

KEY ISSUES IN CENTRAL AMERICAN DEVELOPMENT

A PERSPECTIVE TO THE YEAR 2000
WITH EMPHASIS ON THE RURAL SECTOR

During the next two decades, the Central American area will face serious challenges, both political and agricultural. Solution of these problems are not divisible. They can positively or negatively affect the rural-urban interrelationship as well as the employment, income, nutritional status and balance of payments of individual countries and the region as a whole. Basic decisions, affecting the region in the year 2000 must be seriously addressed within the next five years if the results are to offset or ameliorate present problem trends by the end of this Century.

Recent projections prepared by the Inter-American Institute for Agricultural Cooperation (IICA) using SIECA and other data point out some of the pressures that affect present political and future development within the region.

Among their conclusions are the following:

1. Population

Central America has one of the most rapid rates of population growth in Latin America - estimated at over 3.0 percent per annum. While the region's (Central America and Panama) population stood at 6.4 million at the beginning of the second World War (1940), it is now estimated to be 24.1 million and is expected to increase to 39.7 million in the next twenty years.

This extremely rapid population growth even with improved population control, will further skew the present population/age trend toward a very large, young, restless, aspiring population willing to experiment with radical changes (and

easily led) with new political and social approaches to national and regional organization. It will require more than doubling educational investment and doubling food supplies even to meet present diet levels. For providing nutritionally recommended diets the need is for a 300 percent increase in many food items. With the increased population, energy requirements will expand almost exponentially and housing will at least triple to meet needs. This rapid growth in population will also require the generation of millions of new jobs, better roads, more schools, expanded and more effective health facilities, and other essentials needed to meet basic human needs.

In rural sector terms, this population increase can be handled only with an indepth reassessment of national resources and capital availabilities, reallocation and efficient use of these prime resources in ways that more effectively meet social, internal consumption and foreign exchange needs. Major policy decisions will need to be made on what degree of self-sufficiency in basic food crops are most compatible with capital resource allocations as well as employment and income demands. Where are the region's ecological and production comparative advantages for supplying internal markets in Central America as well as to external markets including the United States, Mexico, the Caribbean, Japan, China and Venezuela? These decisions will strongly influence future trends in rural-urban migration use of capital and natural resources. It must stress the need for objectively reassessing and reorganizing the farming complex toward -or away from- large private or collectively managed farms as opposed to existing small farm food production enterprises and larger export-oriented plan-

tations as well as into new crops better adapted to the ecology of the region and its social-economic situation.

2. Rural and Urban Population dynamics

Central America has traditionally had a rurally-oriented population. Estimates in 1950 assumed that some 71 percent of the region's population were rural. Improved rural-urban communication and import substitution policies have begun to show changes in the living habits of the region's lower and middle income earners. This has moved more people to the urban sector. Higher salaries, provision of improved educational facilities (especially at the higher grade levels) in the cities and the "bright lights" as compared to the poor living conditions, low salaries, hard work, and low rural investment levels in agriculture, are resulting in accelerated movement of rural people to urban centers. Estimates by IICA for 1980, indicate that now almost half of the region's population (48 percent) live in urban situations. They project that by the year 2000 using present trend levels, only 25 percent of the population will be living in the rural sector. ROCAP believes that the urban migration will continue in the next two decades and be a major destabilizing force, politically and economically. However, because of the area's investment capital limitations --it costs considerably more to create a man/year of work in urban areas than in rural-- and energy pressures, this proportion of the rural population will probably be closer to 35 or 40 percent rather than 25.

Public sector investment in agriculture by CACM countries, as a percent of total investment, during 1966-1973 was only 5.1 percent. Even though it has improved considerably

since this period, it probably still does not exceed 10.0 percent in 1980. Future increases to levels of at least 20 percent will be needed to meet rural needs.

Further study of comparative costs of creating rural and urban jobs and identifying new markets for an expanded range of products produceable by the rapidly growing rural population are imperative. They will open new avenues for rural and urban growth and new lines of interdependence among the region's countries as well as between the two sectors themselves.

