

Central America



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1. Introduction

The present report represents the first of Sida's annual reports on Swedish bilateral development cooperation of a regional character in Central America. The purpose is threefold:

- (a) to provide a global overview concerning all major existing Sida-funded regional contributions in the region and briefly describe their progress;
- (b) to provide some reflections concerning selected development tendencies of relevance within the region;
- (c) to stimulate discussion within Sida concerning the regional vision for the future and how regional funds should best be allocated.

The Annual Regional Report is aimed not only at the Swedish public, staff within Sida and other Swedish organisations dedicated to development cooperation, but should hopefully also be informative for cooperation partners, civil society and the international community in Central America.

The elaboration of the report is coordinated by the Swedish Embassy in Guatemala, compiling inputs from Sida's different divisions (in Stockholm and abroad) and providing an original contribution concerning selected tendencies in regional development.

Due to various administrative problems, the publication of this first Annual Report has been somewhat delayed. The time period covered in the first chapter, on tendencies in regional development, has therefore been extended and is updated to May 2003; whereas the following sections cover 2002 only.

Comments and suggestions on this and for future regional reports are welcome. Please feel free to make contact using the e-mail address given below. Preferred languages are English, Spanish and Swedish.

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2. Selected tendencies in regional development

2.1 Introduction

This chapter is not intended to provide a comprehensive analysis of regional matters nor to cover all principal areas and themes. The idea is rather to highlight some selected issues and developments currently considered of special relevance in and for the region – either regional in their very character or valid for most of the region's countries.

Consequently, themes selected for this year's Regional Report will not necessarily reappear next year.

2.2 Economic development: zero progress but remittances

2.2.1 *General indicators*

Considering the rather unfavorable global economic context, the macro-economic performance of the Central American countries in 2002 may be assessed as moderately positive with real GDP growth ranging from 1 to almost 3 per cent and inflation varying only from 4 to 10 per cent. However, taking the region's annual population increase into account, this performance actually meant a drop in GDP per capita in most countries. Against this background and the drop in agricultural export prices for important products (most dramatically coffee), the rural economies in the region suffered a setback. Thus, even country-wise the overall result of 2002 as concerns poverty rates was most likely negative.¹

2.2.2 *The coffee crisis and its dimensions*

During 2000 and 2001, coffee prices dropped to their lowest level in 30 years – or even to a 100-year low if adjusted for inflation. This fall in prices continued, although less dramatically, during 2002. Coffee prices have now fallen much below the cost of production, causing immense financial losses and reduction in employment. For the entire region, seasonal employment generated by the coffee sector is estimated to have declined by 20 per cent, whereas permanent employment within the sector has been reduced by over 50 per cent.

This is critical because, unlike other crops, the vast majority of coffee producers in Central America are smallholders, themselves dependent on

¹ According to calculations by ECLAC, if extreme poverty only is to be cut in half by year 2015, total GDP would have to grow by 5.7 per cent/year for 15 years in countries with the greatest poverty.

the harvest for cash income and at the same time generating job opportunities for a huge amount of families in the neighborhood. A crisis in this sector therefore creates a general downturn in the rural economy, social tensions and accelerated migration to urban areas.

At the macroeconomic level, governments and banks are also affected by the loss of trade-generated cash. Since 2000, Central American countries have suffered a 50 per cent decline in revenue from coffee exports – from almost USD 1.7 billion in 2000 to some USD 850 million in 2001 and USD 800 million in 2002.

Coffee export revenues, 2000-2002

(In USD million)

Country	2000	2001	2002	Change 2000/2002
Costa Rica	272	162	166	- 39%
El Salvador	301	119	107	- 65%
Guatemala	574	306	292	- 49%
Honduras	339	161	151	- 55%
Nicaragua	171	105	75	- 56%
Total	1 657	853	791	- 52%

The current crisis in coffee prices is partly cyclical (oversupply, mainly due to Brazilian post-frost replanting and the expansion of Vietnamese production) but also – and more importantly – reflects changes in the structure of the world coffee market,² changes which are most likely not transitional. Accordingly, the impact of the crisis on the region could be long lasting if proper actions are not taken, with severe consequences for the region's rural poor.³

To the brutal social impact of the coffee crisis should be added the potentially negative, but often neglected, environmental consequences. The traditional method of growing coffee in Central America is by using naturally growing trees to shade the crop. This kind of coffee plantation often occupies otherwise erosion-prone slopes and conserves soils and water in the same way as a forest does; it also supports a variety of plants and animals and serves as a natural moderator of the microclimate. In other words: shade plantations contribute a great and lasting value far beyond the price of the golden beans. Without proper action, there is a risk of extensive clearing of shade trees (to be sold as timber and firewood) and for large-scale clearing of land (to introduce new crops or for pasture).

In this new context, different incentives for tree preservation and tree planting on coffee lands may become attractive. Another opportunity, which could spring from the coffee crisis, is related to the dramatic decrease in land prices – which in certain countries could be utilized for land re-distribution purposes without prohibitive costs.

² Mainly concerning taste (more demand for gourmet and specialty coffee, at higher prices) and roasting techniques.

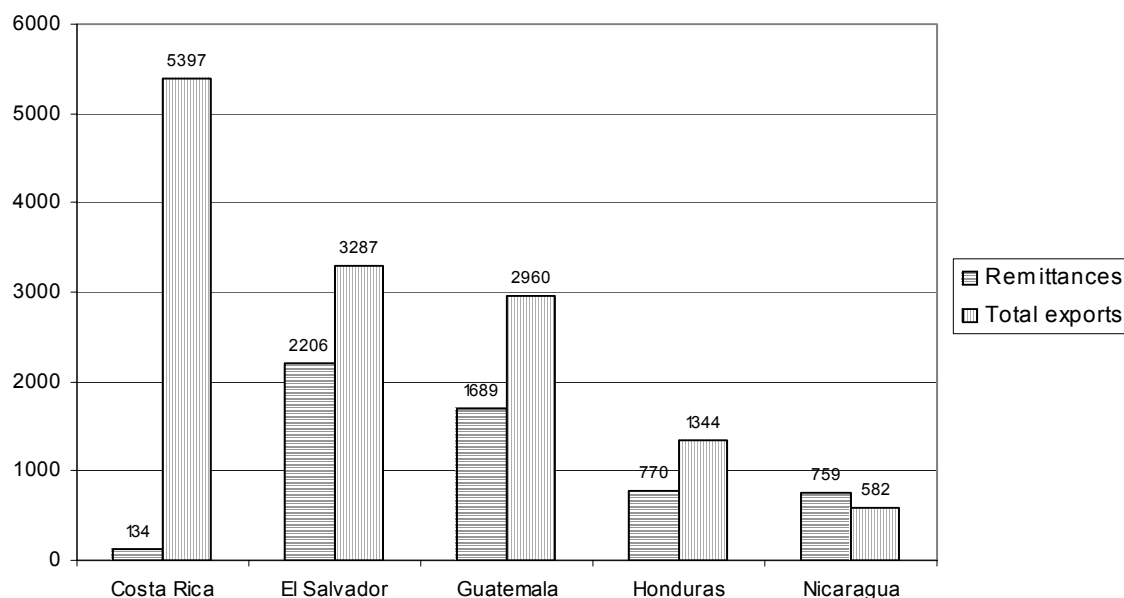
³ Currently two lines of action are proposed: (a) areas with the potential to produce quality coffee (mainly due to adequate altitude) will be supported for enhancing overall quality and efficiency; (b) other areas will be supported to achieve proper diversification instead.

