

USAID/Central America Regional Program

Annual Report

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Central America Regional Program

Performance:

Background: USAID's Central America Regional program was an integral partner in the continuing preparation of the Central American countries for negotiation and approval of the Central American Free Trade Agreement (CAFTA). Free trade and robust economies are fundamental to Central American aspirations of further distancing themselves from decades of civil conflict and fueling progress in the fight against chronic poverty. Economic growth is only a means in this struggle, however. The end goal is to utilize this growth in a way that distributes new wealth and raises the standard of living for all Central Americans. USAID regional programs have also been essential in protecting the environment, helping rural producers to diversify their economic activities, and in containing and controlling the spread of HIV/AIDS.

Central America has a combined population of nearly 36.5 million people and a total GDP of nearly \$72 billion. The United States is Central America's biggest trading partner. The United States exported nearly \$11 billion in goods to the five Central American countries in 2003, more than U.S. exports to Russia, India and Indonesia combined. Two-way trade was over \$23 billion in 2003. This strong trading partnership helped to improve Central America's 2004 per capita income to \$1,972.

The region suffers from some of the worst income inequality in the world as nearly half the population lives below the poverty line, and nearly a quarter lives on less than one dollar a day. Central America suffers from the highest primary school repetition and the lowest completion rates in Latin America. Approximately one-fourth of Central Americans are illiterate. Save for Costa Rica and Panama, the region still suffers from an unacceptably high infant mortality rate (27 per 100 live births) and chronic malnutrition. These problems are further exacerbated by a population growth rate of 3%. Growth in organized crime and endemic corruption seriously threaten to undermine gains in political, social and economic development. In addition, the region has yet to slow the overland and coastal transport of drugs through the isthmus.

HIV/AIDS is considered a growing epidemic, with conservative estimates of more than 380,000 HIV infections. This epidemic has potentially serious economic and social consequences for the region. Save for Honduras and Belize, however, the countries are categorized as "concentrated" epidemics, indicating that certain sub-groups of the populations are particularly affected.

U.S. Interests and Goals: The United States has long considered the Central America and Mexico (CAM) region to be closely linked to its national interests, due to the geographic imperatives of our common border and the importance of the Panama Canal to the U.S. economy. Despite its relatively small population, Central America trades more with the United States than does any Latin American country except Mexico and Brazil. Successive U.S. administrations have also highlighted the importance to U.S. interests of stemming natural resource degradation and loss of biodiversity in the region. Containing the spread of infectious diseases, especially HIV/AIDS, is also in our common best interest. Over the past two decades, moreover, the region's poverty and political instability have fueled massive illegal migration to the United States, and the area has become a staging ground for narco-trafficking and organized crime. Remittances sent home by Central Americans and Mexicans working in the United States dwarf official and private humanitarian and economic assistance, further demonstrating our common economic ties. To address these issues, USAID assistance operates on the premise that trade-led growth represents the best way for the Central American countries to generate the needed income to improve the lives of its people.

Regional role of other donors: Other donors support Central American integration and USAID

coordinates closely with them. The other principal donors that provide significant support to regional integration in Central America are the Inter-American Development Bank (IDB); the Central American Bank for Economic Integration (CABEI); the European Union; UNAIDS; and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). The IDB has approved significant support for regional integration programs and major infrastructure investments under the Plan Puebla Panama project, co-funded by the Mexican Government and CABEI, and under the Central American electrical interconnection project (SIEPAC). CABEI is developing new proposals for support of integration initiatives, and may establish a \$250 million fund to support the industrial reconversion of Central American firms as they adjust to open markets as well as segments of the population unduly affected in the process (the Fondo de Cohesion Social). CABEI also supports the regional Small and Medium-sized Enterprises Competitiveness program. The European Union's 2002-2006 regional strategy programs 74.5 million Euros for support for customs integration, strengthening the role of civil society, and reduction of vulnerability and environmental improvement. Collaborating with USAID's regional HIV/AIDS program and the bilateral Missions, the GFATM has approved up to \$107 million for HIV/AIDS work in the region. A number of European donors supported human rights and democracy programs on a regional basis during the 1990s, but many of these have very limited programs at this time. Both the Germans and Swiss support regional environmental development projects. International organizations such as the International Labor Organization (ILO) and other USG agencies such as the Department of Labor are taking a regional approach to harmonizing and building the capacity of the region's labor ministries.

