



Regional Strategy for Central America and Mexico FY 2003-2008



Volume 1: Core Strategy

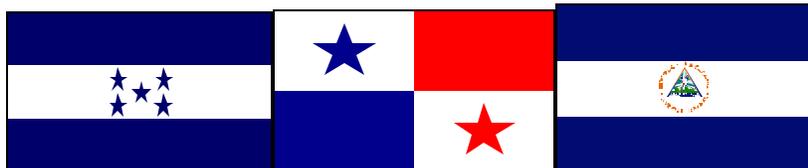
August 1, 2003

With revised managed agreement dated June 24, 2004

Regional Strategy for Central America and Mexico



FY 2003-2008



*“Accelerating Growth and Prosperity in Central
America and Mexico by Rewarding Sound
Practices and Performance”*

*August 1, 2003**

The CAM Strategic Plan was approved by the Agency on August 1, 2003. It sets forth the Agency’s policy and strategic direction for assistance to the countries in the region. Budget data contained in the Strategic Plan are estimates and do not represent a U.S. government commitment to provide a specific level of funding.

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Shifting to High Gear: Accelerating Growth and Prosperity in Central America and Mexico by Rewarding Sound Policies and Performance

Introduction

Central Americans long ago recognized that the prosperity of their individual nations was inextricably linked to that of their neighbors, joining together to form the Central American Common Market. However, the economic crisis of the 1980s and intensification of armed conflicts in the region forced the setting aside of this agenda for over a decade until negotiated settlements to the region's civil conflicts could be brokered. In 1994, the region's leaders once again turned their attention to regional integration and economic growth, forming an Alliance for Sustainable Development. Unfortunately, they encountered a much more difficult environment -- globalized markets, tougher competition, lower prices for the region's principal agricultural exports, and more demanding trading partners.

In Mexico, the North American Free Trade Agreement (NAFTA) and economic policy reforms in Mexico brought unprecedented levels of foreign investment to the country, resulting in the creation of two million new jobs in seven years and propelling growth to an average of 4.6% from 1996-2001. In stark contrast, the economies of the Central American countries limped along. Motivated by Mexico's sterling growth and job creation rate, the Central American countries moved to strengthen regional integration, including reactivating the common market and pursuing similar trade-led growth strategies. Despite Mexico's strong economic performance since NAFTA's inception, more than 37 million Mexicans continue to live in poverty, 15 million of whom in extreme poverty (i.e., on \$1 dollar or less a day). Another 10 million individuals in El Salvador, Honduras, Nicaragua, Guatemala and Panama live on less than \$1 a day, making the region the primary source of illegal immigration into the United States. Food insecurity is also a serious problem in the region, aggravated by the coffee crisis, and adversely affecting the long-term development of the countries in the region. Depressed orders for textile products produced in free zones add further stress to the region's economies. The U.S.-Central America Free Trade Agreement (CAFTA) negotiations and pursuit of a Free Trade Agreement for the Americas (FTAA) by 2005 provide a window of opportunity for Central America and Mexico to expand and diversify their economies so that more of their populations can enjoy higher standards of living.

Now is the time for a tactical shift in our development assistance strategy for Central America and Mexico¹. The promise of CAFTA and a hemispheric FTAA, and the challenges of competing in a globalized market offer a singular, historic opportunity for consolidating democratic reforms and accelerating the pace of economic and social reforms in a region critical to U.S. homeland security. The region is well-poised to serve as a demonstration ground for the principles that underpin the proposed Millennium Challenge Account—that development assistance succeeds best where it is preceded by sound economic policies and good governance, and where governments invest in their people. Democratically elected governments of the region enjoy good relationships with the United States, the economies are largely open and supportive of trade, and the

¹ While Mexico is a larger, more developed country, it is included in the strategy to provide an opportunity for increased cooperation across borders and for USAID/Mexico's approach to serve in some cases as a model for other Missions.

region's natural resource endowment and geographic proximity to the markets of developed countries provide a favorable base on which to launch a more ambitious and integrated economic development strategy for the region lying immediately on our southern border. Throughout the region, successful USAID projects have helped the countries put in place complementary trade, environmental and labor legislation, consistent with international commitments. At the subregional and municipal levels, USAID projects have developed models for accelerated expansion of service delivery programs to improve living conditions, especially in the health and education sectors. What is needed now is for the countries to significantly step-up the pace of economic and social policy reform and implementation, positioning their economies to benefit even further from new trade opportunities and ensure broad-based participation in those benefits, particularly among disadvantaged populations.

The CAM Regional Strategy marks a major shift in how USAID development assistance is provided. First, the strategy focuses on contributing to achievement of national level impact, and is deliberately structured to encourage good performance by partner countries. Second, the strategy requires each Mission to make strategic choices that focus each program on a select number of approaches and interventions. Third, the CAM Regional Strategy gives greater focus to implementation of sound policies that address the key constraints to development. Good governance is a crosscutting theme and an essential part of each objective. Fourth, it provides a single framework, strengthening the linkages between regional and bilateral efforts. It proposes, as a resource allocation tool, the creation of a Performance Fund, to reward good performers and to provide an incentive to those that lag behind. The strategy maximizes operational efficiency through a reduction in management units, streamlined procurement, and creation of a regional services hub—management improvements that will enable the LAC Bureau to work effectively within an environment of constrained staffing and operating expense resources.

A. Summary of the Regional Strategy

With this prelude, we are pleased to present a new, regional assistance strategy for Central America (El Salvador, Guatemala, Honduras, Nicaragua and Panama) and Mexico, herein after described as “the Region.”² This strategy was developed in close consultation with host country governments, NGO partners, other USG agencies and other donors. Beginning in FY 2003, four of the six bilateral programs (Honduras, Nicaragua, Guatemala, and Mexico) will be subsumed under this regional umbrella (with activities to begin in FY 2003 in Honduras, Nicaragua, and Mexico). In FY 2004, country plans for the remaining two programs (El Salvador and Panama) will be incorporated, as well as a Regional Program Plan to replace the current Central America Program (CAP) strategy that is operating under a 2002-2006 time frame, to enable it to better support the new Central American and Mexico strategy.

The Central America and Mexico (CAM) Regional Strategy, FY 2003-2008, provides the framework for regional and country-specific programs leading to achievement of the overarching regional goal of a ***more democratic and prosperous Central America***

² For purposes of this strategy, references to Central America are not intended to include Costa Rica – a country which has graduated from bilateral, country-specific programs but which will benefit from CAFTA and currently participates in some of the regional activities, such as our trade capacity building program known as PROALCA. Belize is also a non presence country and only participates in the strategy through regional programs, or in the event of a border program with Guatemala.

and Mexico, sharing the benefits of trade-led growth broadly among their citizens.

The new regional strategy narrows the focus of USAID investment to a limited number of results within the three performance “arenas” established in the Millennium Challenge Account: Ruling Justly, Economic Freedom, and Investing in People. Results selected reflect an explicit prioritization of investments that have greatest potential to have national and regional level impact³ in these three arenas, thus assisting countries to move along the trajectory toward meeting MCA criteria⁴ and put the region on a faster track towards broad-based prosperity. Activities such as NGO service delivery programs with limited geographic outreach, which are not part of a demonstrated host government commitment to bring programs to scale, will no longer be supported. Other examples of activities that will no longer be supported include strengthening of civil society except as a vehicle for achieving other results, support for small-scale stand-alone microenterprise lending programs, or protected area management except for critical watersheds and their buffer zones. A Special Objective recognizes the region’s vulnerability to natural disasters and the continuing importance of mitigation and disaster preparedness efforts made apparent in the aftermath of Hurricane Mitch, and will enable the Agency to implement programs quickly in response to natural disasters and crises. In addition the CAM Regional Strategy includes a regional Program Support Objective to accommodate the Performance fund that will award the best performing programs in the region. Programs that fall outside these objectives, but are nevertheless required as a result of other foreign policy priorities, Administration directives, or Congressional earmarks will be supported through Special Objectives. In the case of Mexico and Panama, U.S. foreign policy objectives require that those Mission’s pursue the following special objectives:

- ❖ Mexico: Implementation of the Presidential Training Initiative: “Training, Internships, Exchanges and Scholarships” (TIES)
- ❖ Panama: Darien Integrated Community Development Initiative, which addresses the cross-border impacts of Colombia’s war on drugs

Detailed descriptions of activities to be carried out in each country are included in the Country Plan Annexes to this strategy. The mandate to focus on national and regional level impacts (further defined through the indicators selected for each SO) and USAID/Washington’s resource and staffing parameters have forced Missions to make further strategic choices in their country plans. No bilateral Mission has the ability to successfully pursue all of the results included in the Regional Strategic Framework, and each has had to choose areas of emphasis for bilateral investments by selecting from the “menu” of intermediate results. Choices reflect variations in host country commitment and performance within subsectors of individual countries, perceived “windows of opportunity” for effecting or implementing policy and service delivery reforms, and the use of regional programs to achieve key results.

³ National level impact does not mean 100% coverage within the strategy period, or completely solving a problem – both are outside our limited resources and manageable interest. Rather, this means helping a country advance significantly on an important national level indicator, such as educational attainment, infant mortality, or population growth rate.

⁴ Not all countries in the region are eligible for participation in the MCA given the per capita income ceiling. However, for those countries eligible to compete, the MCA constitutes an important incentive to performance. For others, the MCA criteria reflect important development objectives that will significantly improve the quality of life of citizens and increase democratic stability within the region.

USAID staffing and operations will also be adjusted to support the new regional strategy. Among other changes, we are proposing creation of a regional support services hub, streamlined procurement, and more strategic use of alliances.

B. Foreign Policy Interests and Goals in Central America

U.S. interests in the region coincide with the goals that the Central American Presidents expressed during the Madrid Consultative Group for Central America and the Quebec Summit of the Americas: increased prosperity, democratic openness, and integration within the region and with neighboring Mexico and the United States.

U.S. interests include:

- Sustaining and deepening more open democratic systems across the region;
- Facilitating regional integration and “two-way” trade and investment between the United States and Central America;
- Promoting a more open, transparent and competitive market economy able to generate diversified investment and employment that will reduce poverty and lead to prosperity;
- Reducing illegal immigration and narcotics trafficking by reducing poverty, investing in people 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 infectious diseases, especially HIV/AIDS.

On January 8, 2003 leaders from five Central American countries (Guatemala, Costa Rica, Honduras, Nicaragua and El Salvador) and the United States launched negotiations for a US-Central America Free Trade Agreement. U.S. Trade Representative Ambassador Zoellick captured the intent and hope for CAFTA when he stated that : “CAFTA will give Americans better access to affordable goods and services and promote U.S. exports and jobs, even as it advances Central America’s prospects for development. This free trade agreement will reinforce free-market reforms in the region. The growth stimulated by trade and the openness of an agreement will deepen democracy, the rule of law, and sustainable development. This agreement will further the regional integration that the Central Americans have begun, and complement our vital work on the Free Trade Agreement of the Americas (FTAA).”

U.S. exports to Central America in 2000 reached \$8.8 billion; this is more than we exported to Russia, Indonesia and India combined. Mexico is our largest trading partner in Latin America, and largest oil supplier to the United States and Central America. As our second most important trading partner in the world, Mexico enjoys a close and special relationship with the United States. Mexico’s President Fox has established a development initiative to more closely link southern Mexico and Central America, called the “Plan Puebla Panama,” that complements U.S. national interests and Central America’s own desires for closer economic ties. At the same time, the United States is an increasingly important destination for Central American exports, with the United States already purchasing over 50% of the region’s exports. Increased access to “two-way” trade with the United States under CAFTA will greatly stimulate the region’s economic growth.

In parts of Mexico and throughout the countries of Central America, a great share of the populations live below the poverty line, and the lack of economic opportunities make the region the primary source (88%) of illegal immigration into the United States. Despite some modest improvements in the education sector, major failings still exist in the quality, equity and efficiency of the region's basic education systems, contributing to a workforce with far less education than countries in other regions with similar income levels. This under-investment in human capital, if not reversed, will cause world markets to turn elsewhere, ensuring that illegal labor, and not manufactured goods or services, continues to be a chief export. Stepped up law enforcement cooperation in Colombia and worsening economic conditions, stemming from depressed commodity prices for the region's principal commodity exports (especially coffee) and a downturn in tourism post-September 11, have contributed to increases in narcotics trade and other transnational criminal activities. Although considerable progress has been made to reduce maternal, child and infant mortality throughout the region, the region continues to suffer from high maternal and infant mortality and fertility rates; there has also been little improvement in the high childhood malnutrition rates in Central America, with malnutrition being the underlying cause of up to half of child deaths. HIV/AIDS is also taking an increasing toll. Mexico and Honduras are among the countries with the highest reported number of HIV/AIDS cases in Latin America, requiring that more aggressive prevention and treatment programs be launched. If left unchecked, HIV/AIDS as well as other infectious diseases (e.g., tuberculosis) threaten the health and productivity of the region's population and our own.

C. Overview of Regional Needs and Development Challenges

Our analysis of conditions in Central America and Mexico reflects tremendous similarities in the challenges faced by these countries, not the least of which is that democratic governance and trade-led growth geared toward job creation can lift broad segments of the population out of poverty. Increases in crime and violence fueled by transnational organized crime, corruption, and difficult economic conditions are contributing to growing citizen discontent with government. There is a resurgence of populist sentiment throughout the region, endangering the region's commitment to market-based reform and the establishment of a Free Trade Area of the Americas.

Central American countries underwent profound political changes during the 1990s with the ending of armed conflict and fair and free election of democratic leaders. However, these political changes were not accompanied by necessary economic and social transformations, and Central America and parts of Mexico continue to be among the hemisphere's poorest. Food insecurity is a serious problem in Central America, aggravated by the current coffee crisis and adversely affecting the longer-term development of the countries in the region. While performance varies between countries, the level and quality of social investment and annual rates of growth fall significantly short of requirements for elevating living conditions of the region's poor. Despite Mexico's strong growth and 20% increase in per capita income since the inception of NAFTA, more than 37 million Mexicans continue to live below the poverty line and the country has among the greatest extremes of wealth and poverty of any nation in the world. National trade capacity building action plans prepared by the Central American countries for CAFTA negotiations reflect overwhelming concern with measures to ensure that the benefits of a free trade agreement extend to agriculture, small business, and other sectors that have benefited least from NAFTA. Better regulation and expansion of the increasingly "regional" financial sector, greater efficiency (and

where possible, integration) of “export” services such as customs clearance and phytosanitary certifications, and significant improvements in the quality and productivity of the workforce are essential to the countries’ abilities to seize new trading opportunities that will become available.

The region also faces many cross-border development challenges and opportunities, especially the management of water resources (from ridge to reef) and control of infectious diseases facilitated by the high mobility of populations within the region. Water is a critical input to our economic growth strategy for the region. In 1998, Hurricane Mitch demonstrated the repercussions from excessive surface runoff on land improperly used throughout the region. Poor watershed management practices in any one of the five major watersheds in the region can have disastrous consequences downstream, more often than not in a neighboring country. Continuing high visibility, long-standing border disputes, including Belize-Guatemala and Honduras-Nicaragua, as well as less politically sensitive but still potentially conflictive border problems associated with trade and illegal migration (e.g., Nicaragua-Costa Rica; Colombia-Panama) also present special challenges for the governments of the region.

