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Sida Regional Report 2005

Central America

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1. Introduction

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

(a) to provide some reflections concerning selected development tendencies of relevance within the region;

(b) to provide a global overview concerning all major, existing, Sida-funded regional contributions in the region and briefly describe their progress;

(c) to stimulate discussion within Sida concerning its 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 organizations dedicated to development cooperation, but should also hopefully 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, who compiles inputs from Sida's various divisions (in Stockholm and abroad) and includes an original contribution concerning selected tendencies in regional development.

The time period covered in the first chapter, on tendencies in regional development, is updated to March 2006; whereas the following sections cover 2005 only.

Comments and suggestions on this and concerning 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 or 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 tendencies: Central America lagging behind

2.2.1 General indicators[1]

Economic development in Central America in 2005 continued to be meager, with national GDP growth varying between 2.5 (El Salvador) and 4.2 per cent (Costa Rica, Honduras), arriving at a regional average of only 3.6 per cent. In a geographical context, this meant that the region continued to lag considerably behind performance both in other subregions of the continent and in relationship to the average growth rate for Latin America and the Caribbean. Also beyond these overall regional averages, economic growth in the Central American nations continued to be considerably lower than in most countries of the continent. During 2005, only three out of thirty-three countries within this geographical area (Latin America and the Caribbean) reported less growth than El Salvador,[2] whereas thirteen countries reached higher or considerably higher growth figures than the best performers (Costa Rica and Honduras) in Central America.

At the same time, inflation rates continued to show an upward tendency, reaching some 10 per cent in most countries, except for El Salvador where it was maintained at half that level. The regional level of inflation thus reached over 9 per cent, which for the second year in a row was considerably higher than in most other Latin American and Caribbean countries and also in excess of the LAC overall average of some 6 per cent.

Concerning the overall poverty rate and the situation of poor people in Central America, the combined impact of these macro-economic

[1] Figures from CEPAL, not including the month of December 2005; the complete figures are unlikely to show significant variation.

[2] Guyana, Haiti and Jamaica.

tendencies (limited GDP growth, high inflation rates) and the annual population growth is likely to have generated an impact ranging from modestly negative to zero.

Whereas all five Central American countries experienced some progress concerning exports in 2005, their import levels also continued to rise – resulting in an increased trade balance deficit for all of these countries.

On the positive side should be mentioned that the flow of remittances continued to increase – reaching the astonishing level of USD 3.0 billion in Guatemala and USD 2.8 billion in El Salvador – and that total foreign debt continued to shrink in all of the region's five countries, both in absolute terms and, more importantly, in relationship to the level of national exports.[3]

In spite of these positive features, the general tendency of economic development in Central America in 2005 reinforced the hitherto predominant characteristics of the region – its high degree of external vulnerability and its strong dependency on a combination of overseas remittances, international loans and financial resources from development cooperation.[4]

2.2.2 The need for rethinking energy

One important, but so far little discussed, factor behind the sustained and increasing deficit in the region's trade balance (with only modest growth in exports but rapidly increasing imports) is the region's energy situation. With the exception of Costa Rica, all Central American countries are heavily dependent on oil imports – also for generation of electricity – and with the dramatic rise in oil prices in recent years, terms of trade for Central America have deteriorated. Simultaneously, terms of trade for many competing countries (also in Latin America) have improved, debilitating Central American export competitiveness.

The relative losses for Central America in this respect have been quite considerable. Comparing the average terms of trade during the 1990s with figures for 2004/2005, the countries of South America succeeded in improving their situation by almost 30 per cent and Mexico by some 20 per cent; whereas during that same period Central America experienced a negative development in its terms of trade amounting to over 10 per cent.[5]

In this context, two factors should be stressed. *Firstly,* that in spite of possessing great potential for hydroelectricity and for the use of other renewable energy sources, all the countries of the region (except Costa Rica) utilize oil more than any other kind of energy – also for the generation of electricity[6] – implying that the oil price increase has had a generalized and sometimes doubled impact. *Secondly*, that price increases for oil have been not only very rapid (departing from a price level that had been relatively stable for a long period of time) but also extremely dramatic. The table below shows the relative price increase for gasoline and diesel during the 10-month period February to November, as compared to January 2005.

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3 In Nicaragua, however, financial costs for the substantial *internal debt* (composed of short-term loans from national private banks) continue to seriously strain the budget.

4 Costa Rica here constitutes an exception, with a considerably stronger and less unbalanced domestic economy, and with a higher level of foreign direct investment.

5 Figures comparing the average for 2002–2003 with 2004–2005 show the same tendency, with all five Central American countries (together with Haiti, the Dominican Republic and Panama) on the negative side of the line.(José Luis Machinea, CEPAL, December 2005.)

6 Whereas in Costa Rica, 98% of domestically generated electricity comes from hydropower (the main part) and geothermal plants, the situation in Nicaragua is almost inverted with some 80% coming from oil powered plants. In each of the remaining Central American countries, more than half of electricity generated comes from oil.

Country	Gasoline, price increase in %	Diesel, price increase in %	Average increase, both fuels
Costa Rica	30	24	27%
El Salvador	47	38	43%
Guatemala	36	26	31%
Honduras	16	25	20.5%
Nicaragua	23	30	26.5%

Source: Calculated on data from SIECA, based on national statistics.

Consequently, the current dependency on increasingly expensive oil imports also causes and contributes to many other negative effects on economic development in the region such as higher inflation, strained public finances (higher costs for the same investments and same operations), increased electricity bills and decreased standard of living for ordinary people.

Regarding public transport, these substantial and constant price increases have generated a climate of social instability with several outbursts of severe public unrest, particularly in Honduras,[7] triggered by increases in urban bus fares which hit ordinary people's budget hard. Confronted with massive public protests and pressure from business circles, the governments in the region have so far generally given in and continued the tradition of buffering oil price increases with subsidies. However, given the magnitude of the increases and the economic strain they imply, it is becoming obvious that the time has come for other solutions.

This goes also for the generation and use of electricity. The last two years have revealed the obsolete character and insufficient capacities of most national grids, often with high rates of losses and serious deficiencies in the regulatory framework for generation and distribution – leading to costly interruptions in the supply and forceful protests (so far particularly in Nicaragua).

All together, these events have triggered a search for solutions along new paths, including interest in energy efficiency and energy saving, generalizing fuel mixes such as gasoline/ethanol and diesel/vegetable oils, looking into the potential and applicability of different renewable energy sources, alternatives for public transport, etc. At least in some of the countries of the region this has triggered a situation where, for the first time ever, something coming close to a strategic energy debate may result.[8] This climate of spontaneous and improvised initiatives in response to the difficult situation could eventually develop into national and regional efforts for energy systems analysis and broad energy reforms. In this context, international support may have a role to play.

2.2.3 Migration, not only remittances

With the exception of Costa Rica,[9] all Central American countries have, over the last decade, rapidly increased their dependence on the flow of

[7] The Government in July/August 2005, for this reason, came very close to the declaring of a State of Emergency.

[8] The energy theme was also dealt with at a special Presidential Summit in December 2005, including all Central American countries, the Dominican Republic, Belize, Panama, Mexico and Colombia..

[9] Costa Rica attracts worker from other countries – currently some 400,000 Nicaraguans are estimated to be working in Costa Rica – rather than exporting labor of its own.

overseas remittances, mainly stemming from nationals working in the US. Whereas remittances from a simplistic economic perspective may appear to be a blessing, it is obvious that the phenomenon of massive *migration* leads to numerous, complicated and often contradictory effects both for nations and for the individual families. And while the economic impact and importance of these remittances is increasingly studied, this has so far not been the case concerning the other dimensions and effects of this massive contemporary migration concerning the nations, communities and individuals involved.