Challenges: Central American countries have long sought improved competitive advantage by integrating their economies into a larger commercial bloc, linked by free trade agreements with larger world markets. However, achieving this vision requires the CAM countries to take actions that are technically and politically difficult. Some of these actions are national in nature -- such as improving educational systems and transforming of firms to be more competitive in world markets -- and will be supported through bilateral USAID investments. Others are regional in nature because the countries have decided to work together to address cross-national concerns such as customs integration and harmonization of tax, fiscal, sanitary and phyto-sanitary (SPS), and environmental policies and standards, and management of the Meso-American Biological Corridor. Other important issues that can be addressed from a regional perspective include containment of communicable diseases such as HIV/AIDS, creation of a food security early warning system, and the management and prevention of forest fires and pests.

The CAM countries share many common attributes, but there are also many differences. For example, there is a large variation in the role that exports play in the different economies (total exports divided by GDP varied in 2001 from a low of 14% for Guatemala to a high of 31% for Costa Rica and Honduras). Central America (23%) and Mexico (25%) have similar ratios of exports to GDP although there is a ten-fold difference in the order of magnitude because of the size of the Mexican economy. Exports within Central America as a percentage of total exports varied in 2001 from 13% for Costa Rica to 47% for Nicaragua.

Key Achievements: During 1997-2004, USAID programs in Central America have enjoyed great success in working to: 1) support regional integration by promoting open trade and investment policies, 2) promote improved environmental and natural resource management and the use of clean production technologies, 3) encourage rural economic diversification, and 4) control and contain the spread of HIV/AIDS.

1) Support regional integration by promoting open trade and investment policies: This past year was a very successful and transformational period for trade policy in Central America. The five Central American countries and the United States concluded negotiation and approved the final text of CAFTA in May. With the election of the progressive, pro-business Berger administration by Guatemala and the re-election of the pro-business ARENA party in El Salvador, the two countries -- representing half of all trade in Central America -- showed vigorous, renewed commitment to regional economic integration as a way to improve the region's competitiveness in the global economy. The USAID Central America Regional Program played an important supporting role in the region's progress in this area. Regional Program assistance has resulted in support among all five governments for regional integration and simplification or elimination of most customs (not CITES) and immigration procedures for travelers and traded goods

originating in Central America. El Salvador and Guatemala opened their mutual borders in November, 2004, and Honduras and Nicaragua have committed to doing so by the end of 2004.

The Regional Program also provided highly valued technical assistance and training to the trade ministries of the region, helping them prepare for CAFTA and supporting their outreach activities that explained the CAFTA's potential opportunities and challenges. USAID resources responded to the governments' requests for help in assessing needs and opportunities for reform and harmonization of commercial laws and trade infrastructure; assistance to help the region better integrate e-commerce with trade opportunities; and for training in voluntary technical norms to help businesses reduce technical barriers to trade and improve their access to U.S. markets. The commercial law and trade assessments have already led to a commitment by all five countries to enact laws governing collateralized loans and property registries that will enable small and micro-entrepreneurs to secure the financing they need to establish and grow their businesses. USAID helped key public and private stakeholders in Central America establish public-private national trade facilitation committees that have already achieved significant advances in promoting customs modernization, regional harmonization of customs procedures, and related trade facilitation efforts. Technical assistance to energy sector regulators in the region played a major role in building consensus among all stakeholders to achieve sustainability in the power sector and progress in restructuring the regional energy market.

