**WHORM Subject File Code:**
CO001-09 (South America-Central and Latin America)
**Case file Number(s):** 619400 (2 of 2)
**Box:** 36

# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** WHITE HOUSE OFFICE OF RECORDS MANAGEMENT (WHORM): SUBJECT FILE

**Withdrawer** DLB 2/5/2010

**File Folder** CO001-09 (619400) (2)

**FOIA** S10-306 SYSTEMATIC 160

**Box Number** 36

| ID | Doc Type | Document Description | No of Pages | Doc Date | Restrictions |
|---|---|---|---|---|---|
| 84147 | MEMO | ROBERT PASTORINO TO COLIN POWELL, RE: COMMENTARY ON DRAFT SANFORD COMMISSION REPORT | 2 | 12/21/1988 | B1 |
| | | *R 4/17/2019 NSC/STATE WAIVERS* | | | |

**The above documents were not referred for declassification review at time of processing**

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

has already been a tremendous help to Central Americans. During the 1980s crisis, more than 100 non-governmental organizations have begun working in the region, contributing an estimated $200 million in aid to Central America in 1987 alone.

Non-Governmental Organizations. The growth of international NGOs was accompanied by rapid expansion of a network of approximately 600 local counterparts -- called local development organizations -- that now involve over 5 million Central Americans. Working to assist those most severely affected by the crisis, the growing number of NGOs has become one of the key factors enabling civil society to endure the difficult conditions, and has become an area of great potential for the recovery and development of Central America.

The Esquipulas II accord provided NGOs with an opportunity to become more actively involved in the current transition period to lay the bases for democracy and development through popular participation in the integration process. Critical tasks of repatriation, economic and social relocation of refugees, and reconstruction have already begun, administered and coordinated by non-governmental organizations and their local counterparts even amidst persisting conflict.

Non-governmental organizations have the potential to multiply their efforts. National and international NGOs have provided training for millions of Central American citizens. In addition, through international contacts, non-governmental organization have helped transfer appropriate technologies and skills for development. Finally, NGOs have provided important contacts with the so-called informal sector -- fundamental for the survival of much of the poor majority. The NGOs can help to develop the productive capacity of this sector, overseeing welfare and distributive policies, and fostering the autonomous capacity for development.

However, non-governmental organizations should not be abused because they provide cheap labor; nor should they take over the responsibilities of civil governments to the point of blocking the long-term development of the state's capacity to provide social services. At both national and regional levels, governments should engage in dialogue with NGOs and local development organizations to set guidelines for determining their role in national and regional projects, and for coordinating the best use of the region's resources.

## Democracy and Elections

Elections are the most obvious and visible element of democracy, although their existence alone does not assure democratic health. The other facets of democracy are necessary for free and competitive elections.

In recent years, the capacity to judge the fairness of elections has benefited from well-developed mechanisms for the selection of credible election observer teams. The next crucial step is to link the findings of these teams to the international community's reactions to the progress or lack of progress toward the Esquipulas objectives.

International party movements face the delicate task of nurturing the democratic development and participation of local parties without undue interference in the domestic politics of each Central American nation. Inevitably, there will be disputes over whether a particular action by the international movement constitutes undue interference, or whether the government is violating the civil rights of the local parties by restricting their actions or those of the international movement. The Central American Parliament and the Central American Court of Justice (which are discussed in the chapter on regional cooperation) can both play an essential role in addressing these disputes.

The Media in Democratic Development. The media can play an extremely useful role in promoting both democracy and development. In much of Central America, however, the media's role is limited and biased. The region's governments, the international community and Central American newspeople can help improve the impact of television, radio and print journalism on democratic development.

In general, Central American media tend to be dominated by the elite, leaving the majority with little access to the major channels of communication. Media coverage also tends to be skewed to urban centers. Laws protecting freedom of information and the press have often been limited or ignored, and the fear of repression -- through intimidation, closure, exile and even assassination -- has sharply diminished willingness to engage in open questioning or debate.

By encouraging critical debate, governments can do much to enhance the public's understanding of critical national issues and its participation in decision-making. National governments, however, do a great disservice to democracy if they block the free operation of independent media. Governments must also help guarantee the physical security of newspeople and citizens who express their opinions.

The media can also strengthen its contribution to society. By placing greater emphasis on educational programs -- including agriculture, health, literacy, culture and the conservation of natural resources -- and by broadening its coverage, the media can better contribute to the process of broad-based Central American development.

As long as international involvement does not violate the norms of non-interference set forth in the Esquipulas accord, financial assistance and advanced training from the international community can be a great help to Central American media. By providing the financing to recruit and train talented newspeople from different backgrounds, the international community can help offset urban, elite biases. International financial aid can also help overcome the limits, imposed by scarce resources, on developing locally-based media.

## Chapter 5

## REVITALIZING REGIONAL INTEGRATION

Broad regional cooperation is essential to Central American development, not only to revive the economies but also to ensure peace. Once the catalyst for strong regional development, the Central American Common Market holds great potential for the recovery and development of the entire region. But integration must go far beyond a market for regional trade to include broad economic and political cooperation. For this type of cooperation to be successful, however, efforts at renewed integration must address the difficult problems that hindered former attempts, and must adapt to the challenges of changed local and regional conditions.

As the primary architects and implementors of economic and political integration, the regional institutions created in the early 1960s should once again catalyze and guide Central American integration. With the leadership of these institutions and the five national governments, regional economic and political integration can reduce the tensions within the region and strengthen the process of national democratization. In a new strategy for integration, regional institutions can also continue to provide numerous channels for interchange among nations even when bilateral relations are strained.

Although war and economic crisis have severely weakened regional institutions, they are basically intact, and could be renewed and redirected toward forging a new post-war strategy for integration and regional development. If they are backed by clear political direction and sufficient financial and technical support, regional institutions can once again play a crucial role in planning, coordinating and implementing regional efforts, ranging from education and culture to economics and politics.

Since the Esquipulas II accord, the Central Americans have made an extraordinary effort to coordinate their actions and proposals. This interchange, ranging from meetings of the presidents and vice-presidents to regional conclaves of myriad private associations, reflects the enthusiasm for integration. More practically, it has also identified some of the most useful bases for institutionalizing this coordination on the government-to-government level.

In the political realm, the five foreign ministers have assumed some direct responsibility for advancing the peace process. The primary structure for economic coordination consists of the ministers responsible for economic integration.[47] With the support of the central banks and the ministers of finance, these ministers will operate in conjunction with Sectoral Councils (composed of agriculture, energy, transportation, and other ministers).

The Executive Committee of the Vice-Presidents is empowered to negotiate at the regional level, and to establish ties with the new Movement for Integration in Latin America.[48] It also oversees the international aspects of regional integration, dealing with international financial institutions such as the World Bank and the Inter-American Development Bank, multilateral organizations such as the European Community and the Nordic Community, and regional programs such as the Caribbean Basin Initiative and the Montevideo Treaty. These functions will be reinforced by the Central

American Parliament, as part of a process of institutional growth that needs to be strengthened and supported internationally.[49]

## The Democratic Potential of Regional Institutions

One of the most important contributions of regional institutions is their role in supporting democratic change throughout Central America. Two kinds of regional arrangements can contribute directly to the advancement of democracy in Central America. First, region-wide movements like political parties, organized labor, the media, cooperatives, entrepreneurs and non-government organizations can find strength in regional solidarity if any government tries to infringe on their legitimate rights. As reviewed in Chapter 3, these movements can help to re-establish civil society's capacity to participate in this delicate phase of building peace and democracy.

Political parties' participation in the region's integration process, for example, is essential for overcoming the skepticism toward integration found in some circles. If apprised of the new integration strategies, especially through the Central American Parliament, the parties can help forge a regional political will. Through the assistance and protection that regionalism can offer its national affiliates, the same reciprocal relationship between other national movements and corresponding regional ones can greatly support democratic change across Central America.

Official regional institutions are a second type of regional arrangement that can bolster democracy. Insofar as they are run democratically, these institutions can establish democratic patterns that can take hold on the national level as well. The election of deputies to a regional body like the Central American Parliament, for example, can reinforce political parties participating in domestic politics. The continued exercise of democratic practices like negotiation and open multilateral dialogue in the Parliament could further bolster democracy in each country.

The Central American Parliament, now being established,[50] will be the regional body that coordinates peace negotiations, promotes the establishment of stable democracies, writes regional legislation, and oversees the diplomatic aspects of economic and political integration. It is a decisive step in the institutional growth and consolidation of Central American integration. The Parliament will provide the legitimacy and political framework for debate, even if debate is not sufficiently free in specific countries. The Parliament will also help to overcome political polarization, and provide psychological and moral support to the region's fragile democracies.

The Parliament could provide critical support to the International Verification Committee in charge of monitoring the peace processes.[51] It could also monitor human rights violations, reinforce cooperation among political parties, and play a critical role in supporting efforts toward regional disarmament and in strengthening the civilian character of the national governments. The Commission recommends that the international community provide financial assistance for the establishment of the Central American Parliament.

The Central American Economic and Social Council is another institution that could contribute to the advancement of democracy. The Commission proposes that this new institution be composed of representatives of organized labor, churches, the private sector, and non-governmental organizations, and serve as a regional consultative body of civil society. While organized on the regional level, the Economic and Social Council is to provide a regular channel of consultation between each Central American government and the broadest range of groups in that country. Thus it is intended to strengthen the democratic character of the region by providing a mechanism for direct participation, supported and protected by the regional system.

As the Commission envisions it, the Council would also facilitate coordination among private groups (such as business, labor, cooperative, academic, and church organizations), rectifying a major weakness of the earlier integration scheme. In promoting new forms of participation involving public-private cooperation, the Council would also contribute to political pluralism in each country and across the region.

The Central American Court of Justice is another regional institution the Commission endorses for its potential contribution to democracy and justice. The need for a Central American Court of Justice has been widely recognized among the various circles promoting integration, given the need to establish expeditious procedures for resolving conflicts among countries and institutions. The growing number of regional institutions and agreements calls for a juridical body to rule on such matters, in order to mitigate conflict and to find just solutions when they can not be reached through other institutional mechanisms.

## Background of Economic Regional Integration

As summarized in Chapter 2, the formation of the CACM in the early 1960s ushered in an era of impressive economic growth. By the late 1970s, the value of intra-regional trade had jumped from $33 million to $1 billion, pushing intra-regional exports from 7% to 28% of total exports. In the process, economic integration allowed local businesses and industries open access to regional markets, and helped promote some growth in extra-regional exports. The space for growth opened up by the wider regional market led to modernization of Central American industry and infrastructure, and to increases in the numbers of professionals, skilled industrial workers and technical personnel.[52]

By the second half of the 1960s, certain members of the Common Market began to express dissatisfaction with the ways in which the costs and benefits of integration had been distributed. A brief war between Honduras and El Salvador in 1969 further complicated regional relations, leading Honduras to break diplomatic relations with El Salvador and effectively end free trade between the two countries. Having raised concerns over the distribution of the integration process, Honduras pulled out of the common tariff agreement in 1970.

The sharp and continuing drop in intra-regional trade after 1978 was exacerbated by a number of factors including the global recession of the early 1980s, the costs of servicing growing debts and, above all, the outbreak of civil wars. By the mid-1980s, the regional trading partners had accumulated deficits totalling almost $500 million. As other Central American governments began to violate the common external tariff and adopt protectionist measures to face the crisis, the value of intra-regional trade fell to less than one fourth of its 1978 peak.

The modern industry that had expanded through the integration process, however, was critically dependent on the regional market. The collapse of regional trade left a great deal of productive capacity idle, incurring losses both in overall export levels and in the efficiency of local industry. Furthermore, by the 1980s the physical infrastructure serving regional activities, largely built in the 1960s and 1970s, was reaching the end of its useful lifetime. Highways, telecommunications facilities, manufacturing plants, and electricity grids were obsolete or badly decaying.

Despite these setbacks, the case for revitalizing Central American trade and economic integration is strong:

-- each Central American market alone is too small to ensure its economic viability;

-- in each country, the most dynamic entrepreneurial sector is inextricably linked to regional industrialization;

-- the existing productive capacity, built through decades of scarce savings, is vital for Central American economic recovery;

-- insertion in international markets depends greatly on gaining the economies of scale and building sufficient competitiveness. These can be enhanced by serving a regional rather than domestic market;

-- region-wide programs[53] can establish multiple support services (marketing, transportation, finance, technological research and development and market research), further encouraging expansion and competitiveness.

In addition to these arguments for reviving regional integration, there are positive signs. Declines in regional trade and cooperation seemed to bottom out in 1987. The Esquipulas II accord represented a very favorable diplomatic shift, and in that same year intra-regional trade increased by $73 million, the first increase since the advent of the crisis. This was due in part to external financial cooperation and the coordinated increase in the central banks' foreign exchange reserves.