In this context, the *Year 2005 Human Development Report for El Salvador* well merits a mention as it dedicates the complete volume to the results of a multidimensional study concerning the impact of migration. Considering that the theme is extremely relevant to the majority of Central American countries, it may be worthwhile to summarize some of the main findings of this study.

In order to illustrate the magnitude of contemporary migration and the current flow of remittances, the study mentions that:

- during the last 35 years at least 20% of the total Salvadoran population has migrated, (but the figure may be much higher);[10]
- migrants represent 40 per cent of all Salvadorans with an educational level higher than secondary school;
- 22% of all households in El Salvador today receive remittances;
- the annual value of these remittances corresponds to 1.3 times all national exports, 6.5 times all foreign investments, 1.4 times total national tax incomes and 90% of the total national budget.

When it comes to economic conditions among the migrants, the results from the study show that:

- the income per capita among Salvadorans in the US is six times higher than the corresponding figure for Salvadorans living in El Salvador;
- the poverty rate for Salvadorans in the US is half the rate for the population in El Salvador;
- if all Salvadorans today working in the US were included in the national accounts for El Salvador, the country would have a per capita income only 15% lower than Costa Rica.

In terms of human development (income, educational level, life expectancy), the Salvadoran community in the US represents about the same level as countries such as Chile or Estonia, located some 60 positions above the current ranking for their native country.

Regarding the social dimension, the study indicates that the impact on family fragmentation may be somewhat less negative than often is supposed,[11] but also concludes that far-reaching adjustments are needed concerning societal support in El Salvador in order to reach affected families both with traditional and new kinds of support.

When it comes to the crucial relationship between migration, remittances and development in El Salvador the findings indicate that whereas

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[10] This guesstimate of 20% was elaborated on the basis of calculations ranging from 0.6 to 1.2 million people (based on different samples from the US National Census) and from 2.5 to 3.3 million (based on data from Salvadoran migration registers). The creation of reliable statistics on migration and the establishment of a national investigation unit on the subject is consequently recommended by the study.

[11] With the explanation that the major part of modern migrants leave before they have formed a family or even had children.

remittances do tend to reduce poverty and increase social well-being, so far they do not seem to give birth to new dynamics within the field of local economic development. This lack of local development is said to reflect the same structural constraints which generate migration and whose negative impact can obviously be alleviated but not overcome by remittances. In order to achieve structural change to conditions for local economic take-off – before the municipalities have lost even more of their best youth and capable community leaders – a new strategy for national development must come into being.

If such a new strategy is to be viable, it must be based on the recognition of the fact that the process of migration from El Salvador (with its subsequent flow of remittances) has had such a profound impact as to create a different country, a new country still largely unknown and therefore generally not taken into account. The time has come to stop thinking and planning for what, once upon time, was El Salvador, *"a country we no longer are"*. Now is the time for innovative and new strategies, based on updated knowledge reflecting *"the new nation which we have become, the new us"*.[12] One essential dimension of such a new strategy should be to also provide a public framework to maintain Salvadorans abroad linked to their country of origin, creating *"a trans-border nation"* where Salvadorans abroad can retain at least some of their activities as citizen, including the right to vote.[13]

2.3 Regional integration: economic progress, political stagnation

2.3.1 Economic integration slowly advancing

Within the field of regional economic integration, progress continued during 2005, perhaps at a somewhat slower pace than in 2004 and 2003, but without setbacks. At the end of the year, customs tariffs for some 96 per cent of all products within intra-regional trade had been harmonized and intra-regional trade continued to increase its share of total national exports and imports for most Central American countries.[14] Progress also continued in relation to the commitment on uniform and simplified rules for border transiting within the region, for both people and their private vehicles as well as for commercial goods. This has increased the number of unified border stations in the region.

In addition, 2005 saw progress in an area probably of substantial importance for future development perspectives, namely the start-up of the joint Central American-European Union evaluation of economic integration in the region. Results from this evaluation will be presented at the EU-Latin America-Caribbean Summit in May, 2006 in Vienna and will most likely constitute the foundation of the official launching of negotiations between Central America and the EU for an Association Agreement, including an agreement on free trade.

2.3.2 Political integration: the weak dimension

In 2003 and 2004, the functioning of the political institutions of the Central American mechanism for regional integration became the target of severe and frequent criticism, also voiced from government circles

[12] The title of the Report is: *"Una Mirada al Nuevo Nosotros. El Impacto de las Migraciones"*. (UNDP, 2005.)

[13] So far, this right has not been granted. Currently, the technical and financial feasibility for permitting votes from Salvadorans abroad for the 2009 Presidential elections are under examination.

[14] The remaining 4 per cent consists of economically important and sensitive agricultural products where progress towards full harmonization may take some time. Another theme still pending concerns harmonization of tariffs and other rules for intra-regional trade related to services, where little progress has been made so far.

within the region. The need for reform of these institutions – mainly the Regional Parliament (PARLACEN) and the Regional Court of Justice (CCJ) – was officially agreed upon at a Presidential Summit in June 2004 and six months later, at another Summit, a detailed proposal for reforms was solemnly presented. Whereas the contents of the reform package no doubt satisfied certain aspects which had been increasingly criticized,[15] it completely avoided addressing strategic issues such as the current status of regional political institutions.[16]

Considering this general backdrop, it was expected that at least the approval of the reforms – in order to enter into force they must be ratified by each national Parliament – would be swift. However, during 2005 no progress whatsoever was made in this respect. Thus, while the number of presidential summits directly related to the *System for Central American Integration* (SICA)[17] were maintained at an impressive level (with almost 10 such summits during the course of 2005), the institutional base and foundation of the political dimension of this integration continued to be weak.

2.4 CAFTA: the long and winding road to implementation

2.4.1 Surprises in the ratification process

The declaration in December 2003 that a settlement had been reached concerning a trade agreement between Central America and the Unites States was the result of a full year of intensive negotiations. Considering the velocity (and a certain sense of haste) that had characterized the negotiation process, it seemed reasonable to believe that the steps remaining for the Agreement to enter into force were to be concluded within a brief period of time. This did, however, not happen – and at the time of writing this (end of March 2006) the process has still not been concluded.

After a rapid process of approval by the parliaments of El Salvador, Honduras and Guatemala during the first three months of 2004, the winds changed. In the US, the agreement faced increased domestic resistance which caused the Bush Administration to delay the introduction of the bill before the US Congress. Opponents of the agreement mostly cited articles related to the treatment of labor rights and the issue of sensitive (and protected) US industries such as sugar and textiles. In addition, the discussion on CAFTA in the US is also considered to have "triggered more generalized anxieties concerning globalization's impact on the American economy and labor force".[18] In this situation, politicians in Costa Rica abstained from pushing the issue in their national Parliament and a similar attitude of wait-and-see was adopted within political circles in Nicaragua.

After an intensive campaign by the Bush Administration in favor of CAFTA during the second quarter of 2005, the agreement was finally passed by Congress in June/July – with the lowest margin of victory for any modern free trade agreement and with a markedly partisan character in the composition of the votes.[19] With this approval by the US

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[15] Such as the right for outgoing Presidents and Vice-Presidents to automatically become members of the Regional Parliament and the concept of double immunity for national MPs who were also members of PARLACEN.

[16] PARLACEN does not include Costa Rica and has consultative status only; the CCJ is officially recognized by three countries only and its (few) verdicts have never been respected by the parties involved.

[17] Sistema de la Integración Centroamericana, in Spanish.

[18] Raymond Ahearn: *Trade Liberalization Challenges Post-CAFTA* (CRS Report for Congress, Nov 2005.)

[19] In the Senate, votes were 54 positive and 45 against and in the House of Representatives 217 positive and 215 against. In the House, more than 90% of the Democrats voted against the agreement, while almost the same percentage of the Republicans voted in favor.