Given the similarities in development needs and inter-dependence of the economies of the region, it is not surprising that the countries of Central America and Mexico have increasingly looked to joint approaches to solving their problems. In 1994, the countries of Central America formed an Alliance for Sustainable Development, lobbying the United States and other countries for increased levels of development assistance and preferential access to markets. Witness to the rapid transformation of Mexico’s economy post-NAFTA, the Central American countries requested similar treatment, hoping to follow the lead of Mexico and to emulate the success of Chile’s trade-led growth strategy that enabled the country to achieve a significant reduction in the level of poverty. Most of the Central American countries have since negotiated free trade agreements with Mexico, and intra-regional trade with Mexico has increased. A free trade agreement with the United States will provide the preferential access to the U.S. market and expand inter-regional trade needed to unleash the region’s growth potential. However, free trade agreements, without the parallel investment in worker productivity, infrastructure, and a more secure legal framework, will be insufficient for agriculture and business to prosper and for the countries to address the economic challenges they face.

D. Proposed Regional Strategy

The regional strategy will build on efforts initiated by the Central American countries and Mexico in the late 1990s to open their economies, strengthen democracy, and improve investment in the social sectors, particularly through policy measures targeted at disadvantaged groups. We believe that focused USAID efforts can help the region advance on the path to greater prosperity, more just governance and improvements in the quality of life of its people through trade-led growth – putting the region on a faster track to progress.

The goal of this new six-year regional strategy for Central America and Mexico is ***a more democratic and prosperous Central America and Mexico, sharing the benefits of trade-led growth broadly among their citizens.*** By the end of the six-year period, U.S. assistance will have helped the countries of Central America and Mexico to reduce corruption, bolster citizen and investor confidence in democratic governments, increase the volume and value of trade, and improve living standards through reductions in infant

mortality, improved educational attainment, and increases in per capita GDP. We will monitor closely and expect to have a positive impact the distribution of income, expanded access to basic services, and confidence in democratic institutions and processes. Negotiation and ratification of CAFTA and the FTAA will be essential to success of this strategy.

In order to achieve this goal, USAID will need to concentrate its resources – and leverage others – on three principal objectives:

- ❖ **Ruling Justly: More Responsive, Transparent Governance**
- ❖ **Economic Freedom: Open, Diversified, Expanding Economies**
- ❖ **Investing in People: Healthier, Better Educated People**

Furthermore, USAID must continue its historical role as provider of humanitarian aid to victims of crisis, and strengthen emergency preparedness in a region prone to natural disasters. A special objective reflects these interests:

- ❖ **Timely, Effective Humanitarian Assistance and Crisis Response**

Annual funding requirements for the six-year strategy for Mexico, Guatemala, Honduras, and Nicaragua, and a performance fund to be allocated based on host country achievements, are based on current annual planning parameters totaling \$168,450,000 as shown below. These parameters were developed when the plan was still to develop bilateral strategies for each country; under the CAM strategy, however, funds will be allocated to individual country programs based on their best potential to contribute to achievement of regional objectives, although adjustments in emphasis will be made when circumstances – e.g., slide toward a “failed state” situation -- warrant. Funding for El Salvador, Panama, and the Central America Regional Program is currently covered under individual, ongoing strategies. The overall CAM strategy levels shown below will be revised when these final Country Plans and a new Regional Program Plan are approved (est. June 2004). Also, as the underlying causes of food insecurity and its solution differ from country to country, comprehensive food security assessments will be undertaken in each country prior to requesting Title II resources, and the strategies for addressing food insecurity will be described in the respective Country Plans.⁵

- ❖ **Improved Country Performance**

Through a Program Support Objective included in this strategy, LAC will establish a **Performance Fund** of approximately \$10 million annually. Missions will report on their performance annually and Awards will be made in three categories tracking with the three principal SOs: Ruling Justly, Economic Freedom, and Investing in People.

⁵ These strategies should acknowledge the likelihood that monetization levels will decrease and that other resources (DA/CSH) will have to compensate for administrative costs of food programs or levels of food assistance may have to reduce.

SO1: Ruling Justly: More Responsive, Transparent Governance

a. Development Challenge: Lack of Accountability, Impunity and Insecurity

Violence, injustice and lack of accountability constitute major obstacles to development and greater prosperity. USAID's most recent report, Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity, concludes that governance is the foremost of six critical development issues that must be given priority by our development assistance. Nowhere does this conclusion seem truer than in Central America and Mexico, where issues of violence, impunity, and corruption threaten the success of two decades of peace building.

Known internationally for the internal wars and human rights violations that characterized the 1980s, Central America and Mexico are, unfortunately, still branded by violence--albeit of a much different and perhaps more worrisome sort--that associated both with common crime and the growth of international organized crime related to drug trafficking and illegal immigration. While there are some notable outliers (e.g., Nicaragua), the region suffers from extremely high rates of homicide and violent crime. Kidnappings for ransom have increased dramatically in Guatemala and Honduras, and armed robberies of banks, armored cars and automobiles are daily occurrences along with urban gang violence. Police forces are over-burdened and often ineffective, and the judicial systems simply do not work. Perceptions of violence and crime have climbed, and polls now rank security and crime as the most serious problem for the region's governments to address. Social conflict has grown as well, as illustrated by the surge in farm invasions by *campesinos* in Guatemala, protests by indigenous populations in Southern Mexico, and strikes by doctors, teachers, and demobilized combatants in El Salvador and Guatemala. The inability of governments in the region to protect their citizens from violence threatens the still shaky democratic foundation and jeopardizes the political environment for greater foreign investment and more equitable, sustainable economic growth.

USAID efforts to modernize and professionalize the region's judicial systems are among the most important institutional reforms of the past 20 years. These reforms, along with the transition to civilian policing, have had an impact on day-to-day justice in the region and human rights violations have declined. However, many problems remain. Public opinion polls continue to reflect low levels of confidence in the judiciary, and a weak rule of law provides incentives for citizens to seek private means of obtaining justice and ensuring their security. While new criminal procedures codes have been put in place, judicial actors -- prosecutors, judges, public defenders and investigators -- have yet to fully sort out institutional roles and relationships, and build technical proficiency needed for optimal performance. Court judgments lack transparency. There is little public confidence in the judiciary. In addition, while judiciaries have achieved a large degree of autonomy from the executive and legislative branches, judges and other key actors are increasingly subject to pressure from elites and other influential groups, including organized crime. Systems for supporting the honest or rooting out the corrupt, through monitoring of performance and the investigation of charges of unethical behavior are either weak or non-existent. Central American countries and Mexico have made few efforts to jointly address the transnational reach of organized crime or harmonize their

laws and justice procedures to facilitate improved law enforcement. The task of civil code reform also looms large for the region. Civil litigation procedures are outdated, and in only a few countries allow for use of more agile procedures such as arbitration or mediation.

Perception of corruption in Central America and Mexico runs high. Democratic institutions are not mature enough to prevent abuses of power, which are often significant. Near total control by elites leaves other citizens defenseless on a wide range of governance issues. Political systems are focused more on party loyalty and interest than on the government's responsiveness to citizens. USAID assistance to the region over the years has been instrumental in instituting free and fair elections, a stronger system of checks and balances (including strengthened audit authorities and ombudsmen), devolution of authority to regional and local levels, and the rebuilding of a network of private organizations to channel citizen input into more open, transparent and accessible decision-making. As we have seen through our efforts, however, there are no shortcuts to building more democratic, effective and accountable governance. Corrupt officials and businesses have siphoned off millions of dollars from the public treasuries, limiting health, education and infrastructure investments essential to economic growth. Not surprisingly, tax reform and other efforts to improve tax collection have been only moderately successful, with a public increasingly disillusioned by reports of how their tax revenues have ended up in the pockets of public officials and their friends.

Through USAID and other donor support, many of the basic tools for more accountable government – integrated financial management systems, independent audit agencies, legislative checks and balances, and more transparent procurement processes – are or will soon be in place. However, work still needs to be done to put these tools to effective use. USAID-supported municipal strengthening programs throughout the region have also demonstrated that local governments can serve as conduits for greater citizen engagement in decision-making and oversight of resources. As a result of legislative improvements to municipal autonomy, revenue sharing schemes that have increased local budgets and improvements in the professional capabilities of mayors and technical staffs, local governments now have greater potential to assume a larger role in the region's development. Our strategy for establishing and improving accountability and renewing confidence in democratic governance rests heavily on an enhanced role for local governments, and ensuring the capacity and resources for local governments to meet the basic needs of their citizens. We will focus, therefore, on accelerating the pace of decentralization and devolution of authority so as to place resource decisions closer to the public and the citizenry's watchful eye, as well as better use of the "tools" of good government.

b. Development Hypothesis/Proposed Program:

Economic and social dividends of the peace processes and democratic transition in the region have gone unseen by vast segments of the region's citizens, particularly among the most disadvantaged groups. Public confidence in democratic institutions is waning, and citizens question whether a democratic state can ensure their security, contain corruption, and better people's economic status. Therefore, one of our three objectives for the new six-year Central America and Mexico strategy is building **more responsive, transparent governance** as a foundation for a stronger, more democratic and prosperous region. Democratic and accountable states achieve more sustainable

growth and provide opportunities for their populations to achieve a higher quality of life. Building a sustainable, democratic foundation requires mechanisms that give people the means to influence public policy, push for transparency and accountability in government and reinforce the operation of checks and balances. Predatory government, a weak rule of law, and rampant corruption will scare off business and investment needed for more rapid growth in the region. On the other hand, opening the economy without a strong democratic framework in place that ensures equal opportunity will likely exacerbate the inequalities and social tensions that gave rise to civil conflicts throughout much of Central America. Ensuring that the benefits of more dynamic trade-led growth are shared broadly among citizens in the region, thus, requires that we aggressively pursue more responsive, transparent government hand-in-hand with efforts to foster free trade in the region.

USAID democracy and governance programs in Central America and Mexico have addressed a breadth of issues and challenges, and we can cite a long list of accomplishments of just the past decade. For example, we have provided the impetus for a shift from written, inquisitorial systems of justice to oral, adversarial systems that offer greater transparency, efficiency, and protection of citizen rights. We have helped nurture a trend toward greater decentralization of government functions to the local level and promoted development of an active and vocal civil society promoting democratic reforms. We have also helped various countries move from war to peace and mend the tears in their social fabric that resulted from years of war. Unfortunately, the pace at which a broad range of improvements can be implemented given existing resource constraints and political will is too slow to outpace the undermining of citizen security and confidence resulting from rampant corruption and the weak rule of law. People see little positive impact on their lives from continued political promises and pronouncements on reform. The time has come to focus all our available resources on two key challenges -- strengthening **the rule of law** and achieving **greater transparency and accountability**. There are, of course, other challenges to democracy in the region, but resource limitations, the corrosive impact corruption, a weak rule of law, and the relationship of these issues to U.S. foreign policy priorities have led us to prioritize these sectors.

c. Results Framework Description

The Regional SO and focus of USAID assistance is **More Responsive, Transparent Governance**. The principal results anticipated by the end of the six-year strategy period are:

- greater effectiveness of the courts and overall judicial system; and
- improved responsiveness and services of key government agencies.

Moreover, the strategy will seek to further harmonize criminal and civil code reforms across countries and improve coordination among countries on cross-border corruption cases.

The above results will be achieved by concentrating USAID development assistance and any ESF resources allocated on efforts to: (a) strengthen the rule of law, by consolidating criminal justice reforms, promoting increased use of alternative dispute resolution mechanisms, supporting efforts to reduce crime and violence, and bolstering the prosecuting of corruption cases; and (b) achieve greater transparency and

accountability in government through more open, effective public procurement, auditing, and expenditure controls; increased devolution of responsibilities and resources to local governments, giving them enhanced response capacity; more opportunities for citizen participation in decision making and oversight; and increased accountability of elected officials to citizens.

The following Intermediate Results (IRs) and illustrative activities will produce these results:

Intermediate Result 1: Strengthened Rule of Law

Activities under this IR will improve the agility, transparency and fairness with which criminal and civil disputes are resolved, increasing citizen and business confidence in the rule of law and improving adherence to due process and citizens rights. USAID will continue to provide technical assistance to accelerate adoption and implementation of reformed criminal procedures, including support for better coordination between police and prosecutors, more transparent case management and tracking systems, enforcement of judgments, improvements of judicial training programs, and systems for monitoring performance of judicial operators and ensuring adherence to ethical standards. Despite improvements in the average time to resolve cases, workloads continue to grow as crime and violence spiral out of control and significant numbers of unsentenced detainees continue to languish in jail. USAID efforts will help courts reduce criminal trial court backlog (in large part through procedural reforms, some of which have already been adopted) and greater institutional effectiveness. In some countries, the introduction of more agile civil law procedures, especially for small claims, will be explored to facilitate handling of commercial disputes but also as a means for reducing criminal court workloads. Judiciaries once reluctant to support alternative dispute resolution (ADR) mechanisms are more open to these reforms and USAID assistance will help countries to adopt and expand the use of ADR. USAID will also assist communities and municipalities looking for solutions to crime and violence, through support for community-based crime prevention efforts possibly linked to increased emphasis on community policing. Finally, given the widespread nature of corruption in the region and the damaging impact it has on social and economic development prospects, USAID will seek opportunities to improve the prosecution of corruption cases.

Illustrative Activities:

- Technical assistance to improve the transparency and efficiency of judicial processes, including improved case management and judicial training programs;
- Technical assistance and training to facilitate implementation of key reforms in and improve the functioning of key justice institutions;
- Technical assistance to associations of mayors, business and other community organizations in the design of community-based crime prevention programs that promote constructive collaboration with the police;
- Support for advocacy groups pushing for adequate funding and improved functioning of justice and law enforcement institutions;
- Technical assistance and training for the development of alternative dispute resolution capacity and to improve fairness and timeliness of civil, especially, cases; and
- Technical assistance to improve justice sector performance in monitoring and investigation of corruption charges and prosecution of corruption cases.

Intermediate Result 2: Greater Transparency and Accountability of Governments

When political figures divert public resources to private ends, poor nations become poorer. Even though the intrinsic value of democracy is generally recognized, the skepticism of citizens in Central American countries and Mexico over their governments' ability to serve their needs in a manner that is accountable to them remains a concern. Addressing corruption is central to good governance and economic growth. USAID will assist host countries to adopt measures to improve the business climate and reduce transaction costs by changing the environment in which public and private sectors interact. Results will include establishing transparent public procurement procedures, extension of government expenditure tracking systems and their "accessibility" to the public, reforms to systems of representation to create greater accountability of elected officials to their constituents, and greater devolution of resources and responsibilities to the local level.