## Challenges to Renewed Economic Integration

While there are clear advantages to revitalizing Central American trade, there are also major challenges. For broad economic cooperation to be possible, reforms must be undertaken to coordinate and harmonize macroeconomic policies. Re-establishing the common external tariff and the free trade zone depends on Central American leadership and commitment. Equally important, the five nations must address the unequal distribution of the benefits of integration, particularly for Honduras.[54]

Furthermore, the influence of locally-oriented interests must be diminished; institutions for orchestrating regional modernization must be developed; and political support for reforming the structure and programs of existing regional organizations must be increased. There are external challenges to integration that must also be addressed, ranging from problems of servicing the external debt to the dominance of bilateral over regional relations (see Chapter 6).

In sum, economic reconstruction and development will revolve primarily around a set of regional schemes: the re-establishment of the free trade zone and the common external tariff; restructuring of regional economic growth through policy coordination and investment; and reducing the regional debt burden. New institutions and programs will be needed as the renewed integration process takes hold.

Rebuilding the Free Trade Zone. Regional trade must be revitalized while providing strong incentives to promote exports to global markets. Protection must not be a shelter for inefficient and monopolistic industrial production. The common external tariff providing limited and declining protection should be re-established. A target of a 30% maximum regional tariff, reached over a period of five to seven years is a realistic goal.

By approving a new common tariff agreement in 1984, the Central American countries have taken a giant step forward in revising and re-establishing the Common External Tariff. Though Honduras has preferred to remain outside the regional framework for matters of trade, the new Honduran tariff schedule does not include any fundamental discrepancies with the common tariff. As a result, rebuilding the Central American customs union is feasible.

The common tariff policy, however, faces opposition from sectors of the five countries as well as the international community. The conditionality of sectoral and structural adjustment programs of the World Bank, the IMF, and USAID seems to be designed to decrease the extent of protectionism on an exclusively national basis, without concern for regional consistency. Within the region, crisis conditions have led the governments to make unilateral tariff changes from time to time, which then give rise to reprisals by other Central American governments. The result greatly complicates efforts at regional economic integration.

Coordination of National Economic Policies. A minimum level of convergence of macroeconomic policies is essential if integration is to succeed.[55] The Commission recommends that governments, regional institutions, multilateral financial institutions and bilateral development agencies work to encourage the convergence of domestic policies.

Restoring a full free trade area will involve closer coordination of monetary and exchange rate policy among all countries of the region. The common tariff must be reinforced by realistic and stable exchange rate policies, aiming for a unified, market rate. If governments feel compelled to adopt a dual system instead of a unified rate, the difference between the two rates should not exceed 25 percent.

Such actions require flexibility and pragmatism to ensure that the rebuilding process does not fail because of excessively ambitious or rigid arrangements. Special short-term trade arrangements must be planned to ensure that creditor countries do not incur onerous imbalances. Central Americans must also resolve the special case of Nicaragua, whose involvement is critical for recapturing regional economic growth.

Clearly, Nicaragua must undertake a stabilization program to eliminate distortions in prices relative to the other Central American economies. Involving Nicaragua more fully requires not only special arrangements to improve Nicaragua's financial status, but also serious adjustment measures to make the Nicaraguan economy more compatible (in inflation rates and exchange policies, for example) with the other four countries. Nonetheless, trade with Nicaragua can be increased through a financial program that includes support from the surplus countries.[56]

Generating Investment Programs. There is ample room for regional cooperation in promoting new exports. Coordination of the international community's cooperation in investment programs designed by SIECA, ICAITI and CABEI could greatly enhance the results.[57] Central American agricultural producers have called for research and development programs to increase the variety and quality of new agricultural export products.[58] Aggressive marketing services should receive regional support, particularly if they include the complementary services of finance, transportation and marketing.

Intra-Regional Debt is a major obstacle to economic integration. Restoration of intra-regional trade requires rehabilitating a payment clearing mechanism that permits use of national currencies for exchange rather than dollars.

A necessary first step is to eliminate the $500 million of intra-regional debts. The second step must be the creation of mechanisms to prevent such imbalances from accumulating so that deficit countries can undertake needed modifications in policy. Creditor countries must be prepared to write off some part of existing debt, and debtor countries to commit themselves to non-protectionist adjustment policies that will prevent debt recurrence. Of course, the feasibility and durability of these steps also depend on resolution of Central America's external debt problem, as discussed in Chapter 6.

Lasting solutions to intra-regional debt depend on adequate foreign exchange reserves. A foreign exchange reserve in support of the Central American Clearing House would contribute greatly to restore the credibility in intra-regional exchange convertibility, without which trade is reduced to virtual barter and governments would be even more likely to resort to protectionist measures in order to balance transactions.

Strengthening Regional Economic Institutions

Though they have suffered from decreased budgets, difficulties in attracting qualified personnel, and diminished political support by member governments, the region's specialized economic institutions should once again lead efforts toward integration.

Even in the midst of crisis and polarization, the key regional institutions created in the early 1960s -- the Secretariat of the Treaty of Central American Economic Integration (SIECA), the Central American Bank for Economic Integration (CABEI), the Central American Monetary Council, and the Central American Clearing House -- played an important part in proposing and implementing policies to mitigate the crisis and to maintain the structure of integration. Numerous sectoral institutions also contributed to regional integration.[59]

For example, CABEI established the Central American Common Market Fund in 1981 to finance the deficits arising from intra-regional trade. In 1984 the regional institutions prepared a plan for reactivating the CACM, and in 1986 the Central American Monetary Council created the DICA (Central American Import Rights) as a financial instrument to foster intra-regional trade. The Commission recommends strengthening and reorganizing the Permanent Secretariat (SIECA), the Central American Bank (CABEI) and the Central American Monetary Council.

SIECA should be responsible for proposing the strategic guidelines for Central American trade policy, and for coordinating the export development program. In the new integration scheme, national fiscal, monetary and trade policies must be more closely coordinated; SIECA should oversee the technical preparation and the consultations of this coordination. In the shorter term, the difficult technical challenge is to design corrective or compensatory mechanisms to reconcile divergent macroeconomic approaches. SIECA would also coordinate the technical work and the negotiations to gain explicit recognition of the Central American integration zone in the rules of conditionality of multilateral lending agencies.

SIECA will also have to develop compensatory mechanisms for countries with chronic regional-trade deficits, as well as to coordinate the activities of other integration institutions. Specifically, SIECA should develop strategies for modernizing Central American industry, agriculture, energy policy, transportation, communication, and other basic infrastructure.[60]

Strengthening the Central American Bank for Economic Integration (CABEI) requires the mobilization of resources from Central America and abroad; the design of instruments for capturing savings in hard currencies (and reducing capital flight); and technical support for Central American governments as they renegotiate foreign debts or undertake "swap" operations. CABEI's technical and operational capabilities must be strongly reinforced in planning and evaluation of sectoral projects, coordination of information for domestic financial institutions, loan execution and disbursement, and export-investment promotion. Finally, to make optimal use of the national financial institutions' networks and facilities, CABEI should coordinate the countries' development banks, central banks, and finance companies. This, of course, is possible only with greater support from the five governments. The governments must bring their CABEI contributions up-to-date and display the willingness to allow CABEI to take the lead on financial coordination.

The Central American Monetary Council should join with CABEI in advising the governments on the management, renegotiation, and preparation of special debt operations, and in promoting agreements for regional coordination of monetary and exchange rate policies.

The distinctive task of the Monetary Council should be to seek mechanisms for financing intra-regional projects and trade. Accrued balances should be unfrozen by granting credits on concessional terms, or allowing for substantial discounts between central banks. To cover new debts generated while regional trade imbalances are being corrected, external funds should be extended temporarily to permit expanded transactions. Renewed initiatives for this purpose should be made to the European Economic Community and other entities to strengthen the Central American Common Market Fund. Also, backed by the Declaration of Acapulco, Central America should request incorporation into the Santo Domingo Agreement.[61]

## Acting Together Internationally

Central America must put forth joint proposals on regional priorities as a fundamental prerequisite of the tasks described above. But the international community must also adopt criteria of a multilateral nature, and be prepared to negotiate on a multilateral basis. To improve coordination of aid programs, a multilateral and multi-sectoral forum of lenders and recipients should be established (see the discussion of the

Central American Development Coordination Council in Chapter 6). Another area with great potential for regional cooperation is participation as a regional bargaining unit in the Uruguay Round of negotiations on GATT. In negotiations on regional trade issues and aid for regional projects, the five Central American governments can negotiate as a bloc with counterpart multilateral groups of trading partners or international agencies.[62]

Institutional Coherence

In pointing to the need to strengthen existing institutions and to consider establishing new ones, the Commission recognizes the importance of institutional coherence and the disadvantages of institutional duplication and waste. Therefore the Commission recommends a comprehensive assessment of the institutional structure of Central American integration, involving the governments, representatives of the broadest range of social sectors, and those who support these institutions financially. The European Community, with its long experience in developing regional structures, is in an excellent position to provide expertise for this review.

Chapter 6

# INTERNATIONAL COOPERATION

Much of this report focuses on actions the Central American nations themselves must take to achieve peace, democracy, and development. The Commission recognizes, however, that the Central American republics are small, poor nations highly sensitive to the actions of outside forces. Central American efforts, therefore, are in danger of being frustrated unless the international community lends its unequivocal support. This support must be manifest in a coordinated diplomacy that places peace first, and in economic policies that provide Central America with the opportunities for growth.

## International Diplomacy: The Imperative

The world community should give its full and unremitting support to the consolidation of peace and democracy as envisioned by the Esquipulas accords. As an important first step, nations should undertake a concerted and reciprocal withdrawal of outside aid to irregular forces and insurrectionary movements.

## Esquipulas Conditionality

To maximize the leverage that the international community can bring to bear behind the peace process, the Commission advocates that it condition its relations with Central American states on their compliance with the Esquipulas acccords. Thus the involvement of the Central American nations in diplomatic, economic, cultural and security arrangements with other nations ought to be conditioned on compliance with the Esquipulas process, as judged by an effective and agreeable multilateral verification mechanism. By the same token, the Commission strongly urges that countries in compliance with the Esquipulas process not be denied these relationships on the basis of other political criteria.

Currently, the Esquipulas verification mechanism consists of certification of progress by the Central American presidents, and monitoring by a multilateral verification body. If this latter body continues to be inoperative, the Commission urges the establishment of a new, independent, continually functioning international verification body that will make periodic, public assessments of progress.

## Reinforcing Regional Structures

For Central America to be able to act as a region, it must be treated as a region. For the Central American governments to join forces to pursue peace and democracy, they must be able to rely on international processes that bring them together. International diplomacy can place its leverage behind the region's inherent tendencies toward integration and help to diminish centrifugal forces that could tear the region apart.

The regional initiatives outlined in Chapter 5 require international support -- financial and political. Donors should help to finance the revival of the Common Market and the creation of other regional institutions such as the Central American Parliament, the Cultural and Educational Council and the Central American Development Coordinating Commission. The international community should also validate regional initiatives and strenghten Central American regional institutions by making them important in deliberations and negotiations over such issues as regional security, aid, trade, debt and environmental planning.

## International Economic Cooperation: Trade and Technology

A healthy, global economy, with low interest rates, firm commodity prices, and expanding trade, would provide a favorable environment for Central American development. Thus, Central America has a strong stake in the effective coordination of macroeconomic policies by the industrialized nations. In addition, the revival of the region's economies depends heavily on the openness of external markets, the availability of modern technology, and on the restructuring of old debts and the inflow of new capital.

## Opening Markets for Central American Exports

For the long-term development of the region, trade is more important than aid. The export-promotion strategy can succeed only to the extent that other countries reduce their tariffs and increase quotas where they determine trade flows on Central American exports.

The heavy Central American dependence on a handful of export products, whose value has dropped precipitously, was an important cause of the region's overall economic decline. Therefore the Commission's proposed development strategy highlights concerted efforts to broaden and diversify Central American exports. But without the cooperation of industrialized nations and the more advanced Latin American countries, serious diversification will remain limited by the risks involved in investing in export initiatives without secure market opportunities.

Despite requests by Central American governments, the international community has not been forthcoming in granting broader market access. One exception is the Caribbean Basin Initiative (CBI), which has stimulated some export expansion into the U.S. market. The CBI, however, is limited in scope and in time, creating doubts that trade openings will be long-lasting enough to warrant the investment risks.[63] Costa Rica, whose manufactured goods constitute nearly half of all manufactured exports from Central America, is the only country in the region to have realized significant benefits so far.

The United States has excluded Nicaragua from CBI benefits.[64] If this action is intended to be in the spirit of the Esquipulas accord, then it should not be unilateral, and should be based explicitly on Esquipulas progress as judged through internationally accepted verification.

To fulfill the potential of the CBI, the Commission urges the U.S. government to extend it beyond the original 12-year term and expand its terms to provide opportunities for critical items -- most importantly textiles and apparel, which make up 60 percent of Central America's manufactured exports and hold strong growth potential.

The Commission recommends that similar initiatives be developed and coordinated by other industrialized nations, including the Nordic countries, Canada, Japan, and the European Community which now buys one fourth of all Central American exports. Since total Central American exports represent an extremely small proportion of world trade, and the output levels of Central America's agricultural and industrial sectors are very low compared to the economies of large countries, the costs of lowering trade barriers will be modest -- while Central America could benefit greatly.

