AGENCY FOR INTERNATIONAL DEVELOPMENT SPRING 1986

# HORIZONS

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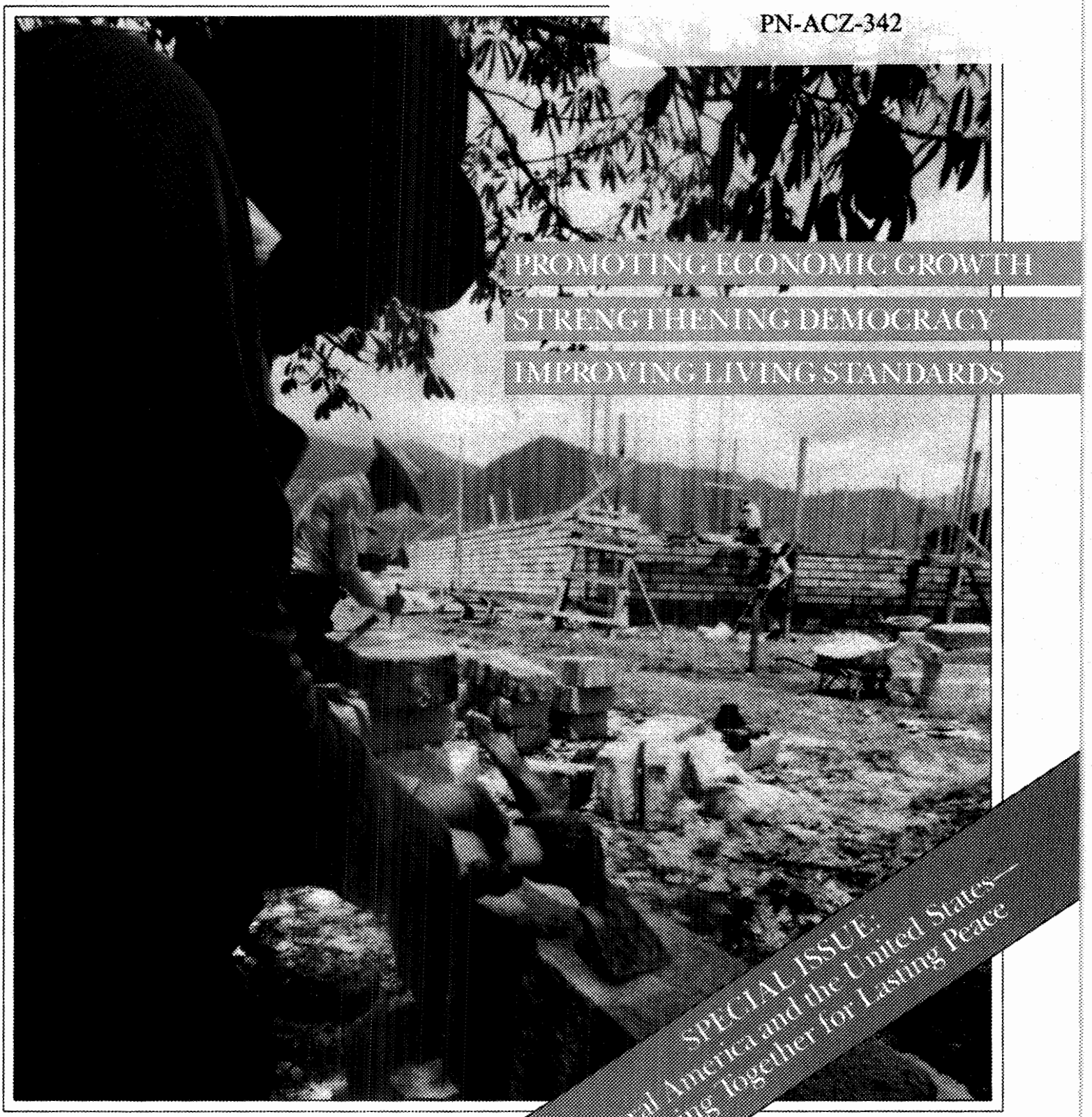

PROMOTING ECONOMIC GROWTH
STRENGTHENING DEMOCRACY
IMPROVING LIVING STANDARDS

SPECIAL ISSUE:
Central America and the United States—
Working Together for Lasting Peace

This special issue of *Horizons* magazine on Central America was undertaken in recognition of the important partnership between Central America and the United States in striving for economic growth, prosperity, peace, and security in that region. This partnership is described in the pages that follow—through the country, regional, and topical profiles of U.S. and Central American cooperation.

The U.S. Agency for International Development's work with Central America is vital to the well-being of the Western Hemisphere. As President Ronald Reagan notes in the introduction, we are committed to helping our Central American neighbors who work so hard for a prosperous and democratic future. Secretary of State George P. Shultz stresses "our mutual efforts" in these endeavors while Assistant Secretary for Inter-American Affairs Elliott Abrams sums up the importance of aid to the goal of freedom for all nations.

The statements of the Central American leaders featured in this issue also underscore our joint cooperation and each country's individuality and sense of responsibility to the region.

We hope that this publication will be instructive as we continue to define and build on the long and mutually beneficial partnership between Central America and the United States.

AGENCY FOR INTERNATIONAL DEVELOPMENT VOL. 5 NO. 1 SPRING 1986

# HORIZONS

On the cover: Students at the Pan American School of Agriculture (known as El Zamorano) build a new food processing facility. The United States ranks among the most important contributors to El Zamorano, which offers practical experience in all fields of modern agriculture to students from 15 Latin American countries. Supporting institutions such as El Zamorano is one of the ways AID is helping Central America build a strong foundation for long-term growth.

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Raisa Scriabine, former deputy assistant administrator of AID's Bureau for External Affairs, and Judy Van Rest, former director of the Office of Publications, directed the effort.

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# *A Message from the President of the United States*

Over 40 years ago Harry Truman said, "The responsibility of the great states is to serve and not to dominate the world." (First message to Congress, April 16, 1945.) Agency for International Development and other development professionals working in Central America are fulfilling this basic American ideal. They serve the cause of human dignity and freedom—a cause facing an historic challenge from right- and left-wing extremes.

Our development activities are evidence of United States commitment to help the peoples of Central America realize their aspirations of building just and prosperous democratic societies.

Ronald Reagan

# *A Message from the U.S. Secretary of State*

Citizens of the Americas today share more widely than ever common political, economic, and social goals. Most important among them is a firm commitment to democracy. This special issue of *Horizons* explains the United States' role as an active partner in promoting economic growth and democratic development in Central America.

U.S. commitment to development is motivated by both national interest and concern for the welfare of our neighbors. From a purely national perspective, the United States has, as the National Bipartisan Commission on Central America found, fundamental strategic and moral interests that require a long-term commitment to economic opportunity, human development, democracy, and security in Central America.

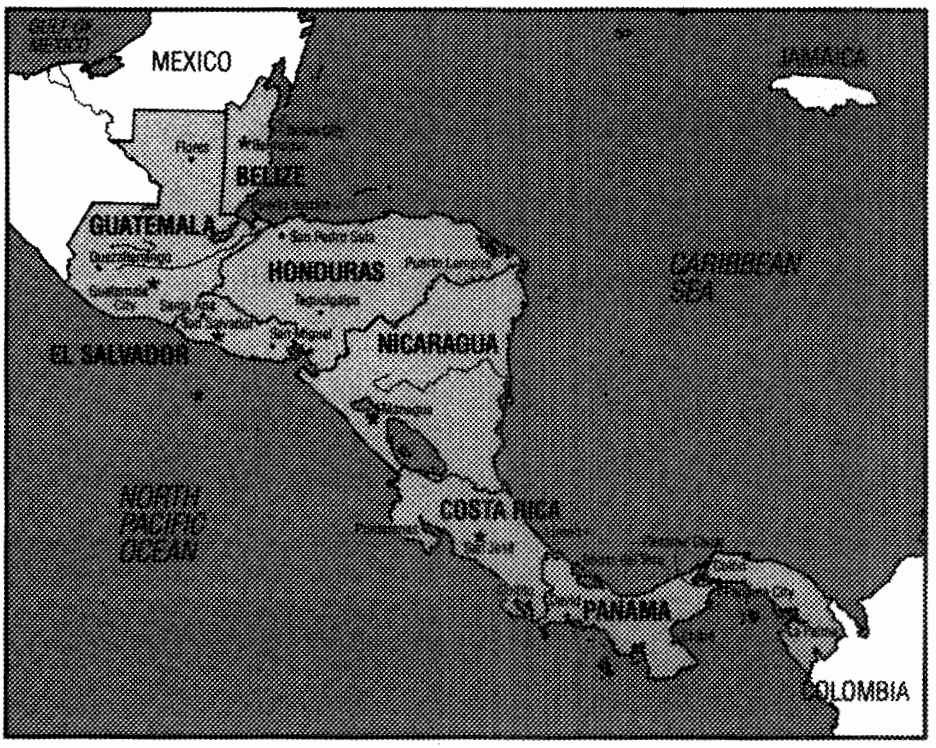
Those who work in development thus not only advance our national goals but also help our neighbors to create more just and productive societies for themselves. The industry, ingenuity, and creativity of the peoples of the Americas are some of the hemisphere's most valuable resources. Our mutual efforts both strengthen democracy and improve the prospects for a future prosperity fairly shared by all.

George P. Shultz

# OUR GOAL IS FREEDOM

*The Assistant Secretary for Inter-American Affairs outlines the thrust of U.S. strategy for Central America.*

*By Elliott Abrams*




U.S. policy in Central America was defined by President Reagan to a joint session of Congress on April 27, 1983: to support democracy, judicial reform, human rights, and equitable economic development; to promote national reconciliation within the countries and negotiation among the countries of the region for the purpose of resolving differences peacefully; and to help provide a security shield against violence and extremisms of both left and right. Our task is thus nothing less than to help democratic Central Americans reshape, consolidate, stabilize, and modernize their societies.

The development-oriented thrust of U.S. strategy was reaffirmed and refined by the National Bipartisan Commission on Central America in 1984. Most of the Commission's recommendations won Administration and Congressional approval and are being implemented today. There are four main elements: economic stabilization, growth, and human development; democratization and respect for human rights; political dialogue both within countries and among countries; and security assistance for regional peace and democratic development.

## Economic Stability and Growth

Consolidating democracy and modernizing economies are ambitious objectives in good times; to try to achieve them without some economic growth to reward hard work and enterprise would probably test even the most determined optimist. So it is good news indeed that Central America's downward economic spiral ended in 1984.

A gross domestic product (GDP) increase of 1.2% in 1984 for the region (not counting Nicaragua) followed GDP declines of 3.3% in 1982 and 0.8% in 1983. In El Salvador, where the

economy had declined calamitously by 25% from 1979 to 1982, GDP leveled out in 1983 and rose an estimated 1.5% in 1984. Our current estimate is that regional GDP (still aside from Nicaragua) has slowed to a modest 0.3%. Our forecast for 1986 is that GDP will continue to rise at a moderate pace. Although there may be some marginal increases in the interim, population growth will prevent per capita income from returning to peak 1979 levels until at least the early 1990s.

U.S. assistance programs were critical to helping reverse the economic decline in Central America and help prevent the social and political unrest it can engender. Stabilization is the first step in the economic recovery and development process. Supplemental assistance of $358 million in fiscal year 1984 and $873 million in other funds in fiscal year 1985 provided for both balance-of-payments support and economic development. We must continue our efforts in order to reinforce these positive trends and to help restore self-sustaining economic growth in the region.

Working with international financial institutions, we have helped Central American governments begin to restructure their economies so that they are more in tune with the resource realities of the 1980s. We support private sector-led, market-oriented development, with emphasis on non-traditional exports and increased agricultural production. Growth in 1984 GDP and current projections for growth in 1985 stem from Central America's own tough decisions plus U.S. and other foreign assistance. Self-sustaining growth will require further policy measures, creative thinking, and resources.

Together with the Inter-American Development Bank, the World Bank, and the International Monetary Fund, we have supported project financing, balance-of-payments support, structural adjustment loans, and similar measures to help governments shift economies toward greater reliance on exports to promote growth. These organizations play an indispensable role in furthering Central American development.

Investment capital will remain in short supply for the foreseeable future. However, Central American republics have taken some steps to promote investment by moving toward real positive interest rates, liberalizing regulations affecting foreign exchange, lessening bureaucratic red tape, working to restructure their economies with the International Monetary Fund and the World Bank, and cutting fiscal deficits.

Assistance from other donor sources can help get the Central American economies back on their feet. The meetings of European Economic Community, Central American, and Contadora foreign ministers in September 1984 and November 1985 were important steps toward increased European aid to Central America. The San Jose Accord, whereby Venezuela and Mexico provide petroleum on concessional terms, is a fine example of Latin American cooperation to further regional development.

### Human Development

The benefits of economic growth must be fairly shared. The poor have borne many of the burdens of economic adjustment; they must also profit from future growth. Our assistance stimulates economic activity, creates jobs, and increases income. It also aims to improve health, education, nutrition, and housing for lower income people. Together these measures reduce the great gap between rich and poor that affects the countries.

Growth in production (especially in labor-intensive areas) can benefit the poor by increasing employment. Other specifically targeted projects can more directly contribute to greater fairness in opportunity and access to services. Examples include land reform in El Salvador, improved rural health services in Honduras, and agricultural development programs among the Guatemalan Highland Indian population. Many of these programs also provide employment opportunities.

### Democratization

Democracy is at the core of U.S. policy. Its capacity to protect human rights and its responsiveness to people's needs make it ideal for human development. We promote democratic means and structures through support for the administration of justice, technical training, and development of leadership skills and civic participation.

The responsiveness and fairness of democracy are vital to resolve root developmental problems and are essential to the process that ultimately can bring peace and long-term stability to Central America.

Democracy has greater potential in Central America than most people realize. Costa Rica has had unbroken democratic rule for more than 35 years. After almost 18 years of direct military rule, Honduras returned to civilian government in 1982; local and national elections were held on November 24, 1985. With the January 27, 1986 inauguration of President José Azcona del Hoyo, power was peacefully transferred from one civilian government to another for the first time in 50 years. Belize transferred power from one elected

*"Our task is nothing less than to help democratic Central Americans reshape, consolidate, stabilize, and modernize their societies."*

democratic government to another in December 1984.

El Salvador, since 1979, demonstrates that political, economic, judicial, and human rights reform can move a country decisively toward democracy. When inaugurated in June 1984, José Napoleón Duarte was the first President of El Salvador in 50 years chosen in free and fair elections. Under his leadership the pace of reform has accelerated.

El Salvador's legislative and municipal elections in March 1985 were the fourth free elections in three years. Political moderates emerged victorious. Much progress has been made, despite a guerrilla response of increased urban terrorism and kidnapping of democratically elected mayors.

Guatemala held Constituent Assembly elections in July 1984, which were followed by presidential and legislative elections on November 3, 1985. A run-off election for the presidency was held on December 8, and President Vinicio Cerezo Arevalo and the new government took office on January 14, 1986. We look forward to the consolidation of democratic civilian government in Guatemala.

Central Americans themselves deserve the credit for these achievements, but U.S. assistance provided both encouragement and practical resources to help get the job done.

### Security Assistance and Peace Initiatives

Central American governments must provide security for their peoples. Without it, economic growth is impossible, foreign and domestic investors lack confidence, domestic savings rates will not grow, and capital flight will continue.

Military assistance is money well spent. While only one in five dollars in U.S. assistance is for security purposes, it helps to provide a defense shield so that our friends can make progress on the economic, developmental, and democratic political fronts. It helps to advance vital U.S. interests in the region and helps to bring closer the goal of a regional solution to the regional crisis.

U.S. policy toward Central America, including Nicaragua, is consistent with the Contadora process, which we have supported since its inception. In September 1983, the Contadora Group (Colombia, Mexico, Panama, and Venezuela) drew up a Document of Objectives.* The five Central American nations, including Nicaragua, agreed to all 21 points in

* The Governments of Colombia, Mexico, Panama, and Venezuela formed the Contadora Group in January 1983 to seek a comprehensive regional solution to the social, economic, political, and security problems underlying the conflict in Central America. The first meeting was held on Contadora Island in Panama. For a listing of the 21 objectives, refer to UN Document S/16041, October 18, 1983.

### THE NATIONAL BIPARTISAN COMMISSION ON CENTRAL AMERICA

The National Bipartisan Commission on Central America (NBCCA) was named in July 1983 by President Ronald Reagan to advise on a long-term U.S. policy that will best respond to the challenges of social, economic and democratic development in the region.

The NBCCA concluded that fundamental strategies and moral interests of the United States require a long-term national commitment to economic opportunity, human development, democracy, and security in Central America.

The Commission proposed a comprehensive approach—an active diplomacy in support of democracy, bolstered by economic aid and other measures designed to address the sources of poverty and social unrest, and by security assistance to protect peaceful development. The NBCCA's recommendations are at the heart of U.S. Central America policy.

The Commission was chaired by Henry A. Kissinger. The Commissioners were Nicholas F. Brady, Henry G. Cisneros, William P. Clements, Jr., Carlos F. Diaz-Alejandro, Wilson S. Johnson, Lane Kirkland, Richard M. Scammon, John Silber, Potter Stewart, Robert S. Strauss, and William B. Walsh. Senior Counselors were Michael D. Barnes, Lloyd Bentsen, William S. Broomfield, Pete V. Domenici, Daniel K. Inouye, Jack F. Kemp, Jeane Kirkpatrick, Winston Lord, Charles McC. Mathias, William D. Rogers, and James C. Wright. Harry W. Shlaudeman served as Executive Director.

*"We must continue our efforts in order to reinforce positive trends and help restore self-sustaining economic growth in the region."*

the Document, the basis for all subsequent negotiations. Balanced, simultaneous, verifiable, and comprehensive implementation of these objectives offers the best hope for a durable peace for Central Americans. It would satisfy U.S. security concerns.

During 1984, we undertook several rounds of bilateral talks with the Nicaraguan government at the request of the Contadora Group in support of the Contadora process. Nicaragua's efforts to portray the Central American conflict as simply a bilateral issue with the United States cannot hide the genuine, broader scope of the problem. Nicaraguan internal repression, belligerence, and political/military ties to Cuba and the Soviet Union threaten other countries of the region. That threat forces them to divert resources to defense, undermining economic development and recovery. The security threat also saps political and human resources that otherwise could be devoted to economic reform.

Our interest in seeing the spread of democracy has united us on goals and has led to a growing consensus on Central American policy. Differences over the nature of the Sandinista regime have diminished. As the Sandinista regime reveals more of its true nature, its supporters become skeptics and skeptics, critics. We want to see democracy in Nicaragua, as we do in other countries.

The United States remains prepared to talk to Nicaragua if doing so would promote national reconciliation in Nicaragua and advance a comprehensive regional settlement in the Contadora process.

We will continue to press for internal dialogue in Nicaragua. It is a *sine qua non* for lasting peace. Dialogue within countries is fundamental to the Contadora process. It was roundly applauded in El Salvador; no less should be expected in Nicaragua.

Aid is an emergency measure, vital in this time of crisis. Given the dimensions of the crisis, it will be needed for some years to come. We must be careful, however, to ensure that it contributes to freedom and fairness and not to new forms of political and economic stagnation and dependence.

Aid can help promote modern, competitive economies, based on free enterprise and free markets. It must liberate working people's entrepreneurial talent and their drive to produce, unfettered by social, political, or economic discrimination or by statist interference. By contributing to progress in these areas, aid helps us to achieve our goal—which is also our neighbors' goal—freedom. ■

*Elliott Abrams is the Assistant Secretary for Inter-American Affairs, U.S. Department of State.*

## THE CENTRAL AMERICA DEMOCRACY, PEACE AND DEVELOPMENT INITIATIVE OF 1984

The Central America Democracy, Peace and Development Initiative of 1984 (the Central American Initiative) was approved by the U.S. Congress to implement the recommendations of the National Bipartisan Commission on Central America. It is directed to four broad goals: stabilization of economies in severe recession, economic transformation leading to sustained long-term growth, spreading the benefits of development (both economic opportunity and access to social services), and the establishment of democratic institutions. The initiative incorporates executive, legislative, and private sector actions and a five-year authorization of $8 billion in economic aid—$6 billion in appropriated funds and the balance in credit guaranties and other programs—to benefit Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama. In the fiscal year 1985 Continuing Resolution, Congress appropriated $979 million for economic assistance (including the activities of agencies such as the Peace Corps and U.S. Information Agency) and $237 million in military assistance. These resources support agricultural development and land reform, education (including scholarships), nutrition and health services, humanitarian relief, housing, economic reform and export promotion, aid for small businesses, democratic leadership training, judicial reform, and support for democratic institutions.

# PEACE, PROSPERITY, AND PROGRESS

*AID's Administrator discusses how the United States can help restore peace, strengthen democracy, and improve the living standard in Central America.*

*By Peter McPherson*

We can look back with pride at the success forged by our partnership with Central America. More than 40 years ago, for example, the newly created Institute of Inter-American Affairs developed a network of bilateral organizations that financed and managed technical assistance projects in health, education, and housing throughout Central America.

The Alliance for Progress—a joint effort by the nations of Latin America and the United States to foster economic growth and democracy in the Americas—followed in the 1960s. Funded primarily by Latin American governments with assistance from the United States, the Inter-American Development Bank, the World Bank, and other donors, the Alliance supported a variety of economic and social programs. As a result, the pace of agricultural and industrial production in the region increased. Central banks, private credit institutions, agricultural cooperatives, and health centers were established. Roads and schools were built. Disease control, voluntary family planning, and technical training and higher education programs were launched.

The Alliance also provided major financial and planning support to the Central American Common Market (CACM)—a key contributor to the region's rapid economic progress during the 1960s and early 1970s.

By the late 1970s, however, the positive growth trend was reversed. The economy declined due to rapidly rising oil prices and interest rates. The world market for major Central American exports fell. The resulting gap in the region's balance of payments led to excessive borrowing rather than structural adjustments to the real problems created or exacerbated by the world economic recession.

The late 1970s found much of the region's population poor, without adequate economic opportunities and basic services. Wealth and income distribution were widely skewed in some areas.

All of this contributed to growing social and political unrest. The political turmoil resulting from the establishment of a Marxist government in Nicaragua and from civil unrest in El Salvador undermined CACM trade, discouraged foreign investment, and dried up commercial credit availability so vital to the region's continued economic growth. At the beginning of the 1980s, Central America was experiencing severe economic, political, and social problems.

Recognizing the mounting crisis, President Reagan formed the National Bipartisan Commission on Central America in 1983 to determine the best ways "to respond to the challenges of social, economic, and democratic development in the region." The Commission examined the historical,

economic, social, and security aspects of Central America's development. It concluded that the United States, with a moral and strategic obligation to support democracy and freedom, must make a bipartisan, long-term commitment to assist Central America.

The Commission's proposals form the nucleus of the 1984 Central America Democracy, Peace, and Development Initiative (Central American Initiative) presented by President Reagan to Congress. This initiative marks a new phase in U.S.-Central American cooperation. It brings together an active diplomacy in support of democracy and increased levels of economic aid to address the roots of poverty and social unrest.

We, at the Agency for International Development (AID), take pride in our role in carrying out the U.S. assistance program in the region and in seeing the recommendations of the Central American Initiative realized.

Today, we are seeking new and more effective answers by analyzing the core issues that face us. The problems we confront are interdependent. In Central America, for example, economic progress is dependent on regional peace and stability. Stability encourages long-term investment and growth. The abatement of regional strife is, therefore, necessary to achieve long-term sustained economic growth.

There is no quick fix to the problems confronting Central America. A comprehensive strategy that enhances political stability by building democracy while stimulating economic growth is the most effective way to bring about Central American revitalization.

Toward this end, U.S. foreign aid is guided by a four-point approach: economic stabilization, economic transformation, broadening the base of development, and strengthening democracy.

First, to achieve economic stabilization and to arrest the downward economic spiral, we provide balance-of-payments support. These funds help Central Americans buy necessary imports they otherwise could not afford in order to spur production, income, and employment. Balance-of-payments assistance also affords Central American nations the time to establish and implement a sustainable development strategy.

Second, we support an export-led strategy to achieve economic transformation to self-sustained growth. The key to economic dynamism is production of labor-intensive agricultural and industrial products for export. Potential exists for foreign investment in assembly industries for the U.S. market as well. A variety of changes in government economic policy to energize the private sector such as access to foreign exchange and preferential credit are currently being pursued. In addition to policy incentives, major investments are sought in productive enterprises, particularly for small- and medium-size industries, and infrastructure to ensure their longevity.

The Caribbean Basin Initiative (CBI) also supports self-sustained growth. Launched in 1982, the CBI offers preferential trade arrangements to 21 countries in Central America and the Caribbean. Duty free entry into the U.S. market is provided for 12 years. The CBI has increased financial support for economic development more than threefold and has helped the private sector expand production, create new jobs, diversify exports, and promote domestic and foreign investment.

The third component of AID's approach is to broaden the benefits of economic growth to lessen the disparities in income and opportunity. To bridge this social and economic

*"A comprehensive strategy that enhances political stability by building democracy while stimulating economic growth is the most effective way to bring about Central American revitalization."*

*"U.S. economic assistance must be provided in such a way as to encourage appropriate policies and to back well-planned economic stabilization efforts."*

gap, AID is helping to increase primary school enrollments, train men and women in skills and professions, reduce infant mortality, increase availability of modern voluntary family planning, and improve access to productive land and agricultural technology.

Fourth, democratic institutions need to be built to support and secure a stable environment essential for economic growth. AID is helping to strengthen judicial systems and support fair elections. For example, AID launched a three-year project in 1984 to build and sustain a civil and criminal justice system in El Salvador. It will enhance the ability of the system to guarantee equal protection for all under the law. We have aided the Salvadoran Central Election Committee to conduct free elections in 1984 and 1985. Greater opportunities for education and training also are offered as part of the Central American Peace Scholarship (CAPS) program.

## U.S. FOOD PROGRAM RESPONDS TO EMERGENCY AND LONG-TERM NEEDS

The U.S. Food for Peace (Public Law 480) program in Central America provides quick responses to emergency food needs and longer-term assistance for socioeconomic problems in the region. During fiscal year 1985, $130.6 million worth of U.S. agricultural commodities was delivered to Costa Rica, El Salvador, Guatemala, Honduras, and Panama. This amount represents 536,000 metric tons of food, primarily grains, legumes, dairy products, and edible oils. Throughout fiscal year 1986, $117.2 million, or 626,000 metric tons of commodities, will be provided.

Some 80% of U.S. food aid to Central America is supplied through Title I programs. These programs provide balance-of-payments support by selling U.S. farm produce at concessional rates. They also supplement local currency costs of development projects through in-country commercial sales.

Title II, a food donation program, targets food to vulnerable groups in the countries—infants and children under five years old, pregnant and lactating women, the indigent, and the elderly. Private and voluntary organizations, such as CARE and Catholic Relief Services, usually distribute the food through Maternal and Child Health, Food for Work, and School Feeding programs.

Special emergency food rations, totaling approximately $10 million, are being delivered to Salvadorans displaced by civil unrest and to community groups involved in reconstruction activities in that country, such as restoring electricity and water supplies. The International Service of the Red Cross also distributes commodities to families living in areas of active insurgency. Smaller emergency programs assist Salvadoran refugees in Central America who have migrated to Honduras and Mexico. ■

It has been just over a year since the U.S. Congress appropriated $979 million for economic assistance and $237 million for military assistance to implement the recommendations made by the National Bipartisan Commission on Central America. Already significant progress has been made. After four years of steady decline, economic growth in Central America was positive in 1984 and 1985. Fiscal deficits are being reduced. Major steps to control government spending and to energize the private sector have been taken. In Costa Rica and Honduras, for example, some inefficient public enterprises are beginning to be privatized. The investment climate is improving. Capital flight, large in 1980-83, has recently stopped on a net basis.

There has been a significant hike in Central American non-traditional exports to the United States. Some countries, notably Costa Rica, have developed a solid base for continued growth in this area, making agricultural and industrial products important sources of export earnings and employment. Promotion activities such as free zone investments show encouraging results. The recent open elections in Costa Rica, El Salvador, Honduras, and Guatemala have had a healthy impact on the stability of the region as a whole.

These developments clearly show progress. However, several constraints remain.

Nicaragua continues to be a destabilizing presence in the region. The insurgency in El Salvador retards development in that country and investment in the region. Capital inflows from investment, private bank finance, and other donors such as the World Bank have not yet reached desired levels. Despite a recent surge in coffee prices resulting from drought damage to the Brazilian crop that is temporarily helping Central America, world market prices for the region's major traditional exports have not recovered to the extent expected.

These constraints underscore the importance of sustaining high levels of U.S. economic assistance and directing our assistance to programs offering the best potential for economic recovery, long-term growth, and broadened opportunity. To maximize the effectiveness of foreign assistance programs, macroeconomic policies need to attract domestic savings, investment, and foreign capital inflows and stimulate private business activity for increased production, export sales, and employment. U.S. economic assistance must be provided in such a way as to encourage appropriate policies and to back well-planned economic stabilization efforts.

As neighbors in an interdependent world, we today shape the future that we share. By working together, we are building a strong foundation for a better life for the people of our hemisphere. ■

*Peter McPherson is the administrator of AID.*

## U.S. ECONOMIC ASSISTANCE TO CENTRAL AMERICA

($000)

| Fiscal Year | Total | Agriculture, Rural Development, and Nutrition | Population Planning | Health | Education and Human Resources | Selected Development Activities | Economic Support Fund (ESF) | Public Law 480 |
|---|---|---|---|---|---|---|---|---|
| 1980 | 177,185 | 78,507 | 3,514 | 25,776 | 10,125 | 15,838 | 10,225 | 33,400 |
| 1981 | 257,498 | 57,032 | 3,145 | 4,014 | 13,010 | 22,003 | 102,374 | 55,900 |
| 1982 | 353,317 | 65,919 | 4,423 | 5,742 | 10,583 | 25,670 | 176,900 | 64,100 |
| 1983 | 631,712 | 94,445 | 5,660 | 27,195 | 5,636 | 27,776 | 373,000 | 97,900 |
| 1984 | 525,818 | 76,489 | 5,743 | 18,446 | 4,356 | 21,650 | 290,234 | 111,700 |
| 1985 | 1,197,176 | 99,036 | 13,009 | 51,274 | 64,468 | 71,606 | 766,993 | 130,600 |

# *Partners in Development:*

# BELIZE

*By Judy Van Rest*

## A MESSAGE FROM THE PRIME MINISTER OF BELIZE

Belize is a peaceful country in Central America today. As a free and open democracy, we welcome support and cooperation in our economic development.

Our small nation, like her sister states that make up Central America and the Caribbean, experiences the frustrating ill effects of debt-servicing, unemployment, and underdevelopment. Our people recognize the magnitude of the economic and social disadvantages in our midst. They confront the limitations of our financial resources with human anxiety.

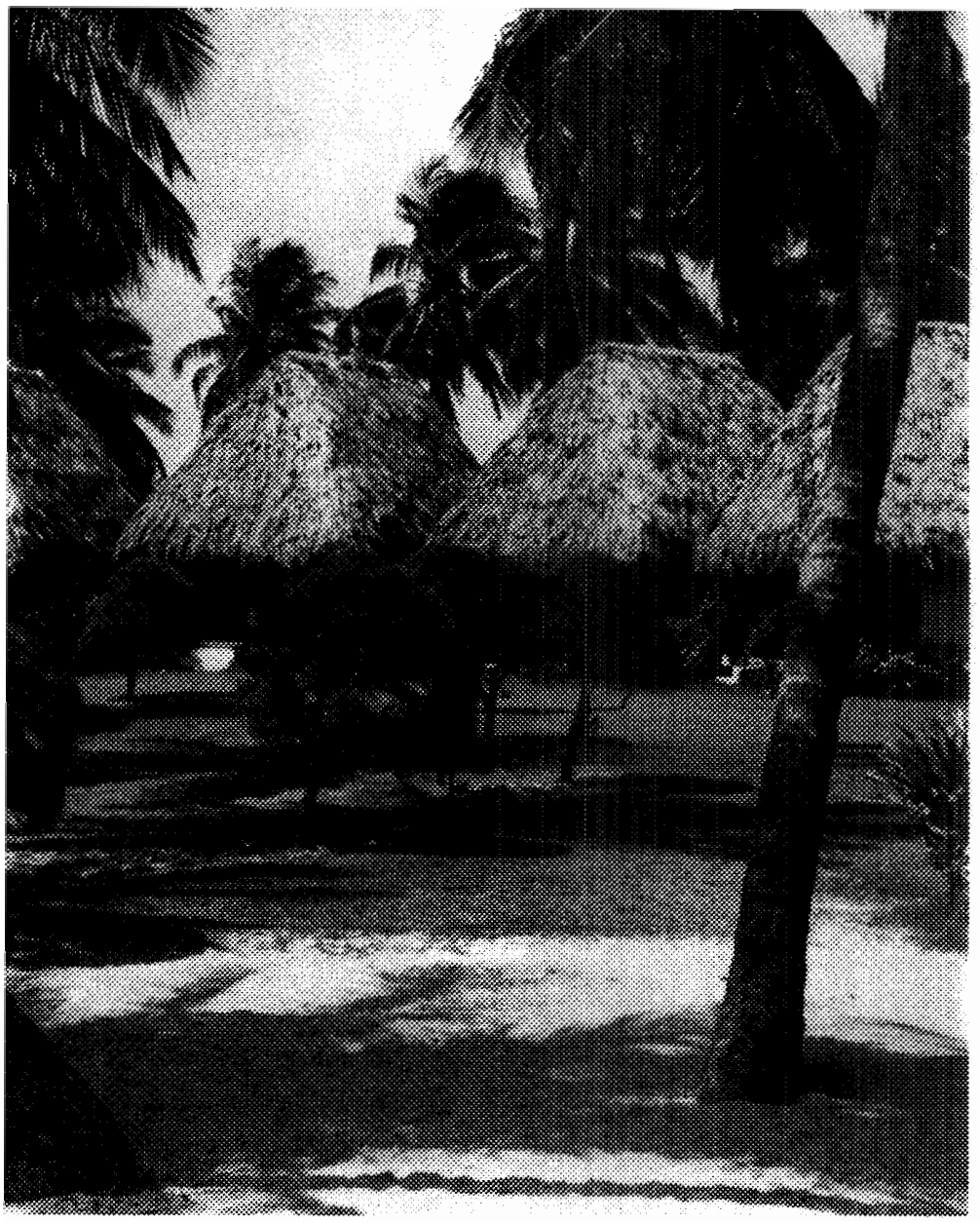
Yet, it is the innate optimism of a democratic people who believe that with the enlightened management of their freely elected representatives and with the proper allocation of finances from economic partners, a more realistic and vibrant economy can be created.

Our future economic development as an underdeveloped country will depend, in part, on attracting and inviting investment and technical assistance to stimulate new areas of employment and export generation.

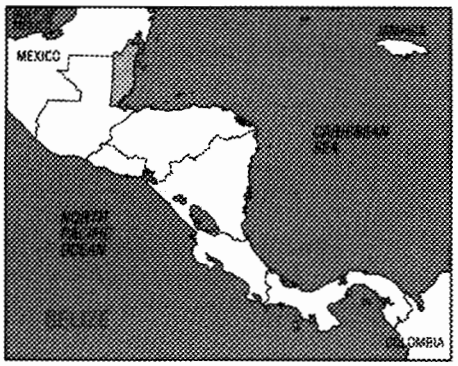
It is, therefore, important for Belize to solidify its relationships with its economic partners. Simultaneously, it is exceedingly vital for our partners in democracy to be willing to help us to increase the productivity and marketing of our resources. Our crusade for prosperity for all should be conducted in an atmosphere of complementarity, cooperation, and equality.

Belize will continue to offer to its people and to its neighbors in Central America and the Caribbean the reality of a free and peaceful society, one that breaks with the rigidity of the past and redefines the role of government in its relationship with individuals and with economic partners.

*—Manuel Esquivel*



*Belize's idyllic beaches beckon vacationers. Streamlined policies that promote investment in the tourism industry are helping build a durable foundation for the future.*




Belize is different from its Central American neighbors in many ways. Independent since 1981, the former British Honduras combines an English heritage with a Caribbean flair. Its people are a mix of Mestizo, African, Spanish, and other diverse ethnic groups, a third of whom are descendents of the Mayas. In this sparsely populated nation of 165,000, English is the official language, although Spanish is widely spoken.

Belize's history is one of political stability. As a colony, it began self-government in 1964. After its independence, the country continued its legacy of representative government with democratic elections in December 1984, in which the peaceful transfer of government took place. It is the only democracy on the isthmus of Central America following the British parliamentary system.

Like other Central American nations, however, Belize is facing serious economic problems including severe budget deficits and balance-of-payments difficulties. Its economy has declined in recent years due to low world market prices for sugar, its major export, and an undeveloped agricultural base for other exports. A lack of basic infrastructure to develop domestic industry and attract foreign investment also has impeded economic growth.

The education system has produced one of the highest literacy rates in Central America, but there are few programs to increase the number of technically skilled persons. Unemployment is on the rise in the cities where half the population lives. The emigration of working adults to the United States further exacerbates the economic situation, draining the pool of skilled human resources needed for growth.

Despite these drawbacks, Belize is bursting with potential. The country's major natural resource is some 809,000 hectares of arable land, only a fraction of which is under cultivation. Its rich soils and subtropical climate are ripe for agricultural development, and the shimmering waters off the coast and cays present a tremendous opportunity for its growing fishing and tourism industries.

"It is an industrious country," says Neboysha Brashich, the U.S. Agency for International Development's (AID) representative in Belize. "Given its size and capacity, Belize's future economic growth may regain the levels it enjoyed in the seventies provided agricultural diversity takes place and the issue of sugar production is resolved."

Belize is laying a durable foundation for the future. Its trade deficit has fallen from $86 million in 1981 to an estimated $63 million in 1985 due to increased local production of fruits

and vegetables and an increase in the export of winter fruits and vegetables to the United States, and, according to Brashich, this trend is expected to continue. The government is taking steps to diversify and expand the agricultural base and build up the nation's infrastructure. New investments in citrus and hotels, for example, are positive signs for future growth. In addition, the government is preparing to divest itself of some deficit-run parastatals (Belize Meats Limited has already been divested, and the Banana Control Board is in the process of selling its banana plantations to a small farmer cooperative and private individuals), thus opening new vistas for private sector involvement in the country's growth.

Given the country's small population and limited domestic markets, the government recognizes that export and tourism development are essential to economic growth. Belize is a member of the Caribbean Community (CARICOM), which gives it access to Caribbean markets for export of beef and other products. The country also plans to take advantage of its eligibility under the Caribbean Basin Initiative by increasing production of such non-traditional crops as cocoa and winter fruits and vegetables for export to U.S. markets.

According to Charles Jenkins, AID's former agricultural development officer in Belize, the focus is on making the transition from import marketing —that is, low-risk buying and selling— to export promotion and marketing, a more competitive and potentially more rewarding effort for the nation.

"AID's program is based on a strategy which collaborates with the government to develop a stabilized, viable economy," says Brashich, "that will enable Belize to continue political stability and provide a better quality of life for its people."

To help reverse recent economic decline, in 1985 Belize and AID negotiated a $13 million Economic

## BELIZE: A SOCIAL AND ECONOMIC PROFILE

| | |
|---|---|
| **POPULATION[1]** | |
| Total Population | 165,000 |
| Annual Growth Rate | 2.2% |
| **ECONOMY[2]** | |
| Gross National Product (GNP) Per Capita | $1,140 |
| **EDUCATION[3]** | |
| Literacy Rate | 91% |
| **HEALTH[4]** | |
| Infant Mortality Rate/ Per 1,000 Live Births | 20/1,000 |

| | |
|---|---|
| **AGRICULTURE[5]** | |
| Major Subsistence Crops | Rice, roots and tubers, corn |
| Major Cash Crops | Sugar, citrus fruit, rice |
| **FOREIGN TRADE[6]** | |
| Major Exports | Sugar, oranges, fish |
| Major Imports | Machinery, transportation equipment, wheat, dairy and animal products, manufactured goods |

1. U.S. Bureau of the Census, 1985
2. World Bank, 1983
3. World Bank, 1979
4. Pan American Health Organization, 1985 (1984 IMR)
5. U.S. Department of Agriculture, 1984
6. *The World Factbook*, 1985

*A major meat processing plant, formerly owned by the government, is now a private enterprise. The plant, certified by the U.S. Department of Agriculture, will export meat throughout the Caribbean.*

Support Fund (ESF) loan for balance-of-payments support that focuses on improving public sector finances and a $1 million ESF grant to provide technical assistance for advisory services to the Belize Electricity Board and for restructuring the Belize Marketing Board, two parastatals that are large drains on the public sector budget.

Belize's Central Bank is financing private sector ventures in light industry, agribusiness, agriculture, and tourism with $5 million, provided by AID, for on-lending through four commercial banks. This is the first time medium-term lending is being introduced in Belize. Traditionally, commercial financial transactions have been on the basis of short-term credit.

The Belize Chamber of Commerce also has received assistance from AID to develop an export investment promotion program, and the National Development Foundation of Belize, a local private and voluntary organization, has received an AID-funded grant to expand a program of credit, business guidance, and technical assistance to microenterprise owners, such as furniture makers, auto repairmen, and tailors.

## Belize Steps Up Agricultural Production

While agriculture brings in 65% of the country's foreign exchange earnings and employs about 30% of the work force, farming was not always a legitimate endeavor in Belize. In the colonial days, the sole interest was in Belize's tropical forests of logwood for naval stores and mahogany for cabinets and railroad carriages. Logging flourished while all agriculture was prohibited by law.

As the supply of lumber began to diminish in the 1950s, attempts at commercial farming of sugarcane took hold. Sugar has dominated the Belizean economy for years and represents 60% of the foreign exchange earnings, but it has ceased to be the profitable export it was in the 1960s and 1970s. For example, in 1980, sugar brought 22 cents per pound, whereas in today's market it pays only 3 cents per pound.

Several efforts are being made to alleviate Belize's reliance on sugar for major foreign exchange. One is the $3.3 million AID Livestock Development project in which small and medium farmers are learning to improve livestock production and expand market outlets.

Food imports—particularly processed dairy and pork products—are staples of Belizean life. Of the country's $160 million gross national product in 1984, $40 million was spent on imported food.

The project is addressing this problem and has already made progress in improving the nation's small meat processing industry. A major meat processing plant, formerly owned by the government and now a private enterprise, has been certified by the U.S. Department of Agriculture (USDA). The abattoir has introduced its own sausages, hot dogs, and luncheon meats to the Belizean market and made its first export since the 1970s to the United States. In addition, the USDA certification has opened the door to the Caribbean market.

Local butchers also are being trained in the plant, and other local meat processors and retailers are taking advantage of technical assistance offered through the project.

The project encompasses several other activities. Small pig farmers are receiving instruction in the latest swine production techniques from a U.S. technical adviser working with the Ministry of Natural Resources, which maintains extension services. Quality pasture land is being increased, and plans are being made to expand the local dairy industry, including a milk processing plant to be built and operated by the private sector.