3. Employment

Concurrent with an increasing population, the region can expect to have greatly expanded employment pressures which if not reasonably satisfied will serve as a fuse to continue to destabilize the area politically. While employment and underemployment data are always suspect in Central America, nevertheless there appears to be a decided long-term trend toward higher overall unemployment levels, due in part to migration, poor distribution of productive resources, inadequate capital formation and insufficient access to skills training by new entrants.

Using World Bank data, IICA estimates that the levels of unemployment of the economically active population of Central America and Panama are:

<u>Year</u>	<u>CAP Countries</u>	<u>Latin America</u>
1970	9.3%	8.5%
1980	14.5%	12.8%
1990	21.0%	17.5%
2000	29.3%	24.0%

These estimates do not consider the extreme area-to-area, within country, variations caused by present rural and urban production patterns. In some areas of the region, seasonal unemployment has been estimated to be over 50 percent.

Innovative new production systems for regional and export markets coupled with irrigation and off farm employment in complementing handicraft industries and decentralized industrial production could significantly reduce these projected trends. This will require greater integrated attention by national and regional policy, technical, investment and marketing leaders.

4. Income

Employment is a way to create income. However, policies, programs and action at all levels are required to create new and to some extent reallocate a highly skewed distribution of presently available per capita income. In 1978, preliminary calculations indicated that the lower 40 percent of the region's population received only 10 percent of the total net income, while the top 10 percent of the population received 30 percent of the region's total income.

Within this overall disparity in income, rural people generally receive from one third to one fourth of the average total income of their urban neighbors. In a ROCAP/USAID study conducted in 1974, we estimated that, at that time, 90 percent of Costa Rica's, 70 percent of Nicaragua's, 50 percent of El Salvador's, 80 percent of Honduras', and 83 percent of Guatemala's rural population had per capita income levels below their national averages.

Income is a major factor in determining the adequacy of

national diets and the overall quality of rural life. Deficient diets reduce psychomotor development in young children, memory and learning capacity of adults and the productive capacity of rural and urban laborers. Increased population pressures in the next two decades will further accent these disparities unless new employment, and income opportunities, are aggressively found and developed.

Expanding the production of basic food crops on small farms is only a partial answer to the employment and income status of the growing AID target group. Basic food production, in spite of high price support levels in all of the countries of the region vis-a-vis world market prices, is a low income producer and only a moderate employment generator. Annual incomes from the production of corn, as an example, range from approximately \$50 to about \$200 per hectare. On most small farms there are approximately three people per hectare. Few numbers are necessary to pinpoint the potential consequences of this major regional policy of basic food crop self-sufficiency.

On the other hand, to meet national food requirements annually, using moderate levels of technology will probably require less than 50 percent of the rural males entering the labor force each year. Issues in this area facing the region and its governments include:

(a) Will the non-basic food producing, rural population find other productive enterprises in the rural sector or will they be forced to migrate, further swelling existing levels of urban discontent? (b) Will an effective means of distributing periodic windfall profits from coffee, cotton, sugar, bananas,

cardamom and other products be created in which those who participate in production also benefit from unusual world market conditions or will a few benefit at the expense of many? (c) Will new methods of assuring efficient, socially acceptable, use and conservation of natural resources be found and administered wisely throughout the region? And (d) all importantly, will the region begin to recognize its ecological and geographic advantages in the world's market place and develop the systems, conduct the research and train the rural population to meet new opportunities and create increased work and income for the rural population and especially the small farmer?

5. Energy

In the year 2000, Central America and Panama's total economy will continue to face severe pressures and require restructuring rural as well as urban production systems in a large part, because of the world energy situation. Clearly, energy demands are far outstripping the capacity of the region's nations to supply under present use patterns.

During the period 1971 and 1978 IICA estimates that the value of energy purchases, of petroleum and its derivatives, increased from U.S.\$77.3 million to U.S.\$467.7 million per year. If present consumption trends continue these energy imports could reach an estimated U.S.\$850.0 to U.S.\$2,300 million (in 1979 dollars) annually by the year 2000 depending upon the projection model used. These projected foreign exchange costs, unless trade in goods and services are dramatically augmented to extra-regional markets and present consumption patterns altered, will significantly increase the propor-

tion of foreign reserves diverted to meet the region's fuel bill.