In light of Central America's severe crisis and its commitment to rebuilding its economies, the Commission calls on the international community to grant unilateral trade concessions, and to remove all tariff barriers to Central American exports for at least ten years. Where quotas exist, Central America should receive preferential treatment. This would apply to agricultural commodities such as sugar, beef, and coffee, as well as to such manufactured items as garments, textiles and shoes.

Reviving Intra-regional Trade

The international community can support the Central American leaders in revitalizing intra-regional trade, both by recognizing and supporting the Central American priority of regional economic integration, and by helping to remove the economic obstacles to reviving regional trade.

Reconstruction of a system of economic cooperation will require a substantial amount of new money. New funds are essential for clearing the debts which have accumulated through intra-regional trade (and now total some $500 million), and for assuring steady aid inflows in order to make domestic financial reform feasible. Re-establishing a sound trade payments structure will require the replenishment of the foreign exchange reserve of the Central American Clearing House with outside resources provided on a temporary basis.

Technology Policy

The opening of foreign markets will provide new opportunities for Central American economic expansion, but it will also present the challenges of international competition. To raise levels of productivity and efficiency and to compete effectively, Central America must acquire advanced technology. The 1980s crisis has had particularly adverse effects on the region's technological progress, and has widened the gap between the technology utilized by the most developed countries and the technology applied in Central America. Obtaining modern technology that is compatible with local conditions and resources will be crucial to the region's efforts to increase productivity and efficiency.

The increasing costs of sophisticated technology, coupled with the shortage of financial resources in Central America, make international assistance essential. International support could take at least five forms: the exchange of scientists and researchers, the supply of equipment and materials, joint ventures in research and development, preferential license and patent arrangements, and direct financial assistance. In addition, multinational acorporations can be a potent source of technology; in Central America, joint ventures are often an especially convenient arrangement for the transfer of technology.

## Financial Flows: Annual Requirements

To devote resources to the revitalization of trade and the implementation of domestic reforms, Central American countries must be assured adequate external financial resources. Too often, drastic monetary devaluations and reductions in tariff protection have been part of short-term measures designed to deal with balance of payments emergencies. The results have not been successful. If capital inflows are assured, central banks can use reserves to reduce speculation and gain credibility for new policies. Moreover, adequate capital flows help governments compensate those groups who suffer from adjustment measures, thereby reducing opposition to desirable reforms and making them more politically feasible.

Although the Commission is not proposing massive increases in external capital flowing into Central America, continued aid and financial flows are essential. The current level of financial resources flowing into the region is estimated at approximately $1.5 billion. As peace is restored to the region, military hardware purchases are likely to decline, although defense budgets will probably decrease more slowly. Some military aid, to ensure modern equipping and professional training, is certain to continue to flow.

<u>The Commission urges the international community to increase the net external financial flows from the current levels of about $1.5 billion to $2 billion per year for the next five years</u>. If multilateral and other bilateral donors respond, it would be adequate for the United States to maintain its correct aid levels. Of the $2 billion annual flows, at least $850 million should be devoted for each of the first three years to meet urgent needs, focusing largely on refugees and displaced persons.

The figure of $2 billion per year is based on calculations of the net inflows necessary for a gradual recuperation to a sustainable growth path of 5.5% by 1993. This assumes that debts will be restructured -- a step that is particularly essential to improving the prospects of Costa Rica and Nicaragua.[65] In the absence of new debt arrangements, the total bill would increase to $2.5 billion annually to keep pace with scheduled interest payments. The largest requirements correspond to Nicaragua, given its very low level of exports, and to Guatemala because of its initial imbalances.

The target growth rate of 5.5% by 1993 will not even bring Central America back to its 1980 levels of per capita income except in Costa Rica. However, the rigidities in the Central American economies (even with the sound economic policies presumed by our projections) and the need to base sustainable future growth on sound investments preclude absorbing capital more rapidly. The 5.5% growth target is a healthy and feasible objective; an effort to absorb more than the $2 billion net external inflow would lead to massive waste and to even greater financial burdens.

Debt Reduction and Restructuring

Lightening the $18 billion debt burden is another critical step to help Central America recapture its dynamism. Through a combination of debt reduction and restructuring, Central America must get some relief from the debts it owes, in roughly equal proportions, to private, bilateral and multilateral sources. Not only will reducing debt service payments diminish the need for foreign assistance, but alleviating the debt burden will also permit the region's governments to enact effective, medium-term adjustment policies. These policies will in turn make sustainable development possible.

In the 1980s, all Central American countries have suffered a sharp decline in their terms of trade. With the added financial strains of war and the deterioration of intra-regional trade, total exports in the region fell from $4.6 billion in 1979 to $3.8 billion in 1987. As export growth and economic activity slumped, levels of debt and debt service climbed rapidly. For the region as a whole, debt service payments rose from consuming 12 percent of exports in 1980, to 40 percent in 1987.

For the three types of debt -- private, bilateral, and multilateral -- the Commission recommends different steps.

a) Private bank debt, already heavily discounted for the most indebted Central American countries Costa Rica and Nicaragua, should be reduced through its repurchase by the Central American governments through an official funding loan from other nations. This would also be a way of involving the European Community, the Nordic countries, Japan or others in Central American reconstruction. Substantially reducing the private debt will have few repercussions on potential private bank flows to the region. Done on a case-by-case basis in response to market evaluations and bank recognition of their excess exposure, such a policy enhances future opportunities for sounder lending. Elimination of the present arrears holds out the possibility of increasing short-term commercial bank trade credits in support of expanding exports, a positive element for export promotion.

b) Bilateral official debt should be rescheduled over a multi-year period rather than waiting for the next crisis. This could make foreign exchange reserves more predictable over the span of medium term adjustment. Amortization should be postponed, to help avoid the need for new loans to pay to off the old and make new investment projects possible.

c) For multilateral debt, the basic solution lies in an expanded program of inflows that can reverse the negative resource transfers from Central America to multilateral creditors. This requires a multi-year perspective and a positive predisposition toward the region on the part of the multilateral institutions.

Within this framework, the exact modalities of debt restructuring will have to be designed to meet the specific needs of each nation, and negotiated in conjunction with comprehensive programs of structural adjustment. Moreover, debt restructuring should occur in the context of a determination of each nation's overall capital requirements.

These recommendations for reducing and restructuring debt will help ease Central America's foreign exchange problem. But the bulk of needed capital will still have to come from new inflows. As stressed in Chapter 4, the effectiveness of these new flows will be determined largely by each country's commitment to enacting comprehensive programs of structural adjustment.

## Foreign Assistance: Diversification & Coordination

The Commission feels that the region would benefit from a diversification of its capital providers. Diversification would allow for increased volume, and would reduce the risks of fluctuations in levels and political discrimination in country allocations. The Commission calls upon the United States to maintain its current assistance levels, but is aware that U.S. budgetary pressures preclude any substantial increases. Fortunately, the trend away from very heavy reliance on U.S. foreign assistance is already underway, but contributions from non-U.S. bilateral donors and from the international financial agencies such as the World Bank and the Inter-American Development Bank should increase in both absolute and relative terms.

This trend to more diversified foreign assistance makes the coordination of aid all the more important and challenging. For this reason, as well as to enhance the even-handedness of assistance decisions, the Commission calls for the establishment of a multilateral development coordinating mechanism tailored to the unique Central American situation.

A forum such as the Central American Development Coordinating Commission should be created on the principle of symmetrical multilateralism, where donor and recipient countries can coordinate aid policies and programs. The Development Coordinating Commission would also foster compliance with regional economic policy, avoid duplication and overlap, minimize gaps in linked development programs, and encourage synergy among programs whenever possible. The council would also ensure that international aid, trade and investment programs are designed and administered in accordance with the objectives of the Esquipulas accords.

Just as the World Bank now provides the umbrella for the coordination of assistance policies in the Caribbean, so might the Inter-American Development Bank provide the forum for the Central American Development Coordinating Commission (CADCC). Within the CADCC, donors and recipients would seek agreement on the broad guidelines for development assistance, while individual nations could meet with their respective donors in Consultative Groups. Country Consultative Groups would formulate bilateral programs that are consistent with CADCC's overall design.

The operations of the Development Coordinating Commission would in itself be an exercise in democracy, involving social partners from each of the donor and recipient countries. Therefore the Development Coordinating Commission, like the Cultural and Educational Council (see Chapter 3), should include representatives from unions, business, cooperatives, non-governmental organizations, and other groups.

## Economic Conditionality

In addition to conditionality related to progress towards peace and democracy, there is also the more typical conditionality based on economic performance or policy reform.

Governments and international financial institutions impose conditions on aid and loans. Conditionality is inevitable; what matters is its form and objectives. Appropriate conditionality encourages short-term actions that fit within a longer-term time frame of renewed and sustainable growth. It is directed at ensuring consistent and coherent policy rather than only one narrowly-defined development path. It is aware of the special circumstances and history of each nation. It is supportive of regional initiatives to build cooperation and coordination and sensitive to the need to ameliorate the absolute poverty in the region. Finally, because of the commonality of interests among Central American nations and the international community, conditionality can and should be reached through consultations based on mutual respect.

It is essential that these conditions reinforce rather than hinder regional integration. For instance, although Central American nations have made progress in the 1980s toward re-establishing a common tariff, their efforts have been hindered by international pressures. Norms of conditionality for sectoral adjustment programs (from the World Bank, the IMF and USAID) seem to have been designed to reduce protectionism at the national level only, disregarding the priority of regional integration. Conditionality on funds from these sources must conform with the system of intra-regional trade.

We urge the international community to base its economic conditionality on the economic policies outlined in this report. Countries making significant progress troward implementing its recommendations should benefit from international support.

## CONCLUDING STATEMENT

"In the climate of freedom that democracy ensures, the Central American countries shall take decisions to accelerate development in order to achieve societies that are more egalitarian and free from poverty. Consolidation of democracy involves the establishment of an economy of well-being and an economic and social democracy. To reach those objectives, the governments shall jointly make arrangements to obtain special economic assistance from the international community."

Presidents' agreements, Esquipulas II, August 1987

The principal focus of this report -- a development strategy that builds upon Central America's demonstrated economic strengths to reduce poverty and unleash the productive capacity of the region's human resources -- goes far beyond improving the lot of the poor and displaced; it goes to the heart of national security and democratic stability in each country. By focusing on efficiency and productivity, the Commission recognizes that poverty alleviation in poor countries requires overall growth. By focusing at the same time on the problems of the poorest, the strategy addresses one of the root causes of the unrest of the past decade. Outside support may have inflamed civil unrest, but the tinder was already there.

The Commission's appeal to North America, Latin America, Western Europe and Japan is intimately concerned with the survival of democracy in Central America. We are not asking for enormous new sums of money, but a long-term commitment to support the strategy through trade, aid, and credit, conditioned on progress toward the Esquipulas objectives of peace and democracy. Our hope is that the strategy proposed in this report will become a framework that Central American countries and the international community alike can adopt and adapt over the long term.

The recommendations of this Commission, based on the principles of democratic development, are intended to assist Central American leaders in attaining the goals they have set for their societies. Central Americans established these goals, and Central Americans must continue to provide the leadership in achieving them. Foreign aid, credit and trade concessions are supportive measures; they cannot substitute for the efforts of Central America's leaders to enact difficult policy reforms and to bring essential social services to the extreme poor and to help them become more productive in modern society. The Central American presidents must follow through on their commitment to solve these problems.

Our emphasis on developing the human resources of the region, which we have made the cornerstone of our recommendations, has important precedents. As John F. Kennedy stated in 1961, ending poverty was at the heart of the vision of the Alliance for Progress:

> "The living standards of every American family will be on the rise, basic education will be available to all, hunger will be a forgotten experience, the need for massive outside help will have passed, most nations will have entered a period of self-sustained growth, and though there will be still much to do, every American republic will be the master of its own revolution and its own hope and progress."

The timing for applying this human-resource emphasis is now excellent. The Central American nations, backed by the international community, have taken important steps toward achieving peace and laying the foundation for post-war Central America. Some military leaders have encouraged elections and supported civilian leadership in Honduras, El Salvador and Guatemala. If peace comes soon, Central America will be poised to unleash the region's economic potential and to expand the recent political openings. If the wars continue, the nations will almost certainly not be able to pull themselves out of their economic decline, even if financial resources flow into Central America to address the indispensable need to help the victims of war.

The economic trajectory of a more peaceful Central America can be positive if the difficult domestic policy reforms are made and the international community responds. Although Central America has been going through a brutal downward spiral, the cessation of hostilities would itself eliminate the enormous drag on the Central American economies caused by the destruction of crops and roads, the diversion of resources away from productive investment into military budgets, and the abysmal investment climate of a war-torn region. The prospects for short-term recovery are bolstered by the demonstrated potential of intra-regional and international trade. The Central American Common Market had been responsible for considerable increases in production and regional trade that have all but disappeared over the past decade. The resumption of that exchange under new conditions would contribute considerably to reviving the entire region.

Long-term, sustainable, equitable development is much more difficult. Central America cannot afford to allow short-term recovery to block the structural reforms needed to incorporate marginal populations, eliminate distortions, and preserve the natural resource endowment.