Illustrative activities:

- Technical assistance and training to ministries and other government entities to streamline and increase the transparency of government procurement;
- Technical and financial support to improve government financial management and auditing procedures;
- Technical assistance to facilitate implementation of key reforms in primary implementing entities;
- Support for legal reforms to further the devolution of authorities and resources to the local level, where needed;
- Technical assistance to improve the municipal tax and revenue base, and the accountability for these increased resources;
- Technical assistance to accelerate both the scope and responsiveness of municipal level service provision;
- Technical assistance to promote more cost-effective service provision and cost recovery, including broader access to financing and public-private sector alliances on infrastructure projects;
- Support for national and regional associations of mayors to develop guidelines for transparent municipal operations, and training for local government officials in expanding opportunities for citizen participation;
- Technical assistance to legislatures and ministries in developing laws and regulations requiring public comment on new legislation;
- Support for development of social auditing mechanisms to provide oversight of government at local and national levels; and
- Targeted support for electoral system reform efforts to improve linkages and accountability between elected representatives and their constituents.

As a result of focusing in the above areas, the strategy will not include activities in the following areas:

- Civil society programs that have as their sole objective the development of civil society or that are unlikely to make a direct contribution to one of the above Intermediate Results;
- Broad or generalized civic education programs without specific linkage to one or more of the above Intermediate Results;
- Citizen participation activities that give greater focus to quantity over quality;

- Support for local government programs that work in isolation or unlinked to national level policy reforms; and
Work on civil-military relations.

d. Sustainability of Impact

Public-private partnerships are vital to the long-term implementation of the judicial reform process and holding governments accountable to high levels of performance. A coalition of public and private sector institutions can better address the issue of good governance and ensure the sustainability of the measures adopted than can governments alone. Advocacy organizations also have an important role to play in sustaining rule of law and good governance mechanisms developed under this SO.

e. Measuring Achievement: Preliminary Performance Management Plan

SO Level Indicators:

- Trial court performance (e.g., % cases reaching trial that are concluded; % that are concluded within stipulated time period; and % of total resulting in guilty verdicts)
- Changes in user assessments/evaluations of the responsiveness/quality of service of key government agencies (e.g., local government, electoral authority, courts)

Other indicators:

- Efficiency of judicial sector (e.g., case processing time)
- Percent of corruption cases filed brought to trial; % cases where trial court renders verdict
- Changes in the % persons in national survey who have been victims of crime
- Percent of government budget tracked through integrated financial management
- Degree of public access to information about government budget and expenditure
- Total resources managed by local government as % of total public resources

f. Estimate of Required Resources: See table attached and country plans.

g. SO start and end dates: FY 2003 -2008

SO 2: Economic Freedom: Open, Diversified Expanding Economies

a. Development Challenge: Competitiveness and access to key inputs

The countries of Central America and the border areas of Mexico share similar economic problems and environmental threats. As globalization advances, businesses, and especially rural enterprises, face greater competition and declining market prices for their traditional commodity exports. Mexico's post-NAFTA performance indicates that the agricultural sector may be the least prepared to enter the world market having been shielded from competition through domestic constraints on trade and on investment, but

it also stands to gain through significant new opportunities. Meeting the standards of international markets and competing with imports in their domestic markets, especially as the supermarket chains expand across the isthmus, will require improvements in both quality and volume of production, as well as investment that converts basic agricultural commodities into higher value-added products. Economies must also diversify, expanding the range and percentage contribution of the nonagricultural sector. Small and medium-sized enterprises are starved for capital. In addition to increased access to financial services, these firms must also improve their competitiveness and marketing, or be squeezed out by larger firms in a more demanding marketplace. In the short term, the proximity of the countries in the region, relatively good transportation network, and low services trading volume can give a “competitive” edge to the region’s products in intraregional markets, enabling firms within the region to secure a foothold in markets now, but only if export and import processes can be more efficient and nontariff barriers eliminated.

As the region as a whole prepares to participate in a FTAA, the countries still need greater preparation to negotiate successfully and implement free trade agreements. As NAFTA was with Mexico, CAFTA will be a good testing ground for the Central American countries, especially as the countries tackle the challenges of implementing the agreement. The region’s commercial and legal frameworks, especially related to competition, property rights, contract enforcement and government procurement, must be made more compatible with international standards. Customs procedures, phytosanitary certifications, and other systems essential to efficient trade must also be improved, as well as compliance with international standards for labor and environmental protection. If small and medium enterprises, and especially those in the rural sector, are to be competitive, they must have greater access to financial services and lower costs of getting products to market. In addition, to stay competitive, producers must have access to better production, processing, and marketing technologies, whether these are facilitated through private or through public sector channels.

In order to maintain the region’s competitiveness and access to key inputs, economic growth must be built on a foundation of sustainable resource use and environmental protection. Many of the region’s economic opportunities depend on its natural resource base, including tourism, specialty coffee and forest products, as well as the availability of stable and clean water supplies. Reducing vulnerability to natural disasters, such as catastrophic forest fires and hurricanes, is also essential for economic stability and maintaining market share. Central America and Mexico have exceptional biodiversity that must be conserved for both its current and future value. Improving the management and conservation of critical watersheds provides a mechanism to integrate natural resource conservation with the development of sustainable economic opportunities, while also addressing global climate change.

b. Development Hypothesis and Proposed Program

More robust growth is essential to a more democratic and prosperous region. Increased trade, achieved in part through free trade agreements that expand market access, will provide the opportunity for faster growth. Taking full advantage of this opportunity and translating it into growth, however, depends on the countries instituting the right policy frameworks and incentives for enterprises, helping them to improve their competitiveness, and ensuring their compliance with environmental regulations. Better management of the region’s watersheds and natural resources will also be critical, both

because they represent essential inputs to most production processes, and because the region's watersheds serve as "host" for many of the region's most marketable products or services, including tourism. This Strategic Objective focuses, therefore, on helping the countries of Central America and Mexico to achieve more ***Open, Diversified and Expanding Economies***. Recent literature (Mellor, et. al.) posits that expansion of the rural off-farm sector will be what lifts millions of people out of poverty. Success in lifting millions out of poverty depends on getting rural incomes to rise⁶ and enhancing the impact of the agricultural sector multiplier on economic growth. Through investments focused on boosting incomes in the farm and off-farm sectors, consumer demand for locally produced products (including agricultural goods) will be increased, thereby forging linkages that can stimulate growth in the local economy. Thus, because of our interest in ensuring that the benefits of trade-led growth are broadly shared, this SO emphasis is given in participation of the rural sector – and in particular, small and medium-sized enterprises. Emphasis is also given to supporting those enterprises that have greatest potential for job creation. The approach taken under this SO is also guided by findings of the pro-poor economic growth research series,⁷ which encourages countries with abundant labor pools to stimulate the use of excess labor (e.g., fostering export of labor-intensive products rather than extractive commodities); focus on raising productivity and employment opportunities in agriculture and in rural, nonagricultural activities; and facilitate mutually beneficial linkages between the large-scale modern sector and smaller-scale producers, among other recommendations. While this SO is focused on trade-led growth, special attention is given to employment creation and the rural sector, so that if growth occurs, poverty should decline over time. USAID will monitor the effect of growth on incomes disparities over the course of the strategy to ensure that it is having the intended, positive impact.

c. Results Framework Description

USAID assistance to promote trade-led growth in the region will focus on achieving ***Open, Diversified and Expanding Economies***. The principal results anticipated by the end of the six-year period of this strategy are:

- increased trade, both intraregional and total;
- greater contributions of especially higher value-added sectors such as manufacturing, tourism, services and "green products" to the economy;
- new jobs and economic opportunities, leading to increased and more equitably distributed incomes of the citizens of Central America and Mexico; and
- improved management of critical watersheds and natural resources.

These results will be achieved by assisting countries to negotiate and implement free trade agreements, improve the quality of the business environment and enterprise competitiveness, broaden access to financial markets and services, and improve management and conservation of priority watersheds. Experience has shown that governments have had limited effect on enhancing the competitiveness of enterprises because, in giving top priority to measures intended to alleviate rural poverty directly,

⁶ Mellor clearly asserts that this goal can best be achieved by interventions focused on increasing on-farm incomes by moving producers into higher value, market-linked crops; this, in turn, leads farmers to spend their incomes on purchasing other rural-produced (agricultural and non-agricultural) goods and services, thereby enhancing the agricultural sector multiplier impact on rural economic growth, and the rural sector's contribution to a country's GDP.

⁷ Development Alternatives, Inc and Boston Institute for Developing Economies, Ltd., "Poverty-Problem Country Typologies," 2001

there has been too much focus on supply-side production for the rural poor and too little emphasis on facilitating linkages with regional and international markets. Further limitations result from inadequate emphasis on the structural conditions that affect investment and the capacity to respond to trade opportunities. Promoting more efficient functioning of markets and facilitating access to external markets, therefore, will be the principal aims of this SO.

A fuller description of these key intermediate results and illustrative activities follows:

Intermediate Result 1: Laws, policies and regulations that promote trade and investment

Activities under this IR will improve the capacity and framework of the Central American countries and Mexico to negotiate and expand the benefits their people receive under free trade agreements. Activities will also help the region to reduce barriers to intra-regional trade--including continued development of the intraregional energy market to provide more constant and reliable energy delivery with a more competitive and uniform price structure across the region--and to trade outside the region. This IR will also help governments better conform their commercial and legal frameworks to international standards, and improve the legal and regulatory environment for small and medium enterprises, so that they too may benefit from increased trade.

Illustrative activities:

- Trade capacity building/training of Central American negotiators and private sector leadership to ensure a common and sound understanding of technical issues leading to mutually beneficial trade agreements;
- Technical assistance to address remaining barriers to regional trade;
- Expert counsel to governments to improve laws and regulations that affect commerce (commercial codes, property rights) in the region and to strengthen their enforcement of same; and
- Expert counsel to governments to improve the legal and regulatory environment affecting the ability of small and medium-sized enterprises to participate in trade.

Intermediate Result 2: More competitive, market-oriented private enterprises

Through advice and counsel that will be made broadly available to small and medium-sized enterprises, this IR will help them take advantage of an improved legal and regulatory framework by promoting fundamental changes in their ability to diversify and compete in local, regional and world markets. It will increase the access of enterprises to market information and strengthen their capacity to use such information to produce in response to market demand, rather than seek buyers for what they already produce. It will improve their technical know-how on production and encourage their diversification toward higher price markets to boost overall sales and revenues. To address one of the lowest areas of rating for countries in the region on the World Economic Forum's annual Competitiveness Index, the program will enhance the managerial and entrepreneurial skills of business managers and increase their knowledge and ability to make connections in local, regional and international markets. The program will support competitive, sustainable, diversified economic growth by working with "clusters" of related firms to address shared problems, promote more forward/backward linkages and integration, and compete effectively in trade of higher value-added products. USAID will

help these firms to capitalize on economies of scale, implement creative solutions to the production and marketing problems they face together, facilitate supplier training initiatives to link small and medium-sized firms to larger buyer operations, link with environmentally sustainable “green” markets, develop systems of fee-for-service marketing and technical support, and otherwise foster synergies and innovation. The program will also facilitate their increased access to technology and other business support services. Finally under this IR, USAID will utilize PL 480 and Food for Work resources to improve infrastructure in food insecure areas to facilitate access to markets by poorer, more remote communities and to lower their business transaction costs.

Illustrative activities:

- Business/management skills training and technical and market information, especially through business associations or supplier-training initiatives of larger firms, to help small and medium enterprises adopt better production practices and improve their understanding of how to meet internationally required market standards, including sanitary and phytosanitary restrictions, packaging and labeling requirements, food-safety concerns, and various product certification schemes;
- Alliances with multinational or national firms already successfully engaged in g
- Global markets to provide entrepreneurial and international business skills training to leaders of small and medium size enterprises working in related lines of production (e.g., coffee quality alliance);
- Establishment of fee-for-service technical support packages for enterprises engaging in sustainable economic activities that conserve or maintain the natural resource base;
- Technical assistance to help firms identify and compete effectively in “green” markets;
- Assistance to business associations to foster linkages among related firms;
- Support for greater access to technology and support services; and
- Improved infrastructure in food insecure areas to facilitate access by communities to markets and to lower their business transaction costs (using PL 480 Food for Work and other resources).

Intermediate Result 3: Broader access to financial markets and services

Under this IR, the regional strategy will work to increase the availability and access to financial services by small and medium sized enterprises and exporters. USAID will move away from support for small-scale retail microcredit operations, and in their place, pursue policy and institutional reforms that will take microfinance institutions to the next level, i.e., help them become regulated institutions that can collect savings and attract private capital. USAID will also encourage banks and other established financial institutions to reach out to the small and medium-sized enterprise market and to develop new financial instruments. Because the risk of lending to this market segment is perceived as high, the IR will back some of the credit and financial sector expansion with U.S. Government guaranties through the Development Credit Authority (DCA). Such efforts are needed to counteract the problem of limited availability and high cost of export finance--interest rates are high, loan terms are short, collateral requirements are excessive, and the bulk of credit is usually concentrated in the capital city. Inadequacies also result from the overall weakness of the financial sector; therefore, under this IR, the SO will work with governments to strengthen supervision of formal and informal financial institutions so they can better capture deposits and deepen credit markets, contributing

to a healthier and more dynamic financial sector. Finally, under this IR, USAID will look for ways to leverage greater impact from remittances. Because most remitters in the United States and remittance recipients are not currently part of any formal banking system, encouraging them to become so would allow remittances to engage formal institutions and enable them to offer new financial services. This could go a long way toward enhancing capital formation and becoming an entree to expanded market participation by poorer households. Activities in this area would include support for efforts to increase the security of funds transactions and decrease transaction costs through competition, i.e., promoting the benefits of "banking the unbanked," and to explore ways to complement the productive and community investment efforts of hometown associations.

Illustrative activities:

- Work with new financial intermediaries to more effectively serve the micro, small and medium-sized enterprise market "segment," with emphasis on financing secure deals, capturing savings, development of new business strategies, and equity and lending instruments;
- Use of Development Credit Authority and other loan guaranty programs to entice banks into microfinance and export finance and to expand "regional" banking and financial services, especially the ability to raise capital and finance investments across and among the countries of the region;
- Alliances with or grants to "home town" associations to channel remittances toward productive uses and investments that facilitate growth;
- Assistance to government regulatory entities to improve bank supervision; and
- Policy dialogue with the region's governments to enhance the operation of financial markets, nationally and regionally.

Intermediate Result 4: Improved management and conservation of critical watersheds

This IR links sustainable growth and improved trade with protection of the natural resource base upon which economic freedom depends. USAID's role will be to promote policy changes and economic incentives that provide tangible benefits for improved land use through integrated watershed management activities and carbon sequestration activities that promote sustainable development. This IR will improve the management of critical watersheds in an integrated manner that combines biodiversity conservation with the creation of economic opportunities. Partnerships will be formed among entrepreneurs and local, state and federal authorities to increase the local capacity to manage the natural resource base on which economic activity depends.

