



# *REPORT TO THE CONGRESS*

## **Progress And Problems In U. S. Aid To The Economic Unification Of Central America** B-159350

**Department of State**

**Agency for International Development**

***BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES***

**AUG. 13. 1970**



**COMPTROLLER GENERAL OF THE UNITED STATES**  
**WASHINGTON, D.C. 20548**

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To the President of the Senate and the  
Speaker of the House of Representatives

This report presents the results of our review of U.S. aid to the economic unification of Central America. The review was made as part of our continuing examination of foreign assistance programs, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of State; the Administrator, Agency for International Development; and the Surgeon General of the United States.

A handwritten signature in dark ink, reading "James B. Stacks".

Comptroller General  
of the United States

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### ABBREVIATIONS

**AID**      **Agency for International Development**

**GAO**      **General Accounting Office**

**ROCAP**    **Regional Office for Central America and Panama**

## D I G E S T

### WHY THE REVIEW WAS MADE

Since about 1950 Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua have been working toward economic unification. Objectives are to eliminate barriers to free trade, to develop common external tariffs, and to balance industrial development, including a free flow of capital and labor among the five countries. (See p. 8.)

From July 1961 through the beginning of 1970, the Agency for International Development (AID) has budgeted about \$143 million and has paid out \$67 million for aid designed to accelerate the economic unification of Central America. AID's Regional Office for Central America and Panama, established in 1962, to encourage and support the Central American Common Market, is responsible for this program. Panama is not a party to the unification plans.

This program is part of a larger economic assistance program to the five countries. Total external assistance was about \$1.3 billion during the 8-year period. This is equal to about 31 percent of domestic revenues of the five countries, or about 20 percent of the export earnings. The United States provided about \$1,017 million, or about 78 percent of the total external assistance. (See pp. 16 and 17.)

Because of congressional interest in multicountry economic development and the amounts of U.S. monies involved, the General Accounting Office (GAO) reviewed AID's efforts to help accelerate economic unification of Central America.

### FINDINGS AND CONCLUSIONS

#### Observations on economic unification

The Central American Common Market is recognized by a number of authorities as the most successful attempt to date at economic unification among developing countries. However, achievement of a common market that is fully effective may be some time away. It includes a customs union (abolishment of tariffs among the members;; comparable external tariffs; and free movement of labor, capital, and business owners between the countries. The customs union has been successfully established

by the five countries but levels of external tariff protection constitute a major unresolved problem, and elimination of barriers to the free movement of people and capital within the area has been limited. (See pp. 8, 9, 20 and 21.)

Since its establishment in 1960, the Common Market has expanded domestic markets through removal of about 95 percent of the restrictions on trade between the five countries. Internal trade has increased on the average of 30 percent a year, from \$33 million in 1960 to \$259 million in 1968.<sup>1</sup> Outside trade also increased on the average of 9 percent a year. Trade with the United States--Central America's most important customer and supplier--increased in dollar value but declined in percentage-terms as a part of Central America's total imports and exports. (See pp. 8, 9, and 10.)

Increased trade has come from economic unification, but it has also heightened nationalistic feelings among the five countries--especially aggravated since 1968 because of increasing imbalances in area trade. Also an uncertainty about the Common Market's future has occurred because of the 4-day war between Honduras and El Salvador in July 1969. As a result of the war, the Honduras portion of the Pan American Highway was still blockaded to Salvadoran products as of June 1970. (See pp. 11 and 13.)

Economic problems currently facing the area include:

- questions on the level of tariff protection allowed to industry,
- balance-of-payments difficulties, and
- limited markets. (See pp. 10 to 13.)

#### Observations on AID program management

AID was unable to relate the Common Market's actual accomplishments and priorities to those AID had hoped for. These had not been defined by AID in terms permitting measurement over a period of time. (See p. 19.)

AID had not developed methods necessary to measure with reasonable accuracy the impact of AID programs on the Common Market movement or the impact of the unification movement on the region's rate of growth and development. As of February 1970, AID was uncertain as to what future efforts would be taken to develop such methods. (See pp. 19 and 25.)

About 80 percent of AID's assistance for the area's unification efforts was provided through loans to the Central American development bank.

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<sup>1</sup>Interregional trade for 1969 is estimated at \$263 million.

These loans increased the availability of capital to develop the area. The impact of these loans on elimination of trade or other barriers to increased trade within the area is uncertain. A majority of the assistance was allocated by AID for matters and activities similar to those undertaken by individual country AID missions, without distinguishing the relative merits of financing such matters on a regional basis. (See pp. 19, 20, and 21.)

AID loans for industrial projects requiring predominantly raw material imports rather than local resources may have contributed adversely to Central America's balance of payments. Although these projects may result in reducing imports of finished products, GAO believes that a number of indications warrant continued serious AID attention to such matters as limited use of local resources in attempting to develop export industries. (See p. 34.)

AID needs to give increased attention to the problem of slow use of available aid development funds. Twenty-four percent of AID's loan funds budgeted for Central America's economic unification have been available but unused for over 4 years. (See p. 23.)

#### RECOMMENDATIONS OR SUGGESTIONS

The Administrator of AID should:

1. Require that long-term objectives and goals of U.S. support for the Common Market be formulated in terms which permit measurement over time, together with a statement of priorities and an explicit plan and time for achieving action.
2. Order more comprehensive efforts to identify key problems requiring solution on a regional basis and require that AID's regional office for Central America direct its future resources to only such problems.
3. Accelerate efforts to develop methods necessary to measure with reasonable accuracy the impact of AID programs on the Common Market and the impact of the unification movement on the area's rate of economic growth and development.
4. Give increased attention to ways of overcoming the problem of slow use of AID loan funds in Central America. (See p. 24.)

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

AID officials stated that they believed that AID regional objectives should be related to priority development but disagreed that such objectives necessarily need to be stated in terms measurable over time. (See pp. 24 and 25.)

Because a key principle underlying U.S. assistance is that aid be designed to serve as a catalyst which promotes the mobilization of a much larger development effort by the recipient country, GAO disagrees. GAO judgment is that the "catalyst" principle requires much greater clarity in statements of AID objectives, to aid in evaluating past achievements, to guide mutual planning, and to establish proper future priorities. GAO believes this of special long-range importance because it would also aid the executive branch in presenting demonstrable achievements to the Congress and the public. (See pp. 24 and 25.)

AID officials agreed, in principle, with GAO's second recommendation but pointed out that there was uncertainty with respect to its application regarding the limitation of the scope of AID's regional office program. (See p. 25.)

AID officials agreed with the third recommendation but pointed out that AID experience had demonstrated that implementation would be a difficult process. (See p. 25.)

AID officials agreed with the fourth recommendation but did not comment on how it would be implemented. (See p. 25.)

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is being furnished to the Congress to inform it of GAO's findings on the effectiveness, and GAO's observations on the management, of U.S. assistance in support of Central American economic unification efforts. Because of the increasing concern by members of the Congress and others with the current inability to show demonstrable achievements of U.S. assistance programs, GAO believes that the Congress may wish to consider whether legislative action may be desirable to ensure that all programs, in general, and the AID Central American regional program, in particular, are formulated in a manner which permits objective measurement over time.

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has examined into the administration by the Agency for International Development of U.S. assistance channeled through the AID Regional Office for Central America and Panama (ROCAP). ROCAP was created primarily for the purpose of developing and administering programs of a regional nature to bolster and expedite the regional integration movement in Central America.

Our review was conducted at AID and the Department of State headquarters in Washington, D.C., and at the ROCAP headquarters in Guatemala City, Guatemala. The scope of our review is further described in chapter 12.

The matters in this report have been commented on and/or discussed with officials of AID and the Department of Health, Education, and Welfare. The comments and views of each agency are incorporated in applicable sections of the report and evaluated where appropriate.

The principal officials responsible for the development and administration of the ROCAP program since its initiation are shown in appendix III.



## CHAPTER 2

### PROFILE OF THE REGIONAL ECONOMIC

### INTEGRATION MOVEMENT IN CENTRAL AMERICA

#### HISTORY OF THE INTEGRATION MOVEMENT

Throughout their history the five Central American countries--Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua--have made numerous attempts to achieve economic and political integration. In 1823, 2 years after achieving independence from Spain, the five countries of Central America joined together in a federated republic. By 1838, this union had failed, and the states seceded and went their separate ways. In the succeeding years, numerous attempts were made to restore the earlier political union, but, until about 1948, all were fruitless.

In 1948 the concept of a Central American Common Market was proposed by a group of Latin American economists. In July 1950 the five Central American countries requested the United Nations Economic Commission for Latin America to undertake a study of the possibilities of regional economic development in Central America. The concept began to move toward realization in 1951. At that time the Economic Commission recommended the establishment of an economic cooperation committee, in Central America, and the five countries signed the Charter of San Salvador establishing the Organization of Central American States, aimed at the "eventual consolidation of Central American activities and possibly even political unification." In 1952 the five countries established an Economic Cooperation Committee and assigned it the task of directing the program for integration.

During the remainder of the 1950's, a number of steps were taken to lay the groundwork for economic integration in Central America. The Economic Cooperation Committee instituted basic studies in many fields, assisted by the United Nations Economic Commission and technical assistance commissions from outside Central America. As a result two regional institutions were set up: The Central American Institute of Public Administration at San Jose, Costa Rica,

in 1954, and the Central American Institute of Research and Industrial Technology at Guatemala City, Guatemala, in 1956.

In preparation for the erection of a common external tariff wall for the region, a Central American Uniform Customs Nomenclature was developed and then adopted by each country. Three other basic instruments--a Multilateral Treaty on Free Trade and Economic Integration, an agreement on a System of Central American Integration Industries, and an agreement for Equalization of External Tariffs--were drawn up and signed by the member countries. These three instruments put in treaty form the basic objectives of the Central American Economic integration program--free internal trade, common external tariffs, and balanced industrial development.

In February 1960, because of their dissatisfaction with the prospect of slow integration offered by the established treaty structure, El Salvador, Guatemala, and Honduras decided to take a different approach to the elimination of intraregional tariffs and signed a treaty which provided for immediate free trade in all but a few products of the three countries. This change on the part of the three countries prompted the Economic Cooperation Committee to work out a new treaty providing for accelerated integration of all five countries. The result was the General Treaty of Central American Economic Integration, which became, and still remains, the basic instrument of the Central American Common Market. The General Treaty established an Economic Council, as the policymaking body of the Central American Common Market, and an Executive Council for administering the terms of the General Treaty and policies of the Economic Council. A Permanent Secretariat was created to carry out the administrative needs of the Executive Council and the Economic Council. A detailed description of Central American Common Market integration organizations is included in appendix I.

The General Treaty was signed by Guatemala, El Salvador, Nicaragua, and Honduras on December 13, 1960. It went into effect for the first three of these countries on June 3, 1961, and for Honduras in April 1962. Provision was made for the later adherence of Costa Rica, and in July 1962 that country signed the treaty but did not become a member



until the deposit of its instrument of ratification in September 1963.

Concurrently, the Central American Bank for Economic Integration was established to serve as a regional financing agency in promoting regional economic integration and development.

During the remainder of the 1960's, special instruments were created for the promotion of industrial development and for easing balance-of-payments strains; common tariff schedules were approved; a central organization was established to promote tourism within the Central American area; and the basis for monetary cooperation was laid by the establishment of a Central American Clearing House and a Central American Monetary Council.

#### Accomplishments, problems, and future outlook

The Central American Common Market is recognized by a number of authorities as the most successful attempt at economic integration in the developing world to date. Nevertheless the achievement of a complete Central American Common Market may yet be some time away inasmuch as the common market concept includes, in addition to a customs union, a free movement of labor, capital, and entrepreneurship between countries. Together with the significant benefits realized to date, Central American regionalism has also brought a heightening of nationalistic feelings among the Central American Common Market countries--especially aggravated since 1968 because of imbalances in intraregional trade, which has tended to worsen differences among members. Also an uncertainty with respect to the future of the Central American Common Market occurred because of the 4-day war between Honduras and El Salvador, which erupted in July 1969. Thus, a far-reaching political union of Central America still appears something for the distant future.

