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**THE SITUATION IN CENTRAL AMERICA: THREATS TO INTERNATIONAL
PEACE AND SECURITY AND PEACE INITIATIVES**

SPECIAL PROGRAMMES OF ECONOMIC ASSISTANCE

Note by the Secretary-General

The Secretary-General has the honour to transmit to members of the General Assembly the special plan of economic co-operation for Central America prepared pursuant to General Assembly resolution 42/204 of 11 December 1987.

ANNEX

Special plan of economic co-operation for Central America

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I. BACKGROUND

1. In the preamble to the Esquipulas II agreements (Procedure for the establishment of a firm and lasting peace in Central America (see A/42/521-S/19085, annex)), the Presidents of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua declared: "We have our own approaches to peace and development, but we need help in making them a reality. We ask for an international response which will guarantee development so that the peace we are seeking can be a lasting one."

2. The agreements envisaged actions applicable to those societies in which advances must be made towards national peace and reconciliation: an end to hostilities; democratisation; the holding of elections in each country; the termination of aid for irregular forces and insurrectionist movements; a ban on the use of national territory to permit or prepare acts of aggression against another State; care for refugees and displaced persons; and negotiations on security, verification and the limitation of weapons. The agreements also include an explicit recognition of the link between peace and development. In this connection, the Presidents stated their intention of creating "a system of economic and social well-being and justice" and, to that end, agreed that they would "jointly seek special economic assistance from the international community" (Section 9 of the Procedure for the establishment of a firm and lasting peace in Central America (A/42/521-S/19085, annex)). This special plan of economic co-operation for Central America is a response to that peace initiative signed by the five Presidents of the subregion.

3. In fact, the General Assembly, in taking cognizance of the Central American accords, adopted resolutions 42/1 of 7 October 1987 and 42/204 of 11 December 1987, in which it expressed its unanimous support for them. It urged the international community to increase technical, economic and financial assistance to the Central American countries, and requested the Secretary-General to promote a special plan of co-operation for Central America. In its resolution 42/204 it requested the Secretary-General, in close co-operation with the United Nations Development Programme (UNDP), to send a technical mission to the Central American countries for the purpose of determining, in consultation with each of the Governments of the region, the Economic Commission for Latin America and the Caribbean (ECLAC) and such integration bodies as the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), the Central American Bank for Economic Integration (CABEI), the Latin American Economic System (SELA) and the Action Committee in Support of the Economic and Social Development of Central America (CADESCA), the economic and social priorities of the countries of the region. In particular, it requested the Secretary-General, on the basis of the priorities identified, to formulate, in close consultation with the Governments of the region and the appropriate organs and organizations of the United Nations system, a special plan of co-operation for Central America to be submitted, in view of the immediate needs, no later than 30 April 1988 for consideration by the General Assembly.

4. In order to carry out these mandates, the Secretary-General appointed Mr. Augusto Ramírez-Ocampo, UNDP Regional Director for Latin America and the Caribbean, as co-ordinator of the Organization's activities and instructed him to undertake together with Mr. Gert Rosenthal, Executive Secretary of ECLAC, a first

mission to Central America with a view to initiating implementation of the mandate given by the General Assembly, on the basis of direct consultations with the parties concerned. That mission was carried out between 4 and 11 December 1987. Other members of the mission were Mr. Gabriel Siri, Director of the ECLAC subregional office in Mexico, and Mr. Guillermo Fernández de Soto, UNDP consultant. The report of the mission, entitled "Bases for a special plan of economic co-operation for Central America", was sent by the Secretary-General to the five Presidents of the region on 7 January 1988.

5. The Vice-Presidents of the five Central American countries were appointed by their Governments to take charge of co-ordinating and arranging all matters relating to this plan. On 22 January 1988, the first meeting of Vice-Presidents was held at SIECA headquarters, with the participation of ministers responsible for economic integration and ministers of planning. On that occasion, Mr. Augusto Ramírez-Ocampo met with the Vice-Presidents to hear their suggestions and opinions on the document "Bases for a special plan of economic co-operation for Central America". It was agreed that the so-called Emergency Plan of the Central American countries, contained in their Plan of Immediate Action, would be taken into consideration in formulating the special plan.

6. In early February 1988, the Vice-Presidents met again at Managua and considered the document entitled "Preliminary quantification of the Emergency Plan envisaged in the Plan of Immediate Action". They agreed that the plan should be improved so as to establish a clear correspondence between urgent actions and short-, medium- and long-term actions. There was also agreement on the need to maintain close ties among regional integration bodies and organs with a view to co-ordinating international co-operation efforts aimed at Central America and, in particular, with the United Nations mission responsible for drafting the special plan of co-operation in pursuance of the resolutions of the General Assembly. (The Vice-Presidents issued a joint statement enunciating these ideas.) The co-operation that might be given by the European Economic Community (EEC) was also discussed with the EEC commissioner at that meeting.

7. The technical mission was carried out at the end of January 1988. The members of the mission held interviews with the Vice-Presidents and with the technical teams of each country, with a view to specifying the projects and programmes which, in conformity with Central American priorities as contained in the Secretary-General's report, constitute components of the special plan of co-operation for Central America. In order to ensure the broadest possible participation by subregional institutions, a working meeting was held at San José, Costa Rica, on 30 January 1988 with representatives of SIECA, CABEI, the Executive Secretariat of the Central American Monetary Council (CAMC), the Institute of Nutrition of Central America and Panama (INCAP), the Central American Institute of Public Administration (ICAP), the Central American Research Institute for Industry (ICAITI), SELA and CADESCA, and the Inter-American Institute of Agricultural Sciences (IICA).

8. The Secretary-General also requested the collaboration of all agencies of the United Nations system in the drafting of the special plan of co-operation. The technical input of the various agencies was an important contribution which will facilitate the implementation of the plan.

II. JUSTIFICATION AND OBJECTIVES

A. The Central American crisis: background

9. From the early 1950s until the second half of the 1970s, the economies of the Central American countries enjoyed fairly vigorous growth. The annual growth rate of Central America's gross domestic product was 4.6 per cent for 1950-1960, 5.9 per cent for 1960-1970 and 5.7 per cent for 1970-1977. During the period 1950-1977, there was a marked increase in per capita gross domestic product, which grew at an annual rate of 2.2 per cent. The initial impetus for this growth was provided by external demand for commodities, particularly coffee, bananas, cotton, sugar and, more recently, meat. The expansion of markets and the conclusion of subregional integration agreements led to the establishment of the second source of economic growth: regional industrialization. The favourable economic situation made it possible to expand and improve a public and private institutional infrastructure which played a vital role both at the national and at the Central American level.

10. Although this kind of growth was very good for economic development and institution building, it did not bring sufficient benefits to broad segments of the population. Marginalization and severe social inequalities prevailed in most of the Central American countries.

11. The 1970s saw the gradual emergence of the first signs of a falling-off in the rate of growth until, towards the end of the decade, economic growth curves actually began to show a down turn. Some of the factors that explain this situation are the following:

(a) The instability of the international economy and, to a large extent, the sudden rise in oil prices led to a major deterioration in the foreign trade sector; the independent impetus being generated by the Central American Common Market was not enough to offset the adverse effects of the collapse in foreign demand. Unfavourable expectations arose towards the end of the decade which undermined private decisions to invest;

(b) Governments generally resorted to increased public spending to compensate for the reduction in private investment. As the depression in foreign demand continued, a deterioration in public finances compounded balance-of-payments disequilibrium;

(c) The Central American countries tried to combat depression by incurring debts with private international banks. As a result, they quickly accumulated external debts whose servicing soon aggravated the financial imbalances. The availability of credits from commercial banks and the objective of maintaining internal price stability led to the maintenance of excessively high exchange rates which, together with the internal climate of scepticism, resulted in large-scale flights of capital;

(d) As growth tailed off and some countries implemented recessionary adjustment programmes, social backwardness and socio-political tensions emerged or were aggravated, creating further uncertainty among investors.

B. The main characteristics of the present crisis

12. The crisis in the Central American countries was reflected in a deterioration in their levels of economic activity (see table 1), and the international recession gradually helped to exacerbate the most conspicuous areas of strangulation, in both everyday life and the financial sphere.

13. In the face of these imbalances, countries were forced to apply adjustment policies. In some cases, these policies were given formal expression in agreements with international financial organizations (such agreements - with different characteristics and emphasis and with some breaks in time during the decade - were concluded by Costa Rica, El Salvador, Guatemala and Honduras), which were linked to external debt rescheduling processes. In the new approaches to short-term policy, the objectives of stabilization predominated over those of economic reactivation. In some countries, efforts were made to expand non-traditional exports, but in many cases the difficulties imposed by financial strangulation inhibited the investment process necessary for the purpose. Moreover, two of the five countries in particular, have been implementing since the beginning of the decade socio-economic reforms of a structural nature which normally require some time to take effect and which, in the meantime, have made it more difficult to apply stabilization and adjustment policies.

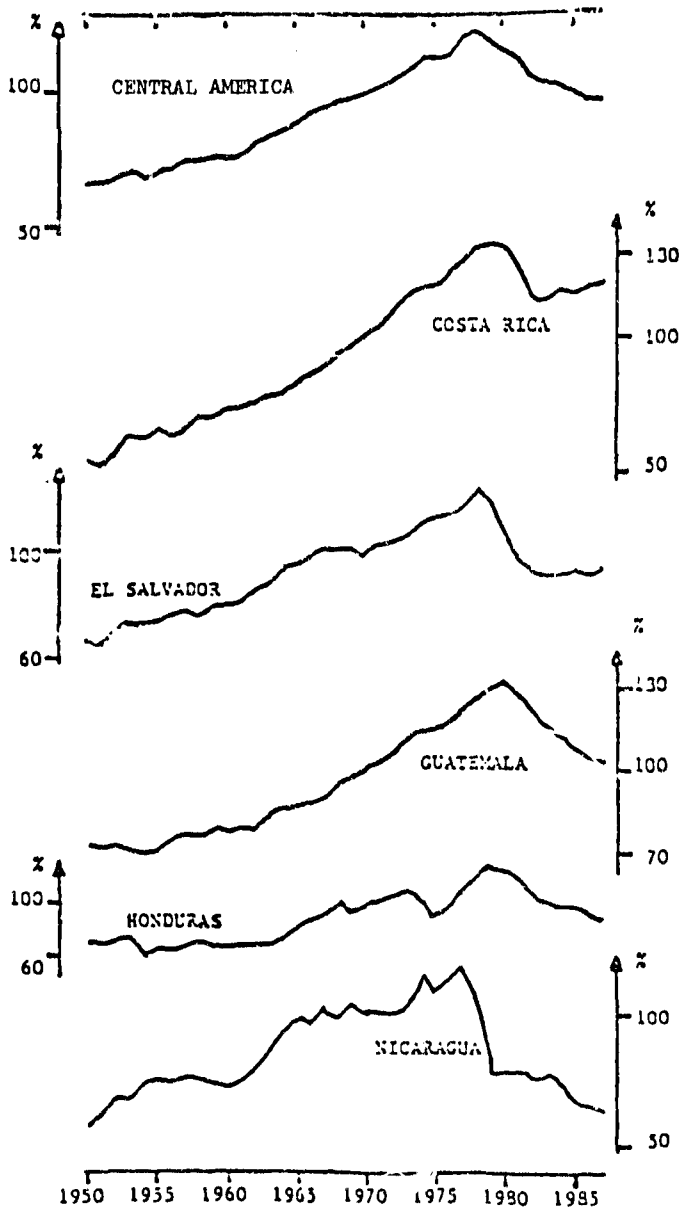
14. Political tensions have also been exacerbated by a number of complex factors, which include the presence of outside elements who have influenced the political and economic interactions of the subregion. In most cases, tensions have led to increased allocation of resources to military purposes. There are serious armed conflicts in two countries and the other countries also have their difficulties. For example, large groups of refugees have been displaced from one country to another for economic, political or social reasons as a result of the effects of the violence.

15. To varying degrees, almost all of the countries are receiving considerable external co-operation which in some cases has come to represent a significant percentage of fiscal expenditure, even current expenditures. However, the external co-operation channelled to Central America has exhibited certain deficiencies. First, it has led to the consolidation of warring groups and to the continuance and intensification of military activities; secondly, it has been directed towards projects which have intensified the differences between countries; thirdly, in recent years it has generally not been aimed at strengthening the integration process; lastly, multilateral financial co-operation has been accompanied in some cases by conditions which require recessionary adjustments.

16. The economic crisis of the Central American countries has various manifestations, among which some significant constraints should be pointed out:

(a) Contraction of the subregional common market: As external imbalances and the burden of foreign debt service have grown, the unpaid balances of subregional trade have become the main obstacle to reversing the contraction of reciprocal commercial exchanges. Owing to the shortage of foreign currency, the maintenance of industrial plant and physical infrastructure has been neglected. Serious differences in situations and economic policy approaches have also arisen, as is demonstrated by divergent inflationary processes or different foreign exchange strategies;

TABLE 1
CENTRAL AMERICA: PER CAPITA
Gross Domestic Product
(Base 1970 = 100)



SOURCE: ECLAC, based on official figures.

