great attention be given to the recovery of agricultural and cattle-raising production in national plans, emphasizing job creation.

- e) Closer relationships between the private sector and new owners from the third stage of agrarian reform and apply pressure so that collective farms created during the first stage are distributed as individual property.

VI. SALVADORAN CHAMBER OF COMMERCE AND INDUSTRY

The Chamber of Commerce considers that one of the fundamental problems of the country is the lack of an institutional legal base on which to orient solutions to the crisis presently being faced by the country, emphasizing within this context the lack of a Political Constitution. The one which existed was derogated by the Government Junta, which reserved the constitutional powers for itself until there is a Constitutional Assembly, which will supposedly be elected in 1982.

These, and other factors, contribute to a political anarchy, evident in the lack of popular support for the government, which maintains itself through international support. According to the Chamber, no political group has popular support at this time, and the guerrillas even less.

This has caused disinvestment, lack of confidence in government and high rates of unemployment.

The government is separated from private enterprise and dedicated, in the opinion of the Chamber, to politics and demagogy, following a strategy of taking over the symbols of the left, which is destroying the country.

With respect to the guerrilla, the Chamber perceives a military tie in the sense that the guerrilla is not capable of ousting the government, but the government has not been able to eliminate the guerrilla. This is attributed to the flow of assistance which the guerrillas get from Nicaragua. The bad policies of the government could eventually contribute to increase the guerrillas because its demagogy is destroying Salvadoran economy.

The Chamber proposes the following solutions:

- a) Balance the power of the Government Junta by including other democratic sectors, the private sector among them.
- b) Develop an economic recovery plan based on the potential of the private sector. The private sector must participate in its formulation and implementation from government positions.
- c) Improvement and correction of the international image of what is happening in El Salvador.

H E A R I N G S

H O N D U R A S

I. INTERNAL PROBLEMS

A. Historical

- 1) The discovery and colonization of Central America by the Spaniards have given each Central American country some of the characteristics and personality of the settlers, resulting in a juridical, political, economic and social structure which still has tremendous weight in national life.
- 2) The presence of foreign investment companies, mainly banana and mining companies, which arrived only with the purpose of obtaining profits, stimulated government corruption, distorted national economic development and propitiated a bad image of the foreign investor.
- 3) Internal revolts have been more constant than in other Central American countries, producing less development in comparison with the rest of the area.
- 4) Illiteracy rates are almost static and have a negative effect on national development.
- 5) National leadership, whether weak or strong, finally yielded to the pressure of certain interests and national tolerance, due to a lack of strong patriotic conscience rooted in the degree of existing ignorance.

Present Problems

These problems have been pointed out by the different sectors surveyed and could be divided as follows:

- 1) Those which are the responsibility of the public sector.
- 2) Those which are the responsibility of the private sector.
- 3) Those due to foreign causes.

Problems which are the responsibility of the public sector

- a) The agrarian reform has been used as a highly demagogic tool. It was implemented in 1972 more for political purposes and neglecting its true objective of increasing production and promoting a better distribution of wealth. It is not necessary to implement agrarian reform by taking away from persons who produce to give to those which have no means of production. Rather, a combination of those two extremes must be sought in order to increase production and improve the social status of the masses. The above does not rule out the use of corrective measures contemplated by law where necessary, such as cases where large extensions of land do not fulfill their social function and are divided and given to persons who do make adequate use of them for the benefit of the nation.

b) Rigid, Anarchic and Demagogic Legislation

The private sector finds that there are all types of laws and the time has come to review and change them for new and well designed legislation. It is considered that no more anarchic, and even less improvised, legislation should be enacted as it has been done in the last 10 years. The private, labor and campesino sectors also pointed out the problem of creating demagogical laws for political purposes.

c) Lack of Participation

There is a generalized outcry from all sectors that they should participate in decision-making; no doubt, economic, legislative or social measures adopted with the participation of the different affected sectors are more effective and more widely supported.

d) Government Improvisation

It is necessary that the government abandon improvisation and carry out a seriously conceived, coherent and stable development plan for each sector in order to increase national development.

