

S U M M A R Y

CENTRAL AMERICA STATE OF THE REGION ON SUSTAINABLE HUMAN DEVELOPMENT 2010

A REPORT FROM CENTRAL AMERICA
TO CENTRAL AMERICA

STATE OF THE NATION – REGION PROGRAM

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+ Mr. Raul Leis, a distinguished Central American educator.

Since the first State of the Region Report, he demonstrated unwavering patriotism and commitment through his support and valuable advice. We regret his untimely departure.

Acronyms

AECID	Spanish Agency for International Development Cooperation
ALIDES	Central American Alliance for Sustainable Development
ASIES	Association for Social Research and Studies
BCIE	Central American Bank for Economic Integration
CA4	Guatemala, El Salvador, Honduras and Nicaragua
CARSI	Central American Regional Security Initiative
CASAC	Central American Small Arms Control Program
CCT	Conditional Cash Transfers
CONARE	National Council of University Chancellors
COP16	United Nations Framework Convention on Climate Change
DANIDA	Danish International Development Agency
EAP	Economically Active Population
ECLAC	Economic Commission for Latin America and the Caribbean
FAO	United Nations Food and Agriculture Organization
FESPAD	Studies for Application of Law Foundation
FLACSO	Latin American Faculty of Social Sciences
GDP	Gross Domestic Product
GHG	Global Greenhouse Gases
HDI	Human Development Index
IARNA	Institute of Agriculture, Natural Resources and Environment
ICEFI	Central American Institute for Fiscal Studies
IFAD	International Fund for Agricultural Development
ITCR	Technological Institute of Costa Rica
IUCN	International Union for the Conservation of Nature
MEP	Ministry of Public Education of Costa Rica
OSPESCA	Central American Organization of the Fisheries and Aquaculture Sector
PAHO-WHO	Pan American Health Organization
PARLACEN	Central American Parliament
RICAM	International Network of Mesoamerican Highways
RUTA	Regional Unit for Technical Assistance
SICA	Central American Integration System
SIECA	Central American Economic System
TIM	International Transit of Goods
UCR	University of Costa Rica
UNA	National University
UNDP	United Nations Development Programme
UNED	Distance Education University
UNPAN	United Nations Public Administration Network

Foreword

The *Fourth State of the Region Report* contributes new academic research to the knowledge base and to discussions on the present situation and challenges of sustainable human development in Central America. This publication is the result of nearly two years of collective effort and collaboration by many and diverse sectors from throughout the region. More than five hundred people participated in defining the approach, drawing up the agenda, conducting the research, providing information, engaging in consultations, discussing the progress of the work, and critically reviewing and reading the final drafts. This participatory strategy ensures that this initiative is an effort from and for Central America.

In addition to providing Central American societies with a tool for rediscovering their own context, the Report seeks to contribute to the public debate and to the design of regional policies and actions by identifying and examining the challenges and dilemmas currently facing Central America and its people. By reviewing, systematizing, and analyzing information, and conducting research on the region's recent performance, this Report offers a selective look at a set of important topics for sustainable human development in the isthmus.

In an era of deep and rapid changes, information is a powerful tool for understanding existing conditions, assessing alternatives, and making decisions. Information analysis also

serves as a valuable means to effectively involve different social stakeholders in efforts to define future courses of action and to formulate proposals.

An examination of Central America's recent performance reveals a complex panorama, in which the erosion of social, economic and political achievements converges with new risks and challenges. This notwithstanding, the region has managed to mitigate the situation: neither the individual countries, nor the region as a whole, have revisited the scenarios of political and economic crisis that characterized the 1980s. In addition to describing these circumstances, this Report argues that regional integration and joint action offer Central America a valuable alternative for expanding its room for maneuver and for addressing new and old challenges.

The *State of the Region Report* is an academic invitation to social and political dialogue. The National Council of University Chancellors (CONARE) of Costa Rica's public universities regards this Report as a valuable opportunity to strengthen its ties and exchanges with the rest of Central America. For Danish cooperation, this initiative provides large groups of social actors a frame of reference for defining support strategies and projects in the region. Both institutions are grateful for the support of the other sponsors and, in presenting this Report, urge national, regional, and international organizations and institutions to contribute to consolidating the

State of the Region Reports as a system for monitoring human development in Central America and for promoting agreements that will contribute to the well-being of its inhabitants.



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Preface

An instrument for analysis

The *Fourth State of the Region Report* covers the three years that have elapsed since the previous edition, published in 2008. Support from the Danish International Development Agency (DANIDA) made it possible to link the preparation and dissemination of two consecutive reports, which gave continuity to the research groups and to the team responsible for managing the process.

The linking of two regional reports (2008 and 2011) offers major advantages and has also influenced certain aspects of this edition. The main factor is the period under analysis, a particularly challenging time, as noted in Chapter 1. This Report appears at a time when we must assess our development as a region, based on well-grounded information. Despite the difficult circumstances, it is both necessary and possible to build scenarios that can forestall the catastrophic predictions for our region. This Fourth Report dedicates its best efforts to that goal, seeking innovative answers to the question: What conditions are needed in Central America to achieve inclusive and lasting national agreements or pacts that will strengthen the States' capacities to promote development and, at the same time, enhance joint regional action?

The Fourth Report gives continuity

to the tradition of being an instrument **from** and **for** Central America, one that analyzes and monitors the main challenges facing sustainable human development. It offers an in-depth look at a set of issues that are key to understanding recent developments in the region. It is not a "snapshot" of the current situation but rather a selective documentation of processes that identify and chronicle efforts undertaken by various social, economic, political, and institutional actors in the recent past and the imprint they have made on development in the isthmus.

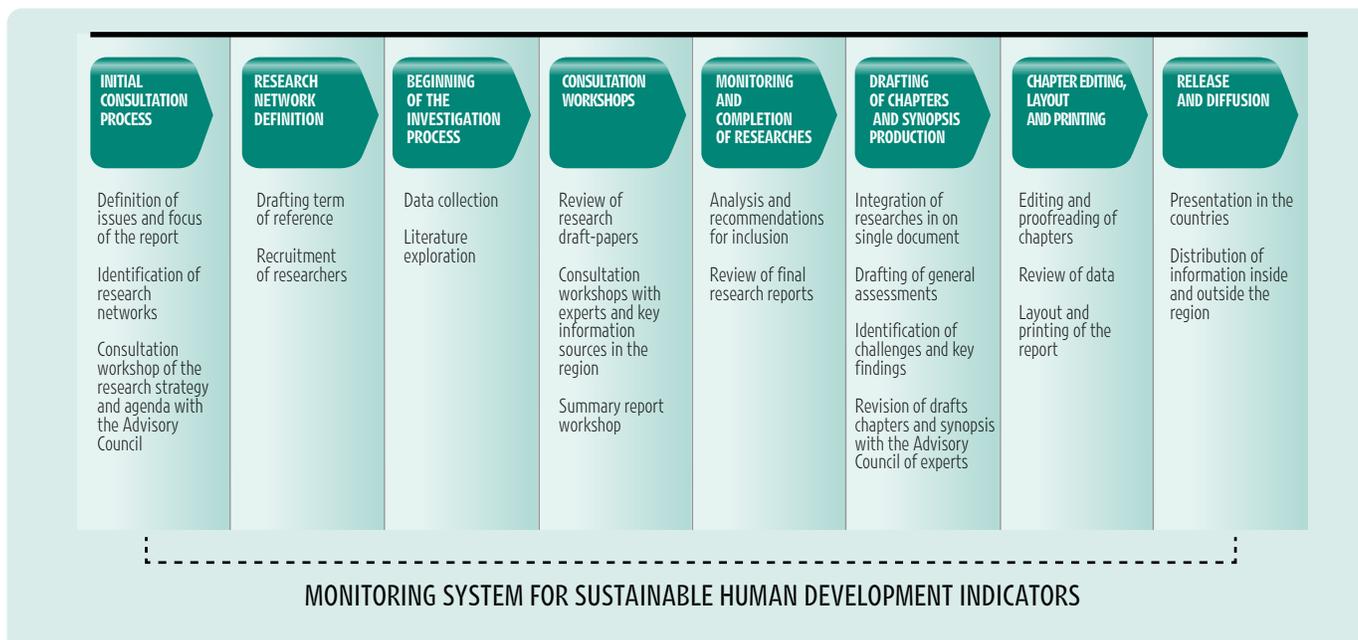
A report of and for the region

This *State of the Region Report* focuses on the living conditions of the people who live in the isthmus, recognizing their multicultural diversity and committed to helping them fulfill their aspirations. It is an account of our current situation, the situation of the inhabitants of a Central America that has so many different faces –including several millions living far away but not totally absent– young faces and also those marked by time, male and female, a minority of light-skinned faces and a great majority of *mestizos* (mixed race), vibrant with color. We cannot introduce them all, in all their different circumstances, but we have attempted to get to know those faces, their aspirations, what they

do, and what difficulties they face, with profound respect, balance and honesty.

In presenting this edition and evaluating our region's performance in relation to sustainable human development, the coordinating team wishes to acknowledge the efforts of the many researchers and organizations that worked to make this document a rigorous and useful tool for the citizens of the region. We hope this Report will serve as a navigational instrument that can help us recognize our real circumstances, identify challenges, design roadmaps, and build alternatives for strengthening sustainable human development in Central America. To this end, it has articulated analysis and knowledge with informed deliberation, using robust participatory mechanisms and practices. Informed participation was an integral part of the process to prepare the Report, beginning with the identification of relevant issues by means of a broad consultation process. This was followed by the establishment of an Advisory Committee, and by numerous research studies conducted and spearheaded by an extensive academic network, whose findings were presented at workshops for critical appraisal. The process culminated with the validation of the text by critical readers representing various sectors (diagram 0.1).

DIAGRAM O.1

Process to prepare the Fourth State of the Region Report

BOX O.1

What is Central America?

When this Report refers to Central America, it generally includes six countries: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Where information was available, Belize was also considered. This definition of Central America is shaped primarily by the geographical location of the seven countries on the strip of land that lies between the Pacific Ocean and the Caribbean Sea, and between South America and North America.

The First Report on the State of the Region devoted an entire chapter to exploring the concept of Central America. From a cultural perspective, the isthmus is part of Mesoamerica, which includes certain parts of Mexico but completely excludes central and northern Costa Rica and Panama. From an economic perspective, Panama and Belize, and sometimes Honduras, bear no resemblance to the rest of the region. From an institutional and political standpoint, certain agencies of SICA also include the Dominican Republic.

In addition to these criteria, the 1999 edition of the Report documented several visions of what Central America means to its inhabitants: the great motherland (the vision of Morazán), the notion of the region as a neighborhood but not a common home (the Cartaga vision), and Central Americans as the people of the Pacific (the Caribbean vision). These visions, among others, are different ways of envisaging the region and each has implications for the actions of social and political actors throughout the isthmus. The challenge therefore was (and continues to be today) to recognize and embrace our diversity. However, pluralism does not simply mean knowing that "others" have different strategies; it also means that we must engage in productive dialogue to find solutions that will ensure that Central America is, regardless of perspective, a home to everyone. .

Mandate of the State of the Region Report

The purpose of this Report is to contribute to efforts to promote sustainable human development by providing timely, truthful, comprehensive, and reliable information on Central America's performance, and to strengthen the capacities of civil society organizations and the States for dialogue and negotiation. In addition, the preparation, publication, and dissemination of this document can be viewed as a social and technical process to support the interests, aspirations and expectations of the citizens of the region. It is not –nor could it be– an institutional or official governmental report; it neither criticizes government action nor defends it.

This initiative also seeks to develop the concept of sustainable human development, and construct a system for measuring and appraising regional performance in that area, with ample institutional backing, legitimacy and social participation. This Report follows up on the topics addressed in previous reports, includes new topics,

and introduces, for the first time, a forward-looking and proactive section entitled “Strategic Dilemmas.” On this occasion, and in accordance with the mandate of the Advisory Council, that section focuses on the political agreements that are needed to tackle social exclusion in the region.

In synthesis, the *Report on the State of the Region* is envisaged as an instrument that will:

- promote informed reflection on the present and future of the region,
- promote effective processes for petitioning and accountability,
- identify possible actions for expanding opportunities for and the capabilities of the population, and
- provide a technical foundation for social and political dialogue to promote sustainable human development in the region.

Why a regional report?

The absence of systems for monitoring the response of governments and societies to regional challenges is one of the most difficult obstacles that must be overcome to consolidate Central America as a region of peace, freedom, democracy, and development, as envisaged in the Tegucigalpa Protocol and reaffirmed by the Central American Alliance for Sustainable Development (ALIDES). This void affects the quality of public decision-making, especially relative to integration, and also hinders dialogue and participation in matters of public interest since a lack of information fuels prejudices that override informed opinion. It also weakens citizens’ capacities to demand recognition of their rights and fulfillment of social and political responsibilities.

In a region where countries have inherited an authoritarian legacy, the challenge exists of bringing greater transparency to the management of development, making it imperative to expand the boundaries of information available to citizens. Greater trans-

parency and wider availability of relevant information for the design of development policies will help create an institutional framework that is more sensitive to the population’s expectations and needs. When there is a lack of transparency, many people lose out and very few –if any– win. Excluded social groups, whose needs are not served, lose out; so do the governments, since they lack instruments for measuring their performance and therefore cannot determine how to mitigate or modify negative impacts, even when they are willing to do so.

Strengthening transparency will provide the people of Central America with the tools they need to gain a clearer understanding of the situation of their region and to act in accordance with their possibilities, opportunities, and aspirations. Therefore, the ideal monitoring system would be based on a region-wide agenda of priorities that would serve as the basis for dialogue and consensus-building among the different social and political actors of the isthmus.

The *First State of the Region Report* (1999) acknowledged that the Human Development Index (HDI) published annually by UNDP was a valuable tool for determining countries’ relative development. That opinion remains unchanged. However, as noted on that occasion, in order to be able to assess the region’s performance, the internationally comparable indicators available through the HDI can and should be supplemented by a set of indicators and analyses that focus on the aspirations, expectations, and interests to which our region’s societies attach special importance.

The Central American societies have made significant progress in studying their national circumstances and conditions. This Report’s bibliography attests to the growing volume of high-level research conducted by academic centers, universities, and individuals throughout the isthmus. The value added of the *State of the Region Report* is that it analyzes issues that affect the whole of Central America without regard to borders and nationalities.

Each chapter was designed to offer a Central American perspective on the challenges. Country-by-country comparisons are made only when it is necessary to emphasize a particular point, but in most cases the focus is on regional findings and regional trends. While this comes at the price of sacrificing national specificities, the advantage is that it contributes to an understanding of the whole.

As mentioned earlier, this edition examines a strategic dilemma, to wit, the political accords needed to combat the social exclusion that constrains Central America’s quest for development. The purpose of the Report’s coverage of this issue is to promote discussion and bring influence to bear on the public policies and regional actions taken to address problems that require urgent and decisive solutions in the short term, so as to bring about a different and desirable outcome for the isthmus as a whole in the medium term. The Report’s analysis combines an “insider’s view” (focusing on the impact of certain development trends inside the countries’) with an “outsider’s view” (where Central America is viewed from the international standpoint in order to examine opportunities and threats facing the isthmus). The Report describes the current situation, explores possible future scenarios if certain trends continue, and proposes alternative courses of action in order to shed light on the paths that may be followed in the region to address the dilemma.

Consolidation and renewal

As with the previous editions, preparation of this Fourth Report followed a decentralized research strategy supported by all the Central American nations. To produce this document – which took nearly twenty-four months from the start of the consultation process on the various topics covered until its publication– 127 information sources were consulted, over 760 bibliographic references were used, some 63 researchers of different nationalities and offering different approaches collaborated, and almost 300 people

participated in the different consultations. As mentioned earlier, since there was no recess between the third and fourth reports it was unnecessary to rebuild the research networks or the core coordinating team. The outcome of this dynamic endeavor is a creative balance of different viewpoints, a report that is not the work of a single country or international organization. Nor is it a compilation of national reports prepared in the countries for the countries, or a report prepared by a small group of experts holding a single perspective.

The *First State of the Region Report* was introduced almost ten years ago in the context of the “Human Development Reports for Democratic Consolidation and Peace in Central America,” an initiative of the European Union and UNDP, which also supported the preparation of national reports in each country of the region. In 2003 a second report was published, with the backing of UNDP and the Royal Embassy of The Netherlands. The third and the fourth (present) editions were prepared with majority support from the Danish cooperation agency, DANIDA, through its Regional Transparency and Justice Program, and with the support of the group of sponsors indicated in Box 0.2.

This Report was prepared within the institutional framework of the State of the Nation/State of the Region Program, an initiative promoted in Costa Rica by its state universities [University of Costa Rica (UCR), National Autonomous University (UNA), Technological Institute of Costa Rica (ITCR), and the Distance Education University (UNED)], through the National Council of University Chancellors (CONARE), in consortium with the Office of the Ombudsman of Costa Rica.

The technical team of the State of the Nation/State of the Region Program is headquartered in San Jose, Costa Rica and is made up of a multidisciplinary group of professionals with expertise in Central American research initiatives. Its objectives include coordinating research capabilities throughout the region and ensuring that consultations are representative of the many social and political actors active in the isthmus.

BOX 0.2

Sponsors and network of Collaborators of the *Fourth State of the Region Report*

The main sponsor of this initiative is the Government of the Kingdom of Denmark, through its international cooperation agency, DANIDA, and its program “Transparency and Justice, Supporting Democracy and Human Rights in Central America.” The program’s core objective is “to continue strengthening democracy and citizen participation, promoted since 1999 by the Reports on the State of the Region in Central America, by providing the region’s inhabitants with up-to-date, pertinent, truthful, and objective information for the promotion of sustainable human development.”

The Report also received valuable support from other institutions that recognize it as a mechanism that enriches and strengthens their regional endeavors. Thirteen institutions contributed to the study of specific topics with the active involvement of researchers and academic centers throughout the isthmus:

- In addition to DANIDA, the Spanish Agency for International Development Cooperation (AECID) and the National Council of University Chancellors (CONARE) of Costa Rica sponsored overall preparation of the Report.

- The Regional Unit for Technical Assistance (RUTA) of the World Bank provided funding for research on rural poverty.

- The Pan American Health Organization (PAHO-WHO) provided funding and technical advice for the preparation of and consultations on the chapter on health and social security.

- The International Union for the Conservation of Nature (IUCN) provided resources and technical assistance for preparing and conducting consultations on various environmental topics.

- Transparency International (headquartered in Berlin) participated in preparing the chapter on corruption, with additional funding from DANIDA’s Transparency and Justice Program.

The research carried out for the *State of the Region Report* was made possible thanks to matching funds provided by many research institutions, particularly for topics where their national interests converge with the regional perspective of the Report. The following research was conducted for this edition:

- Research on justice indicators: Association for Social Research and Studies (ASIES), *Fundación de Estudios para la Aplicación del Derecho* (FESPAD), *Alianza Ciudadana Pro Justicia* and the Belicana Corporation.

- Creation of databases of public institutions: the Legal Research Center of the University of Panama, ASIES, FESPAD, and the Danish Institute for Human Rights.

- Research to determine the effects of climate change on agriculture and the energy sector: the Institute of Agriculture, Natural Resources and Environment (IARNA) of Rafael Landívar University in Guatemala.

- Baseline study for the chapter on the region’s environmental panorama: Florida State University.

- The Central American Institute for Fiscal Studies (ICEFI) provided data on taxes and public spending from its forthcoming publication *Informe de la Fiscalidad en Centroamerica* [The Fiscal Situation in Central America].

- From its headquarters in Mexico, the Economic Commission for Latin America and the Caribbean (ECLAC) provided technical support for several chapters and facilitated relevant and up-to-date information.

The team coordinates the work of a broad group of research centers and consultants responsible for studies in the different countries. The research and dissemination strategy is implemented through ongoing contacts and consultation with political, social, and institutional sectors to ensure that the Report takes hold in the Central American societies.

A strategy of participatory research and discussion

The research strategy is based on the premise that a regional study is more than the sum of national reports. Underlying this approach is a different concept of region, one that views it as a framework of relationships that links societies, economies and political systems, transcending national borders. Thus, the Report is more than a compilation and comparison of national achievements: it aims to create regional value added. This was done, in practical terms, by combining four measures:

- First, the agenda was not defined *a priori* by a small group of people; rather it was constructed at the regional level through a consultation process involving 74 personal interviews and 48 questionnaires distributed by email. The purpose of the

consultation was to identify common challenges, that is, important issues that transcend the isthmus’ political and intellectual borders.

- Second, information was examined from a regional perspective. Although it was inevitable that differences would be noted between countries, this was not the only type of comparison made, nor was it the most frequent.
- Third, regional integration efforts in each thematic area –or the absence thereof– were systematically identified, providing a counterpoint to a purely national perspective. This was strengthened by a broad view of regional integration that takes into account the efforts of numerous actors.
- Finally, workshops were held throughout the isthmus to discuss the research findings in order to gather reactions and suggestions for improving the first drafts. Nine regional workshops were held, attended by a total of 174 people from all the Central American countries.

The Report’s Advisory Council was the organ *par excellence* of the participa-

tory research process. It was created prior to initiating the work and comprised 33 distinguished figures from the region. Its role was to steer the substantive aspects of the initiative, and its interventions were therefore numerous and very dynamic. The Council selected and defined the thematic areas and approaches, participated in the consultation workshops, and validated the research findings reported in the final chapters.

The efforts to prepare the report were undertaken with modesty and circumspection, using regional research capacities often constrained by limited information and meager resources. Each topic was addressed by one or more renowned professionals from the isthmus; several chapters were written under the auspices of inter-institutional agreements (Box 2) and through ad hoc research networks created for the purpose. In total, 63 researchers submitted papers on specialized topics (Table 1). In addition, joint research was carried out with the Regional Unit for Technical Assistance (RUTA) to analyze the problem of rural poverty; for that study, a team of 27 consultants was assembled (Box 0.3).

