

GAO

United States General Accounting Office **131044**
Report to the Honorable Patrick Leahy
United States Senate

September 1986

FOREIGN AID

Questions on the Central American Regional Program Need to Be Resolved



131044

036741



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-221422

September 8, 1986

The Honorable Patrick Leahy
United States Senate

Dear Senator Leahy:

In response to your May 21, 1985 letter, this report discusses the evolution, status, and viability of regional economic assistance programs for Central America administered by the Agency for International Development (AID). The report recommends that the Administrator of AID examine the priority and role of regional assistance programs and the need to maintain a separate office in Central America to administer them.

We are sending copies of this report to AID, the Department of State, and appropriate congressional committees and will make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

In January 1984, the National Bipartisan Commission on Central America (NBCCA) recommended that the United States expand its regional economic assistance programs. In response, the Agency for International Development (AID) requested 1984 supplemental funds and 1985 and 1986 funds totaling \$378 million for programs administered by its Regional Office for Central America and Panama (ROCAP).

In response to Senator Patrick Leahy's concern that these amounts represent a dramatic increase over the \$15 million fiscal year 1984 regional program in existence prior to the Commission's report, GAO reviewed how these funds were being used, how ROCAP evolved, how ROCAP projects complement AID's bilateral programs, and whether a regional approach for AID programs was feasible given existing political and economic conditions.

Background

ROCAP is located in Guatemala and was established in 1962 to promote regional economic integration, develop and strengthen regional institutions, and support the activities of the bilateral missions.

ROCAP staffing and funding levels have fluctuated throughout its 24-year history, reflecting AID's changing emphasis on regional programs. In the early 1980s, ROCAP came under increasing criticism due to a perceived ineffectiveness of regional programs and a higher priority given to bilateral assistance activities. As a result, in 1983, AID decided to phase down regional programs.

In early 1984, the NBCCA recommended increased regional economic assistance programs to help improve the economies of the Central American countries. In response to these recommendations, AID requested \$229 million for ROCAP in 1984 supplemental and 1985 funds to implement major regional economic assistance projects, including \$95 million for the Central American Common Market, \$45 million in renewed assistance to the Central American Bank for Economic Integration, and \$20 million for a venture capital company, all specifically recommended by the Commission. One year later, AID requested \$149 million for fiscal year 1986 regional programs, and it has requested \$144 million for fiscal year 1987.

Results in Brief

AID's views, studies and funding actions indicate that extensive regional programs may not be viable. At the time of GAO's fieldwork, economic

and political conditions were not conducive to regional assistance programs, in part, because the Central American countries were focusing on domestic issues. Furthermore, fundamental policy questions on the priority of regional assistance and the need to maintain ROCAP remain unanswered. For example, it is unclear what role, if any, the United States wants to play in encouraging economic integration in Central America.

AID's obligations and expenditures for regional programs have been less than planned, primarily due to cancellations or delays in major economic assistance projects recommended by the NBCCA. Further, AID has used over half of its regional program funds for projects managed by AID/Washington rather than ROCAP without a clear distinction being made in Congressional Presentation documents.

The success of ROCAP programs to promote economic growth will depend in part on host-country economic policies, political conditions, and external resource flows and credit arrangements. ROCAP is currently taking actions to improve coordination with the bilateral missions to enhance the impact of its existing projects and to better complement AID's bilateral programs.

Principal Findings

Regional Program Funding and Composition

AID's obligations and expenditures for regional programs have been less than expected. In fiscal year 1985, AID obligated \$162 million and spent only \$11 million because major programs recommended by the NBCCA were delayed or were not implemented. For example, AID cancelled two projects recommended by the NBCCA, for which it had programmed \$115 million, after determining that they were not feasible. AID explained that it had requested funds for projects recommended by the NBCCA prior to conducting feasibility studies.

Historically, ROCAP has administered AID's Central American regional program. But, starting in fiscal year 1985, AID obligated half of its regional program funds for projects administered by AID/Washington. Some of these projects rely extensively on the bilateral missions for implementation. Because AID's funding requests for fiscal years 1985 and 1986 did not differentiate between ROCAP projects and other regional projects, the Congress may have received an inaccurate impression of the size and purpose of ROCAP's program. Fiscal year 1985 obligations for

ROCAP projects were \$79 million. AID revised the format in its fiscal year 1987 funding request in an attempt to avoid unnecessary confusion.

ROCAP Project Status

As of late 1985, limited progress had been made in increasing trade and expanding economic growth—two underlying goals of the increased regional programs. ROCAP's planned \$95-million project to revitalize trade through the Central American Common Market was cancelled after AID determined that it would not have the desired result unless accompanied by exchange rate reforms. In addition, its plan to establish a \$20-million regional venture capital company was deferred pending further study. AID has initiated a \$47-million project with the Central American Bank for Economic Integration. The financial viability of the Bank will depend on external resource flows and credit arrangements. In the private sector, AID's regional credit and investment projects face serious obstacles due to current host-country economic policies and an adverse military/political climate, which is generally not conducive to business activity.

ROCAP also funds agriculture, nutrition, technology development, and business training projects through four primary regional technical institutions. These projects generally deal with long-range development problems. To enhance the impact of these projects, ROCAP plans to explore ways to increase the institutions' revenues and strengthen their linkages with host-country national institutions.

Coordination between AID's bilateral missions and ROCAP has been insufficient to assure that the programs are complementary. The directors of ROCAP and the bilateral missions generally acknowledged that better communication was needed to avoid potential duplication and achieve maximum project impact.

Regional Program Viability

Internal policy questions concerning the importance of regional assistance activities in Central America and the need for ROCAP were voiced within AID in the past and remain valid today. Because of existing political and economic conditions, extensive regional programs envisioned by the NBCCA do not appear to be viable. Regional programs on a smaller scale may be viable if closely coordinated with the bilateral missions. However, AID's commitment to regional programs may be uncertain, given the long-standing questions within AID on the regional program and the staff views expressed to GAO.

AID has recently taken steps to reach a more widely shared understanding of ROCAP's role. AID also should undertake a thorough examination of its regional program and the need to maintain an overseas regional office. This examination should explicitly answer policy questions raised in the past on the viability and usefulness of regional programs in Central America. It should also include a thorough review of the merits and costs of managing desired regional activities through ROCAP or alternative mechanisms.

Recommendation

To resolve the long-standing controversy over regional programs and ROCAP and in view of overall U.S. budget deficit reduction goals, GAO recommends that the Administrator of AID examine the priority and role of regional assistance programs in Central America and the need to maintain ROCAP.

Agency Response to Draft Report

GAO requested AID comments on a draft of this report and, at AID's request, extended the period for comment to 2 months. The Agency did not provide comments during that period, and therefore this report does not include comments. AID's comments, when received, will be analyzed and a supplement to this report will be issued if deemed necessary.