e) Government Paternalism

Government paternalism influences the private sector and many companies seek this type of protection without seeking efficient measures to increase their productivity.

f) Rigid and Untimely State Banking Policy

The private sector cannot develop when State banking conditions are rigid and untimely and do not fulfill the true needs of each sector, showing distortion between the objectives of each sector and credit policies.

g) Government Corruption

This is an inveterate evil, but in recent years it might seem to have diminished. No sustained development can be conceived, nor can the decided support of all levels of the population be expected when corruption is institutionalized.

h) Partial Labor Legislation

The Labor Code does not wholly fulfill its function if, when enforced, it is partial to any of the sectors.

i) Other Problems which affect the development of the private sector

Lack of technical assistance

Lack of incentives to production, exports, etc.

Lack of financing

Price controls which tend to generalize

Lack of agile, sufficient working capital

Lack of an adequate market for certain products.

Capitalization of profits is taxed.

Problems which are the Responsibility of the Private Sector

a) Lack of private sector unity

This lack of unity is mainly originated by a weak group awareness of the affiliates, which makes the private sector weak and lacking in audacity and aggressiveness.

b) The Private Sector does not Undertake Research Work

Due to economic weakness, organizational deficiency, lack of technical training, and lack of government support, entrepreneurs do not undertake research work or if they do it is at the empirical level.

c) The Private Sector does not yet accept participation of the labor sector in profits and administration

The private sector keeps harmonious relations with the unions but does not yet accept its participation in management or profit sharing.

They say for that it would be necessary to create a greater awareness in the labor sector of the role it plays in production.

d) Lacks the necessary audacity to make large investments

This gives the impression of being in a vicious circle; the truth is that there still does not exist the

the enthusiasm and audacity needed to promote large investments, except for sporadic cases. The government says that this attitude forces it to directly participate in the private sector area, and entrepreneurs argue that they don't take greater risks by making large investments due to lack of government support.

e) Shortage of Private Sector Financing

Despite the fact that in Honduras there is a relative social peace in comparison with the rest of the region, what is happening in the neighboring countries also damages the image of Honduras causing a contraction in foreign investment, restricting medium and short term capital investment and even supplier credits. The State is going through difficult times with the slump in the prices of the principal export products so it can be of little assistance, and the resources of the private sector are so meager as to be insignificant; this has led to a contraction of sources of employment with all its ulterior consequences.

Problems Due to External Causes

a) The Convulsion of the Central American Region

Recent events in Nicaragua and El Salvador, and those frequently happening in Guatemala, have affected

Honduras almost with the same intensity with respect to the effects on foreign financing, short-term supplier credits, insignificant foreign investment and the subversive threat has generated fear contracting even more whatever few foreign investments had been programmed. Unemployment grows and current assets decrease, and a generalized feeling of discouragement is perceived in the entire country.

b) Drop in Tourism

This phenomenon is common to all the region and its causes are also the same; nobody wants to visit a convulsed region; Honduras is not separated from the rest of Central America and the image of the oasis of peace in Honduras is not strong enough to neutralize the existing psychosis. Therefore, this activity which started to develop and generated employment has stagnated, leaving investors in bad position to even fulfill their commitments with the banks.

c) International Prices

Export goods produced in the area do not receive fair trade treatment, to which should be added their high degree of instability.

d) Refugees

During the last two years the country has accepted 60,000 refugees especially from Nicaragua and El Salvador due to the convulsion which exists in both countries; international assistance received to take care of the refugees has been well below requirements.

e) Inflation

This is a generalized phenomenon which is giving signs of increasing deterioration, due mainly to the increase in the prices of oil and raw materials. The incapacity and lack of decisiveness of the government in facing this situation, which has proved that it does not know how to handle it, has intensified the problem and the consumer price index has increased by more than 50% and even though the government has insisted that the level of inflation is only 12%, it is estimated that it is well above that figure.

f) Lack of Technology

Technology is each day becoming more expensive yet more necessary to be able to compete. Serious efforts should be made in the immediate future to import it and get it under operation.