Close ties were forged with the community of experts through the process to identify topics of common inter-

TABLE 0.1

Fourth State of the Region Report: researchers, by chapter

Lead researcher	Country	Study
Chapter 2. Demographic panorama		
Arodys Robles	Costa Rica	Population growth, demographic transitions and its economic impacts
Danilo Rayo ^{a/}	Nicaragua	Migrations, excluded groups
Chapter 3. Social panorama		
Pablo Sauma ^{a/}	Costa Rica	Poverty, inequality and programs to fight poverty
Alejandro Urizar	Guatemala	Conditional transfer programs and corruption
Melina Campos	Costa Rica	Conditional transfer programs and corruption
Chapter 4. Economic panorama		
Juan Diego Trejos	Costa Rica	Labour markets
Julio Rosales ^{a/}	Costa Rica	Economic performance, external sector and taxation
Victor Godínez	Mexico	Public responses to the crisis

TABLE 0.1

Fourth State of the Region Report: researchers, by chapter

Lead researcher	Country	Study
Chapter 5. Environmental panorama		
Alex Coles y Mirella Martínez	Panama	Status and availability of natural resources, land use and pollution
Allan Lavell	Costa Rica	Risk management and vulnerability to disasters
Edmundo Vásquez	Guatemala	Policies and capacities for conservation and environmental management
Lily Caballero	Honduras	Growth of the metropolitan area of Tegucigalpa: an approach study
Sonia Baires	El Salvador	Growth of the metropolitan area of San Salvador: an approach study
Ninette Morales	Nicaragua	Growth of the metropolitan area of Managua: an approach study
Marielos Marín	El Salvador	Growth of the metropolitan area of Guatemala City: an approach study
Marcela Román	Costa Rica	Growth of the metropolitan area of San Jose: an approach study
Álvaro Uribe	Panama	Growth of the metropolitan area of Panama City: an approach study
Leonardo Merino ^{a/}	Costa Rica	Environmental panorama
Manuel Guerrero	Costa Rica	Payment for environmental services
Chapter 6. Political panorama		
Álvaro Artiga	El Salvador	Political parties and electoral organizations
Steffan Gómez ^{a/}	Costa Rica	Democratization
Jaime López	El Salvador	Fight against corruption
Claudia Sánchez	Honduras	Judicial power and the Rule of Law in Honduras
William Brenes y Juan Carlos Vanegas	Costa Rica	Sentinel sites on corruption in conditional transfer programs (CTP)
Claudia Samayoa	Guatemala	Human rights in Central America
Roberto Cajina	Nicaragua	Civilian-military relations in Central America
Unimer	El Salvador y Guatemala	Sentinel sites on corruption in conditional transfer programs (CTP)
Chapter 7. Regional integration		
Carla Morales	Costa Rica	International cooperation
Néstor Avendaño	Nicaragua	International cooperation in Managua
Milgjan Cardona	Guatemala	International cooperation in Guatemala
Mauricio Herdocia ^{a/}	Nicaragua	Regional integration
Luis Guillermo Solís ^{a/}	Costa Rica	Regional integration
Rolando Sierra	Honduras	International cooperation in Honduras
Chapter 8. The challenge of consolidating a State of and for democracy		
Alonso Ramírez ^{a/}	Costa Rica	Public institutions in Central America
Carmen Amalia Barahona Pantoja Oscar Morales Velado Orlando Elías Castillo	El Salvador	Public institutions and administration of justice in El Salvador
Maria Silvia Guillen Abraham Atilio Abrego Hasbun Orlando Elías Castillo Shatnam Peña Nancy Henríquez Yesenia Bonilla	El Salvador	Administration of justice in El Salvador
Luis Linares y Javier Brolo	Guatemala	Public institutions and administration of justice in Guatemala
Cynthia Fernández	Guatemala	Administration of justice in Guatemala
Javier López	Honduras	Public institutions in Honduras
Magaly Castillo, Gina De La Guardia, Aida Jurado y Margarita Arosemena	Panama	Administration of justice in Panama
Belquis Sáenz y Vanessa Campos	Panama	Public institutions in Panama

TABLE 0.1

→ CONTINUES

Fourth State of the Region Report: researchers, by chapter

Lead researcher	Country	Study
Shaun Finnetty	Belize	Administration of justice in Belize
Ronald Alfaro y Alonso Ramírez	Costa Rica	Institucionalidad pública en Costa Rica
Kathya Jaentschke y Virgilio Noguera	Nicaragua	Institucionalidad pública en Nicaragua
Manuel Arauz, Cristhian Altamirano, Erika Báez, Cristel Castro, Yessenia Aguilar	Nicaragua	Administración de la justicia en Nicaragua
Emilio Solana	Costa Rica	Legal statistics for Central America and administration of justice in Costa Rica
Luis Diego Obando ^{a/}	Costa Rica	Administration of justice
Ricardo Sol	Costa Rica	Citizen participation
Carlos Mendoza ^{b/}	Guatemala	States of and for democracy
Dina Fernández y Enrique Naveda	Guatemala	Reserved domains
Roberto Burgos	El Salvador	Reserved domains
Leonardo Flores	Panama	Reserved domains
Carlos Salinas	Nicaragua	Reserved domains
Chapter 9. The challenge of addressing climate change		
Lenín Corrales	Costa Rica	Potential effects of climate change in Central America and impacts on marine-coastal areas
Leonardo Merino ^{b/}	Costa Rica	National and regional policies and strategies for adaptation to and mitigation of climate change
Allan Lavell y Chris Lavell	Costa Rica	Risk and vulnerability to disasters
Chapter 10. The strategic dilemma of reducing social exclusion and poverty, through pluralistic and sustainable agreements		
Carmelo Mesa	United States	Pension systems
Jorge Vargas-Cullell ^{b/}	Costa Rica	Social exclusion
Juliana Martínez	Costa Rica	Health systems
Juan Pablo Pérez-Sainz, Rafael Segura y Diego Fernández	Costa Rica	Social structure, inequality and social exclusion in Central America
Claudia Dary	Guatemala	Profiles of social exclusion in Central America
Mauricio Herdocia	Nicaragua	Interviews with key actors
Sayda Gálvez	Honduras	Interviews with key actors
Dina Fernández y Enrique Naveda	Guatemala	Interviews with key actors
Néstor Avendaño	Nicaragua	Economic costs of an anti-exclusion program
Pablo Ramírez	Costa Rica	Scenarios of social exclusion
Statistical Compendium		
Diego Fernández	Costa Rica	Coordinator
Statistics assistants		
Julio Orellana	Guatemala	
Nelson Raudales	Honduras	
Rubidia García	El Salvador	
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Marilyng Montero	Costa Rica	
Karen Chacón	Costa Rica	
Fraya Corrales	Costa Rica	
Noel Cuevas	Costa Rica	

a/ Preparation of the Regional Report. b/ Prepared the consolidated Statistical Compendium.

BOX 0.3

Determinants of rural poverty in Central America: challenges and opportunities for action

As part of the process to prepare the *Fourth State of the Region Report*, the State of the Nation/State of the Region Program and the Regional Unit for Technical Assistance (RUTA), with support from the International Fund for Agricultural Development (IFAD) and the United Nations Food and Agriculture Organization (FAO), implemented a research project to lay the technical groundwork for the design of production and social assistance strategies that will contribute to overcoming poverty in Central America. The first phase of this initiative was launched in 2009, and implemented in the second half of 2010 and the first half of 2011.

In addition to assessing the scale, recent patterns, and incidence of poverty in rural areas, the research project sought to identify and analyze both structural and short-term factors that determine poverty, in order to answer the following research questions:

- Which characteristics and recent changes in rural development explain continued poverty and exclusion among large sectors of the rural population in Central America?
- What are the main factors that expand or limit opportunities for the rural population to overcome poverty?

The research focused on four major thematic areas where structural and short-term factors are hindering further progress to reduce rural poverty and which, therefore, require differentiated policy measures and actions. These are: i) production and environmental factors, ii) factors associated with infrastructure for development, iii) poverty eradication programs and their characteristics, and iv) the political-institutional dynamics of rural areas. Researchers also examined the overall living conditions of the rural poor and of women in particular. Evidently these four factors are not the only ones that influence persistent poverty but they were considered the most relevant for the purposes of this project.

National and regional researchers were selected to study each topic (Table 2), for a total of 25 researchers directly involved, plus six members of the State of the Nation/State of the Region technical team, who participated as coordinators and research assistants. Several members of the RUTA team participated in designing the project and in reviewing its intermediate and final outputs.

Progress reports on the different studies were presented and discussed at a regional workshop held on February 3 to 4, 2011 in San Jose, Costa Rica. It was attended by 44 people from all the Central American countries plus Colombia, who offered valuable comments and suggestions.

The outputs of this initiative include: i) a final report summarizing the research findings, recent developments in Central America, and changes in the rural milieu; ii) a summary of the final report and a policy paper outlining regional actions for overcoming poverty and promoting rural development; iii) activities to disseminate and discuss the research findings with decision-makers; and iv) a system of indicators on rural poverty in Central America that will be used to improve information gathering and monitor this topic in future editions of the *State of the Region Report*.

As part of the activities to publicize this Report, during the second half of 2011, FAO, IFAD and RUTA will work together to widely disseminate and discuss the research findings with regional and national public sector authorities, representatives of international cooperation, civil society leaders and representatives

TABLE 0.2

Network of regional and national researchers

Name of researcher	Country	Topic/contribution
Elisa Rodríguez ^a	Spain	Review of bibliographies and research centers
Carlos Pomareda ^{b/}	Costa Rica	Overview of production and markets in rural areas of Central America and of infrastructure for development
Salma Alonso	Panama	
Byron Contreras	Guatemala	
Alejandra Mata	Costa Rica	
Ricardo Arias	Honduras	
Amy Angel	El Salvador	
Wiezman Pat	Belize	
Maritza Obando	Nicaragua	
Rodrigo Briceño ^{b/}	Costa Rica	Coverage of social services and poverty eradication programs in Central America
Rodrigo Briceño	Belize	
Maria Fernanda Torres	Costa Rica	
Kenia Sabong ^{a/}	Honduras	
Enrique Maldonado	Guatemala	
Ramiro Martínez	El Salvador	
Keith Cuthbert	Nicaragua	
Carlos Carrera ^{a/}	Panama	
Luis Angel Oviedo	Costa Rica	Processing of socio-demographic information on the rural poor
Ana Cecilia Escalante	Costa Rica	Incidence of poverty among rural women
IARNA, Universidad Rafael Landívar	Guatemala	Impact of climate change on agriculture
Lenin Corrales	Costa Rica	Climate change scenarios for Central America
Jose Antonio Rodriguez	Costa Rica	Profiles of citizen participation in rural areas
Steffan Gomez	Costa Rica	Political-institutional dynamics in rural areas
Alonso Ramirez	Costa Rica	Institutional presence of the State in rural areas of Central America
Hugo Chavarria	Costa Rica	Research assistant
Roger Bonilla	Costa Rica	Maps
Jose Angulo	Costa Rica	Technical editing of the final Report

a/ Systematization of statistics and bibliographical information.

b/ Preparation of the Regional Report.

est, which led to two-way collaboration. The consultants or research centers contributed their specialized knowledge of a given topic, and made their local infrastructure or facilities available, while the State of the Region provided technical support, a modest financial contribution, and an opportunity to conduct comparative studies in Central America for subsequent release. This approach has led to collaborative academic research in different thematic areas; in some cases these efforts began with the *First State of the Region Report* (1999).

Table 1 contains the names of the lead researchers responsible for the inputs used in the different chapters of this Report. However, it is important to acknowledge that each lead researcher worked with the support of other collaborators; in some cases, due to the

complexity of the task, teams of up to five research assistants were assembled to support a researcher in preparing a single paper. This Report gratefully acknowledges the contributions of these secondary researchers and assistants, as well as the contributions of many others who provided valuable information, critical readers, and final editors, all of whom are mentioned in the acknowledgements section at the end of each chapter.

In addition to further consolidating regional networks, the research process sought to:

- Strengthen the monitoring of critical issues discussed in previous Reports by including a six-chaptered permanent section entitled “Regional Overview”.

- Examine, in as much depth as possible, specific topics identified by the Advisory Council (three chapters on regional challenges).
- Enrich the Statistical Compendium using national sources as priority references. This edition includes a section on the status of information sources in Central America.
- Adopt a more systematic approach to documenting specific areas of the Central American integration process.
- Show the different approaches taken on the topics discussed, identifying points of agreement and disagreement among the actors; avoid presenting a single interpretation or viewpoint.

- Illustrate the issues responsibly, even if it is not possible to do exhaustively and consistently, and refrain from generalizing about the region's performance in the absence of sufficient comparable and relevant information.
- Base the information on quantitative indicators and practices identified, not on opinions or value judgments
- Document regional challenges, and avoid making statements lacking a solid technical foundation, and social and political legitimacy.
- Select a single topic of particular relevance identified as such by the Advisory Council; analyze it, devise scenarios, and identify possible courses of action.

In sum, the research process sought to combine academic rigor, with

coordinated local research capabilities, social legitimacy, and vigorous social consultation mechanisms.

Dissemination of the report

Once published, the Report will be widely disseminated to ensure its effective use in discussions and decision-making. To this end, a several month long communications and feedback strategy has been planned, including activities with different audiences to publicize and discuss the main findings of the Report, both through the mass media and with specific groups and sectors. This strategy produced very positive results for the last Report (Box 0.4).

Limitations and final remarks

The limitations of this Report are clear. First of all, treatment of the region as a single unit is uneven in several areas, and the information on Belize, though improved, is still fairly limited. Secondly, the research is based on secondary sources, in other words,

on the compilation, verification, and comparison of existing statistics and/or academic and technical studies. Given the constraints of time and resources, it was impossible to use primary research except in a few cases, although source material was very frequently reprocessed. Thirdly, not all topics could be researched to an equal depth due to a scarcity or absence of information. For all these reasons, special care was taken to cite all the sources that were used in making the assessments presented in this Report. In addition, extensive notes were added as necessary to facilitate proper interpretation of the data. A new section entitled "State of information sources in Central America" describes these difficulties, by country and by subject area. Finally, the quality of research reports presented by consultants was uneven: in some cases the technical team had to bring them up to minimum standards of quality.

The regional project's technical

BOX 0.4

Uses and outcomes of the *State of the Region Report (2008)*

A comprehensive and diverse strategy was used to disseminate the *2008 State of the Region Report* and the main findings of the research on the different topics examined. The information was shared directly with more than 5,000 people, through various events, and many others were reached indirectly by the media throughout the isthmus.

The dissemination strategy targeted specific audiences considered key to development in Central America, including decision-makers, regional institutions, the media, civil society, and the education sector. Differentiated approaches were then used to target the specific information needs of each audience.

The main instrument of dissemination was the Report itself. A total of 6,000 copies were printed, of which 1,740

were delivered door-to-door to research networks, discussion groups, governmental and non-governmental authorities, regional institutions, the diplomatic corps, and civil society leaders; prominent academics in leading universities in the United States and Europe also received copies. In addition, Reports were sent to the region's universities and their libraries and to some of the main bookstores in each Central American capital.

The following publications were derived from the 2008 Report:

- Presentations in two electronic formats: 3,000 compact disks and 1,000 USB flash drives.
- 8,000 copies of the synopsis in Spanish.

- 6,000 copies of the synopsis in English.
- 1,000 offprints of Chapter 8 ("Regional challenge of the war against corruption").
- 2,500 copies of the educational module "El aterrizaje de los números" (Box 0.5).
- 2,000 copies of the module "A grain of corn".

Various mechanisms were used to disseminate the publications. The first was to organize mass events, which included official presentations in each of the countries and participation in regional workshops and conferences. Over the last three years approximately 200 activities were organized throughout the isthmus, attended by over 5,000 people.

BOX 0.4

→ CONTINUES

Uses and outcomes of the *State of the Region Report (2008)*

Many of these efforts were held jointly with various institutions.

The second mechanism was a major publicity drive in the region's leading media. The State of the Nation/State of the Region Program prepared a press briefing kit, numerous press releases, and it organized press conferences held concurrently with the Report's presentations in each country; the latter were attended by a total of 215 media organizations. A "press room" with materials for journalists and broadcasters was also created on the Program's website. Program representatives also participated in various television and radio programs. As a result, the Report and its findings were featured in more than 200 news reports between 2008 and 2010.

Special materials were also produced, including:

- A special dedicated edition of the *State of the Region* in the magazine *Estrategia y Negocios* (with a circulation of nearly 25,000)
- An institutional video which is available at www.estadonacion.or.cr and on *YouTube*
- Radio micro-programs for distribution to the region's cultural broadcasters
- A compendium of legislation and statistics on consumers' rights in Central America
- Publication of a study undertaken for the Report on the financing of civil rights in Central America, carried out jointly with the Central American Institute for Fiscal Studies (ICEFI).
- Publication about consumer rights in Central America carried out jointly with Consumer Advocacy Agency of El Salvador

The third mechanism used to disseminate the work was to upload the complete Report and a good number of the baseline studies to the website of the *State of the Nation/State of the Region Program*. The State of the Region alone has received 62,000 hits since 2008. Direct links to the State of the Region Report have also been included on the websites of partner organizations, such as Canning House in London, Transparency International's "Recrea" portal, and online libraries such as those of the Latin American Faculty of Social Sciences (FLACSO) and the Latin American online platform of the United Nations Public Administration Network (UNPAN).

To date, the Report has been cited some 350 times in academic documents.

BOX 0.5

Teaching Module "*El aterrizaje de los números*"

The education module "*El aterrizaje de los números*" [Landing with numbers] was prepared between 2009 and 2010 as a joint initiative between the State of the Nation Program and the Ministry of Public Education of Costa Rica (MEP), through its Curriculum Office and the National Advisory Service for Mathematics of the Department for Primary and Secondary Education. It is a pedagogical proposal for teaching high school mathematics in Costa Rica's General Basic Education program.

The module offers teachers an alternative means to achieve their mathematics targets using real and meaningful information on the Central American context drawn from the 2008 *State of the Region Report*, which can help strengthen citizens' commitment to the current social, economic and environmental challenges facing the isthmus. The module fosters a basic understanding of the Report's findings and a critical analysis of the study programs, and supports learning in the core topics of the curriculum. It also

offers students an opportunity to interpret numbers within a specific context, link mathematics to their surroundings, compare ideas, formulate theories, and acquire values essential for harmonious citizenship, collaborative work, and respect for diversity.

team was responsible for coordinating research strategies and supporting preparation of the Report. It was also charged with editing and publishing the final text. All the support received is acknowledged in detail in the different sections of this document; this notwithstanding, any errors in this Report are the exclusive responsibility of the project coordinating team. In addition, the assessments presented herein

do not necessarily reflect the views of sponsoring institutions.

This *State of the Region Report* gives continuity to a system that monitors the challenges of sustainable human development and the evolving development of regional integration. It is not a “snapshot” of current circumstances and conditions, but rather a selective documentation of processes, and its purpose is to help identify possible common actions.

As noted in the first edition, this Report is based on the premise that the future of Central America, and the form integration takes, will depend fundamentally on respect for diversity, beginning with the recognition of social gaps and of the social, economic, political and cultural plurality that characterizes the isthmus. Thus, the Report not only reaffirms the region’s diversity, it is also an exercise in Central American pluralism, which is documented in this edition in particularly difficult times.



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CHAPTER

1

Synopsis

GENERAL ASSESSMENT

The *Fourth State of the Region Report* sets out to analyze the triennium 2008-2011, a turbulent period in which the worst predictions for the isthmus did not materialize. Despite setbacks on several fronts and the adverse and uncertain conditions of the international milieu, none of the Central American countries –or even the region as a whole– revisited the scenarios of political and economic crisis experienced in the 1980s. This, in itself, is a major achievement in a region with a history plagued by vulnerabilities and instability.

Since the publication of the 2008 *State of the Region Report*, Central America has experienced worrying economic, environmental, social and political setbacks, along with widening socioeconomic and political differences, particularly between the southernmost nations (Costa Rica and Panama) and those of the center and north. Likewise, the regional integration process came under considerable pressure due to the political crises within and between countries, which further limited progress. These events have given rise to a dangerous convergence of risks that threaten to cause a rupture in the isthmus, that is, a situation of general unwillingness among the countries to act together to address common challenges.

The events of this triennium have clearly demonstrated Central America's exposure to global threats, which interplays with the social vulnerabilities built up over many decades. Against a backdrop of persistent historical problems,

including high levels of social exclusion and inequality, the isthmus has become the most violent area of Latin America and one of the most dangerous in the world, with organized crime growing stronger, more diversified, and more aggressive. The region is also more exposed to the impact of climate change than any other tropical region. Furthermore, the democratic reversals in Nicaragua and Honduras, and the crises in Guatemala, call into question the assumption that electoral democracy will always lead to the democratization of the State and the exercise of power. Finally, coping with the region's extreme sensitivity to external economic shocks required considerable efforts, and some of the gains achieved in previous years were wiped out. As a result, the sustainability of public finances has been compromised.

Central America's poor performance during the period 2008-2010, however, did not completely reverse the progress achieved in the early years of the 21st century. Despite the difficulties, this was not another "lost decade" like the 1980s. Even with the strong pressures, gains were made: life expectancy rose, child mortality rates continued to decline, and the coverage of education expanded, though from very dissimilar starting points. Notwithstanding the slow pace and fragility of progress, and the vulnerability of large social groups to the economic recession, the region showed a certain capacity to respond to threats that forecast more dire impacts. And, as we shall see, there is still leeway for na-

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tional and regional action to advance human development.

These serious problems are compounded by the decline in Central America's importance worldwide. Although in 2009 the region signed an Association Agreement with the European Union, which offers an opportunity to consolidate its links with that region in the future, the economic crisis in Europe and the United States has affected cooperation flows which have historically underpinned social investment in the region's least developed countries. And unlike South America, the isthmus does not have robust ties with south-east Asia - the world's most economically dynamic area- since it is not a producer of high-value commodities for the international markets. Thus, Central America must devise its own solutions for neutralizing the threats of this volatile international economy, supplementing its efforts with the ever-dwindling external cooperation. In these circumstances, the mere fact that the regional institutional framework continued to function and showed some achievements in this triennium is good news. If these countries can remain disciplined, honor their commitments, and modernize their institutions, regional integration can be harnessed as a valuable tool for addressing regional challenges.

In this context, the Report calls special attention to the convergence of three strategic risks of importance to Central America's future. The first is institutional: in several countries of the region, the State is particularly hostile to democracy. In those countries, institutional frameworks are small, institutional networks are tenuous, and the Executive Branch has few counterweights, eschews transparency, and caters to special interests. This situation is compounded by extreme infrastructural shortcomings: a small tax base, which weakens safeguards for basic human rights -including the right to life-, and insufficient resources and personnel, resulting in a weak State presence outside the capital. These small, weak States

are not only incapable of upholding democracy, they even undermine it from within, which limits their capacity to anticipate and respond to the problems that besiege them (Chapter 8).

The second risk is associated with climate change. Even the most optimistic forecasts -with subregional and country-specific variations- indicate that Central America will have to live with rising temperatures and more frequent and intense hydro-meteorological phenomena, a situation that will further aggravate the problems afflicting the isthmus. These new conditions, combined with social vulnerability and an increasingly heavy "ecological footprint," will trigger risks for the region's infrastructure and production, and the very survival of its people, and its flora and fauna, particularly in the most fragile ecosystems. Environmental management, particularly the aspects of adaptation and mitigation, therefore becomes an essential task. Despite increased political discussion on climate change throughout the region, a shared regional position defined within the global context, and the strategies, plans and regulatory and institutional measures adopted, much remains to be done to ensure effective risk management (Chapters 5 and 9).

