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Central America



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1. Introduction

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

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

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

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

The publication of this second Annual Report has been somewhat delayed. The time period covered in the first chapter, on tendencies in regional development, has therefore been extended and is updated to May 2004; whereas the following sections cover 2003 only.

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

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2. Selected Tendencies in Regional Development

2.1 Introduction

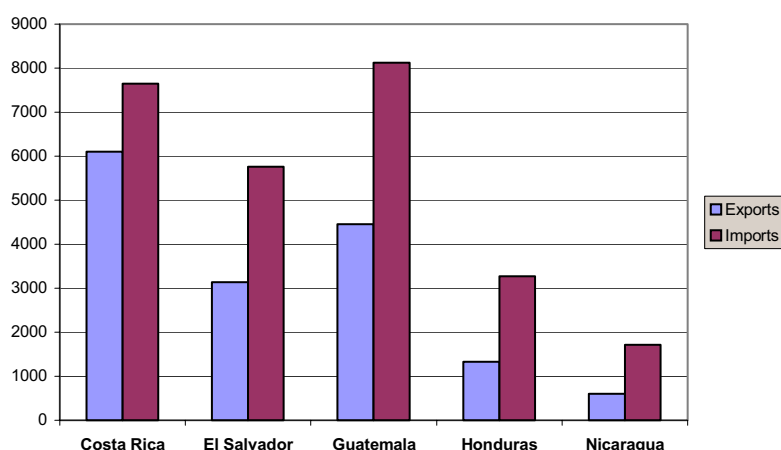
This chapter is not intended to provide a comprehensive analysis of regional matters or to cover all principal areas and themes. The idea is rather to highlight some selected issues and developments currently considered of special relevance in and for the region – either regional in their very character 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: limited growth, inequalities untouched

2.2.1 General indicators

Concerning economic growth, development in Central America during 2003 continued to be somewhat disappointing, with GDP growth reaching only 2 to 3 per cent except for Costa Rica, where the annual increase amounted to almost 6 per cent. National inflation rates generally increased somewhat but stayed moderate, varying only from 2.5 to 10 per cent. Whereas some countries experienced progress concerning their exports, their trade balance continued to be markedly negative for each and every one of the region's five countries, with most of them therefore being heavily dependent on a combination of remittances, international loans and development cooperation.

The Region's Trade Balance 2003 (MUSD)



Taking the region's annual population increase into account, their economic performance in 2003 thus implies unimproved or even reduced GDP per capita in all countries with the exception of Costa Rica. In 2003, coffee prices recovered somewhat but the general tendency in the rural areas of the region – particularly in Honduras, Nicaragua and Guatemala – continues to be one of economic depression and hard times. Consequently, the overall impact of economic developments during 2003 as concerns changes in poverty rates is likely to have been negative to zero.

2.2.2 Counterproductive inequalities

Most people would probably maintain that some degree of inequality in a society is necessary in order to generate incentives for work and investment. However, the levels of inequality characterizing Central American countries are among the highest in the world,¹ are clearly counterproductive and should be a matter of serious concern.

Inequalities in income distribution (2000)

Country	Richest 10 per cent of the population: their share of total national income	Poorest 10 per cent of the population: their share of total national income	Poorest half of the population: their share of total national income
Costa Rica	35%	1.4%	19%
El Salvador	41%	0.9%	16%
Guatemala	47%	0.7%	13%
Honduras	42%	0.9%	15%
Nicaragua	44%	0.8%	15%

Note: Figures elaborated from *Inequality in Latin America: Breaking with History?* (The World Bank, 2004.)

An increasing number of scientifically solid studies show that a high degree of inequality increases poverty and also reduces the positive impact of overall economic growth on poverty reduction. Or, in other words, in countries with less inequality, the same economic growth rate results in more poverty reduction. According to a recent World Bank study on inequality in Latin America, Brazil would thus be able to reduce its poverty to half in only 10 years with a modest 3 per cent annual growth – if at the same time a 5 per cent decrease in inequality was achieved. With no improvement concerning inequality, it would take 30 years to achieve the same objective.²

¹ Latin America as a whole is by far the most unequal continent in the world; the LA country with the least income inequality is still more unequal than any country within the OECD group or within Eastern Europe. Within Latin America, the country with the highest degree of inequality is Brazil – closely followed by Guatemala. Nicaragua, Honduras and El Salvador which are also characterized by very high inequality rates, whereas Costa Rica is one of the least unequal countries of Latin America. (Inequality in Latin America: Breaking with History? The World Bank, 2004.)

² Inequality in Latin America: Breaking with History? (The World Bank, 2004.)

Considering that the degree of inequality is almost the same in Guatemala as in Brazil (and only slightly lower in most neighbouring countries), the results of these calculations by and large also apply to Central America.

Furthermore, evidence also suggests that high levels of inequality in themselves tend to slow down aggregate economic growth, especially if they are associated with unequal access to credit and education, and with social tensions – criteria which all apply to Central America.

Consequently, in order to improve economic development and to achieve better impact regarding poverty reduction, inequality as such must also be addressed. Tackling the mechanisms reproducing inequality implies looking into fields such as access to productive assets, credit, education, health and justice. In this context, three themes may serve as illustrations of the urgency and magnitude of the challenge ahead.

- (i) Inequality concerning *access to agricultural land* still constitutes a major barrier to development in the region's more rural countries (Guatemala, Honduras and Nicaragua). Whereas the large landholdings (*latifundios*) often are characterized by under utilization, small farms are often overexploited leading to erosion, decreasing yields and the expansion into rainforest areas – where soils are generally not appropriate for agriculture. In Guatemala, close to 3.5 million people (corresponding to a third of the total population) currently have to get along on the production of small agricultural plots,³ often located in hillside areas and consisting of not very fertile soils. Even if idle land with good soils abounded, very little agricultural land is available for long-term rent or within reach of poor smallholders wanting to buy. Combined with a rapid population increase, the result is a serious process of land fragmentation, creating smaller and tinier parcels or *minifundios*, unable to sustain a family.⁴
- (ii) Poverty is closely linked to *schooling*; solid longitudinal studies show that even one or two years extra at school results in higher income and/or better living conditions. In this context, the situation in Central America (except for Costa Rica) should be of great concern. Firstly, illiteracy rates continue at remarkably high levels; still in year 2002 overall illiteracy for Guatemala was almost 31 per cent and in Nicaragua an astonishing 33 per cent.⁵ Secondly, both nominal and functional illiteracy is exacerbated by low enrolment rates and high dropout rates. In Nicaragua, one fifth of all children never even show up for their first school day, and dropout rates during primary school (grades 1–6) range between 40 and 70 per cent in El Salvador, Guatemala and Nicaragua.⁶ If this situation is not decisively addressed, the current (very low) national levels of schooling will be continued – and

³ Never larger than 1.4 hectares, and often much smaller.