II. RELATIONSHIPS WITH THE REST OF THE REGION

All sectors agree that they have very good relationships with the rest of Central America, Panama included, obviously regretting the armed conflict between Honduras and El Salvador in the recent past. Measures to resolve this conflict have been accelerated and it may be solved shortly. Regarding the Common Market, the private sector does not have great expectations about this experiment which has already been functioning for 20 years, and which is now facing very controversial and critical times. For Honduras it meant \$83.9 million in exports in 1980. It cannot function well until a return is made to the original idea of economic integration, changing the unilateral attitudes adopted by the governments which hinder its operations.

III. RELATIONSHIPS WITH THE REST OF THE WORLD

A) UNITED STATES OF AMERICA

Honduras had developed within the orbit of U.S. influence and keeps a close relationship with that country; however, it might seem that in recent years that relationship has begun to deteriorate.

It would be worthwhile to review the way in which the U.S. protects its domestic market and on the other hand accepts the free play of international prices for export products.

Sectors surveyed indicated that development financing institutions and other U.S. organizations should review their recommendations regarding treatment of Honduras.

B) OTHER COUNTRIES

Honduran relationships with the rest of the world due to geographic reasons and traditional links are of lesser importance, although there is a tendency to improve them.

In general terms, it may be concluded that a protectionist treatment is being applied, which is seriously restricting commercial development.

IV. SOLUTIONS

- 1) The sectors are tired of the type of authoritarian government, in which they have no participation, which has existed during the last 10 years. There are great hopes that a democratic system will be established with honest elections to be held on November 29.
- 2) Urgent need for liberalized, abundant, soft loans. All sectors consider that if new financing is obtained, it should be channeled directly to those sectors which will use it, avoiding government intervention.
- 3) A need to extend the concept of democracy to social and economic areas.

- 4) True and effective institutionalized participation of the private sector, as a basic ingredient of decision making. This way less mistakes would be made and coherent and adequate policies would be adopted for all sectors.
- 5) A great effort should be made to create a society which is more equitable; the criteria to introduce changes must not be based on fear, but on a true awareness of their urgency.
- 6) Profit, personal welfare and privileges must not be the only objective of the private sector in their relationship with workers; a wider national base must be kept in mind.
- 7) Productivity must be increased at all levels and in all sectors; to achieve it, it is essential to improve the technical level and reduce illiteracy.
- 8) Define the specific areas of action of each sector; closely follow a just development plan, conceived with the participation of all sectors, which should be carried out and respected.
- 9) Support the development of agroindustry, as the principal basis of development.

- 10) Central American interchange activities should be conceived more as promoting integration, than just merely a common market.
- 11) Work more towards obtaining extraregional markets.
- 12) Establish and enforce the mechanisms needed to promote the repatriation of capital, which was taken out of the country due to insecurity, better opportunities in foreign countries, or both.
- 13) Promote tourism and review the support given to it, with a view to improve it; it is considered that it would be better managed by an entity in which the private sector had great participation.
- 14) Review and revise all laws which hinder national development, especially agricultural, industrial, labor, financial and fiscal areas.
- 15) In-depth effort to eradicate government corruption, with the understanding that any development effort will fail or be insignificant if an improvement is not obtained in this area.

H E A R I N G S

N I C A R A G U A

Survival Insecurity

Despite adversities faced in recent years, the Nicaraguan private sector has demonstrated a sturdy optimism and spirit to fight and, as expressed to this Commission by some entrepreneurs, members of political parties, and democratic unions, the private sector is facing a fatal uncertainty: its survival is threatened by a veiled ideological definition of the government, debilitated by abandonment, sometimes voluntary and others obligatory, and by lack of incentives to the entrepreneurial sector.

Political Climate - Stability

The principal current objective of Nicaraguan private enterprise is to survive in a social, political and economic system which is totally adverse to it and whose Marxist-Leninist ideological scheme threatens to destroy it. Entrepreneurs said that the future is uncertain and that the private sector will tend to disappear in the next 10 years.