In sum, addressing the coffee crisis in a proper way will be key for the exit of any rural development policy and will have considerable impact on the region's social and economic future.

2.2.3 *The increasing power of overseas remittances*

In the midst of the rather gloomy tendencies described above for 2002, the Central American economies could, however, still rely on increasing levels of income from what has become the region's own gold mine: remittances from millions of emigrants abroad. For the region as a whole, this source of income currently exceeds by far total ODA (official development assistance) as well as total FDI (foreign direct investment) in volume. At the national level (except for Costa Rica), remittances represent a substantial share of the national GDP – some 8 per cent in Guatemala, 11 per cent in Honduras, 15 per cent in El Salvador and over 25 per cent for Nicaragua.

Remittances as compared to total exports, 2002 (in MUSD)



During 2002, remittances (almost exclusively from nationals in the US) continued to grow at an astonishing rate as compared to 2001: more than 20 percent for Guatemala and Honduras, and 15 per cent for El Salvador and Nicaragua.

Studies concerning the actual use of remittances indicate that about half is utilized for investments in a broad sense (including education and health), whereas the rest is spent on consumption. Finding ways of increasing the proportion dedicated to investment (and facilitating small-scale productive investment) is obviously a task with potentially high positive impact for the region.

Another entry-point for efforts aimed at maximizing the impact of remittances would be to decrease costs for financial transactions. Latin American workers abroad typically send home an average remittance of USD 250 eight to ten times a year. For remittances to Latin America as a whole it has been estimated that each year some 100 million transactions are carried out – at a cost of approximately 13 per cent. This is by far the

highest transaction costs in the world for remittances and implies that during the last year, total transaction costs for remittances to Central America amounted to more than MUSD 600. According to banks and analysts, this cost could be reduced by some 50 per cent – making available an additional MUSD 300 for (the generally poor) recipient families in the region.

2.3 Will external initiatives lead to a comeback for regional integration?

2.3.1 Limited results so far from domestic efforts

The region's own initiative for integrationist efforts – el Sistema de Integración Centroamericana, SICA – was launched in December 1991 with the joint Tegucigalpa Declaration. The birth of SICA reflected the optimism generated through the successful peace process in the region (with the Esquipulas Agreement from 1987 as a milestone) and was also inspired by the Central American Common Market (MCCA) which, during the 1960s, had played a prominent role, not least for intra-regional trade.

More than one decade later it should be admitted, however, that real results from these integrationist intentions are relatively modest and have had little impact. This applies particularly to the political dimensions of SICA (the regional parliament, the regional court, regional ministerial-thematic coordination mechanisms), whereas efforts concerning commerce and trade have shown some definite advances⁴ and have most likely contributed to the rapid and continuous increase of intra-regional trade observed during the last ten years.

Among the primary reasons for these limited results the following three are generally mentioned:

- (i) SICA's complicated and dispersed structure with a considerable number of secretariats and commissions on different themes and levels. This causes lack of coordination and lack of efficiency in decision making, which is further aggravated by financial problems concerning the staffing of the different bodies as well as covering their operational costs.
- (ii) The weak status, and thus lack of legitimacy, of key bodies within SICA such as the fact that the Regional Parliament (PARLACEN) located in Guatemala, which does not include Costa Rica, has consultative status only. Its reputation has also deteriorated constantly during last few years.⁵ Another example is the Central American Court, placed in Managua, which is recognized by three countries only (El Salvador, Honduras and Nicaragua), has a consultative status and whose verdicts or resolutions are generally not adhered to by the relevant national governments.

⁴ Such as the agreement on a Central American Customs Union (since 2002 also ratified by Costa Rica) and the establishment of a commonly agreed mechanism for resolving commercial disputes.

⁵ The critique concerning PARLACEN focuses on its costs (some MUSD 20/year), its inefficiency and/or character of discussion fora only and, finally, on the fact that former Presidents and Vice-Presidents automatically become members once leaving office – thus enjoying another period of immunity.

(iii) The continued existence of border-related conflicts between almost each and every country in the region,⁶ which constitute stumbling blocks for integrationist efforts and sometimes also generate new obstacles. A case in point is the 35 per cent import tariff imposed by Nicaragua on Honduran products in 1999, following the ratification by Honduras of an agreement with Colombia where Nicaraguan claims concerning maritime territorial rights vis-à-vis Colombia were disregarded. This import tariff caused considerable economic consequences, profoundly affected overall relations between the two countries (even after the installation of new Presidents) and was not revoked until the beginning of 2003.⁷

The factors briefly stated above no doubt have a profound negative impact on most integrationist efforts in the region. However, it may be questioned whether they should be categorized as causes or rather be considered as symptoms – reflecting the lack of firm and genuine conviction within (the elite groups of) every country concerning the advantages to be gained from real integration.

2.3.2 *Approaching the Central American Free Trade Agreement*

In this context of slow and far from consolidated progress towards regional integration, the decision by the United States (announced during President Bush's visit to the region in March 2002 and reconfirmed by the US Congress in May) to initiate fast-track negotiations on a Central American Free Trade Agreement (CAFTA) has had a strong impact. The rhythm concerning the implementation of the Customs Union (which also constitutes a core element of CAFTA) has been speeded up, and also attention to regional themes within other spheres has seen some revival.

Of particular importance from an integrationist perspective has been the condition that all five countries participate in negotiations together, as one group, thus terminating the preceding period when individual countries were constantly "dropping out" of joint initiatives and seeking national preferences on a bilateral basis. According to the current time plan, which seems somewhat ambitious, negotiations will be carried out in nine rounds concluding in December 2003.

Should negotiations lead to a real breakthrough, there is no doubt that the implementation will have a profound impact on conditions in Central America – and this impact will not be limited to the economic sphere. Against this background it is remarkable that serious public debate on the different future scenarios that may result from CAFTA is still practically absent; mostly being replaced by simplistic statements in the form of either frontal attacks on the concept or naive claims that everyone will be winners.

⁶ Territorial and/or border-related conflicts exist between Guatemala and Belize; between Nicaragua and Colombia (and between Nicaragua and every Central American country not supporting the Nicaraguan claim); between Honduras and El Salvador; between Belize, Guatemala and Honduras (islands in the Caribbean); and between Nicaragua and Costa Rica.

⁷ The Nicaraguan-Honduran conflict was brought to the Central American Court twice: first by Nicaragua on the territorial issue, where the Court resolved that Honduras, by signing the agreement with Colombia, had violated regional agreements. Secondly, by Honduras when Nicaragua introduced the special import tariff, leading to a resolution by the Court in favour of Honduras. None of these resolutions were recognized by the countries involved.