(b) Capital flight and the brain drain: Large amounts of capital have left Central America as a result of economic and political instability and the attractiveness of financial investment abroad. The loss of skilled and semi-skilled human resources is also substantial and reduces the possibilities for development in the subregion;

(c) Contraction of investment: The crisis has led to a deterioration in the process of capital formation. Part of the foreign financing which might have been channelled towards productive investment has instead been diverted to external debt service or to purchases of a non-productive nature;

(d) Political and military conflicts: Political instability has led most of the Governments to devote increasing resources to defence expenditures, postponing economic and social objectives. Armed conflicts have caused damage to infrastructure and the productive sector, especially in El Salvador and Nicaragua. In the case of Nicaragua, this has combined with the trade restrictions imposed for the past three years, which have caused export and supply difficulties that have yet to be overcome;

(e) Displaced persons and refugees: Population displacements within individual countries, emigration from one Central American country to another and emigration to areas outside the subregion have reached alarming proportions in terms of the human costs and the social and economic dislocations they cause;

(f) Increased external vulnerability: As the integration process has weakened and the crisis of foreign indebtedness has grown worse, there has been an increased degree of dependence on outside countries. Moreover, the conditions imposed by foreign co-operation have in some cases reduced the room for manoeuvre in national economic policies.

17. Depressed economic activity has caused high unemployment or underemployment rates, in spite of the emigration of huge segments of the population. Indeed, per capita gross domestic product in 1987 for the subregion as a whole was the same as it has been two decades earlier. Costa Rica has fallen behind the least (11 years), in contrast with El Salvador and Nicaragua (more than a quarter century). This has led to a deterioration in per capita consumption and other indicators of the population's well-being. In real terms, wages and salaries have been greatly reduced in almost all the countries, notwithstanding the fact that restrictive policies have scarcely relieved fiscal imbalances and balance-of-payments disequilibria.

18. To sum up, while there are significant differences between countries, the subregion continues to face a grave economic situation. External strangulation, the contraction of investment, the obsolescence of productive plant, open and hidden unemployment and social backwardness pose great challenges which have not been met.

C. Peace and development

19. The recent evolution of the Central American economies illustrates the close interaction between peace and development. Political turbulence considerably aggravates economic problems, while recession, with its social costs, fosters political tensions. As a result, the two crises - one political, the other economic 1/ - reinforce each other in a vicious circle. The attainment of peace would enable Central America to emerge from this vicious circle, opening the way to the reactivation of its economies.

20. The dynamic model of growth in Central America ran its course and was replaced by the most severe political and socio-economic imbalances in the subregion's contemporary history. Social inequalities and conditions of poverty gave rise to tensions and conflict. Peace requires a development that will guarantee decent living conditions for the population and respect for human rights.

21. Compliance with the Esquipulas agreements and execution of the special plan of economic co-operation require the political will and determination to ensure that peace and development are consolidated in the region. While peace is a necessary condition for development, it is by no means sufficient in itself. A persistent and systematic effort will unquestionably have to be made in order to overcome the difficulties that have prevented growth and have aggravated the political problems of the subregion. Primary responsibility rests, of course, with the Central Americans themselves - Governments and civilian societies - but international political support and international co-operation will be equally indispensable.

III. PRIORITY AREAS OF ACTION

A. Criteria used

22. The special plan of economic co-operation for Central America has three characteristics. First, it concentrates on those economic and social aspects which are directly linked to the preservation and consolidation of peace, and this is what makes it "special". Secondly, it is intended that the co-operation and support mobilized for this purpose should be additional to and distinct from those already being received by the Central American countries from the international community and that they should, if possible, be furnished on more favourable terms. Thirdly, it seeks to ensure that its actions are consistent with the priorities of the Governments of the region and supplement their national development efforts.

23. The consultations held with Governments made it clear that activities relating to the peace process are, in large measure, consistent with the countries' major national priorities. Over and above the differences in levels of development and in national policy objectives, there is a high degree of community of interests arising from the intimate interrelationship of their productive apparatus and from the fact that the Central American countries face common problems and share the same aspirations.

24. At the same time, given the magnitude of the obstacles to stabilization, the need to reverse recessionary trends as quickly as possible, and the orientation given by the General Assembly itself in alluding to the "immediate needs" of the region, emphasis must be placed on identifying actions that will have an impact in the short-term. Although one must not lose sight of the long-term goals for Central American development (modernization of productive sectors and more equitable distribution of the fruits of growth), attention should be focused on projects which can be put into operation during the next three years.

25. The Governments have undertaken to keep the process orderly. On the one hand, they are moving ahead in putting together a coherent proposal for national and regional priorities that can attract external co-operation (see the Plan of Immediate Action of the Central American Governments). On the other hand, they want to maintain order in foreign co-operation, directing it towards a limited number of priorities agreed on by consensus. This is particularly appropriate in the light of the proliferation of external initiatives within an international climate that is exceptionally well-disposed towards helping the Esquipulas II agreements to succeed.

26. The Acapulco Commitment to Peace, Development and Democracy, issued on 29 November 1987 by the Presidents of the countries members of the Permanent Mechanism for Consultation and Concerted Political Action, provides for support for Central America, particularly in its paragraphs 28, 29, 30 and 31. In accordance with the provisions of that agreement, Mexico recently established a global programme of economic and financial co-operation for Central America, which furnishes financial, commercial and technical assistance and support to the subregion.

27. It should also be mentioned that the Ministers for Foreign Affairs of the Group of Eight (Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay and Venezuela), at their meeting on 26 February 1988, declared that they welcomed the plan of economic co-operation for Central America drawn up by the United Nations.

28. Moreover, the EEC has, since the beginning of 1988, been developing a programme of co-operation aimed at the Central American countries. In this connection, it should be mentioned that the Community welcomed the fact that the countries of the isthmus had submitted the Plan of Immediate Action for the reactivation and economic development of the region, having stated its readiness to co-operate in its implementation (see A/43/258-S/19691, annex I). That Plan is considered as advance implementation of the plan provided for in General Assembly resolutions 42/1 and 42/204, with which it will have to be co-ordinated.

29. Another initiative in this field is the "project for the reactivation of the Central American Common Market", which has been submitted to the Swedish International Development Authority (SIDA) for consideration. The plan is designed to support the implementation of the agreement for peace and stability in the region. After EEC participation has been examined and defined, it will have to be co-ordinated with the other countries and international organizations that are to collaborate in the effort. EEC participation in various specific actions under the plan will be arranged by agreement with the Central American countries.

30. Another requirement that must be met in the task of broadening the real possibilities for development consists in securing greater foreign resources in support of the projects and programmes under the special plan. Essentially, the needs of the Central American countries would have to be reconciled with the international community's capacity to provide assistance, taking a multilateral, pluralistic approach which does not discriminate on political grounds.

31. The fundamental objective would be to re-establish, on new bases, the two driving forces for Central America's fast growth to which reference was made earlier: international demand and subregional demand. To this end, it is necessary to strengthen efforts aimed at improving the incorporation of the Central American countries into the international economy. The reactivation of the integration process should, in turn, form part of a restructuring of action programmes and policies. There is a functional relationship between production for domestic and subregional consumption and production for foreign markets; an increase in production for domestic consumption would reduce costs by taking better advantage of installed capacity, thereby increasing competitiveness on international markets, while an increase in exports would increase the population's income, thereby increasing the demand for goods produced in the region.

32. To sum up, the Governments have identified relationships in the strategies for recovery and development of their economies, in which assistance from the international community is indispensable. The plan reflects these priorities, indicating the main channels for external co-operation that should be established and the channels for programmes which are well advanced. Thus, the proposed actions do not constitute a closed scheme. On the contrary, the plan represents a point of departure that will have to be followed up and expanded. It will be necessary to consolidate the proposed flows of co-operation, putting forward new alternatives and incorporating projects with well-established technical backing. This would feed a process that will enable the region to establish new priorities and increase the financial support obtained from abroad.

33. As stated above, the priority areas satisfy the twofold criterion of contributing to the achievement of peace and being consistent with the major objectives of the Central American countries. Naturally, an attempt is being made to tackle the central development problems of the Central American countries, taking advantage of the multiplier effect of programmes of regional scope. On the basis of governmental priorities, projects under the plan have been classified into the following categories: (a) those which meet emergency needs arising from armed conflicts and the recent drought; (b) other urgent projects which require immediate action, such as projects relating to the debt and to the need for financing to reactivate intraregional trade; (c) those relating to the economic reactivation of the subregion and the strengthening of interdependence and integration among the countries; and (d) those relating to social problems, especially those designed to combat extreme poverty. The last two categories cover projects which could get started during the next three years but whose results would be felt only in the medium term.

B. Emergency programme

34. The special plan of economic co-operation reflects immediate needs and requirements arising from the emergency situation in the region, which include inter alia:

(a) The effects of the war in terms of the involuntary mobilisation of the population and the repair of material damage; and

(b) The repercussions of the 1987 drought, which reduced grain production and caused a decrease in the amount of energy available.

1. Assistance to refugees, displaced persons and repatriated persons

35. The cessation of hostilities in Central America poses challenges of various kinds. During the past 10 years of conflict, there have been population displacements and emigrations of alarming magnitude. The number of persons affected cannot be precisely determined. With the exception of the population cared for directly by the Office of the United Nations High Commissioner for Refugees (UNHCR), there is no accurate information concerning refugees. The Central American Governments, in their Plan of Immediate Action, established that out of a total of approximately 830,000 refugees, repatriated persons and displaced persons in the countries of the region, about 80 per cent would require immediate attention. It must also be recognized that Belize has been affected by the influx of refugees from neighbouring countries, which has caused it social and economic problems. In view of these problems, the United Nations system should adopt appropriate measures to deal with the situation.

36. In the light of the need to mobilize immediate support for these purposes, comprehensive development programmes have been set up to attend to the needs of the population of displaced persons, refugees and repatriated persons. The main objective is to give attention to highly vulnerable groups and meet the need to integrate them into society. Another objective is to prevent assistance programmes from creating a situation of dependency or becoming islands of privilege. As a consequence, the proposed actions will form part of a microregional development programme combining economic activities with actions designed to improve the quality of life of broader segments of each country's population.

37. The above-mentioned projects are designed to meet the following criteria: integration and active participation of the family as a consumption and production unit; collective organization as the dynamic nucleus of community development; pluralistic participation by promotion and support organisations, such as local governments, regional offices, trade union associations or corporations and non-governmental organizations; establishment of credit support systems for the development of community productive activities; training and refresher training programmes and programmes aimed at improving the population's quality of life in such areas as health and housing.

38. In the case of El Salvador, it has been calculated that international co-operation for displaced persons, refugees and repatriated persons would require an investment of \$US 43 million, of which the Government would contribute \$US 5.3 million. Investments totalling \$US 18.6 million have been committed, and \$US 20 million in additional financing must be found. In the case of Guatemala, the external contribution required would be \$US 12 million, in Honduras \$US 20 million, in Nicaragua \$US 28 million and in Costa Rica \$US 34 million. It should be emphasized that these projects were formulated in conjunction with the Governments and UNDP, working in close co-operation with UNHCR, the World Food Programme (WFP), the International Labour Organisation (ILO), the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA), the Food and Agriculture Organisation of the United Nations (FAO) and the United Nations Secretariat in their respective areas of competence.

39. Within the same range of problems, there is a special situation in groups consisting of orphans, war wounded, old people and young people of working age who are facing problems of identity and social recovery. This sector of the population is suffering from poverty, family breakdown, identity problems, health problems and uprooting.

2. Food aid

40. The inadequate supply of food is due to both structural factors and short-term economic factors. Throughout this decade, agricultural production has been in stagnation and its ability to meet the needs of a growing population has declined. External assistance has been covering part of the food deficit.

41. The situation became acute in 1987 for several reasons: a severe drought hit most of Central America; political-military conflicts caused damage to the productive apparatus; the unavailability of foreign exchange made imports difficult. In some countries, a genuine emergency situation has arisen.

42. The Central American Governments and WFP have assessed immediate food needs at approximately \$US 104 million. WFP has committed a total of \$US 278 million for a period of five years. It is also planning eight projects which include assistance amounting to \$US 27 million. In this connection, contacts have been made with bilateral donors such as Canada, Italy, the EEC and the Group of Eight in order to organize multilateral operations.

43. Food aid should not become a permanent feature of domestic supply. It cannot and should not replace the Central American countries' capacity for increasing their production. In fact, with the exception of wheat, Central America has the potential to attain self-sufficiency in basic grains. What is needed, in short, is to stimulate domestic supply through a series of measures that will make it possible to increase crop yields by means of technological improvements, organize producers and devote more attention to marketing and distribution systems, in order to add a broader dimension to meeting the demand for food (see paras. 87-93). In the immediate future, food aid will make it possible to relieve temporary shortages. In the long term, food aid should be regarded as a supplement that does not discourage domestic production, otherwise the countries' external dependence will increase.

3. Urgent energy needs

44. Thermal generating capacity has been utilized intensively because of the inadequate output of hydroelectric plants. The reasons for this inadequate output are that, for the past three years, the levels of the reservoirs behind dams have been lower than the expected average, that some major hydroelectric projects have been delayed in going into service and that the increase in consumption has, in general, been higher than expected.