Contents

Executive Summary		2
<hr/>		
Chapter 1		8
Introduction		8
	Regional Office Established to Aid Economic Integration	8
	Prior GAO Reports	9
	Objectives, Scope, and Methodology	9
<hr/>		
Chapter 2		12
Evolution of AID		12
Regional Programs in	Regional Programs Reassessed	12
Central America	NBCCA Report Revives Funding for Regional Program	14
	Program Funding and Composition	14
<hr/>		
Chapter 3		18
Regional Program and		18
Project Viability	Major NBCCA Recommendations for Regional Programs	18
	Regional Strategy and Projects	20
<hr/>		
Chapter 4		32
Role and Priority of		32
ROCAP Programs	Basic Policy Questions Remain Unanswered	32
	Improved Coordination of ROCAP and Bilateral Activities	34
	Needed	
	Reaching Agreement on ROCAP's Role and Priority	35
<hr/>		
Chapter 5		38
Conclusions and		38
Recommendation	Recommendation	38
<hr/>		
Appendixes		
	Appendix I: Funds Obligated for ROCAP Projects in Fiscal Year 1985	40
	Appendix II: Funds Obligated for AID/Washington Regional Projects in Fiscal Year 1985	41
	Appendix III: Regional Economic Data	42
<hr/>		
Tables		
	Table 2.1: ROCAP Funding and Staffing Levels (1971 - 1984)	13

Table 3.1: Status of Actions on Major NBCCA Recommendations for Regional Programs	19
Table 3.2: Primary Regional Technical Institutions Supported by ROCAP	28

Abbreviations

AID	Agency for International Development
BLADEX	Latin American Export Bank
CABEI	Central American Bank for Economic Integration
GAO	General Accounting Office
LAAD-CA	Latin American Agricultural Development Corporation-Central America
NBCCA	National Bipartisan Commission on Central America
ROCAP	AID's Regional Office for Central America and Panama

Introduction

Fiscal year 1987 will mark the third year of expanded economic assistance programs for Central America as recommended by the National Bipartisan Commission on Central America (NBCCA)¹ in 1984. The administration's request for \$943 million for fiscal year 1987, if made available, will bring the total of this assistance for Central America since fiscal year 1985 to \$2.7 billion. In addition to recommending increased assistance for individual Central American countries, the Commission recommended major regional initiatives to further both immediate and long-term economic growth and development of the region as a whole. The Agency for International Development (AID) is the principal U.S. government agency responsible for administering both country and regional economic assistance programs in Central America. This report discusses the evolution and status of AID's Central American regional programs, for which it has requested \$144 million in fiscal year 1987.

Regional Office Established to Aid Economic Integration

AID's field missions in six Central American countries—El Salvador, Guatemala, Honduras, Costa Rica, Panama, and Belize—are responsible for carrying out its bilateral assistance programs in each country. In addition, AID's Regional Office for Central America and Panama (ROCAP), also located in Guatemala, administers regional activities meant to supplement the bilateral programs. In prior years, ROCAP was called the Regional Office for Central American Programs.

ROCAP was established in 1962 pursuant to an agreement between the United States and the Organization of Central American States to provide U.S. economic assistance to support the Central American integration movement. This movement began in 1960 when Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua agreed to work toward integrating their economic systems. ROCAP activities in the 1960s supported the Central American Common Market, the principal mechanism for regional economic integration. Through the Common Market mechanism, regional organizations were established to address a broad range of regional development problems, including agricultural development, management training, and the improvement of regional transportation and communication links.

Efforts toward regional economic integration began to slow down in 1969, however, when a border war between Honduras and El Salvador

¹Also referred to as the Kissinger Commission, the NBCCA was formed at the request of the President to study economic, political, and social conditions in Central America and their effects on U.S. security interests and to propose U.S. policies and programs to support U.S. interests in the region.

abruptly ended trade between the two countries, and seriously affected trade relationships in the entire region. In addition, growing imbalances in the region's economies, slowing of progress in the industrial sector, and increasing political tensions contributed to uncertainty over the Central American countries' commitment to economic integration.

As economic integration efforts weakened, ROCAP shifted its focus to

- develop and strengthen regional research and training institutions;
- provide credit to the private sector; and
- support the activities of the bilateral missions.

Prior GAO Reports

In December 1985, we reported on the Trade Credit Insurance Program which is jointly administered by AID/Washington and the Export-Import Bank of the United States to help finance Central American imports of U.S. goods and services. Our Fact Sheet Status of the Trade Credit Insurance Program (GAO/NSIAD-86-29FS), described how the program is used, controlled, and funded. In addition, we have issued two previous reports focusing on AID's economic programs in Central America.

1. Providing Effective Economic Assistance to El Salvador and Honduras: A Formidable Task (GAO/NSIAD-85-82), a July 1985 report which reviewed U.S. economic assistance programs in El Salvador and Honduras, focusing on the ability of the United States to influence economic policy reforms in these two countries.

2. U.S. Economic Assistance to Central America (GAO/NSIAD-84-71), a March 1984 report which examined the cash transfer method of assistance and provided an overview of Central American aid.

In other reports, we have reviewed selected development and humanitarian assistance activities in Central America, but we have not previously reported on AID's regional programs there. We did examine methods and constraints to providing assistance to the Caribbean on a regional basis in a 1983 report, AID Assistance to the Eastern Caribbean: Program Changes and Possible Consequences (GAO/ID-83-50).

Objectives, Scope, and Methodology

We conducted this review at the request of Senator Patrick Leahy, a member of the Senate Committee on Appropriations. In view of AID's large funding requests for ROCAP projects, Senator Leahy requested that

we examine this regional program. In addition to providing information on how the funds are being used, we were asked to

- describe the evolution of ROCAP's strategy and how ROCAP projects complement AID's bilateral programs and
- assess the viability and impact of a regional approach in Central America given current economic and political conditions.

We performed fieldwork in Washington, D.C., at the ROCAP mission in Guatemala, and at AID bilateral missions in Costa Rica, El Salvador, Guatemala, and Honduras—the four countries which are the primary beneficiaries of ROCAP projects. We also visited AID missions in Belize and Panama which benefit from some ROCAP activities. Our fieldwork was conducted from October through December 1985.

In Washington, D.C., we met with officials of AID, the Departments of State and the Treasury, the Office of Management and Budget, and the Export-Import Bank. In the field, we interviewed AID mission management, technical staff, and embassy officials to gain perspectives on the usefulness and viability of regional projects and to assess the degree of coordination between regional and bilateral programs. We also met with representatives of AID-supported regional institutions, host government planning and finance officials familiar with NBCCA recommendations, Central Bank officials, and private sector banking representatives. We reviewed AID documents, such as project and program plans, progress reports, AID-contracted studies and project evaluations, cables, financial documents, economic data, and Congressional Presentations

We studied AID's overall strategy for implementing its regional economic assistance programs and initiatives. Because ROCAP has historically been responsible for, and associated with, AID's Central American regional programs, our fieldwork concentrated on the portfolio of projects managed by ROCAP. However, we did not conduct detailed evaluations of individual projects. As explained in chapter 2, beginning in fiscal year 1985, a large portion of the assistance AID had requested for ROCAP projects was actually for projects administered by AID/Washington. Although called regional projects, the AID/Washington regional projects do not involve the regional institutions and framework with which ROCAP projects have historically been associated. We discussed these projects with AID officials in order to understand how AID had organized the funding and implementation of its overall regional program, but we did not examine these projects. At the time of our fieldwork, each of these

AID/Washington-administered projects was in the planning or early implementation stage.

On June 27, 1986, we provided a draft of this report to AID for comment. At AID's request, we extended the period for comment to 2 months, until August 27, 1986, but have not yet received AID's comments. AID indicated that it intends to comment officially on the report, and we will analyze its comments when received, and issue a supplement to this report if necessary.

Our work was conducted in accordance with generally accepted government auditing standards.

Evolution of AID Regional Programs in Central America

AID's emphasis on regional programs in Central America has undergone frequent questioning, reassessments, and change. As a result, ROCAP funding and staffing levels have fluctuated widely. In the early 1980s, AID began to place greater priority on bilateral assistance programs and continued to question regional program effectiveness. In 1983, AID decided to phase down its regional programs, reducing the ROCAP staff from 14 to 9 and allocating no funds for new regional projects in fiscal year 1984.

The January 1984 report of the NBCCA, however, recommended a greater regional commitment in Central America and establishment of new regional economic assistance programs. Consequently, AID reversed its earlier decision to phase down ROCAP's regional programs and requested a total of \$378 million for regional programs in fiscal year 1984 supplemental funds and in fiscal years 1985 and 1986 appropriations. However, AID's actual obligations and expenditures for Central America regional projects have been less than planned because major new projects proved to be infeasible or were delayed due to political and economic conditions.

In fiscal year 1985, an important change took place in AID's regional program strategy. Prior to fiscal year 1985, all regional programs were administered by ROCAP. However, beginning in fiscal year 1985 and continuing through fiscal year 1987, more than half of AID's planned regional programs will be managed by AID/Washington.

