

Central America



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1. Introduction

This report is the third 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 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 organizations 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 third Annual Report has – as in the preceding years – been somewhat delayed. The time period covered in the first chapter, on tendencies in regional development, has therefore been extended and is updated to July 2005; whereas the following sections cover 2004 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: scant growth, sustained imbalances

2.2.1 General indicators

In spite of a rather favorable economic performance both globally and in the US, economic development in Central America during 2004 continued to be meager, with national GDP growth varying only between 1.8 (El Salvador) and 4.3 per cent (Honduras). In a geographical context, this was well below the average growth rate both for Latin America (5.5 per cent) and for the Caribbean (4.3 per cent). Also beyond these – often misleading – statistical averages, economic growth in Central America was considerably lower than in Latin America and the Caribbean in general. Thus, only two countries within this geographical area (Haiti and Guyana) reported less growth than El Salvador, whereas more than ten countries reached higher or considerably higher growth figures than Honduras.

At the same time, inflation rates showed a marked upward tendency, reaching some 10 per cent in most countries, except for El Salvador where it was maintained at less than half that level.¹ This level of inflation was considerably higher than in most other Latin American and Caribbean countries, where the overall average amounted to less than 8 per cent.²

¹ The principal triggering factor for this renewed inflationary tendency is generally judged to be the severe increase in oil prices, with far-reaching consequences for the oil dependent Central American countries. As the increased price level of oil is unlikely to be a temporary phenomenon, this will probably constitute a challenge to economic performance and development within the region for the foreseeable future.

² This in spite of the fact that this average has already absorbed the somewhat extreme cases of the Dominican Republic (46%) and Haiti (22%).

Concerning changes in the overall poverty rate and the situation of poor people in the Region, the combined impact of these main economic tendencies (limited GDP growth and increased inflation rates) and annual population growth is likely to have been negative to zero.

Whereas all five Central American countries experienced at least some modest progress concerning exports in 2004, their import levels continued to rise at a much faster pace – resulting in an increased trade balance deficit for all of these countries. The general tendency of economic development in Central America during year 2004 thus reinforced the 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 through development cooperation.³

2.2.2 The continuing coffee crisis

During 2000 and 2001, coffee prices dropped to their lowest level in 30 years. This fall in prices continued, although less dramatically, in 2002 reaching price levels much below the cost of production, causing immense financial losses and an unprecedented reduction in employment. Among the large and medium sized coffee producers, this led to massive problems with loan repayment, which soon translated into problems for several banking institutions in the Region and caused a difficult economic situation for many producers and their families. However, as coffee production in Central America involves a huge number of smallholders – who depend heavily on their own harvest – it was this category of producers and the rural workers who had to bear the brunt of the crisis.⁴

Since then, prices have more than recovered and in March 2005 (just after the harvest) the price of the well-known coffee variety *Arábica* reached its highest level of the last 7 to 8 years. In several countries production volume also seems to have recovered, with Costa Rica, Honduras and Nicaragua reporting between 90 and 80 per cent for the harvest volume of 2004/05 as compared to the standard value from year 1999/2000.⁵

Despite these seemingly encouraging data, however, neither the coffee crisis as such nor the rural social crisis triggered by it can be considered over. Regarding the first dimension of the crisis (costs and supply according to market preferences), the process of adjustment to a new market situation still continues, implying uncertainty particularly for the many small producers who still are active within the sector.

As a result of the social crisis caused by the losses within the coffee industry, many small producers and landless rural workers left their land and homes, migrating to the city or leaving the country. Others stayed on, often under more vulnerable conditions than before, as reflected in increased rates of food insecurity and hunger reported from several rural areas of the Region; generally those areas where a substantial part of temporary coffee workers were historically recruited from.

Due to the design of the programs aimed at helping the coffee sector, most small producers and rural workers have not benefited directly from the

³ Costa Rica here constitutes an exception, with a considerably stronger and less unbalanced domestic economy, and with a higher level of foreign direct investment. Also Costa Rica has, however, a considerable foreign debt.

⁴ Over 500,000 jobs are estimated to have been lost in the Region, which according to a study by CEPAL (in 2002) implied a loss of salary income for workers in Central America of USD 140 million.

⁵ Corresponding figures for Guatemala and El Salvador are less positive, amounting to 72 and 55 per cent respectively.

measures taken.⁶ In addition, considering that the world-wide adjustment within the coffee industry is still ongoing, the number of small producers growing coffee is likely to be further reduced within the near future, causing increased economic and social stress within Central American societies.

In this context, systematic efforts towards diversification – within the coffee sector (organic and specialty coffee, fair trade coffee, etc), within agriculture and within the rural economy – as well as for increased competitiveness are recommended by most development researchers, and may hopefully become more frequent in the near future.

2.2.3 Remittances – improving the future?

With the exception of Costa Rica,⁷ all Central American countries have, over the last decade, rapidly increased their dependence on the flow of overseas remittances, mainly stemming from nationals working in the US. What is striking about these remittances are (i) their sheer volume and relative importance for the national economy; (ii) their fast and uninterrupted growth from year to year; and (iii) the amount of nationals working – mainly in the US – to sustain this financial flow.

Country	Remittances 2004 in USD million	Remittances 2004 as compared to national GDP	Estimated number of nationals living in the US
Costa Rica	220	1%	0.1 million
El Salvador	2,500	16%	2.0 million
Guatemala	2,800	11%	1.3 million
Honduras	1,100	15%	1.0 million
Nicaragua	520	12%	0.4 million (*)

(*) To this figure should be added the Nicaraguans working in Costa Rica, amounting to approximately another 400,000.