45. Electricity projects have had a marked impact on the region's foreign indebtedness. As a result, investments have had to be rationed and this in turn has led to a reduction in the margins of energy reserves available to meet emergencies. The foregoing factors have made it necessary in some countries to limit the supply of electric power.

(a) Fuel needs

46. In order to anticipate problems such as those described above, national electricity agencies have made estimates of future fuel requirements for generating supplementary energy in thermal plants. They used data on the expected growth in demand, the differences between expected reservoir levels and levels regarded as normal, and information concerning available thermal plants (see table 2).

(b) Support for the maintenance of thermal generating capacity

47. The energy shortage will continue until 1995, since no power-generating projects of any significant capacity are envisaged in any of the five Central American countries. Low reservoir levels give reason to expect intensive utilization of existing thermal capacity. Consequently, it is urgent to finance repairs and implement widespread maintenance programmes. In Guatemala and Nicaragua, rehabilitation projects for thermal plants have been formulated and are already partially financed. These projects will bring results in the medium term, but immediate attention must be given to urgent repairs which, in most cases, have been postponed for lack of replacement parts.

(c) Emergency action at hydroelectric plants

48. In order to reduce the fuel imports required for energy generation, electricity companies have drawn attention to the need to undertake immediate maintenance work on hydroelectric dams, as well as to make some minor changes in their design. This involves, first of all, making sure that generators do not operate under dangerous conditions, taking maximum advantage of the low reservoir levels. This is the case with some dams in El Salvador and Nicaragua. Similarly, efforts are being made to improve floodgates or divert water flows that would increase the dams' energy-producing capacity for domestic consumption and, in the case of Honduras, for guaranteeing the export of energy to countries with energy shortages.

Table 2

Central America: Urgent fuel needs for electric power supply
 in 1988 and 1989

	INDE	CEL a/	ENEE b/	INE c/	ICE
1988					
<u>Estimated demand (GWh)</u>	<u>2 090</u>	<u>2 019</u>	<u>1 515</u>	<u>1 406</u>	<u>3 536</u>
<u>Generation (GWh)</u>	<u>2 090</u>	<u>2 019</u>	...	<u>1 286</u>	<u>3 369</u>
Hydroelectric	1 800	1 051	..	242	2 974
Geothermal	-	381	...	233	-
Bunker	72	321	...	771	209
Crude oil	206	-	...	-	-
Diesel oil	12	266	...	40	186
<u>Imports (GWh)</u>	-	-	-	<u>50</u>	<u>166</u>
<u>Fuel requirements (in \$US 1,000)</u>	<u>14 898</u>	<u>38 461</u>	-	<u>32 535</u>	<u>19 317</u>
Bunker (1,000s of bbl)	163	616	-	1 600	415
Crude (1,000s of bbl)	434	-	-	-	-
Diesel (1,000s of bbl)	30	835	-	124	513
1989					
<u>Estimated demand (GWh)</u>	<u>2 207</u>	<u>2 144</u>	<u>1 626</u>	<u>1 475</u>	<u>3 856</u>
<u>Generation (GWh)</u>	<u>2 207</u>	<u>2 144</u>	...	<u>1 344</u>	<u>3 688</u>
Hydroelectric	1 800	921	...	300	3 301
Geothermal	-	332	...	233	-
Bunker	242	510	...	771	204
Crude oil	137	-	...	-	-
Diesel oil	28	381	...	40	183
<u>Import(s) (GWh)</u>	-	-	-	<u>50</u>	<u>166</u>
<u>Fuel requirements (in \$US 1,000)</u>	<u>20 701</u>	<u>57 334</u>	-	<u>32 535</u>	<u>19 005</u>
Bunker (1,000s of bbl)	450	978	-	1 600	405
Crude (1,000s of bbl)	245	-	-	-	-
Diesel (1,000s of bbl)	67	1 213	-	124	505

(Source and footnotes on following page)

(Source and footnotes to table 2)

Source: National energy companies: INDE of Guatemala, CEL of El Salvador, ENEE of Honduras, INE of Nicaragua and ICE of Costa Rica.

a/ CEL assumed a critical year for reservoir levels. Annual average hydroelectric generation in the last three years was 1,173 GWh.

b/ ENEE will cover all its energy demand with hydroelectric power. It will also export some 500 GWh to the other three countries in 1988.

c/ There will be an unmet shortfall in 1988 and 1989.

(d) Electrical interconnection

49. The link-up between the electricity grids of Honduras and Nicaragua went into service in 1985. It consists of a 230-KV line provisionally being operated at 138 KV, with a transmission limit of between 50 and 60 MW. At present, Honduras has energy surpluses of the order of 400 to 600 GWh, depending on rainfall. The low transmission limit of the interconnecting link makes it necessary to operate it at saturation level, and this prevents optimum economic utilization of surpluses. There is even a risk of overflow at the Honduran reservoirs of El Cajón and Yojoa Lake. In order to increase the voltage of the interconnecting line between the substations of Pavana in Honduras and León in Nicaragua (from 138 KV to 230 KV), an investment would have to be made in electrical equipment in Nicaragua at a total cost of some \$US 500,000.

C. Programmes of immediate action

50. Perhaps the main impediment to the subregion's efforts to initiate the reactivation process is financial constraints. The special plan of economic co-operation emphasizes two areas of vital importance which require immediate action:

(a) The heavy burden of the foreign debt;

(b) Financing requirements for reactivating the Central American Common Market and reducing temporary imbalances in countries' balance of payments.

1. Foreign debt

51. The Central American countries' commitment to servicing their foreign debt has become one of the major constraints on an economic recovery policy. Under present circumstances, there is no possibility whatsoever of achieving regional economic reactivation and halting social sacrifices so long as significant amounts of resources are being transferred to other countries, greatly weakening the internal process of capital formation. Therefore, the following proposals should be taken as a preliminary approach which is adapted to the needs of Central America but may encounter various obstacles from the international financial community or creditor countries. Because of this, it would be desirable to engage in negotiations aimed at harmonizing the various positions and adopting constructive formulas that will help to make viable the economic reactivation of a critical area of the Third World. In 1980, the subregion's debt amounted to \$US 7.7 billion; by the end of 1986 it had risen to \$US 17.2 billion. Nicaragua (\$US 5.7 billion), and Costa Rica (\$US 3.74 billion) accounted for more than half of the total foreign debt; El Salvador had the smallest foreign debt (\$US 2.1 billion), followed by Guatemala (\$US 2.64 billion) and Honduras (\$US 2.93 billion). Debt-service payments increased from 25 per cent of exports of goods and services from Central America to over 40 per cent between 1986 and 1987 and are still increasing.

52. There is an urgent need to find solutions to the limitation on the net flows of foreign capital that could potentially stimulate economic recovery. In

principle, it seems inevitable that financial resources will have to be obtained on concessional terms in order to enable the Central American countries to alleviate their foreign-debt crisis. In support of that effort, multilateral lending institutions could play a catalytic promotional role with the international community.

53. Similarly, some of the countries of the region will require debt-service relief above and beyond the periodic rescheduling which has characterized their relations with their creditors in recent years. The Executive Secretariat of CAMC, CABEI, and experts from the central banks of the countries of the region have been analysing alternative options, some elements of which are listed in the following paragraphs. These options have been formulated with the benefit of experience acquired in other heavily indebted countries.

(a) Debts to private agents

54. At the end of 1986, Central America's foreign debt to private banks and agents came to \$US 4.9 billion, with a market value estimated at a much lower figure. In order to reconcile regularization of the debt service with the minimum objectives of economic reactivation and adjustment, two alternative proposals should be considered.

55. The first option would be to convert the debt to market-price terms, taking account of debtor countries' capacity to pay. Within the framework of individual arrangements with each of the Central American countries, the new instruments would have a period of over 20 years, with a single payment made at the end of that period, a substantial grace period and a fixed rate of interest. As a guarantee, it is proposed that Central America establish a special debt redemption fund which would guarantee payment of the principal at the end of the period.

56. Interest payments would be made up of a combination of payments in foreign exchange and payments in local currency. The amount to be paid in foreign exchange would be determined in accordance with Central America's real capacity to pay, and the remainder in national currencies would be used to finance investment projects or to acquire long-term securities from the region's financial institutions.

57. Debtor countries would undertake to make annual debt repayments to the redemption fund. The annual amount of those payments would be flexible and could be increased if there was an improvement in the foreign exchange earnings of the country in question. In principle, it would be desirable to have the redemption fund covered by a multilateral entity (Inter-American Development Bank (IDB), International Bank for Reconstruction and Development (IBRD)) when unexpected reductions in available national funds made it impossible to meet annual payments.

58. The second option would be a voluntary conversion of the debt, at market value, with private creditors being given guarantees in zero-coupon bonds. To that end, the World Bank or a similar institution would issue discount bonds (zero-coupon bonds) with a term of 20 years and a face value equivalent upon maturity to the market value of the Central American debt. The bonds would be transferred as a credit of the issuing institution to Central America and would be used to guarantee a Central American issue of ordinary bonds which would be

exchanged for the documentation of the old debt on the secondary markets of international financial centres.

59. The region would establish an interest guarantee fund with a minimum amount of resources, equivalent to the payments that must be made in three years. The fund would be supplied from donations and loans made on concessional terms by friendly countries and, in so far as possible, from the Central American countries' own resources. If possible, an effort would be made to set up a network of last-resort guarantees furnished by Governments which were prepared to undertake to reconstitute the minimum value of the fund in the event of a Central American country's temporary inability to make its interest payments.

(b) Bilateral debt

60. The balance of the bilateral public debt came to approximately \$US 6.2 billion at the end of December 1986. In this case, it seems advisable to initiate negotiations in which flexible efforts would be made to achieve one of the following results: (a) agreement on a comprehensive arrangement between creditor countries and the countries of Central America which would extend the bilateral debt to a term longer than 20 years, and apply an interest rate lower than the market rate and a substantial grace period; or (b) alternatively, the bilateral debt of the Central American countries could be deposited in a special fund established with one of the regional financial organizations, in exchange for the creditor's participation in that fund. The debt of each Central American country would then be redocumented on the terms indicated above.

61. In addition to the renegotiation of the bilateral debt, it would be desirable in case (a) to seek an arrangement under which the interest and amortization payments would be recycled to the region on concessional terms. Such resources, or those obtained from option (b), would be allocated to strengthening regional financial mechanisms with a view to restoring the liquidity of the Central American countries, promoting the reactivation of trade within the area and financing long-term economic development projects.

62. There is also the possibility that creditor Governments might use their credits to provide capital to CABEI as extraregional partners.

(c) Multilateral debt

63. The balance of Central America's multilateral debt amounts to approximately \$US 5.2 billion. In recent years, the payments for servicing these debts have exceeded the cash flows for new contracts. In order to reverse this trend, it would certainly be necessary to increase the region's capacity for preparing and executing projects (an aspect dealt with in more detail below), but it also seems essential to introduce greater flexibility into the requirements relating to counterpart funding in local currency and to conditionality, as well as into the political ingredients of the decisions made by multilateral organizations.

64. The specific proposal is that multilateral bodies should grant the Central American countries sufficient additional financing on the concessional terms established for relatively less developed countries.

2. Financing to reactivate the Central American Common Market and reduce temporary imbalances in countries' balance of payments

65. For almost 20 years, intraregional trade was an important stimulus for the growth of the Central American economies. In some periods, such trade increased the favourable effects of extraregional trade, while in other periods it attenuated the effects of unfavourable movements in the latter. It also had an impact on production structures, which manifested itself in a significant industrialization process which encouraged the emergence of businesses whose size would have prevented them from being viable on national markets. Transport, communications and middleman services were expanded, and the modernization of production systems in general was promoted.

66. Thus, the recent drastic contraction in trade within Central America has become a factor which, in contrast to the past, is intensifying the economic crisis of the five countries. Accordingly, any support from the international community that makes it possible to reactivate regional trade will have a multiplier effect by unleashing the dynamic capacities of the integration process.

(a) Proposal for giving liquidity to the Central American payments system

67. Trade within Central America reached its highest level in 1980, amounting to \$US 1.16 billion or approximately 24 per cent of the total foreign trade of the countries of the subregion. By 1987, this figure had declined to approximately \$500 million or roughly 12 per cent of total foreign trade.

68. As the flow of trade increased, the subregion made intensive use of the Central American Clearing House as a multilateral payments instrument for paying commercial balances. Beginning in 1980, this machinery began to encounter problems when unpaid balances began to increase. This situation gave rise to a number of reactions among the Central American countries which resulted in restrictions on the intraregional flow of trade. The amount of the intraregional debt increased yearly until it reached almost \$US 750 million. (The intraregional debt includes clearing-house balances and some special payment facilities which were granted to Nicaragua shortly after the change of government in 1979.)

69. The multilateral payments machinery was replaced by a wide variety of forms of commercial payment, ranging from barter to payment in dollars. Thus, the direct use of national currencies declined and new forms developed, such as the so-called Central American import duty (DICA).