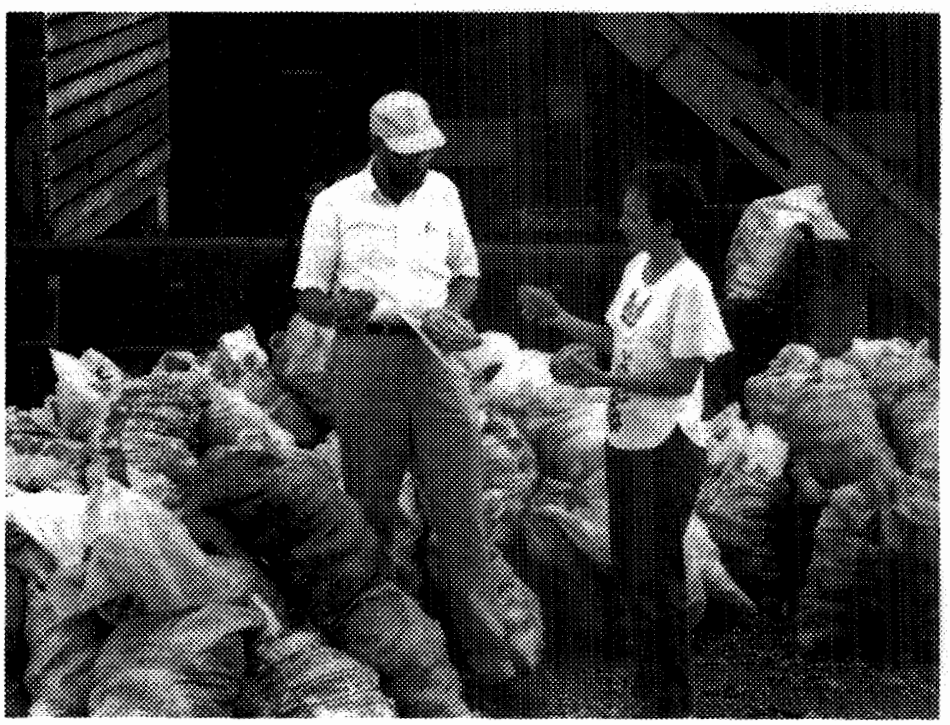
Belize is a natural greenhouse, capable of providing the United States with fresh winter vegetables and fruits, such as watermelons, cantaloupes, and cucumbers. Belize and AID recently agreed to a $6.8 million Commercialization of Alternative Crops project that will help farmers produce crops not only for export, but for domestic consumption in order to reduce reliance on imported products.

Cocoa production is another potential contributor to developing the economy. In the jungle of central Belize, 60 small farm families are getting the chance to claim their own land, build their own houses, and produce their own cocoa crop for market. This effort is being made possible through the Belizean government, Hershey Foods Corporation, AID, the Pan American Development

Foundation, Volunteers in Technical Assistance, and the Peace Corps.

Participating farmers each acquire 25 acres of land donated by the government, 10 of which must be used for cocoa production. The remainder of the land can be used at the farmers' discretion—for building homes and growing crops for food and extra income as they develop their cocoa farms. The pilot group of 15 farmers is employed at Hershey's Hummingbird Farm and already has enough expertise to start growing cocoa plants on its own. The Hershey Corporation is offering its facilities for training and has entered into a formal agreement to buy cocoa from the farmers. AID has provided a grant of $615,000, and the Pan American Development Foundation is coordinating the project.

*Chocolate production starts at Hummingbird Farms, where cocoa beans are separated from the pod, dried, and shipped to the Hershey Corporation's plant in Pennsylvania for processing.*



### Training Opportunities Targeted To Belize's Economic Priorities

Training Belizeans to become technically skilled workers in a variety of areas is one essential ingredient for the country's economic growth. The government, the Belize Chamber of Commerce and Industry, the Belize Institute for Management, and AID recently agreed to a Training for Employment project that will provide private sector employees with management and skills training related to export, investment, and tourism development.

The government also will upgrade its vocational education program through this effort. Specialized technical and public administration training in such areas as export and tourism, documentation, and quality control will be conducted to help the government achieve investment promotion and export goals. AID is providing $5 million for this technical assistance and training program.

Belize also is participating in the Central American Peace Scholarship program (CAPS), AID's recent effort to give Central Americans increased opportunity for skills and academic training in the United States. Through the program, Belizeans will receive short-term training in primary health care, nursing, curriculum development for secondary schools, school administration, electronics, machine tool techniques, crop diversification, food preparation, and youth leadership. Future long-term scholarship recipients will receive instruction in private sector management training, financial analysis, and economic development as well as training leading to degrees in public health areas and agriculture.

In addition, various faculty members of Belize's higher educational institutions will improve their skills through degree programs in education. Under the CAPS program, Belizeans from all districts who are socially and economically disadvantaged are recruited and selected; 40% of the participants are women. AID provided 9 long-term and 30 short-term scholarships in fiscal 1985.

Because agriculture was discouraged for so long in Belize, young rural people often see farming as a last resort for an occupation. City life lures them away from their villages, yet, there is little awaiting them other than unemployment. One promising training effort, the Belize Junior School of Agriculture, an institution founded by a Peace Corps volunteer in September 1984, is teaching young students how to farm and showing them that agriculture is the occupation of Belize's future.

According to parents and community officials, the project has been a tremendous success in a short time. The first-term students, ages 14 to 16, had left primary school with no plans to continue their education. However, they scored high grades at the Junior School and became enthusiastic about agriculture. For 1984 and 1985, AID provided the school with a $75,000 grant.

### Roads, Housing, Health Services—Building Infrastructure

Many rural villages are accessible only by foot path, old logging trails, or rivers and streams. For example, the

village of Bomba, just 40 miles from Belize City, is accessible only by water. Children attend school and farmers take their produce by dugout to the rural community of Maskall, five miles upriver. In addition, Belize's existing roads are in need of repair. The annual heavy rainy season further compounds the problem, making many roads impassable, washing away poorly constructed bridges, and undermining poorly prepared pavement.

Together, the government and AID have designed a Rural Access Roads and Bridges project in which 50 miles of road will be rebuilt in each of the country's six districts and 50 bridges replaced. The government is providing $3.3 million for this effort. AID is providing $6.2 million along with technical advice and training. An important part of the project is that Belizeans are receiving on-the-job training in road construction and maintenance, and the Ministry of Works is receiving assistance in budget planning and roads operation.

To date, one district's roads are completed, and work is well under way in a second. "For the first time, rural areas are more accessible for the small farmers who before had to carry bags of grain on their backs to market," says Brashich. "Now they can use vehicles to travel to the market, and their families can receive needed health, education, and social services."

AID is providing assistance to Belize to help improve the country's housing sector. A $2 million Housing Guaranty loan is helping Belize's private sector credit unions that are participating in a home improvement loan program. Urban families are able to obtain loans to upgrade their homes, that is, replace roofs or add rooms. In addition, the AID program includes funds for the Development Finance Corporation, an autonomous government agency, to make sub-loans to rural residents who do not have access to credit. To date, over 500 such loans have been made with $800,000 disbursed. A total of 1,300 families are expected to benefit from this program.

*Adequate housing and access to potable water are limited in rural areas, and few roads connect villages to the outside world.*

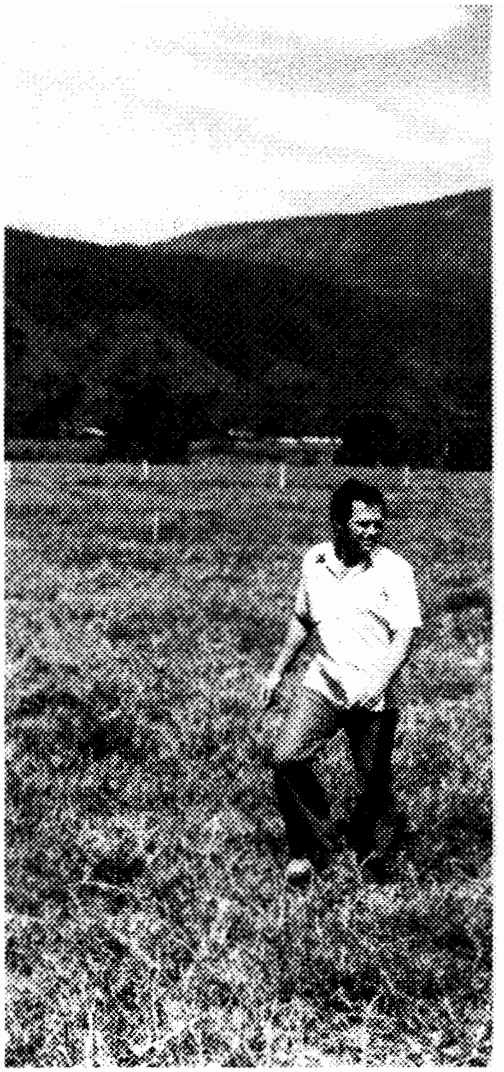
Belize's overall health picture is somewhat better than other Central American countries, but the nation is now facing a serious problem with malaria and dengue fever and still unacceptably high infant mortality rates due to diarrheal disease. The number of reported cases of malaria has tripled from 1980 to 1983. In 1983, approximately 4,600 cases were reported. Mosquito infestation is on the rise, and inadequate water drainage and sanitation have contributed to the situation. To help combat these health problems, the government is receiving $7 million over a four-year period from AID to combat malaria and dengue fever, extend water and sanitation to more rural communities, and improve the national water quality control program. The country also is receiving assistance from AID, in cooperation with CARE (Cooperative for American Relief Everywhere), to install water and sanitation systems in the northern districts.

Although it has been a short time since the January 1983 establishment of the AID bilateral mission in Belize, significant steps have already been taken toward economic recovery and growth. Belize's government and AID will concentrate future activities on implementing appropriate economic and development policies, promoting export and investment, finding new markets, promoting Belizean products, locating joint-venture partners, carrying out feasibility studies, strengthening cooperatives that play a major role in agricultural development, and encouraging small business development.

"At this juncture," says Brashich, "Belize's ethnic diversity, accessibility to U.S. markets, stabilized and democratic processes, and interest in expanding trade all foretell a very successful future for long-term development." ■

*Judy Van Rest is the former director of AID's Office of Publications in the Bureau for External Affairs.*

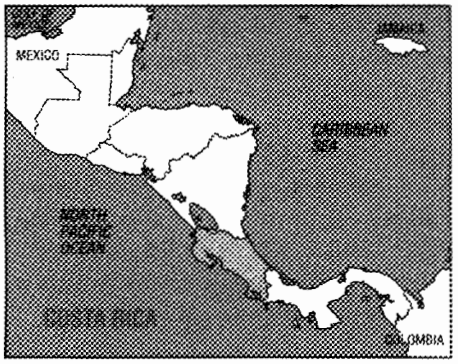
*Costa Rica is finding ways to help producers meet domestic needs and expand production of higher value exports such as electronic components.*



# *Partners in Development:*

# COSTA RICA

*By Bart Kull*



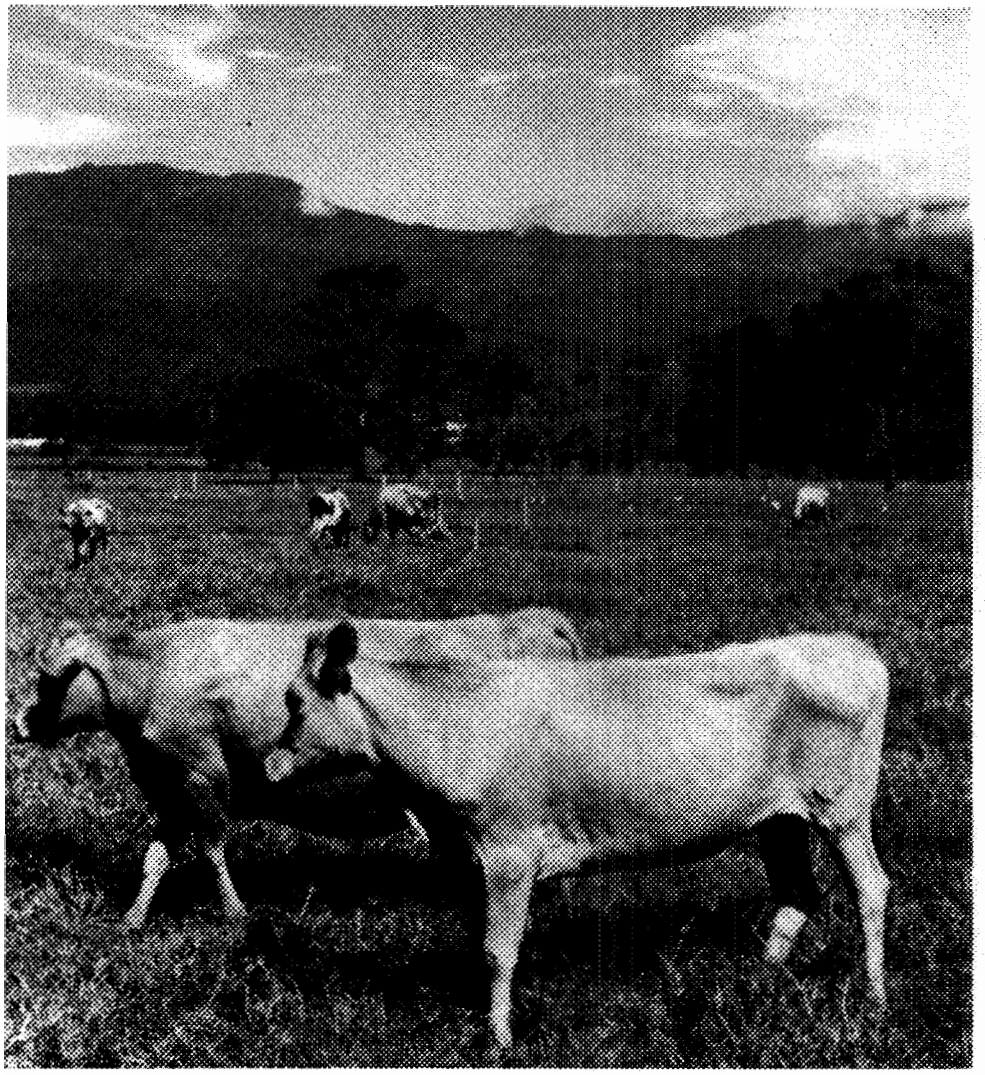

## A MESSAGE FROM THE PRESIDENT OF COSTA

Costa Rica, like the United States, has enjoyed a tradition of freedom and democracy and concern for the well-being of all our citizens.

But this tradition did not come to us automatically; we struggled to achieve it. We are, therefore, proud that the 2.4 million people of our nation have a strong voice in determining how the government will be run; proud that we can speak freely about our government; proud of the education and health systems which have helped improve the lives of even the poorest of our population. Yet, we recognize that we must also be vigilant in protecting these achievements and must labor for continued progress.

Costa Rica's experience and that of our Central American neighbors in the 1980s has demonstrated in a most dramatic fashion that political, economic, and social systems are vulnerable to both external and internal factors and threats. At the same time, the experience has served forcefully to remind us of the mutually shared democratic interests and ideals of Costa Rica and the United States and of the strength of our friendship.

President Reagan and I, representing the peoples of the United States and Costa Rica, have stood together against the political threat posed by the current Nicaraguan government and others opposed to the democratic freedoms and ideals espoused by our countries. Costa Rica's Presidential elections of February 1986 and the subsequent smooth transition of power in May will be another reminder to those who oppose our system that democracy in Costa Rica is unshaken.



Bordered by the Caribbean Sea and the Pacific Ocean and traversed by mountain ranges, Costa Rica is a nation of wide geographic diversity. It is also a land that has had a long tradition of democracy, equity, and reliance on free enterprise.

For many years, Costa Rica was seen as a model of development. World prices for its basic exports were favorable; literacy and health care reached high levels. A 6% annual economic growth rate was attained. But in the late 1970s, the nation was struck by a series of severe economic blows. Oil prices and interest rates skyrocketed while world market prices fell for Costa Rica's traditional exports (bananas, coffee, beef, and sugar). Regional political turmoil undermined Central American Common Market trade and created a growing stream of refugees from nearby Nicaragua.

By 1981, these events, combined with a heavy debt burden, led to rapid

RICA

that it is imbedded in the Costa Rican spirit.

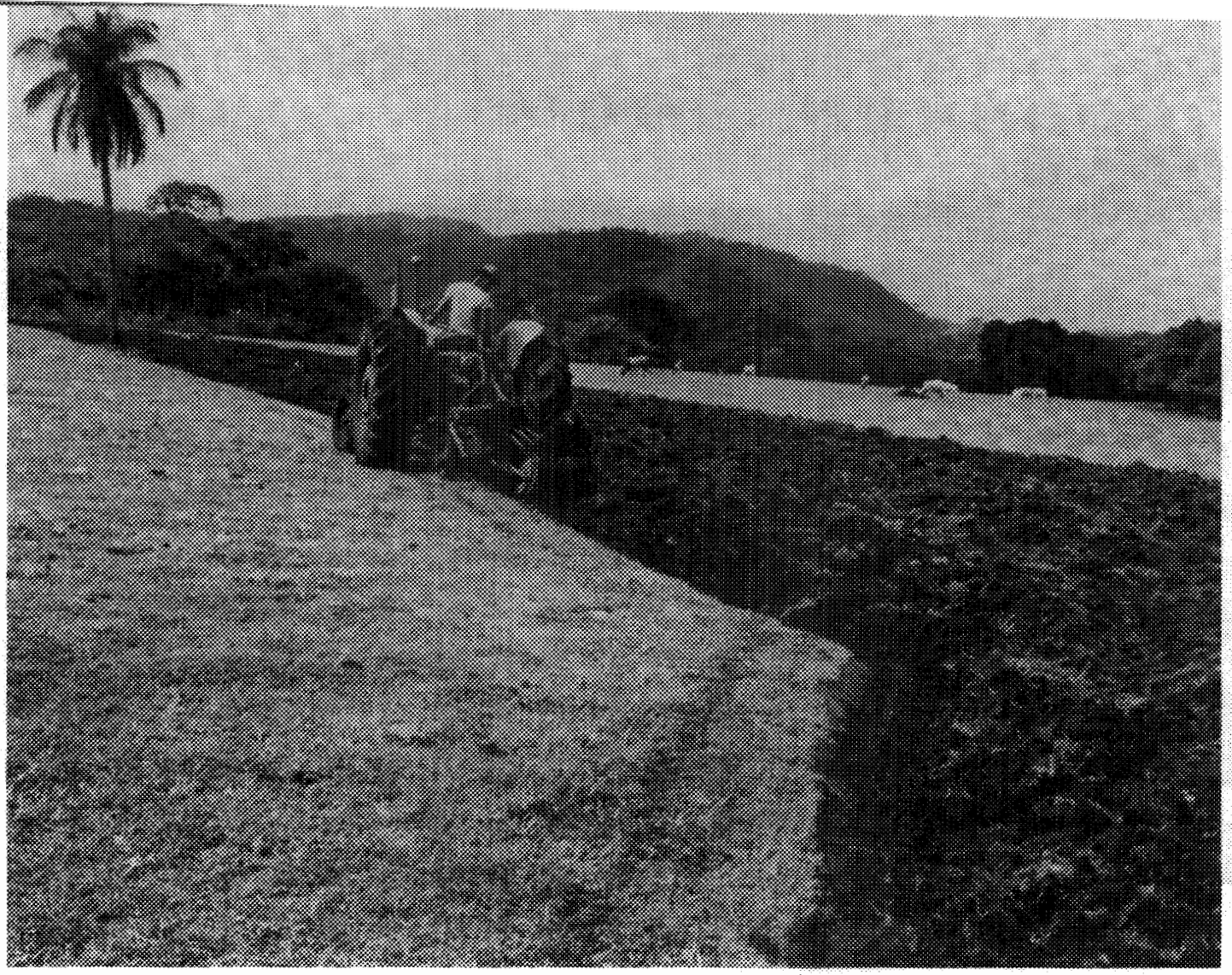
A potential threat to the long-term stability of any country is a failing economy. In 1981-1982, Costa Rica suffered a severe economic crisis during which we experienced negative rates of economic growth and inflation which peaked at a rate near 100% in 1982. In response to that crisis, we have established and implemented an economic recovery program. With U.S. and other donor support and cooperation, Costa Rica has been able to undertake difficult stabilization measures, including, among others, unifying the exchange rate and maintaining our currency at a competitive level, limiting credit, and controlling public expenditures. The results have been a return to positive economic growth rates and controlled inflation while minimizing the recovery program's more adverse economic impacts on Costa Rican citizens.

My set objective is assuring long-term economic growth, and it is within this context that the Ministry of Export is cooperating with international organizations and the Costa Rican private sector to expand export production, marketing, and investment, especially of non-traditional goods and markets. Success in this area will minimize our economy's vulnerability to fluctuations in world prices for our current main exports, coffee and bananas. More important, export expansion will help stimulate the economy to sustained economic growth and create increased employment opportunities for our citizens.

Between the post World War II period and the late 1970s, Costa Rica's economic growth and social progress achievements stood as a model of equitable development. The support AID has provided since the beginning of the crisis will facilitate the task of maintaining these achievements. I am confident that current cooperative efforts will result in our return to our growth path of the 1970s.

Our cooperative relationship has been made easier by our countries' shared democratic principles and mutual concern for the well-being of all our citizens. I have no doubt that the quality of the relationship will continue through future government administrations of both our nations.

*—Luis Alberto Monge Alvarez*



*U.S. economic aid in the form of cash transfers has enabled Costa Rica to maintain key imports of raw materials, machinery, and spare parts necessary for production.*

economic deterioration. These difficulties were compounded by Costa Rica's high level of industrial protectionism, overvalued exchange rate, and subsidized interest rates. By early 1982, unemployment stood at close to 10%, and inflation rates were in excess of 100%.

### Costa Rica Confronts Crisis Head-On

In 1982, the Government of Costa Rica, headed by newly elected President Luis Alberto Monge Alvarez, moved to confront the growing crisis with a program of across-the-board austerity. Belt-tightening measures were installed throughout the government, deficits were curbed, and projects were launched to strengthen the private sector and spur exports to move the nation toward economic recovery.

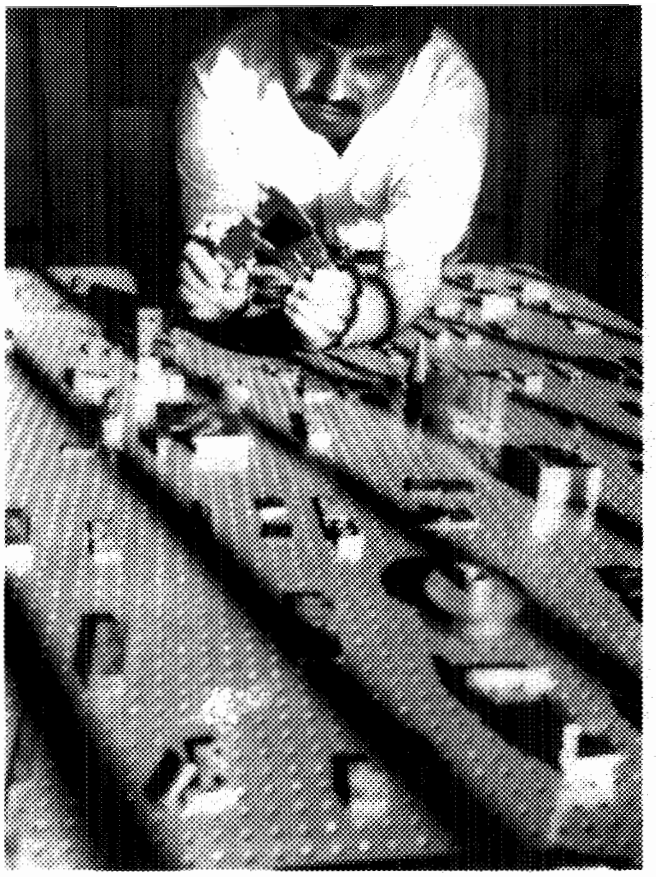
The Government of Costa Rica's policy adjustments have been successful in stabilizing the economy. Inflation has fallen from 100% in 1982 to rates below 20% annually. Unemployment has been reduced from 9.5% in 1982 to a current level of 6.2%. The gross domestic product rose by 6.6% in 1984 following a 7.2% decline in 1982. The colon has increased in real value from 62 to the U.S. dollar to near 50 to the U.S. dollar. Another important indicator of the success of policy reform is found in the fact that Costa Rica's non-traditional exports to outside the Central American Common Market were $44.6 million in 1984, up nearly 27% over the previous year's total.

The Agency for International Development (AID) has provided major support for Costa Rica's economic stabilization program and for reforms necessary to achieve rapid and sustainable growth. Approximately 80% to 90% of U.S. economic assistance, $150–$160 million per year over the past three years, has been provided in the form of fast-disbursing balance-

of-payments assistance. These funds enable Costa Rica to import raw materials, parts, and equipment needed for agricultural and industrial production. This assistance is closely associated with financing by the World Bank, International Monetary Fund, and foreign commercial banks and with necessary economic policy adjustments by the Government of Costa Rica. Local currencies made available through use of the AID dollars are directed to mutually agreed upon development activities.

Among the Government of Costa Rica's policy reforms were amendment of the Central Bank Law and passage of a new monetary law in 1984. The revised Central Bank Law expanded the scope of private banking and increased Central Bank allocations for the private banks.

Under the old monetary law, loans were required to be repaid at the official local currency rate of 20.5 colones to the dollar. With a free market rate of 52 colones to the dollar, investors were reluctant to accept repayment at the low official rate when the real value of the colon was as much as one-third less. The artificial rate of exchange effectively suppressed investments and new lending. The new law stipulates that all loans must be repaid in the same currency in which they are borrowed, helping to restore investor confidence.



*AID loans to fledgling enterprises, such as this metal works shop, help Costa Rica strengthen its private sector and export base.*

The Costa Rican Export Incentive Law passed in February 1984 removed taxes and other disincentives to producers and exporters of non-traditional products for a 12-year period. This law is the backbone of the Costa Rican export promotion strategy.

Economist Minor Sagot at the AID mission in San José says, "The businessman who operated under the advantages of artificial incentives favoring domestic sales and regional exports is now going to look to the non-traditional export commodity that can be sold on the world market rather than in the narrow confines of the domestic and regional market."

A Free Zone Law was instituted to

## COSTA RICA: A SOCIAL AND ECONOMIC PROFILE

| | |
|---|---|
| **POPULATION** | |
| Total Population | 2,400,000 |
| Annual Growth Rate | 2.6% |
| **ECONOMY**[1] | |
| Gross National Product (GNP) Per Capita | $1,020 |
| **EDUCATION**[2] | |
| Literacy Rate | 88% |
| **HEALTH**[3] | |
| Infant Mortality Rate/ Per 1,000 Live Births | 18/1,000 |

| | |
|---|---|
| **AGRICULTURE**[4] | |
| Major Subsistence Crops | Corn, dry beans, rice |
| Major Cash Products | Bananas, coffee, beef |
| **FOREIGN TRADE**[5] | |
| Major Exports | Coffee, bananas, beef |
| Major Imports | Manufactured goods, machinery, transportation equipment |

1. World Bank, 1983
2. World Bank, 1973
3. Pan American Health Organization, 1985 (1984 IMR)
4. U.S. Department of Agriculture, 1984
5. *The World Factbook*, 1983

*Costa Rica has adopted policies that encourage the production and export of high value crops such as Bromeliad, an ornamental plant.*

permit private developers to create new export-processing zones in the country with an emphasis on the drawback industry, in which semi-finished goods are shipped from the United States to Costa Rica and then returned in finished form.

As a result of the National Divestiture Law passed the same year, a national commission was established to supervise the divestiture of parastatal companies. AID is assisting in this effort. AID Mission Director Daniel Chaij explains, "A major Costa Rican objective through 1986 is to continue the divestiture and sale to the private sector of the inefficient and costly parastatals controlled by the government."

The 18 parastatal enterprises in question are subsidiaries of the Costa Rican Development Corporation (CODESA) and operate in fields such as cement production, sugar processing, and manufacturing of aluminum sheeting and products. CODESA was created in 1972 by the Costa Rican government to serve as a development bank and venture capital partner with the private sector to bring new businesses into existence. Its role was intended to be primarily short-term, with the objective of turning its interests and holdings over to the private sector as the enterprises took root. However, as businesses failed due to declining markets, high interest rates, and poor management, rather than reducing its participation, CODESA became a majority or sole owner of a number of enterprises. The government-controlled enterprises have been hampered by consequent inadequate technical management skills, poor financial controls, and subsidized prices for products.

The national commission is currently engaged in the first stage of divestiture—assessment of the value of the parastatals. These firms will later be transferred to private ownership through a public bidding process.

## Private Enterprise: An Efficient Way to Generate Jobs, Exports

"We look to maximize the use of private enterprise in our program in Costa Rica," notes Chaij. "It's the fastest, most efficient way to create employment and to generate exports for foreign exchange."

To enhance the role of the private sector as the major engine of economic development, AID is working with Costa Rican institutions to stimulate job-creating, non-traditional export production. The newly established Private Investment Corporation (PIC) is an example. Set up in April 1985 with AID assistance, PIC acts as a merchant bank, or catalyst, for the development of private sector projects that generate employment and produce hard-currency exports. The Private Investment Corporation has approved six projects totalling some $5 million. One of these is a loan syndication of $3 million to help build an industrial alcohol plant, which will export its products to the United States under the provisions of the Caribbean Basin Initiative (CBI). This was the first private syndication in the history of Costa Rican banking. Other PIC projects include medium- and long-term loans for three to ten years to diversify agricultural production.

Costa Rica has had a number of U.S.-Costa Rican joint ventures in the drawback industries that have been active for a decade or more. Now, however, with the advantages provided by the Caribbean Basin Initiative and promotional activities, those numbers are being rapidly expanded. Neil Billig, AID's deputy private sector officer in Costa Rica, points out that as many as 12,000 new jobs have been created in recently established factories. "We are optimistic about the future assembly of electronic equipment, sporting goods, medical supplies, and other products in joint ventures with U.S. firms currently operating plants in the Far East," he says.

U.S. business organizations also are helping stimulate Costa Rican export development. The Chicago Association of Commerce and Industry, one of the largest Chambers of Commerce in the United States, is developing trade and investment activities between Costa Rica and the U.S midwest. Since 1984, this effort has generated $8.3 million in trade deals. The Atlanta Market Center also is engaged in bringing together Costa Rican sellers and U.S. buyers. Costa Rican participation in a 1984 giftware show in Atlanta has produced $270,000 in sales.

*Isolated communities in northern Costa Rica share in the benefits of development through community projects such as school construction and road building.*

The Office of the Coordinator in the Ministry of Export and Investment (MINEX), which was established in 1983 and serves as the focal point within the government, is complementing private efforts to stimulate investment and export promotion. Together with several private sector organizations, it is working to eliminate policies and practices that present disincentives to the production of non-traditional exports and to identify market opportunities for exports under the CBI. A one-stop export and investment promotion center has been set up to expedite government paperwork related to export-oriented endeavors.

In addition to economic stabilization and recovery, AID continues to play a vital role in supporting other development activities.

### Infrastructure Extended to Costa Rica's Remote Areas

The $14 million AID Northern Zone Infrastructure project is designed to bring social and economic progress to an isolated and sparsely populated area in northern Costa Rica bordering Nicaragua. This area has the country's highest levels of malnutrition, poorest communications systems, lowest levels of literacy, and lowest per capita income. Central to the project is the construction of 154 kilometers of all-weather gravel roads, the purchase of unused but fertile land for resale through a small loan arrangement to local farmers, and the establishment of some 65 rural community development projects that range from the construction of clinics and schools to the building of small dams and community centers. In addition to AID dollars, the project is funded with local currency derived from the sale of food commodities sold to the Costa Rican government on a concessional basis through the U.S. Food for Peace program, which is jointly administered by AID and the U.S. Department of Agriculture.

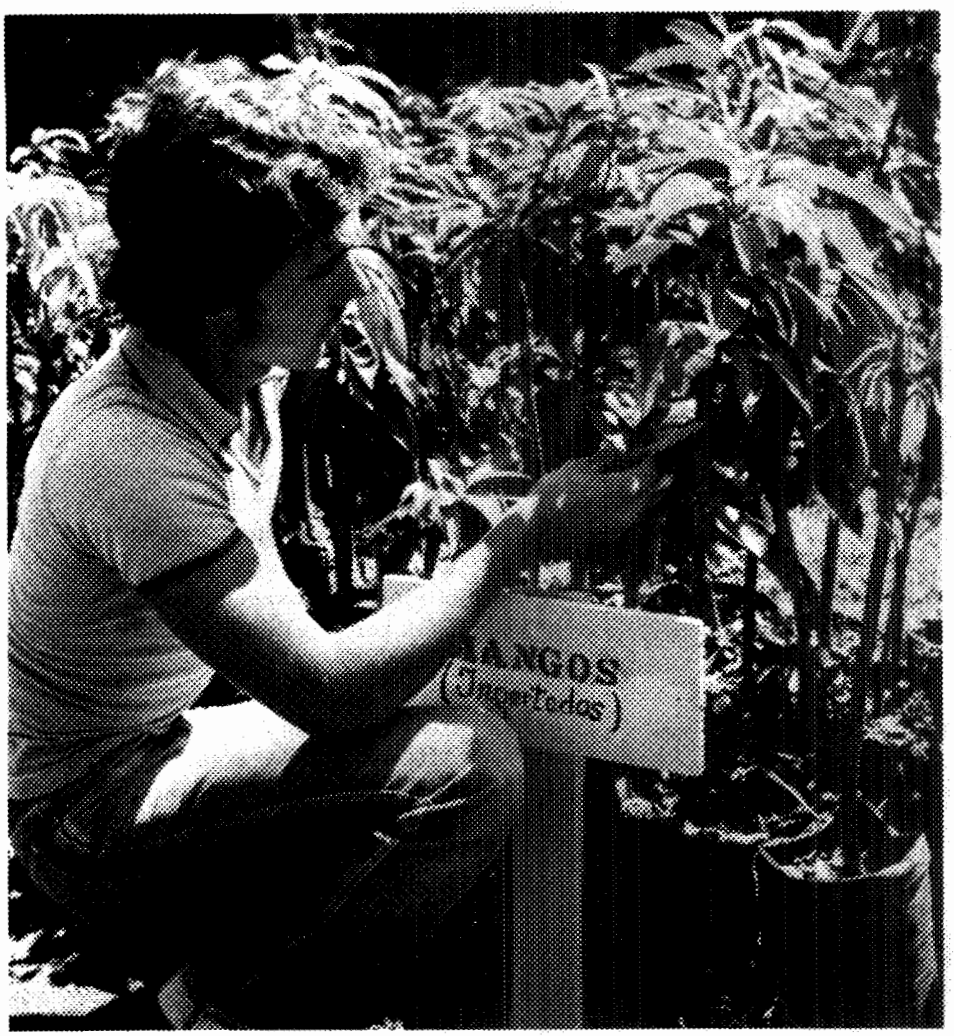
Harry Peacock, the AID contractor administering the project, says that the 40,000 people within the project

area, although traditionally isolated, are "very future-oriented and optimistic because of the real opportunities and choices the projects hold for them and their children."

### Private Sector Energizes Agricultural Production

In agricultural development, increasing emphasis is placed on private sector leadership. A palm oil project in Quepos, Costa Rica, is an example. When a U.S. company, United Brands, decided to close out its palm oil operations in southwest Costa Rica, it joined with the Government of Costa Rica and AID to soften the blow to its ex-employees and to the national economy. It sold a large portion of its holdings to former employees who organized a cooperative to replant the land with new African palm trees. United Brands provided credit to the farmers for the land purchase, and the Costa Rican government and AID loaned operating capital for replanting and for purchasing equipment. Under a marketing contract, United Brands will operate the oil extracting plant, providing a close, steady market for the palm production.

A program making multiple use of development funding operates in cooperation with the Costa Rican Coffee Growers Cooperative Federation. The project, financed with $20 million in local currency, extends loans to 7,000 small and medium growers to purchase modern technology, replant fungus-resistant varieties of coffee plants, and diversify a portion of their acreage to other export crops such as macadamia nuts, spices, and tropical fruits. The interest from the loans is used to support research and training at the Center for Research and Training in Tropical Agriculture (CATIE).



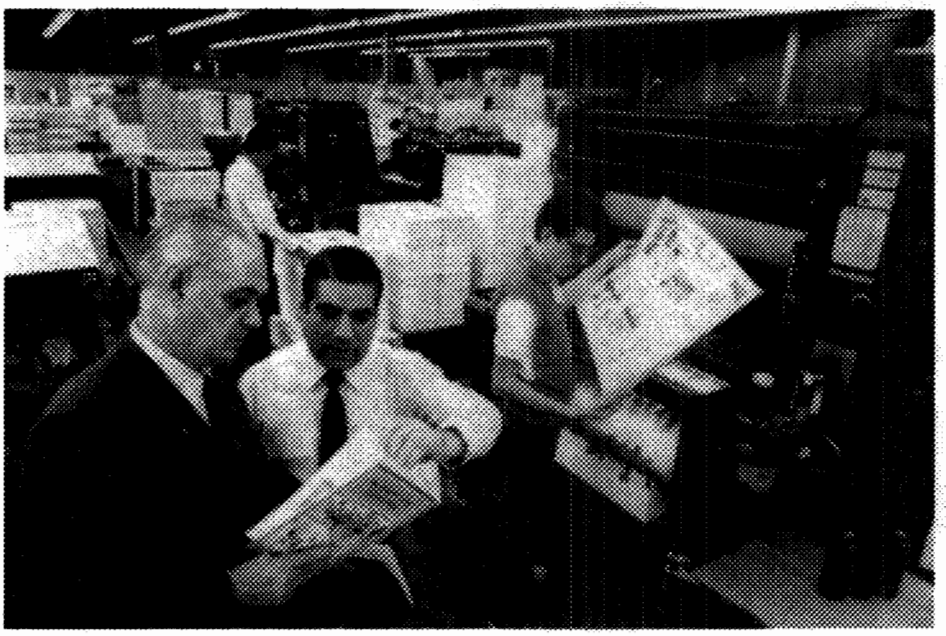

*With an eye to the future, farmers are diversifying a portion of their land to grow cash crops that increase their incomes and earn the country more foreign exchange.*

### Banking and Business: Building a Solid Foundation

The private sector plays a prominent role in Costa Rican housing development. Hand-in-hand with local private businesses, AID has implemented a number of housing initiatives. The Private Sector Low-Cost Shelter project is an example. Initiated in 1983 with a total investment of $25 million in the national savings and loan system, the project helps strengthen the financial stability of Costa Rica's Mutual Savings and Loan system and promotes increased mobilization of local resources for shelter investments. Over the last two years, the savings and loan system has increased savings by $28 million. With the help of loan funds provided to private banks by AID, private construction firms are building small, central units that include basic plumbing and electrical work—essentially a kitchen, bathroom, and bedroom. Low-income families can afford to purchase these units and add to them as their families grow and their funds permit. Over 3,000 mortgages have been or are in the process of being formalized as a result of this project.

### Costa Rica Publishes Textbooks for Costa Rican Children

AID supports Costa Rican efforts in education and health. Carefully designed programs complement the already existing high educational standards in the country. For example, there has been a chronic shortage of good textbooks for schools in some rural areas. One of the contributing causes has been that textbooks have always been designed and printed in Spain. Under a new project, the Costa Rican Ministry of Education provided the content and design for textbooks which were then printed and as-



*Costa Rican students are using textbooks written and printed in their own country, financed by $2 million in local currency generated by the AID program.*

sembled by Costa Rican printers. Over two million new textbooks were printed, the largest printing assignment in Costa Rican history. A local currency grant of $2 million to the Association of Costa Rican Printing Companies covered the cost of the printing. Costa Rican children now have textbooks designed and produced by and for Costa Ricans. This project also resulted in a large savings of scarce foreign exchange.

### U.S. Scholarship Program Thriving After First Year

In another area of education, AID's Central American Peace Scholarship program was started in Costa Rica in May 1985. More than 500 candidates will be selected from several thousand applicants for short-term technical training, high school education, and long-term academic scholarships in the United States. Funding made available in 1985 will finance training for 12 undergraduates, 31 graduate students, and 200 high school students, as well as 260 short-term trainees.

Undergraduate and graduate students will study in a variety of disciplines ranging from agriculture and economics to psychology, music, and physical education. The shorter-term technical trainees will be drawn from the ranks of present or potential leaders in municipal administration, Indian affairs, cooperatives, the performing arts, and small business, to mention a few. Their training will average about two and a half months.

Every effort is being made to engage in the spirit of the scholarship program by reaching potential leaders from a variety of areas and communities who otherwise would not have an opportunity to participate in such a scholarship and training program. AID is cooperating with about 40 private and public sector organizations to institute the five-year scholarship program.

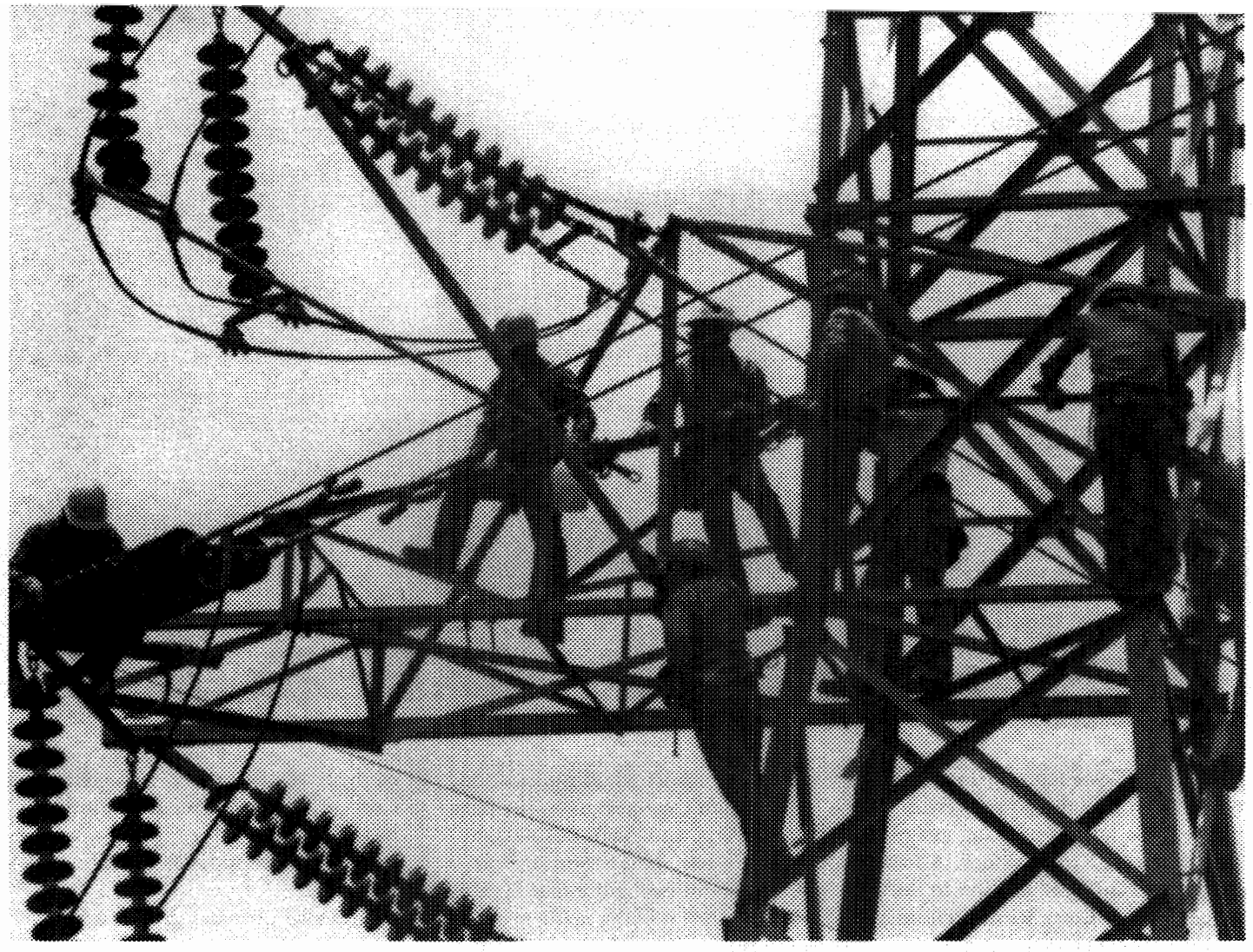
### Social Security System Operations Revamped

In the area of health, AID has helped support Costa Rica's Social Security System, the health care activities of which were losing money principally because of administrative, financial, and materials management problems. With AID funding, training programs were implemented, and computerization of financial management and cost controls was undertaken. The results have been significant. Where formerly there had been a nine-month lag in determining the operating costs of operations and inventories of the nation's hospitals, these items are now updated each month. With tighter controls and improved management, Costa Rica's Social Security System has eliminated a $22 million operating deficit and today is operating in the black.