⁴ Between 1950 and 2003, the number of farms more than doubled (from some 350,000 to 830,000) – without any change in the total area classified as farmland and without any dramatic alterations in the proportion corresponding to larger farms. (Guatemalan National Agrarian Census, 2003.)

⁵ Referring to the population age 15 and above. For Honduras the corresponding figure was 24.4% and for El Salvador 20.8%, whereas the proportion for Costa Rica only was slightly more than 4 per cent. (UNDP: Human Development Report 2003.)

⁶ To this should be added that dropout rates are highest during the first years, implying that most pupils leaving school never acquire functional literacy. (PNUD: Desarrollo Humano en Centroamérica y Panamá 2003.)

thereby also poverty, inequality and a low degree of international competitiveness. The figures below on schooling among today's adults in the region reflect the traditional lack of priority for education, particularly for blue-collar groups.

Country	Percent of population aged over 25 with primary school completed	Years of education (on average) among adults ages 25-65, from the richest 20% of the population	Years of education (on average) among adults ages 25-65, from the poorest 20% of the population
Costa Rica	13.6	11.6	5.4
El Salvador	10.1	9.0	3.8
Guatemala	8.3	8.5	1.4
Honduras	12.4	9.1	2.8
Nicaragua	9.5	8.1	2.7

Table elaborated from figures in *Inequality in Latin America: Breaking with History?* (The World Bank, 2004.)

(iii) Within urban areas, the so-called *informal sector* is nowadays considerably bigger in terms of employment opportunities than the formal sector.⁷ In 2000 it was estimated that the formal sector represented 30 per cent of all employees in Central America, the informal sector 40 and agriculture the remaining 30 per cent.⁸ Whereas the informal sector may be said to be more dynamic than the formal one, it is also the sector which more often provides harsh working conditions and where a much higher proportion of the work force lives in poverty. This situation reflects a combination of many causes, but worth mentioning is not only the lack of normal credit facilities and property titles for people within the informal sector, but also the discriminatory and closed character of several market mechanisms and institutions – all of which lead to barriers between the “two economies” which negatively affects national economic development and opportunities.

2.2.3 PRSPs and debt relief – opportunities but no magic bullets

In Central America, Nicaragua and Honduras are currently the only countries equipped with fully-fledged PRSPs (Poverty Reduction Strategy Papers). Both countries have also entered the HIPC mechanism for debt relief, with Nicaragua reaching “completion point” (final approval) in January 2004, whereas Honduras is expected to achieve this status during the first quarter of 2005.

With substantial resources becoming available for domestic purposes – instead of being spent on debt servicing – the HIPC mechanism will no doubt provide Nicaragua (and hopefully later also Honduras) with a historic opportunity to systematically reduce poverty. However, PRSPs and debt relief do not constitute magic cures guaranteed to succeed.

Even the more advanced PRSPs (like the Honduran and Nicaraguan ones) suffer from significant weaknesses. First, their poverty diagnosis is

⁷ Except for Costa Rica, where proportions are different.

⁸ Informe de Desarrollo Humano en Centroamérica y Panamá (PNUD, 2003.)

more a poverty profile than a real analysis of interlinked causes. Thus, they comprise an enumeration of desirable public policy actions without clear priority setting – and therefore do not as yet constitute real strategies. Secondly, even if widespread consultation processes have taken place as an input for the elaboration of the plans, consensus has not been sought regarding their final contents. In spite of all good intentions, the PRSPs continue to be documents essentially written in order to obtain debt relief; a fact which so far has undermined genuine national ownership.⁹

Finally, PRSPs so far always emphasize the expenditure side (projects to be undertaken), without seriously addressing aspects related to the need for more adequate mechanisms for domestic income generation to secure public financing. Or, in other words, whereas the PRSPs pay great attention to how the extra resources stemming from debt relief may be spent for poverty reduction purposes, they maintain silence regarding how this limited period should be utilized for simultaneously constructing new fiscal systems and other income generating devices that may insure an adequate level of financing of public services (with transparency of spending) for the future.

The degree to which these deficiencies will be addressed and overcome, will be decisive for efficiency of use of the “debt relief resources for poverty reduction” represented by PRSP-HIPC.¹⁰

2.3 Tax systems for national development

In relationship to the situation described above, one encouraging feature of recent date is the growing interest shown by different national actors concerning their domestic tax systems. A reflection of this interest is the implementation (in 2002 and 2003) of comprehensive tax studies in each country of the Region.¹¹ The main conclusion of these studies is that the current tax systems are in great need of reform due to (i) being regressive and therefore socially unfair, and (ii) becoming increasingly inadequate if the objectives of a balanced budget and a sustainable national development are to be maintained.

Current tax revenues in Central America are low not only as compared to figures from industrialized countries but also by Latin American standards, ranging between approximately 9 and 13 per cent of GDP. Over the last ten years, rather dramatic changes have taken place regarding the relative importance of different taxes. The share of VAT (value added tax, i.e. a general tax on goods and services) has increased from some 25 per cent in 1990 to a regional average of 42 per cent in 2002.¹² During the same period, income from trade taxes (tariffs, etc) has been markedly reduced, from some 26 to only 9 per cent, as a reflection of the general process of trade liberalization. Income tax (both personal and corporate) has increased its share somewhat, but still corresponds to less than 25 per cent.

⁹ Can Poverty be Reduced? Experience with PRSP in Latin America (the Institute of Social Studies, the Hague, 2003)

¹⁰ In the case of Nicaragua, a viable strategy for dealing with the considerable internal public debt must also be rapidly agreed upon and implemented, not only due to its size (corresponding to some 45 per cent of GDP), but also because a considerable part of this internal debt is on short-term conditions implying high costs.

¹¹ Financed by Sida, Norad and the IDB; in a joint effort coordinated by the IDB.

¹² Ranging from 34 percent in Honduras to 52.5 percent in El Salvador.

In comparison to developed countries, the main differences concerning the composition of total tax revenues relate to (a) the relative unimportance (or even absence) of property taxes (land, houses) and; (b) the limited proportion generated by personal income taxes.

Even more importantly, whereas taxes (and transfers financed by taxes) in most developed countries significantly reduce pre-tax income inequalities, the result in Central America (except for Costa Rica) is the opposite: poor people and people with low incomes pay relatively higher tax levels than better-off people. According to recent studies, the relative tax burden for the poorest 20 per cent of the population is currently *four times higher* than for the richest 20 per cent in El Salvador and *two to three times higher* in Nicaragua, Honduras and Guatemala.¹³ The main reasons are the preponderance of indirect taxes, in combination with mechanisms for tax evasion and an almost endless list of exceptions and exemptions, generally favouring better-off people. In addition, poor people in Central America also *receive* far less for their taxes than do higher income groups, due to the composition of public social spending.