Since its founding in 1960, the Central American Common Market has expanded domestic markets through gradual elimination of regional trade barriers. Restrictions have been completely removed on about 95 percent of the region's internal trade.

A specific aid to agriculture, beyond the removal of regional trade barriers and the establishment of common external tariffs, involved the negotiation of a special Protocol on Basic Grains--which are corn, beans, rice, and sorghum. This Protocol provided for the establishment of national agencies to stabilize prices of these basic grains, national controls over imports of them, and the recognition of a Central American agency to coordinate activities of the national agencies. This Protocol became effective for Guatemala, Honduras, and El Salvador in October 1967, for Nicaragua in December 1967, and for Costa Rica in February 1968.

The aggregate foreign trade in the Central American countries, including their trade with each other, has grown rapidly. From 1960 through 1968 intraregional trade increased on the average of 30 percent a year, growing from less than one tenth to about one fourth of the region's total trade. Manufacturers accounted for more than one half of the increase. In absolute terms total intraregional trade has increased eight fold, as shown below:

	1950	1960	1962	1964	1966	1968 (note a)
	————(millions of U.S. dollars)————					
Central American Common Market intraregional trade	<u>\$8</u>	<u>\$33</u>	<u>\$50</u>	<u>\$106</u>	<u>\$176</u>	<u>\$259</u>
As a percent of:						
Total Central American exports	<u>2.8%</u>	<u>7.4%</u>	<u>10.0%</u>	<u>15.7%</u>	<u>20.8%</u>	<u>27.3%</u>
Total Central American imports	<u>3.7%</u>	<u>6.4%</u>	<u>9.0%</u>	<u>13.8%</u>	<u>20.2%</u>	<u>24.8%</u>

<sup>a</sup>Interregional trade for 1969 is estimated by AID at \$263 million.

Similarly, the region's extraregional trade has increased rapidly. As shown in the following table, from 1960 through 1968 such trade increased, on the average, over 9 percent each year. Trade with the United States--the region's most important customer and supplier--increased in

value during the period but declined in terms of the relative share of total Central American imports and exports.

	<u>1960</u>	<u>1962</u>	<u>1964</u>	<u>1966</u>	<u>1968</u> <u>(note a)</u>	<u>Average</u> <u>annual</u> <u>increases</u> <u>1960-68</u>	<u>Average</u> <u>annual</u> <u>increases</u> <u>1950-59</u>
Extraregional exports:							
Total	411.3	450.4	570.8	669.8	691.0		
Total to U.S.	216.1	234.4	246.4	299.4	336.1		
Percent to U.S.	<u>52.5%</u>	<u>52.0%</u>	<u>43.1%</u>	<u>44.7%</u>	<u>48.6%</u>	<u>7.9%</u>	<u>4.5%</u>
Extraregional imports:							
Total	481.4	502.6	664.6	693.2	786.0		
Total from U.S.	249.6	254.2	335.0	385.1	365.7		
Percent from U.S.	<u>51.8%</u>	<u>50.5%</u>	<u>50.4%</u>	<u>55.5%</u>	<u>46.5%</u>	<u>10.8%</u>	<u>10.5%</u>

<sup>a</sup> AID's estimate.

Together with these benefits, the Central American Common Market is confronted with several major problems, the solutions of which are essential to the success and future direction of the integration movement. These problems are as follows:

1. Levels of tariff protection--A major unresolved problem of the Central American Common Market is the question of the amount of protection Central America shall allow its industry. Involved is the difficulty of striking a balance between protection of industry and protection of exporting. The Central American countries were led to seek economic integration primarily by their desire for industrial development, together with their realization that their national markets were too small for the needs of efficient industry. Indications are that little effort has been made to develop export manufacturing. Some observers have pointed out that, if a high tariff policy is adopted, for the purpose of protecting its infant industry, Central America may develop into a tight little economy in which a number of small-scale, high-cost industries produce for the local market and in which exporting becomes more and more difficult, with the impact of such protection building up slowly so that the effects will not reveal themselves until a crisis develops some years after the protection has been granted.

2. Central American Common Market expansion--At least one authority has pointed out that the Common Market is rapidly reaching a point of diminishing returns and that, if it is to continue to grow, it must have a larger area. The approximately 14 million people in the Central American area with their per capita income of \$324 in 1968 do not constitute a large market. Expansion is therefore a matter of current concern to Central American leaders.

Possibilities for expansion which have been or are being considered are (a) inclusion of Panama in the Common Market, (b) establishment of a special system of direct trade with individual Latin American locations, such as Mexico or the Caribbean Islands, and (c) entry of the Central American Common Market into a Latin American trading block, such as the Latin American Free Trade Association.

During 1967 the 19 Latin American countries and the United States signed an agreement at Punta del Este, Uruguay, and pledged themselves to work for the establishment of a Latin American common market, which is to be substantially in operation by 1985. Some experts have expressed the opinion that the Common Market may well serve as a kind of pilot project for the Latin American Free Trade Association. One problem, however, which has been identified, is that Central American exports are largely tropical agricultural products and the Latin American countries either are producers of these products or are much nearer geographically to other producers than they are to Central America.

3. Intraregional trade imbalances--Imbalances in intraregional trade are a third problem facing the Common Market. Such imbalances have contributed to a heightening of nationalistic feelings among Common Market member countries. El Salvador and Guatemala, the relatively more developed countries, have enjoyed trade surpluses in intra-Common Market exchanges primarily because of their export of manufactured goods. Honduras and Nicaragua, on the other hand, have recorded sizable deficits because of slow gains in their predominantly agricultural exports. The following schedule shows the cumulative intraregional deficit and/or surplus of each country from 1962 through 1968.

	Trend				Cumulative
	1962	1964	1966	1968	1962-68
<hr/> (millions) <hr/>					
Guatemala	\$1.8	\$3.6	\$21.7	\$28.5	\$87.1
El Salvador	-3.8	-3.9	5.5	19.1	41.1
Costa Rica	-1.6	7.5	2.9	-11.8	-1.6
Honduras	4.9	.5	-13.7	-17.0	-43.7
Nicaragua	-1.3	-7.6	-16.4	-18.8	-82.6

The growing imbalance in trade between Common Market members led to the adoption of special concessions designed to help the countries with deficits achieve a better position in the market. These included allowing such countries a favorable position in bidding for new industries and permitting such countries to grant relatively more liberal concessions to investors. Some strain, however, in the economic relations between member countries developed in the wake of these concessions. The comparative advantage enjoyed by certain country industries led to charges of unfair competitive advantages from similar industries in other Common Market member states. An agreement adopted in early 1969 was designed to place better controls on the granting of such concessions while still allowing the lesser developed countries a favorite position. Honduras was given special attention in the lending policies of the Central American Bank and enjoys the position of being the single largest recipient of the Central American Bank loans.

4. Balance-of-payments difficulties--Increasing deficits in the Common Market's balance-of-payments position is a fourth major problem facing Central American leaders. The extent to which such deficits have increased are shown below. A major contributing factor has been that newly established Common Market industries have generated an increased demand for imports of capital goods and raw materials.



<u>Year</u>	Net balance of payments ( <u>millions</u> )
1961	\$ 26.0
1962	34.2
1963	21.3
1964	34.0
1965	51.8
1966	-62.0
1967	-21.3
1968	-147.0 <sup>a</sup>
1969	-194.0 <sup>a</sup>

<sup>a</sup>AID's estimate.

In an effort to ease balance-of-payments strains, the Common Market members drew up, in June 1968, the Protocol of San Jose, an amendment to the General Treaty. The Protocol imposed a general 30-percent tariff surcharge on all imports from outside the Central American Common Market except for a number of essential items. It also permitted a regional sales tax on luxury goods regardless of origin.

Business opposition to the Protocol in most of the countries delayed ratification and brought the 1968 balance-of-payments crisis to a head in July. A meeting of the Presidents of the five member countries and the President of the United States on July 6, 1968, succeeded, to a degree, in bridging certain conflicting national viewpoints. To ease the existing difficulties, certain measures were agreed to, but they did not resolve certain basic problems which may affect further integration efforts. Among other things, the Presidents agreed to work toward ending balance-of-payments conflicts by ratifying the San Jose Protocol. The agreement did not become completely operative until early in 1969 when Honduras deposited its ratification of the agreement. As a result of the meeting, new U.S. financial assistance was pledged to the region.

5. Honduran-El Salvadoran conflict--Uncertainty with respect to the future of the Common Market was created by the 4-day war between Honduras and El Salvador, which erupted in July 1969. El Salvador invaded Honduras in

retaliation for Honduras' eviction of Salvadoran migrants, particularly squatters on rural land. An emergency meeting of the Organization of American States obtained Salvadoran withdrawal of her troops under threat of economic sanctions. In early June 1970 El Salvador and Honduras also reached agreement, through the auspices of the Organization of American States, on a plan to pull back troops from their border, which had been plagued by fatal incidents since the July 1969 4-day war. As of June 1970, however, the 65-mile stretch of the Pan American Highway through Honduras was still blockaded to Salvadoran products, although, according to AID, Salvadoran manufacturers have largely managed to circumvent the blockade by means of alternative sea and air routes and through development of new markets.

## CREATION AND PURPOSE OF AID REGIONAL OFFICE FOR CENTRAL AMERICA AND PANAMA

After the signing of the General Treaty, AID concluded that the arrangements made by the five Central American countries to create a common market constituted the most forceful factor influencing development in Central America. AID anticipated that the economic integration of the Central American region would facilitate and eventually lead to political integration. AID, therefore, decided to effect an appropriate reorganization of its field mission and its Washington staff in order to give every possible encouragement to the integration movement and to accelerate its growth wherever possible.

In July 1962, AID established the Regional Office for Central America and Panama<sup>1</sup> in Guatemala City, Guatemala. ROCAP was given the responsibility for (1) developing and administering programs of a regional nature to bolster and expedite the integration movement in Central America and (2) providing liaison to the Permanent Secretariat, the Central American Bank, and other appropriate regional institutions. The major Central American integration organizations are listed in appendix I.

Prior to the establishment of ROCAP, a special task force had identified five regional activities--a cadastral survey, a regional census, a regional program for higher education, regional manpower planning, and a regional capital development program--as appropriate activities for ROCAP. During the early years of ROCAP's existence, much effort, according to AID, was devoted to defining the projects that should be undertaken by ROCAP in relation to the work of the individual country AID missions.

A 1966 Washington-level policy review of ROCAP resulted in a restatement of ROCAP's role. This restatement provided

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<sup>1</sup>From the time of its creation, ROCAP has had little direct involvement with Panama, although "Panama" has been retained as a part of its name.



for continuing ROCAP's role of bolstering and expediting the regional integration movement by providing liaison to Central American regional organizations; by carrying out studies, surveys, and projects directed toward matters best solved on a regional basis; and by coordinating its activities with those of the five individual country AID missions. It added the additional responsibility of providing a centralized service of technical specialists to assist the individual country AID missions in implementing their programs.

#### SUMMARY OF AID ASSISTANCE CHANNELED THROUGH ROCAP

From July 1961 through December 1969, the Central American Republics received approximately \$1,297 million in external assistance from various sources. Of this amount, about \$1,017 million, or about 78 percent of the total assistance provided, was furnished by the United States. This level of assistance was equal to about 31 percent of the total domestic revenues and about 20 percent of the total export earnings of the five Central American countries.

Of the \$1,017 million, about \$714 million was provided as direct assistance by the United States to the Central American Republics. Of the \$714 million, \$143 million, or about 20 percent of the total, was in support of the Central American integration movement and \$140 million was channeled through ROCAP. The indirect U.S. assistance was furnished through U.S. contributions to international organizations.