AID also provides grant assistance averaging $2,000 to $3,000 each to 125 small community projects. These are principally in small, rural communities and involve such needs as first-aid kits, small bridges, water supplies, and small school construction. The Peace Corps also participates in these development endeavors.

Supported by the dedication and patriotism of the Costa Rican people and the cooperation of the United States and other donors, the Government of Costa Rica is carrying out a successful stabilization program in a way that has diminished the economic impact on its citizenry. In so doing, Costa Rica has avoided the potential erosion of its long-established traditions of democracy and equity. AID will continue to cooperate with Costa Rica to consolidate the process of economic growth and stabilization and to restore sustained economic growth, thus helping Costa Rica to continue as a model of broad-based democratic development. ■

*Bart Kull is the chief speechwriter in AID's Bureau for External Affairs.*



*El Salvadorans restore electrical transmission towers damaged during civil unrest.*

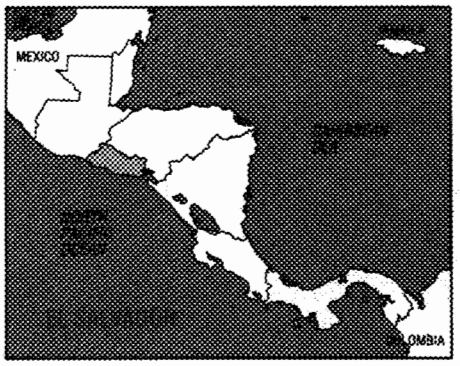
## A MESSAGE FROM THE PRESIDENT OF EL SALVADOR

Five years ago, there was much skepticism in the world about the future of El Salvador. At that time, we embarked on a very ambitious program of democratization and social and economic reforms. Today, as a result, we have had four national elections and enjoy a democratically elected government, with the first elected civilian president in 50 years. We have a new constitution, which contains provisions to defend the economic reforms that we envisioned and implemented—land reform, foreign trade reform, and nationalization of the banking system.

Despite the adversity that El Salvadorans faced in their daily lives, we never lost confidence in the ability of our people to overcome hardship and to stand together and work toward a brighter future. The United States and other donor nations supported El Salvador through times of difficulty and assisted the people of El Salvador in forging their own course.

The land reform, one of the most radical reforms in the hemisphere, has benefited more than 570,000 people, making them proud of working on their own land and not on land which belongs to others. Farmers and peasants work their own land throughout the world. Thus, the concept of land ownership instills pride and initiative. It provides an incentive and promotes community involvement. There are now more than 300 cooperatives benefiting almost 190,000 people under Phase I of the land reform. More than 65,000 provisional titles have been handed out under Phase III of the land reform enabling people to own their own plot of land without having to pay rent fees to landlords. Since June 1984, the land reform program has been managed by peasant organizations, for the first time in the history of El Salvador.

Despite death threats, more than 85% of the Salvadoran electorate was mobilized to exercise its right to elect representatives in 1982, 1984, and 1985. We now have a new National Assembly and a new constitution. The constitution reaffirms basic political, economic, and social rights and strengthens the judicial system. In sharp contrast to the situation in the nation five years before, popular confidence in the government has been restored. Salvadorans are free to express their




# *Partners in Development:*

# EL SALVADOR

*By Raisa Scriabine*

"It's hard to imagine people who have to fight a war and yet have the determination to build for their future," says Robin Gomez, U.S. Agency for International Development (AID) mission director in El Salvador. Yet, it's happening.

Today, El Salvador is a far different country from what it was five short years ago. A democratic government accountable to the people was elected in 1984, setting the stage for social and economic reform and for the peaceful resolution of more than five years of armed conflict between polarized political extremes. A new constitution strengthened the legislative and judicial branches of government and provided safeguards for individual rights.

The successful consolidation of a democratic government has been achieved during a period of serious economic decline and international recession. Worsening terms of trade, direct guerrilla attacks on the economy, and disruption of the Central American Common Market opinions without fear of persecution. Today, political debate is open and encouraged. Dissenting views are welcomed. We have come a long way after more than 50 years of very inflexible authoritarian rule.

Both internal and external political extremism have endeavored to disrupt the process of democratization chosen by the people of El Salvador. The extreme left has followed an irrational course of economic destruction targeting the nation's infrastructure by attacking coffee and sugar refineries, bridges, electrical systems, telephone lines, hydroelectrical dams, government buildings, and crops produced by cooperatives. These actions have cost the Salvadoran economy more than $1 billion in damage without counting lost productivity.

This strategy has failed because the people would not support it. The political extremists have tried a variety of violent tactics. They started with guerrilla warfare, the promotion of insurrection in the countryside, and economic sabotage. Now they are turning to irrational terrorism with a tremendous cost of innocent human lives. All these tactics are doomed to fail because the people of El Salvador will not support them.

Even though we have accomplished much, we still face an uphill battle. Political extremists have to join the democratic process. Prices for our commodities need to be at a level that provides remuneration for our exports. We need to foster economic recovery in our nation. Private investment has to increase. We need to make important economic decisions in the immediate future, if we are to preserve what we have accomplished.

I am confident in the ability of our people to face and overcome the short-term difficulties in front of us. In the last five years, we have faced many adverse situations. We have come through them all. As a result, we as a people are stronger than ever. The democratic process chosen by the people of El Salvador, the economic and social reforms that have been set in motion, lay the foundation for self-determination and greater economic prosperity. We have come a long way in a short time. The success exemplified by our achievement today holds the promise for a bright future for our nation.

*—José Napoleón Duarte*

combined to produce a 25% decline in gross domestic product (GDP) between 1979 and 1982. Despite the fact that in 1984, for the first time in six years, the GDP registered a modest rise of 1.5%, the nation faces major economic challenges. Unemployment remains high. One out of every two Salvadorans is either out of work or underemployed. The population growth rate stands at 2.5%. Heavy dependency on traditional export crops—coffee, cotton, and sugar—exists, and markets for these crops are both weak and erratic. Social and economic services are underfunded due to the demands of defense spending.

In keeping with the recommendations of the National Bipartisan Commission on Central America, the U.S. Government maintains a major economic assistance program in El Salvador, directed at economic stabilization and recovery, broadening the benefits of growth, and strengthening democratic institutions. Between 1980

## EL SALVADOR: A SOCIAL AND ECONOMIC PROFILE

| | |
|---|---|
| **POPULATION**[1] | |
| Total Population | 4,981,000 |
| Annual Growth Rate | 2.5% |
| **ECONOMY**[2] | |
| Gross National Product (GNP) Per Capita | $710 |
| **EDUCATION**[3] | |
| Literacy Rate | 62% |
| **HEALTH**[4] | |
| Infant Mortality Rate/ Per 1,000 Live Births | 67/1,000 |

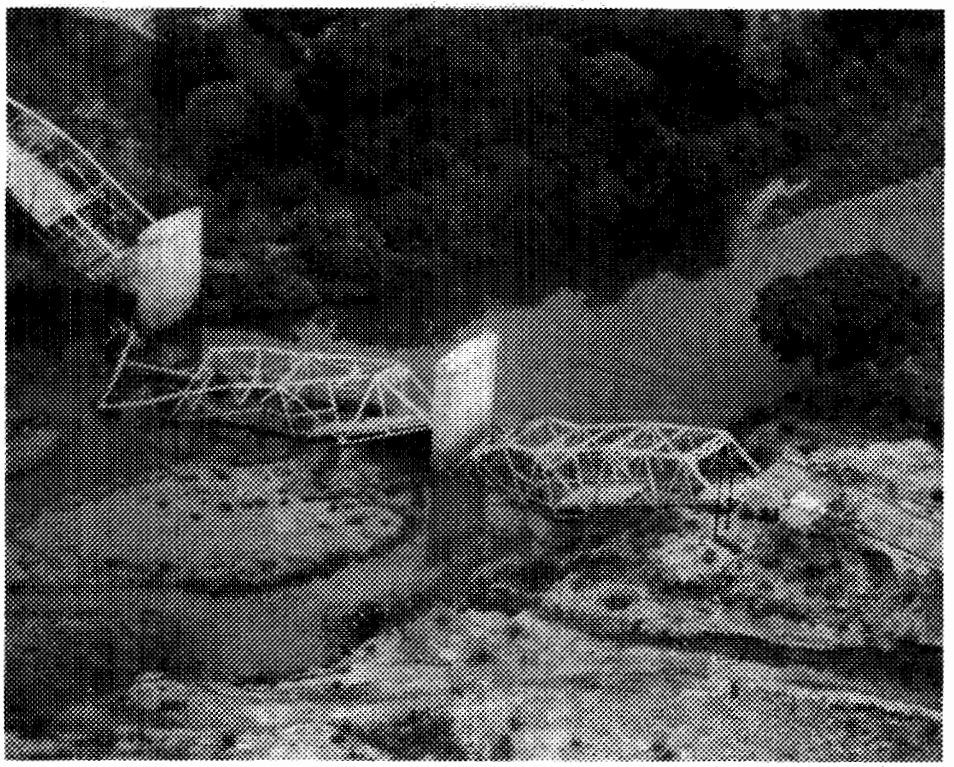
| | |
|---|---|
| **AGRICULTURE**[5] | |
| Major Subsistence Crops | Corn, dry beans, rice |
| Major Cash Crops | Coffee, sugar, cotton |
| **FOREIGN TRADE**[6] | |
| Major Exports | Coffee, cotton, sugar |
| Major Imports | Machinery, intermediate goods, petroleum |

1. U.S. Bureau of the Census, 1985
2. World Bank, 1983
3. World Bank, 1975
4. Pan American Health Organization, 1985 (1982 IMR)
5. U.S. Department of Agriculture, 1984
6. *The World Factbook*, 1983

and 1985, El Salvador received over $1.2 billion in U.S. economic assistance through the U.S. Agency for International Development.

### Economic Stabilization and Restoration of Services Emphasized

A top priority in stabilizing the economy is meeting the foreign exchange shortage to keep Salvadoran factories, farms, and businesses in operation. "U.S. balance-of-payments support of $220 million in 1985 helped to address this problem," says Gomez. "In cooperation with the Central Bank, balance-of-payments support was provided for critical imports of raw materials, fertilizer, agricultural imports, and capital equipment." It also is assisting the Salvadoran economy by creating jobs and incomes, supporting necessary policy change, and generating local currencies for social services and development activities.



*A Salvadoran priority is restoring infrastructure disrupted by guerrilla activity. AID finances the purchase of Bailey bridges that temporarily replace damaged bridges.*

Another priority is restoring vital services that have been a central target of guerrilla activity. "One of the major thrusts of the guerrilla strategy has been to target economic infrastructure in the country, such as bridges, the railroad, and electrical, water, and communications systems. Virtually anything related to transportation, communications, or ongoing commercial and industrial activities has been a lucrative target," explains Chuck Brady, AID's general development office director in San Salvador. Since 1979, $250 million worth of equipment and physical structures has been damaged or destroyed, translating into economic productivity losses of $1.2 billion. AID has obligated $58 million over a three-year period for the restoration of public services that are vital not only to the country's well-being, but also to the development of its economic potential.

Electrical power distribution has been among the key targets. "El Salvador has 1,800 steel towers for high-tension electrical transmission, stretching over some 700 kilometers," Brady reports. "Of those 1,800, some 500 have been destroyed, and partial damage has been incurred by about 250 others. The replacement cost for each runs anywhere between $28,000 and $33,000," he notes.

AID cannot replace all such damaged structures on a one-for-one basis but instead works closely with Salvadoran agencies managing public services to develop their capacity to react quickly when damage occurs. This is done by using special resources such as helicopters (to fly in wooden poles as temporary replacements for steel transmission towers) and Bailey bridges (rapidly erected temporary steel bridge structures) and by providing training geared toward rapid response and quick repairs. "For example, damage to transmission towers often occurs in inaccessible areas, but, with the aid of helicopter transport, repairs can be done in two to three hours. Timing is critical in getting power back to major cities," says Brady. A backup system also has been set up. Forty-seven AID-financed emergency generators now provide standby power to hospitals, water pumping stations, and other essential utilities. The 24-megawatt San Miguel power plant, financed by AID in 1984, provides backup power for the country's eastern regions, which in one year lost $52 million in production due to power outages.

The toll on the transport network also has been high. Ninety-two bridges have been destroyed since 1982. All have been repaired. Bailey bridges have been used at 78 sites. In January 1984, within three weeks of destruction of the Cuscatlan bridge, a major crossing over the Rio Lempa on the Pan American highway, a double-line, 70-meter temporary Bailey bridge crossing was installed, and the eastern part of the country was reunited with the rest of the nation.

"The Salvadorans who do the repair work are the unsung heroes," Chuck Brady says. "The Ministry of Public Works is among the many involved in restoration of services. Seventy-six of its employees have been killed working on the job. Eight have been captured by guerrilla forces, and 30

have been seriously wounded. Yet these civilians continue to respond to the call of duty," Brady continues. "They are often called upon in the middle of the night, and they go to work knowing that there is a possibility for ambush en route to the damage site or that they can come under fire on the job. Their task has been made more difficult by explosives and mines left in the work area by guerrillas. The resources we at AID put into restoration of services have made a difference. But the efforts of the Salvadorans, the courage and ingenuity they have shown in dealing with this situation, have been extraordinary. It takes great courage and resourcefulness to tackle the problem. The Salvadorans have it, and they use it."

Restoration of services is part of AID's support for the development components of El Salvador's National Plan. The National Plan, launched in June 1983, coordinates the efforts of the civilian government and the country's military authorities in order to secure the conflictive areas of the nation and restore local government, infrastructure, economic activity, and basic social services. Housing development and employment generation are other areas of AID's development effort in support of the National Plan.

### El Salvador Places Premium on Affordable Housing

Civil strife and a shifting and growing population have compounded the need for adequate housing. "The need for housing in El Salvador is tremendous," Brady points out. AID's shelter and urban development efforts assist Salvadorans unable to obtain adequate and affordable housing and sanitation. "The proliferation of marginal communities—substandard, unserviced, or illegal—now accounts for about half of the population of the capital city metropolitan area," says Peter Deinken, the deputy general development officer. AID is helping meet capital requirements and improve coordination mechanisms to increase substantially the production of low-cost housing and urban services. "Our aim is to tailor our program to a human scale of what people need and want," Deinken explains. "The demand is for low-cost housing."

AID supports the National Popular Housing program with a $10 million loan from Economic Support Fund local currencies. This project, when fully under way, will rely on private sector contractors for construction.

AID also works closely with the Cooperative Housing Foundation, a Washington, DC-based private and voluntary organization, to expand programs in rural housing and home improvement lending.

Under AID's Housing Guaranty program, over 2,700 homes have been constructed since 1980, and an additional 1,500 water and sewer installations have been set up. "AID shares the high priority given to low-cost housing by the Government of El Salvador, and we anticipate a high level of activity in the next several years," Deinken notes.

*People find employment on development-oriented projects.*

### Program Provides Jobs on Development Projects

To tackle the high jobless rate, an Employment Generation program was launched as an emergency measure in 1980. It aims at absorbing a segment of the idle work force and putting it to work on productive economic infrastructure.

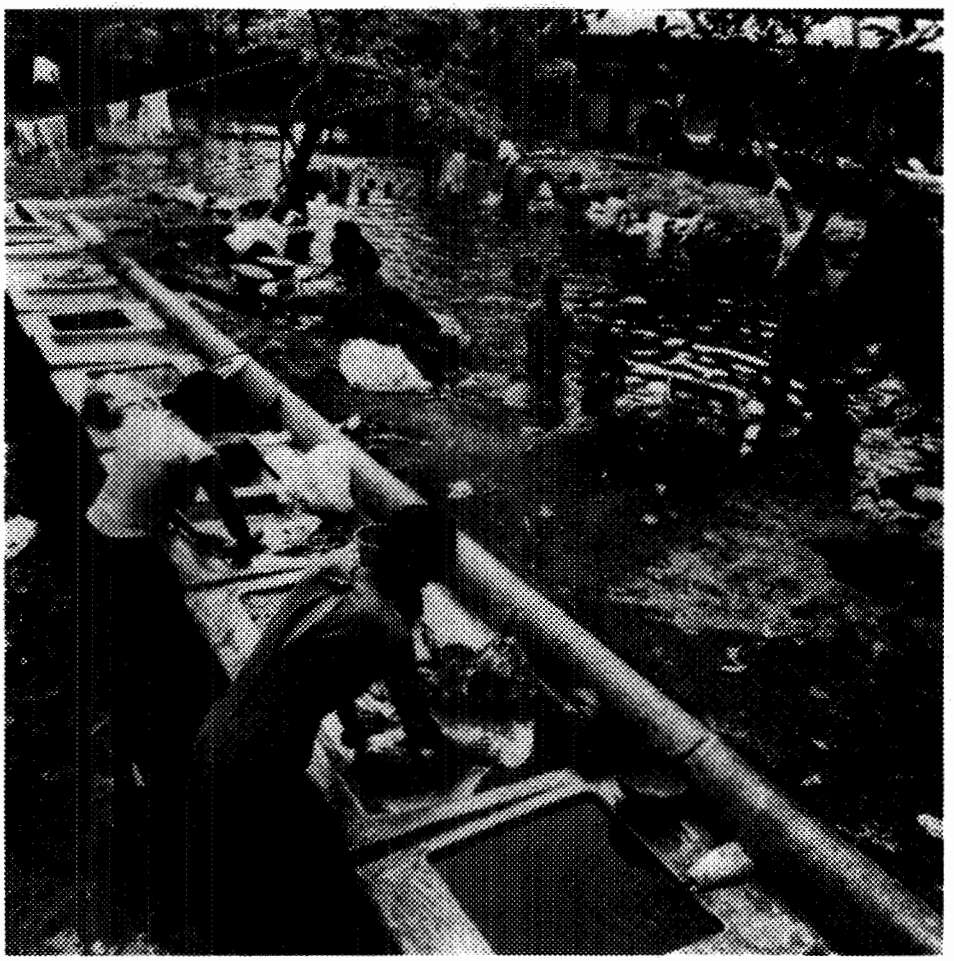
Since 1980, AID has channeled $40 million through the program that also is supported by local currencies. This has resulted in 2,200 projects generating 12.5 million person days of work. Participants are paid the minimum wage of 12 to 13 colones ($3 to $4) a day. "Depending on seasonal variation, we have under way on any given day of the year between

130 to 300 projects employing between 2,000 to 14,000 people," Brady notes. As a result, roads, schools, health centers, potable water systems, and government buildings have been constructed or reconstructed. The program also involves irrigation, reforestation, soil conservation, and other efforts to address rural productivity, especially food production.

Particularly noteworthy is a pilot effort directed toward the relocation of displaced persons from displaced persons settlements to abandoned Phase I farms (large tracts of land that have been redistributed through the country's agrarian reform program). The thrust of this activity is to get people back on the land and put them in a position to become producers as well as consumers. "This effort is only a year old, but it already shows signs of making a go of it," Brady declares.

The Employment Generation program, launched five years ago, is coordinated through the National Office of Special Projects (ORE). El Salvador's ministries of Public Works and Agriculture were involved. Today, reflecting the high priority given to employment by the Government of El Salvador, the program has expanded to include several new implementing agencies including the ministries of Interior, Economy, Housing, the Civil Aeronautics Commission, the National Electrification Authority (CEL), the National Community Development Program (DIDCEO), and the Rural Domestic Water Authority (PLANSABAR).

The program also serves as the government's first means of response to natural calamities, such as earthquakes and floods, or security-related disorders.



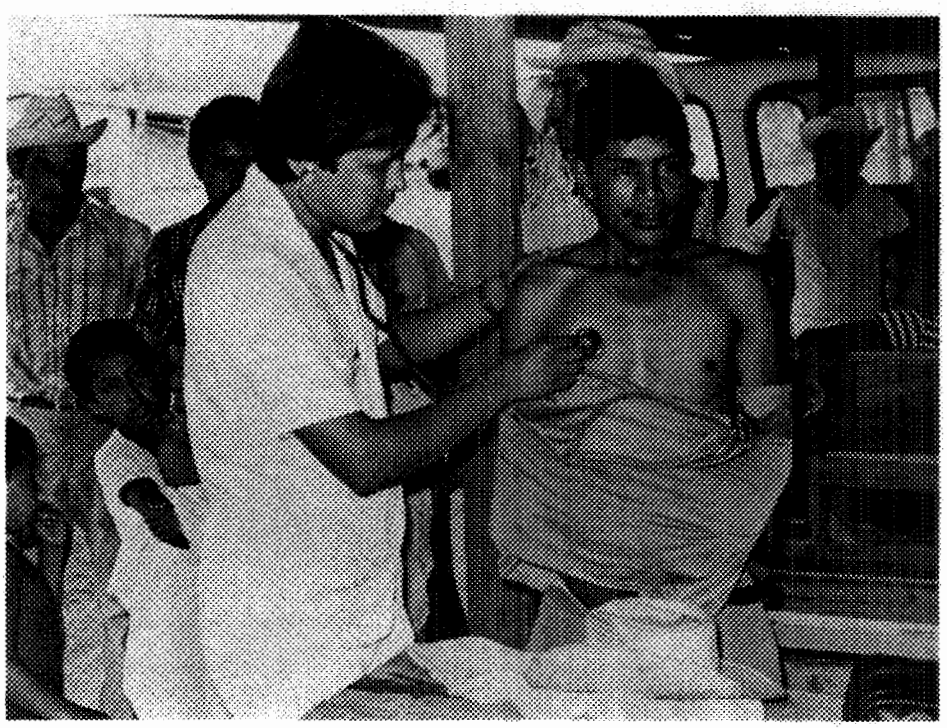
*Families at the displaced persons settlement in Moncagua wash their clothes in washbasins built with AID funds as part of the Employment Generation project. Income-earning opportunities and food and health needs of thousands of Salvadorans living in settlements also are provided by AID and U.S.-supported private voluntary organizations.*

## Displaced Families Receive Humanitarian Assistance

Guerrilla attacks on the economy have their greatest impact on the rural poor, many of whom have been forced to move from their homes and farms. One of the government's major efforts is to provide for the basic needs of the more than 500,000 persons displaced by the conflict. The government is assisted in this effort by AID's $120 million humanitarian assistance program. The largest component of AID's humanitarian assistance is the Health and Jobs for Displaced Families project. At present, this project provides employment for some 16,000 displaced families each month and attends to health, food, and nutrition needs of the displaced population.

The food program delivers daily basic food supplies to displaced families. Food donated by the U.S. Food for Peace program and distributed through the World Food Program delivers 1,500 calories of food daily to each of 300,000 displaced persons. Over 110,000 undernourished children and pregnant women benefit from supplementary feeding every day. The severely malnourished receive intensive feeding. An additional 82,000 urban poor living in marginal communities receive a daily food ration through Food for Work projects, which provide food in return for labor on projects benefiting the community.

"The nutritional status of the people had been poor even before the conflict aggravated the situation," explains Don Enos, director of AID's Office of Human Resources and Humanitarian Assistance in San Salvador. "We responded quickly to people with first, second, and third degree malnutrition. We are particularly happy about the intensive feeding



*Improving health services to all, including displaced persons, is a major focus of national and international attention. A national vaccination campaign, in which AID participated, has become a model of international cooperation.*

program. Severely malnourished children who join the program gain weight at twice the expected rate, on the average."

The health services program has provided assistance to displaced and non-displaced persons alike. Over 1.6 million doses of vaccine have been given to children under five and pregnant women, immunizing them against measles, diphtheria, pertussis, tetanus, and polio. (Pregnant women receive tetanus toxoid, which prevents tetanus in newborns.) "We estimate that these efforts have saved the lives of at least 35,000 children," reports Enos.

The health program has provided pharmaceuticals, cold-chain equipment, and other supplies making possible a national vaccination campaign that became a model of international cooperation. AID provided over $600,000 for equipment, supplies, and advertising materials. UNICEF provided vaccines and other equipment, and the Government of El Salvador supplied the medical personnel.

Dehydration resulting from diarrheal disease is a leading cause of death for Salvadoran children, with 27 per 1,000 children dying from dehydration-related causes. Oral rehydration therapy, a simple solution of salt, sugar, and water that mothers can prepare in their own homes, has proven to be effective against dehydration. More than 150,000 low-cost oral rehydration packets have been distributed to persons with chronic and acute diarrhea.

AID also works closely with Project HOPE to assist the Government of El Salvador in expanding health services to the displaced. Project HOPE is building, equipping, and staffing dispensaries to serve 50,000 displaced persons. Thirty-eight dispensaries have been built, and dispensary personnel have averaged more than 29,000 medical consultations a month. AID also assists CESAD (the Evangelical Committee for Salvadoran Assistance and Development) in bringing food, supplemental feeding, and nutrition education to the displaced.

## New Exports for Foreign Markets Advance Economic Recovery

To stimulate economic recovery, generate employment, and earn foreign exchange, AID works with the Salvadoran private sector in promoting private investment in business that will create new exports to markets outside Central America in non-traditional products. "We assist in private sector credit, finance, and business development," explains Greg Huger, AID's private sector officer in El Salvador.

FUSADES (the Salvadoran Foundation for Economic and Social Development), with AID support, promotes private enterprise in El Salvador. Bringing together the skills of 200 Salvadoran business professionals and 15 companies, this private, non-profit organization is instrumental in helping stimulate business, investment, and promotion of non-traditional exports to markets outside the Central American region. FUSADES also provides technical assistance to business to expand export sales, particularly in the U.S. market under the Caribbean Basin Initiative (CBI).

The U.S.-based Arthur Young Company is assisting FUSADES by providing market access in the United States for Salvadoran products. One of the many firms to benefit from this expertise is Angelitos, a manufacturer of soft-sculptured fabric birds. FUSADES placed Angelitos in contact with Steinwinder Enterprises, a giftware wholesaler in Gulfport, Mississippi. Through this connection, Angelitos' products were marketed to major U.S. retail chains and presented at major giftware shows, and a new line of products—angel dolls—was developed to supplement production and boost sales. As a result, Angelitos, which had a staff of 100, now employs 250 at its factory and another 250 artisans working at home. Through technical assistance from FUSADES, the company increased its annual sales by $1.5 million.

"FUSADES is identifying, through U.S. business, products that can be sold

*Residents of San Francisco Gotera spin henequen—a strong yellowish leaf fiber used for binder twine.*

in the United States. FUSADES seeks to tap the creative and productive capabilities in El Salvador and then move the products into the U.S. market," Huger explains. "FUSADES' major concentration is in the drawback industry and agricultural diversification. We hope in the next 12 months to generate $60 million in non-traditional exports to extra-regional markets, creating 15,000 additional jobs."

FUSADES is also assisting the artisans of La Palma, a town whose livelihood is based on the production of traditional crafts, to receive credit to purchase necessary raw materials. With the help of FUSADES, the Junior Achievement program of El Salvador conducted training courses for the artisans to improve business techniques such as budgeting, wholesaling, and material and labor cost estimating. The artisans have subsequently formed a cooperative. This year, their products were exhibited in several giftware shows in the United States, and they are experimenting with new colors and styles to tailor their products to market demands abroad.

AID also has provided a $1 million, three-year grant to El Salvador's Junior Achievement program.

"It's one of the most dynamic Junior Achievement organizations in Latin America," claims Huger. This year 1,500 young Salvadorans mainly from lower middle-income backgrounds are participating in the program, which, he says, "gives them a direct exposure to the private enterprise system and prepares them for business when they graduate from high school." The AID grant aims at expanding participation in Junior Achievement by involving the secondary cities of Sonsonate, Santa Ana, and San Miguel. "It will help establish an applied economics program in El Salvadoran high schools," he adds. "It will involve a greater number of young Salvadorans in the program."

In 1985, $100 million in credit (local currency generated by balance-of-payments assistance) is being provided to finance businesses manufacturing non-traditional products for export to countries outside the region. An information campaign to stimulate participation in credit programs was launched in October. Training is an integral component of this campaign.

Fifty-six credit analysts from commercial banks in El Salvador sharpened their skills at the Citibank Training Center in Puerto Rico. The Central American Institute for Business Administration (INCAE) in Costa Rica conducted a series of seminars aimed at eliminating delays and expediting investment project approval by banks.

"In the small business area, we've been working with Salvadoran institutions to make loans and to provide technical assistance to small enterprises for the last three years," Huger points out. Twenty-five thousand loans were made available, averaging $1,200 per loan, to small businesses. Two years ago, following a guerrilla attack on the city of Berlin in the eastern section of the country, a special fund for reconstruction was developed to provide soft loans to small and micro businesses. "These resources allowed them to replace and reconstruct their productive assets including inventory," claims Huger.

Joint ventures with U.S. companies have also been promoted. Thirteen U.S. companies have signed co-venture agreements with Salvadoran partners, many on a 50/50 basis. Four U.S. companies have signed long-term purchase agreements for non-traditional Salvadoran products. "I think AID's support has complemented the considerable capacity and resilience of El Salvador's private sector," acknowledges Huger.

## Broadening the Benefits of Growth

### Agrarian Reform: A Continuing Effort to Bring About Equitable Distribution of Land

In the late 1970s, 38% of El Salvador's population consisted of landless farm families, the highest percentage in Latin America. Half of these were agricultural laborers on large or medium-size farms; the rest were tenants or sharecroppers on small parcels averaging slightly less than one hectare. For decades, this condition contributed to chronic poverty and unrest. In 1980, the government began a land reform program to help the landless and the small farmers.

The land reform program instituted social and economic reforms designed

*The Chapeton brothers, former tenant farmers, bought land under the Phase III land reform program and switched from farming corn to papayas. The new crop means greater productivity and income.*

in part to transfer ownership of farmlands from the small number of large landholders to those who actually worked the land. In 1983, the program's essential elements were incorporated into El Salvador's new constitution, which also placed a ceiling on the amount of land a single owner could hold.

Agrarian reform has provided more equitable access to land and thus a stake in the future for thousands of peasants. The reform program is built around three levels or phases. Under Phase I, land from farms over 500 hectares has been redistributed. Phase III deals with land formerly worked by tenant farmers. Phase II, which potentially applies to farms between 245 and 500 hectares, has not been implemented to date.

Land affected by Phase I and Phase III reform is already in the hands of the beneficiaries. As a result of Phase I, begun in March 1980, 469 properties covering some 219,451 hectares were formed into 317 cooperatives benefiting more than 188,150 people. Phase III was initiated in 1981. Some 64,585 provisional titles and over 11,916 definitive titles have been issued to Phase III beneficiaries. More than 382,000 people have benefited from this program.

Ken Ellis, AID's chief rural development officer in San Salvador, notes that since 1980, AID's development assistance for agrarian reform has totaled $169 million. AID finances the efforts of the Salvadoran Institute of Agrarian Reform (ISTA) and the National Finance Office for Agrarian Reform Lands (FINATA) to help cooperatives under Phase I and individuals under Phase III to obtain titles to land and to compensate ex-landowners. "We also assist the Ministry of Agriculture in providing research and training services to beneficiaries. We support the National Training Center (CENAP), a unit of the Ministry of Agriculture, which provides training in needed farming skills to cooperative members."

Implementation of the program has been hampered by several difficulties. Land was expropriated from large owners, for example, without the means for compensation, a problem not yet fully resolved. The titling process has proven to be slow and complex; beneficiaries' needs for credit, technical assistance, and professional management expertise far exceeded the capacity of the government to provide such resources; beneficiary rights have not been adequately defined to provide clear ownership; and the terms of the reform debt threaten the financial viability of some of the new owners. AID is collaborating closely with the Government of El Salvador in its efforts to overcome these constraints so that the beneficiaries can eventually realize the full economic and social benefits the reform was designed to bring them.

### Equity Achieved Through Education

Expanding educational resources enables more individuals to participate productively in economic growth. Leo Garza, director of AID's Office of Education and Training in El

Salvador, reports that $50 million has been committed to a four-year program of the Ministry of Education aimed at revitalizing El Salvador's primary education system. To date, the ministry has built and equipped 395 classrooms at 147 sites providing educational space for some 31,600 children. An additional 400 new classrooms will be built, and 2,400 will be rehabilitated under a new AID-financed project.

"We will be financing 3.5 million textbooks for distribution and providing furniture for 300,000 students and 75,000 teachers in the next four years," Garza points out.

"The Ministry of Education is off to a flying start. Construction of new school facilities is being done in record time," he adds. The new primary school at San Bartolome is an example. A kindergarten in a makeshift attachment to the municipal building was destroyed by the guerrillas. A three-room schoolhouse, constructed nearby, was opened in October.

El Salvador is also actively participating in the Central American Peace Scholarship program.

"By the end of October, 368 students were in the United States for training. Two hundred and ninety received short-term training in areas such as water and farm management and financial analysis for rural credit institutions that affect small farmers. The balance of the students will be in the United States for long-term academic study in areas leading to master's degrees such as economics, business administration, agronomy, and engineering," Garza explains.

**Democratic Institutions and Judicial Reform**

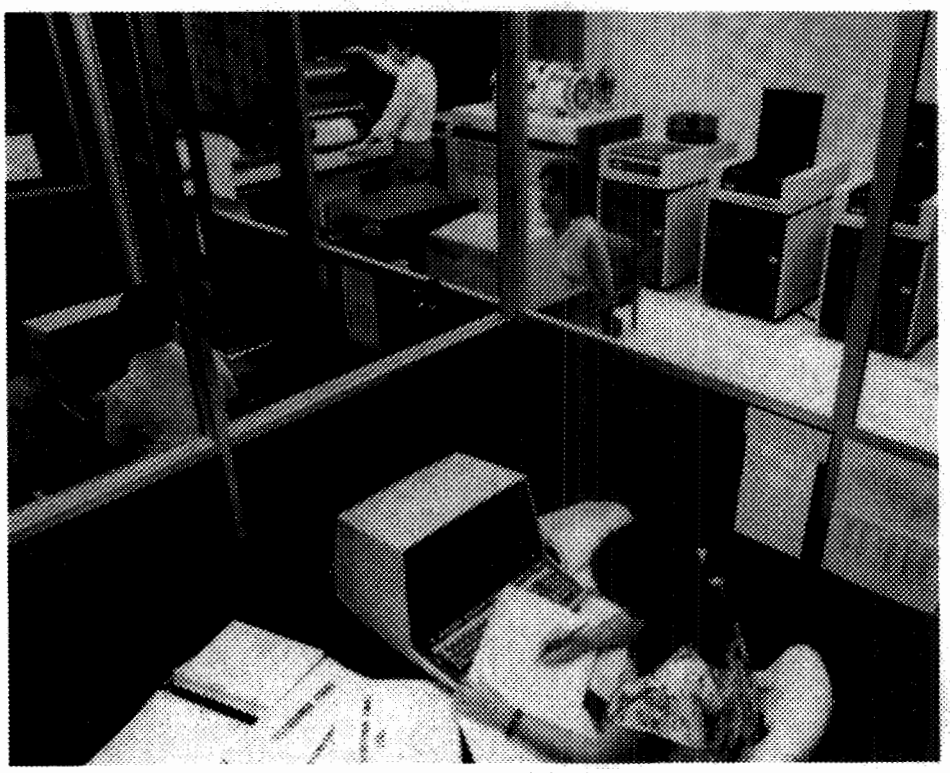
Salvadoran efforts toward the consolidation of democracy have helped lay the foundation for economic stabilization, recovery, and growth. The Central Elections Committee, with $8 million in AID assistance, conducted in 1984 the first free election in 50 years, electing José Napoleón Duarte, a civilian, president. Another $4.55 million was allocated by the Government of El Salvador for the preparation and administration of the 1985 municipal and assembly elections. AID provided computers and software for a new voter registry system for an election in which over 1.34 million people participated. AID also provided support for the 50-nation election observer program.

An equitable judicial system is critical to maintaining democracy. "One of our goals is to help improve El Salvador's judicial system," says Roberto Figueredo, judicial reform project manager at the AID mission in San Salvador. AID launched a three-year, $9.2 million project in this field in July 1984. "The Salvadorans are working to build and sustain a civil and criminal justice system and to enhance the ability of the system to conduct investigations and to guarantee equal protection under law," he says.

As part of this project, a Revisory Committee for the Salvadoran legal code was expanded to include 10 prominent Salvadoran legal specialists. The draft legislation to be prepared by the Committee will serve as the basis for El Salvador's judicial reform program.

A Commission for Investigations was also established to help El Salvador develop a criminal investigating capability with a crime-forensics laboratory. AID financed the training of 22 investigators in the United States.

Democratization, economic stabilization, and growth are Salvadoran priorities. "We're helping El Salvador meet these objectives," AID Mission Director Robin Gomez points out. "The Salvadorans are the most hard-working and most dedicated people with whom I've had the privilege to work. Together, we've made progress in the last five years. Things have stabilized here, and El Salvador is moving toward economic recovery. While there are still many obstacles to overcome, we're very optimistic that these positive trends will continue in the future." ■



*Computers and software help El Salvador carry out democratic processes.*

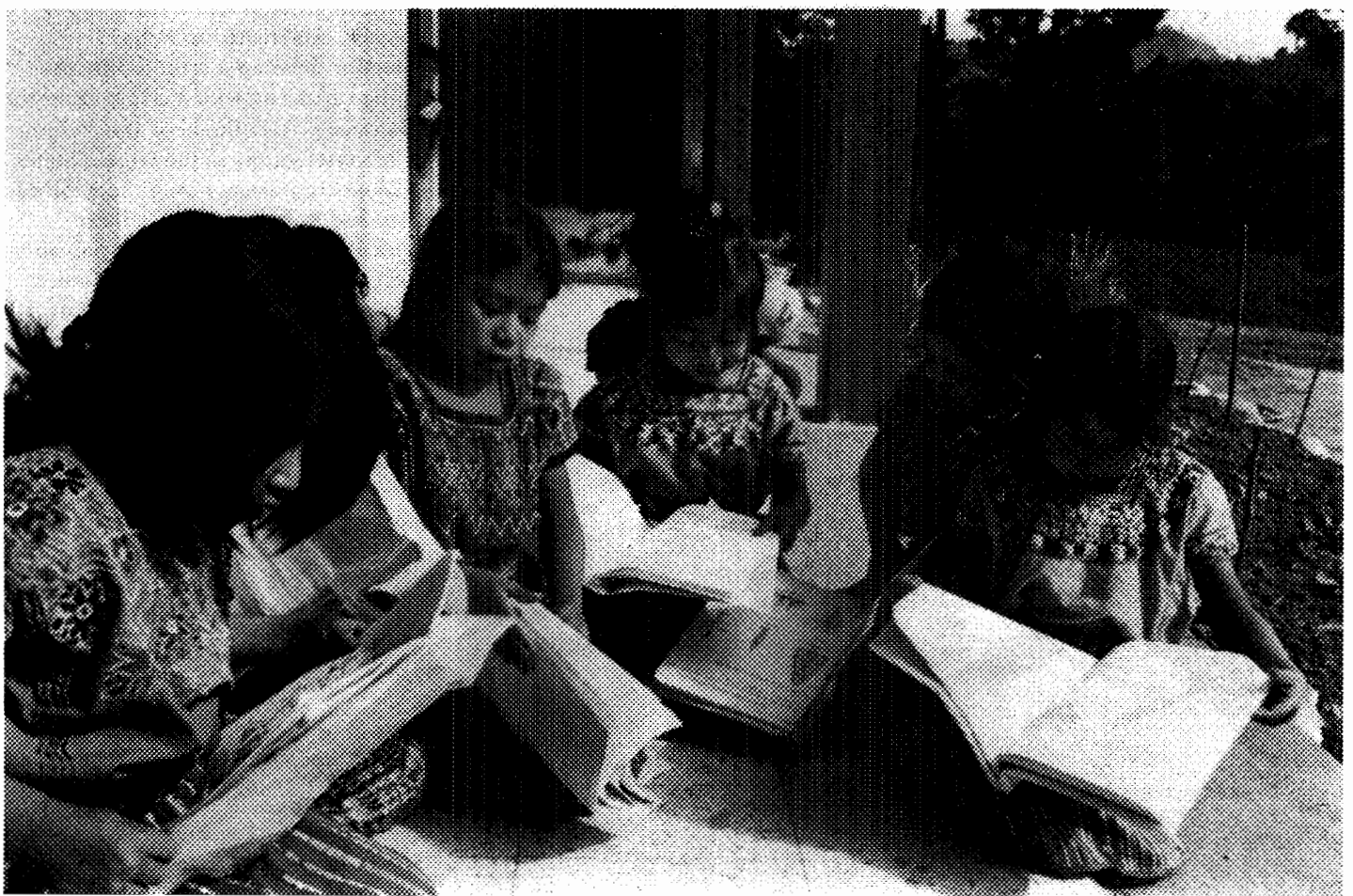
*Raisa Scriabine is the former deputy assistant administrator of AID's Bureau for External Affairs.*

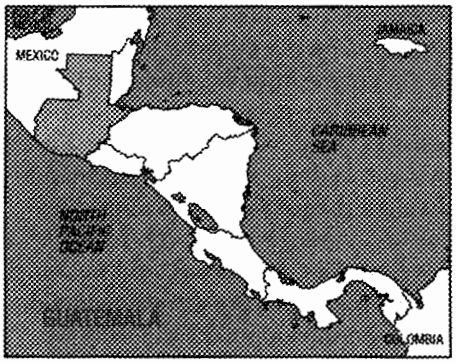
*Partners in Development:*

# GUATEMALA

*By Judy Van Rest*

*The future holds more promise for Indian children who are learning Spanish through Guatemala's bilingual education program.*






Guatemala is a country rich in Mayan and Spanish heritage, with immense natural and human potential. Following nearly two decades of military rule, the most populous nation in Central America recently has made significant strides toward democratic government.

In July 1984, Guatemalan citizens elected a constituent assembly to draft a new constitution and prepare for elections that would transfer the reins of government to civilian leadership. The new constitution was adopted on May 31, 1985. Presidential and congressional elections were held on November 3, 1985. On December 8, 1985, an election runoff was held resulting in a landslide victory for the Christian Democratic candidate, Vinicio Cerezo Arevalo.

In support of the democratization process in Guatemala, the U.S. Agency for International Development (AID) provided a $321,000 grant to the Center for Electoral Advice

## A MESSAGE FROM THE PRESIDENT OF GUATEMALA

I want to extend my thanks for the opportunity given to me to state briefly the realities of my country. This can best be achieved by sending a very special message to the North American people: We are a democratic government, and we are striving to develop Guatemala within an absolutely legal framework.

On January 14th, when I assumed the Presidency of Guatemala, I said in my inaugural address that we, the Guatemalan people, had been thrown out of our house, and we have returned. And, that we were a people who for a long time had been denied our freedom of speech, and that many of us had been persecuted for telling the truth, but that we now have recovered "the word." I would even add that we have regained the right to participate.

These assertions take on a vital significance if we are to comprehend the Guatemalan reality. First, we must be able to understand where we are, what our situation is, and what our role is in this new democracy born of hope and of the necessity for just, humane, and equitable changes. After only a short time in office, we can affirm three things. First, the government and the people will answer the call for unity and will assume responsibilities and commitments as the only solution to the crisis we are experiencing. Second, we are willing to accept that our first phase of work will include sacrifice. Third, we are ready to accept decisions reached through concerted development efforts.

The whole world knows that Guatemala is going through a crisis. The conditions that led to it are also well-known. The mere mention of some of them is enough: corruption, violation of human rights, abuse of power, electoral fraud, and so on. All of these spawned our crisis. The results of the elections of December 8th translate the hopes of a people hungry for social justice, sources of employment, respect, incentives, and correct application of justice.