The Sandinist revolution took a bad turn and the FSLN took for itself all the power that was conquered by a total national unity, which included the strong and active participation of the private sector.

The lack of ideological definition, accepted by the government itself, is clearly perceived in its actions; the vengeful anarchy; the taking over of farms and factories, mostly instigated and manipulated as labor problems; strong control of the unions by the Sandinista Front; labor problems instigated by their own organizations; land property insecurity; the establishment by the government's party of organizations parallel to those of the private sector; the active and highly dominant participation in national affairs of some 17,000 internationalists; the creation of an enormous and powerful "Popular army"; legislation to regulate professionals, which controls them and hinders their independence; the elimination (at all levels) of non-Marxist teachers and taking over of university autonomy by the FSLN; repression against unions and parties which are democratic and non-governmental; and penetration of enterprises and other organizations by FSLN members to undermine them from the inside, are in the opinion of those interviewed samples of totalitarian and nationalizing attitudes with a clear intention to establish the Marxist-Leninist system, on a yet undetermined date, which is causing great uncertainty and an absolute lack of credibility in government as this is considered immoral due to its cynical deceitful attitude.

In the opinion of those interviewed, there are other concerns caused by fear of the establishment of "Popular Courts", low professional quality at all levels,

government level included, which will make the planning, management and development of any type of enterprise more difficult and contributes to existing uncertainty, so it is not logical to think that Nicaraguan entrepreneurs would want to wager their future against prevailing uncertain political expectations.

Suggested Solutions:

Defensive measures against the situation herein described, and suggested by those interviewed, must be based in the unity of democratic political parties, unions and independent communication media with the private sector. The real truth of what is actually happening in Nicaragua and the betrayal by the FSLN of democratic aspirations must be made known to friendly governments, foreign private sector organizations and other organizations. Contribute, to the extent possible, to make the influence of pragmatic members prevail over the influence of dogmatic members, and to eliminate the influence of internationalists on government, as well as sponsor the legislation needed to defend national enterprises. Above all, exert pressure on the government and the front party to make them define their political plan.

Role of the State in the Economy

The Marxist-Leninist ideology of the Government's Party and its totalitarian attitude easily leads it to try to

intervene more and more on all economic matters: the international market for export products has shrunk to insignificant levels due to the nationalization of foreign trade of the principal export products and it is unfortunately in the hands of persons who lack the experience and foresight required by this type of operation; 33% of industrial enterprises have been taken over by the State, as well as 20% of the tillable land and a good number of commercial and service companies, by means of confiscation; the State, through a preconceived plan, maneuvers to get control of almost all the commercial sector, causing the disappearance of the "trade" section of the private sector through neglect, the enormous shortage of foreign currency and unfair competition by the State as it has established a great number of popular outlets and channels for the distribution mainly of essential products; the price controls which have been established reduce the profit margin which places the private sector in a position where it cannot compete; there is strong pressure to commercialize essential products through the district committees (CDS) which would be detrimental to small private shops. These can be interpreted as a clear course, planned to make the private sector disappear through neglect making further confiscations unnecessary.

Besides, a nationalization trend is perceived as the government takes advantage of any real or imaginable excuse to confiscate and practice State favoritism.

With respect to economic policy, the State has considerably increased the level of foreign indebtedness. Continuous currency issues without any kind of backing, and the indiscriminate use of rediscount by the financial system, have contributed to increase inflation, without there being a definite economic plan to increase supply and thereby control the inflationary process.

Excessive fiscal burden has also contributed to production contraction.

The State has lost interest in promoting the export of non-traditional products as it is dedicated to the resurgence of traditional products.

The influence of the government in the management of a great portion of production has resulted in excessive credits to the "Peoples Property Area". and the central government itself, as well as increase in the current account and balance of payments deficits at levels much higher than programmed.