External Assistance to Central America  
July 1, 1961, through December 31, 1969

	Total (millions)	Percent	Loans (millions)	Grants (millions)
<b>U.S. Assistance:</b>				
AID-bilateral	\$ 315.4	24.3%	\$220.0	\$ 95.4
AID-ROCAP	142.8	11.0	112.5	30.3
Export-Import Bank	113.4	8.8	113.4	-
Bureau of Public Roads (note a)	22.9	1.8	-	22.9
Public Law 480	55.9	4.3	-	55.9
Military Assistance Program (note a)	38.0	2.9	-	38.0
Peace Corps	20.0	1.6	-	20.0
Other economic programs	5.4	0.4	-	5.4
<b>Total</b>	<b>713.8</b>	<b>55.1</b>	<b>445.9</b>	<b>267.9</b>
<b>Assistance from international organizations (U.S. contributions):</b>				
Inter-American Development Bank (note b)	324.6	25.0	324.6	-
International Bank for Reconstruction and Development (27.79%)	154.7	11.9	154.7	-
International Development Association (32.03%)	22.4	1.7	22.4	-
International Finance Corporation (35.19%)	4.4	0.3	4.4	-
United Nations (40%) (note a)	39.1	3.0	-	39.1
Other free world countries (note a)	15.0	1.2	-	15.0
Central American Bank (country funds)	22.5	1.8	-	22.5
<b>Total</b>	<b>582.7</b>	<b>44.9</b>	<b>506.1</b>	<b>76.6</b>
<b>Total</b>	<b>\$1,296.5</b>	<b>100.0</b>	<b>\$952.0</b>	<b>\$344.5</b>
U.S. assistance through operation of U.S. Sugar Act and International Coffee Agreement (note c)	\$ 175.3			

<sup>a</sup>Bureau of Public Roads is through May 1969; Military Assistance Program is estimated through June 1970; part of United Nations is through December 1968 only; and other free world countries is through December 1968.

<sup>b</sup>U.S. assistance is provided to each of the Bank's three funds, as follows: Ordinary Capital--42.23%; Special Operations--78.13%; Social Progress Trust Fund--100%.

<sup>c</sup>The amount of commodity trade assistance (1964 through 1967), estimated by GAO, provided by the United States to Central America through preferential sugar purchases under the U.S. Sugar Act and through participation in the International Coffee Agreement. See GAO report (B-167416, October 23, 1969) entitled "Foreign Aid Provided through Operations of the United States Sugar Act and the International Coffee Agreement" for an identification of some of the major problems of such assistance and how they have been dealt with.

The extent of assistance channeled by AID through ROCAP has varied somewhat from year to year, as shown below:

<u>Fiscal year</u>	<u>Total</u>	<u>Loans</u>	<u>Technical assistance grants</u>
	<u>—(millions)—</u>		
1962 (note a)	\$ 3.0	\$ -	\$ 3.0
1963	8.8	5.0	3.8
1964	26.5	22.5	4.0
1965	3.7	-	3.7
1966	38.7	35.0	3.7
1967	3.8	-	3.8
1968	23.0	20.0	3.0
1969	34.0	30.0	4.0
1970 (through 12-31-69)	<u>1.4</u>	<u>-</u>	<u>1.4</u>
	<u>\$142.9</u>	<u>\$112.5</u>	<u>\$30.4</u>

<sup>a</sup>Represents funds programmed in support of the Central American integration movement prior to creation of ROCAP.

All of ROCAP's loans have been made to the Central American Bank which reloaned the funds to public and private entities in Central America for a variety of purposes. ROCAP technical assistance involved Central American regional organizations. A functional breakdown of the ROCAP assistance program through December 31, 1969, is listed below:

	<u>Total</u>	<u>Percent</u>	<u>Loans</u>	<u>Grants</u>
	<u>—(obligations in thousands of dollars)—</u>			
Infrastructure	\$ 87,246	61.1	\$ 85,000	\$ 2,246
Industry	20,092	14.1	15,000	5,092
Housing	10,000	7.0	10,000	-
Education	7,849	5.5	-	7,849
Health	1,950	1.4	-	1,950
Agriculture	995	0.7	-	995
Public Administration	3,886	2.7	-	3,886
Legal	391	0.3	-	391
All other	<u>10,443</u>	<u>7.2</u>	<u>2,500</u>	<u>7,943</u>
	<u>\$142.852</u>	<u>100.0</u>	<u>\$112,500</u>	<u>\$30,352</u>

## CHAPTER 3

### OBSERVATIONS AND RECOMMENDATIONS

#### ON OVERALL ROCAP MANAGEMENT

Subsequent chapters of this report relate accomplishments and problems on specific ROCAP-financed projects and matters. This chapter contains our observations and recommendations on overall ROCAP management.

Generally we observed that:

- We were unable to relate the accomplishments achieved by the Central American Common Market to the accomplishments which AID had hoped the Common Market would achieve because these had not been explicitly defined by AID in terms which permitted aggregate measurement over time.
- A majority of the assistance channeled through ROCAP was not directed to problems requiring solution on a regional basis. In this regard, we noted that overall ROCAP evaluations had focused to a large extent on overall development problems common to each country of the region--duplicating to a large extent the evaluations made by AID missions in each country--rather than on problems requiring solution on a more strictly regional basis.
- AID had not developed analytical tools necessary to quantify, with reasonable accuracy, the impact of the ROCAP programs on the Common Market movement or institutions or the impact of the integration movement on the region's rate of growth and development.
- About 80 percent of the AID assistance provided in support of the region's integration efforts involved loans made to the Central American development bank. These loans increased the availability of development capital in the region and, although not specifically directed toward elimination of trade or other

barriers, thereby, to an uncertain degree, contributed to increased trade within the region.

--AID needed to give consideration to means of overcoming the problem of slow use of available ROCAP loan funds.

In the early 1960's, after the basic treaty structure of the Common Market had been created and after the Central American Bank for Economic Integration--the regional development bank--had been established, AID anticipated that the economic integration planned by the Central American countries would facilitate and eventually lead to political integration of the region--a change AID believed to be desirable.

ROCAP was therefore conceived and established as a means for encouraging and accelerating the overall Central American integration movement and for assisting in strengthening regional institutions. Neither the degree nor limit to which the United States hoped to accelerate the Central American integration movement or strengthen regional institutions was identified by AID or the Department of State. Nor were intermediate completion targets adopted, and, therefore, a basis for measuring aggregate progress over time was not established. Thus, without such goals we were unable to measure the aggregate progress achieved against the progress intended or desired by AID.

Since the establishment of ROCAP in 1962, the Central American Common Market has been highly successful in expanding domestic markets through elimination of regional trade barriers but has been less successful in eliminating barriers limiting the free movement of people and capital within the region. About 80 percent of the AID assistance channeled through ROCAP involved loans made to the Central American Bank. These loans increased the availability of development capital in the region and, although not specifically directed toward elimination of trade or other barriers, thereby, to an uncertain degree, contributed to increased trade within the region. For example, as discussed in chapter 5, loan funds allocated to industry--about 14 percent of all loan funds--were loaned generally for enterprises

producing products to be marketed in two or more countries in the region.

Little specific assistance has been given by ROCAP for promotion of a regional Monetary Union, although AID has expressed the opinion that such a union offers the only really suitable monetary device for dealing with the region's balance-of-payments problems.

With respect to the freer movement of people within the region, AID program documents point out that there has been little concrete progress in the reduction of the number of barriers prohibiting such movements. AID has expressed the opinion that such barriers are major factors inhibiting continuing growth of the region. In 1966, a Department of State-AID "Policy and Action Paper" identified U.S. policy as:

"\*\*\* influencing Central American governments, as soon as it is possible to do so effectively, to begin to remove the barriers to the free movement of persons throughout the territory of the five countries of the region."

In 1968, with U.S. encouragement, the matter of free movement of people was referred to the Organization of Central American States for the preparation of a study and a draft of a proposed treaty. At the suggestion of ROCAP, the Organization of Central American States contracted in 1969 with an ex-Foreign Minister of Guatemala to undertake the project which was expected to take 1 year. ROCAP stated its intention to finance "as much time as is necessary to get the job done right." As of February 1970 the project was still under development.

No explicit criterion has been developed by AID, in many areas, for specifically distinguishing activities to be financed by ROCAP and matters to be financed by the individual country AID missions. Consequently, as discussed in subsequent chapters, a majority of ROCAP assistance was allocated for activities and matters similar to those undertaken by the individual country AID missions, without distinguishing the need or relative merits of financing such matters on a regional basis.



In this regard a key principle underlining U.S. assistance is that such assistance is to be designed to serve as a catalyst which promotes an intensified and much larger development effort by the recipient. The emphasis on a country's own self-help performance is not only an expression of the mutuality concept but also a recognition of the necessity that U.S. assistance be implemented in such a fashion as to call forth an optimum contribution by the recipient to the development process. We believe that this difficult objective requires great clarity in the statement of AID objectives, goals, and priorities; more firmness in the establishment of conditions for assistance, and increased resoluteness in rewarding achievement rather than failure.

Other than some contributions to the Central American Bank for Economic Integration (noted below), no real basis had been developed by AID to quantify, with reasonable accuracy, the extent to which ROCAP programs had caused or encouraged the Central American integration leaders to intensify their own efforts. In this respect we noted that ROCAP assistance amounting to \$114.4 million (\$112.5 million in loans and \$1.9 million in grants) to the Central American Bank represented 63.9 percent of the bank's \$179.1(1) million of available lending resources. Of the remainder, \$42.2 million as provided by the Inter-American Development Bank in the form of external assistance loans and \$22.5 million were paid in by the five Central American member countries. This resulted in a ratio of external assistance financing to member country financing of about seven to one.

Overall AID evaluations of the ROCAP program have been almost exclusively qualitative evaluations and have focused to a large extent on overall development problems common to each country of the region--duplicating to an extent the evaluations made by AID missions in each country--rather than focusing on problems requiring solution on a regional

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<sup>1</sup>About \$60 million has been furnished to the Central American Bank in European and Mexican credits on commercial short-term credit terms and is not included in these figures.

basis. AID has not developed analytical tools necessary to quantify, with reasonable accuracy, the impact of the ROCAP programs on the Central American Common Market movement or institutions or the impact of the integration movement on the region's rate of growth and development.

Because of the concern, expressed by some economists, of potential negative effects of the Central American Common Market on the development of the region, AID, in 1968, financed a research study to develop a model for assessing quantitatively the impact of the Central American Common Market on the economy of each member country. The resulting study, prepared by a university professor, was submitted to AID in March 1969. The study tentatively concluded that the Central American Common Market had contributed more to the region's rate of economic growth than the one twentieth of 1 percent to a maximum of 1 percent estimated in previous non-AID studies. The author of the study characterized his study as a "crude quantitative assessment" and suggested further research. As of February 1970 there was uncertainty within AID with respect to what future efforts would be taken to further develop analytical tools for measuring the impact of the ROCAP program on the Central American Common Market or the impact of the Common Market on the development of the region.

Finally, we believe that AID needs to give increased consideration to overcoming the problem of slow utilization of ROCAP and other available development funds. Appendix II to this report, which summarizes the ages of currently active ROCAP and other external assistance loans to the Central American region, shows that 24 percent of all such ROCAP loans have been available but unused for over 4 years.

Indications are that the main causes for the slow utilization of ROCAP loans have been (1) the uncoordinated furnishing of ROCAP, bilateral, and other international assistance to the same sector at the same time which results in more funds being available than apparently are necessary and (2) delays in construction caused by the recipient country, including changes in government and delays in legislative ratification.



## RECOMMENDATIONS

In accordance with the above observations, we recommend that the Administrator, AID:

1. Require that long-term ROCAP objectives and goals be formulated in terms which permit aggregate measurement over time, together with a definitive statement of priorities and an explicit plan for achieving action on those priorities.
2. Cause increased efforts to be given to identifying key problems hindering the integration movement and requiring solution on a regional basis and require that the application of future ROCAP assistance be limited to such problems.
3. Accelerate efforts to develop analytical tools necessary to quantify, with reasonable accuracy, the impact of ROCAP programs on the Central American Common Market movement and institutions and the impact of the Central American integration movement on the region's rate of growth and development.
4. Give increased attention to ways of overcoming the problem of slow utilization of available external assistance loan funds in Central America.

## AGENCY COMMENTS AND GAO EVALUATION

AID officials, in commenting on a draft of the report, agreed to three of the above four recommendations.