Two themes which attracted much attention in the early stage of the debate regarding the impact of overseas remittances concerned their durability (For how many years will migrants continue to send money home?) and the stability of the financial level represented by them as a source of income (How sensitive will they be to economic fluctuations?). In both cases, the answers have shown to be largely positive: The major part of migrant workers continue sending money home for a period of many years, and in spite of economic fluctuations (in the US) the amount of remittances has continued to grow constantly.⁸

Currently, one main issue in the discussion concerns how the remittances are used at the recipient end. To what extent are they used by households for consumption (thus helping people to live but probably also conserving unviable consumption patterns), and to what degree are they employed for investment purposes which in a durable and rather rapid

⁶ Most measures taken so far rely on similar short term schemes: compensating funds to support producer prices and refinancing of the debt. Programs for longer-term structural changes, either within the coffee sector or for agricultural diversification, have been scarce.

⁷ Costa Rica rather attracts worker from other countries – currently some 400,000 Nicaraguans are estimated to work in Costa Rica – than exports labor of its own.

⁸ This constant annual growth has been quite considerable, ranging from 10 to almost 25 per cent a year. Lately, this phenomenon has been interpreted as most likely also reflecting the entrance of illicit funds into the flow of “family remittances”. Drug money generated through “transit services” and retail commercialization in Central America (either paid abroad or paid locally but then shipped out) is thus sent back to the Region as “remittances” and is thereby laundered and becomes legitimate.

manner improve people's living conditions (housing, for instance) or which may have an impact for the future (paying for longer and better education, for example)?

In general, researchers and policymakers have tended to take a rather pessimistic view of how remittances are spent and the impact of these resources on economic development. Spending on consumption has been emphasized (often with references to "status-oriented" consumer goods) as well as investments in not so productive assets (housing, land with reduced value, etc). New and more carefully designed studies now indicate, however, that households receiving remittances spend significantly more in the first instance not on health or housing but rather on education and preferably secondary education.⁹

If these findings show to hold true, not only for some selected studies but also as providing a representative picture of nationally significant proportions of households receiving remittances – then it certainly inspires hope for the future of Central America, notwithstanding the rather gloomy overall picture given above concerning current tendencies in the Region's socio-economic development.

2.3 Regional integration: a mixed performance

2.3.1 Political integration: one step forward, two steps back

During 2003 and 2004, severe critique was voiced from government circles within the Region concerning the functioning of the political institutions of the Central American mechanism for regional integration. The need for reforming these institutions – mainly the Regional Parliament (PARLACEN) and the Regional Court of Justice (CCJ) – was officially agreed upon at a Presidential Summit towards the end of June 2004. Six months later, at another Summit, a detailed proposal for reforms was solemnly presented.

The reforms presented no doubt satisfied certain aspects which had been increasingly criticized, 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 also were members of PARLACEN (abolition of both these rights was proposed). It also included a proposal to create a permanent mechanism for follow-up on joint Presidential decisions, a much-needed body which hitherto had been lacking.

At the same time, however, the reform package completely failed to address more strategic issues such as the current status of regional political institutions,¹⁰ thus seemingly reconfirming the lack of firm and genuine conviction within ruling circles in Central America concerning the advantages to be gained from this dimension of regional integration.

This attitude was also clearly reflected in the proposal made concerning the number of members to the PARLACEN from each country. The current number of Regional MPs per country (20) – which was established at PARLACEN's creation many years back – had been criticized for making this body too costly and too heavy-handed, aspects which would be reformed if new members were to be included (such as Costa Rica and the Dominican Republic). In this context, a number of 5 MPs per country had earlier been suggested by, among others, Costa Rican President Abel Pacheco.

⁹ See for instance: Adams, Richard Jr: *Remittances, Household Expenditure and Investment in Guatemala*. (World Bank Policy Research Working Paper 3532, March 2005)

¹⁰ PARLACEN does not include Costa Rica and has consultative status only; the CCJ is officially recognized by three countries only and in 2004 the Honduran judges were withdrawn due to Governmental discontent regarding CCJ's verdicts in relationship to Honduran interests.

Against this background, the proposal presented at the Presidential Summit came somewhat as a surprise: the number of MPs to the PARLACEN from each country should be allowed to vary from 3 to 20 and the exact number should be left to each member country to decide. Whereas the proposal was officially presented as a "flexible approach" to this debated issue, the general reading was that it reconfirmed the lack of interest in operational regional institutions for political integration.

Concerning the Regional Court of Justice (CCJ), it was proposed to reduce the number of judges from two per country to one only. The current real situation concerning the Court – its lack of legitimacy and limited level of functionality – was not addressed, however.

In addition, the reforms presented are proposals only; in order to enter into force they must first be ratified by each national Parliament – a process in which so far (July, 2005) no progress has been made.

2.3.2 Economic integration: progress made but concerns for the future

Within the field of regional economic integration, progress continued during 2004, perhaps at a somewhat slow pace but without setbacks. At the end of the year custom tariffs for 94 per cent of all products within the intra-regional trade – which continued to increase its proportion concerning national exports and imports – had been harmonized. The remaining 6 per cent consists of economically important and sensitive agricultural products so that advancement towards full harmonization may take some time. Another theme still pending within the field of harmonization of tariffs and other rules for intra-regional trade is related to services, where only scant progress has been made so far.

Progress also continued in relation to the commitment on uniform and simplified rules for border transiting within the region, both for people and goods. During 2004, several unified border stations were inaugurated, under solemn forms and including the participation of the Presidents of the countries involved.

Against this rather encouraging backdrop it should not be omitted, however, that new and perhaps serious doubts have recently surged among analysts concerning the prospects for further advancement in the near future towards a complete regional customs union. This new question mark is spelled Central American Free Trade Agreement (CAFTA). At first sight, this assertion may seem surprising and mistaken, but it does possess sufficient logic to leave experts divided on the issue.