Nicaragua, in the opinion of entrepreneurs, is an enterprise which, if it does not have massive financing from Russia or the United States, will remain as poor as Haiti for a long time. The ascension of the government as rector and controller of all the economic activities of the country has created an internal situation which does not permit the free development

of productive forces, creating an increasing economic contraction which is inexplicably criticized by the State, but which it does not solve through appropriate measures.

Private Sector Situation

In Nicaragua the case is not just trying to move an economy as could be the case in any other country of America, but of trying to recover prior levels of production (recover a 31.5% reduction in GDP); replace all capital assets lost or destroyed during the period of the insurrection, estimated at between 600 and 900 million dollars, without taking into consideration higher replacement values; and level-off the increasing and enormous balance of payments deficit, besides from producing the wealth which was offered to be distributed among the population according to their expectations from the war of liberation.

The private sector in general is going through a deep economic crisis originating in massive confiscations to most of that sector; lack of timely and adequate financing; payment of "Patriotic Tax" established by the new Sandinist government; payment of large sums of "back salaries" for two months of productive inactivity during the war; lack of foreign currency which reduces productive capacity due to the shortage of raw materials and spare parts; internal

price controls which reduce profit margins to inadequate levels and in many cases result in losses; high tax rates and deficient marketing of export products; entrepreneurial and trained technician flight; disrespect of contracts by foreign suppliers in bypassing their agents and selling directly to the government; high financial costs accentuated by prior deposits for imports made several months in advance; disproportionate guaranties demanded by financial entities; low prices for traditional export products and the lack of experience needed for their marketing on the part of government; unfair competition by the State in supplying products for marketing by the private sector; extremely low profit margin obtained in government contracts and/or bids; virtual absence of financing for the "commercial" sector; virtual inactivity in the "construction" sector, which in 1977 was 40% of 850 million cordobas and in 1980 was only 6 million; lack of savings in the National Financial System which, added to political uncertainty, has caused almost a paralyzation of private sector construction. Besides from all those, low productivity due to labor attitudes has greatly debilitated the private sector and the announced agrarian reform will reduce the private sector even more.

There is practically no internal, and even less external private investment.

Solutions Suggested

In this classification only the agricultural and cattle-raising sector suggested specifically the implementation of the agrarian reform based on an expansion of the agricultural border, given the existing generous territorial extension in relation to the population, instead of causing a decrease in production by redistributing existing agricultural land to less productive hands.

Foreign Factors

The political problem, the solution of which is essential to solve the economic problem, is stimulated by the Cuban influence in the consolidation of the Nicaraguan revolution, as well as close relationships with other countries of the Soviet Bloc.

More than 17,000 internationalists intervene in all internal matters enjoying privileges which are not granted to nationals.

The disrespect and violation of contracts with distribution agents on the part of Central American industrialists, who sell directly to the Nicaraguan government, also have a negative effect on the welfare of the private sector.

The communist conspiracy is not limited to Nicaragua alone, but is common to all of Central America, although with different tactics.

Low prices of basic export products have had a strong and negative effect on the economy of countries of both left and right tendencies, which understand our idiosyncrasy in order to permit us to develop in our own way.

Strengthen the private sector with loans, being particularly careful that small and medium producers have access to them.

INTERNAL SITUATION OF THE PRIVATE SECTOR

Although a legal and juridical framework was defined, as well as a Statute of Citizens' Guaranties and Rights, these have not been respected since the FSLN assumed power. The institutional framework for the application of the most elementary law regulations are not currently respected and laws are politically manipulated without respect to judicial organisms.

There are no incentives for the private sector but, on the contrary, the government has increased repression of entrepreneurs through Total Confiscation Decrees due to "decapitalization" or simply for being or having been away from the country for indefinite periods of time, e. g., for six months,

The entrepreneur lives in constant risk of harassment and personal repression, not only because of the hostile climate due to a constant stimulation of class hate, but also

because, the private sector has had to actively participate in politics, in order to fight for its survival, understanding this as the science and art of good government and not as a party fight for power.

