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PD-AAA-468-A1

TO - AID/W CAPTO A 36

FROM - ROCAP/Guatemala

SUBJECT - Project Evaluation: 596-040 SIECA Institutional Assistance

REFERENCE FOR MO/PAV

The attached evaluation of the SIECA-Brookings activity was prepared for ROCAP by Constantine Michalopoulos, PPC/PDA. The report makes recommendations regarding the future role of the Special Studies Unit in SIECA, the kinds of research that should be conducted in the future, the manner in which dissemination and utilization of study results may best be accomplished and the kind of contractor relationship which would be most beneficial to the Special Studies Unit. These conclusions and recommendations shall be utilized as ROCAP prepares a new Project Paper for the continuation of the activity.

MELOY

A.I.D. Reference Center Room 1868 NS

Attachment: a/s

PAGE 1 OF 1

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY
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Michalopoulos, C.

The SIECA-Brookings Project: An Evaluation

April 1976

25 pages

AID Contract Number:

AID Project Number: 596-11-755-040

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The objective of the Special Studies Unit (SSU) is to be supportive through its analytical work of the integration efforts in Central America. The major instrument used to accomplish this is the undertaking of a number of studies by the staff of the SSU. The project has accomplished its objective of providing technical assistance in planning and executing the studies. An institutional research and analytical capacity has been added to SIECA which did not exist before the project. There is some feeling that the SSU's work, in some respects, is too theoretical to be of direct relevance to the integration process. Since most of the studies were only recently completed in their final form, little has been accomplished in making the findings available to those influential and concerned with the integration process. It is quite clear that a large effort needs to be mounted in order to disseminate the findings and promote their utilization by the proper people and institutions. The major task for the SSU should be to carry out analysis which points to the particular problems that need to be addressed in a collaborative fashion and the constraints that must be overcome before effective action can be taken. An effort to retain Brookings should be made on the condition that changes in funding and timing of residence in Central America are made.

PROJECT APPRAISAL REPORT (PAR)

PAGE 1.

1. PROJECT NO. 596-11-755-040	2. PAR FOR PERIOD: 7/75 TO 4/76	3. COUNTRY ROCAP	4. PAR SERIAL NO. 76-4
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SIECA Institutional Assistance

6. PROJECT DURATION: Began FY 72 Ends FY 79	7. DATE LATEST PROP February 1974	8. DATE LATEST PIP -	9. DATE PRIOR PAR June 1975
10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: \$ 1249	b. Current FY Estimated Budget: \$ 361	c. Estimated Budget to completion After Current FY: \$ 980

11. KEY ACTION AGENTS (Contractor, Participating Agency or Voluntary Agency)

a. NAME	b. CONTRACT, PASA OR VOL. AG. NO.
Brookings Institution	contract with SIECA

I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION IX			B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
USAID	AID 'W	HOST		
X			ROCAP will prepare a Project Paper which will discuss the issues outlined in the attached evaluation report. This Paper will be submitted during the Transition Quarter.	August 1976

3. REPLANNING REQUIRES

NEW: PP PIP PRO AG PIO/T PIO/C PIO/P

E. DATE OF MISSION REVIEW

May 5, 1976

PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE

MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE

Edward T. Costello

Barry Sidman, Deputy Director

The SIECA - Brookings Project: An Evaluation

C. Michalopoulos
PFC/PDA
April 1976

PROJECT APPRAISAL REPORT

Country: ROCAP - Central America Regional

Serial Number: 76-4

Project: 596-11-755-040: SIECA Institutional Assistance

Initial FY of Obligations: FY 1972

Final FY of Obligations: FY 1979

Project Manager: Edward T. Costello Ed

Evaluation Officer: Robert Hechtman RH

Deputy Director: Barry Sidman B

Date Submitted: May 5, 1976

I. INTRODUCTION

The purpose of this report is twofold: (a) to evaluate the progress and accomplishments under project No. 596-11-755-040, which calls for institutional assistance to SIECA to help establish within SIECA the permanent capacity to meet the technical requirements of the High Level Committee of the Common Market (and others) - See PAR 75-1; (b) on the basis of this evaluation, and an examination of the future prospects of integration as well as SIECA's role in the integration process, make recommendations about: (1) the future directions of the Special Studies Unit (SSU) established in SIECA under the project, (2) the future possibilities of institutional assistance to SIECA by ROCAP and, (3) the modalities of implementing such assistance.