The main reason for this potential conflict between the two initiatives is the fact that while a regional customs union would be defined by a common external level of tariff protection, CAFTA is composed of five bilateral country-to-country agreements, implying that each Central American country will have its own agreement with the US (under a joint umbrella with a few shared rules and regulations).

These agreements establish varying quotas for tariff-free bilateral trade (between the US and each individual Central American country) and different time schedules for the gradual reduction and final abolition of tariffs on the same products. This difference particularly applies to economically sensitive, agricultural products such as beans, rice, maize, milk, beef, etc; products to which the composition on the producer side (relative weight for small, medium and large producers) as well as their dietary importance vary greatly between the five Central American countries.

The most frequently cited example in this context is white corn (maize), which is of great importance in the output of small farmers and

in the diet of poor people in several – but not all – of the countries in the Region. Concerning this product, the rules established under CAFTA thus vary substantially in the five bilateral agreements that have been signed on trade with the US.¹¹ The same kind of differences – though generally less dramatic – apply to a wide range of products, simply as a result of bilateral negotiations pursued by national stakeholders acting without an established Regional platform (that an already existing Regional Customs Union would have constituted) and with no common Regional framework regarding concerns to be given priority.

According to most analysts, this circumstance is likely to at least slow down the process towards a regional customs union. Concerning the importance of such a development for regional integration efforts, however, opinions are divided. One group of experts argue that CAFTA will erode the possibilities for a regional customs union for a prolonged period of time, and that the countries therefore should strive towards a Common Market for products and services instead. Such a strategy would also reduce the risk for individual competition or “underbidding” between the Central American countries – for example as concerns conditions for direct foreign investment. Meanwhile, another group of analysts maintain that CAFTA was designed precisely to be compatible with regional integration, and that the positive developments they expect to be generated by CAFTA may serve to enhance interest and cohesion for regional integration.

2.4 CAFTA: slow ratification process, little preparedness for the future

2.4.1 Unexpected resistance in the US

The declaration in December 2003 that a settlement had been reached concerning the scope and content of a trade agreement between Central America and the United States, was the result of a full year of intensive negotiations carried out in nine rounds and almost exactly corresponding to the initially established schedule;¹² a schedule which was unusually compressed and no doubt reflected a certain degree of haste.¹³

Considering the advanced rhythm 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.¹⁴ This has, however, not happened. After a rapid and relatively smooth process of approval by the Parliaments of El Salvador and Honduras during the first months of 2004, the corresponding process in Guatemala (in March, 2004) provoked street protests and violent clashes between police and demonstrators outside the Parliament building. Whereas the riots made clear that many groups felt they had not been informed or taken into consideration during the negotiation process, they only succeeded in causing a very slight delay in Parliament’s approval of the Bill.

¹¹ According to the signed agreements, export of white corn from the US will be free of tariffs from year 5 concerning Costa Rica and from year 15 when it comes to Nicaragua – but still at year 20 this product will have varying but substantial tariff protection at the border of the three other Central American countries. (With the highest tariff granted to Honduras.)

¹² The only exception being that in December 2003, Costa Rica had in fact withdrawn from the negotiations, due to disagreements concerning certain national demands. However, after a re-initiation of talks at the very beginning of 2004, negotiations advanced rapidly and in February 2004 Costa Rica joined the Agreement.

¹³ The main reasons behind this intensive pace were related to US domestic political currents and the US electoral calendar.

¹⁴ To enter into force the Agreement has to be ratified by the United States (including approval by both chambers of Congress) and two out of five Central American countries (where parliamentary approval is also required).

After these three rapid approvals, the winds changed. In the US, the agreement faced increased resistance which caused the Bush Administration delay the introduction of the Bill before the US Congress.¹⁵ In this situation, politicians in Costa Rica (where the partial de-regulation of the telecom and insurance sectors stipulated in the CAFTA agreement had caused union strikes and sizeable popular manifestations on several occasions in 2003) has abstained from pushing the issue in their national Parliament. A similar attitude of wait-and-see has so far been adopted within political circles in Nicaragua.

After an intense political campaign by the Bush Administration in favor of the Agreement during the second quarter of 2005,¹⁶ the final decision is likely to happen at the end of July, 2005 when the Bill probably will be submitted to the House of Representatives in the US Congress. Should the Bill not be presented at that time, or should the outcome of the voting be negative, then the whole CAFTA process (which is governed by the rules for the Fast Track Authority given to the US President for this purpose by Congress in May, 2002) will face a great degree of uncertainty and will – at least – suffer considerable delay.¹⁷

2.4.2 Praise or rejection – the continuing lack of realism in public debate

Assessments and opinions among analysts on the likely impact of CAFTA for different social groups and economic sectors in Central America differ widely. All analysts do agree, however, on at least three issues: (i) CAFTA will no doubt constitute a gradual but major change for all the countries of the region, with impact on their economies as well as many other spheres of society; (ii) agriculture will be one of the sectors most profoundly affected, and; (iii) within agriculture, small farmers are likely to face difficult challenges of a kind that would need a high response potential in order to be dealt with successfully.

Against this background, it is somewhat remarkable that public debate on CAFTA in Central America still is characterized by a high degree of polarization and reductionism. On the one hand, the future with CAFTA is described in trouble-free and enchanting terms coming close to paradise, implying that its opponents are enemies of progress. On the other hand, the impact of CAFTA is depicted as entirely negative and detrimental for the majority, accusing its proponents of being against national sovereignty and the well-being of ordinary people.

What is striking about these discourses is the certainty and assuredness concerning the impact of CAFTA which characterize them both; claiming to know almost exactly what is going to happen. Another common characteristic is that they do not contain any call for tasks that may be long-term, complicated or demanding; to resolve the problem you only have to show (forcefully and sometimes even violently) that you are for or against – that is all that is needed.