2) Promote natural resource management and clean production: The Central America Regional Environment Program (PROARCA) recorded significant achievements in protected areas management, the development of green markets, the harmonization of regional environmental legislation, clean production and municipal solid and liquid waste management. Activities are coordinated with other Missions and donors through the Central American Commission for Environment and Development (CCAD). CCAD has gained strength over the past year and the donor community has aligned with CCAD and is shifting to regional models of cooperation. Environment ministries throughout the region are committed to the environmental program and directly implement some activities through CCAD working groups. Belize declared 11 new protected areas and developed a National Protected Areas Strategy as a direct result of PROARCA's efforts. The Environment Ministry of El Salvador developed its National Protected Areas Law. Thanks to JAGWOOD, the regional forest trade network, the demand for certified timber in the region now exceeds the supply. Central America's certified forest increased to 710,917 hectares (ha) with 13 new certified community groups. Regional fishery authorities, communities, and the private sector agreed to eliminate scuba diving for lobsters and Nicaragua issued a new law to enforce this effort. USAID funding leveraged an additional US\$1 million from the IDB to support tourism certification in the region. The PROARCA website received an award for creative new concepts of communication through the internet. A draft framework law for wastewater was validated by the region, as was a regional strategy for solid waste management. The Development Credit Authority (DCA) program added two banks and has over 50 proposals in the pipeline for clean production improvement loans. In the dairy sector alone, clean production improvements saved the private sector US\$120,000 in clean production costs. PROARCA's Global Climate Change program launched <http://servir.nsstc.nasa.gov> with real time fire and red tide monitoring information. As a direct result of the Regional Program forestry activities, 5,279 cubic meters of certified wood were sold, and the management of almost 90,000 ha was improved. The Regional Program helped develop a forest products regional trade network to increase market access. In Nicaragua, an innovative community management model resulted in the community negotiating a substantially increased price for their timber. The program's success at getting "Preferential Purchase Programs" incorporated into the Nicaraguan forestry law last year led to increased demand and markets for certified timber, providing an additional incentive for best management practices.

Sustainable agriculture activities financed by PROARCA led to the certification of 1,526 ha of banana this year producing 45,377 metric tons, and improved management of 1,440 ha of coffee producing 1,987 metric tons. Through direct action and indirect leveraging, 42,566 ha of banana and 16,098 ha of coffee have been certified. Approximately 20 million pounds of certified quality coffee were sold through leveraging of PROARCA resources as of this fiscal year.

The Regional Program's Global Climate Change activities directly support the Presidential Initiative for

Climate Change. USAID is partnering with NASA, CCAD and the World Bank to improve the region's ability to monitor, mitigate, and adapt to environmental threats related to climate change -- particularly fires and red tides. Regional fire response personnel are downloading geo-referenced maps daily and using them for planning. The Government of El Salvador and the fishing industry are using the red tide data to determine appropriate fishing areas, and those areas that will be most productive, thereby helping ensure economic prosperity. The ability of countries to monitor carbon emissions due to changes in land use and forest cover, and determine vulnerability to climate change impacts is being improved through joint efforts with other USG agencies and partners. The program also addresses the priorities identified under the Presidential Initiatives for Clean Fuels, Water for the Poor, and Illegal Logging.

3) Encourage rural economic diversification: After less than two years of implementation, USAID's rural diversification activities have resulted in over 30 major new business alliances, a commercially viable internet auction for quality coffee, and more than 70 new buyers of quality coffee and certified coffee, bananas, and forest products. In only one coffee harvest, quality coffee exports from the region have increased by 15% in volume and 22% in value. Quality coffee exports in Honduras are up 122% and up 39% in El Salvador. In Guatemala, over 40% of coffee exports are sold as quality coffee at sustainable premium prices and Nicaragua has emerged as a leading supplier of Fair Trade coffee partly by developing a marketing channel through U.S. church groups. In the face of the dramatic fall in coffee prices, the initial response of Central American governments had been to request massive foreign assistance in riding out the crisis and ameliorating the impact on rural families. However, USAID programs that emphasize the need to compete in world markets have been critical in converting pessimism on the part of Central American governments and coffee sectors to pride and enthusiasm for competition in the global marketplace.