I. Progress and Accomplishments to date

The objective of the project to date can be viewed as a dual one: (a) to establish the capacity in SIECA to carry out technical studies in support of integration; (b) to demonstrate to the intellectual and political leadership of Central America that the analyses the SSU can perform is of quality and relevance, and that the Unit should be entrusted with undertaking important technical work in support of integration at the request of the HLC or other integration bodies.

The major instrument used to accomplish these objectives is the undertaking of a number of studies by the staff of the Special Studies Unit. Brookings Institute has been contracted to: (a) provide technical assistance in the planning and execution of the studies, involving primarily on the job training to SIECA professionals, (b) execute some of the studies itself, (c) assist with the overall planning and direction of research carried out by the Special Studies Unit.

There is little doubt that the project has accomplished the first objective discussed above. On the basis of personal interviews with the SIECA Special Studies staff, discussions with other knowledgeable experts and political leaders in Central America, as well as through examination of the research produced or in progress, it is easy to conclude that an institutional research and analytical capacity has been added to SIECA. This capacity did not exist before the project and it is doubtful that it would have been created without it. The staff is relatively young, well trained, enthusiastic and show significant initiative and promise to carry out the research tasks assigned.

The degree of progress towards achieving the second objective must be evaluated by reference to three criteria: (a) the technical competence of the research carried out (b) the relevance of the research to current or future integration issues (c) the extent to which the research results have been disseminated widely to the

appropriate policy makers and other actors in the integration scene.

To date four basic analytical studies have been concluded.

(a) A study on the costs and benefits of the Common Market by W. Cline; of Brookings (b) a study of the demand for labor in the manufacturing sector (c) a study of comparative consumer prices, purchasing power and real product, (d) a institutional development study; the last three studies were carried out by SIECA staff.

These studies are in the process of being published as one volume by Brookings Institution. In addition, six other studies focusing on the following topics with a Central American scope are in process: (a) agriculture sector analysis, (b) input-output table, (c) Macro economic models, (d) labor demand in agriculture and construction, (e) producer price comparisons, (f) comparative advantage. The last study is being pursued by the Brookings staff, the first jointly with SIECA and the rest by SIECA staff with some technical inputs from Brookings. Given that the second set of studies is incomplete, and some studies are only starting, this evaluation can only consider the first group of studies prepared.

With respect to the criterion of technical competence, I believe that all four studies rank high. The Cline study is a significant contribution to the general literature on integration. It attempts to break new paths in the methodology and estimation of costs and benefits of integration. Although some of the calculations tend to

exaggerate the benefits obtained. (I am preparing a separate note on this issue), this should not detract from the obvious overall merits of the study. The institutional development study by Delgado is useful in bringing into proper perspective the notion of balanced growth within the region. And the other two studies involve a competent application of existing methodology to the issues they address within general Central America framework.

Both the cost and benefits study and the study on institutional development appear to be of considerable relevance to the issues of current importance to the Common Market. Both studies have a bearing on the question of the participation of Honduras in Common Market, a question of great significance to the Common Market's future.

The study on employment has obvious implications for the harmonization of wages, social benefits, and capital costs across national frontiers. It is my impression that the analysis of the policy implications for harmonization was not carried as far as it could have been especially with reference to the problems that harmonization could raise in individual countries and to possible approaches to address these problems. Most of the analytical effort was aimed at demonstrating the possibilities of capital-labor substitution rather than at the policy implications of coordinated action to increase employment in the industrial sector.

The study on prices is perhaps of least direct relevance to the integration process itself. Its usefulness is likely to be more in forming the statistical basis which can be used by other studies

addressing more specific issues.

Various interviews conducted during my visit to Central America suggested that the work of the Special Studies Unit is considered in some respects too theoretical to be of direct relevance to the integration process. This impression stems in part from the fact that until recently only the theoretical portion of some of the research conducted had received wide dissemination especially through the seminar that was conducted in 1974 in Antigua, Guatemala. On the other hand, several positive comments were made about the relevance of the cost-benefit and institutional studies.