Another feature is that “outside” attention (in the media, among national actors and within the international community) has so far been heavily concentrated to commercial matters whereas aspects directly or indirectly related to other fields, such as conditions for control of corruption, money laundering, etc, are little known and not publicly discussed. Focusing attention on the commercial dimension is not only understandable – it may also become important in order to avoid a free trade agreement with contents that could otherwise limit precisely the desired free trade (through quotas, maintaining subsidies and dumping, etc), with consequent profoundly negative effects on, for example, the region’s agriculture.

At the same time, however, these negotiation rounds could also constitute an important opportunity for all actors – national and international – to improve conditions for the promotion of transparency, the prevention of corruption and the strengthening of positions in the fight against organized crime.

2.4 Organized crime strengthened and moving upwards

In the United States alone, expenditure on cocaine in 2000 was estimated by the UN at some BUSD 36, of which more than 95 per cent was earned by drug trafficking groups operating at various points along the chain down to the final consumer. A vital part of this chain is Central America and the Caribbean, being the main area through which cocaine (mainly from Colombia) is transported to the US.

Even if the bulk of the profits from this illicit drug trade is made in the US, the impact is felt more in the developing countries which constitute its transit area. Here, the value resulting from the drug trade in certain countries represents a considerable proportion of the economy. While these assets are not enough to create an economic boom, they are often more than enough to allow for increased levels of corruption in the political and judicial systems, distortions within the functioning of the national economy⁸ and increased levels of crime, notably organized and violent crime.⁹ The combined result is a tendency towards destabilization of civil society itself: erosion of social capital and loss of community cohesion.

One or several of these tendencies are currently, to a varying degree, present in each and every country of Central America. Only in Guatemala, however, do *all* the above-mentioned tendencies apply – and, unfortunately, to a very great degree. It may thus be useful to deal in some detail with the case of Guatemala, in order to illustrate the forces of organized crime at work all over the region.

Guatemala has long been the preferred Central American location for storage and consolidation of drug loads en route from South America to the United States. Drug traffickers exploit Guatemala’s central location and its good transportation facilities to conduct maritime, air and overland drug smuggling. Historically, border controls have been both ineffec-

⁸ For example: it brings about an overvalued exchange rate as a result of the inflow of illicit profits; it increases unfair competition (due to money laundering purposes etc) thus depressing legitimate business and investments; it encourages conspicuous consumption at the expense of long-term investments; it encourages investments in non-productive sectors.

⁹ Common outward expressions are violence in public spaces, gang wars, kidnapping and extortion.

tive and corrupt, implying a high degree of cooperation with traffickers. During the period 1995 up to 1999, however, seizures of cocaine and other drugs increased substantially and steadily; according to most evidence reflecting not increased transit volumes but real progress for governmental anti-drug efforts under President Álvaro Arzú.

This tendency changed dramatically from year 2000, when seizures dropped from over 10 metric tons of cocaine to less than 1.5. During the following years, figures improved somewhat but still remained at alarmingly low levels, reaching 4 tons in 2001 but only some 3 tons in 2002 – this despite the fact that, according to drug intelligence sources, cocaine transfers through Guatemala increased during 2002 at least.

The period January 2000 up to the autumn of year 2002 also coincided with remarkably frequent personnel changes in high-level posts relevant to this context: during a period of less than 20 months, the Director of the National Police was changed seven times and the Head of the Anti-Narcotics Police (DOAN) nine times.¹⁰ Whether these changes were evidence of efforts to bring these institutions under control or rather reflected political infighting for possession of lucrative chairs is anyone's guess. However, after very sharp and public criticism from the US Government concerning the level of drug trafficking and related institutional corruption, DOAN was finally disbanded in October 2002 and replaced by a new agency (SAIA), probably in order to avoid US de-certification concerning Guatemala.¹¹

According to official reports by the US Drug Enforcement Agency (DEA), it is estimated that DOAN authorities stole more than twice the amount legally seized in 2002. Intelligence also indicated that law enforcement officials “offered protection to traffickers transiting Guatemala; stole money from suspects; assassinated drug transporters for the purpose of stealing their shipments; tortured and killed innocent civilians; and committed a variety of other criminal acts”.¹² Probably, the killings and many other serious human rights violations committed by DOAN were undertaken simply in order to eliminate competition.¹³

The first months with the new anti-drug agency (SAIA) has seen some substantial – and much publicized – seizures of both cocaine and impressive amounts of cash. The battle may therefore now have begun, but victory will not come easily and will require firm political commitment, broad alliances and strategic knowledge.

On a national level, drug trafficking in Guatemala is now severely entrenched in a number of key agencies, different branches of the public administration as well as the political and judicial system. Furthermore, Guatemalan drug trade has amalgamated with (and generated) what today constitutes a diversified empire of organized crime and “normal” business, with increasing links to Colombian and Mexican organisations. Organized crime in Guatemala has today reached unprecedented levels of strength and often influences or – according to some analysts, even

¹⁰ At the political level, this period saw four different Ministers of the Interior.

¹¹ This purpose was not achieved, however, and in January 2003 the US Government officially declared that Guatemala was not doing enough concerning drug trafficking and money laundering.

¹² *Drug Intelligence Brief: Guatemala* (April, 2003), DEA.

¹³ *Annual World Report 2003*, Amnesty International.

dictates – politics. In a recent report, this amalgamation of crime, state and business was referred to by Amnesty International as the “*corporate mafia state*”.¹⁴

Thus, organized crime in Guatemala today is neither understandable nor reachable if it is perceived in criminal (or police) terms only. From this also follows that it has developed considerable skills and capacities for adjusting to a changing political environment – say, for instance, due to the results of general elections.

Similar tendencies can be discerned in most other countries in the region as well, almost always linked to drug trafficking which – through the sheer amount of cash it represents – has a rapid and destructive impact. This applies, for instance, to Honduras and Nicaragua where the Caribbean Coast especially offers an almost unlimited amount of physical entry-points, combined with weak and easily corruptible judicial and police structures.

In sum, organized crime and its tendency to permeate governmental structures represents a major challenge for the future in most Central American countries, and it definitely requires regional coordination and cooperation if any progress is to be made. This theme could also be taken more into consideration by the international community, whose development cooperation projects have generally been designed without any deeper understanding of the scope and current mechanisms of corruption in Central America.

2.5 Governance, party politics and the legitimacy crisis

2.5.1 A paradox to be taken seriously

Currently, all countries of Central America are led by civilian governments that have come into power as a result of free and fair elections. This is a recent achievement and historically unprecedented – not until the first half of the 1990s had Central American citizenry succeeded in liberating the region from the military and/or severely authoritarian regimes that had characterized its government since Independence in the 1820s.¹⁵

The current situation, with democratic elections and freedom of the press, is the result of long periods of widespread and often grim suffering, some of them of very recent dates. At the same time, however, results from a recent and reliably designed opinion poll show that some 50 per cent of the region’s population maintained “*I wouldn’t mind if a non-democratic government came into power*”.¹⁶

What does this paradox tell us and how can it be explained?

