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Zona Paz Economic Corridor Strategy

Concept Paper

Guatemala-CAP Income Generation Activities Project (AGIL)

Implemented by:
Abt Associates Inc.
#520-C-00-00-00035-00

May 2000

Prepared for
United States Agency for
International Development/
Guatemala
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ZONAPAZ Economic Corridor Strategy

Concept Paper for USAID/Guatemala

Sustainable Increases in Household Income
and Food Security for Rural Poor in Selected
Geographic Areas, SO4, IRs 1 and 2
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Wingerts Consulting, under Contract No.
520-C-00-00-00035-00 with USAID/Guatemala
(under Subcontract with Abt Associates Inc.)
May 2000

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Acronyms

AGEXPRONT	Asociación Gremial de Exportadores de Productos no Tradicionales
AGIL	Apoyo a la Generación de Ingresos Locales
ALCOSA	Alimentos Congelados Montebello, S.A.
AYNLA	Ayúdense que Nosotros les Ayudaremos
BANRURAL	Banco de Desarrollo Rural
CECI	Centro Canadiense de Estudios y Cooperación Internacional
CESIDES	Central de Servicios Integrales para el Desarrollo
CHF	Cooperative Housing Foundation
CIT	Communities in Transition
DCA	Development Credit Authority
FAFIDESS	Fundación de Asesoría Financiera a Instituciones de Desarrollo y Servicio Social
FUNDAP	Fundación para el Desarrollo Integral de Programas Socioeconómicos
GOG	Government of Guatemala
IDB	Inter American Development Bank
IPP	Inversiones para la Paz
IRD	Integrated Rural Development
ITEMAYA	Instituto Tecnológico de Estudios Mayas
LAC	Latin America and the Caribbean
PAF-Maya	Plan de Acción Forestal – Maya
SO	Strategic Objective
USAID	US Agency for International Development
ZONAPAZ	Guatemalan Peace Zone

Concept Paper

ZONAPAZ Economic Corridor Strategy

I. Background

USAID/Guatemala is currently implementing a comprehensive set of development activities in support of the peace process in Guatemala, pursuing increased inclusion, reconciliation, local empowerment, and sustainable development. These activities are focused on six departments (Huehuetenango, Quiché, Alta Verapaz, Baja Verapaz, Chimaltenango, and the Peten) that were severely affected during the thirty-six years of armed conflict, and are characterized by very high levels of poverty. In addition, the majority of returning displaced persons have been resettled in these departments. The USAID development program addresses the following strategic objectives: 1. Create a more effective and participatory democracy; 2. Better educated rural society; 3. Assure better health for rural women and children; 4. Sustainable increases in household income and food security for rural poor; and 5. Improve sustainable natural resource management and conservation of biodiversity.

Within the six target departments, each of USAID's strategic objectives focuses on a specific sub-region or sub-regions that have been selected, along with program partners, based on distinct program priorities. USAID is now considering an increased focus of the discrete program initiatives on common sub-regions, in order to augment the program impact of mutually reinforcing investments, and to take advantage of potential program synergies. Significant Government of Guatemala and donor investment in improved infrastructure (roads, electrical systems, telecommunications) in the target departments has also created new opportunities for concerted development in specific sub-regions. A preliminary option being considered by USAID is to conceive of the sub-regions that could become the targets of coordinated investments as "economic corridors," encompassing linked market towns and their surrounding rural areas.

USAID/Guatemala requested that Wingerts Consulting prepare this concept paper for a potential Economic Corridor strategy, under the Abt Associates' Income Generation Contract. This paper will begin by discussing selected spatial development models that have been used for strategic planning by USAID and other donors, and the pros and cons of using such models. It will then describe the range of USAID program activities that could contribute to development of economic corridors. The paper will then identify the specific geographic areas that represent the potential economic corridors within the Zonapaz region, including a brief discussion of the potential economic activities (economic clusters) and the constraints to development of each corridor. The paper will next make recommendations concerning a strategic approach to the coordination of activities within the corridors, including promotion of targeted GOG investments, coordination of USAID investments and partner activities, and promotion of private sector investment. Finally, the paper will identify any additional research and analysis that should be undertaken, and interim activities that might be undertaken to coordinate USAID investment activities before a formal economic corridor strategy could be launched.

It will be useful for readers to be aware while reading this document, that at the end the author concludes that it is premature for USAID to adopt a formal economic corridors strategy for its existing program, as to do so would require a disruptive redirection of those programs. However, such a strategy should be considered as a possible central theme for USAID's next five year strategy, beginning in 2003. In the meantime, the paper will recommend that the Mission and its partners adopt a networking approach to the coordination of activities under existing projects, and that it pursue with the Government of Guatemala actions that could facilitate a future focus on economic corridors in the Zonapaz region.