The most ominous external possibility is that when Central American wars end and the region is no longer an area of geo-political crisis, economic aid will be withdrawn and openings for Central American exports closed off. It would be an enormous tragedy if Central America's search for peace were to condemn the region to economic stagnation and eventually another cycle of violence. Recovery, especially if it centers on refugee resettlement and restoration of the region's shattered services infrastructure, will be expensive, though not far beyond the current levels of resources flowing into Central America. Sustained development will require a decade of sustained international support and encouragement.

The Commission approaches the problems of the region with hope and confidence, for even in the past five years, much has changed. One of the most remarkable developments of the modern era is that Central America, despite the turmoil of the past decade, has experienced a growth of democracy unlike any time in its history. There could be no better testimony to the desire of Central American citizens for a new and more responsive social order than the overwhelming participation in elections, even in countries where voting entailed threats of violence.

And once elected, the leaders of the region put aside the many differences among their countries and quickly joined forces to draft an accord for peace, development and democracy in Central America. The accord of Esquipulas II is a remarkable vehicle for the difficult task of focusing regional and international efforts on constructive interaction rather than interference.

As a result, the Commission, unlike any that has gone before it, has had the opportunity to forge a set of proposals as a response to the challenge put forward by the elected leaders of the region. Moreover, our Commission represents no one country or government, but the consensus of forty-seven citizens from twenty countries, led by a diverse group of Central Americans. Our strategy is designed to support the leaders of the region and the democracies they hope to build and preserve. We ask those concerned about the future of Central America to support that goal.

APPENDIX 1
IMMEDIATE ACTION PLAN TABLES

Table 1

ESTIMATES OF DISPLACED PERSONS AND REFUGEES
LIKELY TO RETURN TO PLACES OF ORIGIN

| Country | Internally Displaced Persons | Registered Refugees | Non-Registered Refugees | Estimated Returnees* ID** | RR | NRR | Total |
|---|---|---|---|---|---|---|---|
| El Salvador | 500,000 | 30,900 | 295,000 | 200,000 (40%) | 18,540 (60%) | 29,500 (10%) | 250,000 |
| Guatemala | 180,000 | 47,000 | 80,000 | 45,000 (25%) | 28,000 (60%) | 40,000 (50%) | 113,000 |
| Nicaragua | 300,000 | 50,700 | 100,300 | 180,000 (60%) | 30,000 (60%) | 10,000 (10%) | 220,000 |
| Honduras | 35,000 | | | 35,000 (100%) | | | 35,000 |
| TOTAL | 1,015,000 | 128,600 | 475,300 | 460,000 | 76,540 | 79,500 | 618,000 |

Source: The figures are drawn from PAHO, Plan for Priority Health Needs in Central America and Panama (PPS/CAP): Subregional Project, Washington, DC, July 1983.

* The estimates are calculated on the basis of different interviews with refugees and displaced persons of different nationalities. The numbers in parentheses indicate the approximate percentages of those who are likely to return.

** ID = Internally Displaced
NRR = Non-registered Refugees
RR = Registered Refugees

Table 2.

SUMMARY OF THE TARGET POPULATION
(by priority group)

| Priority Groups of Target Population | Number of People in Each Group |
|---|---|
| 1) Displaced persons and refugees likely to return to their original rural communities | 618,000 |
| 2) Those people in extreme poverty in the rural communities where group (1) resettles | 463,000 |
| 3) Displaced persons and refugees who have already resettled into new, mostly urban communities, and who are not likely to return to their original rural communities | 680,000 |
| 4) Those people in the most extreme poverty in the urban communities where group (3) has resettled | 510,000 |
| TOTAL Target Population | 2,271,000 |

Table 3.

ESTIMATES OF BIOLOGICALLY VULNERABLE POPULATION, IN 1990
(in thousands of people)

| Country | Children under 4 yrs. old | Percent of TP* | Adults over 60 | Percent of TP | Women 15-49 yrs.** | Percent of TP | TOTAL | of total |
|---|---|---|---|---|---|---|---|---|
| Costa Rica | 463 | 15.7 | 185 | 6.3 | 749 | 25.5 | 1,397 | 47.6 |
| El Salvador | 1,264 | 19.5 | 349 | 5.4 | 1,490 | 23.0 | 3,103 | 47.9 |
| Guatemala | 1,900 | 20.7 | 467 | 3.1 | 2,026 | 22.1 | 4,896 | 47.8 |
| Honduras | 1,021 | 20.0 | 242 | 4.7 | 1,154 | 22.6 | 2,417 | 47.8 |
| Nicaragua | 816 | 21.1 | 167 | 4.3 | 882 | 22.8 | 1,865 | 48.2 |
| | 5,464 | | 1,410 | | 6,304 | | 13,178 | |

Source: United Nations. World Population Prospects (Estimates and Projections as assessed in 1984), New York, Population Studies No. 98, 1986.

* Percentage of total population.
** All women between the ages of 15 and 49 who are nursing or pregnant.

Table 4.

CUMULATIVE COVERAGE OF ASSISTANCE PROGRAMS
(for three-year period)

| Population Group* | Direct Food[1] Assistance | Other Food[2] Assistance | Suppl. Food[3] | Entire Package |
|---|---|---|---|---|
| Minimum Group Targeted for Immediate Actions (Resettlement: 2,271,500 people) | $411m | $1,040m | ($137m) | $2,550m |
| Remaining Biologically Vulnerable in Extreme Poverty [food assistance only for additional 3,709,680 beneficiaries] (total of 6,078,000) | $1,100m | ** | ($464m) | $4,114m |
| Remaining Biologically Vulnerable in Extreme Poverty [full benefits for 6,078,000] | $1,100m | $2,784m | ($464m) | $7,050m |
| All Those in Extreme Poverty (10,000,000) | $1,811m | $4,540m | ($601m) | $11,250m |

* The minimum targeted population are those refugees and displaced persons likely to return to their places of origin, plus the extremely poor in the communities where these people will resettle. The second group includes all of the targeted population plus all biologically vulnerable people in extreme poverty (48% of 7,728,500). We extend only direct food assistance to the additional biologically vulnerable people. The fourth group, including all those in extreme poverty, is calculated from a total estimated population of 10 million people living in extreme poverty (from CEPAL) minus those already addressed as the minimum targeted population.

** This group does not receive Other Food Assistance.

---

[1]. Direct provision of food.

[2]. Includes all other elements of food assistance, chiefly employment-generating projects. We do not assume the biologically vulnerable will take part in these work projects.

[3]. Supplementary food provided only to the biologically vulnerable. See programs under Health and Nutrition.

Table 5.

DISTRIBUTION OF BENEFITS*
(by country, for groups outlined in Table 4)

| Country | Minimum Group | Remaining B.V. (food only) | Remaining B.V. (all benefits) | All Extremely Poor |
|---|---|---|---|---|
| Guatemala | 19% | 23% | 27% | 28% |
| Nicaragua | 26% | 21% | 16% | 13% |
| El Salvador | 42% | 36% | 29% | 26% |
| Honduras | 5% | 14% | 24% | 28% |
| Costa Rica | 8% | 6% | 5% | 4% |

* This tables shows how benefits from four levels of the immediate action plan will be distributed by country. The variations in each country's benefits are due to the numbers of displaced persons and refugees within their borders, and the national extent of extreme poverty.

APPENDIX 1

COST ESTIMATES FOR THE IMMEDIATE ACTION PLAN

| PRIORITY AREAS | CRITERIA FOR COST ESTIMATES | COST ESTIMATES YR1 | YR2 | YR3 | TOTAL |
|---|---|---|---|---|---|
| 1. <u>Food Security</u> | | | | | |
| A. Rural Food Provision | i) Requirements estimated by family, using INCAP data. | 66.3 | 68.3 | 66.3 | 220.9 |
| | ii) The cost of the basic food basket for a family of five is $4.30 per day. | | | | |
| | iii) Provides 66% of the daily caloric requirement for one year. | | | | |
| | iv) Logistical and technical support (20% of food costs). | 13.3 | 17.7 | 13.3 | 44.3 |
| B. Urban Food Provison | i) Estimate based on one third of families' minimal needs during one year. | 24.3 | 48.7 | 48.7 | 121.7 |
| | ii) Logistical and technical support (20% of food costs). | 4.9 | 9.7 | 9.7 | 24.3 |
| C. Financial Resources | i) Estimated $1,000 for typical loan. | 97.2 | 129.6 | 97.2 | 324.0 |
| | ii) 85% of the relocated/repatriated population will need loans. | | | | |
| | iii) Funds of $120,000 to be established for each community. | | | | |
| D. Food for Work | i) $97,000 for each rural community. | 78.7 | 87.5 | 76.7 | 244.9 |
| | ii) Estimate based on 2/3 of the minimum salary for a rural family during 18 months. | | | | |
| | iii) $97,000 for each urban community. | 57.7 | 115.4 | 115.4 | 288.5 |
| | iv) Estimate based on 3/4 of the minimum urban salary for a family during 12 months. | | | | |
| | v) Rate: 1st year, 20% (595 communities); 2nd year, 40% (1190 families); 3rd year, 40% (1190 communities). | | | | |
| E. Construction & Conservation | i) $10,000 per community. | 8.1 | 10.8 | 8.1 | 27.0 |
| | ii) Fund would cover only costs of materials, not labor. | | | | |
| F. Food Outlets | i) One supply house for each 1,000 families (5 communities). | | | | |
| | ii) Cost of installation: $2,000. | 1.4 | 2.9 | 2.9 | 7.2 |
| | iii) Initial working capital: $10,000. | | | | |
| | iv) Logistical and technical support: 5% of initial investment and working funds. | 0.1 | 0.1 | 0.1 | 0.3 |

| | | | | | |
|---|---|---|---|---|---|
| | Food and Funds | 337.7 | 463.2 | 417.3 | 1238.2 |
| | Logistical and Technical Support | 18.3 | 27.5 | 23.1 | 68.9 |
| | Administrative Costs | 50.6 | 72.2 | 62.2 | 185.0 |
| | SUBTOTAL FOOD SECURITY | 406.6 | 582.9 | 502.6 | 1492.1 |
| II. <u>Health and Nutrition</u> | | | | | |
| A. Health Posts | i) For repopulated rural areas, one per community; Investment cost: $8,000. | 6.5 | 8.6 | 6.5 | 21.6 |
| | ii) For uban areas, one unit for each 20,000 inhabitants; Investment cost: $250,000 each. | 3.0 | 6.0 | 6.0 | 15.0 |
| B. Emergency Medical Services | i) Estimates for each community. | 3.9 | 5.2 | 3.9 | 13.0 |
| | ii) Services and medicine: 60% of the construction costs for each health center. | 1.8 | 3.6 | 3.6 | 9.0 |
| C. Rehydration and Intestinal Disorders | i) Estimates for all children under 4 years old living in extreme poverty directly related to displacement (455,000). | 1.1 | 1.1 | 1.1 | 3.3 |
| | ii) Estimate of 70,000 children born each year. | | | | |
| | iii) Oral rehydration costs based on 3 bouts of diarrhea a year, at $1 per bout. | | | | |
| | iv) Technical and logistical support (30% of costs). | 0.5 | 0.5 | 0.5 | 1.5 |
| | v) Parasite treatment costs based on $3 per person each year for three years. | 1.1 | 1.1 | 1.1 | 3.3 |
| | vi) Technical and logistical support (30% of costs). | 0.5 | 0.5 | 0.5 | 1.5 |
| | | 1.1 | 2.5 | 3.5 | 7.1 |
| D. Tropical Diseases | i) Estimates per community. | | | | |
| | ii) Treatment for each family: $6.50. | | | | |
| | iii) Continuous treatment for three years. | 0.6 | 1.5 | 2.1 | 4.2 |
| | iv) Technical and logistical support (60% of treatment costs). | | | | |
| | | 2.1 | 2.4 | 2.1 | 6.6 |
| E. Vaccination Campaigns | i) Assuming that 124,000 children under 4 years old will return and that there will be 70,000 births a year. | | | | |
| | ii) Costs per dose: $4 | | | | |
| | iii) Four doses in the first year. | | | | |
| | | 19.0 | 19.0 | 19.0 | 57.0 |
| F. Supplementary Food Program -- Pregnant Women | i) Estimate based on the population of pregnant women (avg. fertility rates of over 20% in each country, or 500,000 women each year). | | | | |
| | ii) Maintain the program for 12 months for each pregnant woman. | | | | |
| | iii) Nutritional complement according to INCAP data: 600 calories a day at an approximate cost of $38 per year. | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Supplementary Food Program -- Children | i) Children who are displaced or directly affected by the conflict: 455,000<br>ii) INCAP data: food supplement of 400 calories per day at a cost of $35 each year, for three years. | 15.9 | 15.9 | 15.9 | 47.7 |
| | iii) Technical and logistical support (30% of direct costs for pregnant women and children). | 10.5 | 10.5 | 10.5 | 31.5 |
| G. Mental and Physical Health | i) Programs of mental health for communities, integrated with programs of health, nutrition and education (10% of costs of equipment and services). | 0.6 | 0.9 | 0.7 | 2.2 |
| | ii) Assumes an injured population of 20,000, at a cost of $100 per person each year. | 2.0 | 2.0 | 2.0 | 6.0 |
| H. Education for Health | i) Assumes all health and nutrition programs have an educational component.<br>ii) Estimates the educational component to be 2% of the cost of all of the programs. | 1.2 | 1.4 | 1.3 | 3.9 |
| | Health and Nutrition Programs | 59.3 | 69.7 | 66.7 | 195.7 |
| | Logistical and Technical Support | 12.1 | 13.0 | 13.6 | 38.7 |
| | Administrative Costs | 8.9 | 10.4 | 10.0 | 29.3 |
| | SUBTOTAL HEALTH AND NUTRITION | 80.3 | 93.1 | 90.3 | 263.7 |
| III. <u>Drinking Water and Sanitation</u> | | | | | |
| A. Temporary Measures | i) Assuming $1 per day for transporting the water from the source to the community, for wood to boil the water, and for chlorine tablets for purification.<br>ii) Assistance will be maintained for 3 months, during which drinking water systems will be reestablished. | 8.7 | 11.7 | 8.7 | 29.1 |
| B. Provision of Drinking Water | i) For urban areas, augment the number of community connections in each urban location contemplated in the program. Average cost per community: $5,000. | 3.0 | 6.0 | 6.0 | 15.0 |
| | ii) Repair and/or construction of a drinking water system for each community at $20,000 in rural areas. | 16.2 | 21.6 | 16.2 | 54.0 |
| C. Sewage and Sanitation | i) Estimates based on families, assuming that 60% of families in communities of 200 families are without latrines.<br>ii) Estimated cost of a latrine is $25, which includes the septic tank, materials for walls and roof, toilet and cement slab. | 2.4 | 3.2 | 2.4 | 8.0 |
| | iii) Technical and logistical support (50% of costs of materials). | 1.2 | 2.4 | 2.4 | 6.0 |
| | iv) Sewage tank construction for each community involved at a cost of $2,000 per community. | 6.0 | 11.9 | 11.9 | 29.8 |