¹⁴ “A growing number of human rights abuses were attributed to or were carried out on behalf of the so-called “corporate mafia state”, a criminal alliance of officials, business, elements of the police and military and common criminals who collude to tighten their control of legal extractive industries, as well as illegal operations, including drugs and arms trafficking, money laundering, car theft, kidnapping for ransom, illegal adoptions and illicit use of state-protected lands.” (Amnesty International, Annual Report, 2003.)

¹⁵ Costa Rica here partly constituting an exception.

¹⁶ 64 per cent in Guatemala, 63 per cent in Nicaragua, 55 per cent in El Salvador, 53 per cent in Honduras – but only 38 per cent in Costa Rica. *Latinobarómetro*, 2002.

2.5.2 Questioning the system?

The most common interpretation is, probably, that this opinion poll simply reflects frustration and disappointment related to expectations.

True, the military regimes are gone and with them the systematic oppression and the civil wars; there is also freedom of speech. But unemployment is the same or perhaps worse (that is the perception, at least) and economic conditions have not improved significantly for ordinary people. So – the interpretation goes – people conclude that democracy has not delivered. This conclusion is wrong, of course, but the reaction as such is understandable and nothing to worry seriously about. People will soon understand that their expectations were unrealistic and could not be fulfilled within such a short period of time – democracy is not magic. And the longing for strong hands in Government is probably linked more to the increased delinquency and violence – people feel unsafe and ask for protection.

Another interpretative reasoning – with more far-reaching implications – could be as follows. If the opinion poll described above (*“I wouldn’t mind if a non-democratic government came into power”*) is regarded together with the fact that overall voter turnout in the region (after some years of high electoral participation) has been decreasing substantially for some years now and that, at the same time, ratings concerning citizen’s trust in crucial national institutions (such as the Congress, the Presidency, the judicial system, etc) show alarmingly low figures¹⁷ – then it appears to be something more profound than merely an expression of frustration and disappointment.

There are, it seems, also elements of questioning the system as such, a questioning which could be expressed as follows. After the first couple of years of enthusiasm (with military governments gone and the endless wars terminated), people are now increasingly feeling that free general elections and the free exercise of politics are only new names for old games; or techniques still reserved for an elite that is always – regardless of political color – dishonest and uncontrolled. The State and the entire public sector is still treated as war booty, to be looted by the winner, this is the point of getting there – yesterday through military coups, today via general elections. Corruption is rampant and the guilty are protected either by parliamentary immunity or acquitted by the judicial system or simply leave the country (for a couple of years).¹⁸ If this is democracy – then we prefer something else. If this is not democracy – then we may want democracy but most importantly we want a change.

The key element here, it appears, is the well-founded lack of trust in those institutions that in a professional and impartial manner should guarantee that democratic rules are followed and principles upheld; providing control of the ruling elite and promoting honesty in the interest of all citizens.

¹⁷ From some 25 to 35 per cent only; only the church and the media could count on a high degree of citizen’s trust.

¹⁸ Currently, the worst examples are probably found in Nicaragua and Guatemala. Ex-president Alemán in Nicaragua is being indicted for corruption amounting to some MUSD 200, whereas members of the Guatemalan Administration have allegedly mismanaged and/or made disappear twice that sum or even more. In addition, several ex-ministers from both countries (including two ex-ministers of finance) are currently fugitives. Examples from Honduras and El Salvador are less conspicuous but nevertheless severe, and in this context Costa Rica also has its dark side.

2.5.3 *Institutions from another age* ¹⁹

Historically speaking, neither the public sector (health services, piped water, social insurance, etc) nor the public administration (ministries, etc) has ever been “public” in the real sense of the concept in Central America i.e. at the citizen’s service, run by officials and bureaucrats responding to well-established rules, in accordance with laws and regulations and ultimately controlled by civil society (mediated through Government and Parliament resulting from free and fair elections). Rather, these structures have been directly linked to those in power and have tended to become their exclusive assets and property. Assets that have been fully utilized within the overall system of patron-client relationships that has characterized Latin American politics – to reward loyal followers and to build platforms of private power.

With a few exceptions, these historical institutional features have not as yet been thoroughly changed and replaced by a democratic and professional logic during the short period of freely elected governments in Central America. In several countries, the composition of various institutions of vital importance for the upholding of democratic rule is still openly related to political party affiliation; consequently seats are divided according to political quotas. This is, for instance, the case with the Supreme Electoral Councils both in Honduras and Nicaragua, whose judges not only are referred to by their political association by the media but who also publicly define themselves in the same manner.²⁰ The point here is not that they are judges and *also*, as citizens, confess political sympathies – but that they are judges with a political surname.

Similar tendencies can easily be discerned in Guatemala and in El Salvador, whereas they are far rarer in Costa Rica.

The fact that public opinion in Nicaragua – in spite of economic depression and a rural crisis resulting from the dramatic fall in coffee prices – enthusiastically supported then recently elected President Bolaños for almost nine months in his efforts to investigate corruption under ex-President Alemán, publish the findings and promote legal action against the guilty, clearly shows the thirst for credible and honest behavior among the leadership and within the institutions. Consequently, this example also seems to corroborate that citizens’ frustration and disappointment referred to at the beginning of this section, is rooted not only in the immediate economic situation but also involves important ethical and principled dimensions related to social conduct and the performance of national institutions.

2.5.4 *Political parties – for what purpose?*

Almost regardless of their size and age, most political parties of Central America share one common feature: that of primarily being electoral machines. Only to a very limited (or frequently non-existent) degree do they constitute political *parties* in the regular meaning of the term – representing ideologies, based on membership (not only votes) and possess-

¹⁹ In most aspects dealt with below, Costa Rica constitutes an exception, due to its considerably different contemporary history with no armed forces and, in principle, democratic development since 1949.

²⁰ The same goes for the Nicaraguan Supreme Court of Justice, whose judges publicly identify themselves as being either “a Liberal judge (magistrado Liberal)” or “Sandinista judge (magistrado Sandinista)”.

ing both tactical (short term) and strategic (long term) thinking concerning the nation's development. Consequently, "politics" tend to become reduced to "electoral politics" only.

Causes are manifold, but one has already been mentioned: the importance of gaining control over the (potentially lucrative) state and public sector – to be achieved through the voters with the party as a vehicle. Parties tend to forget their voters as soon as they have succeeded in installing themselves in power and there is no permanent party organization (based on active members within a democratic structure) providing feedback and serving as a system of checks and balances. Parties thus also tend to be property – generally belonging to the leader and a small circle of close followers – both for historical reasons (authoritarianism and *caudillismo*) and due to the kind of non-public financing mechanisms that maintain most parties.

So far, public disappointment with this situation has expressed itself mainly through abstaining from voting and through extremely low levels of public confidence in political parties.²¹ The electoral success in 2002 in Costa Rica for presidential candidate Ottón Solís and his *Citizens' Movement* – which gained almost 25 per cent of the seats in Parliament after a campaign where one major theme concerned traditional politics, corruption within the public sector and (the obscure) financing of political parties – may in this context be regarded as a more active expression of public discontent and a push for change.