The third risk is the political impasse that currently obstructs efforts to combat social exclusion. This Report notes that more than one-third of all Central Americans live in social exclusion, with uncertain livelihoods and little or no access to social programs. The problem is worse in the region's central and northern countries, where there is strong resistance to efforts to implement public policies to reduce exclusion. When these obstacles interact with other variables -high levels of social violence, weak institutions, the demographic transition process, and the style of development- they put the region's future stability at risk (Chapter 10).

To the above must be added the uncertainty created by the changing international economic situation. To varying degrees, the Central American nations are very open to

the world economy and are importers of petroleum and basic foodstuffs. During the period of strong global expansion, the region's terms of trade deteriorated sharply, due to the increase in petroleum and commodity prices in 2006-2007; this unleashed inflationary pressures and affected the balance of payments situation. The global financial crisis, centered in 2009, stemmed or contracted economic growth as a result of declining capital flows, falling exports, and a weakening in the tourism and construction sectors, among other things. Although impacts varied in accordance with the specific conditions of each country, the crisis influenced the economic and social policies of the last three years. In 2010, once the most critical stage of the crisis was over, the macroeconomic aggregates in nearly all the Central American nations, except Panama, had been compromised. The slow and uneven global recovery has produced new increases in petroleum and food prices, which could recreate the difficult situation of 2007, this time with the added problem (except for Panama) that Central America's main trading and financial partners are experiencing serious difficulties themselves (Chapter 4).

After a very challenging period (2008 to 2010), the isthmus now faces internal and other threats stemming from its geopolitical situation, threats that demand a change of course. More of the same will only complicate the situation further. There is sufficient time, capacity and vision to act differently. Unlike earlier international economic crises, this time the governments had more maneuvering room to mitigate certain effects of the recessive cycle. As mentioned earlier, there is leeway for national and regional political action.

In accordance with the findings presented in this Report, a combination of national efforts will be needed to achieve sustained improvements in human development: on the one hand, countries' institutional capabilities need

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to be strengthened and political obstacles removed in order to facilitate efforts to combat social problems; on the other hand, mechanisms need to be introduced to facilitate joint action among the countries. At the national level, lasting and inclusive agreements would contribute

significantly to reducing social exclusion. At the regional level, opportunities with potential for collective inter-State action must be identified and effectively tapped. There are at least three areas of opportunity for coordinated action: addressing the widespread sense of citizen insecurity throughout the

isthmus; managing climate change risks; and building a common infrastructure and logistics platform to facilitate regional interconnection!

FINAL EDITION

- ÁLVARO CÁLIX ► HONDURAS
- MIGUEL GUTIÉRREZ ► COSTA RICA
- ALBERTO MORA ► COSTA RICA
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FIRST VERSION DRAFT

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- ALBERTO MORA ► COSTA RICA
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Took place on Jun 17th in San Salvador with the participation of::

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- ADRIANA PRADO ► COSTA RICA
- RICARDO SOL ► COSTA RICA
- FÉLIX J. CRISTIÁ ► CONFEDERACIÓN DE COOPERATIVAS DEL CARIBE Y CENTROAMÉRICA | COSTA RICA
- HÉCTOR DADA HIREZI ► MINISTER OF ECONOMY | EL SALVADOR
- ANA EVELYN JACIR ► OEA | EL SALVADOR
- LEONOR CALDERÓN ► UNFPA | GUATEMALA
- OTILIA LUX DE COTÍ ► GUATEMALA
- FERNANDO CARRERA ► FUNDACIÓN SOROS | GUATEMALA

→ RAMÓN CUSTODIO ► HUMAN RIGHTS COMMISSION | HONDURAS

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SYNOPSIS

Recent trends in regional performance

Our reporting on Central America's development in the triennium 2008-2011 stems from a prior commitment made to DANIDA in 2006 to monitor the performance of human development in the isthmus on a continuous basis, through two regional reports: one prepared in 2008 and the other in 2011. Coincidentally, the last triennium was a time of crisis on several fronts for Central America. So far, the region has not felt the full impact of these events, and now there are symptoms that presage new episodes of global crisis.

It is important to note that, with few exceptions, the shortage or lack of up-to-date information from the countries has made it difficult to document recent developments. Nevertheless, the findings of this Report suggest that, despite the hard times, Central America has continued to progress. At the same time, some worrying setbacks have widened the gaps in the region and inside the countries. These backward steps were not isolated episodes; rather, they occurred in a dangerous context framed by numerous threats and vulnerabilities. The extent of the risk is such that it can provoke regional fractures. However, this is not an unavoidable outcome: as the various chapters of the Report show, this scenario can be avoided by expanding joint action in strategic areas while simultaneously strengthening cohesion inside the coun-

tries. To this end, the States' capacities to articulate inclusive human development processes must be strengthened.

Progress continued in key areas, though at a slower pace

Despite the difficult conditions of recent years, the Report has identified progress in key areas of sustainable human development, though at much a slower pace and on an insufficient scale. Some of these advances are the outcome of reforms and strategies undertaken by countries in the last two decades.

The performance of the domestic markets² and intra-regional trade mitigated the impact of the 2008-2009 international crisis on the Central American economies. In 2009, GDP contracted less than foreign trade (imports and exports); moreover, for all the countries, except Honduras, there was an increase in the relative importance of intra-regional trade (with respect to the year 2000). Although the flows of family remittances declined during the crisis, they nonetheless helped forestall an even greater contraction in national revenues. This was key to preventing a further decline in incomes and employment.

In the worst moments of the last triennium, amid economic contraction and shrinking tax revenues, all the countries increased their social invest-

ment spending and took steps to protect the most vulnerable sectors from the impacts of the international crisis. During the period 2000-2008 as a whole, per capita social investment grew by 40% to 60% in most countries.

To greater or lesser degrees, education coverage increased at all levels and in all countries. In 2008, primary education coverage was near or above 90% in all cases, suggesting that the education targets of the Millennium Development Goals can be met by 2015 in this area.³ Improvements were also attained in pre-school and secondary education, although major gaps persist. With the exception of Costa Rica and Panama, over 50% of children in the region do not receive pre-school education. For secondary education the coverage is greater, but in Belize, El Salvador, Guatemala and Nicaragua four out of ten young people are still not in the classroom.

In the period 2005-2010 Central America moved forward in its efforts to secure a long and healthy life for its population. Life expectancy increased to more than 70 years in all countries, while infant mortality and mortality in children under 5 years declined. Although these improvements are not enough to overcome the historic lags and imbalances in the region—especially those affecting indigenous peoples—the gaps have been reduced. In 2009,

child mortality rates in Guatemala (32 per 1000 live births) and in Honduras and Nicaragua (over 20 per 1000 live births) were more than double the figure for Costa Rica (9 per 1000 live births).

In recent years all the countries have introduced various types of conditional cash transfers (CCT) into their social programs. These interventions, which should not be regarded as substitutes for universal policies, could offer a dual benefit: on the one hand, they alleviate extreme poverty (indigence) by immediately impacting the incomes of poor beneficiary families, and on the other, they aim to break the medium and long-term cycle of intergenerational poverty by requiring fulfillment of certain obligations linked to capacity building (for example, education, health and nutrition) as a condition for receiving the transfers. A study conducted for this Report in three countries confirmed that CCT programs generally benefit those families that really need support; in addition, these types of initiatives are seldom affected by the spoils system, cronyism and corruption. Examples include “*Avancemos*” in Costa Rica, “*Red de Oportunidades*” in El Salvador, and “*Mi Familia Progres*a” in Guatemala.⁴

Even though setbacks occurred in the political arena, electoral democracy, which involves the alternation of parties and a clean vote-counting process, remains the rule for accessing power in Central America (excepting the irregularities documented in Nicaragua’s 2008 municipal elections). Despite widespread discontent with the institutions, citizens have not withdrawn on a large scale from elections, and voter turnout percentages have remained relatively close to those of other regions of the world, except in Honduras, where voter turnout fell sharply in the last elections. Modest progress was also achieved in making voting more accessible to vulnerable populations and allowing people to vote from abroad. In addition, three countries –Costa Rica, Panama and Honduras– have passed regulations establishing quotas for women’s representation on the ballots of candidates of the different political parties.

Central America experienced setbacks on several fronts

Amid very harsh conditions, the triennium 2008-2010 was marked by setbacks in different aspects of Central American life, which were most sharply felt in the countries with the lowest human development indicators. Although this situation was not triggered by a chain of events unfolding affecting the entire region, and not all spheres were impacted, the events were not fortuitous. The steps backward resulted from the pressure of many converging risks, suggesting that there is a latent threat of new setbacks.

The political sphere has been the most affected. As noted earlier, recent events have called into question the optimism that prevailed until a few years ago, namely that electoral democratization would eventually lead to the democratization of the State. The many implications of the overthrow of the government in Honduras (2009), the deep penetration of organized crime in the Guatemalan State, serious irregularities in Nicaragua’s municipal elections (2008), and the increasing concentration of the power of the Executive Branch over other organs, such as the Supreme Courts, particularly in Nicaragua and

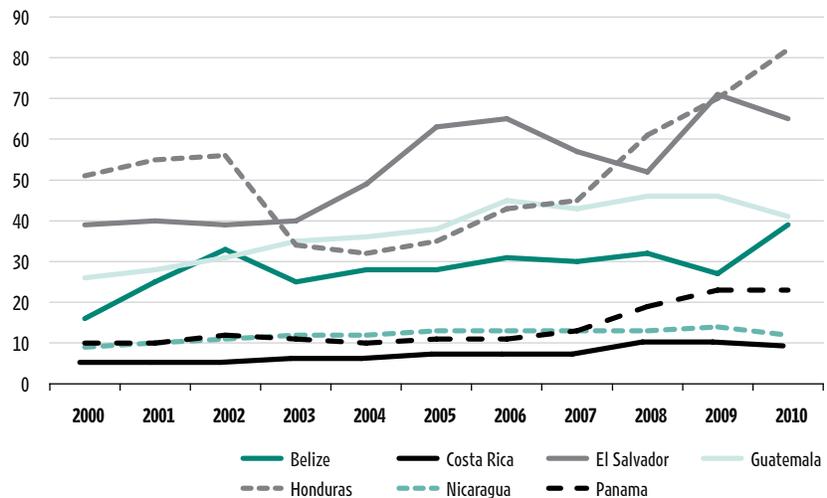
Panama (2009-2010), show how vulnerable States are to the pressures of external forces and to the concentration of power (Chapters 6 and 8). Such developments were not foreseen at the beginning of the last decade and they are increasingly complicating the democratization of Central American societies. This is particularly true in the three countries where there has been an instrumentalization of the exercise of power.

In the last three years the region has also become the most violent in Latin America and, for causes not attributable to war, one of the most dangerous in the world. In 2009 and 2010, the regional homicide rate reached over 40 per 100,000 inhabitants, with all countries reporting increases in the last decade. However, the situation is most severe in the so-called Northern Triangle countries (Guatemala, El Salvador, Belize, and Honduras, figure 1.1). Of particular concern is the fact that the rate of homicides of women continued to rise between 2008 and 2010. As a regional trend, femicide has been growing at a much faster pace than homicides of men, without the governments seeming to pay sufficient attention to the problem.⁵ These new outbreaks of violence have reversed some of the benefits reaped

FIGURE 1.1

CENTRAL AMERICA

Homicide rate per 100,000 Inhabitants. 2000-2010



Source: Data from the national agencies responsible for police and/or judicial affairs.

with end of the armed conflicts, because social violence and migration are draining Central American societies of their potential. This is especially true considering that victims and migrants tend to be between the ages of 18 and 34 years.

Two externalities have intensified as a result of increased crime: the proliferation of private security services⁶ and illegal arms trafficking.⁷ Government responsiveness has been surpassed by criminal activity, primarily transnational organized crime associated with drug trafficking. This is reflected in the growing power of the drug cartels and the diversification of their operations in Guatemala, Honduras, and El Salvador. Not only has the capacity of the region's police forces and investigative units been overwhelmed, but organized crime has also sought to penetrate these bodies in all countries, which is undermining the judiciary branch. Intimidation of judges by illegal groups is becoming more common: between 2001 and 2009 nearly four hundred such threats were reported, mostly in Guatemala but also in Panama and El Salvador (Obando, 2010).

The failure of measures to reverse the climate of insecurity is having another negative effect on the rule of law and the democratic order: national armies are being used almost routinely for

domestic security purposes. This has occurred in Guatemala, Honduras, and El Salvador, where civilian control over the armed forces has not been consolidated and individual rights are still subject to abuses by the authorities. In this connection, the Report notes an expansion in the functions and budgets of military forces. Even more alarming was the key role played by the army during the Honduran political crisis, and the attempts by the Government of Nicaragua to use the armed forces as a political tool.

On the economic front, the international crisis of 2008-2009 worsened the region's already inadequate levels of development. In 2009, the contraction of buoyant sectors meant that all the countries, except Panama and Guatemala, reported a negative growth rate (table 1.1 and figure 1.2). That year, Central America's overall growth rate –on the order of -0.7%– was the lowest compared with any other Latin American subregion. It is worth noting that this is the first time in twenty years that the region posted a negative variation.

Unlike in most of the hemisphere's southern countries, Central America had to contend with deteriorating terms of trade during the last decade, a situation that has eroded the benefits of

international trade even during periods of economic expansion, given the nature of the region's exports and imports.

Capital flows from abroad, especially remittances, helped offset the problems caused by the imbalances of the Central American economy in the recent growth periods. This, along with other variables, cushioned the impact of the crisis in the region.

Reversals were also observed in the social sphere, particularly increases in poverty and unemployment. In 2010, the three countries that have regular and more up-to-date measurements (El Salvador, Honduras, Costa Rica and Panamá) reported that poverty was back to mid-decade levels, but this time with the added difficulty that it will not be easy to reverse this trend because a new period of growth in the short term is not envisaged. Panama was the only country where poverty indicators stood still.

Meanwhile, in 2009 there was a general increase in the unemployment rate in the region (figure 1.3) and, like poverty, it was higher than the average for Latin America.⁸ Unemployment was highest among women, and especially young people. In 2009 unemployment among women was between 1.5 and 3.3 percentage points higher than for men in Honduras, Nicaragua, Panama and

TABLE 1.1

CENTRAL AMERICA

Real growth of the main economic sectors. 2009

	Belize	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panamá
Agriculture	-2,2	-2,5	-2,2	3,8	-1,7	0,0	-8,6
Industry	6,5	-2,6	-3,4	-0,9	-7,1	-2,7	-0,3
Construction	18,7	-5,0	-0,7	-11,8	-9,8	-4,1	4,6
Trade and tourism	-6,6	-5,2	-5,2	-2,1	-8,0	-2,7	-2,8
Trade	-7,1	-2,8	-4,8		-9,5		-3,7
Tourism	-4,5	-11,3	-7,5		-1,0		2,0
Financial sector	2,2	3,9	-5,3	3,8	0,4	-4,3	-2,2
Transport and communications	-2,7	3,3	-3,9	2,8	-4,5	1,8	8,3
Electricity and water	17,0	-1,3	-1,4	1,1	-1,5	2,0	7,1
Public administration	4,2	4,3	1,3	12,8	7,0	3,3	
Business services		7,1	-3,9	1,0	1,9	-0,7	-4,6
GDP	0,0	-1,1	-3,5	0,5	-1,9	-1,5	2,4

Source: Rosales, 2010, data from each country's central bank and ECLAC.

Costa Rica, while unemployment among youths (between the ages of 15 and 24) reached 10.4% at the regional level, double the overall rate.

The employment and education profile of Central America's youth varies greatly by country, gender, and area of residence. Of particular concern is the situation of young people between the ages of 12 and 24 who neither study nor work, and who comprise a population segment chronically affected by social exclusion. Nearly half of the women living in rural areas of Guatemala, Honduras and Nicaragua (figure 1.4) are in that category.

In sum, whether due to rising prices or falling employment, the different stages of the crisis revealed failings of the region's development style to protect the population's jobs and incomes in difficult times. The hardest hit groups were young people, women, and workers in low output or non-productive activities.

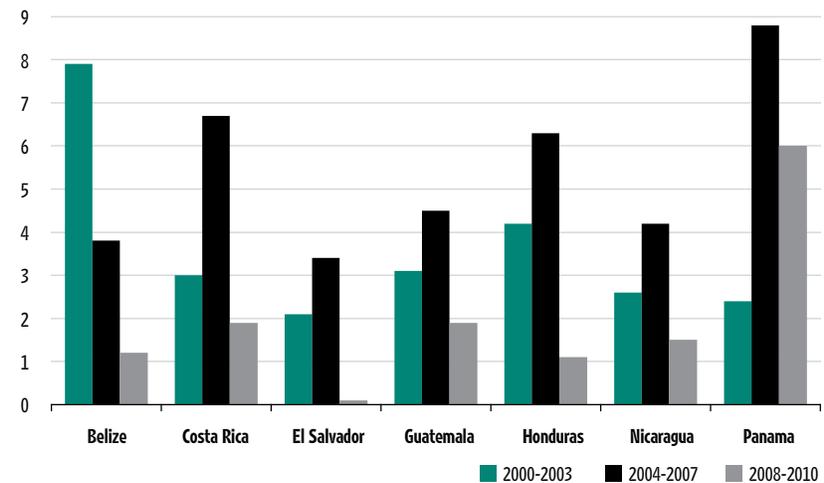
Another setback was the developing paralysis of the Central American integration process, which was caused by a combination of events. Firstly, the system was partially ruptured as a result of the coup d'état in Honduras. Then, the territorial dispute between Costa Rica and Nicaragua, and accusations of irregularities in the appointment of senior SICA officials, further damaged the integration process (Chapter 7). These occurrences constitute further obstacles to fluid integration, and are bad news at a time when regional action, insofar as SICA's formal role is concerned, is needed to articulate national responses to problems shared by all the countries.

Finally, in recent years Central America experienced a significant worsening of socioeconomic impacts caused by extreme natural events, especially storms, floods and landslides (figure 1.5). This is partly because such events are becoming more frequent and intense. However, as noted in previous editions of this Report, many of the consequences result from the countries' vulnerability and their limited capacity to manage risk effectively. This vulnerability has meant that extreme events –and even small- and medium-sized ones– are causing greater losses in human lives

FIGURE 1.2

CENTRAL AMERICA

Average growth of real GDP, by country. 2000-2010 (averages)

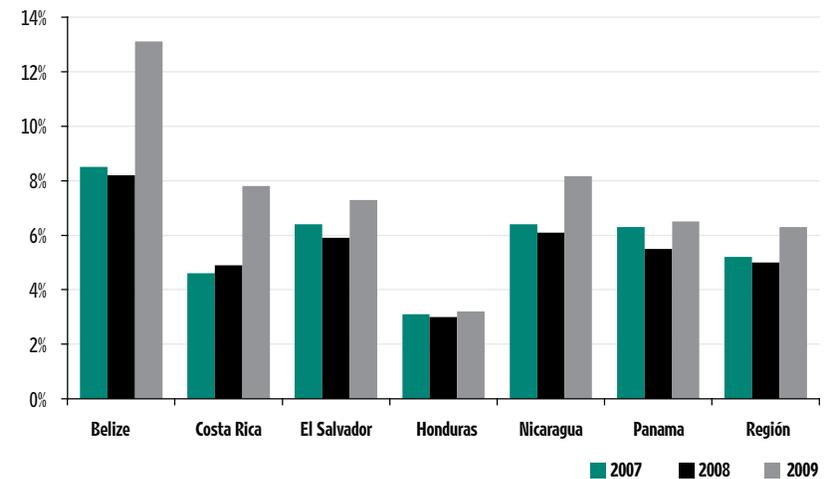


Source: Rosales, 2010, data from the countries' central banks.

FIGURE 1.3

CENTRAL AMERICA

Open unemployment rate. 2007-2009



Source: Trejos, 2011 and data from all the national statistics institutes.

and severe damage to production and infrastructure.

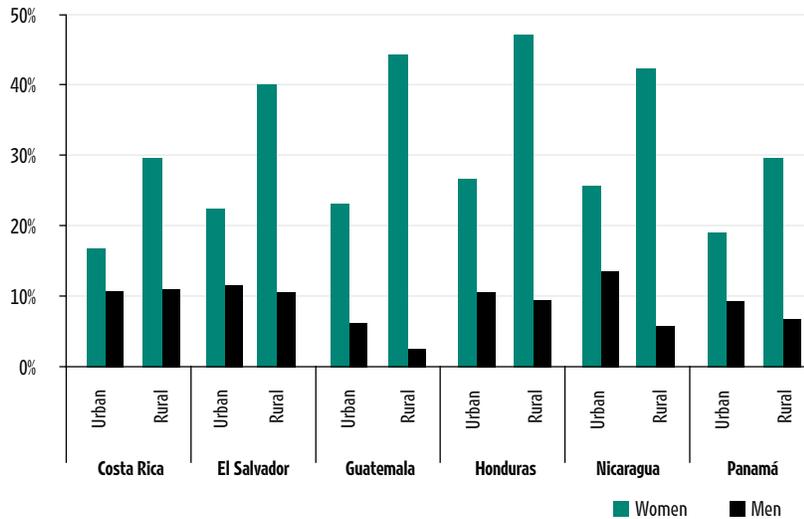
In general, given their degree of environmental exposure and vulnerability, the Central American countries are the worst placed in Latin America, with Honduras and Nicaragua in the

most serious situation. This undisputed fact means that the isthmus must adopt national and regional measures to reduce risk, rather than focus on post-disaster humanitarian responses as has been the case to date.

FIGURE 1.4

CENTRAL AMERICA

Young people (aged 12-24 years) who neither study nor work, by country, area, and gender. CIRCA 2009^{a/}



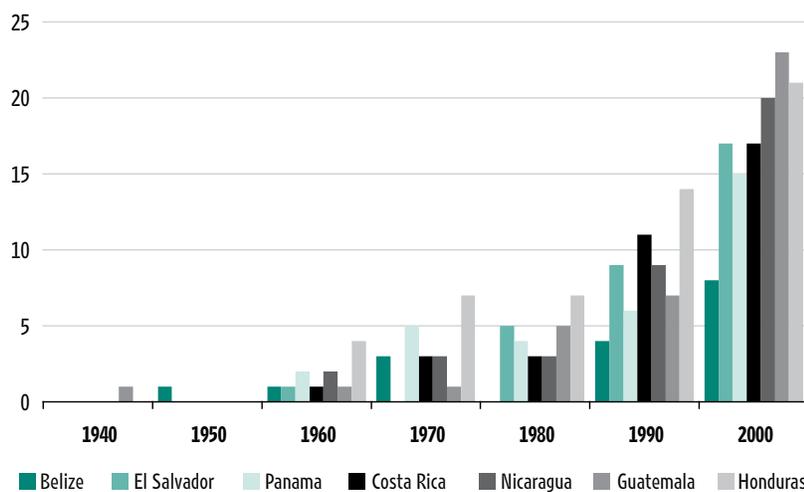
a/ For the calculation include the inactive and unemployed as non-working population. The data for Guatemala, Honduras and Nicaragua corresponds to 2006, 2007 and 2005, respectively. For the rest of the countries, the information is from 2009.