Congress, ratification by the parliaments in the Dominican Republic[20] and Nicaragua soon followed suit, in September and October 2005, respectively. Only in Costa Rica time was not yet ripe – and the contents and possible consequences of CAFTA soon became a major theme in the electoral campaign, with candidate Oscar Arias representing a positive assessment and his opponent Ottón Solís taking a critical view.

Thus towards the end of 2005 the situation seemed encouraging (with only Costa Rica still lagging behind as concerns ratification) and many observers predicted that the agreement would enter into force if not on January 1, 2006, then at least during the first quarter of the year. At the time of writing this, however, the only Central American country where CAFTA legally applies is El Salvador, where it entered into force on March 1st. The current situation – with CAFTA applying to the US and El Salvador only – is generating increasing problems for companies involved in this geographical area, including North American enterprises. Substantial losses are said to have been made during the first quarter of 2006, particularly within the Central American textile industry, due to the (unintended and unforeseen) obligation to pay tariffs for products from signatory countries which still have not entered the CAFTA area.[21]

Whereas the negative impact of this lack of coordinated transition towards the application of the new rules is likely to soon be overcome,[22] it still constitutes a reminder of the fact that CAFTA was not negotiated with the Central American countries as one bloc and that the agreement is not truly regional but rather six bilateral treaties under a limited common umbrella.

2.4.2 Adjustments of national legislation – and new rounds of negotiation

The main reason for this considerable delay has been the condition from the US Government that *(a)* all rules and regulations included in bilateral agreements must be integrated into corresponding national legislation and, *(b)* that the US Trade Representative (USTR) would have unilateral power to decide whether the amendments or reforms within each national law were to be judged as satisfactory. Furthermore additional commitments, which according to USTR were made verbally (without having been officially recorded) during the negotiation period in 2003, must be formalized in writing before a country can be approved for entering CAFTA.[23]

The implications of these conditions and procedures have been far-reaching. *Firstly*, since the end of 2005, all governments and parliaments in the region (except for Costa Rica) have constantly and increasingly been forced to give top priority to the elaboration and processing of sizeable legal reform packages exclusively related to CAFTA rules, thus delaying the processing of other urgent tasks and legal initiatives. *Secondly*, during this period, these same four Central American countries have also had to repeatedly send high-level delegations to the US to present the preliminary contents and even phrasing of different legal reforms, then stay to wait for the reaction from USTR or return and be

[20] The Dominican Republic joined negotiations at the beginning of 2004, and rapidly proceeded to its signature by the executive in August 2004; consequently the full official name of the agreement was then changed to *DR-CAFTA*.

[21] Currently textile factories in Guatemala, for instance, can no longer export their cloth to El Salvador without paying customs. This has – at least so far – lead to increased textile imports from China, from where Salvadoran customers can purchase the cloth at a better price.

[22] In the US, the Bush Administration recently presented two proposals to Congress to resolve or alleviate negative consequences for North American enterprises.

[23] Apart from other complications with this kind of position, it should be mentioned that both Honduras and Guatemala have changed Government since official negotiations ended in December 2003.

in a standby-mode for the call concerning their next trip to Washington.[24] *Thirdly*, these procedures have, in practice, meant a certain re-opening of negotiations clearly involving aspects of substance but this time under less favorable conditions for Central America as pressure from different national economic groups for a rapid resolution of the remaining obstacles (at almost any cost) is increasing.

All together, this has generated a rather widespread feeling of discomfort within Central American political and business circles vis-à-vis the US Administration, a discomfort which may be summarized as *"This is only because we are small, this they did not do with Chile, for instance. And who knows what they are going to demand next!"* These clear feelings of hurt national pride are expressed not only by media columnists and politicians from opposition parties, but can periodically be heard also from members of government.

According to most analysts, Nicaragua and Honduras may be approved for operationally entering CAFTA by April or May 1st, 2006, while entrance for Guatemala and the Dominican Republic is likely to come at a somewhat later date. However, as predictions in this context have hitherto shown to be overly optimistic, a more cautious forecast would be to state that CAFTA will probably have entered into force in these five signatory countries before the end of 2006. With the recent electoral victory by presidential candidate Oscar Arias in Costa Rica, this country may also have a chance of entering CAFTA during 2006, even if the first step – ratification of the agreement by Parliament – is likely to be politically demanding.

2.5 A powerful informal sector: drugs & money laundering

2.5.1 Current patterns of regional drug transiting

Currently, all Central American countries are used actively by major trafficking organizations to smuggle drugs from South America into Mexico and the United States, and also to transport huge amounts of cash back from the US to countries in Central and South America.

With few exceptions (notably Costa Rica and Panama), law enforcement institutions in the region are inadequately equipped to counter the flows of drugs and money. Moreover, the corrupting power of illicit drug trafficking organizations on governmental institutions in the region is formidable. The situation is further complicated by the increased involvement of major Mexican and Colombian drug trafficking organizations, linking up with host-country crime rings for national transportation services. These actors are highly compartmentalized, implying that if one member or one cell is arrested, the entire operation is not compromised.

The volume of the cocaine transiting Central America is enormous: according to estimates from US authorities in 2005, more than 90 percent of the cocaine destined for the United States transited the Mexico/Central America corridor.[25] The major part is smuggled by sea, using Central America's long coastlines, both along the Pacific Ocean and the Caribbean Sea, for refueling en route from Colombia to points north. For cocaine transport over land, both the Pan-American Highway and small dirt roads – which cross the borders between countries in Central

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[24] In this context, one reason why El Salvador has become the first country in the region to enter CAFTA is said to be the fact that they maintained a permanent delegation in the US for this purpose until they obtained the green light from USTR. Another reason, however, is that in El Salvador all legal reforms related to CAFTA were approved in Parliament through a fast-track modality, invoking the category of "national emergency".

[25] Another important route being the Caribbean corridor.

America without any legal presence – are used. Air smuggling seems to have increased in importance lately, and according to the US Drug Enforcement Agency (DEA), the number of nighttime suspect flights originating in Colombia and terminating in northern Central America has been on the rise. [26]

Traffickers take advantage of the hundreds of airstrips located in Central American countries such as Guatemala and Belize. Recent aerial photographs from US authorities reveal an "aircraft graveyard" in the northern Petén area of Guatemala (close to the Mexican border), where aircraft have been either damaged on landing or intentionally destroyed by the organizations.

Among the Central American countries, *Costa Rica and Panama* are classified by the DEA as "major transshipment points for narcotics to the US", but are considered to handle the situation in a competent manner. Transiting through *Honduras* is said to have increased and the country's legal enforcement authorities are categorized as both weak and corrupt, but the volume of drug trafficking is still estimated to be relatively low. Following this analysis by DEA, *El Salvador* has better institutions and the country represents only minor levels of drug transiting. The two remaining countries, however – *Nicaragua and Guatemala* – present serious threats of somewhat different kinds.

Concerns regarding *Nicaragua* are related to the substantial increase of smuggling utilizing the country's Atlantic Coast, a vast region characterized by limited infrastructure, scarce presence of law enforcement authorities, very high poverty rates and an almost generalized feeling of having been abandoned by the central government. Here, drug smuggling is increasingly becoming a business involving entire communities, and openly defended (also against the Police, when they eventually arrive) as the only means of economic development. Furthermore, local consumption has recently reached considerable proportions, causing new and multiple problems.

The country by far causing most worries, however, is Guatemala which constitutes *"the preferred transit point in Central America for onward shipment of cocaine to the United States"*[27]. The country through whose waters and territory some 75 per cent of all cocaine reaching the US is believed to have transited. In addition, the cultivation of opium plants in Guatemala has re-emerged and is reaching levels of a certain magnitude. [28] Notwithstanding that the Guatemalan Government has made serious efforts to improve the efficiency of anti-narcotic activities, corruption is systemic and has, during the last few years, thus been able to resist the removal (and arrest) of top brass, massive "preventive" rotations of staff and even the dismissal of hundreds of employees.

