REGIONAL PROGRAM STRATEGY
USAID/GUATEMALA-CAP
FY 1997 - FY 2001

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A. SUMMARY ANALYSIS OF ASSISTANCE ENVIRONMENT AND RATIONALE FOR THE CENTRAL AMERICAN PROGRAM

1. Introduction

In October 1994 in response to the enormous development challenges facing Central America, Central American leaders formed the Alliance for Sustainable Development (ALIDES) through which they provided a ambitious plan of action focused on increased trade and more sustainable management of the region's rich biodiversity. The series of Presidential summits held twice each year has proven to be a highly effective coordination mechanism to unify the Central American vision for improvements needed to ensure stable democracy, sustained broad-based economic growth, a reduction in the region's poverty and improved management of the region's natural resources. This alliance together with the (Declaracion) Conjunta Central America - USA (CONCAUSA) signed by President Clinton and the region's six Presidents and Belize's Prime Minister in December 1994 promising U.S. technical support for the implementation of the Alliance's Action Plan, provide the overall framework for USAID's Central America regional development strategy program assistance. US commitment support environmentally sustainable economic development was reaffirmed by Vice President Gore at the December, 1996 Sustainable Development Environmental Summit in Santa Cruz, Bolivia.

USAID/G-CAP's five-year strategy is based on a $50-$60 million program of assistance to directly support this new Central American development context which provides the political mandate for USAID to engage the talent and resources of a wide range of government, private-sector, and NGO partners in the development process across Central America to address critical areas of trade and environment essential to rapid, equitable, and sustainable growth. In addition, the Regional HIV/AIDS Program works with governments, NGOs, and private enterprises to reduce the threat of AIDS in the region and the hemisphere. As a result of these joint initiatives, the four Central American sustainable development countries (Guatemala, Honduras, Nicaragua, and El Salvador) and, by the year 1999, three "non-presence countries" (Costa Rica, Panama, and Belize) will (1) achieve higher rates of growth based on open and expanded hemispheric and world trade, (2) provide more effective regional stewardship of key natural resources in support of sustainable use and biodiversity protection, and (3) achieve a greatly enhanced capacity to respond to the HIV crisis.

2. Central American Development Overview: The Challenge and the Vision

a. The Crisis of the 1980s. The economic depression in Central America that began at various times in the late 1970s and early 1980s demonstrated to many Central American policymakers and business leaders—in some cases quickly, in other cases with a long delay—that the region's economic growth strategy in the 1960s and 1970s was no longer viable. That strategy, for the five core Central American

countries, combined reliance on traditional primary exports with import-substituting industrialization (ISI) within the framework of the Central American Common Market (CACM). Panama successfully developed a number of services exports, but its goods-producing sectors were highly protected and had difficulty competing in international markets. Economic policies in Belize, which was moving toward independence, likewise discouraged exports.

Although the strategy of the 1960s and 1970s had produced relatively rapid economic growth in the CACM countries (an average of more than 5% a year), it was neither sustainable nor broad-based. With the exception of Costa Rica and perhaps Panama, income inequality either was unchanged or widened, and the incidence of poverty fell less than might have been expected given the region's GDP growth. The ISI component of the strategy used a variety of price distortions, ranging from subsidized credit to overvalued exchange rates, that favored capital- over labor-intensive methods of production. While intra-CACM trade expanded rapidly behind a high common external tariff wall, high production costs restricted Central America's ability to increase its manufactured exports to destinations outside the region. And although indicators of educational attainment improved significantly between 1960 and 1980, relatively little progress was made in improving the **quality** of human capital formation.

The international economic environment facing Central America—and the Latin American and Caribbean (LAC) region generally—changed radically and permanently in the late 1970s and early 1980s. Major events included the second oil-price shock; a world recession that provoked a sharp fall in primary-product prices; sharply higher interest rates on loans contracted by Central American governments from commercial banks on variable-interest-rate terms; and the debt crisis and resulting cutoff of commercial bank credit. Some Central American countries also lost access to the resources of the international financial institutions because of fiscal, monetary, and other domestic policy shortcomings. Capital flight motivated by both political and economic factors aggravated the loss of foreign exchange reserves. Significantly increased U.S. assistance during the 1980s replaced some of the foreign exchange lost from other sources, but these inflows clearly were not permanent.

Each of the five traditional Central American countries suffered sharp declines in per capita gross domestic product (GDP) during the crisis years. Per capita GDP fell less sharply in Panama and Belize, although Panama suffered a major setback, for other reasons, later in the decade. Problems caused by the inflexibility of the region's economies in the face of a radically changing world economic environment were aggravated in El Salvador and Nicaragua by the debilitating effects of civil war. Guatemala's civil war had much less of an effect on that nation's economy.

b. Poverty and Poverty-Reduction Strategies. Gradually, beginning with Costa Rica, the countries of the region began to adopt export-led, market-driven strategies of economic growth that caused per capita GDP to start rising again. Still, per

capita GDP remains below its pre-crisis level in El Salvador, Guatemala, Honduras, and Nicaragua. The incidence of poverty remains high in these countries; and although comparable definitions and reliable data are not available, all of them, according to some definitions, have poverty rates ranging from 50% to 70%. Although the incidence of poverty is significantly lower in Costa Rica, Panama, and Belize, these countries also have sizeable groups of people living in poverty. Poverty's far-reaching effects include degradation of the natural resource base upon which all these economies depend for continued growth. Throughout the region, the incidence of poverty is particularly high for households headed by women.

A widespread consensus exists that reducing poverty requires sustained economic growth over the long run at rates significantly above population growth rates. Significant investments in human capital formation can both boost long-run economic growth rates and make a country's pattern of economic growth more equitable. A wide spread conviction is also shared that such economic growth, particularly for small economies like those of Central America, is best stimulated by open-economy policies that encourage exports, private investment, and the constant pursuit of productivity gains as a cultural trait. Costa Rica, which began gradually to adopt those policies in 1982, achieved an average GDP growth rate of 4.4% over the next 13 years. Belize, which initiated its reform process in the mid 1980s, had GDP growth rates averaging more than 10% during 1987-90. In El Salvador, where major policy reform did not begin until 1989, the economy grew at an average rate of 5.9% during 1990-95. Although the remaining countries of the region have had less rapid or less steady rates of economic growth, all are now committed to accelerating their integration into the world economy.

c. Central America's New Vision. The ALIDES and CONCAUSA agreements demonstrate a unified Central American leadership and commitment to sustainable development as a long-term solution to the region's poverty. These agreements recognize the historic opportunity afforded by peace throughout the region, and articulate a concerted regional agenda supporting deepening of democratic processes and economic policies favoring market-based prices, trade liberalization, privatization, and other policies to encourage both regional and foreign private investments. They also support sustainable use of resources, environmental safeguards, and stewardship of the area's unique biodiversity. In addition, the Central American leaders have committed their countries to addressing key issues of energy supply and efficiencies, protection of public health, and educational access and improvements.

3. Convergence of U.S. Foreign Policy Interests and Central American Goals

U.S. interests in the region have evolved dramatically since 1984, when the Jackson Plan introduced enormous amounts of financial assistance to help the Central American countries recover from a severe economic depression and from the effects of armed conflicts that aggravated economic difficulties, caused much human suffering, and

threatened a wide range of U.S. economic and political interests in the region. That broad $8.0 billion initiative was successful on many fronts. In particular, it established in the minds of many progressive citizens and leaders the importance of economic reform, liberalization, and the creation of conditions for productive investment in concert with sound environmental management and open democratic systems. It also enabled the Central American countries themselves to undertake bold efforts to end the armed conflicts in Nicaragua, El Salvador, and most recently in Guatemala.

During the 1990s Central American leaders took major steps to revitalize the process of regional economic integration, this time in an outward-looking or "open" framework, and with the ALIDES agreement they adopted an action agenda to increase prosperity and ensure democratic openness across the region. Thus, once-dominant U.S. interests and leadership are now subsumed within a Central American-led agenda aimed at capitalizing on the opportunity for change created in large part by earlier U.S. assistance.

The revival of the Central American economies has significantly increased U.S. trade with the region. U.S. Department of Commerce data show that U.S. exports to Central America in 1995 amounted to $7.5 billion, an increase of 12% over the previous year, or more than combined U.S. exports to India and Indonesia. According to the IMF's Direction of Trade Statistics, 47% of total 1995 imports of the Central American region (excluding Panama, for which the data are not comparable with those of the other countries in the region) came from the United States.

Shared U.S. and Central American interests today include:

- Sustaining peace and stable democratic systems across the region;
- Facilitating favorable conditions for expanded two-way trade and investment between the U.S. and Central America;
- Reducing illegal immigration and narcotics-trafficking by overcoming problems of poverty and collaborating on cross border enforcement needs;
- Stemming global and regional threats from environmental and resource degradation and loss of biodiversity; and,
- Containing the spread of communicable diseases, especially HIV/AIDS.

The model of cooperation developed between the United States and Central America embodied in CONCAUSA has now been replicated in other Central American partnerships, most notably in the "Tuxtla II" agreement between the seven Central American nations and Mexico, signed in February 1996, which covers an even broader range of issues. Its scope is similar to that of the Summit of the Americas and is broadly supportive of the same goals the United States shares with Central America.

4. USAID's Regional Strategy

The regional development strategy of USAID/G-CAP responds directly to U.S. and Central American priorities in pursuing greater prosperity and reduction of poverty through open markets, accelerated hemispheric integration, and sustainable use of the natural resource base. USAID's program directly supports the Central American leaders' Alliance for Sustainable Development (ALIDES), and specifically responds to the action plans of the Summit of the Americas and CONCAUSA agreements. The USAID Regional Strategy is built upon two Strategic Objectives:

- Increased Central American Participation in Global Markets through support for improved trade and investment policies, better enforcement of labor codes, and increased private investment in energy and telecommunications services; and

- Effective Regional Stewardship of the Environment and Natural Resources by consolidating a Central American system of protected areas and by reducing key environmental threats;

and one Special Objective:

- Enhanced Capacity to Respond to the HIV Crisis by strengthening NGO prevention activities, improving policy, and establishing a self-sustaining, private social marketing program.

These Strategic Objectives (SOs) and the Special Objective (SpO), together with related development results, are described in greater detail in Part B below.

The regional program's Strategic Objective framework, and associated Results Packages, will be deepened and strengthened over the 1997-2001 strategy period. Changes and modifications are not expected at the Strategic Objective level. But as planned lower level results are achieved they will be dropped; others may be added or modified to reflect evolving opportunities as progress occurs.

At the same time, the regional program will explore opportunities to increase the synergies between the Trade and Environment SOs. For example, it is anticipated that Central American trade interests will increasingly require responses to evolving market requirements for "clean technologies" and environmentally sustainable processes. Similarly, internal regulatory pressures and evolving industry standards are creating interest in non-regulatory, incentive-driven approaches to pollution abatement. Available waste minimization approaches and technologies can often significantly reduce production costs. Eco-labeling, pharmaceutical harvesting, and ecotourism are other areas where U.S. technical and marketing expertise can be brought to bear in support of Central American environmental concerns and opportunities.

The regional strategy fully conforms to a closely shared Central American and Agency-wide commitment to poverty reduction through a process of sustainable development built upon broad-based economic growth, management of the environment, and improvements in human health. Very importantly, each component of the regional program strategically **promotes deepened involvement of private initiative and resources in the Central American development processes.** This strategic focus is manifest in the creation of conditions that will allow Central American enterprises to participate in more open and expanded trade relationships within the proposed Free Trade Area of the Americas (FTAA). The program also actively engages communities, local entrepreneurs, and NGO partners in developing more sustainable solutions to the challenges of natural resource management, biodiversity conservation, and pollution reduction facing the region. It addresses HIV/AIDS containment and increased condom use in the region through the establishment of policies and programs facilitating NGO outreach and private social marketing schemes. In addition, the program addresses Central America's energy and telecommunications requirements by promoting legislation and policy incentives that allow for greater private investment, particularly in energy-efficiency and renewable-energy technologies.

The labor intensity of exports, particularly to higher income areas, such as the North American Market, is relatively high. As a result, rapid export growth will tend to increase the demand for labor and eventually wages will rise, thus contributing to a decrease in poverty. In Central America, with poverty levels that generally exceed one half of the population, addressing environmental concerns without at the same time reducing poverty levels that generally exceed one half of the population, would be futile. Any attempt to improve the environment is, therefore, inexorably linked to trade expansion.

Promoting trade and economic growth, without any concern for the environment, would also be futile, as it would not be sustainable. It is necessary to combine economic growth with wise resource management, a reduction of the negative effects of growth on the environment, as well as equitable distribution of benefits. The USAID regional strategy for the environment follows a series of principles to ensure that the goals of rapid economic growth and an improved quality of the environment do not become mutually exclusive but rather result in positive synergies.

A lot of effort has been expended to ensure that priorities for protecting the environment are established carefully to avoid wasteful expenditures. The comparative risk assessment which was carried out in 1996 under PROARCA established the highest priorities for each country in the region. The risk assessment was highly participatory, and the input of key partners and customers was obtained systematically.

The strategy for the environment has also identified some important "win-win" opportunities that would permit working with the private sector rather than against

it, and would use market instruments whenever feasible. For example, work done by CLUSA in El Salvador with organic coffee has demonstrated that the costs of production are lower, and that the price obtained in certain markets is considerably higher, a clear "win-win" situation, as organically grown coffee damages the environment less than coffee grown with the use of chemicals. Under PROARCA, opportunities to promote organic coffee at the regional level are being explored. Another "win-win" opportunity is "ecotourism", an area where Costa Rica has been quite successful. PROARCA will work, at the regional level, to promote ecotourism in other countries of the region, thus promoting growth and trade without damaging the environment.