An important goal will be to reduce unsound land conversion and deforestation, and to provide more direct benefits from protecting critical watersheds, including forests, riparian zones, wetlands, and coastal areas. Improved watershed management will be accomplished through the introduction of new technologies and market linkages, particularly those that engage the private sector. Improved water management will also be a key activity that benefits local communities, and where appropriate, clean production and renewable clean energy activities will also support improved water quality and local control of resources, while also addressing climate change. Work in protected areas will be community-based and focus on targeted watersheds. Awareness of environmental services must be increased and financial mechanisms that value ecosystem services established.

Resilience to natural disasters that have hindered the region's development, particularly forest fires and hurricanes, will be enhanced through improved watershed management and protection. Increasing local governance capacities and creating joint mechanism for problem solving will also reduce the need for international assistance and create a foundation for further economic development.

Environmental activities targeted at biodiversity conservation, tropical forestry, watershed management, and clean production/renewable clean energy lead to a reduction in greenhouse gas emissions, and also assist vulnerable populations and ecosystems in adapting to potential impacts from climate variability and change. This "multiple benefits" approach to climate change engagement helps Central America and Mexico achieve economic development without sacrificing environmental protection. It also contributes in substantial measure to Presidential initiatives in tropical forest conservation and global climate change, and congressional priorities in biodiversity and tropical forest conservation, clean energy and climate change, and water.

Illustrative activities:

- Technical assistance for sustainable tropical forestry activities to help certify and market legally-sourced timber and non-timber products;
- Protected areas management interventions targeting sustainable economic alternatives in critical watersheds;
- Targeted policy interventions to facilitate civil society and local government participation in cultural and natural resource management;
- Technical assistance to promote more sustainable agricultural practices and improve systems for reducing contamination of industrial and human wastewater, increasing sanitation;
- Expert counsel to improve land use policies and their implementation, including regulations to provide for the valuation of environmental services required to sustain economic development;
- Technical assistance to develop and manage environmentally friendly economic activities, including major tourism sites, in priority watersheds;
- Technical assistance for more effective oversight of water resource use (including drinking water) and management (e.g., private user associations/municipalities);
- Development of watershed management plans that include community and private lands;
- Strengthened environment agencies at federal, state, and local levels to more effectively implement policies, particularly those that reduce water pollution and agricultural expansion in key watersheds; and
- Activities that promote biodiversity conservation, carbon capture, and sequestration.

As a result of focusing in the above areas, the strategy will not include activities in the following areas:

- Isolated interventions that are not linked to broader, watershed level impacts;
- Environment programs providing generalized technical assistance and training for environmental NGO's and government authorities unless they respond to

- specific policy interventions that will result in enhanced participation from civil society and local governments in management;
- Generalized assistance for environmental NGO's without determining up front the access local groups will have to markets for their environmentally-friendly products and services, and without assuring simultaneously that these groups are securing financial sustainability of their programs by working with the in-country private sector and by involving local groups;
- Provision of loan funds to NGO lending organizations, small-scale village banking or small-scale retail micro-credit operations; and
- Supply/production-driven technical assistance and marketing, but rather a focus on demand-driven technical assistance and marketing support, especially through associations and business alliances

d. Sustainability of impact

Policy reform is essential to ensure that SO interventions are both sustainable and able to “scale up” to affect a much broader range of beneficiaries, and SO interventions will inform policy change. To ensure sustainable SO level impacts, local governments and communities must have more control over the resources on which they depend, as well as real economic advancement. Helping the private sector establish new enterprises and market linkages is critical to the success of this SO. Equally essential is the creation of multisectoral partnerships that balance development and sustainable use, particularly related to water and watershed management. Establishing payment for environmental services and charging more realistic water fees is also essential to create incentives to protect critical watersheds.

e. Measuring achievement: Preliminary Performance Management Plan

SO Level Indicators:

- Trade as a percentage of GDP
- Changes in composition and contribution of various, higher value-added sectors to economy (e.g., manufacturing, tourism, services, “green” products)
- Employment/economic opportunities created
- Number of hectares under approved watershed management plans (Note: this supports the similar, but broader Agency-wide indicator – “Number of hectares under approved management plans.” A standardized scorecard will be developed that identifies key watershed management criteria, and which allows progress to be tracked for each criteria over the life of the strategy)
- Number of hectares with improved water management activities

Other Indicators:

- Foreign direct investment as % of GDP
- Gross domestic investment and savings as % of GDP
- Competitiveness, as measured by the quality of the national business environment and the quality of company level operations
- Sales (volume and value) of rural goods and services
- Sales (volume and value) of environmentally friendly goods and services
- Volume of funds loaned and number of borrowers

- Loan default rates
 - Volume of savings mobilized and number of savers
 - Revenue generated from sustainable use of natural resources
 - Stability of stream flows in critical watersheds
 - Water quality improved in critical watersheds
 - Household access to clean water
 - Improved municipal management of water resources
 - Volume/value of product sales under systems of environmental certification
 - Number of watershed governance bodies/associations established with multisectoral and multi-stakeholder decision making processes
 - Number of alliances for effective commercialization of certified products and services
 - Increased use of less polluting technologies and implementation of environment management systems
 - Amount of fees collected for environmental services
- f. **Estimate of require resources:** See table attached and country plans.
- g. **SO start and end dates:** FY 2003-2008

SO3: Investing in People: Healthier, Better Educated People

a. Development Challenge:

Although considerable progress has been made in the health and education sectors in the past decade, the region's malnutrition, fertility and maternal, child and infant mortality rates continue to be unacceptably high and educational levels low, especially among disadvantaged populations. This poses serious challenges for the region as roughly half its population is 18 years or younger and the population is growing rapidly. It desperately needs to improve its human capacity to become more competitive in the world economy. A continuing low level of girls' education has multiple impacts on family health and well-being. Moreover, HIV/AIDS is taking its toll, placing yet additional burdens on inefficient and under-funded public health care systems. At a time when education is widely acknowledged as the most decisive factor for national progress, indicators for Central America compare poorly with the rest of Latin America, and even worse with high-growth countries elsewhere.

Current efforts to improve education fall far short of what is needed for the quantum leap in productivity and growth required to lift the millions of poor people in the region out of poverty. While it varies between countries, coverage at the primary level is on the whole inadequate. Only one of the five Central American countries where USAID works has primary enrollment rates above 90%, and in the rest of these countries, fewer than 60% of children who start school reach the fifth grade. Secondary enrollment levels are even worse, topping out at 26% for all USAID-supported CAM countries except Panama. Indicators of educational quality paint a similarly disturbing picture, with average levels of student achievement well below the expectations of educators and of those who seek to compete successfully in the global economy. These deficiencies in access and quality are more pronounced among the poor and disadvantaged, especially the indigenous and Afro-

Latino communities that collectively account for 23% of Central America's population. The products of the educational system reflect the quality and quantity of inputs—overly centralized bureaucratic and frequently politicized public sector delivery systems, inadequate and unequal investment (with an average of just over 3% of GNP expended on public education in the four poorest countries of the region, as compared to 4-5% or more in higher growth LDCs); deterioration in the quality of teaching (in part due to wage schemes that fail to take performance into account); and the lack of educational standards and evaluation systems to assess quality, performance and the real impact of policies.

High population growth rates in the region have offset the expansion of the economies, limiting opportunities for education and employment. Population growth is driven by high fertility, especially in rural areas. Many rural families still lack adequate access to high-quality family planning services. There are large gaps between actual and desired family size in rural areas and among women with no schooling. Maternal mortality related to pregnancy and childbirth is still very high, with 70% of all maternal deaths occurring in rural areas. Continued high levels of infant and child illness, complicated by malnutrition early in life, undermine children's capacity to develop to full potential and later to regularly attend school and learn effectively. Major deficits in coverage and quality of maternal child health services persist. Infant and child mortality are especially high among children of rural and less educated women. Pneumonia and diarrhea continue to be major killers of children, and low educational levels of women are a contributing factor.

Current estimates are that there are 270,000 HIV-infected Central Americans and Mexicans (with 150,000 in Mexico alone), with the majority unaware of their condition, and, therefore, unable to take adequate measures to preserve their health status or prevent further transmission. The growing epidemic affects 4% of the labor force in the centers of highest economic growth. The epidemic has severe implications for future economic development as AIDS-related morbidity and mortality affect work productivity, labor force growth, and medical care costs. Other infectious diseases -- primarily tuberculosis, malaria and dengue -- also sap the productivity of the labor force. Tuberculosis (TB) is a major infectious disease with 28,000 new cases diagnosed annually in Central America and Mexico. It is estimated, moreover, that 25% of TB cases diagnosed in the United States originate in Mexico. Undiagnosed cases, coupled with failure of many persons diagnosed to complete treatment, foster spread of the infection. A further complicating factor is TB infection in AIDS cases. Malaria and dengue fever are also major public health problems, with 210,000-250,000 cases of malaria reported annually in the region.

b. Development Hypothesis and Proposed Program:

Few issues generate greater consensus than the belief that education is the most important determinant of development. No country has achieved significant economic progress without expanding education and health care access and improving quality of basic services to meet the needs of its populations. Poor child health, malnutrition and the crippling, if not deadly, impacts of infectious diseases—many of which could be addressed through more effective prevention, particularly among the poorest and disadvantaged populations who bear a disproportionate brunt of these problems--represent far too costly losses for the region's people and economy. Good basic education and effective primary health care are decisive factors in the quest for equity and eradication of poverty. Their absence condemns populations to living life hand-to-mouth. On the other hand, a healthy, educated individual has the ability to improve

his/her environment and pursue economic opportunities to better his/her standard of living. USAID's strategy is designed to give an increasing percentage of the Central American and Mexican populace the opportunity to progress, and thus serves as an investment in the future.

c. Results Framework Description:

Our Strategic Objective, **Healthier, Better Educated People** has been designed to support countries in implementing the policies and programs that will result in improvements in maternal, child and infant mortality and educational attainment, as well as strengthened responses to HIV/AIDS and other infectious diseases, positioning the region to participate more fully in a hemispheric free trade agreement and ensure that benefits are shared broadly among the citizens of the region. Region-wide results that will be achieved by the end of the six-year period include:

- Increased primary education completion rates;
- Increased immunization rates;
- Reduced total fertility rates; and
- Reduced infant mortality.

Regional programs supporting more effective coordination among countries on prevention of cross-border diseases, especially HIV/AIDS, and establishment of regional teacher training and other education programs will complement bilateral, country-specific investments. The key Intermediate Results and illustrative activities that will enable USAID to achieve this SO are described in more detail below:

Intermediate Result 1: Increased and improved social sector investments and transparency

Central America and Mexico must substantially increase their investments in basic education and health, better manage public investment, and adopt new management strategies to ensure effectiveness, efficiency, and broad coverage of basic health and education services. Both public and private sectors are equally important partners in achieving this transformation. Building blocks that will contribute to enhancing the effectiveness of social sector investment include: more efficient expenditures (including procurement processes); increased and more decentralized decision-making and control over funds; the establishment of private sector alliances; and greater community/public voice in decision-making. USAID will work with national and local governments to support decentralization and restructuring of government systems to improve financial management and reduce corruption.

We will work to enhance responsibility, budget authority, and professional capabilities of regional and local administrators to facilitate more responsive, decentralized service delivery, better attuned to local conditions. In the health sector, USAID will continue its weaning of health programs of USG-donated contraceptive methods, helping countries to mobilize national and other donor funding as well as adoption of pricing and subsidy schemes that reflect users' ability to pay. Based on the positive results of models throughout the region for parental/community/NGO involvement in the management of health and education services, USAID will work with governments to institutionalize policies that broaden participation of private entities and adjust government roles accordingly to ensure quality and availability of health and education services.

Illustrative Activities:

- Technical assistance to government ministries to establish efficient procurement, supply and distribution systems;
- Technical assistance to build capacity in policy formulation and investment planning for basic education (with a focus on primary) and reproductive and child health services;
- Technical assistance and training to improve budgeting, oversight and management capabilities in Health and Education Ministries, NGOs, NGO networks or other entities responsible for the management of public resources, including preparation of NGOs for future ministry;
- Support for the Controller General's Offices in auditing social sector expenditures;
- Support for workshops to enhance political leaders' understanding of social sector investment requirements;
- Additional USAID funding for public rural health or education services as a reward for ministries meeting increased expenditure targets for expanding access;
- Initiatives to increase contraceptive security;
- Support to private family planning associations (IPPF-affiliates) to increase self-financing);
- Support for the decentralization of health and education services;
- Cost analysis of basic health and education services to improve budget estimates and equitable government allocation of resources; and
- Alliances with the private sector to increase private investment in health and education.

Intermediate Result 2: Increased and improved basic education opportunities

The region will not reach Summit of the Americas development goals without substantial improvement in the quality of the human resource base. In order to develop a better-educated work force, Central America and Mexico must make more effective investments to improve the quality, efficiency, and equity of basic education,⁸ and especially primary education. USAID will therefore support activities to improve the access to, and quality and efficiency of basic education by focusing on increasing teacher effectiveness, improving classroom-learning environments, extending access by under-served populations, and expanding community participation in schools. It will also encourage the application of innovative approaches to increase and improve basic education opportunities nationwide.

Illustrative Activities:

- Technical assistance to develop and implement education policies leading to better quality of curriculum, instruction and classroom performance;
- Technical assistance to support education system reforms;
- Technical assistance and leveraging of other donor resources to expand alternative basic education models;
- Technical assistance and financial support to develop systems to measure student achievement and monitoring the quality of education services;

⁸ The Agency defines "basic education" as early childhood (pre-primary), primary, and secondary education; and teacher training in support of early childhood, primary, and secondary education; and literacy training.

- Technical assistance to expand and adapt existing models of community involvement to increase school autonomy and community responsibility for school management; and
- Technical assistance to demonstrate innovative approaches to increase and improve educational opportunities nationwide.

Intermediate Result 3: Improved integrated management of child and reproductive health

Each of the countries in the region has adapted and adopted primary health care delivery approaches based on the integrated management of maternal and child health and nutrition. While further improvements can be made to these models, the greatest challenge lies in extending coverage to disadvantaged populations where high concentrations of malnutrition and poor maternal and child health are still found.

Inadequate pregnancy spacing and poor maternal health contribute significantly to infant and child illness and death, requiring that access to family planning and other reproductive health care be improved and expanded. Aside from its importance in reducing infant and maternal mortality, better family planning services are also needed to help couples achieve their desired fertility since each country in the region has a large discrepancy between actual and desired fertility. This unmet demand for family planning often is associated with high levels of abortion, and child neglect or abandonment. Prenatal, postnatal and essential obstetric care for mothers must also be improved, with special emphasis on addressing safe delivery problems in rural areas to reduce maternal mortality.

Lack of safe water supply, sanitation and hygiene as well as poor waste disposal practices continue to contribute to high levels of morbidity and mortality, especially in infants and children. Poor nutritional status markedly increases susceptibility to disease. For these reasons health promotion and disease prevention must be better integrated with primary health strategies, improving hygiene and nutrition behaviors, along with child growth monitoring, immunization, and timely and effective management of diarrheal and respiratory diseases—the major immediate causes of child and infant death.