Source: Data from national household and standard of living surveys.

FIGURE 1.5

CENTRAL AMERICA

Number of meteorological and hydrometeorological disasters, a/ by decade. 1940-2010



a/ Includes drought, extreme temperatures, flooding, landslides, storms and events that meet one or more of the following criteria: i) 10 or more deaths, ii) 100 or more people affected, iii) declaration of a state of emergency, iv) appeal for international assistance. The data for 2000-2010 are preliminary extrapolated projections.

Source: Lavell and Lavell, 2010, with data from EM-DAT.

The region faces an unprecedented and intense convergence of vulnerabilities and threats

Throughout the twentieth century, Central America lived on the edge of danger, in a scenario that combined many vulnerabilities and threats. During certain periods of history, such threats and vulnerabilities exploded and plunged the region as a whole -or individual countries- into traumatic situations such as the economic crisis during World War I and the bloody repression of the dictatorships. But perhaps the most complex period of all was in the 1980s, when an economic crisis coincided with an intensification of the region's civil wars and political conflicts.

Despite the problems described earlier, the region is not on the edge of a precipice; it has accumulated capabilities that make it more resistant to the onslaught of certain pressures. This unquestionable strength results from over two decades of efforts in different spheres of public policy. Nevertheless, these achievements lose their relative strength when considered against the scale of unmet needs, the institutional weaknesses, and the present complexities of the global situation. This Report identifies a new and dangerous buildup of threats, some unprecedented, which are being added to Central America's historical vulnerabilities and human development gaps. The beginning of the second decade of the 21st century may therefore be considered a particularly dangerous moment for the isthmus because the new threats greatly exceed the individual States' capacity to respond. Moreover, unlike thirty years ago, Central America must now confront this situation relatively alone, since the region has been losing its global importance (though not in all areas), both from the geopolitical standpoint and in terms of international cooperation.

However, these risk-filled scenarios also offer a window of opportunity for Central America to adopt comprehensive policies at the local, national, and regional levels in order to address the most important challenges. Given the

scale of the problems, it is not advisable to resort to mere palliatives, which in the long run only increase the deficits. The region still has some leeway to articulate consistent responses; thus, social actors in general and decision-makers in particular must define and implement reasonable agreements in that direction.

Prevent burgeoning violence from undermining the political order

As mentioned earlier, the spread of organized crime and an alarming increase in violence, coupled with meager social and economic progress in institutionally weak States, creates a situation of high political risk. In the medium term, a sustained increase in criminal violence associated with irregular groups, and “wars” between rival gangs, could lead to the scenario discussed in Chapter 10: a potential slide toward increasingly dysfunctional States.

Illicit economies operated by organized crime continue to operate freely and have even gained social legitimacy in territories where State presence is weak, such as Guatemala’s Petén region and neighboring municipalities in western Honduras.

Criminal activities are not the only source of violence that have the potential to destabilize the political order. Government failure to respond to longstanding as well as more recent social demands is fuelling the growing social conflict. The lack of economic, social, and cultural rights of the most vulnerable groups means that citizens lack the power to make decisions that affect their daily lives. Moreover, as a whole the region has not vigorously pursued affirmative measures to reduce these imbalances of power. A good many of the social conflicts in the isthmus reflect the powerlessness of groups and communities vis-à-vis the use of natural resources, working conditions, the development of infrastructure works, and the direction of economic growth policies.⁹ Faced by unresponsive political parties and government institutions, these social groups resort to other forms of expression to meet

their demands. For their part, governments often choose to contain tensions through the use of force and the violation of basic rights. This situation intensified under the de facto regime that took power after the coup d’état in Honduras,¹⁰ but is evident in all the countries, particularly Guatemala.

The transnational nature of the threats to Central America’s security requires collective action to reduce the vulnerability of the countries and their institutional frameworks. At the national level, the security and justice sectors must be strengthened, underpinned by human rights guarantees and operational efficiency, and shored up by regional strategies. Hence the importance of SICA’s efforts during the first half of 2011; if consolidated, they will not only help secure resources to combat insecurity but also contribute to counteracting the fragmented response by the States and subregions.

In order to strengthen democratic governance in the region, the political system must be reconfigured through a process that expands opportunities for representation and participation by excluded sectors. Such actions might neutralize the use of repression as a strategy for political stability, among other benefits.

Assert risk management to prevent large-scale disasters from climate change

According to projections, Central America is the most vulnerable tropical region worldwide to the impacts of climate change, which is expected to cause even more extreme hydrometeorological events as well as significant changes in temperatures and rainfall patterns (Map 1.1). Unless steps are taken both to reduce vulnerability and to strengthen adaptation and sustainability, infrastructure and human lives will be at risk. Climate change also threatens the viability of strategic production activities in the region, especially agriculture and energy.

The Report indicates that some of the main impacts of climate change include pressure on food security, water availability (including its potential use

for energy), changes and loss of biodiversity in ecosystems (particularly forest and marine-coastal resources), a greater propensity to disasters, and threats to human health and livelihoods (particularly indigenous peoples and rural communities).

An analysis of the environmental situation in the isthmus suggests that water is one of the most sensitive resources to climate change and to environmental degradation in general, both in terms of availability, distribution and quality, and of its potential use for generating energy.

Central America still has time to adopt risk management as a crosscutting element of its human development policies, to include redesigning land-use policies, redefining and making provision for the main forms of land use, and adopting a model for using biodiversity that strikes a balance between preserving life forms and meeting production targets. It should also include the creation of a system of environmental services associated with climate change adaptation.

Prevent severe social impacts in the event of future increases in international food and fuel prices

Fluctuations in international food and fuel prices triggered strong inflationary pressures throughout the isthmus during the period 2007-2008. Although prices fell in 2009, they began to rise again in 2010. This instability poses significant risks for Central America because the region is highly dependent on imported oil and it has not made the necessary investments to tap its strong potential to generate renewable energy from local sources (table 1.2). This volatility threatens the countries’ provisioning and competitiveness because it causes variability in production costs. High food prices have severely hit Central Americans, most of whom subsist on low incomes in a region where child malnutrition is 50% in Guatemala. Social policies and efforts to boost productivity have not been enough to guarantee food availability and access for the poorest populations.

Although countries cannot change these exogenous conditions, they need to take action to cushion the impact of these threats. This means making better use of agricultural land, strengthening small and medium-sized producers –especially in countries where a large share of the EAP works in the primary sector– diversifying crops, boosting yields in an environmentally responsible manner, and also overcoming barriers that increase food marketing costs. The Central American Common Market has a major role to play in this area, as particularly evident in the triennium 2008-2010. In addition, the region now has the capabilities and incentive to implement vigorous policies to tap its potential to generate clean and socially sustainable energy

Take advantage of the window of opportunity offered by the "demographic bonus"

Central America is undergoing a demographic transition that will eventually result in aging societies: few children and young people, an older workforce, and inactive populations, aged 65 years and above, accounting for 25% or more of the total population (figure 1.6). These circumstances will demand a highly productive workforce, since relatively few people will have to carry the burden of many on their shoulders. This will be the prevailing scenario in the region in fifty years.

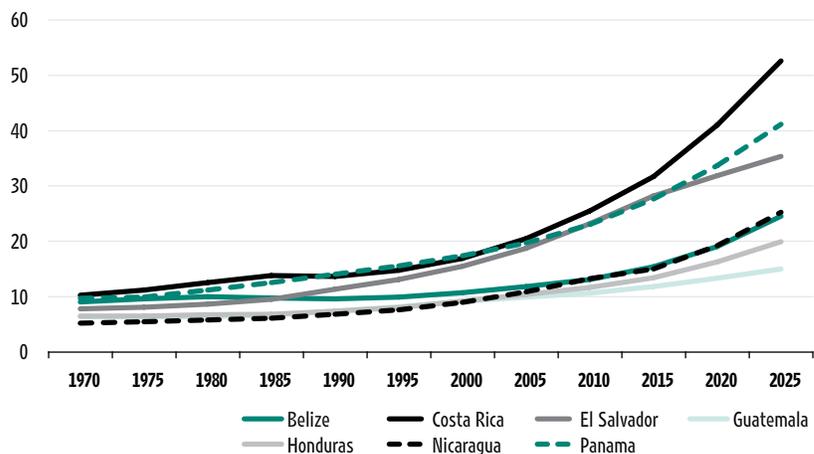
If current production levels continue, there is a risk of facing a "no-win" situation: societies with demographic profiles similar to those of Japan and the European countries (which are dealing with serious problems attributable to aging), but with the lower productivity levels of the developing world. In this scenario, maintaining current levels of human development – however inadequate these may be– will be a very difficult task.

In this area, it will take work to obtain positive outcomes. Only 40% of Central America's economically active population (EAP) has completed primary school, a major barrier if the region is to take advantage of the benefits of having a growing working age population. At the same time, the low social security coverage means that countries will be unable to meet the basic needs of those who are currently active in the labor market but who will be over 65 in a decade or two.

FIGURE 1.6

CENTRAL AMERICA

Aging index^{a/}. 1970-2025



a/ Persons aged 65 years and over, per 100 people under 15 years.

Source: Data from CELADE-ECLAC, 2004 and 2009.

TABLE 1.2

CENTRAL AMERICA

Estimated potential for electric power generation. 2004 (MW)

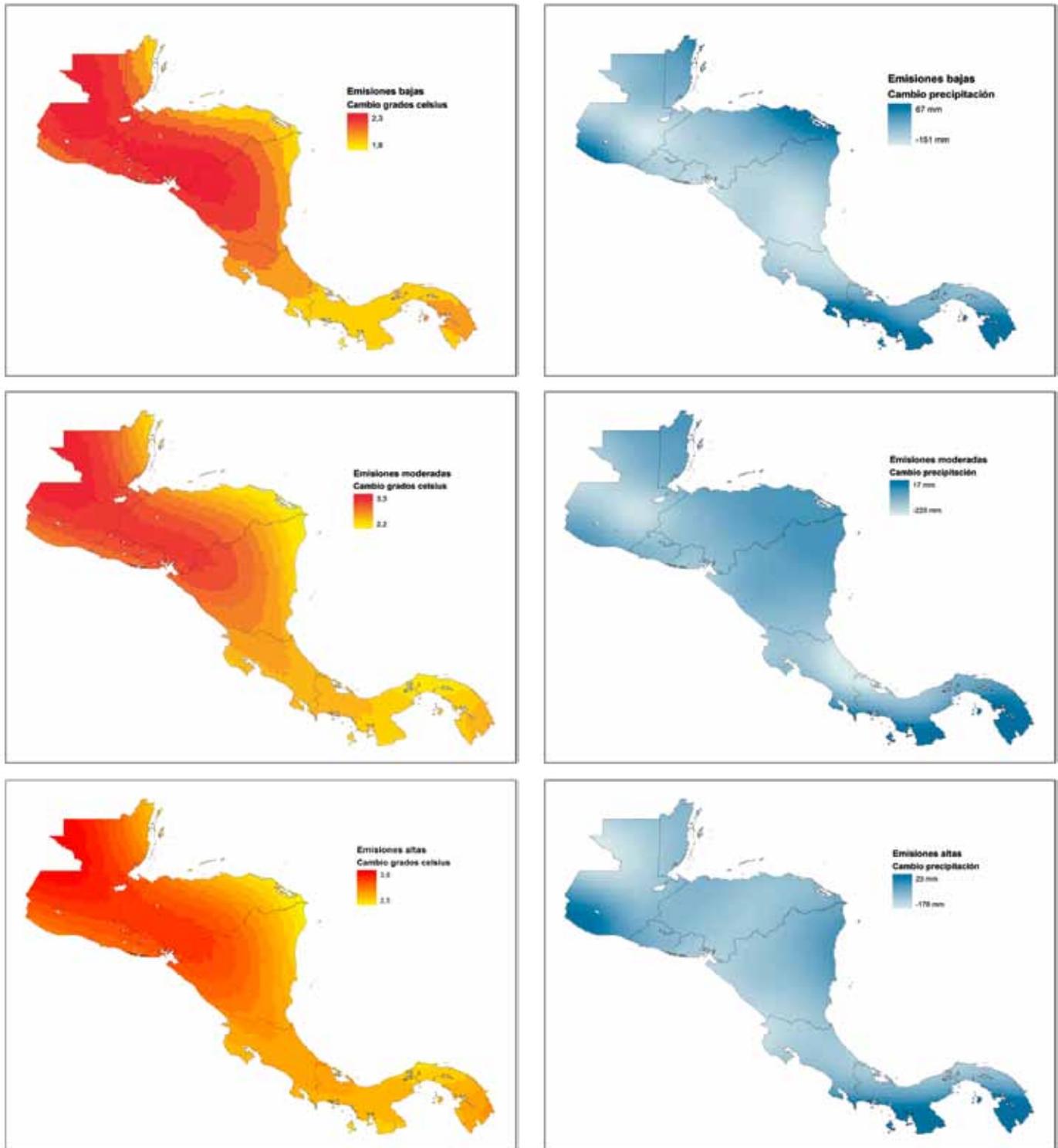
Países	Hydroelectric potential		Geothermic potential		Eolic resources
	Total	To be developed	Total	To be developed	Total potential
Central America	22.068	18.271	2.928	2.501	2.200
Costa Rica	5.802	4.499	235	69	600
El Salvador	2.165	1.723	333	182	
Guatemala	5.000	4.360	1.000	967	400
Honduras	5.000	4.525	120	120	200
Nicaragua	1.760	1.656	1.200	1.123	600
Panama	2.341	1508	40	40	400

Source: State of the Nation Program, 2008, data from ECLAC.

MAP 1.1

MESOAMERICA

Expected ranges of temperature and precipitation anomalies, by scenario



Source: Corrales, 2010 with data from the Coupled Model Intercomparison Project (Phase 3) of the WCRP, and the Fourth Assessment Report of the IPCC. The downscaling was conducted by the organization TNC to a resolution of 5 km.

For these reasons, it is of vital importance to take advantage of the present “demographic bonus,” characterized by an abundance of young people of working age. The current age distribution in Guatemala, Honduras, and even in Nicaragua, offers greater leeway for tapping the advantages of the demographic transition than in countries whose transitions are more advanced (Costa Rica, Panama). This situation offers a window of opportunity for the Central American societies, with their high levels of social exclusion, to develop and upgrade the capabilities of their populations.

Prepare to prevent the uncertain and volatile international economy from closing growth opportunities

The recent global crisis revealed the risks and limitations of using foreign trade and economic liberalization as the sole strategies for promoting growth. While international markets are certainly crucial for small open economies like those of Central America, existing production structures do not adapt automatically to open trade policies. With the exception of Costa Rica, Panama and, to a much lesser extent, El Salvador, the isthmus exports agricultural products and manufactured goods of low-technological content and limited value added. Since this makes it difficult to improve the terms of trade, the volatility of the region’s leading export markets had a severe impact on the nations with less developed export sectors.¹¹

In order to successfully integrate into the international economy, the countries must design and implement competitiveness strategies that strengthen productive, social and fiscal linkages, with a view to evolving toward having a diversified supply of exports with high value added that enables them to expand and diversify their markets, including their domestic markets.

The Central American countries would be hard-pressed to compete on the basis of commodities, as their supply of natural resources and raw materials is greatly surpassed, for example, by the South American countries.

It is not sustainable or fair, in terms of productivity and potential social conflicts, to pursue policies that focus on reducing the cost of labor and indiscriminately offer tax incentives to attract foreign investment.¹² Seen from another perspective, these constraints can be regarded as an opportunity for Central America to adopt a strategy of integration that develops a more qualified work force, increases technological content in its products, and strengthens regional linkages and complementarity among the different production sectors, while at the same time promoting the rational use of biodiversity resources and agricultural lands. As already mentioned in previous Reports, this will reduce risks and better position the region as a solid platform for the intra-regional market and for taking advantage of external markets.

Prevent a new era of chronic public deficits from limiting development policies

The contraction of economic growth has rapidly eroded the countries’ fragile public finances. Government measures to mitigate the economic and social impacts of the crisis, together

with falling tax revenues, have sharpened the fiscal deficit. To cope with this problem, governments have resorted to internal and external borrowing.

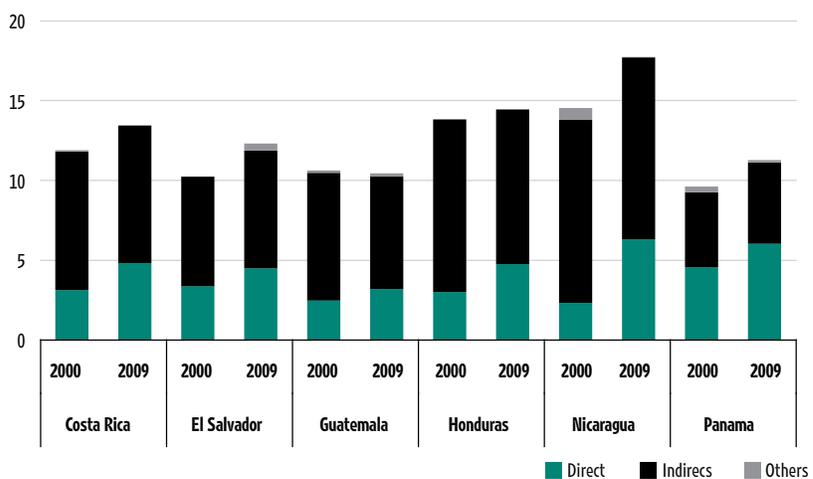
Fiscal erosion has highlighted the inadequacies of processes to reform public finances. Not only was the impact of economic contraction a factor, but so was the profile of the tax structure, both in terms of tax evasion or avoidance and the heavy reliance on indirect taxation, which is more sensitive to external shocks (figure 1.7). Thus, in 2009 tax revenues fell throughout the region, while spending held steady or even increased. In every case, this translated into a negative fiscal balance, which reached levels not seen in the region since the 1980s (BCIE, 2010)

At the same time, increased government outlays tended to be concentrated in recurrent expenditures (of a permanent nature), with little or no room for investing in capital outlay (except in Panama). Most countries now face the dilemma of “fiscal traps,” a situation created when a fiscal imbalance is financed with new debt, without taking into account the matter of sustainability.¹³ Given the countries’ low tax burdens

FIGURE 1.7

CENTRAL AMERICA

Tax burden, by type of tax. 2000 AND 2009 (as percentage of GDP)



Source: Based on ECLAC data.

—around 14% for 2009— the financing needed to ensure the sustainability of their programs and to cope with the financial burden of the debt bring new fiscal pressures to bear that threaten stability and earlier social gains.

A number of options exist for reducing this risk, including measures to improve the State's capacity to implement fiscal reform in order to gradually augment tax revenues, increase the share of taxes from direct sources, and improve the distribution and efficiency of public expenditure

Imbalances may cause a regional rift

In recent years, the imbalances among the Central American nations have deepened and new ones have emerged. Aside from the socioeconomic differences that divide the region into at least two groups, there has been a sharpening of disparities caused by cracks in the political arrangements and weaknesses in the rule of law in general.

It is reasonable to assume that, as certain imbalances become more pronounced, there will be a greater likelihood of a regional split, this being understood as countries' inability or unwillingness to undertake joint actions to address common challenges and strengthen the links between their societies. Since each country faces different challenges with very different capabilities, there is a greater temptation to pursue individual responses. In such circumstances, governments prefer to address regional issues separately, or do so in subgroups which exclude other nations. Indeed, a close examination of the region clearly shows that the better performing countries tend to act separately. In general, mistrust seems to prevail in all countries when it comes to coordinating initiatives with States that are as weak as, or weaker than, themselves.

In the four larger countries, there has been a progressive deterioration of the rule of law. In some cases, this even threatens the political system itself. In the last three years, major cracks have appeared in the system of checks and balances of three nations (Chapters

6 and 8). The most alarming example is Nicaragua, where power has been concentrated in the Executive Branch and extends into the other branches of government, including all the oversight bodies. In Honduras, a clear alignment of the Legislative and Judicial Branches was evident in the coup d'état, while in Panama the present government influenced the membership of the Supreme Court of Justice and exerts constant pressure by subordinating the oversight bodies. These anomalies intensify the unstable nature of the judicial system, as noted in the 2008 Report with reference to Guatemala. Thus, the numerous threats and risks appearing in the region's institutions are creating a new gap among the countries, one that appears to thwart the aspiration of consolidating democracy and the rule of law after two decades of contested elections, electoral continuity, and alternating access to power.

In some Central American countries, citizen safety has been lost and the basic pact of respect for human life has been broken. Homicidal violence is widespread in the isthmus, but with marked contrasts as to the severity of the problem in the different countries and subregions. For example, in the four northernmost countries,¹⁴ reported homicide rates exceed 30 per 100,000 inhabitants, far more than those reported for Nicaragua, Costa Rica and Panama (Map 1.2).

Although crime and insecurity have become widespread, joint initiatives to tackle these problems have been hampered by differences in response capacity and a lack of complementarity between the security and justice sectors.

Economic dynamism, formal employment and social security coverage continue to accentuate the differences between the two southern countries and the rest of the isthmus. Costa Rica and Panama not only reported the best performance during the expansive cycle (2004-2007), with growth rates higher than the Latin American average, but they also managed to recover more quickly from the crisis. In the case of Costa Rica, this is partly explained by

increased productivity and the diversification of exports and destination markets, and in the case of Panama, by public investment programs and consolidation of a niche of highly competitive services. Consequently, over 40% of the region's GDP is concentrated in the extreme south of the isthmus, even though it is home to only around 20% of the Central American population. This explains its higher per capita incomes, which double those of the other nations. As for social security—one of the greatest gaps— while in 2008 Costa Rica and Panama managed to cover approximately eight out of every ten inhabitants, in El Salvador, Honduras, Nicaragua and Guatemala barely two out of ten people enjoyed that benefit.

Although poverty increased in nearly all the countries during the economic crisis, this phenomenon was most notable in the three largest countries (Guatemala, Honduras, Nicaragua), home to two of every three Central Americans. Comparatively speaking, while in Latin America one-third of the population lives in poverty, in Central America one in every two inhabitants is poor. Costa Rica and Panama are the only Central American countries where poverty is below the Latin American average.