5. Rationale for Involvement at the Regional Level

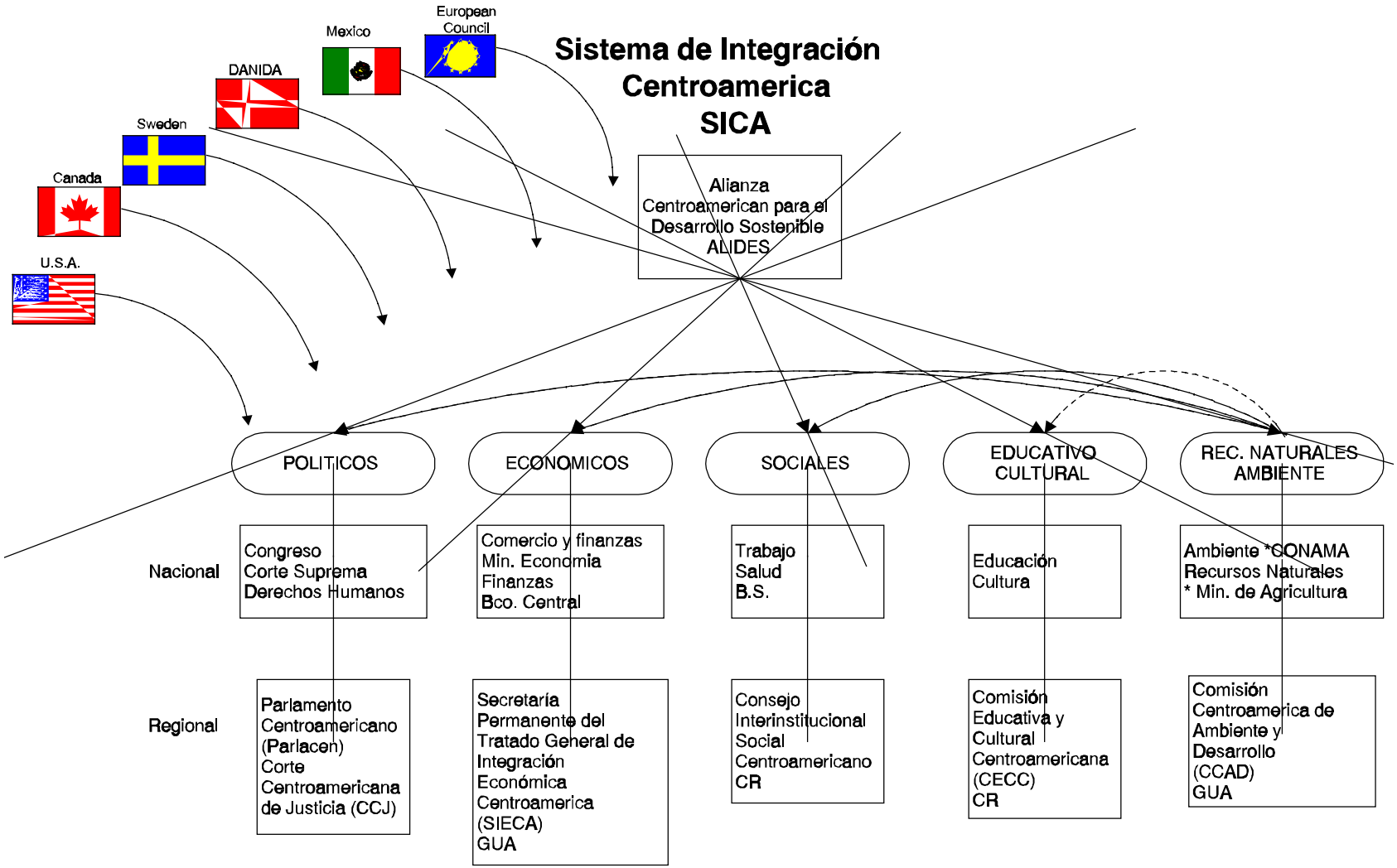
The strategic rationale for USAID's regional program, described above, reflects Central American leaders' convictions that certain aspects of the region's development challenge are best met through a combination of strong and reinforcing regional and national actions. They have acted on their convictions by creating the System for Central American Integration (SICA), which seeks to revitalize the process of regional economic integration and through which ALIDES pursues its political, economic, social, educational, and environmental agenda simultaneously at the regional and country levels (see Figure1).

Activities are designed to support regional Strategic Objectives when they meet one or more tests validating a regional approach:

- A unique or comparative advantage exists in addressing problems regionally rather than nationally (e.g. consistency of export standards; removal of barriers to trade; and identification of priorities for a system of biological corridors needed to protect biodiversity within the region);

- A problem requires a cross-border solution (e.g. resource management disputes in areas such as the Gulf of Fonseca, or the containment of HIV transmission, where political boundaries must be straddled to achieve sustainable results);

Figure 1


European Council
Mexico
DANIDA
Sweden
Canada
U.S.A.
Sistema de Integración Centroamerica SICA
Alianza Centroamerican para el Desarrollo Sostenible ALIDES
POLITICOS
ECONOMICOS
SOCIALES
EDUCATIVO CULTURAL
REC. NATURALES AMBIENTE
Nacional
Congreso
Corte Suprema
Derechos Humanos
Comercio y finanzas
Min. Economia
Finanzas
Bco. Central
Trabajo
Salud
B.S.
Educación
Cultura
Ambiente *CONAMA
Recursos Naturales
* Min. de Agricultura
Regional
Parlamento Centroamericano (Parlacen)
Corte Centroamericana de Justicia (CCJ)
Secretaría Permanente del Tratado General de Integración Económica Centroamerica (SIECA)
GUA
Consejo Interinstitucional Social Centroamericano
CR
Comisión Educativa y Cultural Centroamericana (CECC)
CR
Comisión Centroamerica de Ambiente y Desarrollo (CCAD)
GUA

- A regional forum is more cost-effective for developing and/or transmitting innovative approaches needed to solve problems found in more than one country (e.g. models for private generation and distribution of electrical power or certain renewable energy investments; and models for community management of buffer zones around parks).

In an era of USAID budgetary cutbacks, the regional strategy addresses problems recognized as important by the major bilateral Mission programs and, where possible, brings resources to bear that magnify the achievement of common results. Under the regional program SO 2, Stewardship of the Environment and Natural Resources, regional Intermediate Results (IRs) have important connections with key IRs sought by the bilateral Missions and thus work in a highly reinforcing fashion. By contrast, the Regional HIV/AIDs program operates in the absence of large bilateral programs, but with the full participation and support of those country-level Missions. In the case of the regional trade objective, bilateral Missions focus on creating the conditions for more broad-based economic participation within countries (e.g. through microenterprise credit programs and other activities that improve access to productive resources, particularly for women and indigenous people, thus increasing the share of lower-income groups in the economic pie). The regional program meanwhile helps countries jointly achieve readiness for taking advantage of growth-promoting trade opportunities within hemispheric and global markets (i.e. it helps increase the size of the total "economic pie") across the region.

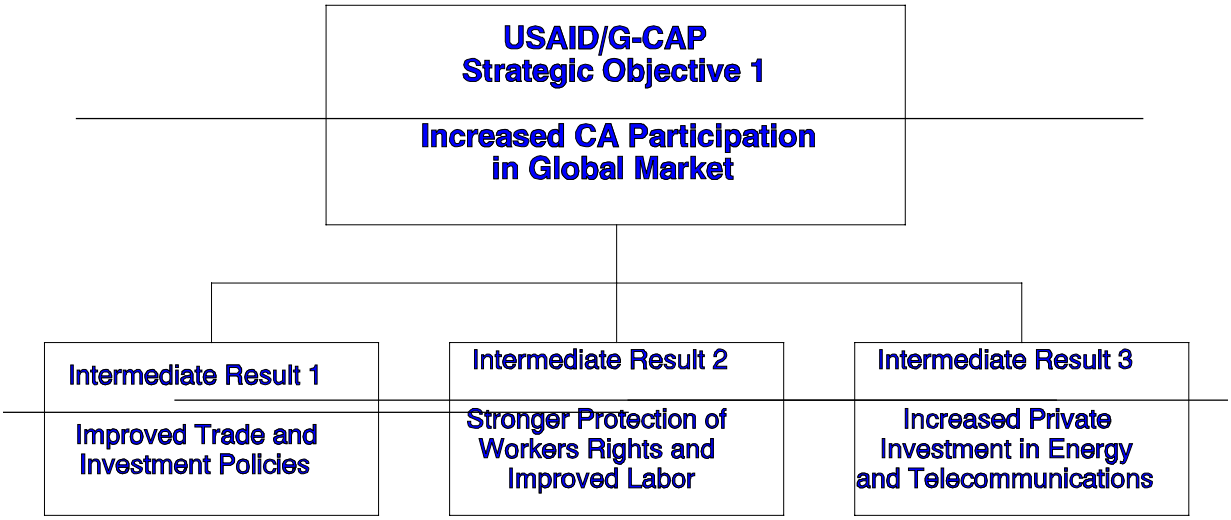
In view of the consensus that USAID initiatives to strengthen democratic processes are most appropriately carried out within specific country programs, that important Agency priority is not addressed through the regional program. At the same time, regional activities that promote open and expanded trade, and the involvement of communities, NGOs, and private enterprises in resource- management and health-status solutions, give vitality to emerging democracies.

6. Coordination with other Donor Programs

An important regional strategy interest and opportunity lies in the area of donor coordination. The ability of USAID to lay the groundwork, through policy reform and strengthened regional partnerships and networks, improves the scope and quality of opportunities for additional major donor contributions. This role is recognized explicitly in CONCAUSA and is a regular feature of the work done under all Strategic Objectives.

In the spirit of partnership with Central American initiative characterizing USAID’s regional strategy, coordination with other donor programs is conducted jointly with and through key Central American entities. For example, the Regional Commission for Environment and Development (CCAD) directly coordinates USAID support to parks and protected systems, coastal zone management, and pollution with the regional

Results Framework



programs of other donors. In June 1996 the CCAD brought to the table representatives of USAID technical assistance partners (The Nature Conservancy, TNC; World Wildlife Fund, WWF; Danish International Development Agency, DANIDA; and International Union for the Conservation of Nature, IUCN) and the Ministers of Environment from Nicaragua, El Salvador, and Honduras to coordinate donor and country actions in the Gulf of Fonseca. This brokering role is illustrative of proactive leadership in donor coordination that USAID is helping to institutionalize. In turn, USAID, as the only donor with a regional environmental program and perspective, collaborates with CCAD in gathering other donor information and in looking broadly at gaps in, and strategies for, donor assistance in the region.

In the case of the trade SO, USAID/F-CAP and Inter-American Development Bank (IDB) activities are complementary rather than duplicative, and USAID has played

an important catalytic role in stimulating donor interest in private-sector solutions to energy and telecommunications bottlenecks. The IDB's proposed regional energy interconnection loan is expected to provide opportunities for private investment in the energy sector.

USAID/G-CAP will seek, under the Special Objective for HIV/AIDS, to provide a leadership role in developing a joint vision for addressing HIV/AIDS problems in Central America. This role is particularly important in light of the downward trend in resources available to the Pan American Health Organization (PAHO) and the slow start being made by the United Nations Joint and Cosponsored Programme on HIV/AIDS (UNAIDS).

7. Customer Focus

The Regional Strategic Objectives for trade and environment are specifically designed to provide U.S. support to implement the sustainable development agenda defined and formally ratified by Central American leaders. USAID is a partner with all seven country governments and works through regional organizations that address trade, environment, and other sustainable development concerns. Through both national and regional entities, the regional program reaches a wide range of other partners and intermediate customers, including USAID's bilateral Missions and LAC and Global Bureaus, other USG agencies and donors, and international NGOs (e.g. TNC, WWF, IPPF). Customer Service Plans have been developed for each Strategic and Special Objective to ensure that consultation and dialogue are systematically conducted with critical players, and that the results of this process are used to guide and enhance achievement of results. Furthermore, as exemplified in the environment SO, USAID assistance is building and reinforcing regional systems, networks, and fora to ensure the continuation of broad-based dialogue and collaboration among all key parties needed for sustainable solutions.

B. STRATEGIC PLAN (by Objectives and Special Objective)

1. SO#1: INCREASED CENTRAL AMERICAN PARTICIPATION IN GLOBAL MARKETS

A. Program rationale

This SO has been established to support the region's own new sustainable development strategy, which first took clear form in the Central American Presidents' Declaration of Antigua (June 1990). The Economic Action Plan for Central America (PAECA), adopted at that regional summit, included a Presidential commitment to "promote the sustained development of Central America through a joint, outward-looking strategy. . . ." The importance of a global framework for trade expansion is (also recognized in the Alliance for Sustainable Development (ALIDES), signed by the seven Central American heads of government (including those of Belize and Panama) in October 1994, and the "Tuxtla II" joint declaration of the heads of government of the seven Central American nations and Mexico, signed in February 1996.

SO also responds directly to the Summit of the Americas Action Plan, adopted by all Western Hemisphere nations (except Cuba) in December 1994. Specifically, it addresses four of the seven areas under the Summit goal of Promoting Prosperity Through Economic Integration and Free Trade. These areas are: Free Trade in the Americas; Capital Markets Development and Liberalization; Energy Cooperation; and Telecommunications and Information Infrastructure. The Summit Action Plan calls for negotiations for a Free Trade Area of the Americas (FTAA) to be concluded no later than 2005. Success in achieving SO 1 through 2001 will place the Central American countries in a strong position to meet the requirements for meeting this Summit target. Central American countries, it might be noted, chair three of the 11 Summit working groups, all of which are directly related to SO 1: Investment (Costa Rica); Market Access (El Salvador); and Intellectual Property Rights (Honduras).

The environmental and energy goals of ALIDES and the Summit are being supported by the USG under the (Declaración) Conjunta Centro América-U.S.A. (CONCAUSA), signed by these same leaders and President Clinton in December 1994 at the Summit of the Americas. CONCAUSA is a non-legally binding partnership to support environmental goals in four areas: biodiversity, energy, environmental legislation, and sustainable development. Under CONCAUSA, the USG agreed to support SO 1-related activities in policy and regulatory reforms to stimulate private investments in electric power, especially those focused on renewable energy and energy efficiency. The environmental goals of CONCAUSA and the Summit of the Americas are being supported by USAID/G-CAP's Regional Natural Resource Management Program (PROARCA), discussed below under SO 2.

B. Agency Linkages

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USAID/G-CAP's Strategic Objective of Increased Central American Participation in the Global Economy responds both to USAID's Agency-wide goal of broad-based economic growth and to the acceptance by all countries of the region, individually and collectively, of an outward-looking, export-led strategy as the best way to achieve rapid, sustainable, and equitable economic growth. USAID/G-CAP's SO 1 will focus specifically on (1) improved trade and investment policies, (2) better enforcement of labor codes, and (3) increased private investment in energy and telecommunications. USAID/G-CAP intends to implement this SO in a way that is consistent with the Agency-wide goal of protecting the environment and with its SO 2, Effective Regional Stewardship of the Environment and Natural Resources.

C. SO Description

1. Vision

Through USAID-funded assistance provided under this SO, Central American countries will be in a stronger position to enter into free trade agreements with trading partners thus increasing the potential for expanded sustainable development.

2. Analysis of Problem

(a) Policy Reforms in Response to the Economic Crisis. Costa Rica was the first Central American country to initiate a significant program of economic policy reform, beginning in the second half of 1982. Belize followed in 1984 and Guatemala in 1986. The initiation of major reforms was delayed even longer in El Salvador (1989), Honduras (1990), Nicaragua (1991), and Panama (1991).

Changing attitudes toward economic policy in Central America can be traced in part to the positive examples of Chile and the region's own Costa Rica, as well as the negative examples of Argentina, Brazil, and Peru, all of which failed (spectacularly in the latter case) in their efforts to respond to the crisis with heterodox, market-distorting policies. Primary-product prices that continued to be depressed also contributed to the policy-reform revolution.

Increasingly, Central Americans came to recognize that a return to annual GDP growth rates of 5-6% would require a new development strategy that was more open to global trade and investment. Such a strategy did not preclude a revival of intra-Central American trade, which had collapsed between 1980 and 1986, but it did require a shift from a "closed" to an "open" regionalism that recognized the importance of diversifying export products and markets on a worldwide basis. In the 1990s, "open regionalism" has come to mean not only a more open CACM but also a

hemisphere-wide concept of regionalism within the framework of the proposed Free Trade Area of the Americas (FTAA).

(b) Additional Policy-Reform Requirements. A Central American regional development strategy based on export-led growth requires, first and foremost, a stable macroeconomic environment built on a foundation of fiscal and monetary discipline. The Central American countries have already made major strides in this area: the unweighted average fiscal deficit was reduced from 11.7% of GDP in 1983 to 3.4% in 1995; the unweighted average inflation rate, which even excluding Nicaragua's hyperinflation averaged 27.2% as late as 1990-91, was down to 16.5%, including Nicaragua, in 1995. Nevertheless, progress in some countries has been uneven, creating uncertainty for investors. Consistently lower fiscal deficits would raise national savings rates, while sustained lower inflation rates would further reduce price distortions and strengthen investor confidence.