Agency comments--With respect to our first recommendation, AID officials, in their comments, stated that they believed that ROCAP objectives should be related to priority development needs but disagreed that such objectives need necessarily to be stated in terms measurable over time.

GAO evaluation--We agree that the ROCAP objectives should be related to priority development needs; however, we cannot agree with the proposition that AID long-term objectives and goals need not be formulated in terms which permit aggregate measurement over time. A fundamental

principle underlying AID assistance is that it is to be designed to serve as a catalyst which permits the mobilization of a much larger development effort by the recipient. This emphasis is not only an expression of the mutuality concept, postulated by the Foreign Assistance Act of 1961, as amended, but is a recognition of the necessity that U.S. assistance be implemented in such a fashion as to call forth optimum contribution by the recipient to the development process.

In our opinion, this difficult objective requires, indeed demands, greater clarity in the statement of AID objectives and agreements, together with determination of priorities and definite plans for action on those priorities. Such clarity also aids greatly in evaluating achievement and, therefore, in guiding mutual planning and establishment of developmental priorities. Finally, we believe that this is of special long-range importance because of the desirability of being able to show to the Congress and to the American public concrete, demonstrable achievements.

AID comments--AID officials agreed, in principle, to our second recommendation but pointed out that there was uncertainty with respect to its application because of the limitation of the scope of ROCAP assistance.

AID agreed with our third recommendation but pointed out that its experience had demonstrated that implementation of it would be a difficult process.

AID also concurred in our fourth recommendation but did not comment on how the recommendation would be implemented.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

Because of the increasing concern by members of the Congress and others with the current inability to show demonstrable achievements of U.S. assistance programs, we believe that the Congress may wish to consider whether legislative action may be desirable to ensure that all programs, in general, and the AID Central American regional program, in particular, are formulated in a manner which permits objective measurement over time.

## CHAPTER 4

### ASSISTANCE FOR INFRASTRUCTURE

AID assistance to ROCAP for infrastructure amounted to \$87.2 million, or 61 percent of the total AID assistance channeled through ROCAP. Our review of this assistance indicated that:

- AID did not attempt to design, direct, or limit this assistance to specific problems necessarily requiring solution on a regional basis. Most of the regional assistance--\$85 million--was allocated by ROCAP through the Central American Bank for Economic Integration to individual countries for highway construction. Only \$660,000, or 0.8 percent of this assistance, was allocated for the purpose of planning or coordination of regional transportation networks--a matter requiring regional solution.
- There had been limited progress in construction of highways for which ROCAP funds were allocated. As of December 31, 1969, less than \$12.6 million of the \$85 million of ROCAP funds allocated for highway construction had been disbursed. The limited progress was due to lengthy delays in utilizing ROCAP funds stemming from administrative and technical problems within each country and to a need for better coordination both with the region and within AID.
- The Central American Corporation for Air Navigation Services, to which \$1.7 million of ROCAP technical assistance had been provided, developed a program rated as excellent for providing regional cooperation in air service communication.

### LIMITED PROGRESS IN HIGHWAY CONSTRUCTION

Highway construction has been financed on both a national and a regional basis in Central America. A 1965 Central American Transportation Study, prepared under AID's auspices, designated about 6,250 kilometers of highways

requiring construction, paving, or improvements to establish a regional highway network. This study was adopted as a master plan by the region. Each country was to be responsible for construction within its boundaries.

Delays encountered in the highway programs

The Central American Bank loans were made to assist in the financing of about 1,600 kilometers of the network. As of March 1970 only 780 kilometers of highways were under construction and none were completed. In this regard, less than \$12.5 million of the \$85 million of ROCAP funds provided to the Central American Bank for highway construction had been expended as of December 31, 1969. The principal reason for the Bank's slow disbursement of funds was the long delay between the date of the Bank's subloan authorization and the start of actual highway construction.

A ROCAP study made in 1968 indicated that the time lag on one of ROCAP's loans would be 24 months and would be 23 months on roads to be financed under a \$15 million loan made to the Central American Bank by the Inter-American Development Bank. The causes for these delays stemmed from technical and political problems. Following is a list of the various actions which have to be taken by the member countries to execute a subloan and the corresponding time lag.

1. Resolution by the Central American Bank's board of directors to authorize the subloans.
2. Preparation of draft loan agreement by the bank's Legal Office--2 to 4 weeks.
3. Negotiation and signing of the final subloan agreement--4 to 6 weeks, provided that the Government has already been authorized by its Congress to negotiate the subloan.
4. Ratification by congress in recipient country of the signed loan agreement--2 to 6 months (in some instances it has taken up to a year).

5. Selection of consultants to review plans and specifications and to supervise construction; prequalifications of contractors. Both of these steps are normally taken simultaneously and have to be approved by the Central American Bank and ROCAP--2 to 3 months.
6. Review by the consultant of plans and specifications; call for tender, analysis of bids, recommending award, approval by the Central American Bank and ROCAP--3 to 6 months.
7. Signing of the contract between the Government and successful bidder--1 to 4 months.
8. Mobilization by the contractor of equipment and preparation before start of construction--4 weeks.

ROCAP believed that starting in 1969 the average time-lag could be cut to 10 or 11 months because of the previous experience gained by the Central American Bank and the Central American governments in implementing the subloans. However, we saw no evidence that this had come about. For example, a ROCAP loan to the Central American Bank for highways, signed in January 1968, still had no disbursements as of December 1969--about 24 months later.

Following are examples of implementation delays encountered on selected ROCAP-sponsored highway projects involving about 28 percent of the \$85 million in ROCAP funds allocated for highway construction.

1. Guatemala--Santa Elena-Coban road--\$4 million

This project was to open Guatemala's Peten region.

There was over a 15-month lag in executing this project, including a 6-month lag from the time of authorization to the time of signature of the loan agreement, because of differences of opinion among different Guatemalan ministries. The same problem subsequently delayed presentation of the loan agreement and ratification by the Guatemalan Congress, and this delay held up signature of the construction contract for 7 months.



2. El Salvador--La Union-Honduras border road--  
\$2.4 million

Since the Inter-American Highway is the most important highway in the regional system, this project was to repave that section running from La Union to the Honduran border.

After the loan for this project was authorized by the Central American Bank, there was a delay of approximately 16 months before the El Salvadoran Congress authorized the government to sign the loan agreement. Problems of design resulted in an additional 7-month delay after signature of the loan agreement while the Highway Department completed final plans and specifications.

3. Honduras--Tela-La Ceiba road--\$8.8 million

Although the feasibility studies and preliminary plans for the entire highway had been prepared prior to authorization of the loan, changes in the Honduran Ministry of Public Works led to a reassessment of the routes and preliminary plans recommended in the feasibility study. The reassessment took several months. There was a 9-month delay between signing the loan and contracting for new consultants, and approximately a 6-month lag in completing final plans for the first section of the road, and an additional 7 months' delay for completing the final plans for the second section.

Final plans for the second section were also delayed when the consulting engineer ignored the preliminary plans for conventional concrete bridge structures and favored more sophisticated precast, pretensioned bridge beams. ROCAP recommended against this change, but the government supported the consulting engineer's position that such a design would be less expensive than conventional construction.

4. Nicaragua--Ocotal-Las Manos road--\$2.9 million

The Ocotal-Las Manos highway is one link in the alternate route from Tegucigalpa, Honduras to Managua, Nicaragua. Its completion will allow year-round traffic over the entire route.



The loan for this project was authorized by the Central American Bank in December 1964. However, construction was not planned to start until February 1969. The 50-month delay resulted from Nicaragua's decision not to give priority to completion of plans until Honduras initiated action on its section of the road.

#### 5. Costa Rica--Rio Colorado-El Coco road--\$5.8 million

This road is part of a reconstructed highway which carries the greatest volume of traffic in Costa Rica except the San Jose area.

The loan was authorized by the Central American Bank in July 1967, and construction was scheduled to start in January 1969. Delays resulted from difficulties in obtaining rights-of-way and approvals by Costa Rica's Congress.

#### Need for coordination

Both the above matter and the following matter emphasize the need for coordination and cooperation among donors and the Central American countries in regard to intercountry highways.

In 1961 Guatemala began construction of the Rio Hondo highway with the assistance of AID and the Export-Import Bank. This road, as originally conceived by a 1955-56 World Bank Mission, to Guatemala was to improve communications between Guatemala, the western region of Honduras, and El Salvador and thereby open commerce between the three countries and provide a connection to the common Central American port facilities on the Atlantic coast. In 1965 the Central American Transportation Study designated this highway as CA-10. This highway links San Salvador and the Atlantic ports of Guatemala and passes through the northwest tip of Honduras. To be of any regional use, Honduras must finance its portion of the road, even though it derives very little, if any, benefit from it.

Honduras, in March 1968, agreed to go ahead with its portion of the highway, but apparently only after a trade-off whereby Guatemala agreed to build its portion of

another road designated CA-13, which connects Entre Rios, Guatemala, with Puerto Cortes, Honduras.

In March 1967 the Central American Bank made a \$4 million loan of Inter-American Development Bank funds to Honduras for its portion of CA-13. The bank has also scheduled, from ROCAP loan L-008, \$800,000 for Honduras and \$3.5 million for Guatemala to complete CA-13 and a \$1 million loan for Honduras for the construction of the connecting portion of CA-10.

In an internal analysis, dated July 1968, ROCAP concluded that coordination among the individual country AID missions, ROCAP, and various AID/Washington backstopping offices of the several loan proposals in Central America is inadequate to ensure the most effective use of scarce development assistance resources and that consultation among the various bilateral lending programs is insufficient.

ROCAP recommended to AID/Washington in July 1968 the following measures to coordinate economic assistance in Central America (1) that ROCAP have the opportunity for substantive comment on all loans, (2) that AID's Central American Mission Directors be the forum for establishing uniformly consistent conditions on all AID loans, in addition to those project-related conditions included by the individual missions, and (3) that AID/Washington use its influence in bringing international lenders together in an advisory group for agreeing upon mutually supporting lending conditions.

#### Agency comments and GAO evaluation

AID, in commenting on our report, pointed out that, as a result of intensive efforts by the Central American Bank and ROCAP, the conditions that impeded progress and delayed rapid implementation of ROCAP loans to the Bank allocated for highway construction have been overcome. AID stated that, with only a few exceptions, all of the projects to be financed with the subject ROCAP loans would be under construction by December 1970.

With respect to the problem of coordination, AID informed us that it had endeavored to stimulate the

Inter-American Committee on the Alliance for Progress to take the leadership in standardizing lending requirements, especially when joint implementation was required and where the prestige of the committee could influence the host country in instituting necessary reform. AID stated that the Central American Bank and the Permanent Secretariat for the General Treaty of Central America Integration under the auspices of the Inter-American Committee on the Alliance for Progress called all the international lenders together and formed an advisory group to recommend country self-help measures relating to international lending.

GAO evaluation--We appreciate the fact that AID feels the delayed implementation of ROCAP loans to the Central American Bank has been overcome; however, according to the latest AID data available, loan #L007 (the second loan) still has no disbursements over 2 years from the date it was signed.

#### SUCCESSFUL AVIATION PROGRAM

The Central American Corporation for Air Navigation Services has been assisted by ROCAP with technical assistance grants totaling about \$1.7 million. In addition, the Central American countries have also contributed about \$3.1 million in equipment and personnel services toward the corporation's operations.

ROCAP has apparently been highly successful in assisting regional aviation through the corporation. The Central American Transportation Study identified this program as excellent and one which would provide most of the communication and navigation facilities required by air transportation. The International Bank for Reconstruction and Development (World Bank) reported in June 1967 that the corporation was providing excellent regional cooperation in air service communications. A report on the corporation's activities made by the International Civil Aviation Organization in October 1967 stated that, in addition to the safety of human lives which was paramount in this program, there was a by-product of great commercial and civil benefit in terms of the contribution toward tightening the bonds of Central America's regional economic integration movement

through the installation of much more rapid and efficient telephone services in the area between Mexico and South America. This came about because of the installation of a telephone system between the major Central American airports. The report stated that it was difficult to imagine national capital cities only 170 miles apart not having good round-the-clock public telephone service, but this was true until late 1965 when the Alliance for Progress made such service possible through the air navigation service.