II. Past experience with spatial development models

As noted above, the concept of economic corridors encompasses both rural and urban areas that are linked in a contiguous geographic region. However, there are options for how such a strategic approach could be structured and managed. A brief examination of past experience with use of spatial development models, i.e. development programs that are designed and implemented based on specific geographic linkages, will be useful in refining this definition.

Various spatial development models have been used in the past as vehicles to increase the impact of donor and host country investments in developing countries. USAID's most significant use of this approach in Latin America was the integrated rural development (IRD) concept, which spawned a number of projects during the 1970s. The Inter American Development Bank also sponsored IRD projects, although its use of the model tended to be in large LAC countries, like Mexico, rather than in smaller countries like Guatemala. USAID's most notable use of the model was in Ecuador, where an integrated rural development project in the central Andes region attempted to coordinate investment in road and irrigation construction, agricultural and livestock technical assistance, credit, farmer organizations, and education and health programs. In the end, the program was judged to have produced very limited results in comparison with its costs. USAID eventually abandoned use of the IRD model, primarily because the coordination of cross-sector investments between various host government agencies, local government entities, and non-governmental organizations proved costly and unmanageable.

Another spatial model used in development programs in the past was a focus on development poles (polos de desarrollo). The polos de desarrollo model is similar to USAID's current concept of economic corridors, in that the programs were designed to undertake comprehensive development activities in a specific region where dynamic economic clusters (polos) could stimulate accelerated growth throughout a specific, integrated geographic area. The IDB has had experience with use of the polos de desarrollo model, but the author is not aware of such an approach being explicitly used by USAID.

USAID has also undertaken development programs that focus on specific market towns or secondary cities, stimulating supply and marketing channels that benefit the surrounding countryside. USAID Missions in Honduras and Peru are currently undertaking such projects. Both the Peru and Honduras strategies focus on the integration of rural and urban development in poor sections of the country, and this concept is key to all secondary city or market town development strategies.

The Peru strategy, however, adds the concept of economic corridors linking intermediate level towns, with an emphasis on improving road linkages between these towns. The strategy argues that the key to development of poor regions is the integration of tertiary and secondary cities into an urban system, which creates new market access opportunities. The creation of these new marketing options will then lead to rural/urban integration within the target impoverished area, rather than beginning with efforts to achieve such integration. In effect, this strategy focuses on increasing demand via better market linkages.

With the exception of the recent initiatives in Peru and Honduras, USAID's use of spatial development models greatly decreased by the 1980s, for a number of reasons. First, USAID's experience with integrated rural development projects was not very successful. Secondly, the fact that such development strategies relied on government planning, and were implemented by central government ministries, was incongruent with USAID's emphasis on private sector led growth, beginning in 1981. Finally, the chronic weakness of central government ministries, which had to bear the burden of the implementation responsibility for regionally focused projects, could not be overcome if resources were only focused at the regional level. To the extent that USAID continued to provide assistance to public sector agencies, its attention shifted back to working with generic problems within each ministry, and away from regionally based programs.

USAID's more recent efforts to adopt a spatial focus for development activities, in Honduras and Peru, appear to be focused on income generation and infrastructure investments, with less attempt to integrate activities from other sectors (education, health, municipal development, etc.). Different types of development investments tend to have distinct priorities in selecting geographic areas for program focus. For example, it may make more sense to focus local government strengthening projects within a specific political department, rather than stretching activities across political boundaries that multiply the levels of coordination required. Education and health activities tend to concentrate on areas surrounding existing educational and medical facilities. USAID investments to promote private sector led growth support the geographic choices of individual investors, who respond to expectations concerning productive potential of an area, and labor and transportation costs, rather than donor priorities (unless those priorities are reflected in investment incentives, and USAID's ability to provide such incentives is limited by legislation). Finally, at some level, costs must be incurred in designing, coordinating, and monitoring cross-sectoral investment activities within a specific region.

Despite the complicating factors noted above, real benefits can be obtained from focusing complimentary, cross-sector, investment initiatives within a specific geographical area. Economic potential will more likely be realized if the investment in income generating activities is complemented by efforts to improve the human resource base (both in terms of education and reduction of disease), if municipal services are made more efficient and reliable, and if government permits and licenses can be obtained in an expeditious manner. However, adoption of a strategy to focus coordinated investment initiatives on a specific area must be based on real economic potential, and attention must be given to minimizing the costs of cross-sector coordination. It is instructive to note that in adopting its intermediary city poverty alleviation strategy (developed with USAID assistance), the Government of Peru notes that the strategy should only be undertaken in areas with demonstrated economic potential.

