

**Second Report on Human Development
in Central America and Panama (2003)**

SUMMARY

State of the Region Project
San Jose, Costa Rica

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Foreword

Second Report on Human Development in Central America and Panama

The *Second Report on Human Development in Central America and Panama* is the result of several initiatives that supported and financed an undertaking coordinated by the Costa Rica office of the United Nations Development Programme (UNDP). First, the Kingdom of the Netherlands made a contribution that facilitated the consultation process to determine the contents of the report, the dissemination of the first report, the design of the educational modules, and the launching of the research and consultation process. Later, the Swedish International Development Cooperation Agency (SIDA), the Inter-American Institute of Human Rights (IHR), the Danish Institute for Human Rights in Central America (PRODECA) and the Central American Commission for Environment and Development (CCAD) supported specific lines of research. The UNDP's Regional Bureau for Latin America and the Caribbean (RBLAC) provided funding, while the Pan American Health Organization (PAHO) and the Economic Commission for Latin America and the Caribbean (ECLAC) provided information and studies that are referenced throughout the document. Preparation of the report involved an extensive network in Central America made up of the national teams that produce the human development reports of their countries, as well as research institutions and organizations. The efforts of this network were coordinated by the technical team of Costa Rica's State of the Nation Program, which designed the process, conducted the necessary consultations, managed the research, and determined the final structure of the chapters and the document as a whole.

Human development: a basic approach

Human development is the framework that inspired and oriented this second report. For this study of Central America, human development is envisaged as the expansion of options for people –including political freedoms and the guarantee of other human rights– and greater well-being. This different way of assessing development also draws on a series of reports by each country of the region. The importance of the human development reports was recognized in the foreword of a national report published five years ago, and is summarized below.

Creating communication is difficult, especially when the aim is to create a new concept to be grasped by many people, and that becomes a topic for public policy and national decisions. It is even more difficult when the topic is one that public opinion as a whole cannot or does not want to address. The UNDP's human development reports have contributed to doing this by highlighting a concept (people-centered development) when the prevailing school of thought was that the market answered all questions. In fact, it was not considered important^{1/} to ask what are the keys to the development of nations. It was considered that questions and answers need not be expressed; they could be formulated and resolved by the

magic of the marketplace. With the emergence of the concept of human development came the questions of what factors produce it, the answers to the organization of public policy, and their coordination with the action of the market. Not only was it necessary to come up with answers, it was also necessary to formulate questions, over and over again, in order to create a virtuous circle for both human and national development. Knowledge was reinvented for many, and reconciled with the policies and actions of societies and governments. This is a feat we should celebrate today, although in doing so we are saddened by the fact that Mahbub Ul Haq, the driving force behind the Human Development Report, is no longer with us. (From the foreword of the fourth *State of the Nation Report*, 1998).

The mandate of the Second Report

The State of the Region project began late in the year 2000, when the Embassy of the Kingdom of The Netherlands agreed to finance the distribution of the first Regional Report, the preparation of educational modules on sustainable human development in Central America, and the launching of the consultation and research process for the second regional report.

The endeavor had three mandates:

- To follow up on the creation of a regional system for appraising human development topics and indicators in Central America.
- To give continuity to and strengthen training activities on the results of regional human development reports, in at least three countries of the region.
- To develop training and dissemination activities on the findings of the regional and national human development reports, in at least three countries of the region.

The experience gained with and the impact of the process of consultation, research and dissemination of the first *State of the Region Report* (July 1999) served as a basis for this project. Its high profile and positive evaluation were instrumental for identifying new partners, securing funds, and facilitating the institutional agreements needed for the second report, and for training and dissemination activities.

In November 2000, the heads of the national human development report teams met in Guatemala to identify and discuss operational aspects for the preparation of the second report. As a result, the UNDP offices in the region became involved in the process. It was agreed that an administrative mechanism would be set up with representatives from the UNDP offices and the heads of the national report teams, and that an Advisory Group be created with individuals involved in sustainable human development in Central America. The objectives of the second report were:

- To assess the progress made in sustainable human development relative to the challenges facing the region; to assess integration as a means for achieving it.
- To provide a basis for monitoring the agreements reached in the Stockholm Declaration.
- To act as a forum for diverse social and political forces of the region.
- To serve as a tool that promotes regional deliberation and action.

Box 1

The State of the Region (1999)

The following are some comments received on the first *State of the Region Report on Sustainable Human Development*:

- "...The Central American agenda is vast and diverse, and includes topics of both transcendental and secondary importance. The Report will undoubtedly serve as an invaluable tool for distinguishing between the two." (Costa Rican Minister of Foreign Affairs, 1999).
- "... The Report has already contributed to fostering a better understanding of the true situation in our region, and to defending and promoting human rights in the region. (...) It will, without doubt, increase our capacity for dialogue." (Nicaraguan Minister of Foreign Affairs, 1999)
- "...We have confirmed the importance of having access to high-quality academic reports, such as this one, that can serve as a springboard for proposing solutions to existing problems." (Vice President of El Salvador, 1999).
- "...We find in the 464 pages of this report not only impeccable data, reliable and in-depth analyses of the challenges facing the region, but also the concrete actions needed for addressing these challenges." (Secretary General, Central American Integration System (SICA), 1999).
- "...In many ways, the report is a reliable and timely document. Moreover, (...) it combines intelligent criticism with a profound reassessment of the meaning of development." (Chancellor, University of Panama, 1999).
- "...The report is not the outcome of armchair research, but of an extensive participatory effort of research and analysis." (Carlos Tunnermann, UNESCO consultant, 1999).

Other indicators:

- Over 1.2 million annual visits were recorded to the website that has posted the regional reports and the Costa Rican national reports (www.estadonacion.or.cr).
- Some 80 presentations were made at conferences, workshops and meetings with a variety of stakeholders including: official activities in five countries, the Central American Parliament (PARLACEN), university and trade association forums, events with indigenous, farming, cooperative, women's and union organizations, private companies, leading business institutions, international cooperation and financial organizations, SICA advisory bodies, among others.
- Extensive reports and interviews by the Central American media. In addition, the report was also freely reproduced –in part and in full–in chapters or sections, and numerous references have been made to it in studies and publications.

Moreover, through the process to publicize the first report a sizeable group was identified of social organizations from a wide range of sectors that were interested in the findings of the report; moreover, they created opportunities for analyzing and discussing the report. It is worth underscoring the interest shown by the advisory bodies of SICA within the framework of the meetings of the Consultative Group on Central America (Madrid: January, March 2001). In response, information was updated and presentations were made of the findings of the first report.

Source: Progress reports of the regional project.

The first step was to agree on the preliminary contents of the second Regional Report. Regional integration, the monitoring of sustainable human development in the region, and the topics of the Stockholm Declaration (1999) were emphasized. After the proposal was discussed by the Report's Steering Committee, it was submitted to regional consultation in mid-2001. Meetings were held in each of the countries with representatives of government, civil society and academia. The results of the meetings were compiled and used to select relevant topics for the regional agenda. These were discussed by the Advisory Council, which resulted in the final list of topics for the report.

Why a regional report?

In order to consolidate Central America as an area of peace, freedom, democracy, and development, mechanisms are needed to monitor the performance of government and society in addressing regional challenges. The absence of such mechanisms seriously undermines the quality of public decisions, especially with regard to integration. It also constrains dialogue and participation in matters of public interest, since a lack of information feeds prejudices rather than informed opinions. Finally, it limits the ability of the people to demand their rights and the fulfillment of social and political responsibilities.

The region has inherited an authoritarian legacy that poses a challenge for creating greater transparency in the management of development. Greater transparency combined with the dissemination of important information for the design of

development policies will improve institutional responsiveness to the needs and concerns of the population. Without transparency, everyone loses; and if there are winners, there are only a few. Excluded social groups lose, because their needs are not met. Governments lose, if they do not have instruments for measuring their performance and for offsetting or altering negative factors. Greater transparency in public institutions will provide the people of Central America with instruments that can help them obtain a clear idea of the true situation, which will enable them to act in a way that is consistent with their possibilities, opportunities, and aspirations.

The human development index, published annually by the UNDP, is viewed as a step forward in efforts to measure the relative development of countries. The concept of human development, however, is broader than what can be sketched with the variables used to calculate the index. It can and should be supplemented by indicators and analyses that demonstrate how opportunities are expanding for people and how their rights are being effectively recognized. For this reason, information is needed on the aspirations, expectations, and interests expressed by the people of Central America. With this as a basis, an assessment can be made of the region's performance within the framework of the few internationally comparable indicators available.

A variety of actions are needed to stimulate human development in Central America. This means that it is of utmost importance to be able to monitor same. This should be closely linked to the implementation of actions, since its purpose is to identify trends in specific areas over time, for different groups of the population, and in different parts of the countries. Compilation of information to document these trends will make it possible to calculate indicators that provide feedback on the effectiveness of actions. The timeliness and comparability of information, especially with regard to social issues, continues to represent a major challenge for the region. This report shows that considerable improvement has been made in this area, especially with regard to information on poverty. Nonetheless, problems still exist for accessing information. In some cases, this is due to difficulties related to institutional structure, as in the case of information on the administration of justice. In other cases, limitations spring from a need for more transparent dissemination of information produced by different agencies. The idea that a broad and transparent use of information can only strengthen institutional processes is still not widely accepted. In other words, a freer use of information can raise awareness among different sectors regarding the importance of investing in the generation and dissemination of timely and reliable information, so as to strengthen discussions on the challenges of human development.

Box 2

Educational modules: an initiative for promoting sustainable human development in Central America

In April 2001 a proposal was presented to the Twentieth Regular Meeting of the Central American Educational and Cultural Coordination Committee (CECC) –comprising the region's Education and Culture Ministers– for the preparation of educational modules on

the State of the Region Reports. The proposal was enthusiastically endorsed by the Ministers, who agreed to:

- Make the necessary decisions to facilitate inclusion of the subjects covered by this regional education module in national educational curricula.
- Encourage the Central American governments to prepare national educational modules based on their respective national human development reports.
- Provide the necessary administrative and technical support to ensure that the subject matter covered by the educational modules objectively reflects the true situation of the Central American region and is presented in appropriate educational format.
- Recommend to UNDP authorities that a summarized version be produced of the State of the Region report, in straightforward language, to make the information it contains widely available in the countries of the area.

(Agreement 7, Twentieth Regular Meeting, CECC)

As the Report Coordinator stated in his presentation to the CECC: "... efforts should be made to reach the school population in order to inform and educate students regarding important human development issues that are addressed in an objective and thorough manner."

The production and validation of this material, and the development of the institutional arrangements for subsequent distribution and dissemination thereof, will create a valuable opportunity for strengthening ties with national educational systems.

A report on the challenges facing the region in the area of sustainable human development

The regional report records the efforts of Central Americans to create a more united region with greater capacity to accelerate the pace of human development. It brought together a wide range of Central American stakeholders with an approach that acknowledges social, cultural, and political plurality; it provides an objective portrait of the situation in the region, and it is a tool to be used by the region's governments and societies. It also involved civil society organizations, research institutes, and regional and national institutions involved in sustainable human development. The report assesses the progress made to deal with the region's challenges in the areas of sustainable human development and integration, which is envisaged as a means of contributing to achieving it, with information selected in a participatory manner and based on the most up-to-date and reliable indicators.

In addition to promoting society's participation in development, the report is a useful, easily accessible document for informing, monitoring, and strengthening actions to promote sustainable human development. It does not seek to replace or refute efforts by other agencies; rather it aims to articulate them, to the degree

possible, in order to advance new thinking on sustainable human development. In this regard, the report's findings are as important as the process undertaken to prepare it.

Both the regional and the national human development reports aim to close the gaps resulting from differing degrees of access to timely and relevant information, as this is considered a prerequisite for improving citizen participation in public affairs. One of the major achievements of this initiative has been gaining the acceptance of the Central American governments for the reports be prepared in independent fashion. In fact, some consider the reports to be indispensable for their efforts to promote democratic governability.

Despite these efforts, the societies of Central America need more quality information to be able to build a strategic agenda for consolidating the specific goals and achievements in strengthening democracy in the region. Thus, it is necessary to persevere in the preparation and publication of national and regional reports. This will increase opportunities for new sectors of society to become involved in promoting human development and democracy in the region.

As mentioned earlier, preparation of the *Second Report on Sustainable Human Development in Central America and Panama* was based on the conceptual and methodological experience gained from preparing the first regional report, and from producing and publishing several national reports in different countries in the area. For this reason, it became very important to:

- promote horizontal cooperation, facilitating exchanges among consultants, businesses, and other technical resources in the region;
- share available information on methodologies for measuring the human development index at the municipal level,
- exchange experiences on the production of accessible versions of the national reports, targeting the lay population with pedagogically appropriate publications,
- identify a core group of statistical indicators that can be monitored in each country for the purpose of building a common database for comparing them, and
- contribute to setting up a network of regional report coordinators.