Current tax systems in Nicaragua, Honduras, El Salvador and Guatemala thus need to be reformed in order to put an end to unfair burden in social terms. They also need to be reformed in order to raise the level of tax revenues required for two major reasons, namely: (i) to finance the increase in social spending (education, health, housing, food security, etc) that is a must if the countries are to make progress with poverty reduction, and (ii) to cover the budgetary deficit and move into a situation where the public debt is under control. This would strengthen the macro-economic stability and reduce the external vulnerability of the national economies, generating enhanced incentives for investments and growth.

Another argument in favour of a comprehensive tax reform is that mechanisms must be found to replace the trade taxes that will gradually be abolished when the regional free trade agreement with the US (CAFTA) becomes operational. Finally, taxes should also be reformed in order to prepare for the (likely) termination within the near future of the international agreement allowing Central America to grant exemption to special tax free zones (*zonas francas*, such as the maquilas, assembly industries etc).¹⁴

In sum, most countries in Central America raise inadequate levels of taxes and there is a need to reduce the tax burden of the poorest members of society and achieve the required increase in tax revenues from higher income groups. At the same time, existing taxation patterns reflect complex political equilibriums, which in turn are the result of a long social and economic history – with power relationships at their core. Furthermore, intimately related to this history is the generalized percep-

¹³ In Costa Rica, results were entirely different: the corresponding tax burden was found to be almost equal for the poorest and the richest 20 per cent of the population. (Calculations from a regional summary of country studies; soon forthcoming from the IDB.)

¹⁴ According to an international trade agreement from 1995 on subsidies and compensatory rights, all countries – with a GDP/capita above USD 1,000 – should have abolished such exemptions by the beginning of 2003. In November 2001 WTO's member countries agreed upon granting certain countries (Central America included) above the USD 1,000/capita limit an exception to the general rule for a period of five more years. After this period, WTO is to establish new criteria for countries still to be exempted from the general rule. Whether the Central American countries (except for Nicaragua and perhaps also Honduras, due to their low GDP/capita) will still be granted this privilege is uncertain; what is safe to assume, though, is that this kind of tax exemption is coming to an end and thus constitutes no lasting pillar on which to design a national model for economic growth.

tion in society that Government makes poor use of its revenues and that an important share of public resources goes to unlawful enrichment – a perception that unfortunately even nowadays is reconfirmed as correct, over and over again.

Proposals for increased tax revenues and a shift in how the burden is distributed will thus meet with strong resistance from several different directions. In order to succeed, proposals must represent technical viability and simplicity, enjoy the support of strategic alliances and be preceded and combined with efficient anti-corruption measures that promote reality-based confidence among the citizenry. Several countries in the Region have recently taken important initiatives along this path (with proposals for tax reforms presented to the Parliaments of Costa Rica, Nicaragua and Honduras) and international support for this much-needed reform process is increasing.

2.4 Regional integration – from critique to revision for change

In 2003, progress concerning the implementation of the regional *Customs Union* was meagre, mainly due to the fact that all available energy was concentrated on the very frequent and intense negotiation rounds related to the coming free trade agreement between Central America and the United States (CAFTA). However, as the customs union constitutes a core element of CAFTA, the rhythm of implementation was markedly speeded up during the first months of 2004, once the main negotiations phase was over. The first semester of year 2004 has also seen encouraging progress concerning the simplifying of procedures for border transiting (both of passengers and goods), with President Berger of Guatemala taking the lead in facilitating integrated border stations with El Salvador and Honduras, an initiative now embraced by most other countries in the region.

Concerning key bodies within the overall structure for integration such as the *Regional Parliament*, PARLACEN, and the *Regional Court of Justice*, CCJ, the wide-spread and high-level critique launched during 2002 has been sustained but also combined with initiatives for revision and change. At the Regional Presidential Summit held in Guatemala in February 2004, a comprehensive review of PARLACEN was agreed upon, with the task of generating a coherent proposal for reform during the same year.

One important part of the critique vis-à-vis PARLACEN relates to principle issues such as its character of being more of an isolated political forum than a Parliament promoting and facilitating regional harmonization and integration (which is due to its legal foundation and the mechanisms through which its members are elected), and the fact that PARLACEN members have maintained that this body could grant them immunity even when their own national parliaments have deprived them of that status.

This last aspect was highlighted in 2002, when ex-President Alemán of Nicaragua tried to escape the judicial process following accusations of wholesale corruption by referring to his status as a member of PARLACEN, and again repeated (by then without any success at all) by

ex-President Portillo of Guatemala in early 2004.¹⁵ Another part of the critique towards the regional parliament is more concerned with the amount of members from each country,¹⁶ the level of remuneration and seemingly “minor” aspects; all of them, however, with considerable importance regarding the functionality, efficiency and legitimacy of PARLACEN.

If these aspects are not satisfactorily reformed, the Government of Honduras has declared that no candidates to PARLACEN will be included in the national elections that are to take place in November 2005.¹⁷

Finally, when it comes to the *Regional Court of Justice*, CCJ, the situation is one of criticism and disregard only, without any attempts so far to initiate a review with the purpose of reform. The Court’s degree of legitimacy – already severely affected by, for instance, its ruling in favour of PARLACEN members having double immunity – will no doubt be further affected by the officially stated decision in May, 2004 by the President of Honduras to order the withdrawal of the country’s two judges from the CCJ.¹⁸

2.5 CAFTA: the coming shake-up

2.5.1 General background

The declaration on 17 December 2003 that the parties had reached a settlement concerning the scope and content of a free trade agreement between Central America and the United States (CAFTA) marked the most important event related to trade politics in the region for the last several decades.¹⁹ The implementation of CAFTA will have profound impact regarding the development and patterns of trade, but will also affect most aspects of national development, conditions and opportunities.

For the US Government, CAFTA is perceived not only as a vehicle to boost exports but also to constitute a stepping stone to the larger Free Trade Area of the Americas (FTAA) that would encompass 34 economies. It is also a response to the lack of progress on global trade liberalization within WTO and an instrument designed to compete with other (alternative) initiatives within this field, particularly the ones represented by Brazil.