Based on this analysis, it is recommended that the key elements of an economic corridors concept as envisioned by USAID/Guatemala should include: 1) a focus on a contiguous region that is closely linked to the national market economy; 2) a focus on an integrated approach to rural and secondary/tertiary town development within the corridor; 3) real economic potential that unites the economic corridor; 4) market-led economic growth of the corridor based on private sector investment; 5) complimentary investments under various strategic objectives, each contributing to creating the conditions for growth of the corridor; and 6) minimized costs of cross-SO investment coordination.

III. USAID program activities that could contribute to an economic corridor strategy

Within the five strategic objectives being pursued by USAID/Guatemala, there are many program initiatives that could contribute to an economic corridors strategy. The following presents a very brief description of these programs:

- Strategic objective (SO) four: Sustainable increases in household income and food security for rural poor: This strategic objective focuses primarily on increased income generation in eleven municipalities in six priority departments. Although SO 4 focuses on rural households, in the context of Guatemala the tertiary cities located in most of these municipalities would still be considered rural. All of the activities being implemented under this strategic objective could contribute directly to an economic corridors strategy. These activities (and their current areas of geographic focus) include: Income Generation Project (AGIL) – focus: eleven municipalities of the six target departments; Communities in Transition (CIT) – focus: Barillas and Ixcán municipalities of Huehuetenango and Quiché; Inversiones para la Paz (IPP) – focus: Zonapaz; and the Development Credit Activity (DCA) and microenterprise assistance – focus: Zonapaz. In addition, four food aid assistance projects are being implemented under this SO which could also directly contribute to an economic corridors strategy. The food

aid activities tend to focus on the Zonapaz, but also implement activities outside this region.

- Strategic objective five: Improve sustainable natural resource management and conservation of biodiversity: The program element under this strategic objective that is most pertinent to an economic corridors strategy is the investment in sustainable management of the Maya Biosphere in northern Peten. This project includes an emphasis on development of sustainable income alternatives for communities in or near the Biosphere, and these activities are very relevant to the development of a potential economic corridor in the Peten.
- Strategic objective one: Create a more effective and participatory democracy: Activities under this SO include strengthening civil society, improved local governance, and improved access to justice. All of these activities would be relevant to development of economic corridors. The geographic focus of the local government strengthening program is on Quiché, and it is now being expanded to Totonicapan, although the program could in fact cover other areas in the six priority departments. The administration of justice program works nationally and in selected demonstration sites, several of which are in the priority departments. The civil society strengthening activity focuses on national level dialogue.
- Strategic objective two: Better educated rural society: In addition to a significant basic education focus, activities under this strategic objective support adult literacy training, and university scholarships for indigenous people. The SO team is currently considering carrying out a workforce analysis within the six priority departments (or a subset of these departments), that could guide future investments in vocational education. Literacy training, scholarships, and vocational education could also be key elements of an economic corridor investment strategy.
- Strategic objective three: Assure better health for rural women and children: It is unlikely that activities currently being implemented under this strategic objective would contribute directly to an economic corridors strategy.

IV. Potential economic corridors in USAID's six priority departments

As noted earlier, USAID's interest in the economic corridor concept is partly based on the fact the GOG investment in improved infrastructure in the Zonapaz region has created new economic opportunities. Construction of new roads, or improvement of existing roads that makes them accessible throughout the year, can have a profound impact on the region served, as does investment in extending the electrical and telecommunication systems. The following are some of the potential economic benefits of such investments:

- Reduction of the cost of, and more rapid and reliable access to, production inputs and other supplies.
- Improved access to services, including financing, government permits, equipment repairs, specialized labor, etc.
- More reliable and less expensive access to markets (particularly, for the Zonapaz region, to the Mexican market, if border services are also improved).
- Economies of scale from access to a larger production and/or labor base, which can increase the economic justification for investment in processing plants, storage facilities, etc.
- Access to electricity in areas that previously lacked such service, or lowering service cost where electric current has been supplied by small local generating plants, making investment possible in processing equipment, storage facilities, irrigation systems, etc.
- Access to market information due to extension of telephone lines (cellular phones may fulfill this need, but they are more costly to operate, and while they can be used to access the internet, at present the connection speed is extremely slow).
- Tourism can be developed in areas that were previously inaccessible or were unable to provide the accommodations tourists demand.

Investment in infrastructure also benefits other types of development programs, by lowering the cost of providing (or accessing) education, health, and municipal government services, and facilitating supervision and monitoring of program initiatives. Infrastructure investments also improve living conditions in rural areas, which makes it easier to attract teachers, health workers, plant managers, etc., to relocate permanently to these areas.