Part of the explanation is the fact that corruption is also widespread within all the other institutions that constitute the judicial sector. Another reason is the personal risk involved when going up against corruption (either by not participating or by fulfilling the duty of a law enforcement employee). Organized crime in Guatemala is brutal and employs a considerable number of killers, while the state has very reduced real

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[26] *"The Illicit Drug Transit Zone in Central America"*, Statement of the Chief of Operations, DEA, before the US Congress (House of Representatives), November 9, 2005.

[27] *International Narcotics Control Strategy Report 2005*, Bureau for International Narcotics and Law Enforcement Affairs, the US State Department (March, 2006).

[28] In 2005, almost 70 hectares of opium poppy cultivation were eradicated.

capacity to protect even judges or key witnesses. [29] Moreover, the mechanisms and institutions thought to prevent and control money laundering are weak (and probably also contaminated); [30] thus enhancing the corrupting power of drug money as it can easily be laundered and made even more attractive.

2.5.2 The heart of the matter: money laundering

Without accessible mechanisms for money laundering (capable of whitening substantial amounts of cash generated through illicit activities), organized crime would be far less widespread and its power to corrupt less formidable. Consequently, without effective measures against money laundering, drug trade and organized crime will not be threatened (and perhaps not even contained) by police action and periodic seizures of money and goods.

The primary (or single biggest) source of money laundering in Central America is profits related to narcotics trafficking and retail. However, other illicit activities also generate substantial amount that require laundering – the proceeds from human trafficking (children, sex slaves), large-scale contraband of products liable to customs duty, tax evasion, vehicle theft and grand corruption (bribes, commissions) related to the public sector and, more recently, arms trafficking.

In this context, peaceful *Costa Rica* is a "country of primary concern", according to the categories applied by the US State Department in its yearly report on money laundering.[31] Identified risks are related to the increased transiting of drugs, the presence of Internet gaming companies and lack of regulations concerning the offshore banking sector. Since 2002, there is also a "strategic loophole" in the legislation, eliminating the Government's licensing and supervision of casinos, jewelers, realtors, attorneys and non-bank financial institutions. Nevertheless, during the last few years several high-profile cases of money laundering have been successfully investigated and prosecuted. Corruption within the judiciary is generally considered to be limited.

Concerns regarding *Nicaragua* are increasing and concentrated to the increased drug flow, which is transiting through the country, in combination with the rampant corruption within the police and judiciary.[32] According to current national legislation, money laundering not related to drug trafficking is legally undefined and the National Prosecutor has actively opposed any attempt to approve new definitions or to amend present laws. Moreover, legislation that would improve the country's anti-money laundering regime has been stalled in the National Assembly for years.[33] In 2005, not one single money laundering prosecution was undertaken, even in legal cases where financial transactions had been linked to drug trafficking.

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[29] In 2005, the special prosecutor for crimes against justice sector workers received almost 80 cases of threats or aggression against judges (compared with 60 in 2004). Furthermore, during the year 8 justice sector workers were killed by unidentified assailants.

[30] This applies also to Congress, where several members are considered to have links to drug trafficking and/or other expressions of organized crime. A US investigation concerning this theme is currently ongoing. Recently, high-ranking members of the Guatemalan Government furthermore admitted that corruption and links to organized crime probably exist within all branches, and at all levels, of the State.

[31] *International Narcotics Control Strategy Report 2005; Volume II: Money Laundering and Financial Crimes*, Bureau for International Narcotics and Law Enforcement Affairs, the US State Department (March, 2006). Within Central America, only two countroes were classified under this category for year 2005; the second one being Guatemala.

[32] Due to this situation, the US has cut off its direct assistance to the Nicaraguan Supreme Court.

[33] In both cases, the resistance is related to the ongoing legal process against former President Arnoldo Alemán who is accused of substantial corruption and money laundering. The charges concerning money laundering, however, are not linked to drug trafficking, consequently the interpretation of current legislation of this aspect becomes vital for Aleman's legal situation and thus influences conditions for political alliances in the country.

Also *Honduras* is a country of increasing concern. The volume of drug transiting is on the rise and recently several loads of weapons-for-drugs shipments were intercepted, causing severe concern among national and international authorities.[34] Corruption is considered a major problem within the judiciary and police, national anti-money laundering legislation is marred by major weaknesses and coordination between the different public units involved is deficient, with the result that successful prosecution of this kind of crime becomes even more difficult. Prior to 2004, no convictions for money laundering had occurred in Honduras. During the period 2004–2005, however, 11 such convictions were achieved.

El Salvador, which has one of the largest banking systems in Central America, currently receives some USD 2.5 billion annually in remittances and has adopted the US dollar as national legal tender. All these aspects make the country vulnerable to money laundering activities. In this context, the flow of remittances is particularly of concern, and the constant annual growth from 10 to almost 25 percent most likely reflects the entrance of illicit funds into the flow of "family remittances" as a means of legitimizing them. These suspicions were confirmed in 2005 when an organized use of this modality for laundering purposes was discovered, sending USD 30,000 per day, divided between some 300 individuals, with new names every day. This case led to the only 2005 arrest in El Salvador on charges of money laundering.

During the last few years, *Guatemala* has become a country of major concern in this context. The country is not a regional financial center but constitutes an offshore hub. Exchange controls of foreign currency have largely disappeared, dollar accounts are common and some larger banks conduct sizeable business through their offshore subsidiaries. A considerable share of the approximately USD 3 billion in remittance flows pass through informal channels. Cash seizures at the airports (some USD 275,000 in 2005) indicate that profits from illicit activity are, in a regular manner, hand-carried over Guatemalan borders.[35]

The amount of prosecutions on money laundering charges is increasing, and lately some convictions have been achieved. However, the special supervision unit (IVE) within the Superintendence of Banks is understaffed and coordination with other units involved – particularly with the Public Ministry – is largely inadequate. Furthermore, a mission concerning organized crime undertaken in 2005 (commissioned by Sida) found that most major Guatemalan bosses of drug trafficking were well known to the relevant authorities – but within the units dealing with money laundering (including IVE) these families had no records and no selective scrutiny regarding financial transactions was undertaken.

In this context it should also be mentioned that Guatemalan Government members as well as independent analysts have recently voiced major concern regarding the probably strong influence of illicit money in the financing of the party campaigns for the upcoming 2007 elections. If this cannot be avoided, links between Congress and organized crime are likely to be reinforced.

2.5.3 The temptation of the armed forces

Considering the description above it seems to be high time for a new, forceful approach in order to contain and reduce the influence of organ-

[34] Transactions conducted between Honduran gun sellers and Colombian drug dealers.

[35] *International Narcotics Control Strategy Report, Volume II: Money Laundering and Financial Crimes,* Bureau for International Narcotics and Law Enforcement Affairs, the US State Department (March, 2006).

ized crime in Central America before the situation slips totally out of control. However, in this context, recent and continuing attempts at presenting an increased role for the armed forces in the region as a solution to the problems of drug trafficking, other illicit economic activities and violence should be a matter of concern.[36]

The fact that organized crime is a heavy-handed actor and that several national police corpses in the region are weak and seriously corrupt does not imply that an extended role for the armed forces – emphasizing territorial control other than national borders and taking on tasks of public security – is a constructive recipe. The military has been tried before in Central America for drug control, with disappointing results and many seriously negative "side-effects". Moreover, the use of soldiers for such tasks in countries which today are frighteningly well-equipped with firearms (including assault weapons) may easily generate increased levels of violence, spiraling out of control.

Even more importantly, experience shows that organized crime and corruption can only be successfully and sustainably matched by integral measures including, among other elements, law enforcement activities as well as systematic transparency measures, and increased democratic control over public finances and over public administration.