Regional Programs Reassessed

As a result of economic and political difficulties in Central America in the 1970s and the 1980s, AID increased its emphasis on bilateral programs and began to question and reassess the viability of its regional programs, which are administered by ROCAP. Consequently, AID's allocation of resources to ROCAP fluctuated throughout the 1970s and early 1980s. (See table 2.1.) In 1983, AID decided to phase down ROCAP, reallocating regional program funds and ROCAP staff to other bilateral missions in the region.

Chapter 2
Evolution of AID Regional Programs in
Central America

Table 2.1: ROCAP Funding and Staffing Levels (1971 - 1984)

Dollars in millions		
Fiscal year	Obligations	Direct hire staff
1971	\$3.5	24
1972	13.2	23
1973	41.6	26
1974	1.3	23
1975	6.3	28
1976	18.2	28
1977	2.8	22
1978	1.3	11
1979	2.7	10
1980	4.2	6
1981	10.6	11
1982	13.1	15
1983	19.4	14
1984	15.4	9

The first major reassessment of ROCAP came in 1975 when the decline of regional economic growth and the political disputes between the Common Market countries were viewed as insurmountable obstacles to continued U.S. support of economic integration efforts. Consequently, an internal AID appraisal of ROCAP recommended a phase-down of regional activities, based on the slow progress of the Central American countries in furthering economic integration—a primary focus of the ROCAP program.

Two years later, in 1977, AID decided to prepare a formal plan to phase down ROCAP. AID identified a time schedule for phasing out the program, but a final decision to eliminate ROCAP was delayed because of signs that the countries intended to revitalize the Common Market. Although Common Market effectiveness did not improve, a 1978 AID survey of the bilateral missions resulted in AID deciding not to eliminate ROCAP but to maintain a small staff to

- provide assistance to the bilateral missions in areas such as financial analysis, legal assistance, and supply management and
- support regional technical institutions that work in the fields of agriculture, nutrition, and technology transfer

In 1979, the Office of Management and Budget conducted a study of U.S. overseas staff and recommended closing regional AID missions, including

ROCAP. The Secretary of State argued against closure and AID maintained that ROCAP was created as a result of an agreement with the Central American governments and that closing it could create political problems for the United States. Therefore, ROCAP continued to operate a small regional program with reduced staff.

The status of ROCAP was again reconsidered in 1983. The economic and political crisis which began to plague all of Central America in the early 1980s caused AID to provide higher levels of assistance to individual governments. In early 1983, AID reported to Congress that the prospects for regional cooperation and integration had dimmed. After reviewing ROCAP's planning documents in May 1983, AID decided to scale down ROCAP by reallocating staff positions to priority bilateral missions and providing no funds for new project starts for fiscal year 1984. ROCAP's focus was shifted away from revitalizing the Common Market and other regional initiatives toward implementing the existing portfolio of regional projects and providing services to bilateral missions as needed.

NBCCA Report Revives Funding for Regional Program

The January 1984 report of the NBCCA recommended a 5-year, multi-billion dollar economic assistance program for Central America, which included increased bilateral economic stabilization programs to stop the economic decline in each country and to help each country address its deep-seated economic and political problems. The NBCCA also recommended a stronger U.S. commitment to a regional development approach. The NBCCA gave high priority to a number of regional economic assistance initiatives which it believed could have an immediate impact on improving the economic situation in Central America.

As a result, AID reversed its 1983 decision to phase down ROCAP and requested \$31 million in fiscal year 1984 supplemental assistance, \$198 million in fiscal year 1985 assistance, and \$149 million in fiscal year 1986 assistance, all in response to the Commission's recommendations for increased regional assistance programs. ROCAP staff levels were also increased from 9 to 16 U.S. direct-hire employees as of late 1985.

Program Funding and Composition

Regional economic assistance activities managed by ROCAP differed from AID program descriptions used to justify requests for appropriations, largely because

- regional program obligations and expenditures were less than planned, primarily because new projects recommended by the NBCCA were delayed or could not be implemented, and
- beginning in fiscal year 1985, AID used regional funds it had requested for ROCAP for both ROCAP and AID/Washington-administered projects; before then, ROCAP had been responsible for all Central American regional projects.

As a result of these two factors, the actual funding increase for regional projects in general, and for ROCAP in particular, has been much less than AID had planned when it requested funds to implement NBCCA recommendations.

Regional Program Financial Obligations and Expenditures

AID requested \$229 million for fiscal year 1985 regional programs, including 1984 supplemental funds, largely based on initiating new projects recommended by the NBCCA, but actually obligated only \$162 million in fiscal year 1985 for regional projects—\$67 million less than originally planned. AID explained that, for the most part, this shortfall was due to cancellation of two planned projects recommended by the NBCCA.¹

Expenditure of these obligations has also been less than expected. AID had proposed spending \$155 million during fiscal year 1985 from 1985 funds and prior year obligations. But, during the fiscal year, AID lowered its estimate to \$31 million, and actually spent only \$11 million. AID explained that shortfalls and delays in obligating funds had caused expenditures to be less than expected. As a result, the amount of unexpended obligations—commonly referred to as the pipeline—was over \$159 million at the end of fiscal year 1985.

For fiscal year 1986, obligations will again be less than originally expected. AID had requested \$149 million for fiscal year 1986 regional programs but, as of February 1986, indicated it would obligate only \$101 million because of additional project cancellations and because it received less appropriations than requested. Because AID initiated 14

¹Because the Congress did not earmark appropriations specifically for Central American regional programs, AID allocated funds for this purpose from overall agency appropriations. AID records do not indicate how funds requested for specific projects are reallocated when these proposed projects are cancelled. AID told us that it was not practical to reconcile its requests for funds against actual agency appropriations and eventual use because of the numerous programming changes that occur between the time AID requests funds and when the funds are actually obligated.

new regional projects in 1985, it expects expenditures to accelerate in 1986 as these projects are implemented.

AID explained that, for the most part, the shortfalls in obligations and expenditures resulted because large regional projects recommended by the NBCCA were found not to be feasible and therefore were not implemented. AID told us that in preparing its fiscal year 1985 and 1986 request for funds, it had not been able to explore the feasibility of proposed projects; instead, it had sought to respond quickly to the NBCCA recommendations and did not delay its funding request to assess project feasibility. AID pointed out that the Congress did not approve appropriations for expanded regional programs until August 1984 and, therefore, AID did not conduct detailed feasibility studies on proposed projects before that time. We noted that proposed projects for which AID had requested over \$150 million for fiscal years 1985 and 1986 had been cancelled or deferred as of February 1986. These projects are discussed in detail in chapter 3.

**Half of Regional Program
Administered by AID/
Washington**

AID obligated \$79 million for ROCAP-administered projects in fiscal year 1985, less than half of the \$162 million actually obligated in fiscal year 1985 for regional programs. The balance was obligated for projects administered by AID/Washington personnel. The fiscal year 1985 Congressional Presentation did not indicate that the requested funds would be used for both AID/Washington and ROCAP-administered projects. AID explained that when the Congressional Presentation was prepared, there were uncertainties over how the funds would be used. Subsequently, AID allocated funds to ROCAP projects and to new initiatives administered by AID/Washington. (See apps. I and II for the ROCAP and AID/Washington regional projects for which AID obligated funds in fiscal year 1985.)

According to AID, the AID/Washington regional projects differed from ROCAP projects because they were considered politically sensitive, with a high degree of congressional interest, or they had a high degree of bilateral mission involvement. For example, AID/Washington regional projects fund scholarships and activities to promote democracy and the administration of justice—all of which were assistance areas recommended by the NBCCA in which ROCAP had not been previously involved. These projects rely extensively for implementation on AID's bilateral missions and individual countries rather than on the regional institutions and framework which has been the intended focus of ROCAP's program. In addition, the Trade Credit Insurance Program was a joint

project of AID/Washington and the Export-Import Bank of the United States.