But our analysis of the crisis cannot solely emphasize the problem of abiding by our laws. The crisis we are living through is genuine, affects all areas, and hinders our development. The Christian Democratic government acknowledges the true magnitude and global nature of the crisis and deals with it accordingly to find feasible solutions in the short-term. Thus, we need not only understanding and help from national sectors, but also technical assistance and credit from sister nations, friendly countries, and entities willing to contribute to the strengthening of our democracy.

For years, AID programs have assisted our country, fostering appropriate development to reach the neediest sectors. Today, I can say that the sectors that received great benefits from this assistance are: agriculture, rural development and nutrition, cultivation techniques, marketing, and soil conservation and irrigation, as well as the strengthening of the cooperative movement. This help has been beneficial and timely, but today more than ever, we need assistance for new projects, new ideas, new commitments, and new priorities.

Guatemala needs new sources of employment, centers of study to lower the existing illiteracy rate, assistance for improved rural mechanization, help to fight the existing infant mortality rate, and cooperation for new industries. It is urgent that we meet our goals. We represent a people with needs and hope, a people who yearn for their fair share. We in the government are fighting for them and are acknowledging our realities, assuming our responsibilities, and soliciting aid to build a new homeland.

*— Vinicio Cerezo Arevalo*

and Promotion (CAPEL). The Center, an autonomous arm of the Inter-American Institute for Human Rights in San José, Costa Rica, worked closely with the Guatemalan Supreme Electoral Tribunal to train election officials and workers. CAPEL also assisted the Center for Political Studies, a private Guatemalan institution, to train election observers. In addition, AID provided $227,000 to help the government purchase ballot paper.

Guatemala traditionally accounts for approximately 40% of all economic production in Central America. However, Guatemala's economy has declined in recent years due to high world oil prices, low world market prices for major agricultural exports such as coffee, cotton, and sugar, and stagnation of trade with neighbors facing similar economic problems. Political instability in the region and internal strife have reduced foreign investment and bank credit. As a result, foreign exchange reserves have been depleted, and the country currently faces a heavy debt-service burden and rising inflation. The situation has been further exacerbated by a severe imbalance in income distribution and resource ownership and low levels of U.S. economic assistance in the early 1980s, in large part because of human rights problems.

*Guatemalans vote in democratic elections. AID funds helped Guatemala purchase ballot paper and train election workers.*

These economic problems provide both an immediate challenge to the recently elected government and a need for increased economic assistance for a stabilization and recovery effort.

To support Guatemala's initiatives in democratization and economic recovery, the United States in 1985 significantly increased assistance—$91.5 million compared to $11.4 million in 1984. A key AID objective is to help Guatemala achieve economic growth through balance-of-payments assistance, export promotion, and increased private sector involvement in development activities. Another prime objective is to assist in the development of the low-income, Indian-populated Highlands through projects emphasizing agriculture, rural productivity, export development, education, and health. "Our program is grassroots-oriented, hands-on development in a way we believe will achieve growth and equity by reaching the rural population," says Chuck Costello, director of AID's mission in Guatemala.

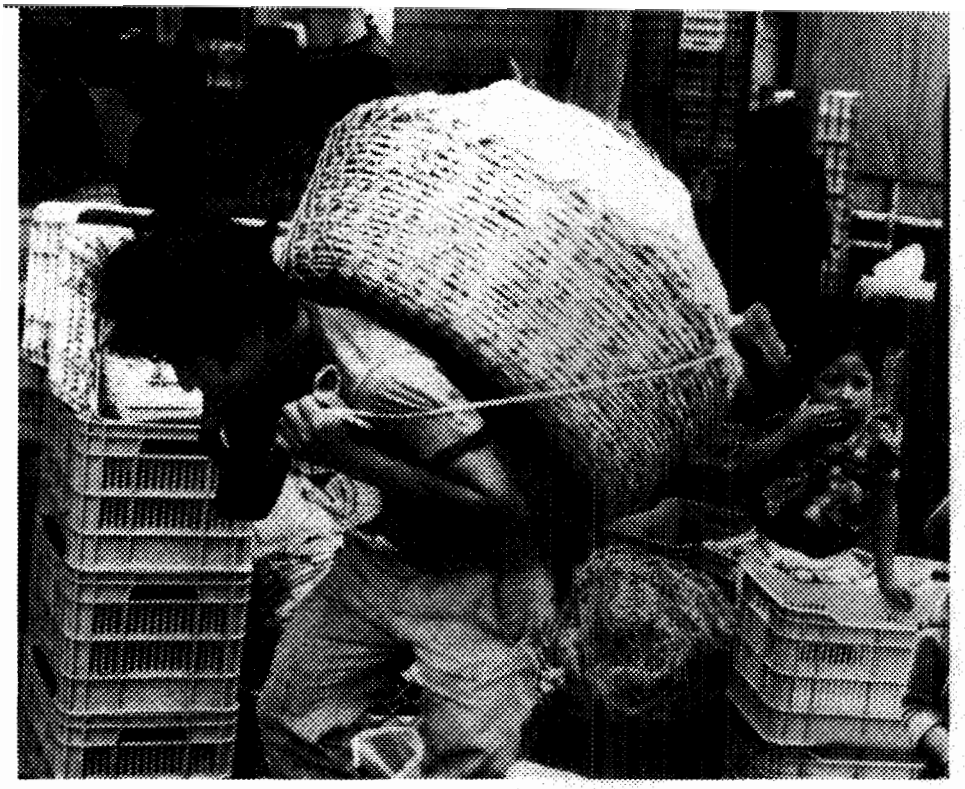
### Private Sector and Agriculture Go Hand-in-Hand

"Guatemala's private sector is key to the country's economic growth," says Costello. To bring the private sector more fully into the development process, AID recently initiated the $1.5 million Private Sector Development Activities project that will draw on the expertise of established business leaders to assist small and medium entrepreneurs in improving production and marketing systems, developing new products, and taking advantage of opportunities offered under the Caribbean Basin Initiative. AID is preparing an assessment of past, present, and future trends of Guatemala's private sector. It also is designing a project to support the

## GUATEMALA: A SOCIAL AND ECONOMIC PROFILE

| | |
|---|---|
| **POPULATION[1]** | |
| Total Population | 8,346,000 |
| Annual Growth Rate | 3.0% |
| **ECONOMY[2]** | |
| Gross National Product (GNP) Per Capita | $1,120 |
| **EDUCATION[3]** | |
| Literacy Rate | 46% |
| **HEALTH[4]** | |
| Infant Mortality Rate/ Per 1,000 Live Births | 67/1,000 |
| **AGRICULTURE[5]** | |
| Major Subsistence Crops | Corn, rice, pulses |
| Major Cash Crops | Coffee, cotton, sugar |
| **FOREIGN TRADE[6]** | |
| Major Exports | Coffee, cotton, sugar |
| Major Imports | Manufactured goods, machinery, transportation equipment |

1. U.S. Bureau of the Census, 1985
2. World Bank, 1985
3. World Bank, 1975
4. Pan American Health Organization, 1985 (1984 IMR)
5. U.S. Department of Agriculture, 1984
6. *The World Factbook*, 1985



*First-quality fruits and vegetables in high demand by U.S. consumers are being grown by agricultural cooperative members. Loans provided by the United States and channeled through national and private banking institutions in Guatemala help rural farmers improve production, storage, and marketing of crops for export.*

development of small and medium-size enterprises in the country.

Agriculture is the backbone of Guatemala's economy, employing 55% of the work force and providing 60% of exports. However, because the country can no longer totally rely on traditional exports to earn foreign exchange, a larger, more diversified base of agricultural exports is necessary for economic recovery.

According to Costello, AID's private sector programs are well-integrated with the agricultural projects. "AID's projects emphasize small farmer agricultural development for production of high-value, non-traditional crops targeted to export markets," Costello explains. "We also are increasing involvement with the private sector to develop the farm-to-market linkage, crop diversification, and private agricultural business credit for financing export activities. The idea is to offer, at the farm level, technical assistance, credit, roads, and electricity to allow farmers to produce and to assure them a steady market with the private sector."

Guatemalan cooperatives and individual entrepreneurs are receiving help from AID in obtaining working capital through the National Agricultural Development Bank (BANDESA), private banks, and finance companies to buy, store, and transport fresh and frozen products. To date, four vegetable and fruit cooperatives and three vegetable freezing plants have begun to expand operations.

Based on these encouraging results, the five-year, $12.5 million Agribusiness Development project is being directed entirely to the private sector. The project, which began in 1985, channels funds through the Bank of Guatemala to four private financial institutions, which in turn are making loans to agribusinesses. These agribusinesses will provide small farmers with profitable outlets for their vegetables and fruit.

Under the same project, small farmer cooperatives are learning export management and marketing skills through the National Cooperative Business Association, a U.S.-based private and voluntary organization. The Guild of Non-Traditional Product Exporters, a local, private organization, also is receiving funds to set up a center for computerized marketing information that will assist agribusinesses in locating U.S. markets for their products.

Sustainable agribusiness operations require higher levels of crop production. Much of AID's agricultural portfolio is directed at improving land availability, land use, cultivation practices, and irrigation techniques.

Under a $1 million pilot commercial land market project, the Penny Foundation (Fundación del Centavo), a Guatemalan private and voluntary organization, and AID are providing long-term credit to help small farmers buy arable land. The purpose is to encourage a more equitable distribution of cultivable land through the free market mechanism.

The foundation buys land on the open market and surveys it for agricultural potential. The land is then sold to the small farmer who pays 10% down and borrows the remaining 90% from the foundation for 10 years at 12% interest. The farmer must assure the foundation that 75% of his earnings will be from farming and must agree to accept the advice of the foundation on what crops should be planted.

The foundation has purchased seven farms and has sold the land to 300 farmers who are producing a variety of crops. For example, one farm in San Andrés Semetabaj in western Guatemala covers 45 hectares and has been parcelled to 25 families. Each family has received title deed to its own farm. These farms will produce brussels sprouts and broccoli for export. Contracts for processing the produce have already been signed with a local agricultural cooperative. Also, 125 farm families have purchased plots of land on farms in Tucuru, Alta Verapaz, and will plant cardamom and coffee.

The project already shows significant potential for expansion. "In the extremely sensitive area of land concentration, this is an important voluntary intervention led by the private sector which can help in the peaceful restructuring of land ownership," says Harry Wing, chief of the Office of Rural Development.

A team of Guatemalan extension agents and U.S. Department of Agriculture technicians is sharing

*Felipe Alcor and other small farmers grow vegetables year-round with water provided by a $3 million AID irrigation project for small farmers. Loans help farmers buy pumps, tubing, and sprinklers.*

research and extension experience to help small farmers learn techniques for growing a variety of vegetables and fruits for export, in addition to animal husbandry. Coupled with BANDESA offering credit to farmers to expand their operations, this effort provides an integrated systems approach to small farmer development.

Small farmers also are learning natural resource management—soil conservation and improved water use methods. Guatemalan agricultural extensionists, with AID assistance, are teaching farmers bench terracing, which prevents hillside erosion and fertilizer runoff and allows more space for planting crops. Studies already show that farmers using bench terracing since 1983 have increased crop yields by 50% to 100%. This effort helps solve long-term environmental problems while providing immediate benefits to the farmers.

For centuries, Guatemalan farmers have relied on a six-month seasonal rain to grow crops. Now they are adopting small-scale irrigation (mini-riego) systems. The mini-riego is a simple gravity sprinkler system that requires very little maintenance. The system provides an assured source of water for crops during the dry season and makes year-round farming possible. Farmers using a combination of terracing and irrigation have reported increases from 20% to as high as 600% in production incomes since 1983.

According to Costello, most rural projects are labor-intensive. Soil conservation and reforestation employ farm labor to build and maintain terraces and plant trees. In addition, on-farm labor also increases when diversified crops are grown because more labor is required to grow, harvest, and prepare the crops for market. Irrigated agriculture extends the growing season, also increasing the demand for labor.

### Infrastructure Improves Life in Rural Areas

Adequate infrastructure is essential to a country's economic growth. AID is helping Guatemala's government expand rural roads and install water and sanitation and electrical systems. Rural access roads are high on the priority list because they are vital to a community's access to health, education, and agricultural extension services and allow farmers to reach markets with their crops. "AID's rural road program is very popular with the rural population," says Ed Baker, chief of the Project Development and Support Office, "not only because of the road access but because the program is labor-intensive and provides employment for community members. Guatemalan communities have been very successful in organizing labor crews for construction; consequently, rural access roads projects have exceeded initial goals." Initially, 425 kilometers were planned. Instead, approximately 531 kilometers of rural access roads have been built with AID assistance.

Another 800 kilometers are slated for construction or repair. Once the roads are built, more than 150,000 rural inhabitants will have access to market centers, which will enable them to sell higher value cash crops. Farmers also will have off-season and off-farm employment constructing and maintaining roads. The Guatemalan government is setting up a permanent rural access road maintenance program with AID's assistance.

Potable water is not only essential to a community's economic progress, but also is critical to the health of community members. Less than 24% of Guatemalan rural communities have access to potable water. Children, in particular, suffer from the unavailability of clean water—those under five years of age account for 50% of all deaths in Guatemala. The infant mortality rate in the rural areas is more than twice the national average—150 to 200 per 1,000 live births. Water- and sanitation-related diseases rank in the top three causes of illness and death in rural communities.

Since the project was initiated in 1983, approximately 6,000 families have been provided access to water and sanitation systems. Due to demand for new water systems, AID is helping the government expand installation of the systems. This recent effort will provide an estimated 8,000 families with running water. Communities help to build and maintain systems as well as receive instruction in basic health practices.

To address the high infant mortality rate, Guatemala and AID recently

agreed to a joint immunization program which will vaccinate more than 80% of all rural children against polio, measles, tuberculosis, diphtheria, pertussis, and tetanus. The Immunization/Child Survival project will be carried out through a process called "channeling" in which Ministry of Health personnel identify on a house-to-house basis those in need of vaccination. This system will provide the extra benefit of identifying and treating other illnesses that otherwise might not receive attention. The mission also is developing an oral rehydration project to complement the immunization effort.

### Educational Programs Open Up Social and Economic Opportunities

One of Guatemala's major endeavors has been to combat illiteracy and bring the Highland Indians into the mainstream of Guatemalan life. AID has been assisting in this endeavor.

Guatemala has a literacy rate of 46%. Nearly half of its eight million people are descendants of Maya Indians, and two-thirds live in the rural Highland area. The isolation of their communities due to difficulty in traversing the mountainous terrain has helped to maintain distinct societies in which few speak or understand Spanish—the country's official language. Of the 23 Indian dialects, there are four separate, major language groups. This barrier has limited educational opportunities for the Indians, thus preventing them from fully participating in the economic, social, and political mainstream of Guatemalan life.

In 1980, a $1.9 million bilingual education pilot project opened the door to the future by initiating classes for pre-school and grades 1 to 3 (the 4th grade was subsequently added when the project's success became evident) in both Spanish and the four major Indian languages, all of which had been alphabetized in the 1940s. Students were gradually taught Spanish as they received basic education in their own tongue. The project, initiated by the Guatemalan government and AID, reached some 5,000 students in 40 rural primary schools and resulted in an increase in enrollment and achievement levels and a decrease in the dropout rate.

"In a country in which Spanish is the official language, bilingual education is important for building for the future to allow the Indians to compete in modern society yet preserve their culture," says Costello.

*Guatemala's bilingual education program improves the quality of primary school education for the indigenous population. Native Indian teacher aides also receive scholarships to help them become full-fledged teachers.*

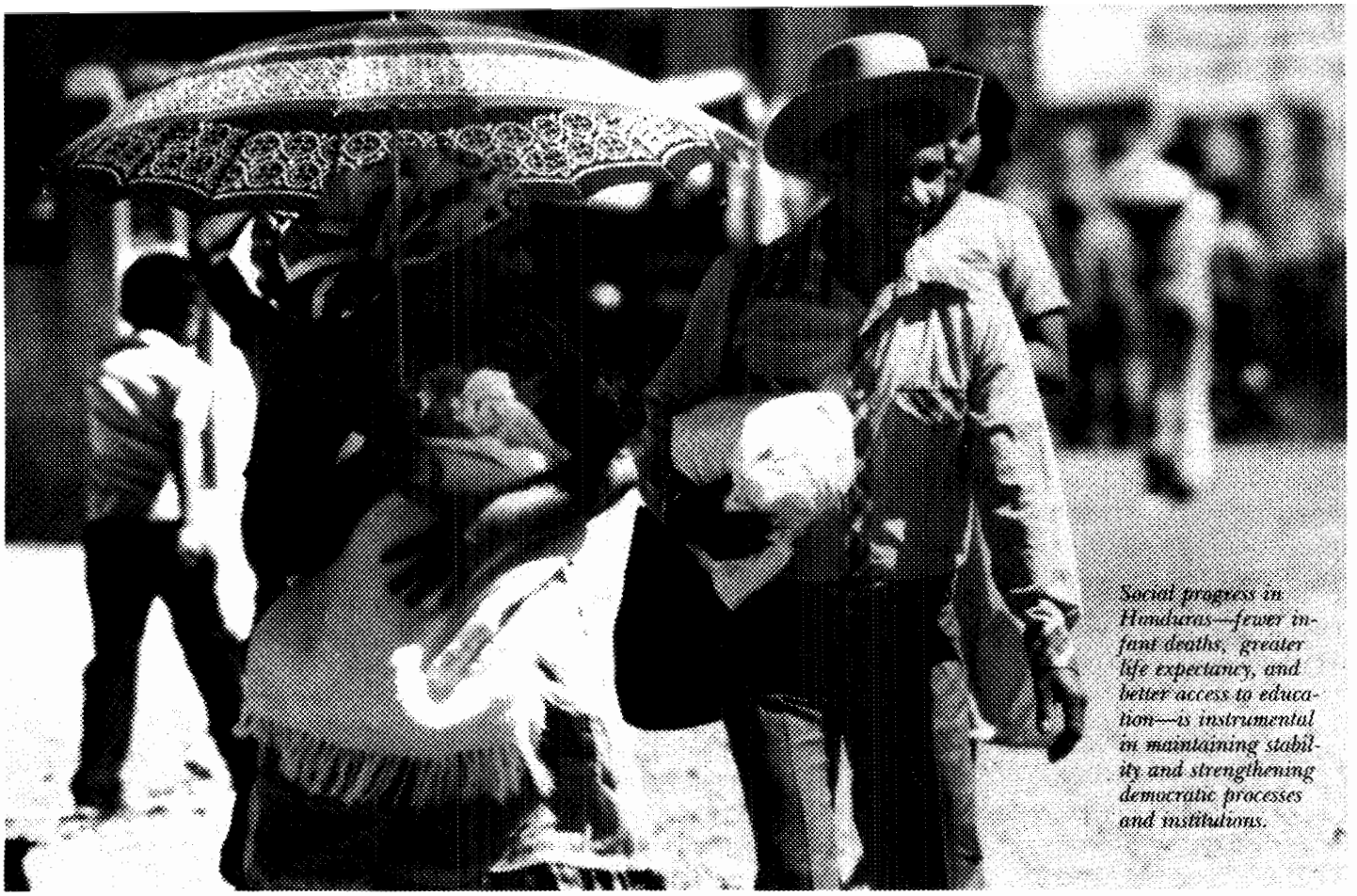
Based on the success of the pilot project and through intensive policy dialogue with the government, bilingual education became law in December 1984. Equally significant, Guatemala's new constitution includes an article authorizing bilingual education in schools with a predominantly Indian population.

At the same time, AID and the government pledged $12 million and $24 million respectively to expand the bilingual education program from 40 to 400 elementary schools nationwide, and provide at least a sixth-grade education for 40% of the country's enrolled Indian students. The World Bank also is contributing $1 million for bilingual textbooks, and the Inter-American Development Bank is assisting in the construction of bilingual rural primary schools.

The U.S. Central American Peace Scholarship initiative, which offers Central Americans the opportunity to study in the United States, also has been met with tremendous enthusiasm and success, says Costello. By the end of December 1985, nearly 700 Guatemalans had received short-term training in health care, small business and agribusiness, and bilingual education. Twenty-six are receiving long-term training in advanced education, public health, pediatrics, renewable energy resources, international law, and agricultural management and development. About 70% of the scholarship recipients are from rural areas, more than half are Indian, and more than half are women.

Guatemala's future is brighter today as the country continues on the road to democracy and economic recovery. "While much remains to be done to realize economic progress in Guatemala," concludes Costello, "I am convinced that by working closely with the people of Guatemala we can make, are making, and will make a difference." ■

*Judy Van Rest is the former director of AID's Office of Publications in the Bureau for External Affairs.*



*Social progress in Honduras—fewer infant deaths, greater life expectancy, and better access to education—is instrumental in maintaining stability and strengthening democratic processes and institutions.*

## A MESSAGE FROM THE PRESIDENT OF HONDURAS

The Honduran democratic process, which culminated in the free, democratic, and honest elections on November 24, 1985, strengthens Honduras' national identity and helps direct our country in the search for economic and social advancement of our people.

Behind us are the periods of unconstitutionality that used to characterize the Honduran political system and gave rise to the dishonesty that retarded our economic growth.

The legal and administrative systems are being modernized, and the guaranties of justice, liberty, education, and economic well-being established by Honduras' constitution will be vigorously pursued by our new government.

Honduras has benefited from its close association with the Government of the United States through the Agency for International Development, which has contributed to the promotion of economic and social development of our country in an atmosphere of liberty and democracy.

Economic assistance received from the United States has been important to enable Honduras to stabilize its economy and to diminish the negative effects of inflation. And, it has permitted us to overcome the economic crisis created by increases in energy prices and the severe global economic depression, as well as the political problems generated by the uncertainty on our borders and in the neighboring countries.

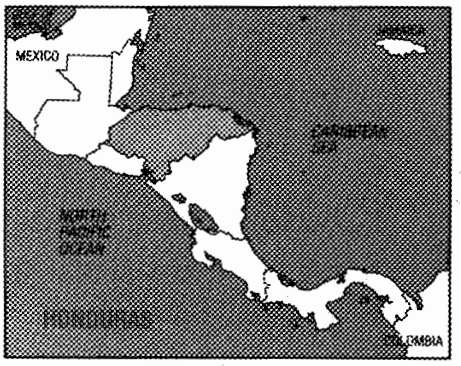
The positive results of the policy of financial stabilization and economic recovery supported by the Agency for International Development's assistance are reflected in the statistics that show an economic growth of 3% and the reduction of inflation to the low level of 4% a year in 1985. Infant mortality has been reduced from 150 per 1,000 (live births) in 1960 to 70 per 1,000 in 1984. Almost 90% of the Honduran school-age children have access to our schools, and more than two-thirds of our people receive some protection against the scourges of polio and measles.

Nevertheless, much remains to be done. There are more than 400,000 unemployed Hondurans for whom employment opportunities must be created if we wish to prevent in Honduras what has occurred in other neighboring countries.

Our agricultural production continues to be very rudimentary, and annual harvests depend on the weather. We need to create an irrigation system to ensure harvests, under all weather conditions, that produce sufficient quantities of food for home consumption and surpluses for export.

Only 20% of Honduran children finish their primary education through the sixth grade. Honduran life expectancy is less than 60 years. We must face the problems of education and health, which are related intimately to each other and to the productive capacity of Hondurans.

We must significantly increase our




Honduras, the poorest of the Central American countries, is a nation of promise. The last two decades have witnessed a decline in child mortality and an increase in life expectancy. Important social programs, including agrarian reform, social security, and extensive educational and health programs, have helped bring a greater degree of social and economic prosperity. In a society where freedom of speech and the press are highly valued, labor and small farmer organizations play important roles in policy-making decisions. Honduras' political stability has been reinforced further by the recent presidential and congressional elections—the first transfer of power from one elected civilian government to another since 1927.

The road to Honduras' prosperity,

## *Partners in Development:*

# HONDURAS

*By Judy Van Rest*

exports to obtain an equilibrium in our balance-of-payments requirement and permit our country to purchase the imported goods it needs for development.

We must avoid a devaluation in order to be able to increase our savings and generate the resources indispensable for investment without punishing the poorest social sectors of our population, who would be affected tremendously.

In my government, which began January 27, 1986, we intend to face problems with dedication, with honesty, with determination, and with patriotism. We have a new concept of what holding power means, what morality in politics is, and what the Honduran people expect from us.

To continue our process of economic recuperation, to advance agrarian reform and increase agricultural productivity, to improve the quality of life of Hondurans, to increase employment, and to advance the general common good, we need economic assistance from the United States, from other friendly countries, and from international agencies. For as great as our effort might be, it is not possible that we alone can generate the resources necessary for alleviating the poverty of the Honduran people and begin to fulfill, at least in part, the aspirations of liberty and democracy with economic development for all Hondurans.

We know that the United States and Honduras concur on the need to stabilize Honduras' economy and to strengthen our economic process, equitably distributing the benefits of this growth. The recommendations for assistance from the United States for the development of Central America are necessary. It is indispensable to increase the level of support that the United States, with a great sense of democratic responsibility, provides our countries.

We must develop Honduras' private sector and decrease the dependence on the state.

Without the constant and broad support of the United States of America, we, the free men and women of Central America, would be greatly disappointed, and our development would be seriously limited, endangering our countrymen's belief that one lives better in a free democracy than under other systems.

Due to these firm convictions shared by the administration of President Reagan in the United States and my administration in Honduras, we have reaffirmed our commitment to the cause of democracy and peaceful economic development.

My government supports the objectives of the Contadora Group, establishing as a goal the pacification of Central America with democracy.

My administration will continue and will make a closer, more harmonious relationship with the U.S. Agency for International Development in the pursuit of greater progress of our people.

*—José Azcona del Hoyo*

however, is paved with challenges. The population is growing rapidly at 3.4% a year. The labor force, increasing nearly 3.8% per year, is outpacing the job market and will swell with an estimated 300,000 additional workers during the next five years. Low production yields and falling world market demands for traditional exports—bananas, coffee, sugar, and meat—have slowed economic growth in recent years. Though Honduras brings a measure of stability into the often volatile Central American region, foreign investment has been hampered by concerns about the security of the region.

For over 20 years, the U.S. Agency for International Development (AID) has supported Honduran national economic development priorities. "We work for and with the people of Honduras to carry out programs in development assistance," explains Anthony Cauterucci, director of AID's mission in Honduras. During 1984-85, U.S. economic assistance amounted to $312 million, 37% of all U.S. assistance provided to Honduras since 1946. This increase in U.S. sup-

## HONDURAS: A SOCIAL AND ECONOMIC PROFILE

| | |
|---|---|
| **POPULATION** | |
| Total Population[1] | 4,199,000 |
| Annual Growth Rate | 3.4% |
| **ECONOMY[2]** | |
| Gross National Product (GNP) Per Capita | $670 |
| **EDUCATION** | |
| Literacy Rate | 60% |
| **HEALTH[3]** | |
| Infant Mortality Rate/ Per 1,000 Live Births | 70/1,000 |
| **AGRICULTURE[4]** | |
| Major Subsistence Crops | Corn, dry beans, rice |
| Major Cash Products | Bananas, coffee, sugar, meat |
| **FOREIGN TRADE[5]** | |
| Major Exports | Bananas, coffee, lumber |
| Major Imports | Manufactured goods, machinery, transportation equipment |

1. U.S. Bureau of the Census, 1985
2. World Bank, 1985
3. *Maternal Child Health Care/Family Planning Study*, Honduran Ministry of Health and AID, 1985
4. U.S. Department of Agriculture, 1984
5. *The World Factbook*, 1985

*This satellite-fed computer system enables FEPROEXAAH, which represents Honduras' agribusiness associations, to arrange international sales in industries as varied as cattle, coffee, bananas, poultry, and honey.*

port responds to the National Bipartisan Commission on Central America's goals of economic stabilization and equitable growth.

AID's program aims at helping Honduras expand and diversify exports; invigorate its private sector; increase agricultural and rural development; broaden basic social services in education, health, and housing; and support democratic institutions.

In recent years, over one-half of U.S. financial assistance has been provided as balance-of-payments support to enable Honduras to import equipment, spare parts, and raw material needed to increase production and employment levels. This assistance has been an important factor in Honduras' achievement of modest economic growth in 1984 and 1985 after two years of economic decline.

It is essential that such assistance be provided in a framework of economic policies that stimulates savings, investment, and export production. Therefore, balance-of-payments assistance has typically been linked to Honduran policy adjustments.

The Joint Economic Working Group (JEWG), composed of key representatives of the Honduran Economic Cabinet, AID, and U.S. Embassy officials, was established in 1984 to initiate reforms to stimulate the economy. As a result, steps have been taken to reduce the fiscal deficit, promote development of nontraditional exports, encourage private investment, reduce excessive government spending, and divest parastatals. While more needs to be done, particularly to increase the competitiveness of Honduran exports, the JEWG represents an effective form of collaboration between Honduras and the United States toward long-term economic growth.

### Private Sector Extends Helping Hand to Small and Medium-Size Producers

"We are especially encouraged by the expanded role being played by the private sector in contributing to Honduras' development," says Jack Miller, AID program officer in Honduras. "We intend to support this trend fully in the future."

The Honduran private sector, with AID support, has established several organizations for this purpose—the Federation of Associations of Honduran Producers of Agricultural and Agro-industry Products (FEPROEXAAH), the Foundation for

Business Research and Development (FIDE), and the Cattlemen's Fund, Fondo Ganadero de Honduras.

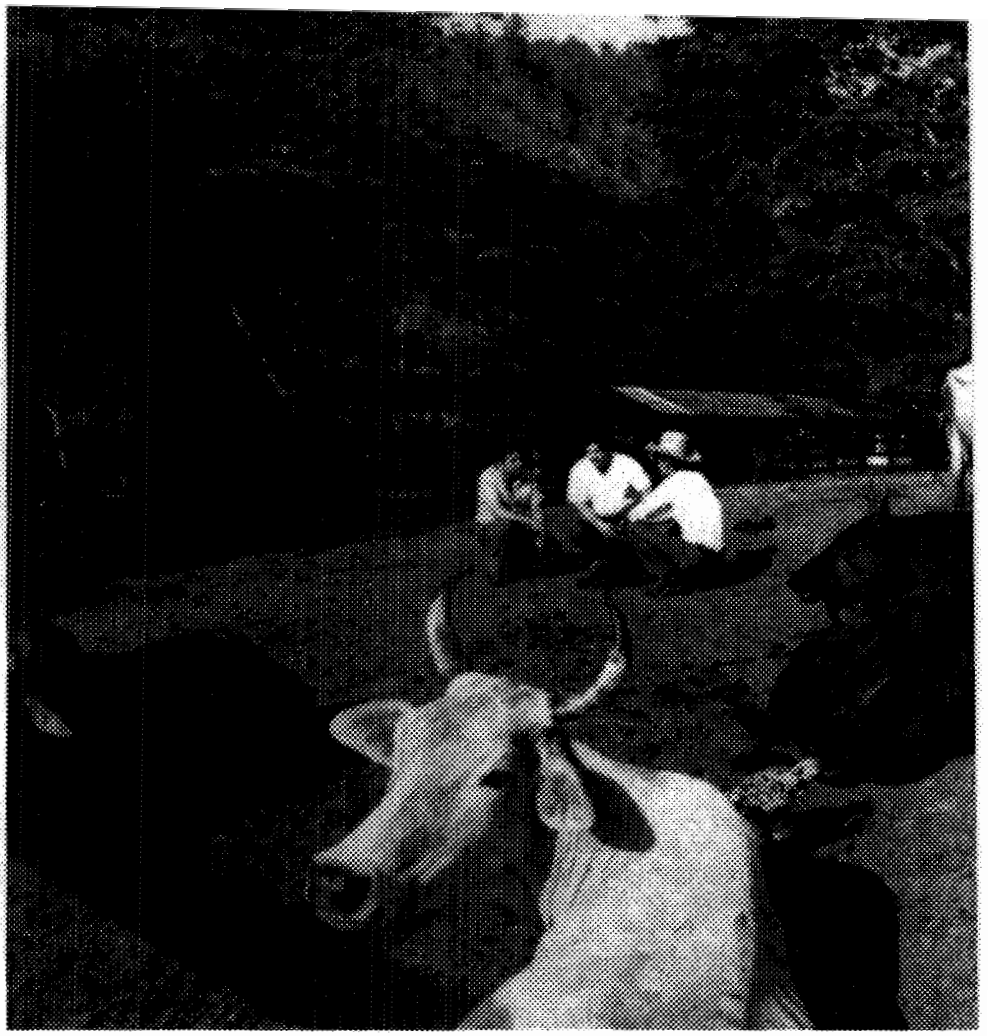
FEPROEXAAH was established in January 1984 by leaders of agribusinesses and producers' associations to help small and medium agricultural producers, processors, exporters, and workers expand the country's export base.

The Federation offers more than 20 agro-associations technical advice and training in marketing and production of non-traditional exports, such as pineapple, cardamom, cocoa, and ornamental plants. An estimated 4,300 jobs and $16 million in agricultural export earnings will be generated through this project by 1990.

The Federation has accomplished much in a short time. For example, Honduras recently began to export pineapple to Houston, Texas. An agreement recently was signed in which local producers will supply cocoa to the Hershey Foods Corporation. FEPROEXAAH also has negotiated two joint venture agreements with a U.S. firm to finance new shrimp fishing and agricultural storage/processing facilities.

FIDE was founded in late 1984 by four Honduran private institutions to provide assistance to small- and medium-size Honduran businesses, particularly exporters of non-traditional export products, such as wood products. The foundation identifies entrepreneurs with development potential, arranges for necessary financial and technical assistance, and acts as a communication liaison with U.S. regional and national trade associations. An estimated 2,400 jobs and $12 million in export earnings will be generated through these activities by the end of 1986.

One FIDE activity encompasses a close working arrangement with the International Executive Service Corps (IESC), retired U.S. business executives who volunteer to train and give technical advice to entrepreneurs in developing countries. For example,



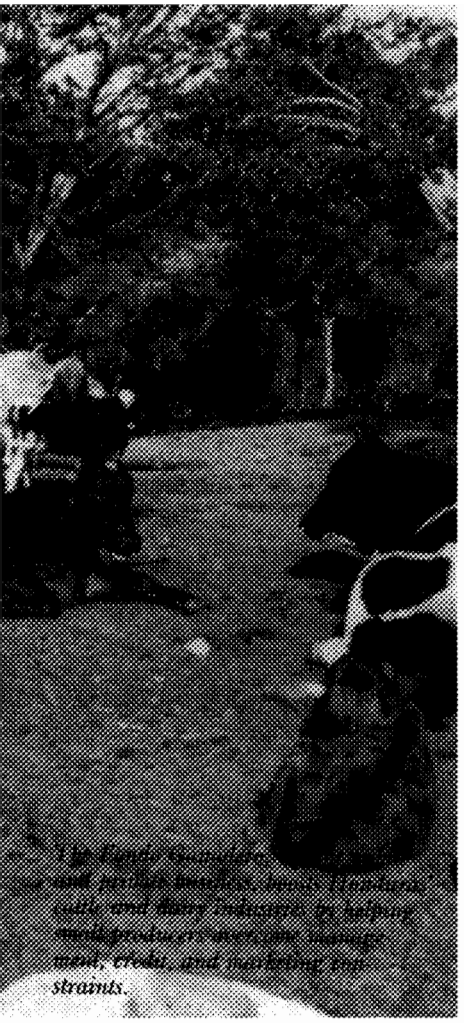
FIDE and IESC have provided six Honduran furniture manufacturers with in-depth evaluation and technical assistance to improve their management, production, and quality control techniques.

FIDE also is contracting with a number of U.S. consulting firms to provide production and marketing assistance to Honduran companies expanding their exports or entering U.S. or other countries' export markets.

AID is providing a $16 million loan for both the FEPROEXAAH and FIDE projects—$10 million to set up a revolving fund to import raw materials needed for export production and $6 million for operational support and training. AID also is providing a $7.5 million grant for technical assistance and support to FEPROEXAAH and FIDE. In addition, the Honduran government will make available the local currency equivalent of $24 million for the local investment and working capital needs of non-traditional exporters.

The Cortes Chamber of Commerce & Industry in San Pedro Sula is expanding its services to businesses in northern Honduras. The Chamber will establish four new advisory and executive councils dealing with industrial development, international trade and transportation, government and membership affairs, and a visitors bureau. The councils will help small and medium-size national and foreign businesses start or expand, stimulate international trade activities, provide research for members, increase local awareness of export opportunities, improve aviation and ocean transportation services, and coordinate with FIDE and FEPROEXAAH in providing assistance and support to the private sector.

The Cattlemen's Fund or Fondo Ganadero de Honduras was founded in January 1985, with $13 million funding assistance from AID. It is a corporation whose members include the Honduran Ministry of Natural Resources and the National Agrarian Institute, campesino organizations and individual campesinos, cattlemen



associations, and representatives of the dairy and meat packing industries. All are shareholders in the corporation, but the controlling interest is held by individual livestock producers and campesino groups. The Honduran government purchased its shares through transfer of government-held property to the Fondo.

The Fondo owns the cattle and lends them to the producer who manages the animals for a share of the income. It also provides animal health supplies and technical assistance. The Fondo receives 45% of the income, the producer 55%. The producer must take 5% in Fondo shares and has the option of receiving the remaining 50% in any combination of cash and cattle. Thus, the producer becomes a shareholder as well as a beneficiary of the corporation.

"Both the Fondo and FEPRO-EXAAH bring together large landowners and small campesinos in pursuit of private sector objectives," says Cauterucci. "There is a recognition from both the landowners and the campesinos that they can work together, that the exclusion of either group undermines the basis of society. They understand the importance of people cooperating."

As the private sector initiatives are being put into place, AID works with government institutions and communities to provide programs in health, water and sanitation, agriculture, rural housing upgrading, and education.

## Training Programs Improve Health Care

Training and technical assistance are key elements of the health sector project jointly launched by the Honduran government and AID in 1980 to improve and expand the country's health services. In-country training programs in a number of areas, including supervision, supply management, cold-chain maintenance, and traditional birth attendant skills, use "training of trainers" techniques to convert professional and lower-level personnel into trainers of primary health care professionals and community volunteers. The project also has trained personnel in immunization; diarrhea, malaria, and tuberculosis control; voluntary family planning; and management. The effort has had a multiplier effect; 1,500 rural health personnel have been trained, 3,000 birth attendants have completed basic courses, and 2,000 birth attendants have returned to the clinics for refresher courses.

This training has contributed to the health project's major accomplishments that include: a large drop in the number of malaria cases (20,000 fewer reported cases from 1982 to 1984); 50% immunization against diphtheria, pertussis, tetanus (DPT), and measles, and 84% against polio; a decrease in infant mortality from 103 per 1,000 live births in 1980 to about 70 per 1,000 in 1984; and increased access to family planning services.

In Honduras, dehydration due to diarrhea is a major cause of death. The health project's effort to combat this disease through oral rehydration therapy (ORT)—a simple solution of salt, sugar, and water—is among the most successful in Latin America. Its effectiveness has been attributed to thorough preliminary research and training, and an extensive media campaign through print and radio. The decrease in infant mortality has in part been credited to ORT. For example, in one pilot area in central and southeastern Honduras, the mortality rate due to diarrhea for children under five dropped 40% after

*Honduras and AID have waged an all-out campaign to promote the use of oral rehydration therapy, which counteracts dehydration often caused by diarrhea.*

*Amilcar Osorio's son showers with clean running water piped to his home through a new water system built by the Honduran government, community members, and AID.*

the introduction of the simple method of oral rehydration.

In addition, the health project has set up working groups to introduce the Ministry of Health to new problem-solving techniques. With assistance from AID and Management Sciences for Health, a U.S.-based organization, the Ministry of Health selects five to six staff members to participate in a working group and research ways to solve selected health management problems. For example, one working group helped the Ministry of Health streamline its inventory of medicines, reducing a list of 3,000 medicines to 500. This has simplified inventory control and training programs as well as lowered costs.

### Villagers Reap Benefits of New Water and Sanitation Systems

In a tiny village not far from San Pedro Sula, called the 24th of April, Amilcar Osorio, general-store owner, relates how his small community was able to obtain running water through a joint effort of the Honduran government, community members, and AID. The Honduran government, through its regional Water Authority Office, provided the engineer to design and monitor building of the system, the community provided the materials and local workers, and AID provided funds and the technical assistance to supervise skilled laborers.

Before the water system was installed a year ago, the village's only source of water was from a ravine that crossed other communities. By the time the water flowed into the 24th of April, it was filthy. And, it had to be fetched and hand carried. Now 107 homes have clean, running water.

Osorio's community is just one of many benefiting from the rural water and sanitation project which began in 1980 in western and northern Honduras. The project is providing new water systems, wells, indoor and outdoor latrines, sewage disposal systems, windmills, and maintenance training to benefit some 500,000 people. AID loaned the Honduran government $19.5 million to implement the project and provided a $1.2 million grant for technical assistance.

The Honduran Ministry of Health also is disseminating information to the rural poor about the necessity of clean water and sanitation systems to combat disease. Comic books that explain why it is good to boil water are distributed to children, and radio episodes depict the importance of water and sanitation to the well-being of the community.

### Land Titling Offers Farmers A Sense of Security

Today's relative political stability in Honduras is often attributed in part to a more equitable distribution of land. AID is assisting the government to help thousands of small farmers become legal owners of the lands on which they have lived and worked, often for generations.

The principal objective of the five-year, $12.5 million project is to establish a mechanism for granting "fee-simple" titles for plots on national lands occupied and worked

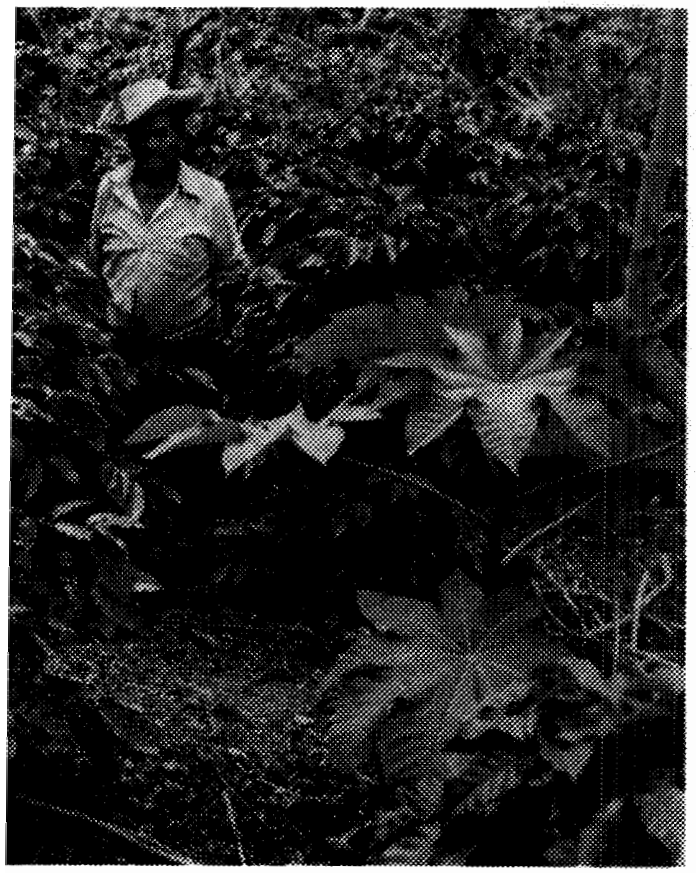
by small farmers. One goal of the project is that farmers receiving legal title will be able to use the document as collateral for credit through the nation's public and private banking systems. To date, approximately 16,000 land titles have been issued, representing about a three-fold increase over the number of titles granted in the previous 150 years.