| | | | | | |
|---|---|---|---|---|---|
| | Average cost per community: $10,000. | | | | |
| | v) Trash collection: four dumps per community involved at a cost of $2,000 each. | 1.2 | 2.4 | 2.4 | 6.0 |
| | vi) Improving municipal collection services: $250 per month per community. | 1.8 | 3.6 | 3.8 | 9.4 |
| | Programs for Drinking Water and Sanitation: | 39.3 | 60.6 | 51.4 | 151.3 |
| | Logistical and Technical Support: | 1.2 | 1.6 | 1.2 | 4.0 |
| | Administrative Costs: | 5.9 | 9.1 | 7.7 | 22.7 |
| | SUBTOTAL DRINKING WATER AND SANITATION: | 46.4 | 71.3 | 60.3 | 178.0 |
| IV. Housing | | | | | |
| A. Provision of Building Materials | i) $250 in building materials for each family (zinc sheets and wood). | 24.3 | 32.4 | 24.3 | 61.0 |
| | ii) Hardware and nails: one set per family at $15/set. | 1.5 | 1.9 | 1.5 | 4.9 |
| | iii) Minimal equipping for housing: $35 per family. | 3.4 | 4.5 | 3.4 | 11.3 |
| | Housing Programs: | 29.2 | 38.8 | 29.2 | 97.2 |
| | Logistical and Technical Support: | 1.5 | 1.9 | 1.5 | 4.9 |
| | Administrative Costs: | 4.4 | 5.9 | 4.4 | 14.7 |
| | SUBTOTAL FOR HOUSING: | 35.1 | 46.6 | 35.1 | 116.8 |
| V. Education | | | | | |
| A. School Repair and Construction | i) $5,000 per classroom, estimating a one room schoolhouse for grades 1-3 for each community of 200 families. | 4.0 | 5.4 | 4.0 | 13.4 |
| | ii) A three room schoolhouse for every five communities for grades 4-6. | 2.4 | 3.2 | 2.4 | 8.0 |
| | iii) For urban locations, estimates based on $15,000 for every five communities. | 1.8 | 3.6 | 3.6 | 9.0 |
| B. Teachers and School Supplies | i) One teacher per classroom in rural schools, with a salary of $200/month during 12 months. | 3.1 | 4.1 | 3.1 | 10.3 |
| | ii) For each urban school, 2 teachers per classroom, contemplating two shifts (morning and evening), with a salary of $200/month for 12 months. | 1.7 | 3.4 | 3.4 | 8.5 |
| | iii) For rural schools, 10% of expenditures for | 0.6 | 0.9 | 0.6 | 2.1 |
| | equipment and 15% for materials. | 1.0 | 1.3 | 1.0 | 3.3 |
| | iv) For urban schools, 15% of expenditures for | 0.3 | 0.5 | 0.5 | 1.3 |
| | equipment and 20% for materials. | 0.4 | 0.7 | 0.7 | 1.8 |
| | v) For rural schools, 5% of expenditures for repair and maintenance of equipment and materials during three years. | 0.2 | 0.3 | 0.2 | 0.7 |
| | vi) For urban schools, 10% of expenditures for repair and maintenance of equipment and materials during three years. | 0.2 | 0.4 | 0.4 | 1.0 |

| | | | | | |
|---|---|---|---|---|---|
| C. Literacy Programs | i) Programs to be developed by community, with an emphasis on female heads of households in urban areas (percentage of coverage: 80% of adult women, 60% of adult men).<br>ii) Cost per person per year: $6 for first year, $3 for 2nd year, and 2$ for third year.<br>iii) Using illiteracy rate of 75% for women and 60% for men.<br>iv) Technical and logistical support (20% of estimated costs). | 0.8<br>0.6<br>0.2<br>0.1 | 1.1<br>1.1<br>0.2<br>0.2 | 0.8<br>0.8<br>0.2<br>0.2 | 2.7<br>2.7<br>0.6<br>0.5 |
| O. Technical Training -- Agricultural | i) For rural areas, directed at one adult per family.<br>ii) Demonstration lots, on site training, follow-up and reinforcement during two farm cycles: $200 per person in 1st year; $100 per person per year in 2nd and 3rd years. | 38.8 | 51.8 | 38.8 | 129.4 |
| -- Construction and Conservation | i) For rural communities, directed at adult members of families.<br>ii) Promoting technicians, travel allowances, educational materials. One promoter for every five communities at an annual cost of $3,000 (salaries, travel allowances and materials). | 0.5 | 0.6 | 0.5 | 1.6 |
| | Education Programs | 56.4 | 78.5 | 61.2 | 196.1 |
| | Logistical and Technical Support | 3.1 | 4.3 | 3.5 | 10.9 |
| | Administrative Costs | 6.4 | 11.8 | 9.2 | 29.4 |
| | SUBTOTAL FOR EDUCATION | 67.9 | 94.6 | 73.9 | 236.4 |
| VI. Fundamental Rights | | | | | |
| A. Securing Documentation | i) 80% of the assisted rural population needs documentation and 40% of the assisted urban population finds themselves in similar circumstances.<br>ii) Asumes the cost of documentation per individual in rural areas is $1.50, and $1.00 for urban areas, and that the documentation process can be done by local officials. | 0.4<br>0.2 | 0.5<br>0.4 | 0.4<br>0.4 | 1.3<br>1.0 |
| B. Land and Property Rights | i) Assumes that the cost of title is 1% of the property value. Assumes the average value of each 1.75 acres is $1,000.<br>ii) Assumes that the total number of acres to be titled is 700. | 3.2 | 4.3 | 3.2 | 10.7 |
| C. Urban Living Security | i) Assumes that legal services are $10/family.<br>ii) The problem should be approached from a community level. | 0.7 | 1.4 | 1.4 | 3.5 |
| D. Organizational Programs | i) Costs are estimated by community, accumulated during three years. | 2.0 | 4.7 | 6.8 | 13.5 |

| | | | | | |
|---|---|---|---|---|---|
| | ii) $2,500 per rural community; $2,000 per urban community. | 1.2 | 3.6 | 6.0 | 10.8 |
| | Programs for Fundamental Rights | 7.7 | 14.0 | 18.2 | 39.9 |
| | Logistical and Technical Support | 0.4 | 0.7 | 0.9 | 2.0 |
| | Administrative Costs | 1.3 | 2.2 | 2.8 | 6.3 |
| | SUBTOTAL FUNDAMENTAL RIGHTS | 9.4 | 16.9 | 21.9 | 46.2 |
| VII. <u>Physical Infrastructure</u> | | | | | |
| A. Reconstruction of Services | i) Fund of $10,000 per community.<br>ii) Labor is financed through food for work program.<br>iii) Costs include only construction materials and other direct costs. | 8.1 | 10.8 | 8.1 | 27.0 |
| B. Reconstruction of Roadways | i) Repair costs estimated at $300 per KM.<br>ii) Assumes the average distance of the communities from the closest access road is 20KM. | 4.9 | 6.5 | 4.9 | 16.3 |
| C. Electrical Power | i) Gasoline generators during the period in which the system is being repaired or initiated: $3,800 | 2.9 | 1.0 | 0.0 | 3.9 |
| | per generator; $1.50 per gallon of gasoline, 1 gallon daily for 6 months. | 0.2 | 0.3 | 0.2 | 0.7 |
| | ii) 200 home connections per community at $50 per connection, 15,000 meters of wire at $2 per linear meter, 150 posts at $10 per post, and 3 transformers at $200 per transformer. | 34.1 | 45.5 | 34.1 | 119.7 |
| D. Communications Systems | i) Repair of the physical plants at a cost of $2,000.<br>ii) Installation/repair of equipment: $5,000 per system. | 5.7 | 7.6 | 5.7 | 19.0 |
| | Program for Reconstruction of Physical Infrastructure | 55.9 | 71.7 | 53.0 | 180.6 |
| | Logistical and Technical Support | 2.8 | 3.6 | 2.6 | 9.0 |
| | Administrative Costs | 8.3 | 10.8 | 7.9 | 27.0 |
| | SUBTOTAL FOR RECONSTRUCTION OF PHYSICAL INFRASTRUCTURE | 67.0 | 86.1 | 63.5 | 216.6 |
| | TOTAL FOR ALL PROGRAMS | 585.5 | 816.5 | 697.0 | 2099.0 |
| | LOGISTICAL AND TECHNICAL SUPPORT | 39.4 | 52.6 | 46.4 | 138.4 |
| | ADMINISTRATIVE COSTS (15%) | 87.8 | 122.4 | 104.2 | 314.4 |
| | TOTAL FOR THE ENTIRE PLAN | 712.7 | 991.5 | 847.6 | 2551.8 |

# APPENDIX 2: ABSORPTIVE CAPACITY

## Capital Requirements

In order to derive estimates of capital inflows required by countries of the region to sustain increased imports, it is necessary to construct balance of payments projections. Table 1 indicates the principal assumptions used to derive the growth of the components of the balance of payments corresponding to the income growth trajectory projected for the countries over the period 1989-93. Two alternative scenarios are specified: one with, and the other without, debt service reduction. Reduction is assumed to lower payments on current debt to private creditors to 4 percent annually; this could occur through capitalization or debt writedowns. For Nicaragua, the relief must be greater and is reflected here by outright reduction of official debt by two-thirds and private debt by 90 percent.

The assumptions imply a continuing commitment to non-traditional exports as well as some revival of traditional ones; prices over the period are forecast as slightly favorable, reflected in improved terms of trade. Imports are assumed to expand proportionally with production, possibly understating needs in a period of renewed growth, but intended to reflect opportunities for efficient domestic production.

Table 2 indicates the implications for required net capital inflows over the five year period by country under the two debt scenarios. Gross requirements would add in scheduled (and potentially rescheduled) amortization of the debt, but are excluded here to focus on the net magnitudes.

With debt restructuring, essential to improving the prospects of Costa Rica and Nicaragua, annual net inflows of the order of $2 billion permit gradual recuperation to a sustainable growth path of 5.5 per cent by 1993. In the absence of new debt arrangements, the bill would mount by an additional $500 million annually to keep pace with scheduled interest payments. The largest requirements correspond to Nicaragua, given its very low level of exports, and to Guatemala, because of its initial imbalance.

Import growth at a one percent a year higher rate of increase raises capital requirements by about $300 million a year; a slightly smaller increase would be implied by a shortfall in exports of one percent from the initial assumptions.

Table 2 also indicates the projected terminal 1993 situation in the debt relief scenario. It adds several pertinent features to the discussion. In the first instance, it becomes apparent that recovery is unable to restore 1980 income per capita levels except in Costa Rica; El Salvador and Nicaragua lag much farther behind. Second, trade deficits remain much too high not only in these countries, but also in the others. The reason is that accelerating growth in imports by 1993 is not matched by similar acceleration in export volume and/or prices. Put another way, if the volume of traditional exports does not grow more than 2 percent a year, and even non-traditional at 5.5 percent, it is very difficult to maintain aggregate export-product ratios constant or increasing at needed rates of income growth. That translates into increasing proportional capital inflows rather than stable ones. This explains the emphasis upon realistic exchange rates and investments that show competitiveness in world, as well as regional, markets.