Most likely, these features of the public debate may be explained as conditioned by remaining ideological reflexes and/or by some kind of narrow party politics. What may be a matter for serious concern, however, is that – beyond the debate on CAFTA – this also suggests a lack of

¹⁵ Opposition in the US comes from a few business groups (foremost the sugar industry, which traditionally has influence in certain Republican sectors), from labor organizations, environmental and human rights organizations and from wide sectors within the Democratic Party.

¹⁶ A campaign which has included the visit to the US of all the Central American Presidents, making public appearances as a group, praising the future benefits of CAFTA and urging US legislators to ratify the Agreement..

¹⁷ At the time of this writing (beginning of July, 2005), assessments of US analysts vary on the issue, from maintaining that this would terminate the whole process (for this time) to asserting that it will certainly produce delays but may be resolved politically.

a vision concerning the path towards inclusive national development in the era of increased international trade and inter-connectedness. And this need for constructing favorable modalities of insertion within the global economic system is not only already there, it is also rapidly increasing – with or without CAFTA.

This applies not least to agricultural production, one of the sectors that is likely to be profoundly affected by CAFTA. Already today, however – before CAFTA – this sector, including its many million small farmers, faces major challenges related to the process of “globalization” or world economic inter-connectedness.

The consequences of the rapid expansion of supermarkets and their share in trade for fresh fruit and vegetables (FFV) both world-wide and in Central America is an illustrative – but so far rather unknown – example. From being an almost negligible business niche (aimed at rich consumers in the capital cities), supermarkets have risen to constitute a major force in the Central American food market. From representing 5–10 per cent of national retail trade in Central America during the 1990s, the share of supermarkets in the Region had risen to over 35 per cent in 2002.¹⁸ From at most a hundred or so in the early 1990s, the Region today has more than 600 supermarkets. Consequently, the importance of retail markets and small stores (*pulperías*) for sales of fresh fruit and vegetables has been substantially reduced.

Furthermore, most of today’s supermarkets are not only bigger in size than before – but they are also rapidly integrating into retail chains, chains which increasingly embrace more than one country in the Region and now are gradually becoming connected (within the area of FFV products) to different world-wide chains. This “supermarketization of the food market” is profoundly changing the traditional forms of wholesale procurement. Traditional, open-air wholesale markets are rapidly declining in importance, being replaced by specialized and preferred wholesalers and by centralized procurement for distribution centers owned by the retail chains.

This whole new pattern of procurement has already meant loss of markets as well as new opportunities for many small and medium sized farmers in the Region – but only if they can meet partially new demands. Now, it’s not only about quantity and price and quality as traditionally defined; today the retail chains often also apply their own private norms and standards.¹⁹ Without external support – either from the retail chain itself or from some private-public or public institution – most small farmers as well as a considerable proportion of medium size growers will have difficulties of meeting these demands, becoming increasingly excluded from the regular food market.²⁰

This dramatic reshaping of conditions for market access no doubt constitutes promising potential for a new rural dynamism which can reduce poverty. But without a well-designed private-public strategy (provided with sufficient financing) this ongoing process also implies a substantial threat against the overwhelming majority of agricultural producers – the small farmers. In this context, it will no longer be sufficient to strive towards “increased rural competitiveness” in general; this competitiveness must also be knowledgeably adjusted to the specific

¹⁸ With a high of 50% in Costa Rica and a low of 19% in Nicaragua.

¹⁹ In addition, some of them already apply standards which allow them to resell products to other, international retail chains.

²⁰ This section on the supermarketization of food markets draws on the works of Reardon and collaborators. (See, for instance, *Development Policy Review*, 2002, and *Food Policy*, 2004.)

demands represented by the new retail chains. In other words, the competitiveness must constitute part of “customized market strategies”, strategies that are specific, molded and flexibly responsive to the requirements of major retail chains and food manufacturing firms in the region and globally.²¹

Within this field only very little has been done so far in the Region but interest is increasing and a few major initiatives are likely to be launched within the near future. Should CAFTA be ratified by the US Congress, the need for national programs aimed at defining and facilitating “customized competitiveness”, particularly for small and medium sized rural producers, will rapidly increase. Even without CAFTA, however, this should be an urgent task within any strategy for sustainable rural development and poverty reduction.

2.5 Crime and violence: how to regain control?

2.5.1 Public insecurity approaching war time levels

During the 1990s, the complicated and often cumbersome peace process initiated in Central America in the preceding decade successfully terminated devastating and large-scale armed conflicts (or civil wars) within three countries of the Region: Nicaragua (1990), El Salvador (1992) and Guatemala (1996). Among other things, this meant de-militarization of everyday life, the return to peaceful (or at least unarmed) ways of resolving conflicts – and thus more normal levels of violence. Also for the neighbouring countries, the coming of peace and reconciliation had a beneficial impact, particularly in Honduras – a country where military presence and influence had peaked during the 1980s, when the country became a strategic base for operations against the revolutionary government in Nicaragua.

Notwithstanding this remarkable achievement, today the Region is again confronted with levels of violence that bear resemblance to the times of war. In 2004, more than 4,500 people were killed in Guatemala, some 3,100 in Honduras and 2,900 in El Salvador; a total of more than 10,000 people killed in these three (most affected) countries and with the overwhelming majority being assassinated using firearms. With these levels of homicide, Honduras, El Salvador and Guatemala today belong to the five most violent and dangerous countries in all of Latin America.²² Furthermore, two important characteristics concerning the homicide situation in these three countries are (i) the fact that the rate of solved cases (or cases where the assassin has at least been identified) is minimal, and; (ii) the absence of reliable statistics on who the victims are.²³

Moreover, in the same three countries (El Salvador, Guatemala and Honduras) the incidence of assaults, robberies, etc has also increased at a staggering rate. The lack of public security today constitutes a major political issue in these countries, and several initiatives have been

²¹ A concept developed by Professor Thomas Reardon, at Michigan State University, USA.