New Global Development Alliances (GDA) were launched in the region. The most important of these perhaps was the Certified Sustainable Products Alliance, with Rainforest Alliance, together with industry leaders such as Chiquita, Kraft, and Ikea in bananas, coffee, and wood products respectively. Sales of certified products have already exceeded \$6 million, benefiting over 9,000 permanent workers and 7,000 temporary workers. The program also continues to support the Coral Reef Alliance with the United Nations Foundation to promote economically and environmentally sound management of the Mesoamerican coral reef. Other GDAs included: CAFTAAction with the Caribbean Central American Action (CCAA) which is working to create and strengthen regional business alliances to prepare for CAFTA, improve competitiveness, and trade liberalization; the Continuous Improvement in the Central American Workplace activity, with Development Alternatives, Inc., The Gap, and Social Accountability International, which will improve working conditions and increase the competitiveness of the apparel and textile industry by improving knowledge and enforcement of labor standards at the workplace level; and the CAFTA Alliance for Capacity Building, with Counterpart International and the Humane Society of the United States, which will improve government policies towards organic and sustainable agriculture and more humane systems of animal husbandry and food processing in each Central American country. Other alliances being implemented by the program are the Alliance with Technoserve to implement a diversification program that will generate income and rural employment in alternative industries in non-competitive coffee-dependent regions in Central America, the Conservation Coffee Alliance, with Conservation International and Starbucks, to provide consumers an opportunity to contribute to conservation and reduce poverty, and the alliance with FINCA/VISA, which expands access to microfinance and basic banking services to the poor.

The Mesoamerican Food Early Warning System (MFEWS) began implementation during 2004. The objective of MFEWS is to provide systematic warnings about conditions that could threaten rural livelihoods in the region, with the principal concern being economic access to food, rather than food production per se. Within eight months, offices have been established in Guatemala, Honduras, and Nicaragua. The effectiveness of MFEWS data gathering and analysis is evidenced by the growth in the number of users asking to be included in the distribution list of MFEWS alerts. Within USG agencies in the region, the number of users grew from 10 to 60. The number of total users grew from 32 to 326, including 110 local institutions across the region.

4) The regional HIV/AIDS program continued to prove critical in addressing this epidemic over the past

year, which threatens the future sustainable development of the sub-region. The limited existing data indicates that the countries, except for Honduras and Belize, fall into the "Concentrated" category, with certain sub-groups of the population being particularly affected. The ultimate customers of the HIV/AIDS program are the Central Americans at risk of contracting HIV/AIDS, people living with HIV/AIDS (PLWHA), and those close to them who are impacted by the disease. Working closely with a variety of partners including the United Nations (UN), USAID emphasizes the participation of vulnerable and affected groups in decision-making and national strategic planning. It also strengthens the capacity of customer representatives -- such as advocacy groups and ministries of health -- in developing more appropriate and effective interventions that respond to the customers' needs.

Important gains have been made through scaling up of implementation and coverage of behavior change communication activities throughout the region with various hard-to-reach high-risk groups and with further improvement in the policy environment. A very encouraging sign is that sentinel surveillance data from Guatemala indicate that in areas where the program has been focussing, HIV infections in FSWs who attend health clinics may be decreasing. In Guatemala City, seroprevalence among this group dropped remarkably from 4.7% in 1998 to 0.6% in 2002-3. Meanwhile, the percent of FSWs in Guatemala City who reported having participated in USAID-supported activities increased from 8% in 2000 to 45% in 2004. Program support through the Centers for Disease Control/Global AIDS Program (CDC/GAP) provided the impetus and technical direction for the development of an umbrella regional strategic plan for surveillance in collaboration with UNAIDS, World Health Organization/Pan American Health Organization, and the World Bank. This Plan has established the base for installing the regional and national institutional capacity for surveillance and strategic information systems. As a result of this process, the World Bank is finalizing an \$8 million regional grant. The Regional Program will continue to seek out alliance partners to enhance cost-sharing of the important work that our grantees do. USAID, in collaboration with CDC/GAP, is currently working with the Pfizer Foundation to facilitate a donation of Diflucan, a costly and important medicine for the treatment of opportunistic fungal infections with applications pending in Honduras, Guatemala and Belize.