AID's fiscal year 1986 Congressional Presentation continued to combine ROCAP and AID/Washington-administered projects without identifying which unit would be managing the funds. AID believed that a combined funding request was easier to present than having separate sections for the ROCAP and AID/Washington programs. However, AID did note that Washington offices would have an increased role in the development and implementation of the regional program and would provide support to ROCAP throughout fiscal year 1986. Some of the regional projects programmed for fiscal year 1986 had little or no ROCAP involvement in any stage of the project.

According to the ROCAP Director, it is inappropriate to combine the AID/Washington regional projects as part of ROCAP because ROCAP has no management responsibility for them and including them in ROCAP appropriations requests tends to distort the size and purposes of ROCAP's program. In our opinion, combining projects managed by headquarters and by ROCAP in requests for appropriations may have been misleading and confusing, because before fiscal year 1985, AID had administered all of its Central American regional programs through ROCAP. Because AID did not differentiate between the two segments of its regional program, the Congress could have received an inaccurate impression of the scope of ROCAP activities. Furthermore, ROCAP staff told us they had experienced problems in drafting planning documents because of uncertainty over how much of the funds allocated for regional programs were actually for projects to be administered by the ROCAP office in Guatemala.

Based on our fieldwork, we suggested that AID revise future Congressional Presentations to avoid potential confusion. AID officials acknowledged that the combined requests for appropriations could be unnecessarily confusing. Consequently, AID's Congressional Presentation for fiscal year 1987 lists activities to be administered by ROCAP and by AID/Washington separately and generally explains their respective management responsibilities. According to this document, ROCAP-administered projects will account for roughly one third of the combined 1986 and 1987 regional program. However, we noted that at least three projects administered by AID/Washington do not involve the ROCAP office but are incorrectly listed as ROCAP projects.

Regional Program and Project Viability

Regional programs in Central America were initially established to encourage Central American economic cooperation and trade and to pool resources from each country to solve common development problems. Because each country is relatively small, Central American cooperation in economic matters to achieve a larger market for domestic production was thought to be advantageous. From the standpoint of efficiency, AID believes that, in theory, regional institutions should be viable because they can provide economies of scale; they can conduct research on and provide services for common regional problems rather than independently operating national institutions for the same purpose. However, to be successful, regional programs must have the cooperation and commitment of the Central American countries and the U.S. government.

Although the NBCCA had recommended a strong U.S. commitment to a regional development approach, AID's own views, studies, and funding actions indicate that extensive regional programs may not be viable at this time. Political and economic conditions at the time of our fieldwork generally were not conducive to regional assistance activities. AID officials told us that the Central American countries were focusing on domestic issues, such as balance-of-payments deficits, and that prospects for a revival of intraregional trade in the near term were limited.

Major NBCCA Recommendations for Regional Programs

The NBCCA gave high priority to the regional economic assistance initiatives below and recommended a stronger U.S. commitment to a regional development approach

1. Revitalization of the Central American Common Market to restore intraregional trade by refinancing the trade deficits of the Common Market countries.
2. U.S. membership in and financial assistance to the Central American Bank for Economic Integration (CABEI) which ROCAP had supported in prior years
3. Provision of credit through a new Trade Credit Insurance Program to overcome perceived shortages of U.S. supplier credits to the region.
4. Establishment of a regional venture capital company to invest in productive enterprises

Table 3.1, summarizing the status of these NBCCA recommendations for regional projects, shows that two of the four projects were cancelled and progress on the remaining two has been limited.

Table 3.1: Status of Actions on Major NBCCA Recommendations for Regional Programs

Recommendation	Fiscal Year 1985 Funding Request	Status
Provided emergency credit to the Central American Common Market	\$95 million	Project was cancelled after a study concluded it would not have desired impact. No funds were obligated.
Join and provide funds to the Central American Bank for Economic Integration	\$45 million	The United States has not joined the Bank. AID obligated \$47 million in September 1985 and had disbursed \$15 million as of April 1986. Further disbursements are pending action on AID conditions.
Establish a Trade Credit Insurance Program	Program proposed but no funds requested	AID/Washington, not ROCAP, administers this program. Program use has been less than expected. AID initially set aside \$60 million of 1985 regional funds for a reserve fund but actually obligated \$10 million. The remaining \$50 million was reprogrammed late in fiscal year 1985. ^a
Establish a private venture capital company	\$20 million	Project was cancelled. Bilateral missions are implementing similar projects. No funds were obligated.

^aSee our Dec. 31, 1985, report Status of the Trade Credit Insurance Program (GAO/NSIAD 86-29FS)

Proposal for a Central American Development Organization May Affect Regional Programs

The NBCCA also recommended that a Central American Development Organization (CADO) be established to monitor economic and political conditions in Central America. Legislation authorizing the administration to pursue negotiations to form this organization expressed the belief that "participation by Central American countries in an effective forum for dialogue on, and the continuous review and advancement of, Central America's political, economic, and social development would foster cooperation between the United States and Central American countries." During our discussions with AID and host-country officials in Central America, we found little enthusiasm for the organization. AID officials in Washington acknowledged that Central American countries have not strongly endorsed this concept, but that discussions on the need for and format of the organization are continuing. AID believes that progress in forming it will depend on the initiatives of the Central American countries, and that newly elected leaders in Guatemala, Costa Rica, and Honduras may support the concept.

According to ROCAP officials, results of discussions on the Central American Development Organization could have an impact on the perceived feasibility of regional development activities. If the Central American countries decide to form the organization, this would indicate increased willingness to seek regional solutions to their problems—a strategy shared by ROCAP. If not, several AID officials said that this might re-emphasize long-standing questions on the viability of regional rather than bilateral assistance programs.

Nicaraguan Situation Makes Successful Regional Programs Less Likely

Nicaragua is a member of CABEL, the Central American Common Market, and the regional technical institutions involved in ROCAP projects. ROCAP explained that some regional institutions have expressed concern that U.S. policy toward Nicaragua conflicts with their regional cooperation mandate; many Central Americans perceive inclusion of Nicaragua as being essential for successful regional cooperation in the long term. In contrast, one host-country official cited the political situation in Nicaragua as a reason why his country does not more strongly support the regional institutions supported by AID.

ROCAP indicated that the institutions have agreed not to use ROCAP funds for activities in Nicaragua—a decision which is consistent with U.S. policy. AID officials emphasized that positive political changes in Nicaragua would have a beneficial effect on the regional economic situation and could facilitate expanded regional programs.

Regional Strategy and Projects

AID's Central American regional strategy and portfolio following publication of the NBCCA report focused on promoting economic stabilization and private sector growth and continued assistance to regional technical institutions historically supported by ROCAP. The status of ROCAP projects, why some projects have been cancelled or delayed, and actions ROCAP is considering which could enhance project impact are discussed below.

Economic Stabilization Projects

ROCAP planned to initiate two major regional economic stabilization projects to facilitate trade and capital flows in response to the NBCCA recommendations.

- The NBCCA recommended providing funds to the Central American Common Market clearinghouse to pay off accumulated trade debts. In its

fiscal year 1985 Congressional Presentation, AID had proposed \$95 million in Economic Support Funds¹ for this purpose, but after studying its proposal closely, it determined that the project would not achieve desired results.

- The NBCCA recommended that the United States join and provide funds to CABEL, in part to entice other countries to increase assistance levels to the Bank. Although ROCAP has provided funds to the Bank, the United States has not joined the Bank, and, as of February 1986, other countries had yet to join or provide substantial financial support.