²² The two others being Colombia and Jamaica. During the period 2002-2004, Honduras has had the highest incidence of homicide per 100,000 inhabitants in Latin America. The figures quoted above are from national police authorities and are considered to be conservative (figures from other national authorities are often considerably higher). Figures are dramatically different not only for Costa Rica (280 homicides in all of 2004) but also for Nicaragua (650 people killed during 2004, which was a slight increase from 2003).

²³ In Guatemala, the rate of solved murder cases does not even come close to 10 per cent. The scarce statistical data that do exist concerning the victims only provide reliable information on age, gender and on how they were killed. In this context, three features may be mentioned: the proportion of women being killed (also with firearms) seems to be increasing; between 70 and 85% of all victims are below 35 years of age, and the amount of killings performed with excess or ritual violence (“sending messages”) is high and increasing.

launched by different civil society and business organizations in order to press national governments to take efficient action but also to start designing forms for "citizen's response" to the situation.²⁴ According to a recent study concerning El Salvador, the economic cost of violence in the country has now reached a level of some 1.7 billion USD, which corresponds to more than 11 per cent of the Gross National Product (GNP) or to the combined annual budgets for the Ministries of Education and Health.²⁵

According to most analysts, this scary level of criminality and violence bears no direct link to national poverty rates and economic performance.²⁶ Rather, it is a reflection of the simultaneous combination of a whole series of factors, such as:

- the massive presence of firearms, with new ones easily accessible;
- the increased utilization of Central America for wholesale transit of cocaine to the US and European markets (partially paying for these services in kind, thereby fomenting local drug use and retail commercialization with concomitant conflicts);
- the existence of other criminal activities (apart from drugs) related to high profit rates "worth" killing for if necessary;²⁷
- the lack of resources of the national police, including deficient training and equipment;
- often rampant corruption within the same police corps, implying both collusion and that police agents are involved in criminal activities;
- competition and conflicts between different criminal groups;
- fragmented families, social exclusion and lack of opportunities for young people.

2.5.2 The challenge of the maras

To this sombre list, another important factor of recent date should be added: The powerful presence of a peculiar type of organized criminal street gang called maras.

The maras are made up of groups of youths aged 8 to 35 who aim to control whole neighbourhoods or territories, making membership of the mara their lifestyle and identity, making crime their way of life.²⁸ There are many different branches of maras, although the two most feared and well-known are the Mara 18 and the Mara Salvatrucha, both originating in the city of Los Angeles, USA. Estimates of the number of mara members in Central America vary widely, but should be in the range of 70,000 to 100,000, with the highest number present in Honduras, followed by El Salvador and Guatemala.²⁹

Maras constitute an urban sub-culture of a special kind, giving their members (generally from fragmented and poor families, living in run-

²⁴ Ranging from schemes for prevention and patrolling the neighbourhood to more violent acts (including cases of "social cleansing").

²⁵ Cuánto le cuesta la violencia a El Salvador? (PNUD, 2005).

²⁶ Which also is shown by the case of Nicaragua; a country equally or even more plagued by severe poverty (and where access to firearms is easy) but with an entirely different situation concerning homicide and delinquency rates.

²⁷ Such as wholesale smuggling of valuable goods, human trafficking, systematic and large scale corruption within the public administration, etc.

²⁸ Studies affirm that while the gangs' "foot soldiers" are almost always composed of teenagers and under, leaders may often be in their late 30s or even 40s.

²⁹ These figures refer to the number of members only; the number of "supporters" is far higher. The presence of maras in Nicaragua is (still) minimal; and the more traditional (and less violent) Central American street gangs called "pandillas" should not be confused with maras, from which they differ in most crucial aspects.

down shanty towns) not only a sense of belonging but also of pride and power – for being feared. They have an identity marked by rites and self-invented symbols, such as numerous and very visible tattoos, indicating membership of the gang as well as critical moments in the member's private or community life. Solidarity within the mara is the supreme value, and a member can only leave the group if this decision is accepted by the leader and other members of the gang; otherwise he may be persecuted and killed. In other words, maras function as a kind of surrogate family, albeit an ultra violent one, for their members.

Another striking feature is the esoteric and often satanic rites (not only related to the initiation of new members) that are practised, including the use of the blood of murdered victims. Murder is commonplace and often committed only as a reference for power and group behaviour. Both the Mara Salvatrucha (MS) and the Mara 18 (M-18) often torture, dismember or decapitate their victims.

Their main activities are extortion, armed robbery, assault and kidnapping, as well as – increasingly, it seems – retailing drugs on the street. Some of them appear to be trying to become fully-fledged cartels. They have also been linked to trafficking in human beings and in arms and it also appears that they are used as professional "torpedoes" and killers by powerful rings of organized crime within these three countries. Their main fight is against rival gangs for control of territory, which is generally identified by graffiti. In this fight, anyone – of any age – who has a friend or family member belonging to a rival gang may be "marked" (violated, or severely hurt) or even killed – in order to humiliate the enemy and convey a message to them. In all three countries – El Salvador, Guatemala and Honduras – a considerable number of municipalities and/or city blocks are effectively under the control of different maras, with the normal inhabitants virtually living under a state of siege, obeying orders.

In sum, the maras today pose the most serious threat to peace and development in the region since the end of Central America's civil wars. And the danger is not limited to the region. The gangs are rapidly spreading, expanding into Mexico – and even back into the United States, transforming into multinational rings of organized crime, always characterized by their degree of violence.³¹

Now – how did this all start, what has been done so far and what are the options for the future?³²

The origins of the current situation can be traced back to 1992. In the aftermath of the riots in Los Angeles that year, the city police concluded that the main part of the violence came from local gangs, including a little-known group of Salvadoran immigrants called "Mara Salvatrucha". In response, California implemented strict antigang laws, and soon prosecutors began to charge young gang members as adults instead of minors, sending hundreds of Latin criminals to jail.