Illustrative Activities:

- Technical assistance to build capacity in management of reproductive and child health and nutrition programs;
- Technical assistance and training to strengthen providers of reproductive and child health and nutrition services for under-served, low-income groups in rural areas;
- Technical assistance to develop community and individual behavior change initiatives that promote safe hygiene and waste disposal practices, and safe water use and storage, in the context of programs to reduce infant and child mortality and the spread of infectious diseases. These activities may include household water and sanitation technologies (e.g., water disinfection, improved storage containers, low-cost waste disposal options), improved solid waste management practices, information and education programs for communities and individuals that encourage safe hygiene behaviors and support for existing water and sanitation systems, and advocacy for appropriate new construction of infrastructure for water and sanitation by other donors and host governments;

- Donations of contraceptive commodities, in decreasing amounts over time, and strengthening logistics systems to ensure contraceptive security and to expand access by poor families to family planning;
- Technical assistance to help Ministries develop and implement innovative partnerships between private and public sector providers, including assistance to improve private sector competitiveness in providing maternal child health, nutrition and family planning services; and
- Targeted maternal child supplementary feeding and micronutrient supplementation for the most malnourished (note: The combined efforts of PL 480 NGOs that work in targeted areas of greatest food insecurity, Ministries of Health, and health NGOs working to improve reproductive and child health care and nutritional and hygiene practices in these and other areas, are expected, together, to have a national-level impact on malnutrition).

Intermediate Result 4: HIV/AIDS and other infectious diseases contained and impact mitigated

HIV/AIDS prevention efforts will concentrate on populations with high prevalence of HIV -- commercial sex workers, men who have sex with men, the Garifuna -- and other vulnerable populations at risk of contracting HIV, including the uniformed services, seafarers, truckers, migratory agricultural laborers. In addition to HIV/AIDS prevention, there is an urgent need to strengthen regional and national surveillance systems to obtain and use epidemiological data for decision-making to rationally plan for, manage and treat emerging and re-emerging threats and infectious disease such as TB, dengue, and malaria. To achieve these results, the program will focus on increased use of prevention practices and services to combat HIV/AIDS and other infectious diseases, improved policies, and effective care and treatment for people living with these illnesses.

Illustrative Activities:

- Support for national and regional policy dialogue to generate commitment among opinion leaders;
- Support for coordinated planning and implementation of national and regional HIV/AIDS strategies among countries of the sub-region;
- Support for treatment of sexually transmitted infections in high HIV prevalence populations;
- Aggressive, targeted interpersonal and mass media behavior change communication emphasizing postponement of first relation, partner reduction, and consistent and correct condom use;
- Support for voluntary counseling and testing programs for high-prevalence populations utilizing the new generation of low-cost rapid tests and then extending access to the general population with priority to pregnant women to help prevent mother-to-child transmission
- Support to civil society/NGOs to work with the most affected populations including people living with HIV/AIDS in advocacy/human rights, prevention and care; and
- Strengthening comprehensive care, including training of all categories of treatment personnel, logistics, integration with community-based support networks, and the prevention of secondary infections.

As a result of focusing in the above areas, the strategy will not include activities in the following areas:

- Institutional and financial support provided directly to NGOs for health and education service delivery with limited geographic outreach. However, support may be provided to NGOs that: work with high HIV/AIDS prevalence groups; are part of a program demonstrating policy reform; are part of a government program to bring services to scale; and/or are engaged in private sector alliances. NGO assistance in emergency health situations will be covered by the Special Objective on Humanitarian Assistance and Crisis Response;
- There will be a phase-down of contraceptive donations and shift of this responsibility to NGO partners and/or host governments;
- Water supply or sanitation infrastructure construction will be financed with CSH account funding. Missions may fund these activities with resources from other accounts if determined that they further the goals of the strategy, have technical merit and are an effective use of resources;
- Construction of schools, vocational centers or major health service infrastructure; and
- Stand-alone vocational education programs (i.e., not integrated within a national basic education curriculum).

d. Sustainability of Impact

Public-private partnerships are vital to the long-term improvement in provision of health care and education in the region, and to holding governments accountable to high levels of performance. A coalition of public and private sector institutions can better address health and education needs and ensure the sustainability of the measures adopted than can governments alone. Advocacy organizations also have an important role to play in sustaining reforms in health care and education developed under this SO.

e. Measuring Achievement: Preliminary Performance Management Plan:

Proposed SO level Indicators:

- Primary education completion rates (national sources, annual)
- Immunization rates: DPT and measles (national sources, annual)
- Total fertility rates (national surveys every five years)
- Infant mortality rates (national surveys every five years)

Other Indicators:

- Public expenditures on primary education as % of GDP (and on overall public education, as former may not be available) (national sources)
- Public expenditures on health as % of GDP (national sources)
- Number of private sector alliances established
- Self-sufficiency of private family planning associations (i.e., IPPF affiliates)
- First grade failure rates (repetitions and drop-out)
- Rates for completing third grade in three years
- Net enrollment rates for grades 7-9 (national sources)
- Contraceptive prevalence rate (national surveys every five years)

- Couple Years of Protection (CYP) (annual, from providers' reports)
 - Percentage of births attended by medically-trained personnel (physicians or nurses)
 - Global malnutrition rates (low weight for age) in children under age two years
 - Incidence – or prevalence (e.g., in 18-24 year olds) – of HIV in MSM and CSWs
 - Number and percentage of individuals with advanced HIV infection receiving antiretroviral therapy
 - Success rate of treatment of TB in USAID-assisted areas
- f. **Estimate of resources required:** See table attached and country plans.
- g. **SO Start and End Dates:** FY 2003 -2008

SpO: *Timely Humanitarian Assistance and Crisis Response*

a. Development Challenge

Earthquakes, hurricanes, volcanic eruptions, and forest fires unfortunately occur with far too much frequency in the countries of Central America and Mexico, often with devastating impacts. In addition, while an incipient institutional base and networks are forming, they still lack adequate disaster preparedness and capacity for coordinated response. It is almost a certainty that within the course of this strategy period at least one major natural disaster will occur, outstripping the host country or region's capacity to respond. As with Hurricane Mitch in 1998 and the El Salvador earthquake in 2001, these types of disasters will unfortunately set back socio-economic gains that have been made. Hurricane Mitch in 1998 was a prime example of the type of major, cross-border disaster that can strike this region and cause multiple and profound human impacts, requiring a complex and well-coordinated response. Better emergency preparedness systems, especially for monitoring river flow and seismic activity, and assessing forest fire risk can help to minimize human impacts, reduce loss of forest resources and biodiversity and, it is hoped, reduce economic losses.

b. Development Hypothesis and Proposed Program

This Special Objective (SpO) acknowledges and responds to the reality that during the course of this strategy period, at least one if not multiple natural disasters will interrupt the region's development trajectory. Responding to this inevitability will be less costly, in both human and financial terms, if we can anticipate the occurrence of disaster, help the region improve its disaster preparedness and response capabilities, and deploy USG humanitarian and reconstruction assistance expeditiously when needed. This SpO will enable USAID to ensure readiness and rapid response, without the bureaucratic delays that would otherwise occur under a strategy that does not anticipate such an eventuality.

In addition to being a centerpiece of this SpO, disaster preparedness is an integral part of the mainstream development agenda of the CAM strategy. In varying degrees, disaster preparedness is already woven into the approaches being taken under each of the three strategic objectives, particularly the economic freedom SO. Proper land use practices, for example, such as soil conservation and forest and watershed conservation are activities that are critical to both economic growth and disaster prevention. Efforts

under the democracy SO to foster more transparent governance will give greater credibility to the government organizations involved in disaster prevention and response, a basic condition to achieving cooperation among local and international relief organizations. In addition, stronger local governments with closer links to community organizations will be in a much better position to coordinate a rapid response in the case of disaster. Finally, immediate attention to the spread of infectious disease and malnutrition in a crisis situation is critical to safeguarding public health; having strong health networks already in place and a population that is sensitized to safe water and sanitation practices will prevent more devastating human health consequences.

c. Results Framework description

The Special Objective is **Timely Humanitarian Assistance and Crisis Response**. By the end of the strategy period, the countries of the region will be both better prepared to confront a natural disaster or other emergency, and more successful in providing humanitarian assistance to populations in crisis or emergency situations. The following Intermediate Results and illustrative activities are needed to produce these results:

Intermediate Result 1: Disaster/crisis prevention and preparedness

Activities under this IR will focus on preparing for and mitigating the likely impacts of natural disasters in the region, and on establishing a warning system that will give an early “heads up” that certain natural and man-made crises are going to occur and about the kinds of economic and human impacts they will produce, in order that these effects can be mitigated. We will also continue our ongoing support for establishing greater regional and national level capacity to prevent and contain forest fires that threaten the region’s biodiversity.

Illustrative activities:

- Design and implementation of an integrated food security and vulnerability early warning and assessment system (i.e., the Mesoamerican Early Warning System, or MEWS);
- Work with national and regional disaster preparedness and response institutions and networks to ensure sound planning and close coordination with local officials;
- Community disaster management training;
- Continued collaboration with the USDA to eradicate Pine Bark Beetle infestations, which are weakening forests and making them vulnerable to fires; and
- Technical assistance and funding (Food for Work and DA) to support flood embankment and other public works that can enhance country resiliency to natural shocks and short-term changes in income and food availability.

Intermediate Result 2: Humanitarian relief and reconstruction

This IR and the Crisis Modifiers to be included in all the country plans represent USAID’s mechanisms to respond to recovery and reconstruction efforts immediately following initial relief efforts of OFDA. The Crisis Modifiers will enable Missions to shift money already in the pipeline for ongoing programs, over to respond to more immediate needs in areas affected by the disaster. That funding, however, remains in the SO in which it was obligated and must be used in a manner consistent with that SO as well as any

earmarks associated with it. This IR, on the other hand, provides a mechanism for use of funds that have not yet been obligated and allows the Mission to use the funds directly for recovery and reconstruction needs without the restrictions that result in using funds in the pipeline. Activities might include employment generation projects to clean up or rebuild vital productive infrastructure, logistic and technical support for governments in mobilizing/refocusing their resource, or other similar types of activities.

Three types of potential crises and illustrative responses are anticipated under this SpO:

Scenario 1: A Major Rural Malnutrition Crisis

Illustrative activities: Similar to actions taken in the region after the 2001-2002 drought and coffee crisis, a response would most likely involve an immediate reprogramming of up to 10% of in-country stocks of PL 480 food to the communities most directly affected, i.e., those showing the highest levels of acute child malnutrition. The food assistance would be delivered directly to the communities to ensure its correct utilization by the intended recipients. The PL 480 cooperating agencies would work in tandem with the Ministry of Health integrated child health promoters to ensure careful monitoring of child growth, sound health care and feeding practices and any additional health care that may be needed. Some ongoing programs would be modified to create “cash for work” opportunities for the most affected families, to allow them to buy immediately the food that their children need. Planning would then begin for medium- to longer-term interventions to respond to the underlying causes of the rural crisis.

Scenario 2: A Major Earthquake or Flood

Illustrative activities: Depending on the magnitude of the crisis and its particular impacts, the likely immediate response would be to solicit the Office of Foreign Disaster Assistance emergency funding for humanitarian assistance (assuming prior declaration of disaster by host government and U.S. Ambassador), and to coordinate closely with the in-country disaster preparedness and response authorities to respond to the temporary shelter, food, water and health needs of displaced populations. Then, to the extent available in the affected country's Mission, a Fixed Amount Reimbursable mechanism – which has proven to be very agile and efficient in the past -- could be rapidly engaged using reprogrammed funds from the regular portfolio. In addition, Missions that have PASAs with the U.S. Army Corps of Engineers could use them to access technical assistance for infrastructure assessment and design on a rapid turn-around basis (note: these sorts of mechanisms could be considered as part of a the revised Regional Program). Longer-term and larger reconstruction efforts are more complicated, and Missions are well advised to study in advance lessons learned during Mitch and the El Salvador earthquakes to benefit from which were the most useful and effective responses.

Scenario 3: Uncontrolled Forest Fires

Illustrative activities: Many of the countries in the region already have fire response plans and interagency coordinating mechanisms in place. Government personnel in many of the countries have also received training and visited the United States on observation tours to view fire control operations there. The primary constraint in dealing with fires in the region is adequate support for fire fighters, including provision of water, food, and appropriate gear in high-risk locations. Should forest fires exceed the ability of

the host government to respond, USAID's immediate response would be to reprogram DA/ENV funds for logistical support for fire fighting personnel. Other potential crises that can occur after forest fires have subsided are soil loss, heavy flooding, and mudslides. Missions will need to monitor these possible after-effects and plan appropriate responses accordingly.

Other Illustrative activities under the SpO might be:

- Creation of a database to facilitate rapid start-up of reconstruction activities, possibly including sample scopes of works, model bilateral agreements, and databases of consultants/firms that can be rapidly accessed for emergency response;
- Crisis-specific aid and reconstruction response in the short term through the shifting of existing program resources to this humanitarian/crisis response objective to meet humanitarian or other special needs (e.g., basic roofed areas, sanitation, wells and piping, primary health care in areas hardest hit by disaster);
- Crisis-specific aid and reconstruction assistance of a medium to longer-term nature, funded largely through special or additional appropriations/allocations of resources (e.g., reconstruction of homes, etc.); and
- Provision of emergency food assistance in disaster-stricken areas.

d. Measuring achievement: Preliminary Performance Management Plan

SO and other indicators will be developed based on ongoing efforts to refine the terms of reference for the MesoAmerican Early Warning System (MEWS) and the vulnerability management component of the Opportunity Alliance, as well as to incorporate specific indicators following any large-scale natural or man-made crisis/disaster. Some initial, illustrative indicators include:

- Early warning and surveillance systems operating effectively
 - Vulnerability of high risk areas reduced
 - Effective, rapid response to at least one natural (or man-made) disaster
- e. **Estimate of require resources:** To be determined based on crisis modifier in the country plans and needs that arise in response to large-scale crises during the strategy period.
- f. **SpO start and end dates:** FY 2003-2008

Program Support Objective: Improved Country Performance

Through this Program Support Objective, LAC will establish a **Performance Fund** of approximately \$10 million annually for implementation in the field. Missions will report on their performance in two ways: (1) through the regular reporting requirements of the Annual Report, and (2) through an additional brief statement in the Annual Report making their case, based on performance and other factors, as to why they should win the Performance Fund for one or more of the three principal SOs to which they are contributing⁹ and how the Performance Funds would be used should they win. The performance measures and the written justification will be reviewed by a Performance

⁹ Participation is voluntary

Fund Review Panel, the membership of which will be drawn from LAC/RSD, LAC/SPO and LAC/CEN. The Panel will review the Annual Reports and submit their recommendation to the AA/LAC for final approval. Awards will be made in three categories tracking with the three principal SOs: Ruling Justly, Economic Freedom, and Investing in People.