In contrast to the first State of the Region Report, the second was able to draw on the wealth of experience and information of the human development report offices in the countries, which participated actively in its preparation. When the first regional report was being prepared, not all the countries had human development offices and the State of the Nation's technical team therefore had to fill in the gaps.

The UNDP gradually took over this process, given each country's existing commitments and the fact that some efforts were slow to take effect. When the time came to prepare the second regional report, the work of the national offices was strong and consolidated; the chapter on indicators is a case in point.

The complexity and depth of analysis is much greater in the second report, given there now exists a set of reports on national human development for the countries of the region. While the Steering Committee and Advisory Council mandated that the regional report should identify and examine regional issues that were not covered in the national reports, the directors of the national reports urged that national issues that could benefit from a regional viewpoint be included, such as the strengthening political systems, transparency and accountability, and multiculturalism.

A report on the region and for the region

This report was prepared in the region and for the region using an approach of decentralized research and consultation. It took 26 months, from the time the coordinating team was set up until the report was published. It involved around 80 researchers –representing a variety of approaches and nationalities (Table 2)– and some 300 people involved in different consultation activities. This broad participation provided the report with a creative balance of differing viewpoints. Thus, it is not a report on the region carried out in a single country, nor is it a sum of national studies, or a research project carried out by a small group of experts sharing a common viewpoint. The aim was to combine rigorous academic study with local research capacities, social legitimacy, and vigorous mechanisms of social consultation.

A participatory research strategy

As in the case of the first report, the research strategy was shaped by the premise that a regional study is more than the sum of seven country studies. A different idea of “region” underlies this report: it is understood as a network of relationships that tie societies, economies, and political systems together, within and transcending political borders. Rather than comparing the development of seven separate countries, the report seeks to create regional added value.

As Edelberto Torres Rivas put it, “A critical appraisal of the report enables me to enthusiastically applaud the quality of its contents. The subject matter of the second report is more specific and an improvement over the relatively dispersed structure of the first. Based on the experience gained, the national and local comparative content is more accurately developed. This endeavor enriches regional knowledge in various areas that have hitherto been virtually unexplored. For example, it was a good decision to extend Chapter 7, on the challenges of democratization, to include a second section that discusses in detail access to justice and the problems of the legal system.”

National human development reports

The first *State of the Region Report on Sustainable Human Development* was published in 1999, sponsored by UNDP's Regional Bureau for Latin America and the Caribbean (DRALC-UNDP) and the European Union's Human Rights and Democratization Programme. At the time of its publication, eight national human development reports had been published in five countries, one each in Belize, El Salvador, Guatemala and Honduras, and four in Costa Rica.

Twenty-six national reports have been published to date by the countries, including the three published in Belize. Through a variety of institutional arrangements, the reports brought together social and political stakeholders that are working to address sustainable human development challenges in accordance with the circumstances of their countries.

To date, the State of the Nation Program in Costa Rica has published nine reports that monitor sustainable human development in that country. Firstly, a conceptual document on this initiative was published in 1994. The first report was published in 1995 with the support of an association of four institutions: the National Council of University Chancellors (CONARE), the Office of the Ombudsman of the Republic, UNDP-Costa Rica, and the European Union. The program subsequently received support from The Kingdom of the Netherlands, Fundecooperación, and other national institutions. Production of the report is guided by a Steering Committee made up of public figures from various sectors of society, including the Costa Rican government. It contains four core chapters: *Equity and social integration*, *Opportunities, stability and economic solvency*, *Harmony with nature*, and *Strengthening democracy*. The first four reports also included a chapter on primary and social relations, and values. Some of the reports have contained additional chapters addressing special topics such as: "The contributions of education and knowledge to development" (2nd report), "The rural world in transition" (3rd report), "The state of the Huetar Norte Region" (4th report), and "The challenges to advance toward gender equity" (7th report). The eighth report provides supplementary information in the chapters, based on data from the 2000 Census. The State of the Nation Program received an award from the UNDP's World Office for the Human Development Report, as well as the Ancora prize, a national recognition.

In El Salvador, the UNDP office has published three reports on human development, with ongoing support from the National Council for Sustainable Development. It receives support from a Steering Committee and an Academic-Scientific Committee made up of renowned individuals and professionals. The first report, published in 1997, contains the human development indices for El Salvador, broken down by department, area, and sex. The 1999 *State of the Nation Report on Human Development in El Salvador* examines social, economic, political and environmental issues. Two years later, UNDP published the 2001 *Report on Human Development in El Salvador*, sponsored by the Embassy of The Kingdom of the Netherlands and SIDA. In addition to monitoring human development issues, it included a special topic, water management in El Salvador, and assessed the impact of the earthquakes of January 13 and February 13, 2001.

In Guatemala, the UNDP office published five national human development reports. The Steering Committee, comprising three university chancellors representing the National

Council of Chancellors, is responsible for producing these publications together with the Minister of Education and the United Nations resident coordinator. An Advisory Council ensures the participation of leading academic figures, whose duties include selecting consultants, fostering discussion through workshops, and approving the final text. United Nations/Guatemala agencies, programs and funds provided support for the reports. In addition to monitoring human development topics, each of Guatemala's reports highlights a specific subject. The reports are entitled as follows: *Guatemala: development contrasts (1998)*; *Guatemala: the rural face of human development (1999)*; *Guatemala: the inclusive force of human development (2000)*; *Guatemala: funding for human development (2001)*; and *Guatemala: human development, women and health (2002)*.

In Honduras, the UNDP office has published four reports. In the first *Report on Human Development in Honduras, 1998: human development for inclusive development*, the study focused on equity and diversity in rural areas, and the dynamics of the agricultural milieu. The second report (November 1999) examines the impact of Hurricane Mitch on the people of Honduras. The *Report on Human Development, Honduras 2000: sustainable development for growth with equity*, produced with support from UNDP and SIDA, studies economic growth, poverty, natural resources and educational issues. The *Report on Human Development, Honduras 2002: toward a society of opportunities* assesses democracy in Honduras from the perspective of human development. This report was sponsored by UNDP, SIDA and the Embassy of The Netherlands.

In Nicaragua, the report *Human development in Nicaragua, 2000: equity to overcome vulnerability* was published in 2000, sponsored by UNDP-Nicaragua, the United Nations Department of Economic and Social Affairs (UNDESA), the Spanish International Cooperation Agency, the Embassy of The Netherlands, and the Office of the President of the Republic, through its Technical Secretariat (SETEC). This report was the outcome of consultations with researchers and officials from public, private and international organizations. It also benefited from an Advisory Council comprising public figures selected for their experience and interest in human development. The document studies the dimensions of human development in Nicaragua and highlights the gaps in equity as well as the challenges that must be addressed to overcome them. The second report, *Human development in Nicaragua, 2002: the conditions of hope*, was produced by a team of professionals through a project implemented by the Secretariat for Coordination and Strategy (SECEP) and the National Social Economic Planning Council (CONPES). It was sponsored by the UNDP-Nicaragua, the Embassy of Denmark, the Technical Cooperation Office, the Spanish Embassy in Nicaragua, and UNDESA. This report analyzes the aspirations of the Nicaraguan people, as well as the conditions demanded by the population of the State and society as a whole for these aspirations to be realized. The report is based on the findings of two national surveys: the National Aspirations Survey (ENA 01) and the UNDP Survey for 2002. These conclusions were corroborated by various task forces representing different sectors of Nicaraguan society.

The UNDP office in Panama published the *2002 National Human Development Report*, which focuses on poverty and inequality, social spending and investment, and education. The first report follows up on the agreements reached at the 2002 Annual Conference of Business Executives (CADE), at which representatives of the private sector, trade unions, civil society and indigenous communities signed the declaration "Toward a national agreement to eliminate poverty." The project was headed by the UNDP resident representative in Panama and the Minister of Economy and Finance. Production of the

report also involved an Advisory Council, made up of representatives of government, the business community, trade unions, NGOs, political parties, and civil society. Its duties include providing guidelines, approving topics, and discussing and validating the report before it is released.

In Belize, the National Human Development Advisory Committee (NHDAC) published three reports on human development in that country. This committee is chaired by the Minister of Economic Development and includes representatives of government, social investment funds, social and development NGOs, civil society, the private sector, and United Nations agencies. The first report, *Taking Stock: National Human Development Report 1997*, was published in 1998 and analyzes the state of human development in Belize. The second report, *Placing People at the Centre of our Development: National Human Development Report 1998*, examines the level of human development and indicates how and where the population can contribute to development in the country. The third report, *Preparing for the New Millennium: National Human Development Report 1999*, follows up on human development issues raised at international summits and makes recommendations for action in the new millennium.

Ongoing and relevant social consultation

During the report preparation period –from the time its contents were defined until its findings were validated– Central American society played a key role by offering different views and suggestions for the overall concept, methodology, contents and development of the study. Workshops and other social discussion forums were held to obtain the views of representatives from regional integration institutions, labor and business organizations, ethnic groups, NGOs, public sector authorities, grassroots organizations, politicians, academics and other public figures.

Between July and September 2001, the suggested contents of the report were discussed in meetings and in interviews with 79 people representing a wide range of social and institutional sectors in the region. The results of this consultation, as well as the amended version of the contents, were posted on the project's website where the members of the Steering Committee and the Advisory Council were able to review it. This mechanism was used throughout the research process to allow interaction among the people involved in producing the report (Advisory Council, Steering Committee, researchers, UNDP offices, and the project coordination and technical team).

Limitations of the report

As is the case with all human endeavors, this report has room for improvement. Nonetheless, it summarizes the current information available in the region on the issues under study. New findings and information will surely arise that will date the information contained in this report. When important changes were detected, such as the re-estimation of national accounts in Nicaragua or new data on Guatemala's population, this was included in the report. As in the case of the first report, the limitations of this report are clearly recognized. First, the overall analysis of the region is, unfortunately, uneven because Belize did not have researchers or

information available for several chapters. (Nonetheless, the results of its most recent national human development report are summarized in Box 5.) Secondly, the research is based largely on secondary sources, that is, it involved the compilation, appraisal and interpretation of existing statistical data and/or published academic and technical studies. Given the limitations of time and resources, it was not always possible to undertake primary research. A third limitation is that not all the topics were researched with equal depth because of insufficient or a lack of information. Finally, the researchers had relatively little time to complete their work because of the pressures of an already tight schedule.

This is why special care has been taken to identify the sources of information that back up the report's appraisals. In addition, extensive notes were taken as necessary to facilitate a meaningful interpretation of the data.