³⁰ The list of common extortion activities include: daily or weekly payments in order to guarantee that a person's son or daughter not will be beaten or violated on his/her way to and from school; weekly or monthly payments to avoid maras from confiscating a person's home (installing themselves there); payments for the "protection" of shops, bars and other (small) commercial establishments; a daily "road toll" for bus drivers and bus owners, etc. On repeated occasions the level of extortion payments has lately become so high as to cause considerable numbers of people to just leave their homes and flee from the area – in cities of Honduras and El Salvador as well as in Guatemala. This kind of "migration" also occurs when an area is plagued by long and devastating turf wars between different mara gangs.

³¹ In the Washington DC area, for example, the Mara Salvatrucha is estimated to have some 5,000 members – who furthermore are said to recently have switched from guns to machetes as their favorite tool.

³² For more on these topics, see, for instance, Ana Arana: *How the Street Gangs Took Central America* (Foreign Affairs, May-June 2005).

Soon after, in 1996, Congress approved a get-tough approach to immigration law. Non-citizens sentenced to a year or more in prison would now be sent back to their countries of origin (where the wars were now over) once they had served their time in jail. Gradually, the list of crimes that lead to deportation was increased, coming to include also relatively minor offences such as drunk driving and petty theft. As a result of these changes to policy an estimated 20,000 young Central American criminals – whose families had settled in the slums of Los Angeles in the 1980s after fleeing civil wars at home – were deported in the brief period between 2000 and 2004.

They arrived in countries they hardly knew – but then they had their gang connections, which came in handy. Meanwhile, Governments in Central America had no idea who the arriving citizens were and could take no measures, as US rules banned officials from revealing the criminal backgrounds of the deportees. The results so far are reflected in the current situation as described above.

The affected countries in Central America did not start to fight back until 2002. The battle was led by Honduras, where a series of new laws were introduced to fight the maras, permitting the government to imprison people for up to 12 years merely on the suspicion of being a mara member (often determined simply by the presence of tattoos). This line of "mano dura" (strong hand) at first seemed to have some positive impact, and a similar program was soon adopted in El Salvador.

Three years after the introduction of these policies, however, it has become clear that tough legislation or repression only cannot resolve gang problems. In response, the maras have retaliated with a wave of random violence – killing totally innocent people in order to show their power and to send a message to the national Government. At the same time, the gangs have adopted new tactics, including more distant leaders, diversification of the trade and spreading into new territories. In short, the policy of tough crackdowns has not resulted in regained territorial control and peace for the inhabitants.

What has been lacking so far, according both to local and to US experts, are simultaneous measures of prevention (keeping young kids out of gangs) and efficient methods for making gang members leave. In order to concretely design such a strategy, it has also been realized that more profound and updated knowledge concerning the maras, their internal organization and external links is urgently needed.³³ One important theme in this context is also to clarify delimitations (and relationships) between "mara territory" and fields dominated mainly by other forms of organized crime in Central America. Not all of what is happening can be blamed at the maras; strategies to fight other expressions of organized crime will also be needed if peace and development is to have a chance.

³³ One such study, undertaken regionally and with a multi-dimensional approach, will hopefully be completed before the end of year 2005, financed by Sida together with national governments and some other actors.

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 pre-conditions 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 part 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 2000–2004 and forecasts for 2005, illustrating a certain thematic shift concerning the relative distribution of Swedish regional support over the years.

Regional contributions in Central America 2000–2005 by sector (in million SEK)

Sector	Disbursements					Forecast 2005
	2000	2001	2002	2003	2004	
Democratic governance and human rights	26.0	28.0	22.0	9.0	22.6	22.4
Social sectors (health, education, culture)	14.0	39.0	22.0	25.0	39.6	38.0
Infrastructure, private sector development, urban development and financial systems	9.0	8.0	14.0	12.0	1.2	11.5
Natural resources and the environment	37.0	37.0	36.0	21.0	26.7	46.6
Research cooperation	2.0	7.0	7.0	14.0	19.0	13.9
Other areas	5.0	10.0	7.0	8.0	5.0	9.3
Total per year	93.0	129.0	108.0	89.0	114.1	141.6

Note: This table does not include the Caribbean. For comparative figures concerning Sida's bilateral and other 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 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 was been conducted in 2003. It concluded 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 raise the living standard 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 cooperation, regional dimensions will be assigned to development cooperation with Central America to support the integration processes already underway, 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.

3.3.2 Priorities for 2005

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 put more emphasis on issues related to inequality, an effort initiated in 2004. Regional studies related to different aspects and dimensions of inequality were initiated in 2004 and will continue during 2005. An effort aimed at building social capital for fiscal reform in Central America, in cooperation with the IDB and other like-minded donors, is about to start its implementation phase. A study on the problem of the so-called maras and their part in public insecurity, street violence and organized crime – jointly financed with other national and regional actors – will be carried out during 2005 and the beginning of 2006, in El Salvador, Guatemala and Honduras (the three countries worst affected).³⁴

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 bilateral 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. Sida's support to the health sector in Central America is primarily

³⁴ With Nicaragua as a "control country" in comparative terms.

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 sexuality), and as vehicles for the promotion of exchange of experience within the region.

Support to the cultural 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.

The most significant element of the regional urban initiative will continue to be exchange of experience between institutions working with improvement of 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 experiences between institutions financed by Sida working with housing and local infrastructure in Central America.