Third, with the growth in investment ratios to higher levels, domestic savings rates must also increase even while capital inflows continue. Ways must be found to stimulate savings; one important potential source is the public sector. Thus a major internal effort is the counterpart to more effectively deployed external assistance.

The approximately $2 billion estimated level of required inflow compares with net official flows of about $1 billion a year from all donors to the regional excluding Nicaragua from 1983-87. The financing of the current account deficit in that country adds another $500 million in recent years. The recommended capital flow in the report does not much exceed present magnitudes, although clearly the way it will have to be applied to achieve more favorable results does. It is also true that the sources of Nicaraguan assistance would change, placing greater demands upon the United States and the multilateral institutions.

Our projections, are lower than the estimates made by the Kissinger Commission, which originally called for an inflow of $20.8 billion over the period of 1984-1990 for the five countries. That much higher level was made compatible in part by assuming private loans and investments of a quarter of the total. Such an assumption is unrealistic for the immediate future. The calculations here put a much greater stress upon debt restructuring as an alternative. In the absence of reduced debt service, the needed capital inflows for Costa Rica and Nicaragua take on much higher values and lead to insupportable levels of outstanding debt in addition. But on the other side, inflows much below this target will not provide for economic recovery and sustained ability to service outstanding official debt as well to acquire additional lending.

Any calculations can only be approximate. Countries in the region start from weak balance of payments situations and are vulnerable to changes in international conditions. Adverse terms of trade have been especially costly in the 1980s. A deteriorating world economy would obviously complicate regional economic recovery and make these estimates an understatement. The task is not easy, but could be feasible.

Table 1

Assumptions: 1989-93

| | CR | ES | G | H | N |
|---|---|---|---|---|---|
| Export Volume (%) | 7.5 | 5.7 | 6.8 | 6.2 | 13.0 |
| Traditional | 4.2 | 5.6 | 3.2 | 6.4 | 17.1 |
| Non-Traditional | 9.8 | 5.8 | 10.3 | 5.7 | 3.9 |
| Import Elasticty | 1 | 1 | 1 | 1 | 1 |
| Terms of Trade (%) | -.4 | -.4 | -.4 | -.4 | -.4 |
| International Inflation (%) | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Interest Rate (%) | | | | | |
| Official | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| Private | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 |
| Share of Official Flows in Transfers | .4 | .8 | .4 | .6 | .9 |

| | |
|---|---|
| Growth Rate: | Increase from 4 percent in 1989 to 5.5 percent in 1993 |
| Export Growth: | Volume of traditional exports at 2 percent a year<br>Volume of Non-traditional exports at 5.5 percent a year |
| Private Transfers: | Increase at rate of inflation (4 percent a year) |
| Private Debt: | Serviced fully or maximum payment of 4 percent interest and for Nicaragua reduced by 90 percent |

Table 2

Net Capital Requirements, 1989-93
(billions of U.S. Dollars)

| | No Debt Relief | | | Debt Relief[a] | |
|---|---|---|---|---|---|
| | Base Scenario | Higher Income Growth[b] | Higher Export Growth[b] | Base Scenario | |
| Costa Rica | 1.1 | 1.3 | .8 | .7 | (.6)[c] |
| El Salvador | 1.7 | 1.9 | 1.5 | 1.7 | (1.4)[c] |
| Guatemala | 1.8 | 2.1 | 1.6 | 1.7 | (1.5)[c] |
| Honduras | 1.9 | 2.1 | 1.7 | 1.8 | (1.5)[c] |
| Nicaragua | 6.0 | 6.1 | 5.9 | 4.2 | (3.6)[c] |
| Total | 12.5 | 13.5 | 11.5 | 10.1 | (8.6)[c] |

[a] Debt relief is defined as a reduction of 90 percent of Nicaraguan official private debt and 75 percent of official public debt, and for other countries, capitalization of half interest due on official private debt.

[b] one percentage point

[c] 1988 constant dollars

Table 3

Costa Rica
Basic Scenario
(millions of U.S. Dollars)

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|
| Exports | 1238 | 1448 | 1586 | 1768 | 1960 | 2163 |
| Traditional | 597 | 685 | 700 | 751 | 806 | 862 |
| Non-traditional | 641 | 763 | 886 | 1017 | 1154 | 1301 |
| Imports | 1400 | 1558 | 1738 | 1940 | 2153 | 2396 |
| Non-factor Services | 126 | 134 | 141 | 150 | 159 | 168 |
| Net Interest Payments | 314 | 323 | 330 | 338 | 347 | 356 |
| | | 10 | 17 | 15 | 47 | 49 |
| Current Account | 312 | 259 | 298 | 315 | 334 | 371 |
| Capital Account | 315 | 291 | 334 | 356 | 376 | 419 |
| Foreign Investment | 69 | 75 | 82 | 91 | 100 | 111 |
| Private Lending (for reserves) | 3 | 32 | 36 | 40 | 43 | 49 |
| Official Flows | 243 | 185 | 216 | 225 | 234 | 260 |
| Loans | 146 | 111 | 129 | 135 | 140 | 156 |
| Transfers | 97 | 74 | 86 | 90 | 94 | 104 |
| Change in Reserves | 3 | 32 | 36 | 40 | 43 | 49 |
| Rate of Growth Product (%) | 3.0 | 4.0 | 5.0 | 5.0 | 5.0 | 5.5 |
| Current Account / Y (%) | 6.5 | 4.9 | 5.1 | 4.9 | 4.7 | 4.7 |
| Investment / Y (%) | 21.0 | 21.6 | 22.0 | 22.0 | 22.0 | 22.0 |
| Public Savings / Domestic Savings (%) | 26.0 | 26.0 | 26.0 | 27.0 | 28.0 | 31.0 |
| Debt / Y | .97 | .91 | .86 | .80 | .76 | .71 |
| Debt / X | 3.8 | 3.3 | 3.1 | 2.9 | 2.7 | 2.6 |

Table 4

Costa Rica
Debt Relief: Half of Official Private Debt
Interest Payments Capitalized
(millions of U.S. Dollars)

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|
| Exports | 1238 | 1448 | 1586 | 1768 | 1960 | 2163 |
| Traditional | 597 | 685 | 700 | 751 | 806 | 862 |
| Non-traditional | 641 | 763 | 886 | 1017 | 1154 | 1301 |
| Imports | 1400 | 1558 | 1738 | 1940 | 2153 | 2396 |
| Non-factor Services | 126 | 134 | 141 | 150 | 159 | 168 |
| Net Interest Payments | 314 | 236 | 244 | 253 | 263 | 273 |
| Private Transfers | 39 | 40 | 42 | 45 | 47 | 49 |
| Current Account | 312 | 172 | 212 | 231 | 250 | 288 |
| Capital Account | 315 | 204 | 248 | 271 | 293 | 337 |
| Foreign Investment | 69 | 75 | 82 | 91 | 100 | 111 |
| Private Lending (for reserves) | 3 | 32 | 36 | 40 | 43 | 49 |
| Official Flows | 243 | 97 | 130 | 140 | 150 | 178 |
| Loans | 146 | 58 | 78 | 84 | 90 | 107 |
| Transfers | 97 | 39 | 52 | 56 | 60 | 71 |
| Change in Reserves | 3 | 32 | 36 | 40 | 43 | 49 |
| Rate of Growth Product (%) | 3.0 | 4.0 | 5.0 | 5.0 | 5.0 | 5.5 |
| Current Account / Y (%) | 6.5 | 3.3 | 3.7 | 3.6 | 3.5 | 3.7 |
| Investment / Y (%) | 21.0 | 21.6 | 22.0 | 22.0 | 22.0 | 22.0 |
| Public Savings / Domestic Savings (%) | 26.0 | 25.0 | 26.0 | 27.0 | 29.0 | 30.0 |
| Debt / Y | .97 | .92 | .87 | .82 | .78 | .74 |
| Debt / X | 3.8 | 3.3 | 3.2 | 3.0 | 2.8 | 2.7 |

Table 5

El Salvador
(millions of U.S. Dollars)

| | 1988 | 1989 | 1990 | 1991 | 1993 | 1993 |
|---|---|---|---|---|---|---|
| Exports | 609 | 634 | 700 | 781 | 881 | 994 |
| Traditional | 388 | 391 | 430 | 480 | 546 | 621 |
| Non-traditional | 221 | 243 | 270 | 301 | 335 | 373 |
| Imports | 1033 | 1127 | 1243 | 1375 | 1515 | 1678 |
| Non-factor Services | 130 | 138 | 146 | 155 | 164 | 174 |
| Net Interest Payments | 148 | 151 | 155 | 159 | 163 | 168 |
| Private Transfers | 221 | 222 | 233 | 245 | 257 | 269 |
| Current Account | 231 | 285 | 319 | 353 | 377 | 409 |
| Capital Account | 242 | 304 | 342 | 379 | 405 | 441 |
| Foreign Investment | 0 | 2 | 6 | 13 | 22 | 35 |
| Private Lending (for reserves) | 12 | 19 | 23 | 27 | 28 | 33 |
| Official Flows | | | | | | |
| Loans | 231 | 283 | 313 | 340 | 354 | 374 |
| Transfers | 185 | 226 | 250 | 272 | 284 | 299 |
| Change in Reserves | 12 | 19 | 23 | 27 | 28 | 33 |
| Rate of Growth Product (%) | 1.5 | 4.0 | 5.0 | 5.0 | 5.0 | 5.5 |
| Current Account/Y (%) | 4.6 | 5.3 | 5.3 | 5.3 | 5.2 | 5.1 |
| Investment/Y(%) | 13.5 | 14.0 | 17.5 | 17.5 | 17.5 | 19.2 |
| Public Savings/ Domestic Savings (%) | 3.5 | 7.1 | 8.4 | 11.3 | 14.2 | 15.3 |
| Debt/Y | .46 | .44 | .41 | .39 | .37 | .34 |
| Debt/X | 3.8 | 3.8 | 3.5 | 3.3 | 3.0 | 2.8 |

Table 6

Guatemala
(millions of U.S. Dollars)

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|
| Exports | 1113 | 1256 | 1421 | 1593 | 1759 | 1925 |
| Traditional | 586 | 631 | 678 | 725 | 776 | 828 |
| Non-traditional | 527 | 625 | 743 | 868 | 983 | 1097 |
| Imports | 1442 | 1597 | 1786 | 1998 | 2213 | 2454 |
| Non-factor Services | 23 | 24 | 26 | 28 | 29 | 31 |
| Net Interest Payments | 160 | 171 | 182 | 194 | 207 | 222 |
| Private Transfers | 75 | 79 | 82 | 87 | 91 | 95 |
| Current Account | 391 | 408 | 438 | 485 | 541 | 625 |
| Capital Account | 386 | 439 | 476 | 527 | 584 | 673 |
| Foreign Investment | 96 | 105 | 116 | 128 | 141 | 156 |
| Private Lending (for reserves) | -5 | 31 | 38 | 42 | 43 | 48 |
| Official Flows | 295 | 303 | 332 | 356 | 400 | 469 |
| Loans | 177 | 182 | 193 | 214 | 240 | 281 |
| Transfers | 118 | 121 | 129 | 143 | 160 | 188 |
| Change in Reserves | -5 | 31 | 38 | 42 | 43 | 48 |
| Rate of Growth Product (%) | 3 | 4 | 5 | 5 | 5 | 5.5 |
| Current Account/Y (%) | 4.2 | 4.0 | 3.9 | 3.9 | 3.9 | 4.1 |
| Investment/Y(%) | 13.5 | 14.0 | 17.5 | 17.5 | 17.5 | 19.2 |
| Public Savings/ Domestic Savings (%) | -.2 | 0 | 1.6 | 3.4 | 5.3 | 6.6 |
| Debt/Y | .29 | .29 | .28 | .28 | .27 | .27 |
| Debt/X | 2.5 | 2.4 | 2.2 | 2.2 | 2.1 | 2.1 |

Table 7

Honduras
(billions of U.S. Dollars)

| | 1988 | 1989 | 1990 | 1991 | 1993 | 1993 |
|---|---|---|---|---|---|---|
| Exports | 922 | 1007 | 1101 | 1197 | 1292 | 1413 |
| Traditional | 648 | 703 | 760 | 817 | 874 | 953 |
| Non-traditional | 274 | 304 | 341 | 380 | 418 | 460 |
| Imports | 1045 | 1142 | 1261 | 1296 | 1536 | 1699 |
| Non-factor Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Interest Payments | 217 | 224 | 232 | 240 | 249 | 259 |
| Private Transfers | 17 | 17 | 18 | 19 | 20 | 21 |
| Current Account | 324 | 342 | 374 | 420 | 473 | 524 |
| Capital Account | 339 | 362 | 398 | 447 | 501 | 556 |
| Foreign Investment | 39 | 42 | 46 | 51 | 56 | 62 |
| Private Lending (for reserves) | 15 | 19 | 24 | 27 | 28 | 32 |
| Official Flows | 285 | 300 | 327 | 368 | 416 | 461 |
| Loans | 114 | 120 | 131 | 147 | 167 | 184 |
| Transfers | 171 | 180 | 196 | 221 | 250 | 277 |
| Change in Reserves | 15 | 19 | 24 | 27 | 28 | 32 |
| Rate of Growth Product (%) | 3 | 4 | 5 | 5 | 5 | 5.5 |
| Current Account/Y (%) | 7.5 | 7.3 | 7.2 | 7.3 | 7.5 | 7.5 |
| Investment/Y(%) | 14.7 | 14.8 | 18.5 | 18.5 | 18.5 | 20.4 |
| Public Savings/ Domestic Savings (%) | 10 | 15 | 16 | 20 | 25 | 26 |
| Debt/Y | .76 | .73 | .69 | .65 | .62 | .60 |
| Debt/X | 3.6 | 3.4 | 3.2 | 3.1 | 3.0 | 2.9 |