Finally, concerning the drug trade and its pervasive impact all over Latin America, accumulated evidence indicates that the predominant approach so far – heavily emphasizing the need for supply-side reduction in producer and transiting countries – has not delivered the desired results and may even have backfired. Renewed, systematic and forceful efforts to achieve reduction of demand in consumer countries (mainly the US but also in Europe) appear to be urgently needed.

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[36] During the last two years, high-level Government and Armed Forces representatives from Central America have frequently met with their US counterparts, generally responding to initiatives from the latter, to discuss the theme of increased military coordination in Central America, to be implemented with active North American support. Joint military operatives have been increasing in the region, and in Guatemala Congress recently approved a prolongation of the so-called *Plan Maya Jaguar* until year 2008. Under this plan US military personnel and aircraft are authorized to enter national territory and actively participate in joint operatives with the goal of combatting drug activites.

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 another – to the improvement of the preconditions for the peace process.

Apart from humanitarian assistance 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 role in the establishment of such regional organizations.

3.2 Sector composition and performance

The table below provides a general overview concerning performance for the period 2002–2005 and forecasts for 2006, illustrating a certain thematic shift concerning the relative distribution of Swedish regional support over the years.

Regional contributions in Central America 2002–2006 by sector (in Million SEK)

Sector	Disbursements				Forecast
	2002	2003	2004	2005	2006
Democratic governance and human rights	22	9	23	26	12
Social sectors (health, education, culture)	22	25	41	40	41
Infrastructure, private sector development,	14	12	6	15	20
Natural resources and the environment	36	21	26	33	48
Research cooperation	7	14	19	12	18
Other areas	7	8	9	7	6
Total per year	108	89	124	133	145

Note: This table does not include the Caribbean. For comparative figures concerning Sida's bilateral country programs in Latin America, see the Statistical Appendix.

3.3 Looking ahead

3.3.1 Policy directives

Development cooperation channeled through regional programs in Central America for 2006 is guided by the *"Regional Strategy for Central America and the Caribbean 2001–2005"*, adopted by the Swedish Government in 2001. A mid-term follow up of this strategy was conducted in 2003, concluding that the basis of the strategy was still valid, whereupon the Swedish Government decided to extend the period under which the strategy is applicable to 30 June, 2007.

The overall objective of Swedish development cooperation is to contribute to an environment supportive of poor people's own efforts to improve their quality of life. Within this overall objective, the strategy for Central America establishes that special emphasis must be given to initiatives related to democratic development and the reduction of economic and social inequality.

The strategy states that, in addition to bilateral cooperation, regional dimensions will be assigned to development cooperation with Central America to support the integration processes already underway. These will also function as a contribution to the resolution of cross-border problems, to promote the sharing of experience, to solve joint problems and to promote the harmonization of policies and legislation.

The major part of the projects and programs within the regional plan is implemented by regional organizations with the purpose of strengthening cooperation between countries and facilitating mechanisms for solving shared problems.

The process of formulating a new strategy for Swedish development cooperation with Central America and the Caribbean was initiated at the end of 2005, and during the first semester of 2007 it is expected that the Swedish Government will adopt a new strategy to enter into force from July 1 that same year.

3.3.2 Priorities for 2006

No major changes are foreseen in the focus of the larger programs in the Regional Plan. Emphasis will continue to be *(i)* natural resources and environment; *(ii)* higher education and research; and *(iii)* support for regional sharing of experience, studies and public opinion formation in areas where Sweden supports similar activities in several countries.

However, it is expected that the Swedish Embassies in the region will continue to place more emphasis on issues related to inequality and continue efforts aimed at building social capital for fiscal reform in cooperation with the IDB and other like-minded donors. The presentation, during the second half of 2006, of the results of a regional study financed by Sida on the so-called *maras* and their part in public insecurity, street violence and organized crime is likely to constitute a platform for dialogue and new project initiatives broadly related to the themes of public security, human rights and prevention of youth delinquency. Furthermore, a number of studies will be carried out in 2006 to provide input for results analysis and as an underpinning for the formulation of the new Swedish Strategy for Development Cooperation with Central America.

Democracy and Human Rights are well represented in the different bilateral country plans. At the regional level, support to both IIDH (the Inter-American Institute of Human Rights, based in Costa Rica) and the program with the Raul Wallenberg Institute (RWI) will continue during 2006 as well as the support to the Ombudsman Fund and a regional initiative on the political party system. It is anticipated that the number of contributions within this sector will increase as a consequence of the new support mechanism for the civil society in the region through Swedish NGOs.

The social sector is focused on Health and Culture programs. Sida's support to the *health sector* in Central America is primarily managed as bilateral support. The focus of the regional support is on public health in areas where a multi-country approach is considered to generate added value. Furthermore, regional programs are also regarded as complementary when it comes to sensitive issues (such as reproductive health and sexuality), and as vehicles for the promotion of exchange of experience within the region.

Support to the *culture sector* will continue to focus on strengthening the interchange between Central American countries in the fields of libraries, museums and theatres. Swedish cooperation partners will continue to be the Royal Library, the Swedish Museum of National Antiquities and the Swedish Drama Institute. Reviews and evaluations are in progress and will be analyzed to use as a basis for decision on possible further support.

The most significant element of the *regional urban finance initiative* will continue to be exchange of experience between institutions working with improvement of low-income housing and local infrastructure. The program is focused on training and consultancy services, aimed at *(i)* strengthening governmental, municipal and civil institutions in order to improve housing conditions, and; *(ii)* the exchange of experience between institutions, financed by Sida, who are working with low-income housing and local infrastructure in Central America.

The annual flow of remittances to Central America (from migrant workers) today exceeds total development cooperation, and still continues to grow. In this context Sida will support an initiative from IMF and IFAD aimed at leveraging remittances to deepen the financial systems and increase the financial inclusion of the rural poor. Furthermore, the program will improve the institutional capacity of microfinance institutions to offer remittance-related products, especially concerning housing microfinance for the rural poor.

Within the area of *natural resources and the environment*, cooperation with CATIE in Costa Rica will continue to constitute the cornerstone of the regional program, with watershed management remaining one of the priority themes. In 2005 the implementation of an action plan for regional capacity building concerning Environmental Impact Assessments (EIA) was initiated, managed by CCAD and IUCN and supported by Sida and the Dutch Cooperation Agency. The co-financing of scholarships for students at EARTH University in Costa Rica will continue with a new group of students from the Atlantic Coast from 2006. In addition, planning support is provided to CEP-REDENAC for the revision and updating of the Regional Plan for Disaster Reduction plus the institutional development plan for this regional institution. Short-term planning support is also provided for CCAD for updating of the Regional Forestry Strategy and to clarify the role and work plan of CCAD in relation to the Regional Environmental Plan. The issue of continued future Sida support to these institutions, coordinated with other donors, will be analyzed during 2006.

3.3.3 Administrative aspects

The major part of the projects and programs within the regional plan has been assigned to Sida's different sector departments. In some cases a Swedish Embassy or Development Cooperation Section in Central America is responsible for follow-up of regional projects. However, unless otherwise agreed, overall responsibility for the planning and follow-up of regional activities rests with RELA.

Cooperation activities within the regional programs for Central America and with the Caribbean require the estimated input of one full-time post at RELA. One of the desk officers at RELA coordinates the work divided between three desk officers. In addition, the sector departments DESO, SAREC, NATUR and INEC will also have personnel assigned to support these regional programs.

In 2006, Embassy staffing includes a regional project manager for the environment and natural resources sector stationed at the Swedish Embassy in Managua. Staff at the Embassy in Guatemala will follow up and report on regional integration and cooperation in Central America, and also be responsible for the coordination of the regional health program. Furthermore, a new post as Regional Manager for Sida's research cooperation will be located at the Sida office in Tegucigalpa from January 2007.