ROCAP has found that all the Central American Transportation Studies' recommended-airway projects are underway by the individual countries concerned, except one for which the Central American Bank has programmed \$1.5 million. AID anticipates that after fiscal year 1969 the corporation will receive sufficient funds from the use of its facilities and services for independent operation.

## CHAPTER 5

### ASSISTANCE FOR INDUSTRY

AID assistance to ROCAP allocated for purposes of industry, from 1961 through June 30, 1969, amounted to \$20.1 million--\$15 million in loans and \$5.1 million in grants--or about 14 percent of the total AID assistance channeled through ROCAP. During the time this assistance was provided, the industrial growth of the Central American region increased remarkably. Our review revealed that:

- ROCAP funds were loaned for industrial projects which required predominantly raw material imports rather than indigenous resources and thus might have contributed adversely to the region's balance of payments. In addition some of the Central American Bank's subloans seemingly have had little effect on increasing the amount of manufactured goods available for export.
- A few projects, involving about \$3.2 million of ROCAP funds, consisted of projects of low priority, or projects which, in our opinion, did not meet established criteria for industrial loans.

The overriding objective of ROCAP is to accelerate the Central American integration movement. Generally, ROCAP was to accomplish this objective by strengthening regional institutions. A systematic inventory of industrial problems requiring a solution on a regional basis had not been made by AID.

#### NEED FOR INCREASED ATTENTION TO BALANCE-OF-PAYMENTS CONSIDERATIONS OF INDUSTRIAL PROJECTS

The Central American Bank's industrial lending, while contributing to the substantial progress made in expanding production, may have possibly contributed to the worsening balance-of-payments position of the region.



The bank's charter provides, in part, that industrial projects which will contribute to the increment of goods available for export are eligible for financing. We found the bank's subloans, although not designed to do so, had generally been to industries which required an increasing amount of imported, rather than indigenous, raw materials. In addition, some of the bank's subloans seemingly have had little effect on increasing the amount of manufactured goods available for export.

For example, the Central American Bank prepared a study in February 1967 dealing with the economic effects of two Inter-American Development Bank loans for industrial relending in the amount of \$14.2 million. The study showed that the loan assistance had resulted in a net increase in the usage of imported raw materials of \$13 million annually, whereas the use of locally produced material had increased only \$6.8 million a year. ROCAP officials acknowledged that the results of this study were typical of all the Central American Bank loans to industry, including AID funds provided through ROCAP.

Although exports of industrial products have been growing, they contribute little to the region's foreign exchange earnings. For example, in 1966 industrial goods amounted to only 2.8 percent of the region's total exports. As noted above, two industrial loans which account for about 10 percent of the Central American Bank loan funds available for industry resulted in an increase of imports of over \$13 million annually, whereas the increase in exports from all industry sources averaged only \$8 million a year.

Although evidence is not available to show the degree of adverse affect these specific imports of raw materials may have had on the region's balance of payments, the following schedule shows that the Central American region, since 1965, has been faced with a continued worsening in its balance-of-payments situation.



<u>Year</u>	<u>Net balance of payments</u>
1961	\$ 26.0
1962	34.2
1963	21.3
1964	34.0
1965	51.8
1966	-62.0
1967	-21.3
1968	-147.0 <sup>a</sup>
1969	-194.0 <sup>a</sup>

<sup>a</sup>AID's estimate.

One of the main motivations for economic integration was to create larger markets and encourage the establishment of larger scale enterprises producing either intermediate or final goods. ROCAP records show there has been a growth of small- and medium-size mixing or assembly plants producing mainly consumer goods based on tariff-free imports of the intermediate materials with high tariff protection afforded to the final product. A recent ROCAP study points out that the industries that are really being protected in Central America are the finished consumer goods manufacturers with an effective tariff protection rate as high as 154 percent. These include pharmaceuticals, cosmetics, toiletries, and related preparations, as well as some simple metal fabricated products. The World Bank reports that these are among the new industries which represent a major share of the increase in intraregional trade.

The AID Industrial Ad Hoc Committee in commenting on this point stated that:

"Integration has been followed by a rapid growth of assembly and other inefficient industry in all five\*\*\* [Central American Common Market] countries. Because substitution for imports of consumer goods behind high tariff walls is most profitable, industrialists have concentrated investment in these industries. Such industrialization creates fiscal

problems by reducing government revenues from tariffs and weakens the medium and long-run balance of payments prospects for the area by diverting resources from more efficient, although less profitable, export production in industry or agriculture."

ROCAP officials have informed us that there has been no U.S. industrial policy formulated for the region and that lending policies among the various individual country AID missions and ROCAP have not been coordinated. In addition, ROCAP has not formulated an industrial policy, although it has discussed with the Central American Bank the possibility of establishing relending criteria for future ROCAP industrial loans.

One of ROCAP's more recent efforts has been to encourage the passage of the regional 30-percent surtax on imports as a balance-of-payments self-help measure.

#### Agency comments and GAO evaluation

AID did not agree that industrial projects financed with ROCAP funds may have contributed adversely to the region's balance of payments. AID contended that, rather than to show a loss of foreign exchange stemming from the increased use of imported raw materials, the information showed that, because of the expansion of Central American industry, the area imported more raw materials but less finished products containing such materials. AID suggested that the latter would, of course, have been more costly and would have required the use of more foreign exchange.

GAO evaluation--We appreciate the fact that the imports of raw materials may have held the imports of finished goods at a lower level. Since data is not available showing, with reasonable accuracy, the extent to which ROCAP-financed industrial projects may or may not have contributed adversely to the region's balance of payments, we believe that sufficient indications are available to warrant continued serious AID attention to this matter.

Some observers have pointed out that, if a high tariff policy is adopted, for the purpose of protecting its infant

industry, Central America may develop into a tight little economy in which a number of small-scale, high-cost industries produce for the local market and in which exporting becomes more and more difficult. They have pointed out that the impact of such protection builds up slowly so that the effects will not reveal themselves until a crisis develops some years after the protection has been granted.

In this regard, AID did note that:

1. Central America, like other developing areas, had used tariffs to stimulate the growth of infant industries and had stimulated some that it might have been better to do without.
2. An Industrial Ad Hoc Committee had been created within AID to analyze the situation and suggest guidelines to be followed in AID and other lending in the area.
3. The Central American Bank was following policies closely paralleling these suggestions and gave special attention to assisting companies that were of substantial size, that did not need excessive protection, and that produced goods with large Central American content.
4. Special efforts were also being made to promote and finance export industries.

**FUNDS USED FOR LOW-PRIORITY AND/OR  
UNINTENDED PURPOSES**

About \$3.2 million of the \$20 million of ROCAP assistance furnished for regional industrial development was used for low-priority projects and/or in a manner for which the funds were not justified or intended.

The Central American Bank has received the following assistance for industrial use:

<u>Source</u>	<u>(millions)</u>
ROCAP loans	\$15.0
" grants	5.1 <sup>a</sup>
Member countries	10.0
Inter-American Development Bank	<u>24.2</u>
	<u>\$54.3</u>

<sup>a</sup>Of this amount, \$100,000 was used for the Central American Bank's start-up expenses.

Criterion adopted by the Central American Bank provides that the following types of industrial projects are eligible for financing (1) those that will contribute to the increment of goods available for Central American trade or for the export sector and (2) those requiring expansion, modernization, or modification to improve free Central American trade. The bank's guideline for determining if the industrial projects are of a regional nature is whether the project involves the purchase or sale of materials in at least two Central American countries.

We reviewed in detail the two loans and the one grant made available by ROCAP to the Central American Bank for industrial relending, as well as the technical assistance furnished to the regional organizations for industrial uses.

As a result of our review we noted the following cases which we feel were of low priority and/or did not appear to meet the established criteria for industrial loans.

# 1. Electrical Power Production (\$2,581,000)<sup>1</sup>

On September 29, 1964, the Central American Bank requested ROCAP's approval to lend \$1.1 million to the Costa Rican Institute of Electricity, a public institution, to purchase four diesel-electric generating plants to meet expected shortages of electrical energy during the 1965 and 1966 dry seasons. In November 1964, ROCAP concurred in this subloan, even though the funds had been made available to the Bank for other purposes. This was done at a time when the first ROCAP loan had an uncommitted balance of \$1.5 million and financing from a second ROCAP loan of \$10 million could not be approved until the proceeds of the first loan were fully committed. The Director of ROCAP, in a letter approving this subloan, stated:

"We would wish to emphasize that AID's approval of this subproject constitutes an exceptional application of proceeds of AID's industrial lending to [the Central American Bank for Economic Integration]. \*\*\* The purpose to which the funds will be put \*\*\* would (not) under normal conditions, be considered to be in compliance with either of AID's industrial relending Loan Agreements."

On January 17, 1967, the Central American Bank informed ROCAP that it planned to loan \$481,000 to the National Enterprise of Light and Power of Nicaragua, a government utility, for the improvement and expansion of the electric power system of Nicaragua. ROCAP replied that ROCAP approval of this subloan was not required since the amount did not exceed the dollar limit--\$500,000--which had been set on the bank's subloans requiring ROCAP approval.

Also on January 17, 1967, the Central American Bank requested ROCAP's approval to loan \$1 million to the National Enterprise of Electrical Energy of Honduras, a government utility, for the expansion of electrical energy in Honduras. ROCAP approved this subloan on February 27, 1967, without question.

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<sup>1</sup>Includes \$197,000 of local funds.



In neither of the latter two cases did we find any reference by ROCAP to the fact that they had previously told the Bank that power loans were not in compliance with AID's purposes in making funds available to the Bank to make industrial loans.

We do not question the merits of the above-mentioned loans for electrical power. We do believe, however, that the need and relative merits of financing such projects with regional funds should be examined and considered. Such practices also have the effect of circumventing established criteria in connection with the review and approval of assistance authorized to the Central American Bank.

## 2. Memorial library and conference center (\$50,000)

Another \$50,000 of the ROCAP funds furnished to the Permanent Secretariat of the General Treaty of Central American Economic Integration for the Industrial Investment and Trade Promotion project was used to assist the Permanent Secretariat in purchasing a house in Antigua, Guatemala, which was to become a memorial library and conference center. No evidence was available showing how the financing of a memorial library and conference center added significantly to the development of industry within the region. ROCAP stated that the library was not the basic justification, since the building provided the Central American Common Market leaders with a "retreat" where top regional leaders united for uninterrupted meetings, work sessions, and conferences and since it had a most useful function in securing a meeting of the minds particularly when vital and knotty problems were to be considered.

## 3. University expansion (\$645,000)

In February 1967, the Central American Bank for Economic Integration requested ROCAP's approval of a \$645,000 subloan to the Central American Institute of Business Administration. The institute is a regional school of business administration located in Managua, Nicaragua. The subloan was to finance the construction of buildings for the institute. ROCAP approved this subloan in May 1967.



This subloan did not conform to either the purposes of ROCAP's industrial loan or the Central American Bank's criteria for regional industrial relending since the institute is an educational institution and does not increase the amount of goods available for Central American trade.

#### AGENCY COMMENTS

AID, in its comments on our report, informed us that the educational program should have been a separate project and should not have been financed with industry funds. The project was transferred to the educational sector in 1968. AID did not comment on the remaining examples.

## CHAPTER 6

### ASSISTANCE FOR HOUSING

AID assistance to ROCAP allocated for purposes of housing involved \$10 million in loan funds, or about 7 percent of the total AID assistance channeled through ROCAP. With respect to the use of these funds, we found that:

- Of 3,500 housing units which were to be financed during the period 1965 through 1967, only 1,843, or 53 percent, had been financed as of June 30, 1968. Of 60,000 houses originally intended to be financed from the use and reuse of the AID funds, during the 40-year life of the loan, current estimates were that only 9,000 homes, or about 15 percent, would be so financed during this period. ROCAP officials informed us that the difference in the total number of homes to be financed was caused by (1) original estimates being overly optimistic and (2) increases in the cost of construction.
- AID transferred funds to the Central American Bank prematurely, which resulted in unnecessary costs of at least \$130,000 to the U.S. Government.
- The Central American Bank had established a special Home Loan Department, but it had not issued and sold bonds to raise funds for mortgage financing as envisioned in the loan agreement.