For the Central American Governments, the rationale has been to guarantee, consolidate and widen their access to US markets for exports under mutually agreed (and thus predictable conditions), and to become more attractive for foreign direct investments. CAFTA will replace the

¹⁵ According to current rules, resigning Presidents and ex-Presidents of signatory countries are automatically given a five-year seat in PARLACEN, without having to be elected. This is generally perceived as democratically unacceptable and also seen as a mechanism of providing another period of *impunity* for frequently corrupt political leaders. (Ex-President Alemán is currently in jail, whereas ex-President Portillo – under investigation for money laundering and plundering the national budget – left Guatemala immediately after his period terminated.) Worth mentioning is also that, against this backdrop, ex-President Flores of Honduras resigned from his seat in PARLACEN in February, 2004.

¹⁶ Currently each country has 20 seats in PARLACEN. This is costly and causes a somewhat oversized assembly, complicated to convene and not very smooth in its operations. This critique is even more valid, when considering that Costa Rica still does not take part in PARLACEN and that also the Dominican Republic has been proposed as a member, in order to broaden the circle.

¹⁷ This stance was officially supported by all five national political parties in Honduras.

¹⁸ Which then will be composed of judges from two countries only: Nicaragua and El Salvador.

¹⁹ On this occasion, Costa Rica had withdrawn from the negotiations, due to disagreements concerning crucial national demands. After a reinitiating of talks, Costa Rica joined the Agreement in February 2004.

current instrument for the regulation of trade preferences between the US and Central America, the Caribbean Basin Initiative (CBI), which was not an agreement but a unilateral US document specifying concessions (quotas and tariffs) for each and every country in the Region.

CAFTA is modelled on the US-Chilean trade agreement signed recently, and includes a whole range of issues, the crucial ones being:

- exports of industrial and agricultural products
- exports of services
- rules concerning patents and property rights
- rules related to investments, bidding and procurement procedures
- labor rights and environmental protection.

Among the issues *not* addressed in this agreement are fundamental themes such as agricultural subsidies, rules against price dumping of products and phytosanitary standards.²⁰ While the Central American countries initially tried to include these themes, the US maintained that they should be dealt with through WTO mechanism. In this respect, CAFTA is no doubt an agreement on *asymmetric trade conditions* – gradually phasing tariffs out but maintaining subsidies which continue to create unfair conditions in commercial competition.²¹

2.5.2 Selected main contents

The principal contents of the Agreement – which is composed of a separate chapter for each of the Central American countries (with somewhat different conditions and exceptions) within a general framework – related to products and services may, in general terms, be summarized as follows:

(a) *Industrial products:*

- US companies receive immediate, tariff-free access to Central American markets for some 80 per cent of their export products. Categories under this clause include IT products, construction and agricultural equipment, paper and chemical products. For remaining products, tariffs will be gradually phased out, reaching 85 per cent of all products within five years and 100 per cent within ten years.
- Central American companies maintain their tariff-free access to the US market as earlier established in the CBI,²² which is valid for most industrial products. Concerning the important textile and leather sector, some limited progress as compared to current conditions was achieved.²³

²⁰ Phytosanitary standards apply to agricultural products and may – depending on their content – constitute what is called “(improper) non-tariff trade barriers”.

²¹ US internal agricultural subsidies have increased considerably since 1996, and through the Farm Bill of 2002, producers will be granted more than BUSD 180 in support over the next ten years. These subsidies are focused on large agribusiness companies which absorb the major share of the budgeted support. One result is that US companies can sell grain, cotton, etc. at prices well below production costs. Due to its volume of exports, these artificially low prices affect world market prices negatively. This was recently (April 2004) reconfirmed by the WTO's dispute-settling body when it ruled that US cotton subsidies had violated international trade rules, pushed prices down and caused “serious prejudice” to Brazilian farmers.

²² Caribbean Basin Initiative, a document on unilateral North American concessions regarding trade preferences (quotas) for each country within this region.

²³ Under the CBI rules, Central American countries may export textiles tariff-free only if US cotton thread has been used for the manufacturing. Under CAFTA, the use of crude cotton originating from the Region (and from countries with which the parties currently have free trade agreements) will also be permitted. For shoes, complete access, free of tariffs, was achieved.

(b) Agricultural products:

- US exporters greatly improve the extent of their tariff-free access to Central American markets. For several products (such as cotton, wheat, beef, etc) tariffs will be abolished immediately, while for others (such as pork, chicken, dairy products, beans, maize, rice, etc) tariffs will be phased out within 5 to 20 years (with individual solutions for each of the region's countries).
- Central American exporters gain considerably less, as current conditions already grant free access to the US for a considerable range of export products (fruit, vegetables, chicken, pork, dairy products). Unprocessed cotton will now be fully liberated from tariffs, while tariffs for processed cotton will be phased out during a period of 15 years. Whereas Central America will be committed to phase tariffs out concerning sugar (within a 15-year period), the US will permanently maintain import quotas (with tariffs applying above these free amounts) vis-à-vis Central American sugar exporters. Quotas will be doubled, though, which has been presented as a great success in the negotiations for the Region.²⁴

(c) Services:

- US companies gain equal access to a whole range of sectors, including telecommunications and the financial sector. For financial services, access will be unlimited (including pension funds and social security funds).
- Regarding this sector, Central America has considerably less potential and relatively little to gain from achieving free access to the US market. The right to open banks in the US is granted, though, which considering the millions of Central Americans living in the United States (who constantly send remittances home, implying considerable volumes of payment for transfer services) may become attractive.²⁵

Within the area of *patents and intellectual property rights*, CAFTA goes considerably further than the rules established by the TRIPS agreement of 1995,²⁶ promoted by the WTO. Under CAFTA, the Central American countries commit themselves to extend pharmaceutical patent terms beyond the 20 years required in the WTO rules. They also agree on preventing the marketing of generic medicines if a patented version is registered (but not necessarily sold) in their countries and to prohibit drug regulatory agencies from using original pharmaceutical test data for the registration of generic medicines.²⁷

Concerning *labor rights and environmental protection*, the agreement basically states that existing national laws and regulations should be complied with.

²⁴ Within these quotas, the price paid is substantially higher than normal. Due to this situation, Central American sugar producers may therefore choose to re-direct part of their export to the profitable US market, instead of increasing production (with no positive impact on employment generation as an end result).

²⁵ At the same time, however, the establishment of new banks in the US has been more strictly regulated through the so-called US Patriot Act (after 9/11), consequently these regulations will have to be analyzed more closely.

²⁶ TRIPS = Trade-Related aspects of Intellectual Property Rights.

²⁷ The tests originally performed on side effects etc. will thus not be accepted. This restriction is referred to as "data exclusivity" and may have profound impact on the commercial future of generic products.

2.5.3 Critique and concerns

Ever since President Bush's visit to Central America in March 2002 (when the decision to initiate fast-track negotiations on a free trade agreement was announced) CAFTA has been an almost constantly debated theme in all of the region's countries. In 2003 the public debate took certain steps beyond its initial simplistic character – consisting either of frontal attacks or wishful claims that everyone will be winners – and is now increasingly focussing on concrete issues defined as being of key importance.