4. Thematic regional programs

4.1 Natural resources and the environment

4.1.1 Background

Central America is a region rich in natural resources and possessing an extraordinary biodiversity. However, these resources are gradually becoming depleted due to over-use, mismanagement and uncontrolled exploitation with serious consequences for the environment and ultimately for people's living conditions.

In Central America, the majority of poor people live in rural areas, in communities often characterized by remoteness and difficult access. Their basic assets, besides their own manpower, are natural resources for sustaining life. In their endeavor to make a living under existing adverse conditions (lack of fertile land, limited access to water and other means for improving the use of land and, not least important, lacking other sources of income and employment opportunities) many rural poor have no other alternative but to continue over-using the natural resource base, thus risking their own livelihoods.

Furthermore, non-existent or inadequate management of land, forest and water resources controlled by the state and big landowners results in deforestation, soil erosion, reduced groundwater recharge, sedimentation of rivers, etc, generating severe consequences for the provision of ecosystem services of particular importance to the rural poor.

In addition, mismanagement of resources also often contributes to an increased degree of "ecological vulnerability" among the poorer groups of the population. The impact of flooding and droughts and other natural hazards increases with environmental degradation, often resulting in "man-made disasters".[37]

4.1.2 Regional program objectives

The overall objectives of Sida's program on Natural Resources and the Environment in Central America (launched in 2002) are to contribute to poverty reduction and reduced ecological vulnerability among the rural poor by supporting initiatives of a regional character. The strategy used to achieve these objectives includes support to a combination of educational activities, experimental and method development projects in the field, exchange and dissemination activities, institutional support to

[37] The immense material damage and human death toll caused by the rains following *Hurricane Stan* in October 2005 (this time with Guatemala as the worst affected country) once more demonstrated this point.

regional policy making bodies and, to a lesser extent, regional implementation projects. In this way Sida's comparative advantage of being a small but flexible donor, open to new ideas, is fully utilized.

4.1.3. Major initiatives and projects

Among the program's activities is a 3-year core support to *Centro Agronómico Tropical de Investigación y Enseñanza* (CATIE) in Costa Rica. CATIE has developed a long-term strategic plan for its research and educational activities with a clear focus on poverty alleviation. The core support provided for CATIE is aimed at strengthening the applied research, education and outreach activities of the center, which directly benefits the region both in terms of knowledge building and trained manpower. In addition, the regional program supports the FOCUENCAS project executed by CATIE, which is a method development and dissemination project on integrated watershed management with field activities in Nicaragua and Honduras. This support, which is in its second phase, will continue until the end of 2008. Another activity is support to PRISMA, an independent think-tank located in El Salvador, focusing on the relationship between sustainable management of natural resources and rural poverty reduction in a regional perspective.

Among the new activities initiated in 2005 should be mentioned, firstly, a 3-year agreement with *the Central American Commission for the Environment and Development* (CCAD) for capacity building in environment impact assessment in the region. Secondly, a new 4-year agreement with EARTH for co-financing of scholarships for poor students from the Atlantic Coast/Tropical Zones in Nicaragua, Honduras and Guatemala, plus for the implementation of an impact study of previous EARTH graduates in the region.

The distribution of funds among these major initiatives, as well as disbursements during 2005, are shown in the table below.

Environmental Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2005
CATIE: Core support	Jan 2003 – Dec 2005	24.0	6.1
CATIE: Focuencas II	Oct 2004 – Dec 2008	41.0	10.3
CCAD: EIA capacity	Sep 2005 – Aug 2008	13.4	2.0
PRISMA	Jan 2003 – Dec 2005	4.8	1.3
EARTH: Atlantic Coast	Jan 2005 – Dec 2008	4.6	1.4

4.1.4 Principal events and achievements

The current agreement with CATIE for core support ended in December 2005 when the first phase of the implementation of CATIE's new Strategic Plan also came to an end. A review of the performance and achievements of this first phase was undertaken and presented at CATIE's Donor Meeting in March 2005. This review concluded that CATIE had developed in line with the objectives and goals established in the long-term strategic plan. Although the financial situation had improved, CATIE still depended heavily on external donor support for its core budget. Considering the importance of CATIE in the region, Sida was therefore recommended to continue providing core support for this institution.

Likewise, the current 3-year agreement with PRISMA expired in December 2005. The principal objective of Sida's support during the last 3 years has been to allow PRISMA to strengthen its analytical and dissemination work at regional level. The results of this work so far was also evaluated by Sida in 2005, generating as a recommendation that Sida should continue its support to PRISMA for another 3 years, preferably as institutional support with funds that had not been earmarked for any special purpose. At the same time it was recommended that PRISMA improve its planning and reporting routines.

For a number of years, Sida has contributed funding for scholarships at EARTH University in Costa Rica. In 2005, the first study of the impact of former EARTH graduates – focusing on those who live and work on the Atlantic Coast/Tropical Zones in Nicaragua, Honduras and Guatemala – was implemented. Given the very positive outcome of this impact study, Sida has decided to continue co-financing EARTH scholarships for a new group of students from the Atlantic Coast from 2006 onwards. Together with the universities from the Nicaragua Atlantic Coast, Uraccan and BICO, EARTH is also exploring other forms for contributing to the development of human resources on the Atlantic Coast.

In 2005 Sida, together with Norway, agreed to provide CEPREDENAC with 1-year support for the revision and updating of the *Regional Plan for Disaster Reduction in Central America* (PRRD) plus a plan for institutional development of CEPREDENAC itself. Once these plans have been developed they may constitute the basis for more long-term support.

Together with Denmark and Norway Sida has – for some time now – been preparing institutional support for the Executive Secretariat of CCAD. However, before long-term support of this kind can be considered, CCAD would need to define more clearly its own role and work plan in relation to the revised Regional Environmental Plan for Central America (PARCA) recently approved by the ministers of environment in the region. To that end the three Nordic countries, with Sida as lead agency, decided to provide CCAD with shorter term planning support. In a similar vein, short-term planning support was also agreed between Sida and CCAD for the updating of the Regional Forestry Strategy (EFCA).

Finally, the working group for Environment, Natural Resources and Rural Development within the Sida-IDB Partnership should be mentioned. During 2005, the Partnership has contributed financial resources to a bi-national, cross-border initiative for local rural development between municipalities in Nicaragua and Honduras and for the realization of an Environmental Country Analysis of Nicaragua.

4.2 Health sector

4.2.1 Background

Poverty and social problems continue to generate a number of health hazards in Central America. This is reflected by 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 under implementation in Central American countries, enormous differences still remain within countries and between groups of people. Inequalities concerning access to, and quality of, treatment are still obvious within the health system itself and are generally related to "markers" such as poverty, gender and ethnicity.

The spread of HIV/AIDS has increased in the region and Honduras and Haiti are particularly affected by this problem. Intra-family violence seriously affects women and children, and preserves oppressive attitudes and conditions. Gender inequality also affects women's health when it comes to nutrition, sexual and reproductive health and rights (SRHR) and access to health services.

Moreover, the region is experiencing *epidemiological polarization*, i.e. communicable and non-communicable diseases are affecting the mortality profile simultaneously. Thus, chronic degenerative diseases as well as disability, violence, and lifestyle-related diseases arise and coexist with emerging and re-emerging communicable diseases (malaria, tuberculosis, dengue fever, etc).

4.2.2 Regional program objectives

One of the main objectives of Sida's support to health in Central America combating inequality and contributing to people's access to preventive health care and services based on a rights perspective – as well as supporting democratic and peaceful development.

Within this context, regional support is envisaged as a mechanism to strengthen health sector reforms in Honduras, Guatemala and Nicaragua. The regional programs are also to be regarded as complementary when it comes to sensitive issues, or matters that Governments for various reasons do not tackle sufficiently well, such as sexually related problems.

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

In addition, Sida will continue to promote the efficiency of cooperation through Sector Wide Approach Processes (SWAp) and increased donor harmonization. The long term goal of support in Honduras, Guatemala and Nicaragua is to establish one, consolidated National Health Plan, a plan that will also constitute the basis for establishing SWAps in each country.