Table 1

Basic information on the report

Bibliographical references	554
Persons consulted on the contents	79
Validation workshops	13
Number of participants in research workshops	253
Researchers with specialized presentations	42
Collaborators (preparation of insets and specific sections)	7
Research coordinators	7
Members of Advisory Council	16
UNDP national counterparts	6
Institutional agreements	10

Table 2

Basic studies and research networks

Chapter	Topic	Researcher	Institution
The challenge of social equity	Poverty and social equity	Pablo Sauma	
	Health in Central America within the framework of regional integration	Edgar Barillas	
	Health funding and spending	Rubén Suárez	PAHO

Chapter	Topic	Researcher	Institution
The challenge of economic development	The economic development challenge	Saúl Weisleder	
	The new rural setting in Central America	Eduardo Baumeister	
The challenge of regional action	Regional integration	Edgar Balsells and Juan Alberto Fuentes	
	Integration and borders	Sergio Moya, Daniel Matul and Carlos Torres	FUNPADEM
The challenge of environmental management	Early warning systems	Luis Rolando Durán	
	Central America's Biological Corridor	Alberto Salas and Ronald McCarthy	IUCN
	Central American Logistical Corridor	Jorge Cabrera	
	The brown agenda	Freddy Miranda	FUDEU
	Disasters	Allan Lavel	
	Urban management	Mario Lungo	
	The blue agenda	Ligia Castro	EARTH University
The challenge of democratizing political systems	Media	Carlos Chamorro	
	Civilian-military relations and the forging of democracy	Manolo Vela	
	Financing of political parties	Kevin Casas	
	Electoral systems and political party systems in Central America and Panama	Álvaro Artiga	

Chapter	Topic	Researcher	Institution
The challenge of transparency and administration of justice	Task forces on political corruption in Honduras and Costa Rica		UNIMER RI
	Transparency and accountability	Mynor Cabrera	
		Ronald Alfaro, Roslyn Jiménez and Evelyn Villarreal	State of the Nation Program
		Rubiel Cajar	
		Silvio Grijalba	
		Reina Rivero, Gina Hernández and Francisco Silva	Prospects and Strategy Unit (UPE)
		Francisco Díaz, Varinia Arévalo and Roberto Cañas	Applied Law Studies Foundation (FESPAD)
	Administration of justice	Edmundo Urrutia	
		Ronald Alfaro, Roslyn Jiménez and Evelyn Villarreal	State of the Nation Program
		Jorge Giannareas	
		Sergio Cuarezma	
		Alvaro Cáliz and Manuel Fernández	Prospects and Strategy Unit (UPE)
		Francisco Díaz	Foundation for the Study of Applied Law (FESPAD)
The challenge of multiculturalism	Central America, an ethnic and cultural mosaic	Héctor Pérez	
	Ethnic conflicts and multiculturalism in Central America and Panama	Galio Gurdían	

Chapter	Topic	Researcher	Institution
Indicators	Human development indicators	Carolina Trigueros	UNDP-EI Salvador
		Miguel Ramos	UNDP-Honduras
		Franz Fritzche, Gustavo Arriola	United Nations System, Guatemala
		Martín Fuentes	National Human Development Report Project, Panama
		Mayra Calero	UNDP-Nicaragua
		Elisa Sánchez	State of the Nation Program

Final remarks

The *Second Report on Sustainable Human Development in Central America and Panama* provides continuity for the system that monitors the progress made in addressing regional challenges to sustainable human development and the strengthening of regional integration, which was undertaken with the first *State of the Region Report*. This report should not be viewed as a “photograph” of the situation; rather it is a selective documentation of processes that can contribute to identifying possibilities for common action. Perhaps the underlying message of the report is that the future of the region, and its integration, hinges upon respect for its diversity. This must begin with recognition of the social gaps and the many social, economic, political, and cultural forces that characterize Central America. In this regard, the report not only reaffirms the plurality of the region, it is also an exercise in pluralism.

The readers will decide on the quality, relevance and need for this monitoring system and, likewise, on the need to give it continuity.

The technical team of the State of the Nation Program in Costa Rica coordinated the research strategies and social support during the preparation of this report; it was also responsible for editing the final text. Despite all the collaboration it received, and which is acknowledged in the respective section, any errors in this document are the sole responsibility of the project’s coordinating team. The statements contained in this report do not necessarily reflect the views of the sponsoring institutions.

Central America, June 27, 2003

Miguel Gutiérrez Saxe

Arodys Robles

Synopsis

Overview of the second report

A slowdown has been noted in the pace of progress that characterized human development in Central America in the first half of the 1990s. Over the last four years, human development progressed at a slower pace than a decade before, when social and political stability returned to the region and the armed conflicts and recession became things of the past. Improvements attained at the beginning of the 21st century, in terms of life expectancy, infant mortality, educational and health coverage, were undercut by slower economic growth, lack of coordination between the production sector and employment, a certain decline in equity, environmental and social vulnerability, and a process of democratization that, while preserving its achievements, is advancing slowly.

With the Esquipulas Presidential Summit and, a few years later, the signing of the Tegucigalpa Protocol, expectations were created for sustained economic and social progress, and for an end to the devastation of civil war and social inequality. While this goal has not been met, it is important to recognize that basic historic, economic, and social conditions make it a difficult goal to achieve. Despite substantial progress, including political stability, recovery of regional trade and the new integration agenda, Central America today is exposed to many complex internal and external tensions that are difficult to interpret. Revival of integration efforts has brought into focus the region's relations with its neighbors (Colombia, Venezuela, the West Indies and southern Mexico). While this report does not specifically analyze the repercussions of conflicts in those areas, it does recognize that they generate additional opportunities and risks for the region. Moreover, Central America is engaged in a number of pressing negotiations, such as the free trade agreement (FTA) with the United States, which requires that it grapple with complex situations if it intends to make headway in that area.

While the progress made in the area of human development has been encouraging, it has not been enough to overcome the historical lag of the region because the progress has not always led to new opportunities for broad segments of the population. A broad set of economic and political initiatives must combine to achieve development objectives. This includes increasing the amount, quality and oversight of social spending, developing new production linkages among the various sectors of the economy, reducing inequality, and strengthening the institutional framework for the rule of law. To be able to work toward these objectives, it is necessary to understand the diversity and plurality that characterize Central America.

The wide range of human development challenges considered in this second report once again underscored the importance of having a strong monitoring system that makes it possible to insightfully approach the region's problems, provide accurate and verifiable information for public discussion, and serve as a

platform for joint action. Based on this system, the report presents conclusions that are marked by contrast and shaded by many conditioning factors.

While the level of relative poverty declined, more than half the Central American population continues to be poor, and the number of poor people is higher than it was a decade ago. Inequality persists, and in some cases it is worse, as in the case of Costa Rica and El Salvador. With the exception of Honduras –where a decline was noted– the level of poverty has held steady. Also, inequality has increased in the countries that have made most headway in trade liberalization. In the remaining countries inequality has remained unchanged from its historical high, again with the exception of Honduras, where it declined. According to the findings of this report, the gaps within countries are even greater than the gaps among them. Despite this not very promising panorama, in recent years, notable progress was made in terms of social investment, educational coverage, and health improvements, which is encouraging. These achievements, in turn, require more and better targeted social spending, as well as ongoing oversight to ensure that the resources reach those who need them.

Economic growth was strongest in the more dynamic sectors of the Central American economy. This growth is not articulated with key areas of the production system, such as traditional exports, small- and medium-scale enterprises, and the small-farmer sector. The small-farmer sector is where the region has the farthest to go to achieve its human development aspirations. The way of addressing these challenges, with what has been called “outward-oriented development” (Box 4) and which refers primarily to trade liberalization, has generated few social benefits following the thrust during the first half of the 1990s. This illustrates one of the key concepts of human development: economic growth is not enough to generate development. The findings of this report are conclusive in this regard: outward-oriented growth moves very slowly to fulfill expectations on quality of life, social equity, and economic sustainability for broad sectors of the population.

The report also calls attention to persisting gender inequalities in the region. When the countries are classified according to gender development, four fall one or two positions in the HDI (Costa Rica, El Salvador, Honduras, and Nicaragua) and only two do not change their relative positions (Guatemala and Panama). When the indexes are broken down into their various components, the largest gap in the case of the gender development index (GDI) is in per capita income, which in the best case for women is 50% of the income of men (Panama). A major difference is the gap in literacy rates between men and women, especially in Guatemala.

Updated data on the intense flow of emigrants outside the region –an issue covered in the first regional report– reveal enormous transfers in the form of remittances, tourism, air transportation, and communications between citizens living abroad and their countries of origin, showing the robust ties they have with their homelands. In El Salvador, Guatemala, Honduras and Nicaragua, remittances weigh significantly in comparison both with the GDP and with exports, and they

contribute substantially to satisfying the basic needs of large sectors of the population. In some countries, such as El Salvador, remittances are perhaps the most important factor in macroeconomic stability.

Box 4

The concept of development style

This report uses the term “development style” rather than “development model” for its study of recent economic performance in the Central American countries. Development style refers to the major components of an economy and their patterns of interaction, which a country used during a given period of time to address its growth and development challenges. It is the final outcome of the actions of a number of public and private, domestic and international stakeholders. Unlike the term “development model,” it does not assume common intent, or that actions are by and large coherent or effective. Not all development styles achieve their aims despite the intentions of the stakeholders. The report uses the concept as a descriptive aide and does not intend to infer a coherent image of the situation by reducing it to the intentions or strategies of the stakeholders. Nor is it used to predict development outcomes.

Concepts such as “structural adjustment,” “Washington Consensus,” “outward-oriented development,” “inward-oriented development” and “import substitution” have been used in various chapters of this document to describe development styles that prevailed in the region during a given period of its history. However, it should be noted that these terms do not reflect the full range of experience. For example, even in the 1960s, when import substitution was the predominant approach, in actual practice all the economies fostered exports to third markets. More recently, despite efforts to liberalize trade with markets outside the region, the countries have not foregone intraregional trade, unless for political-military reasons.

Source: the author

In Central America, the natural resource base continues to be subjected to destruction or unrestrained use, and no significant changes have been noted with regard to the levels of deterioration documented in the first regional report. In addition, rapid urbanization without land management policies has created risk scenarios. All of this has aggravated the impact of natural phenomena. While vulnerability to risk is now being addressed in regional policies, through coordination of disaster prevention and mitigation efforts, there is a need for stronger institutional commitment within the countries to ensure sustainable and effective natural resource management.

As in the case of environmental management, regional integration must be based on a Central America with common interests. The integration agenda, however,

was set aside during the latter half of the 1990s when each country had to refocus its priorities in order to recover from Hurricane Mitch and to settle bilateral conflicts. During that period, interest in the Central American Alliance for Sustainable Development (ALIDES), which focused on social and political objectives, lost ground to the trade agenda. As of 2000, the Puebla-Panama Plan (PPP), and later the negotiations for a free trade agreement with the United States, have been the key points of the regional agenda. Today more than ever, trade liberalization and negotiations are issues that are not only determining Central America's position in the world but also redefining its agenda for the coming decades.

Central America has always been a multicultural region, but only recently has this begun to be acknowledged, and its image as a multicultural and multiethnic society is beginning to be recognized both legally and publicly. This can be seen in the wide range of social movements stemming from diverse cultural heritages and differences. The degree to which democracy will be strengthened in Central America will depend, in part, on how the countries decide to bring about the further social, political, and cultural changes needed to serve a multicultural society.

With regard to the political systems of the region, despite the growth of democracy over the past twenty years, they still display certain weaknesses. Although today democracy is defended vigorously, the drive to strengthen it has been slowing down. Certain crucial aspects need to be improved, such as the management of electoral systems, civilian control over the military, and protection of human rights and liberties. A key issue for the future is that democratically elected rulers must rule democratically, with strong and independent institutions that recognize and protect human rights and accept civilian control. Serious limitations, however, constrain the further development of the rule of law in Central America. While it is true that progress has been made to dismantle authoritarian regimes, the administration of justice and public management control systems are underfunded and find themselves in conflict with other institutions and social stakeholders. Barriers still limit access to justice, the right to suitable legal defense, the right to prompt and fair justice, and recognition and protection of the right to petition and accountability. With respect to transparency, while substantial progress has been documented in constitutional and legal areas, this progress has been limited and public management controls are generally inadequately equipped to effectively combat corruption and impunity.

Monitoring the human development challenges

The first *State of the Region Report on Sustainable Human Development* considered that the efforts to strengthen democracy stemming from Esquipulas II and the end of the economic recession were positive: "For the first time in thirty years, the region experienced a positive decade overall. (...) Central America is the only region in the world capable, in recent years, of peacefully resolving long-standing civil wars through a combination of regional and national actions, without the intervention of international political and military forces."

It also showed how the region had expanded in every sense: geographically, to include Belize and Panama; politically, by including new stakeholders and sectors of society that had previously been excluded from legitimate democratic participation; multiculturally, by recognizing itself as a society made up of diverse ethnic groups, indigenous peoples, and social movements; and economically and socially, by including, rather than excluding, most of the population in its broad human development objectives.

It also pinpointed and carefully examined the challenges that must be resolved in the short or medium terms for Central America to fully develop as a region with a common destiny. These challenges include pluralism and the participation of civil society; decentralization and democratization of local government; democratic quality, social equity and the promotion of opportunities for children and youths; economic integration; regional development institutions; intelligent participation in the international economy; regional risk management; water as a key component of development and cooperation among the countries; and legal recognition of the diversity and rights of ethnic groups and immigrants.

Finally, the 1999 report concluded that: “At the outset of the twenty-first century, our main challenge is to consolidate Central America as a region of peace, liberty, democracy, and development. The challenge is to build a pluralistic community that offers security to its members, based on economic growth, social equity, environmental sustainability, and robust ties of integration and cooperation in a diverse and complex region.”