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. Watershed management remains one of its priority themes and in 2004 a new 4-year agreement was signed for a second phase of the FOCUENCAS program. Previously initiated discussions with CCAD and IUCN regarding the Regional Forestry Strategy for Central America (EFCA) will continue in 2005, and are likely to result in Swedish support. Furthermore, the implementation of an action plan for regional capacity building concerning Environmental Impact Assessments (EIA), is due to start in 2005, managed by CCAD and IUCN and supported by Sida and the Dutch Cooperation Agency.

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. In addition, the sector departments DESO, Sarec, NATUR and INEC will also have personnel assigned to support these regional programs.

In 2005, 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

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 endeavour to make a living under existing conditions (lack of fertile land, limited access to water, to markets and credits, etc) many rural poor have no other alternative but to continue over-using the natural resource base, even knowing that this will lead to its depletion thus risking their own livelihoods. Furthermore, non-existent or inadequate management of land and water resources controlled by the State and big landowners results in deforestation, soil erosion, reduced groundwater recharge, sedimentation of rivers, etc – causing a severe qualitative and quantitative decline in the Region's water resources.

Besides a severe loss of biodiversity and ecosystem services, mismanagement of resources often also contributes to an increased degree of 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”.

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 to achieve these objectives consists of support to a combination of educational activities, experimental and method development projects in the field (often associated with applied research), exchange and dissemination activities, institutional support to 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

The regional 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. Among the current activities could be mentioned core support to Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) in Costa Rica. CATIE has recently adopted a new long-term strategic plan for its research and educational activities with a clear focus on poverty alleviation. The core support provided to CATIE is meant to strengthen the applied research, education and outreach activities of the center, which directly benefits the region both in terms of knowledge building and trained manpower. The regional program also 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.

Other on-going activities within the regional program are (i) support to PRISMA, an independent think-tank located in El Salvador focusing on the relationship between rural poverty and the management of natural resources in a regional perspective; (ii) institutional support to the Central American Commission for the Environment and Development (CCAD), and; (iii) support to scholarships at Earth in Costa Rica and Zamorano in Honduras, two international higher education institutes specializing in tropical agriculture and natural resources management for the region.

The distribution of funds among these major initiatives, as well as disbursements during 2004, is shown in the table below.

Environmental Program, main contributions (in MSEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2004
CATIE: Core support	Jan 2003 – Dec 2005	24.0	8.0
CATIE: Focuencas II	Oct 2004 – Dec 2008	41.0	5.0
CCAD: Planning 2004	Jan 2004 – Dec 2004	3.0	2.7
PRISMA	Jan 2003 – Dec 2005	4.8	1.6
EARTH: global support	Feb 2002 – Jun 2005	13.4	1.1
Zamorano	Dec 2001 – Jun 2004	4.0	0

4.1.4 Principal events and achievements

The first phase of the FOCUENCAS Project ended in 2003. An assessment of a proposal for a second phase of the project was made at the beginning of 2004, then CATIE elaborated a final project document which was approved by Sida for funding in September 2004. The second phase of FOCUENCAS, lasting until December 2008, will have a more strategic focus combining pilot activities in selected sub-watersheds with exchange and dissemination activities at national and regional levels.

In November 2004, CCAD presented a revised and updated version of its strategic plan for the region (PARCA) at a donor meeting in San Salvador. Subsequently, Sida together with Denmark and Norway declared an interest in providing joint institutional support to CCAD for implementing this plan. During 2005, preparations for continued institutional support to respectively CATIE, CCAD and PRISMA will constitute a major task for Sida officers in these fields.

At the end of 2004, EARTH presented Sida with a new and innovative proposal for support to human resources development through higher education among ethnic minority groups on the Atlantic Coast/

Tropical Zones of Nicaragua, Honduras and Guatemala. The project – which contains both scholarships for studies at EARTH and studies and dialogue with local universities on the Atlantic Coast for possible institutional collaboration – will be finally assessed and started up in 2005. In 2004 the overall Sida thematic regional program for Natural Resources and the Environment was revised and extended until 2008.

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 being implemented in the 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 inequalities also affect 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, implying that communicable and non-communicable diseases affect 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 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.

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 seen as complementary when it comes to sensitive issues, or matters that Governments for various reasons do not tackle sufficiently well, such as sexuality.

Due to the 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. 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.

Furthermore, Sida will continue to promote the efficiency of cooperation through Sector Wide Approach Processes (SWAp) and increased donor harmonization. The long term goal of the support in Honduras, Guatemala and Nicaragua is to have 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.

During 2004 Sida entered into a new program discussion with PAHO for the coming period (2005–2007). The intention is to focus more on strategic programs and areas in tune with Sida's recently revised Health Policy. Continued support, including a number of agreements ending June 2005, is mainly channeled through the Pan American Health Organization (PAHO), but also through actors such as the Latin American and Caribbean Women's Health Network (LACWHN) and the Swedish National Institute for Working Life (NIWL) (in collaboration with the Secretariat of Social Integration of Central America, SICA).

In 2004 Sida entered two new strategic partnerships with the Alan Guttmacher Institute (AGI) for the collation and dissemination of already existing statistics concerning Youth and SRHR. Other new support is channeled through the Program for Appropriate Technology in Health (PATH) – a Washington Based NGO – for a Latin American Consortium on Gender Based Violence. PATH will act as the secretariat for this initiative, where many of the actors (such as PAHO, UNIFEM, LAWCHN, etc.) are participating organizations.