Present large scale export agricultural enterprises consume much higher levels of energy per area than small farms and especially multiple cropped and integrated crop/animal production systems. Too, forest farming and various bio-gas and alcohol production systems can be expanded to offset increased regional energy consumption. The most efficient blend of farm size, type of production enterprise and product mix to meet tolerable energy levels, meet regional food requirements, produce essential foreign exchange as well as generate expanded employment are still to be studied and political decisions made regionally and nationally. Again, the next five years will be crucial to this process.

6. Natural Resources

Land, its ownership and its control is and will continue to be at the crux of rural unrest. The lack of adequate land for a farmer and his family to work and the farmer's ability to pass on these hard earned assets to his children will be a major source of continuing frustration if not satisfied. On the other hand, large landholders have been the target of political agitation because of their control of large physically improved, production units. However, their production has been the source of most rural innovation and national foreign exchange that has financed progress to date. Viable alternatives to massive land reform and its social and political, not to mention economic consequences, which maximize social benefits with improvement in the efficient use of land, and conservation of economic dynamics of the region,

have not thus far evolved.

Central America, excluding Panama, has a land area of 42.3 million hectares. In 1970, only 14.5 million hectares of this area was in farms. This has increased by an estimated 4.0 million hectares in 1980. Reducing the total land area by an additional 1.0 million hectares to cover land used for towns over 10,000 people plus the region's highways and roads still, in macro terms, leaves much unimproved land, some 20.0+ million hectares, for agronomic exploitation. At least 50 percent of this reserve is of low quality and should remain in trees for wood and fuel production, or converted to fruit, nut, rubber, cacao, rangeland and similar types of exploitation. Unfortunately, for forest tree farming, we as yet have few good models on which to base future exploitation of this resource. Too, land largely in the wet tropical Atlantic coasts requires considerably more research on tropical crops, than has been carried out to date in order to assure continuity of production and open new employment and income opportunities.

Of the 18.5 million hectares in farms, the CAP region has approximately 1.3 million farms below seven hectares in size occupying about 2.0 million hectares. Most are between 0.4 and 4 hectares in size worked by a single family. The 80 thousand farms of over 35 hectares occupy over 12.0 million hectares and employ a large portion of the rural work force during short harvest periods.

How the Central American governments evolve their policies and strategies to meet a doubling of the region's population and more equitably use their resources and distribute the benefits is central to the area's future.

The problem does not appear to be basically one of

production potential. Research on basic food crops (corn, rice, beans, sorghum), and a number of others, indicate farmers --small and large alike-- are not as yet using the most cost and yield-effective available results. Single crop farm level yields are, broadly speaking, not over 20 percent of proven potential for most crops. Compared to the few well researched multiple cropping systems developed thus far, probably not over 10 percent of potential income are being realized today on empirically operated small farms.

Recognizing the diversity of climates and soils in the region, the variety of crops that can be grown--ranging from vanilla and rubber to apples and wheat and the unutilized water available for irrigation, the CAP region is extremely fortunate. It still has enormous potential for farm expansion and intensification to use existing and new public infrastructure. All of the area's resources --intensively cultivable land to forests-- must, however, be re-evaluated in the light of new needs and opportunities and exploited in sustainable systems.

Here, regardless of the social and political context, a key action program is needed. It must study the quality of all resources and utilize the unique potential of the tropics for the greatest socio-economic benefit of the region's people. Present degradation of this rural base by introduction of diseases, uncontrolled forest exploitation, the loss of soil by erosion and the extremely large amounts of water going into the ocean instead of being used for irrigation, make the next two decades possibly the most critical period in the agronomic history and future of the region.

Conclusions

The past twenty years in Central America have seen rapid changes in the economies of all the region's countries. Industrial, trade and infrastructure development have been relatively dramatic in spite of obstacles posed by the El Salvador-Honduras war, the Nicaraguan revolution and other national political shifts.