70. With a view to restoring the multilateral payments system for trade within Central America, the experts of the central banks of the Central American countries have proposed that the Central American Monetary Council should create a special fund which would receive as an initial contribution 100 per cent of the net credits which the central banks of the Central American countries have accumulated with the rest of the region. That fund would redocument the intra-Central American debt by means of credits on highly concessional terms (30-year duration, 10-year grace period and an annual interest rate of 2 per cent). This would establish a new multilateral relationship (since the new creditor would be the special fund), and trade within Central America could increase without being hampered by the recovery of accumulated bilateral debts.

71. However, the effort of expanding intraregional trade would require additional support. The Central American countries' lack of foreign exchange is making it difficult for them to acquire the external inputs which are needed to produce goods marketable on a regional basis. It would therefore be essential to have additional credits from abroad, especially during the phase of reactivation of Central American supply and trading. In more concrete terms, an input of \$US 350 million is needed, to be utilized over a period of five years. These resources could be channelled through the Central American Common Market Fund and would provide direct support for the export efforts being made by the Central American countries, and could be designed to favour primarily those countries which have traditionally had deficits in their trade within the area.

72. In return, the Central American countries will have to undertake: (a) to eliminate those measures which hamper Central American intraregional trade and to establish clear rules for payment; (b) to adopt machinery which would facilitate the timely payment of future transactions, avoiding the accumulation of unpaid balances; and (c) to create the machinery described above for handling accumulated debts.

(b) Strengthening of the Central American Monetary Stabilization Fund

73. Part of the plan for moving towards the formation of the "Central American Monetary Union", in 1969 the central banks established a common reserve fund called the Central American Monetary Stabilization Fund (FOCEM). Its basic objective is to provide financial assistance in correcting temporary disequilibria in the balance of payments of member countries and to promote the normal operation of exchange systems.

74. The support that the countries have given to FOCEM is evident. A variety of bodies such as Latin American central banks, United States and European commercial banks, the United States Agency for International Development (AID) and international banks have also channelled resources to Central America through the Fund. In 1987, national contributions totalled \$US 115 million and the Fund's total resources came to \$US 200 million. The Fund, for its part, has granted a total of \$US 1.1 billion in credits to the Central American central banks.

75. However, the recent shortage of resources has limited the Fund's ability to perform its functions fully. For a number of years now, external imbalances have compelled the Central American countries to ration the use of foreign currency, chiefly through exchange controls, quotas or lists of priority products and services for import. Since then, multiple rates of exchange have been applied, causing chaos in exchange operations at different times. These situations, which form part of the various adjustment efforts, have had a severe impact on regional trade.

76. The Central American Governments are attempting to restore external equilibrium. Nevertheless, their efforts will take a long time to bear fruit and will entail further social sacrifices, unless liquidity is channelled to a subregional support mechanism for the revitalization of production, without making the external imbalance more acute. For this reason and in order to increase the

viability of adjustment policies, it is proposed that the international financial community, Governments, subregional financial organizations and multilateral bodies should set up deposits, lines of credit, loans and other forms of balance-of-payments financial support to Central America through the Fund. The specific conditions will have to be negotiated on the basis of the adjustment efforts that recipient countries undertake to make.

D. Economic reactivation and social development

1. Economic reactivation

77. The Central American countries are trying to re-establish the dynamic potential of Central American intraregional demand and international demand on new bases, and to overcome the obstacles deriving from the heavy external debt burden and internal financial imbalances. There is a political consensus that it will be easier to attain these objectives through subregional mechanisms that supplement national efforts and are capable of attracting additional backing from foreign co-operation (see the Plan of Immediate Action formulated by the five Central American Governments).

78. The re-establishment and expansion of the ties of economic interdependence among the five countries of the subregion is an obvious priority. Integration bodies gave continuity to the process of building economic ties, a continuity manifest in trade, finance, industry, agriculture and infrastructure, through initiatives and the technical support furnished to the various intergovernmental forums of Central America. Similarly, the community of interests created by this economic interdependence spilled over into the political sphere, helping to improve relations among countries.

79. The integration system must be adapted to the new circumstances. Trade among the Central American countries must contribute to efforts to increase efficiency and competitiveness vis-à-vis third markets, and integration must pursue the goal of transforming and diversifying the productive structures of countries of the region by taking joint action to solve common problems.

80. International co-operation should also help to improve the regional physical infrastructure which links the five countries and which in the past helped strengthen the relations of interdependence among members of the Central American Common Market. Lastly, each co-operation programme or project should include a specific component of management support for the national and subregional bodies carrying out projects, with a view to enhancing the effectiveness of all subregional activities.

(a) Financing of industrial rehabilitation and reconversion programmes

81. As a result of political and economic crises, the industrial sector's share of the subregion's gross domestic product declined from 19 per cent in 1980 to 16 per cent in 1986, after having risen steadily over the two preceding decades. As industrial output dropped and plants closed, investment in the manufacturing

industry declined, foreign suppliers cut off short-term credits and commercial banks reduced medium-term credits. The industrial sectors most affected were food, metal engineering, chemicals, textiles and clothing, leather and footwear, and construction materials.

82. The scarcity of foreign exchange, the weakening of demand on export markets, the growing obsolescence of productive plant and the flight of technical personnel are the main obstacles to industrial reactivation, making it harder to attain the objective of exporting to new markets. It is urgent, therefore, to promote industrial rehabilitation and reconversion and to initiate a process of support for industrial firms designed to correct structural defects and defects arising from the recent crisis. Many industrial firms find themselves short of capital and others do not have the capacity to finance sales or to replace machinery and equipment. In this task, Central America can count on the full support of the United Nations Industrial Development Organization (UNIDO), which has indicated that it is entirely available and has offered its services to the countries of the region. The UNCTAD/GATT International Trade Centre (ITC) is also prepared to co-operate in the identification and development of the industrial sector's export potential.

83. In some cases of industrial rehabilitation, it would be sufficient to expand access to credit for the purchase of inputs and increase the use of installed capacity. In other cases, venture capital or the replacement of equipment and the training of personnel would be needed. In cases of industrial reconversion, the tasks are more complex, for instance: the absorption of new technology; the replacement and modernization of equipment; the specialization or diversification of production; the redesign of products; the development of new marketing techniques; the merger or association of enterprises; the recapitalization and refinancing of debts; and the restructuring of management, technical and administrative manning tables. The amount of progress made in activities and programmes designed to promote rehabilitation and reconversion varies from sector to sector and from country to country: in some cases, a short-term approach consistent with the urgent need for raw materials and replacement parts is required to prevent a later drop in output, while in others longer-term action would be needed for reorganization and the adaptation of technologies and management techniques.

84. In the area of industrial reactivation, there is a Central American programme approved by the Board of Directors of CAMEI. The programme covers the financing needs of businesses that meet some of the following requirements: increasing intraregional trade, increasing the utilization of installed capacity, generating employment, utilizing the subregion's raw materials, increasing exports to third countries, and/or strengthening industrial complementarity in Central America. The first stage of the programme will require \$US 41 million in external resources and \$US 12 million in local contributions. (The amount of financing required by the programme was estimated on the basis of a survey which identified the industrial sectors with the greatest accumulated needs, outstanding among which are the manufacture of chemicals, foodstuffs and beverages, textiles, paper and paper products, and non-metal products. Most resources would be allocated to supporting the expansion of installed capacity, taking into account the growing obsolescence

of equipment, the establishment of new plants and the reactivation of existing ones. Estimates of the resources needed are conservative and it is likely that additional resources would be needed for the purchase of inputs.)

85. The CABEI programme does not explicitly cover the technical assistance requirements of industrial reconversion or of access to new technology, although it may finance them. Central America had never had to face reconversion needs until now, because the requirements of technological change and international competition were less intense in the past and because there was no lag in investment until the early 1980s. Thus, it is not known exactly what will have to be done, and there is no experience in the design and execution of specific projects.

86. There is one project which could be financed by the international community; its objective is to channel technical co-operation for the formulation, co-ordination and execution of subregional policies and programmes for industrial modernization and reconversion and the promotion of new exports. The project would include a small nucleus of competent experts located in Central America who would transmit know-how, train Central American personnel and advise Governments and businessmen. A second component of the project would be the financing of trips abroad for officials of Governments and private enterprise to observe the programmes of more advanced countries, as well as experiments with the use of new production techniques. Lastly, there would be joint meetings and activities aimed at analysing studies, evaluating proposals, agreeing on joint action and adopting institutional machinery to facilitate industrial reconversion and export promotion. Here, UNIDO should participate actively in the design and execution of the project.

(b) Agricultural development

87. The agricultural sector of the Central American countries is also undergoing a severe crisis caused partly by the sharp drop in export prices and the increase in prices for imported inputs. With regard to specific products, there has been a decrease in cultivated area and output for, inter alia, cotton and sugar cane. Sugar cane has also been affected by competition from substitutes, especially corn syrup on the United States market. The planting of grains for domestic consumption is also suffering from the problems mentioned in the section on food security.

88. The Governments have given special attention to the search for solutions for reactivating agriculture. Each of the countries has put different measures into practice. Projects and policies designed to promote joint action were reviewed and refined at the Joint Meeting of Ministers of Agriculture and Ministers Responsible for Integration, held in Guatemala on 24 and 25 November 1987.

89. The set of programmes and projects identified is aimed at reactivating production, giving attention both to the needs of domestic consumption and the fight against poverty, and to export needs. At the same time, an effort is being made to promote technological advances and to give the Central American countries a larger share of the surpluses generated by sales made abroad. In addition, the Governments have agreed to expedite the establishment of a Central American exchange for agricultural products and inputs and the joint development of frontier

basins. Consideration could also be given to other frontier integration projects such as the Trifinio project, which involves Guatemala, El Salvador and Honduras and which has a major agricultural component. The same is true of the updating of studies for the exploitation of the fisheries, industrial, tourist and port resources of the Gulf of Fonseca, which will benefit all the countries of the region and will be of direct benefit to Honduras, El Salvador and Nicaragua.

90. While projects such as those for irrigation, seed production and the conservation of natural resources seek to improve technological capacity, projects for export promotion and the establishment of an exchange for agricultural products and inputs are designed to improve trade relations with the rest of the world. Programmes relating to food, integrated development and production are, in turn, designed to increase domestic supply and improve the rural population's living conditions.

91. At present, FAO is preparing a Plan of Action for Agriculture which will be considered at the Twentieth Regional Conference for Latin America and the Caribbean, to be held in October 1988. Within this framework, FAO should participate in the execution of some of the projects identified here.

92. The International Fund for Agricultural Development (IFAD), in close co-operation with multilateral institutions (CABLI, IDB and the World Bank) and with bilateral donors, would be able to: (a) expedite disbursements for projects already under way; (b) speed up the design of projects and programmes still in the planning stage; and (c) diversify the range of projects to be executed in the Central American countries, including new investments designed to combat critical poverty in rural areas. In addition, it would be possible to tackle projects with various regional ingredients, such as: (a) projects designed especially to benefit women widowed during the period of conflict; (b) projects for refugees and displaced persons; and (c) projects for the rehabilitation of rural infrastructure support services in areas affected by the armed struggle. 2/

93. Developing the management capacity of agricultural producers is especially important. Efforts would be aimed at encouraging the training of promoters capable of organizing and running businesses or complex projects larger than the traditional ones. This management capacity should be directed to setting up, organizing and administering, at the subregional level, both research projects and production or marketing projects. Special attention should be given to the formation of associations of farmers and peasants. Similarly, in view of the fact that the development process would require the implementation of projects at subregional level, it will be necessary to establish a management capacity at that level. All the above schemes could be handled efficiently through joint action by government institutions, businessmen and integration bodies. Mention should be made of the joint World Bank, UNDP and IFAD programme of technical assistance now being formulated with a view to strengthening the capacity of the Central American countries to design projects in this sector.

(c) Trade concessions

94. The Central American countries, under different procedures, are enjoying the benefits of: (a) the Generalized System of Preferences; (b) preferential

agreements of partial scope; and (c) the United States Caribbean Basin Economic Recovery Act. The United States has taken steps to improve the application of that Act, which is a step in the right direction although it does not cover all the countries of Central America. 3/ The EEC is currently negotiating an expansion of preferences. The Nordic Council has also expressed a desire to participate in a special programme of assistance to Central America. Although the limitations on the supply of exportable Central American goods account in some cases for the fact that these preferential schemes have been little utilized, one cannot disregard the inhibiting effect of barriers which continue to obstruct those Central American exports for which an abundant export capacity does exist.

95. In the case of the United States, the quotas applied to sugar, beef, cocoa bean by-products, cheese, textiles, clothing and footwear have had a considerable impact. Countervailing duties and anti-dumping policies have also been applied to cement, flowers, and window and blind closers. The EEC has applied barriers or discriminatory measures against Central American products, using reference prices in the case of tuna, shrimp, legumes and vegetables, yams and fresh fruit and imposing variable duties on maize and molasses and duties and quotas on vegetables. In the case of individual EEC countries, import licences or deposits are required or internal duties are imposed on products such as bananas, in addition to quotas on textiles and clothing. 4/

96. In Japan, Central American exports are hampered by the requirement of import permits for tuna and tobacco and by seasonal duties on bananas. In Latin American countries, administrative procedures and prior licensing also constitute de facto barriers. In addition, there is a bias against the export of processed products as a result of tariff structures favouring imports of raw materials and penalizing purchases of manufactured goods.