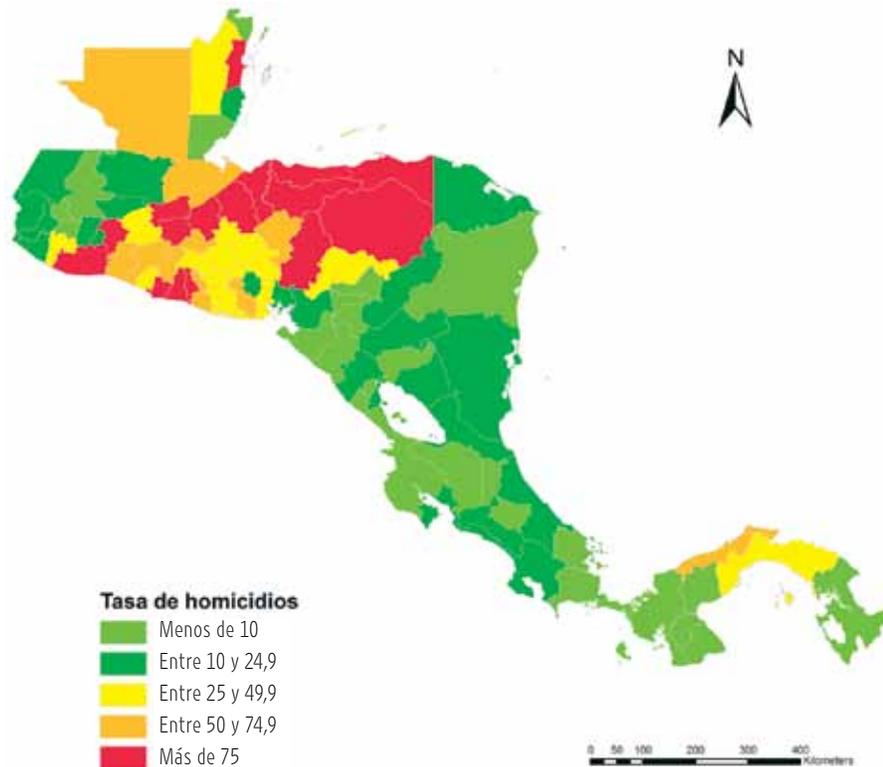
The inequalities affecting the region are also reflected inside the countries. This is evident in the gaps between rural and urban areas (Map 1.3), between different social classes and groups, but it mostly affects women, young people, indigenous communities, and Afrodescendant groups, as well as persons with some form of disability. Poverty affects indigenous peoples more than any other group; in Panama this problem is acute, since nine out of ten indigenous rural inhabitants live in poverty, while in Guatemala, for every poor non-indigenous person there are two poor indigenous people.

According to the social exclusion approach (Chapter 10), which provides a more comprehensive view of deficits than traditional poverty analyses, Central American markets and States have a limited capacity to guarantee

MAP 1.2

CENTRAL AMERICA

Homicide rates at the departmental level^{a/}. 2010
(per hundred thousand inhabitants)



a/ Based on World Bank, 2011, based on Cuevas and Demombynes, 2009.

Source: Alfaro, 2011 with data from Mendoza, 2011.

the population a decent livelihood, either through employment in the labor market or through access to education and social security. There are major differences in the magnitude of exclusion throughout the isthmus: exclusion is sharper in the central and northern countries, namely Guatemala, El Salvador, Honduras and Nicaragua, home to 80% of the population of the region. In these nations, nearly 40% of households, on average, are characterized by social exclusion. Panama is in an intermediate position, with exclusion affecting nearly 30% of households, but with a striking gap between urban and rural areas. Finally, in Costa Rica the exclusion rate is much lower, though not insignificant, given that one in every ten households falls into that category.

Lack of adequate nutrition is another problem causing enormous gaps in the region. While Central America has achieved sustained progress in other health indicators, child malnutrition remains a chronic problem, especially in rural areas. The regional rate is 34.9% of all children under 5 years, the highest of any other Latin American subregion. According to figures for 2008, while in Costa Rica an estimated 2% of children are malnourished, in Guatemala over half of all children have chronic malnutrition. In Panama, Honduras and El Salvador between 23% and 31% of children are malnourished. Nicaragua is also below the regional rate, and below that of the three previous countries, at 19.3%. Considering that malnutrition mostly affects the more densely populated

countries, which also have a larger population of youths, this is likely to complicate the regional challenge of taking full advantage of the “demographic bonus” afforded by the age structure in most of these countries.

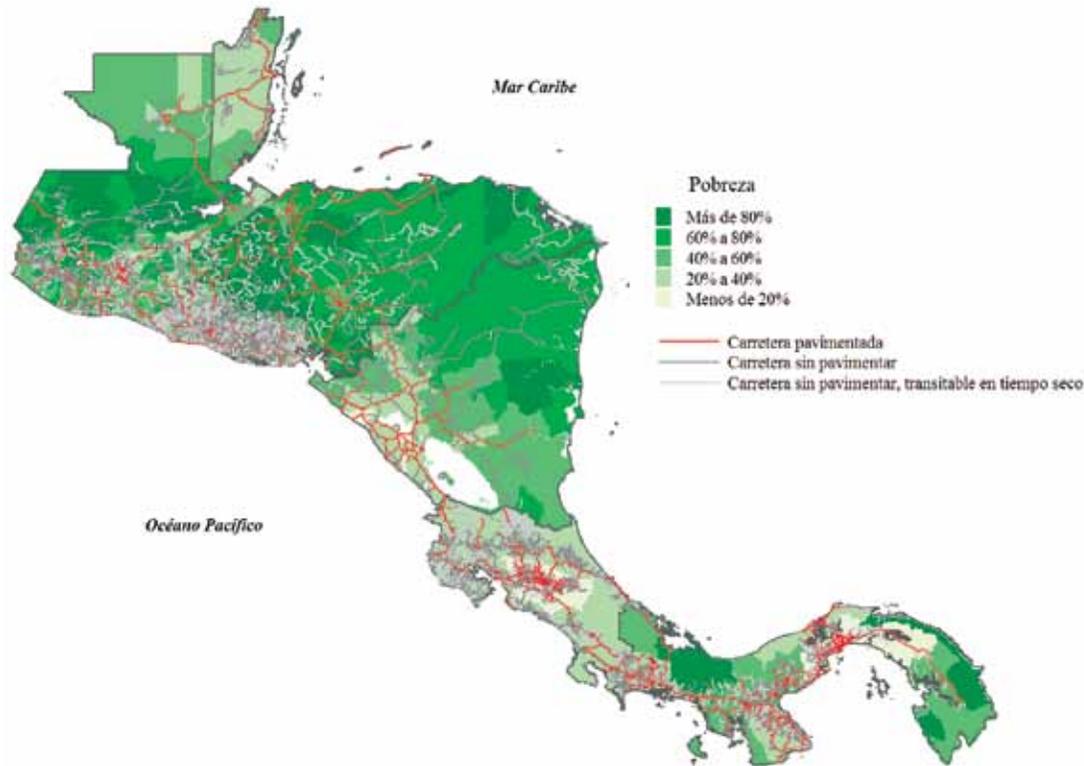
As is to be expected, the gaps in social exclusion also correlate with large differences between countries in terms of tax revenues and social spending. A comparison of the per capita tax burden for the period 2006-2009 shows that three nations –Belize, Costa Rica and Panama– collected between US\$679 and US\$912. El Salvador was in an intermediate position (US\$432), while the largest and poorest countries (Guatemala, Honduras and Nicaragua) collected less than US\$300 per inhabitant. Particularly striking is the fact that no country in the isthmus reached the Latin American average for the same period (US\$1,181).

Although social spending tended to increase during the last decade, it still remains low, with marked contrasts at the regional level. In 2008 Costa Rica had the highest per capita social expenditure (US\$1,002), while in the three nations with the highest poverty rates the figure did not exceed US\$160. The absence of consistent social spending in most Central American countries increases the pressure on people to pay for their own basic services. One example is health, an area in which Panama and Costa Rica are the only countries where public expenditure exceeds private spending in terms of GDP. In Guatemala, Honduras, Nicaragua and El Salvador, private spending on health is double or triple that of public spending.

Given these major intra-regional imbalances, which could lead to fragmentation, the Central American integration process appears increasingly marginal, due both to the countries’ vulnerability and to their failure to define priorities better adapted to their capacity for regional action. This shows up in the gaps between their speeches, and their plans and actions. Equally serious is the self-serving attitude that appears to guide the actions of national governments, in the sense that they tend to opt for an “a la carte

MAP 1.3

CENTRAL AMERICA

Roads and poverty. CIRCA 2009

Note: the information refers to Honduras 2002, Nicaragua 2005, Guatemala 2006, Panama 2008, El Salvador and Belize 2009, and Costa Rica 2010.

Source: Bonilla, 2011, based on national poverty surveys and CCAD.

integration” that furthers their own interests, with little commitment toward the region as a whole.¹⁵ Certainly, during the last three years SICA has shown its capacity to take more pragmatic action, which is laudable from any point of view, but this Report confirms that such initiatives are insufficient to address the region’s pressing shared challenges. It is therefore imperative to strengthen the System’s capacities, and to call for greater political commitment from the countries to honor regional agreements.

If Central America is considered in the Latin American context, there seems to be little connection and alignment with what is occurring in the rest of the hemisphere. The isthmus includes a good number of countries with the worst performance in Latin

America, as well as two that rank highest in certain development indicators. Unlike South America –Brazil, for example– the two most developed Central American nations are relatively small and have not shown the capacity or the willingness to leverage progress for the rest. Furthermore, the situation in the isthmus is more complex and precarious than in any other Latin American region: its nations do not have an abundant supply of strategic commodities, such as oil, gas or food crops (and therefore, do not have the economic leeway enjoyed by the South American countries), they are trapped by the spread of social violence and the geopolitics of drug trafficking, and are highly exposed to extreme natural events.

These challenges call for the Central

American governments to implement a strategy based on solidarity and pragmatism, focusing on the main challenges to which integration can contribute value added, through the production of regional public goods such as environmental management, logistics for economic development, food security, and efforts to tackle insecurity by democratic means.

More and better regional actions are possible despite the adverse context

The political setbacks affecting the Central American integration process have undoubtedly created a more hostile environment for joint actions by the nations of the isthmus. The conflicts that erupted, both within countries (Honduras and Nicaragua) and

between them (Nicaragua-Costa Rica), have substantially reduced the scope and pace of efforts to strengthen the institutional framework for integration. They have paralyzed decision-making in the governing bodies, marginalized regional institutions as mediators of conflicts, and obstructed new agreements in areas of common interest. Does this mean that we should discard the recommendation made in the 2008 State of the Region Report, namely that, given the new challenges of the international context it is imperative to develop new regional accords to strengthen joint action?

The answer is no: even in difficult circumstances, joint regional action is possible and necessary. The argument in favor of this option is two-fold. The first is a statement of fact: even during the period 2007-2011, when conditions were very adverse for integration, joint efforts continued in areas of interest for all the countries. In other words, the room for maneuver was reduced but not eliminated; despite the situation, joint regional action brought benefits to all the Central American countries. The following efforts deserve special mention:

- In May 2010, negotiations were completed on the Association Agreement between Central America and the European Union.
- The Central American countries and the Dominican Republic implemented an initiative for the joint purchase of medicines. In 2011 this system was used to purchase fifteen types of medicines, producing overall savings of US\$22 million.
- The Electric Interconnection System, which also covers some parts of Colombia and Mexico, established market guidelines for the purchase and sale of energy, and made progress in setting up a regional electric power generation company and regional power plants.¹⁶
- Over 50% of the work to build and modernize the International Network

of Mesoamerican Highways (RICAM) –more than 6,600 kilometers– has been completed, together with several border posts and international bridges. In addition, customs posts and border crossings are being modernized; this will reduce transit times within the Mesoamerican Procedure for the International Transit of Goods (TIM)¹⁷ by up to 75%.

- In the area of security, the SICA Security Unit was created in response to calls for the approval or ratification, by each Congress in the region, of the “Central American Convention for the protection of victims, witnesses, experts and others involved in investigations and criminal proceedings, particularly related to drug trafficking and organized crime,” and the adoption of more effective measures to control small and light arms through the Central American Small Arms Control Program (CASAC).
- The Central American Organization of the Fisheries and Aquaculture Sector (OSPESCA) approved new regulations on the use of marine resources: Regulation OSP 03-10, which creates a regional satellite system for the monitoring and control of fishing vessels; OSP 01-09, which establishes a Central American fisheries registry system; and OSP 02-09, to regulate lobster fisheries in the Caribbean, which mandates a common region-wide closed season.

The second aspect of the argument is that, despite any disagreements between countries and the shortcomings of the Integration System, certain issues are still on the agenda which objectively require cooperation and for which governments have shown a willingness to act jointly. The fact that this joint action may not be inspired by an integrationist vision is not too important: the pragmatic search for solutions to problems that no country can address on its own is a powerful incentive for joint regional action.

Of the many issues on which the Central American nations can collaborate, three stand out, namely:

- A common response to the growing challenges posed by “narco-geopolitics,” as described in the 2008 *State of the Region Report*. The coordination of police action, the exchange of intelligence and information, and joint border operations are all matters of expediency for all the countries. So too is a unified regional response to the United States policy; on this issue, the United States has insisted on a regional approach, both through the Merida Initiative and through the Central American Regional Security Initiative (CARSI).
 - Shared strategies for adapting to climate change. During the Copenhagen Summit in 2009, the Central American countries drafted a joint position on climate change, which led to a regional consensus at the meeting of the United Nations Framework Convention on Climate Change (COP16), held in Cancun in December 2010. Although the countries subsequently negotiated individually with other interlocutors, they now share certain principles for tackling a problem that spans national borders and that will affect Central America more than other regions.
 - The creation of a “regional food community” (Chapter 10) as a means to cope with periods of high international food prices, which the region faced in 2007 and again in 2011. Such cycles threaten the food security of millions of households, undermine efforts to reduce high malnutrition rates in several countries, and bring pressure to bear on the balance of payments and inflation rates.
- Finally, it should be remembered that the institutional framework for integration is built upon a complex network of relationships among social and business organizations that have created dynamic channels for transnational communication in all sectors of economic activity and public life. Actions that take place within this framework do not require official endorsement, and show that even when governments show no interest in or have retreated

from regional integration, the societies of Central America are continuing to strengthen their integrationist links.

In synthesis, even without institutional reforms in SICA and, for that matter, without reforms within the States themselves, and even in an era of conflicts and disagreements among countries, there is room for more and better regional action. This statement is borne out by an analysis of interactions among regional actors, which extend beyond the formal parameters of the integration system.

Unless internal changes in the countries, integration will be limited

The likelihood of significant improvements in the vigor and dynamics of the integration process and its institutions is limited by the weaknesses and imbalances of most of the States. This is not due to the different power and capacity of the States. Differences exist in any regional integration system, and the European Community is a good example of this: it is sufficient to compare the strength of Germany with the chronic weakness of Greece.

The strategic problem of integration is different in Central America. Several countries –the larger and more densely populated ones– are institutionally and economically very weak, incapable of guaranteeing the full implementation of a democratic State based on the rule of law, or of ensuring security, public order, education and health for the majority of the population. Unless governments can meet these basic needs in societies that are in disarray, qualitative leaps toward regional integration are not possible. Under these conditions, joint approaches on certain issues can be strengthened, but it will not be possible to bring about fundamental changes in the course and depth of the integration process. After all, no building can remain standing if its foundations are weak: Central American integration is a second storey resting on the foundation of very fragile States.

Given the importance of infrastructural power to the integration process, this Report places special emphasis on examining it in the Central American

States. An entire chapter is devoted to studying the structure of the institutional frameworks (Chapter 8), and another examines the political obstacles that typically hinder robust public action to mitigate the serious problems facing the central and northernmost nations of the isthmus (Chapter 10). The main findings may be summarized as follows:

- The countries with the lowest human development indicators have incipient State institutions (around 100 public entities compared with more than 250 in Costa Rica), dominated by an Executive Branch that controls their budgets and appoints their authorities, and with corporate systems that grant veto power to certain stakeholders.
- There are powerful groups that obstruct democratic decision-making on matters of public interest and prevent citizens from scrutinizing certain sectors of public activity, thereby undermining transparency and accountability. Some of the emblematic cases documented in this Report are the barriers to fiscal reform in Guatemala and the use of Venezuelan cooperation funds in Nicaragua.
- In the countries with the lowest human development indicators, the political systems block decisive public action to address urgent social problems. Nowadays, in their efforts to meet the challenge of reducing the high degree of exclusion, these systems encounter a problem that prevents collective action: citizens do not demand action, the political parties do not want it, the State cannot deliver it and the powerful groups do not allow it.

It is hard for States not deeply involved in the social fabric and territories of their respective countries to bring their populations into economic and social processes. This results in fragmented, disjointed societies with a substantial portion of the population living outside the mainstream. A lack of internal cohesion in the countries, com-

bined with weak institutional networks, weakens Central American integration at the supranational level and subjects it to the vagaries of the government in power. It is difficult to expect vigorous regional institutions when national institutions are weak.

Stronger and more efficient national public institutions would provide a better platform for Central American integration. Thus, efforts to promote progressive tax reforms and institutional changes in several Central American countries, and to strengthen the capacity to adopt human development policies, have implications at the regional level. There are no prescriptions for achieving these goals, and certainly a State-run economy is not a viable or appropriate alternative. Vigorous States can leverage more dynamic and better regulated markets. Instead of proposing “prescriptions” for public policymaking, this Report describes the minimum political conditions required to spur economic growth, improve basic social well-being, allow the full establishment of democracy, and prevent further erosion of public order and citizen security.

The Report also underscores the need for lasting political agreements that pave the way for boosting public revenues, strengthening technical capabilities, and reinforcing the mechanisms of transparency and accountability, particularly in the countries most characterized by the threats and risks discussed above. To achieve a lasting political pact, an inclusive and horizontal coalition of political actors (parties, social movements, trade associations) needs to be built around an agreement that defines objectives, acceptable (or at least tolerated) conduct, sanctions for non-compliance, and an equitable distribution of the costs and benefits of the agreed actions.

These national accords will not be easy or cost-free. However, they do offer an alternative to the political and institutional decline being experienced in several countries in the region. Moreover, they are essential for strengthening the integrated management of regional public goods, such as natural resources, and for stability and

security. Instead of paralysis, isolated actions or false starts, at this point in time it seems more prudent to reinforce reciprocal ties between national and regional political action.



CHAPTER 1

SYNOPSIS

Overviews
of previous reports**Overview of the First State of the Region Report (1999)**

For the first time in thirty years, the region experienced, overall, a positive decade. Indeed, Central America in 1999 was in a better economic, social, and political situation than in 1990, thanks to its efforts to create political, social and economic stability, and to complete the transition to democracy. The importance of ending decades of authoritarianism and armed conflict, in terms of the region's ability to resume its path toward economic growth, cannot be overestimated. In recent years, Central America has been the only region in the world capable of peacefully resolving long-standing civil wars through a combination of regional and national actions, without the intervention of international political and military forces. Today, no social or political group justifies social inequality in the name of political stability or national security.

An important part of the progress made in this decade was built on the foundation of the Esquipulas II Presidential Summit (1987), which established a program to pacify and democratize the region. Even though the process took almost ten years to complete, the main lesson of Esquipulas II was to demonstrate that, as far as strategic matters are concerned, Central America can exist as a region. Its vision of peace helped shape the countries' democratic transition, stimulate regional commerce interrupted by the wars, and promote the emergence of a new process of regional integration as a way to promote human development.

The new round of regional integration is based on a new strategy contained in the Central American Alliance for Sustainable Development (ALIDES). It includes new countries (Belize and Panama); addresses new social, environmental, and political topics; and involves new institutions. However, the integration process still faces challenges and shows major weaknesses, even with the greater participation of civil society. Diverse visions of the region, and of the type of integration possible and necessary, exist side by side. In contrast to the austerity of Esquipulas II, regional agreements abound, and the capacity and willingness to execute them is just being built. There is also a divorce between government agendas and those of different social and economic groups. The new round comes out of a post-war era, with governments and societies obliged to resolve serious social and political problems. This integration process is under pressure not only by the necessity to show tangible results, but also by the imperative to find priority in the face of national challenges.

The economic and political achievements are unstable and, in terms of social equity and environmental sustainability, negative for the region though not necessarily in all of the countries. Central America is torn by regional fractures in its human development achievements (both among countries and within them), between different social groups (on the basis of gender, ethnicity, or exclusion) and between geographic areas that have not

been culturally and economically incorporated (Atlantic, Pacific).

At the beginning of the twenty-first century, the main challenge ahead is to consolidate Central America as a region of peace, liberty, democracy, and development. It is the challenge of consolidating a pluralistic community with a high degree of human security, based on economic growth, social equity, environmental sustainability, and robust ties through integration and cooperation in a diverse and complex region.

The Central American isthmus is made up of seven countries, ten political borders, and almost 35 million inhabitants. In an area of 533,000 km², multicultural and multilingual societies shelter indigenous peoples, Afro-Caribbeans, mestizos, and whites. It is from this diversity, and not in spite of it, that the challenge of a pluralist community may finally fulfill the "Never again!" promise of Esquipulas.

Overview of the Second Report on Human Development in Central America and Panama (2003)

The pace of progress that characterized human development in Central America in the first half of the 1990s has slowed down. Over the last four years, human development progressed at a slower rate than in the previous decade, 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 limited 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 moving ahead slowly.

The Esquipulas Presidential Summit and, a few years later, the signing of the Tegucigalpa Protocol, created expectations for sustained economic and social progress, and for an end to the devastation of civil war and social inequality.

Although this goal has not been met, it is important to recognize that basic historic, economic, and social conditions make it difficult to achieve. 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 it has not always led to new opportunities for large 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 goals, it is necessary to understand the diversity and plurality that characterize Central America.

Overview of the State of the Region Report (2008)

Central America finds itself immersed in a new and more complex international situation without having achieved, in recent years, rapid advances in human development and regional integration. The deep changes experienced by the societies of the isthmus have not been sufficient to overcome historical lags, nor have they produced the platform needed to contend with new global circumstances. This panorama poses strategic challenges that will not only require innovative and bold region-

al and national responses, but also major improvements in the collective capacity to implement them. This report proposes that these challenges be addressed collectively, so that the region and integration can be rediscovered as strengths that can supplement the actions that each State, individually, must undertake for the well-being of its population.