A stable exchange-rate regime is also desirable, but the choice of regime is less important than the macroeconomic discipline needed to make it work and to reduce risks for investors, especially in the tradable-goods sectors. Current exchange-rate regimes in the region do not constitute major barriers to trade and investment. This is true even in El Salvador, where heavy inflows of remittances and capital-account items have resulted in a somewhat overvalued currency. However, the Mexican peso crisis and the resulting "tequila effect" in other LAC countries have demonstrated that the stability of an exchange-rate regime can be quickly threatened by both domestic policy shortcomings and external events.

Further reduction of external tariff rates, a narrowing of the dispersion of those rates, and additional progress toward removing nontariff barriers to trade also should be close to the top of the policy-sequencing list. These trade reforms should be geared not only to intra-CACM trade but also to getting the countries ready—as a group—for entry into the FTAA and for meeting their obligations under the new World Trade Organization (WTO). By 1993 the Central American countries had already lowered their common external tariff to a range of 5-20%, with relatively few exceptions. Moreover, all of them have started moving toward the new target range of (0 or) 1-15%, to be achieved no later than December 1999 (one year later in Honduras). Also, the number of product categories not eligible for intra-CACM free trade was reduced from 11 in 1993 to 9 in 1995 and to 7 currently, ahead of USAID/G-CAP's target schedule. Still, progress in reducing other nontariff barriers, such as customs procedures, remains relatively slow. Progress in freeing intraregional trade in services has likewise been slow, although some agreement to liberalize this trade may be reached in 1997.

Other important needed reforms include those pertaining to physical and intellectual property rights, which would stimulate more investment; labor codes, both to protect labor rights and to provide greater labor-market flexibility, thus lowering non-wage labor costs; regulatory reform, to lower transaction costs and to

stimulate private investment in infrastructure; and a streamlining of government programs, to improve their efficiency, raise public-sector savings, and further contribute to macroeconomic stability.

Improved and expanded infrastructure—electric power, road networks, telecommunications, ports, and airports—is also essential for accelerating export expansion and diversification, as the Summit of the Americas recognized. A large backlog of infrastructure requirements exists in the region because of (a) the sharp cutbacks in government investment spending that constituted an easy route to fiscal discipline in response to the crisis of the 1980s; (b) significant damage to infrastructure during the armed conflicts in El Salvador, Nicaragua, and to a lesser extent Guatemala; (c) general neglect of maintenance and repair throughout the region; and (d) poor management, administration, and pricing policies of government monopolies, resulting in a failure to respond adequately to quantitative and qualitative demands for service delivery.

Since official loans and public-sector savings will be insufficient to finance all desirable investments in infrastructure, an increasing proportion of these investments will have to be financed by the private sector. At the same time, sound regulatory regimes are needed to foster competition within the private sector as well as efficient performance by private natural monopolies. Overcoming infrastructure constraints could result in significant cost reductions for exporters.

The promotion of a more equitable pattern of long-run economic growth has already been given a boost by exchange-rate and interest-rate liberalizations that have eliminated much of the bias of previous policies in favor of capital goods at the expense of labor inputs. But with the exception of Costa Rica, the Central American countries continue to invest too little and/or too inefficiently in their human resources. A significantly more equitable pattern of economic growth will require major efforts to correct this shortcoming.

3. Results Framework Description

(a) Rationale. USAID can best address some constraints to export-led growth—e.g., human resources development and most policy reforms—through its bilateral programs in Central America. But as the countries of the region have rejuvenated their regional integration efforts, and have worked increasingly more closely with each other to prepare as a group for eventual entry into the FTAA and to view trade liberalization in a global framework, many trade and related issues can be addressed most cost-effectively on a regional basis.

Central America's trade liberalization efforts in the 1990s have focused both on the intraregional (CACM) market and on preparation for entry into the FTAA. Additional regional actions to reduce trade barriers for intra-CACM and

hemispheric trade are desirable, and they will also help the Central American countries to become more competitive in global markets. Global competitiveness is important because the region's success in using trade as an engine of growth will depend not only on its ability to participate in the FTAA but also on the extent to which it can expand and diversify its exports to markets outside the hemisphere. USAID/G-CAP's SO 1 therefore has a global focus.

USAID also has an opportunity to play a key role in assisting the Central American countries to improve their export competitiveness by reducing the costs and improving the quality and reliability of energy and telecommunications services. Regional programs in these areas can exploit economies of scale; streamline, strengthen, and harmonize legislation; and promote other types of cost savings. As noted above, both the Summit of the Americas and the CONCAUSA declaration call for the USG and Central American governments to work together on policy and regulatory reforms that would stimulate private investment in electricity services, an area in which U.S. investors and equipment suppliers have a comparative advantage. The Summit also commits the United States to cooperating with the countries of the hemisphere to improve telecommunications services (as well as other types of infrastructure).

Investments in technical assistance, training, and policy dialogue on both energy and telecommunications issues have potentially high returns and leveraging effects, including those on U.S. investment in Central America. USAID/G-CAP assistance will also be key to the success of other donor efforts in promoting the liberalization of these two sectors in the region.

(b) Intermediate Results. Progress toward achievement of SO 1 will be facilitated by actions in three key areas in which intermediate results will be tracked: (1) improved trade and investment policies, (2) stronger protection of workers rights and improved labor; and (3) increased private investment in energy and telecommunications.

(1) In the first area, USAID/G-CAP will be assisting the Central American countries to conclude, ratify, and implement a series of regional agreements. To date, agreements have been approved and are in force for rules of origin, unfair competition, and safeguard measures. Pending are agreements on dispute resolution, technical norms, phyto- and zoosanitary norms, investment, services, and government procurement. The program will work to ensure that all these agreements are consistent with WTO standards.

Under a 5-year grant agreement with Central American Ministries of Economy or Foreign Trade, signed in September 1995, USAID/G-CAP will facilitate the establishment of policy frameworks and enforcement mechanisms required for accession to free-trade agreements, as well as a reduction of internal and

external tariffs and nontariff barriers to trade. These efforts will support both the Central American countries' commitments under the Summit of the Americas and subsequent ministerial meetings, and their commitments as members of the World Trade Organization (WTO). Activities under this agreement will be carried out by a variety of public and private institutions, including the Permanent Secretariat of the Central American Economic Integration Treaty (SIECA), and the Patent and Trademark Office of the U.S. Department of Commerce.

(2) Progress in modernizing and enforcing labor codes is especially important for securing participation in the FTAA. Economies of scale can be realized by providing technical assistance and training in this area under a regional program. At the same time, activities under SO 2 will help the Central American countries meet the environmental requirements for entry into the FTAA.

Under a 5-year grant agreement with the Central American Ministries of Labor, signed in August 1995, efforts will be made to enhance the participation of labor in the benefits of economic growth through simplification and harmonization of codes and through engaging representatives of labor in a regional policy dialogue on the benefits of accession to free-trade agreements. In addition, operational procedures of the Central American countries' Ministries of Labor will be modernized, particularly in the areas of labor inspections, labor relations, and labor unions' freedom of activity.

(3) The third category of intermediate results pertains to private investment in energy and telecommunications services, both of which are expected to result in improvements in the quality and reliability of service delivery as well as lower unit costs, thus helping to make exports more competitive. Also it is anticipated that private investment in these two services will not be limited to the more urban areas of Central America, but rather will begin to address the critical energy and telecommunications gap in rural areas through promoting non-conventional energy production and distribution schemes and through the use of wireless phone communication systems in rural areas where access to conventional telephone infrastructure is extremely limited, but demand for communication services is high. In addition, since U.S. industry is the leader in these two areas, the program is expected to result in significantly increased flows of U.S. technologies and equipment to the region.

To consolidate progress in meeting USG commitments under the Summit of the Americas and CONCAUSA agreements, USAID/G-CAP will continue to support Central American efforts to liberalize the energy and telecommunications sectors by concentrating technical assistance on countries that have not yet drafted new legislation and regulations. Training in the form of seminars, courses, and study tours will also be provided in support of these objectives.

4. Critical Assumptions

Perhaps the first requirement for sustained Central American success in increasing its participation in world markets is the consistent application, over the long run, of sound macroeconomic policies. Countries that frequently lose fiscal discipline, even if they recover it relatively quickly (e.g. Costa Rica) will not realize their potential for stimulating private investment. Frequent tinkering with exchange-rate regimes, which happily has not been a problem in Central America since the early 1990s, will likewise affect private investment adversely. Also essential for long-run success in export-led, broad-based economic growth is significantly greater investment in human resources, especially at the primary-education level in El Salvador, Guatemala, Honduras (which has made rapid strides in the 1990s), and Nicaragua. While USAID/G-CAP's regional program does not address this area, its policy dialogue and coordination with other donors will do so.

Both macroeconomic stability and coordinated, region-wide progress on a wide range of microeconomic reforms are prerequisites for accession to NAFTA or the proposed FTAA. The countries of Central America will have a better chance of joining NAFTA or the FTAA if they negotiate for entry jointly, as a regional group. Success in such negotiations will require both a strengthening and streamlining of Central American economic integration institutions, and better-focused technical assistance and training by the donors assisting regional organizations. Progress in microeconomic reforms is particularly important in the areas of labor rights; physical and intellectual property rights; environmental legislation, regulation, and incentive structures; electricity and telecommunications, where credible and transparent regulatory frameworks are needed to stimulate private-sector participation; and other laws, regulations, and treaties governing private investment. USAID/G-CAP's SO 1 is strongly focused on these requirements for NAFTA or FTAA accession.

As noted in the Overview section, an important element in the sustainability of export success—but one that is often neglected—is the establishment of the constant search for productivity gains as a cultural trait. Success in this aspect of cultural change will require a long time horizon and effective partnerships among government, business, and labor groups, as well as major reforms in educational curricula and philosophies. USAID/G-CAP will address these issues to the extent possible through formal and informal policy dialogue.

5. Development Partners and other USAID Activities

USAID/G-CAP works closely with national government ministries and agencies in both the design and implementation of its activities in trade and related areas. U.S. Embassies and bilateral USAID Missions in Central America are also key development partners.

USAID/G-CAP's development partners also include a number of regional institutions. The most significant of these is SIECA, which at the instigation of the Central American Ministers of Economy has recently undergone a reorganization to professionalize the selection of its top management and to strengthen its technical staff. SIECA is firmly committed to open regionalism, and in pursuit of this objective it is providing support to both the public and private sectors of the Central American countries.

Among members of the donor community, USAID's most significant development partners in Central America, as measured by funding levels, are the Inter-American Development Bank (IDB) and the World Bank. The IDB has a regional strategy for Central America, but the World Bank's loan operations with the region have always been on a bilateral basis. Nevertheless, the World Bank has provided constructive inputs to regional activities through its participation in various regional fora; and through sector loans and other activities it has supported trade-liberalizing economic policy reforms as well as legal, regulatory, and other institutional reforms (including those for energy and telecommunications services) that promote trade and investment.

The IDB's regional strategy document, dated September 11, 1995, was prepared in close consultation with USAID/G-CAP. Its "central strategic theme" is stronger (intra-)regional trade. Thus, while the IDB's trade policy recommendations are clearly and appropriately within a framework of "open regionalism," its efforts are directed more at the regional dimension of this paradigm, while USAID/G-CAP is focusing more on openness to the rest of the world. A second strategic focus is subregional cooperation on "critical areas of social development and natural resource management." At the broad conceptual level, then, the IDB's strategy closely parallels that of USAID/G-CAP. Although it covers only the years 1995-96, the IDB's strategic focus is not expected to change much, at least in the early years of the USAID/G-CAP strategy period.

For trade-related activities, the greatest potential for duplication between IDB and USAID/G-CAP efforts is in the area of trade liberalization. Even here, the IDB will concentrate on activities such as customs reform, training of trade negotiators, and liberalization of intraregional agricultural, services, and capital markets, where USAID has little or no involvement (although USAID's new Economic Growth Initiative, discussed in Section H. below, does include a capital-markets component). The IDB has few projects that specifically address the other priority areas of USAID/G-CAP's SO 1: investment, intellectual property rights, and labor issues. In the latter area, the IDB's focus on labor education does not seem to duplicate USAID/G-CAP's efforts.

In the energy sector, the IDB has programmed a loan of $156 million for Central American electric power interconnection, which would permit the exploitation of economies of scale and improve the reliability of energy supply. Originally scheduled for 1996, this project has been delayed for both technical and institutional reasons and is not expected to be ready until the summer of 1997 at the earliest. It

should provide opportunities for private investment in renewable energy services, thus supporting USAID/G-CAP's IR 1.3. The IDB's strategy also includes, but only as third-priority activities, training programs for regulatory reform and implementation, and technical assistance for the planning and coordinated operation of electric power systems. These activities have been approved, but sources of funding (totalling $2.5 million, to come from other donors under the Regional Consultative Group mechanism) have not yet been identified.

Through its Multilateral Investment Fund (MIF), the IDB has contributed $4.8 million to the new Central American affiliate of the Environmental Enterprises Assistance Fund (EEAF), a non-profit venture-capital entity founded in 1991 and receiving operational funding from USAID. Other donors have contributed a matching amount for the Central American affiliate, which has begun operations but not yet disbursed any funds. USAID/G/ENV/EET staff believe it could leverage four to ten times its own resources in private funding for energy and environmental investments.

The Canadian International Development Agency (CIDA) is also planning to assist the Development of the energy sector in Central America through a 5-year regional project beginning in 1997. The project will support, *inter alia,* better utilization of the existing regional interconnections, regional-level planning, demonstration projects of region-wide interest, technical assistance and training for regulatory reform, energy-efficiency improvements, promotion of private investment, and greater access by poor households to energy services. Project materials also note explicitly that expansion of hydroelectric power generation is environmentally friendly because it reduces reliance on nonrenewable fossil fuels with harmful CO_2 emissions. This project is thus highly supportive of both of USAID/G-CAP's SOs.

A "silent partner" in pursuing USAID/G-CAP's SO 1 is the U.N. Economic Commission for Latin America and the Caribbean (ECLAC, or CEPAL). CEPAL, strictly speaking, is not a donor agency; but it has provided, through its Mexico City and other offices, modest amounts of technical assistance and valuable informal advice to Central American policymakers concerned with intraregional and extraregional trade liberalization and institutional reform. Although CEPAL had long been associated with old-style ISI policies, it is now firmly committed to open regionalism. CEPAL's high prestige in the region makes this commitment an important one.

CEPAL regards accession to the proposed FTAA (or to NAFTA, the North American Free Trade Area) as a desirable goal for Central America. It sees the goal as long-term because it expects both the technical and political preparations for such a step to take a number of years to complete. But its vision, expressed in Centroamérica y el TLC: efectos inmediatos e implicaciones futuras (May 1996, p. 14), closely parallels USAID/G-CAP's vision of the future of open regionalism in the region: "the Central American countries would have to widen access to their markets, guarantee greater protection to investment and intellectual property (probably more than

contemplated in GATT), and at the same time would have to incorporate labor and environmental issues in the central core of the agreement. . . ."