On November 29, 1963, AID agreed to lend the Central American Bank \$10 million to finance the operations of the Bank's Home Loan Department. The Home Loan Department was to act as a source of secondary financing for home mortgage institutions in the five Central American countries. The eligible country institutions were to present groups of eligible mortgages for financing to the Central American Bank which, in turn, would purchase up to 80 percent.

## SHORTFALL IN INTENDED NUMBER OF HOUSING UNITS

AID estimated that, with the \$10 million loan, the Central American Bank could provide 80 percent secondary mortgages for about 3,500 middle-income families during the initial 2-year drawdown period of the loan. Also it was estimated that 60,000 homes would be constructed through the use and reuse of the AID funds during the 40-year life of the loan.

As of June 30, 1968, the Bank had financed only 1,843 homes. ROCAP officials estimated that only about 9,000 could be financed during the 40-year life of the loan.

ROCAP official stated that the original estimates of homes to be financed by the loan were "overly optimistic" and that rising construction costs would reduce the number of homes which would be built.

In our opinion, another possible cause for the shortfall is that, at the time this loan was made, there was an almost negligible primary mortgage market in Central America. Hence, the Central American Bank was unable to purchase existing mortgages, and it thereby made loans for housing construction directly and generated its own mortgages through existing financial institutions.

According to AID documents this project was designed to help meet the demand which was appropriate to commercial financing (i.e., housing for middle-income families). AID hoped to encourage the development of private mortgage financing in Central America so that the demand for mortgage financing could, in the future, be met entirely with private funds. AID reasoned that the limited resources of the Central American government could then be devoted to meeting the housing needs of the lowest income groups.

## PREMATURE RELEASE OF U.S. FUNDS

During our review, we found that AID had transferred funds under the loan to the Central American Bank prior to the bank's actual need for the funds.

The Home Loan Department made it a practice to request disbursements from AID of the full amount of each subloan granted. It, in turn, made disbursements to subborrowers on a calendar of disbursement basis and thus gave the Home Loan Department access to undisbursed balances to each subborrower.

Although data showing this premature release of funds was readily available, AID apparently did not scrutinize this data or, if they did, took no corrective action.

We examined the funds transferred by AID to the Central American Bank and the bank's use of those funds since January 1, 1967, and we estimated that additional interest of at least \$130,000 was incurred by the U.S. Treasury as a result of the premature transfer of such funds.

The following schedule shows the length of time various amounts of AID loan funds transferred to the Central American Bank were available but unused by the bank for housing subloans.

<u>Months prior to need</u>	<u>Amount of funds</u>
30	\$ 711,000
24	931,000
18	1,298,000
12	1,696,000
6	1,906,000

The situation closely parallels an earlier situation noted by us in that AID prematurely transferred U.S. funds to a different regional organization in Latin America, which resulted in unnecessary interest expense to the U.S.<sup>1</sup> In that case correction procedures along the line we proposed were adopted by AID. This situation indicates that a review of AID's system of loan fund transfers may be warranted.

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<sup>1</sup>See GAO report (B-146937) dated September 8, 1964.

LIMITED SUCCESS IN STRENGTHENING  
CENTRAL AMERICAN BANK FOR ECONOMIC  
INTEGRATION'S HOME LOAN DEPARTMENT

ROCAP has been successful in accomplishing the loan's purposes of creating a special department within the Central American Bank to help meet the housing needs of the Central American Common Market. However, the Home Loan Department established did not develop into the type of unit envisioned, and in 1967 AID/Washington turned down a Central American Bank request for an additional \$15 million loan for housing, until the bank could demonstrate its capability to function as a regional institution to finance housing.

Some of the bank's administrative weaknesses according to a ROCAP evaluation included (1) the failure to secure receipt of collateral from three banks to evidence mortgages issued for disbursements totaling over \$1.25 million and (2) the use of \$87,635 in interest earned on investments in securities for operational expenses rather than for relending although required by the loan agreement.

In addition we found that the AID housing loan to the Central American Bank provided for the bank to issue and sell housing bonds as a means of acquiring more funds for mortgage financing. ROCAP officials informed us, however, that the Central American Bank for Economic Integration had not done this because members of its Board of Governors (the presidents of the member countries' central banks and the five Ministers of Economy) were reluctant to issue bonds which might compete with their own governments' bond issues.

## CHAPTER 7

### ASSISTANCE FOR EDUCATION

AID assistance to ROCAP allocated for purposes of regional education development involved about \$7.8 million, or about 5.5 percent of the total AID assistance channeled through ROCAP. This assistance was designed to institute a regional textbook development program, to strengthen a regional council on higher education so that it could promote the development of a regional university system, and to establish a Central American institute for the teaching of business administration. Our review revealed that:

- The regional textbook program was successfully initiated and as of July 1969 had produced over 10 million textbooks, with an additional 10 million textbooks in process. However, there is uncertainty as to whether the Central American countries will provide sufficient financial support to permit continuation of the program, after AID funds expire.
- The attempt to strengthen the regional council on higher education had only limited success because the individual countries had been unwilling to delegate the needed authority to the Council. However, regional schools of veterinary medicine and sanitary engineering were established and courses of social studies and humanities as well as science and math were introduced into the curriculums of most national universities.
- A regional institute for teaching business administration was established under ROCAP auspices, and, after initial uncertainty with respect to the sufficiency of financial support from member countries, the institute was in operation in 1969.

The inadequacy of trained human resources is one of the principal obstacles to economic and social progress in Central America. Central America does not have the educated and skilled personnel, in either quantity or quality, to meet its requirements and its opportunities in the coming years.



ROCAP assistance was directed toward three areas which were considered to be appropriate for a regional program because (1) a common need existed in all the regional countries, (2) a regional organization existed through which ROCAP could furnish funds, and (3) a solution by the individual countries did not seem likely.

#### SUCCESSFUL INITIATION OF REGIONAL TEXTBOOK PROGRAM

Elementary education was considered by AID to be the root of the educational problem in Central America. Specifically AID estimated that more than 80 percent of the children in school were totally without textbooks and that less than half of the school-aged children were enrolled in school. As a result, in 1962, ROCAP established a regional textbook program which included the financing of a Regional Textbook Center. The program was planned to develop and produce free textbooks and teachers guides in basic subjects for children in the public elementary schools in the five Central American countries and in Panama.

As of the end of fiscal year 1969, about \$3.2 million of ROCAP funds had been obligated for this project. An additional \$472,000 is programmed for fiscal year 1970. ROCAP's financial assistance is scheduled to be terminated at the end of 1970.

The Regional Textbook Center is administered as part of the Organization of Central American States. Textbooks and teachers guides are developed at the center by teams of teacher-writers delegated by the respective Ministries of Education, with guidance from a permanent staff of the center and U.S. advisors. ROCAP's assistance was programmed for the completion of manuscripts for 33 textbooks by the end of calendar year 1970.

The following summary shows the specific responsibilities of ROCAP, the individual country AID missions and the Central American governments.

### Central American governments

The Central American responsibilities were:

1. To furnish the personnel who make up the writing and editing teams.
2. To ensure financial responsibility for all subsequent years after the AID "start up" efforts were fulfilled.

### Individual country AID missions

The individual country AID missions assumed technical responsibility for:

1. Programming sufficient funds to finance production of the first 2 years' requirements of textbooks prepared by the center through Project Agreements with the host country.<sup>1</sup>
2. Monitoring production, orientation, distribution and other facets of the in-country utilization of the textbooks prepared by the Regional Textbook Center.
3. Maintaining usual AID project relations, controls, etc., with the host country.

### ROCAP

ROCAP assumed the technical responsibility of assisting the Central American regional organization to perform the following jobs:

1. Write primary school textbooks for grades 1 through 6 in five areas--science, mathematics, reading, language, and social studies.

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<sup>1</sup>For the first 2 years of the program, ROCAP financed the production of the textbooks.

2. Prepare and distribute negatives for all textbooks to the individual country AID missions.
3. Advise the missions of negative production schedules to enable them to program funds for printing.
4. Provide technical assistance, upon request by the individual missions, on production and related matters.

The textbook program is considered by AID to be the most important and successful ROCAP project in terms of its long-range impact on the entire educational system relative to the level of assistance involved. It has produced, printed, and distributed throughout the region over 10.5 million elementary textbooks and accompanying teachers guides, of which nearly 6 million were financed by ROCAP. In mid-1969, AID estimated that, by the completion of the program, scheduled for December 31, 1970, nearly 20 million textbooks would be produced. Additional results of the ROCAP assistance included (1) the creation of the textbook center, (2) the development of a curriculum model to serve as a guide for content for all textbooks, (3) the completion of 22 of the 33 manuscripts, and (4) the providing of production advice to countries within the region and to several other nations.

Notwithstanding the significant accomplishments made by the textbook program, we noted during our review that only limited progress had been made by ROCAP in securing the development of a significant self-help program whereby the Central American countries would assist in this program.

The basic idea was that the Central American governments would take over the financing of the textbook program after the first 2-year supply of the 33 textbooks was furnished by the U.S. We found during our review that the Central American governments were not meeting all their responsibilities under this project. ROCAP and the individual country AID missions, in order to fill the gap, were financing some functions which were to have been financed by the Central American governments. For example:

1. The Central American governments generally had not adequately met their obligation in financing the reprinting of the textbooks. At our request, ROCAP requested that the individual country AID missions ascertain whether the host country had provided the necessary funds for the reprinting function. In three of the countries, an adequate amount of reprinting funds had not been provided. Primarily, this shortage was caused by the lack of available funds within the country's budget.
2. Language I and II and Math I and II textbooks were designed to be disposable-type textbooks, in which the children would fill in the blanks, etc. This was considered to be the best type book to furnish the maximum benefit to the younger children. After the Central American governments realized what it would cost to replace these textbooks and after the U.S.-funded books were printed and in use, the countries objected to this form of textbook. ROCAP now has agreed to finance through the negative making stage a new style book which will be reusable.
3. Readers for grades one and two were being completely rewritten because of the unacceptability of the initial version. Although the first version was originally accepted by the Central American governments and the Organization of Central American States, ROCAP is financing this additional work and the AID missions are planning to finance the printing cost of 2 years' requirements--about 2 million books--of these textbooks.
4. The continued existence of the textbook center and the reprinting costs according to the original project agreement were to be financed by the Central American governments. Current U.S. plans are now to finance these costs through the use of U.S. loan funds in at least one country.
5. The United States originally agreed to finance the completion of proof editions and the production of negatives for the 33 titles. ROCAP records show that not only is the United States doing this but

it is also performing this function for seven revised titles and four new editions making a total of 44 titles.

Agency comments

AID, in its comments on this matter, has explained that:

- For newer additions beyond the initial 33 textbooks, four of the six countries involved met part or all of their share of printing costs. The two remaining countries have provided for needed funds in preliminary budget plans for calendar year 1970.
- Four of the six countries budgeted funds in 1969 for reprinting textbooks. One country had budgeted funds for this purpose in 1970, and AID loan assistance was being considered for the remaining country.
- Each country now has a staff of three to seven people, funded by its Ministry of Education, working exclusively on the implementation of the textbook project.
- Individual Central American countries have furnished writers to the textbook center since 1963, an investment totaling about \$108,000 a year for the six countries; have financed travel and per diem for Ministry of Education members of textbook advisory committees; and have provided for storage of textbooks, distribution of textbooks, and orientation.



## PROGRESS AND PROBLEMS IN STRENGTHENING REGIONAL COUNCIL FOR HIGHER EDUCATION

Since fiscal year 1964 about \$2 million of assistance has been furnished by ROCAP for higher education through the Superior Council of Central American Universities. The council was established in 1948 by the five national universities of the region, to expand and improve higher education in the region. By furnishing its funds to the council, ROCAP generally expected to help develop an integrated regional university system. Primary ROCAP goals were to (1) strengthen the council so that it could become a meaningful and effective regional decisionmaking entity--in effect a "Regional Rector" for the national universities--and (2) establish graduate and professional schools at the regional level and to promote educational reform by developing strong programs of general studies.