A sense of pride in achievement and its frustration been one of the main causes for migration to other countries and the lack of dynamism in promoting investment. The climate of social and political uncertainty and the lack of a real definition of the rules of the game are the principal causes of the above. The flight of professionals and skilled technicians has reached very high figures due to the lack of job opportunities, feelings of fear or despise towards communism, and the lack of human achievement and an adequate environment for children and the future. With the new law of professional control and the political indoctrination of education, such flight intensified.

Presently, the entrepreneur has become aware that his participation in politics at the association level is essential to look out for his interests. There is a greater awareness of the importance of solving social problems and understanding and recommending solutions to the country's economic problems. Labor relations and union organization have become one of the most critical areas of business management.

Solutions Suggested.

Despite the fact that the private sector has a formidable structure, it can still be improved by expanding its bases.

Contribution to the unity of the democratic unions and parties, independent communication media and the private sector for unity of action must be continued.

They must always be present, not leave the country, and apply pressure to obtain civil democracy in Nicaragua.

Strengthen and coordinate common democratic efforts of CPDH, the press, independent unions, democratic unions and parties, democratic friendly countries and national and foreign private sector organizations which want and must help.

Take advantage of the government's incapacity by seeking needs which must be satisfied by the private sector and to immediately undertake, assisting the government, implementation of projects to utilize the US\$300 million available in construction loans.

Denounce all governmental deviations from the plans and promises enunciated in the government plan for unity which ousted Somoza. Dialogue and contribute to democratization.

Seek new social horizons and support democratic unions to achieve a true alliance.

OTHERS

It must be mentioned that the slump in international prices for principal export products greatly contributes to the weakening of the Central American countries.

Social demands which went unattended in the past, and now exaggerated expectations due to the illusory promises of the revolution, create a negative and highly explosive situation as the country's economic weakness and the lack of adequate political and economic administration do not permit generating the wealth which was promised.

Nicaragua is a country which does not have other free and abundant natural resources (oil, minerals), besides its cultivable land and forests, which contribute to the development of the country. Results depend on the careful and persistent efforts in administering its resources.

If we add to the above the negative influence which the world economic situation - now undergoing a period of true recession - projects on the weak countries in the process of development due to extremely high energy prices, we find that Nicaragua is virtually in a dead end street, and only an accelerated push with massive international resources - aside from an intelligent foreign policy which should be adopted by the Nicaraguan government to attract foreign investment - could open the road to recovery. However, financial assistance by itself is not a resource capable of reactivating the economy; it has to be accompanied

by the repeatedly mentioned climate of political balance. The investment climate is, though, one of the top priorities.

H E A R I N G S

C O S T A R I C A

From the beginning of 1978 to date, the economic development of Costa Rica has suffered an important transformation, which has caused a disadjustment of the institutional framework and traditional systems of a democratic life, love for peace, and freedom to work and trade, granted by the Constitution of the Republic, with no other limitations than those of national interest established by law.

On the other hand, development programs planned and proposed by government organizations at the national level, far from fulfilling their objectives, have been greatly affected by internal and external factors, which have caused the greatest economic crisis the country has suffered in the last forty years and an evident stagnation of its public and private productive activities.

One of its consequences, among others, has been a modification of the conditions under which private enterprise was operating.

No doubt, this crisis must be corrected immediately. To do that, the private sector is willing to undertake all necessary efforts and sacrifices to find the solutions to the problems and difficulties which the country now faces. The private sector must produce more and adopt a policy

of greater austerity and prudence until it achieves economic improvement and finds again the road to common welfare and tranquility, which characterized Costa Rica in past years.

An essential condition to this, is the timely assistance of other countries of recognized economic and financial power which, demonstrating international friendship and solidarity, may want to provide their experience and generous cooperation so that Central America may recuperate in the shortest period of time possible, and the danger of greater unbalances and more severe problems may be avoided,

MOST IMPORTANT PROBLEMS IN COSTA RICA

1) Lack of Financing:

The problem rated as most important by all sectors interviewed is the shortage of capital resources and the lack of timely and adequate financing, as well as the constant increase in the prices of inputs and basic goods.