2.5.5 *Summing up*

Only some ten years after the end of civil wars and the replacement of military regimes in Central America by democratically elected governments, evidence suggests that citizen's disappointment with the political system has reached considerable levels. In Costa Rica, due to its different history, this disappointment has not lead to a questioning of democracy as such, but rather to demands for purging and revitalizing the system. In the other four countries – where democracy is much more recent and still a project under construction – public discontent does not exclude "democracy" from bearing responsibility for the situation. In some of these countries, citizen's disenchantment with the current situation is sometimes so deep and has such characteristics that the term "*legitimacy crisis*" is close at hand.

This crisis of legitimacy reflects the public perception that it is "democracy" which has not delivered: social and economic progress is absent or insufficient, corruption levels appear to have increased, delinquency is rampant and in some countries out of control – and most key institutions (including the Congress, the Supreme Court, etc) are not to be trusted.

How this widespread public disappointment will be channeled and dealt with in the immediate future will no doubt constitute a decisive factor for future political developments in the region. If democracy is to be expanded and consolidated, then one of the major challenges will be to find viable ways to reform key institutions as well as the framework which determines political party performance.

²¹ In 2002, confidence in the political parties in Central America ranged from 25 per cent in Costa Rica to only 8 per cent in Guatemala. *Latinobarómetro*, 2002.

3. Facts and policies concerning Swedish regional cooperation in Central America

3.1 Background

Swedish support for regional development initiatives and programs in Central America dates back to the 1980s, a decade characterized by armed conflicts, and was generally related to the overriding aim of contributing – in one way or the other – to the improvement of the preconditions for the peace process.

Apart from humanitarian aid and human rights, important areas of regional cooperation have included the environment and natural resources, prevention of natural disasters, healthcare, higher education and research. Counterparts have ranged from networks of players in civil society and the academic world, to the private sector and official regional institutions with specific mandates granted by member countries. In several cases, Swedish support has played a prominent part in the establishment of such regional organisations.

3.2 Sector composition and performance

The table below provides a general overview concerning performance for the period 2000-2002 and forecasts for year 2003, illustrating a certain thematic shift concerning the relative distribution of Swedish regional support over the years.

Regional contributions in Central America 2000–2003 by sector
(In SEK million.)

Sector	Disbursements			Forecast	Total
	2000	2001	2002	2003	
Democratic governance and human rights	26	28	22	13	89
Social sectors (health, education, culture)	14	39	22	24	99
Infrastructure, private sector development, urban development and financial systems	9	8	14	22	53
Natural resources and the environment	37	37	36	48	158
Research cooperation	2	7	7	21	37

Other areas	5	10	7	5	27
Total:	93	129	108	133	463

Note: All figures relate to country code CEN, from Sida's internal allocation account # 15528.

3.3 Looking ahead

3.3.1 Policy directives

Development cooperation channeled through regional programs in Central America for 2003 is guided by the “*Regional Strategy for Central America and the Caribbean 2001-2005*”, adopted by the Swedish Government.

According to this strategy, future support to regional programs should focus primarily on the following areas:

- the environment and natural resources, including cross-border environmental problems, coordination of environmental policies and investments in skills development;
- higher education and research as coordination of several countries' resources is often essential in order to achieve the necessary quality;
- sharing of experience, studies and opinion formation in sectors where Sweden supports similar activities in several countries within the region.

3.3.2 Regional allocations

The funds available for regional programs in Central America and cooperation with the Caribbean for fiscal year 2003 amount to MSEK 145 out of a total allocation of MSEK 618 for Central America, in its entirety consisting of grants.

3.3.3 General trends for regional projects

(a) Poverty reduction

Poverty reduction has recently been re-emphasized as a goal to be considered in *all* development projects, including regional support. The large proportion of projects in the regional plan within the social sectors and integrated rural development is a reflection of this.

(b) Field orientation

Effort to further delegate financial authorization for different programs and projects to embassies and sector departments will continue. However, this field vision will be reflected more in the country plans corresponding to the embassies in the region.

(c) Capacity aspects

In accordance with the Regional Strategy for Central America and the Caribbean a large part of the projects and programs within the regional plan is implemented by regional organisations with the explicit purpose of strengthening cooperation between countries and solving shared problems such as environmental pollution, weak institutions, etc. When cooperating with regional organisations, experience has shown that substantial attention must be paid to ownership and sustainability issues.

3.3.4 *Main tasks during 2003*

Within the *health sector*, the long-term aim of support is to strengthen the focus on public health in the region. Coordination and integration within the health sector in the region should also be enhanced.

Support to the *cultural sector* during the period 2003–2005 will focus on strengthening interchange and cooperation between Central American countries in the fields of libraries, museums and theatres. An evaluation of the library support input is planned for the end of 2003.

Research cooperation will, for the next few years, focus on continued strengthening of research networks for the establishment of higher education examinations in the fields of health, natural disaster mitigation and social sciences.

In the *environmental sector*, sustainable management of natural resources, human capacity development and regional policy dialogue remain the basis of development cooperation.

The most significant element of the regional *urban initiative* will be international exchange of experience between institutions working with improvements of housing and local infrastructure. Training concerning micro finance is also an important part of the regional urban program for 2003.

3.3.5 *Administrative aspects*

The major part of the projects and programs within the regional plan has been assigned to Sida's different sector departments. However, unless otherwise agreed, overall responsibility for the implementation of regional activities rests with RELA.

Cooperation activities within the regional programs for Central America and cooperation with the Caribbean requires, all in all, the estimated input of 1 full-time post at RELA, currently divided between three desk officers. Sector divisions at DESO, Sarec, NATUR and INEC also have personnel assigned to support regional programs.

In 2003, Embassy staffing includes one full-time regional desk officer for the environmental sector and one (40%) regional desk officer (recruited on NPO-terms), for cultural projects and programs. Both are stationed in Nicaragua but will be financed from the Regional Allocation. In addition, personnel at the embassies in Honduras and Guatemala will dedicate part of their time to regional issues within the health and culture sectors.

4. Thematic regional programs

4.1 Natural resources and the environment

4.1.1 *Background*

If and when the free trade agreement between the United States and Central America (CAFTA) becomes reality it will have profound implications for agriculture and the environment in the region. Being less competitive, high numbers of small-scale farmers may be forced to abandon farming altogether with increased rural-urban migration and unemployment as a result. Therefore, strengthening the competitiveness of small and medium-scale farmers within the context of a global market economy is a high priority. Regional coordination should also be strengthened and support given to the development of environmental policies to control the potential negative impact of an expansion of economic activities on the environment.

Another determinant is constituted by the Plan Puebla Panamá, which contains major infrastructure initiatives with profound consequences for the region and also includes a potentially important environmental component such as the “Iniciativa Mesoamericana de Desarrollo Sostenible” (IMDS).

In this context the intensification of national decentralization processes should also be mentioned. Notwithstanding a whole series of major obstacles as well as setbacks, it is a fact that some kind of decentralization process *is* underway in the region – including the delegation of responsibility for natural resource planning and management to the municipal level, devolution of control over forests to local communities, etc. Finally, it should be noted that real interest and support concerning disaster prevention seems to be declining, in spite of the high level attention it was given immediately after natural disaster Mitch in October 1998.