The above represents performance under the current Central America Regional Program, under the new regional strategy for Central America and Mexico (CAM), the USAID Regional Program will begin implementation of its new plan focusing on the following three areas: 1) Central American economic integration through the promotion of trade and diversified economies; 2) improved management and conservation of watersheds and forests, and 3) the control and containment of the spread of HIV/AIDS. It is anticipated that fewer resources will be available for the new regional program and the Program is working, therefore, to further focus its assistance and anticipates the growing use of alliances and partnerships to leverage its funds and expand our impact.

Results Framework

596-001 Increased Central American Participation in Global Markets

596-004 Improved Regional Capacity to Mitigate Transnational Effects of Disasters

596-005 Increased Central American Competitiveness in Global Markets

SO Level Indicator(s):

Decrease in the percentage of intellectual property rights piracy rate
Intra-regional trade coefficient (exports + imports) of Gross Domestic Product
Ratio of Central American exports to Latin American exports (excluding Mexico)

- 1 More Open Trade and Investment Policies
- 2 Accelerated Central American Market Integration
- 3 More Equitable and Efficient Labor Markets
- 4 Effective Preparation of Central America for Trade Negotiations

596-006 Improved Environmental Management in the Mesoamerican Biological Corridor

SO Level Indicator(s):

Number of entities adopting models, policies, practices, technologies or regulations for improved environmental management

Number of hectares under improved management

- 1 Improved protected area management in the Mesoamerican Biological Corridor
- 2 Expanded market access for environmentally sound products and services
- 3 Harmonized environmental regulations
- 4 Increased use of less polluting technologies and practices

596-007 Strengthened Municipal Finance Systems for Local Governments in Central America

596-008 The HIV/AIDS Problem in Central America Contained and Controlled

SO Level Indicator(s):

General population prevalence of HIV

Prevalence of HIV among high-risk groups

- 1 Appropriate HIV/AIDS policies and strategic plans implemented
- 2 Improved prevention, support systems and other services implemented
- 3 Care and attention model developed and disseminated

596-009 Increased Diversification of the Rural Economy

SO Level Indicator(s):

The value of Central American non-traditional exports / value of global non-traditional exports

- 1 Improved competitiveness and sustainability of quality coffee exports
- 2 Improved competitiveness of the rural economy

596-021 Ruling Justly: More Responsive, Transparent Governance

596-022 Economic Freedom: Open, Diversified Expanding Economies

SO Level Indicator(s):

Growth Competitiveness Index score (World Economic Forum)

- 1 Laws, policies and regulations that promote trade and investment
- 4 Improved management and conservation of critical watersheds

596-023 Investing in People: Healthier, Better-Educated People

SO Level Indicator(s):

Reduced incidence of HIV among high-prevalence groups

- 1 Increased use of prevention practices and services to combat HIV/AIDS
- 2 Improved policies implemented
- 3 Effective and efficient delivery of comprehensive care and treatment for people living with HIV/AIDS

596-024 Timely Humanitarian Assistance and Humanitarian Response

SO Level Indicator(s):

Early warning and surveillance systems operating effectively

1 Disaster/crisis prevention and preparedness

596-025 Improved Country Performance (Central America and Mexico Performance Fund)

596-XXXX Performance Fund - Central America