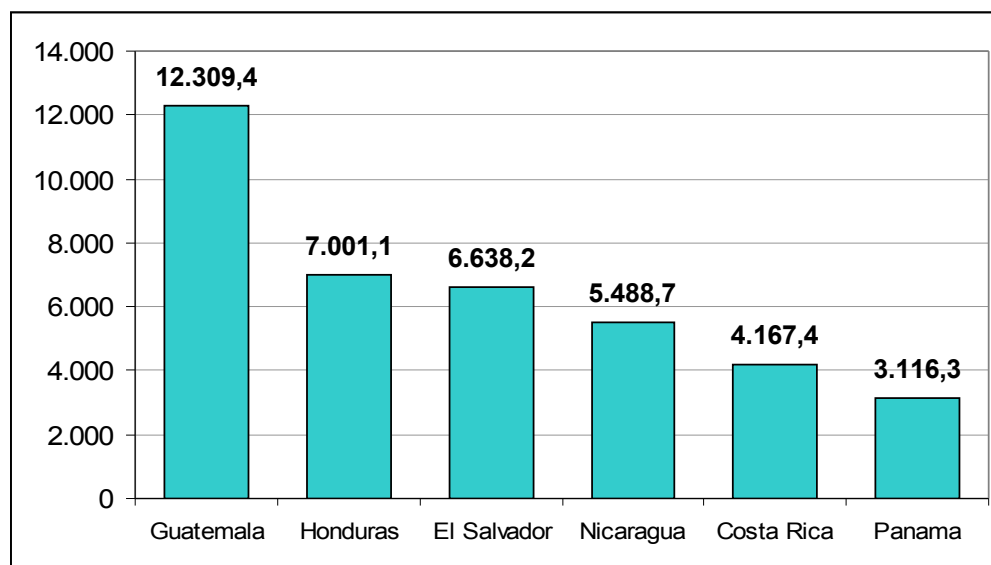
Has Central America made progress in attaining this goal and fostering human development since publication of the first report? Basically, the second report considers that, in that period, progress was slower and uneven. As a result, despite certain progress, the region is still lagging substantially with respect to issues that are essential for human development. More specifically, the progress made to meet the commitments undertaken by the Central American governments in the Stockholm Declaration (1999) have been unequal and, overall, modest.

The challenges of regional diversity¹

In 2003, the population of Central America stood at around 38.7 million, and estimates are that by the year 2015 it will be 49.4 million. The increase between 2000 and 2015 will be equivalent to that of the previous twenty years. Three quarters of this growth will occur in Guatemala, Honduras and Nicaragua, which are currently home to two thirds of all Central Americans and which have the highest population growth rates of the region (Figure 1).

Figure 1

Central America: Total estimated population. 2003
(thousands of inhabitants)



Source: CELADE, 2003

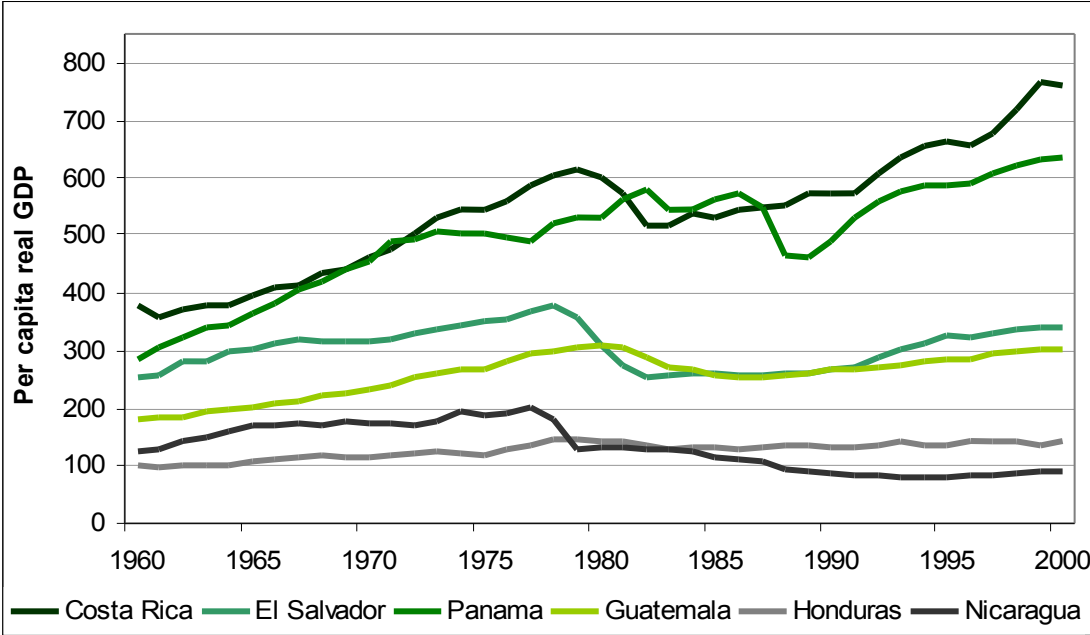
Population growth in the region is associated with a change in the structure by age group and with urbanization. Central America is on the threshold of a demographic situation that will create new economic and social opportunities. For several decades, there will be more people in a position to contribute to the economy than those dependent on the working population. This positive dependency ratio can create conditions that lead to increased savings and investment. In order to tap this opportunity, however, public policies must strengthen access to education and social programs, and boost job opportunities. At the same time, a strong process of urbanization is under way. In 1990, 45.6% of the total population lived in urban areas; by the year 2000 this figure had risen to 49.8%. Over the last thirty years, the urban population grew from 6.5 to 17.5 million. If this growth rate continues, the urban population will double roughly every twenty years.

These factors exercise strong pressure on services and on opportunities for human development as a whole. For example, the school-age population grew from 5.9 million in 1970 to 11.5 million in the year 2000. To adequately manage this pressure, institutions and public policies must be able to cope with the population growth, must have more resources and use them more effectively, so they can provide more educational opportunities, develop job-creation programs, and provide health care targeting specific groups.

The importance of the development of institutions and public policy can be noted in the changes in the relative importance of the economies of the region. In 1920, Guatemala and El Salvador had the strongest economies; in the year 2000, Costa Rican output was second in the region, just below that of Guatemala, even though its population was one third the size of Guatemala's. Growth of per capita GDP since 1960 shows that countries with a larger share of social investment, stronger human development, and no lengthy social conflicts or wars have performed better economically (Figure 2).

Figure 2

Central America: Real per capita gross domestic product, by country^{a/}
 1960-2000
 (1995 dollars)



a/ 1995 dollars

Source: World Bank, 2002 World Development Indicators

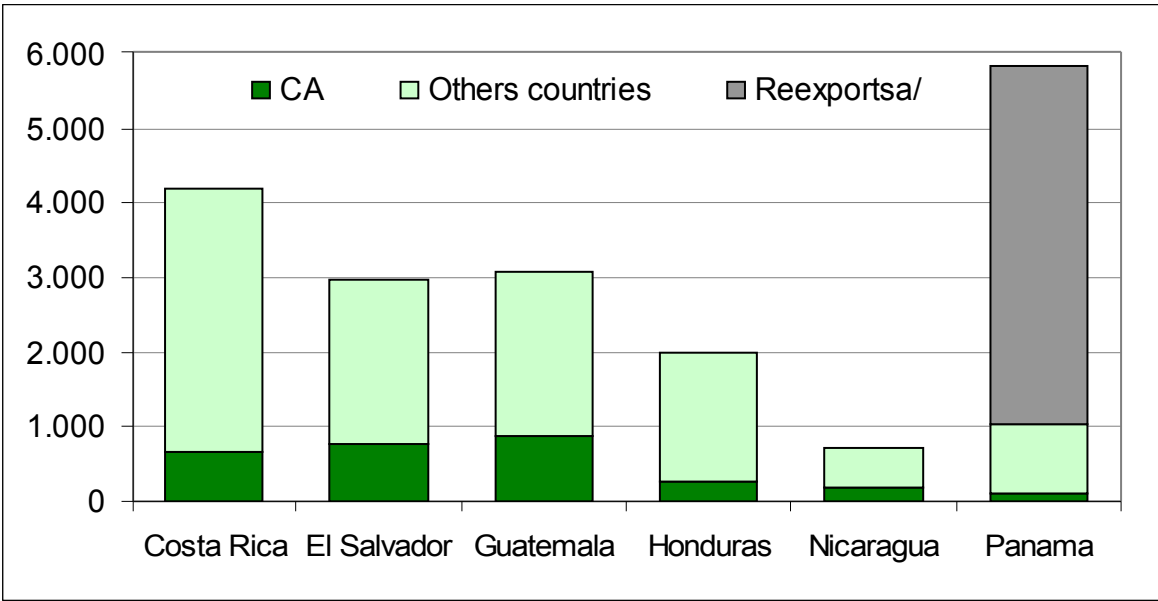
Income distribution in Central America is very uneven, both among countries and within them. In 1970 the average per capita GDP in the region was US\$405 and by the 1990s, once the economic recession was over, it was US\$1,320. In 2001, regional GDP surpassed US\$66.5 million, while per capita GDP was US\$1,843. A comparison of per capita GDP in the different countries, however, reveals sharp differences; while in Costa Rica and Panama it was more than US\$3,000, in Honduras it was less than US\$1,000 and in Nicaragua it was US\$472. Intra-

regional trade, also with substantial differences among the countries, has tended to rise, growing from US\$650 million in 1990 to almost US\$2 billion in 2001 (Figure 3). The new development style has opened the way for regional economic endeavors that aid in bridging these gaps (see next section). Nonetheless, economic conditions in Central America continue to be heterogeneous and fragmented.

Figure 3

Central America: Destination of exports by country. 2000

(millions of US\$)



a/ In Panama, re-exports (Colon Duty Free Zone) account for 82.1% of all exports.

Source: ECLAC, 2003

The imbalances in the region can be seen in terms of the size and the economic and social conditions of the different countries. For example, one fifth of the population of Central America lives in countries with small populations and small territories (Panama and Costa Rica), where per capita GDP averages US\$3,278. By contrast, 33% of Central Americans live in much larger countries with greater populations (Nicaragua and Honduras), where per capita GDP is less than US\$1,000. Growth itself has also evolved differently: while production has increased in the former countries, it has stagnated or declined in the latter.

These two groups of countries are located in the southern and central parts of Central America. The two remaining countries (El Salvador and Guatemala) complete our overview of the region. Although they account for almost half the

population of Central America, and even though they generated half the region's output in 2001 (US\$34.7 billion out of US\$69.9 billion), their per capita GDP is only half that of Costa Rica and Panama.

This leads to a basic conclusion: vigor and size are distributed in inverse proportion, which is unfavorable for robust regional development. As opposed to other parts of the world engaged in integration processes (such as Europe), in Central America the larger countries are not the most advanced economically, nor are the smallest the least developed; furthermore, the smaller ones are situated at the center of the region. This presents a double dilemma for Central America: first, it must balance these internal inequalities, or the progress of some may be hindered by the backwardness of the others. Secondly, since none of the local players are strong enough and the markets are not deep enough, it is impossible to generate the necessary dynamics without inputs from outside the region.

Box 5

Belize: a new regional player

In December 2000 Belize joined the Central American Integration System (SICA), in July 2003 it will become its *pro tempore* Chair, and in 2001 it formally applied for membership in the Central American Bank for Economic Integration (CABEI). Belize's entry into the SICA and its growing activity in the region is very important for several reasons. For the first time in the region's recent history, integration encompasses the entire territory of Central America. Moreover, as explained in Chapters 4 and 8 of this report, Belize's share in the natural and cultural diversity of the region by far exceeds the relatively small size of its territory and population. Its marine and forestry resources are among the richest in Central America and, in some cases, they are unique. It includes a special combination of Afro-Caribbean and, to a lesser extent, Mayan traditions. Finally, because of its ties to CARICOM, Belize is a "window" on the West Indies –an area historically disregarded by the other countries of the region– which can complement the region's efforts to forge closer ties with the Dominican Republic.

The entrance of Belize into SICA boosts the overall territory of the organization by another 4.5% and its population by an additional 0.7%. In 2001, the GDP of Belize was 1.2% of regional output and its exports (basically to the United States and Great Britain) were 0.8% of total of Central American exports (Table 3). Its economy was 24 times smaller than that of Guatemala –the region's largest economy– and slightly more than one third of that of Nicaragua, the second smallest economy.

Table 3

Contribution of Belize to the region: selected indicators

Indicator	Measure	Belize	Observation	Year
Area	km ²	22,966	4.5% of the rest of Central America	
Population	inhabitants	273,700	0.7% of the population of the rest of Central America	2003
GDP	US\$ millions	805.3	1.2% of the output of the rest of Central America	2001
Exports	US\$ millions	158.3	0.8% of exports of the rest of Central America	2002
Imports	US\$ millions	526.8	1.9% of imports of the rest of Central America	2002
Real per capita GDP	1995 US\$	3,129.9	190.2% of the per capita GDP of the rest of Central America	2001
Life expectancy	Years	69.8	99.6% of the average life expectancy of the rest of Central America	2000
Infant mortality	Years	21.2	67.7% of the average infant mortality of the rest of Central America	2000
Illiteracy	Percentage	23.4	94.7% of the average illiteracy of the rest of Central America	2000

Note: The 2002 figures for Central America are preliminary.