USAID support for Increased Central American Participation in Global Markets, in addition to that provided through USAID/G-CAP, is expected to come from as many as five sources: (1) bilateral USAID Missions in Central America; (2) a LAC Regional project administered by USAID/LAC/RSD/BBEG; (3) USAID's new Economic Growth Initiative, announced in October 1996; (4) modest funding from USAID/G/ENV/EET; and (5) G/ENV/UP's Urban and Environmental Credit (UEC) loan program, one of the new incarnations of the former HG program.

(1) USAID's bilateral programs in Central America in support of broad-based economic growth are complementary rather than duplicative with USAID/G-CAP's regional program. Only one bilateral program, that of USAID/Guatemala, has an SO that is directly trade-oriented; given the joint bilateral/regional structure of the Guatemala Mission, and the fact that this bilateral SO is being phased out in FY 1998, duplication is not an issue.

The FY 1997-FY 1998 R4s for El Salvador, Honduras, and Nicaragua, as well as the new strategy being developed for Guatemala, all have economic growth SOs as well as other SpOs and/or IRs that focus on poverty reduction, either generally or specifically for the rural poor. In all three countries, poor households are regarded as potential direct contributors to an export-oriented economic growth strategy. USAID's bilateral programs in these countries focus on greater availability of credit, improved access to land, human resources development, and other activities that provide the poor—women as well as men—greater access to productive resources. These activities are best implemented at the national level, and they are not present in USAID/G-CAP's regional program.

USAID/Panama's FY 1997-FY 1998 R4 has an SpO for the Canal Transition that includes IRs seeking to improve the country's investment climate. The specific activities being supported there are country-level efforts that are not duplicative of USAID/G-CAP's regional program.

Finally, USAID/G-CAP's support for increased private investment in energy services is an activity not addressed in the FY 1997-FY 1998 R4 documents of any of USAID's bilateral Missions in Central America, although in the past the bilateral programs in both El Salvador and Guatemala have supported these countries' efforts to prepare modern regulatory frameworks for the energy sector.

Coordination with bilateral Missions on trade, energy, and related programs will be effective to the extent that these Missions have adequate staffs with which to coordinate.

(2) The LAC Regional program includes, in its FY 1997-FY 1998 R4, an SO entitled, "Resolution of Key Market Issues Impeding Environmentally Sound and Equitable Free Trade in the Western Hemisphere." A list of the six IRs under this SO suggests, at first glance, considerable duplication with USAID/G-CAP's trade objective.

- Trade liberalization: Progress by smaller-economy countries in establishing FTAA-consistent trade-discipline reforms (initially customs and phytosanitary regulations);

- Expanded use of trade-facilitating communications technology to support equitable trade;

- Expanded access and participation for small and medium-sized enterprises in key markets adjusting to free trade;

- Improved environmental policies, technologies, and practices introduced and disseminated in support of free trade;

- Improved modern labor relations systems introduced to advance productivity and competitiveness; and

- Full utilization of modern information systems and practices to increase efficiency and support the achievement and the monitoring and evaluation of the SO.

The LAC Regional and USAID/G-CAP programs are actually more complementary than duplicative. The former works mainly with U.S.-based institutions, especially other USG agencies but also NGOs, consulting firms, and hemisphere-wide institutions such as IICA, while USAID/G-CAP partners tend to be based in Central America. Also, the LAC Regional program has a focus broader than Central America. Contacts between the two offices will be strengthened to ensure that duplication is avoided and that opportunities for synergy between the two programs will be better exploited.

(3) USAID/W's proposed Economic Growth Initiative (EGI) is based on the premise that "the future of America's economy [and specifically U.S. export opportunities] lies more and more in developing nations and less in those more developed nations that have been our traditional trading partners." The EGI proposes

$100 million in FY 1998 funds to strengthen the economies of, and thus opportunities for U.S. trade with, five emerging markets: Central America, India, Indonesia, the Philippines, and South Africa.

The breakdown of the $30.0 million proposed for Central America demonstrates that this new initiative is fully consistent with USAID/G-CAP's strategy for the region:

Energy and telecommunications regulatory reform	$7.5 million
Other regulatory issues	0.5 million
Trade liberalization	11.5 million
Fostering intellectual property rights (IPR)	2.5 million
Capital markets	4.5 million
Land titling	3.5 million

USAID/G-CAP has initially identified a $10 million package of activities that could be financed under this new initiative. Areas of emphasis would be private-sector participation in energy and telecommunications services ($5 million), enhanced IPR protection ($1 million), further trade liberalization ($2 million), and investment in regional financial services ($2 million). Complementary activities would be undertaken by bilateral USAID Missions and by USAID/Washington.

Funding for this new initiative has not yet been approved, and institutional arrangements for implementing it have not yet been worked out. Should the program become a reality, it could easily be integrated into USAID/G-CAP's strategy for Increased Central American Participation in Global Markets, although staffing requirements for implementing an expanded program of this magnitude would increase.

(4) USAID/G/ENV/EET provided approximately $400,000-500,000 in FY 1995 funds to augment combined LAC and G Bureau funding in that year of $1.5 million in support of the energy component of the Environmental Initiative of the Americas (EIA), which was a direct response to CONCAUSA. Although EIA expenditures are expected to end in the Spring of 1997, USAID/G/ENV/EET has expressed a willingness to continue supporting private-sector energy investments in Central America through assistance provided by its own staff and modest support under programs with worldwide or LAC geographic coverage.

(5) USAID/G/ENV/UP and USAID/G/EG might be able to make available a regional Urban and Environmental Credit (UEC; formerly HG) or a new Enhanced Credit Authority (ECA) loan as part of a loan/policy-reform package. The loan could provide long-term financing for small and medium-size municipalities that might otherwise find it difficult to secure Ex-Im Bank resources, suppliers' credits, or other

private financing for energy-related investments. If CABEI is not in a position to administer such a loan, another financial institution will be sought.

6. Measuring Achievements (and expected results in FY98/99)

(a) Achievement of the Strategic Objective. Indicators for measuring progress toward attainment of the strategic objective are: (a) trade (exports plus imports, both global and hemispheric) as a percentage of GDP; and (b) a multidimensional indicator of readiness for participation in a free trade agreement, developed by Gary Hufbauer and Jeffrey Schott of the Institute for International Economics. Progress in these areas will result from the joint contributions of Central America's own trade-reform efforts and those of USAID and its various development partners, all working toward the Summit of the Americas goal of completing negotiations for the FTAA by 2005.

(b) Intermediate Results. Indicators for measuring achievement of IR 1.1, Improved Trade Policies, are: (a) the number of countries signing bilateral investment and bilateral intellectual property rights treaties with the United States; (b) intra-CACM trade as a percentage of GDP, which is a proxy indicator for liberalized trade within the region; and (c) progress in signing, ratifying, and implementing regional agreements that will facilitate extraregional trade. Progress toward IR 1.2, Better Enforcement of Labor Rights, will be measured by several proxy indicators, from a list now being considered, since direct measures of enforcement pose both conceptual and measurement problems. For IR 1.3, progress will be measured by the amount of private investment in energy (total and renewable) and telecommunications.

(c) Expected Results.

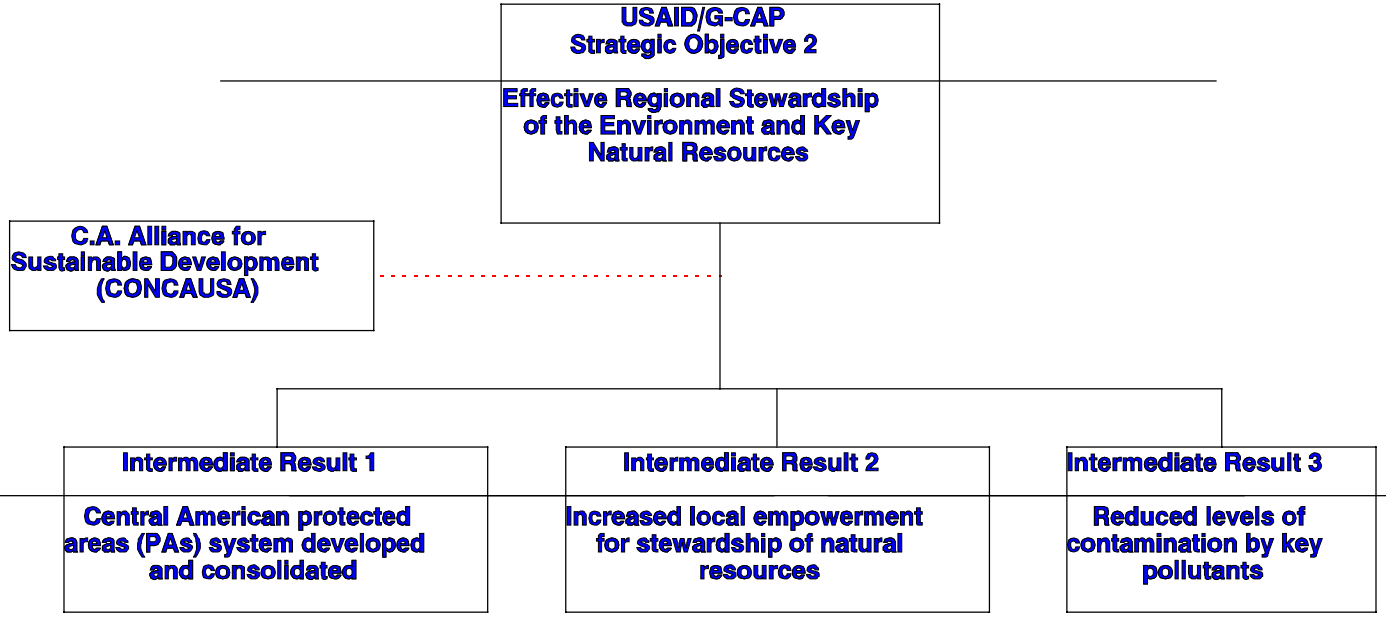
Total Central American trade as a percentage of GDP is expected to reach 48% in 1998 and 49% in 1999. The region's composite score on readiness to enter into free trade agreements such as NAFTA is targeted to rise from 2.7 in 1992 to 3.15 in 1998 and 3.30 in 1999.

At least one bilateral investment treaty and one bilateral intellectual property rights agreement with the United States is expected to be signed each year, for a total of three each by 1998 and four each by 1999.

Progress in the area of improved labor relations will enable Central American countries to avoid losing access to GSP and CBI trade preferences. In addition, it should facilitate the region's accession to NAFTA or the proposed FTAA. Improved labor protection, combined with greater labor flexibility, should contribute to increased labor productivity and thus to increased worker incomes.

Targets for increased investment in energy and telecommunications services have not yet been set for 1998 and 1999. They will be based on the estimated growth of demand for these two critical infrastructure services.

Results Framework



2. SO#2: EFFECTIVE REGIONAL STEWARDSHIP OF THE ENVIRONMENT AND KEY NATURAL RESOURCES

A. Program Rationale

This SO builds on and supports the Central American Alliance for Sustainable Development (ALIDES) and its Action Plans for conservation of biodiversity, environmental protection, energy, and sustainable development. The captivating vision of the Mesoamerican biodiversity corridor or so called "Paseo Pantera" galvanized sentiment and increased attention on Central America's rich biodiversity. This heightened awareness and growing consensus to protect the region's natural resource base and environmental quality culminated in the CONCAUSA agreement signed by President Clinton and the Central American heads of government in December 1994.

The regional strategy for the environment ensures that the goals of rapid economic growth and an improved quality of the environment do not become mutually exclusive, but rather result in positive synergies. Additionally, the strategy recognizes implicitly the people of the United States as stakeholders. For example, the conservation of over-wintering habitats of US neotropical migratory birds and tropical rain forests represent an important value to a significant segment of the US population as does the conservation of migratory fish habitat such as tarpon, key to the sport fishing industry in Florida.

B. Agency Linkages

USAID/G-CAP's Regional Strategy responds directly to the Agency's goal of Environment Managed for Long-Term Sustainability, and the Agency objectives of Biological Diversity Conserved (4.1), Sustainable Urbanization Promoted and Pollution Reduced (4.3), and Sustainable Natural Resource Management (4.5), including practicing agriculture sustainably. The Strategy creates synergies among Agency, regional-program, and bilateral-Mission environmental objectives.

C. SO Description

1. Vision

This SO will support the realization of regionally driven initiatives to achieve environmentally sound sustainable economic development, to reduce environmental degradation and to conserve biodiversity.

2. Analysis of Problem

Overall environmental trends in Central America continue downward, although the curve is now flattening in areas targeted by USAID assistance. The Maya Biosphere Reserve in Guatemala and the Canal watershed in Panama provide two telling examples of where project documentation shows that deforestation and

destruction of habitat have been dramatically reduced as a result of highly effective, focused sustainable development interventions. While advances have been made in strengthening national agencies to better manage parks and protected areas, many designated areas are still in their early stages and remain "paper" parks. Those seeking solutions can and have benefitted significantly from regional networking, training and policy fora where issues of common concern and opportunities for sound management are shared and regional linkages and networks are strengthened. Similarly, significant headway continues to be made in improving legislation and regulations dealing with resource use and environmental contamination, but more needs to be done to broaden and deepen constituencies and participation at the local, national, and regional levels. The regional and bilateral programs recognize the need to forge wider political consensus and cooperation in order to tackle biodiversity conservation, pollution reduction, and coastal zone management issues more comprehensively.

The economies of the Central American region still depend heavily on agricultural production and processing, currently threatened by a deteriorating natural resource base. The sustainability of this productive base requires concerted action at all levels which recognize the vital connection between productive soils, forest resources, ample water quantity and quality and maintaining the rich genetic pool for pharmaceutical and scientific uses. Health concerns will continue to mount unless urban air quality and solid waste are addressed.

The connection between poverty and the environment must be recognized as the poor are forced onto marginal lands with declining yields, thereby increasing deforestation and erosion from steeper slopes and poorer soils. Economic growth contemplated under SO 1, provides opportunities for off-farm employment, reducing pressures for land conversion, but at the same time, challenging the regional program to mitigate impacts from higher technology agriculture and pollution from a growing industrial base.

While more of an opportunity than a problem, ecotourism affords the region tremendous economic possibilities, for the most part under utilized, but with the notable exception of Costa Rica. The estimated one half billion dollars in hard currency reaped annually by Costa Rica’s tourism industry has convinced the Country to recognize its rich scenic beauty and biodiversity as a vital economic asset. The experience of Costa Rica and other countries in Central America needs to be documented and lessons learned disseminated throughout the region. Regional approaches will be developed for facilitating private development which feature natural ecosystems as the primary attraction for tourism. These will be accompanied by an appropriate set of policies to avoid unintended negative consequences, to generate revenues for protecting these resources and to establish regionally accepted norms for ecotourism development and local involvement.

Many farmers throughout Central America now recognize the potential for certified organic markets and are ready to join the growing number of farms already committed to organic production, partially as a result of USAID bilateral efforts in

this area. Several key factors need to be addressed regionally to capitalize on growing organic markets. Illustrative approaches are provided below. Perhaps the lead crop in the region has been organic coffee, however, both local and international markets are developing rapidly for organic cacao, citrus, bananas and vegetables.