4.1.2 *Objectives of the regional program*

The overriding objective of this thematic program (launched in 2002) is to contribute to poverty reduction and reduced ecological vulnerability mainly among the rural poor by supporting initiatives of a regional character. The program is mainly based on Sida’s established project portfolio but new initiatives are of interest if deemed urgent and compatible with the general framework. The character of existing projects is under gradual transformation, becoming more in the nature of model projects

through a combination of training and education, methods development and pilot projects combined with applied research. Implementation projects are supported to a lesser extent. In this way Sida's comparative advantages of being a small but flexible donor open to new ideas is fully utilized.

4.1.3 Major initiatives and projects

At present Sida has three distinct ongoing programs with the regional research and education center, *Centro Agronómico Tropical de Investigación y Enseñanza (CATIE)* in Costa Rica. CATIE has received longstanding support from Sida and is seen as a strategically important counterpart in the region. Through collaborative applied research, education at different levels and outreach activities CATIE achieves high impact and also provides the region with capable human resources. Sida funding currently includes (i) institutional core support; (ii) a major watershed management project (Focuencas) and; (iii) preparations for a regional project on enhancing the quality of higher education and research within the sector.

Other important partners in the region with Sida-funding for educational purposes are *Earth* in Costa Rica and *Zamorano* in Honduras. Support is also given to the independent think-tank *Prisma* in El Salvador, as well as to the regional organization for disaster prevention, *Cepredenac* (with headquarters in Panama). Another important partner in the regional program is, finally, the *Central American Commission for the Environment and Development (CCAD)*, which has received support for the implementation of their environmental commitments under the Central American Alliance for Sustainable Development (ALIDES).

The distribution of funds among these major initiatives, as well disbursements during 2000, is shown in the table below.

Environmental Program, main contributions

(In SEK million)

Contract partner and project theme	Agreement-period	Agreed amount	Disbursed 2002
CATIE – Core support	Dec 2000–Dec 2002	20.0	10.0
CATIE – Focuencas	Feb 2000–Dec 2004	40.0	15.6
CATIE – higher education, pre-project	Oct 2000–Sep 2003	0.6	0.55
CCAD – ALIDES	Apr 2000–Mar 2003	9.0	3.6
Cepredenac	Mar 1999–Dec 2003	11.2	3.7
Prisma	Jan 1999–Dec 2002	3.0	0.5
Earth – global support	Feb 2002–Jun 2005	13.4	7.9
Zamorano	Dec 2001–Jun 2004	4.0	0

4.1.4 Results 2002

The most significant result during 2002 in the regional environmental program as a whole is the increased dialogue between different key actors.

Together with national universities in Nicaragua and Honduras, CATIE, Earth and Zamorano have been discussing a joint program to enhance quality in higher education and research in natural resources management. Prisma and CATIE-Focuencas have, together with Sida and the

IDB, been discussing results and experiences from various projects throughout the region dealing with different concepts of watershed management and territorial planning, with the aim of creating a platform for regional processes and dialogue. Within the area of disaster prevention and mitigation, Cepredenac has initiated a regional dialogue with its member countries on needs and expectations for the future with the goal of agreeing on a five-year plan for the institution.

4.2 Health sector

4.2.1 Background

Poverty and serious social problems continue to generate a number of health hazards in Central America. This is manifested through indicators such as maternal mortality, infant mortality and life expectancy. Although figures have improved over the past few years and reforms in the health sector are being implemented in the Central American countries, enormous differences still remain as how well health needs are fulfilled. Inequities concerning access to, and quality of, treatment are still obvious within the health system itself and are generally related to indicators such as poverty, gender and ethnicity.

Large numbers of the population of the region live in extremely poor housing environments, and many illnesses are directly related to living conditions and sanitary arrangements. Especially vulnerable are children, women and indigenous peoples. The spread of HIV/AIDS has increased in the region and Honduras and Haiti are particularly threatened by this problem.

The increasing violence in the region no doubt constitutes an important constraint on development. Domestic violence seriously affects women and children, and preserves oppressive attitudes and conditions. Gender inequalities also affect women's health when it comes to nutrition, sexual and reproductive health and access to health services.

Moreover, the countries have experienced what has been called epidemiological polarization, whereby populations' mortality profile is affected simultaneously by both communicable and non-communicable diseases. In this way, chronic degenerative diseases, disability, violence, and lifestyle-related diseases rise and coexist with emerging and re-emerging communicable diseases (malaria, tuberculosis, dengue fever etc).

4.2.2 Objectives of the regional program

One of the main objectives of Sida's support to health in Central America is to fight inequities and provide a contribution concerning peoples' access to preventative health care and services based on a rights perspective and supporting democratic and peaceful development in the region.

Due to the similarities in health indicators between the Central American countries, Sida also wishes to promote systematic exchange of experience within the region, sharing results, ideas and best practices. Through regional NGOs as well as multilateral organizations, regional cooperation is also promoted, particularly in order to combat shared health hazards such as HIV/AIDS.

UN's Millennium Declaration focuses on health indicators in relationship to poverty and sustainable development and has contributed to putting health on the development agenda. In this context, Sida's policy dialogue with the Central American Governments forms an important part of Swedish development cooperation, emphasizing linkages between investments in health and socio-economic development.

4.2.3 *Major initiatives and projects*

Most of the Sida-funded programs and projects within the health sector fall into two broad categories, (a) public health, and (b) the enhancement of regional coordination and integration within the health sector. Within public health, support is provided for activities addressing occupational health, tobacco control, intra-family violence, gender equity and reproductive health, including HIV/AIDS.

The support is mainly channeled through an agreement with the Pan American Health Organization (PAHO), but also through new actors such as the Latin American and Caribbean Women's Health Network (LACWHN).

The distribution of funds among these major themes, as well disbursements during 2000, is shown in the table below.

Health Sector Program, main contributions
(In SEK million)

Contract partner and project theme	Agreement-period	Agreed amount	Disbursed 2002
LACWHN: Gender & women's health	Jan 2002–June 2005	2.0	2.0
PAHO: gender and intra-family violence	Mar 2002–June 2005	7.5	2.6
PAHO: youth and sexuality	Mar 2002–June 2005	6.0	2.5
PAHO: social exclusion	Mar 2002–Jun 2005	9.0	3.1
PAHO: tobacco, mental & occupational health	Mar 2002–Jun 2005	7.5	0.8

4.2.4 *Results 2002*

The regional program through PAHO was complemented with a public health cluster within the new agreement. This strengthened focus on public health is in line with Sida's new health policy, adopted in 2002.

Furthermore, the regional programs on public health, gender equality and youth/SRHR have gradually become more integrated with national health sector reforms in Guatemala, El Salvador, Honduras and Nicaragua. In accordance with the emphasis on national ownership and enhancing national capacity, the role of PAHO has therefore become more limited, mainly concerning technical support only to the national ministries.

Following recommendations from an evaluation in 2001, the new agreement for the program on intra-family violence (IVF) has been given a wider scope, now addressing all types of gender based inequalities in health, including sexual abuse of children.