Central America and Panama in facing the future must address national and regional social, political and economic problems with a discerning eye toward rapidly changing world events. Inflation, the energy crisis, new market demands, etc. over which the region has little control, are major external factors which seriously impede continuity and too often affects their hard won gains made at considerable sacrifice.

The region has demonstrated considerable resiliency in adjusting to regional as well as world problems. However, past policies and levels of rural sector support will clearly not suffice to meet future social, economic and political demands. Existing policies, the common market treaty, capital allocations, infrastructure, technological production systems, and national as well as regional organizational structures are rapidly becoming obsolete.

The Ministers of Agriculture are increasingly focusing on some of the problems and in joint meetings are recognizing that national actions are only partially effective if current regional initiatives are not also implemented. Senior and junior level, political and technical administrations are in short supply that are capable of identifying key issues and determining strategies, identifying economies of scale and comparative advantages, developing new technical innovations,

managing and creating efficient but flexible and dynamic new organizations, developing inter-country confidence and interdependence, coordinating internal and export marketing, etc. The Ministers are emphasizing their short term needs at present by considering a region-wide agricultural planning secretariate, new ground rules for inter-country and export trade, encouraging new rural industry, and coordinated information and research systems. They are also signing and implementing new agreements with CATIE, IICA, ICAITI and CABEI, their regional institutions, as well as external donors to promote more effective and more equitable rural development. Public sector agriculturally oriented, budgets of the region's nations have expanded over 300 percent since 1966 increasing research, extension, credit, marketing and other key support areas very markedly and can be expected to increase further.

The issues of the next two decades, however, as discussed above are very basic. Does the region have the will creativity and capacity to develop and implement agricultural policies that are socially acceptable and economically as well as energy feasible to meet the needs of 40.0 million people in the year 2000?

A population without reasonably well remunerated employment will not continue to be acceptable to rural or urban people. Thus, how will the region's governments address this major dilemma in the next two decades? Revolution or evolution are the major alternatives. The first starts from the premise that solutions will evolve from chaos; the second proposes active, orderly sustained change based upon sound analysis, living with risk, maximizing opportunities and concerted action at all levels.

Orderly change --the preferred solution-- will require that politicians, technicians, rural sector organizations and external donors, actively and collectively exert pressure and supply essential inputs and insights to key public and private sector groups responsible for, or holding back, positive change. Time is of the essence. The generation of gainful employment and the creation of higher income levels for rural people cannot be left to chance.

RRDO:DRFiester:amz.

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AGENCY FOR INTERNATIONAL DEVELOPMENT

ROCAP *Ret 40 DL*

ROCAP/GUATEMALA CITY or
APO MIAMI 34024

c/o American Embassy
Guatemala City, Guatemala C.A.

Telephones: 321739
66352 / 53
66373 - 66309

Cable: ROCAP/Guatemala

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JD
*Worth
reading -
and pondering.*

May 28, 1980

Mr. David Lazar
Director, Office of Development Planning
Latin American Bureau
Agency for International Development
Washington, D.C. 20523

Dear Dave:

I am attaching a copy of a paper I believe we discussed during that excellent lunch we had in Washington recently. I have tried to clean it up a little bit and wanted to give you a copy so that it might go into some of your thought processes in relation to Central America for the future. I offer few solutions, but some of the issues involved are as you will realize, better than most people in AID of considerable importance to the development of this region.

I have been, as you may know, appointed Director of the Office of Agriculture for the Development Support Bureau. This is a big job and I am looking forward to trying to give it the very best I can, and hope that we may be able to more effectively interface our programs with those of the regional bureaus and in particular, the Latin American Bureau in the future.

Margaret and I are packing right now and I will leave Guatemala at the end of June reporting for duty on about the 14th of July. I hope that shortly thereafter I may have a chance to talk with you as well as Scaff Brown on problems and opportunities in which our office may be able to better support Latin American development. Any ideas or insights you may have (or Scaff) in this direction, will certainly be appreciated.

With warm personal regards.

Sincerely,

Donald R. Fiester
Regional Rural Development Officer

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