### Aid to Coffee Growers Boosts Yields, Incomes

The way to Constantino Martinez' farm in the hilly north central area of Honduras is marked by steep, narrow, gutted trails that become impassable during the rainy season. Martinez, a middle-aged farmer, raises cattle and grows corn and coffee. He and his family live in a two-room house perched on a hill next to the coffee plots. Two years ago, Martinez became concerned about his increasingly diminishing coffee berry harvest. The plants were becoming gangly and losing their



BEST AVAILABLE



*With help from IHCAFE, the Honduran Coffee Institute, Constantino Martinez won a battle against coffee rust, a fungus that threatened his coffee berry harvest.*

lower leaves. Coffee rust, a fungus that destroys leaves, was attacking the plants. Martinez went to IHCAFE, the Honduran Coffee Institute, for help and has begun to replace old plants with healthy, more productive ones.

José Cubas, who lives a short but rugged distance from Martinez, also went to IHCAFE three years ago for assistance in renovating his failing coffee plantation. Cubas was not only able to increase yield on one plot of land three-fold in the second year following improvements, but he also used the extra income and new methods to renovate another four plots on his own.

IHCAFE and AID have been helping Martinez, Cubas, and others fight coffee rust, which five years ago threatened to wipe out the country's coffee production. IHCAFE provides loans to buy new and improved coffee seedlings and extension agents who teach techniques to ensure a more productive coffee crop. AID funding totals $10.25 million—an $8 million credit fund and $1 million for strengthening IHCAFE extension services, in addition to a $1.25 million grant for technical assistance.

This effort is geared particularly to the small coffee producer; 90% of Honduras' coffee producers have less than five hectares of land.

The project has been so successful that 4,200 small coffee farmers participated in the project over the first four years. A participating farmer is able to double his production in the second year and increase his production five times by the third year.

Farmers also have proven good credit risks. To date, delinquency stands at 1%. According to Miguel Angel Maradiaga, an IHCAFE extension officer in the area where Martinez and Cubas farm in central Honduras, there are a total of 70 participating farmers. Of these, only three have defaulted on their loans, and that was because the soil was too acidic and their crop failed. IHCAFE is now trying to find parcels of land to help them recover.

According to Gilberto Franco, deputy project manager at IHCAFE in charge of establishing guidelines and training extensionists, this effort also has resulted in a network of "paratecnicos," or community leaders, who start out as project participants but also receive further training in applied technology, soil conservation, and insect and disease identification, and then go out into the field to train other farmers. Now extension agents are able to use their time more efficiently—training new participants and increasing extension coverage.

### Rural Roads Pave Way for Better Rural Life

In the hillsides of Honduras, as in many developing countries, very few of the roads are paved. Often, they are beaten tracks or blazed paths wide enough for one car. In the rainy season, the roads become muddy slides, making travel a major ordeal for rural farmers and their families.

The Ministry of Communications, Public Works, and Transportation and AID are working together to build or upgrade 1,510 kilometers of all-weather rural access roads and trails. More than 80% of the project is finished with early completion expected this year. The Ministry supervises road construction by private contractors, and AID provides engineering assistance. A follow-up project has been started which will build another 1,000 kilometers of trails and set up a road maintenance program. AID's funding totals $41.7 million for both projects with $22 million in counterpart funds from the Honduran government.

The roads have visibly changed the lives of the rural poor. Trucks bring bags of cement, building materials, food products from other regions, agricultural extension agents, and health promoters into the previously isolated areas, then return to the main highway with farmers with their bags of rice, beans, coffee, and

*A simple A-frame level eases the task of building terraces on steep hillsides. The terraces enable more crops to be planted in a given area and prevent erosion and fertilizer runoff. Farmers who terrace their land report production gains of 30% to nearly 100%.*

cabbages for market. Recent evaluations indicate that with the upgraded roads, planted crop acreage under the roads' area of influence has increased on an average of 20%, and small farm income has risen as much as 48% per family.

### AID-Backed Loans Make Home Improvements Possible

Berta Murillo earns a living as a cleaning lady at a local hotel in Danli, Honduras. She lives in a tiny two-room house in a community on the outskirts of Danli with her mother and four children. Her house has a new roof, thanks to a loan made possible by a project to help low-income rural inhabitants upgrade their homes. AID funds are providing loans to finance construction materials for home improvements such as roofs and floors, windows and screens, and cement covering for adobe walls. The beneficiaries provide their own construction labor. Berta Murillo's brother, who is a skilled construction worker, built her roof. The government's Housing Institute (INVA) is the project coordinator. Private and voluntary organizations such as the Catholic Relief Services/CARITAS and several cooperatives—18 organizations in all—are carrying out the project.

Elio Flores, INVA's project manager, explains the program's importance to the rural poor. "If you've had a leaky roof during the rainy season in Honduras, then you would know what a new roof means."

### Thousands Involved in Efforts to Conserve Land and Forests

In this land of varied climates, severe drought and peasant migration have stripped the soil and forests in many parts of Honduras. The Ministry of Natural Resources, with AID, is helping hillside farmers and their families improve land and water use, agricultural productivity, and income by teaching them more effective farming and conservation methods. To date, the project has directly involved some 3,500 farmers throughout the southern region. Soil conservation methods have been applied to approximately 7,400 hectares of land while over three million trees have been planted. More than 7,000 families are expected to benefit from this project by mid-1987 and equally important, critical soil and forest resources are being conserved and restored.

### Honduras Charts a Course that Advances Education

The literacy rate in Honduras is 60%, one of the lowest in Central America. AID is helping the Ministry of Education to alleviate this problem. In primary education, AID is financing construction of hundreds of rural primary schools throughout the country, a school maintenance program, and in-service training for rural primary schoolteachers. Because enrollment in primary schools is now approaching 90%, the education program will increasingly support services designed to improve the quality and effectiveness of primary education.

In vocational education, AID is supporting the Advisory Committee on Human Resources Development

*Farmers and their families keep up their reading skills and find valuable information in their weekly editions of* El Agricultor.

(CADERH), a private sector advisory group that works with vocational training institutions to modernize teaching methods and certification procedures. In higher education, assistance has been provided for development of the national agricultural university in La Ceiba and for expanding the services of the private University of San Pedro Sula.

A unique new education project which is proving to be very successful is the weekly rural newspaper, *El Agricultor*. Published by AVANCE, a private and voluntary businessmen's organization, with funding from AID and technical assistance from the Simon Bolivar Foundation, a U.S. organization, the newspaper serves as a valuable means of reaching the rural population with news about development programs and rural life. *El Agricultor*, with its large color maps and posters, also is quickly becoming popular among rural schoolteachers. The newspaper provides reading material in the information-poor rural environment and helps rural people maintain and improve their literacy skills.

The Honduran private sector and AID are assisting the Association of Honduran Managers and Entrepreneurs (GEMAH), an organization of talented young business managers, to conduct management training courses nationwide. The organization also will publish a quarterly management magazine and establish a management library.

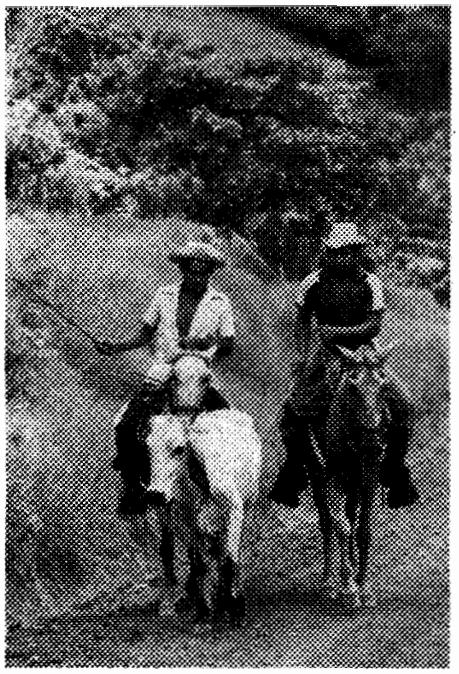
The Central American Peace Scholarship program (CAPS) in Honduras has begun a five-year effort to fund over 1,500 long- and short-term students in the United States in the areas of agriculture, small and export business, public and business administration, health, population, nutrition, and education. During fiscal 1985, the first year of the program, 39 long-term and 264 short-term students participated.

### Hope and Progress: The Building Blocks for a Better Future

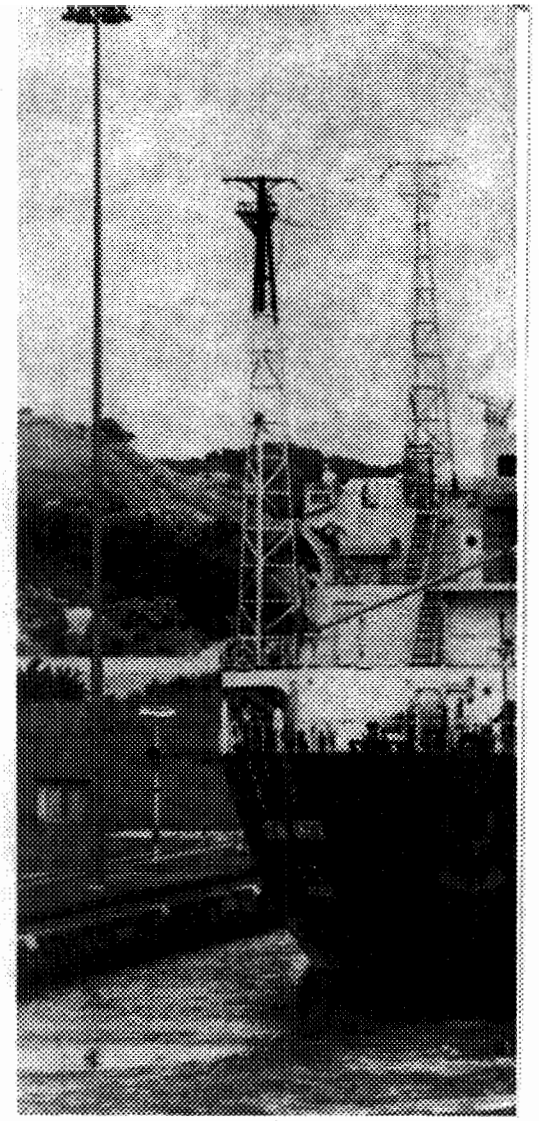
While much work remains to be done, many signs point to arresting economic decline and improving the standard of living—signs brought about through the joint efforts of the Honduran people, their government, and the U.S. Agency for International Development.

"There is a long way to go, particularly in the macroeconomic sphere, to create the upswing required for economic stabilization," says Cauterucci. "We do not work alone, but with, through, and for the Honduran people in carrying out the political, economic, and social objectives they have set for themselves. Our job is to assist where we can to achieve such objectives. Our commitment is not only to help increase the gross domestic product, but also to ensure more equitable distribution of proceeds while enhancing delivery of much needed social services. We feel confident that we can build on the strength of our present relationship to achieve mutual goals in the democratic process." ■

*Judy Van Rest is the former director of AID's Office of Publications in the Bureau for External Affairs.*



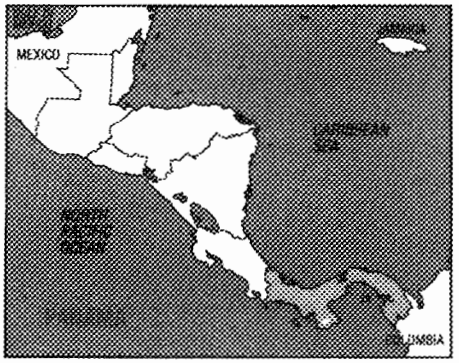
*Panama's high-income, internationally focused Canal Zone contrasts with the agricultural economy of the rest of the country.*



# *Partners in Development:*

# PANAMA

*By Bart Kull*



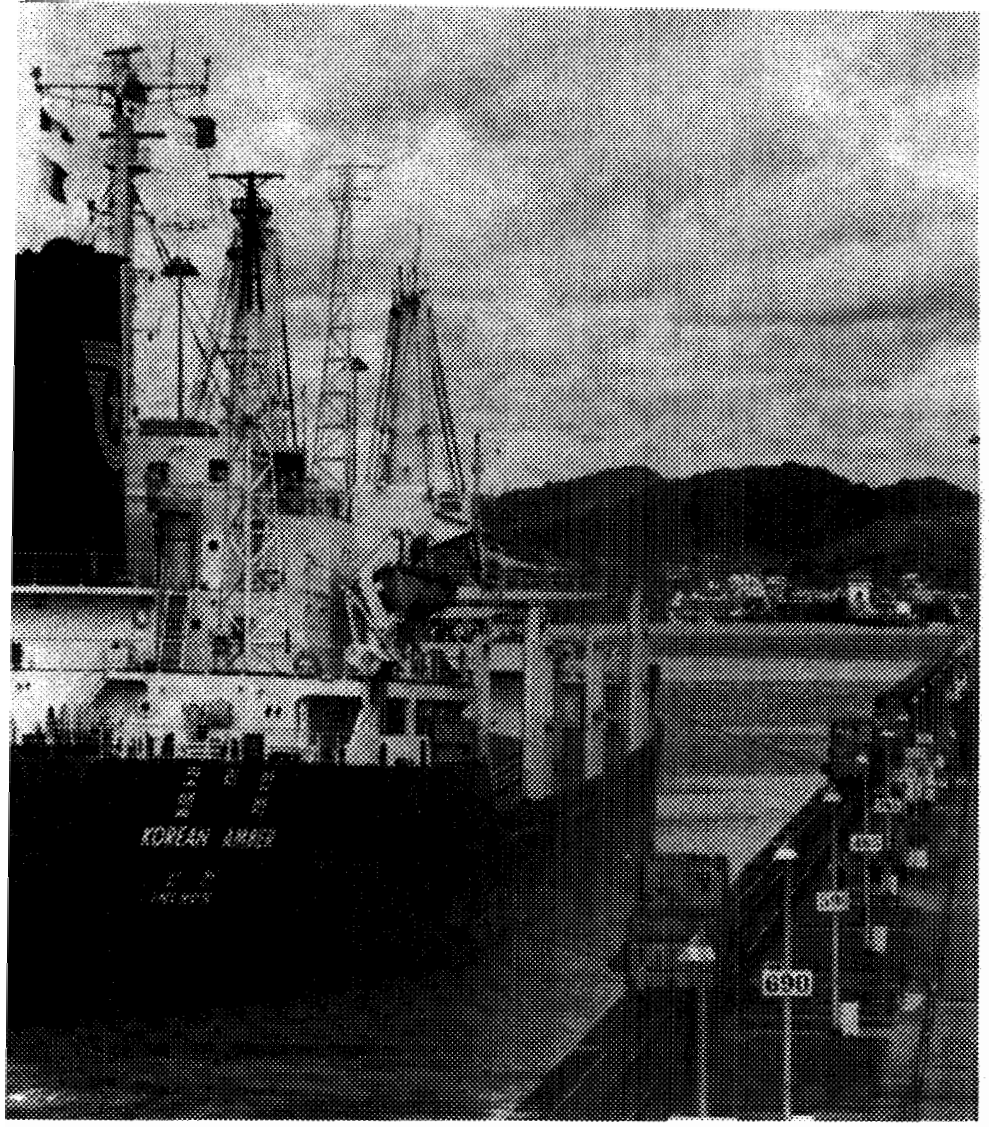

## A MESSAGE FROM THE PRESIDENT OF PANAMA

The Republic of Panama plays an important role in the security, prosperity, and peace of the Western Hemisphere. In this respect, the most valuable elements we wish to underscore are: the Panama Canal, which joins two oceans and therefore allows expeditious sea transportation and international trade; the largest banking and financial center in Latin America; the government's active role within the Contadora Group; and the permanent nature of our excellent relations with the United States, as well as with all Latin American nations.

We are sure that many Americans have come to fully understand the extent to which social progress and peace, as well as concrete sound hope of economic recovery and prosperity in Panama, can be expressed in terms of the national security of the United States along with the economic growth and political stability in other Latin American nations.

The prompt and safe transit of nearly 13,000 vessels each year through the Panama Canal contributes to international economic and commercial exchange, both for the benefit of our own people and the users of the Isthmian Waterway. The Canal is, at present, under the joint administration of Panama and the United States, but as of December 31, 1999, it shall become solely Panamanian.

Panama City's banking and financial center serves all of the Americas, and it not only boosts economic and commercial activity in the Western Hemisphere but also on a worldwide



Panama's strategic location and canal linking two oceans make the nation a major crossroad of world commerce.

The Panama Canal* and the commercial and financial activities generated by it dominate Panama's economic and social fabric. The Canal has contributed to the emergence of a high income, service-oriented urban sector within the Panama-Colón corridor, which coexists with a more traditional, lower income rural economy in the rest of the country.

The Panama Canal contributes about $400 million annually to the economy.

*On September 7, 1977, General Torrijos and President Carter signed the Panama Canal treaties in Washington, DC. The treaties entered into force in October 1979. The new treaties provided a basis for achieving a cooperative relationship between Panama and the United States in both the operation and defense of the Panama Canal. Panama assumed general territorial jurisdiction over the Canal Zone at the treaties' start. They replace the Panama-U.S. treaty of 1903 (the Hay/Bunau-Varilla Treaty), which governed canal operations since the waterway's construction, and subsequent treaties of 1936 and 1955, which modified some of its terms.

basis. A similar contribution is provided by our Free Trade Zone, located in the city of Colón, through re-exportation of goods destined mainly to the Latin American region by exporters all over the world.

The Panamanian people's firm commitment to peace is not a recent development. We have a long tradition of cosmopolitan ways and understanding to which is now added our deep concern for the tragedy affecting Central America. These considerations spurred the Government of Panama together with Colombia, Mexico, and Venezuela into a multinational peace effort. We formed the Contadora Group three years ago, with the purpose of serving as mediators in the quest for regional peace. The Panamanian Island of Contadora in the Pacific bears the name which has become a symbol in the minds of peace-loving people of the world. The long, patient endeavors of the Contadora Group for the establishment of a lasting peace in the area have brought us now to the threshold of a definite final draft of the Contadora charter for peace and cooperation in Central America. Once this work comes to an end, its signature and ratification shall depend on the political will for peace of the nations involved in the conflicts of this area.

With our special sense of social and human values, identities and differences, we have made historical contributions to the peaceful settlement of controversies, and today we look forward to hosting a dialogue of the Americas on all matters of our concern. In this light, we have stated our disposition to welcome, as we have done in the past, the Chief Executives of the American nations in Panama City to deal with such matters as the paralyzing burden of our foreign debt, economic and commercial exchange between nations, development, cooperation, and peace.

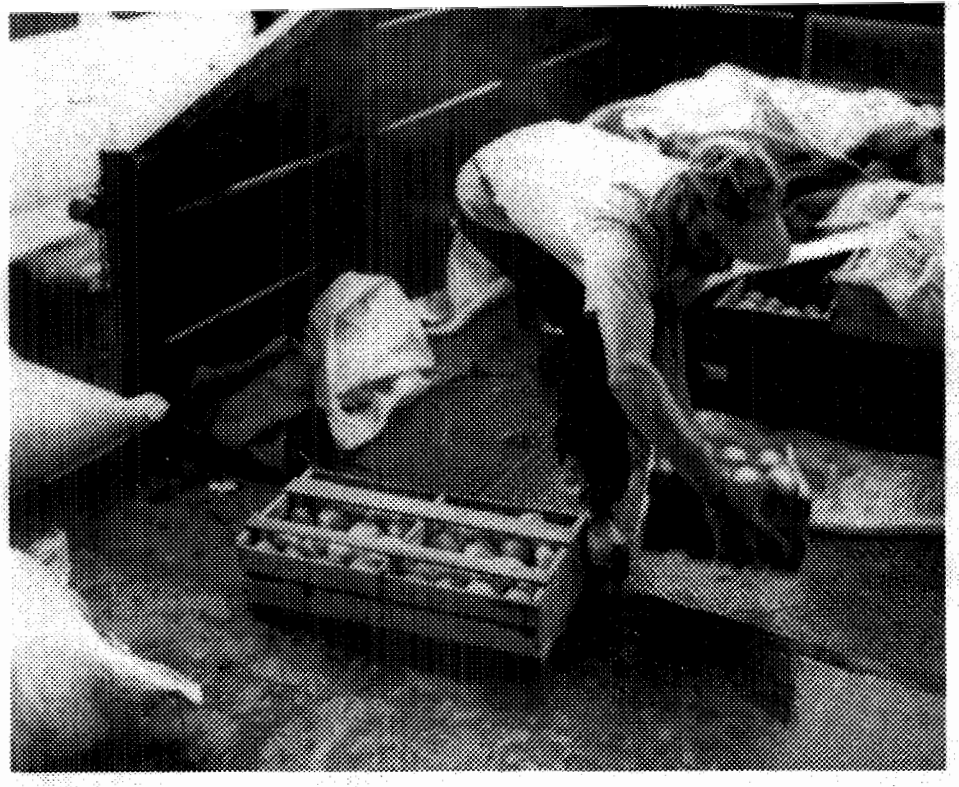
We are sure that by helping the ideals of democracy, we will contribute to assuring that justice, freedom, and peace prevail in the Western Hemisphere, and we shall also be serving our own interests and the national interests of the United States and all peace-loving nations.

*—Eric Arturo Delvalle Henriquez*

The Colón Free Trade Zone, the world's second largest after Hong Kong, is expanding rapidly and contributes greatly to the economy.

Panama's economy grew rapidly in the 1960s and early 1970s. Heavy investments in economic and social development opened new growth opportunities in the nation. Public investment was expanded to create jobs and to improve roads, dams, ports, and other infrastructure. Expanded Panamanian social programs, many with the support of the U.S. Agency for International Development (AID), have achieved significant success in improving the quality of life in the country.

However, like its Central American neighbors, Panama is facing serious economic problems, including an unemployment rate approaching 20% and a $3.8 billion foreign debt. Panama has one of the highest per capita public sector debts in the world, currently at 83% of the gross domestic product, and debt service consumes nearly half of the national budget. Also contributing to the country's economic difficulties are policies inhibiting export expansion and agricultural productivity. The supply of adequate housing for those below the median income level is a critical need.



*Policies that encourage export expansion and agricultural productivity will help the government and people of Panama surmount economic difficulties.*

A fiscal stabilization program was adopted by the Panamanian government in 1983. AID supported this program and helped alleviate strains on the foreign debt through $50 million in Economic Support Funds in fiscal 1985.

U.S. assistance supports Panamanian initiatives to remove restrictions to growth and to promote reactivation of the economy. "Proper incentives, such as low and uniform tariffs, are required to generate industrial growth, particularly agro-industry, assembly, and light industry for the export market," explains Ronald Levin, the director of AID's mission in Panama. "A concerted effort is required to eliminate or modify constraints to growth such as excessive industrial protection; high labor, electricity, and port charges; and internal transportation costs. In essence," he says, "a keystone of our assistance is to help increase the competitiveness of Panamanian firms in the world marketplace."

Policy changes are essential to

## PANAMA: A SOCIAL AND ECONOMIC PROFILE

| | |
|---|---|
| **POPULATION**[1] | |
| Total Population | 2,180,000 |
| Annual Growth Rate | 2.1% |
| **ECONOMY**[2] | |
| Gross National Product (GNP) Per Capita | $2,120 |
| **EDUCATION**[3] | |
| Literacy Rate | 87% |
| **HEALTH**[4] | |
| Infant Mortality Rate/ Per 1,000 Live Births | 21/1,000 |

| | |
|---|---|
| **AGRICULTURE**[5] | |
| Major Subsistence Crops | Corn, dry beans, rice |
| Major Cash Crops | Bananas, sugar, coffee |
| **FOREIGN TRADE**[6] | |
| Major Exports | Petroleum products, bananas, shrimp, sugar |
| Major Imports | Crude oil, manufactured goods, machinery, transportation equipment |

1. U.S. Bureau of the Census, 1985
2. World Bank, 1983
3. World Bank, 1980
4. Pan American Health Organization, 1985 (1985 IMR)
5. U.S. Department of Agriculture, 1984
6. *The World Factbook*, 1985

Panama's recovery from a recession, which had limited economic growth in 1984 and 1985. AID's support for this recovery effort will continue to be closely linked to necessary policy adjustments by the Government of Panama, particularly related to agricultural and industrial incentives.

While recognizing the important role of government in providing a positive policy climate for opportunity, AID places high priority on supporting Panamanian initiatives in the private sector. The National Investment Council of Panama (Consejo Nacional de Inversiones) is an example. The Council was created by presidential decree in August 1982. AID support for the Council began in July 1983 with a loan of $4 million. Its objective is to promote new export-oriented foreign and domestic investments, which also create jobs. The Council emphasizes the U.S. market and the opportunities presented by the U.S. Caribbean Basin Initiative.

"In order to accomplish many of its economic goals, Panama will require improved access to U.S. markets," says Frank Skowronski, chief of AID's Private Sector Development Office in Panama. "The Caribbean Basin Initiative can be very helpful in this regard." Potential agricultural exports that will open up additional markets in the United States under the provisions of the Caribbean Basin Initiative are now being identified.

The Council has helped over 30 businesses get started in Panama with an investment of over $32 million. These businesses have the potential for creating 6,000 new jobs. The new firms already in operation or preparing to locate in Panama are involved in a variety of activities from the assembly of electronic components to the production of lobster and shrimp.

The Panamanian Ministry of Commerce and Industry is actively helping companies get involved in export production. For example, working with the private sector, the Ministry is developing programs for both immediate and long-term export promotion. The Ministry is working with the Ibero-American Chamber of Commerce and the Panamanian Association of Exports to link up with the Hispanic commercial community in the United States to identify products including food items for export.

## Comprehensive Agricultural Development Program Under Way

Agricultural production can play an important role in Panama's economic growth and development. Agricultural development in Panama has been hindered by a shortage of good land, although volcanic soil in the western part of the nation produces vegetables, fruit, and coffee. In addition, traditional slash-and-burn farming techniques have contributed to problems of soil runoff and erosion. The aim of AID's agriculture program in Panama is to provide assistance to the government and to the private sector to increase food production while conserving the natural resource base.

AID is assisting the Government of Panama improve its research capability, particularly in areas where Panamanian crops have a comparative advantage, and is promoting the development and distribution of technology appropriate to the growing conditions and needs of small farmers. For example, the Panamanian Institute of Agricultural Research, with AID support, is focusing on the development of improved agricultural technologies and seed varieties as well as pasture and livestock improvements. Efforts are under way to stimulate production of crops, such as onions, peppers, cassava, melon, watermelon, and pineapple.

For example, in the western Highland part of the nation, the Agricultural Technology Development project has enabled researchers to conduct successful field trials in onion planting throughout the year. Preliminary evidence indicates that onions can be produced on a year-round basis, thus increasing farmer productivity. Research testing of new tomatoes resistant to fungal disease is also under way. Sixty percent of the research is done on small farms, bringing small farmers into the development and education process.

*Agricultural research is helping farmers increase yields and overcome bottlenecks to production.*

Thirty cooperatives in Panama also are receiving technical assistance to improve production and marketing efficiency. A U.S. organization, Agricultural Cooperative Development International (ACDI), is providing technical assistance to the Panamanian cooperatives to strengthen the country's cooperative movement and to coordinate the domestic and foreign marketing of agricultural products. ACDI, with support from AID, is teaching farmers agricultural management techniques to increase productivity.

Under AID's Agricultural Policy

Formulation and Management project, support is provided to the Ministry of Agriculture to develop a comprehensive analysis of policy constraints to more efficient agricultural production. Policy issues such as crop pricing and support in relationship to world markets are being examined. Technical assistance and training related to agricultural policy development and private sector support are provided.

### Watershed Management Vital to Panama's Economic Well-Being

The Panama Canal plays an integral role in Panama's economic development. However, the Canal's future use and efficiency depend on proper maintenance and control of the large surrounding watershed.

Two lakes are located within the watershed. Lake Gatun is the long waterway that carries ships a large part of the way from ocean to ocean. Nearby Lake Alajuela (Lake Madden) is used as a reservoir to maintain the water level of Lake Gatun. It is also the fresh water source for the population of Panama City.

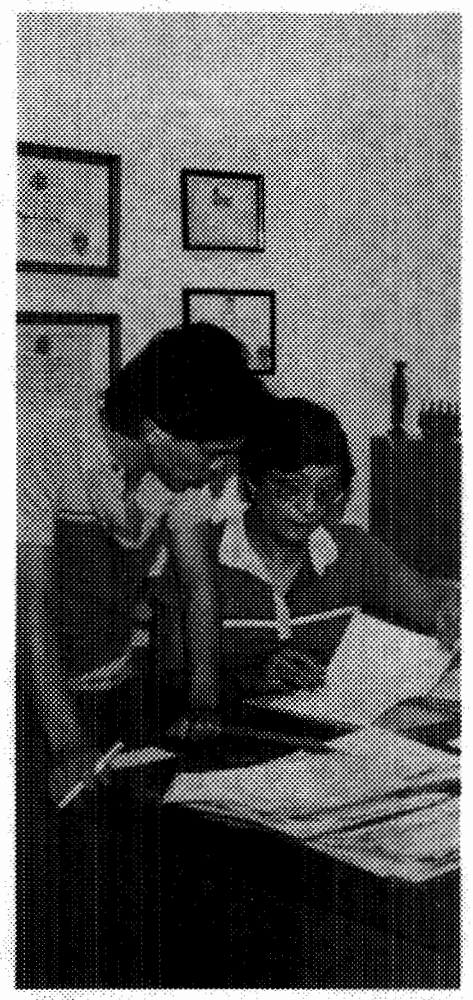
For each ship that passes through the locks, 63 million gallons of fresh water are used and flushed out to sea. Consequently, it is vital that the nearly 1,300 square miles that comprise the Canal watershed are protected from environmental damage due to deforestation, road building, and inappropriate farming that would decrease the water supply to the locks. Damaging environmental practices are accelerating siltation in both lakes.

AID is working with the Department of Waters and Soils at Lake Alajuela on watershed rehabilitation. Training and technical assistance are provided in watershed management, reclamation, and flood control, as well as soil and water quality surveying and analysis. Check dams and flood control works will be constructed, and protective forests in fragile areas will be planted. These projects result from the collaboration of the Panama Canal Commission, the Water Resource and Electricity Institute (IRHE), and other organizations. The effort is part of AID's broader Natural Resource Management project which assists the National Directorate for Renewable Natural Resources (RENARE) in national parks, natural forest, and wildlands management.

AID also is supporting the World Wildlife Fund-U.S. and the Fundación PANAMA in an effort to strengthen some 20 private sector Panamanian groups working in the area of environmental conservation.

### Panama Builds on Solid Foundation in Education

Panama's literacy rate of more than 87% is one of the highest in Latin America. With 25% of its budget devoted to education, Panama is continually improving and expanding facilities at all levels throughout the country. School attendance is almost 100% among primary school age children and 65% among secondary school age young people. The three major Panamanian universities maintain branches in several coastal and interior communities. Three U.S.-based universities and colleges offer courses in Panama City. In addition, many students attend higher educational institutions in the United States—many of these through training programs of AID and the U.S. Information Agency.



*Mayra de Young, AID's participant training assistant for Panama, reviews a student's application for the Central American Peace Scholarship program.*

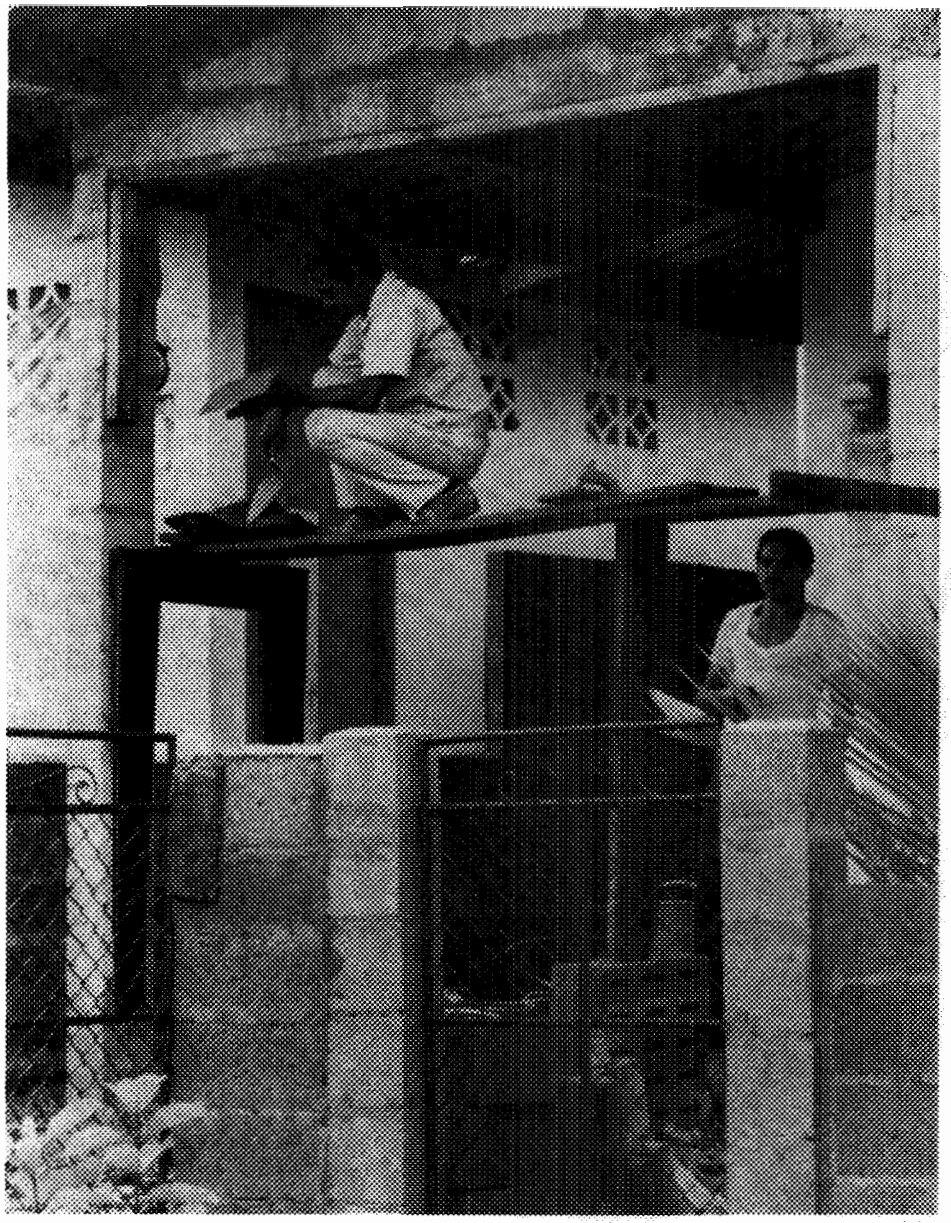
AID has joined with leaders of Panama's business community to form the first private sector cooperative scholarship program in Latin America.

This program, the Private Sector Council for Educational Assistance (Consejo del Sector Privado para Asistencia Educacional/COSPAE), was launched in September 1984. Its aim is to enhance skills to boost business productivity. COSPAE is providing training sessions in U.S. colleges and businesses in industrial production and maintenance, quality control, and electronic systems. On-the-job training is an important part of the program.

The Panamanian business community and AID each contributed $2.5 million to fund the scholarship program for three years.

Panama is participating in the Central American Peace Scholarship program. This new initiative launched in February 1985 aims to create greater opportunities for students and professionals from Central American countries to obtain education and training in the United States. Civic and private sector groups as well as representatives of rural communities throughout Panama are participating in the selection of the recipients of the peace scholarships. The awards will go to talented people who could not otherwise afford study in the United States but who have shown leadership potential.

Aurita Othon, the AID training officer in charge of the Central American Peace Scholarship program



*A national housing policy is being developed that will strengthen planning and draw the business community into financing for low- and middle-income housing.*

for Panama, says, "The program provides the flexibility for various age groups and ranges of study." For example, there are short-term training scholarships for people in professions such as machine operation, medical technology, journalism, and public administration.

In addition, four-year university undergraduate scholarships are available in a variety of disciplines, including marine, maritime, and port administration. On-the-farm training in U.S. crop and livestock practices is available for high school students specializing in agriculture. AID is working closely with the Future Farmers of America and the National 4-H Council and its Panamanian counterpart, PANAJURA, in student placement and training.

## Housing Alternatives Offer Flexible Designs for Future Expansion

Because 70% of Panama's people are expected to live in cities and towns by the turn of the century, there is an urgent need for shelter. Housing programs have a high priority in Panama's national development plans.

To meet the housing demand, AID is working with the Ministries of Planning and Housing and other public and private institutions to prepare a national housing policy. The policy will achieve more orderly housing development, greater participation of the private sector in low-cost housing finance, and better management of scarce public resources.

For over 20 years, AID has played an important role in supporting Panama's efforts to provide families access to home ownership. That role has accelerated in recent years through an AID Housing Guaranty loan program, with particular emphasis on housing for the poor. This program provides incentives for U.S. investors to make funds available through the Panama National Mortgage Bank for the construction of low-cost shelter units, provision of house lots with basic services for families, and issuance of small loans for home improvements. The mortgage loans are repaid by families at market interest rates over terms of up to 25 years. Construction is done by Panamanian private contractors.

According to AID Housing Division Chief in Panama William Gelman, there are several shelter alternatives available throughout Panama depending on the income and needs of borrowers. A lot with water, sewer, and electrical hook-ups is affordable to a family with a very low income. Another option consists of a lot with services, a foundation, and a roof. A more complete core unit has an enclosed kitchen and bath with utilities plus one bedroom. All of these designs lend themselves to future expansion and improvement. In downtown Panama City, modest low-rise condominium apartments are replacing the wooden tenements that were built at the turn of the century during Canal construction. These new units are affordable to poor families in the tenement areas. In the last two years, 2,221 urban renewal units were constructed, benefiting more than 11,000 people.

Panama and the United States have a long history of close cooperation in promoting economic and social development. This spirit of partnership has helped lay the foundation for a more prosperous future for Panama, a nation with a strategically vital role in the hemisphere and in world commerce and trade. ■

*Bart Kull is the chief speechwriter in AID's Bureau for External Affairs.*

# PRIMING THE ECONOMIC PUMP

By Ronald L. Nicholson

*Central America's entrepreneurs play a key role in improving the region's economic performance.*

*Credit could enable this small businessman to boost production and export to new markets in the Caribbean and the United States.*

Invigorating the private sector is essential for halting the economic deterioration in Central America and creating the economic and social stability essential for maintaining democratic forms of government. Although the Central American economies experienced unprecedented growth during the 1960s, they began to falter by the mid-1970s. The initial success of the Central American Common Market (CACM) in the 1960s and early 1970s brought significant investment but often in industries that could not compete effectively outside the protection afforded by CACM's common external tariff. Optimism fed by high world demand for Central American traditional exports—coffee, sugar, cotton, bananas, and meat—led both the private and public sectors to borrow heavily from foreign markets despite rapidly rising interest rates.

By the mid-1970s, the steam began running out of the growth machine. Central America's external trade balance became less and less favorable as high interest rates reduced demand for major exports, and skyrocketing petroleum prices took their toll. Within the region, the "bloom" was off the CACM as the initial easy gains gave way to increased competition among Central American countries over what remained a limited regional market. Most countries moved unilaterally to protect national industries against competition from their neighbors or to redress intra-regional trade imbalances.

The economic disarray was heightened by the massive destruction by earthquakes in Guatemala and Nicaragua and the struggle to overthrow the Somoza regime in Nicaragua. Political and economic confidence in the region was undermined further as political turmoil gained momentum in El Salvador.

By 1980, it soon became evident that a massive exodus of private investment—both national and foreign—was under way. By the end of 1980, an estimated $1 billion had exited the region.

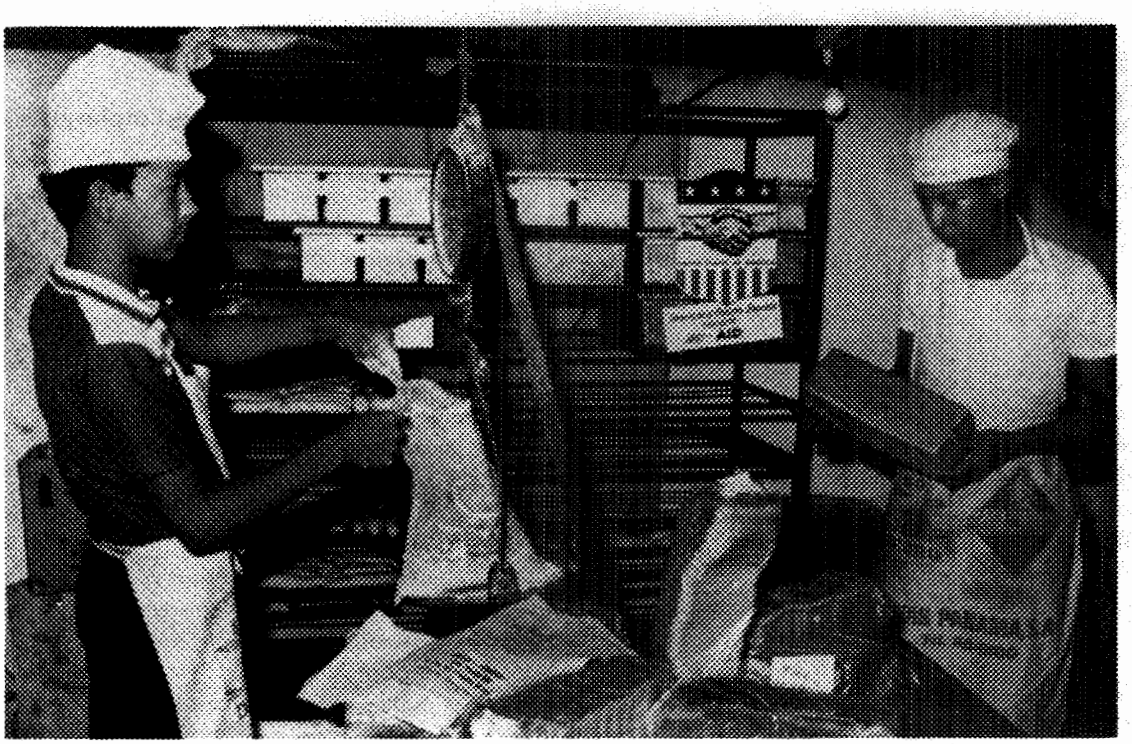
Growth in the region shifted into reverse. Real per capita gross domestic product dropped by 10% in El Salvador, by 9% in Costa Rica, and by 4% in both Guatemala and Honduras.

The narrow base of the prosperity of the 1960s, the continued disparities in income, a decline in agricultural production, high unemployment and inflation set the stage for the present crisis.

### Central America-U.S. Partnership Helps Recharge Economy

U.S. economic aid to Central America, directed through the Agency for International Development (AID), has helped reinvigorate private business activity in two principal ways: by providing hard currency needed for imports necessary to increase production and employment and by assisting the leadership of these nations to restructure the state and private sector roles in the economy to enable the private sector to compete effectively in world markets. AID works closely with the government and business community in each Central American country to accomplish these goals.

Also, Caribbean Basin Initiative (CBI) legislation is providing Central Americans duty-free access to the



*Private enterprise creates a healthy business environment, which leads to economic growth and improved human welfare.*

United States for most of their export production and is stimulating the flow of external private financing and expertise necessary to take advantage of this opportunity. The Caribbean Basin Initiative is a 12-year program designed to stimulate economic growth and create jobs in the region through increased trade with the United States.

This collaborative, Central American-U.S. approach to problems confronting the private sector is multifaceted. It includes dialogue on policies affecting the investment climate, capital formation and credit, investment and trade promotion, small business development, and management and work force improvement.