4.3 Cultural program

4.3.1 *Background*

In Central America, as in most poor societies, there is a huge gap between cultural production and use. The habit of reading, for instance, is not common. At the same time, a good number of Central American authors write new literature every year – however it is sparsely read. International literature also has few readers and is sold in a limited number of bookstores only.

However, every country in the region has a National Library. Through support from Sida and in cooperation with the Swedish Royal Library most of them have developed into relatively well functioning cultural institutions. There are also a number of geographically well spread public libraries, generally with few books to borrow but of great importance for a huge amount of young pupils who come every day to use the library and its resources for their homework.

Every Central American country also has a National Museum and a National Theatre. The National Museums exhibit national history, often concentrating on important archaeological pieces and generally enjoying a rather limited interest from their own citizens. The National Theatres are mostly dark and empty, as independent groups cannot afford to perform there and the theatres themselves cannot afford their own ensemble. The most significant form of theatre as a whole in the region is amateur theatre, generally used as an instrument for education on certain issues and mainly intended for children and youth.

Film as an art is weak in the region, with the exception of documentary film in Nicaragua which represents very high quality (reflected in a number of prestigious international awards). Visual art has, on and off, been very strong in the whole region and painters from Central America have sometimes enjoyed an international market.

Generally speaking, cultural policies of the countries of the region are weak and financial support from national budgets for culture is scarce or nonexistent. What cultural policies do exist mostly focus on the countries' archaeological heritage and on traditional folklore culture with dancing, handicrafts and traditional music. There is, however, a remarkable lack of political interest in the importance that contemporary art and culture can represent in the formation of national identity.

4.3.2 *Objectives of the regional program*

The current Sida-funded regional program covers the period 2002–2005, with a total allocation of MSEK 31. Swedish cultural institutions play an important role in the implementation and follow up of the program. Three areas are supported: libraries, museums and theatre. The overall aim of the program is to support the democratic processes in the region.

The library project has been ongoing for some years now, whereas the two other area projects are under preparation and will start in March 2003. All three projects focus on training of professionals and are intended generate results that may be used by the general population.

4.3.3 Major initiatives and projects

The library project intends to strengthen and develop public libraries in the Sida's four priority countries in the region (Nicaragua, Honduras, Guatemala and El Salvador). It also includes regional seminars and training inputs on library studies. The Royal Library of Sweden is the Swedish implementing partner.

The museum project gives priority to the strengthening of a regional network for the participating National Museums in the region. It is based on experience generated during the period 2000–2002 in cooperation with the Swedish Museum of National Antiquities. The long-term objective is to strengthen national and regional identities through improved knowledge of cultural heritage.

The project plan for *the theatre project* has been developed and finalized during 2002. The main activities are training in the form of seminars for theatre professionals (stage directors, actors, dramaturgy, producers and theatre technicians). The main aim of the project is to increase the quality of Central American theatre art. The audience should have improved access to theatre performances and be able to better identify themselves in Central American theatre productions. The Swedish Drama Institute is the Swedish implementing partner.

Culture Sector Program, main contributions (In SEK million)

Contract partner and project theme	Agreement-period	Agreed amount	Disbursed 2002
Swedish Royal Library: Central Am. Libraries	Jul 2002–Sep 2006	17.0	1.7
Swedish Museum of National Antiquities: Central American museum network	Jan 2003–Dec 2005	6.0	0.0
Swedish Drama Institute: Training for the theatre sector in Central America	Jan 2003–Dec 2005	6.0	0.0

4.3.4 Results 2002

Within the library project, a number of national and regional seminars have been held, covering the role and importance of national libraries as caretakers of the national written culture, as well as policies for the expansion of public libraries.

For the museum and theatre projects, intensive planning activities have been realized, leading to a strengthening of the national and regional ownership of the projects.

4.4 Research cooperation

4.4.1 Background

The overall purpose of Sida's research support is to stimulate research cooperation and capacity building within the region as a whole, focusing on research areas concerning themes or problems of high relevance and priority, identified by the participating universities and countries.

4.4.2 Major initiatives and projects

To overcome the relative under development of the social sciences in Central America, the academic units of FLACSO²² in Costa Rica, Guatemala and Costa Rica have organized a Regional Program for Higher Education in Social Sciences, covering all Central American countries (including Panama and Belize).

The intention is to create an academic cross-disciplinary and intergenerational research community at a regional level, able to address the socio-political problems of the entire Central American region.

Using the training of trainers method, academic efforts are mainly directed towards Central American State universities. Internationally accepted and respected monitoring, evaluation and accreditation of awarded academic titles is guaranteed through and by the FLACSO system

The graduate program offers MScs and PhDs in social sciences. Students come from Guatemala, Costa Rica, El Salvador, Honduras, Nicaragua, Belize and Panama. Full-time commitment is guaranteed through scholarships covering board and lodging as well as registration fees. Special efforts are made to attract female students and members of marginalized (ethnic) groups.

The program, which was initiated in 2001, is cross-disciplinary. Relationships between global, national and local factors are studied through three analytical axes: (i) citizenship, (ii) identities, and (iii) territoriality. Three thematic thesis seminars are conducted *in situ* by the various academic units: 'citizenship' is held in Costa Rica, 'identities' in Guatemala, and 'political institutions' in El Salvador. The program will continue until 2006, when 30 Masters and 10 PhDs in social sciences are expected to have been trained as university professors and researchers.

Within the *natural sciences*, Sida supports the Natural Disaster Mitigation Program in Central America (NADIMCA); a program based on cooperation between nineteen research institutions in the seven Central American countries. With reference to climate change and natural hazards, the purpose of the program is to strengthen the scientific capacity at the institutions working with preventative measures, preparedness and mitigation of the effects of natural disasters in the region. The program includes MScs and research education up to PhD level within the disciplines geotechnology, seismology, vulcanology, hydrology, and meteorology, also with reference to socio-economic aspects. The program is planned to start during 2003.

Within the *medical field*, Sida is supporting a network for research and research education within special biomedical themes (parasitic, bacteria and viral diseases and toxins) in Central America which is of high priority for regional poverty reduction. The Network for Research and Training in Tropical Diseases in Central America (NETROPICA) was founded in 1998 and is a continuation of a Sida/SAREC financed program in cooperation with Swedish universities. This cooperation has now

²² The Latin American Faculty of Social Sciences (FLACSO) is an inter-governmental organization, which was established in 1957 with the support of UNESCO to stimulate the development of social sciences in Latin America and the Caribbean. To date, fourteen countries have signed a general agreement with FLACSO.

resulted in an initiative from the network to organize research education in Central America with specialization in infectious diseases. An agreement for this program will be signed during 2003.

Research Program, main contributions
(In SEK million)

Contract partner and project theme	Agreement-period	Agreed amount	Disbursed 2002
FLACSO:Social Sciencies	Jan 2001–Apr 2004	21.5	7.2
NADIMCA (Uppsala University)	Jan 2003–Jun 2005	24.0	0.0
NETROPICA(Karolinska Institute)	Jan 2003–Dec 2005	9.0	3.0

5. Other regional contributions

5.1 Democracy and Human Rights

5.1.1 *Background*

All Central American countries are today formal, electoral democracies. Political leaders are chosen in relatively free and fair elections and the fundamental rules of succession of political powers are respected. However, there is a general trend of declining voter turnout in elections, reflecting increasing popular discontent regarding the efficiency of the democratic system as far in solving fundamental problems such as poverty and citizen insecurity (caused by criminal violence) is concerned.