Since most of the studies were only recently completed in their final form, not much could have been accomplished to date in making the findings available to policy makers or others influential and concerned with the integration process. On the other hand, the cost-benefit study again seems to have reached some people involved in the drafting of the revised treaty. Because the full studies have not received wide dissemination it is premature to reach a judgement as to their relevance. To a large extent this would depend on the form in which they get disseminated (see below) If dissemination is limited to the publication of the Brookings volume it seems to me that few policy makers may consider the research relevant.

It is quite clear that a large effort needs to be mounted in order to: (a) disseminate the findings, (b) promote their utilization

by the proper people and institutions. The special studies unit is aware of this need, but there may be significant constraints in their ability to address the issue effectively.

In my view the dissemination of the results should proceed in two directions: (a) dissemination of the technical studies to those in Central America and outside who possess the technical expertise to evaluate the analysis and findings. This dissemination should aim at: (1) making the findings available to scholars working in these areas so as to further the undertaking of policy related research (2) evaluation of the results (3) guidance to the Special Studies Unit on further areas for its basic research efforts.

(b) dissemination of the findings of the research to key policy makers. This part of the effort requires the findings to be summarized in non-technical jargon and their policy implications explicitly drawn out. This task is often difficult to accomplish by individual researchers who may have neither the interest nor the capacity to do so effectively.

A variety of instruments ranging from simple publication to personal contacts to conferences on specific topics should be considered for the purpose of dissemination. But dissemination is obviously not enough to promote utilization. The latter should be pursued on two fronts--with respect to the rest of SIECA and with respect to the national governments in Central America.

Some efforts at utilization by SIECA appear to have occurred already; others have been attempted, (e.g., using the producer's price information in the SIECA efforts to harmonize industrial incentives), but have been abortive since the data involved were not complete. More are planned especially through the **comparative advantage** study and the producer's price study in the restructuring of the external tariffs.

It seems to me that utilization is a critical issue for the future and more efforts need to be made to address it than has been the practice in the past. Such efforts are required both from the SIECA leadership which should provide guidance as to the policy areas in which analysis is required and from the SSU to assure that its analysis is responsive to the broad policy concern of SIECA.

Utilization by the national governments is much more difficult to achieve but more critical to the long term viability of the Special Studies Unit. Assuring utilization of social science research is a difficult task and one even more difficult to evaluate. One approach is to disseminate the results of research to key individuals in a variety of forms and using different dissemination techniques and hope that the strength of the evidence will change their views or lead them to action. This can and indeed does happen although it is extremely difficult to pinpoint what precise factor was critical in reaching any particular decision. Another approach is to involve in the research work individuals from national governments or other national institutions. Such researchers when they return to their

regular posts can be expected to be committed to the findings of the research they worked on and attempt to implement policies, to the extent that they can, consistent with the findings. Little of this has been done by the SSU in the past studies. To some extent it is understandable that this approach could not have been used extensively in the early phases of the project, since it would have seemed desirable to establish first the basic nucleus of research capacity within SIECA. But some efforts are under way at present especially in the agriculture sector studies. These efforts should be strengthened in future studies.

The Role of Brookings

The Special Studies Unit Director and staff believe that the Brookings Institution has made significant contributions to the progress of the project. Beyond the studies actually carried out by Brookings staff, both the current director on the Brookings side (W. Cline) and the former one (C. Frank) are credited with providing useful overall technical advice in the planning and conduct of all the studies. It is difficult to evaluate the actual Brookings inputs in this respect, but there is no reason to doubt SIECA's judgement. A point particularly stressed by SIECA was the desirability of having somebody like Cline available for consultation and exchange of views on a wide range of topics, as well as the usefulness of the contacts with other parts of the U.S. academic community provided through Brookings.

Despite the overall creditable performance by Brookings, I am left with the nagging suspicion that not all was done to tap the

potential that the Brookings relationship offered. In particular, I believe that SIECA would have benefitted more if the main Brookings personnel involved were resident in SIECA for a good portion of the year. This was not possible, perhaps in part due to the somewhat peculiar provision in the contract which allowed Brookings personnel to be paid full time but work only half time on SIECA matters, and the rest on related development problems of their interest. This had the effect of providing institutional support for Brookings which may have been considered a worthwhile objective by some but in my view, of doubtful priority for Agency funding, at present.