Central American Common Market

The Central American Common Market was created in 1960 by the General Treaty on Central American Integration, and its members are Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. The Common Market relied on a strategy of high import tariffs to promote trade among the Central American countries and reduce imports from international markets. The Common Market countries experienced strong growth during the 1960s. By the early 1970s, however, the growth of Central America's industrial sector and intraregional trade began to stagnate because of the relatively small size of the Central American domestic market, political conflicts, and other factors. According to an AID economist, economic policies which helped produce growth in the 1960s,

"...also produced a strong anti-export bias encouraging Central American producers to look inward to the domestic market rather than outward toward the larger and more dynamic world market the same import substitution policies that have protected industrial activity produced many inefficient, high cost industries whose products are uncompetitive in world markets "

At the time of the NBCCA study, political instability and the financial problems in the Common Market countries had caused a substantial decline in intraregional trade. Accumulated trade deficits between the Common Market countries were thought to be a primary constraint to restoring Central American trade. As a result, the NBCCA recommended providing immediate emergency credit to a Common Market clearing-house fund to refinance accumulated trade deficits. The NBCCA recognized that Nicaragua might benefit from the assistance but viewed such support as one of the quickest ways to revive intraregional trade and economic activity AID requested \$95 million in Economic Support Funds in its fiscal year 1985 Congressional Presentation to help clear these

¹The Economic Support Fund finances aid to promote economic or political stability where the United States has special strategic interests

trade imbalances. In January 1985, AID requested an additional \$16 million for fiscal year 1986 for the same purpose and proposed providing a total of \$188 million over a 6-year period. No funds, however, have been used for this purpose.

A May 1985 ROCAP-funded feasibility study of this proposal concluded that it would be counterproductive to finance accumulated trade debts in the long term because trade imbalances and arrearages would only build up again. Further, such financing would discourage Central American governments from pursuing the exchange rate reforms necessary to a resurgence in intraregional trade as well as to increasing extraregional exports. In addition, a Central American mission director's meeting resulted in a consensus that financing intraregional trade through the Common Market clearinghouse would be inappropriate, given existing economic and political conditions; as a result, ROCAP dropped planned financial support to the Common Market from its program. During our fieldwork, bilateral mission officials reemphasized the need for adjustments to the exchange rates of the Central American countries as a prerequisite for economic stabilization.²

**Central American Bank for
Economic Integration**

CABEI, located in Honduras, was created in 1960 to finance economic development and promote economic integration of the five Common Market countries. Since then, AID has loaned about \$200 million to CABEI for such development activities as constructing roads, dams, and housing; assisting agroindustry; and other economic and social projects.

As the Central American countries' economies have deteriorated, CABEI has experienced serious financial difficulties. Central American member countries and private sector borrowers have been unable to repay their loans on schedule. As a result, CABEI has seen a sharp increase in the level of overdue loans. A ROCAP-funded analysis of CABEI concluded that to be viable, the Bank would have to correct its financial problems by obtaining an infusion of new external funds at concessional interest rates, making internal management improvements, and recovering outstanding overdue loans.

To help reinvigorate CABEI, the NBCCA recommended that the United States join the Bank as encouragement to other countries to become members and to provide new resources to help solve the Bank's financial

²In a July 1985 report (GAO/NSIAD-85-82), we discussed the importance and political difficulties associated with exchange rate reforms in El Salvador and Honduras

difficulties. The United States, however, has not joined. According to the Department of the Treasury, which is responsible for U.S. government relations with multilateral development banks, the United States has a long-standing policy not to become a member of subregional multilateral development banks, such as CABEL. The Treasury cited two major reasons for this position.

1. The United States already supports major development banks, such as the World Bank and the Inter-American Development Bank, which are considered the institutions most likely to have the necessary resources and institutional capabilities needed to carry out long-term development.
2. The Treasury believes that U.S. efforts should be focused on a manageable number of institutions to avoid dilution of effort.

CABEL officials told us they had extended membership to countries outside Central America in an attempt to attract external resources but that as of February 1986, none of these countries had indicated plans to join. CABEL officials told us that the United States, by refraining from membership, may have discouraged other countries from seeking membership.

As an alternative to CABEL membership, AID obligated \$47 million under an assistance agreement with CABEL in September 1985 to help improve its financial viability, administrative capability, and program development. This project will provide assistance to all eligible member countries. (Nicaragua is ineligible to receive assistance from CABEL because it owes the Bank over \$60 million.) The agreement contained a number of financial conditions to be met prior to disbursements of assistance. As of December 1985, all Central American member countries (excluding Nicaragua) had paid CABEL a total of \$37 million in arrears, a prerequisite to AID's initial disbursement of \$11.5 million in project funds to the Bank. In April 1986, AID told us that \$40 million in new capital had been received from Bank members. Therefore, AID disbursed an additional \$3.5 million to CABEL.

AID also required that CABEL arrange for the rescheduling of its official and private debt and obtain non-AID donor contributions of \$50 million before additional AID assistance is disbursed. ROCAP officials hope that successful actions on these two conditions will take place by mid-1986, thereby increasing capital flows to the region.

In addition to the above financial conditions, AID required CABEI to make major organizational and administrative improvements before receiving AID funds. Department of the Treasury and Office of Management and Budget officials told us that the Bank's administration has been inefficient and ineffective. Further, outside consultants have studied Bank operations in depth and concluded that numerous reforms were needed, such as better collection and loan procedures, a new department of administration, a management information system, and improved personnel and training activities. AID is currently providing technical assistance to the Bank to help carry out such institutional reforms.

AID officials believe that the financial and administrative conditions to disbursement of AID funds are necessary to improve the viability of CABEI. If these conditions are met, AID believes CABEI will be able to take on renewed importance in the Central American development process. Failure to meet the conditions could adversely affect Bank viability as well as ROCAP plans to channel future assistance to the Bank.

Private Sector Assistance Activities

At the time of our fieldwork, economic and political conditions in Central America generally were not conducive to business activity. In early 1986, AID reported that

- an adverse political/military climate still exists and is probably the most important constraint to economic recovery;
- anticipated return of capital, private investment, and donor assistance have not materialized;
- commodity prices, except for coffee, have not increased as AID projected; and
- the countries have been slow to implement needed economic policy reform.

As a result, economic growth in the region has been less than expected. (See app. III for economic data for each country.) ROCAP officials indicated that these same factors have made it difficult to design effective regional private sector programs.

Responding to NBCCA recommendations to involve the private sector in regional development and expansion of trade opportunities, ROCAP planned to fund new projects with the Latin American Agribusiness Development Corporation of Central America (LAAD-CA) and the Latin American Export Bank, both of which it has previously supported. ROCAP also planned to establish a new corporation to promote private

sector investment. Its past assistance to LAAD-CA has been relatively successful. Implementation problems and overestimated demand analyses, however, have plagued ROCAP's project with the Latin American Export Bank, resulting in, among other things, the cancellation of the planned follow-on project. In addition, ROCAP's plans for a regional venture capital company have been deferred pending further study. Therefore, recent ROCAP programs have had limited impact on private sector investment and production.

Latin American Agribusiness
Development Corporation

Since 1971 ROCAP has provided LAAD-CA with three loans totaling \$17 million, each at concessional interest rates of 4 percent or less. The most recent loan was for a \$6 million project which started in 1981 to provide credit and working capital to initiate and expand private agribusiness investments. During this project, LAAD-CA made sub-loans to 13 agribusinesses in Guatemala, Honduras, Costa Rica, and Panama.

In November 1985, a ROCAP-contracted evaluation of LAAD-CA's lending activities reported that LAAD-CA is an effective lender, well known in agribusiness and banking circles in Central America. The evaluation cited LAAD-CA for providing medium to long-term loans which are not available elsewhere in the region and for its willingness to take greater risks than most commercial banks in the region. Most bilateral missions we met with also viewed the corporation's Central American activities favorably.

The evaluation noted, however, that LAAD-CA loans had achieved a relatively modest impact on increasing employment, a major project goal. Further, it concluded that overall project success was made possible in large part because AID provided funds to LAAD-CA at a highly concessional interest rate of 4 percent or less. The evaluation stated that a future project proposed by ROCAP would also require provision of AID funds at concessional rates. This, however, would conflict with AID guidance issued in March 1985 which states that providing below-market interest rates to the private sector is an inappropriate use of U.S. government funds. ROCAP officials told us in February 1986 that discussions on a fiscal year 1986 project with LAAD-CA were in process but no agreement on the interest rate had been reached.