International concern over global climate change has provided an emerging opportunity to tap funding sources from the private sector in industrialized countries. Funds for carbon sequestration have moved south to finance reforestation and improved management of the region's forests and protected areas. Costa Rica once again provides regional leadership as 8 of the world's 13 approved International Joint Implementation (IJI) projects are in that country. Through a $400,000 investment over the last 2 years, Costa Rica has leveraged $24 million through IJI. With assistance from the regional program and the Global Bureau, Central America has moved forward to create a regional Joint Implementation policy and has assisted other countries such as Guatemala to set up their own national Joint Implementation offices, using the Costa Rican model. Not only does this reduce atmospheric carbon, it provides a new source of private sector funds for protecting the region's natural resource base.

The important steps taken so far, while necessary, are not yet sufficient to stem significantly the loss of forests and other valuable terrestrial and coastal habitats, nor to contain the discharge of pollutants. This state of affairs is not a failure of past efforts, but reflects the magnitude of a complex problem compounded and driven by economic forces, population growth rates, and widespread poverty. It is also a recognition that USAID resources alone, whether regional or bilateral, are insufficient to dramatically alter the situation.

How can the regional environmental strategy and program make a difference? Aside from ensuring greater complementarily and synergy between USAID's regional and bilateral environmental efforts, the strategy focuses on opportunities to build catalytically on initiatives and resources of an expanded universe of players throughout the region. These include not only governments and other donors but, more importantly, local municipalities, non-governmental groups, businesses, communities, and resource users. The strategy also recognizes opportunities to draw upon powerful market forces to promote and sustain environmental improvements. Additionally, the strategy goes well beyond earlier USAID regional concentration on green issues and considers land-based impacts on coastal environments, including how growing problems of urban pollution relate to terrestrial and coastal environmental protection.

(a) Biodiversity Corridor Related Issues. Although representing just 0.5% of the world's territory, Central America contains 7% of its biodiversity, including 19,000 species of vascular plants. The Central America Protected Areas System is envisioned as a network of key natural areas that are interconnected through terrestrial and marine ecological "corridors." The critical ecosystems within these natural areas constitute the backbone of the regional system that is comprised of 162 protected areas, or just over 10% of the land area of the isthmus. An additional 71

limited-use buffer zones, when combined with the protected areas, represent a total of 16% of Central American territory.

In reality many of these parks exist on paper only, lacking any real form of management or protection due to low funding levels. However, the regional program is working with national parks and reserve management authorities to identify new models, including private concessions and municipal authorities, that can overcome the management weaknesses of the national park systems. Similarly, use of market mechanisms to underwrite buffer-zone management is still largely untapped, and truly successful and sustainable models are few and far between. One "Achilles' heel" of buffer-zone management strategies addressed in the strategy is the lack of market access for products that can be grown sustainably and that offer communities greater economic incentives for changing their traditional practices.

Therefore, the aim is to improve the conservation and effective management of threatened ecosystems within a regional system of priority protected areas, through innovations for protecting the nucleus zone and promotion of compatible land uses in the buffer zones. As reflected in the Results Framework, our approach will be to identify and fill key gaps in the current system of protected areas as well as critical policy and legal gaps. The strategy focuses on environmental, urban-pollution, and local-empowerment concerns, working through municipalities, national park authorities, NGOs, communities, and private enterprises. Economically viable and financially sustainable models will be further analyzed, and lessons learned will be widely disseminated.

(b) Coastal Zone Issues. Coastal habitats support significant biodiversity and carry out critical ecological functions (i.e. provide ecological "services"). Coastal resources generate considerable economic benefits through fisheries, tourism, and other enterprises. Increased pressures from development of coastal areas, combined with population growth, are undermining natural resources and habitats, and the scenic beauty, upon which this development depends. The result is a complex mix of problems, causes, and impacts: increasing coastal populations and settlements, industrial and agricultural wastes, sedimentation from upper-watershed deforestation, over-fishing, deforestation of mangrove wetlands, conversion of coastal areas to agricultural production and shrimp culture, and diminishing diversity and productivity of coastal and marine ecosystems. Throughout the region both governmental and non-governmental initiatives in coastal resource management are quite recent and not yet well developed.

In the face of these problems, the regional environmental program's Coastal Zone Management component is developing models of highly participatory, community- and stakeholder-based approaches. These approaches emphasize assuring local empowerment over resources, building participatory partnerships, creating mutual understanding and respect among stakeholders, finding compatible human uses of natural resources, expanding science-based decisions, and fostering stewardship and conservation ethics. The four areas of geographic focus (see

attached map) cross one or more country borders, are apt to have cross-border disputes over resource use and serve as conduits for illegal trafficking in endangered species. The documentation and sharing of the approach and results of these exercises will deepen Central American understanding of coastal zone issues, management requirements, and problem-solving methodologies.

(c) Pollution Issues. Growing contamination of the region's natural resource base was recognized in CONCAUSA and resulted in a specific regional component designed to strengthen and harmonize Central America's environmental laws and regulations. Through a participatory process developed and funded by the Mission, a regional comparative environmental risk assessment was conducted where Central Americans defined their highest priorities as urban waste water, solid waste, and pesticides. Air quality was also noted as a key issue within metropolitan centers.

Institutional and financial weaknesses of municipal governments are at the root of many contamination problems. The regional strategy addresses these in response to and in anticipation of the trend throughout Central America of decentralizing authority for pollution prevention and abatement down to the municipal level. CONCAUSA's regional call for harmonization of environmental frameworks must take into account that level of government most actively involved in implementing legal mandates for pollution abatement. Thus, the strategy and Results Framework builds on the Mission's earlier commitment of integrating under one strategic objective the complete array of environmentally-related municipal activities encompassed by RHUDO and those conducted by USAID/G-CAP's ENR Office. Integration of the regional program maximizes synergism within a conceptual framework that clearly identifies partnership roles, establishes performance baselines, and charts progress across the regional system.

The brief problem discussion above reflects the extensive experience from past USAID and other donor activities. During early discussions with our bilateral Mission colleagues and Central American counterparts, USAID/G-CAP narrowed its efforts into a clear and well-targeted set of results. If achieved within the anticipated time frame, these results will not only benefit the immediate beneficiaries and/or local customers involved, but also will be instrumental in leveraging and directing a significant amount of additional donor funding being programmed for both regional and bilateral initiatives.

3. Results Framework Description

(a) Rationale. The current Results Framework focuses on the advancement of existing regional programs initiated under USAID G-CAP's PROARCA and RHUDO projects. The three intermediate results below were developed in close consultation with the bilateral missions. Each of the three major issues above: the biodiversity corridor, coastal zone management and pollution are addressed under the intermediate results. However, each major issue demands solutions and approaches contained in more than one result. Sound coastal zone management, for example,

requires that people adopt more sustainable uses, resolution of cross-border conflicts and local solutions for solid waste reduction.

New strategic opportunities are being added that will more closely link pollution prevention, environmental conservation, and sustainable use of resources with the trade and market expansion elements of the USAID/G-CAP Regional Strategy. These opportunities range from maximizing private sources of funding through International Joint Implementation, capitalizing on the growth of ecotourism, helping private industry adopt standards and practices leading to environmentally "cleaner" products and "cleaner" processes. Assistance in achieving standards for the production and marketing of organic or "green" certified products is also under consideration through employing market incentives to induce environmentally friendly practices. Similarly, the strategy includes environmental issues such as compliance with pesticide and phytosanitary standards needed for exporting Central American produce. USAID/G-CAP will assess and develop these opportunities within the planning period, modifying the Results Framework as required.

(b) Intermediate Results.

IR 2.1: Central American Protected Areas (PAs) System Developed and Consolidated

(i) Improved policy framework: A policy agenda for improved management of Central America's protected area system and connecting buffer zones has been developed for the Gulf of Honduras, the first of the four cross-border areas targeted. Similar agendas are being developed for the Gulf of Fonseca, Mosquitia Coast and the Bocas/Talamanca Corridor. Both formal and informal community meetings have resulted in considerable understanding of policy issues, management measures and enforcement. Community participation will be further strengthened, ensuring a higher degree of voluntary compliance. The Tri-national Alliance of NGOs for the Conservation of the Gulf of Honduras and similar work underway in the Gulf of Fonseca provide examples of long needed fora for cross-boundary policy discussion. These initiatives dove-tail with meetings of the CCAD Ministers in the countries adjoining both Gulfs. Linkages at all levels are being developed, and common interest established.

(ii) People in buffer zones adopting sustainable management: Compatible uses such as ecotourism, shaded coffee, organic agriculture, or natural forest management are being promoted through small grants to local NGOs and communities. Pilot activities demonstrate the economic viability and desirability of compatible uses in buffer areas that provide mechanisms for involving communities. These local efforts will be supported by regional approaches to developing market options and niche markets.

(iii) Cross-border conflicts resolved: Terrestrial and marine cross-border resource use conflicts are being identified for mediation. Specific conflicts include such issues as trafficking in illegal timber, endangered species and illegal

fisheries. Information on conflict resolution and lessons learned will be disseminated through a developing network of NGOs, stakeholders, and decision makers.

Illustrative approaches: Our approach to natural resource policy on a regional level has evolved from a prescriptive, top-down approach, to a process in which stakeholders learned to analyze the probable effects of various policy elements. Work will continue to complement bilateral efforts in strengthening national protected area authorities, in identifying policy gaps and in sharing lessons learned in alternative mechanisms for management of areas included within the Central American system of parks and protected areas. Central Americans were involved in developing tools (notably, the Green Book), which enable them to demonstrate how a whole spectrum of laws and policies -- economics, trade, and monetary policies, as well as agriculture, environment, and forestry -- would affect forests or fisheries or water quality. Regional application of the Green Book established the springboard for initial work in the Gulf of Honduras.

Best management practices and other norms in areas such as natural forest management and ecotourism are being developed and applied to satisfy environmental mitigation requirements, but also to qualify for certification under various eco-labeling initiatives. Regional measures will be taken to boost profitability for the growing number of producers engaged in organic coffee, cacao and other fruits and vegetables. One promising example has been the connection between organic cacao producers in the Talamanca Corridor in Casta Rica and producers in neighboring Panama. Illustrative approaches would include identification of market niches and linkages with buyer associations in the US, regional brand name and packaging, regional trade policies, access to information and consensus on certification requirements and technical assistance, training of inspectors to meet these requirements and access to production inputs and cultivation of raw materials for organic production in the US.

Examples of cross-border conflicts are the latest incidence of manatee kills in Belize for meat allegedly to be sold in Guatemala, or trafficking in endangered species of birds funneling in from Honduras and Nicaragua across the Gulf of Fonseca into Salvador and on to markets in North America. Increased surveillance, training of border guards and public awareness campaigns represent some of the many approaches to be applied in addition to establishing forums for resolving differences between stakeholders.

IR 2.2: Increased Local Empowerment for Stewardship of Natural Resources

(i) Local government control of natural resources established: Based on previous work by USAID/G-CAP and bilateral Missions, central government authorities in Central America are gradually decentralizing authorities to local governments, including in some countries authority to manage and control the natural resources within their jurisdictions. USAID/G-CAP's partners are now actively taking the

lead in promoting the necessary political, financial and administrative reforms required to effectively empower local governments and communities to exercise these authorities.

Illustrative Approaches: Environmental NGOs are forming innovative partnerships to assist municipalities to operationalize their newly gained authorities. The regional program envisions providing small grants to encourage more of these NGO/municipal partnerships. Participatory planning processes have begun and will be continued through community workshops to build effective rapport with, and commitment by, village leaders and private sector representatives including fishery and timber companies. Participation of governments at all levels will continue with community leaders capable of presenting key issues to decision-making authorities and government representatives participating in community-based environmental management. Approaches in different countries for sustainable financing will be assessed and assistance provided for adoption of such measures as tourist taxes and environmental trust funds. Assistance will be provided for increasing/maintaining levels of funding from IJI projects and in setting up national Joint Implementation offices in each country.

IR 2.3: Reduced Levels of Contamination by Key Pollutants

(i) Municipalities with Pollution Mitigation Systems in Place: A regional environmental comparative risk assessment (CRA) was conducted to assist each country and the region to identify and prioritized the most serious environmental risks. This highly participatory process, which identified three key pollutants in the region -- waste water, solid waste and pesticides -- laid the foundation for a regional risk management strategy and action plan that served as the basis for technical assistance and training interventions by G-CAP in partnership with US EPA to reduce levels of contamination of key pollutants. The CRA also served as the basis for promoting the upward harmonization of environmental legislation and enforcement practices, as the centerpiece of the environmental protection commitments agreed to at the Miami Summit (1994).

Illustrative Approaches: Pilot community-based programs to reduce contamination from solid waste have been initiated. Lessons learned from these will be disseminated to other parts of the region. Through the Mesoamerican Biodiversity Legal Project, USAID facilitated the development of legal tools for biodiversity conservation. Using this model, the regional program, combined forces with CCAD and US EPA, to expand the regional environmental law network. This network, composed of NGOs and Central American experts in environmental law is working to overcome the lack of regional environmental legal norms as well as to facilitate better harmonization and enforcement of existing laws. Networks have proven invaluable in national fora held to address specific subjects such as solid waste.

4. Critical Assumptions

The Regional Strategy concentrates on Central American-driven participatory processes in order to ensure that the results achieved are a true reflection of local needs and capabilities, not something imposed from above that evaporates once donor funds end. As indicated earlier, the framework for U.S. involvement is that devised by Central American leaders for ALIDES. That effort led to joint collaboration under CONCAUSA, thus maintaining a clear sense of partnership. Specific program elements foster local involvement and empowerment. Moreover, where possible they seek to harness market forces and incentives to ensure the continuation and replication of improved environmental practices and behaviors (e.g. market access for shaded, more environmentally friendly coffee production). USAID's Regional Strategy also supports the achievement of shared objectives and results with bilateral Missions, NGO partners, and other donors through close coordination and complementarity of efforts, e.g. the coordinated regional, bilateral-Mission (El Salvador, Honduras, Nicaragua), NGO (TNC, WWF and IUCN), and Danish aid work in the Gulf of Fonseca.

5. Development Partners and other USAID Activities

At the highest level, the strategy capitalizes on the historical opportunity created by Central American leaders, who recognize the urgency of the environmental challenge and the required response. Their concerted political commitment to tackle the underlying problems is manifested through ALIDES and CONCAUSA and is carried out through partnership with our Central American counterpart organization, the Comisión Centroamericana de Ambiente y Desarrollo (CCAD) whose board is comprised of ministers in charge of forests, coastal zones and other resources. USAID's regional environmental assistance focuses on Central American-defined priorities, thereby making it more complementary to the region's own resource allocations and consequently more sustainable. The clearly defined Central American agenda serves to ensure coordination and information flow among all donor-supported regional programs.

At operational levels, USAID-funded technical assistance and grants engage a far-reaching network of professionals, NGOs, national protected area authorities, community organizations, and enterprises, strategically and catalytically assisting them to achieve more sustainable resource use and biodiversity protection. Assistance to the regional system of parks and protected areas and targeted coastal zones employs models and policy dialogue to deepen, and then widely disseminate, our understanding of critical problems and ways to mobilize the range of actors/stakeholders needed to achieve more sustainable solutions. Similarly, assistance in pollution prevention expands the application of successful models of legislation through networks of public and private parties. It also helps municipalities and local groups to capitalize on newly achieved decentralization and to share approaches that more sustainably address local pollution problems.