III. Prospects for Integration and the Role of the SIECA Special Studies Unit

The objective of the Special Studies Unit is to be supportive through its analytical work of the integration efforts in Central America. To analyze how can this objective be attained, it is necessary first to examine the likely future course of integration. This examination should help in reaching a judgement about the future role of the SSU, its future work program as well as the desirability and nature of ROCAP support for the Unit.

A. Prospects for Integration

The main focus of integration efforts this year is the new draft treaty for restructuring the Common Market. This treaty, if approved by the member countries would open up opportunities for cooperation in a variety of new areas not covered by the

existing treaty. It would also open the way for Honduras reentry into the Market.

While the treaty covers cooperation in a wide variety of areas, it does this at a rather general level, so that the specifics of cooperation would have to be negotiated later on. Its signature would reflect primarily a politically symbolic act on the part of the Central American governments signalling their intent to work further on the complex integration issues facing them.

It has been argued, with some justification, that it might be far easier but less meaningful in terms of true cooperation to sign the treaty, than to actually engage in less far reaching but more concrete negotiations on issues in which some of the governments perceive obvious benefits from cooperation. The view has been advanced that progress on integration would be more meaningful and lasting if an incremental approach was used, as an alternative to efforts concentrating on the draft treaty. This approach would involve the identification of smaller sets of projects in one or more sectors or areas where cooperation is essential to success and all parties readily perceive important benefits. Successful cooperation in some areas can then be broadened to others.

There is no necessary contradiction between the two approaches, indeed they could be viewed as complementary. However, given limited resources by SIECA and other integration institutions, the issue is to define the relative emphasis placed on

each approach. So far most of SIECA's efforts have been focused almost exclusively on the broad approach implied by the treaty.

It could be argued that whether the treaty is signed or not, the real question is what are the specific areas in which further co-operation is possible and meaningful. The signature of the Treaty will not resolve this. It might be helpful as a political act in providing a stronger impetus to integration but the hard questions pertaining to specific areas of co-operation still need to be addressed. It would certainly be a mistake to think that once the treaty is signed meaningful co-operation will ensue.

It would seem logical that the SIECA Secretariat should help the SSU define what are the likely areas in which meaningful progress can be made and jointly with the Unit define what, if any are the long term analytical questions which need to be addressed in order to help the co-operative process along. These areas can not be defined by just looking at the Treaty itself.

During my visit to Central America I had the opportunity to discuss this issue with various people reflecting different perspectives and backgrounds. The following list of issues reflects my personal views shaped by these discussions as to what might appear to be desirable and to some extent feasible. It should be stressed at the outset that co-operation in some of the areas discussed below may indeed be quite difficult. Indeed, views of what is feasible are colored by most individuals' perceptions of the urgent need and desirability to act in one field or another. But perhaps, if agreement to meet .

on the desirability for action, this is the first step towards effective collaboration. In any case the time frame in which research by SSU is likely to be carried out is relatively quite long. Thus, it is inappropriate to design research only on the basis of what appears feasible now.

The major task for the SSU should be to carry out analysis which points to the particular problems that need to be addressed in a collaborative fashion and the constraints that must be overcome before effective action can be taken. The four broad areas in which integration efforts seem desirable and perhaps feasible are in my view the following:

- (1) Trade Policy - It is abundantly clear that the existing outside common tariff needs restructuring with a view to improve economic efficiency and provide the proper incentives. Specifically, at present (a) there are so many exceptions, the tariff is somewhat meaningless; (b) It is probably necessary to reduce the overall level so as to reduce disincentives to exports outside Central America. (c) There is need to identify a rational pattern of industrial production which can be promoted consistent with comparative advantage for the region as a whole.

It is also important to design trade measures which would stimulate intra-regional trade in agriculture. The latter would not be feasible without closer co-ordination of overall national agricultural

policies. (See below).