The council with the help of ROCAP apparently has been successful in the development of regional graduate and professional schools as follows:

1. A regional school of veterinary medicine was established during fiscal year 1966. This project is to promote the integration of the region by establishing one larger and more economically practical veterinary school instead of five separate schools. The student body of this school is composed of persons from all five Central American countries.
2. A regional school of sanitary engineering was established in 1965. The number of students graduating have increased from none in 1965 to 18 in 1968.
3. Courses of social sciences and humanities were established in several Central American national universities.
4. In cooperation with the National Science Foundation, ROCAP also furnished assistance to improve the quality of instruction in sciences and mathematics at the Central American national universities. ROCAP assistance was completed in 1969; however, this program is being continued by the United Nations.



ROCAP managers did not set forth in their program document the specific degree to which they planned to strengthen the council. Therefore we were unable to evaluate the degree of accomplishment involved. We did note, however, that a ROCAP evaluation made in 1967 pointed out that little progress had been made toward strengthening the council because the rectors of the individual national universities had guarded their autonomy and had been unwilling to delegate much authority to the council. We found no evidence in evaluations made in 1968 and 1969 that would indicate that this problem had been overcome.

#### Agency comments

AID, in its comments, stated that it did not expect to assist in the development of an integrated regional university system in Central America but, rather, only planned to assist the council in implementing its integration plan for higher education and thereby help in strengthening the council.

#### PROBLEMS IN ESTABLISHING A REGIONAL INSTITUTE OF BUSINESS ADMINISTRATION

ROCAP provided about \$2 million for purposes of higher education through a newly created Central American school of business administration. The project originated as a result of a visit by President John F. Kennedy to the meeting of the Central American presidents in March 1963. After this meeting the Central American Institute of Business Administration was established. A contract was negotiated between AID and an American university to conduct a seminar for business leaders in Central America and to furnish teaching material for use in seminars and future institute programs. This phase of the project came to an end as of June 30, 1966, after the expenditure of about \$1.2 million.

In terms of accomplishments during this phase, AID evaluations show that:

- Approximately 250 business managers have participated in 6-week training courses.

- About 430 businessmen have received training through short-term seminars and courses.
- About 200 Central American case studies and notes and 500 other case studies from outside the region have been prepared.
- Twenty-one Central Americans have received varying lengths of training programs at a U.S. university.
- Two broad studies have been completed.
- A plan has been developed for a permanent institution to offer masters degrees in business administration.

Later in 1966, ROCAP entered into a new project agreement with the same American university to create an independent university to teach a 2-year course in business administration. In September 1967, ROCAP officials began to show concern with this project. At that time they reported that, should the Central American private sector fail to demonstrate its commitment and support to the institute within the next year by producing the students and the facilities to get the first graduate course underway and by raising the first \$1,000,000 of the needed endowment as scheduled, the United States should seriously reconsider the utility of proceeding with this project. Subsequently, AID determined to implement this program, and the first class of 42 students was inaugurated in January 1968, of which 29 received their degrees in June 1969. Another class was started in January 1969 with 31 students.

#### Agency comments

AID, in its comments, informed us that the program was in operation, at a cost for each student of about \$4,700 a year, and although obtaining pledges was slow, delays were being experienced in converting pledges into cash.

## CHAPTER 8

### ASSISTANCE FOR HEALTH

A total of \$1.9 million, or about 1.4 percent of ROCAP funds, have been expended in the health sector. The majority of this assistance was furnished for three types of assistance--malaria eradication, \$150,000; population control, \$792,000; and mobile health services, \$900,000. During our review of this assistance, we found that:

- Although ROCAP, individual country AID missions, international agencies, and the Central American government had expended about \$56 million and had planned to expend an additional \$33 million to eradicate malaria from Central America, there was an unresolved disagreement between AID and the performing agency as to the number of employees necessary to properly manage the program. ROCAP funds were used to finance advisors to plan and manage the overall operation of the program in Central America.
- Sufficient time had not elapsed to permit analysis of the impact of ROCAP population control programs on the region's rate of population growth. Such growth--currently estimated to be an annual rate of 3.5 percent--is one of the higher growth rates in the world and will result in a doubling of the region's present population of 14 million in less than two decades. ROCAP's goal is to reduce the region's annual population growth rate to 3 percent by the end of 1972. ROCAP's strategy has been to provide technical advisory service to regional and national organizations; to support demographic studies and mass distribution of educational material; to encourage the establishment of health clinics providing family planning guidance; and to provide contraceptives, medical equipment, and supplies.
- The mobile health services project was one of the first ROCAP projects undertaken. It was designed to have an immediate impact on the health of the people in the rural communities of the region but was

changed from a regional to a bilateral basis after 2 years, and ROCAP assistance was terminated.

#### PROGRESS AND PROBLEMS OF MALARIA ERADICATION PROGRAM

The control and eradication of communicable diseases are matters of direct concern to the region as a whole. One of the most troublesome communicable diseases in Central America is malaria. Central America is generally recognized as the most malarious area in the Western Hemisphere.

The malaria eradication program in Central America started in 1956, and eradication procedures got underway in 1958. The Pan American Health Organization and local health officials determined that malaria could be eradicated within 6 years. By 1962 large areas of Central America were removed from the attack phase (active DDT spraying) and placed into the consolidation phase (detection of cases and treatment).

AID's contribution of grant funds to this project, through the individual country programs, increased from \$1.1 million in 1959 to \$1.6 million in 1963. In 1964, the Pan American Health Organization recommended that, because of the resistance of the malaria mosquito to DDT, mass medication be added as a complementary attack measure for the resistant areas. The Pan American Health Organization noted that considerable external assistance would be needed to carry out a successful malaria eradication campaign. Apparently because of the additional funds needed, AID decided to change the method of financing its assistance from grants to loans. This met with considerable resistance from the Central American countries and the loans took several years to finalize. AID, however, during this period of adjustment, reduced its grant assistance substantially. In 1964, AID reduced the level of assistance, by 50 percent, to \$790,000 and in 1965 further reduced its support to \$470,000, or to less than one third the 1963 level.

Although the malaria eradication program continued during the period 1964 through 1966, the prolonged delay associated with loan financing, together with serious technical and operational problems, was sufficient to thwart and

reverse what gains had been accomplished during the early 1960's.

In November 1967, the Pan American Health Organization team reviewed the malaria eradication programs and recommended that most of the areas previously under the consolidation phase be reverted to the attack phase once again. Entire malarious areas of Guatemala and Nicaragua were again placed under the attack phase. In addition, 30 to 50 percent of the areas in other countries also reverted back to the attack phase.

ter the Pan American Health Organization review in 1967, a 3-year malaria eradication plan was drafted by the Central American countries and presented to the international organizations and AID for consideration of loans to ensure adequate financing of the program. The objectives of this plan were to start the attack phase in 1967 and interrupt transmission completely by 1969 and to terminate the attack phase of the program in all countries after the number of malaria cases were reduced to 1 for each 10,000 habitants. The cost of this plan was estimated at over \$33 million, which combined with the previous cost of \$56 million brings the total cost of malaria eradication in Central America to over \$89 million.

In late 1966 and in early 1967, it was envisioned that each country would have a U.S. Public Health Service malaria advisor except for the Panama-Costa Rican area which would share one advisor and two regional advisors furnished by ROCAP. The planned staffing never materialized and only five Public Health Service advisors were provided; one each for El Salvador, Nicaragua, and Honduras and two for ROCAP. Over the strong objections of the Public Health Service, AID insisted on loan funding the salaries of the three country Public Health Service advisors. As anticipated by the Public Health Service, the countries took exception to this approach. In addition, a reduction of U.S. overseas employees took place about the same time. The combination of these factors resulted in the loss of the country Public Health Service advisors.

The current program including house spraying and mass medication for the populace, in the U.S. Public Health



Service's opinion, requires even greater coordination and support services than the previous long-term \$56 million program. The Senior ROCAP/Public Health Service advisor, in commenting on the reduction, stated in February 1968:

"\*\*\* [Public Health Service] cannot possibly fulfill the assigned responsibilities and objectives without having day to day advisory services in each A.I.D. assisted malaria program. The provision of advisors and monitors to ensure that adequate technical and administrative standards are met is essential to the success of the program during these critical three years."

ROCAP feels that the Pan American Health Organization and AID direct-hire employees can adequately manage the program with only three Public Health Service employees. Subsequently, because of its reluctance to assume responsibilities for these programs without adequate employees, the Public Health Service attempted to withdraw from the project. However, the Public Health Service is continuing to maintain two individuals at ROCAP to provide limited assistance until the matter is finally resolved.

#### AGENCY COMMENTS AND GAO EVALUATION

The Surgeon General of the United States, replying for the Public Health Service, made the following comments on the draft of our report.

"Although the malaria eradication efforts in Central America, with the exception of Costa Rica, have fallen far short of the goal, the benefits of these efforts should not be dismissed. Unfortunately, many of these gains have been reversed by poor program management, technical operational obstacles, and lack of timely support. We agree completely that it is entirely unrealistic to expect elimination of malaria transmission in Central America by 1970 or 1971 and would, in view of the above noted problems, find it exceedingly difficult to project a future date of achievement of this goal.



"\*\*\* We are in basic agreement with the views expressed in the report. It should be noted, however, that though the outlook for the early achievement of malaria eradication in the Central American region is bleak at present, there will be an urgent and continuing need to maintain antimalaria activities in these countries if agricultural development and productive land usage is to proceed in an orderly manner. The adverse effects of uncontrolled malaria on the developing agricultural economies of these countries have in the past been quite striking and will become even more so should antimalaria efforts be totally abandoned."

AID on the other hand replied:

"Much of the rapid economic progress made in the \*\*\* [Central America and Panama] region in recent years, including the opening of large new agricultural areas, can be attributed to the malaria eradication program. Even with the setbacks experienced during 1964-66, these benefits have not been erased, nor have all the gains against malaria been wiped out. The present program has taken a new grip on the situation and is rapidly reducing the upsurge of cases which occurred with long delays in adequate financing, plus problems in management as indicated by the GAO report. In view, however, of the problems encountered during 1964-1966, we would agree with the GAO view that the achievement of previously planned goals by 1971 is overly optimistic. Thus, the extent of future U.S. assistance cannot be adequately determined until this year's progress is evaluated."

GAO evaluation--In view of the basic agreement between AID and the Public Health Service on past problems and future prospects of the malaria eradication program, we believe that AID should place primary priority on working out with the Public Health Service a mutually acceptable number of employees to adequately manage the program.

## CHAPTER 9

### ASSISTANCE FOR AGRICULTURE

Through fiscal year 1969, ROCAP has provided about \$1 million, or 0.7 percent of its total assistance, for regional agricultural development. During our review of this assistance we found that:

- Although the basic ROCAP goal was to assist in strengthening regional institutions, the Central American countries did not consider agriculture a regional function and did not establish any regional agriculture organizations. Notwithstanding this lack of interest, ROCAP was continuing to furnish assistance to the agricultural sector.
- ROCAP's assistance was furnished without benefit of a long-term program plan establishing long-term goals. Also the problems requiring solution on a regional basis were not identified.
- A Protocol on Basic Grain for the region was successfully negotiated by the region. However, there was no ROCAP program directed specifically to this end.

Central America's growth and development is dependent on its agricultural sector which accounts for over 90 percent of the foreign exchange earnings as well as over 30 percent of the region's gross domestic product. The agricultural structure and the performance of the five Central American countries are broadly similar. The agricultural sectors consist of a backward peasant agriculture which produces food for domestic consumption and a well-organized and efficient export sector.

ROCAP was given the responsibility of preparing a unified strategy for the development and integration of the Central American agricultural sector in close coordination with the individual country AID missions.