Respect for human rights has improved substantially in most countries of the region in comparison to the situation prevailing a decade or more ago. Serious violations such as extra-judicial executions, “disappearances” and systematic harassment of political opponents are currently rare in the region. However, both in Guatemala and Honduras there is proof of continued violations of human rights in several contexts and evidence also exists concerning “social cleansing”, e.g. killings of street children and delinquents. Furthermore, in Guatemala a recent increase in politically related violence is reported, as well as violence against judges and others within the judicial system.

All countries in the region, with the possible exception of Costa Rica, have poor records as far as their Government’s efforts in the implementation of economic, social and cultural rights are concerned. The situation of ethnic minorities, women, children and physically and mentally impaired is generally a cause for concern.

5.1.2 *Major projects*

Sida’s regional approach within this sector is currently being strengthened but has, as yet, not generated a regional program. Initiatives so far have resulted in one major project, however: the support for the *Instituto Interamericano de Derechos Humanos (IIDH)*, based in Costa Rica. The support is aimed at contributing to the development of more inclusive and transparent democracies that provide effective protection of human rights on the American continent. IIDH works in the whole hemisphere but has an operational focus on Central America. The Swedish funding is of a core character with no earmarking for specific activities or geo-

graphic areas. Among the program areas the following may be mentioned: education in Human Rights, support to public institutions and electoral assistance (CAPEL).

Regional democracy activities
(In SEK million)

Contract partner and project theme	Agreement-period	Agreed amount	Disbursed 2002
IIDH:Core support	Jul 2002–Dec 2005	16.5	2.75

5.1.3 Results 2002

As the program was initiated recently (July, 2002) it would be premature to report any tangible progress. Expected results concern activities within the broad areas mentioned above, plus institutional strengthening of IIDH, particularly concerning its independence and capacity to – by its own initiative – respond to emerging situations at relatively short notice. These are characteristics highly valued by Sida and certain like-minded donors, but hitherto constantly put at risk due to financial limitations at the IIDH and the tendency by most donors to provide earmarked and/or project-based funding only.

5.2 Urban issues

5.2.1 Background and objectives

Since 1988, Sida has supported initiatives to improve housing and living conditions for low-income urban households in Latin America. At present such urban development programs are supported in Nicaragua, Costa Rica, El Salvador, Guatemala and Honduras.

The development objective for this initiative is the improvement of the living conditions of low-income households, with female-headed households as a special target group.

Under this modality, support is provided for:

- improvement and extension of already existing houses
- building of new homes
- provision of infrastructure and community services in existing settlements and for income generating activities.

The general model for implementation involves the beneficiaries, community organisations, municipal authorities and national agencies. Sida's support to the programs mainly consists of capital contributions to revolving funds for credits. The credits are then provided for low-income families through micro credit agencies, organisations or commercial banks. Credits are, in many cases, combined with technical assistance to help families obtain best value and best design of housing improvements, taking into account the step-by-step extension plans most families are working with.

5.2.2 Major initiatives and projects

Sida's regional initiatives within this sector draw on experience generated within the different national programs and are aimed at (i) further im-

proving the design of new and existing projects, and (ii) providing support for a variety of national institutions in the region involved in urban development projects for poor people. The principal tool for achieving these goals is different forms of regional experience-sharing and technical support. This approach is at the very core of the two main projects within this field:

- *PROMESHA IV*, aimed at strengthening governmental, municipal and civil institutions within the housing sector in order to improve housing conditions for poor families; and
- *FORTAL*, which intends to stimulate and strengthen non-governmental organisations in their efforts concerning poverty reduction in urban areas.

Urban Program, main contributions
(In SEK million)

Contract partner and project theme	Agreement-period	Agreed amount	Disbursed 2002
Consultancy services for urban programs in CA	Oct 1998–Jun 2003	12.1	2.1
FUPROVI: Housing for Nicaraguan immigrants in Costa Rica	Sep 2000–Jun 2003	8.0	4.0
PROMESHA IV: Capacity building in the housing sector	Jan 2001–Jun 2004	13.0	8.2
FORTAL: Institutional strengthening in urban development	Aug 2001–Jun 2003	20.0	0.0

5.2.3 Results

Based on the positive results from the national programs, the regional initiatives have been successful in identifying and disseminating best practices, improving design and widening the group of competent actors, thus contributing to enhanced capacity within this area.

5.3 Credits and risk capital

5.3.1 Major initiatives and projects

Sida's support in the field of capital provision for industrial development purposes in Central America is focused on three different supply oriented interventions:

(i) *Concessionary credits* for small and medium sized enterprises. The purpose of this credit initiative (in cooperation with the Central American Bank for Economic Integration, CABEL) is to promote investments in development oriented projects in CABEL member countries which have difficulties obtaining financing in the regular financial markets. The credit is tied to the procurement of Swedish goods and services and follows the ordinary rules for Swedish concessionary credits. The marketing of this credit facility started at the end of 2001.

(ii) *A commercial venture capital fund* (Central American Investment Facility CAIF), started in 1996 at the initiative of the Commonwealth Development Corporation, IDB and CABEL. Of the total capital of MUS\$ 26.0, Swedfund has contributed MUS\$ 3.0 (of which MUS\$ 2.0 on behalf of Sida).

(iii) *A commercial “green” venture capital fund* (Corporacion Financiera Ambiental, CFA), started in 1996 at the initiative of IDB. Of its total capital of MUSD 8.5 Swedfund has contributed MUSD 1.0 on behalf of Sida.

Regional credit lines and capital provision
(In USD million)

Contract partner and project theme	Agreement-period	Agreed amount	Disbursed 2002
CABEI:Concessionary credits	May 2002–May 2005	10.0	0.0
CAIF:Venture capital fund	Jul 1996–Jun 2006	2.0	0.0
CFA:Green venture capital fund	Jul 1996–Jun 2006	2.0	0.0

Note: Concerning CAIF as well as CFA, the total Swedish contribution was disbursed to the funds before 2002.

5.3.2 Results

During 2002 CABEI has, on a tentative basis, presented proposals in the field of rural energy, transport and waste management. So far, however, no credits have been approved and demand from potential regional clients has been limited.

Since its inception in 1996, CAIF has invested (as a minority share holder) in 12 private commercial firms in the region. Following divestments (and the distribution of net gains and dividends to the owners of the fund) CAIF still owns shares in eight of these firms at the end of 2002.

Since its start in 1996, CFA has invested (mainly in the form of loan capital) about 80 per cent of its capital in about 15 small and medium sized firms in Central America –in areas such as renewable energy, energy efficiency, pollution abatement, eco-tourism, sustainable forestry, and organic agriculture. About half of the companies have experienced difficulties, which in turn has resulted in financial losses for CFA. So far the owners of the fund have not received any net gains or dividends.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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