It would be desirable for the SSU to provide SIECA with the analytical base necessary to identify long-term comparative advantage for Central America as well as the particular sectors and product subcategories; work on producer's prices may also be useful in efforts to reach agreement on a common set of fiscal and other incentives to particular sectors. That does not mean, however, that the SSU should become deeply enmeshed in the detailed negotiations of tariff restructuring as this should be the task of the SIECA Secretariat proper.

- (2) Agriculture Policy - There is obviously a strong need to push integration in the agricultural sector. This should not concentrate on grains alone, but also on a variety of products which have a potential for export outside Central America, as well as other items in which a more rational pattern of specialization within Central America is desirable.

The problems impeding collaboration in this area are enormous and well known. However, I can not help but believe that further analytical work which is specific enough to bring out the obvious advantages of at first, coordinating policy and later joint planning, will further the integration process.

The proposed sector analysis work is an obvious first step. I believe more is likely to be needed with respect to specific crops or for the purpose of identifying specific obstacles to specialization and trade.

- (3) Throughout my discussions in Central America many of those interviewed stressed the need for more efforts to promote integration in the social fields. Often, what was meant by "social" was unclear. At the very least it would appear that work on income distribution as well as other distributional aspects of economic and social welfare seemed desirable.

In this respect the SSU could hopefully participate, in the proposed TAB project on progress indicators in Central America. Its past experience in dealing with the national statistical units and the analytical capacity of its staff could be valuable in this respect.

There are obvious disparities in income and other measures of welfare both within countries and between countries; there are also significant differences among countries in the importance of the distributive problem. It is not possible for me to gauge how much progress can be made in this area, and especially whether co-operation among countries is important in addressing issues of disparities of income or welfare

at the national level. This is perhaps an issue that itself needs to be investigated.

- (4) Regional Development -- As part of the principle of balanced growth whose acceptance is linked to the re-entry of Honduras in the Common Market, it has been argued that it is important to take common measures to ensure the integration of backward regions within each of the natural economies as well as provide special assistance to Honduras under the same rubric.

Most of the thinking with respect to Honduras has involved providing differential treatment with respect to trade, the possibility of establishing a special fund from which the finance activities in backward regions, including and especially Honduras. I was told in several interviews that there is little understanding of what can indeed be done in the context of regional development of various backward areas. Thus, SSU perhaps could undertake rural development analyses which identify major constraints to growth in particular regions as well as national or multinational approaches designed to address these problems.

It could be argued that regional development analyses should be left to the individual countries to undertake.

However, the closer the SSU work is related to real development problems as they are perceived by national governments the more likely it is that these governments would be to view the work of the Unit as relevant and us

B. Research Plans of the SSU.

In reviewing with E. Delgado the work program of the Unit for the months ahead, he suggested that the Unit had a good deal of work on areas of inquiry it had already started, and that it should not add any new ones. Thus he visualized the Unit's work to concentrate in the following areas:

1. Prices -- A new consumer price survey will be carried out in 1976 whose results would be compared with the earlier one; work will continue on producer's prices.
2. Employment -- Work will be continued on employment in agriculture and construction and should be completed by end of 1976.
3. Agriculture -- The sector study has just started and there will be ample work through 1976 and 1977 on the overall and individual country models.
4. Input - Output -- Substantial amount of work remains to be done, with the completion date uncertain.
5. Macro-economic models -- Substantial work needs to be done on the various country models through 1977; completion date uncertain.
6. Comparative Advantage -- More work is expected to be needed as follow-up to the study Cline will be completing by June.
7. Cost and Benefits of Integration -- Given the importance of

the topic it is expected to devote some effort to update Cline's study.

In reviewing this research agenda, I am somewhat concerned about its mix between basic research and policy research related to integration. In addition, with the exception of one or two studies, e.g. agriculture and employment (and even here I have significant questions) there is little of what I would call applied development economics -- research related to specific bottlenecks in development which would be resolved through regional cooperation. By this I mean, e.g. comparative study of agriculture credit institutes and problems in the five countries; or efficiency of water usage in similar or contiguous regions in some of the countries. These are only illustrative. I have little information as to whether anything like this specifically would be useful.