Table 8

Nicaragua
(billions of U.S. Dollars)

| | 1988 | 1989 | 1990 | 1991 | 1993 | 1993 |
|---|---|---|---|---|---|---|
| Exports | 264 | 305 | 376 | 447 | 534 | 604 |
| Traditional | 167 | 200 | 262 | 323 | 399 | 454 |
| Non-traditional | 97 | 105 | 114 | 124 | 135 | 150 |
| Imports | 916 | 999 | 1100 | 1215 | 1336 | 1479 |
| Non-factor Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Interest Payments | 116 | 444 | 451 | 458 | 465 | 473 |
| Private Transfers | 21 | 22 | 23 | 24 | 25 | 26 |
| Current Account | 747 | 1116 | 1151 | 1201 | 1242 | 1321 |
| Capital Account | 748 | 1133 | 1172 | 1125 | 1266 | 1350 |
| Foreign Investment | 0 | 2 | 6 | 13 | 22 | 35 |
| Private Lending (for reserves) | 1 | 17 | 20 | 23 | 24 | 29 |
| Official Flows | 747 | 1114 | 1145 | 1189 | 1220 | 1287 |
| Loans | 75 | 111 | 115 | 119 | 122 | 129 |
| Transfers | 672 | 1003 | 1031 | 1070 | 1098 | 1158 |
| Change in Reserves | 1 | 17 | 20 | 23 | 24 | 29 |
| Rate of Growth Product (%) | -4 | 4 | 5 | 5 | 5 | 5.5 |
| Current Account/Y (%) | 37.9 | 51.9 | 48.7 | 45.9 | 43.1 | 41.4 |
| Investment/Y(%) | 16 | 18 | 22.5 | 22.5 | 22.5 | 24.8 |
| Public Savings/ Domestic Savings (%) | a | a | a | a | a | a |
| Debt/Y | 3.3 | 3.1 | 2.9 | 2.7 | 2.5 | 2.3 |
| Debt/X | 24.9 | 22.0 | 18.2 | 15.6 | 13.4 | 12.1 |

[a] negative domestic saving

Table 9

Nicaragua
Debt Relief: Cancellation of 90 percent of official private debt and 75 percent of official public debt
(billions of U.S. Dollars)

| | 1988 | 1989 | 1990 | 1991 | 1993 | 1993 |
|---|---|---|---|---|---|---|
| Exports | 264 | 305 | 376 | 447 | 534 | 604 |
| Traditional | 167 | 200 | 262 | 323 | 399 | 454 |
| Non-traditional | 97 | 105 | 114 | 124 | 135 | 150 |
| Imports | 916 | 999 | 1100 | 1215 | 1336 | 1479 |
| Non-factor Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Interest Payments | | | | | | |
| Private Transfers | 21 | 22 | 23 | 24 | 25 | 26 |
| Current Account | 747 | 767 | 800 | 848 | 886 | 963 |
| Capital Account | 748 | 783 | 820 | 871 | 910 | 992 |
| Foreign Investment | 0 | 2 | 6 | 13 | 22 | 35 |
| Private Lending (for reserves) | 1 | 17 | 20 | 23 | 24 | 29 |
| Official Flows | 747 | 765 | 794 | 834 | 864 | 929 |
| Loans | 75 | 76 | 79 | 83 | 86 | 93 |
| Transfers | 672 | 688 | 714 | 751 | 778 | 836 |
| Change in Reserves | 1 | 17 | 20 | 23 | 24 | 29 |
| Rate of Growth Product (%) | -4 | 4 | 5 | 5 | 5 | 5.5 |
| Current Account/Y (%) | 37.9 | 35.7 | 33.8 | 32.4 | 30.8 | 30.2 |
| Investment/Y(%) | 16 | 18 | 22.5 | 22.5 | 22.5 | 24.8 |
| Public Savings/ Domestic Savings (%) | a | a | a | a | a | a |
| Debt/Y | 3.3 | .72 | .69 | .67 | .64 | .62 |
| Debt/X | 24.9 | 5.0 | 4.4 | 3.9 | 3.5 | 3.3 |

[a] negative domestic saving

# NOTES

## Chapter 1

1. Although these tariffs were high by today's free-trade standards, they were only moderate by Latin American standards of the time.

2. According to the UN Economic Commission for Latin America, Notas sobre la evolucion del desarrollo social del istmo centroamericano hasta 1980 (Mexico City: 1982), p. 153, the bottom two deciles received 4.9% of the national income in Guatemala in 1970 and 5.3% in 1980; the bottom half received 17.4% in 1970 and 19.8% in 1980. The comparable changes in Honduras were 3.0% to 4.3% and 10.7% to 17.0%; in El Salvador 3.7% to 2.0% and 18.6% to 12.0%; in Costa Rica 5.4% to 4.0% and 20.9% to 21.0%; in Nicaragua the bottom half went from 15.0% to 16.0%.

3. CEPAL Review 38 p.19.

4. Cotton production, however, leads to higher job creation than subsistence crops.

5. Guatemala is the only economy with some oil export capacity.

6. See the paper by Claudio Gonzalez Vega in the Study Task Force volume, table 4.

7. This has ocurred in countries where women are traditionally disadvantaged, and where a very large percentage of children already receive insufficient nourishment.

## Chapter 2

8. Esquipulas II Agreement: "Procedure for Establishing Firm and Lasting Peace in Central America," pg. 8.

9. UNDP, Special Programme, p. 35. See also CADESCA and CORECA studies in Committe 1 Report of International Commission for Central American Recovery and Development, pp. 20-21.

10. Data on malnutrition taken from the Pan American Health Organization (PAHO), "Priority Health Needs in Central America and Panama," p. 15; and INCAP/PAHO, "Programas Alimentarios Nacionales," Documentos Tecnicos No. 8, Reproducciones, Buenos Aires, junio 1986, cuadro 5. The medical phrase "at risk of malnutrition" is used to indicate a less severe degree of malnutrition; individuals are not receiving sufficient nutritional value from their food, but are not severely malnourished.

11. The percentage of people with access to safe water varies from 68 percent in Costa Rica to only 18 percent in Guatemala. See OAS/IDB/PAHP, "Plan for Social Investments in Central America Basic Document", 1987.

12. From interviews conducted by Dr. Segundo Montes for a study of Salvadoran refugees: "El Salvador 1986: en busca de soluciones para los desplazados," San Salvador, Instituto de Investigaciones de la Universidad Centroamericana "Jose Simeon Canas," 1986.

13. Data is taken from FUNDASAL, El Salvador.

14. Although all of those living in extreme poverty are not starving, they are not getting enough food or even the right foods, and they suffer from high rates of intestinal infections. The extent of poverty as well as the real income levels marking the poverty line vary considerably among the five countries.The average income for the poorest 20 percent of the population in different countries, for example, varies substantially. In Costa Rica, average 1980 per capita income for the poorest 1/5 of the population was $176 per year; in El Salvador it was $47, and in Honduras $81. (See ECLAC: 1983) In all nations of the region, poverty is significantly worse in rural areas than in urban ones.

15. Proyecto Regional Para la Superacion de la Pobreza RLA/86/004, "Bases Para una Estrategia y un Programa de Accion Regional," julio de 1988.

16. This estimate is drawn from data gathered by the Internal Committee for Migration (ICM), PAHO, and from interviews and studies conducted by Dr. Segundo Montes.

17. See Table 1 at the conclusion of this chapter.

18. This number is calculated by multiplying the first priority group by 75 percent. This factor is our own estimate based on ECLAC's poverty studies and repatriation data from several sources. Figures on refugees and internally displaced persons drawn form Dr. Sergio Aguayo, "Las Poblaciones Desplazadas", a paper prepared for ICCARD Study Task Force.

19. Our estimates are based on the total of those internally displaced persons and those who are likely to return to their places of origin -- 300,000 Salvadorans, 135,000 Guatemalans, and 120,000 Nicaraguans for a total of 555,000. To these figures we added those Salvadorans, Nicaraguans, and Guatemalans who are presently living in Honduras and Costa Rica, and who are unlikely to return to their native countries. We estimate there are roughly 25,000 refugees in Honduras (most of whom are Salvadorans and Nicaraguans), and roughly 100,000 refugees in Costa Rica (most of whom are Nicaraguan). These total 125,000 people. Thus the overall total is 125,000 plus 555,000, or 680,000.

20. Thus the 680,000 people in group (2) correspond with approximately 510,000 additional people who live in extreme poverty.

21. See Table 3. We assume that the target population represents an even cross-section of the larger Central American population from which Table 3 is drawn.

22. See appendix to Chapter 6 on absorptive capacity. A number of factors determine an economy's ability to effectively use aid. These include levels of local administrative and management skills, the availability of feasible projects and the stage of infrastructural development (the condition of roadways and communications systems, for example). Channeling too much foreign aid into an economy can cause inflationary pressures, inefficiency and corruption.

23. Amongst others, the following project-based international plans have been developed to respond to economic, social and health needs: the "Health as a Bridge for Peace" project, organized by PAHO in conjunction with all Central American countries in 1983; the "Plan for Social Investment in Central America", initiated by the Organization of American States and supported by the Inter-American Development Bank and PAHO; and the United Nations' "Special Plan for Economic Cooperation in Central America". Approximately five years ago, the European Economic Community and the Nordic countries (particularly Sweden) have also undertaken special regional development assistance initiatives.

24. Rural food provisions have been estimated on the basis of 2/3 of the minimum caloric intake, and should not extend beyond the first crop. The general principal has been that of not creating frictions with other members of the host community, while at the same time promoting involvement of participants in income generating program and reactivating internal markets. In urban areas, subsidies for at least 1/3 of the minimum caloric intake could be provided through special programs such as food stamps. The lower figure in urban areas reflects that it is far easier to acquire at least some food in urban areas, whereas peasants in removed rural areas may well be unable to get any food until the first crop is harvested. Also, urban programs are longer than rural programs; the former lasting for 3 years and the latter for only 18 months (thus the net donation is equivalent). Both rural and urban food recipients should progressively decrease their participation in these programs.

25. Programs that provide food free or in conjunction with work programs should be gradually phased out and changed into programs which only subsidize the costs of food for the target population. Finally, these subsidies should also diminish to the point where food is distributed at market rates but with preferential access.

26. See PAHO, op. cit., pg. 16.

27. There should be at least one health post per rural community; in urban areas, there should be at least one health unit for every 20,000 people.

28. Community based organizations should coordinate with those providing the services and supplies to set appropriate fees.

29. Temporary, emergency measures could include insuring the safety of water sources within the community perimeter, providing means for transporting potable water to central locations within the community, and constructing temporary reservoirs for water storage. In those locations where safe drinking water systems exist but require repairs, emergency measures should not last for longer than three months. Although constructing potable water services in communities where they do not exist may require more than three months, these actions should be considered as immediate, and the emergency provisions should continue until service is established.

30. Foreign assistance through the immediate actions called for in this report will give different levels of benefits to each of the countries. See Table 5 for estimates of benefits by country.

## Chapter 3

31. Progressive and deliberate reduction of protectionism benefits consumers by lowering the prices they have to pay for imports, and reduces production costs. As exports are expanded, they will provide the foreign currency for the purchase of imported inputs. Reduction of protection should result in greater efficiency by stimulating competitive improvements, which in turn will enhance the demand for purely domestic products as the earnings from increased exports are spent. Export-oriented activity generates employment, particularly in non-traditional activities.

32. See the Report of Committee 3 of the International Commission for Central American Recovery and Development, August, 1988.

33. See Returns to Education: A Further International Update and Implications, World Bank Reprint Series Number 362, from fall, 1985.

34. Pan American Health Organization, Health Conditions in the Americas 1981-1984; World Bank, World Development Report 1987.

35. In Central America in general, there is one health worker for 4,800 people, and in some countries there is only one doctor for 8,600 people.

36. International Institute for Environment and Development and World Resources Institute, World Resources 1987 (New York: Basic Books, 1987), p. 248.

37. In 1985, only 13 per cent of university students in Honduras were women, 11 per cent in Nicaragua, nine per cent in El Salvador and six per cent in Guatemala. See the chapter by Sally Yudelman in the companion volume to this report, Central American Development: The Task Force Studies (Durham, NC, Duke University Press, 1989).

38. George Psacharopoulos, "Returns to Education: A Further International Update and Implications," Journal of Human Resources, Vol. XX, No. 4 (Fall 1985).