Sources: Belize data: Central Statistical Office; Central America data: ECLAC, 2002 and CELADE, 2003.

In social terms, Belize has certain advantages in the area of human development over the other Central American countries. In 2001, only Panama and Costa Rica surpassed Belize in terms of real per capita GDP in 1995 dollars (US\$3,129.90), and in terms of the HDI. According to Belize's human development report, roughly one third of its inhabitants were below the poverty line in 1995 (UNDP-Belize, 1999). Other conditions in the country, however, are similar to those prevailing throughout the region. The illiteracy rate is still high (close to 25% of those over the age of 14) and especially serious in rural areas. Infant mortality continues to be high, and large sectors of the rural population do not have access to drinking water or sanitary services (29.9% and 21.4%, respectively, in 1999) (UNDP-Belize, 1999).

Much still must be done to strengthen Belize's ties with the rest of the region. First, its trade relations with the rest of Central America are still weak (UNDP-Belize, 1999; IMF, 2002) as it is a secondary destination for Central American products

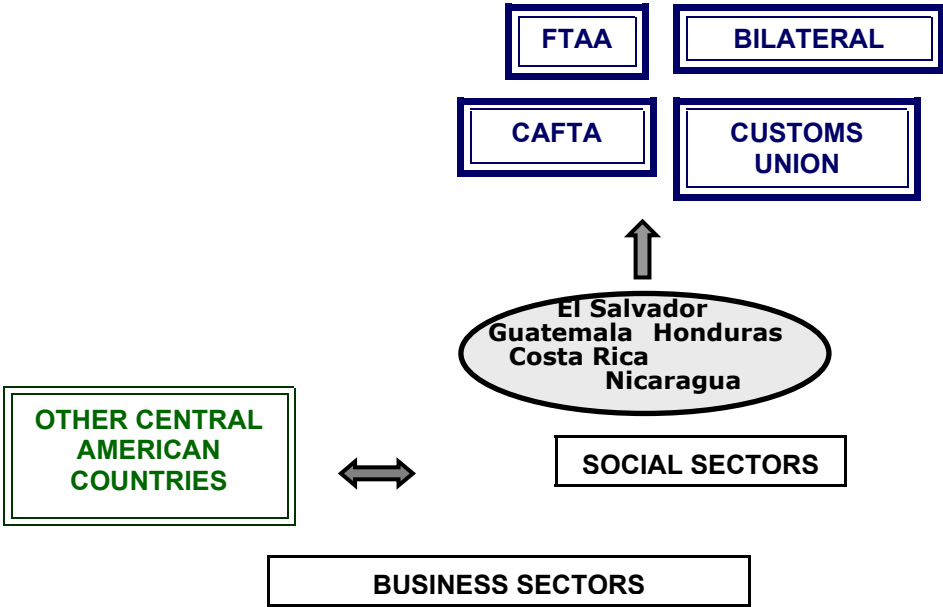
and Central America is a secondary destination for Belizean exports. Second, it has not yet been included in the integration institutions, and its request to join CABEL has not yet been processed. Finally, from now on, human development in Belize must be examined within the framework of the region. This means that detailed and in-depth information is needed on its performance in various areas of social, economic, cultural, political, and environmental life, but such information is still relatively scant and difficult to obtain.

Integration and trade negotiations

In the first years of the new century, Central America is engaged in developing proposals for economic integration and negotiating international agreements and plans, at the same time that new agreements are entering into force. Never before has there been such an overlapping of negotiations and agreements among the nations of the region, along with efforts to include new countries in the process to build a free-trade zone, bilateral negotiations with third countries, joint negotiations with other countries, all framed by a fast-paced process of open regionalism.

Each country addresses economic integration negotiations at three levels: domestic, regional, and extra-regional. At each level, a variety of stakeholders are pursuing different agendas and making demands that are not always consistent; moreover, they seek to influence the course of the negotiations. Governments face the difficult task of attempting to strike a balance that does not harm the country’s interests at any of these levels of negotiation (Figure 4). Opportunities and threats arise in the heat of complex and rapid decision making, creating tension for the integration institutions, for the *ad hoc* mechanisms established to support this process, and for the countries and societies themselves.

Figure 4
Three levels of the negotiations on economic integration



Source: Prepared by the author.

In this complex setting, the importance of economic integration has increased, and new topics are being added to the agenda, such as dispute settlement and expanding coverage to include services. This has had the effect of modernizing what can be considered a highly developed free trade zone, which may become a customs union if progress is made in the future to arrive at an effective common external tariff. In addition, the possibility of a free trade agreement (FTA) with the United States has become the driving force behind joint actions by the governments, and is shaping the nature of integration itself. Today, integration can be described as a process of open regionalism involving Central America and the United States, where the rate of progress depends on the pace agreed to with the United States government. Everything suggests that this FTA will be a key factor that shapes the external relations of each Central American country and the region as a whole. In this process, issues that figured prominently on the integration agenda of the early 1990s, such as the struggle against poverty, improvements in education and health, have been relegated to the sidelines.

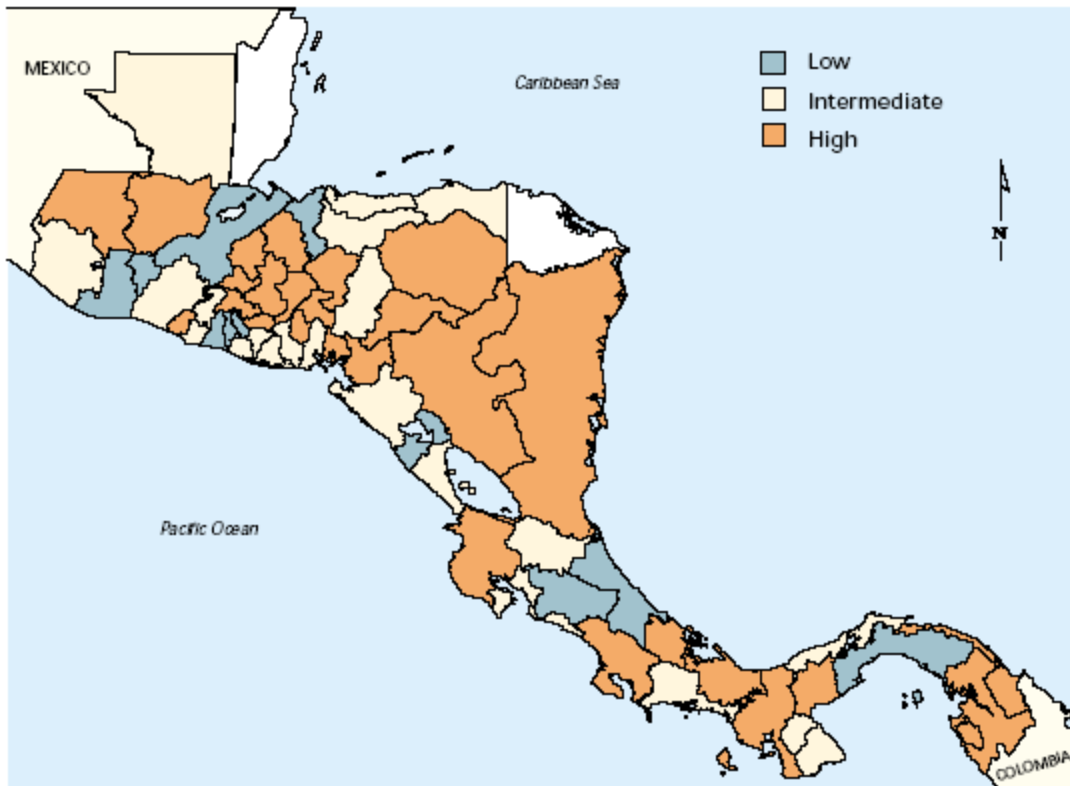
In sum, the countries must make strategic decisions about their futures without the benefit of experience and without a road map showing what is to come. Questions about trade liberalization, wealth concentration, acceleration of human development and inclusion, the future of agriculture, institution strengthening, and the regulatory capacity of the State, have once again come to the fore.

There is a decline in poverty but not in social inequality

The incidence of poverty in all the Central American countries fell during the 1990s, although to different degrees. Even so, poverty levels continue to be very high. By 1990, 59.8% of the 28 million Central Americans lived in poverty and 27.3% lived in extreme poverty. For 2001, it is estimated that 50.8% will be living in poverty and 23% in extreme poverty. Despite the decline, population growth resulted in an increase in the total number of poor. Thus, while in 1990 roughly 16.8 million people were poor, by 2001 the number of poor had risen to 18.8 million (2 million more). In the case of extreme poverty, the number grew from 7.6 million Central Americans in 1990 to almost 8.5 million in 2001 (almost 850,000 more living in extreme poverty). (Map 1)

Map 1

Central America: Degree^{a/} of incidence of extreme poverty, by region, province, or department. Circa 2001



a/ The degree (high, intermediate, or low) applies to each country and not to the region as a whole.

Source: Sauma, 2003

Poverty declined more in urban than in rural areas. The incidence of urban poverty declined 9.7 points vis-à-vis total poverty, while the incidence of extreme poverty in urban areas fell 7 points. In rural areas, there was a 5.8% decline in total poverty, although extreme poverty did not change. This is significant because it shows that rural areas have been bypassed by economic growth, and to foster human development in Central America changes must be made in the living conditions of small farmers. Half the Central American population lives in rural areas, which are home to 67% of the total poor population and 76.6% of the extremely poor population.

The poor have less access to basic services and suffer serious overcrowding, poor sanitary conditions, substandard or deficient housing, lack of drinking water, and few educational opportunities. At the regional level, three out of every five Central American households have at least one unsatisfied basic need (UBN) The countries differ substantially in this regard; also, unsatisfied basic needs are

significantly higher in rural than in urban areas. While in urban areas almost half the households have at least one UBN, in rural areas at least 70% of the households do. Overcrowding, which affects 40% of households, is the principal cause of unsatisfied needs.

Economic growth will benefit the population to the degree that the countries reduce the acute inequalities that characterize the region. Latin America is considered the most unequal region in the world. According to the Gini coefficient, some of the Central American countries rank at the lowest extreme (Table 4). In all countries of the region, the 10% of the population with the highest per capita income accounts for between 29.4% and 40.5% of national income, while the 40% of the population with the lowest per capita income accounts for between 10.4% and 15.3% of national income. In recent years, inequality has sharpened in some countries and remained at earlier high levels in others.

Table 4

Central America: Selected economic and social indicators

Country	Per capita GDP in current dollars ^{a/}	Gini coefficient ^{b/}	Percentage of the population below the poverty line ^{c/}	Percentage of population below the extreme poverty line ^{c/}	Percentage of jobs in the informal sector ^{d/}	Per capita social spending (1997 dollars) ^{e/}
	2001	2000	2000	2000	2001	1998-1999
Central America	1,843	0.564	50.8	23.0	39.3	
Costa Rica	3,948	0.473	22.9	6.8	32.8	622
El Salvador	2,104	0.518	45.5	19.8	42.8	82
Guatemala	1,680	0.582	45.8	15.7	41.0	107
Honduras	909	0.564	71.6	53.0	38.8	57
Nicaragua	472 ^{7/}	0.584	56.2	15.1	40.4	57
Panama	3,508	0.557	40.5	26.5	33.0	462

a/ Source: The data on total GDP were taken from ECLAC, 2002; estimated per capita GDPs are based on CELADE figures.

b/ Author's estimate based on national household surveys. For purposes of these calculations, family incomes were converted into dollars and adjusted according to purchasing power parity (PPP). Source: Sauma, 2003.

c/ Costa Rica and Nicaragua data are for 2001; Honduras data are for 2002. Sources: Costa Rica: INEC, based on the 2001 Multi-purpose Household Survey; El Salvador: UNDP-El Salvador, data from the 2000 Multi-purpose Household Survey; Guatemala: United Nations System in Guatemala, 2002, based on the 2000 National Survey on Living Conditions; Honduras: findings supplied by UNDP-Honduras, based on the May 2002 Permanent Multi-purpose Household Survey; Nicaragua: INEC-Nicaragua, information from the 2001 National Standard of Living Survey; Panama: UNDP-Panama, based on the 2000 Population Census.

d/ The informal sector includes non-agricultural workers (urban and rural) without higher education: the self-employed, employers and employees in businesses with 5 employees or less (not including government employees), domestic help, and non-remunerated workers.

^{6f} Source: ECLAC, 2001.

^{7f} The figures for Nicaragua do not reflect the change in national accounts to update and recalculate GDP, because comparable figures were not available for the rest of the countries.