The isthmus faces an international situation characterized by the destructive geopolitics of security associated with drug trafficking, the increasing vulnerability of the isthmus' least developed countries in the international economy, and high international oil and food prices. None of these factors had become evident until very recently. Because of their magnitude, no country can address them alone; rather, close and effective collaboration will be necessary to solve practical problems. These new challenges compound the historical lags of the isthmus, which have not been overcome in any meaningful way due to Central America's constrained economic and social performance since 1990, and the opportunities for moderate growth lost at the beginning of the 21st century. In general, performance was lower than the average for Latin America, a region that itself did not show remarkable results at the world level. As noted in the first two regional reports, the growth observed after the advent of peace in the isthmus was very quickly exhausted. Now Central America is facing a new and more compelling international situation with the burden of important historical deficiencies: a cheap and unskilled labor force, majority poor populations, a large emigrant population, environmental degradation, and weak rule of law. This scenario reduces the strategic options available for addressing new challenges. Central America, as a region, needs to take firm steps in each of these areas.

This report recognizes that, from many perspectives, Central America is no longer what it used to be. The populations of its countries have grown, they are increasingly urban, their economies

have opened up to the international system, and their governments are electoral democracies. These are remarkable transformations. Nonetheless, all these social, demographic, economic, and political changes do not translate into noticeable improvements in human development, nor have they converted the isthmus into a dynamic pole of economic growth and social progress. In fact, these changes have widened the deep gaps between countries and even greater ones inside the countries themselves.

Current challenges demand a new way of understanding Central America and living in it. The region's achievements over the past twenty years give reason for cautious optimism. Despite tremendous difficulties and evident shortcomings, it was able to move forward on a three-pronged path of transition: from war to peace, from authoritarian rule to democratic political systems, from war economies to open economies. If two decades ago the region was able to begin relinquishing authoritarian rule and armed conflict, today, with a greater awareness of its needs and potential, it can also meet the challenge of ushering in an important period of progress in human development, in the context of new and narrower international conditions.

Central America has unquestionable strengths for navigating these waters: it has a privileged international location, it is home to a hub of world trade, it is rich in biodiversity and has great potential sources of renewable energy, which are appreciating greatly in value in light of scientific progress and the effects of climate change. It has achieved greater political stability and has many years of experience (albeit not fully exploited) with regional integration. But these strengths cannot be easily tapped. It will be necessary to forge national and regional political agreements, reform the institutions of Central American integration, modernize the national States, and implement coordinated public policies in order to move regional actions forward while simultaneously promoting the interests of each country.

CHAPTER 1

SINOPSIS

Chapter-by-chapter
summary

The *Fourth State of the Region Report* is divided into four sections and ten chapters. The first section, entitled “Regional overview,” is primarily intended to monitor the recent development of Central America based on a comprehensive platform of up-to-date indicators. Its six chapters cover demographics, social equity, economics, environment, politics and regional integration (table 1.3). The second section, entitled “Challenges of sustainable human development,” explores two issues of major importance to the region: the construction of States of and for democracy, and actions to address climate change. The third section, “Strategic dilemma,” addresses a complex problem that has the potential to threaten stability in the region: social exclusion, to which an entire chapter is devoted. Finally, the Report presents a Statistical Compendium with the corresponding definitions, sources and technical notes.

Given the importance of the strategic dilemma, the summary of this Report begins with that chapter.

The strategic dilemma of reducing social exclusion (Chapter 10)

Objective

To examine the conditions under which a lasting political pact can be achieved for reducing social exclusion

TABLE 1.3

Structure of the *Fourth State of the Region Report*

Section	Objective	Chapters
Regional overview	Monitoring trends	2. Demographic panorama 3. Social panorama 4. Economic performance 5. Environmental panorama 6. Political panorama 7. Regional integration
Challenges of development	Exploring issues of regional interest	8. El desafío de los Estados de y para la democracia 9. El desafío de enfrentar el cambio climático
Strategic dilemma	Prospective analysis and probable solutions to a regional problem	10. The strategic dilemma of reducing social exclusion
Statistical Compendium	Compilation and systematization of comparative indicators	Statistical annex Definitions, sources and technical notes

in highly inequitable societies characterized by semi-democratic systems and intense and widespread social violence.

New in this report

■ This approach goes beyond the usual poverty study: it introduces the

concept of “social exclusion,” and the link between social exclusion and political systems.

■ It analyzes the intensity and profiles of social exclusion, based on a reprocessing of household surveys conducted

in the Central American countries during the period 2001-2009, as well as ethnographic interviews.

- It estimates the costs of public policy actions to combat social exclusion.
- It includes interviews with key political actors to examine the viability of policies to combat exclusion.
- It uses scenario methodologies to study the dynamics of political systems, in order to identify critical factors for overcoming obstacles to public policies addressing exclusion.

Papers prepared for this chapter

- Juan Pablo Pérez Sáinz, Rafael Segura and Diego Fernández. 2010. “Sociedades fracturadas: la exclusión social en Centroamérica”.
- Claudia Dary. 2010. “Perfiles de la exclusión social en Centroamérica: un enfoque cualitativo”.
- Carmelo Mesa-Lago. 2010. “Sistemas de pensiones en Centroamérica: estudio comparativo sobre la capacidad de los sistemas de pensiones en Centroamérica para enfrentar la crisis actual y los posibles efectos en los principios fundamentales de la seguridad social.”
- Juliana Martínez. 2010. “Sistemas de atención médica en Centroamérica: estudio comparativo sobre su capacidad para enfrentar la crisis actual”.
- Néstor Avendaño. 2010. “Costo de la inclusión social en Centroamérica.”
- Dina Fernández and Enrique Naveda. 2011. “Truco o trato: mecanismos para la obstaculización de la reforma tributaria en Guatemala.”
- Carlos Salinas. 2011. “La privatización de la cooperación venezolana en Nicaragua”.
- Jorge Vargas Cullerell and Pablo Ramírez. 2011. “Dilema estratégico: planteamiento y verbalización de escenarios”.

Summary of the argument

In Central American countries with heightened social exclusion, political systems obstruct efforts to implement public policies aimed at reducing exclusion. When social exclusion interacts with other strategic variables—high levels of social violence, weak public institutions, and development style—the obstacles can jeopardize the region’s future stability. This can lead to the emergence of “degraded States.” However, this outcome is not inevitable: lasting political agreements can be an effective antidote and can trigger alternative courses of development.

Key findings

- Social exclusion affects almost 40% of households in Guatemala, El Salvador, Honduras and Nicaragua.
- With the exception of Nicaragua, there is no evidence that exclusion levels have decreased in the last decade, despite economic growth.
- In the countries most affected by this problem, education, health, and social security systems are less capable of integrating excluded populations.
- Key actors show little political will to introduce basic measures to reduce social exclusion, such as universal primary education, basic universal health care, and non-contributory pensions.
- The cost of actions to reduce (not eradicate) exclusion to approximately half current levels would amount to 3% to 4% of GDP in countries where the problem is most severe.
- Continued obstruction of actions to reduce social exclusion can severely erode the political foundation of the democratic order and contribute to the emergence of “degraded States.”

Conclusions

At the close of the first decade of the 21st century, around 3.252.000 households (15 million people) in the isthmus

still lived in abject poverty, with little or no access to jobs and extremely low levels of education. This situation prevents these populations—and will prevent their children—from obtaining better jobs and social security, condemning them to living on meager incomes, exposed to premature death, and to high and ever-present risks to their safety. These households have been abandoned both by the market and by the State, a condition that this Report defines as social exclusion.

There are marked differences in the prevalence of exclusion between the Central American nations and within them. While the problem is obviously less severe in the southern countries of the isthmus, which have the highest human development indices, it is very widespread in the central and northern countries: Guatemala, El Salvador, Honduras, and Nicaragua (the so-called CA4 group). Panama has a dual situation: social exclusion is low in urban areas but very high in rural zones.

In the CA4 countries, which are home to around 80% of the Central American population, nearly four out of every ten households, on average, can be characterized as social excluded (figure 1.8). The problem is worse in rural areas. With the exception of Nicaragua, where exclusion was significantly reduced between 2001 and 2005, little progress was made in the region during the first decade of the 21st century. However, the fact that social exclusion has not been measured recently in Nicaragua makes it impossible to know whether this change was lasting or circumstantial.

An analysis of the state of affairs—or “strategic situation”—in countries with high levels of social exclusion reveals a negative balance between opportunities for and constraints on the implementation of decisive action to combat exclusion (table 1.4). Current economic, social, institutional, and geopolitical conditions offer little scope for action, which means, essentially, there is little will to change the prevailing situation.

Achieving a significant and sustainable reduction in the levels of social

exclusion –what the chapter calls the “leap to inclusion”– is impossible without cooperation among the political forces, necessary for paving the way for government efforts to expand the population’s social guarantees and promote more dynamic labor markets. Such cooperation is termed a “lasting political pact.” However, given the initial strategic situation, there is little likelihood of an enduring political pact.¹⁸ The factors analyzed to determine that likelihood were the following:

- Citizens’ demand for inclusion.
- Political will.
- The infrastructural power of the State.
- Exercise of factic powers (by powerful factions or groups).

The chapter examines why the following occurs in the countries where social exclusion is most pronounced: citizens do not vigorously demand an agreement to address a problem, the political parties do not want one, the State cannot push for one, and powerful groups block it (table 1.5). Faced with this impasse and an ongoing multi-threat scenario, these societies run the risk of sliding into a situation that this Report calls “degraded States,” that is, a type of dysfunctional State that is incapable of fulfilling the basic functions of any modern state: providing order and predictability to social relations. A degraded State is at constant risk of plunging into an even more extreme situation of dissolution, to become a failed State.

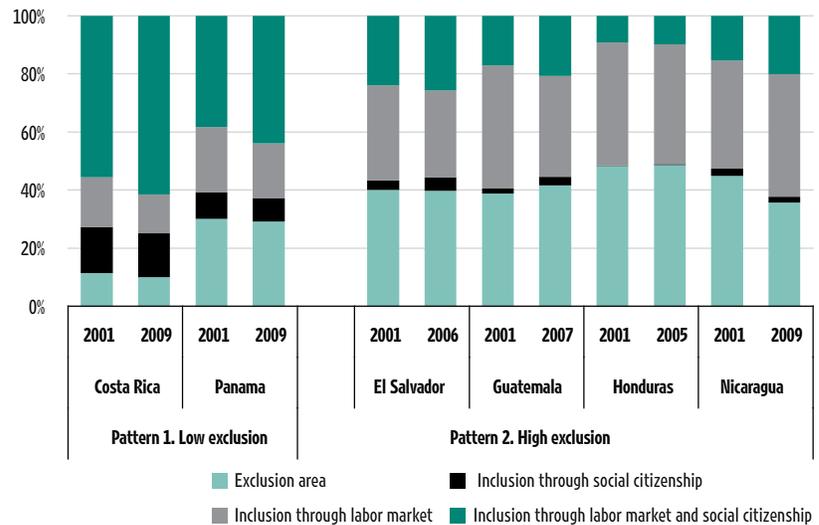
Under deteriorating political conditions, a likely reaction is that elite groups will orchestrate efforts to defend their positions of power. These responses, termed “false starts,” may shift the balance of political and economic power in favor of certain groups, but they will not significantly alter any of the factors that cause the slide toward the degraded State scenario.

This chapter argues that the emergence of degraded States is not inevitable.

FIGURE 1.8

CENTRAL AMERICA

Households according to their social exclusion/inclusion situation, per country. 2001–CIRCA 2009



Source: Based on Perez-Sainz, Fernández y Segura, 2010.

TABLE 1.4

Strategic situation of the Central American countries with high social exclusion

Criterion	Situation	Countries
Type of international insertion	Agroexports with processing plants (maquila) and migration Weak economic results, low probability of advantageous international insertion	Guatemala Honduras El Salvador ^{a/} Nicaragua
Institutional framework	Weak infrastructural power of the State	Guatemala Honduras El Salvador ^{a/} Nicaragua
Trends in citizen security	High levels of social and criminal violence, intense citizen insecurity. Rule of Law fragile or incipient, and application of “tough on crime” policies Very high probability of threats from illegal actors to the democratic order	Guatemala Honduras El Salvador ^{a/}
	Low social and criminal violence, increasing citizen insecurity. Rule of Law is fragile or incipient, little or no application of hardline policies to combat crime High probability of threats by illegal actors to the democratic order	Nicaragua

a/ El Salvador has attempted to consolidate a regional logistics center.

Source: Based on 2008 State of the Region Program, and Perez-Sainz et al., 2010.

However, it is the most likely outcome if nothing different is done to change the strategic situation prevailing in several Central American countries. Despite the narrow margin for action stemming from the erosion of original conditions, it is the actions and omissions of social and political forces that shape history. Therefore, an alternative scenario is possible, one that overrides the reluctance of political systems to undertake social redistribution efforts, which are a requisite of any program to combat exclusion. In such a scenario, the interaction of the following causal factors will significantly increase the likelihood of a lasting political pact:

- The emergence of a lethal, immediate and imminent threat;
- The design and implementation of a conditioned external aid program;
- The possibility of opting for “false starts” (or spurious solutions), particularly alliances with illegal actors.

The factor that will unblock the political systems is the emergence of a clear threat that cannot be ignored and that has dramatic consequences for people’s lives and property. Such a threat would systematically impact the immediate circumstances of prominent members of the elite, as well as broad swathes of the population—including a good part of the elites—and would not be the result of class conflict but of conflicts that cut the social fabric “vertically.”¹⁹ This threat appears even when “false starts” have been made to prevent the slide toward a degraded State, and exceeds the forces and resources of the political parties and powerful groups individually considered—even the most influential—which means they cannot save themselves without the cooperation of other sectors of the population. It is a kind of “black swan event,” unforeseeable and with cataclysmic effects, the seed of which was already planted but is generally unrecognized.²⁰ This chapter describes some situations that have the potential to turn into lethal, immediate and imminent threats.

Good reasons (humanitarian, development considerations or others) will not resolve the political impasse: they have not worked before and they will not work now. Fear of a threat is what forces changes in political behavior. Without the threat, the players do not fully perceive the risks embedded in the initial strategic situation and the consequences of politically blocking social redistribution.²¹

In the alternative improved scenario, political actors receive signals that powerful groups will not block certain agreements. In addition, the critical situation causes citizens to intensify their demands for solutions. Under these conditions, the likelihood of a lasting political pact is intermediate, where the chances of success (reaching an agreement) and of failure are similar. In other words, lifting the blockage creates a better political climate but does not guarantee an agreement. Securing an agreement will always depend on a factor that is difficult to assess: the skill of the political actors, their intelligence and flexibility in taking advantage of opportunities. However, the important point is that this alternative scenario no longer has structural barriers to a political accord, a substantial change with respect to the scenario that leads to a degraded State. In the latter, the probability of such a pact was negligible because most of the causal factors were weak and the inhibiting influence of powerful factions was very strong.

In the alternative scenario, new factors come into play that change the probabilities so that:

- There is less opposition by powerful groups to social redistribution (“the powerful no longer obstruct”)
- There is increased political will to act on redistribution (“the parties now wish to act”)
- Citizens’ demands intensify (“citizens demand action”)
- The state’s infrastructural power is strengthened (“the State can act”).

A substantial expansion of the State’s infrastructural power is both a requirement and a consequence of a lasting political pact to overcome social exclusion. The question is how to prevent a stronger State from being commandeered by a particular faction to reinforce its power, using it as the basis for an authoritarian or hybrid regime with greater capacity to turn against society. To avoid such an outcome, the expansion of infrastructural power must provide intrinsic guarantees for all. Unlike Hobbes’ Leviathan, which advocates an indomitable higher order, this expansion should be part of a more generalized process of State-building: a State of and for democracy (O’Donnell, 2010 and Chapter 8 of this Report). This will provide the State with the means

TABLE 1.5

Probability of reaching a political agreement to reduce social exclusion under prevailing political conditions

Type of variable	Description	Probability of occurring
Primary	Citizens’ demand for action to address social exclusion	Intermediate
	Infrastructural power of the State	Very low
	Political will to combat social exclusion	Very low
	Power of veto of powerful groups	Very high
Principal	Political pact to reduce social exclusion	Very low

to uphold agreements, paving the way for citizens' scrutiny of public actions and reinforcing social citizenship in a context of liberties and rights. Strengthening States that are hostile to democracy creates storms. Instead, it is necessary to lay the material foundations for the exercise of democratic power.

Section "Regional overview"

This new section of the *State of the Region Report* documents the main changes noted since 2008, when the previous edition was published, vis-à-vis several aspects of importance to sustainable human development in the region. A descriptive monitoring approach is used, with the aim being to examine the scale, direction and pace of processes and trends for a select but diverse set of issues, based on secondary information gathered,

reprocessed and analyzed for this purpose. This section consists of six chapters that provide a regional overview of Central America's development during the last decade, with a focus on demographic, social, economic, political and environmental aspects and on regional integration.

Chapter 2. Demographic Panorama

Key question

Which changes in the region's demographic profile bring about new challenges for development?

All the Central American countries are undergoing a demographic transition characterized by accelerated growth in the size of the working-age population. In the coming decades, the proportion of young people relative to the inactive or dependent population

will be the highest in the region's history. Major challenges must be addressed to take advantage of the opportunities afforded by this juncture. For countries that lag behind in the transition (Guatemala, Honduras and Nicaragua), the most urgent tasks are to increase the coverage and quality of education, health and sanitation services, and to improve the supply of and access to food. However, the low level of public investment in these nations will make it difficult to accomplish those objectives. The challenges for Costa Rica and Panama are to increase the productivity of a relatively well-qualified work force and to create sufficient good-quality jobs, tasks that require greater efforts to stimulate production and innovation. Although the first group of countries must also improve in these areas, their margins for maneuver

DIAGRAM 1.1

CENTRAL AMERICA

Alternative scenario for improved chances of a lasting political pact to overcome social exclusion

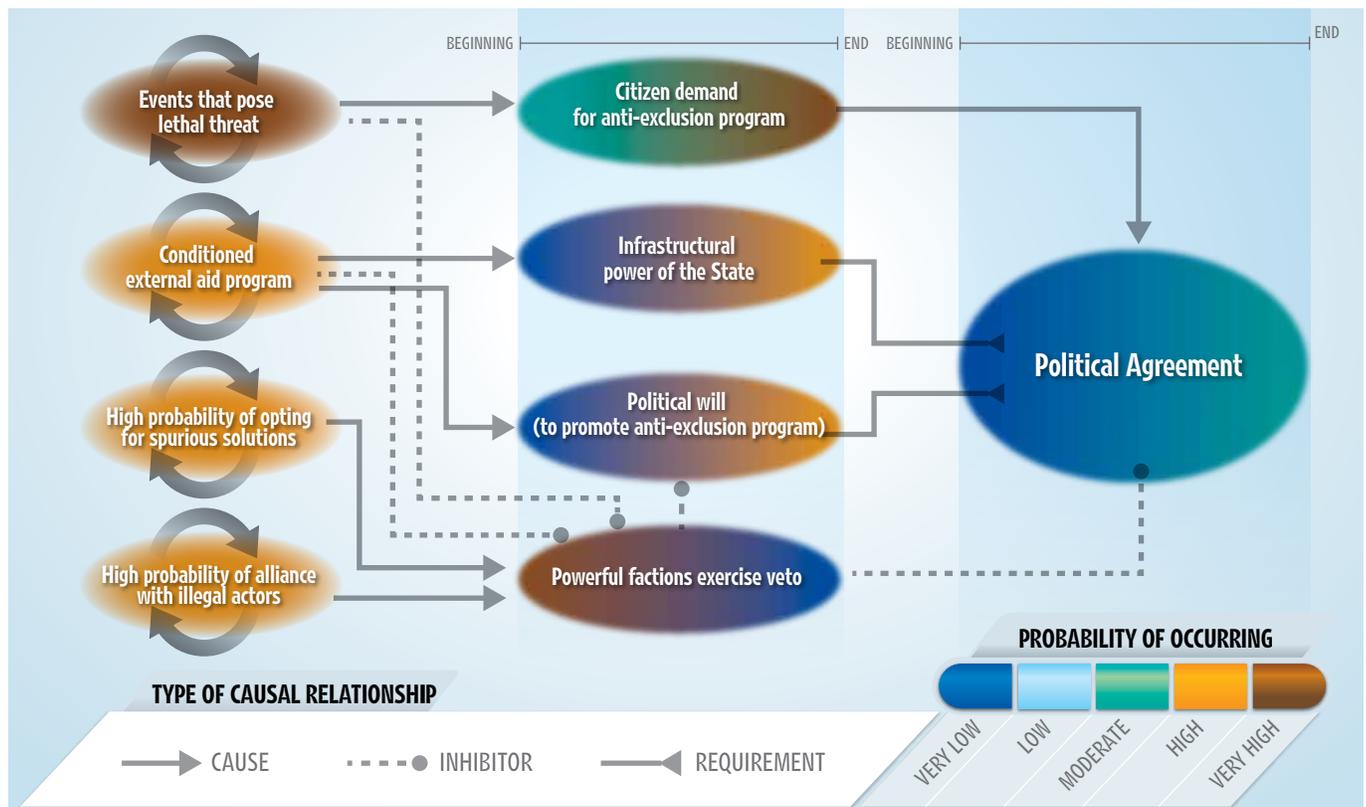
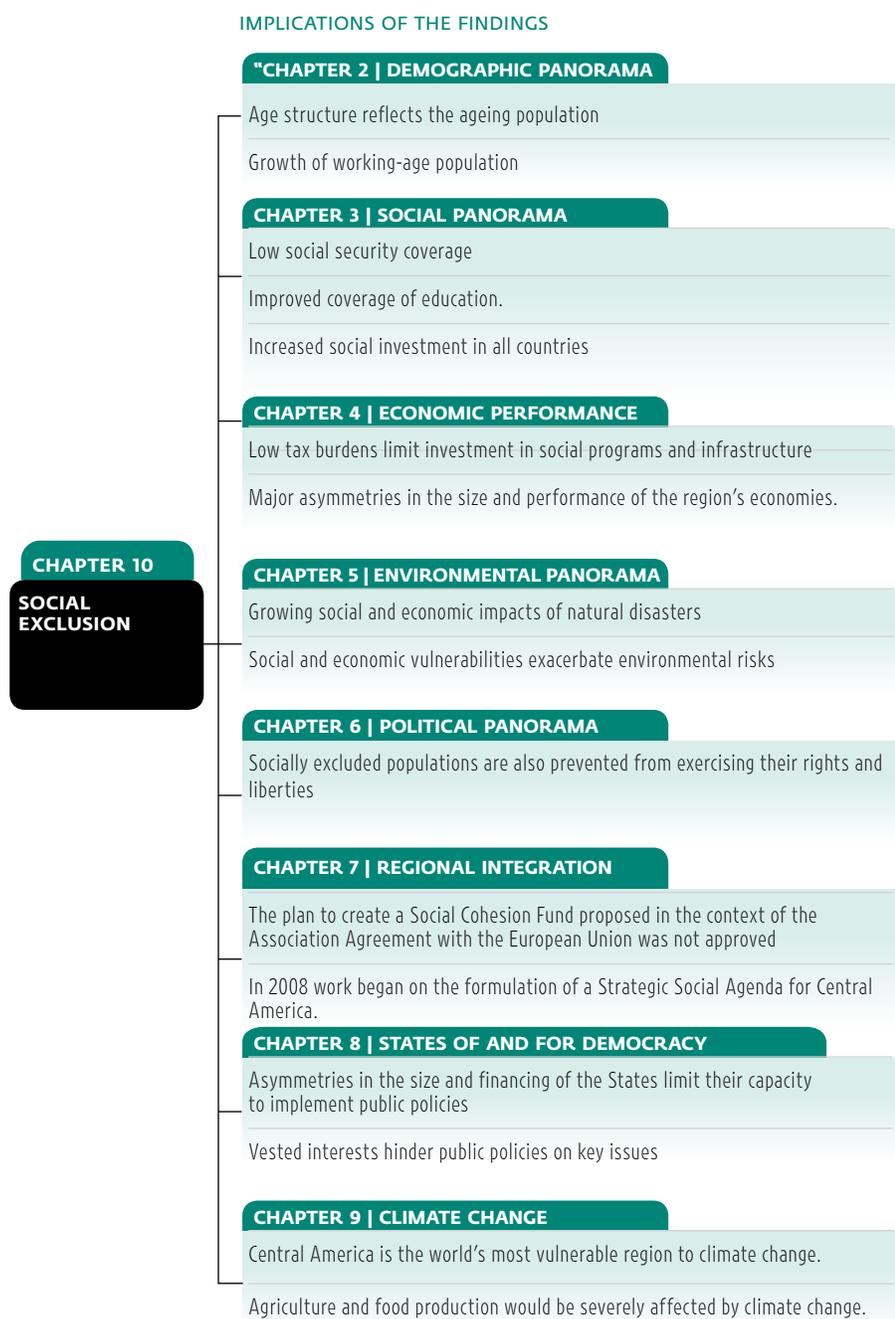


TABLE 1.6

Links between the chapter on Social Exclusion and other chapters



are very different. While Guatemala, Honduras and Nicaragua still have thirty or forty years to achieve the targets, in Costa Rica and Panama this window of opportunity will close during the present decade.