39. Robert Nathan Associates, 1987.

40. In Guatemala, the World Bank reported 40 percent productivity growth for small investments. According to the USAID "PISCES Study", loans in Costa Rica produced income increases of 96 per cent after six months and 145 percent after a year. The repayment record also has been excellent. On loans as small as $12 to $300, repayment rates averaged 95 per cent. In El Salvador, repayment rates have been as high as 99 per cent.

41. Robert Nathan Associates, 1987.

42. In El Salvador, the bank oversight board has already instituted a requirement that at least two percent of a commercial bank's own resources go to micro-enterprises.

43. See the chapter by Gustavo Arcia in the companion volume to this report, Central American Recovery and Development: The Task Force Studies (Durham, N.C.: Duke University Press, 1989).

44. See Malcolm Gillis, ed., Lessons from Fundamental Tax Reforms in Developing Countries (Durham: Duke University Press, 1989).

45. H. Jeffrey Leonard, Natural Resources and Economic Development in Central America (New Brunswick, N.J.: Transaction Books, 1987), Introduction.

## Chapter 4

46. It is significant that the Costa Rican economy, with more developed banking and other credit institutions and more equitable systems of taxation, agricultural policy and industrial policy, responded most vigorously to the export openings afforded by the U.S. Caribbean Basin Initiative. See Stuart Tucker's paper on the Caribbean Basin Initiative in the companion volume to this report, Central American Recovery and Development: The Task Force Papers (Durham, N.C.: Duke University Press, 1989).

## Chapter 5

47. This Committee has been reconfirmed as the economic arm of the Executive Committee of Vice-Presidents, representing the economic interests at play in the integration process in each of the countries. It works closely with the central bank presidents, the ministers of finance, the Sectoral Councils, and the regional institutions (SIECA, CABEI, CAMC, and ECLAC), which constitute its Inter-Institutional Technical Secretariat.

48. The latter involves relations with ALADI, SELA, and with the Agreements approved in the Declaration of Acapulco, which demanded greater regional integration between the countries of Latin America and the Caribbean as a whole and Central America, under the terms of the Montevideo Treaty. A special relationship with CADESCA (Committee to Support the Economic and Social Development of Central America) could facilitate these relations with Latin America.

49. At present an inter-institutional group constituted by SIECA, CABEI, the Central American Monetary Council, and the Economic Commission for Latin America and the Caribbean has been in charge of preparing studies evaluating the mechanisms mentioned and such plans as the Central American governments' Plan for Immediate Action. See the Treaty Establishing the Central American Parliament and other political entities. Guatemala, October 2, 1987.

50. Ratification by Costa Rica is the remaining step for the establishment of the Central American Parliament. National elections in each of the five countries must then take place for it to proceed.

51. See Chapter 6 for a more in-depth discussion of the verification mechanisms.

52. This section relies on five special papers commission for this report:
1) Situation and Perspectives of Central American Integration, by Arturo Montenegro, Mexico, April 1988; 2) Priority Projects and Sectoral Programs for Central American Integration, by Alfredo Guerra Borges, Mexico, April 1988; 3) Peace, Reconstruction, Development, and Democracy: The Potential of Non-Governmental Organizations, by Eric Holt-Gimenez, CRIES-Managua, May 1988; 4) The Potential of Political Parties, by Joe Eldridge, Honduras, May 1988; and 5) Central American Integration: Institutions and Initiatives, IRELA-Madrid, June 1988. It also draw extensively from the Study Task Force paper by Eduardo Lizano, "Prospects for Regional Economic Integration" in the companion volume Central American Recovery and Development: The Task Force Papers (Durham, N.C.: Duke University Press, 1989).

53. Although Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua are the historic republics of Central America, Belize and Panama are key neighbors within the isthmus. The proximity and shared resource systems that make regional integration attractive within the five-country region also hold for incorporating Belize and Panama. Though the special relationships that Belize and Panama have had with the United Kingdom and the United States, respectively, have created distinctive economic systems and trade patterns, some degree of broader economic cooperation is highly desirable. Some ties with Panama already exist in the form of regional cooperation programs (CSUCA, ICAP, IICA, CADESCA, among others) and in the form of joint sectoral programs (including energy, health, transportation). Furthermore, conditions that untracked the attempts to incorporate Panama into the CACM in the 1970s may no longer hold, as the current Panamanian and Central American crises may have created greater incentives for Panama and Central to diversify their economic ties.

54. Incentives to incorporate Honduras back into the integration scheme might include the opening of markets of surplus countries to Honduran products without requiring full reciprocity for a certain period of time. If Honduras continued to experience a trade deficit, a financing mechanism could be sought whereby the surplus countries would use part of their surplus to finance productive projects in the Honduran economy.

55. A regional communications agency should be established with offices in each country of the Central American isthmus, to facilitate the flow of prompt and objective information on regional trade, in accordance with the proposals made by CSUCA.

56. The Central American Common Market Fund could serve as the mechanism for carrying out this program.

57. One of the programs that could contribute most to improving the prospects of Central America is that prepared jointly by SIECA, CABEI, and ICAITI to reactivate and transform the industrial sector through reinvestments in firms that can contribute to the effort to increase exports to third countries, complement Central American productiuon, and increase intra-regional trade.

58. Twenty-eight agricultural projects, identified in the same Plan for Immediate Action, deserve high priority. CABEI has initiated studies of some of them, including regional programs for improved seeds and production of animal and vegetable oils, as well as the regional agro-industries program. Special attention is being placed on the group of projects contained in the "preliminary program for technical cooperation to support the agricultural sector in Central America," undertaken by SIECA and CABEI with the assistance of the UNDP. Feasibility studies must be done, and a regional agricultural development policy must be developed to coordinate the different projects, building on the work already done, and making use of assistance from the international community.

59. For example, the Superior University Council of Central America (CSUCA), was instrumental in developing a Central American body of thought concerning integration and development policies, was later supplemented with ICAP, the Central American Institute for Public Administration, for training upper-level administrative personnel. The Central American Institute for Research and Industrial Technology (ICAITI) was established to adapt and transfer new technologies.

60. For example, there is a Plan for Upgrading and Expanding the Central American Highway Network, requiring $1.2 billion in external financing; a CABEI proposal (within the UN Special Plan) for the Highway Reconstruction Program; a Program of Access Roads to Productive Zones for rural areas; and plans for $60 million of railroad improvements. A mammoth regional electricity plan was proposed in 1986 to expand capacity that otherwise will be exhausted by the mid-1990s, with a total investment of $5.925 billion. The Regional Telecommunications Artery also requires drastic renovation.

61. The Santo Domingo Agreement outlines payments agreements providing lines of credit for trade among the Latin American ALADI countries. Central America is currently negotiating to join the agreements.

62. Since 1983 there have been multilateral contacts with the EEC, which could be extended to the debt negotiations with the Paris Club and to assistance from Latin America.

## Chapter 6

63. Unilaterally established by the United States in 1984, the CBI allows the U.S. president to grant trade concessions for exports from designated countries, and to promote U.S. private investment in the region.

64. Under U.S. law approved by Congress and signed by President Reagan in September, 1988, the U.S. trade embargo against Nicaragua will be lifted automatically, "if the government of Nicaragua and the Nicaraguan Resistance sign a comprehensive final agreement to provide for peace and democracy in Nicaragua." The law also provides that within six months upon certifying that Nicaragua is continuing to comply with the agreement, the president may designate Nicaragua a CBI beneficiary for generalized trade preferences.

65. Other assumptions and the projection methodology are reviewed in Appendix 2.

~~CONFIDENTIAL~~ CONFIDENTIAL 84147 1

8739

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

December 21, 1988

DECLASSIFIED
Authority NSC/State Waivers
BY dh NARA DATE 4/17/2019

INFORMATION

MEMORANDUM FOR COLIN L. POWELL

FROM: ROBERT S. PASTORINO

SUBJECT: Commentary on Draft Sanford Commission Report Entitled Central American Recovery and Development

The draft report is a workman-like effort at describing the disastrous political and economic situation in the region. It provides an extensive menu of programs and strategies to improve the situation, none of which are particularly new or noteworthy.

Because the report does not break significant new ground or suggest spectacular solutions or initiatives, it will only be as relevant as Senator Sanford can make it by making it the centerpiece of legislation. It really runs the risk of being put on the shelf with other reports of this type.

Because it may be relegated to the shelf, it probably won't be very contentious. The drafters were careful not to apportion blame for the region's instability, treating the US and USSR in some cases as equally guilty. It carefully does not distinguish between the Central American countries, basically stating they all have (except for Costa Rica in some instances) the same problem. Of course, the blandness could elicit serious criticism from the passionate people on both sides of the issue.

On the positive side, it does recognize the importance of democracy for regional stability and economic developments. It comes down strongly on the need to provide for basic human needs (current AID policy) and emphasizes the need for conditionality on economic assistance. It does not call for a Marshall Plan for Central America, recognizing that USG resources are scarce. (On the other hand, its estimate that only $500 million more annually is required for real progress is very wrong; far more than that is needed.)

There are some serious problems:

-- On some issues it is naive, unrealistic, or vague. For instance, it implicitly assumes the current Nicaraguan Government will go along with "market-oriented" solutions to economic problems. It has a wide range of

~~CONFIDENTIAL~~
Declassify on: OADR

CONFIDENTIAL

estimates for the number of refugees, noting its information comes from interviews with refugees, who really have no idea of their numbers.

-- It follows the simplistic notion that peace, democracy and development can or will proceed simultaneously. In concrete terms, I strongly doubt there will be any investment until there is some stability. And it does not chart a path to political stability.

-- It makes assistance to refugees and displaced persons the centerpiece of the strategy. This seems to be an attempt at "relevance" at the expense of the real economic problem.

In sum, I doubt that it will meet Levitt's high expectations for it. As a policymaker, I see it as "just another report."

SGF for RBF PWR

Steve Farrar, Ty Cobb and Peter Rodman concur.

Attachment
Tab A - Sanford Commission Report
on Central American Recovery and Development

TIME STAMP

# NATIONAL SECURITY COUNCIL
## EXECUTIVE SECRETARIAT STAFFING DOCUME

SYSTEM LOG NUMBER: 8739

ACTION OFFICER: FARRAR / PASTORINO    DUE: 22 DEC

- [x] Prepare Memo ~~For Powell/Negroponte~~
- [ ] Prepare Memo Stevens to Peterson / Murr
- [ ] Prepare Memo For Dawson/Dolan
- [ ] Appropriate Action
- [ ] Prepare Memo ______ to ______

CONCURRENCES/COMMENTS*    *PHONE** to action officer at ext. 3622 / 4592

| | FYI | | | FYI | | | FYI | |
|---|---|---|---|---|---|---|---|---|
| ☐ | ☐ | Addis | ☐ | ☐ | Grimes | ☐ | ☐ | Paal |
| ☐ | ☐ | Andricos | ☐ | ☐ | Heiser | ☐ | ☐ | Pastorino |
| ☐ | ☐ | Batjer | ☐ | ☐ | Henhoeffer | ☐ | ☐ | Perina |
| ☐ | ☐ | Beers | ☐ | ☐ | Jameson | ☐ | ☐ | Popadiuk |
| ☐ | ☐ | Brintnall | ☐ | ☐ | Kelly, B | ☐ | ☐ | Porter |
| ☐ | ☐ | Brooks | ☐ | ☐ | Kelly, J | ☒ | ☐ | Rodman |
| ☐ | ☐ | Burns | ☐ | ☐ | Kimberling | ☐ | ☐ | Rostow |
| ☐ | ☐ | Childress | ☐ | ☐ | Leach | ☐ | ☐ | Saunders |
| ☒ | ☐ | Cobb | ☐ | ☐ | Ledsky | ☐ | ☐ | Snider |
| ☐ | ☐ | Cockell | ☐ | ☐ | Levin | ☐ | ☐ | Tahir-Kheli |
| ☐ | ☐ | Cohen | ☐ | ☐ | Lewis | ☐ | ☐ | Tice |
| ☐ | ☐ | Curtin | ☐ | ☐ | Linhard | ☐ | ☐ | Tillman |
| ☐ | ☐ | Danzansky | ☐ | ☐ | Lowenkron | ☐ | ☐ | Tobey |
| ☐ | ☐ | Dekok | ☐ | ☐ | Mahley | ☐ | ☐ | Wiant |
| ☐ | ☐ | Donley | ☐ | ☐ | McCue | ☐ | ☐ | |
| ☐ | ☐ | Ebner | ☐ | ☐ | Melby | ☐ | ☐ | |
| ☐ | ☐ | Farrar | ☐ | ☐ | Menan | ☐ | ☐ | |
| ☐ | ☐ | Fortier | ☐ | ☐ | Miskel | ☐ | ☐ | |
| ☐ | ☐ | Grant | ☐ | ☐ | Onate | ☐ | ☐ | |

INFORMATION
- [x] Stevens
- [x] Powell (advance)
- [x] Perito
- [x] Negroponte (advance)
- [x] Secretariat
- [ ] Exec. Sec. Desk

COMMENTS

** STAFFING PER RMP **

*Logged By* APK

*Return to Secretariat*