4.2.3 Major initiatives and projects

Up until 2004 most Sida-funded programs and projects within the health sector fell into two broad categories, *(a)* public health, and; *(b)* the enhancement of regional coordination and integration within the health sector. Within public health, support was provided for activities addressing occupational health, tobacco control, gender-based violence, gender equity and reproductive health, including adolescents and HIV/AIDS.

In 2004 Sida entered a strategic partnership with the Alan Gutmacher Institute (AGI) for the collation and dissemination of already existing statistics concerning Youth and SRHR.[38] Another new contribution was channeled through the Program for Appropriate Technology in Health (PATH) – a Washington Based NGO – for a Latin American Consortium on Gender-based Violence.

[38] Sexual and Reproductive Health and Rights.

Health Sector Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2005
LACWHN: Gender & women's health	Oct 2005 – June 2008	3.0	1.0
PAHO, 3 components: Gender and Ethnicity, Social Protection, Family and Community Health	Sep 2005 – July 2008	47.7	15.3
SICA: Occupational health	2003 – 2006	20.0	5.0
PATH/Intercambios: Gender-based violence	2004 – 2009	15.6	6.7
AGI: Youth SRHR	2004 – 2007	6.3	2.0

4.2.4 Principal events and achievements 2005

In 2005, Sida held regional meetings with all external partners and also in-house meetings with the program officers for Honduras, Guatemala and Nicaragua. The purpose was threefold: *(i)* to create a well-functioning and sustainable team of POs at Sida HQ and in the countries; *(ii)* to create links between the individual countries and, finally; *(iii)* to continue to support country ownership and strengthen the governing role of the national Ministries of Health. Sida's Health Team for Latin America also consolidated the ideas of the vision paper from 2004 where it was decided that a more focused regional support was needed in the future. With the current package of regional support it is clear that the Swedish focus is mainly on SRHR, Gender and Social Protection.

In 2005, a number of agreements for regional support ended and assessments and discussions on new contributions were intensive, focusing on strategic programs and areas more in tune with Sida's recently revised Health Policy. The support to the Latin American and Caribbean Women's Health Network (LACWHN) was extended. In this context, Sida also held a joint annual review together with Norway regarding regional PAHO support. It is expected that this coordination will be continued and perhaps even extended to other financiers of PAHO programs. Main thematic areas for 2006 and onwards will continue to be gender and ethnicity, SRHR, social protection and universal access to health, adolescents and HIV/AIDS.

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 consumption. The habit of reading, for instance, is not common. Although a good number of Central American authors write new literature every year it is sparsely read. International literature also has few readers and is sold in a limited number of bookstores only. Participation in cultural life is often restricted to elites and political interest in promoting cultural heritage is mostly given low priority.

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 distributed public libraries, generally with few books to borrow but of great importance for a huge amount of young pupils and students who come every day to use the library and its resources for their homework.

Every Central American country also has an anthropological or archaeological National Museum and a National Theatre. Exhibitions in the National Museums generally focus on objects, often archaeological artifacts, and mostly meet rather limited interest from their own citizens. The institutions are weak and staff competence is mostly limited. 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 international attention.

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

4.3.2 Regional program objectives

The current Sida-funded regional program covers the period 2002–2006, with a total allocation of MSEK 42.5. Swedish cultural institutions play an important role in the implementation and follow up of the program. Three areas are supported: libraries, museums and theatres. The overall aim of the program is to support democratic processes in the region.

The library project has been ongoing for some years now, whereas the two other area projects started during the first half of 2003. All three projects focus on training of professionals, building and strengthening regional networks and are intended to generate results for the benefit of the general population.

4.3.3 Major initiatives and projects

The library project intends to strengthen and develop public libraries in four countries in the region (Nicaragua, Honduras, Guatemala and El Salvador). A model library will be established in each country. In 2005 regional cooperation was further strengthened; expert knowledge has been identified and utilized in each country. The regional project includes seminars and training for library staff. Implementing partner is the Royal Swedish Library, National Library of Sweden.

The museum project aims at strengthening the role of museums in society and the role of cultural heritage for sustainable economic and social development. This will mainly be achieved by improving programs at museums, reaching out to new visitors and capacity building of staff. Another important means to use towards these goals is the creation of a regional network for the museums in the region. The project includes elements such as how to counteract illegal trade in cultural objects.

Implementing partner is the Swedish Museum of National Antiquities.

The main activity of *the theatre project* is 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 will be provided with improved access to theatre performances and be able to identify themselves more closely with Central American theatre productions. To that end a website has been created for the project.[39] Implementing partner is the Swedish University College of Film, Radio, Television and Theatre.[40]

Culture Sector Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2005
Swedish National Library: Central Am. Libraries	Jul 2002 – Sep 2006	19.6	3.8
Swedish Museum of Antiquities: Central Am. Museum Network	Jan 2003 – Sep 2006	6.8	2.3
Swedish Drama Institute: Training for the theatre sector in Central America	Jan 2003 – Sep 2006	6.8	2.3

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

In order to overcome the relative underdevelopment of the social sciences in Central America, the academic units of FLACSO[41] in Costa Rica, Guatemala and El Salvador 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 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 government universities. Internationally accepted and respected monitoring, evaluation and accreditation of academic titles awarded 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.

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[39] www.carromatoteatre.org

[40] Earlier known as the Swedish Drama Institute.

[41] 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.

The program, which was initiated in 2001, is cross-disciplinary. It will continue until 2006, when it is anticipated that 30 Masters Graduates and 10 PhDs in social sciences will have been trained as university professors and researchers.

Included in the CLACSO[42] network are some 50 member centers located in various countries in Central America[43]. These centers are part of CLACSO's working groups program, the fellowship program and the internet based coursework program (*Virtual Campus*). In order to integrate the activities of each organization, FLACSO and CLACSO collaborate on different coursework programs.

Within the *natural sciences*, Sida is planning to support 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 scientific capacity at the institutions working with preventative measures, emergency 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.

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 an earlier Sida/SAREC financed program in cooperation with Swedish universities. This cooperation has resulted in an initiative from the network to organize research education in Central America specializing in infectious diseases.

Regional Research Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2005
FLACSO: Social Sciences	Jan 2004 – Dec 2006	23.8	4.3
CLACSO: Social Sciences	Jan 2003 – Dec 2005	43.0	15.0
NETROPICA: (Karolinska Institute)	Jan 2003 – Dec 2005	9.0	3.5
IRET: Research	2003 – 2004	1.6	0.0

In 2005, the regional program "*Toxic substances in Central America: Health, Environment and Development*", coordinated by IRET, continued to carry out research and research training within the area of environmental and health toxicology. In addition, the support from Sida for a period of 15

[42] The Latin American Council for the Social Sciences (CLACSO) is a non-profit, non-governmental, international organization founded in 1967 with support from UNESCO. CLACSO is organized as a federation of 168 independent, university-based research centres in Latin America and Central America.

[43] Costa Rica, Cuba, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama and Puerto Rica.

years to build up an analytical and scientific capacity in Central America has now contributed to the ability to start up the regional program SALTRA (SALud y TRAbajo) for improvement of occupational health (an initiative supported by DESO).

Sida has also supported research on disaster mitigation, both within bilateral research cooperation with Nicaragua and through a regional research program, NADIMCA. In 2005 an agreement on research cooperation with Honduras was signed, including Ph.D. training in hydrology with an emphasis on disaster mitigation. A preparation process for a new program to replace NADIMCA was initiated with a study on current and necessary research capacity and capacities for research management in the field of disaster mitigation in Central America. The study emphasizes the need for true regional ownership of such a program and identifies possible complimentarity between research institutions in the different countries, each showing strengths as well as weaknesses.