Estimate of require resources (over four years): \$40 million (\$26,000 DA, \$14,000 CSH)

PSO start and end dates: FY 2005-2008

Program and Operational Management

Program Management

The CAM Regional Strategy merges a regional strategic focus and associated economies of scale with oversight and accountability through individual bilateral programs. In doing so, it meets Agency requirements in an innovative manner.

Operating Structure. There will be seven Operating Units participating in this strategy-- Mexico, Guatemala, Honduras, and Nicaragua being approved this year and El Salvador, Panama, and the Central America Regional Program to be added next year. While these operating units will have the same Strategic Objectives in common, the SOs in each country will be assigned unique numbers; for example, SO-1 in Guatemala will be 520-021 and in Honduras, it will be 522-021. This will allow Missions to obligate, notify, and report on a bilateral basis.

Program Monitoring and Coordination. After the Strategy is approved, Missions in the region, with assistance from a qualified contractor, will pull together a Performance Management Plan (PMP) that will reflect performance at both the regional and the country levels. Targets will be set at the SO and IR levels. The Program Office in G-CAP¹⁰ will establish a Program Monitoring and Coordination Unit (PCMU) that will be responsible for coordinating development of the PMP, as well as follow-on monitoring and coordination to assure that the PMP is kept up to date and that strategy implementation remains on track. (This unit can also track regional initiatives such as the Opportunity Alliance). On an annual basis, the PCMU will roll up the performance measures from the operating units and submit them to LAC for consideration by the Performance Fund Review Panel (PFRP) for the Performance Fund. The PCMU will also coordinate field input for the Intensive Review, which must take place within three years of approval of the strategy and requires submission of the updated PMP to USAID/Washington. This Unit will also track authorized Life of Strategic Objective funding amounts to assure that obligations for the region do not exceed authorized levels.

On a periodic basis of not less than once annually, the GCAP Mission Director (or Director of another Mission that eventually houses the PCMU) will, at the

¹⁰ CAM Regional programs are current managed in Guatemala (G-CAP) but may be relocated—most likely in El Salvador—during the strategy period.

recommendation of the PMCU, call together his/her colleagues in the region (or their designees) to review progress toward the strategic objectives, look for opportunities to strengthen programs through shared best practices, identify cross-border opportunities, discuss country performance for the Performance Fund, and determine what adjustments, if any, need to be made to the regional strategy. These meetings will serve as a "Board of Directors" for the regional strategy, and the AA/LAC or his designee will appoint the chairperson. The chair may be one of the Mission Directors or a DAA. In the case of the former, the chair may be rotated. Adjustments at the Strategic Objective level will be forwarded to AID/Washington for review and approval. The Directors will make decisions within their authority and where required make recommendations for Washington decision.

In addition, Technical Offices from each of the CAM Missions will meet not less than once yearly to review the performance and discuss issues pertaining to each SO.

Program Operations

The strategy incorporates changes in field operations that will reduce mission management burden and the Agency's cost of doing business throughout the region. These include:

Optimizing Management Units. Just as programs have become more focused on regional priorities, each mission has developed a plan for the new strategy that responds to Bureau guidance to reduce the number of management units where possible. (Note: See the individual country plans for further detail on portfolio streamlining.) Reducing the number of mission management units under this new strategy should serve to simplify the management burden not only for technical and contracting staff but also for financial management and administrative staff throughout the subregion.

Procurement Efficiencies. A coordinated, strategy-wide procurement plan is under development in order to identify the most efficient mechanisms for implementation and to improve the allocation of acquisition and assistance work among contracting staff based in the field. The plan will reflect a comprehensive review of services needed to implement the strategy in each participating country and an assessment of available procurement options for each Strategic Objective. Washington, regional, or country-based mechanisms that can best serve the needs of each country and of the region as a whole will be identified. The use of precompeted U.S.-based acquisition and assistance instruments will be maximized to the extent possible.

Alliance Building. USAID has an historic opportunity to rewrite the traditional foreign assistance funding paradigm for the region by aggressively and consistently adopting an overall procurement strategy that incorporates private sector funding and alliance-building as primary elements. Already, private sector financial flows to Central America and Mexico, including trade, foreign direct investment, charitable contributions and remittances, far eclipse USAID's declining resources and promise to continue to do so as freer trade and regionalization attract further private sector investment and commercial interests, many of which integrate advanced corporate social responsibility concepts as part of their overall market development plans.

USAID will seek, through the development of alliances and other collaborative efforts with contract and grantee partners, to shift its role from that of a primary procurer or

“buyer” of development services to that of a facilitator, catalyst, broker, or even outsourcing agent of development resources, thereby leveraging and linking the vast financial resources available from both corporate philanthropic interests and other donors with our own strategic development objectives for Central America and Mexico. Effective linkages or alliances require innovation and new ways of thinking about program design, procurement and implementation strategies that maximize private sector leverage—with the goal of at least one-to-one matching—while working to accelerate the effort to dramatically reduce the overall number of management units along with the associated management burden. Under the CAM strategy, therefore, Missions will endeavor to incorporate and integrate alliance-building language and selection criteria into all AADs (Activity Approval Documents), RFAs (Requests for Application), and APS’s (Annual Program Statements) where technically possible, and to actively work with contract and grantee partners to develop and implement alliance-building plans, among other possible resource leveraging approaches.

Rationalization of Mission Staff Levels. Staffing reductions in the region will bring a significant improvement in the region’s program-to-staff ratios. Two major factors are contributing to this process:

First, Mission management assessments conducted between late 2002 and early 2003 mandated Guatemala, Honduras and Nicaragua to develop staff rightsizing plans that will rationalize the allocation of staff and operating expense resources as programs become more focused. These rightsizing plans will result in a reduction in total staffing in these missions of more than 20% between FY 2003 and FY 2005.¹¹ A management assessment for El Salvador is planned in order to review staffing levels in conjunction with the wind-down of earthquake reconstruction implementation.

Second, the LAC Bureau is in the process of developing a staffing plan to implement an Agency-wide staffing template that resulted from a recent PPC-led exercise to rationalize overseas USDH staffing levels. Staffing levels for the CAM region will be determined in the near future.

Personnel in each country will report to Mission management, just as they would in a bilateral program. The Regional Contracting Officer (s) and Regional Legal Advisor(s) will conduct their functions on a regional basis. Implementation of the new USDH template plan is likely to shift additional USDH functions to a regional platform.

Regional Technical Networking. Reductions in Mission technical staffing and decreasing numbers of senior technical officers will result in less experienced USDH (NEP/IDI) and FSN employees assuming responsibility for large, complex programs. The region will, therefore, seek to use the fewer numbers of senior technical staff who will be serving in the region to support and mentor NEPS and FSNs in other Missions that lack the respective senior-level expertise.

Regional Support Platform. A regional support platform, based in El Salvador, will assume overall responsibility for accounting, payment and certain other financial management functions for the region. Financial management staff in bilateral missions

¹¹ The May 2002 Mission Management Assessment recommended a slight increase in staffing levels for Mexico, in conjunction with a large expansion of this program. Other Mission assessments have recommended significant staffing reductions.

will be reduced as accounting and other functions shift to the hub. USAID/El Salvador will take the lead in working with other Missions, the LAC Bureau, and the Management Bureau to develop a timetable for creation of this financial services “hub.” The LAC Bureau will also continue discussing options for changes in contracting services and legal support to permit a more rational distribution of workload among the limited staff in these backstops, and examine the desirability and feasibility of shifting these and other functions to the regional platform.

Annexes (To be added as they are approved):

- Country Plans for Guatemala, Honduras, Mexico and Nicaragua (Country Plans for El Salvador and Panama to be completed in 2004)
- Regional Strategy for HIV/AIDS (Remainder of Regional Program Plan to be completed in 2004)



USAID-State Goals: Transparent/accountable democratic institutions; and universal standards of human rights protection

Ruling Justly: More Responsive, Transparent Governance

SO Indicators:

- Trial court performance (e.g., % cases reaching trial that are concluded; % that are concluded within stipulated time period; and % of total resulting in guilty verdicts)
- Changes in user assessments/evaluations of the responsiveness/quality of service of key government agencies (e.g., local government, electoral authority, courts)

IR 1: Strengthened Rule of Law

Indicators:

- Efficiency of judicial sector (e.g., case processing time)
- % of corruption cases filed brought to trial; % cases where trial court renders verdict
- Changes in the % persons in national survey who have been victims of crime

IR 2: Greater Transparency and Accountability of Governments

Indicators:

- Percent of government budget tracked through integrated financial management
- Degree of public access to information about government budget and expenditure
- Total resources managed by local government as % of total public resources

1.1 Improved transparency and efficiency of judicial processes, especially criminal G

1.2 Crime prevention programs implemented G

1.3 Increased use of alternative dispute resolution mechanisms G

1.4 Improved prosecution of corruption cases

2.1 More transparent systems (procurement, financial management, and auditing) for management of public resources by government entities

2.2 Increased devolution of responsibilities and resources to the local level resulting in greater responsiveness by local governments to citizens' needs

2.3 More opportunities for citizen participation in and oversight of national and local government decision-making

2.4 Accountability of elected and appointed officials improved (e.g., electoral reform)

Country Programs

E El Salvador G Guatemala H Honduras M México N Nicaragua P Panamá



USAID-State Goals: Private sector-led growth, macro-economic stability and poverty reduction; enhanced food security and agricultural development; increased trade and investment; secure and stable financial and energy markets; and partnerships, initiatives and treaties that protect the environment

Economic Freedom: Open, Diversified Expanding Economies

- SO Indicators:**
- Trade as % of GDP
 - Changes in composition and contribution of various sectors to economy (e.g., manufacturing, tourism, services, "green" products)
 - Employment/economic opportunities created
 - Number of hectares under improved management plans
 - Number of hectares with improved water management activities

IR 1: Laws, Policies and Regulations that Promote Trade and Investment

Indicators:

- Foreign direct investment as % of GDP
- **Gross domestic investment and savings as % of GDP**

IR 2: More Competitive, Market-Oriented Private Enterprises

Indicators:

- Competitiveness (on WEF competitiveness ranking index)
- Sales (volume and value) of rural goods and services
- Sales (volume and value) of environmentally-friendly goods and services

IR 3: Broader Access to Financial Markets and Services

Indicators:

- Volume of funds loaned and number of borrowers
- Loan default rates
- Volume of savings mobilized and number of savers

IR 4: Improved Management and Conservation of Critical Watersheds

Indicators:

- Revenue generated from sustainable use of natural resources
- Stability of stream flow in critical watersheds
- Water quality improved in critical watersheds
- Household access to clean water
- Improved municipal management of water resources

- 1.1 Improved capacity to negotiate and implement trade agreements
- 1.2 Reduced barriers to trade, investment, and market integration
- 1.3 Commercial laws and regulations more consistent with labor, IPR, international commitments and prevailing practice
- 1.4 A legal and regulatory environment that facilitates participation of small and medium-sized firms in trade (e.g., competition laws)

- 2.1 Increased access to market information and business management and technical skills training
- 2.2 More competitive business clusters and improved business linkages (includes use of cleaner production technologies)
- 2.3 Increased access to technology and support services

- 3.1 Increased access to rural financial services
- 3.2 More productive use of remittances
- 3.3 Improved financial sector supervision

- 4.1 Improved end use management of critical watersheds
- 4.2 Increased market access for environmentally-friendly products and services
- 4.3 Increased harmonization and enforcement of environmental laws and regulations
- 4.4 Increased use of clean production technologies

Country Programs

E El Salvador G Guatemala H Honduras M México N Nicaragua P Panamá R Regional

FINAL:PUBLIC VERSION

August 1, 2003



USAID-State Goals: Improved global health, including child, maternal and reproductive health, and reduction of disease; and broader access to quality education with emphasis on primary school completion

Investing in People: Healthier, Better Educated People

- SO Indicators:**
- Primary education completion rates (national sources)
 - Immunization rates: DPT and measles (national sources)
 - Total fertility rates (national sources)
 - Infant mortality rates (national sources)

IR 1: Increased and Improved Social Sector Investments and Transparency

Indicators:

- Public expenditures on primary education as % of GDP (and on overall public education, because former may not be available)
- Public expenditure on health as % of GDP
- Number of private sector alliances established
- Self-sufficiency of private family planning associations (i.e., IPPF affiliates)

IR 2: Increased and Improved Basic Education Opportunities

Indicators:

- First grade failure rates (repetition and dropout)
- Rates for completing third grade in three years
- Net enrollment rates for grades 7-9

IR 3: Improved Integrated Management of Child and Reproductive Health

Indicators:

- Contraceptive prevalence rates
- Couple years of protection (CYP)
- Percentage of births attended by medically trained personnel (physicians or nurses)
- Global malnutrition rates (low weight for age) in children under age two years

IR 4: HIV/AIDS and Other Infectious Diseases Contained and Impact Mitigated

Indicators:

- Incidence – or prevalence (e.g., in 18-24 year olds) - of HIV in MSM and CSWs
- Number and percentage of individuals with advanced HIV infection receiving antiretroviral therapy
- Success rate of treatment of TB in USAID-assisted areas

- 1.1 Increased and more efficient expenditures (including procurement processes) by Ministries of Health and Education G
H
N
- 1.2 Increased and more effective decentralized investments in health and education G
F
N
- 1.3 Private sector alliances established G
F
N
- 1.4 Greater community involvement in health and education G
F
N

- 2.1 Improved access, quality and efficiency of basic education F
N
- 2.2 Innovative approaches applied to increase and improve educational opportunities N

- 3.1 Improved and expanded family planning services and information/education G
F
N
- 3.2 Improved and expanded maternal child health care and information/education G
G
F
N
- 3.3 Better nutrition and dietary and hygienic practices G
G
F
N

- 4.1 Increased use of prevention practices and services to combat HIV/AIDS and other infectious diseases F
N
- 4.2 Improved policies implemented F
N
- 4.3 Effective and efficient delivery of comprehensive care and treatment for people living with HIV/AIDS and other infectious diseases F
N

Country Programs

E El Salvador G Guatemala H Honduras M México N Nicaragua P Panamá R Regional

FINAL:PUBLIC VERSION



USAID-State Goals: Improved capacity of host countries to reduce vulnerabilities to disasters and respond to humanitarian emergencies

SpO: Timely Humanitarian Assistance and Crisis Response

- SO Indicators:**
- Early warning and surveillance systems operating effectively
 - Vulnerability of high risk areas reduced
 - Effective, rapid response to at least one natural disaster

IR 1: Disaster/Crisis Prevention and Preparedness

Indicators:

- TBD

1.1 Early warning and surveillance systems established and operating

1.2 Disaster mitigation measures taken

1.3 Forest fire prevention strengthened

IR 2: Humanitarian Relief and Reconstruction

Indicators:

- TBD

2.1 OFDA rapid response teams conduct rapid damage appraisals

2.2 Immediate post-disaster aid delivered, including emergency food assistance in disaster-affected areas

2.3 Post-disaster reconstruction

Country Programs

E El Salvador **G** Guatemala **H** Honduras **M** México **N** Nicaragua **P** Panamá **R** Regional

MEMORANDUM

TO: CAM Mission Directors

FROM: AA/LAC, Adolfo A. Franco

SUBJECT: Revised Management Agreement for the CAM (Central America and Mexico) Regional Strategy

Summary. This memo constitutes the amended and restated Management Agreement between Agency Management and the CAM Missions for implementation of the FY 2003-2008 CAM Regional Strategy, hereinafter referred to as the “Management Agreement”. This document replaces the original Management Agreement signed on August 1, 2003. The main purpose of this revision is to incorporate the Country Plans for El Salvador, and Panama and the CAM Regional Program Plan into the CAM Regional Strategy.