Source: Sauma, 2003

Increase in unstable employment and expansion of the informal economy

Under the new development style there was no significant improvement in job opportunities for the population. The informal economy continued to be the most dynamic sector of the job market, with a high incidence of poverty. It is estimated that out of every 100 new jobs created between 1990 and 1999, 31 were in the formal sector, 12 in agriculture, and 57 in the informal sector. The informal sector is larger than the formal sector in all countries except Panama and Costa Rica (Table 4). According to estimates for the year 2000, 30.1% of 13.7 million employed people in Central America were working in the formal sector, 39.3% in the informal sector, and 30.6% in agriculture. Some 18.7% of agricultural jobs are performed by self-employed persons or family labor –which is a traditional hard core of poverty– 5.4% is performed by wage earners and employers in firms with five employees or less, and only 6.6% is engaged in the modern agricultural sector.

Box 6

How can poverty decline without reducing inequality?

In Latin America –and in Central America– poverty levels have declined without a concomitant reduction in social inequality. This occurs because, although economic growth creates new jobs and revenues, growth per se does not create new rules to govern the distribution of benefits among the population. A decline in poverty associated exclusively with growth is a fragile improvement because it depends on short-term economic conditions. A simultaneous reduction in inequality would put the achievement on more solid and permanent footing. To diminish inequality, however, not only must certain consequences (poverty) be addressed, but conditions must also be created to conclusively reduce the skewed distribution of capabilities to participate in economic and political life and in the benefits of progress. In Latin America, where inequality levels are the highest in the world, this is crucial. To make further progress in the struggle against poverty social inequality must be reduced.

The more advanced countries have designed a number of redistribution mechanisms for tackling the question of social equity, mechanisms that outperform relief policies to assist the poor. One such mechanism is to use the tax system to effectively collect revenues from individuals and enterprises to finance public policies. Another mechanism has been to implement vigorous social policies for education, health, and training. Thirdly, closely linking economic policies to social policies has made it possible to create many and very diverse jobs and business

opportunities for the population. Overall, these social redistribution mechanisms have given rise to a robust institutional framework capable of ensuring effective tax collection, allocation, and use in accordance with public policy objectives, as well as timely monitoring of said actions to prevent diversion or misuse of resources. In these cases, social policy has been more effective and far reaching policies targeting poverty reduction.

Unfortunately, public institutions in Central America tend to be very weak, as documented in this report, and public policies have focused on combating poverty without addressing the matter of inequality. Moreover, pro-growth reforms did nothing to correct this situation and, instead, promoted a downsizing of institutions. Without effective government institutions, the countries tend to be condemned to “vicious circles of underdevelopment” where weak institutional structures have a negative impact on economic growth. This, in turn, prevents the State from being able to hire human resources capable of upgrading its institutions and designing effective public policy.

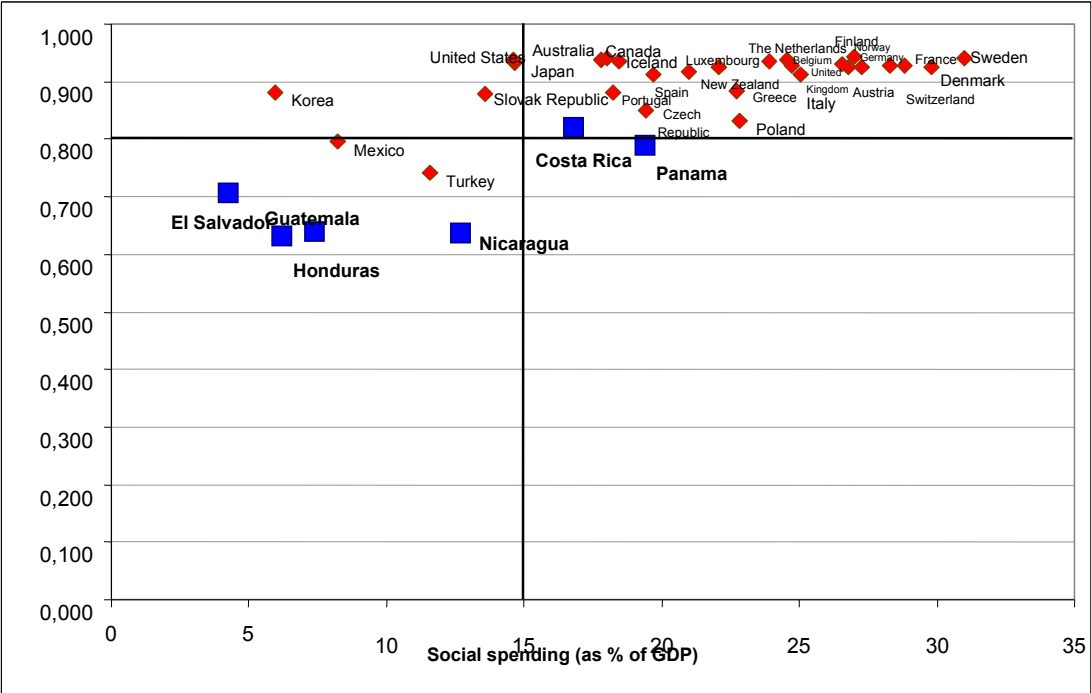
Recognition of the difference between inequality and poverty, and of the need for strong institutions and policies in order to overcome them, is the result of a change in development thinking and practice. Until a few years ago, the prevailing thought was that poverty and certain social inequities would be overcome by economic growth. It was recommended that countries focus on institutional and public policy reforms geared to promoting economic growth (Washington Consensus) because this would lead to improvements in the well-being of the population. It was acknowledged that, in the short term, economic growth not to solve social problems, and certain policies were suggested for mitigating them. These policies, however, focused on actions to combat poverty, especially extreme poverty, which was the only expression of social inequality deemed an impediment to development.

Now, the institutions that advocated this strategy have had to change their position. The link between growth and equity is not as simple as originally believed, nor did the expected direct relationship exist between cause (growth) and effect (poverty reduction). Finally, it was incorrect to equate the problems of equity with those poverty. The experience gained in Latin America and other parts of the world has shown that, while reforms targeting economic growth were necessary, they were insufficient to reduce poverty and social inequity. Nor were they sufficient to boost the levels of growth.

Rather than being a consequence of economic development, social equity is a condition that must be prepared for very early on. In fact, countries that have managed to maintain high growth rates over a long period of time have implemented policies –from the outset– to significantly reduce social inequalities. More recently, it has been demonstrated that inequality has an adverse effect on growth.

While today we know that institutions play a key role in promoting growth and social equity, we are also aware that not all types of institutions and public policies are conducive to that end. Therefore, to be able to realize the aspiration of having institutions capable of promoting human development in Central America, it is necessary to discuss the relationship between tax systems, the efficiency and effectiveness of public management, and accountability systems, issues that are usually addressed separately. The reason for this is that no country has achieved a high human development index without significant social spending (Figure 5).

Figure 5
 Central America and OECD countries: Human development index according to the 2002 World Human Development Report and social spending as a percentage of GDP (1998-1999)



Source: ECLAC and OECD.

Source: Rodrik 2002; Ganuzza, et al, 2001; UNDP, various years; World Bank, 1997; Sen, 1999; Lora and Panizza, 2002; Agosin, 2002.

The incidence of poverty among workers in the formal sector (18.7%) is substantially lower than among those in the informal sector (40.4%); the incidence of poverty in these two groups is lower than among agricultural workers. Self-employed and family farm workers register the highest incidence of poverty (74.3%), followed by agricultural employers and wage earners on production units made up of five or fewer employees (66.4%).

The weak relationship between growth and employment and the absence of linkages between new export activities and the rest of the economy are the most important challenges that must be addressed to ensure better jobs. This also applies to small and medium-sized enterprises (SME). Despite their unstable nature, low wages and modest working conditions, SMEs make a very important contribution to production and job creation in Central America.

There is a serious lag in area of education

A persistent and grave educational problem exists in the region, evidenced by the fact that 26.7% of the population over 15 years of age is illiterate. In the year 2000, 21.7% of the 20.4 million Central Americans between the ages 15 and 64 had received no schooling, while 25.1% had only a few years of primary education. In other words, almost half of the people in that age group (46.8%) had received no formal education or had not completed primary school. Aside from that, only 18.7% had completed their primary education. Combined with the fact that the coverage of secondary education is very low in almost all the countries, this explains the low level of schooling in the region, especially among females. Of the Central Americans between ages 15 and 64 who have not received schooling, 2.5 million are women and 1.9 million are men. These figures tend to decline in the older age groups.

The incidence of poverty is higher than 60% among the population with no formal education or with only one year of schooling; under 40% among those who have completed primary school; slightly over 10% for those who have completed middle or secondary education; and much lower for those with higher learning, even if incomplete. It is estimated that the incidence of poverty falls four percentage points for each year of study up to 12 years; this again confirms the crucial role of education in efforts to reduce poverty, upgrade human capital, and create good jobs. Close to half the Central Americans living in poverty are boys, girls and youths up to the age of 14. The lower the family income, the less time spent in school, which results in a vicious circle that reduces the possibilities of overcoming poverty.

Encouraging progress in health and life expectancy

Over the past 40 years, life expectancy at birth rose in all the countries of the area, although its relative position vis-à-vis the Latin American average has not changed. Due to initial differences in these levels, different degrees of progress in the health area, and the setbacks caused by armed conflicts, sharp contrasts exist in Central America with regard to life expectancy (77.7 years in Costa Rica compared to 65.9 in Guatemala in the year 2000).

In Costa Rica and Panama this indicator has improved steadily since the 1970s, and although the rate of improvement slowed down in the 1980s, it was improved uninterruptedly. Growth was slower in the other countries and the slowdown in the

1980s was sharper. The greatest difference is in Guatemala, where life expectancy is almost five years less than the Central American average (Table 5).

Table 5

Central America: Life expectancy at birth and infant mortality, 2000-2005

Country	Life expectancy at birth	Infant mortality (per 1000 live births)
	2000-2005	2000-2005
Costa Rica	78.1	10.5
El Salvador	70.6	26.4
Guatemala	65.9	41.2
Honduras	71.0	31.2
Nicaragua	69.5	35.7
Panama	74.7	20.6

Source: Prepared by the author with data from CELADE, ECLAC Population Division, United Nations.

The decline in infant mortality explains a good part of the improvements in life expectancy. Mortality during the first year of life is sensitive to inexpensive and effective public health measures such as vaccination, by means of which polio was eradicated and measles virtually eliminated in Central America. For this indicator, the region has improved its position vis-à-vis the rest of Latin American countries. In 1960, infant mortality in Costa Rica, Belize and Panama was already lower than the Latin American average; by 2000, the same was the case for El Salvador and Honduras.

One of the main challenges in the health sector is the control of communicable diseases. The region-wide effort to coordinate the control of vector-transmitted diseases has shown progress. Efforts still need to be made to further control malaria and dengue fever with sustainable environmental measures, mass media campaigns, and community involvement, with a view to bringing about changes in the behavior of the population.

Box 7

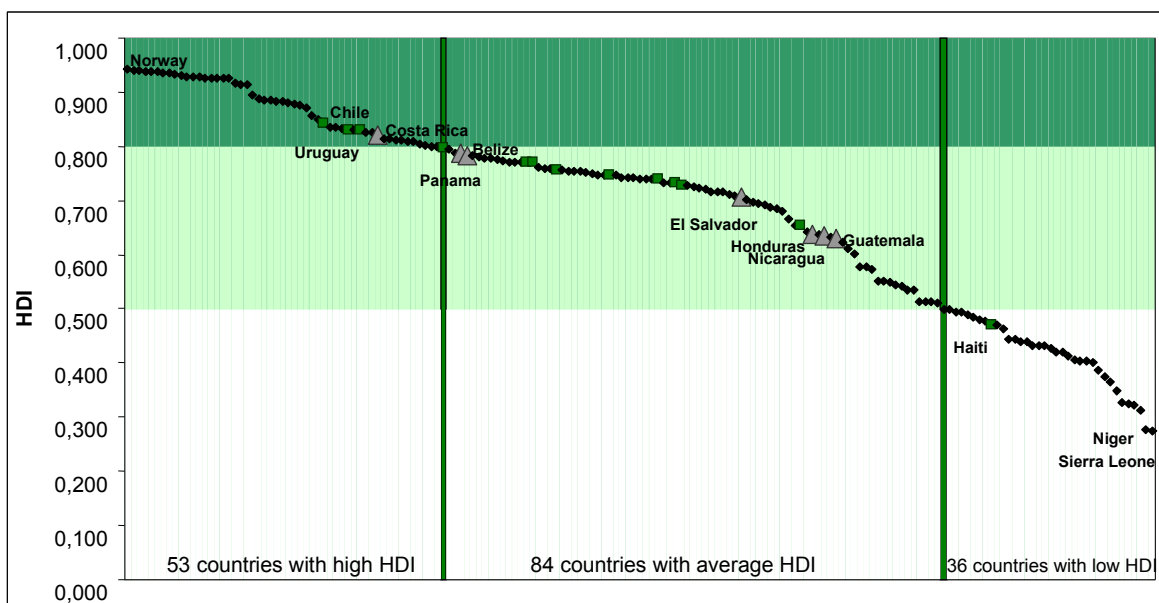
Central America in the *World Human Development Report*

Human development is a process that expands opportunities for individuals, the most important of which are related to having a long and healthy life, having access to education, and enjoying a decent standard of living (UNDP, 1990). Taking this into account, and since first measuring it in 1990, the UNDP has been calculating the human development index (HDI) every year, focusing on the three aforementioned conditions. The HDI estimates for the year 2000, published in the *2002 World Human Development Report*, considered 173 countries: Norway ranked highest, with 0.942, and Sierra Leone ranked lowest (0.275).