## Creating a Policy Environment to Stimulate Business

In providing financing for economic stabilization and recovery, the state and private sectors in each country, international and bilateral aid agencies, foreign banking and investment institutions, and AID are engaged in intensive policy discussions to devise policies that will create an environment for private sector growth. These policy discussions focus on resolving major macroeconomic problems, such as overvalued national currencies, tax and tariff revisions, inflated budgets, restraint on government borrowing, reduced government regulation of the economy and direct involvement in production, and incentives to private investment and exporters.

In Costa Rica, for example, a government economic reform program has led to a greatly reduced government deficit, price stability, and per capita gross domestic product increases over the past two years. AID efforts, which supported the government's program, have been closely allied with the International Monetary Fund, World Bank, and a private bank steering group to help revitalize the economy. The stimulus of appropriate government policies to the private sector has been remarkable. Private capital formation has increased, and Costa Rican exports, including non-traditional products, have risen sharply. In addition to these economic stabilization efforts, the government and AID have worked closely on measures to increase the role of private banks in the Costa Rican economy. AID also has been closely involved in a divestiture program designed to transfer numerous debt-ridden and inefficient state enterprises to the private sector.

## Mobilizing Capital and Credit for the Business Community

The economic decline in Central America brought with it a severe contraction of credit both in dollars and in local currency. In most cases, short-term credit supplied by U.S. and other foreign banks virtually had dried up by 1983. The dollars supplied by AID Economic Support Fund grants have provided some relief for buying essential imports. Additional foreign exchange is being extended by the Trade Credit Insurance Program (TCIP). The program, sponsored by AID and the Export-Import Bank, guarantees short-term credit from private U.S. banks to private banks in Central America. The credit is to be used by the private sector for productive purposes. At present, the Export-Import Bank has issued $125 million in insurance under the Trade

Credit Insurance Program.

The credit squeeze also is being addressed by a number of new private banking institutions, which AID helped organize and finance. Aimed at boosting non-traditional exports to markets outside Central America, organizations such as the Private Investment Corporation and an export bank in Costa Rica, the Latin American Export Bank (BLADEX) in Panama, and the Foundation for Business Research and Development (FIDE) in Honduras are offering dollar and local currency financing, technical and managerial advice, and marketing information to their clients. These projects have leveraged some $24 million in additional capital flows from the private sector.

### Private Sector Growth Pivots on Investment and Export Promotion

Policies and programs favoring investment and export expansion are essential to the growth of the private sector. Activities undertaken by several Central American countries with AID support include:

- Creating one-stop export and investment promotion centers to streamline the procedures required to invest in and to export products;
- Analyzing each country's comparative position in terms of industrial production costs, investment incentives, and labor force capabilities, for example, to form the basis for export promotion strategies to take advantage of CBI market opportunities; and,
- Coordinating the export and investment promotion efforts of various institutions and local private associations and business chambers.

In Costa Rica, for example, AID has helped finance a semi-autonomous organization responsible for developing processing zones to stimulate export production. Export processing zones can provide a combination of facilities, labor, and tax incentives to increase foreign and domestic investment in export production. In El Salvador, the San Bartolo Free Trade Zone is being reactivated to strengthen the private sector's export capacity.

AID also helped create and is assisting the Salvadoran Federation for Economic and Social Development (FUSADES). FUSADES provides a trade and investment promotion service, coordinates private sector associations, and carries out trade and investment policy development studies.

*Employment is a major key to opportunity, and small businesses generate many jobs.*

### Small Businesses—Big Employers

Small business enterprises are a major factor in generating jobs and incomes in Central American countries. AID assists the growth of small businesses through credit, technical assistance, and training. For too many years, small entrepreneurs and shop owners who provide essential support and input to the economy have been neglected. With little organization, access to credit, or technical and managerial skills, these entrepreneurs have had to struggle while larger, better-organized producers have monopolized credit sources, government support services, and policy attention.

Small producers can be major employers. A small business typically generates one job for each $500 to $1,000 invested, while a large firm might create only one position for every $6,000 to $8,000. In each of the countries in the region, AID channels funds and technical assistance into institutions expressly designed to help the small entrepreneur. These institutions are financed in part with local resources and by the local business and banking community.

AID recently created a Joint Venture Feasibility Fund to stimulate small business development in Central American and Caribbean countries. The Fund links host country and potential U.S. joint venture partners and provides limited seed capital (up to $15,000 in equal proportion) to conduct joint venture feasibility studies. This pilot effort already has attracted some 34 potential U.S. small business investors to advance planning for joint ventures in Central America and the Caribbean.

### Training Programs Answer Call for Skilled Workers, Managers

The United States has launched a massive training effort in the region to help Central America take a

*AID concentrates on helping small farmers to improve their coffee production while offering them options to reduce dependence on a single crop.*

quantum leap in the quantity and quality of managers and skilled workers necessary for economic recovery. Thousands of Central American students are enrolled in national, regional, and U.S. academic and vocational training institutions for short courses and advanced degrees in business, government, agriculture, and industry. The Central American Institute for Business Administration (INCAE), for example, has established a private sector training program offering specialized business courses in Guatemala, Honduras, and El Salvador. INCAE also conducts seminars on export strategy, operations, finance, and marketing. In 1984, INCAE, which receives AID support, trained approximately 700 people from business firms.

Well-educated, productive workers are needed for new industries that can take advantage of the Caribbean Basin Initiative trade opportunities offered by the United States. Increased worker sophistication also is required to maintain the region's share of the traditional market and to broaden participation in domestic production.

In Honduras, for example, AID-financed training combined with other measures is assisting small coffee producers. Coffee exports continue to play a predominant role in export earnings for much of the region, but production of coffee—typically a small farmer crop—is seriously threatened by the spread of coffee rust. Working with national coffee institutes, AID is training these coffee growers as well as technicians, marketing specialists, food processors, and extension agents in modern technologies required to broaden the agricultural base needed for economic growth. Farmers will be able to apply new techniques to other crops to reduce their dependence on a single crop, such as coffee, while broadening the export base.

One of the strongest assets the United States has to offer private sector development in the region is an active interchange of ideas with existing U.S. organizations. Contacts with U.S. chambers of commerce, trade associations, and other free market institutions provide an exceptional opportunity to learn about new market development and private sector mobilization. Strengthening business-related organizations is very important to improving the investment and business climate.

For example, the Chicago metropolitan Chamber of Commerce (CACI) initiated a program in 1983 aimed at encouraging Chicago's business community to trade with and invest in Caribbean countries. CACI established a special relationship with businessmen and counterpart organizations in Costa Rica to facilitate the promotion of Costa Rican exports to the United States. It also helps U.S. companies and investors locate manufacturing facilities or sources of products. CACI has helped generate $19 million of trade and $33 million in direct investment.

## The Pendulum of Progress Swings Forward

Efforts to spur private sector involvement and development in Central America are beginning to have demonstrable impact. The precipitous economic decline of the early 1980s has been halted, and while vigorous growth has not yet been restored to the region, the crisis of confidence which led investors—local and foreign—to abandon the area in the 1980s has largely abated. Production is recovering, thanks to an improving world economy and U.S. aid, and foreign investors are looking again at opportunities in the region. The private sector is becoming increasingly better organized and is speaking out on major issues of concern at both national and regional levels. The governments of the region have realized that close collaboration between government and the business community is essential to economic recovery and the survival of democracy in the region over the long run. These trends provide the basis for optimism about long-term economic progress in Central America. ■

*Ronald L. Nicholson is AID's officer in charge of Costa Rican Affairs, Office of Central American and Panamanian Affairs, Bureau for Latin America and the Caribbean.*

By Stephen C. Wingert

*Central Americans sow seeds of change to harvest an improved agricultural economy.*

# FROM FARM TO MARKET:

## NEW POLICIES ARE TAKING ROOT

Since the days of the ancient Mayan civilization, agriculture has been key to the economic and cultural fabric of Central America. It remains so today. Although the industrial and service sectors are vital to Central American economies, agriculture generates 68% of the region's foreign exchange and directly employs half the population.

However, Central America can no longer rely solely on traditional agricultural produce to earn foreign exchange. In recent years market prices have been consistently low for exports of coffee, banana, sugar, and beef. Despite a recent short-term hike in coffee prices, economic experts predict that agricultural prices will not improve significantly during the next decade.

*Improved growing, processing, and marketing operations are bettering farmers' lives and reaping economic benefits for Central American countries.*

Since the 1970s, agricultural production has not kept pace with demand. Several reasons account for this: Regional political strife has reduced agricultural investments and availability of credit; new diseases have attacked traditional crops; and a growing population has reduced the amount of cultivable land and depleted the natural resource base. Ironically, several of these predominantly agrarian societies, such as Belize, Costa Rica, and El Salvador, import significant quantities of basic food commodities.

Despite a variety of agricultural practices and conditions among the Central American countries, the constraints to increasing crop production and diversification and to improving the standard of living for the rural population are surprisingly similar. Government policies that inhibit private sector participation and investment in all aspects of agriculture—production, processing, and marketing—are all too common, both for domestic consumption and export. In addition, there are a limited number of trained indigenous professionals to address the problems of commercial agriculture.

Other constraints include inequitable access to resources, destructive use of hillsides and tropical lowland environments, weak linkages to markets outside the region for nontraditional products, and expensive and unreliable transportation.

Central American nations are taking steps to remedy these constraints and broaden their agricultural bases. The measures include diversifying products—growing new, higher-value crops for export such as winter fruits and vegetables—and starting or expanding agribusinesses geared to the export market. These nations also are assisting basic grain producers to improve production and assure domestic food security. Such measures will increase export earnings, provide employment and income to rural families, and improve growth and development in the region.

The Agency for International Development (AID) is assisting Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama to strengthen their agricultural economies in five areas: expansion of private sector participation, enhanced agricultural productivity, improved human resources, better access to productive resources and markets, and improved natural resource management.

## Private Sector's Role in Agriculture Heightened

Because Central American economies are basically market oriented, the private sector is key to Central America's agricultural development. AID is working with host governments to establish policies that assure market incentives for the private sector as well as help create institutional support services to promote private sector investment. AID also supports private sector firms in providing public services and the transfer of public enterprises to the private sector.

A joint U.S.-Costa Rican agricultural consultative committee, for example, was set up with AID's help. During the first six months of operation, the committee locked up five major joint ventures in production and export of herbs, spices, vegetables, dehydrated banana and pineapple chips, juice concentrates, and chili sauce. Similar joint ventures also are being promoted in Honduras through the Federation of Associations of Honduran Producers of Agricultural and Agro-industry Products (FEPROEXAAH).

The private sector also is playing an increasingly important role in developing agribusinesses. For example, Guatemalan cooperatives, organized by the Highland Indians, are branching out into winter crops for export, such as snow peas, cauliflower, and broccoli, that will bring higher prices than traditional produce. AID is helping these cooperatives to obtain loans to grow cash crops and to expand into the processing and marketing areas.

Another example is the Latin American Agribusiness Development Corporation (LAAD) located in Guatemala. LAAD, a private corporation created by major U.S. agricultural firms, makes loans to indigenous firms in Latin America and the Caribbean. AID has provided $29 million to LAAD over the last 15 years. These funds have been used to finance 250 agribusiness enterprises. The U.S. firms participate on the LAAD Board of Directors in order to provide their assistance to regional development.

## Technology and Research Streamline Agricultural Production

Technology transfer is a prime ingredient to development and the

area in which the United States has the most to contribute to developing countries. Economic growth requires the indigenous capacity to develop and apply a continuing stream of innovations designed to increase productivity, employment, and incomes and to evaluate and adapt technologies that have proved successful. These range from irrigation technology and high-yielding seed varieties to low-cost terracing and organic fertilizers.

Each of the Central American countries is conducting agricultural research and expanding extension services for traditional and non-traditional crops. AID is supporting such programs to help Central America strengthen agricultural research and extension services as well as initiate new projects in private sector crop research and extension.

One example of a privately managed research effort is the Honduran Agricultural Research Foundation or the Fundación Hondurena de Investigación Agrícola (FHIA), which focuses on improving ways of growing non-traditional crops. It also serves other countries in the region, providing soil analyses and developing disease-resistant plants. Funded jointly by the Honduran government, the private sector, and AID, the Foundation was established through the United Brand's donation of its $1.8 million Tropical Research Center.

## Thousands of Talented Central Americans Benefit from Training

The diversification of Central America's agricultural export base requires that indigenous professional agriculturalists know new technologies. Broad-scale training also will be necessary if farmers are to adopt new income-producing technologies. Building on the talents of the Central American people, high priority has been assigned to agricultural training under the Central American Peace Scholarship program.

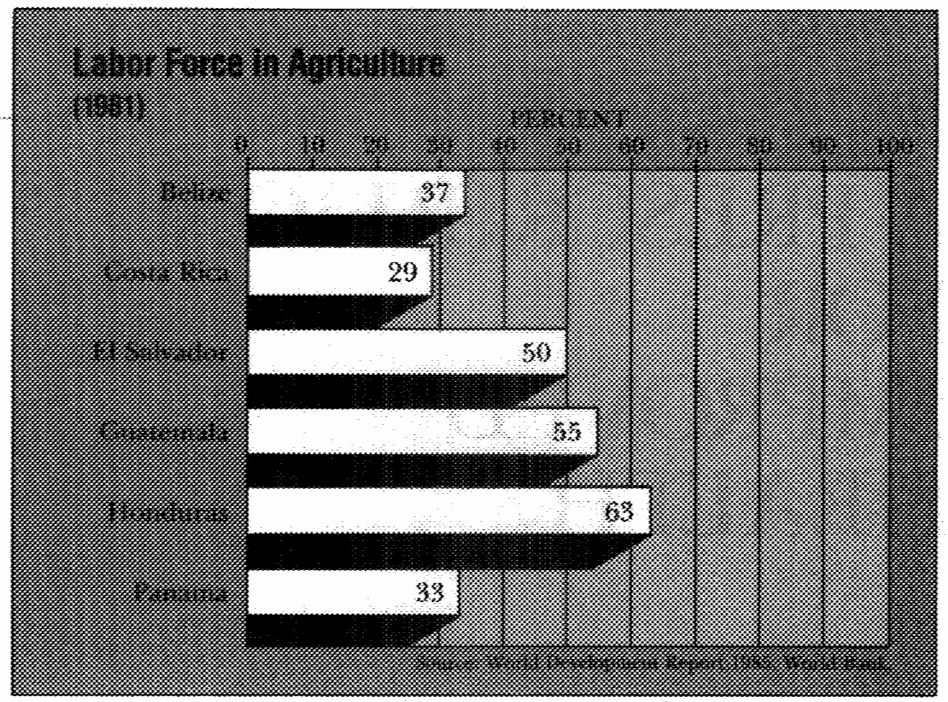
Beneficiaries of El Salvador's agrarian reform effort, which is making farm land available to cooperatives and former renters and sharecroppers, are receiving training through an AID-supported program in the areas of farm management, advanced production techniques, and non-traditional cropping enterprises. Over the last three years, an estimated 10,000 campesino leaders have been trained so that they can take full advantage of their newly acquired land. In addition, the benefits from the initial investment in training multiply as the campesino leaders teach newly acquired skills to other farmers.

*Farmer access to resources and agricultural technology is vital.*

*A laboratory technician at the Honduran Agricultural Research Foundation (FHIA) tracks progress of possible disease-resistant plants.*

## Access to Resources Assists Small Farmers

A small farmer's production depends on such resources as land, capital, and agricultural supplies as much as on agricultural technology. However, small farmers often lack ready access




to resources in sufficient quantity to enable them to increase production.

Each Central American country has adopted policies to improve access to resources by small farmers, but unfortunately this is a difficult task. For example, small farmer access to development funds (capital) is made more difficult by artificially low interest rates, which generally require more collateral than loans made at market rates. Without the necessary collateral, small farmers may not qualify for loans, even those with low interest rates. One solution is fostering private sector participation, such as farmers' or producers' associations that give farmers more access to credit institutions because it costs less for the institutions to make loans to groups rather than to individuals.

Highly skewed land ownership patterns limit production and contribute to political instability. Several Central American nations are working to alleviate this problem.

A major land titling program is being implemented in Honduras that will help an estimated 40,000 farmers obtain valid titles to their land. Clear land titles are a primary requirement for small farmers to gain access to agricultural credit and to risk increasing their own investments in their farms.

El Salvador, with AID's assistance, is providing nearly $100 million in agricultural credit to the beneficiaries of the country's massive agrarian reform program.

AID also is supporting efforts to develop private land markets. The Penny Foundation in Guatemala, for example, is providing medium- and long-term credit to small farmers to purchase farm land.

## Protection of Environment Boosts Incomes

Environmental degradation has led to severe problems in the region. As increasing populations place more and more pressure on available land and access to more cultivable land is blocked by imperfect land markets or cumbersome credit systems, farmers are forced to cultivate ecologically fragile hillsides and lowlands. This threatens the ability of Central American countries to feed their people in years to come. These nations are taking steps to achieve sustainable, productive use of land and water resources through dissemination of technologies that increase incomes while protecting the natural resource base.

The efforts of Honduras and AID in that country's Choluteca region are an example of a successful attempt to stabilize the hillside environment and reduce soil loss while improving small farmers' incomes. Since 1983, over 3,500 farmers have built terraces and wind barriers, composted, and adopted new corn varieties, resulting in a doubling of production on approximately 7,400 hectares.

Panama is implementing a similar project designed to establish watershed management programs in the Canal Zone and other watersheds. The water management project in El Salvador is a good example of joint AID and country cooperation, both to improve that country's capacity to develop environmentally sound water use plans and to provide incentives to the private sector to design and build low-cost small and medium-size irrigation systems.

## Improved Agricultural Economy Seen as Lynchpin for Future Growth

By promoting the development of a competitive agricultural economy, Central American nations are helping to address their economic and social needs. Country efforts, assisted by AID, aim to improve rural incomes, diversify the export base, and limit natural resource degradation.

Meeting these goals will help Central America revitalize its economy in many ways. Increased buying power and augmented domestic supplies of both basic grains and diversified crops will help reduce the region's high malnutrition rate. Growing and processing export crops will generate employment and higher incomes in farming communities. Foreign exchange generated from exports and the money saved on food imports will help stabilize and finance expansion of other areas of the economy. Higher rural incomes will translate into improved rural services, such as education, health, and housing, which, in turn, will help reduce migration to urban areas and political unrest. These are difficult goals, but efforts to date indicate that they can be achieved. ■

*Stephen C. Wingert is the deputy chief of AID's Rural Development Division, Office of Development Resources, Bureau for Latin America and the Caribbean.*

# A PRESCRIPTION FOR IMPROVED HEALTH

*A concerted effort is under way to resuscitate health care in Central America.*

*By Paula Feeney and Carol Dabbs*

*Cost-effective, modern technology is helping keep Central American youngsters alive and healthy.*

Access to adequate health care plays a major role in economic development. It is essential for increased economic productivity and effective learning. Central American countries are making progress in reducing deficiencies and inequalities in the provision of health services in order to improve the well-being and self-sufficiency of citizens.

The 1984 report of the National Bipartisan Commission on Central America placed human development at the core of U.S. policy toward Central America. As recommended by the Commission, the United States, through the Agency for International Development (AID), is supporting a major effort to assure the widest possible distribution of the benefits of economic growth, through assistance aimed at improving education, health and social conditions.

AID is developing new health initiatives and expanding ongoing programs. These programs are in tandem with the efforts of the Ministries of Health and Social Security Institutes in Central America and their priority areas for action outlined in 1983 by the Ministries and with the Pan American Health Organization (PAHO), the regional arm of the World Health Organization, to respond to regional and country health priorities.[1]

Since October 1982, AID has funded more than $91 million for health projects in Central America. Country-specific and regional programs concentrate on child survival, including oral rehydration therapy and immunizations against six preventable childhood illnesses; voluntary family

[1]The Ministers of Health of Central America and Panama, in consultation with the Pan American Health Organization/World Health Organization, have developed a plan, called Priority Health Needs in Central America and Panama, which includes priority activities for both national and regional action in the health field. The goal of the plan is to promote social development, overcome health problems, and help achieve peace in the region. The priorities are infant and child survival, vector control, food and nutrition, essential drugs, access to health services, human resources development, and water and sanitation.

*Investment in cost-effective immunization programs to prevent disease eliminates the need for expensive hospital care.*

planning; nutritional improvement; malaria; essential drugs; primary health care training and management; and water and sanitation. These programs are built around successful, cost-effective technologies that can be delivered through primary health care systems (the first contact for individuals, families, and communities with national health care systems).

Private and voluntary organizations (PVOs) play important roles in delivering health services in Central America. Project HOPE, for example, is responding to the critical needs of displaced persons in El Salvador. AID provides funds for Project HOPE to extend health services to displaced persons who as a result of internal conflict left their communities and are temporarily settled elsewhere within the country. Through this joint effort, over 50,000 displaced persons have received health services in displaced persons settlements, and 38 dispensaries have been built since August 1984.

In Guatemala, Project Concern International is helping develop a cost-recovery scheme for medicines to ensure funds are available to replace medicines as they are used. These and other organizations such as the Adventist Development and Relief Agency, CARE, International Eye Foundation, International Rescue Committee, Meals for Millions/ Freedom from Hunger Foundation, Pan American Development Foundation, and Salvation Army World Service help meet the challenge of providing adequate health care to Central Americans.

## Child Survival

Because infants and children under five account for more than half of all deaths in developing countries, this vulnerable age group is the focus of considerable attention by Central American countries, international organizations, and AID.

The best measure of the overall health of a population that is generally available is the infant mortality rate, which measures the number of deaths among children in the first year of life compared to the total number of live births in the same year. Dramatic improvements have been made in Central America in reducing infant mortality—decreasing from 125.3 per 1,000 live births in 1965-1970 to 90 per 1,000 in 1975-80. In recent years, the range of infant mortality rates for AID-assisted countries in Central America is from approximately 70 per 1,000 live births in Honduras to about 20 per 1,000 in Costa Rica.

The decline in mortality rates for children ages one to four has been even more significant. Central America has succeeded in reducing

*Martha de Rodriguez, director of the oral rehydration therapy program at San Pedro Sula Hospital in Honduras, explains proper preparation of the lifesaving oral rehydration solution.*

child mortality from 27.5 deaths per 1,000 in 1950 to 5.4 per 1,000 in 1980.

Despite these improvements, of the approximately 800,000 children born each year in the region, more than 65,000 will die before reaching their fifth birthday; more than 100,000 will be underweight at birth. Almost two-thirds of those who survive will suffer from degrees of malnutrition, some of whom will endure lasting physical or other developmental problems.

High rates of child mortality, like infant mortality, are closely linked to respiratory diseases, diarrheal diseases, and other infectious and parasitic diseases. Immunization and improved nutrition, which can be addressed by appropriate, community-based primary health care programs, can reduce the number of childhood deaths.

In February 1985, AID announced a Child Survival Action Program as part of an effort to reduce infant and child mortality.

### Oral Rehydration Therapy

Oral rehydration therapy (ORT), the oral administration of a solution of water, sugar, and salts, counteracts dehydration often resulting from diarrhea which can lead to death. An AID-supported health project in Honduras to combat diarrheal-related diseases through the use of ORT has been among the most successful in the world; its promotional and health education elements are among the most progressive. Working closely with the Honduran Ministry of Health, the project has helped deliver some three million packets of oral rehydration salts. This effort was complemented by an extensive education campaign through print media and radio. Aimed at parents, the campaign provided information on the causes and effects of diarrhea as well as on the means to reduce accompanying dehydration. In one study area, the mortality rate for children under five due to diarrhea-related diseases dropped by 40% after the introduction of the ORT program.

A regional initiative AID supports, which was identified in the Plan for Priority Health Needs in Central America and Panama, increases the effective use of oral rehydration therapy as well as growth monitoring and appropriate feeding practices. The program was launched by the Nutrition Institute for Central America and Panama (INCAP), with $8 million in support from AID. The Pan American Health Organization and UNICEF also are collaborating on the program.

### Immunizations

Immunizations are a means of protecting children and adults from diseases such as diphtheria, pertussis (whooping cough), tetanus, polio, measles, and tuberculosis. Immunization coverage is over 70% in Costa Rica and Panama but is generally at or below 50% for the other countries of the region. Making technologies more available to vaccinate children and pregnant women and helping institutionalize these programs so that they will continue to be available to children of future generations are AID's goals.

In Honduras, a combination of immunization, decrease in incidence of malaria, use of oral rehydration

therapy, and improved water and sanitation have resulted in a reduction in infant mortality rates from approximately 100 per 1,000 live births in 1980 to about 70 per 1,000 in 1984--a drop of 30% in four years.[2] Over one million Honduran children benefited from the immunization program supported by AID which provided 50% coverage of measles and DPT (diphtheria, pertussis, and tetanus) and 84% coverage of polio in 1984.

In El Salvador, over 1.6 million doses of vaccine to protect against measles, diphtheria, pertussis, tetanus, and polio have been administered to children under age five and pregnant women with AID's help. (Pregnant women have received tetanus toxoid which prevents tetanus in newborns.) Estimates reveal the immunization program saved the lives of some 35,000 children. A national vaccination campaign was carried out during the spring of 1985. AID, working closely with the Government of El Salvador and UNICEF, provided over $600,000 for pharmaceuticals, cold-chain equipment, and promotional materials. This effort was considered so important that civil unrest ceased during each of the three days of the vaccination campaign to enable the people of El Salvador to be vaccinated.

In Guatemala, a new AID-funded project will assist the Ministry of Health to improve its ongoing program. This includes making immunizations available routinely in all health facilities. It also means visiting each household in rural Guatemala three times a year to identify children needing vaccinations and making appointments for them to be vaccinated. The project will assist the Ministry by funding training for health workers, promoting vaccinations among the populace, and improving the cold-chain and transport systems.

### Voluntary Family Planning

In Central America, birth rates are extremely high and life expectancy low. All Central American governments have recognized that population planning and development are mutually reinforcing. In August 1984 at the Second International Population Conference held in Mexico City, they joined the United States in a consensus vote on the population plan of action for the next decade. The plan calls for nations to integrate population and development plans, make voluntary family planning available, encourage a continued active role for non-governmental organizations, and urge involvement of the community in voluntary family planning in order to ensure consistency with local values.

An example of the importance Central American nations attach to population is seen in Guatemala where the constitution adopted in 1985 includes the right of Guatemalans to decide the number and spacing of their families.

In Honduras' current five-year plan, the government linked population and development, calling for the promotion of family planning and delivery of services.

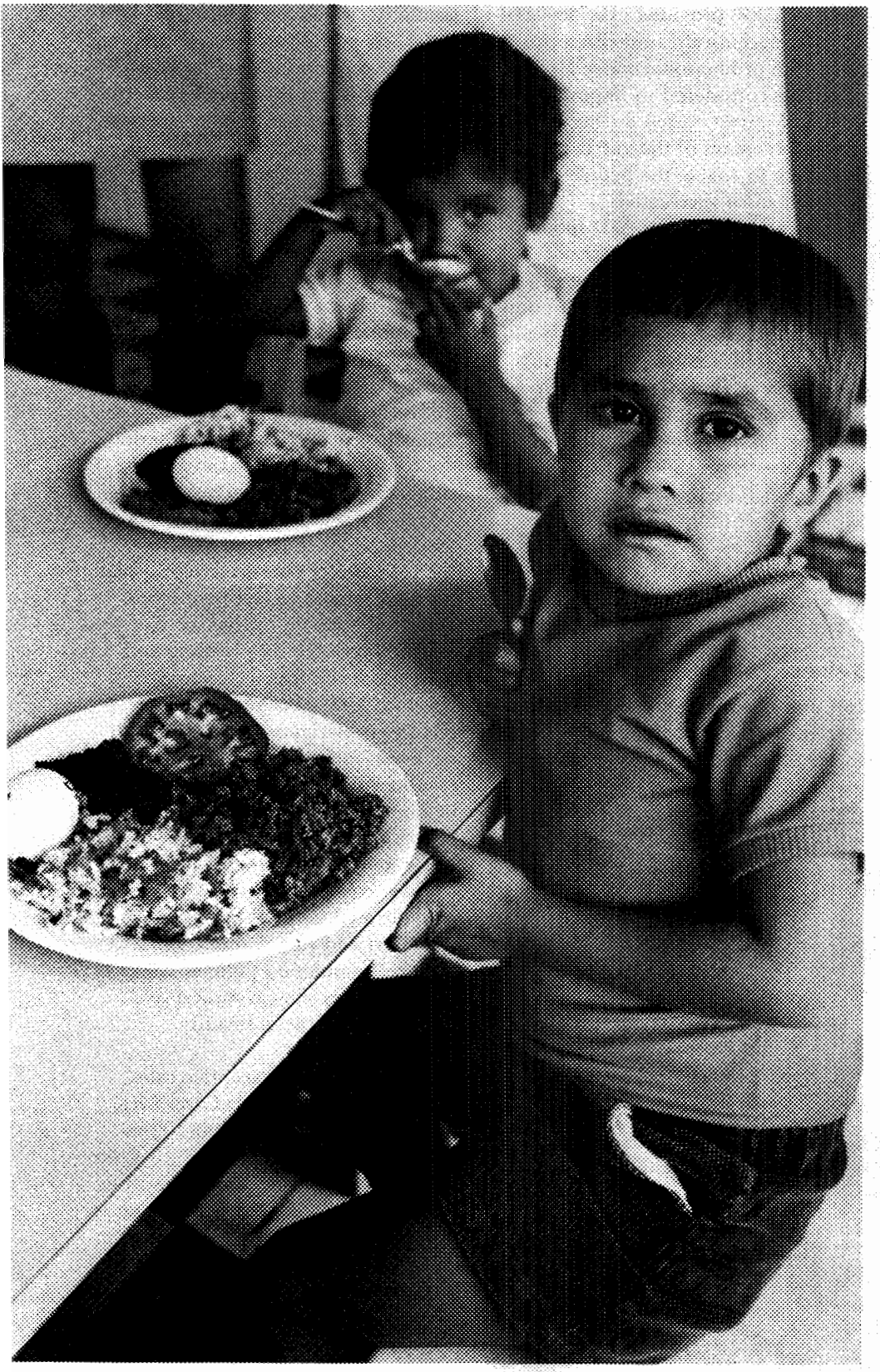
Surveys have been taken about fertility preferences for virtually all countries in Central America. As a result, country planners have a current demographic data base which is important in managing family planning programs. The surveys document couples' contraceptive preferences and provide a better understanding of the effort and cost to implement national population policies. Surveys for the region show contraceptive prevalence has been steadily increasing.

Commercial contraceptive sales programs under way in Costa Rica, El Salvador, Guatemala, and Honduras are increasing accessibility and affordability of contraceptives, providing greater choice to the consumer, allowing for partial cost-recovery for the program, and reducing the burden on governments by turning contraceptive distribution over to the commercial sector. A Panama program is in the planning stage.

AID's main role has been technology transfer, with 80% of AID assistance

[2]IMR cited in a new Maternal Child Health/Family Planning study conducted by the Honduran Ministry of Health with the assistance of AID-financed contractors.

*A Salvadoran child receives immunization during a recent national vaccination campaign.*



*Emergency food aid, growth monitoring, and other feeding programs are helping to reduce death and illness caused by malnutrition.*

being directed to private and voluntary organizations in support of Central American efforts to implement their own population plans of action.

### Nutritional Improvement

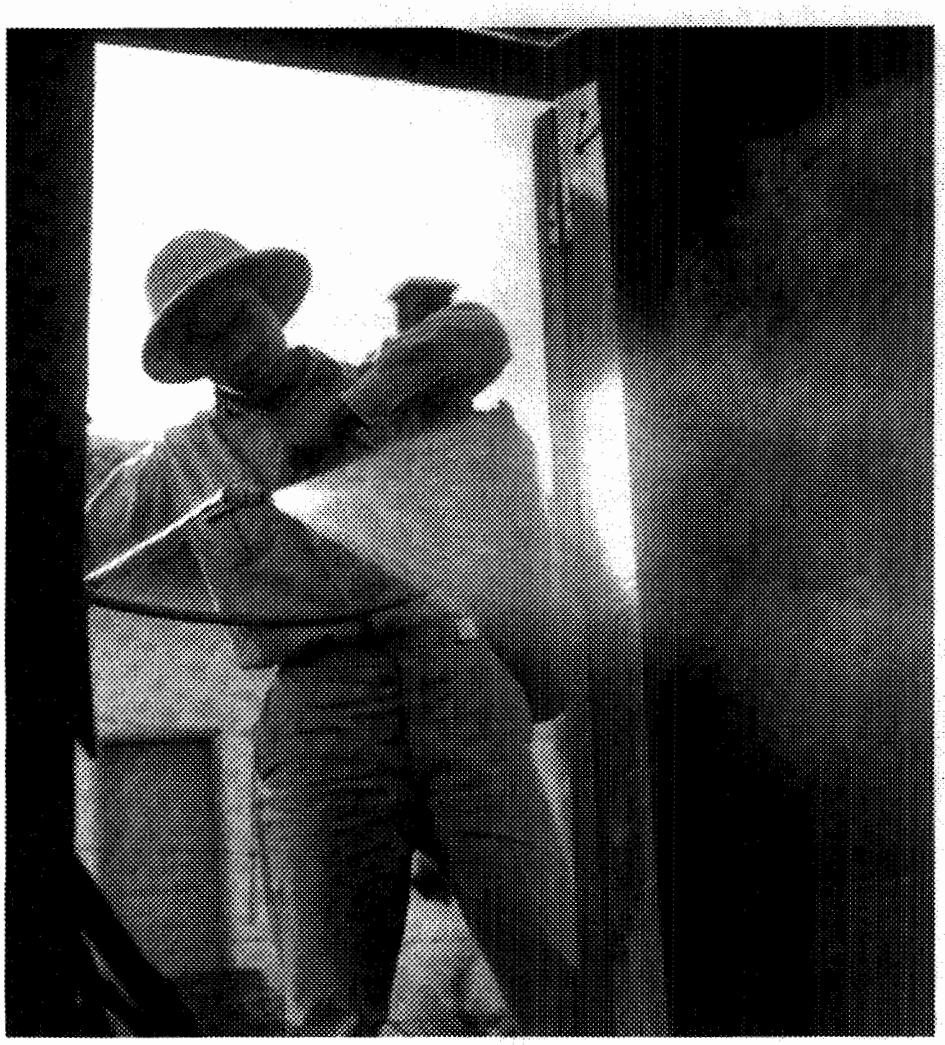
Food supply is often insufficient in some areas in Central America, and, therefore, the available calories per capita are below those recommended for daily energy requirements. Because people are consuming too few calories and are not getting an adequate amount of "quality" protein owing to a diet mainly of corn or rice and a small amount of beans, protein deficiency is also significant. The U.S. Food for Peace Title II program, which provides donated commodities while countries work to increase food production, provided 536,000 metric tons of commodities to the region for maternal and child health, food for work, school feeding, and emergency feeding and aid to displaced persons in fiscal 1985.

INCAP is using a $5.6 million AID grant to improve the effectiveness of food assistance activities in Central America. The grant will help to coordinate national programs and strengthen the technical, managerial, and evaluation capabilities of INCAP and national public and private agencies.

### Malaria

Malaria is a major communicable disease in Central America. The incidence of malaria in the region has more than doubled in the period 1970 to 1984, from approximately 125,000 to approximately 275,000 laboratory-confirmed cases. In 1984, Central American countries accounted for approximately 30% of the total number of reported cases of malaria in the Western Hemisphere, yet these countries comprise only 3.5% of the population of the Americas. Resistance of the malaria-carrying mosquito to many pesticides in most malarious areas of the region further exacerbates the problem.

*To combat the resurgence of malaria, a number of efforts are under way, including applying pesticides and conducting malaria vaccine research.*



In Belize, for example, over the last 10 years the reported number of cases of malaria has increased to 4,600 in 1983. Belize is addressing the problem with the help of an AID project to control the occurrence of the disease by 1988 to an annual incidence of eight or less cases per 1,000 population or roughly 25% of the total reported level at present.

Significant strides in reducing the incidence of malaria have already been made in Honduras—reported cases were reduced from approximately 57,500 in 1982 to 27,300 in 1984, or 47% in two years.

The tools of malaria control include the use of anti-malaria drugs to reduce mortality and morbidity, applications of insecticides to inside walls and ceilings of houses to kill adult mosquitoes, and larvicide applications to breeding sites. Other anti-malaria measures include draining or filling mosquito breeding sites and using larvivorous fish, proper water management, and personal protection measures such as bed nets or repellants.

Malaria vaccine research, funded by AID and supported by a worldwide network of 17 cooperating institutions, has resulted in major breakthroughs. A protein that may prove effective in a vaccine against *Plasmodium falciparum*, the most deadly form of the disease, has been identified by research directed by Drs. Victor and Ruth Nussenzweig in a laboratory at New York University. In the near future, a vaccine could be ready for U.S. Food and Drug Administration approval for human field testing.

The Nussenzweigs recently announced a second breakthrough. The researchers have developed a prototype malaria vaccine against *P. vivax*, a form of malaria not considered as deadly as *P. falciparum* but the most prevalent form of human malaria and one that brings relapses. Their data will be submitted to the U.S. Food and Drug Administration for review and approval to allow clinical trials with human volunteers.

AID doubled support for vaccine research between fiscal years 1983 and 1985, bringing the total AID commitment to $22.7 million for that period.

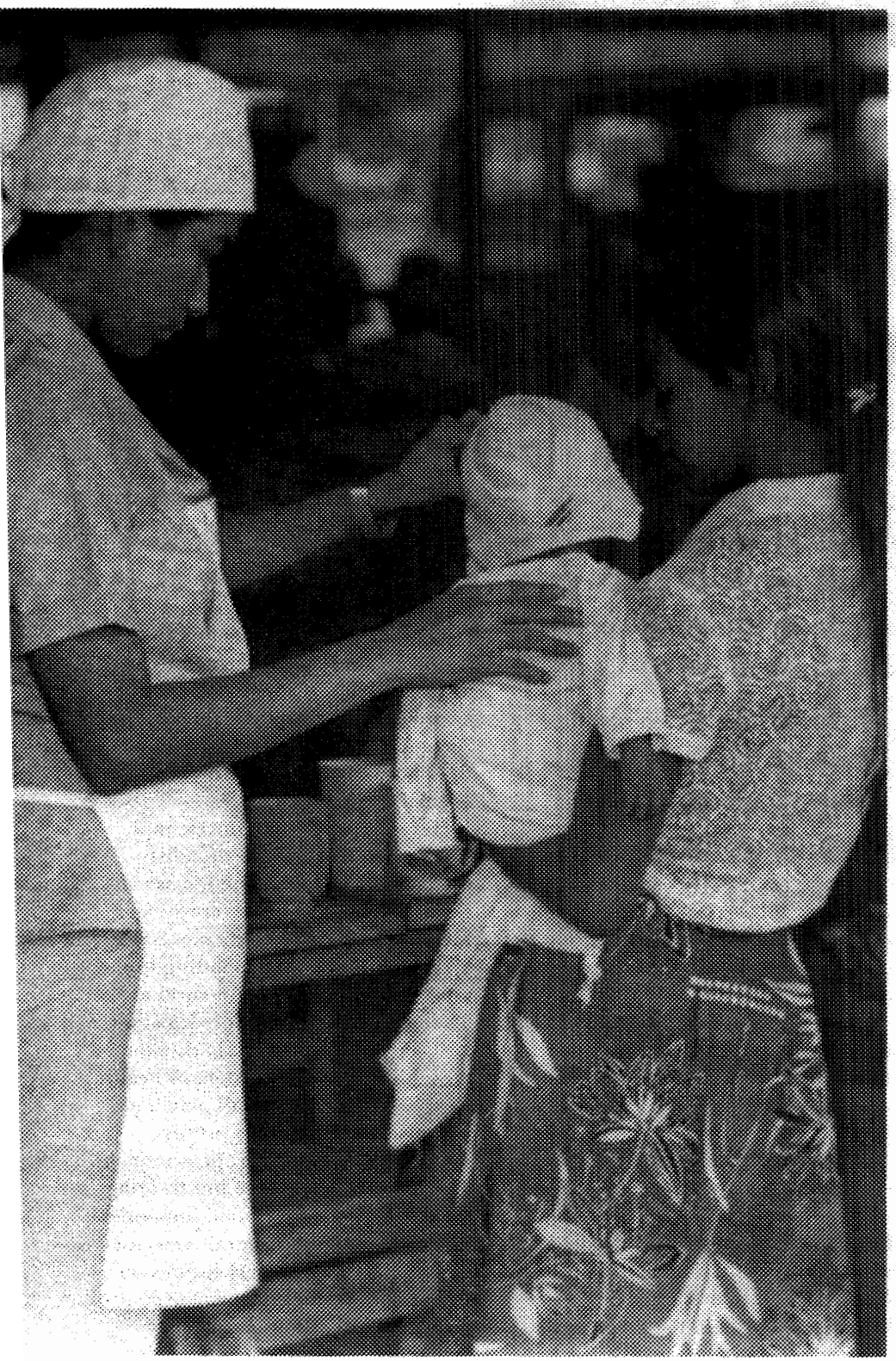
## Essential Drugs

Central American nations are adopting measures to overcome some of the problems they face in providing essential drugs through their health systems. The overriding concern is reducing the cost of procuring and distributing an adequate quantity of needed medicines.

Honduras provides one example. The country has drawn up a list of medicines appropriate for use at each level of the health care system. Five hundred basic medicines have been identified, corresponding to the most common illnesses in rural areas. These have replaced approximately 3,000 medicines previously distributed through the nation's system of health clinics, centers, and small area and regional hospitals. This process has simplified ordering, procurement, distribution, inventory, and training.

On a regional level, one component of the $6.5 million Central America Regional Health project focuses on strengthening the management control systems for distribution of drugs throughout national health services

*A nurse from Project HOPE treats a baby at a displaced persons settlement in El Salvador. National and international organizations are working to find solutions to problem areas in health care systems.*



networks and drug quality control. The program, implemented by the Pan American Health Organization, also addresses health training needs in vector control.

## Primary Health Care Training and Management Improvement

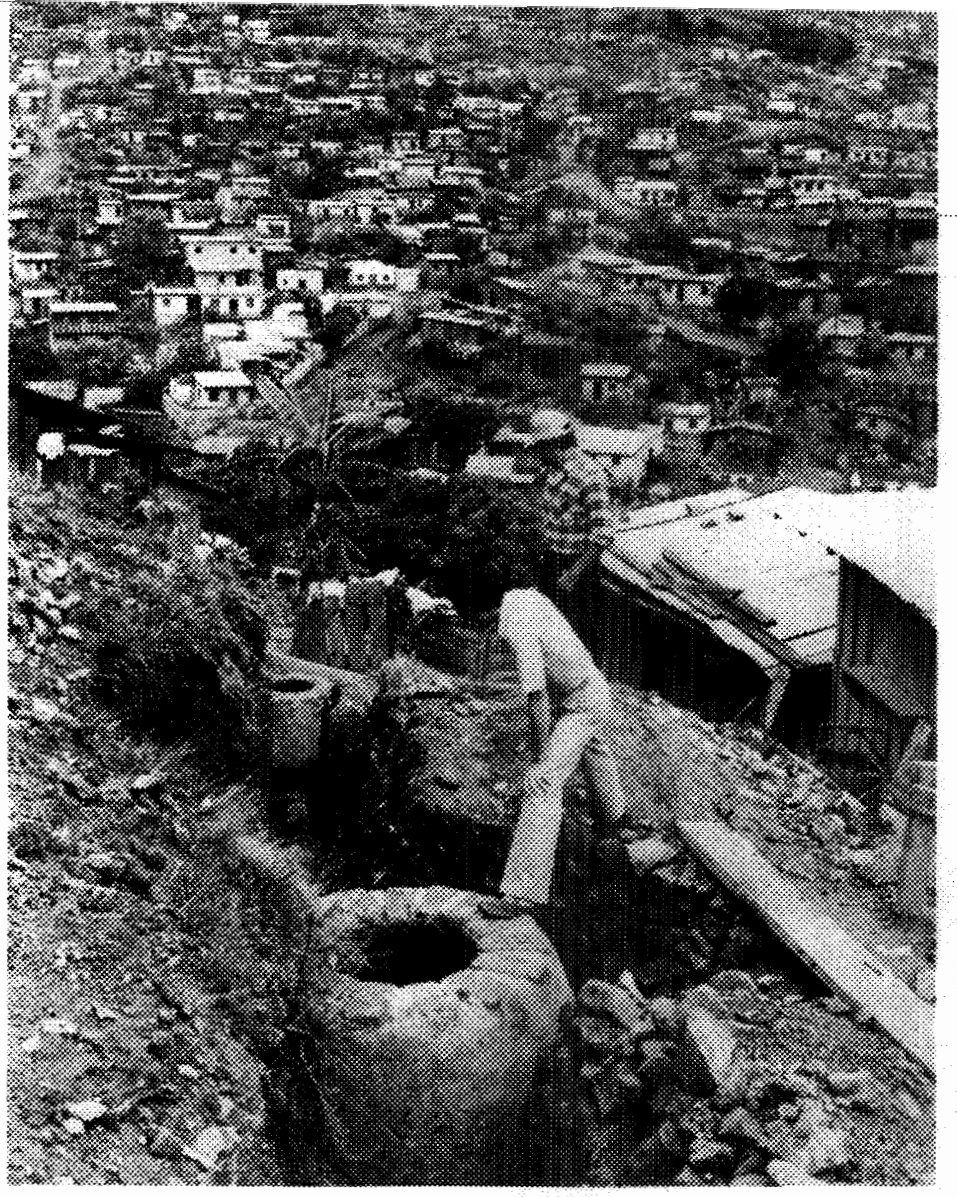
While Central American nations are committed to providing better health care, factors such as insufficient or poor allocation of funds, lack of trained staff, and poor management systems may impede access to services. Administrative adjustments by the Ministries of Health and the Social Security Institutes may be necessary to better distribute existing resources within countries.