Thus, the significant GOG investment in infrastructure in the region can be expected to create conditions appropriate for an economic corridor development strategy. However, it should also be noted that such infrastructure is an essential but insufficient condition for the feasibility of the strategy. Other factors must also be carefully analyzed. The following presents a preliminary analysis of the conditions in each of three potential economic corridors in the six priority departments where major infrastructure investment has occurred or is underway, as well as a brief analysis of other potential corridors:

A. Peten

The GOG has undertaken extensive road improvement investments in the Peten which can radically change the nature of investment opportunities in the region. Already, the paved road connecting Flores with the Rio Dulce and the road from Guatemala City to Puerto Barrios has cut the travel time between Guatemala City and Flores almost in

half. During a visit to various parts of the Peten, there were mixed reports as to whether this improved road has resulted in lower input and marketing costs, as the existing trucking companies reportedly have yet to pass their cost savings on to producers (in part the savings to date may be masked by higher petroleum costs worldwide). In any case, the competitive nature of the transportation providers in Guatemala is likely to lead to lowered costs in the future.

Additional road paving projects are currently being implemented from La Libertad to El Naranjo on the Mexican border, and between La Libertad (and eventually Flores) and Chisec in Alta Verapaz, via Sayaché. An improved road connection to El Naranjo is extremely important, as it can facilitate large scale exports to Mexico.

The primary economic activity in the central and southern Peten region is cattle, either dairy or beef, or in some cases dual purpose. Beef cattle are exported to Mexico, and there is interest in creating local processing facilities to enable meat exports, thus lowering transportation costs and creating local employment. Development of the export industry also depends on clarifying the trade relationship with Mexico, and establishment of formal customs and immigration services at the border. At present, cattle are exported illegally, and sales contracts cannot be enforced. Milk production is presently primarily for the local market, although if an existing dairy cooperative were to begin operations (see below), milk products could reach a more expanded market. Expansion of the livestock industry will require increased access to debt financing, and technical veterinary services, as well as access to markets.

The other leading economic activity in the region is tourism, and Flores now depends significantly on this industry. Further expansion of this industry will require continued investment in hotels, restaurants, etc., and development and promotion of other tourism resources in addition to the key Tikal National Park. Forestry production is key in the northern Peten region, and forest concessions have been granted to communities located in this area that are adopting sustainable forest management plans. As the more valuable trees have already been harvested, new strategies are needed to take advantage of the remaining resources. Wood exports to Mexico reportedly offer considerable potential, once the border services are properly structured. Finally, other non-traditional crops have been promoted, but thus far they represent minor activities within the region. The poor soils and extended dry season place severe limits on agricultural productivity in the region.

USAID's investments in the Peten are currently limited to the Maya Biosphere Project, and the Income Generation Strategic objective's plans to provide assistance in La Libertad municipality. USAID is supporting the titling of land in the multiple use zone along the road between La Libertad and El Naranjo, and the combination of secure titles and improved access to markets should provide real economic incentives for this zone. As part of the income generation strategy, USAID is also considering support to make the Petenlac milk processing plant functional, which would increase the potential success of dairy cattle operations throughout the central Peten area, and specifically in La Libertad municipality. However, the dairy producers who own the Petenlac

cooperative have thus far demonstrated little ability to manage the operation, and processing equipment donated to the cooperative remains packed in the original shipping boxes (some is apparently missing). In addition, there are only 27 members in the Petenlac cooperative, obtaining milk over a 40 kilometer radius, and it would need to expand its base greatly if it is to be a major promoter of the Peten dairy industry. A more in-depth analysis of the cooperative will be required before USAID can commit to assisting with its development.

A number of other cooperatives exist along the rivers in La Libertad and other municipalities, mainly consisting of groups that have returned after abandoning the region during the period of armed conflict. The productive capacity of these organizations may also be significantly increased by the existence of the new roads, but again a more in-depth analysis will be required of the economic activities undertaken by these groups, and of their financial and management capabilities.

In the Maya Biosphere region, USAID has supported a number of alternative income generation activities, and the land titling project is a part of this effort. Development of alternative income options, facilitated by the improved market access created by the road investments, will be key to reducing pressure on the valuable ecology of the Maya Biosphere, if properly developed. The Maya Biosphere investments will also help the area to develop its enormous tourism potential.