Latin American Export Bank

ROCAP allocated \$25 million for a project with the Latin American Export Bank (BLADDEX), located in Panama. This project began in September 1982 to provide the short-term financing needed for the private sector to

import essential raw materials, intermediate goods, and spare parts used to produce goods for export and earn foreign exchange. According to the loan terms, BLADEX was expected to generate \$50 million of cofinancing through commercial banks (\$2 of cofinancing for each \$1 of AID funds).

In August 1984, ROCAP reported that the demand for loans being provided by this project was greater than expected and proposed that an additional \$8 million could be used by BLADEX. In late 1984, ROCAP became aware of project implementation problems, such as interest earned on project funds being distributed as general income of the institution and project cofinancing requirements being miscalculated. After examining the cofinancing calculation, AID determined that the project was being implemented much slower than expected and funded a study to determine why. This study, completed in July 1985, reported that

- AID had greatly overestimated the demand for foreign exchange credits from exporting businesses;
- there was a sufficient supply of pre-export and export credits to finance nontraditional exports from other sources (for example, AID's Trade Credit Insurance Program provides essentially the same credits as BLADEX);
- demand for credit was insufficient to permit BLADEX to loan all project funds as intended

In late 1985, ROCAP deobligated \$3.4 million in undisbursed funds out of the \$25 million AID loan and proposed to AID/Washington that another \$6.6 million immediately be recovered from BLADEX and deobligated, bringing the total AID financing to \$15 million and the BLADEX cofinancing level to \$30 million. ROCAP officials also proposed to AID/Washington that the project be terminated and additional funds recovered if the total \$45 million was not fully used by March 1986.

AID/Washington did not concur with ROCAP's recommendation and decided not to take action which would have required BLADEX to reimburse AID. AID indicated that seeking immediate recovery of funds would be contrary to AID's objectives, because it could cause BLADEX financial difficulties and could lessen its overall loan activity in Latin America. In addition, AID believed that BLADEX's new project management team was making a sincere effort to improve project implementation. AID therefore agreed to extend the project completion date to March 1987 as long as BLADEX was making some loan progress. AID also agreed to consider further easing of the terms to facilitate use of project funds, such as extending project activity outside the Central American region

Given the lack of apparent need for additional short-term credit and the problems faced in the existing loan with BLADDEX, ROCAP cancelled a \$30 million follow-on project with BLADDEX planned for fiscal year 1986.

Regional Venture Capital Proposal

In response to a specific NBCCA recommendation, AID requested \$20 million in fiscal year 1985 funds for ROCAP to form a regional venture capital company. In August, 1985, an AID/Washington official told us that little progress had been made in planning such a project and that the proposed 1985 project had been cancelled. Further, several AID officials believed that the entire concept had been dropped. But, in November 1985, ROCAP officials told us that AID planned to again request funds for a regional venture capital or trade and investment company for fiscal year 1987. This project would cost about \$50 million over several years.

Four of the six bilateral missions we visited, however, had similar projects either underway or planned as part of their individual private sector programs. For example, in Costa Rica, AID had helped form a private investment corporation to promote and make equity investments in new businesses producing for export. According to the mission director in Costa Rica, this corporation, once fully developed, might have the potential to serve all of Central America.

Some bilateral mission officials emphasized the difficulties of initiating a large-scale regional venture capital project. They indicated that given the importance of knowing each country's potential client base and the amount of oversight required, such an activity should first be established on a bilateral basis. They noted that the client base for a trade and development or venture capital company in Central America is limited and will be further limited if each bilateral mission implements similar efforts as planned. Also, bilateral mission, headquarters, and ROCAP staff expressed concern over the degree of risk inherent in these types of projects, which could result in serious AID losses. Generally, they noted that a regional venture capital or trade investment project would need significant start-up time and suggested that AID proceed cautiously with any regional effort in this area.

Based on the existence of similar bilateral programs and the views of bilateral mission officials, we questioned the feasibility of ROCAP's funding the proposed regional venture capital company in fiscal year 1987. ROCAP officials acknowledged that they were not sufficiently familiar with planned and ongoing bilateral activities and that studies need to be conducted to determine the feasibility of a regional project.

Subsequently, AID decided to defer requesting new funds for this project at least until fiscal year 1988.

ROCAP Support to Regional Technical Institutions

ROCAP has historically provided financial assistance to four primary regional technical institutions to address development needs shared by the Central American countries. According to AID, these regional institutions address common problems more efficiently than could individual national institutions.

Table 3.2 describes the primary regional technical institutions receiving AID assistance at the time of our fieldwork, the number of active projects implemented by these institutions, the amount of funds obligated for these projects in fiscal year 1985, and their life-of-project funding. (ROCAP has provided small amounts of assistance to several other regional institutions.)

Table 3.2: Primary Regional Technical Institutions Supported by ROCAP

Dollars in millions			
Name and description	Number of Active and Proposed Projects as of February 1986	Project Funds Obligated in Fiscal Year 1985	Estimated life-of-project funding
The Tropical Agriculture Research and Training Center (CATIE) in Costa Rica conducts agricultural research and graduate training programs and provides technical services to national institutions	8 ^a	17.5 ^a	\$83.9 ^a
The Institute of Nutrition of Central America and Panama (INCAP) in Guatemala provides training and technical services and conducts research on food and nutrition	3	11.3	14.4
The Central American Institute for Investigation and Industrial Technology (ICAITI) in Guatemala supports industrial development and applied technology through product research and testing	2 ^a	3.3 ^a	14.8 ^a
The Central American Business School (INCAE) with campuses in Costa Rica and Nicaragua is a multinational graduate school of management	2	8	6.0

^aIncludes projects with more than one institution

In 1983, AID/Washington questioned how well ROCAP-supported regional institutions were meeting AID objectives and managing AID assistance

and requested that ROCAP evaluate the institutions to justify future support. ROCAP subsequently contracted for independent reviews of several of the institutions for which it planned continued support. These evaluations concluded that the services of these institutions were generally of high quality and recommended continued AID project assistance.

These four regional institutions receive the bulk of their revenues from AID, other bilateral donors, and multilateral institutions. They also depend on the financial support contributed by member governments. With the exception of the Central American Business School, a private nonprofit institution, the institutions require annual dues from their member countries, including El Salvador, Guatemala, Honduras, Costa Rica, Nicaragua, and in some cases, Panama. (The institutions have agreed not to use ROCAP funds for activities benefitting Nicaragua.) These dues support various aspects of their operations and account for about 3 to 11 percent of the institutions' budgets.

These institutions have had difficulties in collecting dues from member countries. For example, ROCAP studies in 1984 showed that member governments owed about \$1 million to one institution, the equivalent of about 3 years of dues, and that four out of five members were behind in their payments to another institution. During our fieldwork, ROCAP said that member country arrearages were a continuing problem which could adversely affect institutional services and finances.

ROCAP officials told us that, in most cases, problems with collecting host country dues are a result of the economic difficulties faced by the Central American countries, rather than an indicator of the value they place on the services of the regional institutions. In our opinion, limited host-country financial commitments to the regional institutions may result in substantial institutional dependence on AID assistance. Officials of the industrial institute, for example, told us that the institute receives almost two-thirds of its funding from AID and only 10 percent from its Central American member governments and that without ROCAP support, the institute's activities would have to be scaled back dramatically.

ROCAP officials believe that financial and technical support is important to maintain institutional services and to strengthen capabilities. ROCAP told us that, over time, it intends to reduce AID assistance to these institutions and to explore ways to increase their revenues from other sources. Based on our discussions with AID and regional institution officials, AID can take or encourage the institutions to take the following actions to improve their financial situations

- When improved regional economic conditions permit, increase efforts to collect member country arrearages and ensure that future contributions are paid on a timely basis. In addition, consider increasing the annual dues from member countries to support more of the costs of operations.
- Increase marketing activities for institution services throughout the region to attract additional revenues from project contracts.
- Initiate fund-raising activities to attract resources from other external donors and the private sector in support of specific projects and overall operations
- Include selected regional institutions on an approved list of AID contractors to permit AID bilateral missions to more easily use their services under AID procurement practices.