97. The political support for Central American peace efforts and the willingness to contribute to a plan of economic recovery expressed in various international forums in recent months could find concrete expression in trade agreements. The groups of countries mentioned above could grant preferences and assistance differentiated according to the relative levels of development of the economies involved and including ad hoc mechanisms which would help, for instance, to stabilize export earnings. The potential offered by opportunities associated with improved access to the markets of the Pacific basin, Asia and the socialist countries should also not be forgotten.

98. Fuller advantage should also be taken of the opportunities offered by the larger Latin American markets. The recent declaration issued at Acapulco by the Presidents of the Group of Eight (A/42/844-S/19314, annex) paints a promising picture for the strengthening of economic ties. The declaration by the eight Latin American Presidents outlines the main features of their participation in a programme of support for Central America, among which mention should be made of measures to encourage intraregional trade and the granting of facilities for the access of exports from that area to the markets of the Group of Eight. To that end, it is desirable to achieve: (a) the substantial elimination or significantly greater flexibility of tariff and non-tariff barriers, leading to an increase in reciprocal trade; (b) the treatment of the Central American countries, within the

framework of the Latin American Integration Association (ALADI), as relatively less developed countries; (c) a greater share of Central American products in public sector imports, bearing in mind that State purchases constitute a considerable proportion of such trade; and (d) the creation of a mechanism for commercial and credit negotiations. In order to put these ideas into practice, it is essential to establish an *ad hoc* mechanism for negotiations between Central America and Latin America.

99. In a first stage, consultations would have to be held at the highest level on the establishment of a joint negotiating process with a view to identifying specific opportunities for co-operation in implementing the Acapulco commitment. For the technical purposes of negotiation with Latin America, the participation of subregional and regional integration bodies and United Nations agencies would be essential.

100. The Central American countries have already adopted institutional and economic policy measures aimed at increasing their supply of exportable goods. However, lines of credit are still not sufficient to cover needs either quantitatively or qualitatively. Taking account of the foregoing, CABELI has designed a financial support programme which covers the needs of pre-investment, exportable production, pre-shipping, post-shipping, marketing firms and export credit insurance. The first phase of the programme, already approved by the Board of Directors of CABELI, will cost \$US 40 million. The World Bank, IDB and the Andean Development Corporation could participate in this investment programme.

101. In addition, a technical co-operation project aimed at expanding and making greater use of the various systems of trade preferences has been proposed. This project would also be designed to strengthen Central America's negotiating capacity. Given the work programmes of the International Trade Centre and the United Nations Conference on Trade and Development (UNCTAD), it would be desirable for these bodies to participate in the execution of the aforementioned project.

(d) Reconstruction of Central American physical infrastructure

102. Central America's economic integration process required the development of a subregional physical infrastructure that would permit the circulation of goods and people, in addition to improving communication systems within the subregion.

103. In 1963, subregional bodies decided to complete or construct the Central American road network consisting of 13 highways with a total length of 5,300 kilometres. The network links up the main production and consumption centres of Central America, in addition to crossing the most densely populated and heavily farmed areas. Not only 95 per cent of goods trade between the five countries but also a substantial part of internal traffic in foreign trade products passes along these highways.

104. The recent economic and financial difficulties experienced by the Central American Governments have prevented proper maintenance of most of the network's paved roads. At the same time, military conflicts have obstructed maintenance work over large segments and caused the destruction of bridges and other engineering

works, making land communications in Central America much more dangerous and expensive.

105. In the light of the foregoing, the Second Meeting of Transport Ministers agreed to carry out a plan for the rehabilitation and expansion of the Central American road network. This includes priority projects classified into four categories: rehabilitation, reconstruction, expansion and extension. CABEI was designated to promote and manage the financing of the Plan, which requires \$US 200 million in external contributions.

106. The regional telecommunications network is being maintained, and its improvement is being planned on the basis of feasibility studies carried out by the Technical Commission for Telecommunications in Central America (COMTELCA). The network connects the five Central American capitals with one another and with Mexico and Panama. It consists of a radio system with a capacity of 960 telephone, telex and television channels. The equipment has become almost totally obsolescent; the Central American Governments are making serious efforts to modernize installations. CABEI has approved a financing programme to that end, for which it would require \$US 19 million in extraregional resources.

107. The International Telecommunication Union (ITU) supports CABEI and has proposed four subregional projects which are intended to diversify and modernize the Central American Institute of Telecommunications (INCATEL), to modernize the Central American telecommunications network, to strengthen radio broadcasting and to promote regional co-operation in the field of television.

(e) Investments in the energy sector

108. The marked inequalities in income distribution in the subregion give rise to a duality in the balance between modern forms of energy and the traditional forms utilized by much of the population. Capital formation in the production of the former represents a significant percentage of gross internal investment and requires large amounts of foreign resources to finance imports of materials and equipment. On the other hand, much of the lower income population uses firewood as its primary source of energy, with serious consequences for the subregion's limited forestry resources.

109. Integration programmes among the countries of Central America and the strengthening of their ties of co-operation with the rest of Latin America have helped and can help a great deal in successfully meeting the energy challenge confronting the region in such important areas as electricity and oil.

110. Since internal supply is limited, hydrocarbons must be imported. Consequently, it is essential to optimize supply by buying crude oil and oil by-products on the best possible terms (concessional terms if possible), reducing freight costs, adjusting refining operations, introducing strict conservation and energy-saving measures, and controlling domestic prices. The Treaty of San José plays a vital role in this connection. The Governments of Mexico and Venezuela deserve much credit for having kept the Treaty of San José in operation; that Treaty is one of the most important examples of Latin American co-operation.

111. The region's oil supply is very expensive, owing chiefly to the improper handling of imports and to inefficient local refining of crude oil. In this field, there has been little progress towards integration. Some joint actions could bring major economic benefits: joint purchases of crude oil and oil by-products; taking advantage of storage capacity and port facilities to optimize freight contracts; and establishing complementarity between countries in order to reduce surpluses of heavy fuels.

112. The electricity sector will also continue to require large investments. Consequently, it is important to improve the economic and financial management of electricity companies, including strengthening their technical and administrative capacities.

113. Although some progress has ostensibly been made in linking up electricity grids, opportunities still exist for obtaining greater benefits. In this connection, mention should be made of two projects: (a) the study on the improvement of the regional electric power transmission grid, which has already received initial financing from the Government of Spain, and (b) the programme of regional activities for the electricity subsector of the Central American isthmus (PARSEICA-E), which has been submitted for financing to the Inter-American Development Bank.

114. Exploitation of timber resources near urban centres has become excessive. Therefore, in order to protect woodland and improve the standard of living of the most disadvantaged urban population groups, conservation must be encouraged and substitutes found for the use of firewood.

115. In the electricity subsector, as stated earlier, institution-building would be advisable. The Central American Electricity Council (CEAC), a body which, given its regional character, could be a representative counterpart for carrying out regional and multinational electricity projects, has now been formalized. The constitution of CEAC has already been ratified by the legislative assemblies of three countries.

116. The formal establishment of CEAC would make it easier to tackle studies on binational projects, such as the link-up between El Salvador and Honduras and the El Tigre hydroelectric plant, also between the two countries. It would also be possible to conduct joint investment studies which would make for a more reliable electricity supply and lower production costs. This category would include the hydroelectric projects at Boruca in Costa Rica and Copalar in Nicaragua.

117. Lastly, support could be given to initiatives for establishing regional institutions that provide technical and professional support, such as electrical testing laboratories and centres specializing in electrical systems engineering.

2. Social development

118. In spite of the undeniable economic achievements and social improvements made in Central America in the first three decades after the Second World War, one characteristic feature of the five countries is the presence of large segments of the population living in extreme poverty. In some cases, as many as two thirds of the population are unable to meet their most elementary basic needs. 5/ This is a complex structural phenomenon, associated with a very uneven distribution of assets, opportunities and income, one of the main manifestations of which is the inadequate incorporation of the economically active population into labour markets. 6/

119. This situation has worsened during the present decade. The regressive bias of the adjustment policies adopted by the Central American countries - which have drastically reduced the social spending component (education, health and housing) in government budgets - has been compounded by the consequences of armed conflict.

120. The distance between the present situation of populations living in poverty and the minimum satisfaction of basic needs must be recognized as a social debt. It has a short-term aspect which involves meeting the essential food and nutrition needs of the most disadvantaged households, and a medium-term aspect involving a sustained increase in the output and income of the poorer segments of the population.

121. Progress in the peace process and democratization requires directing action towards the elimination of these problems and gradually reducing the enormous social debt that has accumulated. Such action would help to prevent proliferation of the social divisions which usually result in a resurgence of conflicts and social violence. This new course creates a need to establish machinery whereby the various groups would become co-authors and active co-executors of strategies for action and development. Accordingly, international co-operation should attach great importance and give support to the participation of the groups directly affected.

122. In particular, the priority goal of relieving poverty should form part of a social development model with three fundamental components: restoring basic social services, which have been eroded by budget cuts, and expanding them until they reach minimum acceptable levels; increasing the output and productivity of the poorer population groups; and supporting the formation or strengthening of grass-roots groups, particularly through co-operative organizations.

123. The subregional dimension would be provided by the incorporation of new actors into the integration process and by joint action in such fields as training, joint utilization of technical resources, management of financial resources and exchanges of experience among countries.

(a) Investments in the social sectors

124. As part of the efforts to revitalize and improve social services in the central American countries, a number of initiatives have been set in motion. Among

them, we might mention the "Health for Peace" programme promoted by the Pan American Health Organization (PAHO); the Programme of Social Investment for the Development of the Countries of the Central American Isthmus (PISDIC), deriving from an initiative approved by the Inter-American Economic and Social Council of the Organization of American States (OAS) (resolution CIES/309 (XIX-0/84) supported by IDB and PAHO; and the programme being carried out by UNICEF in Central America. The creation of a special fund in CABEI to support projects and programmes in each country - with the co-operation of the various subregional institutions - could help strengthen the aforementioned initiatives.

125. There is some overlapping between the first two programmes. Some projects of the "Health for Peace" programme are also included in the PISDIC programme for the health sector. In the case of Honduras, many of the projects making up PISDIC are to be found in the "Co-operation proposal for the special plan of economic co-operation for Central America put forward by the United Nations", SECLAN, Tegucigalpa, February 1988.

126. The overall objective of PISDIC is to attend to the needs of the group, and areas where the problems are greatest. The programme is multidisciplinary and multisectoral, and its strategic guidelines point to the need to work with target groups in such a way that the benefits of social investment are directly related to short-, medium- and long-term productive programmes and projects. The many initiatives identified on a preliminary basis have yet to be gone through fully with a view to selecting those with the greatest impact. PISDIC includes investment projects totalling \$US 532 million, of which \$US 356 million must come from external financing. This figure covers projects for Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. The Programme includes investment projects and technical co-operation projects in the areas of water supply and sanitation, education, health and housing, as well as other multisectoral projects.

127. UNICEF, for its part, is co-operating with all the countries of Central America and has national programmes covering the areas of health, education, water supply, sanitation and other basic services. Although UNICEF has received supplementary funds from various donors, it still needs financing approaching \$US 21 million in order to support projects given high priority by the Governments of the subregion.

(1) "Health for Peace"

128. A central feature of the health strategy is the programme promoted by the Governments of the Central American isthmus and PAHO to improve services, especially preventive services. It takes account of the fact that, in recent years, there has been a deterioration in the situation of large segments of the population, particularly refugees and displaced persons. Uncontrolled migration creates serious epidemiological risks. Consequently, a co-ordinated joint effort must be made by the countries of Central America.

129. This initiative has served to mobilize external resources and is a catalyst for internal resources, while activating considerable potential for technical co-operation among the countries of the region. It consists of 293 national and

30 subregional projects, of which 123 are regarded as having top priority. Of this total, some 90 national projects with approximately \$US 255 million in external funding are in the process of execution. A further 18 subregional projects are under way with contributions totalling \$US 93 million.

130. The programme covers seven joint, priority areas, namely: strengthening of health services; development of human resources; essential medicines and critical inputs; improved food and nutrition; tropical diseases; child survival; and drinking water and environmental sanitation. The most important subregional projects include those relating to child survival, with partial financing from the EEC and the Government of Italy in an amount equivalent to \$US 30 million; food and nutrition projects in which INCAP is administering external support and the purchase and joint production of medicines, with partial financing from the Government of the Netherlands; eradication of tropical diseases, with possible AID support in the case of malaria; care for refugees; and the training of human resources. The Kellogg Foundation, for its part, has already agreed to support an ICAP project designed to train administrators for health programmes. Likewise, CABEI is giving priority to the mobilization of resources for a Central American water supply and environmental sanitation programme derived from the "Health for Peace" programme. Annexed hereto are five subregional projects of this programme which PAHO, in collaboration with Governments, regards as priority projects for the mobilization of external resources: co-operation in health among the countries of the Central American isthmus; educational development in the field of health; development of management capacity for strengthening local health systems in Central America; care for priority groups in the peace process in Central America; and women in health and development in Central America.