In order to take advantage of these opportunities, a number of constraints must be overcome. Investor interest in the Peten remains primarily limited to individuals who are already resident in the zone, and these investors generally have limited capital. Access to electricity has improved in the Peten region, but is still lacking in outlying areas. In La Libertad municipality, less than 2% of the population has access to electricity, and there are reportedly only four telephones in the whole municipality. Access to schools in La Libertad is below the national average, but literacy in the region is above average. The population growth rate in La Libertad is among the highest in Guatemala, averaging 8.8% per year between 1981 and 1994, which is the clearest indication that significant economic opportunity exists in the region.

If an economic corridor strategy were to be adopted for the Peten, it would need to focus on a fairly extensive area, contiguous to the improved road linkages between Flores and a) the Rio Dulce; b) El Naranjo (and the Mexican border); c) Alta Verapaz (via Sayaché), and d) Melchor de Mencos (on the Belize border). All of these areas have potential to be active players in the livestock and tourism industries that would be the critical economic clusters stimulating growth in the region, and would also benefit from sustainable forest management of the areas to the north. This would represent a considerable expansion from USAID's present geographic focus in the region.

The critical input to support development of this region would be access by producers to technical advice and credit. The primary source of credit in the region is Banrural, although other private banks have established offices recently in Flores. Several other USAID program initiatives would be important to stimulating growth within the corridor.

Improvement of municipal finances and services will be key to expanded tourism (especially for tourists above the level of backpackers), as will private sector investment in electricity and telephone coverage (although the sparse population makes this investment costly). Improvement in the administration of justice in a region that is frequently compared to the US wild west will be important. Finally, further investment in human resource development is needed to support the expansion of the tourism industry.

B. Northern Transversal Strip

This region is a lowland tropical zone extending from Barillas in Huehuetenango (or perhaps from Nenton in northwest Huehuetenango), across the Ixcán/Playa Grande region of northern Quiché, to Chisec and Fray Bartolomé in northern Alto Verapaz, and along the northern side of the Rio Dulce and into Livingston on the coast. The Barillas – Ixcán region has been a center for resettlement of both internally displaced persons and exiles, and the population of the area has grown rapidly since repatriation began in 1993. A new road now links Barillas with the Ixcán, and a bridge over the Ixcán river will be completed by late 2000. A paved road is also under construction from Cobán to Chisec, and Chisec will also be linked by paved road north to Sayaché and Flores. A road may also soon link Barillas with Nebaj in northern Quiché, and via Nebaj to Santa Cruz del Quiché. If the 40 kilometer road from Barillas to Nenton were also paved, there would be excellent road connections throughout this extensive region.

The principal economic activities vary considerably across this extensive corridor. In the Barillas region, USAID support through the Communities in Transition project (through CECI-AID) has enabled the region to develop into an important exporter of organic coffee and cardamom. Over 1000 producers are now members of a producer association, and there is considerable potential to further expand this activity, including up the mountains toward Nebaj (if a road is built that enables produce to reach Barillas) and to some extent toward San Mateo Ixtatán. Soils in the Barillas area are quite good. The construction of the road connecting Barillas to Cobán via the Ixcán has reportedly already lowered the cost of goods in Barillas, despite the fact that the bridge has yet to be completed. Credit is available in Barillas from Banrural, and to some extent from Bancafé. CECI-AID has also worked with a microfinance organization, CESIDES.

Economic activity in the Ixcán area is principally basic grain agriculture, with some livestock and forestry activities. However, the forests in this zone have been severely depleted, and only secondary trees of low value remain. Agricultural activity continues to be slash and burn migratory farming, which is environmentally unsustainable and of low productivity. Soils in the area are very thin and rapidly deteriorate if not properly maintained. Water is a limiting factor for production, as rains have become less reliable and the sub-soil structure limits the use of irrigation. The Cooperative Housing Foundation (CHF), with support from USAID, has developed five agroforestry models that can enable farmers to stabilize the agricultural frontier and protect the remaining forest areas. CHF has experimented with non-traditional crops like pejíballe, vanilla and allspice, as part of its agroforestry technical packages, and these show considerable

potential for the area. Producers are not organized in the Ixcan area, as they are in Barillas. CHF has also assisted introduction of the CESIDES microfinance program.

In the Chisec region, subsistence basic grain farming and livestock production dominate, although there is also cardamom and hot pepper production, as well as some handicrafts. Soils in Chisec are similar to those of Ixcan, i.e. of low productivity, and with no potential for irrigation. CHF has initiated some activities in Chisec, and the Talita Khumi local NGO is offering an important training program for producers in the region. The Spanish and German governments are also active in supporting development of the Chisec region, although they seem to focus more on infrastructure development than income generation. As the paved road to Coban reduces travel time from eight hours to two or three hours, new opportunities will become apparent.