During our fieldwork, bilateral mission management and staff had mixed opinions on the value of ROCAP's projects with the regional technical institutions. Some bilateral mission staff acknowledged benefits from the regional technical institutions to mission activities. For example, mission officials stated that the Central American Business School has contributed to the management resource base of the region, and several missions have sent private sector and host country officials to its courses. In addition, some AID missions have contracted with the regional nutrition institute to help implement their own bilateral projects

In contrast, many bilateral mission officials were not familiar with the regional institutions that ROCAP supports and questioned ROCAP project usefulness. According to ROCAP officials, this unfamiliarity with specific regional institutions does not mean that the activities are not worthwhile. ROCAP officials believe that the host governments have greatly benefitted from the research and technical assistance provided by most of the regional institutions. (Although we visited each of the primary regional institutions supported by ROCAP, we did not interview the host-government technical officials who are principal users of the regional institutions.) The ROCAP Director acknowledged, however, that more needs to be done to market and promote the services of the regional institutions supported by AID.

Role and Priority of ROCAP Programs

Questions about the usefulness of ROCAP remain, given recent experience that some regional programs do not appear feasible. To help resolve the long-standing controversy affecting ROCAP, AID has taken some positive steps to clarify ROCAP's role. In addition, the mission is currently taking steps to improve its coordination with bilateral missions to enhance the impact of its existing projects and to better complement AID's bilateral programs. Nevertheless, because political and economic factors make a regional approach difficult, ROCAP's role and priority remain uncertain.

Basic Policy Questions Remain Unanswered

Fundamental policy questions regarding the role of regionalism in Central America and need for ROCAP were raised within AID in the past and remain valid today. AID had planned to phase down its regional program and ROCAP in 1983 after many years of controversy, but NBCCA recommendations resulted in an expansion of regional funding and ROCAP staffing levels. The extent to which regional programs meet U.S. foreign policy objectives and the relative priority of ROCAP's long-term development expenditures are among those questions which AID did not resolve before reversing its 1983 decision.

As discussed in chapter 2, regional program funding levels and ROCAP's staffing have fluctuated since the regional office was established in 1962, reflecting frequent program reassessments and plans to phase down ROCAP. In 1980, fundamental questions were raised within AID which, if answered, would facilitate a decision to "legitimize" or discontinue the regional program in Central America. At that time, ROCAP generally was not viewed as having a direct contribution to make in resolving the more immediate problems of the region. The questions at that time were as follows.

1. Is the concept of regionalism still alive in Central America?
2. What role does the United States want to play in encouraging integration in the region, as distinct from and in addition to support for development through bilateral programs?
3. To what extent is a regional AID program a useful instrument of U.S. policy in Central America?
4. How does a regional program contribute to a more coherent assistance strategy in Central America?

5. Can AID undertake certain activities more effectively within a regional frame of reference?

Based on our discussions with ROCAP and bilateral mission officials, we believe that these questions remain relevant. Some of them continued to be raised as part of AID's 1983 decision to phase down ROCAP, but the expansion in response to NBCCA recommendations occurred without a thorough reexamination of the viability of regional programs and ROCAP's role. However, as previously noted, some of the major regional projects which the NBCCA had recommended have been found to be infeasible.

AID staff in Washington and at the bilateral missions and ROCAP expressed a wide range of opinions on the usefulness of ROCAP projects and the need for a separate office in Guatemala to manage regional programs. Several bilateral mission directors commented that ROCAP's programs are generally not directed at the priority needs of the Central American countries. Some AID staff indicated that regional programs generally were not practical, given current economic and political conditions. Some staff, including several bilateral mission directors, suggested that ROCAP be phased out or phased down as AID had decided in 1983. They suggested that ROCAP's projects could be managed by Washington-based staff who are already responsible for half of AID's Central American regional programs. They also indicated that the bilateral missions could manage projects with the regional institutions located in their respective countries.

ROCAP officials acknowledged that economic and political conditions make the successful implementation of regional programs difficult. However, they contended that it was essential that AID continue the long-term research and development activities supported by ROCAP. ROCAP staff also emphasized the importance of maintaining a regional office and a regional framework for when economic and political conditions improve and to take advantage of new regional opportunities which may arise.

In addition to development projects, AID staff suggested several areas in which a regional office could provide useful services. First, most bilateral mission directors said they needed temporary staff to fill vacancies as well as to supplement bilateral staff during periods of heavy work loads. In addition, specialized expertise is periodically needed in such areas as procurement and contracting, economic analyses, and in nutritional and environmental matters. We noted that some of these services

are currently being provided by AID/Washington and regional staff who are not assigned to ROCAP. For example, AID's regional legal officer is stationed in Costa Rica and the regional contracting officer is stationed in Panama.

Second, some bilateral mission staff thought there was a need for AID to fund or conduct regional economic analyses and long-range planning on regional issues, which the bilateral missions are not currently organized to do. For example, they cited a ROCAP-funded economic analysis of the Central American Common Market as useful to the bilateral mission's economic planning. These studies and analyses could also be undertaken by AID staff based in Washington.

Improved Coordination of ROCAP and Bilateral Activities Needed

During our fieldwork, the ROCAP Director stressed that the regional program should complement activities of the bilateral missions and that improved coordination was necessary to achieve this end. In 1982, the former ROCAP Director had also proposed that the bilateral missions and ROCAP work more closely together in planning and implementing projects. At that time, ROCAP believed that:

“... minimum complementarity and coordination exists among programs of bilateral USAID's and ROCAP. This is a direct result of the fact that each Mission independently identifies its own priorities (within overall Agency and Bureau guidelines), defines its own strategy and develops its own programs.”

According to AID's Congressional Presentation for fiscal year 1987, its regional program is meant to supplement bilateral programs and is closely coordinated with the bilateral missions. During our fieldwork, however, we found that the bilateral missions were often unfamiliar with ROCAP's projects and ROCAP was often unfamiliar with bilateral mission projects. Further, bilateral mission officials identified several projects which they believed duplicated ongoing or planned bilateral activities; for example, a regional agricultural project was viewed as duplicating a Panama mission project and a regional health project was viewed as duplicating an ongoing health project in Honduras.

Directors of the bilateral missions and ROCAP told us that increased communication would help to avoid potential duplication and achieve maximum project impact. The former ROCAP Director also concluded that development impact from regional projects was not being sufficiently realized because regional institutions supported by ROCAP and national institutions often supported by AID's bilateral missions were not closely

tied. Actions to improve coordination between AID's regional and bilateral activities should, according to ROCAP's current Director, lead to strengthened linkages between the regional and national institutions which AID supports.

To achieve more coordination, several bilateral mission directors suggested that ROCAP staff make regular visits to each Central American country to meet with bilateral mission and host country officials. Some bilateral mission staff suggested that more bilateral mission participation during the concept phase of ROCAP projects would be beneficial. AID/Washington had proposed requiring or encouraging bilateral mission financial participation in ROCAP projects in 1983 as a means of promoting improved coordination.

In February 1986, ROCAP's Director said she was exploring how best to achieve better coordination with the bilateral missions. On an experimental basis, she has assigned one ROCAP staff member to serve as a liaison officer to help achieve improved working relationships. In addition, ROCAP is developing an action plan which will include specific measures to improve coordination between regional and bilateral assistance activities.

Reaching Agreement on ROCAP's Role and Priority

We discussed the differing opinions on and factors affecting ROCAP's role and priority with AID officials in Washington and at the ROCAP mission. They told us that uncertainty within the agency on these questions had been a continuing problem which needed attention.

AID and ROCAP undertook several efforts during our review which should help to clarify ROCAP's role.