(ii) Education

131. There is still a high percentage of illiteracy in the subregion, except in Costa Rica and Nicaragua. Illiteracy rates range from 45 per cent in Guatemala and 41 per cent in Honduras, to 6 per cent in Costa Rica and 18 per cent in Nicaragua, with El Salvador occupying an intermediate position with 28 per cent (figures as of 1985). In absolute terms, the number of illiterates in Central America increased from approximately 3.7 million to 4.2 million between 1970 and 1985. The illiterate population will obviously face increasing difficulties in integrating itself into a process of transformation of production systems. Likewise, in spite of the efforts made, there are significant problems with school attendance and drop-out rates.

132. In the light of this situation, the United Nations Educational, Scientific and Cultural Organization (UNESCO) has proposed the promotion of subregional projects on: (a) school attendance, literacy teaching and improvement of the quality of education; (b) integration of science and technology teaching into basic general education in Central America; (c) education in rural areas and intercultural bilingual education to meet the needs of indigenous groups (there are 2,954,500 indigenous inhabitants in Guatemala, 195,000 in Honduras, 103,500 in El Salvador, 85,000 in Nicaragua and 20,000 in Costa Rica); (d) educational programmes for the refugee and displaced population of Central America; (e) participatory communication; and (f) creation and financing of educational industries, which

includes a proposal submitted to CABEI for pre-feasibility studies on the creation of businesses devoted to producing educational materials in the subregion. UNESCO, in turn, suggests strengthening activities in each country, particularly with regard to the quality of education in Costa Rica, literacy teaching and basic education in El Salvador, improvement and updating of the curriculum and literacy teaching, including bilingual literacy teaching, in Guatemala, adult education in Honduras, and changes in the basic general education curriculum in rural areas of Nicaragua.

130. In the medium term, the social and economic reconstruction of the countries of Central America requires the conversion of primary and vocational education into one of the bases for development in each country and for the development of the subregion as a whole.

(iii) Housing

134. The housing situation in the Central American countries has reached critical levels, owing to the accumulation of unmet needs and the prolonged economic recession. Housing construction must be viewed in the context of economic self-reliance, including job creation, reduced dependence on imported materials, institutional decentralization, co-operation between the public and private sectors, and active participation by recipient communities.

135. Most of the projects currently being carried out in Central America envisage the supply of housing as an integral part of socio-economic development, and should therefore be expanded. In addition, it would be advisable to establish co-operation networks among the Central American countries in order to promote the exchange of information and experience.

136. Within the overall context of social investment, PISDIC attaches special importance to the housing shortage and the current situation of massive population growth, internal migration and rapid urbanization. The United Nations Centre for Human Settlements (HABITAT), for its part, has declared its readiness to step up its activities in the region as part of a global effort to promote the social development process.

(b) Strengthening of the productive capacity of marginal groups

137. The fight against conditions of extreme poverty is closely linked to an increase in production and productivity. Sustained progress is not possible without an increase in the income, consumption level and rate of employment of the population. This view rejects assistance-oriented concepts and recognizes the legitimacy of the aspirations of a broad segment of the population to participate in improving its own situation and in the overall development of society.

138. In some countries, instability and the state of internal conflict have prevented the establishment of satisfactory labour relations; relations between workers' organizations, employers and the State have been marked by a climate of distrust. Lack of personal safety and of conditions for the free exercise of the rights of association and expression have given rise to conflicts or inhibited full participation by some social groups.

139. At the same time, the effects produced and the needs created by structural adjustments and by changes in the orientation of development models have resulted in a mismatch between workers' occupational qualifications and the technical personnel needs of productive units. This means that human resources training programmes have to be reformulated and educational institutions adjusted accordingly.

140. In order to deal with the problems described, ILO has designed an employment, development and dialogue programme, which has three components: the generation of jobs and income, the training of human resources, and dialogue for social peace. It is recognized that attention must be given to social and labour aspects of adjustment and change which the economic and social crisis of the region has made it essential to tackle, and at the same time that a capacity for dialogue must be expanded, developed and consolidated which will assist efforts to bring about an appropriate level of social peace that will make it possible to have development with democracy.

141. In view of the fact that it will take years to overcome completely the effects of the crisis and the armed conflict, priority will have to be given to achieving food security and to strengthening the management capacity of poor groups, primarily through co-operative organizations. Only if the output of marginal groups grows can incomes be increased on a lasting basis and basic needs be met. One programme of special interest is PROIMPO, which consists of production projects in grass-roots communities. As a supplement to the foregoing, investments should be added designed to maintain or increase basic economic and social services that will help to increase poor people's productivity.

Food security

142. The rate of growth of the agricultural sector began to decline in the late 1960s and has been at a standstill during the present decade. The growth of production for domestic consumption has also been inadequate. The planting of grains has declined in areas suitable for annual crops, while it has increased on marginal land.

143. In the present decade, the share of local basic grain production in domestic supply has declined; imports now provide between 20 per cent and 30 per cent of supply, and in critical years have in some countries come to represent as much as 40 per cent of total available supply. Only in Guatemala has it been possible to reduce this share to 10 per cent. At the same time, with the exception of Costa Rica and, in some years, El Salvador and Nicaragua, per capita consumption of basic grains has been declining and has fallen below the levels attained in the early 1970s.

144. In this context, one fundamental objective of the strategy of economic reactivation and the battle against poverty is adequate food production, guaranteeing the entire population access to consumption. Such a policy involves measures to stimulate food production and supply, as well as employment, income and consumption among the most vulnerable population groups. It is technically possible to increase productive capacity, expand research and improve the use of irrigation and inputs.

145. New forms of organisation among producers would make it possible to increase the productive and management capacities of small peasant farms, diversifying primary activities and introducing other supplementary ones of greater aggregate value. Furthermore, small producers will require support in the areas of credit, technical co-operation, training, guaranteed prices and the reactivation of traditional technologies.

146. The food security project being carried out within the framework of the EEC aims to lay the bases for self-sufficiency in most of the foods that the region is capable of producing, by stimulating supply, intraregional marketing and specialization. To that end, the Commission of the European Economic Community and the French Government have furnished support amounting to 5.2 million European units of account, channelled through CADESCA.

147. In each sphere of action, investment, financing and technical co-operation needs have been identified in order to strengthen and, in some cases, consolidate the results achieved. Both FAO and WFP could provide active co-operation in the effort envisaged in this field.

148. The areas in which it would be desirable to have extraregional financing are: food and nutrition monitoring and harvest forecasting; systems analysis for the production of basic grains; marketing of grains; credit for small producers; and research, transfers of technology and training. In addition, attention should be given to the importance of establishing a subregional food reserve system.

(c) Stimulation of grass roots development; strengthening of co-operatives

149. The co-operative effort is being carried on especially among middle- and low-income groups. Nearly half of Central America's co-operative sector still lacks the minimum infrastructure of human resources, capital and institutional capacity. Nevertheless, federations of co-operatives have carried out technical and financial co-operation activities which it seems advisable to strengthen.

150. At present, the co-operative movement is being given special attention by the international community and bilateral development agencies. AID is carrying out two programmes in the subregion, one in Honduras and the other in Guatemala, for a total of \$US 20 million. The EEC has approved a programme of support for co-operatives amounting to \$US 25 million. The main component of this programme is the establishment of a \$US 15 million subregional guarantee fund. SIDA is financing a training programme through the Confederation of Co-operatives of Central America and the Caribbean, using materials prepared by ILO.

151. In most cases, international assistance has supported the larger co-operatives. The project now proposed includes financing, technical co-operation and training for the development of smaller service and production co-operatives. It includes setting up a guarantee fund to give members of small co-operatives access to credit. It would also include technical support aimed at helping solve the development problems of small businesses and institutionally strengthening federations of co-operatives. Lastly, the training component would use the MATCOM-ILO programme as a basis and would promote exchanges of experience among

co-operatives in the subregion, especially with regard to financial management, accounting and administration.

3. The Central American Bank for Economic Integration and the funding of projects

152. For over 25 years, CABEI has been the financial instrument of the Central American integration programme, channelling resources to the execution of the main subregional programmes. It has also provided impetus to the industrialization process, housing programmes and social development. Its credit policy has led in recent years to the financing of projects that will contribute to economic reactivation, the generation of foreign exchange and efforts aimed at solving social problems.

153. The strengthening of CABEI would be one effective way to increase the capacity to absorb external co-operation. The Bank has already studied a number of priority projects and has experience in promoting multinational programmes. Consequently, it seems reasonable that the international community should contribute to strengthening CABEI in various ways, while preserving its independent, multilateral character. Some of these ways would be:

(a) Participation by extraregional countries in the Bank's capital

154. The Central American Governments have sought to encourage countries from outside the region to participate in the Bank's share capital. Beginning in 1983, when the Assembly of Governors approved the incorporation of non-Central American members, the institution took steps which have already led to the participation of Mexico (September 1986) and Argentina (November 1987) in the Central American Economic and Social Development Fund. This Fund was created as a transitional mechanism to attract new extraregional contributions pending satisfaction of the necessary legal requirements. (Venezuela set up a trust fund within the Bank in November 1987 as a preliminary to its participation in the institution's share capital.) The subscribed capital of the Bank would be \$US 2 billion, of which 51 per cent would be contributed by Central American countries and the rest by countries from outside the region. Of the total \$US 980 million open to outside subscription, 25 per cent would be paid in cash.

(b) Development programmes

155. The requests for financing submitted by the Central American countries to CABEI for the period 1988-1992 amount to \$US 1,238 billion. In response, the Bank has formulated a credit plan for \$US 1 billion, to be carried out with the assistance of the paid in capital, repayments, profits, and resources obtained abroad from bilateral and multilateral sources. The programmes include some of the projects mentioned in preceding sections. (The annex to this plan contains a list of projects.)

IV. INSTITUTIONAL AND MANAGEMENT CAPACITY ASPECTS

156. Central American Governments and public bodies are seeking to improve their efficiency and effectiveness. They are facing obstacles which result in slow disbursement of loans already contracted, slow project preparation, and difficulties in the management, administration and application of economic policy. These kinds of problems cannot always be solved through transfers of financial resources. On the contrary, such institutional and organizational deficiencies make it more difficult to absorb foreign savings

157. This would be a particularly promising field for international technical co-operation, including in particular that furnished by the United Nations itself. As a result, great importance would attach to such questions as social consultation, convergence of objectives between the public and private sectors, the role of non-governmental organizations, schemes for co-operation between Central America and the rest of Latin America and the Caribbean, and machinery for political consultation and joint action in negotiations.

158. An equally important activity would be to strengthen Central American integration institutions in order to help promote co-operation for development. The support given to subregional institutions to improve their administration and implementation capacities should be oriented in such a way as to facilitate the tasks dealt with in this report. In particular, it is essential to strengthen SIECA's capacity to promote initiatives and provide services to member Governments. The same should be done with the Executive Secretariat of CAMC so that it can face up to the new challenges that will arise in the areas of debt, monetary co-operation and the regional co-ordination of financial policies. The subregion has little capacity for formulating investment projects, which makes it difficult to take full advantage of international financial co-operation. External assistance would support CABEL's Technical Co-operation Fund in strengthening national capacities, as well as the formation of new credit programmes of regional importance.

159. The treaty setting up the Central American Parliament and other political bodies states that the institutionalization of a regional political body would enable member countries to discuss and decide economic, social, political and cultural issues affecting them. This will be done for the purpose of achieving the highest levels of co-operation, in a spirit of understanding and solidarity, and bringing about peaceful coexistence within a framework of social safety and welfare, based on representative democracy, pluralism and respect for national and international law. Consequently, the initiative is of extraordinary value for consolidating the Esquipulas agreements and the pluralistic, democratic processes provided for therein.

160. The institutionalization of the Central American Parliament as a permanent political forum for the discussion and analysis of matters of subregional interest deserves the support of the international community, since the exercise of democratic consultation can help solve common problems, ensuring a stable and lasting peace.

161. In accordance with the treaty setting up the Central American Parliament, the Meeting of Vice-Presidents will enjoy important powers in the Central American integration process, not only in promoting but also in monitoring the proper execution of decisions and in supporting regional bodies. Similarly, the treaty establishes that Governments and integration bodies will have to co-operate with the Parliament, which will also have the authority to evaluate the progress made in the programmes of those bodies, examine their annual reports and make comments and recommendations.

162. The creation of the Parliament does, however, have financial implications, especially when it comes to holding direct elections in each country. For this reason, it is recommended that a regional fund be established which would convert international donations into the local currency of each Central American country.

V. THE ROLE OF THE UNITED NATIONS SYSTEM

163. The organisations of the United Nations system, and the Secretariat in particular, have natural spheres of action in the special plan of economic co-operation. By its very nature, and in accordance with General Assembly resolutions 42/1 and 42/204, the Secretariat would play a catalytic role in seeking and co-ordinating many countries' co-operation with Central America.