USAID/G-CAP has been working effectively with other donors, primarily at coordination meetings in Mexico and Central America, to develop an integrated environmental strategy for the region, leveraging an estimated $150 to $200

million in support of the regional environmental agenda of ALIDES and CONCAUSA. This collaboration includes assisting in the design of the IDB/GEF $40 million Central American Environmental Development Fund; the $23 million UNDP proposal in support of the biological corridor throughout Central America; the $16 million European Union Sustainable Agriculture project, targeted for sustainable-use practices in the buffer zones of six key regional transboundary parks; the $8-10 million German (GTZ) project for regional biodiversity conservation; and, lastly, maintaining close working relationships with the Nordics who also provide direct support to CCAD (Sweden) and to international NGOs working within the target areas such as IUCN within the Gulf of Fonseca (Denmark).

Most of the regional environmental strategy will be carried out through existing activities funded under USAID/G-CAP's Office of Environment and Natural Resources (ENR). However, continuing efforts to develop close ties between USAID/G-CAP/ENR and the environmental programs of bilateral Missions in the region are generating a series of highly focused joint initiatives. Examples include the comparative-risk assessment, the establishment of an environmental policy network (Managua), and a solid waste management workshop (San Salvador). These and further activities in areas such as carbon sequestration and joint implementation establish the foundation for continued regional-bilateral collaboration targeting specific results that contribute equally to both bilateral and regional strategic objectives and results frameworks. Input from the LAC Bureau's Parks in Peril Project and technical backstopping from the Global Bureau Environmental Center in Joint Implementation and other areas is also anticipated.

In similar fashion, new initiatives linking market activities to the environment will be identified and undertaken in close consultation with bilateral Missions and Central American partners. Interaction is anticipated with the LAC Bureau's Trade and Environment Project and USAID/W's proposed Economic Growth Initiative. The USAID Credit Facility managed by G/ENV/UP (EU) and G/BG (ECA) may also be available to finance municipal pollution prevention infrastructure.

6. Measuring Achievements

USAID's reengineering process conveys fundamental changes: results- rather than input-oriented development processes, new types of partnerships (where partners participate actively in defining strategies and goals), and **more accountability for results.** Measurement of achievements is based on the development of sound Results Frameworks, where targets, indicators, results, and hypotheses are appropriately identified and improved constantly through an exchange of information from theory to practice and vice versa. The environmental program Results Framework identifies the activities and benchmarks that USAID/G-CAP and our partners are accountable for; benchmarks that contribute to the achievement of the SO; and Intermediate Results. The Strategic Objective team has developed a system of internal performance review that ensures clear communication and feedback between USAID management and implementing organizations and that establishes the basis for allocating incremental funding among project components and results packages. Finally, the joint

regional-bilateral PROARCA Steering Committee agreed to a performance review process using instruments jointly developed and proposed by USAID/G-CAP and its partners.

Current indicators include administrative units, such as parks, protected areas, marine sanctuaries, lagoons or municipalities under improved management in target areas; citizen involvement in local decision-making; and pollution mitigation systems identified and promoted. Annual targets to achieve these results for 1997 to 2001 will be provided in future R4s as they are discussed and agreed upon with counterparts and bilateral Missions. These may be adjusted to address changing regional priorities discussed in this strategy such as emerging trade and environmental linkages.

a. Achievement of the SO:

The Strategic Objective level indicator is: number/total area of USAID-assisted sites where the condition of Natural Resources is stable or improving.

In FY 97 up to 4 sites will be stabilized or improved; in 1998 13; with 26 sites stabilized or improved by the end period dovered by this strategy.

b. Intermediate Results.

For the IR "Central American Protected Areas (PAs) System developed and consolidated" the following are expected results:

- Agreement will be reached with CCAD, CCAB-AP (the Central American Commission for Forests and Protected Areas) and national level agencies on the protected areas to be included in the regional system.

- Existing information on protected areas and buffer zones will be assembled and recorded in a GIS-compatible format, enabling CCAD to prepare a protected-area/buffer-zone monitoring strategy.

- An increased number of administrative units (parks, protected areas, marine sanctuaries, etc.) will be designed, declared and under improved management.

- Models will be developed and implemented for sustainable management of parks and protected areas through private initiatives such as ecotourism concessions and through adoption of enabling policy frameworks.

- Models of municipal level environmental planning will be developed and applied primarily within the four geographic focus areas, but also in areas of high bilateral program priority.

For IR "Increased Local Empowerment for Stewardship of Natural Resources" the following are expected results:

- Increased numbers of people will be engaged in sustainable management practices such as natural forest management, organic agriculture and ecotourism.

- New markets will be identified and opened for organic production and regional systems for organic certification will be adopted.

- More funding from the private sector will flow into the region for ecotourism, sustainable forestry and for carbon sequestration through IJI projects.

For the IR "Reduced Levels of Contamination of Key Pollutants" the following are expected results:

- Regionally significant natural resource-based, cross-border conflicts will be identified, analyzed, and resolved.

- Regional agreement on a standardized approach to control of illegal trafficking in biodiversity will be endorsed by regional counterpart organizations.

- Harmonized and strengthened legal frameworks will be in place for key pollutants identified in the regional environmental risk assessment.

- Demonstration abatement and monitoring systems for key pollutants will be operational within each of PROARCA’s four geographic focus areas.

Results Framework

USAID/G-CAP
Special Objective

Enhanced Central American Capacity to Respond to the HIV crisis

Intermediate Result 1

Improved regional policy environment to support HIV/STD plicies and programs

Intermediate Result 2

Improved NGO to deliver HIV prevention prgrams

Intermediate Result 3

Sustainable and effective private sector HIV/AIDS condom social marketing program

3. SpO: ENHANCED CENTRAL AMERICAN CAPACITY TO RESPOND TO THE HIV CRISIS

A. Program Rationale

HIV/AIDS is a growing problem in Central America. It is being driven primarily by the sexual behavior of individuals with multiple sexual partners and is fueled by a large reservoir of sexually transmitted diseases. A second epidemic is also still prevalent in Central America: an epidemic of regional denial, ignorance, and discrimination, which can be addressed through a strong, well organized, multisectoral effort.

This regional strategy recognizes that individual-country differences exist, while providing a mechanism to share lessons learned and to maximize available resources throughout Central America. In the absence of a regional approach, many successful country experiences will not be quickly transmitted to other countries. The regional strategy also targets mobile populations, such as truck drivers, commercial sex workers, certain ethnic groups, and other migrant workers who cross borders and fall through the safety net of exclusively bilateral interventions.

This carefully crafted regional strategy will shape an HIV/AIDS agenda that can change political, social, and cultural climates and open new opportunities for effective action. The success of such an effort rests upon sensitive coordination with USAID's bilateral Missions, with governments at many levels and in diverse sectors, and with the private sectors. Duplication of services must be prevented. Perhaps the must important advantage of the regional project is its ability to leverage support and coordination of the central and regional offices of other donor agencies. The project has developed a very close relationship with the new United Nations Joint Program on AIDS (UNAIDS) and has leveraged contributions from other donors for specific events and activities (workshops, research, and NGO projects).

The strategy focuses on areas not normally covered by bilateral programs, e.g. populations who cross borders as well as interagency donor coordination at the subregional level. In the policy area, the Project will work with regional groups -- e.g. PARLACEN and trade, economic, and professional associations -- to facilitate an enhanced political environment. The NGO component will promote the strengthening of local capacities through shared experiences, information, skills, and resources across countries. The CSM component will take advantage of the regional marketplace and economies of scale.

B. Agency Linkages

The overall goal of the special objective is a stronger, more effective Central American response to the HIV crisis. The purpose is to strengthen the

capabilities of Central American organizations to deliver HIV/AIDS prevention services. The strategy is organized under three different inter-related components: (1) policy dialogue/public awareness; (2) NGO strengthening; and (3) condom social marketing (CSM). The first two components are managed under a Cooperative Agreement with a consortium headed by the Academy for Educational Development (AED), in collaboration with the Futures Group and the International Planned Parenthood Federation/Western Hemisphere Region (IPPF/WHR). This component goes under the name of PASCA (Proyecto Acción Sida de Centroamérica). The third component is managed under a Cooperative Agreement with Population Services International (PSI) and Profamilia of Costa Rica. The acronym for the CSM Component is PASMO (Pan American Social Marketing Organization), which is the name of the Central American organization which will continue the activity after the termination of USAID support.

The CSM component will develop an economically viable (self-financed) multi-country social marketing operation that will help reduce the sexual transmission of HIV and other STDs in the sexually active population of the region. That is, this component will achieve high coverage of an affordable condom throughout the region.

The strategy supports the Agency goal of Stabilizing World Population and Protecting Human Health and the strategic objective of Reducing STD Transmission with a Focus on HIV. It is also supportive of the Population, Health, and Nutrition Center's strategic objective of Increased Use of Proven Interventions to Reduce HIV/STD Transmission.

In addition to supporting the Agency's strategy and goals, the strategy supports the Central American development strategy reflected the Central American's Alliance for Sustainable Development signed by all Presidents of the region in October, 1994 (ALIDES). Specifically, it supports the preventive-health component of the ALIDES goal of investment in human resources. Furthermore, it supports the Summit of the Americas Action Plan in the following initiatives: (1) Promoting and Protecting Human Rights (particularly of socially marginalized/high risk populations and HIV-infected individuals); (2) Invigorating Society/Community Participation; (3) Equitable Access to Basic Health Services; and (4) Strengthening the Role of Women in Society.

C. SpO Description

1. Vision

The vision of HIV/AIDS in Central America in the year 2,004 is a year by which there is little talk of HIV/AIDS not being a problem and much more discussion about how to mainstream HIV and what can be done regionally to combat it. A regional industrial working group has been formed to foster "AIDS in the Workplace"

activities. At least one regional presidential summit has included "the impact of HIV/AIDS on regional development and human rights" on its agenda. Strategies for integrating sexual education in the primary grades have strong public support and are being designed based on the accomplishments of sexual education in secondary grades. Mainstream NGOs include HIV/STD in their services and provide messages, services and support into their existing programs. There exists a smaller, more robust group of dedicated NGOs built around a core of experienced reproductive health and HIV organizations in the region. The NGOs are linked through effective and ongoing communications networks and channels. Everywhere in the region, there will be radio ads, billboards and fotonovelas reminding people how to protect themselves. Condoms are easily accessible and high risk groups can afford to buy them. Attitudes towards sex and condom use are changing. In summary, our vision for year 2,004 is a Central America where prevalence rates have stabilized at relatively low levels with positive attitudes toward safer sexual behavior and people feeling that they can have control over their reproductive lives.

2. Analysis of Problem

(a) Status of the HIV/AIDS Epidemic in Central America. As of September 10, 1996, 9,997 cases of AIDS were reported in Central America: 5,451 in Honduras, 1,138 in Panama, 1,416 in El Salvador, 1,012 in Costa Rica, 711 in Guatemala, 138 in Belize, and 131 in Nicaragua. A total of 3,698 people in the region have died of AIDS, and it is estimated that over 225,000 others are infected with HIV.

The overall incidence of AIDS cases for the subregion is 55.9 per million inhabitants, but with considerable variation across countries. Honduras has the highest incidence, 160.8, more than double that of any other Central American country. Belize, Panama, El Salvador, and Costa Rica have fairly high incidence rates with 129.6, 77.2, 65.9, and 57.8, respectively. The incidence in Guatemala (9.8) is also significant. Data available for Nicaragua place the incidence at about 2.0. Given the underreporting of AIDS cases in the region, the true incidence rates are probably considerably higher than the official levels cited.

The HIV/AIDS epidemic in Central America has become well established in the general population. The epidemic was predominant among homosexual and bisexual men until about 1986. Since 1987 epidemiological data demonstrate that the epidemic increasingly affects heterosexuals, with a declining tendency among homosexual and bisexual men. By 1996 over 60% of all reported cases were related specifically to heterosexual transmission. With an estimated 10-year lag between infection and disease onset, these figures reflect the characteristics of transmission about 10 years ago. The cumulative male:female ratios in Central America through 1995 were: Honduras, 1.9; Guatemala, 1.9; El Salvador, 3.1; Nicaragua, 11.3; Panama, 3.0; and Costa Rica, 7.5 (no cases in women have been reported in Belize). The overall ratio for the subregion is 2.7 men for every one infected woman.

As the epidemic becomes well established in the heterosexual population, vertical transmission (transmission from mother to unborn/newborn child) clearly increases. As of September 1996, a total of 306 pediatric AIDS cases had been reported: 183 in Honduras, 29 in Panama, 30 in Costa Rica, 22 in Guatemala, and 39 in El Salvador. With respect to perinatal transmission, approximately 30% of children born to HIV-positive mothers will be infected by the virus. The remaining 70% will be free of HIV, but are likely to be orphaned and face greatly increased risks of morbidity and mortality.

The future political, economic, and social development of Central America is now threatened by the HIV/AIDS epidemic. Central America has a long history of intraregional migration that has increased in recent years due to the demand for seasonal labor, regional economic integration, civil unrest, increasingly open border policies, and improved transportation routes. This migration is expected to increase further in the coming years, with both Mexico and the U.S. also being final destination points for many migrants. Extensive intranational and international population movements promote the widespread dissemination of the virus. Economically productive young adults (aged 19 to 34 years) are the hardest hit by HIV/AIDS; they are the most mobile and could be a significant source of cross-border transmission. This situation has severe implications for future economic development as the costs of AIDS-related morbidity and mortality tax both human and financial resources. The areas most likely to be affected by HIV/AIDS in the future include: work productivity, medical-care costs, and the size of the labor force. In order to maintain economic and social stability in Central America, HIV/AIDS prevention activities should be initiated through a strategy that considers specific subregional commonalities and cross-border transmission. Without attention to these issues, the current fragile economic and political recovery from protracted civil wars in the region could be threatened.

Many common cultural beliefs and behaviors contribute to the spread of HIV. Early sexual experimentation, often with men or commercial sex workers, is a common element of male socialization; extramarital partners are often a norm for married men. Other norms facilitating the transmission of HIV include the stigmatization of homosexuality and bisexuality, the presence of gender inequality, and the acceptance of multiple partners for males. Bisexuality is well documented among Latin American men; however, it is often considered a manifestation of machismo, and not perceived as homosexual behavior. Typically, therefore, targeted prevention activities miss this critical group. These may also be the same men who self-identify as heterosexual on case reporting forms, thereby skewing the epidemiological data.

(b) The NGO Response: Current Status and Potential Role. Few Central American NGOs are exclusively dedicated to HIV/AIDS prevention. However, a large number of NGOs are interested in integrating HIV/AIDS activities into their programs. The limited financing for NGOs' prevention activities to date, largely from

international donors, is insufficient to provide the coverage necessary to have an impact on the population at high risk of contracting HIV/AIDS (men who have sex with men, commercial sex workers and their clients, and migrants). Another limitation of the NGOs is the lack of consideration of sustainability issues in their programs, which heightens their dependence on the international donor community. The majority of NGOs in the region work with the general populations of women, men and adolescents, leaving higher-risk groups largely unattended.