The program of allocations for 1981 of the Central Bank of Costa Rica shows the financial limitation mentioned above, which is considerably aggravated by the fact that credit allocations made by the Central Bank are fictitious as, in fact, the banks do not have the money needed to formalize credit operations, even though these have been previously approved by their respective Boards of Directors.

2) Low International Market Prices

The decline in international market prices for traditional products, especially coffee, has caused an accelerated impoverishment of the country. Coffee cultivation is the most relevant agricultural activity. It is the most important item of national production and the greatest source of foreign currency. It is, as well, the most efficient mean of redistribution of wealth not only because of the high number of jobs generated by its cultivation, but also for the number of small producers who obtain financing for their crops and the considerable amount of fiscal revenue obtained.

Coffee production, as well as other agricultural and cattle-raising activities, should receive greater attention from users and consumers of Costa Rican products and be considerably stimulated in order to largely offset the natural and unpredictable risks of agricultural activities.

3) Deficient Public Administration

Deficient public administration and deficient administration of the Central Bank, the bank more as a governmental agency than an entity which regulates the country's economy, have caused to a large extent, in the opinion of most entrepreneurs, the economic

deterioration of the country which has so seriously affected the development of the private sector. The evident intervention of the State in activities which belong to the private sector; the monopolization of most of the operational resources which the banks of the system have, for non-productive government or infrastructure programs, more for political purposes than for satisfying true community needs; and fiscal voracity characterized by the constant creation of new taxes by Ministries and officials, have caused an accelerated decline in the private sector's interest and entrepreneurial and investment capacity, which has resulted in a reduction of the country's assets.

4) Increase in Energy Prices

The drastic increments in energy prices in general and in particular in prices of refined products, has caused greater intranquility and further damage to production. Such increases are aggravated by the marketing system which RECOPE (Costa Rican Oil Refining Company), a government subsidiary, utilizes for establishing prices for fuel users, with high profit margins in order to serve as the government's "Petty Cash Fund", which the government utilizes to provide assistance and subsidies to a good number of public or social services,

the collective transportation system being one of those which receive most assistance.

Such measures, as indicated above, periodically increase production costs and cause an unbalance which, of necessity, is later reflected in the gradual cost of living increase. This increment in salesprices also cause a deterioration in the levels of competitiveness of national products vis a vis similar imported products.

5) Central American Common Market

The deterioration of the Central American Common Market for political, economic or commercial reasons has generated a decrease in the volume of trade among the countries of the region, and a consequent reduction in the utilization of national manpower and installed capacity.

In this respect, there is a notorious lack of interest and definition on the part of the countries which integrate the Central American Common Market to restructure and rehabilitate this integration program.

6) Credit Contraction

The loss of foreign credit sources and the loss of credibility due to unfulfillment of commitments or delays in payments to suppliers of inputs,

raw materials and finished products, are serious problems which most private sector enterprises are facing.

The logical consequences arising from lack of confidence are the decrease in production due to raw materials shortage and an increasing unemployment rate.

7) Insecurity and Violence

The excessive liberality and compliance of government organizations towards subversive groups, and underground communist infiltration in the national territory, through uncontrolled migration taking advantage of political asylum given by our country, have had an extremely damaging and perturbing effect on peace and order, especially at the university and labor levels. This has contributed to the existing tense climate and has made recent terrorist demonstrations possible, which had never before happened in Costa Rica.

All the above, added to economic uncertainty, has also been the cause of a noted reduction in foreign investment capital in the country and the loss of income from tourism and similar activities which Costa Rica had until recent years.

SOLUTIONS

The solutions indicated were suggested by the groups interviewed.

1. Financing

Immediate long-term, soft financing to purchase raw materials and other inputs which permit the reactivation of production. Presently, all available official foreign currency is utilized by the government to resolve the country's foreign exchange problem.

At the same time, the government must clearly define its economic policy and the rules of the game, in order to restore lost confidence and entrepreneurial interest.