The initial review of the CAM Regional Strategy took place during May 19-30, 2003 with representatives from all six CAM Missions (El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama) and PPC, GH, EGAT, DCHA, GC, LAC, and State/WHA. The first week consisted of sector reviews. The second week (Program Week) was attended by Mission Directors from all six CAM Missions and culminated in a DAEC Meeting chaired by the AA/LAC Adolfo Franco. There was a collaborative, solution-oriented spirit throughout the process, and there were no remaining, unresolved issues. On June 20th Agency guidance was sent to the Missions for completion of the CAM Regional Strategic Plan (STATE 180282). The final CAM Regional Strategic Plan was submitted on July 3, 2003, was reviewed in AID/Washington, and found to be in compliance with the guidance. The final approval of the CAM Regional Strategy took place on August 1, 2003 when the AA/LAC signed the original Management Agreement.

The Nicaragua, Honduras, Mexico, and Guatemala Missions submitted their final Country Plans (implementation plans that were incorporated as annexes to the strategy) and they received a Management Letter from the AA/LAC, allowing them to obligate funds under the new strategy, subject to completion of preobligation requirements. Similarly, the plan for the Regional HIV/AIDS program was submitted, approved, and annexed to the CAM Regional Strategy, allowing it to begin in FY 2003.

During May 17-27, 2004, the Agency, led by the LAC Bureau, reviewed Country Plans for El Salvador and Panama and the Regional Program Plan (RPP). The RPP covers many of the regional programs currently implemented by G-CAP but will be managed from El Salvador starting during FY 2005. Technical reviews for these plans took place during the week of May 17-21, and covered all five sectors (democracy, economic growth, education, environment, and health) as well as WID and the Transition Plan for regional program management. The discussions and resolutions reached at these meetings have been documented and shared with all the participants and will be incorporated as a part of the record of the review process. The second week (Program Week) was attended by Mission Directors from all six CAM Missions and culminated in a Wrap-up Meeting on May 27th chaired by the AA/LAC Adolfo Franco. There were no remaining, unresolved issues. Upon receipt of the final Country Plans and Regional Program Plan, the Agency will proceed to clear, approve and annex the Plans to the CAM Regional Strategy.

Foreign Policy Interests. U.S. interests in the region include:

- Sustaining and deepening more open democratic systems across the region;
- Facilitating regional integration and “two-way” trade and investment between the U.S. and Central America;
- Promoting a more open, transparent and competitive market economy able to generate diversified investment and employment that will reduce poverty and lead to prosperity;
- Reducing illegal immigration and narcotics trafficking by reducing poverty, investing in people 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 infectious diseases, especially HIV/AIDS.

The CAM Strategy reflects these foreign policy interests. In his March 2003 testimonies in both the House and Senate, USAID Administrator Andrew Natsios stated that “...this Administration has taken development off the back burner and placed it squarely at the forefront of our foreign policy.” In elaborating USAID’s role in the Millennium Challenge Account (MCA), he testified that USAID should focus activities on four broad groups of countries: (1) countries that just miss getting into the MCA; (2) the mid-range performers with the will to reform; (3) failed or failing states that need post-conflict, transition or humanitarian assistance; and (4) countries requiring assistance for strategic national security interests. For mid-range performers, he stated that “...we will concentrate on building local capacity and institutions that can support the foundation of MCA assistance, i.e., ruling justly, promoting economic freedom, and investing in people.” The CAM Regional Strategy is structured around these three arenas.

U.S. exports to Central America in 2000 reached \$8.8 billion and Mexico is our second most important trading partner in the world. Thus trade is a high foreign policy priority in the CAM region and furthering the development and implementation of the Central America Free Trade Agreement (CAFTA) is a key element of the CAM strategy. According to the U.S. Trade Representative, “CAFTA will give Americans better access to affordable goods and services and promote U.S. exports and jobs, even as it advances Central America’s prospects for development. This free trade agreement will reinforce free-market reforms in the region. The growth stimulated by trade and the openness of an agreement will deepen democracy, the rule of law, and sustainable development. This agreement will further the regional integration that the Central Americans have begun, and complement our vital work on the Free Trade Area of the Americas (FTAA).”

CAM Regional Strategy. The MCA arenas—ruling justly, economic freedom, and investing in people—form the basis of the three core Strategic Objectives in the CAM Regional Strategy:

- ❑ Ruling Justly: More Responsive, Transparent Governance.
- ❑ Economic Freedom: Open, Diversified, Expanding Economies.
- ❑ Investing in People: Healthier, Better-Educated People.

In addition, a Special Objective recognizes the region's vulnerability to natural disasters and the continuing importance of disaster mitigation and preparedness efforts, and will enable the Agency to respond quickly to natural disasters and other crises. These four objectives, their provisional indicators, and intermediate results are contained in Attachment A and their official names and numbers are included in Attachment C. Attachment A also shows the relationship of these objectives to the joint USAID-State performance goals.

Programs that fall outside of these Strategic Objectives, but are nevertheless required as a result of other foreign policy priorities, Administration directives, or Congressional earmarks will be supported through Special Objectives. Two such Special Objectives are the Training, Internships, Exchanges and Scholarships (TIES) program in Mexico and the Darien Community Development program in Panama.

Strategic Direction. The CAM Regional Strategy marks a major shift in how USAID development assistance is provided. First, the strategy focuses on contributing to achievement of national level impact, and is deliberately structured to encourage good performance by partner countries. Second, the strategy requires each Mission to make strategic choices that focus each program on a select number of approaches and interventions. Third, the CAM Regional Strategy gives greater focus to implementation of sound policies that address the key constraints to development. Good governance is a crosscutting theme and an essential part of each objective. Fourth, it provides a single framework, strengthening the linkages between regional and bilateral efforts. It proposes, as a resource allocation tool, the creation of a Performance Fund, to reward good performers and to provide an incentive to those that lag behind. The strategy maximizes operational efficiency through a reduction in management units, streamlined procurement, and creation of a regional services hub—management improvements that will enable the LAC Bureau to work effectively within an environment of constrained staffing and operating expense resources.

Although the strategy is in many aspects a “multicountry strategy,” the LAC Bureau has chosen to refer to it as the “CAM Regional Strategy”.

Program Results. Program results at the SO level are contained in Attachment A and are provided in more detail in the CAM Regional Results Framework in the CAM Regional Strategy. The Strategy Review recognized that performance indicators included in the strategy are provisional and may need to be further refined. This refinement is underway as a Performance Management Plan (PMP) for CAM is being finalized by the participating countries, to be completed by August 1, 2004 (as required in ADS 203.3.3). To assure that the indicators being used are consistent and can be rolled up on a regional basis, the services of a single contractor are being used to help develop and finalize the PMPs.

Timeframe. The CAM Regional Strategy begins in FY 2003 and ends in FY 2008. The effective start date for Strategic Objectives for the region as a whole is August 1, 2003, the signature date of the original Management Agreement. Bilateral programs may begin later than the official start date, depending on the specific circumstances of the Mission, as described in the individual Country Plans (See Attachment C for starting dates of bilateral and regional programs). The final year of obligation is FY 2008. As per ADS 201.3.7.8, which states that “the SO end date should not extend beyond the end of the fiscal year following the last fiscal year during which funds will be obligated for that Strategic Objective,” September 30, 2009 is the end date for all SOs under the CAM Regional Strategic Plan, unless otherwise amended.

Two previously approved Special Objectives have been incorporated into the CAM Regional Strategy. In Mexico, the TIES (Training, Internships, Exchanges, and Scholarships) Strategic Objective began in FY 2002 will end in FY 2008. In Panama, the Darien Community Development SpO began in FY 2002 and is scheduled to end in FY 2006. Both of these programs are included in Attachments B and C.

Strategy Changes. The Country and the Regional Program Plans fall within the definition of a Strategic Plan and changes to such a plan are covered by ADS 201.3.11. Significant changes at the strategic level, whether they affect the CAM Core Strategy, the Country Program Plan or

the Regional Program Plan, will require Washington review and approval. The clearances required for such a review will be determined on a case-by-case basis. USAID/W will conduct such reviews as efficiently as possible, taking into account the significance of the change and the amount and type of resources required.

Program Funding Levels. The approved Life of Strategic Objective funding levels by account are summarized below and provided in more detail in Attachment B. Since the Strategy is structured to enable obligations on a bilateral basis, bilateral funding levels are also included in Attachment B. The budget includes all seven Operating Units in the CAM Region. The total amount approved under this Management Agreement is as follows (\$000):

Strategic/Special Objectives	DA	CSH	ESF	PL 480	Total
SO-1 Ruling Justly	\$106,000		\$73,000		\$ 179,000
SO-2 Economic Freedom	\$402,000		\$1,000	\$ 70,000	\$ 473,000
SO-3 Investing in People	\$ 85,000	\$268,000		\$113,500	\$ 466,500
SpO-4 Humanitarian Assistance	\$ 4,000				\$4,000
Performance Fund	\$ 30,000	\$ 10,000			\$ 40,000
	\$627,000	\$278,000	\$74,000	\$183,500	\$1,162,500

Obligation levels should not exceed approved levels and Missions are advised to refer to Agency guidance regarding increasing approved Life of SO levels (ADS 201.3.11.1). Funding levels have declined considerably since the parameters for the CAM Missions and Regional Program were established. Missions should design and manage their programs so that they can be sustained at lower levels, if necessary.

Staff Levels. Missions in the CAM Region have undergone management assessments followed by the development of rightsizing plans that rationalize the allocation of staff and operating expense resources as programs become more focused. Also, the LAC Bureau has moved forward with its efforts to be in compliance with the Agency's Staffing Template and will be in full compliance by the end of FY 2005. However, because of special programmatic implications resulting from the potential impact of the Millennium Challenge Account (MCA), and the U.S. – Central America

Free Trade Agreement (CAFTA) in the subregion, the Bureau is working with the Agency to address options to supplement the template staffing levels allocated to LAC missions, with special emphasis on Central America and Mexico

Regional Platform. A regional support “platform,” based in El Salvador, will assume overall responsibility for accounting, payment, and certain other financial management functions for the region. Financial management staff in bilateral missions will be reduced as accounting and other functions shift to the platform. USAID/El Salvador has taken the lead in working with other Missions, the LAC Bureau, and M to develop a timetable for creation of this financial services platform. With the approval of the Country Plan, USAID/El Salvador will begin operating as the regional legal support and contracting coordinator with the appropriate regional supervisory contracting responsibilities and authorities.

Regional Program Management. A Regional Office, hereinafter referred to as “E-CAM” (Central America, Mexico, and Panama), shall be established in El Salvador and shall be responsible for all CAM region-wide programs under the CAM Regional Strategy. Transfer of these responsibilities from Guatemala shall take place on a time-phased basis to be completed no later than the end of FY 2006. The Regional Program Plan includes a Transition Plan describing this time-phased transfer.

Final obligations for G/CAP’s current strategy will take place in FY 2004 and funds will be expended by the end of FY 2006. Regional programs require significant time to close, as multiple countries are included (not all activities currently underway will be continued under the new strategy). Furthermore, some program funds will pay for severance and moving costs for program-funded personnel after final closeouts are completed. Therefore to allow orderly closure of the G-CAP program, the Bureau hereby recommends that an exception to the maximum length of forward funding, per ADS 602.3.3, be made by G-CAP to permit the forward funding of G-CAP’s FY 2004 obligations up to but not exceeding September 30, 2006 when the closeout shall be complete. In accordance with ADS 602.3.3, in order to invoke such an exception, the G-CAP Director must approve a document explaining the exception and the reasons an extension is required.

Operating Expense Resources. Since Operating Expense resources are determined to a significant degree by staffing levels, the Bureau will establish OE levels once the staffing decisions are made. It is recognized that given the new regional platform in El Salvador, that Mission will require additional operating expense funding starting in FY 2005 to cover all functions.

Delegation of Authority. STATE 180282 dated June 20, 2003 provided Missions with preliminary approval of the CAM Regional Strategy to allow them to begin the procurement process and negotiate agreements up to, but not including, obligation of funds. This memorandum confirms the approval provided under the original Management Agreement and provides formal approval of the revisions to the CAM Regional Strategy. Bilateral obligations as well as obligations under the Regional Program Plan cannot take place until the AA/LAC sends the Mission a Management Letter indicating that its Country Plan has been approved and until all other preobligation requirements have been satisfied.

Program Management and Operations. Since the Strategy was approved, Missions in the region, with assistance from a qualified contractor, have been preparing a Performance Management Plan (PMP) that will reflect performance at both the regional and the country levels. Targets will be set at the SO and IR levels. The Program Office in G-CAP¹² and/or E-CAM will establish a Program Monitoring and Coordination Unit (PMCU) that will be responsible for coordinating development of the PMP, as well as follow-on monitoring and coordination to assure that the PMP is kept up to date and that strategy implementation remains on track. On an annual basis, the PCMU will roll up the performance measures from the operating units and submit them to inform LAC of CAM Regional Performance and to be used for consideration by the Performance Fund Review Panel (PFRP) for the Performance Fund. The PMCU will also coordinate field input for the intensive review. This review must take place within three years of approval of the strategy and requires submission of the updated PMP to USAID/Washington. This Unit will also track approved Life of Strategic

¹² CAM Regional programs are currently managed in Guatemala (G-CAP) but are to be relocated to El Salvador in a Regional Office known as E-CAM during the strategy period.

Objective funding amounts to assure that obligations for the region do not exceed approved levels.

On a periodic basis of not less than once annually, the Mission Director in El Salvador will, at the recommendation of the PMCU, call together his/her colleagues in the region (or their designees) to review progress toward the strategic objectives, look for opportunities to strengthen programs through shared best practices, identify cross-border opportunities, discuss country performance for the Performance Fund, and determine what adjustments, if any, need to be made to the regional strategy. These meetings will serve as a “Board of Directors” for the regional strategy. The Board of Directors consists of the six CAM Mission Directors. The Mission Director in USAID/El Salvador will serve as Chairman of the Board. Under this new arrangement, decisions are made by consensus or if needed by majority rule. If agreement can’t be reached, issues will be sent to the Bureau for resolution. Adjustments at the Strategic Objective level will be forwarded to AID/Washington for review and consideration for approval.