164. In establishing priorities and identifying projects, consultations have been held with the organisations of the United Nations system. As indicated throughout this document, each of these would play an important role in mobilizing resources for the projects that make up the plan and in executing those projects. In the foregoing presentation, explicit reference has been made to various aspects of the co-operation that UNDP, ECLAC, UNHCR, WFP, UNIDO, ITC (UNCTAD/GATT), FAO, IFAD, the World Bank, GATT, UNCTAD, ITU, ILO, UNICEF, UNESCO and Habitat would provide to the plan. In addition, there are other initiatives in which the United Nations could redouble its efforts on behalf of the subregion. The section referring to the institutional machinery for executing the plan mentions the important role that international financial agencies such as IBRD and IMF will have to play.

165. The Office of the United Nations Disaster Relief Co-ordinator (UNDRO) considers Central America a region highly susceptible to natural disasters (earthquakes, floods, volcanic eruptions) that have long-term social and economic effects. Accordingly, it seems advisable to develop policies and capacities for preventing, handling and reducing the consequences of such phenomena.

166. UNFPA is prepared to provide technical co-operation in a wide range of population activities, including maternal and child health and family planning; collection and analysis of basic data; and population policies which include special issues relating to women, youth and displaced populations.

167. In consultation with the civil aviation authorities of the subregion, the International Civil Aviation Organisation (ICAO) proposes that activities be carried out aimed at promoting co-operation between the subregion's civil aviation organisations and civilian airlines in order to ensure reductions in the cost of

services, as well as the establishment of machinery that will serve as a basis for regional integration. The World Meteorological Organization (WMO), for its part, proposes strengthening the Central American Regional Water Resources Committee.

168. The International Maritime Organization (IMO) recently sent a mission to Central America to identify areas in which technical co-operation in its sphere of activity could be developed. Improving port services, strengthening the design of maritime policies and the drafting of maritime legislation, and preventing marine pollution have been identified by IMO as areas requiring special attention.

169. The World Tourism Organization (WTO) has made four proposals for subregional projects. The first, for the development of tourist packages, would evaluate those which include archaeological, cultural and natural attractions. It would also identify infrastructure needs and indicate promotional strategies. The second would include technical co-operation in establishing health insurance for tourists, including protection of tourists as consumers. The third project involves the establishment of a subregional hotel management training centre in Honduras, where Central American hotel workers would be trained. The fourth would deal with promoting Central America's tourist image. These activities incorporate proposals made by the Central American Tourism Council and would include promotional strategies designed and executed jointly by the national tourist institutes of each country.

170. The International Atomic Energy Agency (IAEA) has expressed its readiness to finance projects which would include technical co-operation in the field of nuclear technology. At present, it is carrying out projects in four of the five Central American countries in the fields of agriculture and health.

171. The activities of the International Research and Training Institute for Women (INSTRAW) include different projects aimed at the advancement and vocational training of women. The Institute's plans include a project on statistical indicators and another on programming methods for the socio-economic advancement of women.

172. The Universal Postal Union (UPU), for its part, has expressed a willingness to co-operate with the special plan of economic co-operation for Central America, offering all relevant information to make national postal enterprises sources of not only employment and services but also income and cultural information.

173. The World Intellectual Property Organization (WIPO) and SIECA have received a mandate from the Central American Governments to revise the regional treaty on trade marks and to prepare a new treaty on patents and industrial designs. The aim of the project is to bring legislation up to date and promote joint efforts in the application of the new legislation.

VI. INTERNAL AND INTERNATIONAL RESPONSIBILITY

174. It is obvious that primary responsibility for the development of each country rests with its own society and Government, and therefore this proposal would be incomplete if it did not refer to the task which the Central American States must perform in formulating and executing the economic and social component of the agreements adopted in Guatemala on 7 August 1987. Internal efforts are the fundamental pivot of development, without which external co-operation cannot perform its function. Regional responsibility in the context of a special plan of external co-operation would have several main orientations.

175. First, reference should be made to the allocation of internal expenditures. If the peace process goes forward, the Central American Governments would be required to release financial and human resources which are today devoted to defence, allocating them to purposes linked to economic and social development. The transition from a situation of open conflict (two of the countries are allocating more than 40 per cent of public spending to the security sector) to a situation of peace affords significant opportunities for increasing domestic savings and transferring resources to other priority areas, thereby creating an environment favourable to the full utilization of external co-operation.

176. Second, requesting support from the international financial community for Central American integration institutions requires that the Governments of the region scrupulously fulfil their counterpart commitments. In this connection, they will have to make every effort to remit their financial contributions for the maintenance of integration programmes and institutions; give priority to servicing their commitments to those bodies; and furnish regional institutions with funds and suitable staff. Action to intensify the process of subregional integration would also have to be undertaken.

177. Third, the above-mentioned economic and social strategies should be an expression of the pluralistic, democratic processes envisaged in the Esquipulas II agreements. In this connection, encouragement would have to be given to the participation of broad segments of the population in the economic reactivation effort, and the style of development will have to be made more equitable.

178. Fourth and last, mention should be made of the formulation of the short-term policies which go to make up the macroeconomic profile of each country. One source of friction between the Governments of the subregion and multilateral financial institutions has been the conditionality that forms part of the various adjustment programmes. The position of the Central American Governments can be explained by the fact that some of the assumptions on which those programmes are based (in particular, increased foreign demand for Central American products) have not materialized within the expected period. Moreover, conditionality rules themselves and the criteria for evaluating compliance tend to ignore the political costs entailed by rigorous application of those rules within the specific social context of each country.

179. However, the general purpose of the special plan of co-operation is to help reactivate economic and social development on new bases, with a more diversified

and competitive export sector, a renewed rural development effort and an increasingly efficient industrial sector. To that end, it will unquestionably be necessary to maintain the strictest discipline in pursuing the main macroeconomic policies, especially in the fiscal, exchange, monetary and salary and wage areas, until prices are brought to a point where, within reasonable limits, they reflect the relative scarcity or social opportunity costs of goods and services. In this connection, Governments will have to adopt economic policies which permit a more efficient adjustment process than that of recent years, which has been highly recessionary. Those countries which continue to suffer from inflationary trends (and, in one case, hyperinflation) will inevitably have to apply programmes to combat inflation, whether or not there is conditionality or external financing.

180. A regional effort and external readiness for peace and development are the catalytic ingredients of a programme that will enable Central America to return to the path of progress and democratic modernization. The Governments and peoples of the region have taken the first step with the Esquipulas agreements. It is now time for the international community to act in the spirit of the fundamental principles of the Charter of the United Nations. The extent of external co-operation to benefit the nations of the Central American isthmus will undoubtedly chart the course for new rules of economic and political coexistence between industrialized centres and the third world.

VII. INSTITUTIONAL MECHANISMS FOR THE IMPLEMENTATION OF THE PLAN

181. The implementation and future development of the plan require the creation of a number of institutional mechanisms which will make it feasible to co-ordinate international assistance on the basis of Central American relations. In this connection, it should be reiterated that efforts would be made to mobilize additional technical and financial resources which would be allocated to promoting regional programmes of common interest. The plan, as stated earlier, marks the beginning of a process which will require enormous efforts in order to ensure the continuity and follow-up of the work done. Thus, it will be necessary to identify the many tasks and actors involved in the attainment of common objectives.

182. In so far as the Central American Governments are concerned, co-operation and consultation mechanisms exist in already established intergovernmental forums, or in those which may be established. Indeed, it was for the purposes of this plan that the Central American Governments set up the Meeting of Vice Presidents. Similarly, periodic meetings have been institutionalized between Central American integration institutions, including SIECA, CABEI, the Executive Secretariat of CAMC, ICATTI, ICAP, CADESCA and ECLAC. In addition to these co-operation and consultation mechanisms, the plan proposes two new formal requirements. First, the organization of a mechanism in which national and regional viewpoints would be harmonized and priorities would be established for regional action programmes. Second, the creation of a mechanism capable of mediating between recipients and potential sources of financing, whether bilateral or multilateral, and of providing guarantees for the proposed co-operation projects.

183. With a view to providing institutional support, it is necessary to establish a mechanism for consultation between recipients and potential sources of financing, whether bilateral or multilateral, as well as for guaranteeing the proposed co-operation projects. To this end, and in the light of the experience gained in holding round tables in other regions, it is recommended that a similar mechanism be used in Central America. The round table for the special plan of economic co-operation for Central America should be made up of the five Central American countries and of bilateral and multilateral donors. In order to ensure proper functioning and preparation, a steering committee would be established which would be presided over by UNDP and made up of a group of international agencies, namely: the World Bank, IDB, IMF, CABEI and ECLAC. The steering committee would be responsible for the preparatory work and convening of the round table, and for ensuring that trends in the region's economies were analysed.

184. It should be noted that the proposed mechanism calls for support and follow-up work in various fields. First, there would have to be identification and systematic evaluation of priority projects and programmes. Second, there would have to be ongoing evaluation of overall external co-operation requirements based on trends in the region's economies and the procedures whereby the development programmes and projects making up the plan would be proposed and carried out. Third, promotional work would have to be undertaken to identify the sources of financing most appropriate to the needs that emerge, as well as counterpart funds and responsibilities. Lastly, there would be the support work essential for putting together the necessary materials and organizing the periodic meetings that would have to be held.

185. In this connection, a follow-up and evaluation committee for the special plan could be organized, consisting of a high-level representative of each of the Central American countries regional integration bodies (CABEI, SIECA, CAMC), and CADESCA, UNDP and ECLAC. The committee would be presided over by a representative of a Central American country. The committee and the forum represented by the round table could hold joint meetings when circumstances required.

186. In order to carry out these tasks, it would be desirable to specify, within the committee, the responsibilities that would be assigned to the different Central American and international bodies in the development, co-ordination and follow-up of the different components of the special plan, with a view to taking maximum advantage of those bodies' experience and specialized capacity in providing assistance in their spheres of competence and thereby avoiding duplication of effort while maintaining overall coherence in all the work being done.

Notes

1/ See ECLAC, *La crisis en Centroamérica: Orígenes, alcances y consecuencias* (E/CEPAL/G.1261).

2/ IFAD, "The Alleviation of Critical Poverty in Central America - IFAD's Views", February 1988.

Notes (continued)

3/ This Act applies only to Guatemala, El Salvador, Honduras and Costa Rica.

4/ More detailed information can be found in the list of tariff and non-tariff barriers "Tariff treatment and non-tariff measures applicable to products of interest to CACM countries into EEC, Hungary, Japan and USA", prepared by the secretariat of GATT, 1988.

5/ See ECLAC, La pobreza y la satisfacción de necesidades básicas en el Istmo Centroamericano (CEPAL/MEX/SEM/4/12), Mexico, March 1981.

6/ See, for example, PREALC, Cambio y polarización ocupacional en Centroamérica, San José, Costa Rica, 1985.

ANNEX

List of projects a/

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
I. EMERGENCY PROGRAMME		
A. <u>Assistance to refugees, displaced persons and repatriated persons</u>		
Integral care for the refugee population and displaced persons from abroad in the northern frontier zone and the Atlantic region of the country	Costa Rica	29 915
Development programme for displaced persons, refugees and repatriated persons (PRODERE)	El Salvador	19 848
Care and maintenance of displaced persons in reception centres	Guatemala	618
Reactivation of agricultural co-operatives for displaced persons	Guatemala	2 164
Programme for displaced families	Guatemala	1 500
Establishment of a revolving fund to facilitate the purchase of land for repatriated and displaced persons	Guatemala	3 187
Assistance to widows and orphans	Guatemala	4 010
Purchase of building materials for displaced persons	Guatemala	725
Integration of Guatemalan refugees in Honduras	Honduras	240
Improvement of the drinking-water system for the Jacaleapa community	Honduras	177
Improvement of the drinking-water system in the Colomoncagua area	Honduras	168

a/ Project profiles for the projects listed here will be available in Spanish and English.