2. Savings and Austerity Program

To establish an austerity program of consumption and foreign exchange savings, for the private as well as the public sector, which creates an awareness among the population of the fact that the economic recovery of the country is dependent on the actions of all, and the courage and decision with which Costa Ricans undertake the task.

3. Export Promotion

Promote the export of manufactured goods within the Central American Common Market and to international markets, by establishing considerable incentives to export production.

Intensify the production of basic grains and other agricultural and agro-industrial products in general, so that a decrease in costs and sale prices can be obtained, making it possible to immediately reduce the cost of living which is now excessively high and heavy.

4. Central American Common Market

It is urgent that the governments of the Central American Common Market member countries hold the meetings needed to analyze possible solutions to the problems which affect its normal development, suppressing and modifying those measures which are interfering with it.

It is equally urgent that the Central American private sector give attention to reviewing the new Central American Tariff System, which was recently completed by the Central American Coordinating Commission, for the purpose of

substituting the one currently in effect, but whose margins for protecting the Central American producer result, in many instances, in being negative for the manufacturing sector.

Other measures to improve or update it in some cases, or for eliminating it in others, but always acting with Central American criteria, and thinking about the advantages of living united and integrated.

5. Better Prices and Services for Central American Coastal Trade

Joint action by Central American countries before corresponding international offices, to obtain better prices and payments for our traditional products.

The creation of a Central American coastal trade transportation system, with fixed itineraries and regular departures, which permits trade between Central America and the Caribbean.

6. Technology

Seek the means needed for the country's technology level to acquire the required degree of knowledge and specialization, through the assistance of developed countries, to better utilize our natural, human and productive resources.

H E A R I N G S

P A N A M A

PROBLEMS

1. Need for firm legislation and government support to stimulate cooperativism.
2. Need for soft loans, so that they can be accepted.
3. Lack of acceptance and participation of private enterprise.
4. Private enterprise has no medium-term strategies or solutions.
5. The financial system does not consider itself a part of the private sector.
6. Laws without consultations, sometimes political and not practical.
7. Improvised economic policies.
8. Lack of unity of the private sector, which has resulted in a lack of private sector conscience to defend free enterprise.
9. Bad labor/management relations.

10. Stagnation of a deteriorated agricultural sector due to lack of updated and adequate policies on prices and incentives, which has resulted in a low degree of profitability. It is therefore preferable to invest money in fixed term savings accounts.
11. High level of unemployment.
12. Inadequate communication between the government and private enterprise.
13. Lack of an updated and effective economic policy to face present and future problems.
14. Private enterprise defends its personal interest and not its principles.
15. Indolence of the private sector in making a sacrifice in order to find solutions. In their opinion, the good progress of their businesses makes them so.
16. Large imports. No exports.
17. Many foreigners who do not participate in private enterprise efforts.
18. Private enterprise has not updated.

19. Danger of a totalitarian situation.
20. High level of foreign indebtedness.
21. Mainly dedicated to services and commerce, and less to agriculture.
22. Unfavorable labor laws (Labor Code).
23. Price controls must have a private sector representative.
24. Deficient small industry financing.
25. Small industry is not affiliated with CONEP.
26. Cattle-raisers do not identify themselves with CONEP.

HISTORICAL PROBLEMS

Dependence on the rest of the world for imports. Dedicated to commerce and services.

CURRENT PROBLEMS

Relations between the State and the private sector are not good. Inadequate price policy for producer.

Lack of banking policy.

Antagonistic feelings of workers towards private enterprise.

Low agricultural productivity and production.

RELATIONSHIPS WITH CENTRAL AMERICA

Not interested in general, as Panama has higher costs.

RELATIONSHIPS WITH REST OF THE WORLD

Financial center

Imports

SOLUTIONS

Incentives to agricultural/cattle-raising and industrial production.

Closer and better relations with the government.

Obtain soft term financing for cooperatives.

Unity among private entrepreneurs.

Establish long and medium-term economic policy.

Formulate strategies.

Organize the private sector.