With the exception of Costa Rica, which ranked in the group of countries with a high level of human development, the Central American countries are in the middle range of the HDI (Figure 6). As compared with the countries of Latin America, the Central American countries divide into two groups: those with high human development (Costa Rica, Panama and Belize) and those with average HDI (Honduras, Nicaragua and Guatemala). Only Haiti placed lower than the latter group.

Figure 6

Central America: Rank by human development index in the *2002 World Human Development Report*

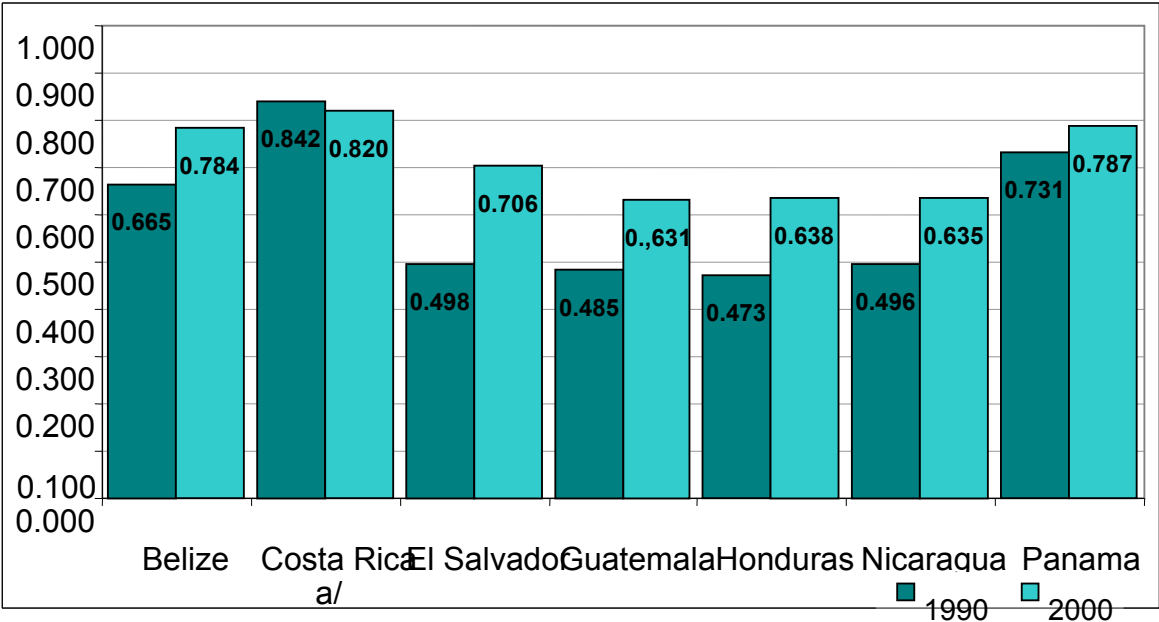


Source: UNDP, 2002

While between 1990 and 2000, human development levels improved in Central America, this did not result, in all cases, in improvements in the relative position of the countries vis-à-vis the group of countries (Figure 7). Only Costa Rica and Panama slightly improved their position relative to the full set of countries evaluated. In contrast, the rest of the countries of the region lost ground. This is because other countries advanced more rapidly than the Central American countries, and because new countries with better human development indexes were included.

Between 1990 and 2002, improvements were registered in the indicators used to calculate HDI in the region (life expectancy at birth, illiteracy and income) (Table 6).

Figure 7
 Central America: Human development index according to the *World Human Development Report*. 1990, 2000



a/ Costa Rica's HDI value was lower in 2000 because of methodological changes by the World Bank in the PPP figures. These were later corrected (State of the Nation Project, 1999).

Source: UNDP, 1992 and 2002

Table 6
 Central America: Changes in the components of the human development index^{a/}.
 1990, 2000

Indicator	Belize	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Life expectancy at birth (years) (UNDP, 1992)	70	75	64	63	65	65	72
Life expectancy at birth (years) (UNDP, 2002)	74	76	70	65	66	68	74
Literacy rate (UNDP, 1992)	95	93	73	55	73	81	88
Literacy rate (UNDP, 2002)	93	96	79	69	75	^{b/}	92
Average years of schooling (UNDP, 1992)	5	6	4	4	4	4	7
Gross school enrollment rate (UNDP, 2002)	73	69	58	46	60	64	72
Per capita GDP (\$PPP) (UNDP, 1992)	2,662	4,413	1,897	2,531	1,504	1,463	3,231
Per capita GDP (\$PPP) (UNDP, 2002)	5,606	8,650	3,963	3,821	2,453	2,366	6,000

^{a/} Between 1992 and 2002 the methodology was changed: the variable "average years of schooling" was replaced by "gross school enrollment rate."

^{b/} For the 2002 Human Development Report, the UNDP estimated Nicaragua's literacy rate. This estimate (67) differs from the estimate for 2000 (77) published in Nicaragua's *2002 Human Development Report*.

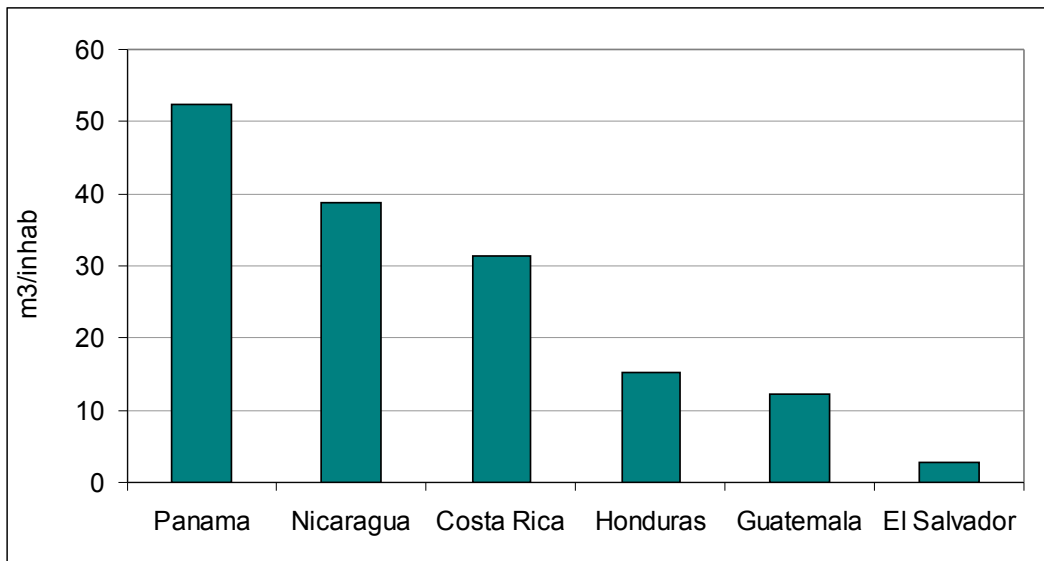
Source: UNDP, 1992 and 2002.

The threats to the natural heritage continue unabated, but unprecedented efforts have been made to prevent risks

The exceptionally rich natural heritage of this region continues to be ravaged by the development styles that prevailed in the last decades. These have left an environmental scar, caused by the accrued impact of deforestation, soil erosion, river sedimentation, and the growing contamination of underground and surface waters, which stem from the rapid consumption of natural resources and energy, disorderly urbanization, and poor solid and liquid waste management. New vulnerabilities and threats are produced by accelerated urban growth in the countries of the region. There is also the scar on the human population, with the repeated loss of human lives, public property and infrastructure due to disasters, a matter documented in detail in the first regional report. Both of these scars are evidence of Central America's vulnerability and the continuing destruction of its natural heritage. In some areas, especially where natural resources are less plentiful, destruction of the natural resource base may have critical effects as it affects already scarce resources such as water (Figure 8).

Figure 8

Central America: Per capita water availability. 2000



Source: World Bank, 2000

Nonetheless, over the last five years, especially in the wake of Hurricane Mitch, greater efforts have been made to coordinate regional disaster prevention and mitigation initiatives, and risk management. Important endeavors have been undertaken to integrate environmental policies and regulations at the regional level, and new institutions and projects were created to manage information on biodiversity, forests, water resources, and risk. Many of these actions were carried out under the pressure of emergency situations and did not include efforts to create the requisite conditions for environmental and social sustainability, nor have significant changes yet been seen in the status of natural resources. In brief, while the discourse on risk management and environmental policies has changed rapidly, practices and institutions have done so at a slower pace. A key requisite of this equation is the development of updated and consistent information on the state of natural resources, the existing risks, and the alternatives available. This challenge has yet to be met.

Much still needs to be done to strengthen democracy in the region

The thrust to strengthen democracy in Central America has lost its momentum. No new and significant progress has been noted in most political systems (electoral organization; protection of citizens' rights and freedoms) as compared to the progress made by the end of the 20th century. In fact, in certain cases some backsliding has been noted. Electoral systems continue to be characterized by imbalances that affect competition, including the regulations governing political financing. In the process of demilitarization, legal and institutional reforms were not finished off with mechanisms to ensure democratic control of the armies. And with regard to the protection of freedoms, especially the freedom of expression, the

media is still subjected to certain legal constraints and pressures and, in some cases, the media are unduly politicized. This is an obstacle for the transition to a more favorable setting.

The region has entered a new phase of its democratization process. During the 1980s and 1990s, much and rapid progress was in evidence and authoritarianism was clearly being dismantled. At present the progress being made to strengthen democracy is sporadic and slow, although it is true that the tasks at hand are more complex. The performance of Central America's democracies today is based on the achievements of the past, but also on the unresolved legacies of former authoritarian regimes. After the brief but firm first thrust of democratization in the region, the emerging political systems still show certain shortcomings, albeit with differences among the countries. To improve the quality of democracy, it will be necessary to meet the challenge of making access to political power more equitable. In other words, democratization of the political systems of Central America is still an unfinished task.

Moreover, the progress made to date in this area has not included a similar effort to establish the democratic rule of law. This will require specific commitments and efforts that are far more complex than the establishment of regular, free and fair elections. It will involve dismantling State organizational structures inherited from authoritarian regimes and establishing institutions that recognize, promote and protect the rights of citizens to exercise control over their rulers during non-electoral periods, that is, most of the time. In almost all the countries, spending on key democratic institutions continues to be extremely low and in some cases it is lower than military spending (Table 7).

Table 7

Central America: Selected political indicators

Country	Per capita spending in current dollars			
	Military spending ^{a/}	State subsidies for elections ^{b/}	Judiciary branch ^{c/}	Comptroller or General Accounting Office ^{d/}
	2000	<i>Circa</i> 2000	2001	2001
Costa Rica	NA	2.9	21.8	4.0
El Salvador	14.8	1.2	16.6	2.1
Guatemala	15.1	0.1	5.9	1.0
Honduras	9.7 ^{f/}	0.2	4.4	0.8
Nicaragua	4.9	2.1	5.3	0.9
Panama	NA	2.1	10.5	ND

^{a/} Source: Stockholm International Peace Research Institute (SIPRI), 2001. 1998 dollars.

^{b/} The estimated population for 2000 is taken as the reference, although the actual election year may not be 2000, but close to it. Source: Casas, 2002.

^{c/} Source: Costa Rica: Planning Department of the Judiciary Branch; El Salvador and Nicaragua: their respective Treasury Departments; Guatemala: Judiciary Agency, 2002; Honduras: Budget Office, Supreme Court of Justice; Panama: Office of the Comptroller of the Republic.