This development is no doubt partially due to the fact that negotiations throughout 2003 were carried out in secret, with all documents being strictly confidential, consequently there was very little real knowledge on the main content of the proposals, except within a very reduced circle of people. The degree of secrecy imposed not only resulted in an often speculative debate without any chance of checking facts, but also generated a reaction against this non-transparent process,²⁸ where representatives of most concerned stakeholders were not invited to evaluate proposals and provide feedback.

In the current public discussion, the following themes may be said to dominate and are addressed by outright critics and concerned citizen alike:

- (i) labor rights and environmental protection
- (ii) patents and intellectual property rights
- (iii) investor rights
- (iv) impact on rural economies.

Concerning *labor rights and environmental protection*, the critique draws attention to the fact that rules under CAFTA will not be stricter than under the current Caribbean Basin Initiative (CBI), where countries granted trade preferences by the US were obliged to adhere to certain international standards. Under CAFTA, the application of the existing national legislation only will be required, laws that often are very weak and inadequate. The labor laws of the CAFTA countries have earlier been repeatedly criticised both by the ILO and the US State Department for not guaranteeing workers' rights.

When it comes to *patents and intellectual property rights*, the critique is intense and includes public condemnation by international organizations such as OXFAM and MSF (Médecins Sans Frontières), related to the probable increase of pharmaceutical prices and the restrictions on, or even blocking of, competition from generic products. Rules under CAFTA exceed WTO standards and are likely to cause reduced access to important medicines, including those needed for HIV/AIDS treatment.²⁹

Regarding the *rules for investor rights*, two of the aspects frequently criticized are (a) the lack of performance requirements and, (b) the proposed mechanism for settling disputes between the investor and the

²⁸ The six governments had agreed not to release the text under negotiation to the public. In the US the text was classified as "sensitive to national security and foreign policy", so as to exempt it from the application of the Freedom of Information Act.

²⁹ In Latin America and the Caribbean, HIV/AIDS is the second largest cause of death from disease. After Sub-Saharan Africa, the Caribbean is the region in the world most affected by HIV/AIDS, and the number of cases is also rapidly increasing in several Central American countries.

state. *Performance requirements* are obligations for foreign investors to help create different kinds of linkages within the national economy. Such obligations may include purchasing supplies locally, giving preference to specific segments of the population, commitments regarding the transfer of technology, etc. Under CAFTA, such performance requirements will be prohibited. *The investor-state dispute settling mechanism* will allow foreign corporations to sue signatory governments for perceived violations of their rights and loss of *potential* profits. As proposed, this mechanism is said to constitute a constant threat to national governments (of being challenged with lawsuits), which will thereby weaken the application of certain national standards, rules and legislation.³⁰

The theme which is causing the most profound concern is, no doubt, the perceived impact on the nation's *agricultural sectors*, particularly in markedly rural countries such as Nicaragua, Honduras and Guatemala. After becoming exposed to imports of subsidized US agricultural products (including staple grains such as beans, maize and rice), large numbers of small-scale farmers in Central America may be forced to abandon farming altogether with increased rural-urban migration, unemployment and reduced food security as a result. Another reason for such a negative impact, could be that small farmers will have severe difficulties in complying with required quantities and qualities and agreed standards if trying to export their agricultural products. At the same time, new opportunities may be offered, such as marketing of environmental goods and services that could become a source of growth among poor in rural areas.

In this context, the dramatic and largely negative impact caused in the Mexican countryside as a result of the similar NAFTA agreement,³¹ implemented since 1994, is often referred to as the future to be expected for Central America. While this gloomy prediction is, of course, rejected by CAFTA supporters most of them openly admit that dramatic changes in the countryside are likely to happen (reducing employment within the agricultural sector) but that these will be compensated for by a substantial expansion within the industrial sector.³²

Opinions so far on the likely impact of CAFTA on different sectors differ considerably, and even more divided are perceptions concerning the overall results to be expected at national level. All analysts do agree, however, on one issue: CAFTA will no doubt constitute a gradual but major shake-up for all the countries of the region, with far-reaching impacts concerning the economy as well as most other spheres of society.

Part of the preparations for constructively tackling (and influencing) the changes to come will be to undertake focussed studies on different sectors and dimensions, generating scenarios and recommended measures to be undertaken. Such studies are also becoming increasingly interesting to the development banks and international development cooperation agencies.³³

³⁰ Such as national licensing, certification standards, government contracting rules, public interest laws, protection of the environment and of workers' rights, etc.

³¹ North American Free Trade Agreement, covering the US, Canada and Mexico.

³² In a recent study, the Guatemalan Association of Exporters of Non-Traditional Agricultural Products, AGEXPRONT, for instance, estimates that some 100 000 jobs may disappear within the country's agricultural sector due to CAFTA (if successful programs to enhance competitiveness are not implemented before the dismantling of tariffs), but at the same time an almost equal amount of new jobs will be created within local industry.

³³ A case in point is the study on the likely direct and indirect impacts on rural households in Nicaragua, Honduras and Guatemala to be undertaken during 2004, financed by Sida and the IDB.

2.5.4 Steps remaining

To enter into force the Agreement has to be ratified by the United States (including approval by Congress) and two out of five Central American countries (where parliamentary approval is also required). In the US, the agreement faces increased resistance from certain business groups (foremost the sugar industry), labor organizations such as the AFL-CIO, environmental and human rights organizations and from wide sectors within the Democratic Party. In Central America, resistance comes from certain business organizations such as the pharmaceutical industry and within the agricultural sector, from peasant movements and indigenous peoples' organizations, most trade unions and politically radical parties such as the FMLN in El Salvador and the FSLN in Nicaragua. In Costa Rica, the partial de-regulation of the telecom and insurance sectors (hitherto under state monopolies) stipulated in the CAFTA agreement, caused union strikes and sizeable popular manifestations on several occasions in 2003, and resistance concerning this issue is still strong.

The steps which still remain to be taken before the agreement can enter into force may therefore take quite some time to be completed and the process up to that point may also come to include a new revision of the contents – all depending on political developments in the near future.

3. Facts and Policies

concerning Swedish Regional Co-operation in Central America

3.1 Background

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

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

3.2 Sector composition and performance

The table below provides a general overview concerning performance for the period 2000–2003 and forecasts for 2004, illustrating a certain thematic shift concerning the relative distribution of Swedish regional support over the years.