ROCAP's policy in dealing with Central American countries and their problems has been to work through existing

regional organizations. ROCAP was unable, however, to attack the major problems facing the agricultural sector of the region since, according to ROCAP, the individual Central American countries did not consider agriculture a regional problem and therefore did not establish any regional organization capable of dealing with agricultural problems. In adopting the Protocol on Basic Grain (see p. 9 ) the five Central American countries did agree to give a regional agency responsibility for coordinating national activities to stabilize prices of basic grains.

Notwithstanding the lack of a regional agriculture organization, AID continued to furnish assistance for regional agriculture development as shown below:

1963	\$ 3,000
1964	201,000
1965	62,000
1966	258,000
1967	203,000
1968	100,000
1969	<u>168,000</u>
	<u>\$995,000</u>

The majority of ROCAP funds were expended directly on agricultural projects which involved (1) investigating the possibility of eradicating the mediterranean fruit fly, (2) training agricultural credit union employees and establishing a regional office, (3) establishing animal-feed-composition standards, (4) studying seed storage and processing, (5) studying incentives for increased oilseed production, (6) designing laboratories for chemical control and identification of insects and plant diseases, (7) identifying insects and diseases affecting agricultural production, and (8) providing advisors for hoof-and-mouth-disease control.

We found no evidence that ROCAP had developed a long-term agricultural program plan establishing long-term goals and identifying agricultural problems requiring solution on a regional basis.

ROCAP officials feel that one of the major accomplishments since the establishment of ROCAP has been the establishment of the Protocol on Basic Grains. During our review, however, we could find no ROCAP projects or funds which were directed to bring about the Protocol on Basic Grains. The Protocol should help correct an inadequate system of grain marketing and storage which in the past has resulted in price fluctuations over 300 percent in a 6-month period in some areas. The Protocol calls for a system to set a common price for grain and a communication system that will provide information on the status of grain supplies for the Central American region and an arrangement whereby any grain shortfall must be purchased within the region if available.

#### AGENCY COMMENTS

AID agreed in general that in the past it was unable to strengthen the regional agricultural institutions; however, AID informed us that a number of ROCAP actions were being implemented which should help accomplish this objective. AID pointed out that:

"It is correct that the Central Americans have dealt with few of their agricultural problems on a regional basis. As a result ROCAP has been able to give only limited assistance in this field. AID's assistance in Central America has consequently been directed principally through bilateral missions.

"\*\*\* good progress is being made in developing common price support levels for basic grains, a plan for a regional price stabilization fund has now been prepared and is under consideration by governments, a plan for improved agricultural education with each country undertaking to develop specializations in different fields is nearing realization, a program for stimulating exports of additional agricultural products is being developed jointly by \*\*\* [the Permanent Secretariat] and the Central American Bank, and a program for improving food technology in Central America has been started."

## CHAPTER 10

### ASSISTANCE FOR PUBLIC ADMINISTRATION

ROCAP assistance allocated for purposes of public administration totaled about \$3.9 million, or about 3 percent of the total AID assistance channeled through ROCAP, and involved four projects. We found that the projects were not framed in a manner that permitted measurement of progress over the life of the projects. We found also that, for three of the four projects, the regional organizations involved were not providing the level of support agreed to.

#### LIMITED SUPPORT FOR ROCAP PROJECTS

The goal of ROCAP's assistance for public administration was to strengthen the competence and effectiveness of regional institutions responsible for developing coordinated economic plans and common policies and programs in the public sector and to strengthen the national programs upon which regional activities depend.

ROCAP officials informed us that there was a need for both quantitative and qualitative measures of accomplishment of the ROCAP public administration projects, but, because of a lack of time and personnel, the requisite analyses had not been performed.

Three of the four ROCAP projects initiated in the area of public administration are discussed below:

#### 1. Statistics and Census project

This project was to develop a self-sufficient and compatible statistical system in Central America to serve as a basis for regional economic and social planning. The ROCAP assistance was to provide temporary financial support for (1) new statistical positions in regional agencies, (2) regional meetings and seminars, (3) regional data collection and processing programs, and (4) the training of personnel. We found that the regional institutions had not assumed financial responsibility for the project as envisioned,



although some reports were published, meetings held, and training undertaken.

ROCAP's assistance was provided primarily to the Permanent Secretariat, which in 1962 undertook to compile and publish regional economic activity statistics and indicators, and to the Organization of Central American States, which in 1965 created a statistical section to compile social statistics.

The regional institutions were to assume financial responsibility, at the end of 2 years, for the statistical positions that were sponsored by ROCAP. The following schedule shows the extent to which ROCAP-funded positions were assumed by the regional organizations.

	<u>Organization of</u> <u>Central American States</u>		<u>Permanent Secretariat</u>	
	<u>ROCAP</u>	<u>Central American</u> <u>countries</u>	<u>ROCAP</u>	<u>Central American</u> <u>countries</u>
1965	2	1	2	2
1966	3	1	6	2
1967	5	1	8	3
1968	6	1	6	5

The quantitative measure of accomplishment, used by AID for measuring the impact of the project, are reports published and meetings held. The Permanent Secretariat published four series of statistical reports, sponsored eight meetings (one in conjunction with the Organization of Central American States attended by 176 participants), and sponsored two training seminars for 43 participants. In 3 years of operation the Organization of Central American States issued no reports but did sponsor five meetings attended by 122 participants and three seminars for 80 participants and provided training in data processing to about 900 persons.

## 2. Administration Project

The goal of this project was to assist regional agencies to develop and improve their administrative capacity in selected aspects of development administration which were



important to Central American regional development and economic integration.

ROCAP officials told us that the success or accomplishments in the improvement of development administration are generally of an intangible nature, such as an increase in the level of competence of personnel, and do not lend themselves to quantitative evaluation.

ROCAP's assistance has been provided to three regional agencies. We examined into the ROCAP assistance provided to one of the three--the Organization of Central American States--which involved financial support of selected administrative positions. We found that the necessary regional organization support for these positions had not been furnished, and it appears doubtful that the program would continue if U.S. assistance ceased. The following schedule shows the positions financed by ROCAP compared with the positions assumed by the Organization of Central American States.

<u>Fiscal year</u>	<u>ROCAP</u>	<u>Organization of Central American States</u>
1966	6	-
1967	9	-
1968	5	4

Of the total of nine positions, ROCAP was still sponsoring two positions which should have been transferred in 1968. In addition, three positions were scheduled for transfer in 1969. ROCAP officials are uncertain as to whether the Organization of Central American States will be able to assume the support of the remaining five positions.

### 3. Customs Policy and Administration Project

The prime goal of this project was the fulfillment of the creation of a customs union within Central America. The creation of a customs union was intended to stimulate the economic development and integration of the region by the

elimination of restrictions which were impeding the increase and movement of intraregional trade.

ROCAP officials advised us that their assistance efforts were directed toward improving customs administration, not toward establishing customs policy.

Notwithstanding the success of the Central American customs union, there were indications that implementation of this project was somewhat less than complete. For example, ROCAP, in reply to our inquiries regarding actions necessary to effect coordination and implementation of uniform customs regulations and legislation, stated:

"\*\*\* [Central American] Governments accept readily enough, in principle and adopt in toto, but do not implement in detail. They do not realize the implications of their adoptions."

In addition, we found that the Permanent Secretariat's support of ROCAP-sponsored positions in the customs field also seemed less than enthusiastic. For example, the ROCAP assistance for these positions was supposed to be replaced by the regional institution (using its own funds) at the end of 2 years. However, of the six positions related to customs administration within that organization, three have been sponsored by ROCAP for 5 years and one for 4 years. We found no indication as to when ROCAP would terminate support or when the Permanent Secretariat would assume the support of these positions.

#### Agency comments

Other than providing some updated statistical data, which has been incorporated into our report, AID had no comments on this section of our report.

## CHAPTER 11

### ASSISTANCE FOR LEGAL MATTERS

AID, through ROCAP, has furnished \$391,000, or 0.3 percent of the total ROCAP assistance to the region, for legal matters. The majority of this assistance was provided for three projects (1) supporting the judicial staffs of the Organization of Central American States and the Permanent Secretariat, (2) assisting the law faculty at the University of Costa Rica, and (3) making regional legal studies.

ROCAP's overall goals for legal assistance were to enhance the capability of Central American regional organizations to interpret and administer the various Common Market treaties and to resolve disputes arising under them.

Our review revealed that ROCAP assistance to the legal sector has been expended, among other things, on financing of secretarial positions and was directed to matters not requiring a regional solution.

ROCAP has supported the equivalent of 12 Organization of Central American States judicial staff positions over a 4-year period. Four of these positions were professional in nature, one was semiprofessional, and the remaining 7 were secretarial. We question whether ROCAP funds should be used to finance secretarial positions since we believe that this type of position could normally be filled by the regional organizations.

The ROCAP program of assistance to the law faculty at the University of Costa Rica started in 1966 and was designed to improve the teaching of law and to change the character of legal education at the university. ROCAP reports that, as a result of these efforts, the faculty has been trained, new courses have been established, and case study texts have been prepared. Although this assistance has undoubtedly been of benefit to the University of Costa Rica, the relative merits of, or need for, financing this matter on a regional basis were not identified by AID. ROCAP's assistance for the project was phased out in 1969. Starting in 1970 the project was to be sponsored by Costa Rica and the AID country mission in Costa Rica.

## AGENCY COMMENTS AND GAO EVALUATION

AID did not comment on the matter of financing of secretarial positions but, with respect to the need for financing the project at the University of Costa Rica with regional funds, stated that:

"With respect to the report's implication that the law project at the University of Costa Rica was not a proper function for ROCAP since it was not regional in nature, the following should be noted:

"This was looked upon as a pilot project. ROCAP had the only A.I.D. legal staff in the area and legal competence was necessary in order to select personnel, structure the program, and supervise it during its early period. The program is now at a stage where ROCAP and the \*\*\* [AID] Mission in Costa Rica believe that it can be supervised and supported by the A.I.D. Mission, though some assistance will need to be given by an A.I.D. Regional Legal Advisor stationed either at ROCAP or in Panama.

"Though this legal project has been conducted solely at the University of Costa Rica, it has had a regional influence. At the request of the Central Americans, a seminar, attended by members of the law faculties of the national universities of four of the Central American countries, was held at the University of Costa Rica recently so that the participants might learn about the improved teaching methods which have been developed by the law project. A number of the other \*\*\* [Central American] universities are now expressing an interest in establishing similar law projects."

GAO evaluation--With respect to the comment that this project was a pilot project, often projects are financed and tied in one country and, if proven to be successful, are expanded to other countries. Therefore we see no reason why this project would have required funds.

With respect to the point that ROCAP had the only AID legal staff in the area, AID project records showed that the majority of the assistance for this project was under a contract arrangement which provided for the training of faculty, the establishment of teaching courses, and the preparation of case study textbooks and that, other than for some general supervision, the project did not involve the ROCAP legal advisor.

We believe that the statement that the project has had a regional influence could probably be made with respect to any project within the region; however, this is not the thrust of our point which is that, before regional funds are expended on a project, it should be determined that the project requires a solution on a regional basis.

Finally, we believe that this project and the above related issues illustrate a larger problem which is involved. That problem relates to the need for developing long-term ROCAP goals, objectives, and priorities; the need for a reasonably explicit plan for achieving action on such priorities; and the need for adoption of the principle that regional funds be used for matters in which the relative merits of such funding have been identified. Our recommendations, noted on page 24 of this report, are specifically designed to help overcome these problems.

## CHAPTER 12

### SCOPE OF REVIEW

Our examination consisted principally of a review of the financial and related management practices followed by AID in developing and administering its ROCAP assistance program. The review covered the period from the initiation of the program in July 1961 through December 1969. Our fieldwork was completed in Washington, D.C., in February 1970.

We obtained and analyzed program documents, policy papers, strategy statements, management reports, correspondence, and other pertinent records evidencing the development and implementation of ROCAP programs. We also obtained and reviewed reports of international agencies relating to the Central American integration movement. We discussed relevant matters with responsible AID, Department of State, and other U.S. Government officials.