Performance Fund. Through a Program Support Objective included in this strategy, LAC will establish a Performance Fund of approximately \$10 million annually, subject to the availability of funds. Missions will report on their performance annually and awards will be made in three categories tracking with the three principal SOs: Ruling Justly, Economic Freedom, and Investing in People.

Crisis Modifier. Agency guidance recommends that Missions in disaster-prone areas include “crisis modifier” language in their strategies that would enable them to more quickly mobilize resources in their pipeline to respond to a major humanitarian crisis. The LAC Bureau supports this approach and recommends that CAM Missions add crisis modifier language to their Country Plans, as well as grants, agreements, and contracts where appropriate and feasible. Please see Attachment D for further guidance.

Trafficking in Persons (TIP). The countries of Central America, Mexico, and Panama are source, transit, and/or destination countries for trafficking in persons (TIP). Some countries have inadequate laws with which to prosecute traffickers, and others have no comprehensive plan in place to assist and protect victims or work across borders with neighboring countries.

In order to increase host country government capacity to prosecute traffickers, protect victims, and prevent trafficking, Missions can include antitrafficking programs under whichever SO is appropriate for that Mission. If no appropriate SO is available for TIP activities, they may be funded under the LAC Regional SO: Advancing Development Cooperation Activities in the Hemisphere (ADCOH). In addition to the Development Assistance (DA) account, funds may come from other sources provided that they are covered in the most current budget for the CAM Regional Strategy.

Attachments:

- A. Summary of Results Framework for CAM Strategy
- B. Authorized Life of SO Funding Levels (Revised May, 2004)
- C. Strategic Objective Names, Numbers, and Timeframes
- D. Crisis Modifier Guidance

CLEARANCE PAGE FOR THE REVISED CAM REGIONAL STRATEGY MANAGEMENT AGREEMENT

SDAA/LAC MJordan_____ Date _____
LAC/SPO JRudasill-Allen_____ Date 06/16/04 (Cleared by Janet Rudasill as
Acting Chief)
LAC/RSD CMango__ (draft)_____ Date 06/16/04 (Cleared by Kermit Moh as Acting
Chief)
LAC/CEN RKahn__ (draft)_____ Date 06/14/04
LAC/EMT CRoyalty__ (draft)_____ Date 06/17/04
GC/LAC JLifur__ (draft)_____ Date 06/09/04
PPC/PC JLombardo__ (draft)_____ Date 06/18/04
DCHA SParks__ (draft)_____ Date 06/16/04
EGAT SPhillipps__ (draft)_____ Date 06/15/04
GH MVandenbroucke__ (draft)_____ Date 06/10/04
State/WHA DLokka__ (draft)_____ Date 06/17/04

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Management Agreement.doc

Attachments:

- A. Summary of Results Framework for CAM Strategy
- B. Authorized Life of SO Funding Levels (Revised May, 2004)
- C. Strategic Objective Names, Numbers, and Timeframes
- D. Crisis Modifier Guidance

References:

CAM Regional Strategy Guidance dated June 20, 2003
CAM Regional Strategy (Final) dated August 1, 2003
CAM II Regional Strategy Guidance dated June 4, 2004

Annexes: Regional and Country Plans

- A. Nicaragua
- B. Honduras
- C. Mexico
- D. HIV/AIDS Regional Program
- E. Guatemala
 - * El Salvador
 - * Panama
 - * Regional Program Plan

*Pending Approval

Attachment A

SUMMARY OF RESULTS FRAMEWORK FOR CAM STRATEGY

Goal: More Democratic and Prosperous Central America and Mexico, Sharing the Benefits of Trade-led Growth Broadly Among Citizens

Strategic Objective	Performance Indicators	Intermediate Results	USAID-State Performance Goals
Ruling Justly: More Responsive, Transparent Governance.	<p>Trial court performance</p> <p>Changes in user evaluations of service of key government institutions</p>	<ol style="list-style-type: none"> 1. Strengthened Rule of Law 2. Greater Transparency and Accountability of Governments 	<p>Measures adopted to develop transparent and accountable democratic institutions, laws, and economic and political processes and practices</p> <p>Universal standards protect human rights, including the rights of women and ethnic minorities, religious freedom, worker rights, and the reduction of child labor</p>
2. Economic Freedom: Open, Diversified, Expanding Economies	<p>Trade as a percentage of GDP</p> <p>Changes in composition and contribution of various sectors in the economy</p> <p>Employment and economic opportunities created</p> <p>Number of hectares under improved management plans</p> <p>Number of hectares with improved water management activities</p>	<ol style="list-style-type: none"> 1. Laws, Policies, and Regulations that Promote Trade and Investment. 2. More Competitive, Market-Oriented Private Enterprises. 3. Broader Access to Financial Markets and Services 4. Improved Management and Conservation of Critical Watersheds 	<p>Institutions, laws, and policies foster private sector-led growth, macroeconomic stability, and poverty reduction.</p> <p>Enhanced food security and agricultural development</p> <p>Increased trade and investment achieved through market-opening international agreements and further integration of developing countries into the trading system.</p> <p>Secure and stable financial and energy markets</p> <p>Partnerships, initiatives, and implemented international treaties and agreements that protect the environment and promote efficient energy use and resource management</p>
3. Investing in People: Healthier, Better-Educated People.	<p>Primary education completion rates</p> <p>Immunization rates: DPT and measles</p> <p>Total Fertility Rates</p> <p>Infant Mortality Rates</p>	<ol style="list-style-type: none"> 1. Increased and Improved Social Sector Investments and Transparency 2. Increased and Improved Basic Education Opportunities 3. Improved Integrated Management of Child and Reproductive Health 4. HIV/AIDS and Other Infectious Diseases Contained and Impact Mitigated 	<p>Improved global health, including child, maternal, and reproductive health, and the reduction of abortion and disease, especially HIV/AIDS, malaria, and tuberculosis.</p> <p>Broader access to quality education with emphasis on primary school completion.</p>
4. Timely Humanitarian Assistance and Crisis Response.	<p>Early warning and surveillance systems operating effectively</p> <p>Vulnerability of high risk areas reduced</p> <p>Effective, rapid response to at least one natural disaster</p>	<ol style="list-style-type: none"> 1. Disaster/Crisis Prevention and Preparedness 2. Humanitarian Relief and Reconstruction 	<p>Improved capacity of host countries and the international community to reduce vulnerabilities to disasters and anticipate and respond to humanitarian emergencies.</p>

Attachment B
Estimated Life of SO Funding Levels (US \$000)¹³
Revised May, 2004

SO 1 Ruling Justly: More Responsive, Transparent Governance

Mexico	\$ 7,000 DA \$ 44,000 ESF (including \$4,000 FY 03)
Guatemala	\$ 10,000 DA \$ 10,000 ESF
Honduras	\$ 29,500 DA (including \$2,000 FY 03)
Nicaragua	\$ 39,500 DA (including \$5,600 FY 03)
El Salvador	\$ 20,000 DA (including \$1,500 in FY 2004)
Panama	\$ 19,000 ESF
Total	\$106,000 DA \$ 73,000 ESF

SO 2 Economic Freedom: Open, Diversified, Expanding Economies

Mexico	\$ 44,500 DA (including \$4,600 FY 03)
Guatemala	\$ 18,000 DA \$ 35,000 PL 480
Honduras	\$ 68,500 DA (including \$6,500 FY 03)
Nicaragua	\$104,000 DA (including \$10,550 FY 03) \$ 35,000 PL 480 (including \$5,800 FY 03)
El Salvador	\$ 69,500 DA (including \$15,500 in FY 2004)
Panama	\$ 31,500 DA \$ 1,000 ESF
E-CAM ¹⁴	\$ 66,000 DA
Total	\$402,000 DA \$ 1,000 ESF \$ 70,000 PL 480

¹³ Levels are estimated and subject to the availability of funds. Amounts are rounded to the nearest \$500,000.

¹⁴ Central America, Mexico, and Panama regional program, formerly G-CAP.

SO 3 Investing in People: Healthier, Better Educated People

Mexico	\$ 26,500 CSH (including \$1,300 FY 2003)
Guatemala	\$ 15,000 DA \$ 54,500 CSH \$ 50,000 PL 480
Honduras	\$ 33,000 DA (including \$1,750 FY 2003) \$ 68,000 CSH \$ 36,000 PL 480
Nicaragua	\$ 21,000 DA (including \$4,400 FY 2003) \$ 44,000 CSH (including \$7,500 FY 2003) \$ 27,500 PL 480 (including \$4,600 FY 2003)
El Salvador	\$ 16,000 DA \$ 34,000 CSH
E-CAM	\$ 41,000 CSH (HIV/AIDS; includes \$5,000 FY 2003)
Total	\$ 85,000 DA \$268,000 CSH \$113,500 PL 480

SpO-4 Timely Humanitarian Assistance and Crisis Response.

E-CAM	\$ 4,000 DA
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SpO-5 Improved Country Performance (Performance Fund; FY 2005-2008)

E-CAM	\$ 30,000 DA \$ 10,000 CSH
Total	\$ 40,000

Previously Approved Special Objectives:

Enhanced Capacity of Participating Mexican Institutions to Respond to the Common Development Agenda.¹⁵

Mexico	\$17,000 DA \$18,000 ESF
Total	\$35,000

Selected Darien Communities Strengthened

Panama	\$6,000 ESF
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¹⁵ Also referred to as TIES (Training, Internships, Exchanges, and Scholarships)

Attachment C

Strategic Objective Names, Numbers, and Timeframes

SO-1: Ruling Justly: More Responsive, Transparent Governance

Country SO Numbers (as applicable) and Proposed Timeframes

El Salvador	519-021 (FY 2004-08)	Nicaragua	524-021 (FY 2003-08)
Guatemala	520-021 (FY 2004-08)	Panama	525-021 (FY 2004-08)
Honduras	522-021 (FY 2003-08)	Mexico	523-021 (FY 2003-08)

SO-2: Economic Freedom: Open, Diversified, Expanding Economies

Country SO Numbers (as applicable) and Proposed Timeframes

El Salvador	519-022 (FY 2004-08)	Nicaragua	524-022 (FY 2003-08)
Guatemala	520-022 (FY 2004-08)	Panama	525-022 (FY 2004-08)
Honduras	522-022 (FY 2003-08)	E-CAM ¹⁶	596-022 (FY 2005-08)
Mexico	523-022 (FY 2003-08)		

SO-3: Investing in People: Healthier, Better-Educated People

Country SO Numbers (as applicable) and Proposed Timeframes

El Salvador	519-023 (FY 2005-08)	Mexico	523-023 (FY 2003-08)
Guatemala	520-023 (FY 2004-08)	Nicaragua	524-023 (FY 2003-08)
Honduras	522-023 (FY 2003-08)	E-CAM	596-023 (FY 2005-08)

SpO-4 Timely Humanitarian Assistance and Humanitarian Response.

Country SO Numbers (as applicable) and Proposed Timeframes

El Salvador	519-024 (As Needed)	Nicaragua	524-024 (As Needed)
Guatemala	520-024 (As Needed)	Panama	525-024 (As Needed)
Honduras	522-024 (As Needed)	E-CAM	596-024 (FY 2005-08)
Mexico	523-024 (As Needed)		

SpO-5 Improved Country Performance (Performance Fund)

E-CAM 596-025 (2005-08)

¹⁶ Central America, Mexico, and Panama regional program, formerly G-CAP.

Attachment C (Continued)

Previously Approved Special Objectives:

Enhanced Capacity of Participating Mexican Institutions to respond to the Common Development Agenda (TIES)

Mexico 523-010 (FY 2002-08)

Selected Darien Communities Strengthened

Panama 525-060 (FY 2002-04)

Attachment D

Crisis Modifier Guidance

Agency guidance found in ADS 201.3.4.4 recommends that Missions in disaster-prone areas include “crisis modifier” language in their strategies that would enable them to more quickly modify their activities to account for a major humanitarian crisis. The LAC Bureau supports this approach and recommends that each CAM Mission incorporate the Crisis Modifier approach into its Country Plan.

In the event of a major humanitarian crisis, the Mission may invoke the Crisis Modifier and seek Bureau approval, where necessary, to modify existing activities to take into account the crisis event. The modified activities would continue to be development activities, and funds would not be redirected to conduct activities that would otherwise be funded by OFDA. Any modified activity would remain subject to the scope of its original Strategic Objective and the earmark or funding account for which the funds supporting it were appropriated and notified to Congress (e.g. DA funds must be used for purposes for which DA funding is made available).

In order to invoke the Crisis Modifier, the Mission must submit a cable to LAC explaining the crisis and the Mission’s proposed response to it. The cable will include a time-phased plan delineating the proposed modifications to activities, the relation of the crisis event to such modifications, the outcomes expected from the modifications, and any anticipated changes to a Strategic Objective end date or time frame, approved life of Strategic Objective funding level, or other significant change to the Strategic Objective. The Crisis Modifier applies to each of the Mission’s approved Strategic Objectives, and appropriate crisis modifier language should be included in all grants, contracts and other agreements under these objectives, including strategic objective agreements with the host government. Bureau clearance and possibly Congressional Notification are required prior to implementing any modified activities that involve changes to Strategic Objective end dates, time frames, funding levels, significant changes to results frameworks or performance indicators, or other significant changes.

The LAC Bureau recommends that the Missions add the following language to their Country Plans:

Pursuant to ADS 201.3.4.4, USAID/_____ is incorporating the Crisis Modifier approach into its Country Plan. In the event of a major humanitarian crisis, the Mission will invoke the Crisis Modifier and seek Bureau approval, where necessary, to modify its activities to account for the crisis. In order to use the Crisis Modifier, the Mission will submit to the Bureau a time-phased plan in accordance with the guidelines set forth in the current CAM Regional Management Agreement. The Crisis Modifier applies to all of the Mission’s Strategic Objectives and appropriate crisis modifier language will be included,

to the extent possible, in all grants, contracts, and agreements under these objectives. The Mission acknowledges that a Congressional Notification may be required and that account and earmark restrictions will remain in force.

In addition, the LAC Bureau recommends that the Missions add the following language to their Strategic Objective Agreements:

USAID and the Grantee recognize that humanitarian crises may arise from time to time in [insert country]. The parties recognize that, in order to allow for greater flexibility after the occurrence of a humanitarian crisis, the activities described in this Agreement may need to be refocused or reprogrammed to account for changed circumstances that could not have been anticipated prior to the crisis event. The Grantee agrees that if USAID approaches the Grantee subsequent to such a crisis event and requests modifications to this Agreement related to the effects of the crisis, the Grantee shall work with USAID to expeditiously approve such modifications. The Grantee understands that all funds under this Grant must continue to be used for purposes for which they were appropriated by the United States Congress, and that approval for certain modifications to this Agreement related to the crisis event may require further approval from USAID/Washington and notification to the United States Congress prior to implementation.

The Bureau further recommends that the Missions develop similar language for their grants, contracts and agreements where feasible and appropriate.