These problems are being addressed. In Honduras, AID is assisting in providing in-service training to help develop the human resource base. All Ministry of Health auxiliary-level nurses have been trained in family planning and ORT technologies since 1980.

The Honduran Ministry of Health also has undertaken a number of reforms in the health financing area. For example, as a result of a 1983 study conducted in rural areas, the Ministry adopted a policy to sell medicines to its clients at Ministry facilities. This generates the needed revenues to keep basic drugs available at a reasonable cost. A cost-recovery system was adopted for hospitals there, with 5% of each hospital's recurrent costs to be generated through fees for services, gradually increasing to 30% by 1989.

El Salvador's Ministry of Health is increasing existing levels of primary health care and emergency medical services. AID support of $35 million over a three-year period is assisting the Ministry to meet the critical short-term needs for essential goods and services and vitalize its existing systems in health supplies management, maintenance, and management information.

Costa Rica also is improving the



*New sewer systems are lowering the incidence of disease transmitted by contaminated water. This system under construction will help the Honduran government meet its goal to double the access to clean water and sanitation services.*

management of its Social Security health care system with technical assistance provided by the Pan American Health Organization and funded by AID.

### Water and Sanitation

Health benefits are gained when safe water is used for cooking, hand-washing and bathing, and drinking. Diarrhea-causing pathogens in infants, for example, can be transmitted by fecal contamination of weaning foods, water, and hands.

There is an increasing need for clean water and proper sanitation in Central America. As of December 1983, a range of 51% to 93% of the population in the region had access to clean water, and 36% to 95% had access to adequate sanitation facilities. To reach 1990 goals established by PAHO for the region—83% coverage for safe water and 84% for adequate sanitation facilities—10 million additional people will need to be supplied with safe water, and sanitation services will need to reach 13 million additional people.

In order to extend water and sanitation coverage, a number of factors must be addressed. These include education for families in the use of water, proper waste disposal, and hygiene; systems for the recovery of costs for services; the operation, maintenance, and service of water supply systems; personnel training; use of appropriate technology; and community participation.

A $20.7 million AID water and sanitation project in Honduras, begun in 1980, supports the Government of Honduras' commitment to double its water and sanitation coverage by 1987 by providing about 500,000 rural Hondurans with safe water and adequate sanitary facilities for human waste disposal.

Belize has undertaken a four-year, AID-assisted project to extend water and sanitation coverage to rural communities and to improve the national water quality control program.

Building on earlier efforts, Guatemala, with assistance from AID, will extend water and sanitation coverage to reach an additional 8,000 families in El Quiché, Huehuetenango, and Quetzaltenango. Local inhabitants will receive basic health education and training in system maintenance. Six thousand families already have been provided access to clean water and sanitation during the initial years of this project.

In partnership with the nations of Central America, by joining forces with international organizations and private and voluntary groups, AID is helping make an investment in a brighter future for the people of the region through improved health care. ■

*Paula Feeney is the chief of the Health and Nutrition Division in AID's Office of Development Resources, Bureau for Latin America and the Caribbean. Carol Dabbs is a health officer in the Division. Maura Brackett, chief of that office's Population Division, contributed the material on voluntary family planning. Sharon Isralow, editor of* Horizons, *Bureau for External Affairs, also contributed to the article.*

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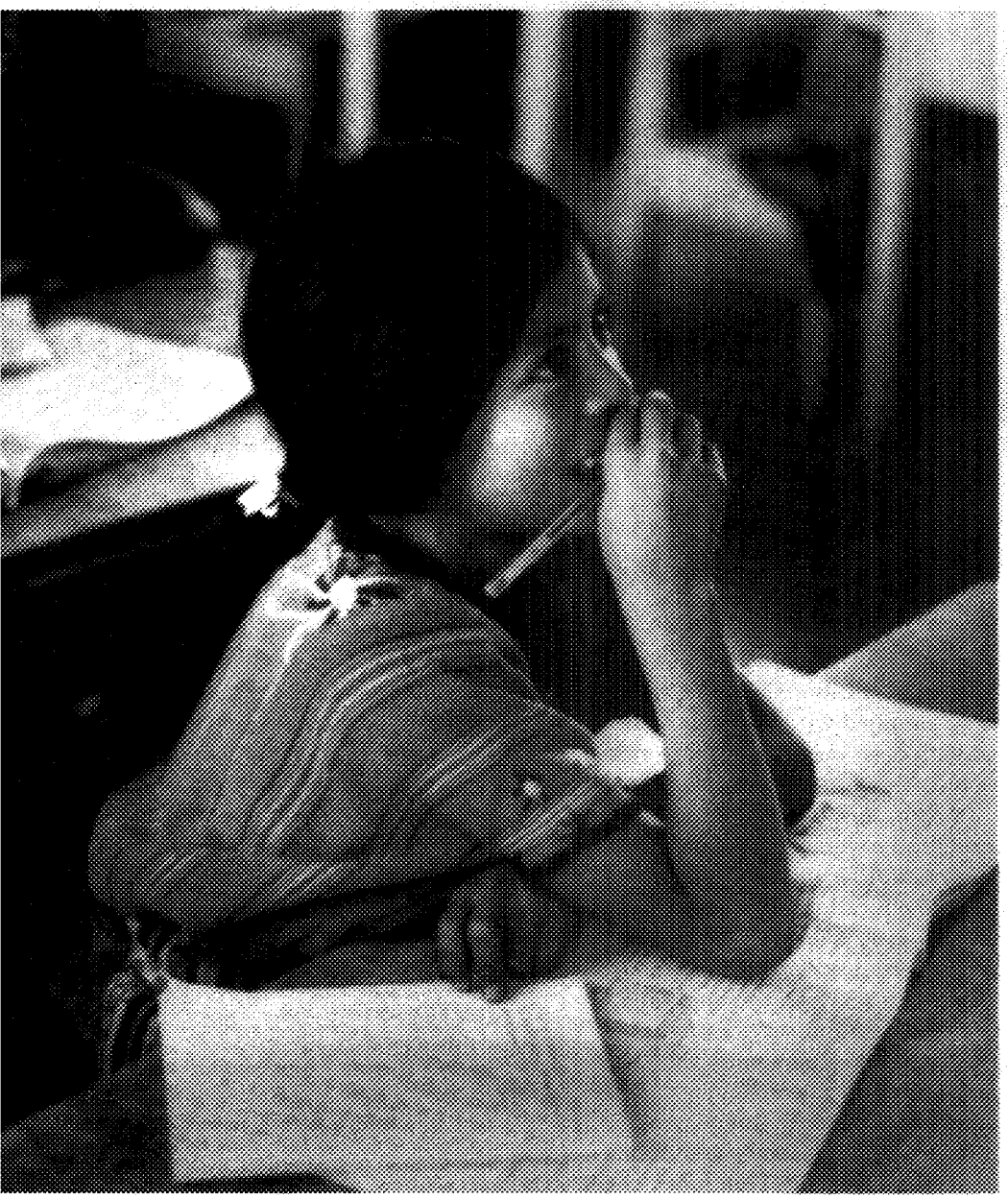
# PROMOTING HUMAN POTENTIAL

*Opening the book of knowledge releases human energy necessary for economic growth.*

*By Marcia Bernbaum*



In Central America, there has been a growing demand for increased access to educational opportunities. As citizens have become more and more educated, their aspirations have grown. Higher aspirations, coupled with population increases and migration to urban areas where schools are more accessible, have resulted in a growing call for educational opportunities.

The governments and private sector institutions of Central American countries have responded to this demand, and impressive strides have been made in Central American education systems over the past decade. At the primary level, for example, enrollments in Guatemala have increased from 506,000 in 1970 to 930,000 in 1983. Comparable increases have taken place in Honduras where primary enrollments have skyrocketed from 382,000 in 1970 to 704,000 in 1983.

Enrollment at the secondary level during this same period has, with the exception of El Salvador, more than doubled and in some cases more than tripled (in Costa Rica from 61,000 to 165,000; in Guatemala from 75,000 to 168,000; in Panama from 78,000 to 175,000; and in Honduras from 40,000 to 148,000).

Most dramatic of all have been the increasing enrollment trends at the university level—in Costa Rica from 15,000 in 1970 to 61,000 in 1980; in El Salvador from 9,500 in 1970 to 26,000 in

1981; in Guatemala from 16,000 in 1970 to 47,000 in 1982; in Honduras from 12,000 in 1975 to 33,000 in 1982; and in Panama from 9,000 in 1970 to 42,000 in 1982.

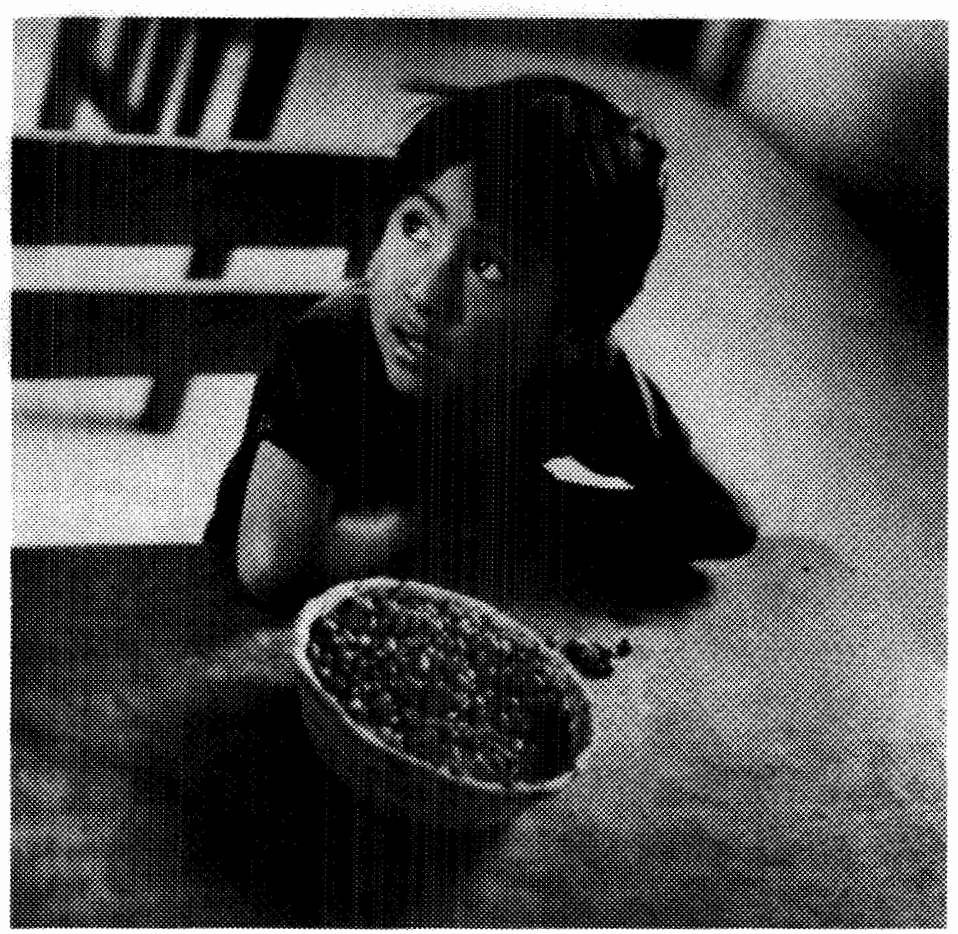
These enrollment increases reflect the importance being placed on improved education as a means of gaining more challenging jobs and better salaries. Both public and private sectors have benefited from a better educated, higher skilled work force. Improved health practices and reduced fertility rates also have been linked to increased education levels.

While these strides are substantial, a number of problems remain in the educational field. The quality and efficiency of education and its relevance to people's lives must be improved. Teachers need better and more training. Greater supplies of student textbooks, teachers' guides, and educational materials are required. Classrooms often are overcrowded. With the economic recession of recent years, Ministries of Education have been forced to cut their operating budgets. This has meant that many recurrent expenditures have been trimmed to avoid having to reduce teachers' salaries. While some Ministries of Education have adequate planning and management structures, a number need to upgrade their information bases and analytic capability, which will help decision makers.

Ministries are trying to meet the increased demands for education, but a system where resources are stretched thin often affects the quality of education, resulting in an increased number of dropouts and repeaters at all grade levels. AID is assisting Central America to use limited resources more efficiently.

AID's programs are aimed at two priority areas: primary education and vocational/technical training.

In primary education, AID works with host countries to improve the efficiency and quality of educational systems and their ultimate usefulness to children and their families.



*A basket of beans serves as a teaching aid as this boy learns to count. Central Americans appreciate the value of education, reflected in increasing enrollment rates.*

Therefore, activities that enable a greater number of children to attend school, such as building new classrooms or training new teachers, are accompanied by efforts that also improve the use of resources.

AID programs in primary education in the region emphasize:

- Improvements in educational administration and resource management;
- Support for teacher training and development and distribution of educational materials;
- Classroom construction and renovation, as well as instituting school maintenance systems; and,
- Working with Central American institutions, such as Ministries of Education and local private and voluntary organizations, to finance pilot projects designed to improve educational quality and efficiency.

AID's more recent involvement in the vocational/technical area was spurred by the introduction in 1983 of vocational and technical training into AID policy and by the Caribbean Basin Initiative, which promotes private sector involvement in skills training. AID assists Central America in:

- Promoting greater coordination between skills training institutions and public and private employers;
- Increasing involvement of the private sector in conducting training;
- Upgrading the capability of selected skills training institutions to provide training for new workers and improve existing workers' skills; and,
- Encouraging management and vocational training institutions to adapt

*An education today means better access to jobs and salaries tomorrow for these Guatemalan children, who learn communication skills first in their native dialect and then in Spanish, the official language.*

skills training curricula, instructional materials, training aids, and other relevant training technologies that have been used elsewhere with success.

AID also is becoming increasingly involved in Central American adult education efforts. Support is targeted to programs that improve functional literacy and provide basic literacy skills.

New activities in adult education, along with other efforts in the areas of primary and vocational/technical education, as well as higher education, have been identified for implementation over the next five years. These activities address recommendations made by the National Bipartisan Commission on Central America.

In its developmental activities in education, AID works with and through Central American Ministries of Education and in tandem with Central American private sector nonprofit institutions. Successful programs have resulted from such joint efforts.

The bilingual education project in Guatemala is a prime example. About half of the country's eight million people are descendants of Maya Indians and do not speak Spanish, the official language. Recognizing the social and economic implications of this for the Indian population, the Guatemalan government and AID initiated a pilot bilingual education project in 1980. The project produced positive results: Children participating in the experimental schools were promoted more often and dropped out less frequently. Based on the success of the pilot project, Guatemala legalized the use of Indian languages in the education system and created a national bilingual program.

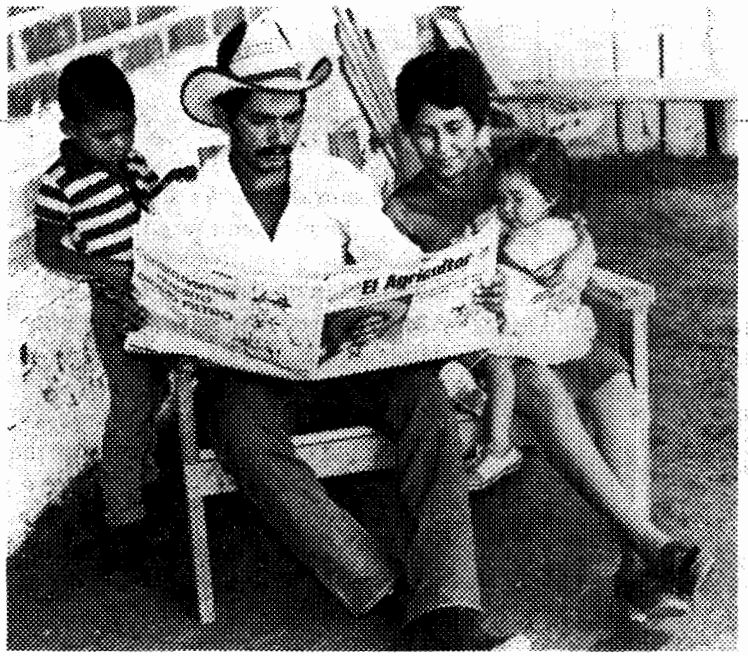
Through the program many talented local Indian leaders play a more prominent role in education. For example, Professor Domingo Chuc, a Quiché Indian educator, has risen through the ranks of the Ministry of Education and today occupies the position of the head of Rural Primary Bilingual Education. Prof. Chuc coordinates the activities of 17 supervisors. These supervisors work with more than 1,000 bilingual promoters who, in turn, teach some 50,000 Indian children.

The project also has increased public awareness of the importance of Indian languages and culture. An association of Mayan writers has been formed, and Indian educators are recording local folklore and history to be used in the national program.

At the same time the bilingual program was being launched in Guatemala, advances were being made in Honduras' primary education system in upgrading and building facilities and boosting teachers' skills. These include 2,100 new classrooms in the rural areas and renovation of another 800, with most of the labor provided by community members. The Honduran Ministry of Education, with assistance from AID, also initiated an In-Service Teacher Training Unit within its operation and institutionalized a computer-based management information system that streamlined the Ministry's operations as well as provided policy makers with quicker and easier access to information about the education system.

The Honduran private sector has become increasingly involved in educational activities. For example, a group of Honduran businessmen is publishing a weekly newspaper specially tailored for the rural community, with articles ranging from national and international news to educational sections on improved health, education, and agricultural practices. The newspaper not only has generated interest among adult readers, but also among primary school teachers and students who use it as an educational tool in the classroom.

The Association of Honduran Managers and Entrepreneurs (GEMAH)



*Children and adults alike read* El Agricultor, *a weekly tabloid sponsored by AID and published by a Honduran Foundation, made up in part by businessmen, for rural communities.*

is an example of successful collaboration in promoting vocational and technical training. GEMAH, with assistance from AID and the American Management Associations International, in 1984 embarked on a program that will leave GEMAH with the capability to organize, design, market, and carry out management training courses; publish a quarterly magazine; and maintain a management library.

After just one year, the project was well ahead of schedule in achieving targeted goals. Membership, made up of mid- and upper-level managers from private firms, had been projected to reach 160, but by the end of the first year, it was 189. By the end of 1985, more than 40 courses had been conducted, exceeding the projected goal of 20.

GEMAH has been particularly successful in conducting management training programs at the workplace. Honduras Fosforera, a matchstick factory that has begun to export wooden boxes and ice cream sticks to the United States, recently contracted GEMAH to conduct a course on management at the plant. Since the course took place, production has increased by 5% for domestic products and 10% for export products; overtime hours have been substantially reduced; and the quality of production, especially for export products, has improved.

Embutidos Delicia, a local firm that produces pickled meats, also took GEMAH's management course and reports positive results, including a 9% boost in production, a 100% increase in the shelf life of products, and better sales.

In El Salvador, an AID-assisted project to restore accessibility and basic education services to the nation's primary schools has been launched in record time. A special management team composed of staff from the ministries of Education and Planning has begun to develop a comprehensive plan to assess the impact of the civil conflict on the education system. The results will help develop a national plan for restoring educational opportunity to school-age children.

Access to an education allows all citizens to participate effectively in the decisions that mold and build democratic and free societies. AID is complementing the efforts of the nations in Central America in developing a most valuable and treasured resource—an educated citizenry. ■

*This article was prepared by Marcia Bernbaum, deputy chief of the Education, Science, and Technology Division of AID's Office of Development Resources, Bureau for Latin America and the Caribbean, in collaboration with AID officers in Honduras, Guatemala, and El Salvador.*

## ENROLLMENT TRENDS IN EDUCATION

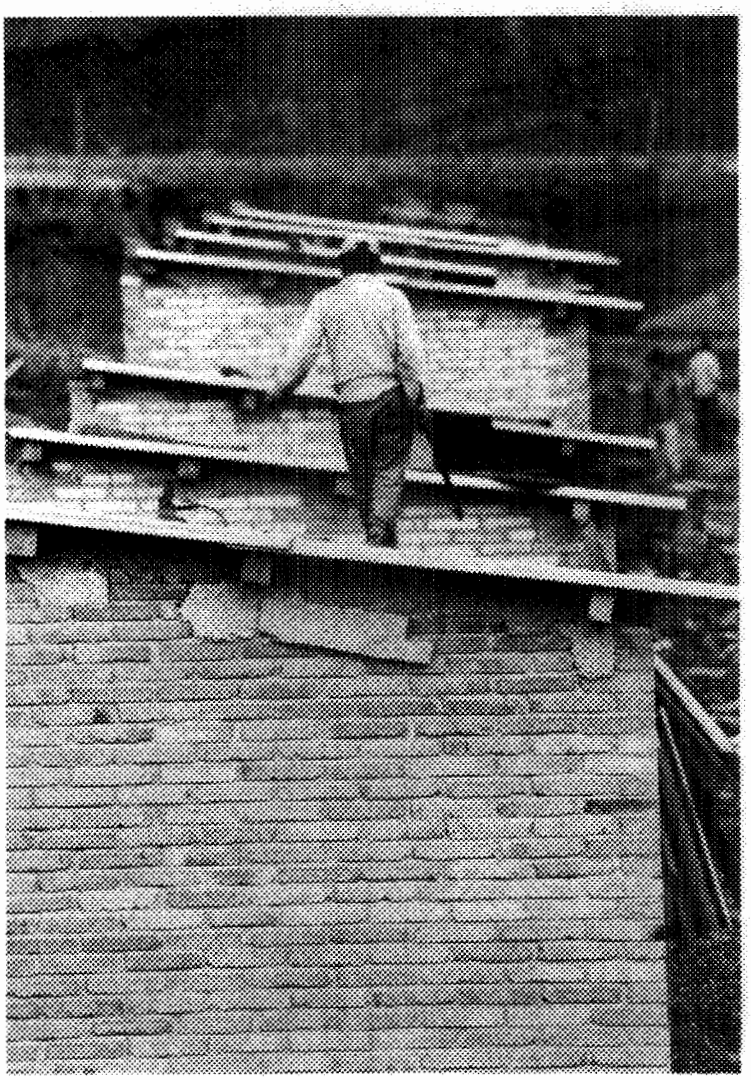
| COUNTRY | PRIMARY | | SECONDARY | | HIGHER | |
|---|---|---|---|---|---|---|
| | Year | Number | Year | Number | Year | Number |
| Belize | 1970 | 31,829 | 1969 | 3,707 | 1970 | 113 |
| | 1982 | 37,138 | 1982 | 6,118 | 1975 | 121 |
| Costa Rica | 1970 | 349,373 | 1970 | 61,068 | 1970 | 15,472 |
| | 1982 | 342,373 | 1982 | 165,374 | 1980 | 60,990 |
| El Salvador | 1970 | 509,985 | 1970 | 88,907 | 1970 | 9,515 |
| | 1981 | 709,567 | 1981 | 64,762 | 1981 | 25,783 |
| Guatemala | 1970 | 509,601 | 1970 | 75,474 | 1970 | 15,609 |
| | 1983 | 930,130 | 1983 | 167,724 | 1982 | 47,433 |
| Honduras | 1970 | 381,686 | 1970 | 39,839 | 1968 | 3,459 |
| | 1982 | 671,786 | 1982 | 147,528 | 1982 | 33,279 |
| Panama | 1970 | 255,287 | 1970 | 78,466 | 1970 | 8,947 |
| | 1982 | 336,740 | 1982 | 174,791 | 1982 | 42,486 |

Source: UNESCO Statistical Yearbook (1984 and earlier versions)

# LAYING A SOLID FOUNDATION FOR URBAN HOUSING

*Urban and shelter initiatives are breaking new ground in home building, financing, and sales.*

*By Peter M. Kimm*



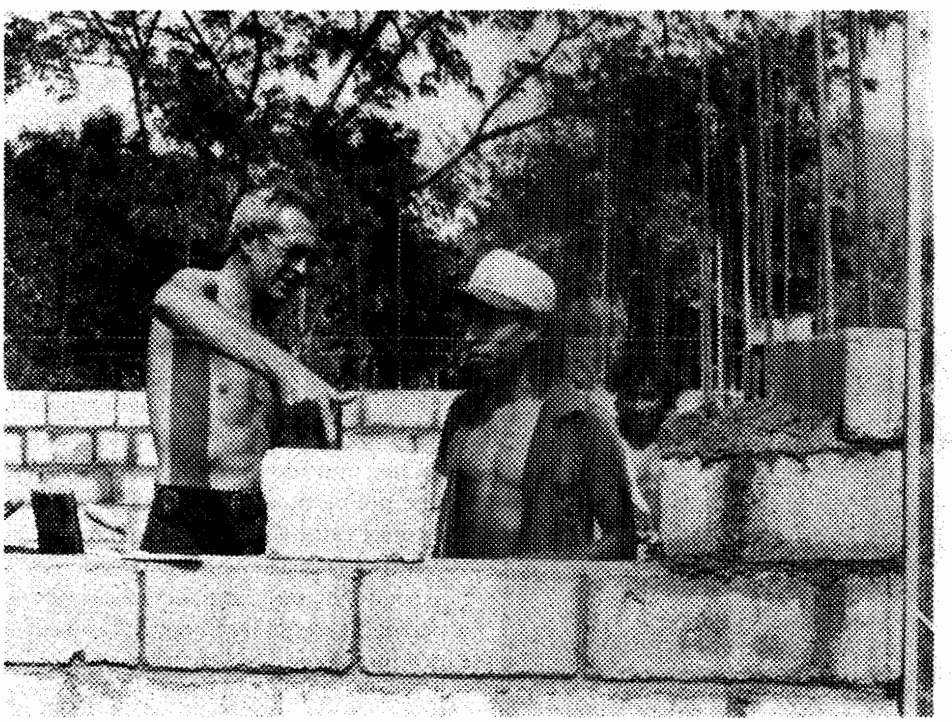
*AID is carrying out low-cost shelter and infrastructure projects to improve living conditions in Central American cities and towns.*

Central America shares many of the problems faced by developing countries throughout the world in endeavoring to foster economic growth and improve living standards for all citizens.

Rapid urbanization and high population growth rates have transformed the region's character over the last three decades. Capital cities have doubled their share of the population, and currently over 40% of all Central Americans live in urban areas. By the end of the century, it is expected that all countries in the region will be predominantly urban. Rural-to-urban migration has contributed significantly to this urbanization process. Marginal communities have sprung up and expanded. Up to one million persons are believed to have left their rural homes for the already overcrowded cities. In five of the region's republics, population jumped from less than 8 million persons in 1950 to over 20 million by the end of the 1970s.

Rapid growth has overburdened urban services. The need for housing and infrastructure has reached critical levels, affecting up to three-quarters of the population, especially lower income families. Almost half of all urban residents lack piped water services, and an even higher number are without adequate sewage services.

In its report, the National Bipartisan Commission on Central America recommended an enlarged housing and infrastructure construction program and accelerated education and training for professionals in public administration. The Agency for International Development's (AID) current shelter activities address these recommendations. Throughout Central America, AID is working with country institutions to implement low-cost shelter and infrastructure projects. An $800,000 grant was approved in 1985 to organize training, workshops, and technical assistance throughout Central America for housing and urban development officials.



*AID's low-cost shelter programs help reduce subsidies and make it possible for lower-income families to construct their own homes.*

AID is supporting Central American initiatives by:

- Encouraging the role of the private sector in housing construction;
- Helping develop mechanisms for the efficient use and recuperation of investments in housing and urban development activities;
- Assisting in the revision of housing standards and building codes in order that lower income families can afford to purchase or construct their own shelter; and,
- Helping Central American countries adopt market-driven, cost-effective approaches, such as credit unions and savings and loan systems, to solving shelter needs.

Appropriate changes in the way shelter is built, sold, and financed can provide an opportunity for every family to have access to an affordable, safe, and sanitary house.

The public sector has an important and legitimate role in housing and urban development. That role is one of providing overall plans and major infrastructure while encouraging the private sector to be the source of most housing in Central America.

Most of this housing has been or will be built in stages, starting with a humble beginning, and expanded and improved as a family's resources allow. This is called "progressive housing." Most of the developing world's shelter has been built this way.

Since the mid-1960s, AID's missions in Central America have been working to address shelter problems. AID has approved over $384 million in Housing Guaranty* projects for Central American countries in addition to the area's regional development bank, the Central American Bank for Economic Integration (CABEI).

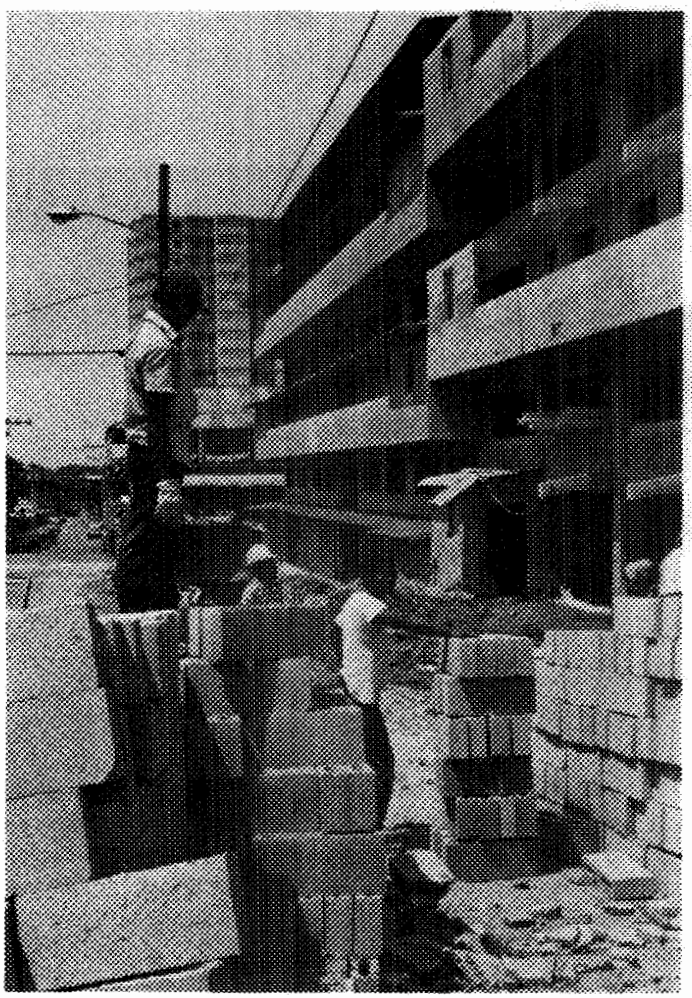
## Country and Regional Activities: Past and Present

Shortly after Belize became an independent nation, AID began working closely with the government to formulate a national shelter and urban development policy. With a $2 million Housing Guaranty loan authorized in 1982, private sector credit unions are carrying out a home improvement loan program.

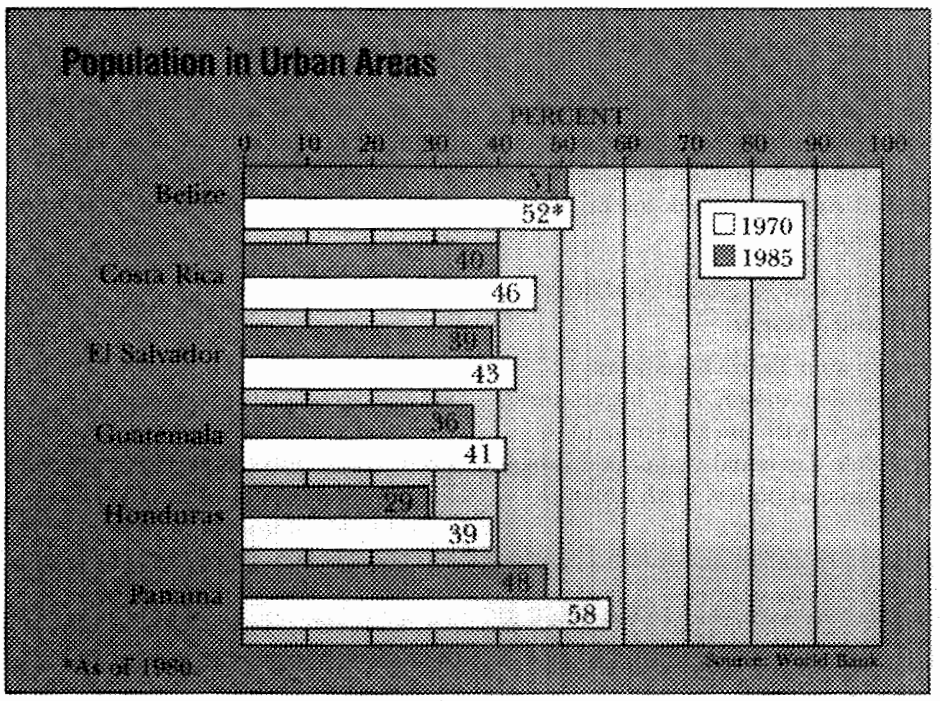
Costa Rica has received approximately $41 million in Housing Guaranty assistance for five programs since 1969. The progressive housing programs have helped reduce subsidies and assisted lenders to improve their collection performance. AID also has assisted in establishing and strengthening Costa Rica's savings and loan system and is supporting the establishment of a national mortgage bank. Other activities include working with municipal governments to provide infrastructure located away from project sites but used by low-cost housing projects. Housing Guaranty programs have increased the role of private developers in housing production, thus enhancing the sector's overall efficiency in Costa Rica.

In El Salvador's shelter sector, AID has been working with the National Institute of Housing and Urban Development, National Mortgage Bank, and the savings and loan system since 1964, providing nearly

*Under this program, private U.S. investors make long-term loans, which are backed by U.S. government guaranties. The funds are used by developing countries for housing and urban upgrading activities.



*Involving private developers in housing construction enhances urban development and improves the overall efficiency of housing production.*




$31 million in Housing Guaranty assistance. A major upgrading program currently is under way in San Salvador's marginal settlements to extend water services to some 100 neighborhoods with full cost recovery through users' fees. This project will establish a permanent revolving fund for financing future extensions. With Housing Guaranty financing, the public and private sectors have jointly developed affordable shelter solutions. The government has reoriented public sector support toward lower income shelter and has adopted an interest rate policy that moves toward market interest rates. Other policies streamline and coordinate bureaucratic procedures and increase the use of private contractors in order to speed production and lower costs.

Nearly $23 million in Housing Guaranty funds has been provided for Guatemala since 1967. A soon-to-be-implemented project has been designed to provide liquidity for private developers to build low-cost units targeted to below median income families, an income group the private sector has not previously served. Guatemala's Ministry of Economy, in conjunction with AID and a United Nations agency, UN HABITAT, has been working on an urban development assessment to identify growth centers, analyze employment trends, and identify potential urban projects.

Nearly $78 million in Housing Guaranties has helped the Honduran government since 1963 alleviate housing shortages and improve settlements; generate employment and stimulate economic growth; strengthen shelter institutions and improve public sector management; and encourage greater reliance on the private sector and market forces as a means to allocate resources efficiently. The National Housing Authority, for example, has introduced the concept of "turnkey" housing—that is, housing built by private contractors for sale by the housing authority instead of the authority acting as both developer

and seller—which led to a sixfold increase in the number of houses it produces annually. The development of progressive housing, reduction in subsidies, and fuller cost recovery also have resulted. Current projects include paving roads and extending water services to marginal neighborhoods. The housing projects create thousands of on- and off-site jobs.

The largest share of Housing Guaranties in Panama—which has totaled approximately $96 million since 1965—supports lower income shelter projects that were made part of the Panama Canal Treaty. Since 1977, AID has been assisting the Panamanian Mortgage Bank to carry out shelter upgrading programs, and recent initiatives include urban renewal and decentralized housing programs throughout the country. In addition, in 1984 Panama completed an assessment of the importance of urbanization on national economic growth and the economic, institutional, and political contexts within which urban investment decisions are made as well as the implications those decisions have for future planning.

On a regional basis, the Central American Bank for Economic Integration has received approximately $114 million in Housing Guaranty funds in support of low-cost shelter programs. The bank supports the development of progressive housing and, through its housing fund, has established a secondary mortgage operation. Currently under consideration is a major water and sewer project that will help countries throughout the region extend services and repair existing systems.

*Financed by AID, El Salvador's San Bartolo housing settlement contains 4,000 homes. Some 60% of the project funds provided salaries to the Salvadorans who worked on construction.*

## The Road Ahead

AID's early efforts in the region assisted Central American countries by demonstrating the feasibility and desirability of new shelter policies and techniques. As a result of progress in these areas, AID's focus has become less project-specific and more concerned with broader institutional and structural issues. While not abandoning direct project financing, AID is directing attention to housing finance, institutional development, mobilization of resources, and overcoming other barriers in the production, selling, and financing of shelter such as land tenure problems.

In addition, over the past several years Central American countries, with assistance from AID, have undertaken analyses of their urban situations, taking into consideration settlement patterns, developmental opportunities, employment generation potential, and related issues that contribute to an understanding of the urban phenomenon. The principal analytical tool being used is called an urban development assessment, which is performed by a small team with appropriate expertise in planning, economics, urban infrastructure, employment generation, and municipal finance. The studies that have resulted from the urban development assessments have helped countries of the region to identify appropriate investments in urban areas.

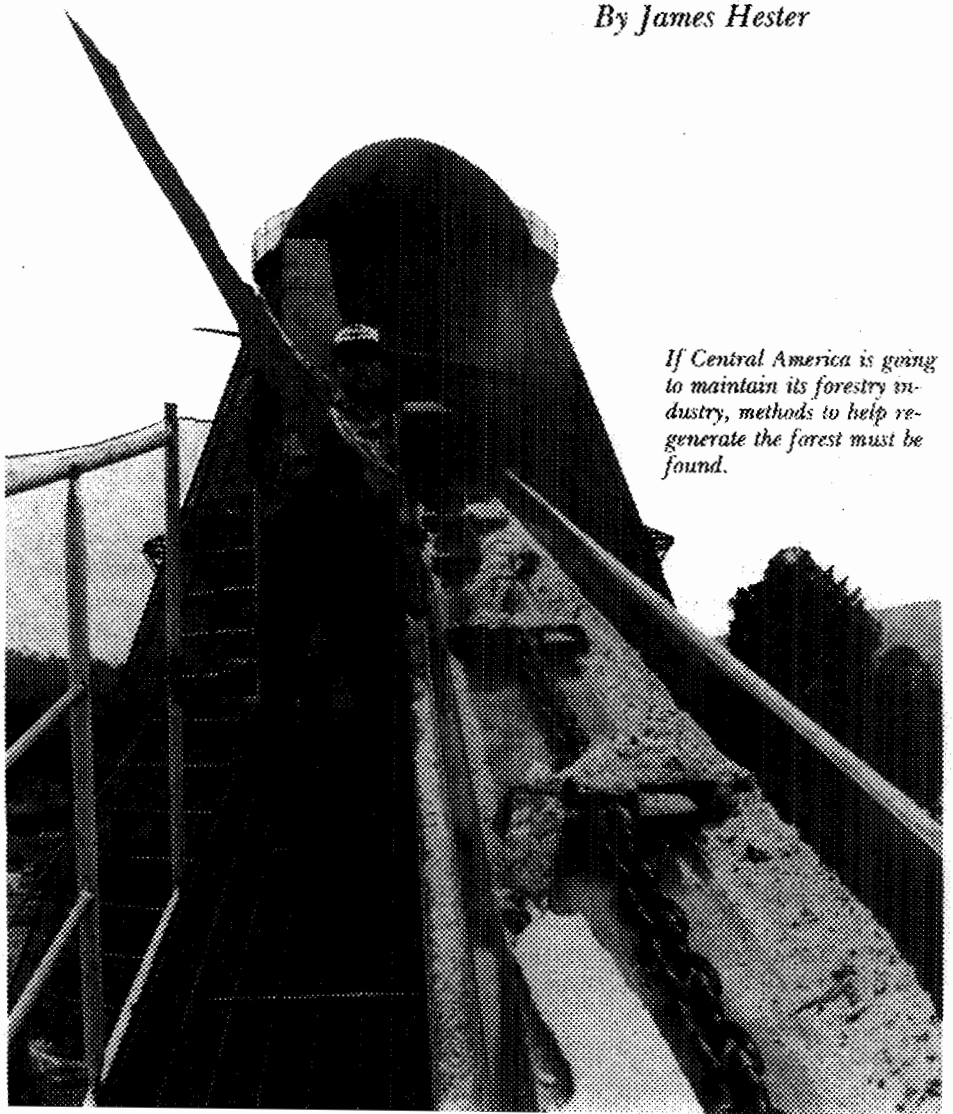
Central America has substantially improved its housing stock, but deficits in shelter and urban services have continued to grow. Population growth and rapid urbanization have simply outpaced the ability of institutions and resources to meet demand. AID will continue to assist countries in the region in their efforts to create appropriate shelter policies and build local public and private institutions to enable all Central Americans to have adequate shelter and services. ■

*Peter M. Kimm is the deputy assistant administrator for housing and urban programs in AID's Bureau for Private Enterprise.*

# IS CENTRAL AMERICA TAKING MOTHER NATURE FOR GRANTED?

*Central America, which relies heavily on its abundant supply of land, water, and forests, cannot postpone investing in environmental management. Here's why . . .*

*By James Hester*



*If Central America is going to maintain its forestry industry, methods to help regenerate the forest must be found.*

Central America is endowed with fertile soils, abundant water, and extensive forests. In Central America, however, as in many other regions of the world that have rising population pressures and demands for better standards of living, renewable natural resources are being exploited faster than they are able to regenerate. This causes constraints to development and requires major investments to rehabilitate resources for future productivity.

Soil loss and degradation, lack of effective watershed management, and deforestation are among the major environmental problems in the region.

### A Glance at Environmental Issues in Central America

Soil loss and degradation are widespread, causing the region serious economic consequences. For example, 66% of the electricity in Central America is generated by hydroelectric dams. Reservoir siltation caused by deforestation and resulting soil loss affects power generation. A study at the Cachí dam in Costa Rica estimated lost revenue from excessive siltation to be as high as $250 million over a 20-year period.[1] Record levels of siltation due to extensive watershed deforestation have been measured in Panama's Alajuela Lake (Lake Madden). The siltation rate has nearly tripled since 1983, and, at the current rate, the lake could lose up to 80% of its storage capacity by the year 2020.