Health Sector Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2004
LACWHN: Gender & women's health	Jan 2002 – June 2005	4.0	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	2.0
PAHO: social exclusion	Mar 2002 – June 2005	9.0	3.1
PAHO: tobacco, mental & occupational health	Mar 2002 – June 2005	7.5	2.7
PAHO: Health Systems Course	2003 – 2005	2.2	1.4
SICA: Occupational health	2003 – 2006	20.0	5
PATH: GBV-Consortium	2004 – 2007	15.6	5
AGI: Youth SRHR	2004 – 2007	6.3	1.8

4.2.4 Principal events and achievements 2004

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. Congruent with the emphasis on national ownership and the enhancement of national capacity, the role of PAHO has become more limited and is mainly focused on technical support to national ministries.

In 2004, Sida held regional meetings with all external partners and has also met internally with the program officers for Honduras, Guatemala and Nicaragua. The purpose was threefold: (i) to create a well functioning team of PO's 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 drafted a vision paper, forming the basis of future Swedish support for the period 2005–2007.

During the autumn of 2004 Sida conducted a system revision of PAHO as an organization. This revision – which came produced a positive result – will serve as the basis for the assessment of the future program support to PAHO. During the year Sida also evaluated support to PAHO's youth program.

Main thematic areas for 2005 and onwards will continue to be gender and ethnicity, SRHR, social exclusion 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 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. Participation in cultural life is often restricted to elites and political interest to promote 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 the 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 2002–2005, 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, 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 2004 regional co-operation 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.

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 National 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. Implementing partner is the Swedish Drama Institute.

Culture Sector Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2004
Swedish Royal Library: Central Am. Libraries	Jul 2002 – Sep 2006	17.0	5.0
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

In order 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 inter-generational 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.

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 was signed in 2004.

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.

In 2004, 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. Studies on pesticide poisoning in agricultural workers were published as well as studies on the effect of pesticides on coastal systems. Furthermore, the sustainable support from Sida/SAREC for a period of 15 years to build up an analytical and scientific capacity in Central America has now contributed to the ability to start the regional program SALTRA (SALud y TRAbajo) for improvement of occupational health (an initiative supported by DESO).

Regional Research Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2003	Disbursed 2004
FLACSO: Social Sciences	Jan 2001 – Apr 2004	21.5	8.8	6.3
NADIMCA (Uppsala University)	Jan 2003 – Jun 2005			
IRET: Research	2003 – 2004	1.6	1.6	(funds from 2003 still available)

5. Other regional contributions

5.1 Urban issues

5.1.1 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 organizations, 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, organizations 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.

5.1.2 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.

Urban Program, main contributions (in Million SEK)

Contract partner and project theme	Agreement period	Agreed amount	Disbursed 2004
Consultancy services for urban programs in CA	Oct 1998 – Jun 2005	12.3	2.7
FUPROVI: Housing for Nicaraguan immigrants in Costa Rica (completed)	Sep 2000 – Jun 2003	8.0	0.0
PROMESHA IV: Capacity building in the housing sector (completed)	Jan 2001 – Jun 2004	13.0	0.0

5.1.3 Principal events and achievements 2004

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 strengthening capacity within this area.

5.2 Credits and risk capital**5.2.1 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 inputs:

- (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, CABEI) is to promote investments in development oriented projects in CABEI 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 CABEI. 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 (in million USD)

Contract partner and project theme	Agreement period	Agreed amount (MUSD)	Disbursed 2003 (MUSD)	Disbursed 2004 (MUSD)
CABEI: Concession- ary credits	May 2002 – May 2005	10.0	0.0	0.0
CAIF: Venture capital fund	Jul 1996 – Jun 2006	2.0	0.0	0.0
CFA: Green venture capital fund	Jul 1996 – Jun 2006	1.0	0.0	0.0

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

5.2.2 Principal events and achievements 2004

In 2004, CABEI continued to perform 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 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.

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 next page.

Table 1. Sida's bilateral country programs and other programs in Latin America 2004 by sector (disbursements in million SEK)

Countries	Democracy and HR	Social	Infrastruc- ture	Natural resources	Other*	Total
Nicaragua	89.9	80.4	31.4	38.1	62.1	301.9
Guatemala	77.6	11.7	21.9	1.9	4.6	117.7
Honduras	53.3	56.0	18.9	5.5	69.4	203.2
El Salvador	22.9	2.9	25.0	1.6	4.0	56.3
Bolivia	63.5	19.8	24.9	9.0	94.7	211.9
Colombia	79.6	13.4	0.2	0.7	9.4	103.2
Cuba	16.3	0.2	1.0	0.1	1.8	19.4
Peru	22.9	5.5	0.7	1.0	3.1	33.3
Other countries & Regional contributions	129.4	83.6	27.1	38.2	59.7	338.1
Total Latin America	555.4	273.5	151.1	96.1	308.8	1 385.0

(*) This category includes research, humanitarian assistance, support through NGO's and – in the cases of Nicaragua, Honduras and Bolivia – general budget support.

Note: All figures are in SEK (1 USD ~ 7.8 SEK).

**Table 2. Sida's regional contributions in Central America 2000–2005 by sector
(in million SEK)**

Sector	Disbursements					Forecast
	2000	2001	2002	2003	2004	2005
Democratic governance and human rights	26.0	28.0	22.0	9.0	22.6	22.4
Social sectors (health, education, culture)	14.0	39.0	22.0	25.0	39.6	38.0
Infrastructure, private sector development, urban development and financial systems	9.0	8.0	14.0	12.0	1.2	11.5
Natural resources and the environment	37.0	37.0	36.0	21.0	26.7	46.6
Research cooperation	2.0	7.0	7.0	14.0	19.0	13.9
Other areas	5.0	10.0	7.0	8.0	5.0	9.3
Total per year	93.0	129.0	108.0	89.0	114.1	141.6

Note: All figures relate to country code CEN (internal Sida account no. 15528) and do not include the Caribbean. The figures for research cooperation have been added from acc. no. 15551, Regional Central America.

All figures are in SEK (1 USD ~ 7.8 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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