Regional contributions in Central America 2000–2003 by sector (MSEK)

Sector	Disbursements				Forecast	Total
	2000	2001	2002	2003	2004	
Democratic governance and human rights	26	28	22	9	13	98
Social sectors (health, education, culture)	14	39	22	25	32	132
Infrastructure, private sector development, urban development and financial systems	9	8	14	12	13	56
Natural resources and the environment	37	37	36	21	50	181
Research cooperation	2	7	7	14	19	49
Other areas	5	10	7	8	7	37
Total	93	129	108	89	134	553

Note: All figures relate to country code CEN (internal Sida account no. 15528) and do not include the Caribbean.
For comparative figures concerning Sida's bilateral country programs in Latin America, see Annex 1.

3.3 Looking ahead

3.3.1 Policy directives

Development cooperation channelled through regional programs in Central America for 2004 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 the Regional Strategy for Central America and the Caribbean has been conducted during 2003. It concludes that the basis of the strategy still is valid and it is therefore expected that the Government will extend the period under which the strategy is applicable to 31 December 2006.

The overall objective of Swedish development cooperation is to raise the living standards of the poor. 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 co-operation, regional dimensions will be assigned to development cooperation with Central America to support the integration processes already under way, as a contribution to the resolution of cross-border problems, to promote the sharing of experience, to solve joint problems and to promote the harmonisation of policies and legislation.

The major part of the projects and programs within the regional plan for cooperation with Central America is implemented by regional organisations with the purpose of strengthening co-operation between countries and facilitating mechanisms for solving shared problems.

3.3.2 Priorities for 2004

No major changes are foreseen in the focus of the larger programs in the Regional Plan. Emphasis will continue to be natural resources and environment, higher education and research, 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 all the Embassies in the region will put more emphasis on issues related to equality in 2004 and onwards. Regional studies will be initiated on the subject and an initiative on building social capital for fiscal reform in Central America, in cooperation with the IDB and other like-minded donors, is planned for the near future.

Democracy and Human Rights will continue to be the smallest sector in terms of disbursements and number of contributions as the sector is well represented in the different country plans. However, the number of contributions is foreseen to increase with the new support mechanism to the civil society in the region through Swedish NGOs.

The social sector is focused on the Health and Culture programs. The support to the *health sector* will mainly be channelled through a program with the Pan-American Health Organisation (PAHO). In 2004 a final evaluation will be carried out on the previous program and a new regional program with PAHO will be assessed. Support to the *cultural sector* will focus on strengthening interchange and cooperation between the Central American countries in the fields of libraries, museums and theatres.

The most significant element of the *regional urban program* will be exchange of experience between institutions working with improvement of housing and local infrastructure. One of the two main programs in this field is PROMESHA V, aimed at strengthening governmental, municipal and civil institutions in order to improve housing conditions. The other one is FORTAL, which intends to stimulate and strengthen non-governmental organisations in their efforts concerning poverty reduction in urban areas.

Within the area of *natural resources and the environment*, cooperation with CATIE in Costa Rica will continue to constitute a cornerstone of the regional program. Regional environmental studies and regional dialogue on area based planning will be supported through PRISMA in El Salvador. Furthermore, in 2004 Sida will complete its assessment of continued support to the regional program on watershed management and a potential new regional alliance on higher education.

The regional *research co-operation program* will support the academic units of FLACSO in Costa Rica, Guatemala and El Salvador to improve social sciences in Central America. Within the natural sciences, Sida supports NADIMCA (Natural Disaster Mitigation Program in Central America), and when it comes to the medical field Sida provides resources for NETROPICA (The Network for Research and Training in Tropical Diseases in Central America), a network for research and research training.

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. 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, divided between three desk officers. The sector departments DESO, Sarec, NATUR and INEC will also have personnel assigned to support these regional programs.

In 2004, Embassy staffing also 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.

4. Thematic Regional Programs

4.1 Natural resources and the environment

4.1.1 Background

In 2003, negotiations on a free trade agreement between the United States and Central America (CAFTA) advanced rapidly. If and when CAFTA becomes a reality it will have profound implications, both negative and positive, for agriculture and the environment in the region.

Being less competitive – and in the future exposed to imports of subsidized US agricultural products – large numbers of small-scale farmers in Central America may be forced to abandon farming altogether with increased rural-urban migration and unemployment as a result. Another reason for such a negative impact could be that small farmers will have severe difficulties in complying with required quantities and qualities and agreed standards for their agricultural products. At the same time, new opportunities may be offered, such as marketing of environmental goods and services that could become a source of growth among the poor in rural areas.

Strengthening the competitiveness of small and medium-scale farmers within the context of a global market economy should therefore be a high priority. Another priority is the need for closer regional cooperation and the development of regulatory frameworks and environmental standards.

However there is still a great knowledge gap on how relationships will change and develop, due to the CAFTA framework, between the environment, trade and sustainable development. Bridging this gap is an urgent need – both to prevent negative impact and to allow these countries to benefit fully from the new opportunities.

Another determinant is constituted by the Plan Puebla Panamá, which contains major infrastructure initiatives with profound consequences for the region and also includes a potentially important environmental component the “Iniciativa Mesoamericana de Desarrollo Sostenible” (IMDS). According to this initiative, environmental assessment will be an important tool in the planning and design phase of the projects. The regional plan for Environmental Impact Assessment adopted by CCAD³⁴ should hopefully become an entry point for new international support to the region within this field.

³⁴ Comisión Centroamericana del Ambiente y Desarrollo (Central American Commission for the Environment and Development).

Data on rural poverty shows that forest resources continue to be of great importance for the living conditions of rural poor and indigenous people. At the same time, forest lands are being cleared at a rapid rate and there is serious loss of bio-diversity in the region. Many activities are ongoing within this area, under the umbrella of the initiative of the Meso American Biological Corridor. Another important initiative is the CCAD newly developed Central American Forest Plan for updating and harmonization of national forest policies and planning.

4.1.2 Regional program objectives

The overall objective of Sida's program on Natural Resources and the environment in Central America (launched in 2002) is to contribute to poverty reduction and reduced ecological vulnerability mainly among the rural poor by supporting initiatives of a regional character.

The Swedish strategy for Central America and the Caribbean identifies the environment as an area of particular interest for regional cooperation. Regional activities should be complementary to existing bilateral programs and create platforms for dialogue, interchange of knowledge and ideas and joint policy development or be based on shared problems. Most important counterparts in this context are regional institutions or organizations.

4.1.3 Major initiatives and projects

The current program is mainly based on Sida's established project portfolio but new initiatives are considered if deemed of priority and compatible with the general established framework. The character of existing projects is also under gradual transformation, moving towards model projects through a combination of training and education, methods development and pilot projects combined with applied research and institutional core support. Implementation projects are supported to a lesser extent. In this way Sida's comparative advantage of being a small but flexible donor, open to new ideas, is fully utilized.

Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) in Costa Rica remains a strategically important partner in the region. CATIE has adopted a new long-term strategic plan with a clear focus on poverty alleviation. Through collaborative applied research, education at different levels and outreach activities, CATIE achieves high impact and also provides the region with capable human resources. CATIE is also responsible for the *Focuencas* project, which is a watershed project based on local management of natural resources focused on Nicaragua and Honduras.

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

A package is under preparation aimed at the support of an “Alliance of Higher Education Institutions”, with the main objective of initiating a process of change within universities that will ultimately lead to a higher degree of relevance of education (and graduates) for the agricultural, natural resources and the environmental sectors. New areas that are under discussion for support are implementation of the regional EIA strategy and the regional forest strategy, both part of the environmental action plan (PARCA) adopted by the region’s environmental ministers in the board of the CCAD.

The distribution of funds among these major initiatives, as well as disbursements during 2003, is shown in the table below.

Environmental Program, main contributions (MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2003
CATIE - Core support	Jan 2003-Dec 2005	24.0	10.0
CATIE - Focuecas	Feb 2000-Dec 2004	40.0	2.7
CATIE- higher education, pre-project	Oct 2002-Sep 2003	0.7	0.1
CCAD – ALIDES	Apr 2000-Dec 2003	9.0	2.7
Cepredenac	Mar 1999-Dec 2003	11.2	0.0
Prisma	Jan 1999-Dec 2002	4.5	1.6
Earth – global support	Feb 2002-Jun 2005	13.4	4.4
Zamorano	Dec 2001-Jun 2004	4.0	0

4.1.4 Principal events and achievements

Many projects and programs are currently entering their final phases, consequently 2003 has been characterized by dialogue with the main actors in the region on continued or new support, studies and evaluations— most of which have been mentioned above. Together with CATIE and the MARENA project in Honduras, PRISMA was active in organizing a conference on experience of watershed management in the region. The conference resulted in an initiative to create a regional network of the main actors within this area in the region. Responsibility for further action now rests with PRISMA, who is likely to apply for resources from the Sida-IDB Partnership Fund.

The Focuecas project terminated in 2003. A continuation is under discussion with CATIE who are responsible for the project. An in-depth dialogue has taken place with various stakeholders in both Nicaragua and Honduras concerning the main objectives of the continuation and how the project can become more strategically important in the management of natural resources at local level.

4.2 Health sector

4.2.1 Background

Poverty and serious social problems continue to generate a number of health hazards in Central America. This is manifested through indicators such as maternal mortality, infant mortality and life expectancy. Although figures have improved over the past few years and reforms in the health sector are being implemented in the Central American countries, enormous differences still remain as how well health needs are fulfilled.

Inequalities concerning access to, and quality of, treatment are still obvious within the health system itself and are generally related to indicators such as poverty, gender and ethnicity.

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

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

Moreover, the countries have experienced what has been called epidemiological polarization, whereby both communicable and non-communicable diseases affect populations' mortality profile simultaneously. In this way, chronic degenerative diseases, 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 is to fight inequalities and contribute to people's access to preventive health care and services based on a rights perspective as well as supporting democratic and peaceful development in the region. Within this context, regional support is envisaged as a mechanism to strengthen health sector reforms in Honduras, Guatemala and Nicaragua.

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

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

4.2.3 Major initiatives and projects

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

The support is mainly channelled through an agreement with the Pan American Health Organization (PAHO), but also through new actors

such as the Latin American and Caribbean Women's Health Network (LACWHN) and the Swedish National Institute for Working Life (NIWL)/ SICA.

The distribution of funds among these major themes, as well as disbursements in 2003, is shown in the table below.

Health Sector Program, main contributions (MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2003
LACWHN: Gender & women's health	Jan 2002-June 2005	2.0	1.0
PAHO: gender and intra-family violence	Mar 2002-June 2005	7.5	2.4
PAHO: youth and sexuality	Mar 2002-June 2005	6.0	1.5
PAHO: social exclusion	Mar 2002-Jun 2005	9.0	2.9
PAHO: tobacco, mental & occupational health	Mar 2002-Jun 2005	7.5	2.3
SICA: Occupational health	2003-2006	20	5

4.2.4 Principal events and achievements 2003

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

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

During the autumn Sida initiated long-term support to the Swedish National Institute of Working Life in the area of Work and Health. This comprehensive program covers all seven countries in the region and includes safety and health promotion activities in several sectors, including the informal sector.

Sida's new health policy was formally launched in the region during a regional seminar held in Honduras in April. The seminar attracted a broad, unique group of health professionals from health systems and specific programs within the ministries, PAHO and Sida. The aim was to work on concrete mechanisms for integrating programs on gender equality and adolescent health into bilateral health reforms. The seminar became an important starting point for achieving greater focus on gender issues and adolescents, also constituting priority areas for Swedish support for the coming period.

4.3 Cultural program

4.3.1 Background

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

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

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

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

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

4.3.2 Regional program objectives

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

The library project has been ongoing for some years now, whereas the two other area projects started during the first half of 2003. All three projects focus on training of professionals and are intended generate results that may be utilised by the general population.

4.3.3 Major initiatives and projects

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

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

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

Culture Sector Program, main contributions (MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2003
Swedish Royal Library: Central Am. Libraries	Jul 2002-Sep 2006	17.0	4.0
Swedish Museum of National Antiquities: Central American museum network	Jan 2003-Dec 2005	6.8	2.3
Swedish Drama Institute: Training for the theatre sector in Central America	Jan 2003-Dec 2005	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

To overcome the relative underdevelopment of the social sciences in Central America, the academic units of FLACSO³⁵ 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 State 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.

³⁵ 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. Relationships between global, national and local factors are studied through three analytical axes: (i) citizenship, (ii) identities, and (iii) territoriality. Three thematic thesis seminars are conducted *in situ* by the various academic units: 'citizenship' is held in Costa Rica, 'identities' in Guatemala, and 'political institutions' in El Salvador. The program will continue until 2006, when it is anticipated that 30 Masters graduates and 10 PhDs in social sciences will have been trained as university professors and researchers. A new agreement will be signed during 2004.

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

Within the *medical field*, Sida is supporting a network for research and research education within special biomedical themes (parasitic, bacteria and viral diseases and toxins) in Central America which is of high priority for regional poverty reduction. The Network for Research and Training in Tropical Diseases in Central America (NETROPICA) was founded in 1998 and is a continuation of a Sida/SAREC financed program in cooperation with Swedish universities. This cooperation has now resulted in an initiative from the network to organize research education in Central America specialising in infectious diseases. An agreement for this program will be signed during 2003.