The NGOs play a critical role in the prevention of HIV/AIDS services because they are uniquely positioned to work with hard-to-reach and stigmatized populations such as commercial sex workers, men who have sex with men, and street kids who do not access the public health system. They work directly with local communities and play an important role in transmitting information to beneficiaries, empowering local groups, and enhancing the uptake of project benefits. The NGO component of the Project will strengthen the technical and organizational capacities of NGOs to provide effective and sustainable prevention activities.

(c) Policy Development and Public Awareness. Both the public and private sectors in some Central American countries are still in the stage of denial that HIV/AIDS is and/or will be a major social and economic problem. This lack of awareness and sense of urgency is due to, among other things, insufficient information on the status of the epidemic and its potential impact, and the impression that AIDS is only a problem for certain stigmatized and socially marginalized groups. Journalists in Guatemala, for example, have a very poor turnout record for AIDS-related media events. The Policy/Public Awareness component will work to develop a cadre of effective advocates for HIV/AIDS interventions backed by an informed and supportive public. Available information will be collected, synthesized, updated, complemented with new and better studies and analyses, and disseminated. The Project will inform leaders about the threat of the epidemic to social and economic growth and stability and why it is important and more cost-effective to intervene at this relatively early stage of the epidemic, before the virus becomes more widely disseminated in the general population.

(d) Status of Condom Social Marketing in Central America. Currently, condoms in Central America are available through three channels: the public health system, the commercial sector, and family planning programs. USAID is currently supporting condom social marketing (CSM) activities through family planning programs to increase contraceptive prevalence and enhance the economic sustainability of these programs. These programs, outside of the Costa Rican Profamilia, have had limited success on both counts to date. This project will contribute to that objective by strengthening the existing brand equity of those programs through the creation of an umbrella brand that would be targeted more specifically to the HIV/STD prevention market.

Condoms are underutilized in Central America, due in large part to inappropriate personal risk assessment, insufficient promotion/advertising, and in some cases overpricing. This proposed program will help bring the price of condoms into parity with the disposable income of lower-income groups, with variations based on local economies. This pricing adjustment, along with aggressive promotional activities, will expand the overall market for condoms. Inappropriate personal risk assessment will be the most important barrier to increased condom usage as prices are lowered and communication programs spread the message about HIV/AIDS. Media messages will emphasize personal risk awareness along with correct and consistent condom usage.

Regional application of the social marketing model for HIV/AIDS prevention significantly lowers the cost per country for project implementation. The benefits of a regional CSM operation for HIV/AIDS prevention include the economies of scale of a common brand in a multi-country but common market, and regional identification in a group of countries where intraregional migration is very high.

3. Results Framework Description

Intermediate Results. An enhanced Central American capacity to respond to the HIV crisis will result from the establishment of favorable policies and local organizations capable of independently carrying out effective interventions with target populations. Moreover, one of the potentially most effective interventions currently available to reduce HIV/STD transmission is consistent and correct condom usage by target populations. Increased condom usage can only come about by increasing the perception of risk in the target groups and making an affordable condom widely available at the appropriate place and time. USAID/G-CAP developed the Results Framework for the Policy and NGO components in collaboration with our partners from PASCA, the USAID/W G-Bureau Evaluation Project, and stakeholders from USAID/W. In January 1997 it will undergo a through revision, based on the first year's experience, with participation of the bilateral missions, USAID/W, other partners, and customer representatives from Central America. The CSM Results Framework is in the initial stages of development.

a. The first intermediate result (IR 1), **an improved regional policy environment to support HIV/STD policies and programs**, depends upon the achievement of three interrelated lower-level results: strengthened policy formulation through sound research policy; development of a cadre of public and private leaders who actively support effective policies and programs; and increased public-sector reforms. Below are some illustrative approaches for this component:

The Policy/Public Awareness component will provide assistance in support of interventions that will result in improved HIV/STD policies and

programs in Central America. Three major activities will be carried out under this component:

(i) Regional Policy Research: to help determine the nature of public awareness and policy development in the region and to strengthen policy formulation through sound research capacity;

(ii) Leadership and Policy Development: to recruit, train, and develop the cadre of leaders necessary to effect change in the policy environment in the region; and

(iii) Public Awareness: to generate an increase in general public support for effective policies and programs.

The strategy for regional policy development and public awareness-raising will emerge in large part from **research** activities. The strategy will thoroughly evaluate existing research before further supporting regional and national policy studies to identify specific barriers to improving HIV prevention programs that exist on three policy levels. For example, it will analyze laws and government policies, cultural practices and sources of discrimination, and programmatic barriers to effective HIV programs. In addition, the country-level socioeconomic impact studies that have been carried out by AIDSCAP will be updated and used as a basis for preparing a regional socioeconomic impact analysis. Examples of specific topical areas, to be finalized after the results of the assessments are completed could include: protection of HIV infected individuals, prohibition of mandatory HIV screening as a condition of medical care, employment, marriage or association membership, the rights of marginalized populations (gays and commercial sex workers) to form legally recognized institutions; the elimination of barriers to condom imports and promotions; and the provision of family life education for in and out of school youth.

A centerpiece of the Policy component will be **strengthening public- and private-sector capability to engage in policy development, through leadership development and advocacy**. These activities will focus on identifying potential leaders (strong voices) for HIV prevention within the public and private sectors. Support to these individuals/institutions will focus on assisting them to develop greater commitment of resources to slow the evolution of the epidemic, promote appropriate policy development, and expand the active participation of other parts of the public and private sectors (industry, commerce, education, labor, etc.) in HIV prevention.

b. Our approach to **improved NGO to deliver HIV prevention programs** (IR 2) is to improve programmatic and management skills and structures and to establish effective linkages among NGOs within the region to enhance

programs and to promote supportive policies. Illustrative approaches for this component are:

(i) Technical Assistance and Training: to improve the programmatic and management skills and structures of NGOs providing HIV/AIDS prevention services; and

(ii) Networking and Information Exchange: to establish effective linkages between NGOs within the region, to enhance programs, and to promote supportive policies.

Under this component, PASCA carried out a detailed needs assessment survey among NGOs currently working in HIV/AIDS prevention to determine their programmatic and administrative needs. Based on results from this assessment and a follow-on workshop, a Training and Technical Assistance Plan was prepared. The plan for this strategy includes six regional workshops, 23 national workshops, and technical assistance to individuals and small groups. Training and technical assistance will emphasize the following themes: advocacy and promotion of AIDS prevention, strategic planning, peer education, individual preventive counseling, group counseling, validation of materials, sustainability, and institutional strengthening.

The strategy will also assist local NGOs to develop and present proposals for small **subgrants** to support NGOs in replication of effective HIV/AIDS prevention strategies. Subgrants can be authorized for activities related to improving service delivery. The first round of grants will be for peer education programs. Other possible topics include:

- prevention/education programs for a high-risk-behavior group such as truck drivers;
- women and HIV/AIDS;
- enhancing outreach and access to prevention and care;
- specific issues related to behavior change;
- improved counseling/testing activities; and
- promotion of legal/human rights of people with AIDS and/or HIV infection.

c. Activities to achieve our third intermediate result (IR 3), **a sustainable and effective private-sector HIV/AIDS condom social marketing program**, will lead to broad coverage of an affordable condom and a Central American organization capable of sustaining the activity. In addition to creating a viable program, the CSM component will support an improved policy environment through the media

campaign's impact on awareness of the HIV problem, and also provide participating NGOs a revenue source. Illustrative approaches for this component include the following:

PASMO will conduct a review of existing information on condom use and sexual behavior before conducting a baseline Knowledge, Attitudes, and Practices (KAP) survey in collaboration with CONFESIDA, an existing Central American NGO network supported by the Dutch. Because it is difficult to determine the accuracy of reported sexual behavior, the Pan American Social Marketing Organization (PASMO) will use a number of tactics to cross-validate the information. It will also conduct extensive market research into acceptable name brands, packaging, and condom preferences before launching a product in the second half of the year. PASMO will also forge linkages with local distributors, family planning associations, and NGOs to create its distribution pipeline of traditional and nontraditional outlets. Special attention and priority emphasis is being provided from the outset as to how PASMO can develop memorandum's of understanding to support and work with the three bilateral family planning CSM activities (ASHONPLAFA/Honduras, ADS El Salvador and IPROFASA/Guatemala). PASMO will work with its partner, the Evaluation Project, to identify an indicator of the expected "halo" effect that the regional activity will have on the other condoms being marketed in the region.

PASMO will build a behaviorally-oriented multichannel communications strategy to heighten the target population's assessment of their personal risk and to promote behavior change strategies towards safer sexual practices. In addition to the usual mass media channels, they will emphasize point of sale information and materials and nonconventional promotional activities at events where sexually active people congregate. They plan to develop their distribution channel to encompass 30,000 outlets. In addition to the traditional sales venues of pharmacies and supermarkets that cover the general population, they will reach the higher risk groups through networks of NGOs and targeted marketing to bars, pool halls and other nocturnal gathering places.

PASMO will work toward institutional and financial sustainability from the outset. During the first year it will strengthen Profamilia's management information systems to support a regional marketing organization. It will also develop a cross-subsidy product line and distribution system to provide an enhanced revenue stream that will permit it to maintain high coverage of an affordable condom after the withdrawal of USAID funding.

4. Critical Assumptions

The investment in policy activities should help assure the sustainability of efforts by the public and private sectors to promote appropriate policy development; to commit greater amounts of resources to slow the evolution of the epidemic; and to expand the active participation of other parts of the public and private sectors (industry, commerce, education, labor, etc.) in HIV prevention.

The investment in NGO strengthening activities should help assure the sustainability of an improved NGO capacity to deliver HIV prevention programs by upgrading the programmatic and management skills of the NGOs, improving their financial sustainability, and increasing the number of NGOs implementing effective prevention programs.

The CSM component activities should be self-sustainable by the end of the seventh year of the Project. The financial sustainability of PASMO will depend on its ability to develop secure streams of income, maximize cost efficiency, and remain solvent. A portfolio of revenue-generating instruments will be developed to meet changing needs and opportunities. These instruments include: condom revenues, income from cross-subsidy products, interest income from cash assets, endowment investment income, fees for services, and efforts to attract funds from donors. The financial self-sustainability of the activity ensures its sustained impact within the region.

5. Development Partners and other USAID Activities

The response of Central American countries and the international community to the HIV/AIDS problem has been painfully inadequate to date. Most national governments are budgeting insufficient resources to slow the epidemic, and the donor response has been mixed. PAHO has provided critical budget support for the establishment of a National AIDS Control Program (NACP) in each Central American country. But the host-country NACPs are currently little islands within the Ministries of Health, without high-level support or sufficient financial/human resources to be effective. PAHO also provided national-level representation for the World Health Organization's (WHO) Global Programme on AIDS (GPA).

As its own resources have been declining in the past few years, PAHO promoted a strategy of multisectoral involvement in HIV/AIDS awareness. PAHO initiated a series of workshops throughout Central America designed to increase awareness among religious groups/faith communities, non-governmental organizations (in general, not just those working in health or HIV/AIDS), the business community, and the public sector (again, broad involvement, not just Ministries of Health). The purpose of the workshops was to generate financial support for HIV/AIDS activities. PAHO has been unable, however, to provide follow-up support or to address key issues such as the technical quality of interventions and activities carried out by these groups.

In addition to PAHO, the United Nations Development Programme (UNDP) has worked with groups in Nicaragua on policy issues related to HIV and socioeconomic development. The development of a new United Nations Joint and Cosponsored Programme on HIV/AIDS (UNAIDS) leaves the future leadership role of any single UN Agency in doubt, as PAHO has played this role exclusively for several years. The termination of the WHO's GPA has produced a financial and leadership gap in

responding to HIV/AIDS in the Americas. UNAIDS is in its infant stages, has almost no programmatic support funds, and has not determined what the role of the various member agencies will be.

UNAIDS has established "Theme Groups" in most of the countries with mixed participation of the member agencies. However, they still largely lack a clear sense of their mission; the respective roles of the member agencies; resources available (either their own or through Geneva); and how they should relate to other agencies. Their dynamic within the country depends more on the personal characteristics and styles of the individuals involved, than the member agency guidelines and policies. The Central American HIV/AIDS Project has met with the UNAIDS theme group in each country and is working to strengthen them as a coordinating mechanism. During a visit to Guatemala by a team from UNAIDS/Geneva and PAHO/Washington, we were able to elaborate on these themes, and UNAIDS recently located a regional advisor in Guatemala to take advantage of these opportunities for joint programming. UNAIDS will cosponsor the PASCA Program Review in early, 1997 including pay for the costs of participants from non-presence countries.

The World Bank has begun a regional project (SIDALAC), but it is contributing only $1 million (largely for small grants) for all of the Americas. The Dutch have provided some support to a small NGO network (CONFESIDA) in the region, and the Nordic countries have provided some support for country-level medium-term plans through PAHO. More recently, the European Union, GTZ, and the IDB have also entered the arena, mostly in Honduras. The World Bank has included funds for HIV/AIDS/STDs in its bilateral social-sector loan to Honduras, but not yet in loans to other countries.

USAID/G-CAP is uniquely positioned to fill the leadership gap in this area and to work with our sister agencies in developing a joint vision for HIV/AIDS in the subregion under which each agency can identify where it can best contribute. Furthermore, as a representative of UNFPA put it, other agencies look to us to take the leadership on CSM and private-sector involvement. This is an area where we can make a contribution that could lead to a people-level impact in our target populations.

The Evaluation Project is an important partner in the Project's ongoing M&E effort. The U.S. Census Bureau (BUCEN), through field support to the G-Bureau AIDS Technical Support Project (ATSP), is a partner of the Policy component in the secondary analysis of seroprevalence and behavioral survey data to prepare an updated demographic profile of the epidemic in Central America.

The Project communicates and coordinates as much as possible with other bilateral efforts. The Honduras AIDSCAP Priority Country Project specifically did not include a CSM activity in its design and implementation because of the anticipated CSM component in the regional project. PASMO will coordinate with

AIDSCAP/Honduras to complement their behavioral change communication (BCC) and STD control components with the CSM activity. The PASMO CSM component has been in contact with the three bilaterally-supported contraceptive social marketing groups (ASHONPLAFA/Honduras, ADS/El Salvador and IPROFASA/Guatemala) to elaborate memoranda of understanding for mutual coordination to (1) best serve the ultimate customer (the Central American at risk of acquiring a sexually transmitted infection and/or an unwanted pregnancy); and (2) enhance the economic sustainability of the customer representatives (PASMO, ASHONPLAFA, ADS, and IPROFASA). PASMO is also working with the other family planning associations (FPAs) in the region to develop agreements for their participation in the CSM activity. In Nicaragua and Panama, which currently do not have social marketing activities, PASMO can help fill a significant void.

Furthermore, USAID/G-CAP is collaborating with the Honduran Mission in the design of its HIV/AIDS program to ensure that PASCA technical assistance supports and complements its bilateral efforts. G/CAP and the Central American Project partners will work with the Missions to identify HIV results and their benchmarks for the bilateral health frameworks which we can work in tandem to obtain.

In consultation with LAC, USAID/G-CAP has maintained close contact with USAID/Mexico and various Mexican agencies to work on cross-border transmission issues. PASMO has discussed with USAID/Mexico the feasibility of accelerating its plans to extend CSM activities to areas of the Mexican border with Central America. PASCA is currently working with CONFESIDA to support a regional initiative, including the border areas between Guatemala and Mexico, to target prevention efforts to transportation workers.