The area to the east of Chisec (Fray Bartolomé to the Rio Dulce) was not visited during the author's field trip, and no information can be presented on the principal economic activities in that area. However, it is assumed that it is similar to the Ixcan area, with perhaps some greater potential for livestock production.

A final element that could increase the potential for this corridor is if the trade relations with Mexico are improved, and the border near Playa Grande in Ixcan and Mexico becomes a full service border crossing. At this point, however, most people in the area believe that a more open border will result in increased flow of goods from Mexico to the Ixcan, rather than the reverse.

Barillas clearly has the greatest potential for economic growth in this region at this time, due to its ability to produce high value export crops. Production in Ixcan and Chisec appears to be limited to near subsistence basic grain, agroforestry, and livestock activities. Although road construction is rapidly opening up this region, electricity is available to less than 2% of the population in Chisec, and is officially non-existent in Playa Grande in the Ixcan (although a small plant does provide current during certain hours of the day). There are eighteen telephones in Ixcan, and two in Chisec. Development is also limited by a 72% illiteracy rate in Chisec, 57% in Ixcan, 52% in Barillas, and 76% in San Mateo Ixtatan. There are strong municipal governments that promote development in Barillas and the Ixcan, but these structures are less strong in San Mateo and Chisec. The population growth rate is very high in Chisec and the Ixcan, but low in San Mateo and (somewhat surprisingly) Barillas.

Some development of the Barillas/San Mateo to Coban corridor will likely be automatic with the completion of the planned road projects, if for no other reason than expanded commerce in consumables. However, it is not clear that there is a common economic activity underling the development of this region that could provide the basis for a formal economic corridor strategy for the zone. The dramatic difference in soils and access to water clearly separates Barillas from the rest of the region. Although some non-traditional crops have been identified by CHF for the Ixcan (vanilla, pejiaballe, allspice), they are not ready for mass dissemination within the zone. Under a separate USAID project, AGEXPRONT is examining the market potential for these crops. The excellent

experience with agroforestry and forest management activities that CHF has gained in Ixcán will be very useful both within and outside the region, but these activities will probably only raise income levels slightly above subsistence unless high value crops are part of the package. With introduction of good roads, the tourism potential of this region will increase considerably, but until significant investment is made in hotel and restaurant facilities, this potential cannot be exploited.

The Nexus project is providing important support to the municipalities of Ixcán and Barillas, and this will be an important resource for the region. Investment in human resource development will also be key to the area. At this time, however, it may be more appropriate to promote networking and interchange of development experiences within this “corridor,” and between it and other regions, and wait to promote a more formal corridor strategy until more information is available on the economic growth potential of the region.

C. Nebaj/Uspantan to Santa Cruz del Quiché

A paved road is under construction that will link Santa Cruz del Quiché with Nebaj in the north-central Quiché department, and this road will also reduce transportation costs from Uspantan, even though that town’s connection will be by an all weather dirt road as far as the Sacapulus junction. If an all weather road link is established between Nebaj and Barillas (see above), this could further link this corridor with the northern transversal strip).

The region covered by this potential corridor is quite diverse, although until recently the primary economic activity of the entire area was subsistence basic grain production. The Santa Cruz del Quiché area is now more of a commercial center, serving (along with Chichicastenango) as an important link to regional and national markets. Handicraft production is also important in Santa Cruz, and there is potential for expanded non-traditional export production, although there is limited irrigation potential in the area. There are a variety of organizations that are based in the municipality, including microfinance organizations FAFIDESS, AYNLA, and FUNDAP, as well as formal banking institutions (Banco Industrial, Granai & Towson, Banrural, and Crédito Hipotecaria). The Rey Quiché regional agricultural cooperative had over 4,000 members throughout Quiché department twenty-five years ago, but it lost members due to the 1976 earthquake and the violence of the late 70s and the 80s, and it now provides little or no services to its remaining 800 members.

Nebaj is a municipality that suffered considerable disruption and loss of life during the conflict, and has since received significant GOG and donor assistance. The principal agricultural activities in the municipality are basic grains, coffee, and horticulture. Nebaj has access to water for irrigation, and production of non-traditional export crops could become an important activity once the paved road to Santa Cruz is completed, assuming that the irrigation potential is also developed. ALCOSA and Buen Apetit provide technical assistance to non-traditional producers and purchase export products. The Nebaj area could also develop into a major supplier to organic coffee, building on

the experience gained in Barillas. Several cooperatives are active in Nebaj, including the Cooperative Agrícola Integral Todos Nebajenses, and Cooperativa El Multiplicador (agricultural and non-agricultural). BANRURAL and Bancafé have branch offices in Nebaj, and Adel Ixil provide micro finance lending.