Over the long term, the transition

poses another challenge. In the coming decades the workforce will have to be highly productive in order to generate the revenues needed by economies with increasingly fewer workers and more people dependent on them. But if these young people are lacking in good health

and education, they will not be able to access good jobs and their productivity will be low. And if, in addition, they do not have social security, their future, and most likely that of their families, will be at risk. Low social security coverage means that large population groups currently active in the labor market face the risk of a future without health care services or sufficient income to meet their basic needs.

The demographic transition not only highlights historic gaps in Central America's development, but also places it at a crossroads that creates strong tensions between short- and long-term objectives. Unless the necessary investments are made to meet those challenges, it will be difficult to contain migration, and important segments of the population such as young people, indigenous communities, women, Afro-descendants and rural inhabitants, will continue to be neglected. This will produce frustration and squander a valuable opportunity to promote development in the region.

Key findings

- The pace of demographic transition varies greatly among the countries. For Costa Rica and Panama the "demographic bonus" will end before 2020, while Guatemala, Honduras and even Nicaragua still have thirty to forty years to take advantage of that opportunity.
- The working-age population (15-64 years) increased by nearly 4 percentage points during the last decade. This group now accounts for 59% of the region's total population and by 2020 it is expected to reach 62%.
- The population above the age of 65 is the fastest-growing age group in the region. By 2025, in Costa Rica and Panama there will be more than 40 elderly people for every 100 people under the age of 15.
- Nearly two-thirds of Central Americans live in urban areas. Although during the period 1970-

TABLE 1.7

Links between the chapter "Demographic Panorama" and other chapters

IMPLICATIONS OF THE FINDINGS

CHAPTER 3 | SOCIAL PANORAMA

Lags in capacity building limit efforts to take advantage of the demographic bonus
Ethnic, geographic, gender and age gaps persist
Several countries strengthened their non-contributory pension schemes for poor senior citizens .

CHAPTER 4 | ECONOMIC PERFORMANCE

Remittances from migrants are essential for the economic stability of several countries.

CHAPTER 5 | ENVIRONMENTAL PANORAMA

Urban expansion generates growing environmental pressures and new scenarios of risk and vulnerability..

**CHAPTER 2
DEMOGRAPHIC
PANORAMA**

CHAPTER 6 | POLITICAL PANORAMA

New legislation and practical actions to reduce political exclusion and barriers to the exercise of civil and political rights by indigenous groups, disabled people, the elderly and those resident abroad .

CHAPTER 7 | REGIONAL INTEGRATION

Increased participation by vulnerable groups, such as indigenous and Afrodescendant communities, disabled people, women and young people

CHAPTER 8 | STATES OF AND FOR DEMOCRACY

Limited institutional capacity prevents universal and homogeneous coverage of public services for the entire population
Disputed territories with a weak State presence .

CHAPTER 9 | CLIMATE CHANGE

Rural populations and agricultural activities highly vulnerable to climate change.
Demand for water and environmental externalities increase as a consequence of population growth .

CHAPTER 10 | SOCIAL EXCLUSION

Reducing social exclusion is necessary to take advantage of the "demographic bonus".

2010 the number of rural inhabitants also grew (almost 2% annually), it did so at a much slower pace than the urban population (between 3% and 4% annually).

■ In the period 2005-2009, 7 out of every 100 foreigners residing in the United States were Central Americans. Forty percent of Central American immigrants in the United States were from El Salvador.

Chapter 3. Social Panorama

Key question

In recent years, what were the main factors that encouraged or limited efforts to develop the capacities of Central Americans?

In terms of building human capacities, the most significant achievements were advances in education coverage and improvements in key indicators, such as child mortality and life expectancy, as a result of increases in per capita social public spending in all the countries of the isthmus. In contrast to other crisis periods, available information suggests that during the economic contraction of 2008-2009, the governments did not cut social investment in an attempt to balance the public finances. While these are steps in the right direction, in the coming years it will be crucial to sustain them so higher levels of social development can be achieved in the region.

Further progress was hindered by the intensity of the hardship suffered by the majority of Central Americans. Despite a modest decline in income distribution inequalities in several nations (not all), inequities remain very high. While the economic crisis of 2008-2009 partially reversed the reductions in poverty achieved in previous years, it did not annul the gains altogether. Major social gaps persist in different areas in all the countries, along with the disadvantages that affect indigenous populations, women, young people and disabled people.

Few changes have been introduced in recent years in the design and execution of universal social policies (that target the population as a whole). The situation in countries with weak social institutions and incipient universal policies –the so-called CA4 nations (Guatemala, El Salvador, Honduras and Nicaragua)– remains the same. Nevertheless, during the last decade all the countries introduced innovative social programs specifically targeting the poor, such as conditional cash transfer (CCT) programs, as well as increases in non-contributory pensions for senior citizens.

TABLE 1.8

Links between the chapter on the "Social panorama" and other chapters

IMPLICATIONS OF THE FINDINGS

CHAPTER 2 | DEMOGRAPHIC PANORAMA

Fertility rates decline and life expectancy increases, but with gaps between countries.

Ageing populations pose a challenge to social security systems.

Countries lagging behind in the demographic transition process face urgent challenges in education, health and nutrition.

CHAPTER 4 | ECONOMIC PERFORMANCE

Growing unemployment in all countries; women and young adults are the most affected groups.

Anti-crisis programs increase the fiscal deficit and the public debt.

Lower inflation levels favor improvements in real wages

CHAPTER 3

SOCIAL PANORAMA

CHAPTER 5 | ENVIRONMENTAL PANORAMA

Poverty and social vulnerability increase risks associated with natural disasters.

Geographic barriers limit access to natural resources.

CHAPTER 6 | POLITICAL PANORAMA

Gaps between and within countries in access to justice.

Collective actions focus on demand for coverage and quality of public services.

CHAPTER 7 | REGIONAL INTEGRATION

Integration promotes programs and projects in the areas of health, education, food security and housing.

Collective purchase of medicines.

CHAPTER 8 | STATES OF AND FOR DEMOCRACY

Poverty limits access to justice.

Weak and inequitable public social security systems.

Low infrastructural power of the State impedes implementation of social policies.

CHAPTER 9 | CLIMATE CHANGE

Environmental vulnerabilities aggravate social exclusion.

Food security is one of the most sensitive areas to climate change.

CHAPTER 10 | SOCIAL EXCLUSION

Social exclusion approach complements poverty analysis.

A lasting political pact is a requisite for social progress.

Key findings

- In 2008, 47% of Central Americans experienced poverty due to insufficient income/consumption, while 18.6% lived in extreme poverty; this is 0.5 and 1.1 percentage points higher, respectively, than the estimates indicated in the previous State of the Region Report (2008) for the period around 2006
- The wealthiest 10% of the population receives nearly 40% of total income in Guatemala and Honduras, and around 30% in the other countries of the isthmus. The gap widened with respect to the beginning of the decade only in Costa Rica and Guatemala.
- In 2008, nearly 1.8 million Central American children under 5 years (one in three) suffered chronic malnutrition. In Guatemala the percentage is 51.9% (one in two)
- In 2008, the net rate of primary schooling in Honduras and Nicaragua was nearly 90%; for the rest of the nations it was more than 95%. For secondary education the rate fell below 70% in all countries, although both levels show improvements with respect to the beginning of the decade.
- During the period 2000-2008, social investment increased throughout the region. The sharpest increase (66.7%) occurred in Nicaragua which, along with Guatemala, invest the least in social programs: US\$110 and US\$119 per person in 2008, respectively.

Chapter 4. Economic Panorama

Key question

What types of opportunities generated by internal and external markets enhanced the well-being of the Central American population?

Central America's integration into the world economy spurred growth and expanded development opportunities for its inhabitants. This strategy has shown its potential, but also its limitations. The high economic growth rates

achieved between 2004 and 2007 –the highest since the 1960s in some countries– did not translate into comparable levels of social progress and were rapidly reversed by the sharp economic contraction of 2008-2009. These results underscore the persistent nature of inequality, as production opportunities and incomes continue to be concentrated in a few segments of the population.

Stronger integration into the world economy enabled the region to diversify its productive base but also made it more sensitive to adverse cycles in international markets. So far, public policies have proven incapable of mitigating the external shocks and the region has shown limited capacity to generate opportunities through productivity and innovation.

To ease the negative effects of the crisis, Central American governments decided to introduce expansive spending policies. Combined with the sharp fall in tax revenues prompted by the economic contraction, this led to a resurgence of fiscal pressures as of 2009, reversing the gains achieved by the countries to reduce their fiscal deficits and public debt. Financial stability continued to erode into the second half of 2010, due to new increases in international oil and food prices, which could cause a reversal in the historic decreases in external imbalances and inflation recorded in 2007-2008.

Key findings

- Most of the Central American economies experienced a contraction during the period 2008-2009, except for Panama (2.4%) and Guatemala (0.6%). El Salvador was most extensively and deeply affected by the crisis (-3.5%), entering a recession earlier than the rest of the isthmus and remaining there longer.
- The factors that drove the economic boom during the first part of the decade were also what transmitted the crisis. In 2008-2009 private capital flows fell by 21.4%, remittances by 2.4%, exports by 1.5%, and there was no growth in tourism (0.3%).

TABLE 1.9

Links between the chapter "Economic Performance" and other chapters

IMPLICATIONS OF THE FINDINGS

CHAPTER 2 | DEMOGRAPHIC PANORAMA

The "demographic bonus" will generate growing flows of workers.

Migration will limit opportunities for development in the medium term.

CHAPTER 3 | SOCIAL PANORAMA

The crisis slowed the rate of social progress.

Lower tax revenues threaten the sustainability of social policies.

Young people face greater poverty and more obstacles to entering the job market.

CHAPTER 5 | ENVIRONMENTAL PANORAMA

Disasters cause growing losses and limit countries' development.

Urban growth generates environmental and socioeconomic impacts.

CHAPTER 6 | POLITICAL PANORAMA

Weak rule of law in the States erodes legal guarantees.

CHAPTER 7 | REGIONAL INTEGRATION

Integration promotes improvements in infrastructure.

Association Agreement with the European Union joins a list of trade agreements negotiated regionally.

Customs union progresses slowly.

CHAPTER 8 | STATES OF AND FOR DEMOCRACY

Fiscal reform is a "reserved domain" in which the region's governments have been unable to intervene.

Inverse link between the size of the State and level of economic development.

CHAPTER 9 | CLIMATE CHANGE

Agriculture is highly sensitive to climate change; sugar cane, yucca, rice and wheat are the crops most affected.

Region's high dependence on polluting hydrocarbons increases economic and environmental impacts..

CHAPTER 10 | SOCIAL EXCLUSION

Social exclusion limits the region's production and consumption prospects.

Job markets are key to achieving greater social inclusion.

CHAPTER 4

ECONOMIC PERFORMANCE

- The international economic cycle affected imports more than exports. In the period 2004-2007 the region's purchases abroad increased more than its sales; in 2009 imports fell by 24.1% and exports by 11.8%.
- Intra-regional exports performed better than extra-regional exports. During the last decade the former grew by 8.5%, compared with 5.3% in the latter. This expansion was driven mainly by Guatemala, Honduras and Nicaragua.
- In 2009 Belize and Nicaragua were the only countries whose tax burden was higher than 15% of GDP. The crisis left Belize, Guatemala and Honduras with a lower tax burden than ten years earlier.

Chapter 5. Environmental Panorama

Key question

What were the main changes in the patterns of natural resource use? Were there improvements in environmental sustainability and in national strategies to promote it?

During the 2000 decade, the tendency to make unsustainable use of natural resources intensified in Central America. The region went from having a positive ratio between its ecological footprint and its land capability, to a negative ratio or "ecological debt." This means that natural resources are currently being used at a rate that exceeds the territory available, a change that reveals a major disconnect between environment and development. It also shows that the (growing) priority given to environmental matters in institutional and political speeches and arenas does not translate into concrete achievements and substantial changes in patterns of natural resource use.

Much of the ecological debt stems from the uncontrolled, inefficient and polluting use of energy, and the unplanned and unregulated opening of new "windows of risk" that threaten the natural integrity of the land: sprawling urban growth, limited control of source-

TABLE 1.10

Links between the chapter on "Environmental panorama" and other chapters

IMPLICATIONS OF THE FINDINGS

CHAPTER 2 | DEMOGRAPHIC PANORAMA

Urban population growth generates strong pressures

CHAPTER 3 | SOCIAL PANORAMA

Coverage of sanitation services is low in all countries.

CHAPTER 4 | ECONOMIC PERFORMANCE

Volatility in international oil and food prices causes instability.

CHAPTER 7 | REGIONAL INTEGRATION

The majority of regional resources and projects focus on the environment

CHAPTER 8 | STATES OF AND FOR DEMOCRACY

State institutions for the environment have been created very recently and have little weight in the overall institutional framework.

Collective efforts to address environmental conflicts are significant and growing, especially in relation to water.

CHAPTER 9 | CLIMATE CHANGE

Central America is the region of the world most impacted by climate change. The sectors of agriculture and energy are seriously affected.

Protected areas and biodiversity will suffer pressures due to climate change.

Climate variability exacerbates situations of risk in the region.

CHAPTER 10 | SOCIAL EXCLUSION

Environmental conservation mechanisms based on financial incentives may provide an income generating source in some marginalized areas..

es of water pollution and of solid and liquid waste, soil degradation caused by technologically backward agricultural practices, and activities with a high environmental impact that have given rise to major social conflicts, such as mining (particularly in indigenous territories).

All this threatens the progress achieved in previous decades under the region's conservation agenda. The expanse of protected land has continued to grow (although at a much slower pace) with new efforts and initiatives

by the public and private sectors. But that has not deterred the pressure of human activity on natural resources: most countries continue to lose significant areas of forest and wetlands (one of the least protected ecosystems), and the number of endangered species is on the rise.

Although Central America has been very active creating laws and institutions, both at national and regional levels, the results of its environmental management show their low capacity to effectively control activities to ensure

sustainability. One example of this can be seen in risk management. Central America has developed a complex institutional framework and has advanced in the conceptual treatment of this issue. However, the levels of exposed and vulnerable social constructions are equal to or higher than those of past decades, in a context characterized by increasing numbers of disasters and climate change.

The Central American countries face common challenges, share several cross-border watersheds, protect natural resources of global importance, follow similar natural resource and energy use patterns, and share various types of threats. For this reason, environmental management is clearly an area in which regional action is not only essential but also helpful for strengthening (through planning, information and social participation) countries' capacities to pursue sustainable human development.

Key findings

- Central America has a negative ecological footprint: each inhabitant requires 10% more territory than is available to satisfy his/her needs.
- A little more than one-quarter of Central America's territory is protected. Between 2000 and 2009, the area under protection increased by 368,558 hectares, or 2.5% of the total.
- In 25 years (1980-2005) the region lost 248,400 hectares of wetlands, at an average rate of 9,936 hectares annually. The accumulated loss during that period represents 34.8% of the total wetlands existing in 1980.
- The number of endangered species increased by 82% between 2002 and 2010. Fish, followed by amphibians, were the species most affected.
- Some 35% of Central America's territory is comprised of watersheds shared by two or more countries.

- The region lost 7.4% of its agricultural land between 2005 and 2008. .
- In 2005-2010 the isthmus lost 1,246,000 hectares of forest. The pace of deforestation has slowed, however; in the period 1990-2000 the rate was -1.6%, while in the period 2000-2010 it was -1.2%.

Chapter 6. Political Panorama

Key question

What progress was made to democratize access to, and the exercise of, political power and promote harmonious civil relations?

Two Central American nations experienced major setbacks in democratic access to political power during the last three years. The coup d'état in Honduras, in 2009, and accusations of fraud in Nicaragua's municipal elections in 2008 showed that electoral democracies are not yet consolidated and that undemocratic methods are still used.

The democratic exercise of political power is also limited by the continued fragility and politicized nature of democratic institutions. In Guatemala, violence and organized crime triggered events that threatened to destabilize

TABLE 1.11

Links between the chapter on "Political Panorama" and other chapters

IMPLICATIONS OF THE FINDINGS

CHAPTER 2 | DEMOGRAPHIC PANORAMA

Human trafficking is increasing in the region.
Violent deaths increase mortality rates and reduce life expectancy.

CHAPTER 3 | SOCIAL PANORAMA

Institutional weaknesses prevent authorities from classifying and sanctioning the crime of femicide.
Social policies promote conditioned cash transfer programs.

CHAPTER 5 | ENVIRONMENTAL PANORAMA

Conflicts over the use of natural resources have mobilized civil society.

CHAPTER 7 | REGIONAL INTEGRATION

Creation of the Executive Committee aims to strengthen coordination between national governments and SICA.
Political crises halted advances in the regional integration process

CHAPTER 8 | STATES OF AND FOR DEMOCRACY

Executive branch in countries controls the appointment of managers of public institutions and their budgets.
Institutional weakness prevents States from providing basic public goods, such as security.

CHAPTER 10 | SOCIAL EXCLUSION

High levels of social exclusion threaten to undermine democratic stability.
Lasting political pact to reduce exclusion challenges the capacity and will of social and institutional actors.

CHAPTER 6
POLITICAL
OVERVIEW

the political system. El Salvador and Panama also evidence institutional weaknesses, although they have not led to critical situations. One of the priority issues in these four countries is to consolidate the independence of the judiciary branch.

These episodes can no longer be considered the products of “incomplete transitions” to democracy. The transition processes are now complete and, in Honduras, Guatemala and Nicaragua, their results are hybrid systems that combine democratic and authoritarian features.

For their part, citizens were not very active, and there was little demand for democratic opening during the period 2008-2010. Two exceptions to this rule were the resistance movement in Honduras and the general strike by workers in Panama, in 2010.

All of the region’s democracies face the challenges stemming from the geopolitics of drug-trafficking, other forms of organized crime, and social and criminal violence.²² In countries where the rule of law and institutions are weakest, these challenges have impacted political stability and are creating uncertainty about future development.

Key findings

- Between 2008 and 2010 four national elections took place in the isthmus: El Salvador (2009), Honduras (2009), Panama (2009) and Costa Rica (2010). Costa Rica was the only country where political continuity triumphed.
- Costa Rica’s new Electoral Code (2009) mandates gender parity (50% men and 50% women) in lists of candidates to elected office, through an alternating system. In Honduras and Panama the current quota is 30%, although in Panama women’s representation in Congress remains well below that level
- Voter participation declined in four of the region’s six countries. With the exception of Nicaragua –where voter turnout fell nearly twenty percentage points in 2006 with respect to

previous elections– the decline was moderate (between three and six percentage points).

- In 2005-2009, the region’s defense spending totaled slightly more than US\$2 billion. There have been no significant increases in recent years except in Honduras, where defense spending doubled during the second half of the decade.
- In the last five years, public questioning of the independence of the judiciary branch has intensified. Honduras and Nicaragua are the most extreme cases, given the role of their judicial bodies in the recent political crises.

Chapter 7. Regional integration

Key question

How has the institutional framework for regional integration contributed to addressing human development challenges in Central America?

During the period 2008-2010, the institutional framework for integration continued to show limited capacity to leverage human development in Central America, as mentioned in the previous Report (2008). More recently, the countries’ lack of discipline and stalled institutional reforms were compounded by an increasingly complex political scene, the centripetal forces generated by the international economic crisis, and the severe effects of natural disasters in 2010.

Despite this, the progress achieved proves that regional action was not only possible, but that it could mitigate the more severe effects of these crises. Central America increased its internal trade, completed negotiations for an Association Agreement with the European Union, and encouraged Panama to begin a gradual but steady process to join the Economic Integration Subsystem. Progress was also made in other areas: the electrical interconnection project, the regional security strategy, the joint position on climate change, and the organization

of the fisheries sector. The region has also gradually consolidated a strong and dynamic channel for transnational communication in various sectors of public action; these provide a vital platform for collective action and may be regarded as one of the most important elements for the future success and development of SICA.

However, this progress did not offset the institutional and political problems afflicting SICA during the period 2007-2010. While the countries’ reluctance to build up the system’s infrastructural capacity limited expansion of the integration process, internal management problems at SICA also discouraged its member countries. The General Secretariat’s main response has been to play a stronger role in the management and monitoring of SICA’s activities and institutions, in order to improve coordination, reduce redundancy, and make budget execution more efficient. Nevertheless, this centralized approach should be accompanied by major improvements in accountability and transparency, without generating friction between the different institutions and their members or conflicts with regional regulations.