^{d/} Source: Costa Rica: Office of the Comptroller of the Republic; El Salvador: General Accounting Office; Guatemala: General Accounting Office; Honduras: General Accounting Office; Nicaragua and Panama: Office of the Comptroller of the Republic.

^{e/} This information is for 1999.

This report recognizes the difficulties faced by the new democracies of the region, which in a short period of time have had not only to dismantle authoritarian regimes and establish the rule of law, but simultaneously make the transition from war to peace. This further complicates the situation, and we must bear in mind that the oldest democracies of the world did not start out with robust institutions and regulations for the administration of justice and accountability in public management. These regulations and institutions developed over time, in some cases centuries, until they attained their current prestige. This comment should not be considered an excuse but rather as a realistic appeal to identify specific priorities for action to create, gradually but firmly, democratic ways of doing things in the Central American countries.

The region is beginning to acknowledge its multicultural nature

Although Central America has always been multicultural (Map 2), it is only recently that this fact has been recognized, although to different degrees by the different countries and, within them, by different sectors. Based on the categories used as indicators to measure the degree of multicultural recognition, greater progress has been made in the areas of educational and cultural policy, and of policies to reduce extreme poverty. Significant headway has also been made in the constitutional frameworks: five of the seven Central American countries recognize, to some extent, that their societies are multi-ethnic and multicultural. Indigenous organizations and organizations of people of African descent have strengthened their participation in political and administrative action. Moreover, in the last twenty years of the 20th century and the first years of the 21st century some population groups, primarily indigenous and those of African descent, have become social and political stakeholders claiming the right to call themselves “peoples,” nations or ethnic communities with economic, social, cultural and political rights, something unheard of until twenty or thirty years ago.

Map 2

Multicultural Central America, circa 2000



Source: Pérez-Brignoli, 2003

The original and principal problem continues to be the current structure and performance of the Central American nation states: they are mono-ethnic (Spanish-speaking and *mestizo*¹) and have an excluding concept of citizenship and of the distribution of goods and services. The administrative structure and resources of the *mestizo* nation state still identify with a single ethnic group, its culture and values. Further strengthening of democracy in the countries of the region will depend, in part, on what social, political, and cultural changes they make to recognize the multicultural nature of their societies.

¹ Of mixed descent.

Final remarks

The second report documents the main areas of progress and the principal shortcomings noted in Central America in the area of human development, with the purpose of identifying key challenges. It underscores the need to acknowledge the complexity and diversity of the region so as to be able to engage in effective regional action that takes into account the needs and aspirations of all Central Americans. It also indicates that, in order to be able to properly understand these human development challenges, the region must be viewed within the broader context of its relations with other countries and other parts of the world.

This report monitors the commitments agreed to by the governments in various international forums at a time when Central America is faced by complex dilemmas. The coming years will be decisive for the region as it moves further away from the phantom of civil war and authoritarianism but shows signs of economic instability, environmental and social fragility, and persistent legacies of impunity and lack of transparency in public management. A worsening of these problems could lead to a new round of instability. This must be avoided by all means, and we must appeal to the spirit of self-determination and historical awareness summarized at Esquipulas II with the statement “Never again!”

The challenges of the second report

The second report examines in depth Central America’s performance with respect to a selected group of human development challenges. It highlights progress, setbacks and threats for each challenge that characterize recent efforts to bring about integration in the region. These challenges were dealt with in seven chapters.

The challenge of social equity (Chapter 2)

This chapter discusses progress made in the region in the area of social equity. It begins by analyzing the magnitude and characteristics of poverty, and follows with a discussion of its relationship to inequalities in income distribution and economic growth, and examines certain important aspects for overcoming poverty. Next, social services and social investment are addressed, and the chapter concludes with a detailed assessment of the health situation in Central America, with special emphasis on emerging diseases, sector reform, and initiatives carried out within the framework of regional integration.

Key points

- In the past ten years, social inequality sharpened in two countries of the region, did not change in three others, and improved in only one.

- Almost 20 million Central Americans live in poverty; more than half do not have access to health services.
- In the last decade, although the poverty level fell 9 percentage points, in 2001 there were 2 million more poor people than in 1990.
- One out of every four individuals lives in extreme poverty, receiving insufficient income to cover their basic food requirements; three out of every four Central Americans in this situation live in the countryside.
- Education is inversely related to the incidence of poverty. Close to half the Central Americans living in poverty are children and youths up to the age of 14. School attendance declines proportionally to household income.
- One out of every four persons over the age of 15 is illiterate. Illiteracy is higher among women, in rural areas, and among indigenous people.

Main conclusion

Despite marked progress in the areas of health, education, and poverty incidence, social inequality levels are still high and half the Central American population is poor. The average level of schooling is slightly higher than basic education, and serious health problems continue to abound. Greater efforts will be required to make real headway in improving the well-being of the population, and reduce the absolute number of poor people and of those who cannot satisfy their basic needs. Sharp inequalities and low levels of social investment constitute important obstacles in this area.

The challenge of economic development (Chapter 3)

This chapter examines the components of economic growth and the existence or absence of linkages that foster human development. It begins with an analysis of economic growth and changes in the structure of production, leading to the conclusion that a new style of development has emerged in the region over the last decade. Next, an assessment is made of the impact of this style of development on opportunities for the population, the resulting production linkages, their impact on the job market, and new ways of participating in the international market. The chapter focuses on two areas of contrasting performance: the duty-free zones, which are the most dynamic sector of the Central American economies, and the rural milieu, characterized by backward production systems and increasing marginalization.

Key points

- Macroeconomic stability is the main economic achievement of the region.

- Change is taking place in the production apparatus, characterized by export promotion, strengthening of draw-back industry and duty-free areas, growth of tourism, inflow of external resources from direct investments and remittances, development of non-traditional agricultural activities, and business takeovers and mergers.
- With the exception of Nicaragua, in all the countries agriculture's percentage share has declined, government services have been reduced, and export activities have increased.
- Traditional export activity has deteriorated substantially, reflected in the coffee crisis in some countries. Moreover, activities targeting the domestic market, based on small- and medium-scale local production, have stagnated.

Main conclusion

Recent economic growth has been modest, disjointed, volatile as a whole, and of very diverse composition. It grew at a slower pace than in the early 1990s and in most of the pre-civil war period. Economic growth is concentrated in duty-free zones and in other non-traditional exports, and its linkages with production activities that generate most of the jobs in the region are weak.

The challenge of regional action (Chapter 4)

This chapter examines the principal integration processes under way in Central America and the institutional framework being developed for the region. It addresses the new focus of integration, which is marked by the negotiations currently in force, especially the free trade agreement (FTA) between Central America and the United States.

Key points

- The new setting that frames regional integration is strongly influenced by four important international commitments: the FTA with the United States, the Puebla Panama Plan, the FTAA, and relations with the WTO.
- The course of Central American trade policy changed with the decision to jointly negotiate the FTA with the United States.
- Concrete progress has been made with regard to the customs union, one of the priority topics on the common economic agenda. In 2003, most goods moved freely within the region, and a large body of common regulations is in effect.

- Of major importance was the adoption of a trade dispute settlement mechanism, which assigns the role of system administrator to the Secretariat for Central American Economic Integration (SIECA).

Main conclusion

At present, integration can be defined as open regionalism marked by the thrust of trade negotiations. The social and environmental issues of the ALIDES agenda have bypassed in favor of an economic agenda focusing on infrastructure investment and trade liberalization.

The challenge of environmental management (Chapter 5)

This chapter carefully documents the vulnerability and impacts of natural resources management on human development. It begins by examining the threats to the rich natural heritage of Central America, then addresses current urban growth in all the countries of the region, and ends up by discussing the result of recent disasters and efforts to establish common management policies to reduce vulnerability in the region.

Key points

- The natural heritage continues to be under attack.
- Broad segments of the population live under conditions of risk.
- In Central America, the institutional framework for environment is stronger than it was ten years ago.
- A positive trend is the broad range of national policies and municipal and local management initiatives being implemented to improve the living conditions of the population, strengthen environmental conservation, foster citizen participation, and reduce social risk and vulnerability.
- For the first time, regional efforts have been undertaken to coordinate and harmonize policy on environmental, urban, and risk management matters.

Main conclusion

In recent years, Central America has taken a series of important actions in the area of risk management, with the aim of strengthening regional coordination for disaster prevention and mitigation. Environmental policies and regulations have led to the establishment of new institutions for biodiversity, forests, water resources, and risk reduction. However, the sustainability of these initiatives is still uncertain. Accordingly, the governments' commitment to strengthen the institutional

framework, implement policies, and enforce existing regulations will be of the utmost importance.

The challenge of democratizing the political systems (Chapter 6)

This chapter assesses the progress, weaknesses, and risks of democratization in the political systems of Central America. It begins by examining civilian-military relations and goes on to examine in depth the electoral systems, the party systems, and the financing of political activity. Finally, it addresses protection of the right to freedom of information and, specifically, freedom of the press.

Key points

- Legal and institutional reforms that brought the armed forces under civilian authority, reduced military spending, and downsized military forces were not complemented by mechanisms to ensure democratic control over the armed forces.
- Serious imbalances still exist in electoral competition, due to over- and under-representation of provinces or departments, and partisan involvement in the highest electoral bodies.
- Major flaws exist in the regulation and oversight of political financing. Television stations are important political donors.
- Legal constraints and pressures continue to constrain the media, which are aggravated in some cases by undue politicization.
- Commercial television and the printed press are dominated by monopolies or oligopolies; this is not the case with radio.

Main conclusion

New and meaningful progress has not been seen since the 1990s in most of the political systems; in some cases, setbacks have even been noted. The systems contain areas where the quality of democracy is low, although this differs among the countries.

The challenge of democratizing justice and strengthening accountability (Chapter 7)

This chapter examines efforts to strengthen democracy beyond the political system. It presents an innovative study that compares the administration of justice systems, legal and institutional protection of the right to petition, and accountability.

Key points

- Although the constitutional and legal frameworks have been substantially updated, most administration of justice systems in the region are underfunded and are not guaranteed full independence.
- Comparable information suggests that the problems of access to justice, right to legal defense, and prompt and fair justice continue to exist.
- Substantial gaps exist in most constitutions and national legislation regarding recognition and protection of the right to petition and to accountability.
- The specialized bodies responsible for the control of public administration face serious difficulties. In several countries, the general accounting offices or comptrollerships are underfunded, have weak authority, and are subjected to attempts to co-opt them politically. Despite these problems, the Offices of the Ombudspersons have performed positively. Anti-corruption units are relatively new and have serious technical shortcomings.

Main conclusion

To date, the democratization of political systems has not been supplemented by similar progress to strengthen the democratic rule of law. Advances in this area will require efforts and commitments that are more complex than the development of mechanisms to ensure electoral democracy and regular free elections.

The challenge of multiculturality (Chapter 8)

Recognizing Central America as a multicultural region is the central theme of this chapter. It begins with a map depicting the many cultural elements making up the region, based on the most recent information available. Next, it discusses recent progress to acknowledge multiculturality at the constitutional and legal levels, and concludes with a discussion of the new stakeholders of multiculturality: social movements and their demands.

Key points

- For the first time, complete information exists on the multicultural nature of Central America, both in numbers and geographically.
- Five of the seven countries of the region acknowledge, to some degree, that their societies are multi-ethnic and multicultural.
- Central American ethnic groups have become social and political players in their societies, claiming the right to call themselves “peoples,” nations, or

ethnic communities with economic, social, cultural, and political rights not recognized twenty years ago.

Main conclusion

Although Central America has always been multicultural, it is only in the last ten years that this fact has been recognized at the constitutional and legal levels. The progress made, however, is meager and as yet insufficient to compensate for social inequalities and to respond to the demands of the various communities and their organizations.

Human development indicators (Chapter 9)

The last chapter of the report covers the countries' measurement of their human development, using the human development index, the gender development index, and the gender empowerment index. It provides an "x-ray" of the region, based on the indicators agreed upon for monitoring the Millennium Development Goals.

¹ In order to be able to provide an overview of the region in various areas, this synopsis often recurs to the use of average national figures. While this makes it easier to graphically present the outstanding characteristics of the current situation, it does tend to oversimplify matters. For example, it is impossible to show in-depth the diversity and fractures within the countries, which are mentioned in several sections. Some of the maps included herein show that the countries are not, in fact, homogeneous units. Readers interested in a discussion “above” and “below” national borders are referred to the respective chapters.

Carlos Cortés, with support from Miguel Gutiérrez, Arodys Robles, Susan Rodríguez, Isabel Román, and Jorge Vargas, drafted the first version of the Synopsis. The Advisory Board discussed and approved the chapter at a meeting held in San Jose on June 23, 2003.