Uspantan is already an important area for non-traditional export crop production, and this activity could be expanded considerably. A significant unexploited area with production potential in the Uspantan municipality is the Zona Reina to the north. The primary factor limiting development of this potential is the need for access roads, especially connecting Uspantan to Cunen and Nebaj. To exploit the potential for non-traditional export crops, investment will also be needed in irrigation. The other potential high-value activity in the Uspantan area, as with Nebaj, would be organic coffee production. The primary banking institution in Uspantan is BANRURAL. Other organizations active in Uspantan include PAF Maya/ITEMAYA, which provides technical agricultural training and serves as a credit intermediary, and the savings and credit cooperative Estrella del Norte. In addition, the Magdalena Milpas Altas cooperative, although not based in Uspantan, has provided technical assistance and a market outlet for non-traditional export crops.

With abundant water for irrigation, good soils, and appropriate altitude, the Nebaj and Uspantan regions offer considerable, unexploited production potential for non-traditional crops, as well as for the production of coffee (especially high value organic coffee). Once the paved road connects this area with Santa Cruz del Quiché, this could become the basis for a viable economic corridor. However, as this corridor would also cross through a number of other municipalities in central Quiché, a more in-depth analysis of the economic potential of the entire corridor would be important. Also, as these intermediary municipalities are not currently targets of concentrated assistance under the income generation strategic objective, this focus would need to be modified if they are to be included.

Another USAID program that is active in Quiché is the Nexus local government strengthening program, which would be very important to a corridor strategy.

D. Other potential economic corridors

Existing or potential road construction investment within the six priority departments could create other possible economic corridors (or perhaps sub-corridors), although these do not appear to have the same potential as those described above. The following provides a brief description of these other possibilities:

- Santa Cruz del Quiché – Joyabaj – San Martin Jilotepeque – San Juan Sacatepequez: Currently roads connect all of these towns, but the Joyabaj – San Martin connection is not an all weather road. If this road were to be improved, economic activity between these communities would increase, although it would mainly be in relation to local/regional markets. A new road that already will connect Joyabaj with San José Poaquil will more likely serve as the

primary connection for the Santa Cruz – Joyabaj corridor with Chimaltenango and Guatemala City. San Martin is one of SO 4's priority municipalities, and it has considerable potential for irrigation and thus increased production of non-traditional export crops. But it is likely that San Martin will maintain (and expand upon) its traditional link with Chimaltenango as its economy develops, given the fact that Chimaltenango is already a center for this non-traditional agricultural exports. One interesting development related to this potential sub-corridor is the creation of an association of mayors of the upper River Motagua municipalities, that will seek to pressure the central government to improve their infrastructure links. This might improve the potential of this area as an economic corridor.

- San Pedro Carchá – Coban – Chisec, and San Pedro Carchá – Coban – San Cristobal Alta Verapaz – Uspantan: As previously noted, the Coban – Chisec corridor was considered as part of the Barillas – Coban corridor, although the recently built road from Coban to Ixcán provides a more direct link to that corridor than via Chisec. There is little similarity between the economic activities of Chisec with those of Coban and Carchá, although the completion of the paved road connecting these areas certainly will create new opportunities for Chisec (as discussed earlier). There is currently a road connection between Uspantan and San Cristobal that links the central Quiché region both with Coban and with the Atlantic highway from Guatemala City to Puerto Barrios. However, the faster market link for Uspantan is via Santa Cruz del Quiché, rather than Alta Verapaz, and trade along this sub-corridor will likely be limited primarily to local market activity.
- Salamá – Rabinal – San Juan Sacatepequez: A new paved road has been built between Rabinal (one of the priority SO 4 municipalities) and Salamá, and there is also a road link between Rabinal and San Juan Sacatepeques. However, it is likely that the easiest market access for Rabinal will remain via Salamá and out to the Atlantic highway, with connections to Guatemala City and Puerto Barrios. The one economic activity that could argue for a San Juan – Rabinal corridor would be tourism, which would take advantage of the Mixco Viejo ruins, as well as handicraft and folklore activities in Rabinal.