Alajuela Lake supplies the enormous quantities of water to operate the Panama Canal and also supplies Panama City with water and electricity. Continued erosion will reduce shipping in the Canal and Canal revenues, and it may threaten the supply of electricity and water to the metropolitan areas of Panama and Colón.

In addition to water's importance in

1. Located about 20 miles east of San José, Cachí is a 100-megawatt hydroelectric facility, Costa Rica's third largest, that began generating electricity in 1966.

*Cutting down one tree isn't a problem. The problem comes when everyone cuts and large areas become deforested. Schoolchildren add their contribution to overall efforts to protect the environment while Central American governments work to achieve sustainable productive use of the land and water resources to meet the constant pressures for energy, lumber, and fuelwood.*

generating electricity, irrigation is practiced on 5% of the cultivated land, most of which is devoted to high-value commercial crops providing a large share of the region's export earnings. Industry relies heavily on an abundant source of water in the production process.

Hydroelectric energy generation has increased more than fivefold in the last 20 years. To maintain per capita food production in the face of an average 2.3% annual population growth rate, the demand for irrigation is expected to double by the year 2000.

Deforestation also is a serious concern. Most of Central America was once covered by forests; yet by 1970, only 49% of the region was forested. The rate of deforestation is rapidly accelerating. In fact, it is estimated that two-thirds of all deforestation in the region has occurred since 1950. Between 1970 and 1980, the forest cover shrank from 49% to 41%, a loss of 36,220 square kilometers, an area slightly less than the combined size of El Salvador and Belize. These figures take on added significance considering the fact that wood provides 50% of the energy used in the region.

The major cause of deforestation in Central America is the conversion of forest lands to agriculture, though the demand for fuelwood and commercial logging also contributes substantially to resource depletion.

## Central America Adopts Specific Measures to Preserve the Environment

In Central America, the need for natural resource management is recognized, and measures are being taken to solve existing problems.

In Panama, for example, five new reserves were set aside last year for protection and management by the National Directorate for Renewable Natural Resources (RENARE). The Ministry of Agricultural Development issued a planning document in January 1985, which established a long-term goal to use renewable natural resources on a rational, sustained basis. A number of specific activities were identified for priority action, including watershed management programs in the Canal Zone and other areas, management of the Darien National Park, and efficient management of the cativo and orey forests.[2] Improving management of mangroves in the coastal wetlands also is included. A surge of conservation activities among private organizations such as the Fundación PANAMA (National Parks and Environment Foundation) have further reaffirmed popular support for conservation in Panama.

Guatemala has a long history of conservation-related efforts. The nation was one of the first to sign the Treaty of Washington in 1940, which urged the creation of nature reserves and national parks. Strides also have been made recently toward helping preserve and sustain the nation's natural resource base. A moratorium was placed on logging in the tropical

2. Local names for two trees in Panama that grow in natural forests. The scientific names are *Prioria copaifera* and *Camnosperma panamensis*, respectively.

rain forest of the Peten in 1984. Conservation groups also are active in the protection and expansion of preserved areas.

The governments of Honduras and Costa Rica have taken steps to improve natural resource management. In Honduras, a proposed National Program for Environmental Protection and Improvement has been prepared. A new draft water law creating a National Water Council to determine policy and set standards is under consideration. Also under way is a plan to establish 15 wildland areas to preserve wildlife and the natural environment.

Since 1955, protected areas have been set aside in Costa Rica. In 1970, Costa Rica's Wildlife Conservation Law was passed, and the National Parks Department was elevated to a Directorate in 1977. With 22% of the country in national parks, wildlife refuges, biological reserves, national monuments, and recreation areas, Costa Rica now boasts more land designated for protection per total land area than any other country in the world. Developing the ability to manage this impressive expanse of parks and protected areas is a high priority of the National Parks Directorate.

## Assistance Encompasses Wide Range of Environmental Concerns

The Agency for International Development (AID) is assisting Central American efforts to build institutional and scientific capabilities in natural resource management by working to promote the environmental soundness and long-term sustainability of development programs.

To provide an environmental data base and to identify priorities for action, AID has funded the preparation of Country Environmental Profiles for Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama. These profiles provide a comprehensive picture of the state of the natural environment in each nation as well as recommendations for needed actions.

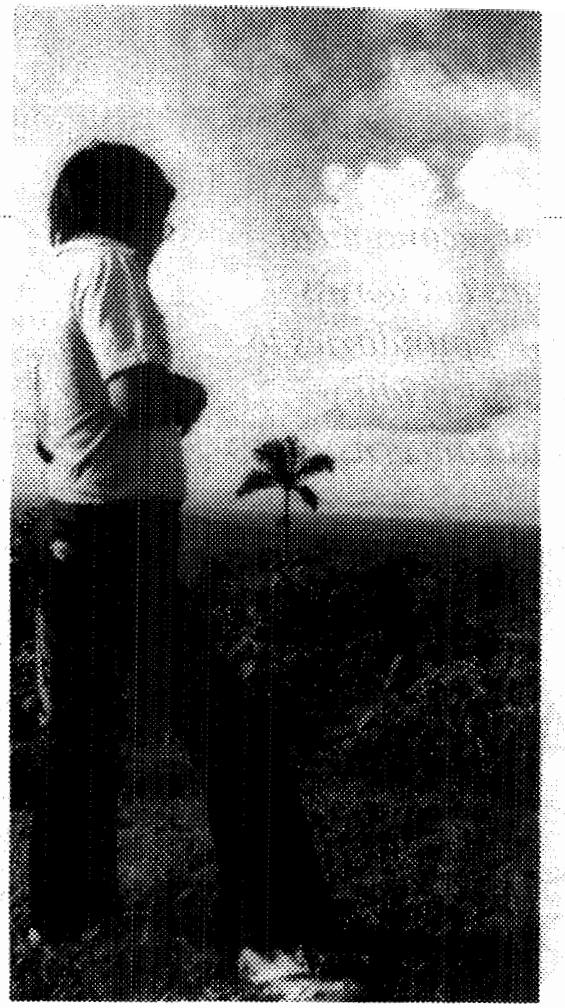
AID also funds a number of regional and country-specific projects in natural resource management in Central America. Three projects treating problems shared by all the nations in the region—fuelwood, pesticide, and watershed management—are based at the Center for Research and Training in Tropical Agriculture (CATIE) in Turrialba, Costa Rica. These projects support research, training, and technical assistance.

Since 1980, the Fuelwood and Alternative Energy Sources project, a five-year, $5 million effort, has helped determine tree species suitable for small farmers to plant for fuelwood. It also analyzed the best growing techniques and critical areas of fuelwood demand. Trials conducted throughout Central America identified 30 promising tree species; these are now being adopted by farmers.

The rapidly expanding population in the region is increasing pressure on the agricultural sector to produce more. This increased production must be achieved through improved productivity by means such as effective control of pests on lands currently under cultivation. AID authorized a $6 million grant in 1984 for the five-year Integrated Pest Management project at CATIE to strengthen national and regional capabilities for integrated pest management through research, long- and short-term training, and technical cooperation.

The Watershed Management project at CATIE addresses the problem of watershed deterioration in Central America by providing long- and short-term training aimed at strengthening regional and national institutions responsible for watershed management. In 1983, a four-year, $6 million AID grant helped launch a master's degree program at CATIE in cooperation with the University of Costa Rica. Postgraduate study in the United States or Latin America in watershed management also is available. Technical assistance is provided to improve watershed planning and data collection.

Regional programs on watershed management are in tandem with



*Fast-growing trees used in reforestation programs reduce the number of years it takes for a forest to recover from depletion.*

*Several organizations, AID included, are helping Panama establish a natural wildlife reserve on the Kuna reservation to preserve tropical forests.*

bilateral watershed management or related projects in Panama, Honduras, and Costa Rica. For example, in Panama, AID has been providing technical assistance to RENARE since 1979 through the Panama Watershed Management project. A strategy to protect and develop national parks and equivalent reserves was written, and reforestation of 4,000 hectares in the denuded areas of western Panama was completed.

At present, emphasis is placed on watershed rehabilitation plans prepared by the Department of Waters and Soils in Lake Alajuela of the Canal Watershed and in La Villa and Caldera. Training and technical assistance in watershed management, reclamation, and flood control, and soil and water quality surveys and analyses will be provided. Check dams and flood control works will be constructed, and protective forests in fragile areas will be planted. Interagency watershed management planning will be developed with the participation of the local population and the collaboration of the Panama Canal Commission, the Water Resource and Electricity Institute (IRHE), and other organizations. This effort is a part of AID's new, broader Natural Resource Management project which also assists RENARE in the management of national parks, wildlands, and natural forests.

The Government of Honduras is enhancing its hydrological, climatological, and other natural resource data collection and analysis capacity with AID assistance. The Natural Resource Management project in Honduras also is improving the problem of soil degradation in the Choluteca watershed. Support is provided to the National Cadaster Program (PCN) and the Ministry of Natural Resources for this purpose.

In Costa Rica, AID's Natural Resource Conservation project prepared a management plan for the Parrita watershed; supported park planning; and carried out soil conservation, extension, and reforestation with small farmers in the Nasara pilot watershed and elsewhere in the Pacific region. Management of an area of tropical moist forest also was initiated.

## Organizations Active in Environmental Management

AID works closely with private and voluntary groups in Central America to encourage environmental management and education. For example, in Panama, AID joined with the World Wildlife Fund, CATIE, the Smithsonian Tropical Research Institute, and the Inter-American Foundation to support the development of a forest reserve for the Kuna Indians.

To preserve the natural heritage of the area, the Kuna Indians of San Blas proposed a conservation unit that will include a scientific/tourist facility to generate revenue necessary for long-term management and protection of the forest, while protecting Kuna lands from encroachment.

AID supports the effort of Fundación PANAMA to unify the work of 24 private and voluntary organizations in the country. This $1.25 million project is a four and one-half year endeavor closely coordinated with the World Wildlife Fund and other U.S. environmental groups. Fundación PANAMA will conduct practical natural resource management projects and environmental demonstration and education activities.

Recent AID grants to the Honduran Ecology Association (AHE) will help create and develop an environmental information and documentation center as well as support its efforts in formal and non-formal environmental education for Hondurans.

Environmental conservation and management of renewable natural resources are critical factors in achieving the goal of sustained long-term development. Joint cooperation among the nations of the hemisphere helps to protect and manage a precious shared natural heritage. ■

*James Hester is the chief environmental officer in AID's Bureau for Latin America and the Caribbean.*

*Efficient, economical programs cut across national boundaries to address overriding regional concerns.*

# A REGIONAL APPROACH: TACKLING COMMON PROBLEMS

*By Sharon Isralow*

*Central America has pooled its resources to address regional concerns such as ensuring means exist to move produce to markets and products to villages.*

Central American nations are vitally aware of the need to attack problems common to the region, such as capital flight, a decline in private investments, and a withdrawal of external credit, if their national economies are to stabilize and grow. Of primary concern is restoring Central America's position as a competitor in the world trade market and laying the foundation for long-term economic growth.

AID's Regional Office for Central America and Panama (ROCAP) gives aid to Central America through a program of financial and technical assistance that is carried out more effectively and economically on a regional scale. It addresses the National Bipartisan Commission on Central America's goals for economic growth and equity.

ROCAP was established in 1960 by AID and the Organization of Central American States as the primary vehicle for U.S. assistance to the Central American Common Market (CACM). Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua set up the CACM that same year to stimulate economic development and industrialization in the region.

Today, ROCAP channels technical and financial assistance to the region through a network of institutions. They include the Central American Bank for Economic Integration (CABEI), the Nutrition Institute for Central America and Panama (INCAP), the Central American Institute for Business Administration (INCAE), the Center for Research and Training in Tropical Agriculture (CATIE), the Central American Institute for Industrial Research and Technology (ICAITI), the Secretariat for Economic Integration in Central America (SIECA), the Inter-American Institute for Agricultural Cooperation (IICA), the Latin American Agribusiness Development Corporation (LAAD), and the Latin American Export Bank (BLADEX). These centers, which ROCAP helped establish during the 1960s, assist Central American countries to attract capital

investments and credit to expand exports; train tomorrow's leaders and develop new technologies in management, science, agriculture, education, health, nutrition, food technology, and business; and develop alternative energy sources to fuel industry, protect natural resources, and conserve foreign exchange.

### Capital and Investment Necessary to Rebuild Economies

The largest financial institution in Central America, the Central American Bank for Economic Integration (CABEI), housed in Tegucigalpa, Honduras, was launched as part of Central America's integration movement in 1960 to finance intra-regional physical infrastructure projects necessary for development. For example, an extensive highway network built in the 1960s with ROCAP's help linked common market countries, opening up new trade routes for farms and industries. In addition, CABEI has become an important source of finance for housing construction (with a portfolio of $235 million in loans) and agro-industry by channeling resources through national-level institutions in both the public and private sectors.

Since the late 1970s, however, CABEI has been faced with serious and growing difficulties caused by both external and intra-regional circumstances. CABEI is experiencing a short-term liquidity problem, preventing it from contributing increased levels of investment needed by the region.

ROCAP is providing $50 million to improve CABEI's financial and administrative viability and increase the bank's present investment impact.

Approximately $30 million of the AID loan will finance public sector projects such as rural roads in Costa Rica and rural roads and a water supply system in El Salvador. About $15 million will fuel new ventures in agro-industry to help modernize the agricultural sector and lay the groundwork for increasing exports of non-traditional crops.

*AID's Regional Office for Central America and Panama helps solve basic problems throughout the region through such institutions as the Central American Bank for Economic Integration (CABEI), which funds major construction projects necessary for development.*

CABEI also will receive $5 million in technical assistance to institute a new integrated management system.

The new system will improve CABEI's overall accounting procedures and provide decision makers with comprehensive information concerning the bank's portfolio, such as status reports on projects and national laws that may impact on CABEI's activities. These reforms, which are currently under way, already have strengthened the bank and spurred investor confidence.

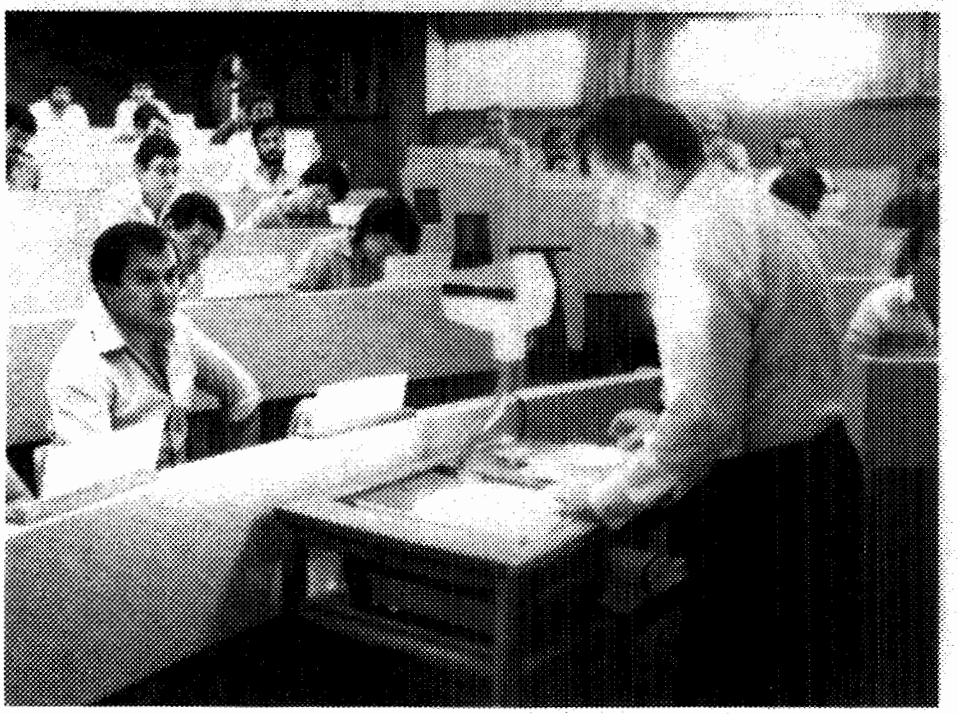
"Between October and December 1985, Honduras, Costa Rica, Guatemala, and El Salvador paid $36.9 million in arrears and contributed an additional $40 million in capital to strengthen the bank," says Edward Nadeau, general development officer for the regional office. "We predict increased savings and capital will stimulate foreign commercial banks to loan more funds to the region through CABEI and will increase CABEI's membership rolls as other Latin American, Caribbean, and European countries feel encouraged to join."

Other regional institutions promoting regional investment activities are the Latin American Export Bank (BLADEX), located in Panama City, and the Latin American Agribusiness Development Corporation (LAAD), based in Guatemala City.

BLADEX, whose shareholders include central and private commercial banks in Central America, extends loans through commercial banks to finance Central American exports, particularly non-traditional exports. "These funds are used to provide supplier credit for buying raw materials, intermediate goods, and spare parts to increase production," says Arthur Warman, private sector adviser for ROCAP.

The Latin American Agribusiness Development Corporation lends local firms in the region money to start or expand agribusiness enterprises. Over the past 15 years, AID has provided $29 million to LAAD, which has been used to finance 250 agri-

*Graduate students majoring in business administration learn the tools of trade at the Central American Institute for Business Administration.*



businesses. In Guatemala, for example, LAAD has been instrumental in increasing the export of cardamom, and, in Costa Rica, LAAD has helped finance the export of cut flowers and ornamental plants. LAAD is a private organization, established by major U.S. agribusinesses whose officers participate on the Board of Directors, bringing experience and know-how to regional development efforts.

### Training—The Best Insurance Money Can Buy

Until four years ago, the Central American Institute for Business Administration (INCAE) was located in the heart of war-torn Nicaragua. Founded in 1964 by the Central American business community in cooperation with AID and the Harvard University School of Business, INCAE offers Central Americans training in management and business administration. Finding it difficult to attract students, INCAE sought AID's assistance to build a new main campus in San José, Costa Rica. The Government of Costa Rica donated land and facilities, and ROCAP provided $4 million for construction of the new buildings. The school graduates about 80 businessmen and -women each year from the Master of Business Administration (M.B.A.) program geared specifically to the needs of Central American economies.

With the new school finished, ROCAP is initiating a training project and scholarship program at INCAE to prepare some 3,000 Central American businessmen and -women for conducting business on the world market, explains Reynold Bloom, general development officer at ROCAP. "In addition, $1 million in scholarship funds will be made available for low-income students to obtain M.B.A.s and for graduates and faculties of other business schools in the region," he says.

Instructors at national agricultural vocational schools are learning new techniques in modern agriculture at regional institutions and in the United States while upgrading their teaching skills as part of ROCAP's role in the Central American Peace Scholarship (CAPS) program. "The ROCAP/CAPS program gets substantial mileage from the investment in training as teachers from national schools return to their host institutions and train others," Bloom notes.

At the Center for Research and Training in Tropical Agriculture (CATIE) in Turrialba, Costa Rica, a new AID-funded endeavor will strengthen the Master of Science program in animal science, crop production, and renewable natural resource management. The project will modernize and expand the campus, upgrade the professional teaching staff, and double the number of graduates from the program to 60 a year. "This will provide an excellent opportunity for Spanish-speaking Central Americans to obtain a relevant, specialized graduate education in tropical agriculture," says David Joslyn, regional agriculture development officer. "Such training is a necessary ingredient in the development of the region's agriculture sector in order to keep up with modern technologies and increase productivity," he says.

### Work to Tap Geothermal Energy Sources Goes Full Steam Ahead

A reliable, affordable energy supply is a major ingredient for expanding the region's industrial base. New and replenished energy sources would reduce dependence on other sources of fuel, save foreign exchange, and help preserve forests by stemming the need for fuelwood or charcoal. ROCAP is carrying out a comprehensive energy program in indigenous energy supplies in collaboration with national and regional institutions in Central America and the Los Alamos National Laboratory (LANL) in New Mexico.

In March 1984, AID and the U.S. Department of Energy launched the multifaceted, $10.2 million program with the Los Alamos National Laboratory to identify and develop conventional energy resources, particularly geothermal energy, for the region.

A string of 80 volcanoes in Central

*Geologists Napoleon Ramos of the Honduran National Electric Co. (ENEE) and Ken Wohletz of the Los Alamos National Laboratory lay a survey line they will later transcribe into a line on a map of hot springs in the area of a promising site for geothermal energy production.*

*Geophysicists Michael Garety and Mark Ander of the Los Alamos National Laboratory survey the location, size, and depth of a potential reservoir of hot water that could generate electricity for industrial use.*

America makes geothermal energy (electricity or processed heat generated from steam produced by hot underground water) a prime substitute for costly petroleum imports, which have drained government coffers and impeded industrial growth.

The laboratory conducted surveys in Costa Rica, El Salvador, Guatemala, and Honduras and is now tapping into the more promising volcano sites for future geothermal energy production.

Los Alamos is exploring direct heat applications for providing energy for industry. Steam in the 100 to 150 degree range—too low to generate geothermal electricity but useful for other processes—will be delivered to various plants for industrial purposes. A tomato canning plant, for example, would be able to marshal this heat to cook tomatoes and sterilize containers without resorting to fossil fuels or wood. This process also recycles steam from geothermal electrical production facilities—steam that is too cool to reuse to generate more electrical power.

Another component of the LANL project is assessing present consumption patterns and future demands for energy in Central America. In addition, an end-use analysis of peat, a potential indigenous fuel source, in Costa Rica is being carried out to determine if it is economically sound to develop a peat industry in that country.

The LANL project fosters considerable institution building. Teams from the lab work closely with host country counterparts, conducting training in geothermal, peat, and energy situation analyses.

### Energy-Efficient Technologies Save Money, Fuel

On another front, a regional energy program carried out by the Central American Institute for Industrial Research and Technology (ICAITI), located in Guatemala, and CATIE is helping Central American industries and families identify solutions to the broader problems of high energy costs and dwindling fuelwood supplies.

Central American industries,

primarily those located in urban areas where industrial complexes are more abundant, are learning new tactics to cut down on costs by identifying more energy-efficient production processes. In collaboration with the industrial sector, ICAITI prepares energy audits or analyses of the amount of energy used for various industrial processes, and recommends the best course of action for conserving energy and funds. "More than 100 industries have benefited from these audits. The plants received custom-tailored modifications, such as changing the rates of heat flow, resizing electric motors, or adjusting boilers," says Carl Duisberg, regional energy adviser. "These changes require small investments with most payback periods being less than one year and have significant returns in terms of production costs."

In addition, ICAITI sponsors training courses for engineers in each country to provide them with skills necessary for conducting energy audits and making improvements at the plants. Seminars are also offered for industrial managers to heighten their awareness of potential profits gained by adopting energy-saving techniques.

According to Duisberg, "The impact these energy-efficient technologies have on increasing industries' competitiveness is significant because they lower costs. Their impact on the national governments also is substantial because they reduce balance-of-payments deficits for imports of oil."

In addition, the Secretariat for Economic Integration in Central America (SIECA) and ICAITI are analyzing incentives and disincentives for energy conservation, particularly in the industrial sector, throughout the region. The analyses lay the groundwork for policy reform and greater savings for industries and countries, and determine how policies, taxes, and tariffs affect industries' willingness or ability to invest in energy conservation.

To help rural families and small industries conserve energy while curbing the depletion of the natural resource base, ICAITI has adapted

innovative technologies, such as cookstoves, solar dryers, wood-fired ovens, biogas digestors, and solar hot water collectors. "Since 1972 when this project began, over 10,000 small, efficient woodstoves have been built and are being used for domestic purposes," says Duisberg. The solar hot water collectors were developed for use at health posts to heat hot water. "Now private companies are building and selling solar hot water collectors throughout the region," he notes. Solar drying technologies are popular for conserving fruits, fish, and vegetables. Efficient wood-burning ovens are producing more bread and using less than one-half as much fuel.

### Agricultural Institute Researches Promising Tree Species

Stemming environmental degradation and developing an alternative energy supply also are among the many challenges that have been undertaken by CATIE. The agricultural research center has screened approximately 140 species of native and exotic trees for their growth qualities for planting programs to relieve the fuelwood deficit. Thirty of the most promising species have been planted in various cropping patterns and on different types of sites throughout Central America. Nurseries have been established in each country to provide seedlings of these species for research and development programs in areas where fuelwood is becoming scarce and more costly to buy or collect. The 10 most productive species are being promoted for reforestation programs in the region.

Building on this effort, a five-year, $9 million project begun in 1985 will expand CATIE's activities to include selecting, testing, and promoting the best tree species for the production of wood for rural construction, posts, poles, packaging, and furniture, and for fodder, fruit, and agroforestry systems. "Only through the promotion

*The Central American Institute for Industrial Research and Technology (ICAITI) is providing industries with custom-tailored measures to trim energy costs.*

*Research carried out by the Inter-American Institute for Agricultural Cooperation (IICA) is looking for ways to control the spread of coffee rust and other threats to coffee production.*

of multiple use, on-farm forestry can local demand for wood products be met in Central America. In the process, more fuelwood will be made available, and farmers will benefit from environmental influences of trees, such as shade for coffee and cattle, nitrogen fixation, and soil stabilization," explains agriculture development officer Joslyn.

Other major research and training projects carried out by CATIE with AID's support focus on integrated pest management and watershed management to increase returns to farmers, raise production levels, and promote more sustainable farming systems throughout the region.

### Arresting the Spread of Coffee Rust

ROCAP, through the Inter-American Institute for Agricultural Cooperation (IICA), headquartered in San José, Costa Rica, is carrying out a research project to develop an integrated system employing the combined efforts of regional and national institutions to help control the spread of coffee rust and other threats to coffee production. Some 200,000 small coffee producers whose livelihoods depend on growing coffee will benefit from this endeavor.

### Health and Nutritional Needs of Infants and Children Underscored

Safeguarding the health of infants, children, and pregnant and lactating mothers is a priority that cuts across national boundaries. Although there have been significant improvements in infant and child mortality rates in Central America the past 10 years, infant and child mortality rates are still among the highest in Latin America and the Caribbean and cannot be solved without addressing the underlying nutritional problems of mothers and children. "With the exception of Costa Rica," says Elena Brineman, ROCAP's regional food and nutritional adviser, "there have not been significant improvements in the rates of infant and child malnutrition." For some countries of the isthmus, the situation may have worsened, according to Brineman, due to inadequate food, health care, environmental sanitation, and poor living conditions.

The Central American governments and international, bilateral, and private organizations, including AID, channel support to the Institute of Nutrition for Central America and Panama (INCAP) to help Central American countries identify and address nutritional problems in the region. One INCAP program, supported by an $18 million grant from AID, is promoting the use of effective, low-cost technologies and practices, such as oral rehydration therapy, growth monitoring, and appropriate feeding practices by national and local health practitioners.

AID also is helping to address major health problems on a regional basis. A $6.5 million grant to the Pan American Health Organization supports technical assistance and training to Central American countries to design and carry out programs in vector control as well as procuring, distributing, and controlling essential medicines at national, regional, and local levels.

In addition, a $6.5 million AID grant to INCAP is helping the institute provide technical and training support to both public and private institutions responsible for carrying out food assistance programs in the region.

These programs of the Central American regional institutions are helping to develop and deliver improved technologies, information, and services to national organizations. Allied with the development efforts of individual countries, the ROCAP-supported regional programs can make a difference in the pace of economic growth, improvements in economic opportunity and social services, and achievement of the Central American Initiative objectives. ■

*Sharon Isralow is editor of* Horizons.

# SCHOLARSHIP PROGRAM LINKS IDEAS AND IDEALS

*Central American citizens experience the American way of life while building leadership and technical skills necessary for development.*

*By Paul E. White*

A farmer from an agricultural cooperative in Guatemala visited the United States as part of a business program sponsored by the Central American Institute for Business Administration (INCAE) to learn how to improve the management of the cooperative. The Agency for International Development (AID) helped establish the cooperative, and now that it is running efficiently, it will not have to depend on AID for financial assistance, according to the farmer. The training program, also funded by AID, provided the cooperative members with the expertise necessary to be self-sufficient, he said, stressing that ultimately it is their responsibility and goal to provide for themselves.

The farmer's visit was made possible through the Central American Peace Scholarship program (CAPS), a new initiative of the Agency for International Development that enables people from Central American countries to participate in short- and long-term educational programs in the United States.

Training and educating people from Central American and other developing countries in the United States—known as scholarship diplomacy—is an important part of the U.S. foreign assistance program. CAPS and other U.S. scholarship programs establish friendship links between the Americas by enabling Central American citizens to experience firsthand American ideals, values, and way of life. At the same time, the scholarship programs impart the leadership and technical skills necessary for development.

An Indian woman from the Altiplano region in Guatemala, for example, overflowed with enthusiasm at the prospect of applying her newly acquired business skills to her small cafeteria. She says it had not occurred to her to count the number of meals she served each day, prepare a menu for the week, or keep a daily ledger of expenses and earnings. The restaurateur, who participated in the INCAE program, adds that the concept of gauging the amount of food she needs and planning a menu in advance will enable her to spend less money and still provide the services her customers expect.

CAPS, a five-year, $146 million program, implements one of the key recommendations of the National Bipartisan Commission on Central America. The commission recommended a program of 10,000 U.S.-sponsored scholarships for Central Americans to bring about substantial improvements in the availability and quality of educational opportunities. The CAPS program, begun in February 1985, will fund over 7,000 scholarships for Central Americans from 1985 to 1990. In addition, the U.S. Information Agency will sponsor training for 3,000 Central Americans under its programs.

The CAPS program differs from other AID training programs that are primarily for postgraduate study and are designed for English-speaking, mid-career professionals working in development fields. The peace scholarship program is open to undergraduate and high school level students, with special emphasis on recruiting the socially and economically disadvantaged as well as women and minorities. Leadership ability is an important factor in the recruitment of peace scholars, and a command of English is not a prerequisite.

CAPS also offers primary and secondary teachers and administrators from urban and rural areas the opportunity to observe programs in the United States related to their fields.

Silvia Castillo, a teacher from Quetzaltenango, Guatemala, who was one of 19 Guatemalan teachers taking part in an educational



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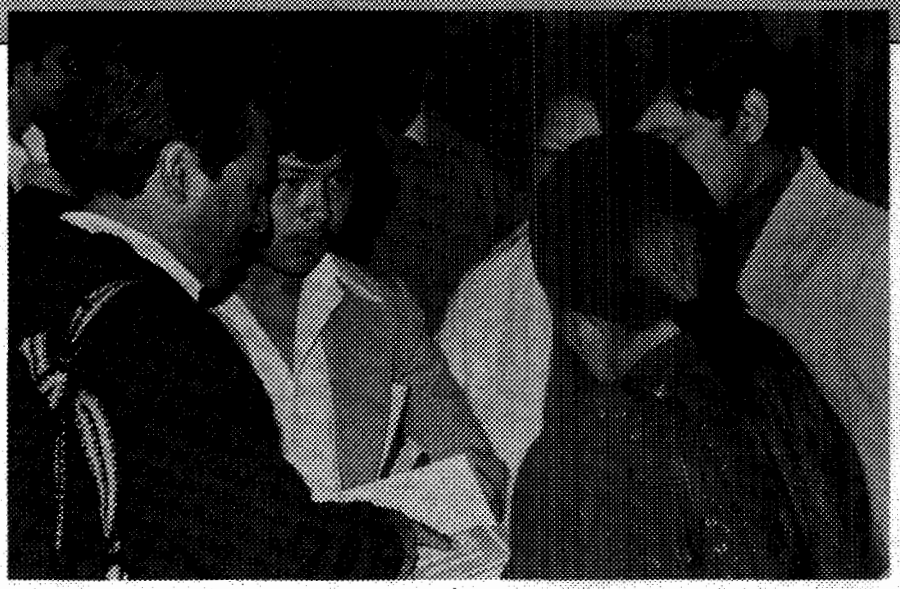


*Highland Indians at the airport in Guatemala City embark for the United States to begin their educational program.*

seminar sponsored by Michigan State University and Washington International Center in Washington, DC, is one such participant. "Coming to the United States will help me teach my students an understanding of other countries and enable them to have a better perspective of their role in community development," she says.

In addition to CAPS, other scholarship programs are available for Central Americans. In fiscal year 1982, the Caribbean Basin Scholarship Fund provided $7.5 million for students from countries in Central America and the Caribbean. The Latin American and Caribbean Training Initiatives project provided $15 million in fiscal 1982-1984 for students from South and Central America and the Caribbean to study in the United States in a variety of academic and technical training programs. More than 1,200 students were trained in the United States under these two projects.

Efforts are also under way to involve more U.S. institutions in training Central Americans under the CAPS program. For example, an effort coordinated by Georgetown University in Washington, DC, places Central Americans in various U.S. junior colleges for two years of technical training.

Through CAPS, AID also is cooperating with the U.S. and Central American private sectors in several efforts that will expand opportunities while providing learning experiences. Walton Enterprises of Bentonville, Arkansas, has contributed $3.6 million to grant scholarships to Central Americans to study at one of three Arkansas liberal arts institutions. AID is matching this amount to enable additional people to participate in the program. More than 200 individuals will benefit over four years.

Many Central American private sector firms and public sector institutions also contribute to the costs of training their employees.

One of the most important benefits of the CAPS program is the spirit of unity it fosters among people from many countries. A scene that took place at the Washington Monument in Washington, DC, is a example of this. While waiting in line to tour the monument, Indian bilingual educators from Guatemala were teaching Costa Rican peace scholars and a group of AID-sponsored graduate students from Asia and Africa salutations in Quiché, an Indian language. Amidst the laughter, one participant suddenly became solemn. Only in a free society, he said, can people from all over the world come, meet, and exchange ideas and laughter. This is important. ■

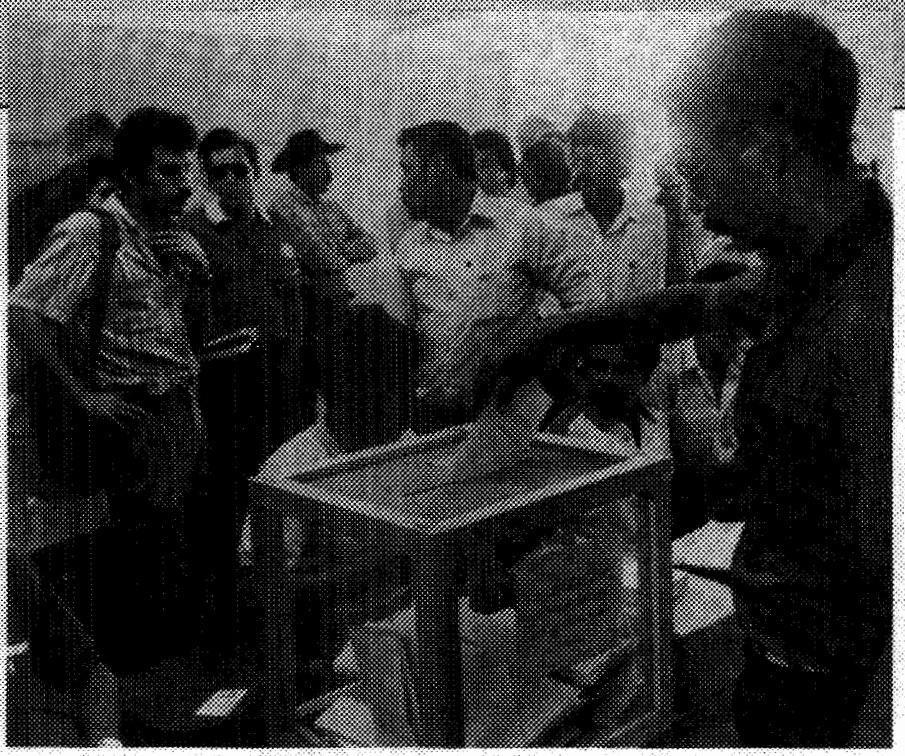
*Paul E. White is the chief of AID's Education, Science, and Technology Division in the Office of Development Resources, Bureau for Latin America and the Caribbean.*

**CENTRAL AMERICAN PEACE SCHOLARSHIP PROGRAM PARTICIPANTS**

Fiscal Year 1986

| COUNTRY | LONG-TERM | SHORT-TERM | TOTAL |
|---|---|---|---|
| BELIZE | 9 | 30 | 39 |
| COSTA RICA | 12 | 72 | 84 |
| EL SALVADOR | 78 | 290 | 368 |
| GUATEMALA | 26 | 544 | 570 |
| HONDURAS | 39 | 264 | 303 |
| PANAMA | 21 | 52 | 73 |
| ROCAP* | 7 | 60 | 67 |
| TOTAL | 192 | 1,412 | 1,604 |

*Regional Office for Central America and Panama



*Hondurans line up at the polls to vote in the country's democratic elections held late last year.*

# SAFEGUARDING RIGHTS

# TO OPPORTUNITY, EQUALITY, AND FAIR TREATMENT

*By Thomas L. Geiger*

The Office of the Administration of Justice and Democratic Development was established in 1985 in response to recommendations made by the National Bipartisan Commission on Central America. The Agency for International Development (AID) is spearheading the $25 million program, which supports Latin American efforts to strengthen democratic institutions in countries where they already exist and, in other countries, to move toward institutionalizing democratic processes, such as free elections, participatory government, and legal systems that respect individual human rights.

The program thus far consists of two major components.

The $20 million Administration of Justice initiative reinforces efforts of Central American nations to strengthen their judicial systems and related public and private institutions. Working with diverse public and private organizations in the United States, including the Department of Justice, the Department of State, the U.S. Information

Agency, and private educational and professional groups, and their Central American counterparts, the initiative helps to identify and provide services that improve the administrative, technical, and legal performance of national judicial systems.

The $5 million Strengthening Democracy project provides assistance in elections administration and works with private and voluntary organizations in supporting development of democratic institutions and processes.

### Supporting Democracy by Supporting Justice

An efficient, accessible, and independent judicial system is a cornerstone of democracy. Democratic countries in Central America all have laws that provide for equal rights and remedies for social wrongs. Complex problems, however, hamper the justice systems' effectiveness. For example, Central American courts are overwhelmed by caseload demands. The administration of criminal justice and the management and processing of legal disputes need streamlining, and historical and political obstacles hinder the systems' effectiveness. In addition, with the exception of Costa Rica, the Central American justice systems suffer from inadequate government budgets, ineffective civil service systems, and a serious lack of trained personnel.

Central American democracies recently have begun several significant judicial reform activities, such as establishing law reform commissions, increasing salaries and benefits for judicial personnel, and granting the judiciary administrative control over its budget.

In support of these efforts, the Administration of Justice and Democratic Development program's grant enhances training and resources for judges, judicial staff, and public prosecutors' offices; offers instruction in modern methods of criminal investigation; supplies law books; assists law faculties at Central American universities; and supports local bar associations.

*"An efficient, accessible, and independent judicial system is a cornerstone of democracy."*

### Technical Assistance and Training Upgrade Operations

The largest effort to improve Central American judicial systems is being carried out by the U.N.-affiliated Latin American Institute for the Prevention of Crime and Treatment of Offenders (ILANUD) with a $9.5 million grant from the Administration of Justice and Democratic Development program. ILANUD, located in San José, Costa Rica, provides technical assistance and training on a regional and country basis.

ILANUD offers assistance in carrying out activities identified by national commissions in Central America. The commissions—composed of judges, leaders of the bar, Executive Branch attorneys, and representatives from law schools—set national priorities for judicial reforms and identify relevant projects. These include, for example, in-country training for judges in specific areas of law such as new penal or family codes, establishing public defender services, and improving systems of land titling.

ILANUD, in conjunction with Central American commissions, is conducting detailed assessments of the justice systems to determine regional and country priorities. Improvement efforts under way include collecting criminal statistics and supporting local law libraries. Another activity will help court administrators work out staffing patterns of judges based on caseload demands or help judges make better-informed decisions by reforming practices that currently deny them access to criminal records.

ILANUD is supporting a pilot project to compile digests of statutes and court decisions as well. Because digests do not exist in many Central American countries, it is difficult to determine applicable law in a given case. Researchers of laws must make an exhaustive search through special legal newspapers that report on amendments as they occur. Even judges frequently do not have access to these materials.

In addition to providing technical assistance, the new grant also enables ILANUD, which has conducted training courses for Central American judges and prosecutors since 1975, to expand training programs. ILANUD will be able to reach court administrators, legislators, law school professors, and leaders of local bar associations.

In Panama, for example, justices of the peace in remote areas, who have broad authority for conducting criminal investigations, will receive training in new procedures contained in a revised criminal code. Similar activities are planned in Honduras and Guatemala.

ILANUD has set up a workshop for newly elected legislators serving on judiciary committees on the role of the legislature in assuring an independent judiciary. The

*"AID supports Latin American efforts to strengthen democratic institutions."*

Inter-American Institute for Human Rights is developing course curricula that focus on human rights.

ILANUD also is providing scholarships at the University of Costa Rica to broaden the skills of those pursuing a career in the judicial system.

### Criminal Investigation and Court Security Improved in El Salvador

Another activity of the Administration of Justice and Democratic Development program is helping El Salvador train criminal investigators and develop a judicial protection unit to improve court security. El Salvador is receiving $9.2 million in assistance for this project.

Under civil law (which governs Latin American judicial systems), the court is responsible for the investigative work necessary for prosecuting criminal cases. To provide the Salvadoran judiciary with a core of well-trained criminal investigators, the U.S. Congress authorized funds on an exceptional basis for this training in fiscal year 1984. Twenty-two specially selected recruits from various Salvadoran security services attended a six-week course in the United States, which covered basic investigative skills such as collecting and preserving evidence from a crime scene, interviewing witnesses, and analyzing ballistics and fingerprints. These individuals have been assigned to a new National Investigative Commission, where they work on particularly difficult or sensitive cases. The commission also has a forensics unit, which is receiving training, equipment, and other technical support from the United States.

To ensure the integrity of the judicial process in El Salvador, it is necessary to protect judges and other members of the judicial system from threats or acts of violence. In 1984, the United States provided funds to train and maintain a judicial protection unit to assure the security of court proceedings in the case of the murder of four American churchwomen. Sixty Salvadoran penitentiary guards were selected and sent to an intensive one-week training course at the Federal Law Enforcement Training Center in Georgia. In September 1985, El Salvador officially established a judicial protection unit to carry out court security.

### Bar Associations Receive Support

A strong national bar association can help identify weak points in the judicial system and develop proposals for overcoming them. Many Central American bar associations are becoming more actively involved in judicial reform. An Administration of Justice grant for $285,000 to the Inter-American Bar Foundation will support regional meetings and country-specific activities over the next few years for these bar associations.

### The Roots of Democracy Take Hold Through Community Participation

The Strengthening Democracy project, with $5 million in AID funds, provides assistance to neighborhood groups, community development organizations, and cooperatives to carry out community development projects. Partners of the Americas, with $2.1 million in AID support, also is expanding the understanding and practice of democratic processes in communities throughout the region. In addition, the Overseas Education Fund International, with a grant for $2.2 million, is training local civic and community groups in basic democratic processes, community problem-solving, and public policy formulation.

These projects lay the groundwork for democratic participation and help make governments more responsive to citizens' rights to free and fair elections, freedom of the press, legislatures, and participation in the political process. The Honduran National Electoral Tribunal, for example, received $960,000 to help assure fair elections, to finance a non-partisan voter education program, and to permit international observers to oversee the November 1985 elections. In Guatemala's recent elections, the Inter-American Institute for Human Rights' Center for Electoral Assistance and Promotion (CAPEL) received approximately $320,000 to finance training for polling officers charged with counting votes, disposing of ballots, and reporting results. CAPEL also trained party pollwatchers—one representative from each party—to validate polling procedures. ■

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