- AID appointed a new Director for ROCAP in August 1985, filling a position which had been vacant for about 2 years. During our fieldwork, the Director had visited or scheduled visits to each of the Central American bilateral missions to discuss how regional programs could better support and complement bilateral initiatives.
- ROCAP contracted for a study in mid-1985 to analyze the Central American private sector, existing bilateral mission projects, and what role ROCAP could play in promoting private sector growth.
- ROCAP conducted a 3-day staff meeting in December 1985 to discuss the future role of ROCAP and the organizational structure most appropriate for it.

The ROCAP Director noted that for ROCAP to have any validity, its role would have to be approved and endorsed by AID. She further indicated that it was time for a clear statement by AID on ROCAP's role and time to end the "constant rehashing" of questions about the need for ROCAP.

After completion of our fieldwork, ROCAP made recommendations on its role to AID, which were generally accepted by AID. As reported in AID's fiscal year 1987 Congressional Presentation, ROCAP's role is as follows.

- To support efforts to create an immediate impact upon priority development constraints identified by the NBCCA which can best be addressed through a regional, or combined regional and national, approach.
- To strengthen the Central American institutions that will implement these efforts.
- To conduct research and analysis on economic and social trends in the region.
- To provide technical support services to the bilateral missions.

The Assistant AID Administrator for Latin America and the Caribbean has emphasized that "effective program management must begin with a clear statement of objectives..." We agree, and we believe that AID has taken positive steps to clarify ROCAP's role. ROCAP officials indicated that they will develop action plans to expand on this role and to describe the specific planned regional activities and required resources consistent with these objectives.

Nevertheless, the fundamental policy questions about the importance of regional programs and the need for ROCAP which were posed in 1980 remain unanswered. For example, it is unclear what role, if any, the United States wants to play in encouraging economic integration in Central America and whether projects can be administered more efficiently on a regional rather than a bilateral basis. Unless AID can reach widely shared agreement regarding ROCAP, questions on the usefulness of its regional programs will continue. This, according to ROCAP, could undermine the perceived validity of ROCAP's role and adversely affect program impact.

Conclusions and Recommendation

Before the report by the National Bipartisan Commission on Central America, AID planned no new regional initiatives and had decided to phase down its Regional Office for Central America and Panama because it believed that regional programs were not then a priority in Central America. AID's decision in 1984 to greatly expand Central American regional programs was predicated on the specific recommendations of the NBCCA. But subsequent studies and funding actions indicate that extensive regional programs on the scale AID had proposed in response to the NBCCA may not be viable. AID concluded that a \$95-million project to revitalize regional trade and a \$20-million venture capital company, both recommended by the NBCCA were not feasible. These project cancellations underscore long-standing concerns regarding the viability of regional programs in Central America

Regional programs on a smaller scale, particularly with the existing regional technical institutions, may be viable if they are closely coordinated with AID's bilateral activities. AID has taken steps to achieve more coordination between ROCAP and the bilateral missions. AID has also attempted to reach a clearer and more widely shared understanding of ROCAP's role. However, underlying concerns regarding the viability of regional programs and the need for ROCAP remain because existing economic and political conditions generally are not conducive to regional programs.

We believe that these questions regarding the usefulness of regional programs and the need for ROCAP are even more relevant today, given ROCAP difficulties with its projects and that it would be advantageous for AID to examine regional program priority and the need to maintain an overseas ROCAP office. Such an examination could explicitly answer the policy questions raised in the past about the role and priority of regional programs, assess the need for new regional funds, weigh the costs and benefits of maintaining ROCAP, and compare alternate means of managing desired regional programs. For example, ROCAP's projects could be managed by Washington-based staff who already are responsible for the majority of AID's Central American regional programs or bilateral missions could manage projects with the regional institutions located in their respective countries

Recommendation

To resolve the long-standing controversy over regional programs and ROCAP and in view of overall U.S. budget deficit reduction goals, we recommend that the Administrator of AID examine the priority and role of

regional assistance programs in Central America and the need to maintain ROCAP. This examination should explicitly answer policy questions regarding the viability and usefulness of regional programs and ROCAP and analyze the management of desired regional activities through ROCAP and alternative mechanisms.

Funds Obligated for ROCAP Projects in Fiscal Year 1985

Project Name and Primary Regional Institutions Involved	Fiscal year 1985 obligations
Small Farmer Production Systems The Tropical Agriculture Research and Training Center (CATIE)	\$155,000
Fuelwood and Alternative Energy Sources CATIE and the Central American Institute for Investigation and Industrial Technology (ICAITI)	2,055,000
Regional Coffee Pest Control CATIE and ICAITI	350,000
Regional Industrial Energy Efficiency ICAITI	1,150,000
Tropical Watershed Management CATIE	1,400,000
Integrated Pest Management CATIE	1,100,000
Regional Economic Recovery CABEI	47,000,000
Oral Rehydration Growth, Monitoring, and Education The Institution of Nutrition of Central America and Panama (INCAP)	8,000,000
Food Assistance Support INCAP	3,250,000
Tree Crop Production CATIE	1,195,000
Regional Agriculture Higher Education CATIE	11,200,000
ROCAP Central American Peace Scholarships The Central American Business School (INCAE)	800,000
Program Development and Support	1,350,000
Total	\$79,005,000

Funds Obligated for AID/Washington Regional Projects in Fiscal Year 1985

Project name	Fiscal year 1985 obligations
Cooperative Housing Initiative	\$10,000,000
Energy Resources	10,200,000
Essential Drugs and Malaria	2,000,000
Business Women in Central America	2,000,000
Training for Democracy	1,000,000
Central America Peace Scholarships	28,850,000
Regional Administration of Justice	10,000,000
Strengthening Democracy	4,998,000
Trade Credit Insurance Program	10,000,000
Program Development and Support	3,650,000
Total	\$82,698,000

Regional Economic Data

Annual Growth Rates of Gross Domestic Product, (1983-85)

figures in percent

	1983	1984	1985
Belize	1.0	2.0	1.0
Costa Rica	2.3	5.5	1.0
El Salvador	0.8	1.5	1.6
Guatemala	-2.7	0.7	-1.3
Honduras	-0.5	2.8	2.5
Nicaragua	(a)	(a)	(a)
Panama	0.4	-0.6	1.9
Regional total^b	-0.6	1.5	0.6

^aNot available

^bThe regional total is a weighted average, based on 1985 World Bank figures
Source: AID

Private Capital Flows (1983-85)

Dollars in millions

	1983	1984	1985
Belize	\$-7.2	\$-5.3	\$-0.2
Costa Rica	67.5	95.3	41.6
El Salvador	-1.2	1.1	2.0
Guatemala	-15.4	29.0	95.7
Honduras	-15.0	-77.3	-33.9
Nicaragua	(a)	(a)	(a)
Panama	26.9	-65.0	-27.0
Regional total	\$55.6	\$-22.3	\$78.2

^aNot available

Source: AID

Total Exports (1983-85)

Dollars in millions

	1983	1984	1985
Belize	\$62.7	\$68.6	(a)
Costa Rica	862.4	955.5	\$930.0
El Salvador	743.6	725.8	726.9
Guatemala	1,160.0	1,132.2	(a)
Honduras	694.2	738.1	(a)
Nicaragua	(a)	(a)	(a)
Panama	4,394.9	4,302.6	(a)
Regional total	\$7,917.8	\$7,922.8	

^aNot available

Source: AID

**Appendix III
Regional Economic Data**

Total Nontraditional Exports^a(1983-85)

Dollars in millions			
	1983	1984	1985
Belize	(b)	(b)	(b)
Costa Rica	\$336.2	\$385.3	\$382.3
El Salvador	223.9	220.9	240.5
Guatemala	431.6	426.1	(b)
Honduras	230.2	244.7	(b)
Nicaragua	(b)	(b)	(b)
Panama	33.9	38.7	(b)
Regional total	\$1,255.8	\$1,315.7	

^aNontraditional exports exclude coffee, sugar, bananas, cotton, and other agricultural commodities which have been exported by the Central American countries for many years. AID's programs are focused on encouraging exports of nontraditional goods.

^bNot available

Source: AID

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

Address Correction Requested

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100