I believe that a unit such as the one in SIECA encounters a basic problem when it is asked to do policy related research. Quite often the data needed for this purpose are not readily available and have to be developed from scratch. All good conscientious researchers, and all the SIECA unit staff are that, are likely to first turn to collecting or developing the data base which can then be used in policy related investigations. But if they devote too much of their total resources to this type of activity, then the impression given is that the work is not relevant or useful; and this impression has already been created to some extent. The other course is for the researchers to plunge directly into policy research on the basis of shaky data or analytical tools. If this is done the even graver danger

is faced that the conclusions reached are incorrect and the work of the unit loses its credibility. This is the dilemma that the Unit faces. It is obvious that the Unit must strike a balance and avoid either extreme.

It is my opinion that the research plans as they now stand are too much tilted in the theoretical, data generating direction -- for example it could be argued that an input output table is critical to all types of calculations, and similarly price information is very useful, and so is information generated from the development of macro--models. But if all three are pursued simultaneously, they would take approximately 50% of the resources of the unit. Even that may have been acceptable, if the other research was more down to earth; but in agriculture the work is going to be primarily in the application of a model, the most complex and sophisticated one that has been developed as far as I know, and it remains to be seen how useable the comparative advantage and employment studies are likely to be.

On the basis of relevance to integration and pragmatic policy usefulness, I would de-emphasize in the proposed work program the effort on macro-economic models and consumer prices; allocate a minimum amount of time to updating the cost-benefit study and then shift the agriculture study to address some critical issues of rural development as well. The input-output work I view as a regrettable but perhaps unavoidable chore which somebody has to do. It is too bad that somebody other than the SSU has not done it;

but if they have already started, it makes sense to get it done and over with as quickly as possible. Its usefulness diminishes the longer the effort drags on.

I believe that it is desirable that they allocate more resources to analyze income distribution and other social welfare issues, and to address specific sectoral or regional development problems especially in the context of rural development; I would also recommend that they continue to place as much emphasis on the trade-comparative advantage issue as they do at present.

In the same context, and in order to increase the perceived usefulness of the unit's applied work, it should have the flexibility to allocate a certain portion of its resources to respond to specific policy related requests by the HLC, SIECA or national governments especially the latter. The amount of effort allocated to such short term responses should be strictly limited perhaps 10-20%. Otherwise the basic nature and objectives of the unit would be changed.

C. SSU and AID priorities.

Any institutional support activities undertaken by AID should aim to an eventual phasing out of AID assistance and the support of the new institution by host governments. In the case of the SSU this means that at some point in the future financing of the SSU should be undertaken by the member countries of the Central America Common Market. The quicker the unit demonstrates its usefulness in this respect the faster AID involvement can terminate.

It is quite clear that at present it is too soon to terminate AID's involvement. While a competent staff has been assembled and significant research output has been produced, the unit has not been in existence long enough and output is only now becoming widely available. Thus it is too early to hope that funding can in large part be shifted to other sources.

There is however a problem with respect to continued AID support. AID's programmatic emphasis has shifted significantly since the original project funding. The present emphasis on the poor majority and the programmatic concerns with agriculture, health and education mostly in the context of rural development, is not fully reflected in the proposed analytical work of the SSU. Only two of the proposed areas of future work as outlined by Delgado could be considered to relate to AID's concerns, and even these perhaps need to be shaped somewhat to be more fully responsive.

It could be argued perhaps that there is a more fundamental problem: If progress in integration is likely to occur primarily in areas outside AID's major areas of programmatic concern and the SSU, by definition of its basic objectives, is supposed to be supportive of integration, then AID's continued support of SSU as well as other integration efforts is questionable. However, I don't believe this to be the case. I feel there are ample unexplored opportunities for collaboration in areas of critical interest to AID. A corollary to this is that the Unit's work

could be supportive of integration efforts in these areas, but that its current research plans would have to be shifted considerably to be fully responsive. The shift should occur along the lines suggested in Sections A and B above. I don't think that the current package of research activities is fully responsive either to the needs for practical policy research in support of integration or to the programmatic concerns of AID and ROCAP. If the Unit is unwilling to shift its research focus then ROCAP should consider alternative modalities of support such as e.g. earmarking funding for specific projects.