V. Conclusions and recommendations

The substantial investment by the GOG in construction of new roads in the Zonapaz region is creating new opportunities for economic activity in the region, and a strategy that focuses on emerging economic corridors in that region could focus efforts on development of those opportunities. However, additional research and analysis will be needed to justify adoption of such a strategic approach, and for USAID it may be more appropriate to consider economic corridors as a unifying theme for its 2003 – 2007 strategic plan, rather than redirecting its current portfolio to address this concept. At this point it would be less disruptive for USAID to adopt a less formal process for networking its activities across its portfolio. This conclusion is based on the following considerations:

- The current USAID program portfolio was designed based on other geographic priorities than those that would be required to focus efforts on economic corridors. While it is possible to change the focus of an ongoing program, this always creates some degree of disruption of ongoing activities. Also, the partners for the ongoing activities might not be the most appropriate ones for the new geographic area, or in any case may object to the change. Even the SO 4 AGIL program, which is just getting underway, would need to be redirected from its present concentration on eleven priority municipalities to a different set of municipalities if it were to focus on economic corridors, and this would delay implementation of a program that has less than three years to achieve significant results.
- The economic potential of the corridors described in this document requires further analysis. The principal economic activities in the Peten corridors, as noted above, are livestock, tourism and forestry. However, more information is needed on the constraints and required investments for each of these activities before an economic corridor concept could be developed. In the Ixcan and Chisec areas of the northern transversal strip, further work is needed to identify the economic potential of non-traditional crops and agro-forestry activities and their potential for mass dissemination, before the economic basis for that corridor can be established. Finally, for the Nebaj/Uspantan to Santa Cruz corridor, the status and potential of the intermediate municipalities needs to be considered, and resources will be needed to support micro-irrigation activities..
- Before adopting an economic corridors strategic focus, USAID and the GOG need to consider trade-offs. For example, should USAID resources focus on the sparsely populated, four pronged Peten corridor (Flores to El Naranjo, Melchor de Mencos, Rio Dulce, and Chisec), which would be appropriate to consolidate livestock production in this region, or should resources be focused on the Quiché and Alta Verapaz regions (which have higher population density)? Redirection of current programs without the in-depth analysis that will be undertaken as part of the development of a new five year strategy could result in a long-term USAID commitment to a less than optimal program focus.
- It is more important at this stage to consolidate the market town strategy underlying the AGIL project. As mini-strategies are developed to achieve targeted results in the eleven selected municipalities, additional investment opportunities in areas such as municipal services, technical training, etc. will be identified. USAID should work closely with the GOG and other donors in attempting to meet these needs.
- Finally, some of the advantages of an economic corridors strategy can be obtained without formally committing to the strategy at this point. The following are examples of activities that could be undertaken to enhance the coordination of investment activities and the future viability of the economic corridor concept:

1. Interviews with USAID officers from different program components clearly indicate interest in increased coordination of activities. Coordination is often the victim of the daily demands of program implementation, but given the degree of interest, closer coordination of some elements of the USAID program should not be too difficult. An initial meeting between USAID staff and program implementing entities involved with the SO 4 program has already been scheduled, and will result in a joint program workplan. It would be useful to hold a similar (but smaller) meeting between officials and entities implementing income generation, natural resource management, local government, human resource development, and possibly administration of justice and health programs. These workshops could result in specific plans for joint program implementation, without at this stage attempting a formal restructuring of any of these programs. Follow up meetings should also be agreed upon in order to monitor the success of coordinating program activities.
2. The development of a future focus on economic corridors will be dependent on further GOG investments in infrastructure. Completion of existing planned road construction or improvement projects in the Northern Transversal Strip, Peten, and Quiché is essential. In addition, construction and improvement of a road connecting Nebaj and Barillas, Uspantan to the Zona Reina, and Joyabaj and San Martin Jilotepeque would increase economic potential in these areas. In addition, extension of three phase electrical service into Chisec and the Ixcán is essential for the development of off farm employment in that region, as is extension of telephone service throughout the region. Finally, border facilities between Guatemala and Mexico need to be strengthened in order to create improved market linkages for producers in the potential corridors. USAID should maintain a dialogue with key GOG officials and other donors concerning the high priority that should be given to these investments.
3. The viability of the potential economic corridors will also depend on the willingness of private investors to invest in new activities in the target regions. Several USAID programs are targeted at creating conditions favorable for such investments, including efforts to facilitate processing of central government permits and licenses via the internet and expansion of banking and other financial services in the region. The USAID program with AGEXPRONT specifically targets promotion of such investment, and while it is important to be realistic concerning the difficulties of such an activity at this time, it will be important to maintain continued support for this initiative.
4. It will be important wherever possible to begin to shift program focus from either exclusively rural (agricultural) activities or exclusively urban activities, to integrated rural/urban (on-farm/off-farm) activities, as this will be key to future development of economic corridors.

5. Finally, it would be useful to carry out further research and analysis of the economic corridor concept. CDIE should be contacted in order to obtain further information concerning past use of spatial development models, both by USAID and by other donors, and communication should be maintained with Peru and Honduras, including possible future observation trips by appropriate GOG officials and USAID staff, in order to explore the experience with secondary city and economic corridor strategies.