PASCA has been in close contact with AIDSCAP in the dissemination of the LAC-sponsored socioeconomic impact studies in Honduras, El Salvador, Nicaragua, and Guatemala. PASCA intends to update with these studies and their projections based on more central American-specific simulation models. PASCA will also help extend AIDSCAP's initiative on gender with AIDS and women in the region under the LAC buy-in and will follow-up on AIDSCAP BCC activities in Honduras and Nicaragua.

USAID/G-CAP has been in close contact with the G/PHN/AIDS Division, which has been designing the follow-on activities to the AIDS Technical Support Project that are about to be bid. We were able to share a number of our experiences in bringing an HIV/AIDS prevention activity on-line during the reengineering period and look forward to working closely with the new collaborating agencies after they grant the contracts.

At the country level, key partners and customer representatives are the NGOs and FPAs working in HIV specifically, and reproductive health in general

to both serve the so-called core transmitters, and mainstream HIV/AIDS as a reproductive health issue. National AIDS Control programs in the MOHs continue to be key actors in surveillance, the elaboration of national norms and legislation and the creation of public awareness of the problem in the region.

6. Measuring Achievements

(a) Achievement of the Special Objective. Progress towards attainment of the SpO will be measured by (1) a multidimensional AIDS Policy Environment Score; (2) the number of HIV/AIDS prevention projects implemented by NGOs that have achieved a minimum score on a Systematic Approach Scale; and (3) the incidence of safe sex practices, as measured by condom use by members of sentinel risk groups in their last sexual encounter.

(b) Intermediate Results. Achievement of IR 1, an improved policy environment to support HIV/STD policies and programs, will be measured by the number and extent of significant HIV/AIDS/STD policy changes. Progress toward IR 2, strengthened NGO capacity to deliver HIV prevention programs, will be measured by the number of NGOs meeting minimum management and financial-sustainability standards for independently delivering and supporting HIV/AIDS prevention projects. Progress toward IR 3, a sustainable and effective private-sector HIV/AIDS CSM program, will be measured by (1) the number of condoms sold in Central America under the program and (2) the accumulated net worth of PASMO.

As noted earlier, the Project has scheduled a Program Review with key stakeholders, partners, and customer representatives at the end of January to review progress toward IR 1 and IR 2 and strategies designed to achieve them. A final product of the Program Review will be a modified set of results and their indicators for PASCA. A similar exercise will be carried out for IR 3 and the performance of PASMO.

(c) Expected Results. The Policy area will initiate seven new research studies, approximately 100 dissemination events, and about 100 media placements of research findings. It is also expected that by the end of FY 1998 the AIDS Policy Environment Score will be updated; mid-project key informant interviews will be conducted in five countries; a 40% increase in intersectoral leaders involved in policy dialogue will have been achieved; the Policy Support and Public Awareness component of the AIDS Policy Environment Score will have increased; and support for specific HIV/AIDS policies and programs will have increased significantly in five countries.

In the area of NGO Strengthening, during 1997/98 the Project expects to conduct four regional workshops and 15 national workshops and provide 280 person-days of technical assistance. The project will identify and maintain a database of skilled consultants, to be housed in a local organization. An increase of

40% in the number of NGOs implementing HIV/STD prevention programs is expected; at least 30% of the NGOs identified as targets in the first year will meet management/fund-raising criteria; and 40% of these programs will be based upon proven best practices. The project will establish three documentation centers/collaborating institutions during this period of time; 10 policy statements will be made by the regional NGO consortium; and a number of NGOs (to be determined) will have incorporated lessons learned through networking activities into their prevention programs.

Expected results for the CSM component for these two years are: preparation of the two-year strategic management plan; improvement of Profamilia's systems (accounting, computerized MIS, etc.); hiring and training of country marketing coordinators; registration of PASMO in all countries; and identification and introduction of an umbrella brand in 4,000 outlets (traditional and nontraditional). Furthermore, PASMO will establish and identify market needs and opportunities for cross-subsidy products.

ANNEX 1

USAID/G-CAP SUPPORT OF THE SUMMIT OF THE AMERICAS PLAN OF ACTION

USAID/G CAP has been working on a series of regional activities in support of the Summit of the Americas Plan of Action. These relate principally to five areas, namely:

A- Invigorating Society/Community Participation (#3).

B- Free Trade in the Americas (#9).

C- Partnership for Sustainable Energy Use (#21).

D- Partnership for Biodiversity (#22).

E- Partnership for Pollution Prevention (#23).

A- Invigorating Society/Community Participation (#3)

USAID has supported the Summit of the Americas Plan of Action through the following activities:

1. The sixth Regional Network Meeting on Decentralization and Democracy, spearedheaded by FEMICA with USAID-G-CAP funds, was held in August 1996 with the active participation of a cross-section of Central American individuals and institutions supportive of local government empowerment. The participants ratified and enriched the municipal reform movement being promoted by FEMICA.

2. USAID/G-CAP funded FEMICA, and RHUDO, jointly with USAID/W, the World Bank, IBD and the OAS sponsored the second Interamerican Mayors Conference held in Miami in April 1996.

3. Up to $4.0 million in USAID/RHUDO/CA HG Guaranteed Credit Funds have been lent to municipalities by private IFIs under CABEI's PROMUNI credit program. These resources will help fund municipal infrastructure investments through private sector financial intermediaries in Guatemala and Costa Rica to provide improved public services in urban areas.

4. A USAID/G-CAP funded cooperative agreement with the Cooperative Housing Foundation (CHF) will assist 20 communities in Central America carry out local environmental action plans. Through December 1996, work has been initiated in six municipalities in four countries.

B- Free Trade in the Americas (#9)

USAID/G-CAP continues to support Summit objectives as follows:

1. It reoriented its regional strategic objective and regional trade activities to support outward-oriented, WTO-consistent Central American regional economic integration. Thus USAID/G-CAP is assisting Central America replace its old import substitution industrialization model of integration with one that directly supports the Summit Action Plan and the achievement of the FTAA by 2005.

2. Through PROALCA's Program for Supporting Central America's Participation in the FTAA, G-CAP is encouraging Central American countries to accelerate further trade liberalization, the adoption and enforcement of WTO commitments, improvements in the protection of intellectual property rights, and the opening up of the investment climate. Activities included seminars, technical

3. It facilitated the establishment of unique cooperative arrangement between the U.S. Patent and Trademark Office (USPTO) and SIECA, the Central American Secretariat for Economic Integration. USPTO and SIECA signed a memorandum of understanding pledging to jointly implement, with USAID/G-CAP support, activities to strengthen intellectual property rights (IPR) protection in the region. This unique and innovative mechanism reflects a far more mature relationship between the a USG entity and a regional body, and permits greater cooperation in areas or critical importance to U.S. foreign policy. Already through greater USPTO-SIECA cooperation, together with active support and collaboration from U.S. Embassies and USAIDs in the region, Central American has taken strong measures to curb IPR violations. This is improving the environment for the expanded investment needed to support economic growth rates high enough to make a major dent in the region's poverty.

4. Under the Labor Component of PROALCA, USAID/G-CAP funded a comparative analysis of Central American labaor codes and enforcement capacity with international and NAFTA standards. Using the results, the region's Ministers of Labor have embarked on programs to upgrade their ministry's capabilities to improve labor-management relations and to strengthen the protection of internationally recognized worker rights as called for in the Summit Plan of Action.

5. USAID/G-CAP's activities have contributed importantly to elevating trade and hemispheric integration issues on the regional policy agenda. This has contributed to more interest and participation on the part of the Central Americans in hemispheric and global trade initiatives. Tangible demonstrations of this include:

a) All Central American countries are now WTO members. With the recent accession of Panama to the World Trade Organization, now, for the first time in history, all Central American countries are members of the USG-supported world trade

body. (All but Panama had acceded to the GATT, some just prior to its transition to the WTO.); and

b) Central America is helping to advance the Summit of the Americas Trade agenda. Of the 11 working groups established, Central American countries chair three of critical importance to U.S. foreign policy objectives in the region, including: market access (El Salvador), investment (Costa Rica), and intellectual property rights (Honduras).

6. Partially as a result of G-CAP's support Central America has become a fast growing market for U.S. exports. Better economic policies and more open trade regimes have contributed to a doubling of U.S. exports to Central America since 1990 -- these exports support about 150 thousand jobs in the U.S. Also, two-way trade between Central America and the U.S. has jumped from under $7 billion in 1990 to near $15 billion in 1996, making Central America our largest trading partner in Latin America after Mexico and Brazil. U.S. exports to Central America are greater than those to India and Indonesia, combined.

C- Partnership for Sustainable Energy Use (#21)

Since the summit, USAID/G-CAP has carried out the following:

1. USAID/G-CAP sponsored a regional seminar entitled "Preparation and Negotiation of Electric Power Purchases from Private Sector". The seminar was held in Guatemala City with the support of G/ENV/EET and the attendance of thirty-two participants. A second version of this seminar was subsequently held in Panama.

2. USAID/G-CAP presented to the Foro Regional Energético de América Central (FREAC), a forum integrated by the Ministers of Energy of the Region, a proposal to implement the commitments of the US Government under the Energy Section of the CONCAUSA Declaration.

3. G/ENV/EET and USAID/G-CAP were awarded $1.5 million proposal under the Environment Initiative for the Americas to finance the USG commitments under CONCAUSA's Energy component.

4. USAID/G-CAP, CCAD, G/ENV and USDOE supported and organized a regional workshop on Joint Implementation (JI) for reducing atmospheric carbon in Costa Rica on June, 1995. In attendance were President Figueres from Costa Rica and US Energy Secretary. Five of the seven JI projects approved world-wide are from Central America and JI is increasingly seen as a new a significant source of private sector funding for protecting Central America's forests which serve as important carbon sinks.

5. Technical assistance has been provided for the implementation of power sector regulatory reform in Guatemala, and similar support has started for El Salvador and Nicaragua.

6. In the area of renewable energy, financial support for fifteen on-grid projects and more than twenty off-grid projects has been made available through the Renewable Energy Support Office (REPSO) managed by the Solar Foundation in Guatemala.

7. The Environmental Eneterprises Assitance Fund (EEAF) and its subsidiary partially funded by USAID, Empresas Ambientales de Centro América, were awarded a $10 million credit line to establish the Environmental Financing Corporation. Of this funding, $4.8 million were provided by the IDB/Multilateral Investment Fund and the rest were provided by other donor sources. This corporation is dedicated to investment in environmental and energy businesses and projects in Central America.

8. Regional training on relevant topics of regulatory reform will continue to be provided throughout 1997.

Telecommunications and Information Infrastructure (#13)

1. Guatemala and El Salvador have passed legislation eliminating public sector monopolies in their telecommunications sectors. This legislation, which can be considered to be near the most liberal in the world, was developed with technical assistance provided by the USAID bilateral missions in those countries. Building on these important achievements, USAID/G-CAP will continue to promote the design and adoption of modern regulatory frameworks in other Central American countries through technical assistance and training in key aspects of the reform.

D- Partnership for Biodiversity (#22)

Accomplishments since the Summit include:

1. The Central American Development Commission (CCAD) convened in Panama with USAID/G-CAP support and attendance the first plenary meeting on implementation of the CA Alliance for Sustainable Development and the Conjunto Centroamericano-USA (or CONCAUSA). The CONCAUSA Agreement constitutes the Central American's proactive participation and follow up to Summit Initiatives 21-23.

2. USAID/G-CAP and Central American USAID Bilateral Missions jointly designed a new $25 million Regional Environmental Project (PROARCA) to meet the programmatic objectives of biodiversity and environmental legislation under CONCAUSA.

3. USAID/G-CAP signed a $1.55 million grant to CCAD, PROARCA's counterpart organization over the 5 year life of the project to insure a strong Central

American partnership and continued regional environmental leadership. The grant funds CCAD's operating budget as well as fund participatory forums, and management and tracking systems for Central American commitments under CONCAUSA.

4. USAID/G-CAP awarded a $5.9 million cooperative agreement to a consortium of The Nature Conservancy, World Wildlife Fund and the Coastal Resources Center of the University of Rhode Island to implement a regional coastal zone management project in fulfillment of our commitments under the biodiversity component of CONCAUSA.

5. USAID/G-CAP has worked effectively with other donors, to develop an integrated environmental strategy for Central America, leveraging significant funds in support of the Alianza and CONCAUSA. Activities included assisting with the design of the BID/GEF $40 million Central American Sustainable Development Fund, the $18 million UNDP proposal to plan and develop a biological corridor throughout Central America, the $11 million European Community Sustainable Agriculture Project, the $2 million UNEP project for strengthening environmental institutions and the proposed Swedish project to provide additional support to CCAD, thereby making PROARCA's regional counterpart more financially sustainable.

6. The Central American governments are likewise fulfilling their CONCAUSA commitments, with their own resources as well as those of international donors, including the U.S. Among the major regional and global biodiversity-related agreements ratified to-date by all or most of the region's nations are those pertaining to: Rio Global Biodiversity, Rio Global Climate Change, C.A. Biodiversity (pending Belize), C.A. Climate Change, and C.A. Forest Protection (pending Belize and Nicaragua). The CCAD/PROARCA program has established a Regional Information Clearinghouse and is carrying out training and information exchange thorough specialized regional networks, fora, and direct technical assistance. The CCAD has also promoted the formation of regional and national biodiversity commissions that are working towards a common regional proposal on Climate Change.

E- Partnership for Pollution Prevention (#23)

1. The USAID-G-CAP, through PROARCA assisted the CCAD and national governments in the areas of environmental legislation and enforcement, and pollution prevention. The CCAD promoted the establishment of a Network of Environmental Law Organizations, brought about the regional networking of environmental legal authorities, and supported the training of C.A. judges, environmental law advocates, NGOs and business associations in environmental law. The CCAD provided direct technical assistance to C.A. governments on environmental legislation, notably on regulations pertaining to pollution control, and collaborated with the IUCN on a program to adopt and implement regional norms for Environmental Impact Assessments.

2. USAID/G-CAP has funded a $1.8 million interagency agreement (PASA) with EPA to provide technical assistance and training to accomplish the regional goal of developing environmental laws and regulations that are harmonized and strengthened throughout the region. USAID/G-CAP and USEPA participated in and helped CCAD sponsor a regional conference in Guatemala to begin the process of harmonizing environmental impact assessment methodologies and laws and to initiate an EIA training program under the new EPA PASA. Municipally-focused technical assistance in pollution prevention (environmental legislation, clean technologies, etc.) from the EPA have continued to provide follow-up on broadly-participative national and regional USAID-G-financed environmental risk assessments.

3. USAID/G-CAP funded a $500,000, six month activity to conduct a regional environmental risk assessment designed to prioritize the region's environmental pollution problems and to develop regional consensus on a detailed Central American strategy for pollution prevention. This assessment completed in August 1996 demonstrated that the top environmental risks identified by Central Americans include water pollution, solid wastes, pesticides and some air pollution concerns.

4. A regional and hemispheric conference on lead pollution was held in Washington D.C. and a hemispheric agreement was drafted to reduce lead in the environment.

5. An environmental enforcement training program was held in Belize to test enforcement training materials and to scope the requirements for a regional training program in environmental enforcement.