In order to stimulate connections between academic entities and the wider society, Sida has initiated a mapping exercise on innovation systems in Central America, particularly Nicaragua and Honduras. Teams from these countries, consisting of representatives from universities, government and industry, participated in an international conference on Innovation in 2004. During 2005 national workshops have been held to further explore how to increase cooperation among research stakeholders. A report on innovation in Latin America was published by Sida in 2005.

5. Other regional contributions

5.1 Democracy and Human Rights

5.1.1 Background

Today, all Central American countries are formal, electoral democracies. Political leaders are chosen in relatively free and fair elections and the fundamental rules of succession of political power 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 as solving fundamental problems such as poverty and civil 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. killing of street children and delinquents. Furthermore, in Guatemala a recent increase in violence against judges and others within the judicial system has been reported.

All the 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 disabled people is generally a cause for concern.

5.1.2 Major projects

Three major, strategic Sida contributions within this broad field are *(i)* support to the *Instituto Interamericano de Derechos Humanos (IIDH)*, based in Costa Rica; *(ii)* support to the *Raoul Wallenberg Institute (RWI)*, Lund (Sweden) and its Latin America program; and *(iii)* support to a Special Fund for Ombuds Offices and National Rights Institutions in Latin America and the Caribbean (based in Caracas). All these initiatives are aimed at the development of more inclusive and transparent democracies on the American continent aimed at the provision of effective protection of human rights, especially in the Central American Region.

IIDH works in the entire hemisphere but has its operational focus on Central America. IIDH thematic priorities are:

– access to justice;
– political participation including electoral assistance (through CAPEL);
– training/education in human rights, including the economic, social and cultural rights.

The Swedish regional contribution to IIDH is of a core character with no earmarking for specific activities or geographic areas.

The RWI Program consists of two regional projects, namely:
(a) a two-year research and training program in cooperation with ILANUD (The UN Latin American Institute for Crime Prevention and the Treatment of Offenders), based in Costa Rica, aimed at the police forces, judges and prison authorities in the Central American region
(b) a three-year cooperation program with CEJIL (the Center for Justice and International Law), Costa Rica, focusing on training of lawyers, prosecutors and other officials within the justice system.

The support to the Special Fund for Ombuds Offices aims at strengthening the Ombuds Institutions in the region, and is provided in coordination with the Danish Institute for Human Rights.

Selected regional democracy activities (in (MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2005
Instituto Interamericano de Derechos Humanos: Core support	Jul 2005 – Dec 2008	17.0	2.8
Raoul Wallenberg Institute: Regional projects	Jan 2002 – Jun 2007	19.75	3.8
Special Fund for Ombuds Offices and National Rights Institutions	Dec 2004 – Mar 2007	2.4	1.2

5.1.3 Principal events and achievements 2005

In 2005, the previous program 2002–2005 with IIDH was finalized and a new program period 2005–2008 was agreed upon. An evaluation report presents the overall results and also gives concrete examples from the different project activities. Some of the examples worth mentioning are the mapping of the progress of the human rights situation in Latin America; a study of the rights of the child and the national responses to the maras/youth gang situation; educational activities on the rights of indigenous people; support to university courses in Human Rights; support to national electoral committees as well as support to specific national elections.

Discussions were also held in 2005 between some of the main donors in an effort to coordinate and further develop the core funding system. An evaluation process supported by Sida was also initiated as part of IIDH's overview of the strategic documents that will guide their future work.

Within the RWI program, the project with ILANUD has generated training manuals as well as seminars and workshops, preparing for a comprehensive study on the "rule of law" situation in 19 countries in Central and Latin America. The study will thus form part of an effort to reform the justice sector in Latin America.

5.2 Housing finance and other 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:

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

The model for implementation involves mainly micro finance institutions (MFIs), including financial cooperatives. Sida's support to the programs mainly consists of capital contributions for lending, and grants for product development and institutional strengthening of MFIs. Credits are provided for finance institutions which work with low-income families. Housing credits are, in some cases, combined with government subsidies and 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 improving the design of new and existing projects, and *(ii)* providing support for a variety of national institutions in the region involved in financing urban development projects for poor people. The principal tool for achieving these goals is different forms of regional experience sharing and technical support. By mid-2005, several contributions within this field were coming to an end and, based on experience from these efforts, the following three major programs were agreed upon after an extensive consultative process in the region.

Urban Programs, main contributions (in MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2005
PROMESHA V: Capacity building in the housing sector	Dec 2005 – Dec 2009	33.0	7.3
Institutional Exchange	Sept 2005 – June 2009	2,0	0.1
Consultancy Services	Sept 2005 – June 2008	11.0	3.8

5.2.3 Principal events and achievements 2005

Based on results from the national programs, the regional initiatives have identified and disseminated good practices within housing microfinance in most countries in Central America. Finally, experience from the programs implemented so far was successfully integrated into the design of three continued programs as reflected in the table above.

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 two different supply-oriented inputs:

(i) A commercial venture capital fund (Central American Investment Facility CAIF), started in 1996 on the initiative of the Commonwealth Development Corporation, IDB and CABEI. Of the total capital of MUSD 26.0, Swedfund has contributed MUSD 3.0 (of which MUSD 2.0 on behalf of Sida).

(ii) 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 million USD)

Contract partner and project theme	Agreement period	Agreed amount (MUSD)	Disbursed 2005 (MUSD)
CAIF: Venture capital fund	Jul 1996–Jun 2006	2.0	0.0
CFA: Green venture capital fund	Jul 1996–Jun 2006	1.0	0.0

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

5.3.2 Principal events and achievements 2005

Since its inception in 1996, CAIF has invested (as a minority shareholder) 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 seven of these firms at the end of 2004.

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.

Considering the rather poor overall performance of these two investment funds during the past 9 years, Sida has currently no intention of prolonging them when existing agreements expire in mid-2006.

Statistical Appendix

This report deals exclusively with Sida's contributions to *regional* programs and initiatives in Central America. In order to facilitate a comparative overview of Sida-financed activities within the Region, Sida's bilateral *country* programs and other contributions in Latin America are summarized in the table below, with the table on regional programs already included in this report being repeated on the following page.

Table 1: Sida's bilateral country programs in Latin America 2005 by sector (disbursements in MSEK)

Country Sector	Nicaragua	Guatemala	Honduras	Bolivia	Colombia	Total per
Health	57.4	4.0	10.4	1.5	1.7	75.0
Education	-	-	40.2	47.1	-	87.3
Research	27.1	-	1.6	16.7	-	45.4
Democracy and HR	66.9	61.8	52.8	48.4	47.3	277.2
Conflict, Peace and security	3.2	0.7	-	2.0	12.4	18.3
Humanitarian assistance	-	3.3	-	-	-	3.3
Infrastructure	27.0	20.0	16.7	-	-	63.7
Trade, business, financial systems	-	1.0	-	19.0	-	20.0
Natural resources, environment	46.2	0.1	12.0	4.3	1.2	63.8
Budget support	60.0	-	-	-	-	60.0
Other	1.1	3.9	7.9	5.8	4	22.7
Total	**288.9**	**94.8**	**141.6**	**144.8**	**66.8**	**736.7**

Note: All figures are in SEK (1 USD ~ 8.0 SEK).

Table 2: Regional contributions in Central America 2002–2006 by sector (disbursements in MSEK)

Sector	Disbursements				Forecast
	2002	**2003**	**2004**	**2005**	**2006**
Democratic governance and human rights	22	9	23	26	12
Social sectors (health, education, culture)	22	25	41	40	41
Infrastructure, private sector development, urban develop-	14	12	6	15	20
Natural resources and the environment	36	21	26	33	48
Research cooperation	7	14	19	12	18
Other areas	7	8	9	7	6
Total per year	108	89	124	133	145

Note: All figures are in SEK (1 USD ~ 8.0 SEK).

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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