Another alternative which might be viable especially if the unit is unwilling to shift away from its present research plans, is that the SIECA obtain funding from other institutions and set up a consortium in support of the unit in which ROCAP can participate by providing only a portion of the total funding. This alternative may be attractive to SIECA in light of their apparent interest to transforming the Unit into an autonomous Regional Research Center and could be used as a means of progressive stepping down of ROCAP's involvement. Its success obviously depends on SIECA's and the Unit's capacity to obtain other funding.

D. Modalities of Assistance to SSU.

The nature of the assistance that could be extended to the SSU depends on its evolving relationship with ROCAP. There are three basic alternatives:

(a) Essentially the present arrangement where most of the outside support is obtained through ROCAP.

(b) An arrangement where ROCAP provides funding only for specific projects.

(c) A consortium arrangement, probably without earmarking of specific projects. Obviously ROCAP would have the least involvement with SSU under the latter arrangement, and ROCAP's ability to influence research directions would be commensurately lower. Under such an arrangement presumably the Unit would have more independence with respect to its budget and research priorities as well as more responsibilities in obtaining the proper technical assistance from wherever it was available.

In any arrangement where funding is done on a separate project by project basis, ROCAP's involvement need only be to help assure that the proposed project is properly staffed and the methodology and objectives properly and adequately defined.

I tend to consider the / latter two alternatives as less desirable to the present arrangement and (c) as perhaps not feasible in the near future. I would prefer an extension of the present arrangements but with a number of significant modifications.

The unit as presently constituted needs technical assistance of two types:

(a) It requires a technical advisor with broad talents and understanding of development problems and research techniques. This advisor should be relied upon to help set

research priorities on the basis of the technical merits of various research projects proposed. Presumably guidance on the policy relevance of the research should be given by SIECA. This advisor should also be capable of assisting the director of the Unit in the overall guidance of the research projects undertaken. This function seems to have been performed admirably by W. Cline. But it appears that Cline will not be available in the future.

(b) Specific technical assistance might be required in the conduct of individual research projects which the director or his main advisor may be unable to extend because specialized expertise is required.

The present arrangement with Brookings could be extended if Brookings can provide the Unit with both types of technical assistance or can assist SIECA to obtain such assistance elsewhere in the U.S. It is clear however that some changes in the Brookings arrangement should be made:

(a) As mentioned above, the practice of paying 1/2 time for Brookings work not directly related to support of the Unit should be discontinued. This practice is in effect institutional support to a U.S. institution to allow it to have a capacity on development economics. At present there is a large number of U.S. institutions with a significant capacity in development economics, some better staffed than Brookings. There is no necessary reason AID should be providing further institution building support to a US institution for work in broad

development economics.

(b) More time needs to be spent by the general advisor in Central America, and less in the U.S. for the purpose of conducting his own research.

Brookings has argued that (a) it is impossible to attract to Brookings good people unless they are able to publish a volume and Brookings would be unwilling to publish more on Central America, hence whoever they hire must devote half time to other work. (b) that their overhead is lower than other U.S. institutions. Argument (a) may be entirely correct but has nothing to do with helping SIECA; it is entirely an argument to support Brookings. If Brookings is interested in maintaining a staff with capacity in economic development they should provide the funding from their other sources for the half time their staff is not working on SIECA matters and ROCAP the rest. As to the overhead argument, while probably also correct, it is partly offset by the fact that Brookings staff, according to my experience, is paid on the average higher salaries.

It should also be pointed out that Brookings does not have the extensive specialized expertise on some of the individual socio-economic development areas -- e.g. agriculture or rural development in which the SSU should put more emphasis. Against these disadvantages Brookings can tap outside talent and act as a link with various segments of the U.S. academic community.

Also some of the Brookings staff and administrations have gained experience with the SIECA program and there are advantages in maintaining continuity.

On balance, I would recommend that an effort be made to retain Brookings involvement but only on the condition that the changes in funding and timing of residence in Central America are made. If these changes are unacceptable to Brookings, then the Unit should be assisted to make a variety of contacts with other U.S. institutions. These contracts might enable it to obtain at least the individual expertise needed in support of the technical studies conducted and perhaps develop a different institutional link as well. The latter alternative does not mean that ad hoc assistance of Brookings based or linked staff needs to terminate. Instead, Brookings would be one of the potential sources for technical assistance that the SSU could look to, either directly or as an intermediary.