Key findings

- The political crises triggered by the coup in Honduras and the border conflict between Costa Rica and Nicaragua have left SICA’s political organs with a nominal role. The number of presidential meetings declined from eight in 2008, to three in 2010.
- In the period 2007-2010 five new observer countries were accepted by SICA: Germany, Chile, Argentina, Italy and Japan. European cooperation is by far the main source of financing for regional integration: the EU contributed over 500 million euros during the first decade of the 21st century.
- The mechanism for appointing the leaders of regional institutions continues to be a critical aspect of the institutional framework. This was

TABLE 1.12

Links between the chapter on "Regional Integration" and other chapters

IMPLICATIONS OF THE FINDINGS

CHAPTER 2 | DEMOGRAPHIC PANORAMA

Intense migrations create contradictory social and economic conditions.
Regional actions seek to improve the management of migrations.

CHAPTER 3 | SOCIAL PANORAMA

Internal gaps and gaps between the countries hinder regional integration efforts.
The institutional capacity of SISCA is strengthened.

CHAPTER 4 | ECONOMIC PERFORMANCE

Exports to markets with free trade agreements performed better.
Intra-regional trade grew more than trade with the rest of the world.

CHAPTER 5 | ENVIRONMENTAL PANORAMA

Most regional resources and projects focus on environmental issues.

CHAPTER 6 | POLITICAL PANORAMA

Political crises halted advances in regional integration process.

CHAPTER 8 | STATES OF AND FOR DEMOCRACY

Major asymmetries in the size and capacity of State institutions..

CHAPTER 9 | CLIMATE CHANGE

The region is promoting joint actions to address climate change in international forums.

The Regional Climate Change Strategy was approved.

Central America's institutions are fragmented and disconnected from the development agenda, which limits regional action.

CHAPTER 10 | SOCIAL EXCLUSION

Lasting political agreements between countries will enhance regional integration.

**CHAPTER 7
REGIONAL
INTEGRATION**

evident in the recent conflict over the appointment of the current Secretary of SIECA. A.

- In 2010 Panama announced its withdrawal from PARLACEN.
- Between 2007 and 2010 four new

SICA bodies were created, all headquartered in San Salvador. These include the Regional Democratic Security Unit (Democratic Security Commission).

- The Central American initiative for the collective purchase of medicines continued. In 2011, the joint purchase of fifteen products is expected to produce overall savings of US\$22 million.

Section "Challenges of sustainable human development"

This section of the Report examines a small but significant set of regional challenges. Each challenge represents a weakness in Central America's sustainable human development, and is analyzed in depth in order to more clearly understand its implications for the quality of life of the population.

Unlike the previous segment, this section of the Report exhaustively analyzes the issues under consideration. It involved several research studies using primary information sources, and new studies to supplement existing research on each topic. Accordingly, Chapters 8 and 9 provide value added to some of the issues discussed more generally in the section "Regional overview."

Chapter 8. The challenge facing States of and for democracy

Key question

What capabilities do the Central American States have to protect and promote democracy?

Many of the problems associated with democracy in Central America originate in the State. The way power is organized and distributed within the institutional frameworks is not conducive to political oversight. Moreover, most of these States have low infrastructural power, in other words, limited capacity to effectively safeguard citizens' rights. Indeed, in recent years several States have turned against democracy, seeking to distort or limit the rule of law in different spheres.

Some types of States in Central America are particularly hostile to democracy, and are characterized by small institutional frameworks with weak institutional networks in key areas of their work. The Executive Branch plays a dominant role in these

TABLE 1.13

Links between the chapter on "States of and for democracy" and other chapters"

IMPLICATIONS OF THE FINDINGS

CHAPTER 2 | DEMOGRAPHIC PANORAMA

Low coverage of social security and health services limits opportunities for taking advantage of demographic transition.

CHAPTER 3 | SOCIAL PANORAMA

Low coverage of health services persists.

Major gaps in social investment between countries.

Low coverage and poor condition of road systems hinders integration of rural territories.

CHAPTER 4 | ECONOMIC PERFORMANCE

Fiscal deficit is increasing and low tax burdens persist.

CHAPTER 5 | ENVIRONMENTAL PANORAMA

Weak institutional capacity for land use and environmental management creates gaps between policies and reality.

CHAPTER 6 | POLITICAL PANORAMA

Electoral participation declined in four out of six countries in the isthmus.

Public concerns over the independence of the Judiciary intensified.

CHAPTER 7 | REGIONAL INTEGRATION

Efforts to combat organized crime and drug trafficking gain importance on the regional agenda.

Political crisis in Honduras and the Costa Rica-Nicaragua conflict created impasse in SICA.

Broad citizen participation in the formulation of new regional strategies and plans.

CHAPTER 9 | CLIMATE CHANGE

Mitigation and adaptation efforts are constrained by weak institutional capacity and lack of political will.

CHAPTER 10 | SOCIAL EXCLUSION

Weak infrastructural power of the State limits efforts to reduce exclusion.

In the countries various actors have the power of veto.

**CHAPTER 8
STATES OF
AND FOR
DEMOCRACY**

countries, directly controlling the budget and the management of most public entities. In this context of institutional weakness, corporate interests, approved by law, have penetrated the decision-making process, giving greater power overall to business sectors. In Central

America, a fragile institutional apparatus is combined with marked infrastructural weakness: with their limited tax base, these States cannot cover the cost of safeguarding democratic rights. Moreover, insufficient resources and specialized personnel make it difficult

to maintain an institutional presence throughout their countries. This type of small and weak State is not only incapable of leveraging democracy, it is even hostile to it: acts against the democratic order have taken place from within. Prime examples are the deliberate and systematic efforts by the Executive Branch to co-opt the Judiciary Branch and to limit the independence of constitutional jurisdiction, as well as authorities' acquiescence to the violation of the Political Constitution.

Guatemala, Honduras and Nicaragua come very close to being this type of State hostile to democracy. El Salvador and Panama can be considered mixed systems. Belize and Costa Rica are the furthest from the model: their institutional framework is larger –in absolute or relative terms–, social groups are more equitably represented in public institutions, and they have greater infrastructural power. In these nations aggressive actions by the institutional framework against the democratic system have also been documented, but they are not as frequent or systematic and, more importantly, they have been unsuccessful.

These findings underscore the central role played by the State in the democratization of society. States hostile to democracy not only halt that process, they try to suffocate it or, at least, to render their electoral democracies devoid of content. In the coming years, it will be crucial to the region's future to establish States of and for democracy.

Key findings

- Central America has nearly 1000 public institutions (968).²³ Of these, 29% are in Costa Rica (276), followed by El Salvador (162); the range in the other countries is between 92 in Honduras and 121 in Guatemala.

- The public sectors of the CA4 countries (Guatemala, El Salvador, Honduras and Nicaragua), home to 80% of the population, account for 34% of the region's public budgets. Their combined weight is less than that of the Costa Rican State (44% public budget, 10% of the population).

- The Executive Branch (President and the relevant Minister) appoints the directors of almost six of every ten public institutions in Central America.
- While per capita tax payments average nearly US\$1,200 per year in Latin America, in 2005-2009 Costa Ricans and Belizeans paid around US\$900 annually; in Nicaragua, Honduras and Guatemala, the average was less than US\$300
- The CA4 countries spent three to six times less on the administration of justice than the Latin American average of US\$195 annually during the period 2005-2009. The gap is similar in the sphere of public health.
- The justice systems of El Salvador and Costa Rica are the most wide reaching in the isthmus, with two to six times more offices and judicial workers distributed throughout their territories than Guatemala and Panama.

Chapter 9. The challenge of addressing climate change

Key question

What are the main social, economic and environmental implications of climate change for Central America?

Climate change highlights the gaps and lags in the region’s human development. According to projections, significant changes are expected in average temperatures and rainfall patterns, which could worsen the impacts of the growing number of disasters in the isthmus. Climate change is also expected to impact food security, agricultural productivity, water resources, coasts, biodiversity and ecosystems.

This phenomenon will magnify Central America’s historical threats and vulnerabilities, caused by factors such as environmental degradation, lack of land-use planning, exposure to and risk of disasters for the populations –particularly the poorest– energy inefficiency and dependence on fossil fuels, poor management of water resources, and weak environmental management institutions.

TABLE 1.14

Links between the chapter on "Climate Change" and other chapters



Climate change is creating a contradictory situation: although the isthmus is responsible for less than 0.5% of greenhouse gas emissions, it is considered the leading “hot spot” in the tropics; in other words, it is potentially the world’s most vulnerable area to the impacts of climate change. While this problem is largely caused by other countries, the region has also contributed its share through environmental degradation, deforestation, unsustainable use of energy and chaotic urban growth, and therefore is not exempt from overall responsibility. Without

neglecting efforts to improve this situation, the most pressing challenge facing Central America –with its weak institutional framework and limited capacity for adaptation– is to prepare to mitigate the repercussions of climate change.

Two critically important sectors are agriculture and energy, given their economic and social importance, and their vulnerability to climate change. In the medium and long terms, climate change is expected to affect essential food crops such as maize, beans and rice, which are vital to the livelihoods of many small farmers in the region.

In relation to energy, the challenges are two-fold: the need to reduce greenhouse gas emissions in a context of high dependence on fossil fuels, and potential problems with water availability and management for the generation of electric power.

Forums for deliberation and coordination have been created in Central America, along with a comprehensive set of national and regional policies and strategies for addressing climate change. In this regard, however, there are two core weaknesses: one, the prevailing approach has been mitigation (which offers opportunities to access international financing) without prioritizing the critical issue of adaptation. The other problem is that most policies have defined tasks and key targets, but not responsibilities and resources for implementation. The recent launch of the Regional Climate Change Strategy seems to make progress in that direction. For the moment, it is urgent to define environmental indicators, with

adaptation at the center of these efforts (and in coordination with risk management efforts), strengthen forest and protected area management (crucial for coping with climate change), and develop tools for land-use management and public education with a participatory approach.

Key findings

- Central America produces less than 0.5% of global greenhouse gases (GHG), yet is considered the world's leading tropical "hot spot" for climate change.
- Guatemala and Honduras are responsible for 76% of GHG emissions in the isthmus, mainly due to changes in land use and the burning of fossil fuels and firewood.
- The crops most sensitive to climate change in Central America are: sugarcane, cassava, maize, rice and

wheat (maize, beans and rice are the region's most important crops).

- The climate risk index (calculated for 176 countries between 1990 and 2008, based on extreme meteorological phenomena) ranks Honduras and Nicaragua among the nations at greatest risk (in third and fifth positions, respectively).
- While no conclusive relationship has been established with climate change, there has been a significant increase in the number and impact of hydro-meteorological disasters in the region since the 1980s and 1990s.
- A review of 65 policy documents and strategies on measures to tackle climate change found that only seven documents set responsibilities and allocated resources for implementation.

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NOTES

1 The region's competitiveness is affected by the deficiencies and high costs of transportation, energy and telecommunications. It is estimated that logistical costs in Central America represent up to 50% of the final price that consumers pay for a product (with transport being one of the costliest components), whereas in Latin America these costs average approximately 25%, and are no higher than 9% in the OECD countries. In the case of energy, the average regional cost is 18 cents of dollar per kilowatt/hour, while in Colombia and Mexico it is around six cents of dollar. Similarly, all the Central American countries lag severely behind in telecommunications development, particularly in broadband connectivity, considered essential to boost competitiveness (Whyte, 2010).

2 The role of the Central American Common Market (MCCA) has been strengthened by the trade facilitation measures promoted by the countries. A better use of this trade mechanism would mean progress in areas in which governments have shown little political will to act, such as the customs union initiative and an increased convergence of the free trade agreements (Granados, 2010).

3 The impacts of the economic crisis are another threat to the fulfillment of the Millennium Development Goals (MDG) for 2015. Without additional support, the poorest families whose incomes have fallen are pressured to spend less on health, nutrition and education. Even so, the target of halving extreme poverty will probably be achieved in all the Central American countries; however, the target of halving the child mortality rate is unlikely to be achieved, except in El Salvador. As to universal access to primary education, if the current trend continues, this goal is likely to be achieved in the region, except in Honduras and Nicaragua (Olinto, 2010).

4 Conditional cash transfer (CCT) programs, which have become very widespread in Latin America in the last decade and more recently in Central America, are an innovation in the design and execution of selective social policies (along with non-contributory pensions for elderly people living in poverty). CCT programs play a significant role and are regarded as complements to comprehensive social policies, particularly when these are isolated from clientelistic practices. A study by Cecchini and Madariaga (2011) that analyzes CCT in Latin America and the Caribbean, found that on average these countries allocated 0.4% of their GDP to these programs. All the Central American countries were below that average.

CCT programs have not been immune to corruption, but at least in the three countries assessed for this report, no evidence was found of significant penetration by patronage networks and corruption. The study was conducted at the end of 2010 in Guatemala, El Salvador and Costa Rica, and was based on a combination of surveys, focus groups and in-depth interviews (in communities and with experts). See Brenes, 2010 and Unimer, 2010a and 2010b.

5 The information available on violence against women is very limited, both in terms of number of cases and their classification. Homicide is an extreme form of violence

which, when committed against women because of their gender, is classified as femicide. Guatemala, Costa Rica and El Salvador are the only countries in the region in which the legislation contemplates this crime. The isthmus reported an increase in homicides of women during the last decade, with significant increases in Guatemala, Honduras and El Salvador in the last three years. One factor that makes it difficult to tackle this problem is impunity, associated with the poor performance of the countries' criminal investigation units (CEFEMINA, 2010).

6 The weakness of the region's police forces has also led to the expansion of private security services. Throughout Central America the number of private agents surpasses the number of public police officers, a situation that is magnified in Guatemala (ratio of 6 to 1) and in Honduras (4.88 to 1). (Small Arms Survey-Graduate Institute of International and Development Studies, 2011). This trend is causing considerable concern because these countries have weak mechanisms for the registration and supervision of the staff, equipment and weapons of private security firms.

7 Illegal arms trafficking is closely linked to drug swaps. Until recently, it was assumed that this trade mainly followed the north-south route, while drug-trafficking flowed in the opposite direction. However, in recent years it has become clear that the arms route is more varied. Inquiries by Guatemala's Public Prosecutor's Office found that most of the weapons confiscated recently in Guatemala come from Honduras. In 2009 and 2010, the Mexican authorities reported that most of the arsenals seized by the police from organized crime (particularly the drug cartels) come from the Central American armies. There are several indications to suggest that the Mexican cartels are using Central America as a logistical base.

The growing number of arms in Central America is attributed to the remnants of the civil wars and the accelerated pace of imports, both legal and illegal. In 2007, there were an estimated 4.5 million light weapons in the region, the majority circulating illegally (World Bank, 2011). Countries have shown little capacity to anticipate and respond to the expansion of clandestine arms trafficking in the region. Their weak reaction is due, in part, to the absence of standardized procedures and to the weak management and exchange of information both at intra-national and intra-regional level (Iepades and Flasco, 2006).

8 This Report did not have access to comparative figures on the impact of the economic crisis on underemployment which, as is known, is the main problem affecting the Central American workforce. However, it is highly probable that this problem increased between 2008 and 2010, since the countries tended to focus their efforts on assistance policies, with very few actions to create decent jobs. Similarly, with the exception of Panama, the labor market's ability to create formal jobs was curtailed by prevailing economic conditions.

9 The absence of citizen power is clearly reflected in the mining sector. In Guatemala, between 2005 and June of 2011, indigenous communities affected by various mining concessions have taken part in over fifty community

consultations. Despite indigenous leaders expressing their opposition to open-cast mining in their territories, under Convention 169 of the ILO, the authorities have not paid timely attention to their protests. During the last five years, the lands of indigenous communities have become increasingly vulnerable, in juridical terms, and there has been official and clandestine repression against leaders opposed to mining activities. The conflict over mining in Guatemala prompted a visit (2010) and subsequent report (2011) by the United Nations Special Rapporteur, James Anaya, on the situation of the rights of Guatemala's indigenous peoples in relation to mining projects in their traditional territories. The report documents the impacts of mining on health, water sources, forests and, in particular, confirms the disproportionate force used by the government to suppress any acts of social protest. The repression not only comes from the State, but also from private groups. Murders, harassment and attacks on human rights activists and community leaders have been documented, in a context of impunity, especially when the victims are indigenous people.

The Special Rapporteur's report, presented in March 2011, calls for urgent efforts to discuss and approve a legal instrument that would require formal consultations to be held with indigenous peoples on State measures that affect them. It also proposes a review of environmental regulations to allow indigenous communities full participation in the design of environmental and social impact studies, and to guarantee improved oversight capacity on the part of the competent authorities, in consultation with indigenous communities. The Special Rapporteur urges the Guatemalan government to undertake a comprehensive and detailed review of the regulations and policies pertaining to indigenous lands, in order to harmonize national laws with international standards that guarantee the rights of native peoples over their lands and natural resources. This includes acknowledging the collective nature of those rights, their territorial dimension and full recognition of indigenous land tenure rights based on the common law and traditional values, uses and customs of indigenous peoples and communities (UN, 2011).

10 A special report of the Inter-American Commission of Human Rights (ICHR) on the situation in Honduras after the coup states that "grave human rights violations were committed against citizens, including deaths, the arbitrary declaration of a "State of Emergency", repression of public demonstrations with a disproportionate use of force, criminalization of social protests, arbitrary detentions of thousands of people, cruel, inhuman and degrading treatment of detainees and poor conditions of detention, the militarization of the territory, increased racial discrimination, violations of women's rights, serious arbitrary restrictions on the right to freedom of expression and serious violations of political rights. The ICHR also confirmed the inefficacy of the country's judicial mechanisms to protect human rights" (ICHR, 2009).

11 In addition to diversifying and promoting the value added of their markets and products, countries with open economies -such as those of Central America- that suffer sharp fluctuations in commodity prices, are advised to adopt anti-cyclical policies, particularly fiscal policies, to cushion the impacts of recessive cycles (Ocampo, 2011).

12 Direct foreign investment (DFI) is a crucial factor for the development of the Central American economies. However, it should occur in the context of more coherent development policies. Attracting DFI based on tax incentives requires targeted and provisional measures, something that is not occurring in the isthmus. After a certain period, the more dynamic sectors that initially enjoyed exemptions and exonerations would have to pay taxes. The experience of south-east Asia shows that tax incentives should also be linked to efforts by foreign investors to achieve greater technological intensity and improved linkages in production chains, or else, to investments in more depressed areas (to create decent jobs).

13 Fiscal pressures led to substantial increases in the public debt, in terms of GDP, in all the countries, except in Panama, where the debt held at levels similar to 2008. In 2009 the largest increase occurred in El Salvador, with an annual increase equivalent to 8.3% of GDP, followed by Nicaragua (5.1%) and Honduras (4.4%).

14 Includes the three countries of the so-called Northern Triangle (Guatemala, Honduras and El Salvador), plus Belize.

15 An example of this is the attitude of the Panamanian State, which on the one hand decided to withdraw from Parlacen in 2009 (further weakening the legitimacy of this institution) and, on the other, opted to join SIECA (Panama's formal incorporation in 2012 will strengthen and improve prospects for economic integration).

16 The fact that the interconnection system is at an advanced stage will facilitate the implementation of the Mesoamerican Information Highway (AMI) since most of the fiber optic cable has been laid for the electric interconnection network. The AMI will be a key factor in reducing the region's digital divide, given that broadband telecommunications infrastructure will connect Central America's urban and rural areas and the rest of the countries involved in Proyecto Mesoamerica. At the end of May 2010, it was reported that 95% of the fiber optic infrastructure had been completed between Guatemala and Panama.

17 The Ricam forms part of a wider transport strategy: the Mesoamerican Multimodal Transport System (STMM), aimed at

promoting a more efficient use of different forms of transport (land, rail, sea, river and air). Within this system, priority has been given to the Pacific Corridor, which spans six borders and seven countries along the Pacific coast from Mexico to Panama. The development of this corridor is significant for Central America because it is the shortest route connecting the isthmus and also because approximately 95% of intra-regional trade (including part of Mexico) moves along this route. The STMM will also give priority to a port strategy for Mexico and Central America that includes short-haul maritime transport as a measure to promote the growth of intra-regional trade (SELA, 2011).

18 A lasting political pact is a coalition of stakeholders (political parties, social movements and trade associations) around an agreement that establishes objectives, acceptable -or at least tolerated- conduct, sanctions for non-compliance and a distribution of costs and benefits related to the agreed actions. This agreement is explicit, based on a formal text ("pact") agreed on by all parties, and may include implicit regulations, expectations and objectives. "Lasting" refers to continuity over time combined with stability, and implies that the political pact will continue in effect, undisputed and recognized by the allies, over a long period of time.

19 Castro and Bermeo (2009) consider that redistributive efforts are often responses to multi-class, social conflicts that prevent polarization between classes. In a completely different context, Slater (2010) argues that elites only consider a threat to be imminent when conflicts are of a certain type. For example, during the emergence of authoritarian States in south-east Asia, there was a convergence of class movements and grassroots movements. Both authors believe that class conflicts do not pose sufficient threat to stimulate problem-solving through collective action.

20 The "black swan" concept mentioned by Taleb, 2005 is a lethal threat that is unexpected, since the players consider it a highly improbable outcome. When it does occur, it can have "cataclysmic" effects on people's lives and property. The alternative scenario outlined in this Report is based on an argument taken and adapted by Slater (2010) for Southeast Asia: resolving the problem of collective action by the elites to avoid a Hobbesian "State of nature." In that region of the world, the elites were willing to develop the State's

infrastructural power in exchange for the provision of public goods. In Central America, such a constructive attitude might be encouraged by the failure of the responses tried in the first decade of the 21st century to contain the problems of social and criminal violence, particularly the "tough on crime" policies applied in the "Northern Triangle" countries. However, the alternative scenario outlined in this chapter has three variants with respect to Slater's: first, electoral democracies exist in the isthmus; second, there are no broad-based social and political movements seeking to replace the political system; and third, the threat is not really associated with the emergence of a "State of nature."

21 The notion of a real "cataclysmic event" is a narrative artifice that makes it possible to envisage an alternative scenario. However, from the perspective of counterfactual history ("what if scenario"), alternative scenarios can be created through a "minimal revision" of history, i.e., through the identification and justification of a pivotal point which, if resolved in a different way, would trigger a different chain of events (Tetlock, 2006).

22 Drug-trafficking is the main reason for the high homicide rates in several Central American countries as well as for the increase in violence throughout the region. In Central America's drug-trafficking "hot spots," crime rates tend to be 100% higher than in areas not considered as such (World Bank, 2011).

23 A public institution is defined as any legally constituted organ of public administration. The information sources consulted in each country included the electronic and physical files of the legislation and lists of institutions included in the National Budget, and in the records of the Comptroller's Office and the official audit offices. The list of public institutions of the Nutrition Institute of Central America and Panama (INCAP) was used as a supplementary source.