Research Program, main contributions (MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2003
FLACSO: Social Sciences	Jan 2001-Apr 2004	21.5	8.8
NADIMCA (Uppsala University)	Jan 2003- Jun 2005	24.0	?
NETROPICA (Karolinska Institute)	Jan 2003- Dec 2005	9.0	?

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. killings of street children and delinquents. Furthermore, in Guatemala a recent increase in politically related violence is reported, as well as violence against judges and others within the judicial system.

All 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 is generally a cause for concern.

5.1.2 Major projects

The regional support in the area of Democracy and Human Rights currently consists of two projects – support to the *Instituto Interamericano de Derechos Humanos (IIDH)*, based in Costa Rica, and support to the *Raoul Wallenberg Institute (RWI)*, Lund (Sweden) and its Latin America program. The support is aimed at the development of more inclusive and transparent democracies on the American continent that provide effective protection of human rights, especially in the Central American Region.

IIDH works in the entire hemisphere but has an operational focus on Central America. The Swedish regional contribution to IIDH is of a

core character with no earmarking for specific activities or geographic areas. Among the program areas the following three may, however, be mentioned:

- (i) education in human rights
- (ii) support to public institutions, and
- (iii) electoral assistance to countries within the region (through CAPEL).³⁶

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, focussing on training of lawyers, prosecutors and other officials within the justice system.

Regional democracy activities (MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2002 + 2003
IIDH: Core support	Jul 2002-Dec 2005	16.5	2.75
RWI: Regional projects	Jan 2002-Dec 2005	7.0	4.0

5.1.3 Principal events and achievements 2003

As the IIDH program was initiated in July 2002, it is still rather premature to report any tangible progress. Expected results concern activities within the broad areas mentioned above, plus institutional strengthening of IIDH, particularly concerning its independence and capacity to – on its own initiative – respond to emerging situations at relatively short notice. These are characteristics highly valued by Sida and certain like-minded donors, but hitherto constantly put at risk due to financial limitations at the IIDH and the tendency by most donors to provide earmarked and/or project-based funding only. In this context, IIDH made a great effort to support pre-election and election activities in Guatemala, in order to contribute to free and fair elections.

Within the RWI program the project with ILANUD has generated two seminars and a workshop preparing for a comprehensive study on the “rule of law” situation in 19 countries in Central and Latin America. The study will then form part of an effort to reform the justice sector in Latin America.

³⁶ Providing support, for instance, to the electoral process in Guatemala in 2003.

5.2 Urban issues

5.2.1 Background and objectives

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

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

Under this modality, support is provided for:

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

The general model for implementation involves the beneficiaries, community organisations, municipal authorities and national agencies. Sida's support to the programs mainly consists of capital contributions to revolving funds for credits. The credits are then provided for low-income families through micro credit agencies, organisations or commercial banks. Credits are, in many cases, combined with 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 urban development projects for poor people. The principal tool for achieving these goals is different forms of regional experience-sharing and technical support. This approach is at the very core of the two main projects within this field:

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

Urban Program, main contributions (MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2003
Consultancy services for urban programs in CA	Oct 1998-Jun 2003	12.1	2.5
FUPROVI: Housing for Nicaraguan immigrants in Costa Rica	Sep 2000-Jun 2003	8.0	0.0
PROMESHA IV: Capacity building in the housing sector	Jan 2001-Jun 2004	13.0	6.5
FORTAL: Institutional strengthening in urban development	Aug 2001-Jun 2003	2.1	1.6

5.2.3 Principal events and achievements 2003

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

5.3 Credits and risk capital

5.3.1 Major initiatives and projects

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

- (i) *Concessionary credits* for small and medium sized enterprises. The purpose of this credit initiative (in cooperation with the Central American Bank for Economic Integration, CABEL) is to promote investments in development oriented projects in CABEL member countries which have difficulties obtaining financing on the regular financial markets. The credit is tied to the procurement of Swedish goods and services and follows the ordinary rules for Swedish concessionary credits. The marketing of this credit facility began at the end of 2001.
- (ii) *A commercial venture capital fund* (Central American Investment Facility CAIF), started in 1996 on the initiative of the Commonwealth Development Corporation, IDB and CABEL. Of the total capital of MUSD 26.0, Swedfund has contributed MUSD 3.0 (of which MUSD 2.0 on behalf of Sida).
- (iii) *A commercial "green" venture capital fund* (Corporacion Financiera Ambiental, CFA), started in 1996 at the initiative of IDB. Of its total capital of MUSD 8.5 Swedfund has contributed MUSD 1.0 on behalf of Sida.

Regional credit lines and capital provision (MUSD)

Contract partner and project theme	Agreement period	Agreed amount (MUSD)	Disbursed 2003 (MUSD)
CABEL: Concessionary credits	May 2002-May 2005	10.0	0.0
CAIF: Venture capital fund	Jul 1996-Jun 2006	2.0	0.0
CFA: Green venture capital fund	Jul 1996-Jun 2006	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 2003

In 2003, CABI initiated more out-reach activities, actively disseminating information on the existing credit line. So far, however, no credits have been approved and demand from potential regional clients has been limited.

Since its inception in 1996, CAIF has invested (as a minority 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 2003.

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.

6. 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 in Latin America are summarized in the table below, with the table on regional programs already included in this report being repeated at the bottom of the page.

Table 1. Sida's bilateral country programs in Latin America 2003 by sector (disbursements in MSEK)

Countries	Democracy and HR	Social	Infra-structure	Natural resources	Research	Humanitarian	Other	Total
Nicaragua	57.0	39.7	9.8	33.9	21.5	48.0		209.9
Guatemala	51.2	12.7	1.6	6.5		5.3	3.2	80.5
Honduras	20.5	62.0	9.2	0.3	0.4	2.5	6.4	101.3
El Salvador	8.4		4.5			13.5	2.9	29.3
Bolivia	47.0	43.3	33.3	2.1	15.5		0.8	142
Colombia	34.3					9.8		44.1
Total	218.4	157.7	58.4	42.8	37.4	79.1	13.3	607.1

Table 2. Sida's regional contributions in Central America 2000–2003 by sector (MSEK)

Sector	Disbursements				Forecast	Total
	2000	2001	2002	2003	2004	
Democratic governance and human rights	26	28	22	9	13	98
Social sectors (health, education, culture)	14	39	22	25	32	132
Infrastructure, private sector development, urban development and financial systems	9	8	14	12	13	56
Natural resources and the environment	37	37	36	21	50	181
Research cooperation	2	7	7	14	19	49
Other areas	5	10	7	8	7	37
Total:	93	129	108	89	134	553

Note: All figures relate to country code CEN (internal Sida account no. 15528) and do not include the Caribbean.

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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