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Energy reforestation and forestry management for development of the local population and refugees in Intibucá	Honduras	3 500
Reforestation to produce bio-energy for displaced persons from within the country	Honduras	2 813
Forestry development of la Mosquitia	Honduras	3 093
Reforestation for timber production around the Mesa Grande refugee camps	Honduras	1 500
Energy reforestation and forestry management for development of the local population and refugees in El Paraíso	Honduras	3 850
Integrated rural settlement project for displaced persons	Honduras	5 000
Improvement of rural housing	Honduras	52
Strengthening of medical centres and dispensaries and mobile clinics	Honduras	125
Improvement of means of transport and prevention of disasters	Honduras	20
Agricultural implements and organization of milk distribution centres	Honduras	20
Introduction to the breeding and development of the water buffalo in Nicaragua	Nicaragua	1 266
Development of health on the Atlantic coast	Nicaragua	4 890
Health care in settlements in territories in regions I, V, VI and special zone I	Nicaragua	2 000
Health, education and welfare of children and mothers	Nicaragua	990

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Productive projects for communities of repatriated persons	Nicaragua	2 956
Development of small-scale fisheries on the Atlantic coast of Nicaragua	Nicaragua	4 735
Support for the regional development of river transport and the south Atlantic coastal trade	Nicaragua	8 282
Construction of infrastructure at the Teotecacinte rural agricultural establishment	Nicaragua	348
Assistance to repatriated and displaced persons in their rehabilitation and reintegration	Nicaragua	1 527
Informal distance training for productive work by the population of refugees, displaced persons and repatriated persons	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	435
Improvement of the management capacity of officials responsible for protecting and assisting refugees, displaced persons and repatriated persons	Costa Rica, El Salvador Guatemala, Honduras, Nicaragua	112
Socio-economic integration of migrants in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	464
Training and retraining of refugees and displaced persons in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	6 958
<u>Subtotal, Assistance to refugees, displaced persons and repatriated persons</u>		<u>117 448</u>

B. Food aid

Central America: foodstuff requirements

(thousands of \$US)

<u>Products</u>	<u>Costa Rica</u>	<u>El Salvador</u>	<u>Guatemala</u>	<u>Honduras</u>	<u>Nicaragua</u>	<u>Total</u>
White maize	-	-	-	1 866	-	1 866
Yellow maize	-	-	373	5 598	-	5 971
Red beans	-	7 079	-	3 303	26 144	36 526
Black beans	-	-	944	-	-	944
Grade one rice	-	3 825	-	1 530	3 825	9 180
Sorghum	-	-	-	-	10 988	10 988
Vegetable oil	-	2 833	-	-	17 000	19 833
Powdered milk	-	3 000	-	600	4 800	8 400
Durum wheat	-	-	628	1 885	2 513	5 026
Butter oil	-	-	-	-	5 040	5 040
<u>Subtotal, food aid</u>	-	16 737	1 945	14 782	70 310	<u>103 774</u>

Source: SIECA on the basis of country information, 11 February 1988.

Note: The following prices per ton were used: maize, 186.60; beans, 471.90; grade one rice, 382.50; sorghum, 169.57, vegetable oil, 566.67; powdered milk, 600.00; durum wheat, 125.60; and butter oil, 2,000.00.

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
C. <u>Urgent energy needs</u>		
Security of electric power supply in Costa Rica for 1988 and 1989	Costa Rica	38 400
Short-term security of electric power supply (1988-1989)	El Salvador	81 000
Short-term security of electricity supply	Guatemala	16 400
Tools for planning electric power distribution	Honduras	310
Two 12.5 MVA mobile substations, 69/34.5 KV	Honduras	1 400
Electric power supply for Nicaragua, 1988-1989	Nicaragua	32 500
Change of voltage from 138 to 230 KV on the Honduras-Nicaragua interconnector	Nicaragua	250
<u>Subtotal, urgent energy needs</u>		<u>170 260</u>
<u>Total, emergency programme</u>		<u>391 522</u>

II. IMMEDIATE ACTION PROGRAMME

A. Foreign debt

1. Debts to private agents

- | | |
|---|-----------|
| (a) Effect of debt conversion at market prices (assuming approximately a 50 per cent discount rate) | 1 500 000 |
| (b) External inputs equivalent to payment of three years' interest to establish the interest guarantee fund (assuming an interest rate of 10 per cent on the discounted debt) | 500 000 |

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
2. Bilateral debt		
(a) Relief resulting from the grace period (for three years, allowing for a three-year time horizon): \$US 1 750 000		
(b) There would be a non-quantifiable effect resulting from the improvement in the debt profile and a similar effect resulting from the recycling of servicing. Nevertheless, to the extent that there is an effective grace period recycling would be unnecessary during the grace period, and the effect of the improvement in the profile of the bilateral debt would be partially included		
<u>Subtotal, foreign debt</u>		<u>2 000 000</u>
B. <u>Financing to reactivate the Central American Common Market</u>		
Liquidity of the Central American payments system	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	350 000
Strengthening of the Central American Monetary Stabilization Fund	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	250 000
<u>Subtotal, Central American common market</u>		<u>600 000</u>
<u>Total, immediate action programme</u>		<u>2 600 000</u>

<u>Project title</u>	<u>Country</u>	<u>External resources required (thousands of \$US)</u>
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III. ECONOMIC REACTIVATION AND SOCIAL DEVELOPMENT PROGRAMME

A. Economic reactivation

1. Financing of industrial rehabilitation and reconversion programmes

Central American industrial reactivation programme	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	41 000
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Support for the formulation, co-ordination and execution of subregional policies and programmes for industrial conversion and the promotion of agro-industrial and industrial exports	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 000
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<u>Subtotal, industrial rehabilitation and reconversion programmes</u>		<u>42 000</u>
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2. Agricultural development

Regional improved seed programme	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	20 000
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Regional programme for the production of edible vegetable fats and oils	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	25 100
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Central American aquaculture, mariculture and environmental sanitation programme	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	30 400
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Central American irrigation, drainage and soil conservation programme	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	52 600
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Project title	Country	External resources required (thousands of \$US)
Central American agro-industry programme	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	22 500
Demonstration production of inoculants for biological nitrogen fixation in legumes	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	523
Reduction of post-harvest losses of staple grains	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	150
Training in support of the development of irrigated agriculture in Central America	Costa Rica, El Salvador Guatemala, Honduras, Nicaragua	1 356
Reciprocal technical co-operation in agriculture in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 103
Subregional agricultural research programme in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	4 000
Improvement of food crop production in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	450
Increase in agricultural productivity through self-sufficiency in seeds	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	257

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Improvement of the basis for agricultural production through irrigation and drainage in the Central American countries	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	5 000
Technical exchange and training in priority areas in Central America within a technical co-operation for development (TCDC) framework through the technical co-operation networks	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	800
Production, handling, processing and export of tropical fruits and vegetables from Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 725
Integrated pesticide application in cotton production	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	500
Integrated pesticide application in vegetable production	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	700
Subregional seed technology project	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 500
Extension of rural extension services' coverage to accelerate the process of adoption of agricultural technologies	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	150
Integrated management of the fruit fly and improvement of fruit gardens	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 400

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Development of non-traditional agricultural exports	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 614
Improvement of marketing and intra-regional promotion of trade through a network of wholesale food markets	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	850
Small integrated storage centres to demonstrate the handling, drying, storage and marketing of grain at the small and medium-sized farmer level	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 400
Grain post-harvest technology training campaign at the small farmer level in Central America to improve food supply and grain marketing	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 200
Support for SIECA and CADESCA in the analysis of staple grain export and import policies	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	644
Strengthening of veterinary health research and diagnostic services in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 700
Contribution of small livestock to the small rural producer economy in Central America	Costa Rica, El Salvador, Guatemala, Honduras Nicaragua	3 500
Improvement of milk and meat production on small farms in Central America	Costa Rica, El Salvador, Guatemala, Honduras Nicaragua	1 350

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Integrated river basin management in Central America	Costa Rica El Salvador, Guatemala, Honduras, Nicaragua	500
Wildlife management for rural development in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	800
Alleviation of socio-ecological tensions using agro-forestry techniques	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 000
Encouragement of rural aquaculture including rehabilitation of fish farming ponds	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	900
Development of small-scale fisheries in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	3 850
Utilization of Pacific and Atlantic marine fishery resources	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 200
<u>Subtotal agricultural development</u>		<u>195 715</u>
3. Trade concessions		
Trade preferences for Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	<u>646</u>

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
4. Reconstruction of Central American physical infrastructure		
Modernisation of the Central American road network	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	200 000
Replacement of the regional telecommunications network in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	19 100
Development of the telecommunications sector in Central America by strengthening CABEI and COMTELCA	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	500
<u>Subtotal, Central American physical infrastructure</u>		<u>219 600</u>
5. Investments in the energy sector		
Electrical and mechanical spares for preventive and corrective maintenance of thermoelectric plants	Costa Rica	2 005
Electrical and mechanical training of staff to handle the equipment installed in the electricity generating plants of the Costa Rican Electricity Institute (ICE)	Costa Rica	100
Construction of a workshop for repair of generator plant parts	Costa Rica	1 481
Reconditioning of Gas Unit No. 4 at the San Antonio Thermal Plant	Costa Rica	700
Power transformer requirements for the Costa Rican electricity grid	Costa Rica	2 283
Overhaul and repair of motor generators at the Miravalle Thermal Generating Station	El Salvador	2 350

<u>Project title</u>	<u>Country</u>	<u>Estimated resources required</u> (thousands of \$US)
Major repair of the turbine in the third Central Geothermic Unit, Ahuachapán, capacity 35 MW (Fuji Electric)	El Salvador	1 500
Repair of boilers in Units 1 and 2 at Acajutla and replacement of piping	El Salvador	4 000
Replacement of automatic voltage regulators (AVR) in Units Nos. 1, 2, 3, 4 and 5 at the "5 de Noviembre" Generating Station	El Salvador	500
Energy audit of the thermoelectric plant of the Río Lempa Hydroelectric Executive Board	El Salvador	55
Automatic regulation of a boiler at the Acajutla Thermoelectric Plant	El Salvador	513
Capacitor banks for the Soyapango and San Antonio Abad substations	El Salvador	681
Drilling and connection of wells at the Ahuachapán geothermal site	El Salvador	8 337
Installation of a binary cycle plant at the Ahuachapán Geothermal Generating Station	El Salvador	3 500
Replacement of monitoring equipment in the Cerrón Grande Hydroelectric Generating Station	El Salvador	200
Installation of photovoltaic systems for the communications system of the Río Lempa Hydroelectric Executive Board	El Salvador	560
Relocation of the master station of the real-time monitoring system in the System Operations Centre	El Salvador	1 844
Electricity generation from sugar-cane bagasse	El Salvador	4 800

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Radial sluices in the Pueblo Viejo dam (Chixoy)	Guatemala	2 000
5 MW pilot geothermal plant (Zunil I)	Guatemala	3 700
Hydroelectric improvement, Río Hondo	Guatemala	7 200
Channelling of water from the upper Río Cahabón basin to the Pueblo Viejo Dam impoundment	Guatemala	1 600
Construction of San Sebastián substation	Guatemala	6 750
Planning of the National Electricity Grid	Guatemala	300
Installation of power stabilizers (PSS) in the four generators at El Cajón	Honduras	250
Project for rehabilitation of the National Interconnected System (PRESIN)	Nicaragua	9 000
<u>Subtotal, investments in the energy sector</u>		<u>66 239</u>

B. Social development

1. Investments in the social sectors (PISDIC)		<u>356 000</u>
2. Health		
Central American water supply and environmental sanitation programme	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	80 000
Programme for the strengthening of solid waste management in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 568
Programme for drinking water and sanitation systems in disaster conditions	Costa Rica, El Salvador Guatemala, Honduras, Nicaragua	1 082

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Programme for development of the technological, human and information resources of water and sanitation institutions	Costa Rica, El Salvador, Guatemala, Honduras Nicaragua	4 394
Research into drinking water supply	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	11 165
Study of the production and marketing of chemicals, materials and equipment commonly used in the water and sanitation systems	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	527
<u>Subtotal. health</u>		<u>99 736</u>
3. Education		
Development and reconstruction of buildings for education in Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	<u>420</u>
4. Strengthening of the productive capacity of marginal groups		
(a) Employment		
Employment and income for development	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	5 160
Special training programme for the population of the informal sector for the purpose of incorporating it in productive activities	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	742

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Advanced technical training of instructors in vocational training institutions	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	454
Methods and techniques for planning and organizing vocational training activities	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	99
Labour relations for peace and the development of democracy	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	6 917
Labour administration for peace and the development of democracy	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 500
Co-operative action in areas of critical poverty	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	824
Training and employment for the handicapped	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	1 238
Regional teaching centre on vocational rehabilitation	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 016

Project title	Country	External resources required (thousands of \$US)
Training of poor rural groups for self-sufficiency and reconstruction	Costa Rica, El Salvador Guatemala, Honduras, Nicaragua	4 012
Subtotal, employment		22 962
(b) Food security		
Making water drinkable in rural areas using locally produced (ceramic) filters	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	200
Production of improved cooking stoves in the private sector	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	150
Regional programme for the financing of integrated rural development (IRD) projects	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	84 000
Natural dyes and colouring agents for small-scale industry	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	250
Appropriate technology for poverty	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	400
Subtotal, food security		85 000

Project title	Country	External resources required (thousands of \$US)
5. Tourism		
Development of integrated tourist circuits	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	200
Establishment of joint tourists' insurance	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	80
Subregional vocational training centre	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	250
Promotion of a common tourism image of Central America	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	120
<u>Subtotal, tourism</u>		<u>740</u>
6. Strengthening and development of co-operatives		
Financing and technical co-operation programme for the development of small services and production co-operatives	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	To be determined
Strengthening of public institutions in support for non-governmental organizations for the development, utilization and conservation of renewable natural resources	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	8 000
Modernization and support for crafts and micro- and small-scale industry in the context of Central American integration	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	15 000

<u>Project title</u>	<u>Country</u>	<u>External resources required</u> (thousands of \$US)
Small-scale fishery industry	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	110
<u>Subtotal, co-operatives</u>		<u>23 110</u>
<u>C. The Central American Bank for Economic Integration</u>		
Extraregional partners	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	265 000
Review and preparation of credit policies and design of financing and operating mechanisms	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	2 000
<u>Subtotal, Central American Bank for Economic Integration</u>		<u>267 000</u>
<u>Total, Economic reactivation and social development programme</u>		<u>1 379 168</u>
GRAND TOTAL		<u>4 370 690</u>
